



The Daily Dish

Budget Update

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Eakinomics: Budget Update

The Wall Street Journal said it all: “The U.S. budget deficit grew to a record \$1.7 trillion in the first half of the fiscal year as a [third round of stimulus payments](#) sent federal spending soaring last month. The budget gap, broadened by the [Covid-19 pandemic](#) and related shutdowns that sent the economy into a tailspin starting in March 2020, is now more than double what it was for the same period a year ago, the Treasury Department said Monday. The deficit was \$660 billion last month, 454% wider than it was in the same month a year ago. Revenue rose 13% to \$268 billion, while spending increased 161% to \$927 billion—the third-highest total on record, after June and April of last year.”

But that’s not going to stop me from saying more.

First, I got excoriated as Congressional Budget Office Director when the deficit reached \$412.7 billion in 2014, about 60 percent of the deficit for March alone. I didn’t do it; I just counted it. Not that I’m keeping score, but I want an apology.

Second, notice that revenues were up, not down, from March 2020. It’s just that spending was nearly \$1 trillion and up over 160 percent from last year.

Third, *The Wall Street Journal* highlights the so-called stimulus checks as the culprit, and this is true for March. But what did we get for that largesse? The economy was already anticipated to grow at a 6 to 8 percent clip in the first quarter anyway. No stimulus was merited. A key reason was progress on the pandemic front that has allowed families in high-income areas to resume services spending. The [data](#) in [tracktherecovery.org](#) show that spending has finally recovered to its January 2020 level. But high-income individuals didn’t get checks, nor will they benefit from the remainder of the [American Rescue Plan](#). So the economic growth has nothing to do with the source of the large deficit.

Fourth, the point above is a reminder that in 2020, large deficits were incurred because of fiscal policy that was timely, well-designed, and scaled to size of the problem. The 2021 deficits are from policies that are none of the above. They are poorly timed, utterly unconnected to the issues of COVID-19, and – weighing in at \$1.9 trillion so far – gargantuan compared to the economic problem. They are the definition of waste and bad policy.

Finally, many features of the American Rescue Plan are intended to be permanent, as is the proposed American Jobs Plan (and likely the yet-to-be-unveiled American Family Plan). Making these policies permanent will balloon the existing structural deficit in the federal budget, thus buying the United States little in the present and adding to its woes in the future.

As I noted, *The Wall Street Journal* said it all.