# How we think about the deficit is mostly wrong

By Stephanie Kelton
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With their nine-page "framework," President Trump and congressional Republicans have turned to tax cuts in a bid to get a victory on their policy agenda. Mr. Trump has promised to deliver "the biggest tax cut in the history of our country."

It achieved a rare feat of bipartisan agreement in Washington — worry from the left and the right about the plan's potential to increase the deficit. Senator Charles Schumer, Democrat of New York, warned that the plan would deepen the deficit by $5 trillion to $7 trillion. Senator Bob Corker, Republican of Tennessee, said, "If I think it adds one penny to the deficit, I'm not going to vote for it."

Are the proposed tax cuts a huge giveaway to the rich? Most definitely. Will they, as advertised, create a booming economy with benefits that trickle down to everyone else? I don't think so. Mr. Trump's plan will widen the country's already dangerous wealth and income gaps, and because the gains go mostly to those at the very top, the tax cuts won't do much to promote broad-based consumer spending or overall job growth.

That's enough to reject the plan. But it would be unwise to oppose tax cuts, or any other federal legislation, simply because they add to the deficit.

Why? Because bigger deficits wouldn't wreck the nation's finances. Unfortunately, budgetary effects are the sun around which everything revolves in Washington. Should we invest a trillion dollars in our crumbling infrastructure, offer Medicare for All or pass the biggest tax cut in the country's history?

Propose any of these, and the first question on everyone's lips will be, "How are you going to pay for it?" The reason is simple: Lawmakers are obsessed with avoiding an increase in the deficit.

The impulse is so strong that it's almost Pavlovian. It's also holding us back. Politicians of both parties should stop using the deficit as a guide to public policy. Instead, they should be advancing legislation aimed at raising living standards and delivering the public investments in education, technology and infrastructure that are critical for long-term prosperity.

Right now, anything ambitious requires a score from the Congressional Budget Office. A "bad" score — one that adds to projected budget deficits — can easily doom good legislation because lawmakers are told that their math doesn't add up. And that's a problem.

Because, actually, the math always adds up. To see why, we have to look beyond the government's balance sheet. Think of it this way. Government spending adds new money to the economy, and taxes take some of that money out again. It's a constant churning of pluses and minuses, and their minuses become our pluses.

When the government spends more than it gets in taxes, a "deficit" is recorded on the government's books. But that's only half the story. A little double-entry bookkeeping paints the rest of the picture. Suppose the government spends $100 into the economy but collects just $90 in taxes, leaving behind an extra $10 for someone to hold. That extra $10 gets recorded as a surplus on someone else's books. That means that the government's -$10 is always matched by +$10 in some other part of the economy. There is no mismatch and no problem with things adding up. Balance sheets must balance, after all. The government's deficit is always mirrored by an equivalent surplus in another part of the economy.

The problem is that policy makers are looking at this picture with one eye shut. They see the budget deficit, but they're missing the matching surplus on the other side. And since many Americans are missing it, too, they end up applauding efforts to balance the budget, even though it would mean erasing the surplus in the private sector.

And because there is so much misunderstanding, Americans are vulnerable to nationalist scare tactics that warn of the perils of relying on foreigners to pay our bills. The truth is, there's no reason to worry about China (or any other entity) refusing to finance our deficits. In fact, we should think of the government's spending as self-financing since it pays its bills by sending new money into the economy.

When there's a deficit, some of that new money can be traded in for a government bond. What's often missed in the public debate is the fact that the money to buy the bond comes from the deficit spending itself.

What isn't missed is the fact that the government pays interest on those bonds. Lawmakers are obsessed with this line item in the budget, as if it's akin to a cable bill that keeps taking a bigger and bigger bite out of your household budget. It isn't. Unlike a household, the government doesn't have to trim other parts of its budget to make ends meet. Congress can always create more room in the budget by adding rows or widening the columns to put more resources into education, infrastructure, defense and so on. It is purely a political decision.

Of course, there are real limits to what can be done. No country can commit to large-scale infrastructure investment unless it has the available labor, machinery, concrete and steel. Trying to spend too much will cause an inflation problem. The trick is to adjust the budget to make efficient use of the people, factories and raw materials we have.

But all of this goes unrecognized on Capitol Hill, where the very words "debt" and "deficit" have been weaponized for political ends. They serve as body armor to politicians who would deny resources to struggling communities or demand cuts to popular programs.

Perhaps no one is more skilled in the dark art of deficit deception than Representative Paul Ryan, the House speaker. He has described the budget outlook as a "fiscal train wreck," and he has demanded cuts to programs like Social Security and Medicare in the name of protecting future generations from a "crushing burden of debt." His language is poll-tested and inflammatory by design. It's intended to create a sense of urgency to move the budget into balance, where, we are told, the math of federal spending will finally "add up."

In a more rational world, lawmakers would abandon the crude C.B.O. scoring model and recognize that the risk of overspending is inflation, not bankruptcy. They would avoid fruitless battles over the debt ceiling, and they would acknowledge that the deficit itself could be deployed as a potent weapon in the fights against inequality, poverty and economic stagnation.

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