Fiscal Policy Dreaming

***e*Research Corporation** is pleased to provide an article by Scott Grannis for his Blog, "Calafia Beach Pundit".

In this article, Mr. Grannis looks at what the U.S. government should do.

The article is reproduced below, beginning on the next page, or you can go to this specific Blog at the following link:
http://scottgrannis.blogspot.ca/2017/07/fiscal-policy-dreaming.html

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Bob Weir, CFA: Director of Research

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The Federal government last month passed a dubious milestone, having spent $4 trillion over the previous 12-month period for the first time ever. That works out to over $11 billion per day. To make matters worse, the budget deficit is once again on the rise, as spending is outpacing revenues. The budget deficit is now running over $700 billion per year, or roughly 3.4% of GDP, up from a post-recession low two years ago of $411 billion, or about 2.2% of GDP.

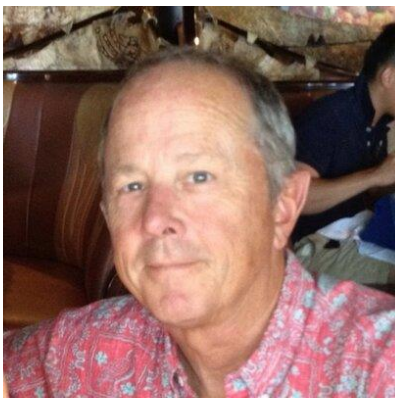
Although we obviously need to rein in spending, it would also be smart to cut taxes, particularly corporate taxes. The Feds collected $300 billion from corporations over the past year, which was less than 15% of adjusted corporate profits (according to NIPA figures) in the year ended last March. A relative handful of corporations reportedly hold well over $2 trillion in profits they refuse to repatriate—they've already paid tax once on that money overseas, why pay another 35% for the "privilege" of repatriating the money? If corporate income taxes were lowered, say, to 15%, the Feds might wind up doubling corporate tax collections (15% of $2 trillion) overnight as those profits were repatriated, and everyone would be thrilled. Most importantly, however, a much lower corporate tax rate would most likely result in a reverse wave of corporate inversions—the U.S. would instantly become the most attractive place on earth to do business! With companies rushing to repatriate profits and new companies rushing to relocate here, it's a safe bet that employment would surge and individual income taxes would surge as well. What's not to like about that?

Just about everyone—on both sides of the aisle—agrees that corporate income taxes are too high. Why is this such a hard problem to fix? It's the lowest-hanging fruit out there. Instead, the Republicans are struggling with healthcare reform, which is not something that government can easily achieve. The healthcare industry responds weakly (and mostly negatively) to politician's ministrations, but it would surely respond powerfully and productively if the heavy hand of government were removed altogether. Free markets always beat administered markets. The proper role of government might be limited to administering subsidies to the poor and the unfortunate among us, but then again that's what charity is for. I've always believed that private charities work far better than government bureaucracies at taking care of the sick and the poor. I have more discussion of this in a recent post.

BW: *There is additional commentary about the U.S. deficit. If you would like to read the entire article, click here:* http://scottgrannis.blogspot.ca/2017/07/fiscal-policy-dreaming.html

BW: See ABOUT THE AUTHOR on the following page.

ABOUT THE AUTHOR



Scott Grannis was Chief Economist from 1979-2007 at Western Asset Management, a Pasadena-based, global manager of fixed-income portfolios for institutional clients.

He now enjoys keeping up on economics, markets, and politics from his condo overlooking Calafia Beach on the southern California coast, where he likes to think that he is immune to Wall Street group-think.

Married for 45 years to his Argentine wife, Norma, he has four children and five grandchildren (four boys and one girl).

He is a believer in supply-side economic theory, as practiced by his mentors, the late Jude Wanniski, Art Laffer, and Larry Kudlow. John Rutledge is another of his mentors, from the days that they worked together at Claremont Economics Institute.

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