

Cooperation needed to resolve deficit

June 29 2011, By Krishna Tummala

The federal government has routinely operated with a budget deficit for many years, but that practice has become a bad habit, according to a Kansas State University public budgeting expert.

"I am not against deficit budgeting as it is a powerful economic tool to balance the [national economy](#)," said Krishna Tummala, director of K-State's public administration program and professor of [political science](#). "But the amount of debt that we have now is unacceptable."

Much political discourse has been devoted to why the federal government can't "live within its means as we all do," Tummala said. Many facts go unexamined in the process.

"In fact, the federal government is behaving like we do," he said. "The personal debt of Americans is close to \$2 trillion. We all live in debt. The argument that the federal government should live like we do, within our means, is hypocritical."

Tummala said state governments are frequently and wrongly compared to the federal government. This comparison occurs because 48 states require a balanced budget by law. State governments have one crucial difference in their budgeting as compared to the federal government. Tummala said each state has an operations and a capital budget. The capital budget is where major expenditures are denoted. Only the state's operations budget must be balanced. Contrarily, the federal government has only one budget.

The different roles of the federal government also require consideration.

"It alone has the responsibility for the common welfare and general defense as the Constitution requires," Tummala said.

The [federal government](#) is able to borrow money on its account through Article I of the U.S. Constitution. Management of the nation's economy is a sizable benefit of this clause. It allowed for the U.S. to borrow \$15 million from Britain in 1803 to complete the Louisiana Purchase, doubling the size of the country. The practice of borrowing has only increased over time, Tummala said, culminating in today's more than \$14 trillion debt.

Because of the nation's growing debts, there have been more calls to cut deficits. Tummala said action appears unlikely. Legislation to balance the budget has been approved by Congress several times but not followed. A balanced budget has never been proposed by the president or approved by Congress.

"The concern about large debt is not new, but the militancy in the debate now is," Tummala said.

Curbing the deficit effectively will require a variety of approaches such as raising taxes, cutting expenditures and trying other methods of stimulating the economy, he said.

"Stimulating the economy does not happen over night. It takes a few years before you could see the outcomes," Tummala said.

Cooperation between the political players is a primary concern and has been lacking.

"From 1980 onward there has been a sudden schism between the two

parties -- schism in the sense that both become overly ideological," Tummala said.

This has led to the current impasse during deficit negotiations between the president and leaders of Congress. Tummala believes little dialogue is actually taking place.

"There's only quarreling and a lot of posturing," he said.

Threatening the current negotiations is the looming Aug. 2 deadline to increase the debt ceiling. At stake is the country's credit worthiness. If the debt ceiling is not extended, the country will default.

"That will be a disaster not only in this country, but the entire world," Tummala said. "The entire economic activity in the world is interconnected."

Tummala believes an agreement will be reached before the deadline -- but it will be at the last minute.

The importance of a country's credit worthiness is to allow the financing of debts. Currently, China owns about 18 percent of the U.S. debt. Foreign countries must have confidence in the U.S. economy to continue this practice. The soundness of the economy can be measured in several ways, including ratings by credit ratings agencies such as Moody's and Standard & Poor's.

"They give you a good housekeeping stamp of approval," Tummala said. "This is important because it is a psychological sense of well-being for the world. But the ratings agencies have their own problems because these are the guys that gave all the good ratings to the financial sector before it went belly-up."

Tummula said there is a major reason for the nation's burgeoning debt.

"People demand more services but are not always willing to pay taxes," he said. "The politicians promise more services without telling them the cost and that they must be paid for. Instead, they use the so-called painless way to go about this by allowing deficit budgets. This means not only the politicians must educate themselves on the issues, but their constituents as well."

Provided by Kansas State University

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