

# Deficit & the Debt

*Goal: This unit provides definitions of the federal debt and the debt ceiling. What is the difference between the federal deficit and the national debt? What is their importance?*

The Federal budget can have a surplus or a deficit in the same way individuals may have in their personal budget. However, the Federal budget includes spending and services that affect the quality of life for millions of Americans.

A **budget surplus** exists when the government spends less than it collects in tax revenues in any one year. President Clinton was the last president to oversee a budget surplus.

A **budget deficit** exists when the government spends more money than it has raised in taxes in any given year. In fiscal year 2010, the deficit of \$1.26 trillion or 8.9 percent of the GDP was the second highest shortfall since 1945. By 2014, the deficit had fallen to an estimated \$506 billion or 3.9 GDP.<sup>1</sup>

*A balanced budget exists when government expenditures equal tax revenues for a given fiscal year.*

## THE DEBT

The federal budget deficit is often confused with the national debt. The government deals with the budget deficit by borrowing money to cover its expenses in any fiscal year. To cover (or finance) the deficit the government issues long-term, interest-bearing bonds and pays its bills with the proceeds. The total stock of government bonds and interest payments outstanding, from both the present and the past, is known as the national debt. In 2010, the national debt amounted to more than \$9 trillion. As of 2013, federal interest payments equaled \$415.6 billion.<sup>2</sup> In early 2014, the national debt had risen to more than \$17.3 trillion. When the government finances a deficit by borrowing, it increases national debt. The government has to pay interest on these loans taken out to cover the debt.

## DEBT CEILING

The national debt has been subject to a legal limit since 1917 when Congress passed the Second Liberty Bond Act. The debt ceiling is the amount the government can legally borrow to enable it to cover its costs, that is: to keep it running. **Since 2001, Congress approved an increase in the debt ceiling eight times.** Failure to raise the debt limit means that the government must make difficult choices when it comes to paying at least some of its bills. That is, deciding which expenses will be cut.<sup>3</sup> A few years ago the debt ceiling became subject to partisan differences over the proper role of government. The inability of the two parties to reach a compromise led to a two week government shutdown 2013.<sup>4</sup>

### RESOURCE:

“Raising the Debt Ceiling: Summary and Analysis of the Final Deal”  
from Bread for the World

<http://www.bread.org/hunger/budget/pdf/debt-ceiling-summary-analysis.pdf>

## POLICY DEBATE

Many public policy debates center on how active or hands-off the government should be when it comes to using fiscal and monetary policy to manage the economy. The question as to the proper amount of government intervention reflects ideological differences. Those in favor of a more active government say that government interventions are needed to take the edge off problematic market outcomes. The opponents say that government intervention interferes with individual freedom and distorts the natural workings of the market, that is without government intervention, the market or private charity would provide goods and services to those in need.

## For Discussion:

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1. What has been your experience of personal debt?
2. Does your personal or professional experience affect your view of our national debt and what policy changes should be enacted?
3. Do you think the role of the government should change in difficult economic times? Should it increase? Decrease? Stay the same?

## NOTES

### UNIT ELEVEN

1. National Debt Clock. retrieved from: [www/brillig.com/debt\\_clock/](http://www.brillig.com/debt_clock/)
2. National Debt Clock. retrieved from: [www/brillig.com/debt\\_clock/](http://www.brillig.com/debt_clock/)
3. Krugman, Paul (2010, Nov 22). There will be Blood. The New York Times, p.A3. Retrieved from <http://www.nytimes.com/2010/11/22/opinion/22krugman.html>
4. Weisman, Jonathan & Peters, Jeremy, W. (2013, September 30), Government Shuts Down in Budget Impasse. New York Times. Retrieved from: <http://www.nytimes.com/2013/10/01/us/politics/congress-shutdowndebate.html?pagewanted=all>