

# Analysis of federal budget deficit essay sample

[Finance](#), [Financial Analysis](#)



A budget deficit is described as the difference in the funds that the government collects in taxes and what is spent. In 2001 the economy was at \$128 billion surplus and has steadily decreased to a \$1.327 trillion deficit in 2012. It is currently projected that by 2013 the deficit will be down to \$901 billion (Amadeo, 2012). A popular question is whether the source of a deficit really matters or not, the concern is the fact that the United States is in debt. Many Americans want to place the blame of the high deficit on the financial crisis that began in 2008 or even the President. As stated by Case in the text, " Voters appear to hold the party that is in power in the White House accountable for the economy. Voters tend to favor the incumbent-party candidate if the economy is good (high output and low inflation) and vote against the incumbent-party candidate if the economy is bad (low output and high inflation) "(Case 101). There are many factors, controlled and some uncontrollable, that contributes to the formation of a budget deficit.

In order to understand a deficit and attempt to decrease it, the source and reasoning of the deficit needs to be determined. If the budget deficit is increased due to spending or investments that will stimulate the economy the reason is positive. However, it appears that the government has a history of investing in spending or tax changes that have a negative economic return. Kimberly Amadeo, author of an article published online for US Economy About. com states that there are four factors that directly contribute to the high deficit and only two of those are related to the recession. The first factor was the launch of the economic stimulus package created by President Obama. The stimulus package provided " free" money to families, reduced taxes, and extended the unemployment benefits.

The second reason was influenced by the recession and was due to a decrease in tax revenue. This is the money the government makes from taxes. The reason was an increase in military spending due to the terrorist attacks that occurred on September 11, 2001. The fourth reason the federal deficit increase was due to additional spending for Social Security benefits, Medicare programs, and other government mandated programs. Amadeo's article shows that the government has maintained a deficit dating back to the 1960. Although it has fluctuated over the years and was a surplus at times, the deficit has never been as high as it in 2012 (Amadeo, 2012).

Fiscal and Monetary Policies are both major policies available to assist in making decisions regarding whether to change total demand, output, and employment. The purpose of both policies is to minimize inflation, sustain positive economic growth, and aim for full employment. The principle goal is to decrease repeated variations in the financial cycle (Pettinger, 2010). Fiscal policy concentrates on taxes and spending, whereas monetary policy focuses on the actions the FED takes to regulate the amount of money which is affected by interest rates. When the money supply is steady government spending is financed by either taxes or borrowing from somewhere else.

The amount of the budget deficit influences the whether the changes in fiscal policy are increased or decreased. When the government increases its spending and decreases taxes, the result is a deficit. This means the government is in need of money and needs to borrow money to cover the loss of revenue from taxes due to increased spending. The higher the deficit grows and the more money the government borrows indicates the beginning

of an expansionary fiscal policy. On the other hand, if the government decreases the amount it spends and increases the taxes the result is a surplus. Meaning, there is more money coming in than is being spent.

Monetary policy focuses on regulating interest rates to control the amount of money available for use. Pettinger states that raising interest rates affects the exchange rate and has a greater impact on homeowners who have variable mortgage payments. Since the concentration is on interest rates the impact will not affect those people that are borrowers and savers in the economy differently. Additionally, during a recession the interest rates will be reduced in hopes of stimulating the spending within the economy (Pettinger, 2010). A major influence in how the changes impact the economy depends on the response lag. This is the time it takes the government to acknowledge and respond to a change. There are pauses in the time it takes to create an economic package and actually get it passed by Congress as well as time between getting permission to spend more money and essentially spending it. Case stated " Monetary policy can be adjusted more quickly and easily than taxes or government spending, making it a useful instrument in stabilizing the economy" (Case, 2012).

A high budget deficit can delay the process of increasing the rate of growth. The more debt there is the more cutbacks and tax increases will be implemented. As a result, there will be less money and focus spent on areas that interest and benefits us the most. Case informs that " Several strategies for increasing the rate of growth in the United States have been suggested, and some have been enacted into law. These strategies include policies

aimed toward improving the quality of education, increasing the saving rate, stimulating investment, increasing R&D, reducing regulation, and pursuing an industrial policy" (Case 330). In addition the higher the deficit becomes the higher the federal debt is and the longer it will take to recover. When the government spends more money than it is receiving in tax revenue it has to borrow money to cover the difference. So when the deficit is reduced the government is still in debt to those lenders. The only way to fully recover is to increase the tax to increase the revenue and reduce spending.

The reasoning behind a deficit is important so that a plan can be created to recover and prevent the same errors from happening in future. The economy has the right to be aware of how the government is spending hard earned tax money. By not disclosing this information to the public the government leaves an impression that something sneaky is going on and the people lose faith and gain fear. The fear is whether or not they are going to have a job to go to or money to put food on the table. By understanding why the interest rates are being raised and government spending is increasing rather than decreasing the people may be more supportive and assist in stimulating the economy. The stimulus package President Obama created in 2008 had wonderful intentions however, the economy had recently come crashing and since the people were unaware of what the future held most of the money was saved versus spending to put it back into the economy. Aside from disclosing the reason behind a budget deficit it is important to know the steps that are being taken to recover from it.

## References

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