

Efforts to reduce the budget deficit research paper sample

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



When the spending and expenditure of the government exceed the incomes the government receives from taxes, then the budget deficit occurs. A budget deficit plunges a country into a state with high public sector debt. Budget deficits have far reaching effects on the economic status of the country. If they become unsustainable, high interest payments and rising bond yields become a common feature in the country. An increase in the interest rates scares away investors who fear losses that may accrue to them when the capital they invest fails to give the expected returns . If they become worse, budget deficits lead to loss of confidence in the government of the day. In the United States, the congress was alarmed by the continued growth and increase in National Debt.

The congress had to take necessary action to correct and curb the growing national debt. Some measures put by the congress were long term while others were meant to correct the deficit in the short run. Some of the key actions that the congress undertook are discussed in the paper. The first step that the congress took and that any country would partake to control and manage budget deficits is to cut back on their spending . Government is classified as one of the greatest spenders, and if it can cut back on the spending, budget deficits would be corrected into surpluses. Any government runs departments with money.

If the government can cut on the spending on specific departments say by 20%, the savings accumulatively over a period would be very helpful in curbing budget deficits. Since 1985 when the congress decided to institute budget cutting measures, managing government spending and cutting spending on departments that were considered overfunded was a priority. It

is, however, paramount to comprehend that cutting spending is not solely the solution to curb deficits and may cause economic turmoil if not well controlled.

Increasing taxes is also another major input and correction measure to correct budget deficits in any countries . Taxes account for an elephant share in the revenue generating sources of the government. The government may decide to increase the taxes evenly, that is across the working population, or selectively, which means that taxes are only increased among the rich in the society. An increase of taxes in the boom session of an economy would be very helpful in correcting a budget deficit as more would be collected over a period.

Promotion of economic growth in any country is a strong and perhaps the most effective way of correcting a budget deficit. The US government chose this route to help in correcting budget deficits . The reason economic growth is the most effective is because, as a result, of growth, more taxes from individuals, as well as, corporations are collected. The government does not need to reduce on its expenditure after economic growth. In addition, economic growth ensures that the government borrows less and fewer borrowings translate to low or nil budget deficits .

Bailout is also a measure that can be effectively used to correct budget deficits. In countries that have borrowed funds from World Bank, bailouts come in handy in correcting bank deficits. In the United States before 1985, the state was bailed out by the IMF and World Bank to correct its budget deficits . Bail outs are critical and important in budget deficits correction.

References

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