

Middle America Loses Again

Article by: Nick Stenger, *Chief Executive Officer, Financial Advisor*
Phone: (630) 912-8295 | Email: nick.stenger@stengerfamilyoffice.com

As we predicted, a verbal debt deal was made between President Biden and House Speaker Kevin McCarthy. The final step is the deal's vote in the House and Senate, which we expect to pass as well, even if it takes some fighting. After the deal is done though, the middle class will be left holding the bag as always. Whether you're left, right, Republican, Democrat, moderate, independent, libertarian, or anything in-between, you should be concerned with the trajectory of the Federal Government's size. Today, government is 30% of GDP, bigger than ever before.

We believe big government is bad for all political parties because it crushes human liberty, ingenuity and entrepreneurship. Every time, country or place authoritarian big government policies have been tried, the result is utter chaos and collapse. The United States has been a beacon of freedom and hope for entrepreneurs because of our relatively stable system of checks and balances that cause us to move forward slowly over time. While not perfect, our country has created more wealth than any other nation in history, lifting millions out of poverty and starvation worldwide. In modern history though, the government has hijacked every aspect of public life, causing enormous inefficiencies, ultimately hurting the middle class disproportionately.

Both political parties have a separate policy prescription to deal with the middle-class problem. The right says pass tax cuts, the left says pay people universal basic income (UBI). Let's examine the first solution. Pew Research defines middle class as a household annual income up to \$141,568. Social Security and Medicare tax is 7.65% or \$10,829 and Illinois state tax is \$7,078 per year. Assuming the family owns a \$350,000 home, they will pay about \$5,000 in annual property tax. They will pay 8% sales tax on 75% of the family's take home pay, another \$5,000 per year. Before federal tax, this middle-class family will pay \$27,907 or 19.71% in tax. Assuming married filing jointly, this family will pay about \$16,000 in federal taxes. All in, the average middle class American family will pay over 31% in tax, not including investment or transfer taxes. It gets worse for families considered the "top 5%" with an average income of \$343,000 who will pay 16% in non-federal tax and 18.4% in federal tax for a total of 34.4% in annual tax paid. While lowering the federal income tax can help, it doesn't really solve the main problem, that government is too stinking big. Without spending cuts, the federal deficit will keep growing exponentially.

The other side of the political aisle recommends UBI. It's not a new idea, in fact it's even been tried in the United States. From 1968 to 1980, our government experimented with a negative income tax, paying low-income households to earn less. Turns out if you incentivize people to make less, they will. Incentives like this create bad outcomes for innovation. The more people are incentivized to stay home and do less, the less our economy grows over time. Take the Forbes List ranking of the world's billionaires. Over 65% are self-made, meaning did not inherit money. The U.S. also happens to be home to more billionaires than any other country. According to Boston Consulting Group, 63% of global wealth is owned by the richest 1%. UBI proponents say the rich are getting richer and the poor are getting poorer. This ignores the entire data picture though. Yes, the rich are getting richer. But over time, the poor have become richer as well! Global poverty, child mortality, starvation and cancer death rates have all plummeted thanks to the rising tide of capitalism.

Rather than cut taxes or implement UBI, we think the government needs to shrink in size. We won't solve our debt crisis problems until politicians on both sides of the aisle come together and cut spending. Like we wrote last week, the U.S. isn't nearly as bad off as China, Europe or Japan, but we could get there if we're not careful. Big government stamps out individual liberty, and with it, economic prosperity. It's a matter of fiscal responsibility in Washington that in the past, can come from Republicans and Democrats alike.

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NICK STENGER
CHIEF EXECUTIVE OFFICER
FINANCIAL ADVISOR

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Stenger Family Office LLC. 400 E. Diehl Road, Suite 550, Naperville, IL 60563
