The Deficit Shrinks Again

You might remember some years back when the U.S. budget deficit was one of the biggest political issues on the campaign trail. Yet this year, after one Republican debate and a lot of jockeying for political position, the subject seems to have gone away. Why?

The most probable reason is that the U.S. has retreated from an unsustainable budget mess much faster than anybody anticipated. In 2009, when the U.S. government was stimulating the world out of the Great Recession, the government’s shortfall came to $1.4 trillion, dangerously close to a red line of 10% of the economy, as outlined in “This Time It’s Different,” an analysis of government deficits around the world since the Middle Ages. Today, the projected deficit is lower by nearly $1 trillion: the fiscal year ending in September is expected to close out with a $425 billion deficit, more than $150 billion lower than economists expected at this time last year.

It might be harder for politicians to generate public outrage at a deficit coming in so far from the alleged tripwire: this year, the shortfall is projected at a much more manageable 2.4% of GDP.

The bad news in all this is that tax revenues for the first ten months of the fiscal year topped a record $2.7 trillion, almost 8% higher than the revenues collected over the first ten months of 2014—and most of it came out of the pockets of consumers like you. Individuals paid $1.3 trillion of the total, about five times more than corporations paid ($266 billion). Estate and gift taxes brought in an additional $16 billion.

Where is the money going? Roughly $738 billion was sent to Social Security recipients and $477 billion paid the medical costs for Medicare recipients. Another $496 billion went to defense spending and $398 billion is allocated to health spending. Roughly $209 billion went to net interest on our debt—Treasury bond and T-bill payments to investors and pension funds.

Sources:

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