## Secrets of the federal budget revealed

In the first year of their first term, most presidents are trying to learn how to control the government. This is no easy task, even for former senators and cabinet secretaries with deep Washington experience. Most of them have little experience in leadership. Former governors have the experience in the executive branch, but usually lack an understanding of Washington. President Donald Trump has both weaknesses: no serious Washington experience of any kind and no leadership experience in government. He adds a third political defect: Trump doesn't seem to understand what he doesn't understand because he's so sure he already knows everything he needs to know. As he said about intelligence briefings, you know, I'm like an intelligent person. I do not have to say the same words and the same words every day for the next eight years. Some of his supporters thought that decades of experience in real estate development in snake pits like New York City and South Florida made Trump so hard and quick-witted that he could run anything. Others thought it was a pretty good experience for a president to play a boss on TV. A third faction didn't care what he did or how he did it as long as he disturbed the establishment. Only the members of the third group should be satisfied. Budget Blueprint When the president issued his instructions to Congress regarding the federal budget for the fiscal year beginning October 1, he stepped into the deep mud of the Washington swamp that he promised to drain. Unfortunately, there is no drain plug for him to pull. While congressional Republicans argued among themselves last week over the health insurance bill, the president's so-called budget bill remained in disarray and indifference. Republicans and Democrats declared the proposal dead on arrival, the same label that members of Congress have stuck to almost every presidential budget since the Carter administration. Advocacy groups, lawmakers, and governors of both parties were automatically shocked by the deep cuts in key programs contained in what some movie fans called a Hannibal Lecter budget. But the reference to cannibalism was misplaced. The Trump administration's new budget proposal does not include a reduction in federal spending. It ranks USD 54 billion from non-defense categories into defense categories, 10% for defense, and 10% for non-defense. The amount to be dislocated is about 5% of total discretionary expenditure and 1.4% of total expenditure. For most of the cuts, there are large percentages that are too small Lead. Proposed changes include: the Environmental Protection Agency (a proposed cut of USD 2.6 billion by USD 31%), the State Department (a proposed reduction of USD 11 billion), the Department of Labour (a 21% reduction of USD 2.5 billion), the Ministry of Agriculture (a 21% reduction of USD 4.7 billion) and Army Corps of Engineers (a 16% cut from USD 1 billion). There are also 19 agencies that list the Trump blueprint for extinction, including The Legal Services Corp., the Corporation for Public Broadcasting, the National Endowment for the Humanities, the National Endowment for the Arts, and the Appalachian Regional Commission. The draft budget says that spending on all of them is less than USD 3 billion. These agencies have often been on hit lists since 1965, and they always have more friends than enemies. The existence of a department, agency, office, or program in the federal government suggests that it has friends in high-altitude areas, such as Capitol Hill. That's not just because of a presidential election. Think of the first days of the Reagan administration, which also arrived in Washington with high hopes of shrinking the government through budget cuts. The Reagan administration was also among those appointed to the Blue Ribbon Commissions to seek fraud, waste, abuse, inefficiency, and awkwardness in government. The Grace Commission ambitiously delivered a series of critical reports, occupying about six metres of bookshelves. But when Chairman Peter Grace testified before the Senate Finance Committee, he summed up the problem this way: What is a man's waste is very important to someone else. The Reagan administration, like the Eisenhower administration before it, and the Clinton administration after that, has made enormous efforts to bring efficient management to the federal government. They all ran on the same stone: Congress created the spending programs and accepted the money, but it didn't and didn't raise enough revenue to pay for them. The kitchen table's budget director, Mick Mulvaney, said: This draft budget for 2018 will not increase the deficit. It was designed in a similar way to how each American family creates its own budget while paying bills around their kitchen table; it makes difficult decisions. This would be more credible if the typical American family could ignore the debts of their parents and grandparents, who are 30 years or more behind, and borrow as much next year as they did this year to cover expenses that exceed their income. Tough decisions are much easier in these circumstances. Mulvaney, a budget hawk when he was in Congress, paid lip service to the national debt. He said: Our national debt of 20 trillion dollars is a crisis, not only for the nation, but for every citizen. Every American has a share of that debt of more than 60,000 dollars. The Congressional Budget Office estimates that the entitlements, in the first place Social Security, Medicare, and Medicaid – plus interest on the debt – will increase the national debt by another 20 trillion dollars or more over the next 30 years. Compliance with the government's promises for future entitlement spending means that the total debt is 146% of the total domestic product in 2046, although a budget crisis could come sooner. Trump has promised not to manipulate Social Security or Medicare, and he has promised to propose big tax cuts. An intelligent person would realize that this is madness. But Trump has also called himself the king of debt, so there could be trouble. Editorial editor Thomas G. Donlan receives an e-mail to tg.donlan@barrons.com. Like Barron's on Facebook Follow Barrons on Twitter by Dave Ramsey Whenever the talking heads on TV start talking about the national economy, most of our eyes start to glave. The gigantic numbers they throw out are ridiculous; most Americans have no idea what these numbers mean in practice. So I thought it would be fun to turn these numbers into something we can understand a little bit better – like a budget. The federal government will raise 2.173 trillion dollars in 2011. That's their income, and it sounds pretty good. Until, that is, you take into account that the federal government will spend 3.818 trillion dollars over the course of the year. Like many families, the government exceeds their income – amounting to USD 1.645 trillion in overspending. This is called the deficit. In total, the government has debts of 14.2 trillion dollars. What would happen if John Q. Public and his wife called my show with such numbers? So their financial situation would pile up: if their household income were 55,000 US dollars a year, they would actually spend 96,500 DOLLARS – 41,500 dollars more than they made! This means that they spend 175% of their annual income! So, in 2011, they would add 41,500 dollars of debt to their current credit card debt of 366,000 dollars! Start today with a free trial of Ramsey+! What is the first step to get out of debt? Stop spending too much! But that means that a family accustomed to spending 96,500 dollars a year will have to learn how to live on 55,000 dollars. This is a hard pill to swallow. This kind of spending cuts are seriously damaging, but it is the only way out of debt for John Q. Public. If I had ever gotten a call from a family that spends 41,500 dollars more than they did every year, you'd definitely expect me to shout at them for their stupid behavior, wouldn't you? Children, no longer McDonald's four times a week. Snacks are now coming out of the grocery store. And we don't go to the cinema for a while, so break the board games and TV guide. This family has a problem, so it's time to amputate the lifestyle! It works for the government. You can't borrow from debt-free, whether you're a typical American family or the entire U.S. government. At some point you have to say: Enough is enough! and make the hard cuts necessary to win the long distance. PDF - Printable version As we wrestle with the country's economic problems, it is important to consider the reality of budget surpluses and and their relationship to the national debt and how the level of public debt affects the average American and the economy in general. But few discussions generate as much heat or confusion as those dealing with the federal budget deficit – and it is often a single misunderstanding of the budget that drives most misinformation. Why a balanced budget makes no sense In a misguided effort to promote understanding of the budget, many analysts describe the federal government's revenue and spending as if our government were a typical family arguing about stretching their monthly paychecks to cover expenses. This analogy, however, contributes to unfounded fears and public demands for unwise, draconian steps to force and enforce a balanced budget solution for federal legislators and executives. The analogy is wrong for several reasons: debt never ends. Unlike people whose lives eventually end, the government goes from one century to the next. As a result, the sovereign debt can be transferred to future generations, never fully amortized by paying interest on the outstanding balance, and re-inheriting new debt instruments when older obligations mature. Income is flexible. While families and individuals have a fixed income to cover their obligations, the federal government can quickly increase income through its tax policies, regulations, and debt collection measures. Expenditure is flexible. Individual government programs can be changed or even eliminated to reduce or delay spending. For example, if the retirement age for Social Security recipients simply increases, or if the executive branch for certain federal programs is transferred to state governments, federal spending will be reduced. According to Norman Ornstein, a resident at the conservative American Enterprise Institute, changing the balanced budget is the most irresponsible measure imaginable, and would eliminate the government's flexibility to respond to the needs of the public, whether it's an emergency like a hurricane or financial assistance to the unemployed during recessions. This is because a balanced budget by definition eliminates the possibility of a deficit or surplus, and emergencies are by definition unplanned and cannot be quantified before the actual event. In such a case, the Federal Government would be forced either not to act or to transfer funds from approved programmes in order to and possibly critical programs. Demands for a balanced budget are more likely to reflect the country's general distrust of elected officials and the belief that the privileged receive special benefits. The budget process is a pre-authorized spending plan approved by Congress and to be implemented by the president. The budget is calculated by the Several steps: The President submits his budget request for the following financial year every February. The president's current budget is typical of previous budgets in length, explanation, completeness, and complexity. Congress reviews, amends, and passes resolutions to pass the budget in every house. Historically, conflicts between the respective budget versions are resolved in a joint conference committee and then approved by the entire House or Senate. Congress approves budget spending by continuing previous laws where necessary and/or writing new laws. The appropriations committees and subcommittees of both chambers determine the actual resources that can be spent on the approved programmes. Some programs are authorized, but never funded, and vice versa. The impact of the budget on the federal debt limit The amount of federal debt outstanding at any time is determined and controlled by Congress – currently the debt limit is 16.39 trillion dollars. The U.S. Treasury Department uses the proposed spending authorization to determine whether the cap set by Congress will allow the federal government to meet its obligations. Budget deficits increase the amount of outstanding federal debt, while surpluses reduce debt. If a projected budget deficit will increase debt beyond the legal limit, the Treasury Department will ask Congress to either raise the cap or reverse prior approval of existing programs to avoid exceeding the limit. Congress has raised the debt ceiling 11 times since 2001. In any case, the process has stimulated strong political pressure and in-fighting, as a failure to raise the debt ceiling could result in the government ending social security payments, interest payments, or employee salaries. Factors that need to be taken into account through the federal budget, while the importance of the process and the need for a realistic budget cannot be overstated, the process and calculations to support the budget have become overly complex and sometimes deliberately misleading to serve the political purposes of the president, Congress, and their respective political parties. Think of the following when you look at the impact of the budget on the economy and the level of our national debt: 1. Spending On and Off the books Some issues are from the books and not reflected in the official deficit number, but are added to the national debt. For example, the expenditure of different agencies is not part of the and isolated from normal public control. The cost of the Strategic

Petroleum Reserve, the Pension Guaranty Corporation and the Postal Service Fund are just some of these agencies. Neither the Iraq war nor the war in Afghanistan were reflected in the budget calculations before 2009. Various legislative efforts have been made to the financing of the books, but it continues to survive. As a result, budget deficits or surpluses are misleading and do not reflect the actual costs of government policies. 2. Budget surplus or deficit definition Technically, the budget surplus or the budget deficit is the difference between actual cash recoveries from taxes and budgeted expenditure, not the actual expenditure incurred during the financial year. Since the difference between collections and expenditure is projected and not actually, the first analysis of deficit or surplus should always be considered suspicious, since reality generally leads to a different result. For example, President Bush's 2008 budget to Congress reflected a projected deficit of USD 240 billion – but the actual deficit reported by the US Treasury using the rules in force at the time was a deficit of USD 454 billion. The increase in the national debt for the year was, astonishingly, USD 1.9 trillion, largely due to off-books spending, which was almost eight times higher than the president's forecast for the year. 3. Loan guarantees Various federal agencies issue debt guarantees for products and services ranging from higher education and home ownership to the financing of small businesses. These guarantees are not reflected in the federal budget, but represent huge potential liabilities that may require payment in the event of a default. Since 2008, taxpayers have been forced to invest nearly 200 billion dollars in the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) after guaranteeing the mortgage-financed mortgages of these two quasi-federal agencies. The guarantees are not included in the budget calculations because it is not clear whether or when they could be used in the future. 4. Social Security and Medicare Many claim that the federal Insurance Contributions Act (FICA) tax, which is used to fund Social Security and Medicare (retirement and health care programs for older Americans), is Social Security and was never intended as part of public spending. FICA revenues in 2011 amounted to approximately USD 819 billion, with expenditures of USD 835 billion, an imbalance that will inevitably increase unless steps are taken to increase payments from future beneficiaries or reduce benefits. The outlook for the future budget deficit According to the Office of Management and Budget, since the election of Ronald Reagan recorded only four annual budget surpluses: the last three years of Bill Clinton's term (1998, 1999, 2000) and the first year of George W. Bush's term (2001). At the same time, however, the US Treasury reports that the national debt has increased every year since 1969, illustrating the difficulty of obtaining and translating financial data provided by various government departments and agencies into a meaningful figure. It is very likely that we will continue to have significant annual deficits, even if we have a robust gross domestic product (GDP) due to several factors: limited growth in tax revenues. If tax revenues remain at the current level of 15.5% of GDP, and the economy grows at a healthy 3% per year, federal revenues in 2016 will be about '2.68 trillion, which is not enough to cover last year's spending. Taxes are unlikely to be raised, as every member of the Republican Party in Congress has publicly promised Grover Norquist's Americans to oppose tax increases and vote against tax increases. Inability to cut federal spending. The economic upheavals of the last four years and the decline in global demand for products and services will leave a significant number of citizens in need of financial support for years to come. Democrats are unwilling to cut welfare programs without increasing taxes paid by top-tier taxpayers. Political and religious terrorism could reduce the country's ability to cut defense spending. Both man-made disasters (the Deepwater Horizon oil spill) and the natural (Hurricane Sandy) are likely to continue, forcing the federal government to intervene for humanitarian and practical reasons. As a result, federal spending is expected to rise, not fall. Continuation of political blockades. Despite poor public opinion and a lack of respect for elected officials, the Poles on both sides of the aisle continue to engage in Brinksmanship, pushing themselves to the most extreme elements of their respective parties. This behavior is likely to continue until a party wins a clear majority of both houses and the presidency, which is unlikely until the next presidential election in 2016. As a result, the country will continue to slide from one disaster to the next, led by a non-doing Congress and an ineffective president. Higher interest rates on federal debt. Historically, American debt has been considered the safest investment in the world. This status encouraged foreign property, especially the governments and citizens of China and Japan, to invest and accept a low interest rate in return for the exceptional security of our debt. Both countries are now facing internal economic stress and are unlikely to remain eager buyers, as they have been in the past. Moreover, America's own economic malaise and the inability of the cooperation, affects our financial reputation. It is likely that over the next four years we will have to pay higher interest rates on our outstanding debts. The federal budget reflects the nation's priorities and the importance of each program within that list of priorities. At the same time, the history of persistent fiscal deficits, which complement public debt, shows that the or inability to agree on which programmes should be continued, increased or eliminated, or to make the necessary sacrifices by increasing taxes to finance programmes on which we agree. Despite the inaction of elected representatives, we can solve our financial and economic problems with a combination of fiscal and entitlement reform, a stable economy, and a willingness to cover the deficits and gradually eliminate public debt. Our problems did not arise over a year or two, but over decades – and our solutions will require a similar period of time to be implemented. Implement.