# National debt and budget deficit assignment

Business

Much like a person or a corporation, the United States government uses money for its operations; meaning that it has both income and expenses. The income of the United States is derived from various taxes and fees and the expenses are what the U. S. government pays out for national defense, highways, social welfare programs, and various other programs. In an election year, the average citizen is apt to hear a great deal of talk about income, taxes, spending, and more importantly budget deficits and the national debt. Given all of the talk, one may come to think that budget deficits and the national debt are one in the same.

While the two do go hand-in-hand, it is important to understand that they are two separate things. InvestorWords. com defines a budget deficit as the amount by which a government, company, or individual's spending exceeds its income over a particular period of time. To remain within the limits of one's income would create a budget surplus; something the United States has done only in one year since 1970 (Adamson, 2008). National debt, on the other hand, is the sum of all previously incurred annual federal deficits. Since the deficits are financed by government borrowing, national debt is equal to all government debt outstanding.

Whenever the U. S. has a deficit year, money is borrowed to pay for the deficit. Deficits are not a new concept as far as our nation's history is concerned. Deficits were incurred during and after WWI. Then the country enjoyed a decade of annual budget surpluses until the Great Depression; and WWII only made it worse. The country never quite returned to the concept of living within its means since that time. This is not to say that there have not been any other years of budget surplus, but they have been few and far in between. However, up until 1975, the U. S. annual deficit has been rather miniscule compared to today's standards.

In 1975 is when the U. S. incurred a deficit that was almost as large as that of the worst " war-time" year, 1943 (Adamson, 2008). So what happens when a country incurs an annual deficit year after year? Of course, when we, as individuals, borrow money and we pay interest on it, which increases our debt. The U. S. is no different. In fiscal year 2007, the U. S. paid out $430 billion in interest. This exorbitant interest expense continues to increase the U. S. annual deficit, which in turn, continues to increase the national debt that now stands at over $9. 5 trillion (Hall, 2008).

As anyone who has experienced financial trouble, especially with credit cards, it is the interest on the debt that creates the biggest problem. For the U. S. , the only way to reduce the interest is to reduce the debt. The only to reduce the debt is to begin paying it off, and the only way to pay off the debt is to sustain significant surpluses. The only way to sustain a surplus is to spend less than one receives. On an individual plane, this is certainly feasible. However, on a national plane, in order to maintain a surplus is to reduce government spending and increase taxes. No other solutions are possible.

References Budget deficit. InvestorWords. com. Retrieved August 5, 2008, from InvestorWords. com website: http://www. investorwords. com/601/budget_deficit. html National debt. InvestorWords. com. Retrieved August 5, 2008, from InvestorWords. com website: http://www. investorwords. com/601/budget_deficit. html Adamson, J. C. (2008). What is the National Debt ??? and What is the Deficit? Retrieved August 5, 2008, from The Muser website: http://www. greatreality. com/debtdef. htm Hall, E. (2008). U. S. National Debt Clock Retrieved August 5, 2008 from website: http://www. brillig. com/debt_clock/