Insight

Deciphering Today' Budget Message

GORDON GRAY | OCTOBER 15, 2014

The Treasury Department released the final budget totals for fiscal year 2014, which predictably showed a lower deficit than has been seen in recent years. This is not a surprise. The prior 6 years saw a deep recession, continuing wars, and extraordinary countercyclical policies, which combined to produce deficits not seen since the era of the Second World War. As the economy improved, these factors would eventually recede as a budgetary factor, mirroring the post-war demobilization that saw a normalization of budget deficits in the late 1940s. Unlike that era however, where war-time debt skyrocketed and then declined, the U.S. is *not* projected to see its debt decline.

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The current administration would like to celebrate the inevitable improvement of recent deficits, but ignore the trend in the debt. In short, the current administration is celebrating today's budget news by ignoring tomorrow's. This marks a low-point in the public discourse on budget policy. *Deficits* are measures of how mismatched federal finances are – how much must be borrowed to make up for overspending. To be sure, modest deficits can be financed through growth. But in the wake of a massive accumulation of debt, celebrating a decline in deficits simply means that we've stopped piling on to the debt as a share of the economy – not that we've started paying it down. The high debt is not a mere abstraction. Rather, by sitting still, or worse, increasing spending, a high debt load threatens higher interest payments. In the current low interest rate environment, the U.S. has been able to borrow cheaply. But as interest rates normalize, debt service becomes more expensive. These payments are now projected to double as a share of the economy of the next 10 years.

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These interest payments will squeeze an already tight budget that is facing additional pressures from the retirement of the baby-boom generation, and will constrain policy-makers ability to address future challenges.