



# UNDERSTANDING THE DEFICIT

## A Clear and Digestible Guide

In simple terms, the federal deficit is the difference between what the U.S. government spends and what it takes in during a single fiscal year. If the government spends more than it collects in taxes and other revenue, it runs a deficit. If it collects more than it spends, it runs a surplus. And this calculation, or the deficit, is measured year by year.

It is different from the national debt, which is the total accumulation of past deficits minus past surpluses over time. Think about it like this: the deficit is like the yearly credit card balance, and the debt is the total outstanding balance of all the prior years.

### The Origins and History of the Federal Deficit

#### *Early American History*

In the nation's early years, deficits were common during wars or emergencies, then followed by periods of repayment. Leaders generally believed debt should be temporary and tied to national needs like defense or infrastructure.

#### *20th Century Expansion*

The role of the federal government expanded significantly during the Great Depression, World War II, the creation of Social Security and Medicare, and the Cold War. Running deficits became more common as the government took on broader responsibilities for economic stability and social insurance.

#### *Modern Era*

Since the late 20th century, deficits have become a regular feature of federal budgeting, driven by tax cuts, increased defense and security spending, growing entitlement costs (social security, medicare, etc), economic downturns and crises (such as recessions or pandemics). Importantly, both political parties have contributed to deficits while in power.

### Why Does the Government Run Deficits?

Deficits are not inherently good or bad — they are a tool. How and why they are used matters.

- Stabilizing the Economy - During recessions, the government may spend more or collect less in taxes to support workers and families, prevent deeper economic collapse, speed recovery. This approach is similar to a household using savings or credit during a crisis.

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- Funding National Priorities - Deficits can finance, national defense, infrastructure and transportation, scientific research, and education and workforce development. When used wisely, deficit spending can support long-term economic growth.
- Responding to Emergencies - Wars, natural disasters, and public health crises often require immediate spending that exceeds normal revenue levels.

### **How the Federal Deficit Works in Practice**

It is helpful to really think about the deficit in practice, in terms of revenue vs. spending

- Revenue comes from individual income taxes, payroll taxes, corporate taxes, and other fees and duties
- Spending goes to mandatory programs (Social Security, Medicare, Medicaid), discretionary programs (defense, education, transportation), and interest payments on existing debt. When spending exceeds revenue in a given year, the Treasury borrows money by issuing government bonds, increasing the national debt.

### **How the Deficit Affects Everyday Americans**

1. Interest Costs - As debt grows, the government must spend more on interest payments.

- Money spent on interest cannot be spent on education, healthcare, or infrastructure
- Rising interest rates can worsen this burden

2. Taxes & Public Services - Persistent deficits can influence future policy choices, including:

- Pressure to raise taxes, pressure to cut public services, or reduced flexibility during emergencies

3. Economic Growth & Jobs - Deficits can help during downturns by supporting jobs and demand, but they can also hurt if they crowd out private investment or fuel inflation over time. The impact depends heavily on economic conditions and how borrowed funds are used.

4. Inflation & Cost of Living - If deficit spending overheats the economy or coincides with supply constraints, it can contribute to inflation — raising prices for essentials like food, housing, and energy.

5. Intergenerational Impact - Large, sustained deficits shift costs forward, meaning future taxpayers may shoulder higher interest payments and younger generations may face fewer public investments if budgets tighten.

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## Why the Deficit is Politically Contentious

Debates over the deficit often reflect deeper disagreements about the size and role of government, tax policy and fairness, social safety nets, and national defense priorities. While policy makers may argue fiercely, most economists agree that context matters:

- Deficits during crises are often necessary
- Long-term, unmanaged deficits pose real risks

## The Bottom Line

The federal deficit is not simply a sign of failure — nor is it a free pass to spend without limits. It is a powerful but imperfect tool that:

- Can protect Americans during crises
- Can invest in long-term prosperity
- Can also create future constraints if mismanaged

Understanding the deficit helps citizens better evaluate budget debates, policy tradeoffs, and claims about fiscal responsibility — and recognize how national decisions shape everyday life.

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