

Spending deficit?
since 1980 the deficit
has grown



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Spending financed not by current tax receipts, but by borrowing or drawing upon past tax reserves.

, Is it a good idea? Why does the U. S. run a deficit? Since 1980 the deficit has grown enormously. Some say it's a bad thing, and predict impending doom, others say it is a safe and stable necessity to maintain a healthy economy. When the U. S.

government came into existence and for about a 150 years thereafter the government managed to keep a balanced budget. The only times a budget deficit existed during these first 150 years were in times of war or other catastrophic events. The Government, for instance, generated deficits during the War of 1812, the recession of 1837, the Civil War, the depression of the 1890s, and World War I. However, as soon as the war ended the deficit would be eliminated and the economy which was much larger than the amount of debt would quickly absorb it. The last time the budget ran a surplus was in 1969 during Nixon's presidency. Budget deficits have grown larger and more frequent in the last half-century. In the 1980s they soared to record levels.

The Government cut income tax rates, greatly increased defense spending, and didn't cut domestic spending enough to make up the difference. Also, the deep recession of the early 1980s reduced revenues, raising the deficit and forcing the Government to spend much more on paying interest for the national debt at a time when interest rates were high. As a result, the national debt grew in size after 1980. It grew from \$709 billion to \$3.6 trillion in 1990, only one decade later. Increase of National Debt Since 1980

MonthAmount -----12/31/1980\$930, 210, 000, 000.

00 *12/31/1981\$1, 028, 729, 000, 000.

00 *12/31/1982\$1, 197, 073, 000, 000. 00 *12/31/1983\$1, 410, 702, 000,

000. 00 *12/31/1984\$1, 662, 966, 000, 000. 00 *12/31/1985\$1, 945, 941,

616, 459. 8812/31/1986\$2, 214, 834, 532, 586. 4312/31/1987\$2, 431, 715,

264, 976. 8612/30/1988\$2, 684, 391, 916, 571.

4112/29/1989\$2, 952, 994, 244, 624. 7112/31/1990\$3, 364, 820, 230, 276.

8612/31/1991\$3, 801, 698, 272, 862. 0212/31/1992\$4, 177, 009, 244, 468.

7712/31/1993\$4, 535, 687, 054, 406.

1412/30/1994\$4, 800, 149, 946, 143. 7510/31/1995\$4, 985, 262, 110, 021.

0611/30/1995\$4, 989, 329, 926, 644. 3112/29/1995\$4, 988, 664, 979, 014.

5401/31/1996\$4, 987, 436, 358, 165. 2002/29/1996\$5, 017, 040, 703, 255.

0203/29/1996\$5, 117, 786, 366, 014. 5604/30/1996\$5, 102, 048, 827, 234.

2205/31/1996\$5, 128, 508, 504, 892. 8006/28/1996\$5, 161, 075, 688, 140.

9307/31/1996\$5, 188, 888, 625, 925.

8708/30/1996\$5, 208, 303, 439, 417. 9309/30/1996\$5, 224, 810, 939, 135.

7310/01/1996\$5, 234, 730, 786, 626. 5010/02/1996\$5, 235, 509, 457, 452.

5610/03/1996\$5, 222, 192, 137, 251. 6210/04/1996\$5, 222, 049, 625, 819.

53* Rounded to MillionsFederal spending has grown over the years,

especially starting in the1930s in actual dollars and in proportion to the

economy (Gross Domestic Product, or GDP).

Beginning with the “ New Deal” in the 1930s, the Federal Government
came to play a much larger role in American life. President Franklin D.

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Roosevelt sought to use the full powers of his office to end the Great Depression. He and Congress greatly expanded Federal programs. Federal spending, which totaled less than \$4 billion in 1931, went up to nearly \$7 billion in 1934 and to over \$8 billion in 1936. Then, U. S.

entry into World War II sent annual Federal spending soaring to over \$91 billion by 1944. Thus began the ever increasing debt of the United States. What if the debt is not increasing as fast as we think it is? The dollar amount of the debt may increase but often times so does the amount of money or GDP to pay for the debt. This brings up the idea that the deficit could be run without cost. How could a deficit increase productivity without any cost? The idea of having a balanced budget is challenged by the ideas of Keynesian Economics.

Keynesian economics is an economic model that predicts in times of low demand and high unemployment a deficit will not cost anything. Instead a deficit would allow more people to work, increasing productivity. A deficit does this because it is invested into the economy by government. For example if the government spends deficit money on new highways, trucking will benefit and more jobs will be produced.

When an economic system is in recession all of its resources are not being used. For example if the government did not build highways we could not ship goods and there would be less demand for them. The supply remains low even though we have the ability to produce more because we cannot ship them. This non-productivity comes at a cost to the whole economic system. If deficit spending eliminates non-productivity then its direct monetary cost will

be offset if not surpassed by increased productivity. For example in the 1980's when the huge deficits were adding up the actual additions to the public capital or increased productivity were often as big, or bigger than the deficit. This means as long as the government spends the money it gains from a deficit on assets