

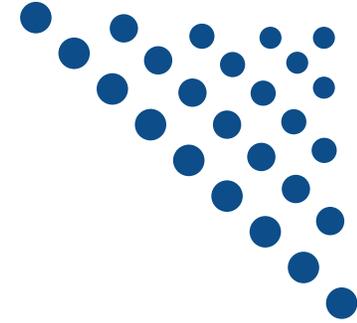
Osher Lifelong Learning Institute, Winter 2026

Critical Economic Topics for 2026

Bradley University

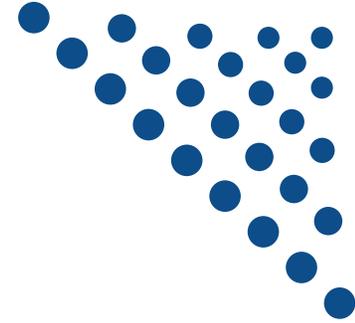
Host: Jon Haveman, Executive Director
National Economic Education Delegation

Available NEED Topics Include:



- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- **Federal Budget**
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- Saving Social Security

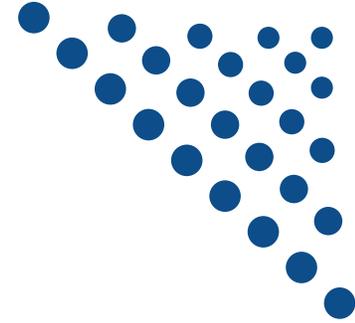
Course Schedule



Critical Economic Topics for 2026

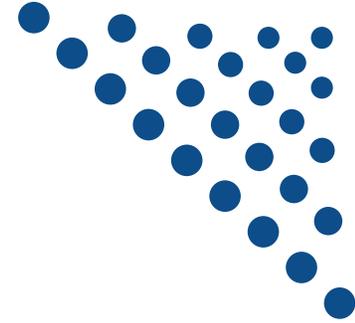
- Week 1 (2/04): Economic Update, Geoffrey Woglom, Amherst College
- Week 2 (2/11): Monetary Policy, Geoffrey Woglom, Amherst College
- **Week 3 (2/18): U.S. Federal Budget, Jon Haveman, Executive Director NEED**
- Week 4 (2/25): International Institutions, Alan Deardorff, University of Michigan

Submitting Questions

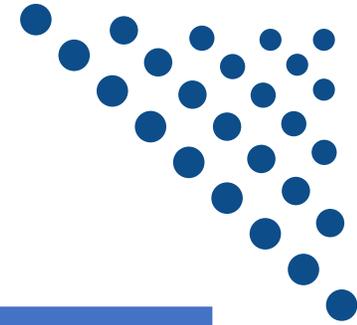


- **Please submit questions of clarification in the chat.**
 - I will try to handle them as they come up.
- **We can have a verbal Q&A once the material has been presented.**
- **Slides will be available from the NEED website later today.**
(https://NEEDEcon.org/delivered_presentations.php)

Outline



- **Budget Overview**
- **Government Revenues**
- **Government Spending**
- **Tax Expenditures**
- **Summary**



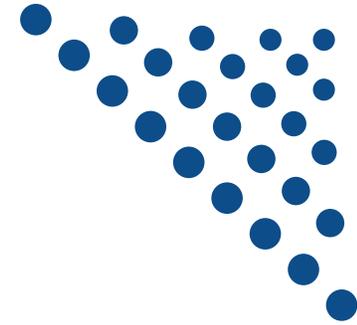
What Does the US Govt. Budget Look Like?

2025 Budget Summary (in Trillions, % of GDP)

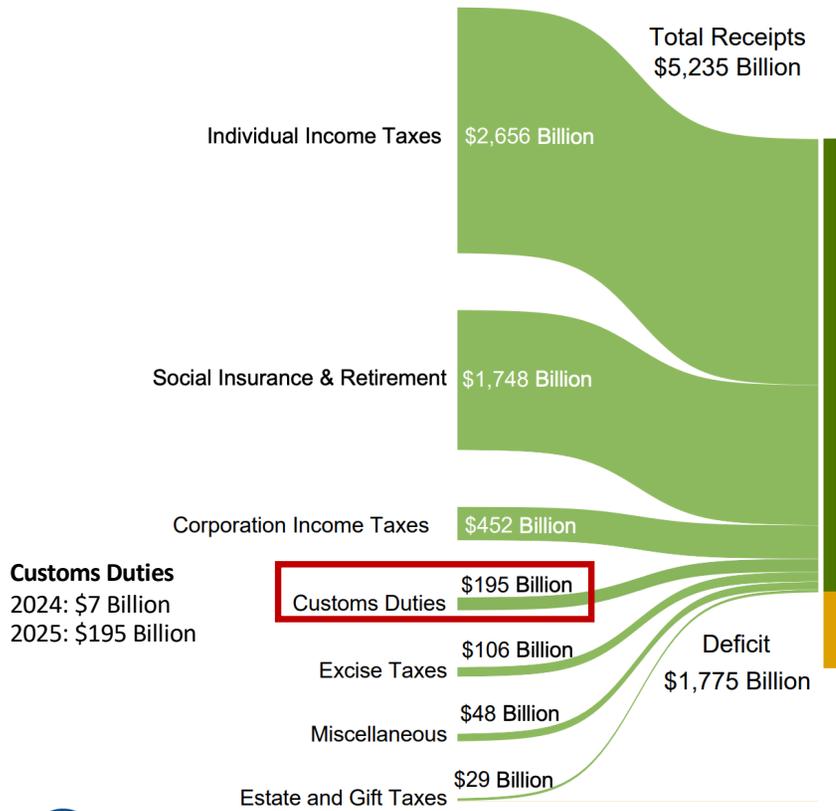
Revenue		Outlays	
Income Taxes	\$2.7	Mandatory	\$4.2
Payroll Taxes	\$1.7	Discretionary	\$1.9
Corporate Taxes	\$0.5	Interest	\$1.0
Other	\$0.4		
Total	\$5.2 (17.3%)	Total	\$7.0 (23.1%)

Budget Deficit: \$1.8 Trillion (5.8%)

The Budget Details, 2025FY

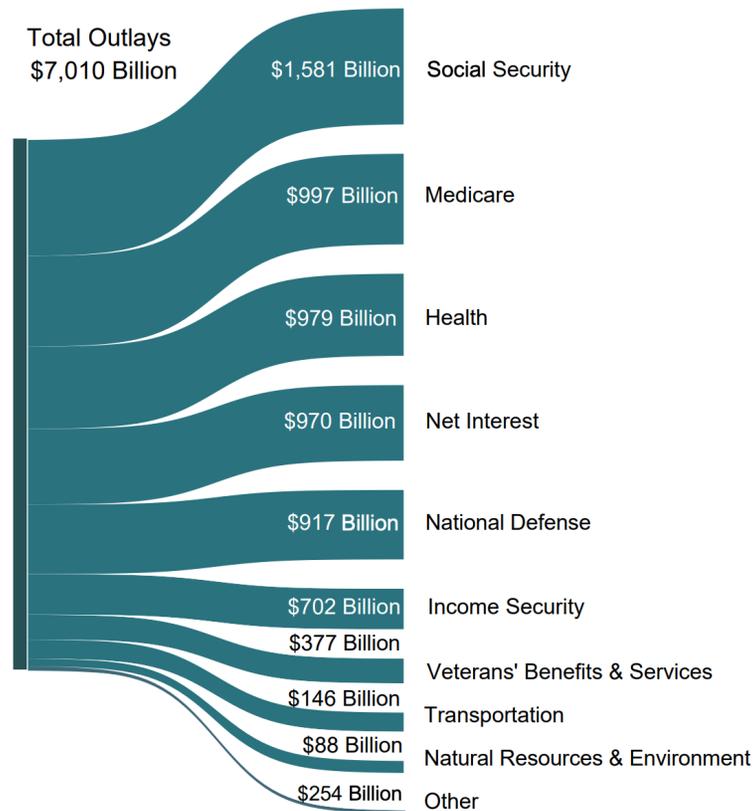


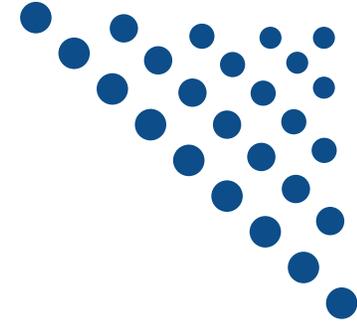
Receipts by Source:



Customs Duties
2024: \$7 Billion
2025: \$195 Billion

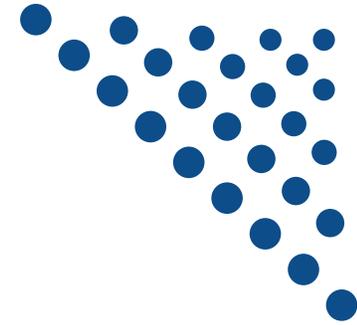
Outlays by Function:



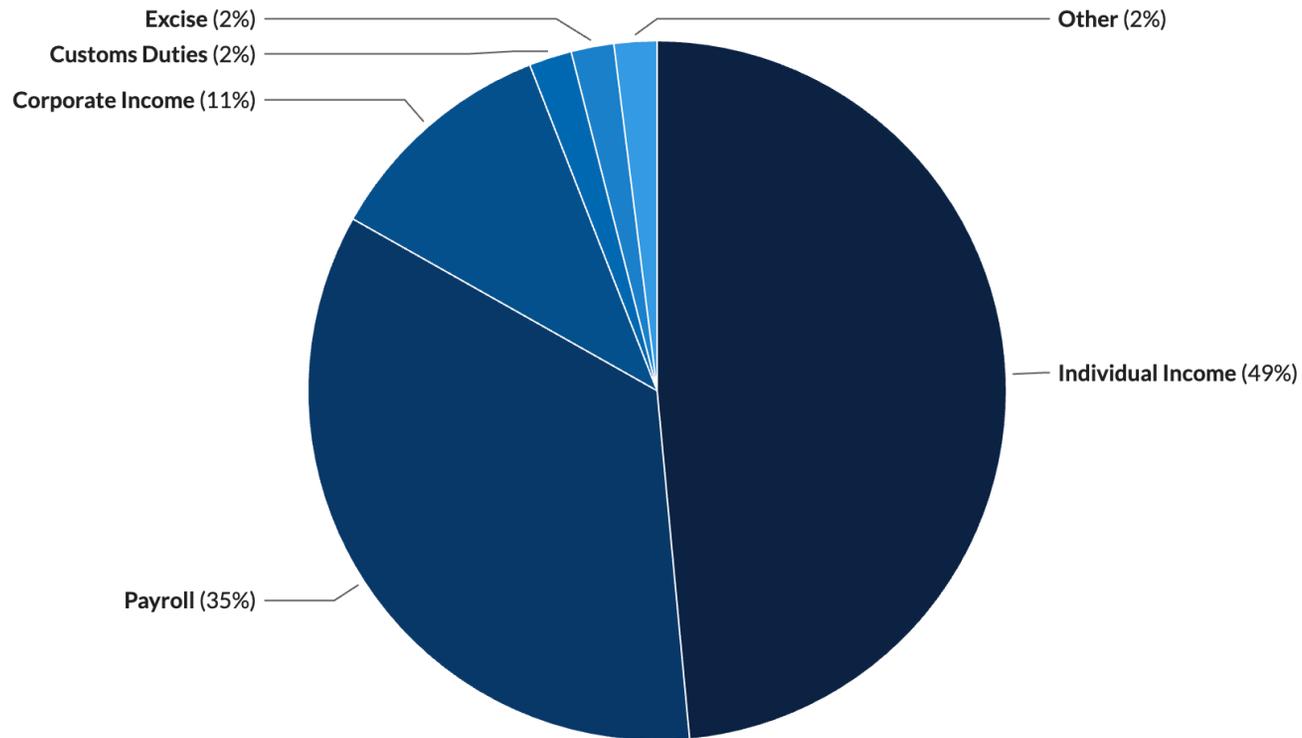


US Government Revenues

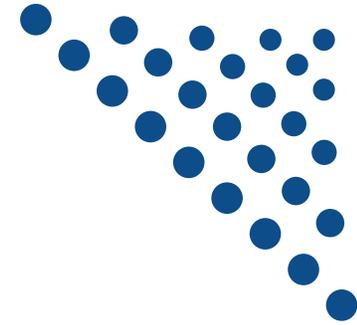
Where Do Federal Revenues Come From?



2024 Revenues:
\$4,918 Billion



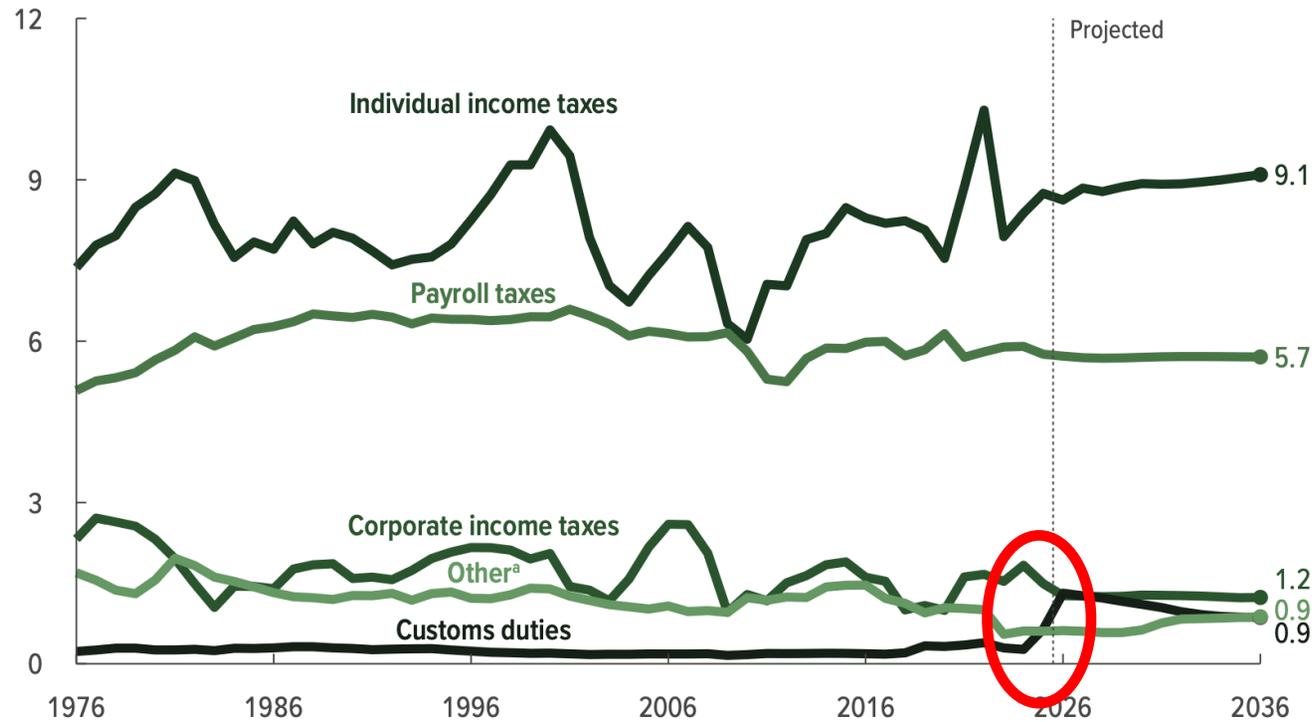
Most Federal revenues (49%+35%) are raised on earned income.



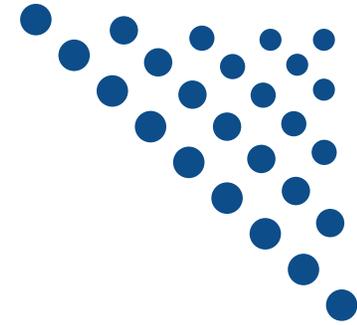
Revenue Sources: Share of GDP over Time

Outlays, by Category

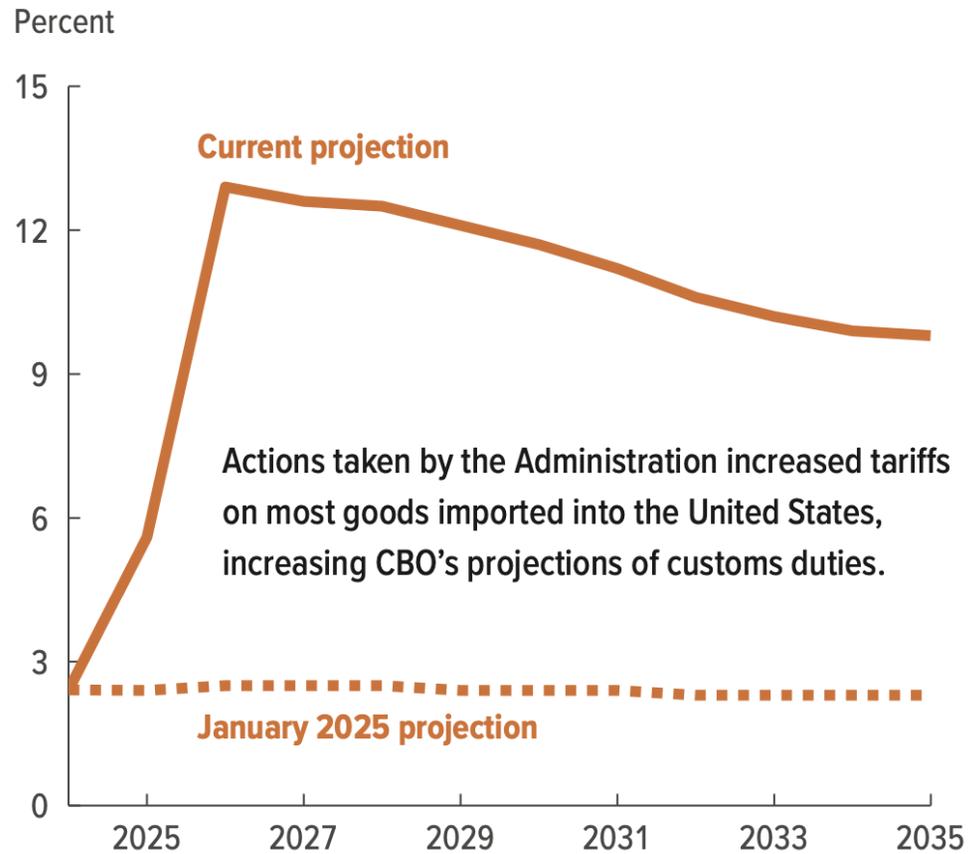
Percentage of GDP



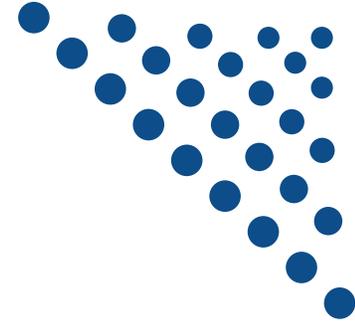
Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.



How Much Have Tariffs Increased?



Individual Income Taxes



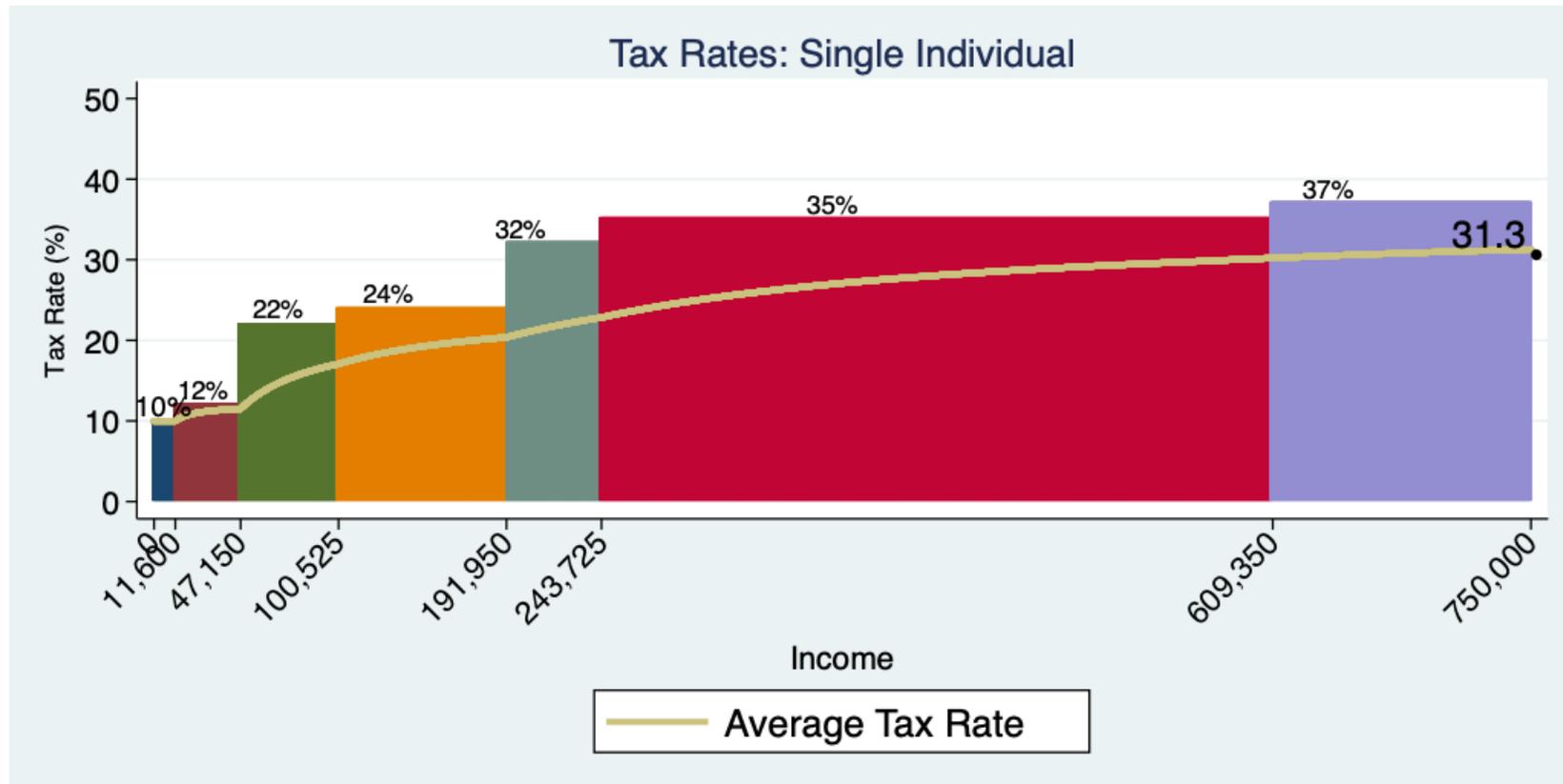
- **Marginal tax rates**
- **Not all income is taxed**
 - Only adjusted gross income.
- **Deductions**
 - Will talk about as tax expenditures.

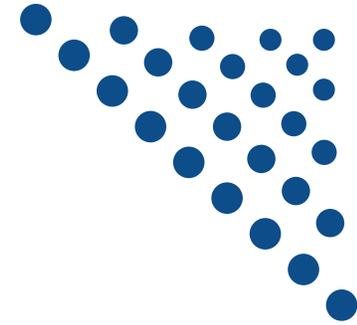
Marginal Tax Rates: Married Filing Jointly (2026)

- Income is taxed differently at different levels.
- Individuals are taxed the same way, regardless of overall taxable income:
 - First dollar is taxed at 10%
 - 24,801st dollar is taxed at 12%

Income Above	Tax Rate
0-24,800	10%
24,801-100,800	12%
100,801-211,400	22%
211,401-403,550	24%
403,551-512,450	32%
512,451-768,700	35%
Above 768,701	37%

Current Tax Rates Across Incomes (2024)





Progressive Tax System

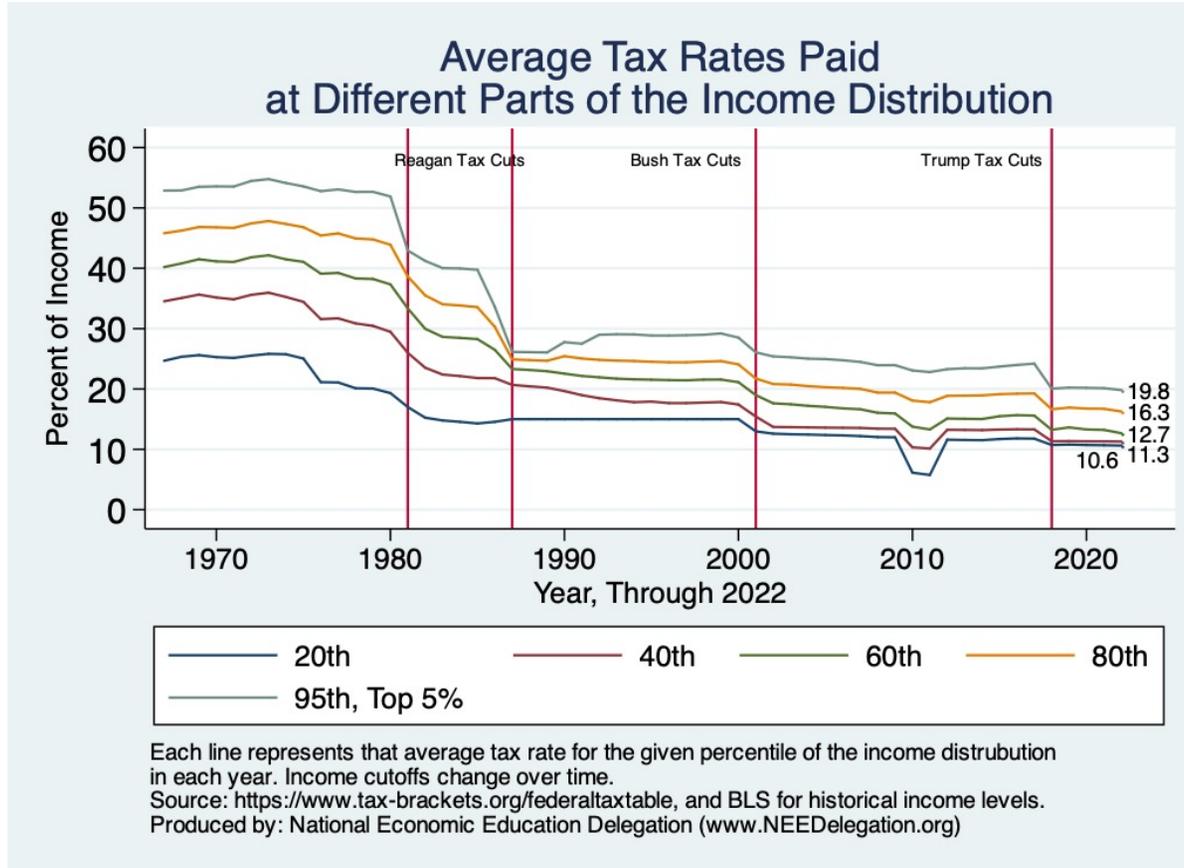
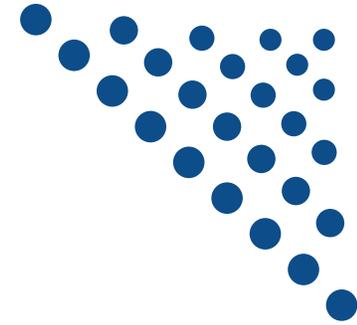
- **Tax Systems are:**

- **Progressive:** increasing average tax with income
- **Neutral or flat:** same share of income at all income levels
- **Regressive:** decreasing average tax with income (sales tax)

- **Ability to pay rises with income.**

- **Income Inequality.**

Average: Coming Down – Mostly at the Top



Dramatically Less Progressivity in the Tax Code

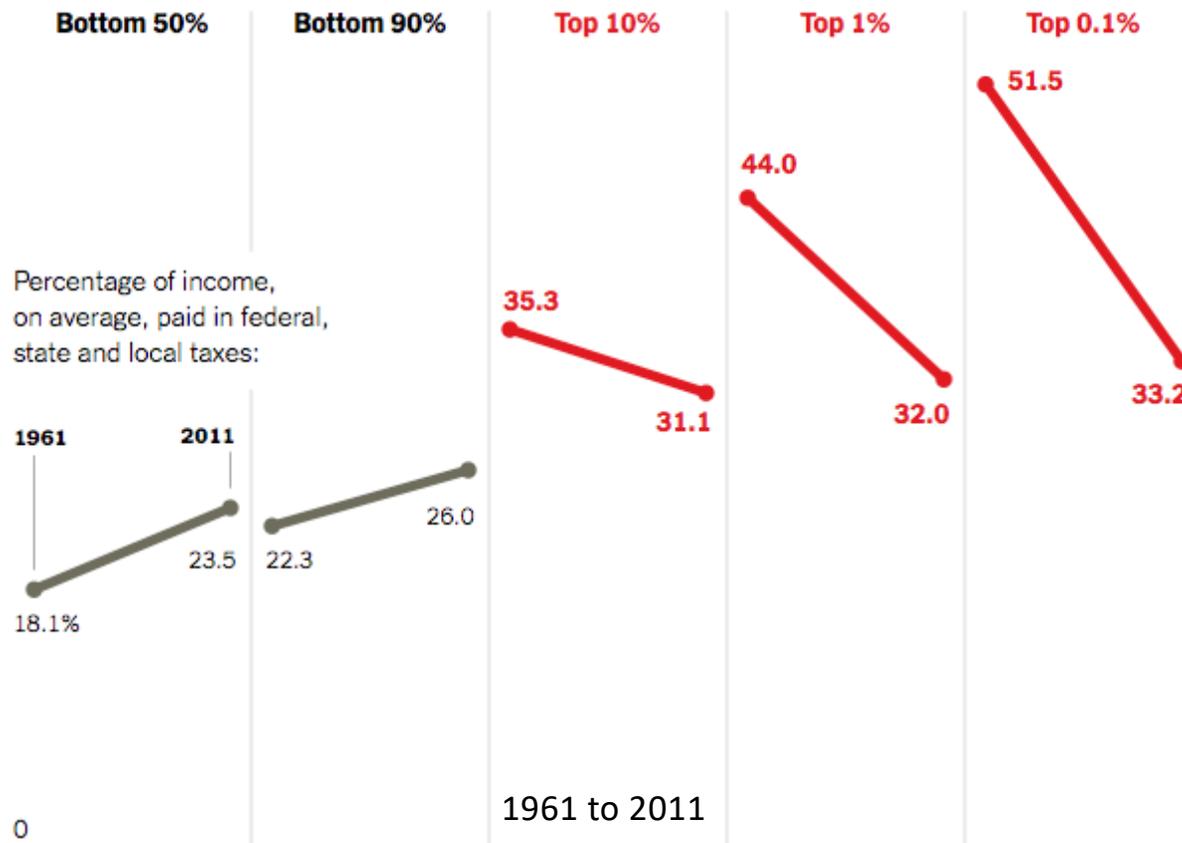


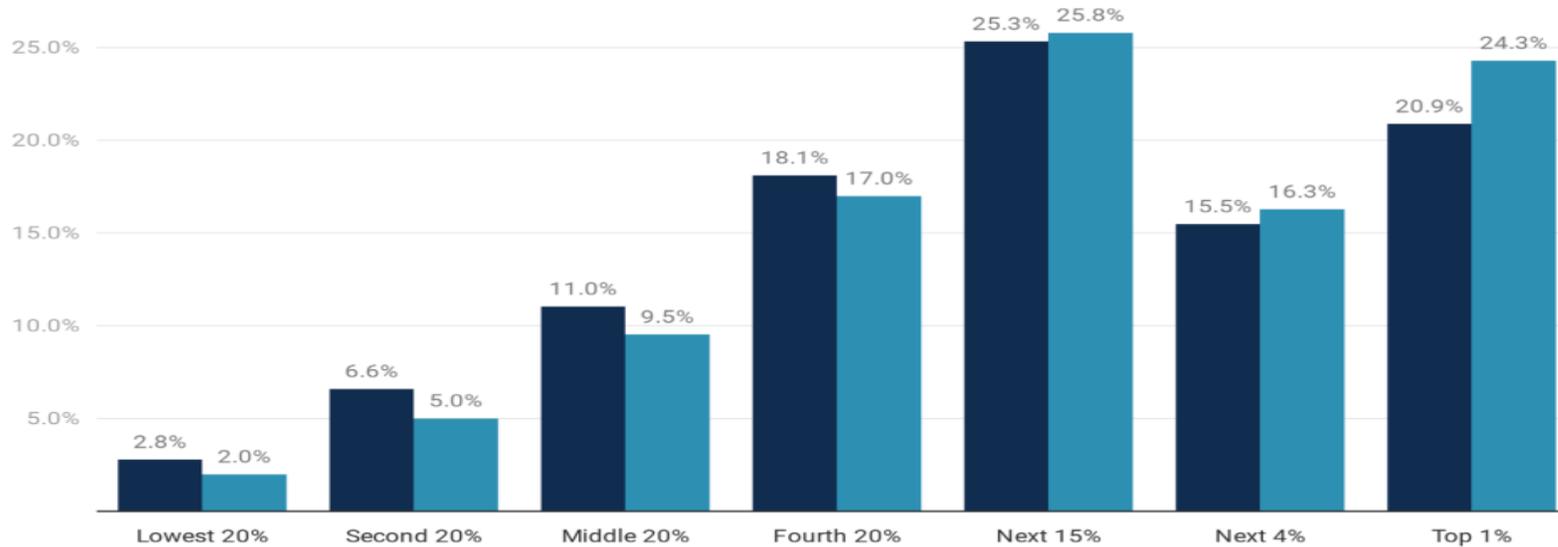


FIGURE 1

Shares of Total Taxes Paid Compared to Shares of Total Income

2020, by income group

■ Total Income ■ Total Taxes



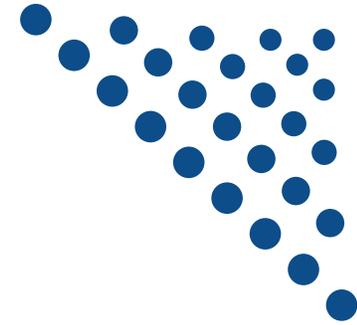
Source: Institute on Taxation and Economic Policy (ITEP) Tax Model, July 2020

The Bottom 40% Don't Pay Income Taxes?



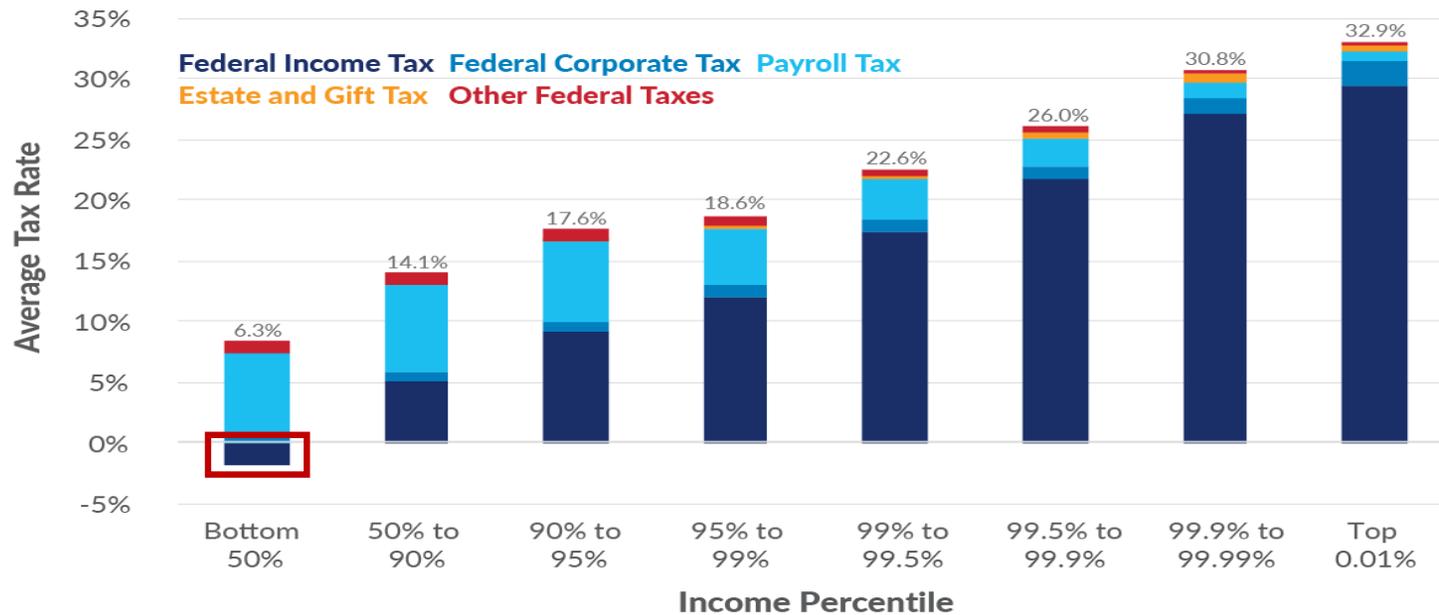
- There is a common narrative that the bottom 40% don't pay income taxes.
- But they pay other taxes and they also pay state and local taxes
 - Payroll
 - State and local taxes
 - Excise taxes – see the slide 4 slides ago.
- But, this portion of the income distribution are net beneficiaries of *Federal* tax and transfer system.
- Is that bad?

All Federal Taxes



The Federal Tax System is Progressive Overall

Average Tax Rates for Federal Tax Types by Income Group, 2018



Source: "Present Law and Background on the Taxation of High Income and High Wealth Taxpayers," Joint Committee on Taxation, Table 4.

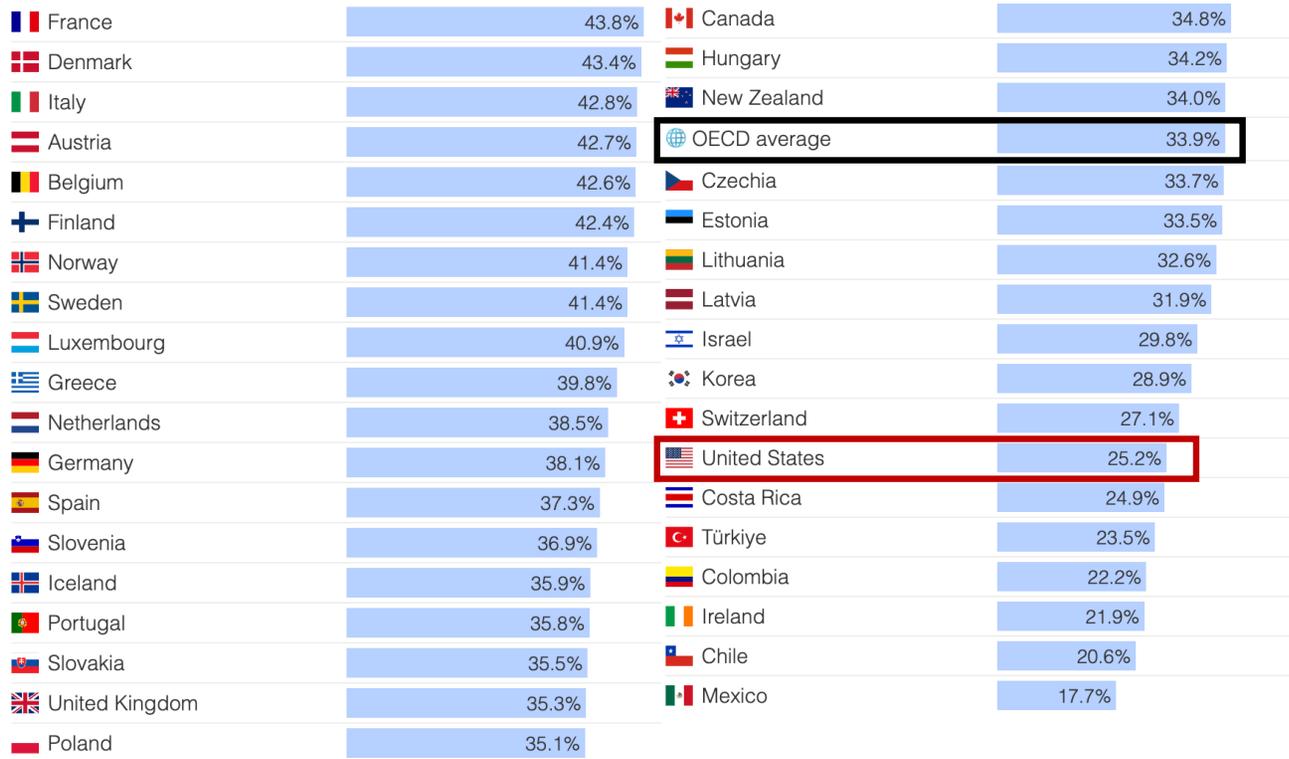
TAX FOUNDATION

@TaxFoundation

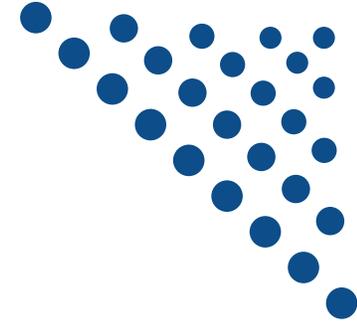
International Comparison

Tax-to-GDP ratios in OECD countries

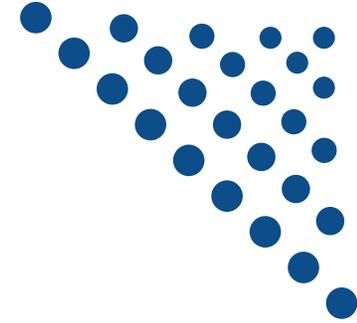
Total tax revenue as % of GDP in 2023



Summary: Revenues



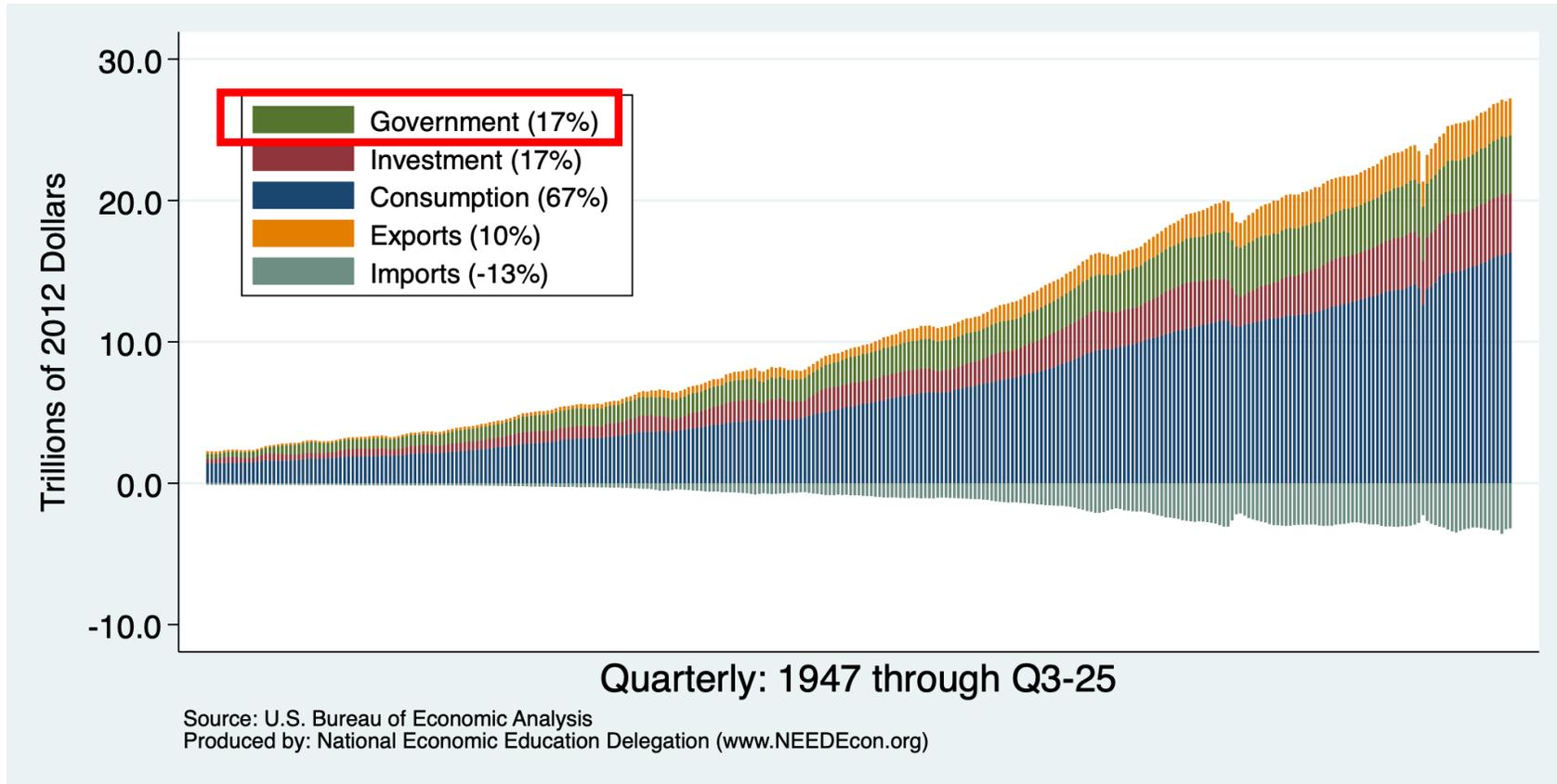
- **Most Federal Revenues come from taxes on earned income.**
- **Tax and Transfer System is modestly progressive, particularly at the lowest quintile**
- **Top 20% of earners pay 2/3 of total taxes, but this is only slightly more than their share of pre-tax income, 62%**



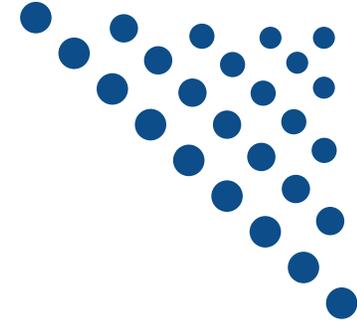
U.S. Government Spending



Gov't Expenditures and the US Economy



An Important Distinction:



- **Mandatory vs. Discretionary Spending:**

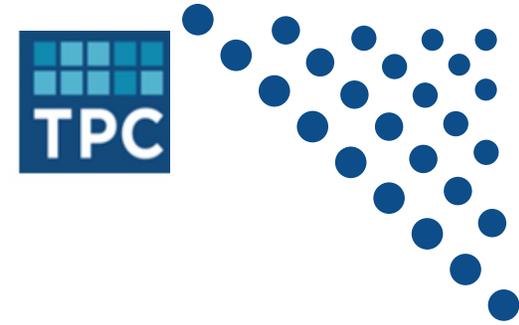
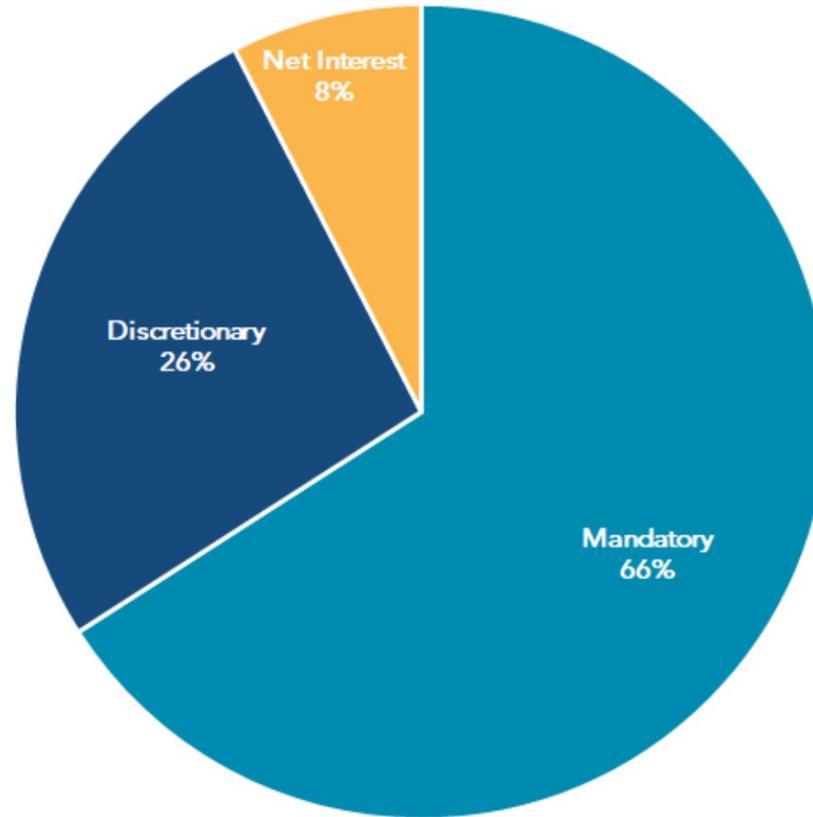
- **Discretionary** Spending requires annual appropriations, e.g., most of Defense.
- **Mandatory** Spending is ongoing authorization to spend mostly on “entitlements:” such as Social Security and Medicare.

- **Budget for 2025:**

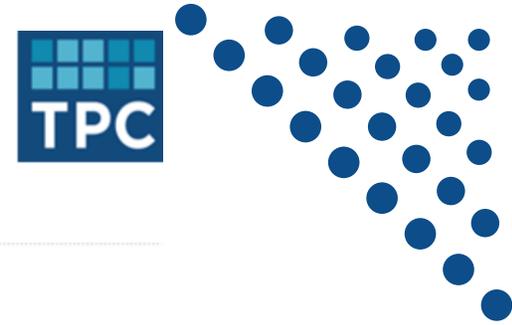
- Mandatory + Net Interest was 73%;
- Discretionary 27%.

Composition of Federal Spending Fiscal year 2022

Share of total

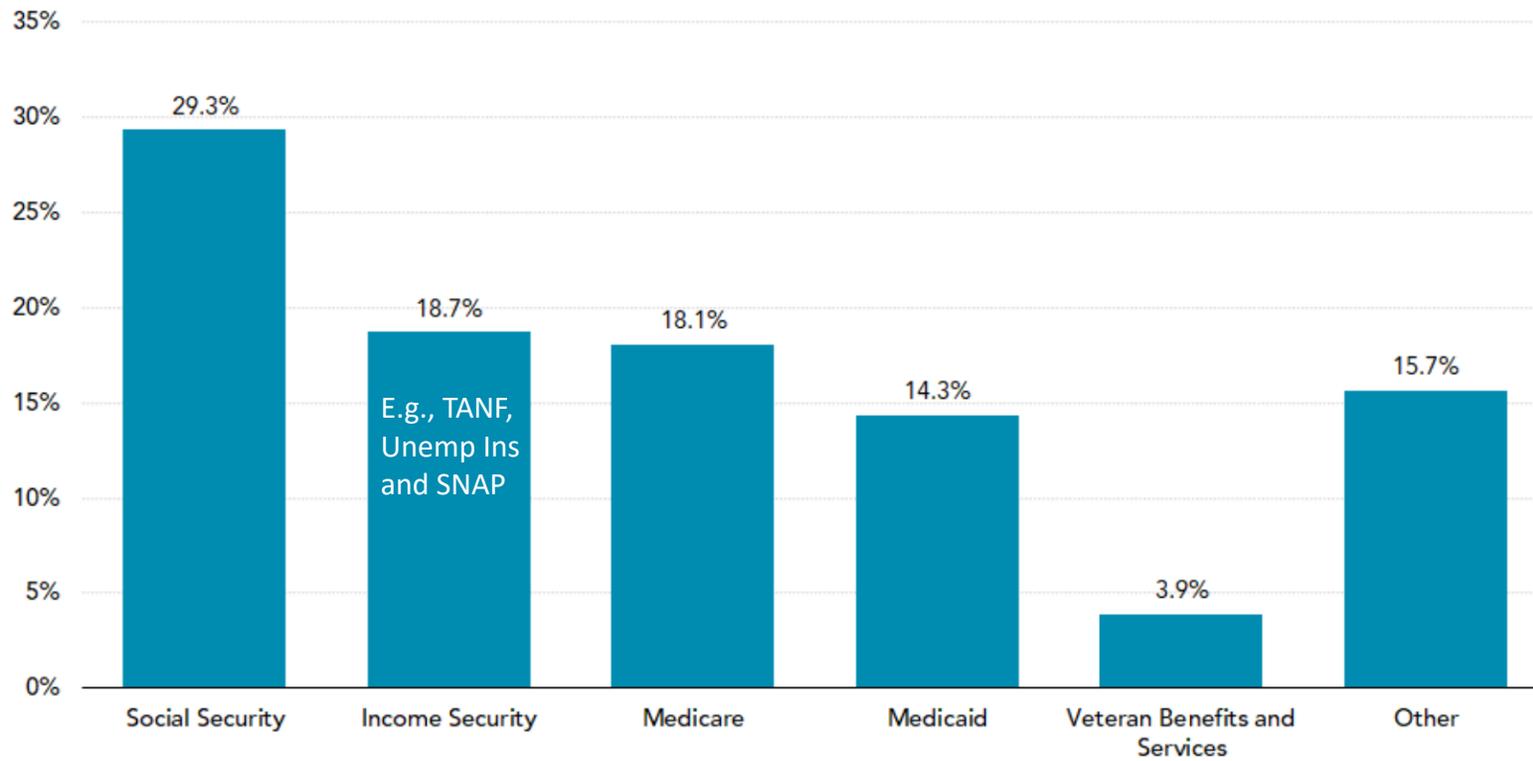


Source: Congressional Budget Office. *The Budget and Economic Outlook: 2023 to 2033*, Historical Budget Data, Table 3: Outlays, by Major Category, Since 1962. February 2023.



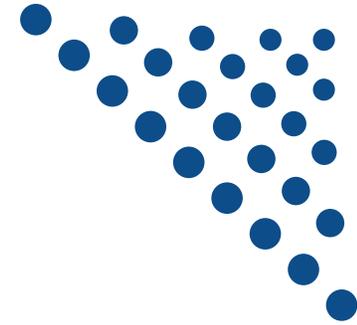
Composition of Federal Mandatory Spending Fiscal year 2022

Share of total

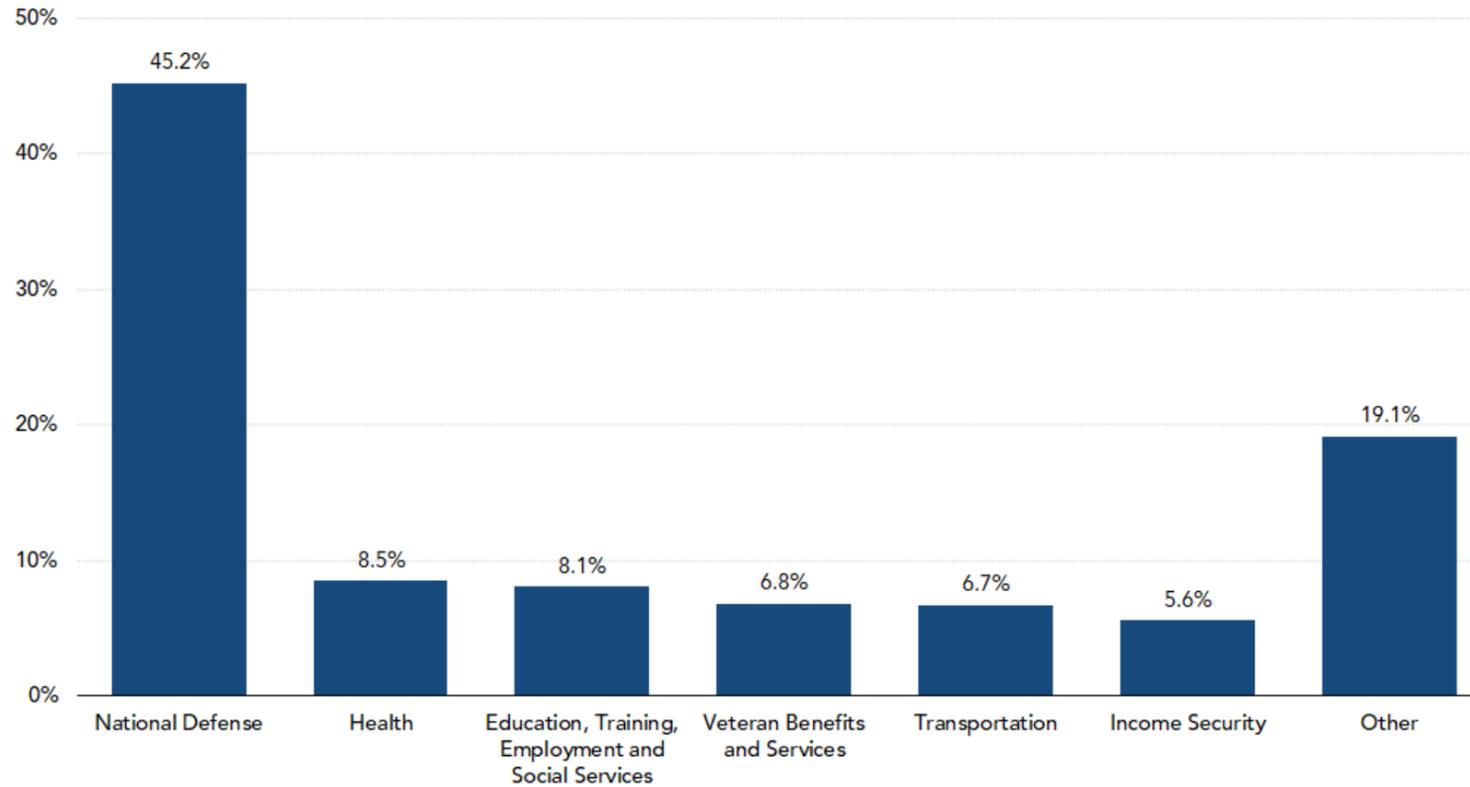


Source: Office of Management and Budget. Historical Tables. Table 8.5, "Outlays for Mandatory and Related Programs: 1962–2028," March 2023.

Composition of Federal Discretionary Spending Fiscal year 2022



Share of total

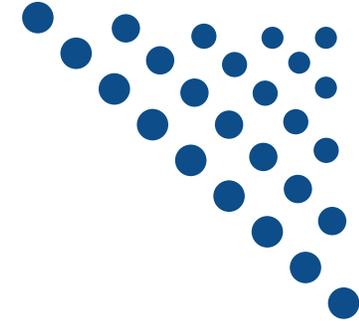


Source: Office of Management and Budget. Historical Tables. Table 8.7, "Outlays for Discretionary Programs: 1962–2028," March 2023.

Mandatory Spending: Social Security



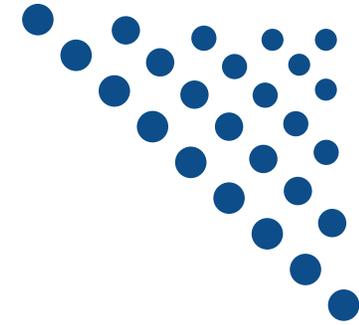
- **Retirement (OA)**
 - Covers 96% of US workers.
- **Survivors (S)**
 - A worker's spouse and dependents may be eligible for survivors' benefits if the worker dies.
- **Disability (DI)**
 - A medical condition expected to last at least one year or to be fatal.



Mandatory Spending: Medicare

- **Part A: Hospital Insurance**
- **Part B: Physician, outpatient, home health, and other services.**
- **Part D: Subsidized access to pharmaceuticals.**

- **Part C: Medicare Advantage Plans – offered by private companies approved by Medicare.**
 - Medicare Advantage Plans may offer extra coverage, such as vision, hearing, dental, and/or health and wellness programs. But, you must receive referrals within network.



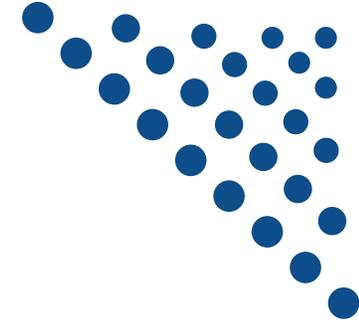
Where Do Medicare Funds Come From?

- **Payroll taxes**
 - Tax rates:
 - Employee: 1.45%
 - Employer: 1.45%
 - Self Employed: 2.9%
 - No Income Cap
- **Interest earnings**
- **General revenues**
- **Beneficiary premiums: Parts B & D**



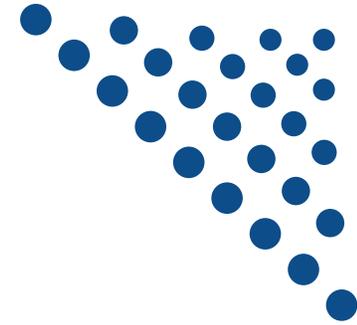
Mandatory Spending: Medicaid

- Medicaid provides medical insurance for those whose income and resources are insufficient to pay for health care.
- It is a program with costs shared with the states.
- Amount spent in FY 2022: **\$838 Billion**
 - Federal: 70% or \$589 Billion
 - States: 30% \$249 Billion
- People served in 2022: **83 million (24% of Americans)**



Mandatory Spending: Income Security

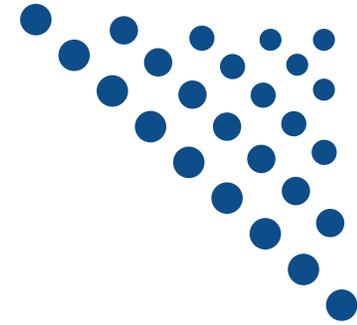
- Earned Income Tax Credit (EITC)
- Supplemental Nutrition Assistance Program (SNAP)
- Supplemental Security Income (SSI)
- Unemployment Compensation
- Temporary Assistance for Needy Families (TANF)
- Housing
- Women, Infants, and Children (WIC)
- School Lunches
- Head Start



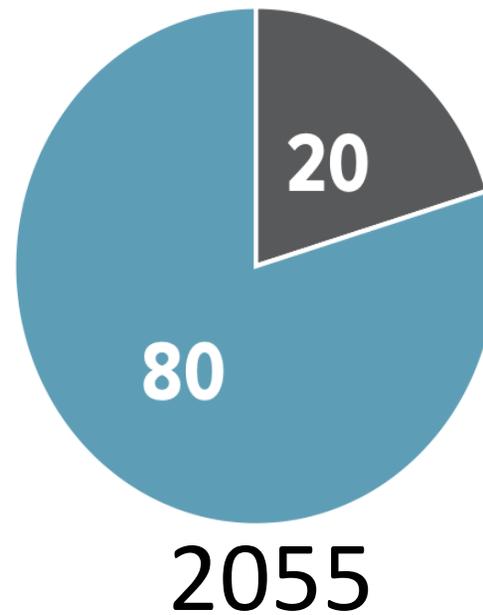
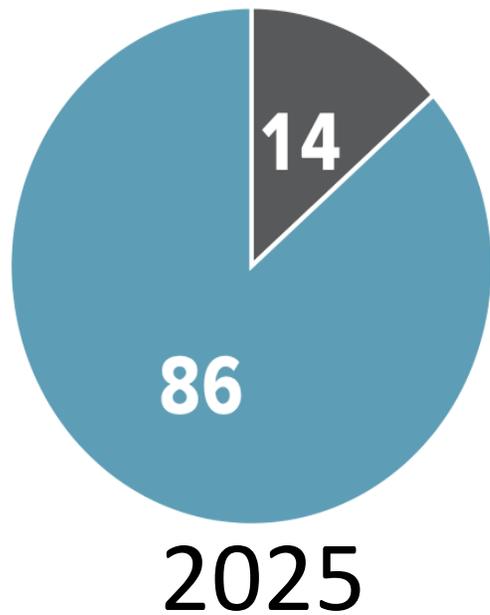
Mandatory Spending: Interest

- **Interest costs in FY2025: \$970 Billion**
 - 3.2% of GDP, or 14% of the Federal Budget
- **Forecast to increase to \$4,800 Billion in 2055**
 - 5.4% of GDP, or 20% of the Federal Budget

Interest Will Grow as a Share of the Deficit



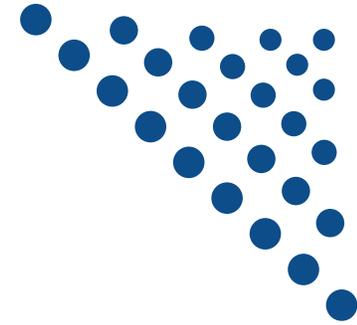
Total outlays



Net interest

Noninterest

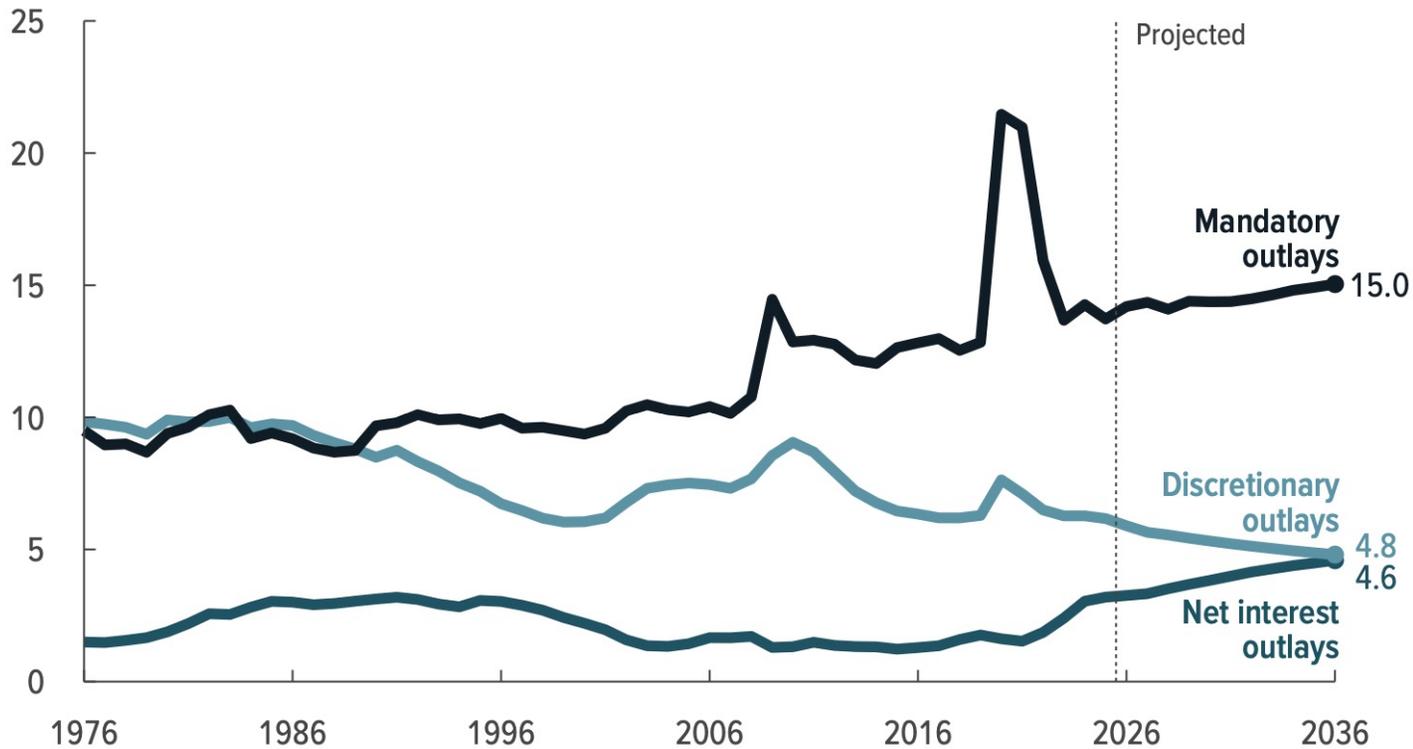
Mandatory Spending: Other (13%)



- Food and agriculture
- Veterans' Benefits
- Transportation
- Other

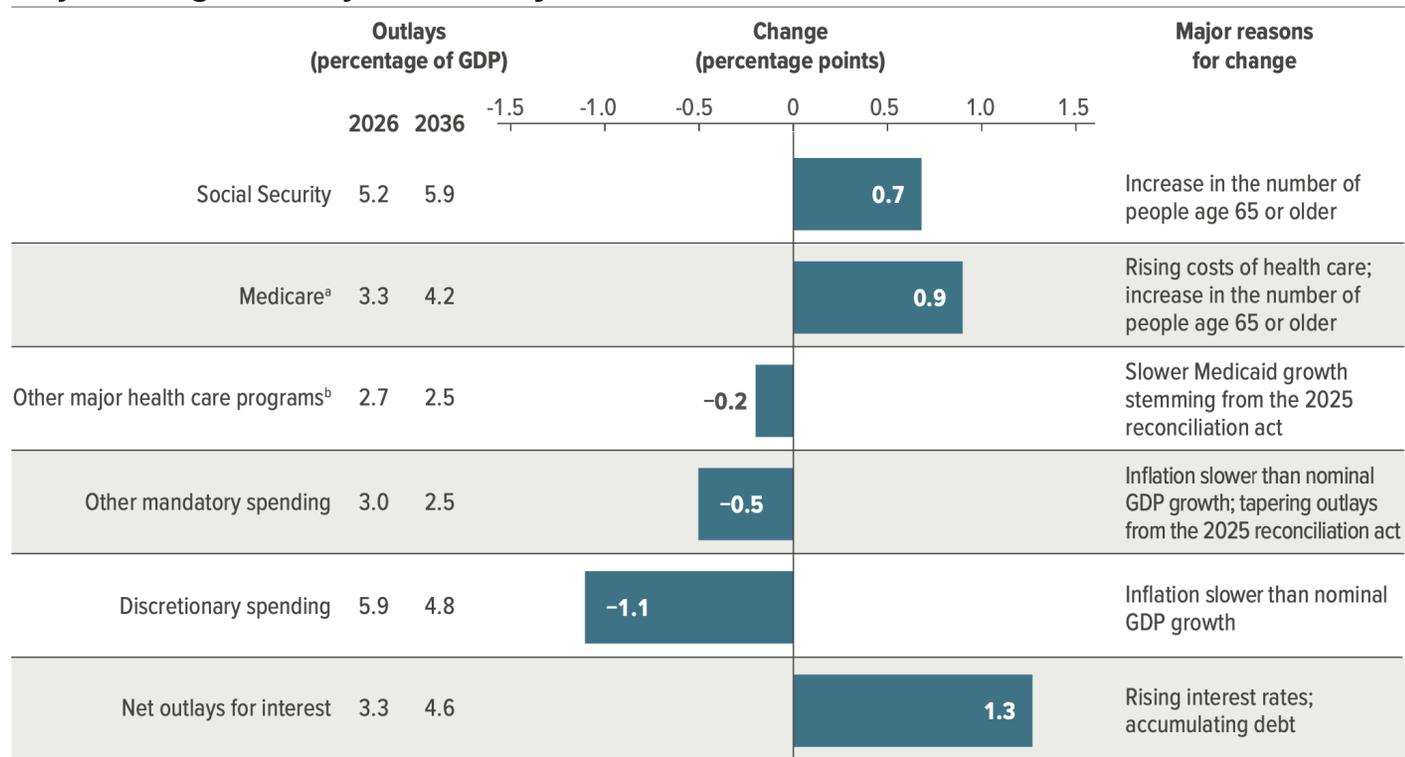
Mandatory Spending Dominates Projections

Outlays, by Category
Percentage of GDP



Aging and Health Care Costs

Major Changes in Projected Outlays From 2026 to 2036

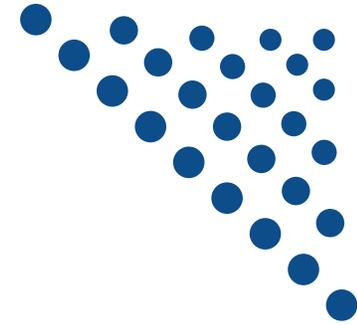


Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

Summary: Spending

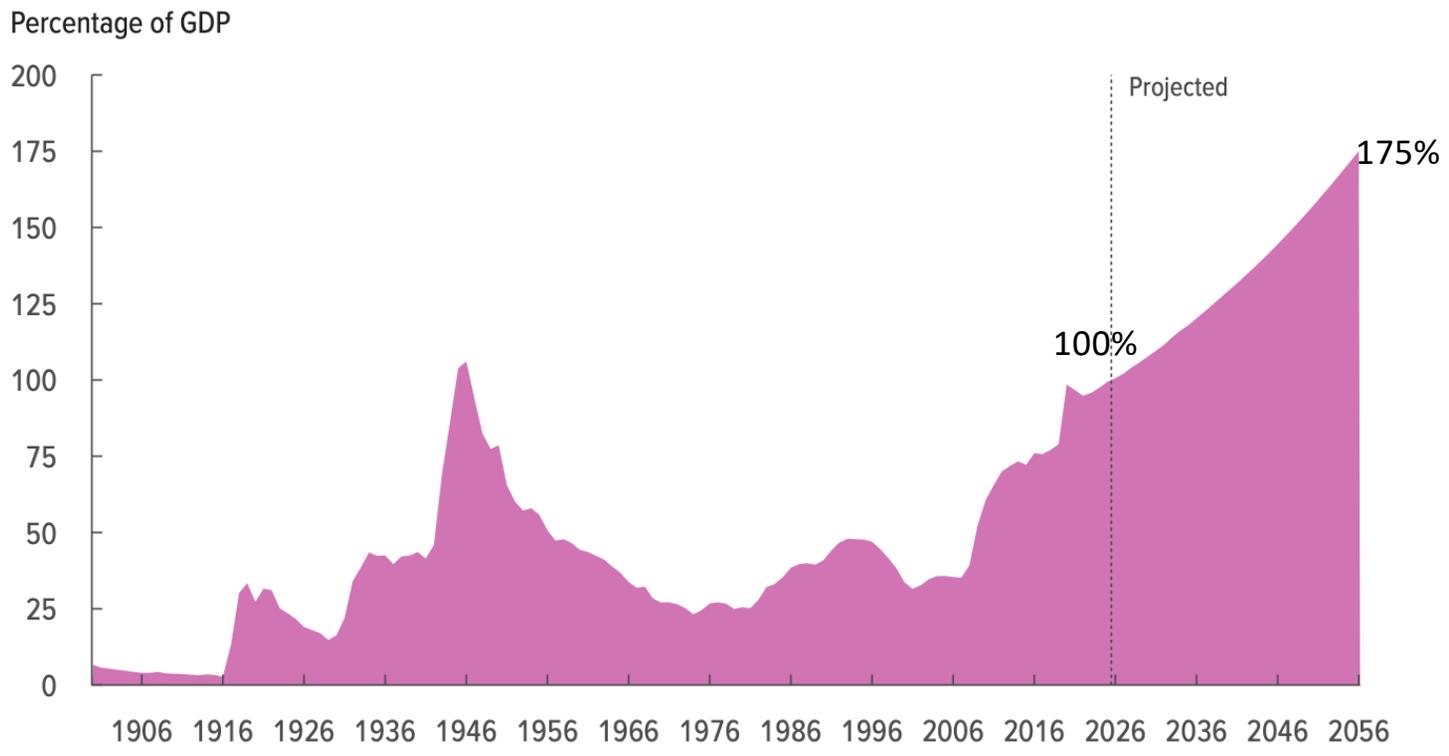


- **Total Federal Spending: \$7.0 Trillion in FY 2025 (+Tax Expenditures)**
- **There is remarkably little discretion in each budget:**
 - Mandatory: 74%
 - Discretionary 26%
- **Fastest growing parts of the budget: Health Care and Interest**
- **By 2056:**
 - Debt is forecast to grow to 175% of GDP, from more than 100% now
 - Interest payments are forecast to grow from 14% to 20% of budget

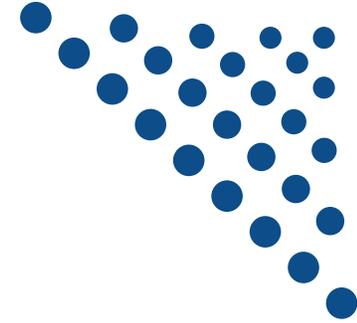


Projections Aren't Good

Federal Debt Held by the Public, 1900 to 2056



Data sources: Congressional Budget Office; Office of Management and Budget. See www.cbo.gov/publication/61882#data.



Tax Expenditures (Deductions)

Another Category of Spending: Tax Expenditures



- **Description**

- Social policies that are implemented and paid for through the tax code.

- **List of the largest tax breaks:**

- Mortgage interest deduction
- Retirement contributions
- State and local taxes
- Health insurance
- Low tax rates for Capital Gains
- Child related tax credits
- Charitable gifts
- Lifetime Learning

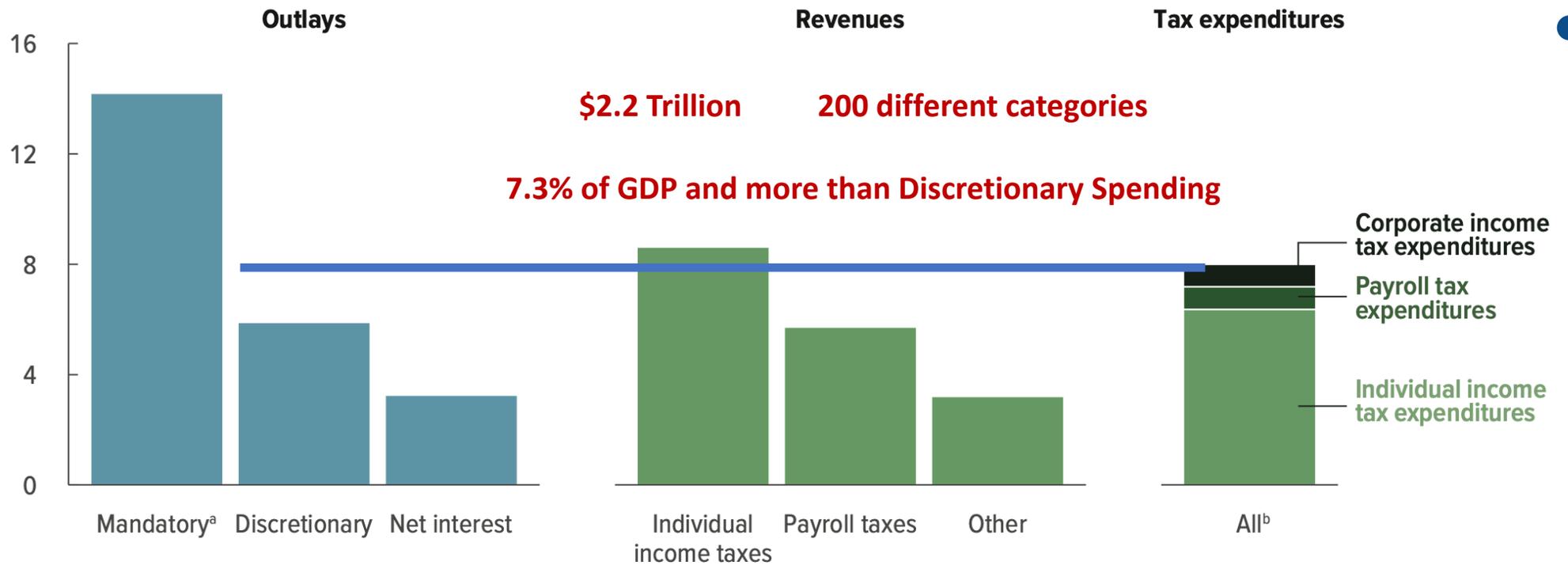
- **Evidence of who they benefit**

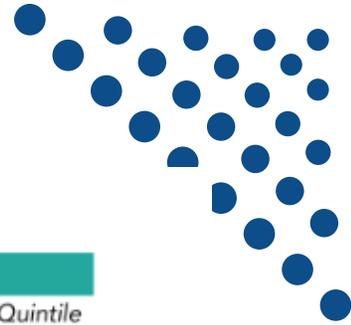
- Regressive

Tax Expenditures are Significant (2025)



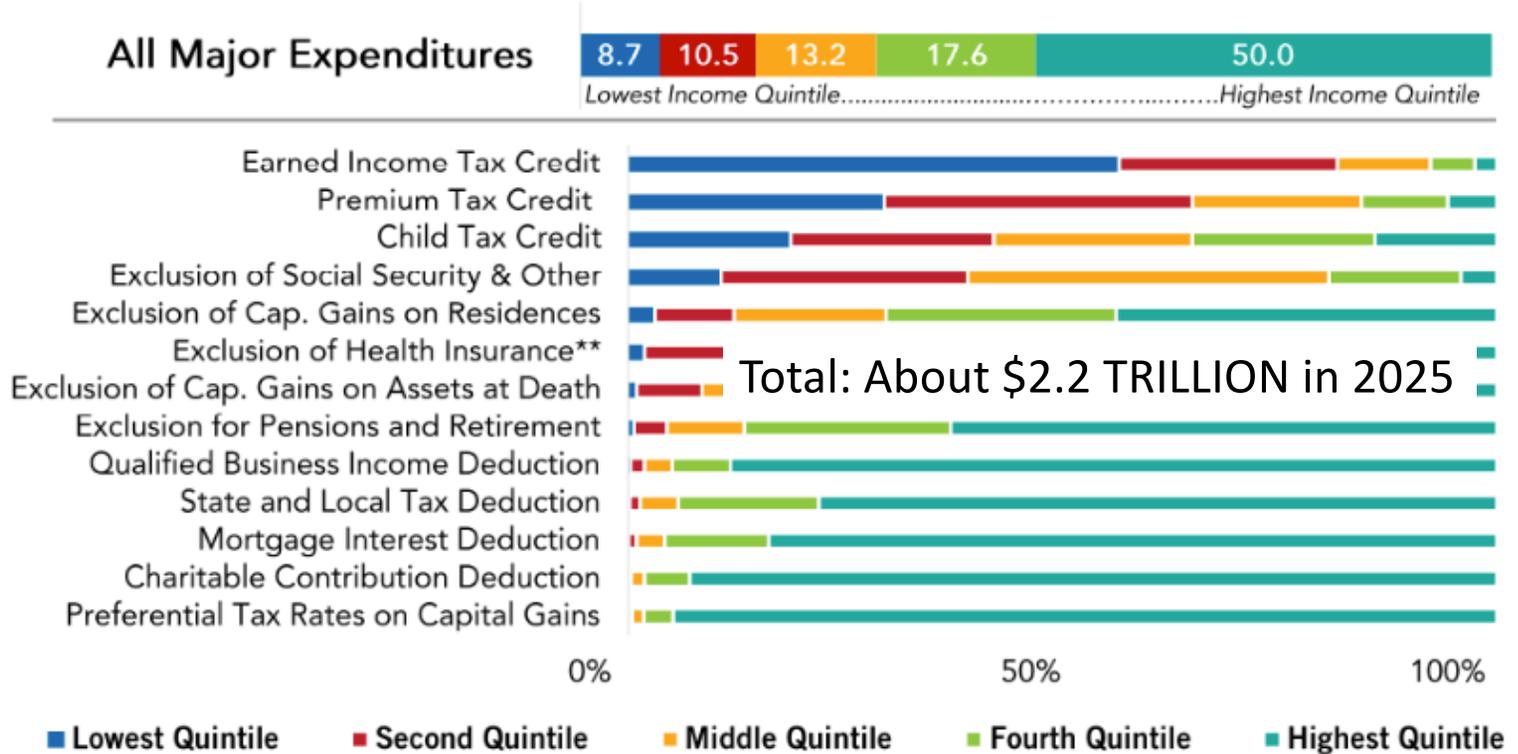
Percentage of GDP





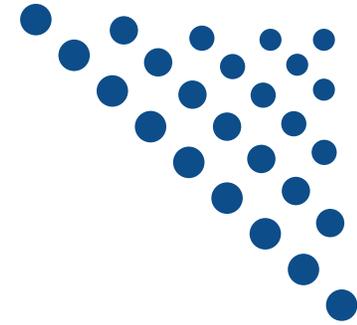
What Are Tax Expenditures?

SHARE OF MAJOR TAX EXPENDITURES* (%)



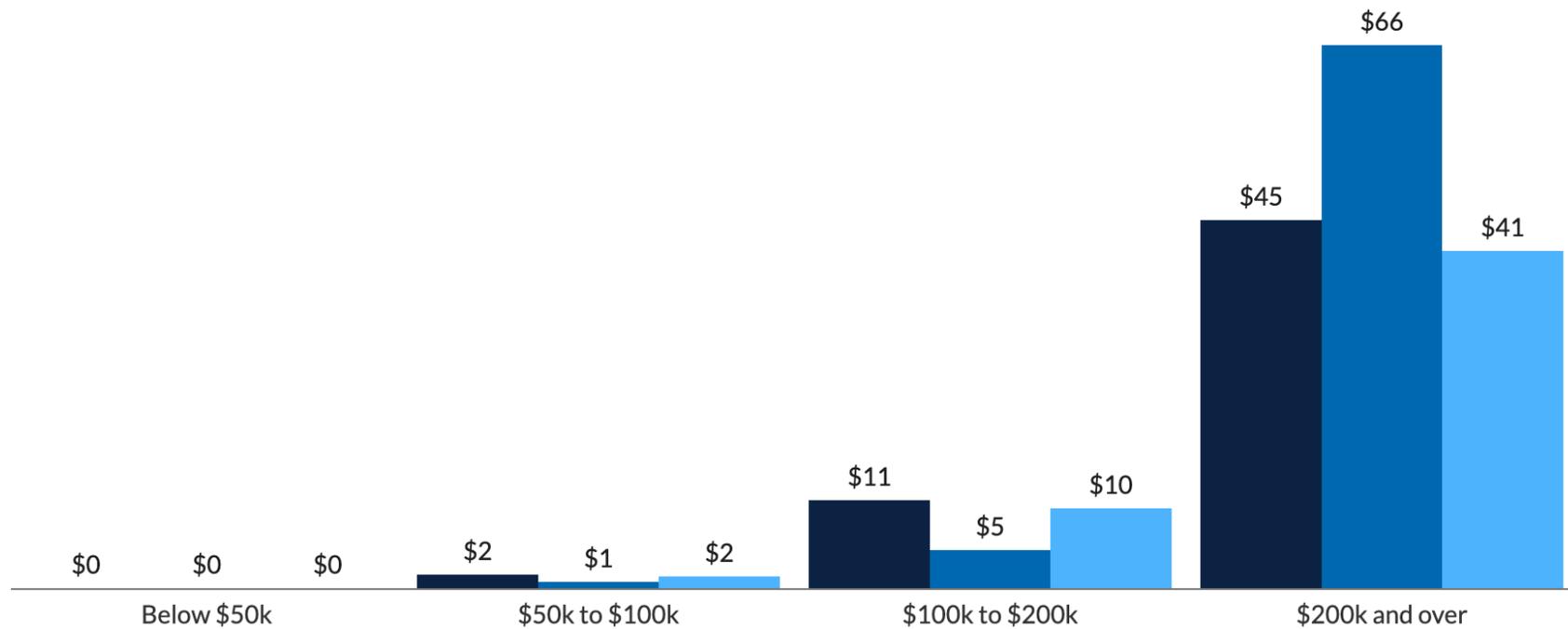
SOURCE: Congressional Budget Office, *The Distribution of Major Tax Expenditures in 2019*, October 2021.

Distributional Effects of Tax Expenditures



Expenditures for Most Popular Deductions by Income in 2025 (Billions of \$)

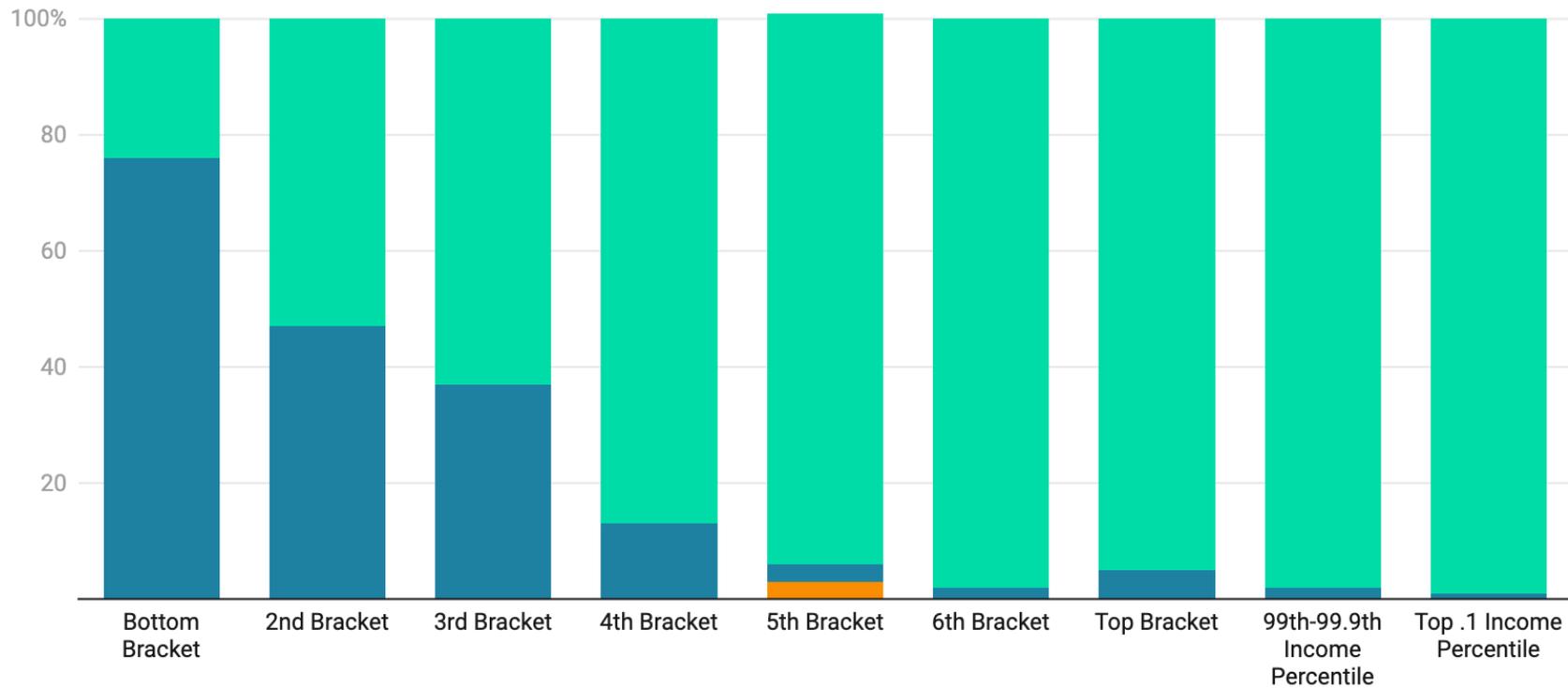
■ State and Local Taxes Deduction ■ Charitable Contributions Deduction ■ Mortgage Interest Deduction



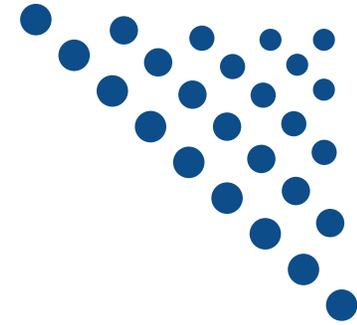
Harder to Exploit with Little Income



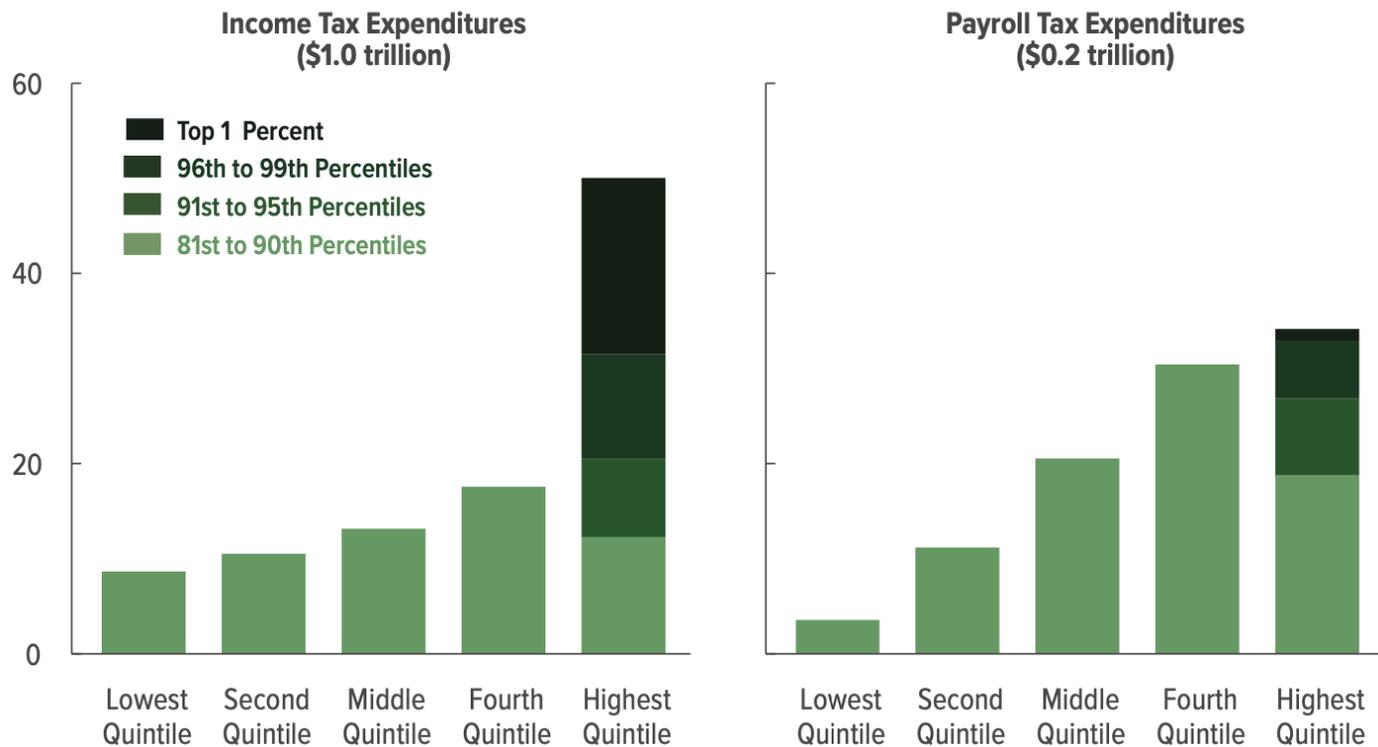
Share Paying Above Statutory Share Paying Statutory Share Paying Below Statutory



Distributional Effects of Tax Expenditures



Shares of Combined Major Tax Expenditures
Percent

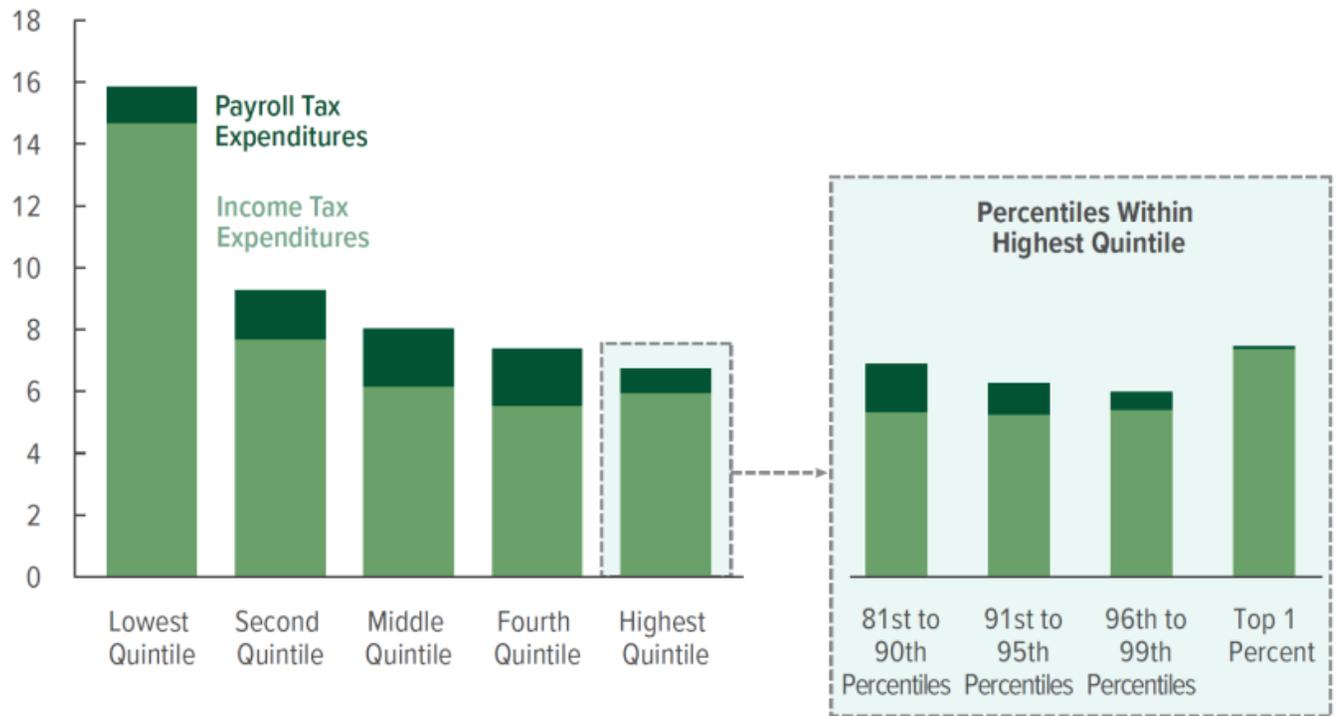




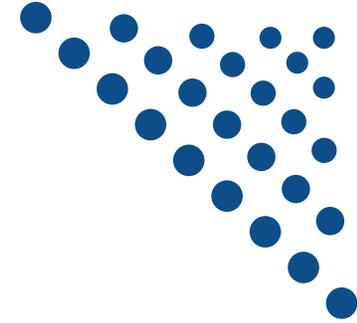
Distributional Effects of Tax Expenditures

Combined Major Tax Expenditures as a Share of Income, 2019

Percentage of Income Before Transfers and Taxes

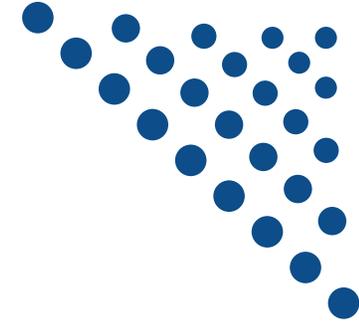


Summary: Tax Expenditures



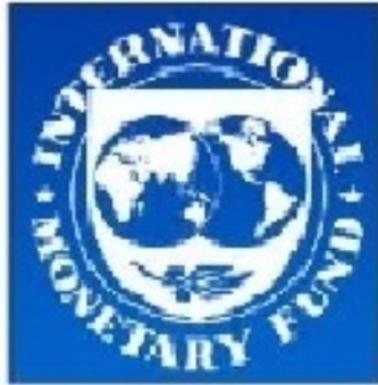
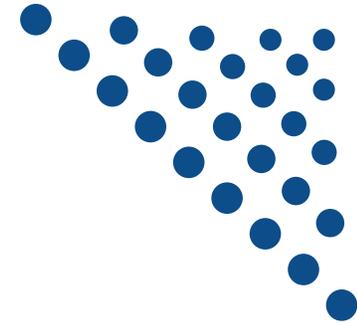
- **...Are policy enacted through the tax code.**
 - But are no different from spending programs.
- **...Are not explicitly on the books.**
- **...Add > 25% to budget deficit.**
- **...Reduce the progressive nature of the tax code.**
- **...Are larger than all of “Discretionary Spending”.**

Summary: Overall



- **Expenditures significantly exceed revenues.**
 - Ongoing deficit/debt problem.
- **Tax revenues, both income and corporate, have been significantly eroded in recent years.**
- **Balancing the budget must include attention to tax expenditures.**
- **Tariff revenue has very little capacity to:**
 - Solve deficit problem.
 - Replace the income tax.

Main Economic Institutions: Alan Deardorff

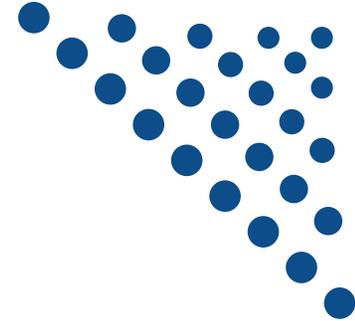


UNITED NATIONS



Thank you!

Any Questions?



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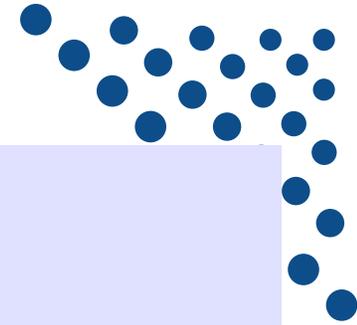
Jon Haveman, Ph.D.

Jon@NEEDEcon.org

Contact NEED: info@NEEDEcon.org

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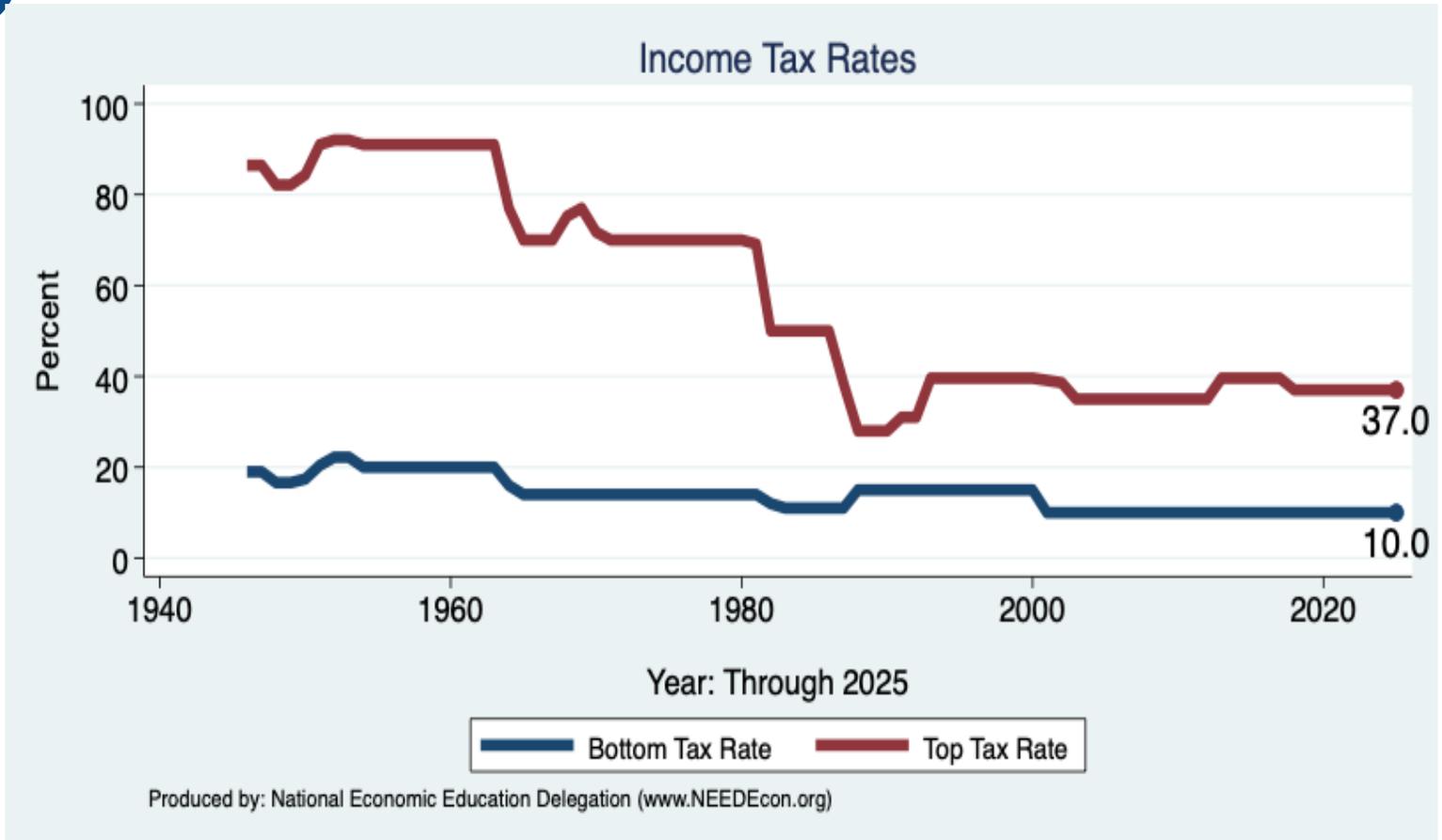
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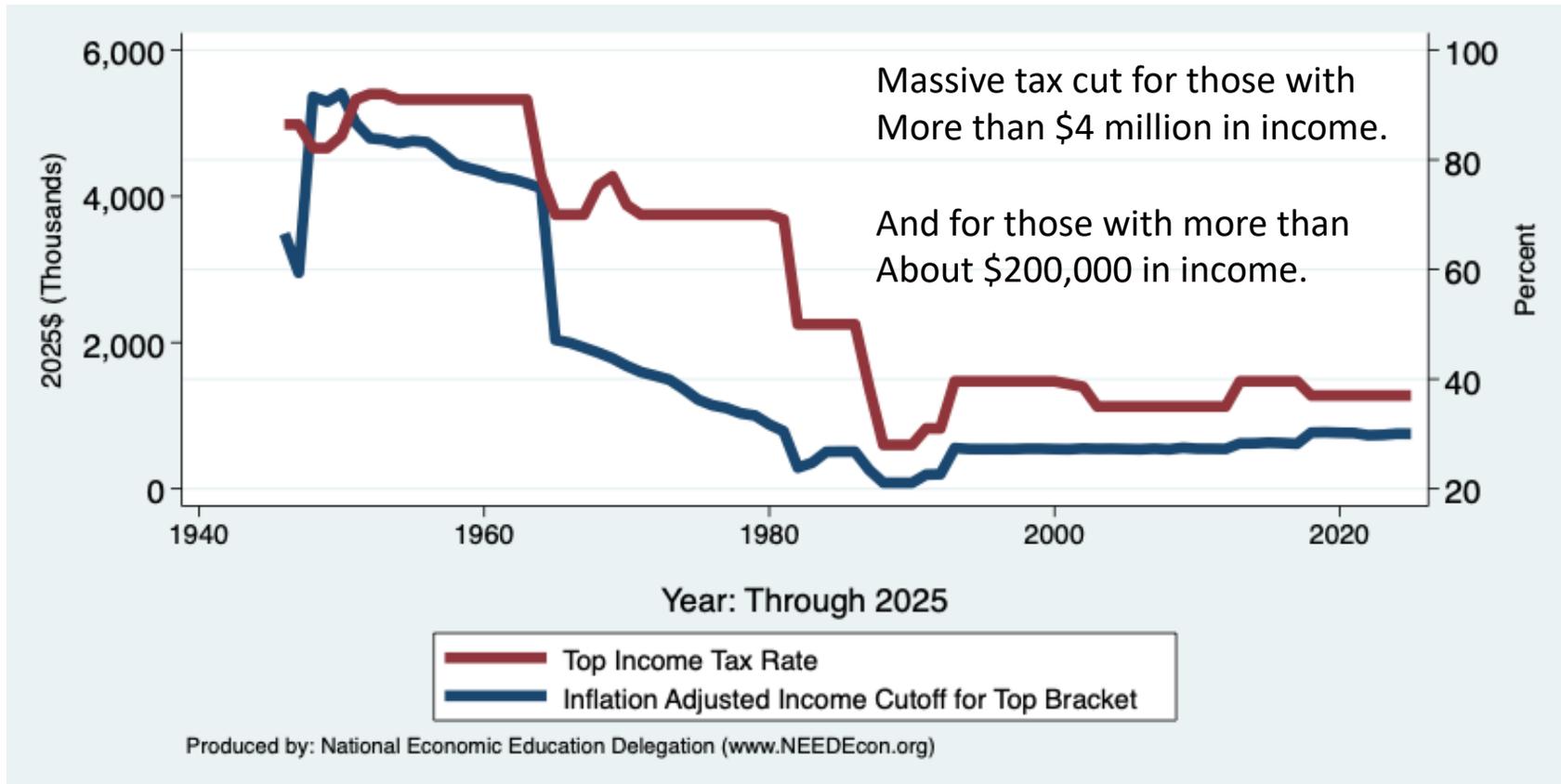
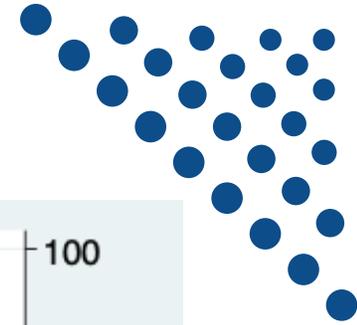
Total Government Spending in the United States Fiscal Year 2023

Federal Gross Spending	\$6.4 trillion
Intergovernmental State Direct Spending	-\$1.1 trillion
Local Direct Spending	\$2.1 trillion
Total Spending	\$2.3 trillion
	<hr/>
	\$9.7 trillion

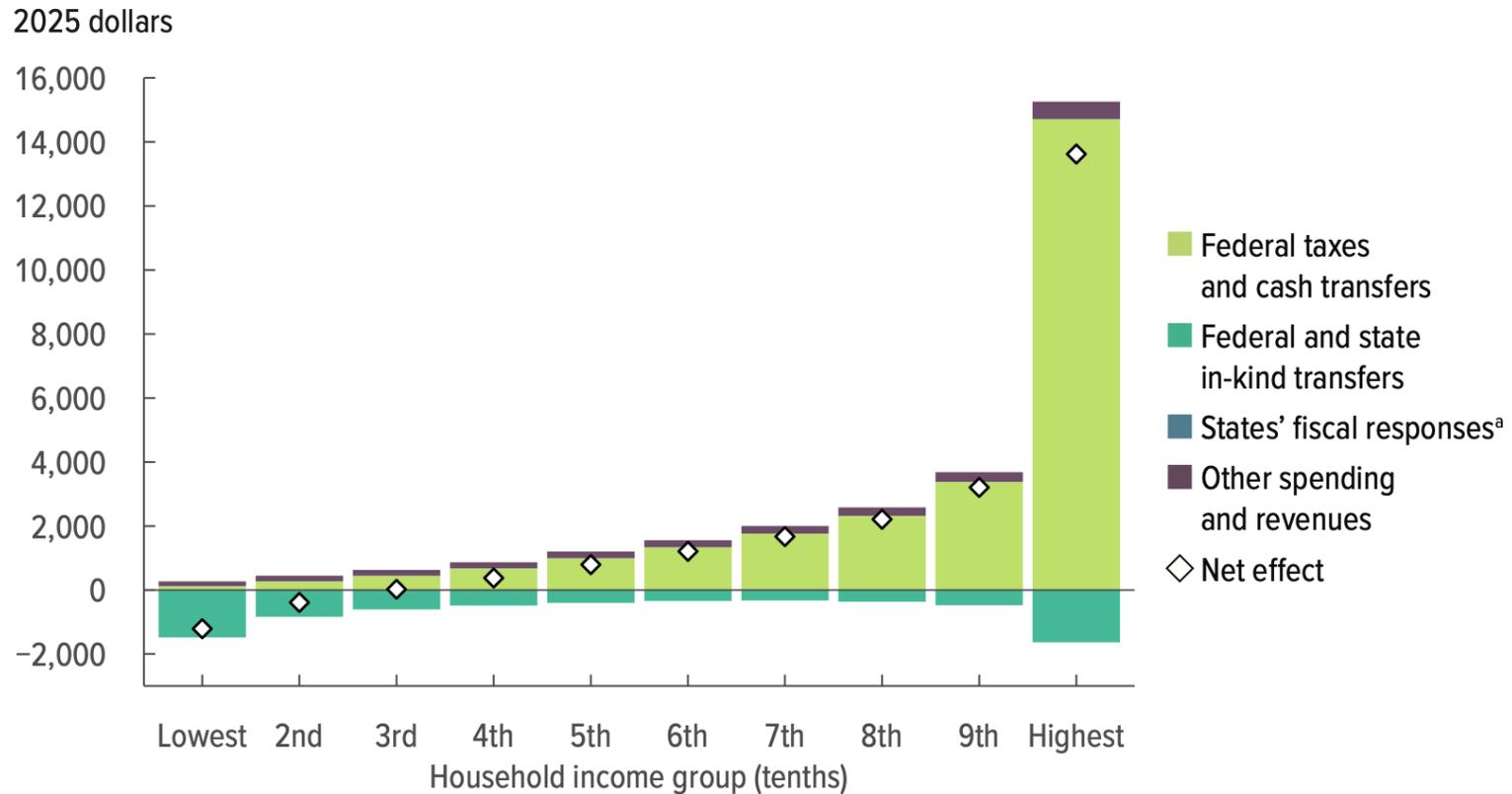
Tax Rates Over Time



The Top Tax Rate and Income Cutoff

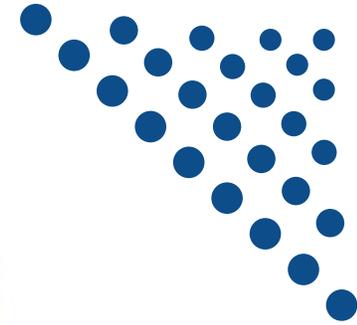
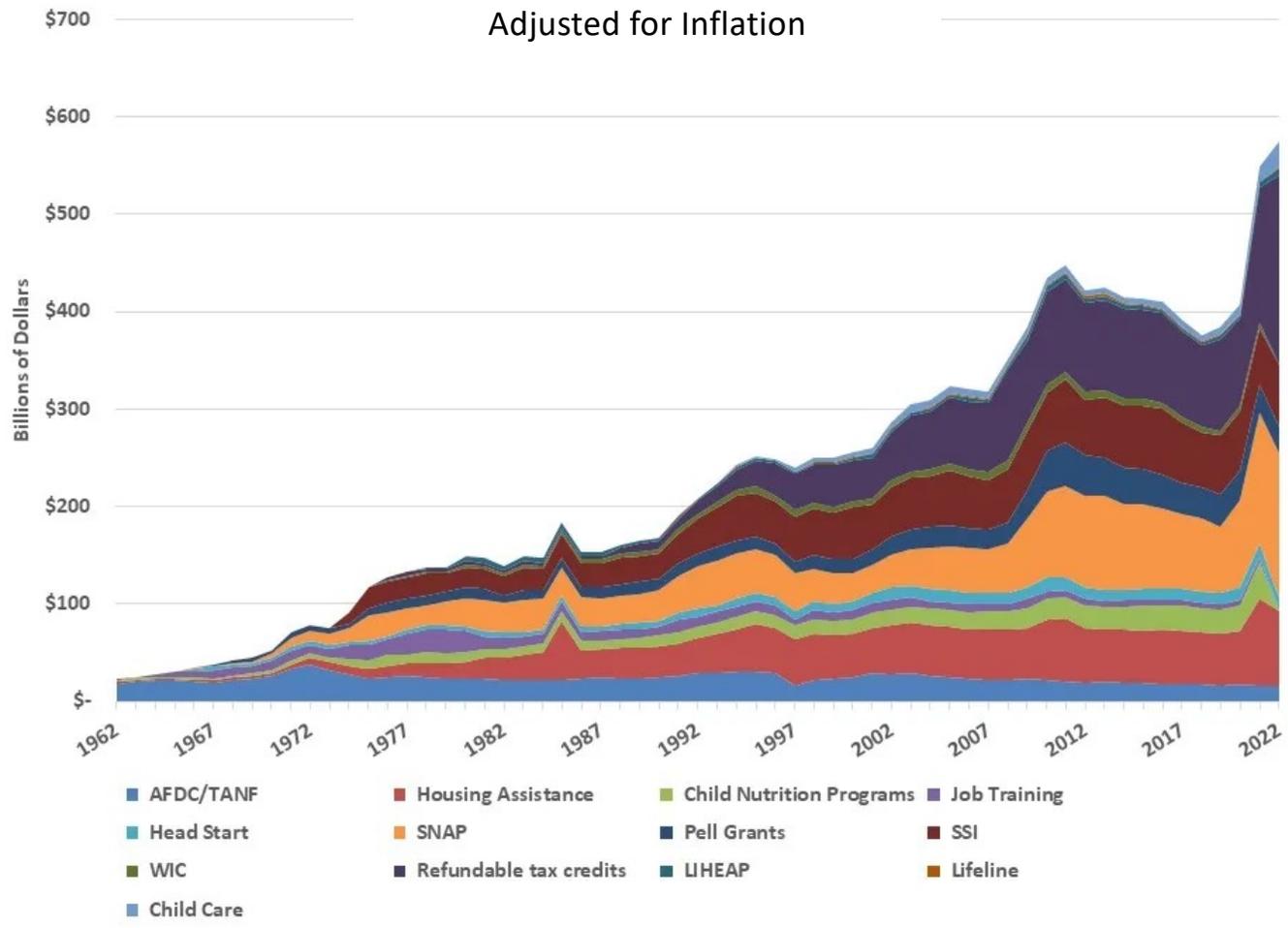


Average Annual Change in Households' Resources Attributable to the 2025 Reconciliation Act, 2026 to 2034

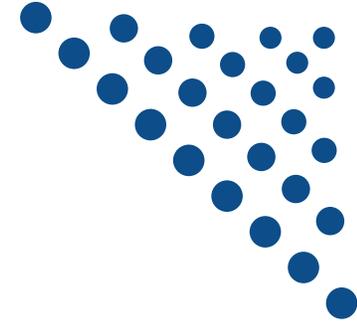


Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation. See www.cbo.gov/publication/61882#data.

Safety Net Expenditures Adjusted for Inflation

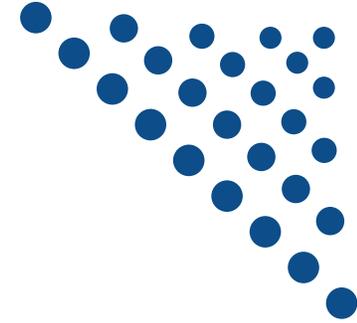


Citizen's Guide To Government Shutdown



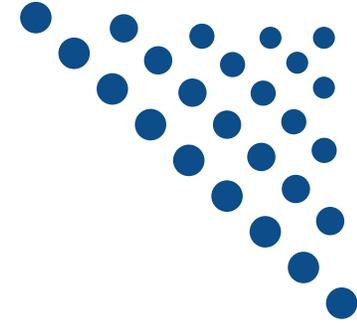
- **Federal fiscal year: Oct 1– Sep 30**
- **Action needs to be taken to fund key government services before the end of the fiscal year.**
- **In fall 2023...**
 - Senate – bipartisan agreement (Temporary)
 - House – disarray....

Implications (1)



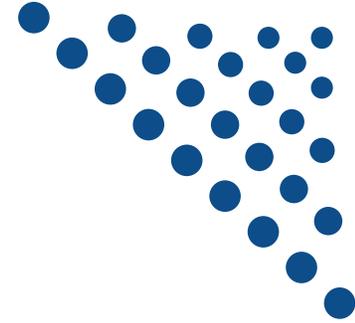
- **Families Will Get Cut Off from Food Assistance Programs**
- **Kids May Lose Access to Head Start**
- **Critical Services like Disaster Preparedness and Response Will Be Interrupted**

Implications (2)

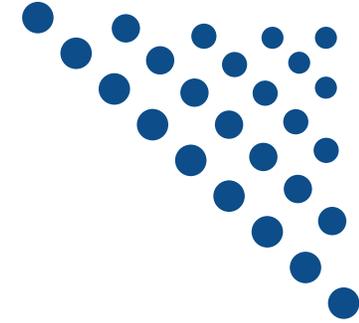


- **Servicemembers and Law Enforcement Officers Will Work Without Pay**
- **Access to our National Parks May Be Shut Off**
- **Small Businesses Will Not Get New Loans from the SBA**
- **Travelers May Face Significant Delays**

Solutions?



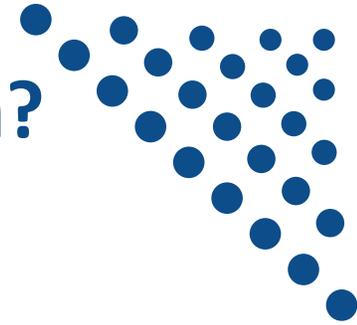
- **Usually “continuing resolutions”.**
 - Keep spending as we were this year.
 - Extends last year’s budget into next year.
- **Others?**
 - Your guess is as good as mine.



Economic Implications?

- **Short closure? None (well, vanishingly small)**
- **Long term?**
 - Could grow to be significant.
 - Essentially, a cut in government spending.
 - Drag on economic growth.
 - Fuel the potential for a recession, along with:
 - high interest rates
 - UAW strike
- **Other: Ukraine War Funding**

Where Do Social Security Funds Come From?



- **Payroll taxes**

- Tax rates:
 - Employee: 6.2%
 - Employer: 6.2%
 - Self Employed: 12.4%
- Cap in 2024: \$168,600

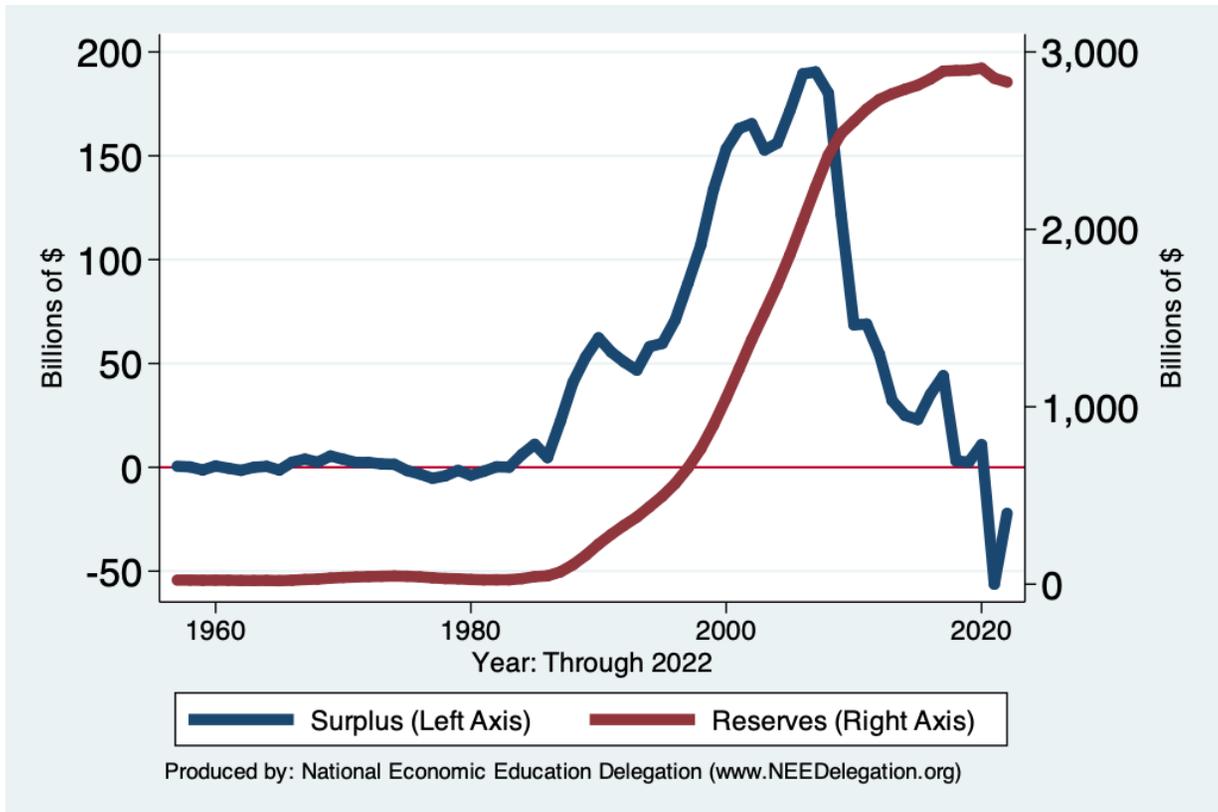
- **Taxes on OASDI benefits**

- Not all benefits are taxed.

- **Interest earnings**

**Key Question:
Who pays?**

Social Security Trust Fund

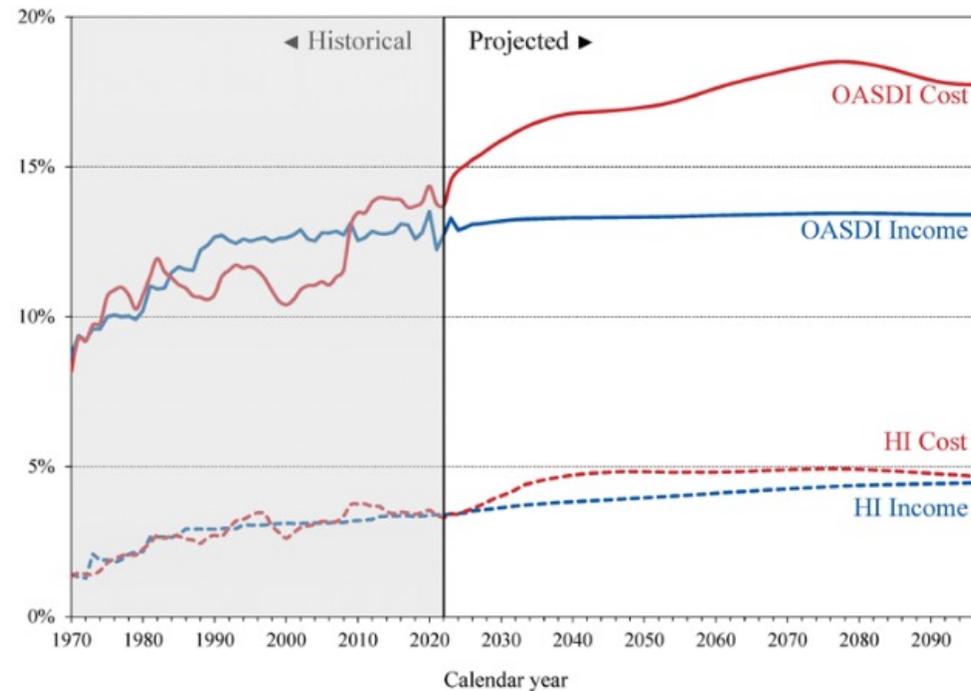


- **Spending in 2022**
 - OASI: \$1,097 billion
 - DI: \$147 billion
- **Income in 2022**
 - OASI: \$1,057
 - DI: \$165
- **Surplus in 2022**
 - OASI: \$-41
 - DI: \$19
- **Total Deficit: \$22 Billion**



Deficits As Far As the Eye Can See

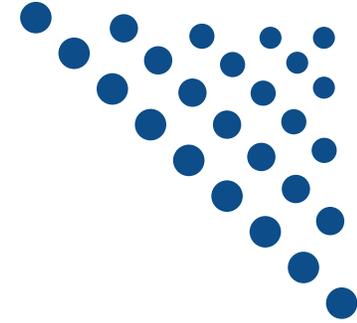
Chart A—OASDI and HI Income and Cost as Percentages of Their Respective Taxable Payrolls



- **Trust Fund Solvency**

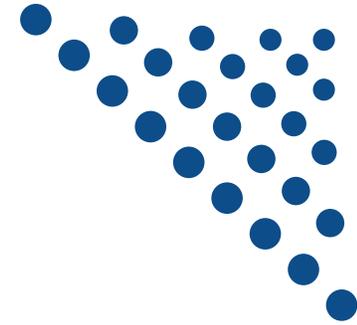
- Annual deficits after 2019
- Fund insolvent after 2036

Options for Eliminating the Soc Sec Deficits



Problem is 1-1.5% of GDP

- **Raise the retirement age.**
- **Increase the tax rate.**
 - 4 percentage pt. increase raises 0.6% of GDP.
- **Raise the amount of income subject to tax.**
 - Tax all wages raises 1.1% of GDP.
- **Reduce benefits.**
 - 21% cut in benefits by 2036 would be necessary.



Medicare Finances in 2021

- **Part A:**

- Income in 2021: \$342 billion
- Expenses in 2021: \$402 billion
- **Deficit:** \$60 billion

- **Part B and Part D:**

- Income in 2021: \$558 billion
- Expenses in 2021: \$524 billion
- Surplus: \$24 billion

- **Long term sustainability:**

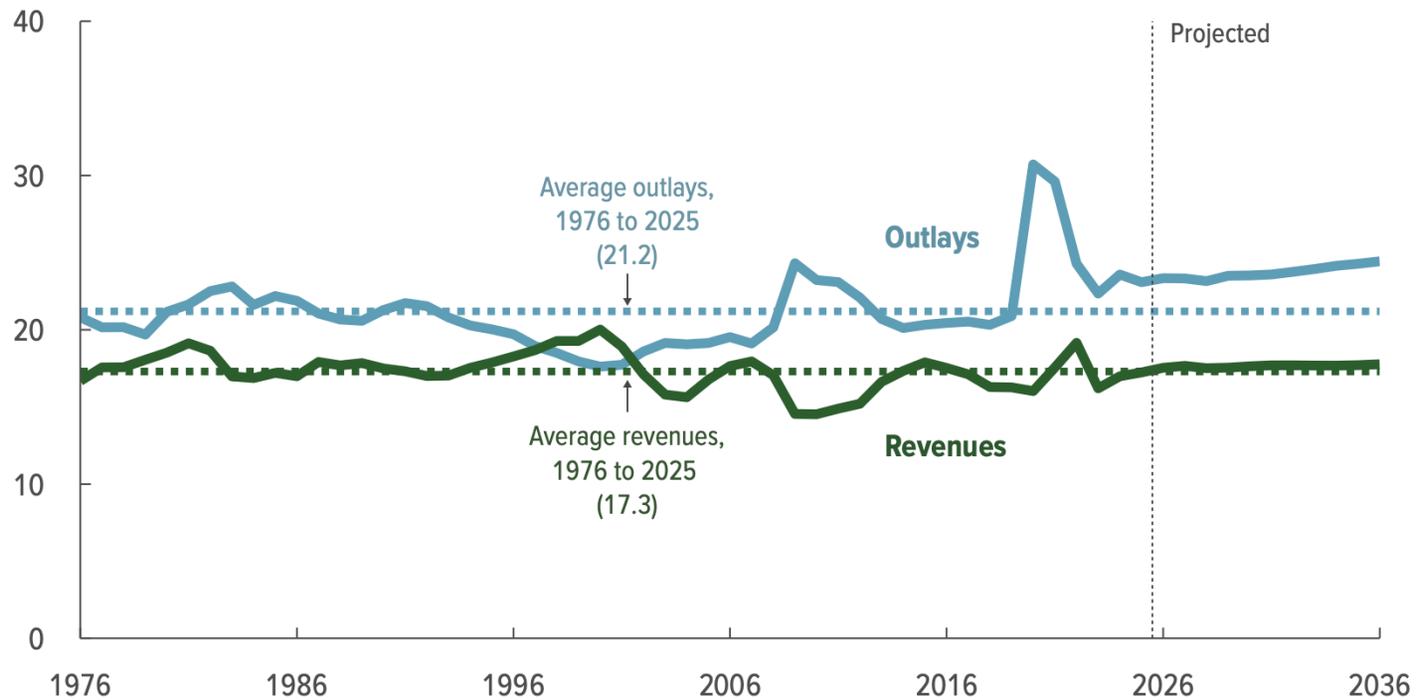
- Deficits began in 2016
- Part A Trust Fund depleted by 2026.



Projections Aren't Good

Total Outlays and Revenues

Percentage of GDP



Data sources: Congressional Budget Office; Office of Management and Budget. See www.cbo.gov/publication/61882#data.