Issue Brief

west virginia Center on Budget & Policy

www.wvpolicy.org

November 2010

The Federal Deficit: The Facts

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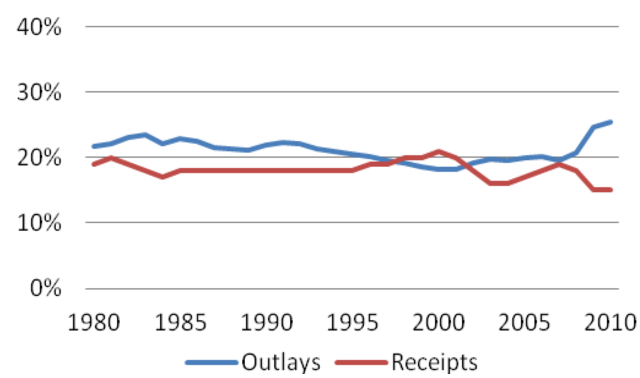
The federal deficit is the amount of money the federal government spends in a given year, minus the money it takes in. If the government takes in more money than it spends in a year, then the result is a surplus, rather than a deficit. The federal deficit is different from the national debt. The national debt is the cumulative amount of money the government has borrowed throughout history. Each year the government runs a deficit, the national debt grows.

Both spending and revenues have contributed to the deficit.

Federal spending as a percentage of the economy (GDP) had slowly declined since the 1980s before spiking during the recession. Recessions and other economic downturns naturally cause spending as a share of GDP to increase. In recessions, GDP declines, while spending typically grows, due to increases in safety net spending, like unemployment insurance. Once GDP begins to grow again, the ratio falls, as it did in the early 1980s. The current recession also caused revenues to fall, which had already fallen due to the recession and tax cuts of the early 2000s.

Federal Outlays and Receipts as a Percentage of GDP

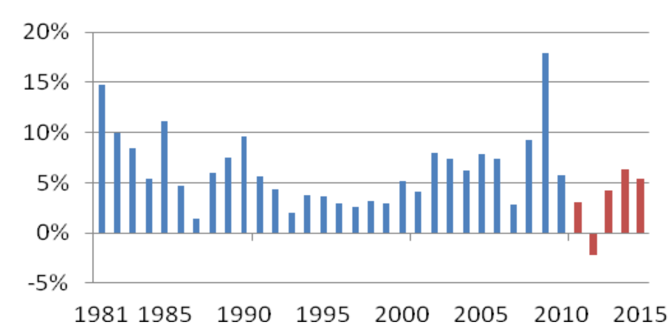


Source: White House Office of Management and Budget

Growth in federal spending is projected to slow.

Federal spending spiked in 2009 in response to the recession, but most of that spending was temporary. Federal spending is projected to grow at a slower rate over the next 5 years than it did during the previous decade.

Annual Growth Rate in Federal Outlays

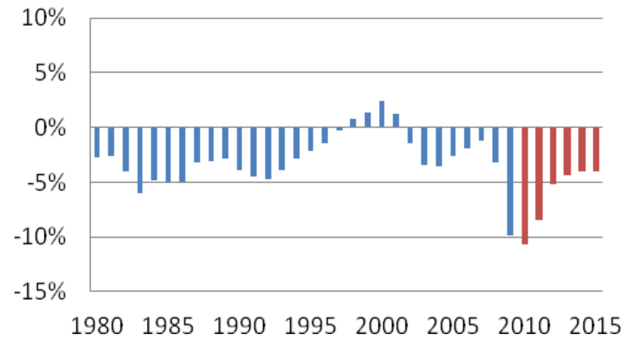


Source: White House OMB

The economy is projected to outgrow the current deficit.

The budget surpluses of the late 1990s were erased before the start of the recession. During the recent recession we experienced a large increase in the federal deficit, however, as a share of GDP, the deficit is projected to shrink back to pre-recession levels over the next few years as the economy recovers.

Federal Surplus/Deficit (-) as a Percentage of GDP

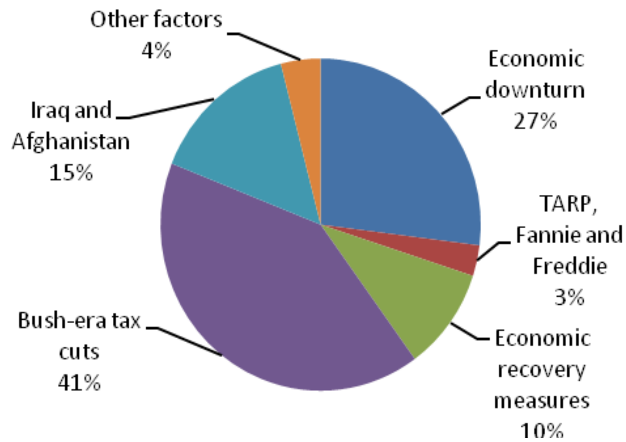


Source: White House OMB

Spending is not the main cause of the federal deficit.

The combination of tax cuts and the recent economic downturn accounts for over two-thirds of the 10-year projected deficit. For comparison, the Recovery Act accounts for only one-tenth of the projected deficit.

Drivers of the Federal Deficit, 2009-2018

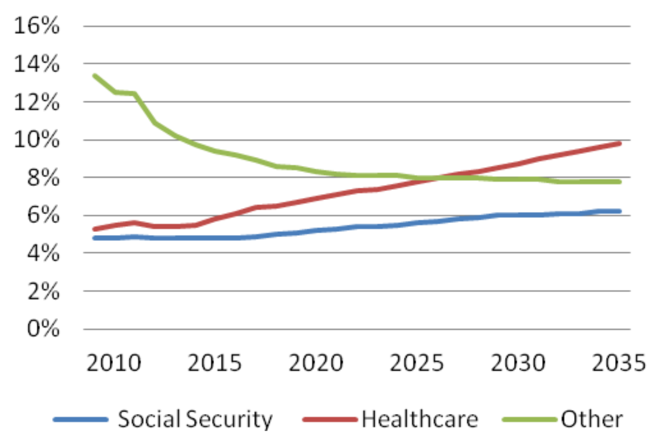


Source: Center on Budget and Policy Priorities

Healthcare costs are the source of the long-term deficit problem.

The primary cause of the long-term deficit is the rising cost of healthcare. The U.S. spends nearly twice as much on healthcare, as a share of GDP, as most of its peer nations, a share that is projected to grow. The rising costs of healthcare will continue to affect the deficit, as Medicare and Medicaid continue to consume more of the nation's GDP. The answer to the federal deficit – and the nation's debt problem - is curbing the long-term growth of healthcare costs.

Projected Federal Outlays by Category, as a Percentage of GDP, 2010-2035

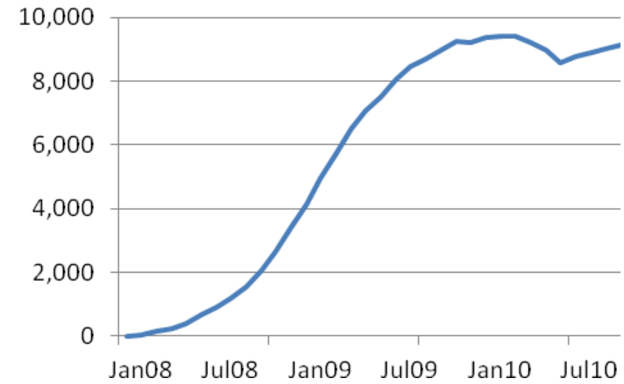


Source: Congressional Budget Office

Closing the jobs deficit will help close the short-term federal deficit.

Closing the jobs deficit, the number of jobs needed to get back to pre-recession levels of employment, factoring in population growth, will help close the federal deficit in the short term. Not only will putting people back to work grow the economy and increase tax revenue, it will also lower federal spending. Almost $200 billion of the increase in spending from 2007 to 2009 was recession-related safety net spending, including unemployment insurance, SSI, food stamps, and Medicaid. Spending measures with proven economic multiplier effects like infrastructure investments will help close the jobs deficit and, in turn, address the federal deficit in the short term.

The National Jobs Deficit (thousands of jobs)



Source: WV Center on Budget and Policy Analysis of U.S. Bureau of Labor Statistics Data

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