Deficits 101

What are budget deficits?

- If the government spends more money than it takes in during a given year, it runs a deficit.
- The United States has run deficits for 48 of the last 50 years. In 2015, the deficit will be an estimated $468 billion.¹
- The government borrows money to pay for these yearly deficits. The federal debt is the overall amount of money the government owes its creditors.

Why do we have deficits?

- During recessions, tax revenue declines while the government responds to greater need by spending more on public services. The opposite occurs as the economy grows.
- Our current federal deficits are due primarily to the recession, spending on the Iraq and Afghanistan wars, and recent tax cuts. Without these, the federal budget would nearly be balanced.²
- In the longer term, rapidly rising healthcare costs and the retirement of baby boomers are expected to drive up Social Security, Medicare, and Medicaid spending with lower tax revenues coming in, creating unsustainable future deficits.³

Why should deficits be addressed?

- If the government continues to accumulate debt to pay for its yearly deficits, it must devote a greater portion of the budget to interest payments. The government’s interest payments will continue to grow as debt builds up, leaving little room for anti-hunger and anti-poverty programs.
- Eventually the government reaches a “debt explosion,” where interest rates skyrocket, government borrowing seriously discourages private investment, and the government loses its ability to respond to a crisis.⁴
- A responsible deficit reduction plan will address the true drivers of the debt without cutting needed services or threatening the fragile economic recovery.

What does this mean for hungry and poor people?

- Many in Congress want to reduce the deficit through massive spending cuts, disproportionately hurting hungry and poor people in the United States and around the world.
- Congress must take a holistic approach to the federal budget that includes revenue raisers, such as closing tax loopholes and eliminating tax breaks, in addition to spending cuts. We should reduce our debt and deficit without sacrificing programs for hungry and poor people.

Endnotes

² Center on Budget and Policy Priorities. “Critics Still Wrong on What’s Driving Deficits in Coming Years.” http://www.cbpp.org/cms/?fa=view&id=3036  