FOREIGN POLICY IMPLICATIONS OF A BALANCED BUDGET pdf

1: Understanding the Effects of Fiscal Deficits on an Economy | Investopedia

Foreign policy implications of a balanced budget: hearings before the Subcommittee on International Economic Policy, Export and Trade Promotion of the Committee on Foreign Relations, United States Senate, One Hundred Fourth Congress, second session, March 20 ; April 18, and May 16,

Richard Kogan A balanced budget amendment to the U. It would threaten significant economic harm while raising a host of problems for the operation of Social Security and other vital federal functions. The economic problems are the most serious, and they would pertain to any version of a constitutional balanced budget amendment. By requiring a balanced budget every year, no matter the state of the economy, such an amendment would raise serious risks of tipping weak economies into recession and making recessions longer and deeper, causing very large job losses. When the economy slows, federal revenues decline or grow more slowly and spending on unemployment insurance and other social programs increases, causing deficits to rise. That would launch a vicious spiral of bad economic and fiscal policy: The fact that states must balance their budgets every year â€" no matter how the economy is performing â€" makes it even more important that the federal government not also face this requirement and thus further impair a faltering economy. And, while the amendment would allow Congress to waive the balanced budget requirement with a three-fifths vote of the House and Senate, that hardly solves the problem. Recent experience shows the difficulty of securing a three-fifths vote in both chambers for almost any major legislation. Beyond the economy, the balanced budget amendment would raise other problems. Social Security could not draw down its reserves from previous years to pay benefits in a later year but, instead, could be forced to cut benefits even if it had ample balances in its trust funds, as it does today. The same would be true for military retirement and civil service retirement programs. Nor could the Federal Deposit Insurance Corporation or the Pension Benefit Guaranty Corporation respond quickly to bank or pension fund failures by using their assets to pay deposit or pension insurance, unless they could do so without causing the budget to slip out of balance. But this analogy is a false one. While states must balance their operating budgets, they can â€" and do â€" borrow for capital projects. Families often borrow, as well, such as when they take out mortgages to buy a home or loans to send a child to college. The proposed constitutional amendment would bar the federal government from making worthy investments in the same way. The problems with a constitutional balanced budget amendment grow even more serious under its more radical versions, such as the version coming to the House floor this week. That version would require two-thirds supermajorities in both the House and Senate to raise any taxes. Tax expenditures predominantly help well-to-do Americans, who tend to get most of their federal subsidies through the tax code, as opposed to low- and moderate-income Americans, who get most of theirs on the spending side of the budget. In addition, the version of the amendment the House will consider this week would cap annual federal spending at 18 percent of the Gross Domestic Product. Such a cap would force program cuts far more draconian than even the severe cuts in the Ryan budget that the House of Representatives passed in April. Federal spending under the Ryan budget would be between 20 percent and 21 percent of GDP over most of the next two decades and would not fall to as low as 18 percent of GDP until after , according to the Congressional Budget Office. Potential for Serious Economic Harm The nation faces serious long-term fiscal problems, but a balanced budget amendment to the U. Constitution is an ill-advised way to address them. It would require a balanced budget every year regardless of the state of the economy, unless a supermajority of both houses overrode that requirement. This is an unwise stricture that many mainstream economists have long counseled against because it would require the largest budget cuts or tax increases precisely when the economy is weakest. It holds substantial risk of tipping faltering economies into recessions, making recessions longer and deeper, and precipitating very large additional job losses. When the economy weakens, revenue growth drops and revenues may even contract. And as unemployment rises, expenditures for programs like unemployment insurance UI â€" and to a lesser but significant degree, food stamps and Medicaid â€" increase. These revenue declines and expenditure increases are temporary; they largely or entirely disappear as the economy recovers. But they are critical for helping struggling economies avoid falling into recessions and for moderating the depth and length of recessions that do occur. During economic downturns, consumers and businesses spend less, which in turn causes further job loss. The drop in tax collections and increases in UI and other benefits that occur automatically cushion the blow, by keeping purchases of goods and services from falling more. A constitutional balanced budget amendment, however, effectively suspends the automatic stabilizers. It requires that federal spending be cut or taxes increased to offset the automatic stabilizers and prevent a deficit from occurring â€” the opposite course from sound economic policy. Over the years, leading economists have warned of the adverse effects of a constitutional balanced budget amendment. This automatic stabilizing occurs quickly and is self-limiting â€” it goes away as the economy revives â€” but it temporarily increases the deficit. It is an important factor that dampens the amplitude of our economic cycles. It is unsound and unnecessary. The proposed amendment mandates perverse actions in the face of recessions. In economic downturns, tax revenues fall and some outlays, such as unemployment benefits, rise. To keep the budget balanced every year would aggravate recessions. Amending the Constitution to require this sort of balance raises risks. The fact that taxes fall when the economy weakens and spending and benefit programs increase when the economy weakens, in an automatic way, under existing law, is an important stabilizing force for the aggregate economy. The fact that state governments need to work â€¦ against these effects in their own budgets â€” need to take action to raise taxes or cut spending in recessions â€” undoes the automatic stabilizers, essentially, at the state level. Taking those away at the federal level risks making the economy less stable, risks exacerbating the swings in business cycles. At the sole congressional hearing this year on the constitutional amendment, they blithely asserted that three-fifths of the House and Senate would override the balanced budget requirement whenever that was truly needed. In support of this assertion, they noted that three-fifths of the House and Senate voted for the TARP legislation in the fall of These easy assurances are unpersuasive. Fortunately, in these cases, a majority vote of those present and voting â€” rather than three-fifths of the entire membership â€” was sufficient for passage. Just last November, the House failed to secure three-fifths support for legislation to extend federal unemployment benefits, despite the fact that the unemployment rate was 9. Even then the legislation secured the support of only Moreover, that was the House of If the circumstances were repeated today, such a measure could well fail to obtain 60 percent support in that chamber. Finally, when the economy weakens and is at risk of falling into a recession, the weakening usually occurs gradually over a number of months and is not touched off by highly dramatic â€” and potentially catastrophic â€” events like credit markets seizing up, the stock market plummeting, and financial markets being on the verge of collapse. And as noted, even in those dire circumstances, TARP barely got 60 percent of the votes of the House. That outcome hardly gives one confidence that Congress would move quickly to suspend the balanced budget requirement when the economy faltered and faced the risk of recession and large job losses. Moreover, hard data on the economy come with a lag of several months, and it could well take many months after the economy has begun to weaken before sufficient data are available to convince three-fifths of both houses of Congress that economic conditions warrant waiving the balanced budget requirement, if three-fifths were willing to waive the requirement at all. Furthermore, it is all too likely that even after the evidence for a downturn is clear, a minority in the House or Senate would hold a waiver vote hostage to demands for concessions on other matters such as new, permanent tax cuts. By the time a recession is recognized and three-fifths votes are secured in both chambers, extensive economic damage could have occurred and hundreds of thousands, or even millions, of additional jobs unnecessarily lost. The fact that states must balance their operating budgets even in recessions â€” which causes the economy to contract further â€” makes it even more important that the federal government not be subject to the same stricture. Few ideas are more seductive on the surface and more destructive in reality than a balanced budget amendment. Nearly all our states have balanced budget requirements. That means when the economy slows, states are forced to raise taxes or slash spending at just the wrong time, providing a fiscal drag when what is needed is countercyclical policy to stimulate the economy. In fact, the fiscal drag from the states in was barely countered by the federal stimulus plan. That meant the federal stimulus provided was nowhere near what was needed but far better than doing nothing. Now imagine that scenario with a federal drag instead. A balanced budget amendment would preclude them from doing so. The amendment would also make it even more difficult to raise the debt limit, by requiring a three-fifths vote of both the House and Senate for that as well. It would be foolhardy to make needed increases in the debt limit harder to enact than they already are. Only two of the last ten debt limit increases obtained three-fifths vote in both chambers â€" and those two instances both occurred amidst the financial crisis in when the debt limit increases were included in larger legislation to respond to the meltdowns already occurring in the housing and financial markets. A three-fifth requirement would be dangerous, as it would heighten the risk of an unprecedented federal default, which could raise interest rates and damage the U. A Host of Other Problems The constitutional balanced budget amendment also could interfere with Social Security and the military and civil service retirement systems. In addition, it could weaken the stability of banks, thrift institutions, and some private pension systems. But under the balanced budget amendment, it would essentially be unconstitutional for Social Security to draw down these savings to pay promised benefits. Instead, benefits could have to be cut, because all spending would have to be covered by tax revenues collected during that same year. More precisely, Social Security would be allowed to use its Treasury securities to help pay benefits only if the rest of the federal budget ran an offsetting surplus or if the House and Senate each mustered three-fifths votes to permit deficit spending. The military retirement and civil service retirement systems, which have their own trust funds, would be affected in the same way. Because all expenditures would have to be covered by taxes collected in the same year â€" and the use of accumulated savings thus would be unconstitutional â€" these trust funds would not be able to draw down their accumulated balances unless the rest of the budget ran offsetting surpluses. Effects on the Banking System The potential effects on the banking system also are cause for concern. These reserves are called upon when banks fail. In general, a constitutional requirement that all spending during a given year be covered by tax revenues collected in the same yearwould undercut all U. The entire purpose of deposit insurance and other U. If banks, thrift institutions, pension funds, small businesses, and mortgagers started to fail during a recession or a financial crisis, the large costs of paying federal insurance and guarantee claims probably could not be met within the confines of the balanced budget amendment. And if deposit insurance were no longer effective, panicked depositors could make runs on banks, causing a chain reaction that could turn a recession into a depression. That is what happened from to Indeed, federal deposit insurance was enacted in â€" after a four-year run by depositors on their banks â€" to halt that collapse. But statements that the constitutional amendment would align federal budgeting practices with those of states and families are not accurate. While states must balance their operating budgets, they can borrow to finance their capital budgets â€" to finance roads, schools, and other projects. Most states do so. States also can build reserves during good times and draw on them in bad times without counting the drawdown as new spending that unbalances a budget. Families follow similar practices. They borrow â€" they take out mortgages to buy a home or student loans to send a child to college. They also draw down savings when times are tight to cover expenses that exceed their current incomes. But the proposed constitutional amendment would bar such practices at the federal level. The total federal budget â€" including capital investments â€" would have to be balanced every year; no borrowing to finance infrastructure or other investments to boost future economic growth would be allowed. And if the federal government ran a surplus one year, it could not draw it down the next year to help balance the budget. But there are serious questions about this and no clear answers.

FOREIGN POLICY IMPLICATIONS OF A BALANCED BUDGET pdf

2: Policy Basics: Deficits, Debt, and Interest | Center on Budget and Policy Priorities

Foreign policy implications of a balanced budget: Hearings before the Subcommittee on International Economic Policy, Export and Trade Promotion of the.

Fiscal deficits arise whenever a government spends more money than it brings in during the fiscal year. This imbalance, sometimes called the current accounts deficit or the budget deficit, is common among contemporary governments all over the world. Since , the U. Economists and policy analysts disagree about the impact of fiscal deficits on the economy. Some, such as Nobel laureate Paul Krugman, suggest that the government does not spend enough money and that the sluggish recovery from the Great Recession of was attributable to the reluctance of Congress to run larger deficits to boost aggregate demand. Others argue that budget deficits crowd out private borrowing, manipulate capital structures and interest rates, decrease net exports , and lead to either higher taxes, higher inflation or both. Even though the long-term macroeconomic impact of fiscal deficits are subject to debate, there is far less debate about certain immediate, short-term consequences. However, these consequences depend on the nature of the deficit. If the deficit arises because the government has engaged in extra spending projects â€” for example, infrastructure spending or grants to businesses â€” then those sectors chosen to receive the money receive a short-term boost in operations and profitability. If the deficit arises because receipts to the government have fallen, either through tax cuts or a decline in business activity, then no such stimulus takes place. Whether stimulus spending is desirable is also a subject of debate, but there can be no doubt that certain sectors benefit from it in the short run. All government deficits need to be financed. This is initially done through the sale of government securities, such as Treasury bonds T-bonds. Individuals, businesses and other governments purchase these bonds and lend money to the government with the promise of future payment. The clear, initial impact of government borrowing is that it reduces the pool of available funds to be lent to or invested in other businesses. This is necessarily true: Thus, all government deficits have the effect of reducing the potential capital stock in the economy. This would differ if the Federal Reserve monetized the debt entirely; the danger would be inflation rather than capital reduction. Additionally, the sale of government securities used to finance the deficit has a direct impact on interest rates. Government bonds are considered to be extremely safe investments, so the interest rate paid on loans to the government represent risk-free investments against which nearly all other financial instruments must compete. This function is used by the Federal Reserve when it engages in open market operations to adjust interest rates within the confines of monetary policy. As a practical matter, the U. Backed only by the full faith and credit of the federal government, U. The Federal Reserve also purchases bonds as part of its monetary policy procedures. Should the government ever run out of willing borrowers, there is a very real sense that deficits would be limited and default would become a possibility. Total government debt has real and negative long-term consequences. If interest payments on the debt ever become untenable through normal tax-and-borrow revenue streams, the government faces three options: An overly aggressive expansion of the money supply could lead to high levels of inflation , effectively though inexactly capping the use of the second strategy. A Historical Perspective There are any number of economists, policy analysts, bureaucrats, politicians and commentators who support the concept of government running fiscal deficits, albeit to varying degrees and under varying circumstances. Government deficit spending is also one of the most important tools of Keynesian macroeconomics , named for British economist John Maynard Keynes, who believed that spending drove economic activity and the government could stimulate a slumping economy by running large deficits. The first true American government deficit plan was conceived and executed in by Alexander Hamilton, then Secretary of the Treasury. Hamilton saw deficits as a means of asserting government influence similar to how war bonds helped Great Britain out-finance France during their 18th-century conflicts. This practice continued, and throughout history, governments have elected to borrow funds to finance their wars when raising taxes would have been insufficient or impractical. Politicians and policymakers rely on fiscal deficits to expand popular policies, such as welfare programs and public works, without having to raise taxes or cut spending elsewhere in the budget. In this way, fiscal deficits also encourage rent-seeking and politically motivated appropriations. Many businesses implicitly support fiscal deficits if it means receiving public benefits. Not all see large-scale government debt as a negative. Some pundits have even gone so far as to declare that fiscal deficits are wholly irrelevant, since the money is "owed to ourselves. Government-run deficits have wide theoretical support among certain economic schools and near unanimous support among elected officials. Both conservative and liberal administrations tend to run heavy deficits in the name of tax cuts, stimulus spending, welfare, public good , infrastructure, war financing and environmental protection. Ultimately, voters think fiscal deficits are a good idea, whether or not that belief is made explicit, based on their propensity to ask for expensive government services and low taxes simultaneously. On the other hand, government budget deficits have been attacked by numerous economic thinkers throughout time for their role in crowding out private borrowing, distorting interest rates, propping up noncompetitive firms and expanding the influence of nonmarket actors. Nevertheless, fiscal deficits have remained popular among government economists ever since they were legitimized by Keynes in the s. So-called expansionary fiscal policy not only forms the basis of Keynesian anti-recession techniques, but also provides an economic justification for what elected representatives are naturally inclined to do: Keynes originally called for deficits to be run during recessions and for budget shortfalls to be corrected once the economy recovered. This rarely occurs, since raising taxes and cutting government programs is rarely popular even in times of plenty. The tendency has been for governments to run deficits year-after-year, resulting in massive public debt. The Bottom Line Government deficits are seen in a largely negative light. While macroeconomic proposals under the Keynesian school argue that deficits are sometimes necessary to stimulate aggregate demand after monetary policy has proven ineffective, other economists argue that government deficits crowd out private borrowing and distort the marketplace. Still others suggest that borrowing money today necessitates higher taxes in the future, which unfairly punishes future generations of taxpayers to service the needs of or purchase the votes of current beneficiaries. If it becomes politically unprofitable to run higher deficits, there is a sense that the democratic process might enforce a limit on current account deficits.

3: How does fiscal policy impact the budget deficit? | Investopedia

The National Security Implications of a Balanced Budget Amendment November 10, The passage of the Budget Control Act (BCA) has broad implications for every program and agency that is funded through the Federal budget process, but consequences for the American defense and national security apparatus are both unique and important to analyze.

Personal use only; commercial use is strictly prohibited. A conceptual framework has been developed based on the five distinct analytical categories: These categories reveal that in Europe, the crisis led to an erosion of the financial and budgetary basis of foreign policyâ€"even if it is more pronounced on the national than the European level. It also accelerated a trend toward the economization of political priorities resultingâ€"among other thingsâ€"in deepening conflicts among EU member states. These developments have, in turn, eroded both the effectiveness and the soft power of EU foreign policy. The crisis is therefore not only a strain on the European integration process but also a central challenge for the European Union as an international actor. What implications did the financial crises have for the foreign policy of the European Union? Different Assessments When the financial and debt crisis in the Eurozone become acute in , political and academic attention primarily focused on its consequences for the single currency area and for the internal European integration process. Only belatedly have attempts been made to assess what the crisis means for the European Union as an international actor. It holds that, under the impression of the crisis, foreign policy has increasingly become an instrument of economic power politics. The geoeconomics perspective holds that, under the impression of the crisis, foreign policy has increasingly become an instrument of economic power politics. In the early s, Luttwak stated that in the wake of the end of the Cold War, when the relevance of military power was presumably declining, economic factors became ever more relevant in foreign policy. It has been proposed stated that economic policies have once more turned from more positive interdependenceâ€"where cooperation is mutually beneficialâ€"to an area of conflict and competition for market access, financial investments and natural resources. In the words of Ana Echague: Among those who think that the crisis has some effect on EU foreign policy, no consensus has emerged on its degree. While it is widely acknowledged that the shorter-term effects of the crisis combine with long-term and structural developments, the relative importance of short-term and long-standing factors is disputed. There are at least four reasons why the assessments on the impact of the crisis on EU foreign policy vary to such a large extent. First, the foreign policy of the European Union covers a broad range of different fields that are most likely affected by the crisis to different degrees. Thus, according to the empirical focus of their research, analysts come to very different results with regard to the impact of the crisis. Second, researchers use different benchmarks and criteria to assess the impact of the financial and debt crisis on EU foreign policy. While some analysts refer to the current state of affairs as a financial crisis, others conceive of it as a sovereign debt crisis; a third group characterizes the present situation as an economic or a banking crisis, claiming that neither the European Union nor the Eurozone as a whole is facing a serious debt problem at all. The project covers the full spectrum of EU external policies. It examines developments in nine policy fields: Across these fields, a common analytic framework was applied. The Conceptual Framework Any conceptual framework applied to assessing the impact of the financial and debt crisis on the facets of EU foreign policy should be based on five distinct analytical categories: This category relates to the question to what extent the financial and debt crisis has affected the budgetary basis of EU foreign policyâ€"both on the European and the national levels. Changes in the internal political structure and balance of the European Union. Has the crisis led to a shift of competences and power among EU institutions as well as between EU institutions and member states? Have specific EU or national actors been weakened or even marginalized in the course of the crisis? Andâ€"if soâ€"which impact did this have on the common EU policies? Finally, have constellations of interests and conflicts changed? Burden sharing, economic competitiveness and access to markets thus become central policy goals to the detriment of more traditional foreign policy objectives. Whether or not such a shift of political priorities has actually taken place is potentially crucial for EU foreign policy. Output and effectiveness of EU foreign policy. Soft power and normative dimension. Soft power, according to Joseph S. These five categories incorporate the direct resources, priorities and indirect effects through the internal workings of the European Union as well as the effectiveness of EU foreign policy. While applying this conceptual framework, a range of methodological challenges need to be addressed. First, there is the problem of the proper level of analysis. As each domain of EU external relations is ruled by different legal and political regimes, comparisons are not straightforward. For instance, in international trade policy the European Commission is the most important actor because trade policy is a highly integrated policy domain where the EU institution is negotiating on behalf of the member states. By contrast, in security and defense-related policies, virtually all competencies rest with the member states. The appropriate focus on the actors thus depends on the field under investigation. In any case, a clear distinction between the European Union and its composite member states must be made. Second, it is virtually impossible to attribute causal power to the financial and debt crisis. While the relative importance of both factors is contested, it is quite clear that crisis-related problems combine with long-term structural, institutional, and political developments to explain EU foreign policy. To circumvent this problem, it seems necessary to systematically distinguish between developments before â€" and and thereafter. In some respectsâ€"such as in budgetary resourcesâ€"this is a rather straightforward undertaking. Despite these limitations, the conceptual framework provides a thorough insight into the effects of the financial and debt crisis on EU foreign policy. While it is true that money and resources devoted to foreign politics are diminishing on the national level and more and more also on the EU echelon, this does not result in a complete absence of EU political and financial activities. Quite to the contrary, the European Union and its member states have been apt to react to political changes, e. In the European Union and on national levels, financial resources available for foreign policy have declined since â€", most obviously in national defense spending. Based on different scenarios, EU member states will reduce their combined defense-related expenditures from EUR billion in toâ€"depending on the studyâ€"EUR to billion in the year However, budgetary reductions will not continue to be limited to security and defense policies. In fact, member states that have been hit hardest by the financial and debt crisisâ€"Spain, Portugal, Greece, and Italy in particularâ€"have quickly decided to trim down their development aid as well. Spanish embassies in Yemen, Zimbabwe and Syria will be closed and substituted by the respective EU delegations. The agreement was approved by the Parliament in a resolution in July, and it was finally adopted by an absolute majority in November In sum, the EU common budget will only slightly increase while national budgets in some countries and areas are set to decrease significantly. Despite the pressure for budgetary austerity, the European Union and its member states have been ableâ€"through the reallocation of fundsâ€"to increase available resources in some areas. This is true for the southern neighborhood, which has enjoyed a special status in EU external relations since the Arab uprisings began in early The European Union was also willing to mobilize more money to help the states of the Western Balkans as well as developing countries to cope with the fallout from the global financial crisis. The latter has led to a significant draining of private capital from these countries. Other Western Balkan countries benefitted from an extra EUR million from the EU budget to support their economic development and mitigate the social consequences of the crisis. It addresses the most vulnerable states in Africa, the Caribbean, and the Pacific. It did, however, not prevent the European Union and some of its member states from acting. To react to pressing political challengesâ€"related to the uprisings in North Africaâ€"and to coping with the direct impact of the crisis on vulnerable partners, money was made available for some European programs. This was possible due to the re-allocation of funds that have been made possible by the Lisbon Treaty. Shifting Political Priorities Geoeconomist claims are justified: The financial and debt crisis has triggered a shift in political priorities, most notably on the level of national governments. Economic considerations became ever more important in virtually all dimensions of European foreign policy. International climate diplomacy and enlargement policy are two important areas where this tendency has become most visible. The protection of the world climate is one of the flagship projects where the European Union claims a special leadership position. This leadership role, however, came increasingly under fire. Reinforced by economic concerns, the discourse on climate policy within the European Union has changed. Today it is much less debated as a common EU project on the international stage. Instead, it is even more dominated by the discussion about its economic costs and potential disadvantages for the competitiveness of European companies and industry.

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Already in , Poland openly opposed the climate and energy package of the European Union because Warsaw feared negative consequences for its domestic coal industry. Its opposition could only be overcome after new arrangements on internal EU burden-sharing were agreed upon. However, since then, the internal EU climate policies have been more or less stuck. This proposal has not been included on the agenda of an EU summit meeting. Again, these concerns are not entirely new, but they have acquired new prominence since the beginning of the financial and debt crisis. Since the onset of the crisis, it is increasingly doubtful whether there could be more EU accessions during this decade after Croatia became the 28th member state in mid This perception is reinforced by the fact that the crisis has aggravated the troubles in the candidate countries. Skepticism toward enlargement was mirrored in public opinion surveys as well. In official development cooperation ODA , the crisis has reinforced the pressure on budgets. Even if the cuts have not been as stark as in the defense area, decision makers have responded to these changes by a shift in their political priorities. To gain the most from the money spent on ODA, the visibility of their activities has become increasingly important to national actors. Sometimes this trend results in more symbolic activities, such as the introduction of a new emblem for development cooperation by the German government in But it may also have more substantial repercussions through increased focus on bilateralism in the area of development cooperation. The crisis has also reinforced longer-term trends toward prioritizing development cooperation on fewer countries and sectors. This does not mean that there have been significant geographic or sectoral shifts in this cooperation. However, the European Commission and some member states recently announced their intention to focus development cooperation on fewer partners. For instance, the United Kingdom will reduce its partner countries from 49 to officially Germany and France have also reduced or are planning to reduce the number of their cooperate partners. In international trade and investment policies, EU member states have increasingly relied on measures that are not yet regulated by the World Trade Organization WTO and are still in their national competences. These measures include, for instance, bidding procedures for public procurement, access of foreign workers to the labor markets, or the establishment of foreign companies. Policies of EU member states toward the southern neighborhood have as well become more protectionist. The fact that Spain, Italy, Greece, and Portugal were hit hardest by financial and budgetary problems, and thus by social protests, led to declining support in these countries for open markets, financial support for the democratic transitions, and mobility. Last, but not least, in security and defense policy, the financial and debt crisis led to a situation in which defense and armaments planning is more and more dominated by the question of which capabilities can be afforded in the short and medium terms.

4: Balanced budget - Wikipedia

Fiscal policy refers to any uses of the government budget to affect the economy. This includes government spending and levied taxes. Policy is said to be expansionary when spending increases or.

Deficits, Debt, and Interest Three important budget concepts are deficits or surpluses , debt, and interest. For any given year, the federal budget deficit is the amount of money the federal government spends minus the amount of revenues it takes in. The interest paid on this debt is the cost of government borrowing. UPDATED May 21, Deficits or Surpluses For any given year, the federal budget deficit is the amount of money the federal government spends also known as outlays minus the amount of money it collects from taxes also known as revenues. If the government collects more revenue than it spends in a given year, the result is a surplus rather than a deficit. This is one reason that deficits typically grow or surpluses shrink during recessions. Conversely, when the economy is strong, deficits tend to shrink or surpluses grow. A government may also face a structural deficit, or one that would exist even if the economy were operating at full capacity, with high employment. In contrast, when the government runs structural deficits and borrows large amounts of money even in good economic times, that borrowing is much more likely to have harmful effects on private credit markets and hurt economic growth over the long term. When the government runs a deficit, the debt increases; when the government runs a surplus, the debt shrinks. There are two common measures of the debt: Gross debt is debt held by the public plus the securities the Treasury issues to U. Each year, the amounts not needed to pay current benefits are invested in Treasury bonds and the Treasury uses those proceeds to help pay for government operations. As a result, the Treasury owes money to the Social Security trust funds and will repay it when Social Security needs the money to pay future benefits. When the Treasury issues bonds to Social Security and other government trust and special funds, by contrast, that internal transaction does not affect the credit markets. The chart below shows deficits and debt relative to the size of the economy as measured by GDP. The budget does not have to be balanced to reduce the significance of the debt. For example, even though there were deficits in almost every year from the end of World War II through the early s, debt grew much more slowly than the economy, so the debt-to-GDP ratio fell dramatically. Debt held by the public was 77 percent of GDP in That ratio is more than double what it was in , with the jump largely resulting from the Great Recession and efforts to mitigate its impact. Under current budgetary policies, the debt-to-GDP ratio is expected to rise about 17 percentage points over the coming decade and continue rising over the subsequent decades as well. Recently enacted legislation â€” primarily the tax law â€" reduced projected revenues as a share of GDP, contributing to an increase in the projected growth in debt. The ratio is currently high by historical standards, leading some policymakers and analysts to call for more deficit reduction in order to lower the debt ratio. Too much deficit reduction too fast is harmful to an economy that is not at full strength, but economists generally believe that the debt ratio should be stable or declining when the economy is strong. Interest costs are determined by both the amount of money borrowed also known as the principal and the interest rate. When interest rates rise or fall, interest costs generally follow, making the debt a bigger or smaller drain on the budget. Federal net interest costs, which have been held down by very low interest rates in the Great Recession and its aftermath, amounted to 1. Both of these figures are well below their average levels over the last 50 years. But interest costs â€" in dollar terms, as a percent of GDP, and as a share of the budget â€" will increase as debt continues to grow and interest rates return to more normal levels. The Debt Limit Congress exercises its constitutional power over federal borrowing by permitting the Treasury to borrow as needed, but also imposing a legal limit on the amount of money that the Treasury can borrow to finance its operations. The debt subject to that limit differs only slightly from the gross debt. Thus, it combines debt held by the public with the Treasury securities held by government trust and special funds. Once the debt limit is reached, the government must raise the debt limit, suspend the debt limit from taking effect, violate the debt limit, or default on its legal obligation to pay its bills. Congress has raised or suspended the debt limit more than 90 times since Raising or suspending the debt limit does not directly alter the amount of federal borrowing or spending going forward. Rather, it allows the government to pay for programs and services that

Congress has already approved. Nor is the need to raise or suspend the debt limit a reliable indicator of the soundness of budget policy. For example, Congress had to raise the debt limit more than 30 times between the end of World War II and the mids, even though the debt-to-GDP ratio fell very significantly over this period. Similarly, debt subject to limit rose in the late s â€” even though the budget was in surplus and debt held by the public was shrinking â€” because Social Security was also running large surpluses and lending them to the Treasury. The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.

5: State Balanced Budget Requirements

The balanced budget ammendment risks seriously harming the long term health of the U.S. economy. Initial implementation effects will lower aggregat e demand, and risk sending the.

Updated 12 April State Balanced Budget Requirements Requirements that states balance their budgets are often said to be a major difference between state and federal budgeting. This article is concerned with the nature, definition and eforcement of state balanced-budget requirements. Nature of state balanced-budget requirements All the states except Vermont have a legal requirement of a balanced budget. Some are constitutional, some are statutory, and some have been derived by judicial decision from constitutional provisions about state indebtedness that do not, on their face, call for a balanced budget. The General Accounting Office has commented that "some balanced budget requirements are based on interpretations of state constitutions and statutes rather than on an explicit statement that the state must have a balanced budget. In some states the requirement is that the introduced budget be balanced, or that the enacted budget be balanced. In other states policymakers are required to ensure that expenditures in a fiscal year stay within the cash available for that fiscal year. Other states may carry unavoidable deficits into the next fiscal year for resolution. There are three general kinds of state balanced budget requirements: The budget the legislature passes must be balanced 39 states and Puerto Rico. The budget must be balanced at the end of a fiscal year or biennium, so that no deficit can be carried forward 37 states and Puerto Rico. Such provisions can be either constitutional and statutory, but are more rigorous if they are constitutional since they are not subject to legislative amendment. Some states have two or all three of the possible balanced-budget requirements, and a few have only a statutory requirement that the governor submit a balanced budget. Weighing such considerations against one another, one federal study concluded that 36 states have rigorous balanced-budget requirements, four have weak requirements, and the other 10 fall in between those categories. What has to be balanced? State balanced budget requirements in practice refer to operating budgets and not to capital budgets. Operating budgets include annual expenditures--such items as salaries and wages, aid to local governments, health and welfare benefits, and other expenditures that are repeated from year to year. State capital expenditure, mainly for land, highways, and buildings, is largely financed by debt. Court decisions and referendums on borrowing have led to the exclusion of expenditures funded by long-term debt from calculations whether a budget is balanced. In practice, the following kinds of state revenues and expenditures also have little impact on state balanced budgets: Almost all federal reimbursements or grants to a state are committed to specific purposes, and the governor and legislature have little discretion over the use of most federal funds. Transportation trust fund money raised from state motor fuel taxes is usually earmarked for highways and other transportation purposes. Some tax collections may be diverted to local governments or other specified purposes without appropriations. Some states allow agencies or programs to collect and spend fees, charges or tuition without annual or biennial appropriations. In each case, it is practically impossible for revenues and expenditures to get out of balance, since expenditures are controlled by available funds. Thus it is not surprising that the focus of "balancing the budget" tends to be on the general fund although general fund expenditures compose only 50 percent to 60 percent of total state spending. Enforcement of balanced budget requirements State requirements for balanced budgets do not impose legal penalties for failure to do so. There are, however, two sorts of enforcement mechanisms. Prohibitions against carrying deficits into the next fiscal year and restrictions on the issuance of state debt help to enforce balanced budget provisions by making it difficult to finance a deficit. In many states governors or joint legislative-executive commissions can revise budgets after they are enacted to bring them into balance. Unlike the federal government, states are not able to issue debt routinely. Issues of general obligation debt require at least the approval of the legislature and in many states, voter approval. The issue of revenue bonds requires legislation to create an agency to issue bonds and the creation of a revenue stream to repay the debt. These practices mean that the issuance of debt is fully in the public view. It is extremely rare for a state government to borrow long-term funds to cover operating expenses, although. Louisiana did in and Connecticut did in There do not appear to be any other examples of this practice from recent years. A legislature and governor can jointly revise a budget at any time. But most legislatures are not in session throughout the year, and some legislatures meet only for a few months every other year. Requiring legislative consent for every change in a budget would impose delays or the costs of special sessions. Therefore, many state constitutions allow governors or special commissions to revise budgets after they have been enacted to bring expenditures into line with revenues. Thirty-six states allow governors some degree of authority to reduce spending when it is necessary to maintain a balanced budget, even if enacted budgets call for specific amounts of expenditure. Some states prohibit executive budget revisions, and many restrict the amounts and nature of such reductions. Some states have, in addition, joint legislative and executive boards or commissions that are constitutionally permitted to make budget revisions, for example, to deal with unforeseen revenue shortfalls, emergencies, or unanticipated federal funds. Practice State balanced-budget rules are not as rigid as those recommended for the federal government in the early s, which would have forbidden total expenditures above total revenues in any year and would have prohibited new borrowing. By this standard, states routinely run deficits because they borrow to finance capital expenditures. But this does not violate state balanced-budget requirements. Nor does rolling deficits in operating funds forward from one fiscal year to another, if a state constitution permits the practice. Fiscal stress, however, can induce governors and legislators to adopt expedients so they can observe the letter, if not the spirit, of balanced budget requirements. Among these are sales of state assets, postponing payments to vendors, reducing payments to pension funds, borrowing from one state fund to finance expenditures from another, and "creative" accounting. Such expedients reflect the stress that can arise between legal demands for a balanced budget and political demands for the continuation of state programs without tax increases. The fact that such expedients tend to be limited to times of fiscal stress is in itself a measure of how seriously state elected officials take their responsibility to produce balanced budgets. Briffault, Richard, Balancing Acts: The Twentieth Century Fund Press, Provisions and Practice Denver, Colo.: National Conference of State Legislatures, Reviewed December Email statebudget-info ncsl.

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