



## *A Facing Up to the Nation's Finances Discussion Guide*

### **Dealing With Deficits: How can we run our Government without Piling up too much Debt?**

#### **Introduction**

With a national debt that is spiraling out of control, our nation has a lot of work to do to get its financial house in order. This is going to require progress on several fronts. For example:

- We need to learn to stop running deficits every year, borrowing money to run the government, and thus creating long-term debt.
- We need to figure out how to provide Social Security and Medicare benefits to the huge baby boom generation that is about to retire without busting the budget.
- We need to make sure our leaders are trustworthy and accountable in how they handle the nation's finances.

All of these questions need attention, but we can't deal with them all at once. This guide focuses on one of these key areas: *Dealing With Deficits: How can we run our Government without Piling up too much Debt?*

Somewhere along the line our country has fallen into a pattern in which running large budget deficits has become our normal operating procedure. This means that most years in recent memory we've spent much more in government programs than we are willing to raise in tax revenues. We've then borrowed money, much from other countries such as China, to cover the balance.

The result is a mammoth and growing federal debt that has now surpassed the nine trillion dollar mark, an all-time record. The yearly interest payment alone on this debt is approaching the 300 billion mark (more than we pay each year for the Iraq and Afghanistan wars combined) and is rising at a rate of about 20 percent every year. To make matters worse, we've established the deficit-and-debt habit at the very moment that the baby boom generation is starting to retire, which will lead to a whole new set of fiscal pressures as Medicare and Social Security spending balloons.

Facing up to these challenges means coming to terms with many tricky and tough questions about things like health care costs, Social Security and government accountability. Among these questions is figuring out a more responsible approach than we now have to how we manage our yearly budgeting as a nation, in particular how we deal with deficits. How can we make sure deficits stop driving the national debt toward unsustainable levels so that we can invest revenues in more productive things than paying the interest on foreign loans?

This deliberation guide suggests three approaches that you can consider for how the nation might deal more effectively with its yearly budgeting process and the question of deficit spending. Which makes the most sense to you, and why?

## **Approach 1. Establish a zero-tolerance for deficit spending**

From this perspective, any debt is bad debt and the nation should never borrow money to cover government expenditures. We should live within our means, and simply make deficits illegal. Most state governments do this in some form or other, and the federal government should do likewise.

Therefore we should do things like:

- *Pass strict “pay-as-you-go” legislation:* This means that if a spending bill is passed the expenses associated with that spending bill are directly offset by *spending cuts* elsewhere in the budget *and/or by tax increases*.
- *Citizens groups should organize in support of “pay-as-you-go” legislation* and to ensure that politicians who attempt to create exceptions to this rule are held accountable.
- *Work for a Balanced Budget Amendment.* Of course, it’s hard to pass constitutional amendments, but it might be achievable over time and meanwhile it’s a good way to educate people.

### *Arguments in favor*

This not only sends a clear message that deficit spending is unacceptable and won’t be tolerated, it puts mechanisms in place that to make deficit spending much more difficult.

This brings the government into line with the reality that businesses and families have to deal with every day: your spending has to be in line with your income.

### *Arguments against*

This is an overly rigid approach to governance that will not allow us to respond effectively to unexpected events like the next Hurricane Katrina or another terrorist attack.

This kind of strict budgeting may get our finances under control, but will also mean putting off crucial investments in health care or education.

## **Approach 2: Limit deficit spending to responding to dire emergencies only**

We can't be too rigid: The government should certainly have the power to borrow to deal with serious emergencies, such as natural disasters, terrorist attacks and wars. But emergencies aside, we should have a balanced budget. Moreover, we should put mechanisms in place that make it hard for politicians to call anything they want an emergency and fall back into old habits of deficit spending.

Therefore we should do things like:

- *Create a "rainy day fund"* for modest emergency spending needs so we only have to borrow for major emergencies.
- *Require a two-thirds "supermajority" vote* in Congress to borrow money for major emergencies that the rainy-day fund can't handle.
- *Institute serious "sunset provisions"* so that any emergency borrowing that occurs has to be renewed regularly and transparently, also by a "supermajority" vote.

### *Arguments in favor:*

Allowing no discretion to borrow in an emergency is like saying a family should not take out a second mortgage, even if they can afford the payments, to help a family member receive critical care for a catastrophic illness.

Given the amount of debt we already have now and given the challenge to a sound national budget posed by the baby boomers as they begin to retire, emergency borrowing is the only kind that ought to be permitted.

### *Arguments against:*

Borrowing to cover emergencies is a slippery slope toward gaming the system and ending up back where we started.

This approach limits borrowing to dire emergencies, but nations need to be able to engage in occasional, responsible borrowing in order to remain competitive and promote the common good.

### **Approach 3. Permit responsible and limited borrowing to make critical national investments**

There can be good reasons for the government to borrow, just as there are good reasons for those who can truly afford to pay a mortgage to buy a house. The nation should, for instance, be able to make investments in things like maintaining roads and bridges, preventing and preparing for disasters, education, and researching preventive medicine and new technologies vital to our economic competitiveness. The point is to control irresponsible and excessive debt while permitting a reasonable amount of responsible borrowing that serves the nation well.

Therefore we should do things like:

- *Require the government to budget for the long-term.* Instead of annual budgets, the government should plan for two years at a time and have a long-term plan for paying off its debts.
- *Change the government's budget procedures* to more closely follow state governments and business. Most organizations have a separate “capital budget” for big projects and long-term borrowing, where debts can be weighed against their benefits.
- *Set caps for increases in both taxes and spending that limit debt.* We should limit increases in the federal budget to the rate of inflation, or some other percentage that lets government grow slowly so debt is kept under control.

#### *Arguments in favor*

Sometimes it can be worthwhile to borrow if that's what it takes to make critical investments in areas like science and technology, health care and national security. These are the kinds of critical investments that stimulate economic growth or prevent catastrophes that hurt it.

Just because the government hasn't learned to borrow responsibly in the past doesn't mean we can't put mechanisms and practices in place, such as those suggested above, that allow us to take a more disciplined approach to responsibly borrowing for critical investments only.

#### *Arguments against*

If borrowing for emergencies is a slippery slope, this slope is more slippery yet. The only way to really control government spending is to have a zero-tolerance for debt and set tough rules that can't be broken.

This approach might be OK down the road if we're able to bring our national debt down significantly, but until we do that any significant borrowing is dangerous to our national well-being.