

Growing Wealth in the Public Sector

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During 2021 we continued to monitor the growth of wealth in the private sector as determined by rising levels of both consumer and corporate wealth. These measures eclipsed any previous record for these data and suggested that there will be plenty of liquidity available to fuel economic growth and corporate profits this year. Those funds are likely to be deployed in stock repurchase plans, increased dividends and acquisitions that will shrink the size of the equity markets, increased stock demand and higher earnings. How about the public sector, how is it doing?

We all know that the federal budget deficit is running at record levels due to the emergency spending related to Covid and other recurring entitlement expenditures. Federal revenues are expected to grow 18.3% in 2021, the largest one-year jump in 44 years. The growth estimate for 2022 is 17.8% increasing to 19.9% by 2031. So, even though the federal budget is in deficit, the federal government is benefiting from the taxes collected on that spending and, as the economy grows, the size of those tax revenues should continue to increase substantially.

While the federal government has an unlimited checkbook since they can create money, that ability is not possible for other government entities. State and local governments must live within their budgets. However, during the pandemic, the federal government wrote checks to state and local governments to tide them over the rough spots created by the virus. For example, even though the state of California is expected to run a budget surplus of \$31 billion in 2022, the federal government is about to send the state an additional \$27 billion in aid. As we have said previously, budget surpluses could be understated based on the record rise in home prices and the related increase in real estate taxes that are collected by state and local governments. Even with this surge in revenues, the Biden Administration is sending over \$1.1 billion of rental assistance money from states that don't need it to those states that do. Here is the good news: Approximately \$875 million—comes at the request of states and localities that say they have more money than they can spend!

Here in the state of South Carolina, the story is the same: According to the Post and Courier newspaper in Charleston, "In all, this year's spending packages are expected to top \$16 billion, roughly double what legislators allotted from state taxes five years ago." The combination of federal grants and higher taxes produced an additional \$6 billion in revenue.

The bottom line is that the public sector, both at the federal and state levels, will be a major contributor to economic growth in 2022.