

RESEARCH SUMMARY

Why We Have Federal Deficits: An Updated Analysis

Federal deficits are at historic highs, price inflation is rearing its head, and lawmakers are progressively losing control over federal finances. We hear much political rhetoric today about who is to blame for skyrocketing federal deficits. But while the 2021 deficit is primarily the result of legislation enacted this year and last, the largest drivers of the worsening structural fiscal imbalance were enacted a half-century ago. In “Why We Have Federal Deficits: An Updated Analysis,” Charles Blahous shows that the nation’s finances cannot be stabilized until those longstanding deficit drivers are reformed in future legislation to moderate their cost growth.

WHERE THE DEFICITS COME FROM

Nearly three-fifths of the federal government’s long-term structural fiscal imbalance derives from legislation enacted between 1965 and 1972, including the enactments of Medicare and Medicaid in 1965, expansions of Medicare and Medicaid in 1971–72, and substantial increases in Social Security benefits in 1972.

The cumulative effect of every bill passed since then has mattered less to the federal fiscal imbalance than what was passed during those eight eventful years.

CONTRIBUTORS TO THE RECENT FISCAL YEAR DEFICIT

Unsurprisingly, nearly two-thirds of the FY2021 federal deficit results from legislation enacted during the COVID-19 pandemic. This occurred both at the start of the Biden administration and in the final year of the Trump administration, during periods that the US Senate majority was held by each party, while the US House has been under continual Democratic majority control. These bills increased spending on various income security benefits as well as on Medicaid and other mandatory spending programs, reduced federal tax collections, and added to domestic discretionary appropriations.

LAWMAKERS’ FISCAL STEWARDSHIP RECORDS ARE WORSENING

Another way of analyzing federal finances is to grade fiscal stewardship track records, irrespective of when fiscally significant legislation was enacted. Seen in that light, lawmakers’ fiscal stewardship records are progressively worsening. The Biden administration is on pace to oversee larger deficits than the Trump administration, which operated larger deficits than the Obama administration (which in turn ran larger deficits than previous administrations).

CURRENT DEBATES MISS THE MARK

Federal fiscal policy will remain unsustainable until lawmakers correct policy miscalculations made in 1965–72. The cost of federal benefit programs enacted or expanded during that time is automatically growing faster than US economic output—and lawmakers still haven't figured out how to pay for it. Debates over whether billionaires are taxed enough, how much we should spend on national defense, and whether new spending initiatives will be fully paid for with new taxes, may absorb the attention of political partisans, but they cannot produce a resolution to the unavoidable challenge of stabilizing federal finances.

Irrespective of future policy decisions in other areas such as tax policy, income security, and annually appropriated domestic and defense spending, federal finances will not be stabilized until the cost growth rates of federal health and retirement programs are moderated.