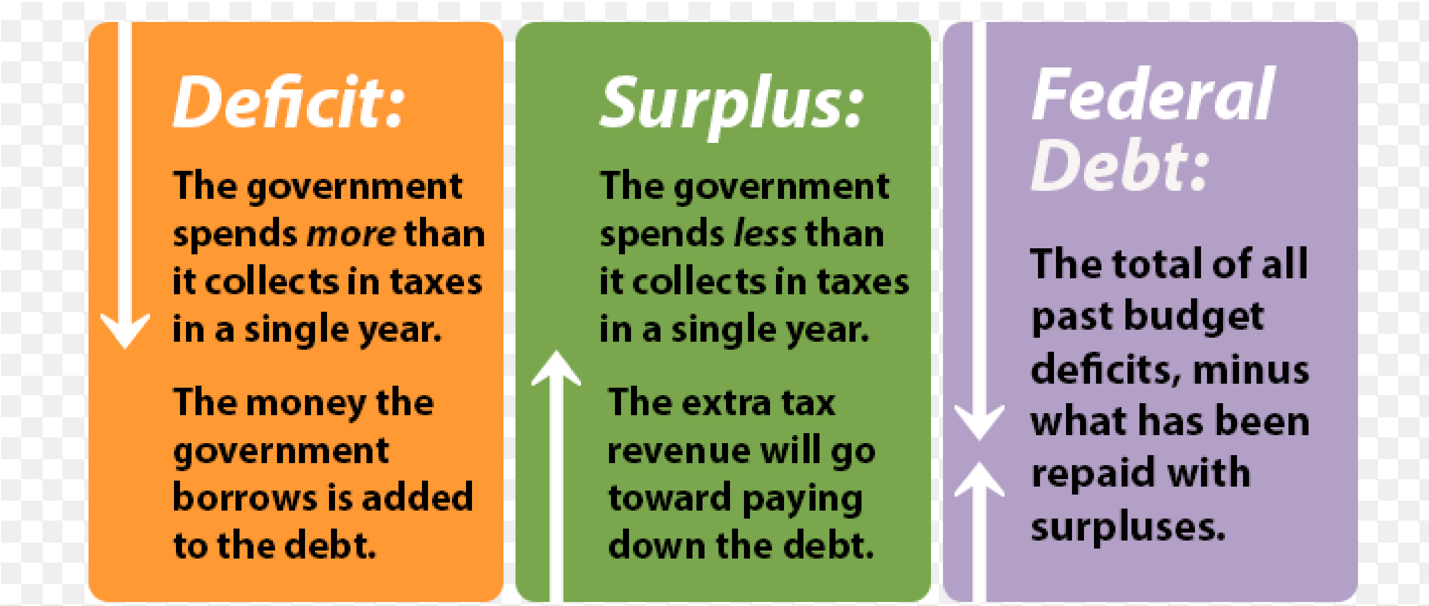

Reducing the National Debt: How Do We Get to a Surplus?

So, the answer is simple. Make tax revenues (income) equal to expenditures—or greater than expenditures if we want an actual surplus. But if this is so easy, why have there been only four years since 1980 (1998-2001) when the government ran a surplus? The answer to this question is also simple. The Congress has been mostly unwilling to establish a tax system that will generate the revenue to pay for the expenditures they approve.

Our fiscal history on this point is clear: Cutting taxes loses revenues, which, unless offset by higher taxes elsewhere or spending cuts, increases the budget deficit, which in turn raises the debt. (The debt is the sum of all past deficits minus past surpluses.)

"With one brief exception, the federal government has been in debt every year since 1776. In January 1835, for the first and only time in U.S. history, the public debt was retired, and a budget surplus was maintained for the next two years in order to accumulate what Treasury Secretary Levi Woodbury called "a fund to meet future deficits." In 1837 the economy collapsed into a deep depression that drove the budget into deficit, and the federal government has been in debt ever since."[1]

Do these forces mean deficits don't matter? Not at all. The problem with structural deficits — ones that go up even in good times — is that they reveal that we're unwilling to raise the necessary revenues to support the government we want and need.

But do we even always want a surplus? Is that the right question? Government finance is not like household finance. During times when the economy is growing, the Federal Government might wish to run a surplus and reduce debt. Then during a economic downturn, the government could run a

[1] [1]http://www.huffingtonpost.com/l-randall-wray/the-federal-budget-is-not_b_457404.html

deficit to get the economy moving when private demand is unable to return the economy to full employment. The problem has never been difficulty running a deficit in bad times—so-called automatic stabilizers such as unemployment compensation and other payments kick in to raise government spending even if there is no direct budgetary action. The problem has always been running a surplus in good times. As soon as the the budget begins to come into balance (and even sometimes when it isn't), there's always pressure to lower taxes, which reduces the surplus and can even create a deficit. Then there are always unforeseen circumstances like natural disasters and wars that increase spending and that are not usually balanced by increased revenues.

The IMF, in a study across countries, concluded: "The wisest course for some countries—the U.S. among them—would be to do nothing at all to reduce their debt burdens. "Distorting your economy to deliberately pay down the debt only adds to the burden of the debt, rather than reducing it," they write."[2]

Yes, you read that right. Amid all the hand-wringing about the size of the U.S. government's debt, some economists at the IMF are advising: Don't worry about it.

"While some countries (Greece, Italy, and Japan, for instance) may urgently need to reduce their high debt loads, the deputy director of the IMF's research department, Jonathan Ostry, and colleagues Atish Ghosh and Raphael Espinoza, argue that others (including the U.S., Germany, South Korea, and Australia) can and should fund themselves at today's exceptionally low interest rates and live with their debt but allow the ratio of debt to GDP to decline over time as their economies grow or revenue windfalls occur. (To be clear, that still requires some fiscal discipline to avoid big annual budget deficits that would add to the debt burden.)"

We have a budget deficit and a growing debt because there is basic disagreement about two things—how much we should tax and how much we should spend. While some politicians are generally in favor of lower taxes, they may be unwilling to reduce spending to the level necessary to balance the budget, much less create a surplus. Other politicians want to increase expenditures, but they are generally unwilling to increase taxes enough to pay for all they want to spend. As a result we have continuing deficits and a rising debt. This is an example of the lack of fiscal discipline described by the IMF.

So, the real question is how much government do we want and how much are we willing to pay for it? Paying for less than we need or want means we will have a deficit.

[2] http://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2016/12/31/When-Should-Public-Debt-Be-Reduced-42931