

Free research paper about federal deficits, surpluses, and the national debt

[Economics](#), [Budget](#)



The total budget of the United States is comprised of the off-budget and the on-budget. Off-budget are parts of the budget that have trust funds. This is for instance social security fund, and Medicare. On the other hand, parts of the federal budget that operate without a trust fund are referred to as on-budget. A deficit or surplus in the total budget is influenced more by the on-budget than by the off-budget such that, a deficit in the on-budget increases national debt. Much of the history of the history of the United States of America from 1930 to 2011 is characterized by more years of deficits in the budget than years of surpluses. During this period, national debt grew from \$50 billion to 15. 5 trillion.

The dynamics in the federal budget in terms of deficits, surplus, and their effect to the national debt has been influenced by the different social-economic and political events that face the United States as time goes. Looking at the trend of off-budget in comparison to the total budget from 1940s, it will be seen that, there was surplus in off-budget from the late 1970s moving to the 1990s. This is attributed to the hefty increase in the social security taxes in 1982 as the economy anticipated large number of retirees of the baby boomers age group. In all this years since early 1970s, it was only in 1999 and the year 2000 where on-budget surpluses were witnessed. However, after this, deficit in the on-budget surged on and projected upwards until 2011 when it was highest. The budget deficits between 1980s and 1990s are believed to have been caused primarily by the political agendas of President Ronald Reagan's administration. Firstly, he took over power with the promise of cutting the size of the federal government as well as reducing the threats posed by communism. Federal spending went

up as government channeled more money towards national defense (\$157) in 1980. \$ 303 was set aside for the same purpose in 1988. Between 1996 and 2001, there was a dramatic turnaround of the state of the federal budget. During this period, taxable income increased with more than 50 percent which resulted in \$236 billion surplus, in the year 2000. However, this trend did not last for long. During President Bush's administration, there was an increase in on-budget deficit that is attributed to the tax cut policy that was implemented. Further, the September 11 terrorist attack led to more spending in reconstruction as well as increased spending for security and defense which increased the deficits. Still, the Afghanistan and Iraq wars increased the on-budget deficits. Towards 2008, the economic recession and the near collapse of the financial systems led to expansion of on-budget deficits. The recession resulted in increased rate of unemployment and increase in welfare spending and Medicaid. After election, president Obama's administration embarked on a mission to resuscitate the economy from recession. The government started the Troubled Asset Relief Program (TARP) and other stimulus packages that led to further government spending thus pushing the deficits above the \$1 trillion mark.

On the other side, economists look at budget deficits as being either cyclical or structured. Deficits that occur when the economy is not at full employment are classified as cyclical deficits. Structured deficits are those that would occur even when the economy is at full employment. Economists argue that if the deficit is largely attributed to an ailing economy, it means that the problem is in the economy. Similarly, if the deficit is high at a time when the economy is doing well, it is the deficit that has a problem. When

economist design stimulus packages to get the economy recover from recession based on a deficit, that part of budget is known as functional finance.

In addition, economists look at budget deficits in terms of debt as a percentage of Gross Domestic Product (GDP). Although the national debt has been rising considerably in the last five years, economists argue that this does not indicate a falling economy. When debt as a percentage of GDP is considered, the ratio was above 1 after World War II. The ratio then increased to almost 0.7 in the 1990s and later fell in 2000 when the budget recorded a surplus. This did not last for long before it increased again after the 2008 economic recession and the TARP and other stimulus programs that were instituted by president Obama. Therefore, despite the rising debt, the ratio of debt to GDP indicates that the US economy is more or less at the same point to the average of the recent past. Still, comparatively, the performance of the US economy based on gross debt- to- GDP ratios show that, although the national debt has increased considerably from 2008, the ratios compare well with those of the peers (Canada, U. K, and Germany) from 1970s to 2010.

The federal government owes itself more than a third of the total national debt. The government lends itself money through Federal Reserve and through the federal trust fund where the government lends funds to other sections of the government. Federal Reserve addresses the debt issue through open market operations, adjusting interest rates and altering the reserve ratio. In general, the national debt is owed by the public and by the federal government. However, the amount owed by the public fluctuates

depending on the level of the budget deficit. The federal government adjusts the debt by buying the public debt by issuing public bonds. This means that, if the federal government had managed to maintain budget surpluses for a long period of time, the total debt would be owed only to the federal government itself. Still there is another portion of the national debt that is held externally. To fund its budget, the government sells bonds to citizens and entities from other countries.

In the recent past, there has been a heated argument on how to balance the national budget. Some economists support balancing through a constitutional amendment while other proposes the aggregate supply-aggregate demand model of adjusting the economy. The author supports addressing the debt issue through a Federal Reserve policy of reducing interest rates. They argue that, a constitutional amendment would lead to a situation where during the good times, economy behaves very well and during bad times, economy would suffer considerably.