

The budget deficit



The federal budget deficit is where the government spends more than it receives in income. For the federal fiscal year ending in 2011, the deficit is predicted to be approximately 1.26 trillion. When compared with other countries this is a large sum of money, but the deficit has dropped in recent years, which shows that government spending is improving. There are many reasons why the government spends more than it receives, three of these which are important to understanding the budget deficit and causes. The first reason is that the more the government spends, the more money gets pushed into the economy which helps improve it and keep it going. TO give an example, if the government spends money for example buying planes, then the people who built the planes will get more money to spend, then the people who receive their money get more to spend and so on. This creates a trickledown effect of wealth. This can be very helpful to government spending which eventually gets reinvested to the government through taxation. This taxation comes in many forms, whether direct sales tax or property taxes on purchase. Governments are willing to borrow money in part because there are so many countries out there willing to lend it. The final key reason is that the overspending eventually helps create jobs and reduce unemployment. This is what politicians want and need if they are to stay in office.

B. Our government could eventually put itself in the position of a family that has maxed out all of its credit cards and the creditors come to collect. If one of the creditors that the United States borrows from decides to call a current debt, this would be the US in a very tough economic situation. It would end up being difficult to pay back that debt while continuing the many public

services that helped create the debt in the first place. If the budget deficit is managed carefully and fiscal policy is applied to manipulate it, there is room for increased spending and economic growth. There is a large difference in what deficit is, and total government economic debt. The deficit is compiled on a yearly basis, whereas the debt is the compounding of the deficits throughout the years. The amount of government debt is approximately 14.078 trillion, (B1) while the estimated deficit is around 1.171 trillion. This kind of spending looks innocent on the surface but when it is compounded, shows that it could have a serious affect on our nation's economy this site provides debt figures down to the day and specified down to the penny.

C. What must be understood about the Federal budget deficit is that while on the surface it appears to be a very bad thing, when managed properly it can help weak economies. The federal budget deficit is strongly related to the aggregate demand. When fiscal policy is managed correctly, it can be used to change the rate of economic growth over short periods of time. One major roadblock to the fiscal policy effectiveness is that when more money is borrowed, interest rates are raised. Even though economics rarely can firmly say whether or not a budget deficit is good or bad, the deficit will have consequences on how the economy performs both short and long time. This is also true in reverse, in that consumer spending and the economy as a whole has a great and noticeable effect on the deficit. (Cited from <http://www.fas.org/sgp/crs/RL31235.pdf>) this is a CRS report for congress received through the CRS web updated January 28, 2009. The federal budget deficit and the budget are closely tied by nature, in the same way that was previously explained. If the government budget is not effective, it can limit

economical growth as well as how resources are used. Government spending has what is referred to as a multiplier effect, in that when government spending increases, the amount of money in the economy is multiplied exponentially with a portion getting saved and spent and trickling down. This is true in reverse if the government decides to cut spending, that would affect the many people who would otherwise provide a good or service to the government. Both of these situations are considered to be long term in terms of affect on the economy, but the government can also provide short term changes that come by tax cuts or tax rate increases. One important fact to know is that the effect of government spending on economic growth decreases over time. The economy's effect on government spending is concentrated in job growth, which means that when more people have jobs (closer to full employment) the government receives more revenue while also spending less to support unemployed people and their benefits that come with this. End of reference to CRS report.

D. There are many different parts that make up a budget deficit. These include tax revenue, budgets, and spending. Tax revenue refers to the money that a government receives from its constituents. In the case of the US the constituents are US citizens who pay their taxes, from everyday workers to government employees. There are many different types of tax revenues, with the main ones being ' Property Taxes' and 'employment taxes'. These are two of the largest sources of funds for any large government. Budgets are a crucial part of what causes deficits as well. When a budget provides too much or too little money for projects that are necessary, governments are left to borrow money or leave it unused as

needed. This helps create what is referred to as a budget deficit. However, according to John Maynard Keynes ' Keynesian Perspective' (from Economics Book) budget deficits are appropriate if conditions call for it.

A balanced budget is not capable of helping an economy whether the economy is in a recession or a surplus situation. Balanced budgets are only possibly and appropriate when the aggregate demand is consistent with full-employment equilibrium. Spending is the third main part of a budget deficit. Government choices made to spend affect people in every section of the economy. When the government doesn't spend, there are less jobs and money to go around. When the government spends the opposite happens, which can often lead to a ballooning effect. When this balloon affect happens, the resulting ' POP' or deflation can leave an economy in a less stable position than it started.

Budget deficits can be used as a tool in combination with solid fiscal policy in moving an economy toward full employment and increasing the GDP (Gross domestic product). This is an attempt to move toward PGDP (Potential Gross Domestic Product) which exists theoretically at 0%unemployment and 100%'capacity. This is a goal that all governments and business should strive toward, which helps the overall economy. Potential GDP is also the highest level of real gross domestic product that could persist for a substantial period without raising the rate of inflation.

E. Budget deficits are never a sudden event, but rather the product of many decisions and factors made over the years. There is no real start or ending to budget deficits, and generally they are managed by fiscal policy and its

effectiveness. When a government spends much more than it takes in, spread out over years that amount starts to add up. Sometimes this is done to help improve the economy, sometimes simply to provide what the government needs or wants. Deficits can also be caused by lack of spending, such as when investors are hesitant to invest money and consumers are hesitant to buy items. This hurts the governments who are no longer receiving as much in tax revenues.

Budgets are never really ‘good’ or ‘bad’ so much as balanced or unbalanced. When income is exceeded by outflow, then a budget is not balanced and is not as healthy from an economical standpoint. However, this is sometimes not only necessary but crucial to actually help revive a struggling economy. When done consistently, this can push the balance of money even further down and actually increase the recession of the economy. When a budget is balanced, there is no real ‘increase’ or ‘decrease’ in the budget deficit, but rather items are being produced/and paid for with no extra burden of debt.

The federal budget deficit is caused very simply by borrowing and spending. This is the same kind of borrowing consumers do when they use a credit card, take a car loan, or use a bank to receive a mortgage. A lender has decided to let them use some of their money for a while, with their promise to return the money plus ‘extra’. This extra is referred to as interest, and when even the US government borrows money from other countries there is quite a bit of interest involved. When this interest is paid frequently, and used to bring down the debt it can be a healthy thing for an economy. When it is not paid correctly the economy eventually suffers because of a

government being unable to sustain its debt and being forced to reduce public services. The debt load gets harder to bear every time there is a deficit that requires the borrowing of more money. Eventually when the debt gets to a very high number, governments can end up paying so much in interest there is no money left for anything else. For example if the US government borrows 1.3 trillion a year every year, and increases that amount by .2 trillion every year, then in 10-15 years 800 billion dollars would be the amount due in interest alone.

F. The past fiscal policies and budgets used in the United States over the years have put the economy under a large burden of debt. This was sometimes necessary to revive the economy and sometimes also because of the 'Spend it because we have it idea'. No matter what thoughts pushed these budgets, a large effect is felt on today's economy with the US sitting under a large pile of debt. This leads lawmakers to find cuts where they can to help reduce the deficit as well as improve debt standing with other nations.

G. There are many other parts to the budget deficit that must be taken into account. The first of these is Real Gross Domestic Product. This is the actual domestic product, which is calculated and has inflation removed from it. The resulting number gives a much better idea of actual price changes. This allows one to see what prices are compared to what they should be, and how much inflation is really affecting the numbers. The second item is the interest rates that the lenders of 'government money' charge the government doing the borrowing. If China raises or sets the interest rates for the US at 5% versus 7% this will create an increasingly multiplying debt rate

that can eventually make borrowWhen the budget deficit is creating high interest, tax payers will also see a rate increase that will further cripple their own pockets. Investment spending is referred to as capital formation, which makes it a part of the production process. Investment spending represents the production and purchase of capital goods, not investment in financial assets. When there is a lot of /investment spending, this helps to push aggregate demand in a forward or negative fashion.

Presently budget deficits around the world are stable, with the United States holding most of the world's debt. The reason for this is that the US has always had a very strong economy and the ability to pay its debts. This could one day change if the US is not good about keeping its debt to income ratio down (revenue versus outlay). Presently this is stressing the national government as well as every other level of government and consumers. Higher levels of debt are intended to increase spending, but when the debt is very large investors and consumers sometimes will spend less out of fear of loss.

H. The future of our deficit is what appears to be a steady course. From current and past trends it seems that the United States will always spend more than it has and continue to do this until other factors play some part in it. These factors include other countries and consumer spending. As long as fiscal policy is managed and balanced carefully the united states will be able to help revive a struggling economy with the spending caused by the deficits.

The budget deficit is something that must be carefully managed no matter what level it exists on. It can be a tool to improve an economy, while also being the largest and easiest way to destroy one. When a budget deficit is monitored and controlled by a well-balanced budget and investment is encouraged, an economy can thrive. This is why budget deficits and budgets in general are made to work toward full production employment, the level at which capital is utilized to the fullest and the goal of every nation.