

Fiscal Year 2014

A PRIMER ON DEFICITS AND DEBT

Over the past twelve months we have augmented our vocabularies with several new terms: “fiscal cliff”, “deficit hawk,” “sequestration”, “debt ceiling”, and “tapering,” plus brushed up on complementary standbys such as “austerity,” “Greece”, and “government shutdown”.

On October 1 our federal government began a new fiscal year. At midnight on September 30, it closed the books on FY 2013, recording expenditures of about \$3.6 trillion and revenues of just under \$3 trillion, implying a budget deficit of around \$700 billion. The projected outlays, receipts, and deficit for FY14 are roughly the same.

For the glass-is-half-full crowd, the government ran deficits in excess of \$1 trillion for each of the preceding four fiscal years. An improving economy, reductions in military spending, and sequestration’s ceilings are largely responsible for the decline.

Fiscal Policy 101

In (Keynesian) theory, by deficit spending governments can compensate for a lack of demand on the part of families and firms in the downturn of, or slow recovery from, a business cycle. That shot in the arm can be paid for by borrowing or, with an assist from the central bank, by printing money. To an ardent supporter of such fiscal stimuli, it really doesn’t matter how silly the spending or the financing source.

To opponents, this is sheer folly. Waste is waste; government spending will simply replace private spending; and spending paid for by money creation can lead to inflation. Historically, this Super Brawl has pitted Cambridge (England and Massachusetts) v. the Chicago School. Leaving aside the political rhetoric and recent dust-ups among leading economists, below is a nuts-and-bolts overview of our federal government at work and play.

Budget Basics: Flows

When we report our own 2013 earnings to the IRS, this is essentially a flow: how much we received from wages, dividends, interest, and other sources during the year. But we could also tally the value of our homes, investments, bank accounts, and personal property; that would be a stock—not what we earned but what we owned, or our wealth.

BY ALLEN R. SANDERSON Similarly for the government, a deficit is the difference between what it spent and took in during a fiscal year; the debt is the net result of past years’ expenditures and revenues.

The \$700 billion shortfall noted above represents about 20 percent of federal government spending; it’s also about 4 percent of our Gross Domestic Product (GDP), down from 10 percent only four years ago. European Union nations pledged to hold their deficits to a manageable 3 percent of their GDPs, a goal not many have achieved.

We ran federal budget deficits from 1970 through 1997. The four-



year period 1998-2001 produced surpluses, but since then deficits have been, and will continue to be for the foreseeable future, “business as usual.”

Budget Basics: Stocks

Our current national or public debt is just under \$17 trillion. A relative-to-what metric would show that is about 100 percent of our GDP, about \$50,000 per capita and 20 percent of our gross domestic wealth. (In comparison with other nations, we fall into the middle of the debt pack, though for us this is a level we haven’t witnessed since World War II.)

A third of that \$17 trillion is money owed by one unit of the government to another—the Social Security trust fund, for example. Of the remaining two-thirds (about \$12 trillion), an arguably better indicator of our actual obligations, half is held by domestic investors, state and local governments, institutions, individuals, and the Federal Reserve System. The other half resides abroad; China and Japan are the largest bond holders, with about \$1 trillion each. Are they likely to “cash in”? No.

Pay It Forward/Pay It Off?

When a family borrows for a sound or foolish purpose, the lender will scrutinize its current and expected future income and wealth. Governments, at least responsible ones, are unlike families in that they are immortal—and they can also tax and print money. Thus they can borrow indefinitely, though their continual credit-worthiness is measured against national income (GDP) and the political will of voters.

If the thought of national bankruptcy is keeping you awake at night, and you want to do your share to keep the nation solvent, make a personal check payable to the Bureau of the Public Debt and mail it to: Department G, P.O. Box 2188, Parkersburg, West Virginia 26106-2188. Include a note in the memo section to indicate that it is for the national debt. You might also want to look up the term “free rider” first. □