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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 is a bad thing, and predict impending doom, others say it is a safe and stable necessity to maintain a healthy economy.

For nearly 150 years the U. S. government managed to keep a balanced budget. The only time a budget deficit existed during these years was in times of war or other catastrophic events.

For instance, the government created deficits during the War of 1812, the recession of 1837, the Civil War, the depression of the 1890s, and World War I. However, once each incident ended the deficit would be eliminated. The economy was much stronger than the accumulated debt and would therefore 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. 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 exponentially in size after 1980. It grew from $709 billion to $3. 3 trillion in 1990, only one decade later. (See Table 1)Federal spending has grown over the years. If you compare actual dollars and their proportion to the economy (Gross Domestic Product, or GDP), much of it began in the 1930s.

Beginning with the “ New Deal”, the Federal Government came to play a much larger role in American life. President Franklin D. 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 then over $8 billion in 1936. 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. Is our debt 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. Some believe a deficit allows 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 instance, if the government did not build highways we could not ship goods and thereby decrease demand for them. Because we cannot ship the items, the supply remains low even though we have the ability to produce more.

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. 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 that as long as the government spends the money it gains from a deficit on assets that increase its wealth and productivity, the debt actually benefits the economy. But what if the government spends money on programs that do not increase its assets or productivity? Consider small businesses for instance. A company invests money to hire a new salesman. He will probably increase sales and the company will regain what it spent hiring him. If the company spends money on paper clips when they already have staplers they will just lose money.

This frivolous spending is what makes a deficit dangerous. The government's net worth decreases which risks putting it into serious debt. Debt should not be a