

Deficit Reduction

Senate Committee on Appropriations

Background

Deficit reduction is a major issue that has faced this country for a long time. The deficit is the difference between the amount of revenue the government take in each year and the amount of money it spends. When the government spends more than outlined in the national budget, this results in a budget deficit. The deficit is increased when the amount that the government spends in addition to what it has outlined in the national budget increases. As the government spends more than the revenue it receives, the deficit increases, and this is all added to the national debt. As the money owes more and more money, the interest on the debt owed also rises, leading to a rapidly growing national debt. Even a smaller deficit can still add to the national debt, making deficit reduction a pressing topic in the United States of America.

Ideally, the U.S. government would have a balanced budget, when its revenue equals its expenses, or even a budget surplus in which revenue exceeds spending. However, from 1970 to present day, with the exception of the Clinton presidential term from 1998-2001, the U.S. government has run a national deficit. The national government gets its revenue by levying trillions of dollars in taxes each year. When the government spends more money than the taxes it collects, it runs a deficit, and the U.S. Treasury borrows money to pay of the deficit, thus adding to the national debt. Almost half of the U.S. government's income comes from income taxes collected from individuals. A middle class- earner pays approximately 25% of their income to the government for income tax. The exact amount can vary between individual earners, because income taxes are collected on a tax bracket. In addition, tax deductions and tax credits are available to taxpayers depending on their circumstances. Payroll taxes are also another major source of income for the federal government, making up about 34% of its income. These taxes are paid jointly by employees and employers, and are reserved for specific government programs, namely Social Security and Medicare amongst others. These taxes are deducted directly from employees' paychecks. In addition, employers must match their employees' contribution. The government also gets around 11% of its revenue from corporate taxes. Corporations pay money on their profits, similar to the taxes Americans pay on their income. The maximum amount of money a corporation could pay to the government in these types of taxes is 35%; however this amount varies when tax credits, deductions, and loopholes are applied. The government also gets money from other sources such as excise taxes on specific products such as gasoline, customs duties, tariffs, etc.

The government uses all this income to support several different programs and public goods/services for its citizens. The things that the government spends money on can be grouped into 3 major categories. One of the categories is discretionary spending, which is decided annually in the national budget through the appropriations process by 12 committees with different areas of jurisdiction. The allocation of funds in this category can change every year. Approximately 30% of the national budget in 2015 went to discretionary spending. Over half of the funds in this category go to support the Pentagon and other military programs. Funding also goes to veterans' benefits, education, government, energy and environment, and more. The majority of the national budget

goes towards what is categorized as mandatory spending. This includes spending that is covered in an authorization bill. These bills usually cover more than one year, and legalize government agencies, allowing them to be funded and function. Authorization bills set maximum limits for the amount of money Congress can appropriate for a certain program on a yearly basis for the duration of the authorization bill. Once the bill expires, it can be amended and re-ratified. For instance, Social Security and Medicare are part of mandatory spending: the government is required to pay these benefits to those eligible. The last “category” of federal spending is interest on debt. In 2015, about 6% or \$229.15 billion of the national budget was used to pay off interest on debt according to the National Priorities Project.

As can be seen, the government must spend a lot of money to pay for the many costs associated with each of the three categories above. Often, the costs of maintaining government programs exceed the revenue generated by taxes. As a result of this deficit, the government must borrow money, and thus further increase the national debt and the amount of money that must be allocated to paying interest on debt. As a result, it is of utmost importance that the deficit is reduced before the government can even begin thinking of slowly paying off the ever rising national debt. The solution to reducing the deficit seems simple: decrease spending. However, there are several factors to consider the problem more complex. If the government decreases spend it would have to cut back on some of its programs, affecting the lives of several people. Where would it be best to decrease spending? Both Democrats and Republicans have different views on how to reduce the deficit.

Democratic Point of View

It is generally accepted that it is important to reduce the deficit. Nevertheless, it isn't always the priority. In 2014, only 49% of Democrats viewed deficit reduction as a top priority, 18 points less than the previous year. Some of the biggest issues for Democrats include education, the economy, health care, terrorism, and the job situation. It is important to keep what is important to particular groups in mind because it can impact their views on policies regarding the deficit.

A budget proposal by a Progressive Democrat caucus in 2013 shows some Democratic ideas on how to reduce the deficit. While the proposal didn't pass, it shows some of the solutions supported by Democrats. One of the proposals was to stop subsidies to fossil fuel companies. It was argued that these companies are highly profitable, but some of them don't pay any income taxes. This is also supported by environmentalists who believe that these subsidies encourage harmful emissions. It is argued that these subsidies give an unfair disadvantage to renewable energy sources, when in reality it should be the other way around. However, critics believe that prices of utilities could go up, and jobs in the industry could even be reduced if subsidies are cut. In addition, this proposal is unpopular with pro-business politicians. The proposal also calls for closing costly loopholes. For instance, they wanted to shut down a loophole that allowed private jet and yacht owners to decrease income taxes by counting their jet/ yacht a second home. The Democrats' proposition also called for moving 10,000 of the troops stationed in Europe back to the United States. The proposal also called for the government to slow down the expansion of U.S. Navy, seeing as the U.S. already has more nuclear submarines and in-service air craft carriers than any other

country at this time. The bill proposed purchasing only one Virginia-class submarine each year and even eliminating one the new aircraft carriers currently in U.S. possession. The bill also proposed reducing the U.S. nuclear arsenal and lowering funding for nuclear research. According to the bill, this would have saved the U.S. \$106 billion within 10 years. In addition to several other propositions, the bill also calls for cutting funding for military bands and reducing armed forces to prewar levels.

The Democratic Party platform doesn't focus extensively on the deficit itself, but rather on improving the economy through measures such as cutting back policies that allow foreign-based American countries to defer taxes on foreign income. Democrats believe these additional funds can be used to subsidize domestic companies and limit outsourcing. However, the platform doesn't contain many details on how to reduce the deficit, which is not a major issue of the past platform. On the other hand, the Republican Party platform has an entire section for balancing the budget. It is also important to note that the Republican Party tends to put a lot more emphasis on the military than the Democrats. Therefore while the Democratic proposals mentioned above focus on military related cuts, Republican solutions will take a different direction.

Republican Point of View

According to the Republican Party platform, spending cuts must be combined with structural reforms in order to reduce the national deficit and debt while still promoting economic growth. For instance, they argue that Obamacare has potential to cause enormous amounts of debt in the future despite the fact that it doesn't provide the best healthcare system for the elderly. They believe that reforming the current system could help reduce the deficit while providing fuller coverage for the elderly on their terms. Earlier in 2015, the Republicans proposed a budget for the fiscal year that they claimed would balance the budget within 10 years and prepare the country to begin paying off its debts without raising taxes. They planned to repeal Obamacare and reinvent Medicare to give the elderly more choice in their healthcare. In addition they want to require a supermajority for raising taxes unless during national emergencies or war time, while also putting a cap on spending based on past percentage of GDP that government has spent. Not only would this add more transparency in government, but it would also prevent Congress from balancing the budget simply by raising taxes. They would have to streamline their processes and use money more effectively. Republicans also want to get rid of or streamline unnecessary and expensive regulations.

In recent history, the U.S. government has almost always had a deficit. However, the time period during Clinton's presidency proved to be an exception. The policies enacted during this time were able to balance the national budget for the first time since 1970. By raising taxes, Clinton was able to gain extra revenue, allowing the government to spend on its programs without creating a deficit. In addition to increasing taxes on the wealthy Clinton also added some spending restraints to avoid overspending. A major reason that Clinton's policies were so successful in reducing and eliminating the deficit may have simply been the economy at the time. The dot-com bubble at the time gave the government tons of extra revenue as stock prices and continued increasing. This unexpected tax yield caused by the dot-com bubble certainly helped to reduce the deficit. Democrats and Republicans often disagree on who should receive credit for this temporary elimination of the

deficit. The Democrats claim credit since Clinton was a Democrat, however Republicans claim that they also deserve some credit since Republicans controlled Congress at the time.

Not everyone supported these tax increases. President Bush accordingly cut taxes when he was elected next term. Unfortunately, these cuts helped bring back the deficit, which has existed since his presidency. As can be seen, deficit reduction policy and its relative success are influenced by many factors, including the state of the economy and what the people want. In order to successfully remove the deficit, a balance between increasing government funds and cutting spending must be found.

Questions to Consider

- i. How are the economy and deficit reduction related? How would a good economy not necessarily signify a reducing deficit?
- ii. Should the government focus more on increasing funds or reducing spending in order to cut back on the deficit?
- iii. How could the government increase funds?
- iv. Where would government cut back on spending in order to reduce the deficit?
- v. What are the consequences of cutting back in those sectors?
- vi. Why is it important to reduce the deficit? What are potential consequences of not focusing on reducing the deficit?
- vii. Is it more important to focus on cutting the deficit or to maintain government's current programs?
- viii. Based on current fiscal policy, how long would it take to balance the deficit?
- ix. What has caused the deficit we have today?
- x. How successful have past measures to balance the deficit been? Which methods were most successful?

Sources for Additional Research

- <https://www.cbo.gov/budget-options/2014>
 - The Congressional Budget Office (CBO) periodically issues various options for deficit reduction after analysis. The document in this link includes 79 options provided by the CBO, as well as their estimated effects on the deficit.
- <http://www.cbpp.org/topics/federal-budget>
- <https://www.americanprogress.org/issues/budget/view/>

- <http://www.appropriations.senate.gov/subcommittees>
 - Shows how the Senate spends money in each of its subcommittees, which could be useful for forming an opinion on where to cut back.
- <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/reducing.pdf>
- <http://www.people-press.org/2014/01/27/deficit-reduction-declines-as-policy-priority/>
- <https://www.nationalpriorities.org/budget-basics/federal-budget-101/revenues/>
- <http://useconomy.about.com/od/people/fl/Deficit-by-President.htm>
- <https://www.usaspending.gov/Pages/Default.aspx>
 - Shows how the government spends its money as required by the Federal Funding Accountability and Transparency Act of 2006.
- <http://www.cbpp.org/research/federal-budget/policy-basics-deficits-debt-and-interest>
- <https://www.cbo.gov/publication/44967>

Bibliography

- Annenburg Public Policy Center. "The Budget and Deficit under Clinton." factcheck.org. Last modified February 11, 2008. Accessed September 3, 2015. <http://www.factcheck.org/2008/02/the-budget-and-deficit-under-clinton/>.
- "Deficit Reduction Declines as Policy Priority." Pew Research Center. Last modified January 27, 2014. Accessed August 29, 2015. <http://www.people-press.org/2014/01/27/deficit-reduction-declines-as-policy-priority/>.
- Dexter, Jim. "CNN Fact Check." *politicalticker*. Last modified February 3, 2010. Accessed August 26, 2015. <http://politicalticker.blogs.cnn.com/2010/02/03/cnn-fact-check-the-last-president-to-balance-the-budget/>.
- "Excise Tax." Internal Revenue Service. Last modified August 13, 2015. Accessed August 26, 2015. <http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Excise-Tax>.
- "Federal Revenue: Where Does the Money Come From." National Priorities Project. Accessed August 26, 2015. <https://www.nationalpriorities.org/budget-basics/federal-budget-101/revenues/>.
- "Here's How Democrats Want To Reduce Deficits By More Than \$1 Trillion." Business Insider Inc. Last modified February 7, 2013. Accessed September 5, 2015. <http://www.businessinsider.com/democrats-spending-budget-2013-2>.
- International Institute for Sustainable Development. "Fossil-Fuel Subsidies." Global Subsidies Initiative. Accessed September 2, 2015. <https://www.iisd.org/gsi/fossil-fuel-subsidies>.
- "National Debt Glossary." AARP. Accessed July 31, 2015. <http://www.aarp.org/politics-society/government-elections/national-debt-guide/faqs/whats-the-difference-between-debt-and-deficit.html>.
- National Priorities Project. "Federal Spending: Where Does the Money Go." Federal Budget 101. Accessed August 27, 2015. <https://www.nationalpriorities.org/budget-basics/federal-budget-101/spending/>.