

Deficits

Last year, the federal budget deficit was \$2.78 trillion. That's a big number. A UCA psychology professor claims that a trillion is too big to explain in a meaningful way. Of course, his remarks did not keep me from trying.

The web site "Better explained. com" gives several examples of attempts to paint a clear mental picture of large numbers. Its best example uses seconds. A million seconds is about a week and a half. A billion seconds is about 30 years. So far, so good; these time periods mean something to us. A trillion seconds is over 30,000 years, which is longer than civilization has been around. As a result, 30,000 years doesn't convey any information that we can relate to. It looks like the psychology professor was correct: numbers denominated in trillions are just too big to describe.

So how can I describe the budget deficit if I can't come up with an understandable way to describe trillions? Economists have solved this problem by modifying the number. They divide the deficit by the number of households. In 2021, the deficit per household was about \$21,360. That number means some-

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thing to us – it would buy a new Toyota Corolla. That is a lot of debt for a household to take on in one year. Even worse, the federal government runs a deficit almost every year. Eventually, we will have to pay higher taxes to pay back all of the money the government borrowed. Luckily, I don't expect the deficit to remain as high as it was last year, mostly because the coronavirus prompted the federal government to borrow more last year than it usually does.

To give a picture of how last year's deficit compares with deficits from other years, economists divide the deficit by gross domestic product (GDP). GDP measures the value of a country's output. In doing so, it measures the ability a country has to repay the money it borrowed to run a deficit. For instance, the United States economy can more easily pay back \$2.78 trillion in 2021 than it could have paid back \$2.78 trillion in 1960 when its GDP was much smaller.

The accompanying figure plots the deficit to GDP ratio. The graph can help us put the huge 2021 deficit in perspective. Yes, the deficit was huge in 2021 – 12 percent of GDP. And, it was even larger in 2020 – 15 percent of GDP. But these numbers were atypical. During these years, the government spent enormous sums of money to help people deal with the economic hardships brought about by the pandemic. At the same time, the government brought in less tax revenue than usual, mostly because the pandemic curtailed so much taxable economic activity.

As the economy adapts to operating during a pandemic, economic activity will move close to normal levels. As this happens, government spending and tax revenue will also return to typical levels. As a result, the deficit to GDP ratio will decrease. The scary deficit numbers (\$21,360 per household) should only be with us temporarily. The 2021 deficit is not a number I would use to predict future deficits nor that I would use to give an indication of just how bad government overspending has routinely become.

