



# POLICY SPOTLIGHT

Why Federal Deficits Are Skyrocketing and How to Fix Them

CHARLES BLAHOUS | MARCH 2022

The federal government is drowning in a sea of red ink, with deficits in the past two years—about \$6 trillion between them—the highest on record and uncontrolled deficits projected as far as the eye can see. Americans are starting to feel the pain of an economy awash in federal spending, which includes the highest inflation in 40 years. Typically, the political debates about this issue have focused on questions such as whether billionaires are taxed enough, whether the government spends too much on national defense, or whether new spending initiatives will be fully paid for with new taxes. These debates miss the factors that drive the problem. Federal fiscal policy will remain unstable until Congress corrects critical policy miscalculations made between 1965 and 1972, especially in Medicare, Medicaid, and Social Security.

## DISPENSING WITH COMMON DEFICIT MYTHS AND DISTRACTIONS

- Runaway deficits are not caused by annually appropriated discretionary spending. After averaging 8.1 percent of GDP for a half-century, total discretionary appropriations were only 7.4 percent of GDP in 2021, and the Congressional Budget Office (CBO) projects that they will be only 5.5 percent by 2040. Defense appropriations in particular have declined from a historical average of 4.3 percent of GDP to 3.3 percent in 2021.
- Tax cuts for the rich or anyone else have little to do with the budget problem. In July 2021, the CBO estimated federal tax collections for 2021 of 17.2 percent of GDP, near the historical average of 17.3 percent. Politicians who say billionaires aren't paying their fair share tend to do so because it's

easy politics, not because it has much to do with the fiscal problem.

- Whereas the 2021 deficit is primarily the result of legislation enacted during 2020 and 2021 during the COVID-19 pandemic, the largest drivers of the worsening long-term structural imbalance were enacted a half-century ago.

## THE REAL CULPRIT—GROWTH IN FEDERAL HEALTH AND RETIREMENT PROGRAMS

Almost three-fifths of the federal government's long-term fiscal imbalance derives from policy decisions made in 1965–1972. The cumulative effect of every bill passed since then has mattered less to the fiscal imbalance than what was passed during those eight eventful years. The resultant fiscal problem is driven

almost entirely by spending growth in three budgetary areas: 47 percent from Medicare, 22 percent from Medicaid and the 2010 Affordable Care Act (ACA), and 15 percent from Social Security.

- *Medicare*. Spending on this program has grown faster than is sustainable essentially since its inception in 1965 and expansion in 1972. Lawmakers still haven't figured out how to moderate its growth to manageable rates. Their promises to further expand future Medicare coverage before fixing Medicare's current problems are deeply irresponsible.
- *Medicaid and the ACA*. This spending category may be where lawmakers have been the most reckless. They have repeatedly expanded Medicaid and continue to do so, even though Medicaid was already growing unsustainably before its expansion under the ACA.
- *Social Security*. In 1972 lawmakers expanded Social Security and created automatic benefit growth without deciding how to fund these increases. As with Medicare, it is irresponsible for lawmakers to promise to expand future Social Security when they haven't dealt with its current cost growth.

## WHAT LAWMAKERS MUST DO

Simply put, any strategy that fails to reform the three key drivers of long-term deficits will fail to correct the federal government's fiscal imbalance. Although the government does not need to dramatically cut Medicare, Medicaid, or Social Security spending relative to their current levels, the fiscal situation cannot be

stabilized until certain cost growth features enacted in 1965–1972 are moderated. The longer elected officials duck this reality, the more certain it is that Americans will ultimately pay for this neglect through faltering economic prospects and damaging price inflation.

## FURTHER READING

Charles Blahous, "Why We Have Federal Deficits: An Updated Analysis" (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, November 2021).

Charles Blahous, "There's No Hope for the U.S. Budget Deficit until Congress Addresses These 3 Things," *Dallas Morning News*, December 12, 2021.

Charles Blahous, "Strengthening Social Security: An Overview for Policymakers" (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, February 2021).

Charles Blahous, *Decoding the Debates: Fugitive Notes on Federal Economic Policy* (Arlington, VA: Mercatus Center at George Mason University, 2020).

## ABOUT THE AUTHOR

Charles Blahous is the J. Fish and Lillian F. Smith Chair and Senior Research Strategist at the Mercatus Center at George Mason University. Blahous has previously published studies with the Mercatus Center on the federal budget costs of Medicare for All, the fiscal ramifications of the Affordable Care Act, Social Security policy, the origins of federal deficits, gerrymandering, the multiemployer pension solvency crisis, Medicaid expansion, and other issues.

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