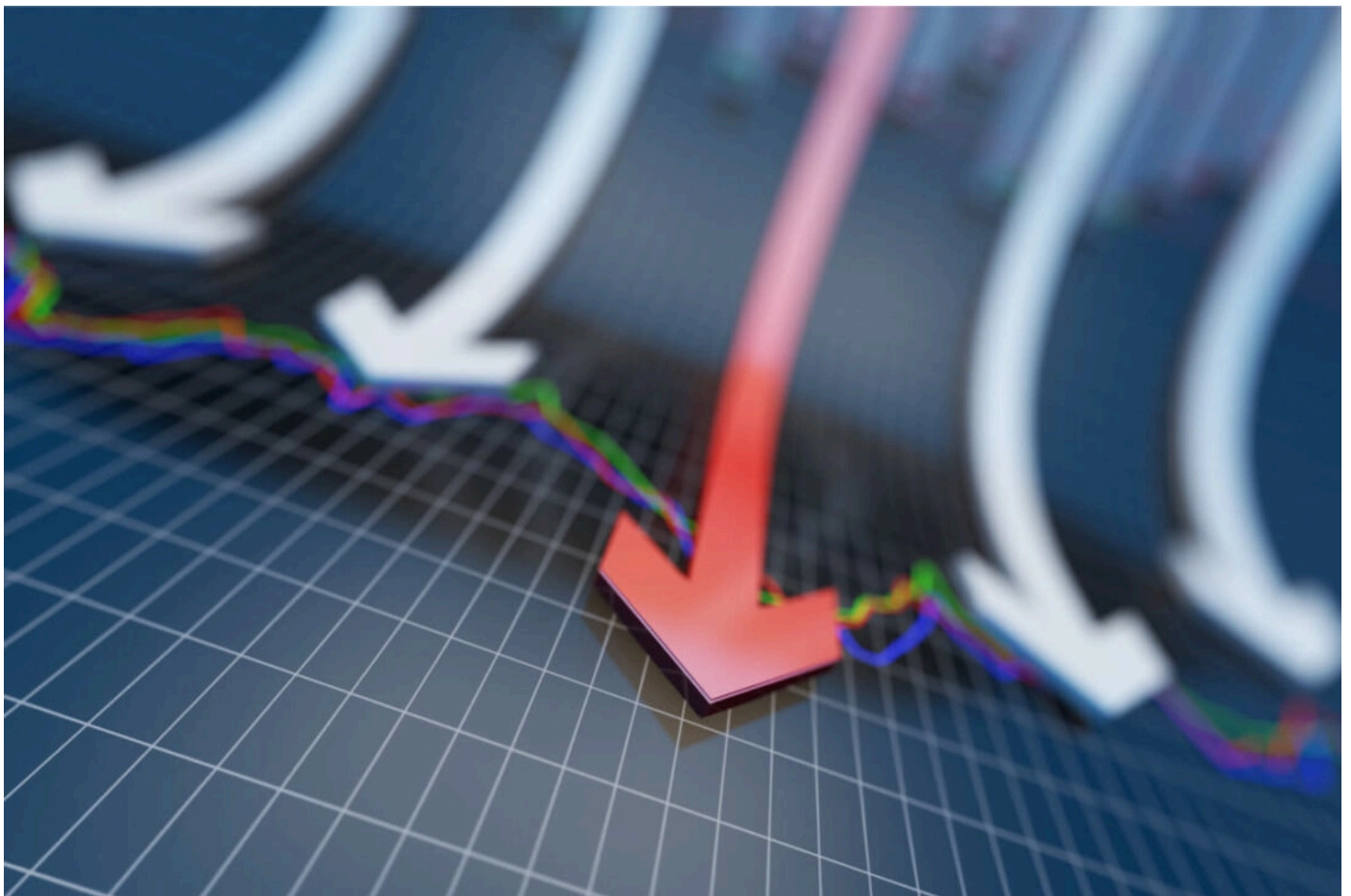


# Fiscal Deficits: Politics or Economics?

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By Law Ka-chung

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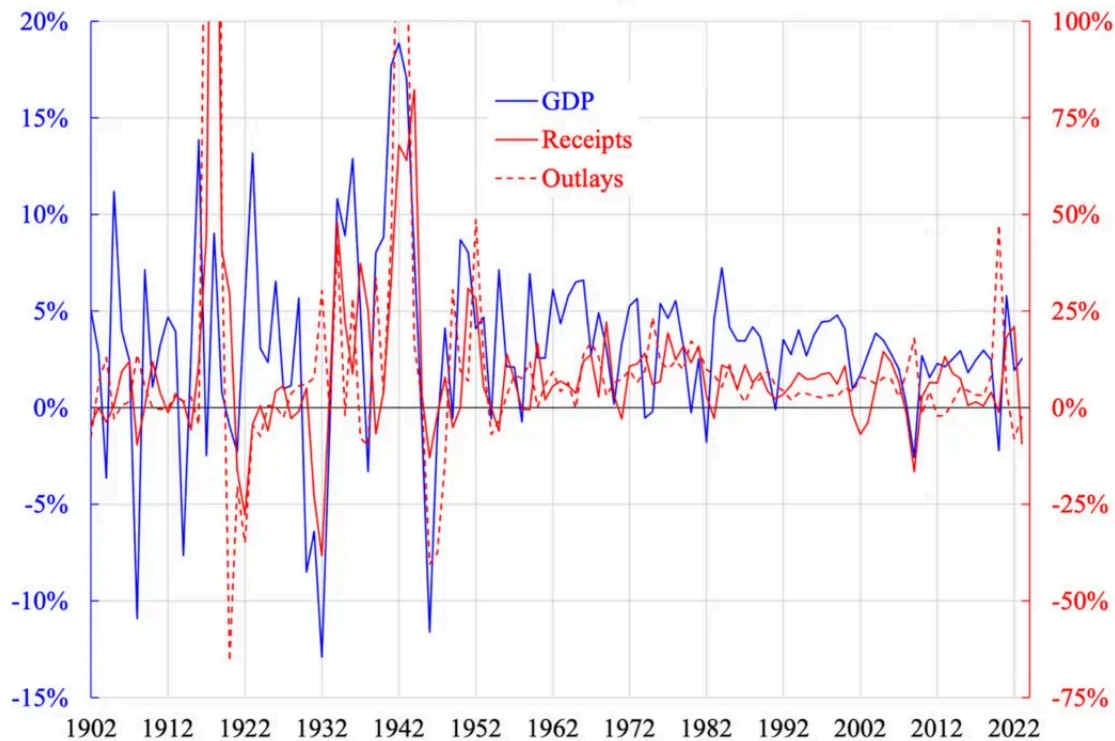
There is a belief that if former President Donald Trump becomes the U.S. president again, then the fiscal situation will worsen. It is not

hard to evaluate this by looking at the monthly fiscal data. former President Trump was in office from January 2017 to January 2021, but it is only fair to evaluate until February 2020, when COVID-19 started to raise its head. It is not hard to freely retrieve the Federal receipts and outlays data from the U.S. Treasury. We will not normalize them by comparing them with GDP, for it is not directly controlled by the government.

The result is interesting. In his first 2½ years of office (until May 2019), the year-over-year (YoY) growth of Federal receipts fluctuated narrowly between minus 3 percent and 3 percent. But after this, until just before the outburst of COVID-19, the growth rate shot up to over 6 percent. For Federal outlays, in his first two years or so (till March 2019), the growth was below but close to 5 percent. After that, it mainly fluctuated between 5 percent and 10 percent. The rationale behind this may somehow be attributed to economics: real GDP YoY growth in 2019 accelerated from 1.9 percent in Q1 to 3.2 percent in Q4.

That is, we do not see any fiscal abnormality during the first 60 percent of former President Trump's time in office. By contrast, in President Biden's recent years in office, the situation was no better. We do not do YoY on numbers due to abnormal figures during the COVID-19 period and the corresponding abnormally high or low base effect afterward. Merely looking at the monthly deficits, the number has often been above 200 billion U.S. dollars over the past two years, when COVID-19's impact should have been, by and large, gone. This was obviously higher than that during former President Trump's time in office from 2017 to 2019.

## US Real GDP, Fiscal Receipts and Outlays YoY



(KC Law, Ka Chung)

If the fiscal deficit is not so related to who is in office, is it then attributed to economics? Theoretically speaking, the answer should be yes. However, if we look at the data, the picture is somewhat less clear. The accompanying chart plots together the annual real GDP, Federal receipts, and outlays, all in YoY growth, and these can be traced to the beginning of the 20th century.

Whenever there were World Wars or Great Depressions leading to sharp ups and downs, the correlations between GDP and receipts/outlays were clearer. For postwar to pre-COVID-19, however, the correlations were much lower. On the one hand, the boom-bust governs how much the government receives and the corresponding level that can be spent, but on the other hand, the practice of countercyclical fiscal policies offsets this positive correlation. Inflation is another long-cycle factor that retards deficits growth when inflation is high and vice versa.

Having all these factors together in a framework, we should be able to model the fiscal. Given that the evidence of former President Trump

being fiscally expansionary is unclear (as mentioned at the onset), there is no need to politicize the topic of fiscal (even of government), which is originally economic in nature and about income and expenditure.

*Views expressed in this article are opinions of the author and do not necessarily reflect the views of The Epoch Times.*

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