Good example of essay on national debt and deficit

Economics, Budget

In recent years, there has been an intensive discussion about the United States budget deficit. The economists and various observers have argued that the budget deficit has dire consequences on the United States and other economies around the world. The effects include high interest rates, low rates of economic growth and low savings. This provides the platform for economists and policy makers to find a possible lasting solution to the budget deficit.

Deficit is the difference between receipts, the money the government receives, and the outlays, the money the government spends, per year. The receipts are generated through excise, taxes, income and fees. The outlays consist the government spending through social security, Medicare benefits, medical research and interest payments on debt. In cases when the government spending goes beyond the level of income there is a deficit and the treasury borrows money to pay bills.

National debt is the accumulated deficits over a period of many years. This represents the total amount that the government borrows to cover for its budget deficits. The government borrows the money by the sale of treasury bills such as notes, savings bonds and inflation-protected securities to the public.

There are three factors that led to the massive budget deficit in the United States. The Bush tax cuts, in the order of $ 1. 6 trillion over 10 years, are said to be the largest contributor to increase in the budget deficit. Even though the tax cuts would come to an end in 2012, the Obama administration preserved the majority of the cuts. This accounted for a 40% annual deficits leading to the reversal of the debt’s downward trend under

Clintons administration (McGahey 721).

The second largest contribution was the economic downturn, the great recession, which started in December 2007. The recession added to the budget deficit through reduction of tax revenue through reduction of the economic activity and the kicking in of stabilizers. A stimulus package launched by Obama to fight recession, added 9% to the overall deficit (McGahey 721).

Tax cuts and recession were not the sole sources of the increasing deficit, the war on terror increased military spending. After the 9/11 terrorist attack, the United States engaged in two wars under Bush. The wars were in Afghanistan, and Iraq respectively and the direct spending amounted to $1. 47 billion. Analysts compute the cost to be much higher on addition of the borrowing costs. Although many direct costs have come to an end the country incurs interest and principal payments on the borrowed money leading to increase in the budget deficit (McGahey 722).

The US economic policy has not worked effectively to reduce the Budget deficit in the recent years. The policy with stimulus and bail-out package failed to increase employment opportunities and output as policy makers and economists anticipated. There are various factors, which led to the snail-paced impact, for example, a large sum of the stimulus dollars were used to pay down debt and used for globalised outsourcing. Excessive government regulations surrounding the health care law led to many businesses to turn to part-time workers. The economic policy has led to intensive government spending (Semoon 62).

The federal government has been spending on a larger share of the Gross

Domestic Product (GDP) over time, and it is high time to the practice was curtailed. Government spending as a share of GDP has increased from 20% after World War II to 24% by 2011. The GDP has fallen short of the government spending as a result of the higher proportion of mandatory spending due to entitlements. Only a third of the spending is discretionary and hence the government should cut entitlement programmes and set tax rates to generate revenue to fund its spending (Barth and Tong 100).

A possible solution to the national debt which has been argued by the progressives is the increase of revenues and social spending. The progressives called it the people’s budget. The budget includes cuts in defence spending and increases social and infrastructure spending. The proposal includes new revenues and expiration of most of the tax cuts imposed by Bush. It also pushes for the taxation of capital gains as ordinary income and higher taxes on the wealthy and taxes on the financial sector (McGahey 739).

This possible solution is identified to have numerous advantages, which include, stimulation of a faster economic growth rate, would lead to a policy of aggressive cost control in the field of health care and strengthening of social security. The budget would create a fairer tax system and create tax credits for the middle class, families and students. The Economic Policy institute analysed the possible solution and found that it would produce a budget surplus in 2021 coupled with a debt to GDP proportion stabilized at 64%. The people’s budget has had its share of critics raising possible disadvantages and shortcomings of the proposal. It is argued that the proposal would fail to realise capital gains at a 49% tax rate. The provision that the proposal would tax the wealthy highly, create a loophole for tax evasion strategies.

The people's budget is the ultimate solution to the budget deficit in the United States. It would eliminate the deficit in just 10 years and put the Americans back to work and restores economic competitiveness. The proposal safeguards the social security and protects the health of the Americans. The people's budget would also curb the growing levels of unemployment in the United States by investing in job creation and broadband infrastructure.

Works cited

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