

In 1936, John Maynard Keynes published an influential book that changed how people looked at deficit spending by the government. Before Keynes, people thought that it was irresponsible for the government to run deficits and consequently the federal government almost always produced a budget with a small surplus. In his book, Keynes argued that the government could even out the economy's fluctuations. He advocated deficit spending when the economy was in a recession, believing that extra spending or a tax cut would improve a country's economic performance. He also argues that during good times, the government should cut spending or raise taxes and run a budget surplus. Keynes hoped that changes in government spending or in its tax revenues could dampen the economy's swings during business cycles.

Once Keynes provided an intellectual justification for deficit spending, politicians found it easier to get away with deficit spending. Now when the politicians supported deficit spending, voters stopped punishing these politicians at the polls. With the shackles removed, deficit spending has become commonplace. Since World War II, the federal government has only run a budget surplus a handful of times.

To illustrate the government's tendency to run deficits, consider 2018 – a year when the economy was performing much better than it typically does. The unemployment rate was even at historic lows. When faced with such good economic times, Donald Trump did not follow Keynes's advice and submit a budget with a surplus. Instead, the federal government ran a \$1.2 trillion deficit in 2018.

\$1.2 trillion is such a big number, it is hard to grasp what it means. To provide some context, it is probably better to think about the deficit in relationship to gross domestic product (GDP). GDP is a measure of the value of the output a country produces. When GDP is larger, the economy produces more output and the government has access to more resources that it can tax in order to repay the deficit. In 2018, the deficit was 6.1% of the value of the total output of the country.

Previous deficits are still providing a burden. Debt is the amount of money the government owes from its many years of deficit spending. Debt has become such a large number that it is even greater than the most recent year's GDP. Think about this. It would take more than all of the output produced in a year just to pay off the government's debt. Of course, the government will never payoff all of the debt at once. Instead, it will continue to carry a debt and pay interest on this sum. In 2018, the interest payment on the federal debt was \$0.8 trillion dollars – another mind bogglingly big number.

Taken together, the deficit and interest payments in 2018 represented 10% of the value of the output produced by the nation's economy. U.S. citizens who lived before Keynes would be horrified to learn that 10 percent of what the economy produces is devoted to spending that they would consider irresponsible.

Joe McGarrity is a professor of economics at UCA. He can be reached at joem@uca.edu.