

United States Senate

MetMUNC XLVIII

Topic: Federal Deficit

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A budget deficit occurs when the government of a country spends more money in a fiscal year (FY) than revenue accumulated from taxes. In FY 2018, the U.S. Congressional Budget Office (CBO), a federal agency that provides the U.S. government information on the economy, reported that the federal government generated a \$782 billion deficit at the end of the fiscal year. Compared to the \$666 billion deficit at the end of the 2017 fiscal year, this creates an approximate 17% increase. In order to make up for the missing money that the deficits create, the U.S. government sells Treasury bonds, which are marketable securities issued by the U.S government and are available in increments of \$100. They have a maturity range of 10-30 years, 30 years being the most common, and interest is paid every 6 months.¹ Yet, these bonds do little to affect national deficits, as it is projected by the Bipartisan Policy Center that this fiscal year's deficit will be nearly \$1.1 trillion.² Since 1981, the federal debt has risen from \$997 billion to almost \$23 trillion. This is due to factors like intentional budget deficits known as deficit spending, increased military spending each year, and the past actions and policy decisions of presidential administrations.

Deficit spending is, simply, when purchases exceed income. In terms of the federal government, governments willingly create an imbalanced budget in which they invest in certain areas of the economy to increase the number of jobs. Job creation decreases the

¹ <https://www.investopedia.com/terms/t/treasurybond.asp>

² [https://bipartisanpolicy.org/report/deficit-tracker/#targetText=End%20of%20Fiscal%20Year%202018&targetText=The%20total%20deficit%20for%20FY,years%20\(since%20FY%202012\)](https://bipartisanpolicy.org/report/deficit-tracker/#targetText=End%20of%20Fiscal%20Year%202018&targetText=The%20total%20deficit%20for%20FY,years%20(since%20FY%202012)).

unemployment rate and increases the amount of money people have to spend, thus increasing economic growth. Deficit spending is an example of expansionary fiscal policy, which fights recessional pressures. An example of this occurred in 2009, when then-President Barack Obama passed a \$787 billion stimulus package right after the Great Recession to boost the economy. This plan cut taxes by \$282 billion, extended unemployment benefits, education, and healthcare. The stimulus package also created new jobs by allocating \$275 billion in

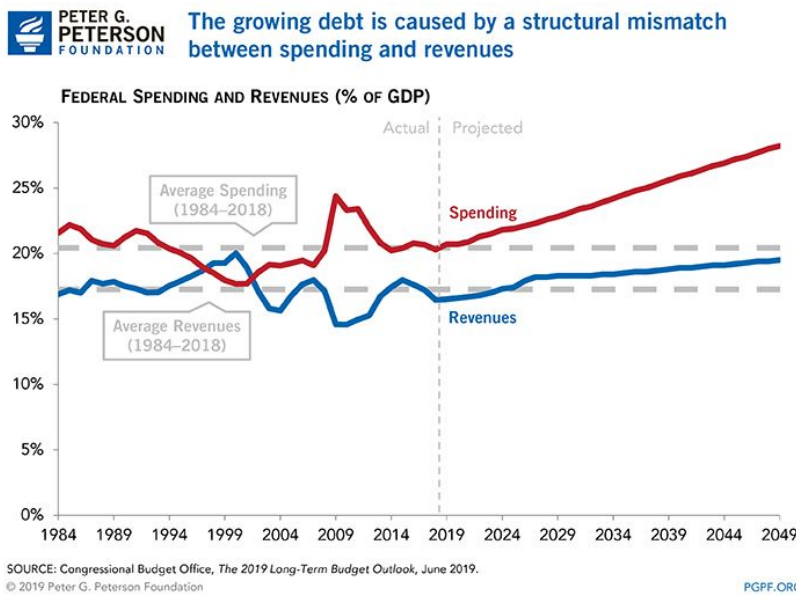


Figure 1: This data from the Congressional Budget Office illustrates the difference between revenue and spending from 1984 to 2019, and the hypothetical data between 2019 and 2049.

federal contracts and loans.³

While this illustrates a time where deficit spending was necessary to jumpstart the economy from further collapse, this philosophy is incorporated nearly every year into the federal

government. The mentality of many politicians is to

incorporate deficit spending in

the yearly federal budget to increase their chances of reelection. Americans typically vote out those who raise taxes and increase the unemployment rate. Yet, deficit spending only works when the federal government recuperates the money that they spend through the economic growth.

Tax cuts are also a prevalent factor in the increase of the federal deficit. Tax cuts shows reduced revenue for each dollar cut, but the government argues that they will recoup

³ <https://www.cfr.org/backgrounder/us-economic-stimulus-plan>

these cuts by boosting economic growth with these tax cuts, by implying that its citizens will use that money to purchase items that will help boost the economy and its tax base. The National Bureau of Economic Research, an American private nonprofit research organization, has concluded that only 17% of the revenue from income tax cuts was regained, and they have also concluded from their studies that 50% of the revenue of corporate tax cuts was lost.

⁴ For example, tax cuts under Bush added \$5.6 trillion to deficits from 2001 to 2018, by reducing the top tax rates on dividends and capital gains by 15%.⁵ Another example is the

Trump tax cuts, which will reduce personal income taxes, corporate taxes, and small business taxes. These cuts will total approximately \$1.5 trillion over the next 10 years, according to the House Ways and Means Committee.⁶

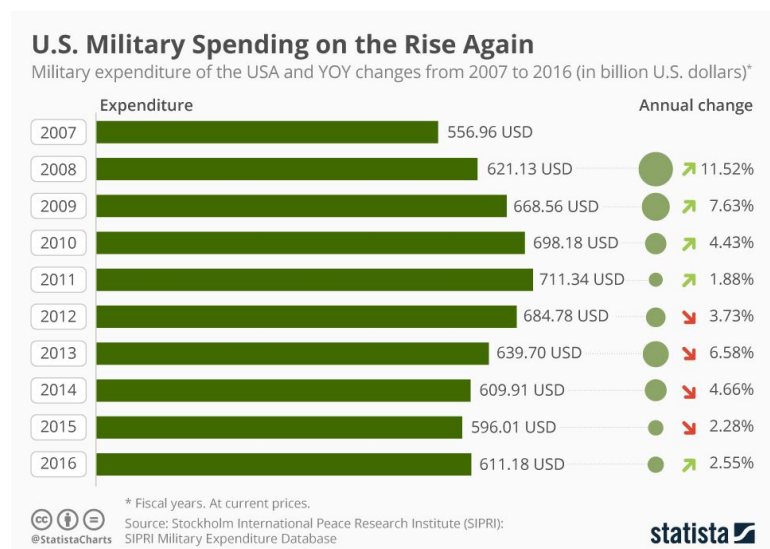


Figure 2: This chart illustrates the yearly congressional spending for the military of the United States.

Many argue that a key factor in the rising value of the federal deficit is increased spending by the Department of Defense (DoD). The Department of Defense received \$616 billion for its base budget in 2019. Adjusting for inflation, that is their highest budget since 2010. The Future Years Defense Plan anticipates that the average base budget will be approximately \$650 billion per year until 2023. The CBO suggests two possible scenarios that involve reducing the DoD budget. The first option involves reducing

⁴ <https://www.thebalance.com/current-u-s-federal-budget-deficit-3305783>

⁵ <https://www.thebalance.com/president-george-bush-tax-cuts-3306331>

⁶ <https://www.crfb.org/blogs/tax-cut-and-jobs-act-will-cost-15-trillion>

the DoD's budget over the next 3 years until 2022, where spending would decrease by 10%. Under this scenario, funding for the DoD excluding funding for overseas contingency operations, would be \$637 billion adjusting for inflation this budget would be approximately what the DoD's base budget was in 2012. The second option would reduce the DoD's budget by 5% over that same period of time. Under the second option, it results in a \$284 billion through 2028.⁷

Military campaigns launched by former President George W. Bush added nearly \$2.4 trillion to the national debt since 2001. This increased the deficit, because of the increased military spending on overseas contingency operations, increased base budget for the Department of Defense, and additions to the Department of Veterans Affairs budget.

Increased military spending is also due to the fact that after WWII, the U.S. assumed strategic responsibility for maintaining stability in Europe, Asia, and the Middle East.

Countries like China and Russia are often perceived as world powers, but have yet to embrace similarly sweeping goals, placing the economic burden on the U.S. Another large

factor in the role of increased spending is that it costs more to recruit soldiers in the U.S. than in other countries where military service is mandatory.⁸ The United States has a volunteer

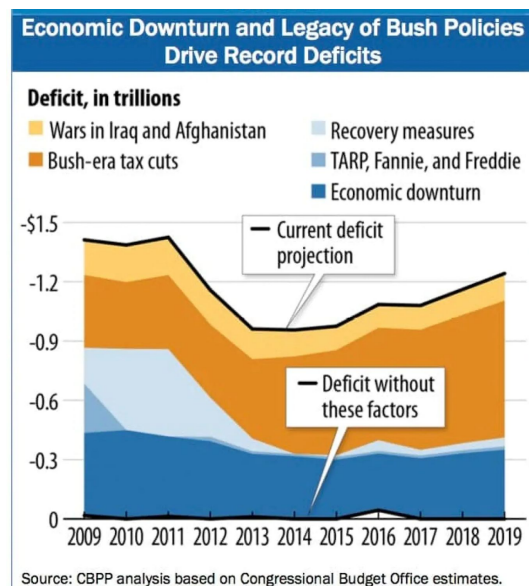


Figure 3: This chart shows how Bush-era tax cuts and overseas conflicts contributed to the yearly American budget deficit.

⁷ <https://www.cbo.gov/system/files/2019-06/54667-budgetoptions-2.pdf>

⁸ https://beta.washingtonpost.com/opinions/believe-were-spending-too-much-on-defense-think-again/2019/01/27/4cad190c-20c1-11e9-8b59-0a28f2191131_story.html?noredirect=on

military, so the wages and fringe benefits must be worth enough to attract the attention of recruits.

Many are wondering how we could reduce the federal deficit before it becomes a more pressing matter before it is too late. The Congressional Budget Office has come out with possible solutions to reduce the federal deficit to a more manageable budget that we could maintain. According to the CBO's projections, it is estimated that increasing income tax rates for all brackets by 1 percent would increase tax collections by \$905 billion over the next ten years. If you only increase the top 4 highest brackets tax income rate by 1 percent it would produce a \$203 billion increase in tax revenues over the next ten years.⁹

The federal deficit is a growing concern due to factors like increasing base budgets for sectors of the federal bureaucracy, increased military spending overall, government tax cut programs that add hundreds of billions in lost revenue to the deficit, and deficit spending while at a stable GDP percentage. **It is imperative that the United States addresses the increasing federal deficit, especially in terms of government tax cut programs that add hundreds of billions in lost revenue to the deficit, and debt. It is up to the delegates to decide how to solve this ongoing issue, by coming up with a viable solution to reduce the federal deficit.**

⁹ <https://www.pgpf.org/blog/2018/12/121-ways-we-can-reduce-the-deficit-according-to-cbo>

Questions to Consider:

1. How do you believe the federal government should balance their budget?
2. What is your voting record on tax cuts, deficit spending, and other budgetary laws?
3. How have prior budget measures affected your constituency?
4. What financial position is your state in terms of debt?

Helpful Links:

- [https://bipartisanpolicy.org/report/deficit-tracker/#targetText=End%20of%20Fiscal%20Year%202018&targetText=The%20total%20deficit%20for%20FY,years%20\(since%20FY%202012\).](https://bipartisanpolicy.org/report/deficit-tracker/#targetText=End%20of%20Fiscal%20Year%202018&targetText=The%20total%20deficit%20for%20FY,years%20(since%20FY%202012).)
- <https://www.thebalance.com/current-u-s-federal-budget-deficit-3305783>
- <https://www.cbo.gov/publication/54667>
- <https://www.pgpf.org/the-current-federal-budget-deficit>
- <https://thehill.com/policy/finance/452675-treasury-federal-deficit-jumps-to-747b-likely-to-exceed-1t-by-september>
- <https://www.usdebtclock.org/>