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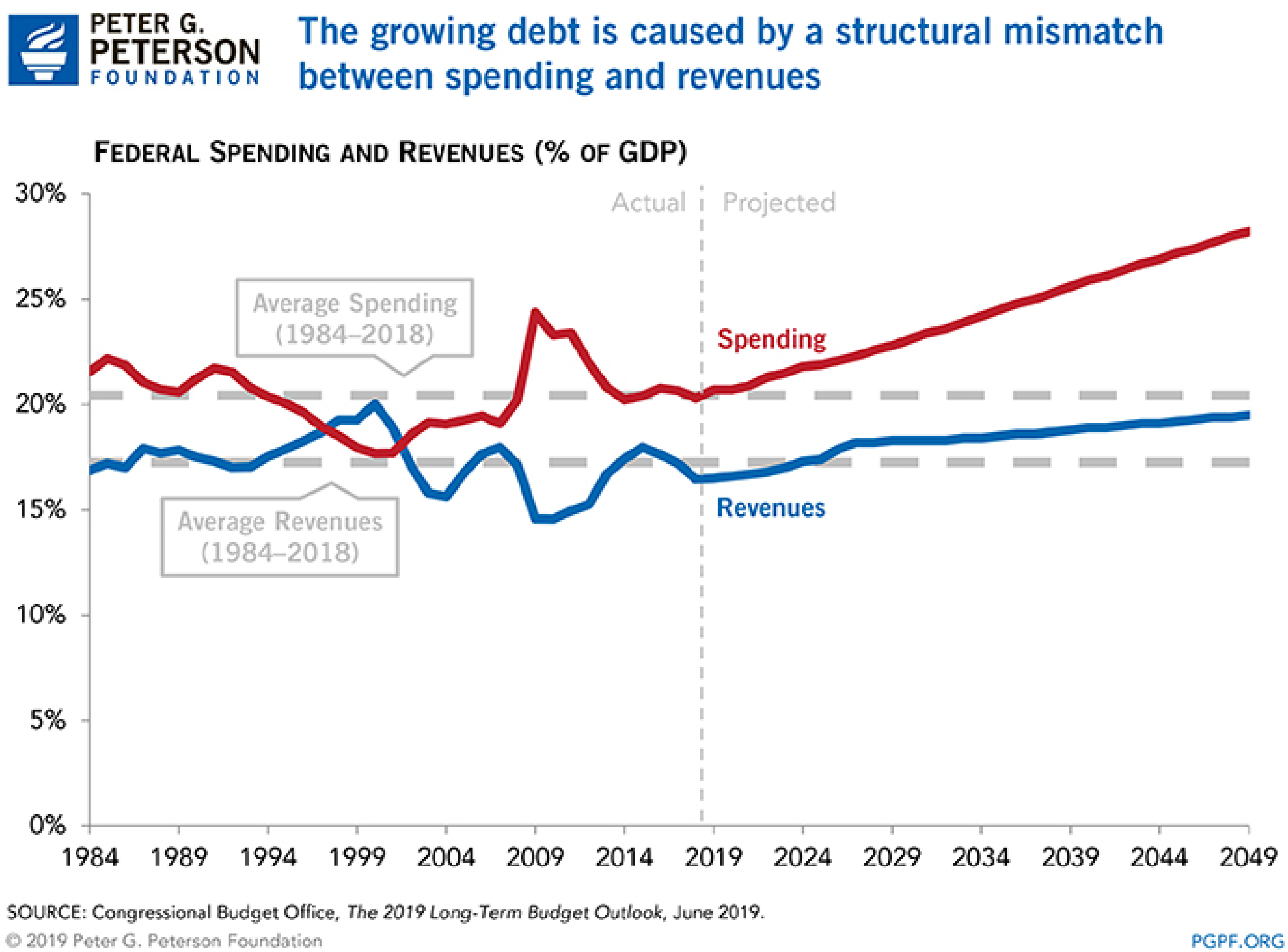
Debt vs. Deficits: What's the Difference?

The words debt and deficit come up frequently in policy discussions – and are often conflated, or confused for one another. So what exactly are the differences between the deficit and the debt?

What Is the Federal Budget Deficit?

The **deficit** is *the annual difference between government spending and government revenue*. Every year, the government takes in revenue in the form of taxes and other income, and spends money on various programs, such as national defense, Social Security, and healthcare. If the government spends more than it takes in, then it runs a deficit. If the government takes in more than it spends, it runs a surplus.



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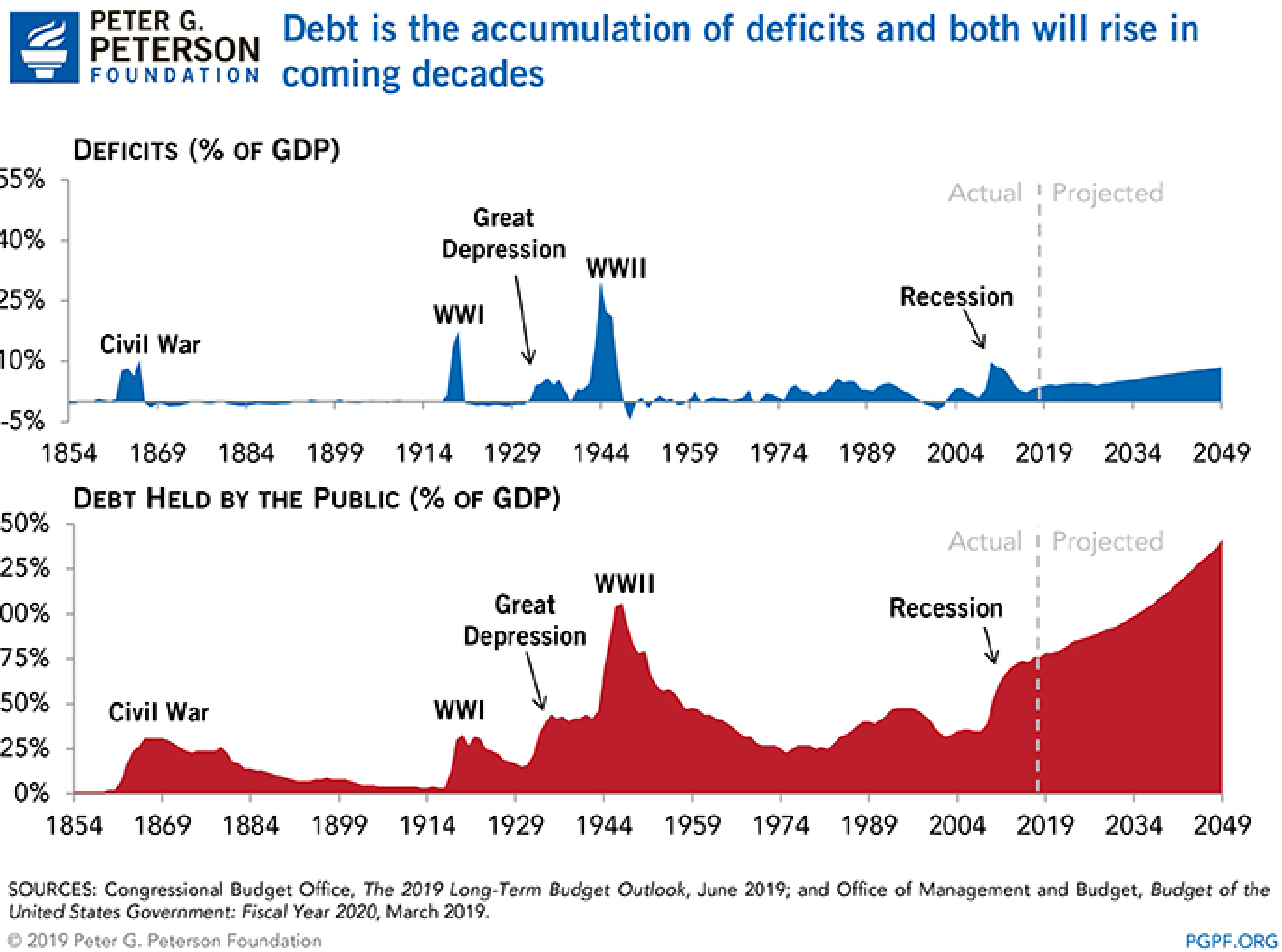
The U.S. government has run a deficit since 1970 in all but four years (1998–2001). In 2019, the deficit is projected to total $896 billion, or 4.2 percent of gross domestic product (GDP).

What Is the Federal Debt?

The **debt** is the total amount of money the U.S. government owes. It represents *the accumulation of past deficits, minus surpluses*. Debt is like the balance on your credit card statement, which shows the total amount you have accrued over time. At the end of fiscal year 2019, the Congressional Budget Office estimates that debt held by the public will equal $16.6 trillion, or 78 percent of GDP.



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Historically, periods with spikes in deficits and corresponding increases in the national debt have been periods with significant defense and war spending. However, since the 1960s, defense spending has decreased as a share of GDP. Deficits are no longer caused by periodic spikes in wartime spending, but rather by a long-term, structural mismatch between spending and revenues.

Looking Forward

By addressing this mismatch, policymakers can put our nation on a better path for economic growth, opportunity, and prosperity. A strong fiscal foundation creates positive conditions for growth, including increased access to capital, more resources for public and private investments in our future, improved consumer and business confidence, and a stronger safety net. No single approach will be perfect in everyone’s eyes, but leaders can draw upon the many good ideas that have been put forward from across the ideological spectrum in order to help ensure a brighter economic future for the next generation.

Related: Top 10 Reasons Why The National Debt Matters

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