

# The us national debt

[Economics](#), [Money](#)



“ Spending financed not by current tax receipts, but by borrowing or drawing upon past tax reserves. ” Is it a good idea? Why does the U. S. run a deficit? Since 1980 the deficit has grown enormously. Some say it is a bad thing, and predict impending doom, others say it is a safe and stable necessity to maintain a healthy economy. For nearly 150 years the U. S. government managed to keep a balanced budget. The only time a budget deficit existed during these years was in times of war or other catastrophic events.

For instance, the government created deficits during the War of 1812, the recession of 1837, the Civil War, the depression of the 1890s, and World War I. However, once each incident ended the deficit would be eliminated. The economy was much stronger than the accumulated debt and would therefore quickly absorb it. The last time the budget ran a surplus was in 1969 during Nixon’s presidency. Budget deficits have grown larger and more frequent in the last half-century. In the 1980s they soared to record levels.

The government cut income tax rates, greatly increased defense spending, and didn’t cut domestic spending enough to make up the difference. The deep recession of the early 1980s reduced revenues, raising the deficit and forcing the Government to spend much more on paying interest for the national debt at a time when interest rates were high. As a result, the national debt grew exponentially in size after 1980. It grew from \$709 billion to \$3. 3 trillion in 1990, only one decade later. (See Table 1) Federal spending has grown over the years.

If you compare actual dollars and their proportion to the economy (Gross Domestic Product, or GDP), much of it began in the 1930s. Beginning with

the “ New Deal”, the Federal Government came to play a much larger role in American life. President Franklin D. Roosevelt sought to use the full powers of his office to end the Great Depression. He and Congress greatly expanded Federal programs. Federal spending, which totaled less than \$4 billion in 1931, went up to nearly \$7 billion in 1934 and then over \$8 billion in 1936. U. S. entry into World War II sent annual Federal spending soaring to over \$91 billion by 1944.

Thus began the ever-increasing debt of the United States. Is our debt increasing as fast as we think it is? The dollar amount of the debt may increase but often times so does the amount of money or GDP to pay for the debt. Some believe a deficit allows more people to work, increasing productivity. A deficit does this because it is invested into the economy by government. For example, if the government spends deficit money on new highways, trucking will benefit and more jobs will be produced. When an economic system is in recession all of its resources are not being used.

For instance, if the government did not build highways we could not ship goods and thereby decrease demand for them. Because we cannot ship the items, the supply remains low even though we have the ability to produce more. This non-productivity comes at a cost to the whole economic system. If deficit spending eliminates non-productivity then its direct monetary cost will be offset, if not surpassed, by increased productivity. In the 1980's when the huge deficits were adding up, the actual additions to the public capital or increased productivity were often as big or bigger than the deficit.

This means that as long as the government spends the money it gains from a deficit on assets that increase its wealth and productivity, the debt actually benefits the economy. But what if the government spends money on programs that do not increase its assets or productivity? Consider small businesses for instance. A company invests money to hire a new salesman. He will probably increase sales and the company will regain what it spent hiring him. If the company spends money on paper clips when they already have staplers they will just lose money. This frivolous spending is what makes a deficit dangerous.

The government's net worth decreases which risks putting it into serious debt. Debt should not be a problem because we can just borrow more, right? This statement would be correct if our ability to borrow was unlimited, but it is not. At first the government borrowed internally from private sectors. The government did this by selling bonds to the private sectors, essentially reallocating its own countries funds to spend on its country. This works fine in a recession, but when the country is at or near its full capability for production it cannot increase supply through investment of deficit dollars.

Deficit dollars then translate into demand for goods that aren't being produced. Referring back to the small business example, if a company is selling all the products it can produce they can still hire another salesman. However, since there are no more goods to be sold, the salesman only increases the number of consumers demanding the product. The problems of deficit spending out of a recession even out through two negative possibilities, inflation and crowding out. Inflation means there is more

demand or money than there are goods this causes an increase in prices and drives down the worth of the dollar.

This depreciation of the dollar counters the cost of the deficit but destroys the purchasing power of the dollar. A five-dollar debt is still a five-dollar debt even if the five dollars are only worth what used to be a five-cent piece of bubble gum. Despite its danger, inflation is used to some extent to curb the debt. Crowding out is when the government is looking for the same capital that the business sector wants to invest. This causes fierce competition for funds to invest. The fierce competition causes an increase in interest rates and often business will decide against further investment and growth.

The government may have the money to build new highways but the truckers cannot afford trucks to use on them. The governments needs will “crowd out” business needs. This turns potential assets into waste. However, there is a third option that would allow the government to run a deficit and avoid the negative aspects of inflation and crowding out. Borrowing from foreign sources is a tangible and recently very common practice. Attracted by high interest rates and stability, foreigners now buy huge amounts of U. S. national debt. Of course this cannot be the perfect solution otherwise no one would be concerned about the debt.

The problem with borrowing from external sources is the lack of control the government has over foreign currency and debts. Internal debts can be paid with increased taxes, inflation, and other monetary controls the government has. External debts can be extremely damaging to a country if it cannot buy enough of the foreign currency to pay the interest. Running a deficit is

apparently good for an economy that is operating inside its production possibilities curve but it can be damaging to an economy otherwise. A deficit managed properly has the effect of increasing demands. An economy inside its curve can increase supplies in reaction.

An economy on the curve can increase demand but its supplies cannot increase causing prices to rise, or inflation. If there is no deficit and the curve shifts to the right then supplies will not increase and the country will no longer be operating on the curve. A deficit must be maintained to insure that the economy grows with its resources. Is the US's current debt bad or good? The trick is finding out how large the deficit should be in order to allow for growth without waste. The US's deficit is bad at this point because the U. S. is close to its maximum production capabilities, and deficit money is being wasted.

For example two of the largest portions of the budget: defense and social security. Defense spending produces little or nothing except in times of war. The way social security is managed creates a huge waste. As managed, social security is money spent to immobilize a large and fairly capable part of the work force. It encourages elderly people not to work by spending deficit money on them. Reducing productivity and increasing the debt at the same time. In its current state, the U. S. should attempt to reduce its deficit. However, eliminating it is not necessary and could do more damage than good.