

**'to cut or not to cut-  
dealing with the  
national debt' 1705**



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" It" s time to clean up this mess." Famous last words heard from the mouths of

many different politicians when talking about the national debt and the budget deficit.

Our debt is currently \$4. 41 trillion and we have a budget deficit of around \$300 billion

and growing. Our government now estimates that by the year 2002 the debt will be

\$6. 507 Trillion. While our politicians talk of balancing the budget , not one of them has

proposed a feasible plan to start paying down the debt.

In the early days of our government debt was considered to be a last resort. In

1790, when Alexander Hamilton, as secretary of the Treasury, made his first report on the

national debt of the United States, he estimated it at close to \$70 million.

After

alternately rising and falling, the debt stood at only \$4 million, or 21 cents per capita, in

1840. That was the lowest point ever reached by the public debt of the U. S.

After 1840 it

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rose to a peak, in the last year of the Civil War, of almost \$2. 68 billion and a per capita

figure of \$75. 01. The only justification for debt of any significant amount was a war. By

1900 this had been reduced to under \$1 Billion. By 1919, the end of World War I, the

debt had climbed to \$25. 5 Billion. In each of the following years the debt was reduced,

and by 1930 stood at \$18. 1 Billion. With the collapse of Wall Street in 1929, the country

(debt history: 1850 to 1950)

fell into the Great Depression, which lasted until 1940. At that time the debt had climbed

to \$51 Billion. By the end of World War II the debt was \$269 Billion.

Again the government worked to reduce the debt, and by 1949 it was \$252.

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Billion. At that point the Korean War started, sending the debt to \$274 Billion by 1955.

Since then, there has been no serious effort to pay down the debt. The main point to be

made was that on three separate occasions a major debt reduction effort had been made,

but in the past 55 years in spite of much arm-waving there have been no similar results.

The U. S. debt is divided into two major kinds of loans, marketable and nonmarketable. The former provides about 52 percent of the total and is made up of

bills, notes, and bonds that can be traded; the latter includes U. S. savings bonds,

foreign-government-owned securities, and government account securities that are

redeemable but not tradable. Maturity of this debt ranges from less than a year to over

20 years, with the average maturity about 3 years. More than half of the debt, however,

is short term, maturing in less than a year. A ceiling is placed on U. S. federal debt, and

Congress must enact new legislation to raise the ceiling. Between 1981 and 1990 the

ceiling was raised from about \$1. 08 trillion to about \$4. 15 trillion.

Unfortunately at the end of 1995 we reached the ceiling again, and Congress refused to raise it. They felt that it had become too much, and there was a government shutdown for a few days in November. Not only was this an inconvenience to many people, it also accounted for an estimated \$63 million a day in lost productivity, and almost double that in lost tax revenue.

Due to the threat of this, Clinton has a plan to balance the budget by 2005.

This

plan includes a projected \$1. 1 trillion spending cut over the next ten years, slow the

growth of spending on Medicare and Medicaid, trim social and farm programs, close a

number of corporate tax loopholes and retain the package of middle-class tax cuts he

proposed earlier. He also specified that programs such as Social Security, education, and

training would be immune from such cuts. He did warn though, " Make no mistake-- in

other areas, there will be big cuts, and they will hurt. This was June of 1995, and at the

end of Fiscal Year 1996, the national debt growth was \$80 billion higher than previous

projections, with a final debt increase of \$331 billion.

Where does this money go? This happens to be the most popular question asked,

yet the one nobody has a definite answer to. Out of all of the places the government

spends money, more than 50% goes to three main areas: defense, Social Security, and

Medicare and Medicaid, all of which combined account for between \$750 and \$900

billion per year. In the case of national defense, there are a few different points to be

made in justification of these outrageously high numbers. First, the costs in the 1940s

and 50s due to both World War II and the Korean War. Next comes the costs of the War

in Vietnam in the mid-1960s and 1970s along with LBJ's Great Society Programs. This

trend of big spending continued on through the until the end of the 1980s under Reagan's

Cold War programs. With the Cold War over, and the United States recognized as the

world's only superpower, the defense budget is now being cut. But despite these cuts,

experts estimate that up through the year 2005, we will spend at least \$250 billion a year

on national defense.

Social Security is yet a different story. Social Security has become the linchpin of

the Federal Government. Every politician in Washington knows that Social Security will

eventually fall, but very few will actually propose a budget that cuts out Social Security

completely. For those who do, any such plan is shot down immediately. Since its

conception in the 1950s, Social Security has done nothing but grow, and this year will

cost somewhere in the neighborhood of \$330 to \$350 billion. If that" s not enough, it is

projected that by 2005, the program will balloon to almost \$450 billion. That" s a 28%

increase in less than 10 years.

Medicare and Medicaid are also untouchables in the federal budget, although in

Clinton" s new plan, he plans to cut the growth of both equally. While exact numbers

aren" t available for Medicaid, Medicare is soaring at the same rate as Social Security.

Right now, Medicare costs about \$160 billion. In ten years, it will grow at an alarming

rate up to over \$270 billion. That is a 68% growth rate. If this trend continues, Medicare

will reach \$500 billion within 25 years. That" s a lot of money for health care.

As for the rest of the money, the bulk of it goes to programs such as income



security, health, education, and transportation among other projects. About \$220 billion

goes towards interest we pay on the debt, and as our national debt keeps rising so will

this number. If the debt grows to the amount predicted by Leon Panetta, Clinton" s Chief

of Staff, \$6401 billion, or to the size that some economists believe, in the excess of

\$7000 billion, this number will soar higher and higher each year.

As the earlier graph pointed out, our national debt is not going to decrease by

itself. What this country needs is a compromise between Congress and the President, no

matter which President. Some experts feel that it is necessary that we side with one party

or the other ([www. nationaldebt. com](http://www.nationaldebt.com)). Currently we have a Republican Congress and a

Democratic President. This isn" t going to help make the situation any easier.

As a

matter of fact, in recent years the measure of annual deficit is determined inversely by the

amount of money that the government can loot from the Social Security Trust Fund and

the Federal Employees' Trust Funds plus 148 other trust funds. It has little or no

relationship to the fiscal management of the government's officials. The more trust fund

money they can plunder, the less the deficit will be, but the more the debt will increase.

The best comparison that can be made to the national debt is an enigma. If the

government tries to decrease it, somebody is going to be mad over what program is being

cut. The more the government spends, the more people complain that it is spending too

much. There is no balance, and that is why it makes elected officials so indecisive about

their views on the debt, they want to get re-elected. One final thought, balancing the

budget will eliminate the deficit, but it will not stop the growth of the debt, and the debt

is what we pay interest on, not the deficit. If there had been no deficit during the 1990's,

the debt would still have increased by \$1 Trillion. Seem scary? Obviously we need

immediate action, with minimal bickering.

#### Works Consulted

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" National Debt"; Encarta On-Line Encyclopedia 1996

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