Dollars and percents

The budget deficit has been the major news story for the summer of 2011. The eleventh-hour decision to raise the debt ceiling, Standard and Poor's downgrade of the U.S. credit rating, and the panic in the financial markets have occupied the headlines.

To begin to understand the budget problem you need to examine the major components of the federal budget. Based upon numbers compiled by the Office of Management and Budget: 20 percent of the budget goes to defense, 20 percent goes to Social Security, 21 percent goes to Medicare and Medicaid, 14 percent goes to "safety net" programs, 6 percent goes to interest payments on the debt, 7 percent goes to benefits for veterans and federal retirees, and 12 percent goes to a wide a variety of programs ranging from transportation to medical research.

Here are some dismal numbers that lie at the root of the budget conundrum. The federal budget is estimated to be $3.7 trillion. The budget deficit is projected to exceed $1.6 trillion. This means that deficit spending constitutes 43 percent of the budget. This situation cannot continue, but finding a way out will not be easy.

How do you begin to balance the budget? The government can't refuse to make interest payments on the debt because that would result in a default. Given the effect that even a hint of default had on the stock market and the nation's credit rating, any reasonable person would take default completely off the table. This means an across-the-board cut of 46 percent would have to be imposed on the remainder of the budget to create a balance budget.

Suppose an across-the-board cut is unacceptable, and selective cuts are preferred. If all spending on transportation, "safety net" programs, medical research and veterans benefits were cut to zero, this still would not balance the budget. To completely balance the budget additional cuts would be required in either Social Security or Medicare or defense.

Clearly, it is unrealistic to assume that all spending on transportation, "safety net" programs, medical research and veterans benefits could be cut. If these programs were cut by half, which would be extremely drastic, it would still be necessary to extract another trillion dollars from Social Security, Medicare and defense. Cutting these three programs equally would mean that Social Security, Medicare and defense spending would be reduced by 44 percent. Could any politician who voted for such a cut be reelected?

How did we get into this mess? The answer is the deficit is not a recent phenomenon. It has been building for a long time.

Based on inflation-adjusted dollars, George Herbert Walker Bush increased the national debt by 22 percent. His son, George W. Bush, added 38 percent to the national debt. The biggest spender in the past 50 years was Ronald Reagan who more than doubled the national debt during his presidency. If recent spending patterns continue, Obama has the potential to add more to the national debt than any other president.

The situation is akin to the person who steps on the scales to find themselves 100 pounds overweight. No single cheese burger or ice cream sundae caused the weight gain. The excess pounds accumulated over many years, and it will take months, if not years, to lose the extra pounds.

Similarly, the federal budget is so far out of balance that it will take time to correct the situation. Some politicians are suggesting that drawing a line in the sand will balance the budget. This isn't the case. No amount of political posturing will create a balanced budget in the short term.

The formula for reducing the deficit is dynamic rather than static. The only reasonable way to reduce the deficit is to control spending while growing the economy. Economic growth is fundamentally necessary for deficit reduction.

How do you produce economic growth? You create a climate where businesses hire people because workers spend their wages and pay taxes. A clear example of the potential for economic growth to reduce the deficit is found in the Clinton presidency.

In contrast to other recent administrations, Clinton held the percentage increase in the deficit to single digits during his eight years as president, and flirted with budget surpluses during the final years of his presidency. Clinton was not a fiscal conservative, however; he had the good fortune of presiding during prosperous economic times.

At the same time, economic growth will not remedy the budget situation if spending continues to increase. The national debt is increasing at double-digit rates. The U.S. economy cannot grow rapidly enough to fund spending which is increasing at double-digit rates. It is essential to curtail spending increases while simultaneously growing the economy.

This means that political leaders need to make reasonable decisions. They need make cooperative and pragmatic decisions, and it is essential to take a long-term perspective.

Top of Utah Voices

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Commentary

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