

# Sen. Manchin and budget deficits

Sen. Joe Manchin is being vilified for trying to pare back the spending plans of progressive Democrats, which can only be achieved through deficit spending. On the national level, deficit spending occurs when the federal government spends more money in a year than it brings in. Deficit spending isn't unusual. Since 1929, the federal government has run a deficit 78 times and a surplus only 14 times. While deficit spending is the norm, Manchin still has a point. We seem to be going through a period where the government is engaging in more deficit spending than usual. Given this context, it seems reasonable that Manchin would be against large increases in government spending that will add to the deficits.

**Joe McGarrity**



The best way to measure deficit spending is to calculate deficits as a percentage of GDP. GDP is a measure of the output a country produces in a year. As a country produces more output, it will have more resources that it can devote to repaying the money it borrowed. Just to il-

lustrate this point, consider how this works on an individual level. If Bradley Cooper borrowed \$10,000 to pay for his senior year at Georgetown University, he would have thought this loan was a large burden given his earning potential at the time. In contrast, if he borrowed \$10,000 last year, he would have thought the loan was a trivial burden given how much he makes as a movie star.

The accompanying graph shows federal deficit spending from 1929 to 2020 (The graph comes from the St. Louis Federal Reserve). This picture tells an interesting story. Early on, large deficits only occurred to meet specific challenges. During five years of the Great Depression, deficit spending ranged around 4 percent to 5 percent of GDP. Then for four years during World War II, the deficit ranged between 12 percent and 27 percent of GDP. But once the war was over, the government ran a surplus for a few years. Then, between 1950-1974, the average deficit was less than one percent of GDP (0.67%).

Our country's willingness to deficit spend seemed to change after 1974. 1975 begins a long period of sustained large deficits. Between 1975 and 1996,

the average deficit was 3.36 percent of GDP. This period marks the first time the country began to run large deficits as a typical way of doing business. It no longer ran deficits just to deal with relatively short-term challenges (like a depression or war).

After a few years of surpluses, our country began a new extended period of deficit spending in 2003 that continues today. Between 2003 and 2020, deficit spending has averaged 4.9 percent of GDP.

If history is a guide, then our current era of deficit spending will end. But after looking at the data, I worry that our country has become willing to run large deficits for long periods of time. I worry even more that the size of the deficits (as a percentage of GDP) may become even larger with each new cycle of deficit spending.

I must admit, it is always suspect to identify trends with just two data points (like I just did in discussing the two recent long spans of deficit spending). But if my fears are justified, then Sen. Manchin is doing the country a service by putting a brake on government spending. His efforts will limit how large our deficit spending will get over these next few years.

