

Good example of research paper on economics

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Entitlement Spending Squeezing out Public Investments

Federal Investment is that portion of Federal Budget which promotes national growth by accumulating and enhancing total stock of capital. These kinds of expenditures are intended to yield long term benefits to the economy as a whole. However, over the years, federal policies are more inclined towards providing payments to households in the form of entitlement rather than providing goods and services through Investment Expenditure.

In a poll conducted by Fox News Poll, 73% of the american citizens are not satisfied with their country's financial position. Th reason for US Economy going in wrong direction is "Entitlement Spending". In past 50 years, Federal Government Spending has been more inclined towards Entitlement as against Investments Expenditure. During 1962, spending on investments were two and a half times more than entitlement spending. However, now the scenario is totally different with Entitlement Spending being three times to the investments Expenditure and economists expect this gap to increase with growing number of people retiring in coming years.

In terms of measuring the sustainability in spending arenas of the federal government, classification of their spending into Consumption and Investment Spending is important. Consumption Expenditure refers to expenditure which is made to satisfy our current need only and do not provide any in specific future benefit. However, what matters to the economy is the amount of Investment Spending as these expenditures

provides future benefits to the nation.

For Instance, Education, Defense etc. are the areas of Investment Spending as they relate to providing future benefits to the economy. For instance, Total Investment Spending today by the federal government on various investment avenues of Education, National Defense, Transportation etc: This amount is only half of what federal government was spending in 1960's and third way report expects that the investment expenditure by federal government is going to be slashed to 5% in coming decades. Whilst, where the expenditure on entitlement was only 15% during 1960's, it is more than 50% of total expenditure by federal government and this share is expected to rise. The following graph indicates the change in expenditure region of Federal Government which shows that over time, entitlement spending has been increasing while the investment expenditure has been decreasing. A recent data issued by Office of Management and Budget for 2013 confirms the trend of expenditure in federal budget. The data disclose that during 2011, US Economy added \$1. 2 Trillion to the national debt in 2011 and around \$1. 3 Trillion during 2013. Of the total \$2 Trillion of mandatory spending, federal government spent \$725 Millions laone on Social Security Schemes with it being part of Entitlement Spending.

Further, the office of federal budget defines Investments as the portion of federal spending that intends to yield long term benefit to the economy and also future generations. Thus, any unsustainable shift in government spending pattern which is not targeted towards providing long term benefits is likely to affect future generation. Also, as government debt increases, more percentage of private saving is used to purchase the government debt

rather than channelizing it to capital investment avenues relating to building factories, infrastructure etc. Increasing public debt leads to crowding out effect for investment spending thus reducing long term growth in the economy. Also, rising debt is possible probability of government failure and an intense financial turmoil. Thus, all these factors will affect the sustainable survival of And in extreme cases, rising debt may lead to government default, resulting in economic and financial turmoil.

Thus, with decreasing public expenditure and with displacement of private investment by government spending will lead to crowding effect and possible negative influence on future generation because of increasing government debt and reducing share of public investment, thus halting long term economic growth necessary for survival of future generation. Future generation will be affected by displacement of private investments by government spending if:

- Government spend the private investments in Consumption where expenditure is made only to satisfy current needs rather than spending for attaining future benefits.

Or;

- The Private Investment is used for investment projects that will yield lower rate of return and will contribute least to sustainable economic long term development

Thus, if the this unsustainable trend of entitlement spending continues, federal government will spend whole of its revenue on Entitlements by the fiscal year of 2048. In other words, the ill effects of Entitlement Spending will be borne by the future generation because rather than increasing

expenditure on investments on education, defense etc i. e the areas that yield long term benefits, federal government involve itself in Consumption Expenditure that satisfy only current needs of present generation only and no contribution is made towards long term development.

Works Cited

Taylor, Timothy. Entitlements, Public Investment, and the Changing Nature of the U. S. Government. 2 August 2012. Web. 2 November 2013 .