

## Revisiting the Federal Budget Deficit

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As federal government spending keeps the economy growing, a few hardline politicians attempt to convince the government to reduce spending if not attempt to balance the budget. The latest fear is that the rising federal debt load will require ever larger spending because higher interest rates are causing larger federal spending for interest on that debt. Efforts to stem the growth in spending, either by raising taxes or reducing outlays, could be contractionary, leading to slower economic growth—if any growth at all and a larger, not smaller, budget deficit. Some politicians proclaim that a wealth tax should be enacted on the rich, including taxes on assets and even on unrealized capital gains. Such fiscal policy decisions could be at the edge of disturbing the ongoing economic expansion since 2009, except for the spending overreaction to the pandemic.

The one solution to lowering the deficit is to promote economic growth by encouraging more output in those areas where rising prices may be an impediment to growth. Reducing fiscal restraint (read lowering taxes) to stimulate growth could be a first positive step towards fostering greater output. A second step would be to decrease or eliminate certain regulations to free businesses to compete more effectively. We should want greater output and a growing economy because the government thrives on transactions since those entities that pay taxes will pay more taxes each time there is a transaction. As dollars pass through the system going from one entity to another, the government takes a piece of that transaction via the tax system. More transactions mean a greater increase in tax collections. By emphasizing the supply side of the economic equation, growth should increase without accompanying inflation. History tells us that government policies emphasizing the demand side (printing money to put spending power in consumers' pockets) risk creating more, not less, inflation. We must reflect on the government's spending spree during the pandemic and the subsequent surge in inflation to 9% to see what a demand-side solution could do to the economy.

As the U.S. economy grows, there is likely to be continued budget deficits as there is a need for government services and payments that were promised decades ago. However, by trying to curtail this spending, the economy could experience a slowdown, if not an economic downturn, while causing more hardship for people who can least afford it. For example, giving billions of dollars to other countries through foreign aid while forecasting a funding shortfall for Social Security makes no sense. Since the U.S. has run budget deficits for most of our history and America remains the world economic powerhouse, we do not see the rationale for suddenly expecting economic Armageddon if the federal government continues to run a large budget deficit.