Free term paper on deficits and surpluses in the us federal budget

Economics, Budget

There have been concerns from economic experts and scholars on the increasing rate of federal budget deficits and government debt. An analysis of the history of the Federal budget shows that the budget has been in deficit more times than it has been operating at a surplus. The country has been in the red for quite a while over the years.

Deficits and Surpluses in the US Federal Budget

The US treasury was established in 1789. From 1789 to the year 2011, the country has operated on a total of 222 budgets throughout the years. History shows in total that the budget has experienced 115 deficits and 107 surpluses. Analysing the history in the number of deficits and surpluses however is not sufficient. It does not bring out the full picture or show the seriousness of the issue at hand. Further analysis shows that in the period 1789 to the beginning of the Great Depression period in 1929, the budget was in the red or at a deficit 33% of the time. It had recorded 46 deficits and 94 deficits (Barth & Li, 2011).

The rate of the deficits has increased over time to an alarming 84%. In the period 1930 to 2011, the country experienced 69 surpluses and only 13 deficits. It shows that on average there was an average of eight deficits every decade. It appears that the budget condition worsened after the Great Depression and World War 1. The country experienced 53 deficits and only 9 surpluses from 1950 to 2011. The latest surplus the country experienced in 2001 (Cashell, 2005).

The country's first deficit was in 1792. A further analysis of the deficit amounts in the budgets as a percentage of the GDP confirms that the situation has indeed worsened. The budget deficit in 1792 totalled to $4 million which represented only 0. 5% of the GDP at that time. The largest deficit recorded in the budget in the history of the US treasury occurred in 2009 where the deficit totalled to $4 trillion. This represented 10% of the GDP in the year 2009.

The highest deficits occurred when the country was in war such as the Civil War, World War I and II and the Korean War (Reinhart, Reinhart & Rogoff, 2012). In the last 32 years, the surpluses in the budget were in the period 1998-2001. It had been forecasted that the surpluses would continue beyond 2001 however the recession in that period caused the forecasts not to come true. The government stepped in to offer a stimulus package to aid the economy and from that time to 2011, the budget has been operating at a deficit (Koechlin, 2011).

In the 1990s, the government had focused on eliminating the deficit. Government policy and a thriving economy enabled the government to accomplish its mission in the period 1998-2001. When the budget is in deficit, the government has to finance the budget in two ways. The government can either engage in selling securities either to the Federal Reserve to the public. The public is concerned with the debt levels of the country. It is important for the budget to have surpluses so that the government has an opportunity to retire the debt.

An analysis of the debt shows that the government has been able to meet this objective over time. The government debt rises mainly in the periods of war and economic recessions. In the 1830s, the government was able to clear its debt. In the years that followed, the debt increased during World War I, the Great Depression and World War II. Every time after a war or recess, the country reduced its debt.

However, what is creating a lot of concern is that after 1930, the debt level has never gone lower than 20% of the GDP.

The highest level of government debt was experienced in the period 1939-1945 in World War II where the debt was 110% of the GDP (Austin, & Levit, 2012). After the War, the government was able to reduce the debt to 25% of the GDP. It rose during the Vietnam War and reduced again. Experts are concerned with the rise during the economic recession that started in 2007. They are worried that the government may not be able to control or settle the debt due to the large increases in the budget deficits in relation to the GDP.

Conclusion

There are concerns that investment in bonds by the public lead to crowding out of investment in business and consumer goods as the people are attracted by the high interest rates of bonds. The deficits financed by the Federal Reserve increases inflation which is not good for the economy in the long run. Due to the increases in the budget deficit and government debt in the recent years, there have been calls for the government to control the deficit financing and reduce the government debt. The condition highlighted has just worsened in the recent years however it has been there for a while and it has been increasing gradually over the years.

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