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## **Happy Deficit Day**

*Antony Davies and James R. Harrigan*

The federal government's fiscal year ended on September 29 and the figures are now in. The official deficit for the last fiscal year was over \$660 billion. That's enough to put about 8 million young people through Harvard University for four years. These deficits, which are every bit as annual as Halloween, have resulted in a federal debt that presently exceeds \$20 trillion, and that will only keep growing. The official deficit figure, as incomprehensibly large as it is, is nonetheless partly fiction. It excludes, among other things, money the government uses to fund student loans. Once these things are considered, it's even larger than the government says it is. But with numbers this size, is anyone really counting anymore?

For fiscal year 2017, the federal government took in [\\$3.3 trillion](#) in revenue from all sources combined, and spent [\\$4.1 trillion](#), making the actual deficit almost \$750 billion. And even this number isn't the whole story because it ignores money the government moves across fiscal years as it attempts to [circumvent the debt ceiling](#).

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The \$750 billion figure brings us to [Deficit Day](#), which this year we celebrate on October 24. Deficit Day is a way to bring some understanding to the astronomical numbers that comprise the federal budget.

Imagine that the federal government received all of its revenue for the year on January 1, and then started spending. If the government spent the same amount each day, Deficit Day would be the day that it ran out of money. And today, there are only a few hours left before the government's wallet is emptied for the year. From 12:01 am tomorrow until midnight on December 31, every dollar the government spends is borrowed.

And the government has run up quite a tab. At \$20.4 trillion, the federal debt is almost [twice](#) the size of China's entire economy, about [as much](#) as the public debts of the United Kingdom, Germany, France, Italy, China, and Japan, combined, and over [100 times](#) the value of all the gold in Fort Knox.

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In fact, the federal debt has become so large that two new problems are emerging that no other government has faced. First, our government has borrowed so much money that there are [few places](#) on the planet left from which it might borrow more. The Social Security and Medicare trust funds - wells from which politicians have dipped for decades - have run dry. Worse, over the next decade or two, the trust funds are going to want back the \$5 trillion the federal government has borrowed from them. Making matters worse, citizen lending to the government isn't keeping pace with government borrowing, and lending from foreigners has slowed to a trickle. Now that our government's annual borrowing is larger than [90%](#) of the economies on the planet, meaningful lenders are in short supply.

Which brings us to the second problem: The massive federal debt has painted the Federal Reserve into a corner. The Fed has managed to remain relatively free of government interference over the years, but now its days of independence are coming to an end. Given the size of the federal debt, the Fed now has no choice but to put the government's ability to pay its debts at the center of its decision-making processes. And this means that interest rates, which have been at near-zero for a very long time, cannot be raised to any meaningful degree.

Why not? Because higher interest rates mean higher interest payments. Higher interest payments mean greater deficits as the government borrows not just to pay for its current spending but to pay the interest on its previous spending. Greater deficits mean threats of higher taxes in the future. Threats of higher taxes mean more economic uncertainty. More economic uncertainty means reduced investment and consumption. And that means a slowing economy. Even if it were good for the rest of us, the Fed can't raise interest rates because the government can't afford to pay more. But, the longer interest rates remain low, the more incentive the government has to keep right on borrowing.

And that brings us back to Deficit Day. In an ideal, rational world, we'd celebrate Deficit Day on December 31, as the government spent its last tax dollar for the year at the stroke of midnight. In the real world, governments need to borrow. But they don't need to borrow all the time. And in the modern era of prosperity and peace unprecedented in human history, they shouldn't even need to borrow most of the time.

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