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CUTTING GOVERNMENTS SPENDING: AN ANALYSIS OF THE BUDGET
CUTS WITHIN THE FEDERAL GOVERNMENT OF THE UNITED
STATES AND THE UNITED ARAB EMIRATES

A Thesis
Presented to the
Faculty of
California State University,
San Bernardino

In Partial Fulfillment
of the Requirements for the Degree
Master of Arts
in
Public Administration

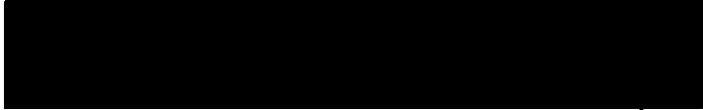
by
Saleh Jathlan Al-Mazrouei
September 2001

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Approved by:


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ABSTRACT

In both the United States and the United Arab Emirates (U.A.E.), the issue of budget cuts is one of considerable importance. This paper begins with an overview of the historical changes in the budgets of the U.S. and the U.A.E., and then discusses the nature of national government spending and outlines how and why government budgets in both countries have changed over time.

In the concluding section of the paper, I discuss whether budget cuts and other budgetary changes are in the best interests of the U.S. and U.A.E. The conclusion is that budget cuts in the United States may help to stimulate business but, at present, government spending on health, welfare, and other social service programs is so low that additional cuts within these areas may produce a major political backlash, especially from the disadvantaged of the elderly, mostly whom are on fixed incomes. In a similar manner, government budget cuts in the U.A.E. would make it more difficult for citizens to receive basic health care services but, at the same time, it would indicate to citizens that oil will not last forever and that they must take responsibility for paying more of their own social services costs.

This paper examines a variety of budgetary issues in both the U.S. and U.A.E., with the goal that a better understanding is obtained of both. To this end, this paper provides an informative, cross-national investigation of the nature of budgets and budgetary reforms within both countries. In this manner, readers are given the opportunity to draw their own conclusions about where national public budgeting is headed in the two countries.

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CHAPTER ONE

INTRODUCTION

This graduate research project examines the differences in public spending between the United States and the United Arab Emirates. In particular, it analyzes the ways in which the governments of both countries are seeking to cut unnecessary expenditures to improve the overall health of their budgets. Budget reform is a much-debated topic both within the United States and the United Arab Emirates and, for this reason, it is both pertinent and timely to focus upon it in this project.

Definition of Key Terms

Government spending, whether in the United States or the United Arab Emirates, is premised upon the assumption that an allocation of public goods must take place if society is to function in a productive, coherent manner. The allocation function comprehends the actions of governments that change the deployment of resources from the allocation the market would otherwise produce (Petersen & Strachota, 1991). In other words, government involvement and power in the resource-allocation process is necessary because the market can produce the socially optimal amounts of goods and services only when it is

possible to exclude from the benefits of consuming those who are unwilling or unable to pay public power in the child of market failure.

To protect citizens who are unable to pay from suffering unnecessary harm, governments must construct budgets that not only allocate goods and services to those able to pay for them, but they must also set aside a portion of such goods and services for future consumption by those with low incomes. For this reason, government's role in spending is more than merely helping markets to match quantities demanded with quantities supplied. It involves also the development of plans that can help cope with public problems like poverty, education, health care, sudden negative fluctuations in the economy, natural disasters, and self defense.

Overview of Government Spending

United States

Historically, federal government spending in the United States has focused heavily upon ensuring the survival and development of the country's military forces. As the United States has traditionally approached politics from a perspective of realism, it has placed considerable emphasis upon ensuring that it has the military might to

meet threats of aggression both at home and abroad. As the foremost factor of concern for the U.S. government is protecting the integrity of the homeland, a substantial amount of federal government spending has focused upon building up the military and ensuring its survival well into the new millennium.

Apart from its keen emphasis on the military, government spending in the United States has also focused upon issues such as Social Security, as well as others. Often, the nature of government spending changes to reflect political changes. Nevertheless, there is always a lively debate in Congress concerning the various government programs that should be scrapped and those that deserve further funding. It is within this arena of Congressional debate that the framework for federal government spending in the United States is decided upon (Sullivan & Meek, 1996).

United Arab Emirates

The United Arab Emirates presents a unique case study of government spending. Most governments throughout the world rely upon the collection of taxes to finance their spending. As a rentier state, however, *government spending in the U.A.E. has relied solely upon the revenue earned from the sale of its oil.* Thus far, the government does

not tax its citizens (or the expatriate community) in any way. Instead, it uses oil revenue to form the backbone of its government spending initiatives. For this reason, the country is highly susceptible to fluctuations in the price of oil (Al-Abed & Vine, 1996).

Government spending in the U.A.E focuses primarily upon ensuring that citizens have all of their basic needs met. For example, a large percentage of the U.A.E. budget is devoted to providing *free housing* to all citizens, in addition to providing *free health care*, *free electricity*, and *free education*. After meeting these basic services, funds that remain are either invested overseas through the Abu Dhabi Investment Authority (ADIA), or they are redirected to other Emirates (such as Fujairah or Ras Al-Khamiah) to be used in special project developments (Al-Abed & Vine, 1998).

Cuts in Government Spending

United States

It is only within the past few years that the United States has succeeded in balancing its federal budget. Until this time, the U.S. government had a substantial deficit that reflected an ever-increasing debt to wealthy individuals and countries throughout the world. Under the

Clinton Administration, the U.S. budget was balanced for the first time in several decades, and this represented a momentous turn of events for the United States.

Although the U.S. government is currently debating how to spend its budget surplus, hotly contested budget disagreements are still a primary feature of Congressional debate. Some legislators who would like to decrease or eliminate spending on programs such as welfare and Social Security, while there are others who believe that the government should decrease spending on the military and channel the remaining funds into programs such as national education and health care (Heineman, 1997). Thus, despite the presence of a budget surplus within the U.S. national budget, debates still ensue as to which government programs should be reduced or eliminated and which should be augmented.

Two of the most important areas of debate concerning reductions in the U.S. government budget concern military spending and welfare programs. In 2000 a new president was elected. In the compare, the candidates - Bush and Gore had a plan for how to increase or decrease various pet projects. Generally, the Democrats wanted to decrease spending on the military while at the same time changing welfare programs into welfare-to-work opportunities. In

contrast, the Republicans believed that the Clinton Administration had significantly weakened the U.S. military by withholding much-needed funds. Consequently, Republican presidential nominee George W. Bush was proposed increasing government spending on the military while gradually eliminating government spending on welfare and other projects that are considered unnecessary government "hand-outs" to the poor. In this manner, the battle over cuts in government spending continues especially with a closely divided U.S. senate.

United Arab Emirates

Although the government of the United Arab Emirates is currently in excellent financial condition, various government officials have been urging the country to cut spending. As stated in a letter from the Abu Dhabi Finance Department, dated 25 September 1998:

All departments are urged to make a significant reduction in their expenditures. Spending should be evaluated according to real needs of each department, taking into consideration lower - spending for unnecessary requirements.
(*Al-Ittihad* 1998, p. A1)

The request for government departments to reduce unnecessary expenditures does not reflect an acute financial crisis within the U.A.E. Rather, it represents an attempt on the part of the government to curb wasteful

uses of government resources. The funds that are saved in this manner will then be re-invested outside the country, in order that future generations of citizens might have the same benefits as their parents and grandparents. Thus, the financial cuts in the U.A.E. budget represent an attempt to curb wasteful spending and re-direct remaining funds toward more productive investments. Over the last few years, the U.A.E. has taken significant strides in developing the non-oil sector, such as trading, re-export, and tourism.

Summary

The national budgets of the United States and the United Arab Emirates are similar in that they represent an attempt by both governments to meet the needs of their citizens in the best manner possible. However, whereas the U.S. has to rely upon taxes as its primary source of government revenue, the U.A.E. still relies predominantly on revenue obtained from the sale of its oil.

Budget cuts in both countries are similar in that they are on going. Both countries are trying to wasteful spending in their budgets. However, the U.S. is also cuts some programs to maintain a balanced budget, the U.A.E. is affecting budget cuts to eliminate wasteful and

unnecessary expenditures and not programs. Consequently, the U.S. and the U.A.E. take different approaches to realizing the budget cuts that both believe are necessary.

The remainder of this investigation develops further the ideas introduced herein. It is hoped that, upon completing the paper, the reader will have a better understanding of, and appreciation for, the differences and similarities between the U.S. and U.A.E. budgets.

CHAPTER TWO

FEDERAL GOVERNMENT SPENDING

The first chapter briefly discussed the profile of national government spending in the United States and the United Arab Emirates, while the introductory chapter traced the general parameters of government spending within the two countries. This chapter attempts to examine more thoroughly the nature of government spending in the United States compared with the United Arab Emirates to highlight the primary differences and similarities in government expenditure in both countries.

Nature of Spending in the United States

Government expenditure policies show certain fluctuations from World War II onward. They vary between developing and non-developing expenditures. Radical changes in world politics and the end of the Cold War induced significant changes in U.S. policy toward government expenditure in order to give more priority to developing countries.

Due to the special political and economic situation of the United States, it could prioritize its expenditures in one of two ways: social welfare and economic

development or defense spending and massive spending on space programs. Due to its large government expense requirements, the U.S. government has been forced into maintaining (until recently) a budget deficit. Except for some peak years, expenditures in the United States exceeded revenues by about 20%.

Appendix A shows U.S. major spending during the period 1990-1999, and its percentage in relation to GDP. The percentage of outlays to GDP has dropped from 21.8% in 1990 to 18.7% in 1999. The decrease in the ratio of total outlays to GDP during the said period is mainly due to the resolution of discretionary spending.

Other factors have contributed to government pressures within the U.S. to curb price inflation. Government pressures to curb inflation during 1990-1999 could affect discretionary outlays. Appendix B shows that the percentage of discretionary outlays relative to GDP dropped from 8.7% in 1990 to 6.3% in 1999, and the major effect was on defense outlays where its percentage of GDP decreased sharply from 5.2% in 1990 to only 3.0% in 1999. This was mainly due to the end of the Cold War. International and domestic outlays decreased from .3% and 3.2% in 1990 to .2% and 3.1% in 1999.

Outlays for Means and
Non-Means Tested
Programs

The percentage of means-tested programs and non-mean tested programs shows significant differences during the period 1990-1999. Appendix C indicates a rise in the percentage of means-tested programs to GDP during the said period.

On the other hand, there was a decrease in the percentage of non-means tested programs during the same period. The percentage of total means-tested programs to GDP in general from 0.7% in 1990 to 2.4% in 1999, and Medicare formed 0.7% in 1990 and 1.3% in 1999.

By comparison, the percentage of non-means tested programs to GDP shows a slight decrease during 1990-1999, when it increased to 9.8% in 1991 and dropped to 8.3% in 1999. Except for Medicare, which showed an increase in its percentage to GDP from 1.9% in 1990 to 2.3% in 1999, all other non-means-tested programs showed a decrease in their relationship to GDP. For example, Social Security decreased from 4.3% in 1990 to 4.2% in 1999. Unemployment compensation decreased from 0.3% in 1990 to 0.2% in 1999, and Deposit Insurance from 1.0% in 1990 to -0.1% in 1999.

Recently, Social Security, Medicare, Medicaid, and other mandatory programs showed substantial growth and the

ability to confer additional benefits to Americans. The Federal Government is taking over roles once filled by families, communities, and voluntary organizations. By doing so, it is making more people dependent upon the taxpayer, whose tax dollars do not necessarily translate into additional benefits.

Table 3 shows net Social Security, which was designed originally as a safety net and now accounts for 23% of the federal budget. People who once took pride in providing for their own futures now depend almost completely on Social Security. Yet, the retirement benefits that Social Security confers are far lower than what the same payroll tax dollars could earn if they were invested in a secure portfolio of government bonds and equities.

Medicare, which was designed as a health care safety net, is now the leading provider of health services for elder Americans. Medicare comprises 12% of all federal spending, and many elderly Americans no longer plan for their own medical needs and willingly allow the federal government to tax their children and grandchildren to pay these expenses. The Clinton administration rejected the recommendation of the National Bipartite Commission on Medicare, a rejection that would have established a firm financial foundation for Medicare well into the future.

Medicaid now accounts for 6% of federal spending, and state Medicaid costs have increased rapidly. Local community medical centers that once served as a major focus of local philanthropy are now wards of a distinct federal bureaucracy. Additional mandatory spending programs, including primarily federal retirement, unemployment insurance, and farm payments, make up another 12 percent of the U.S. budget.

Mandatory or "entitlement" spending refers to any spending that is controlled by requirements established in permanent law, including indirect payments on the national debt and deposit insurance. Because mandatory programs are outside the annual appropriation process, their growth continues unabated until lawmakers change legal guidelines governing a program's eligibility requirements and benefits formulae. Hence, the overall composition of U.S. federal spending during 1990-1999 shows a greater priority towards social spending followed by emphasis on the national debt, military spending, and administrative agencies. Less of a priority is funds directed toward foreign affairs, transportation, and other federal programs.

In comparison to the United States, one must now ask, "What has been the composition of government expenditure

in the United Arab Emirates, based upon the most up-to-date information?"

Profile of Public Expenditure in the United Arab Emirates

Public expenditure has played a major role in developing the young country of the United Arab Emirates. Government expenditure policies had resulted in a radical shift in the country's living standard within a short time span, and the living conditions are now very Westernized. There have been many (efforts) by the U.A.E. government to expand its expenditures. One example was the push to create new beaches, roads, airports, and dry docks within Abu Dhabi and Dubai. In addition, in 2000 the government established a new free trade zone in Abu Dhabi in order to expand trade and diversify the country's economy.

During 1990-1999, there was a considerable increase in government expenditures, which rose significantly as a percentage of GDP. In 1994, government spending as a percentage of GDP rose from 5.3% to 13%, although it slowed down in 1995 as a result of competition within the construction sector. Nevertheless, the overseas public expenditure by the federal government reached \$4,960 million in 1996, compared with \$4,845 in 1995, thus

representing an increase of \$115 million, due mainly to an increase in development expenditures.

The U.A.E. continues to direct a significantly large portion of its expenditures toward the establishment of a modern infrastructure and the provision of a wide range of projects for achieving comprehensive and sustainable socio-economic development. The increase in U.A.E. government spending was fueled by surging oil prices, which increased the allocation for government subsidies.

Between 1995-1996 U.A.E. government spending increased by 15%. A breakdown shows that most of the increase in expenditure in 1996 went to salaries of non-U.A.E. citizens, which jumped to about \$4.7 billion from the previous year. New jobs and promotions boosted allocation for salaries to the nearly 50,000 civil servants to \$3.4 billion in 1996 from \$3.15 billion in 1995, while spending on the import of goods and services rose slightly to around \$4.6 billion from nearly \$3.6 billion. Development spending involved allocation for new ventures and projects under construction and declined in 1996. Loans were also cut, and foreign direct investment also declined substantially.

The recent (1999) U.A.E. budget raised estimated expenditures to \$6.23 billion as the priority of

government expenditure moved toward economic diversification away from oil. The increased government expenditures will be used primarily to finance housing projects for nationals as well as for higher education and social welfare, defense, security, and related items.

Despite significant social service spending, the U.A.E. government also argues that it need a significant national defense program. Such programs provide the opportunity for partnerships in various projects. Introduced in 1990, there are currently about 24 announced (offset projects) with a capitalization of \$300 million. These new offset ventures were announced during the International Defense Exhibition, IDEX 97. Now offset has become a well-established and important contributing partner toward the U.A.E.'s industrialism, and this development will take the U.A.E. a step closer to becoming a manufacturing economy.

However, the public expenditure of the U.A.E. government has its own particular nature, giving it implications for both development and non-development programs. While the government did not cut spending in order to reduce its budget deficit, it is still looking for ways to avoid the perils of debt. The government's priority includes maintaining the standing of government

services to both nationals and expatriates living in the country, in order to boost comprehensive socio-economic developmental commercial investment in human resources.

Differences and Similarities in Government Expenditure

Despite the various differences between the U.S. and the U.A.E., the two countries share some similarity budgetary goals. Both seek to reduce unnecessary expenditures and, at the same time, offer their citizens the highest living standards in the world.

Differences in Government Expenditure

The U.S. is a vast country with a huge population, comprising an area of nearly five million square miles and a population of 260 million. In contrast, the U.A.E. is a country with limited geographical land not exceeding 46,000 square miles (about twice San Bernardino County) and consisting of a population of less than 2 million a population that is significantly smaller than U.S. cities such as Los Angeles, New York, or Dallas.

This divergence in geography and demography between the two countries requires different types of public expenditures. For example, a country such as the U.S. requires substantial government expenditure for the

transportation sector, while a country such as the U.A.E. has less of a need for a developed transportation sector.

Economic differences also divide the U.S. and the U.A.E. For example, agricultural production is high in the U.S., and it is also very advanced technologically. In addition to agriculture, the U.S. also relies upon steel, chemicals, motor vehicles, aircraft, telecommunications, and computers to bolster its economy and provide government with the financial resources necessary to fund programs. In contrast, the U.A.E. relies predominantly on oil, although it does have some aluminum smelters, cement factories, and steel rolling mills.

The differences in productive capacity between the U.S. and the U.A.E. mean that the two countries must have different government budgets. Thus, while the U.A.E. government requires more spending for social services, the U.S. requires greater spending for defense and space programs.

Similarities in Government Expenditure

Despite variations of different aspects of public expenditure between the U.S. and the U.A.E., both countries have some similar public expenditures. They both have concentrated on developing social services and

welfare. Social spending forms a considerable part of total spending in both nations. In addition, education and investment in human resources receive equal importance in both countries. In addition, expenditure on health care plays a substantial role in medical development within both countries. While the U.S. has realized a tremendous technological revolution within its health services sector, the U.A.E. has also witnessed progress within this field. Based on the fact that both countries enjoy economic growth and have experienced budget surpluses, there have been in positions to increase government expenditures even more to improve public welfare and economic prosperity.

CHAPTER THREE
THE UNITED STATES FEDERAL
BUDGET

Historical Examination

Many countries look to the United States as a model of success, both in terms of economics and politics. Until the 1950s, the United States was also a model society in terms of balancing government budgets. However, following the end of World War II and the beginning of the Cold War, the government's budget whirled out of control as military expenditures exceeded the revenues that the government was collecting in the form of taxes. For nearly 50 years, the government's budget deficit grew, and other countries began to look for ways to prevent similar deficits from taking hold of their economies. In this chapter, I examine both the downfall of U.S. balanced budgets as well as the steps that the Clinton Administration took to reverse the deficit trend that had taken hold of government finance.

Some suggest that the role of the government is essentially that of a money manager. Congress is responsible for collecting revenue (i.e., taxes) and then determining how best to expend them. Although Congress's other duty (namely, making laws) should not be overlooked,

it should be borne in mind that laws will be ineffective if funds have not be appropriated to the appropriate agencies to implement current and future legislation.

Historically, the U.S. budget has been caught in the quagmire between Democratic and Republican contentions (McGuire, 1998). From the country's inception, the issue of how to manage the nation's money and how to distribute it has been at the forefront of policymakers' concerns. Even today, legislators debate the merits of funding various projects, and it is within such debate that the potential for resolving budget issues in the best interests of the nation resides.

Attempts to Impose Fiscal Discipline

The American preference for a government that is divided along Republican and Democratic lines has made coordination through the budgetary process particularly difficult to achieve. The costs of fragmented government were tolerable under the conditions of high prosperity and rapid economic growth that characterized the 1945-1965 period (Platz, 1995). Since that time, however, the economy has become less prosperous. Slowly but surely, awareness has grown that fragmented government cannot set spending priorities or control spending in an increasingly

difficult economic environment. This, in turn, has caused the budget to grow. A movement to achieve fiscal discipline by regulating government expenditures began in the 1970s and continued into the 1980s. These efforts have not succeeded, due in part to the fact that in many instances they have threatened the very existence of particular local governments. Their failure has ushered in the danger of a complete breakdown of fiscal discipline. The following figure details budget deficits, surpluses, debt, and related items for Fiscal Years 1960-1999. The data suggest that, between these years, government debt grew to new highs that could not be sustained.

Table 1.

Historical Budget Data

Year	Deficit or Surplus	Debt held by Public (in billions of \$)	GDP
1960	*		520
1961	-3	237	531
1962	-7	238	569
1963	-5	248	600
1964	-6	254	642
1965	-1	257	688
1966	-4	261	757
1967	-9	264	812
1968	-25	267	870
1969	3	290	949
1970	-3	278	1014
1971	-23	303	1093
1972	-15	32	1178
1973	-15	341	1314
1974	-6	344	1442
1975	-75	395	1559
1976	-74	477	1736
1977	-54	549	1975
1978	-59	607	2219
1979	-41	640	2505
1980	-74	710	2732
1981	-79	758	3060
1982	-128	980	3231
1983	-208	1132	3442
1984	-185	1300	3847
1985	-212	1500	4142
1986	-221	1737	4398
1987	-150	1889	4654
1988	-155	2051	5017
1989	-153	2190	5407
1990	-221	2411	5738
1991	-269	2688	5928
1992	-290	2999	6222
1993	-255	3427	6561
1994	-203	3432	6949
1995	-164	3603	7323
1996	-108	3733	7700
1997	-22	3771	8183
1998	69	3720	8636
1999	124	3633	9116

Source: Congressional Budget Office, U.S. Department of Commerce

During the 1970s

In 1974, Congress established budget committees for each of its two houses. These committees were charged with establishing spending limits for each of the seventeen broad categories in the federal budget (DeClarico, 1998). The two committees were expected to bring fiscal discipline to the numerous other committees and subcommittees that had failed to accomplish this goal in the past.

Although the creation of the budget committees was the most significant step Congress took toward managing government spending in the 1970s, the inherent limits of the process to work effectively on its own were severe. A floor vote of either house could overturn the recommendations of its budget committee in favor of the recommendations of its older fragmented and logrolling committees. From the beginning, it seemed clear that only with the help of strong presidential leadership would the budget committees win decisive victories for budgetary coordination and fiscal discipline.

During the 1980s

In 1981, President Reagan provided leadership for the budget and exercised it largely through the two budget committees. By presenting his proposals for an

unprecedented \$40 billion in spending cuts to the budget committees, and insisting on quick, decisive action on their recommendations, the President forced Congress to vote on broad rather than narrow categories of spending (Olgelvy, 2000). The older committees and subcommittees did not have time to break these broad categories down into their program-size components and to rally affected interest groups to restore funds for their programs.

The triumph of the presidential activated budget committees did not last long. Despite the budget cuts, President Regan's own budget was badly out of balance and poorly developed, partly because of massive defense increases that were to be financed in the face of huge tax cuts. The budget committee leaders were willing to compromise on a number of their own program priorities in order to restore fiscal discipline through the new budget process, but the President was considerably less willing to do so.

When the budget committee chairs and other congressional leaders suggested a bipartisan compromise, which included raising taxes and lowering the growth rate of military spending, in order to lower federal deficits, the President abandoned the two-committee leaders and the new budget process.

By the summer of 1983, a number of press reports stated that the President would be happy to see the budget process fall on its face rather than alter his priorities on military spending and tax cuts (Olgelvy, 2000). Thus, left on their own, the budget committees could win no more decisive victories for maintaining fiscal discipline. Annual federal deficits ballooned from \$60 billion to more than \$200 billion by 1986.

During the 1990s: A Balancing Act

The failure of Presidents George H. Bush and Clinton to restore fiscal discipline by conventional political efforts revived the idea of a constitutional amendment mandating balanced budgets. The idea was popular with the general public, a large portion of which viewed it as a kind of magic wand that could achieve what a fragmented political system could not (McGuire, 1998).

In the 1994 congressional elections, Newt Gingrich led a movement that included a balanced budget constitutional amendment in their "Contract with America." After achieving a historic election victory in the 1994 election, the Republican majorities in each chamber put this proposal to a vote. The proposed amendment passed the House easily, but failed in the Senate by one vote of obtaining the necessary two-thirds for passage. The

extraordinary energy that the Republicans put into this effort reflected a widely held belief that fiscal discipline could not be restored by ordinary politics; that is, by incremental decision making.

But even if the amendment had passed both houses of Congress and been ratified by the states, it would have faced problems similar to those experienced in the past. That is, the American Constitution creates three branches of the national government: the President, Congress and the Judicial. The Constitution establishes the independence of all three, and provides no mechanisms for coordinating them. In this respect, an amendment that does not reconstitute basic political relationships can hardly be more effective than a statute.

Consequently, proponents of a constitutional mandate tend to oppose an activist Supreme Court. Yet the Court, in its traditional role as the final arbiter of the Constitution, might become the final arbiter of the federal budget. More likely, a four-way struggle among the two elected branches and the federal courts headed by the Supreme Court would ensue. The result would create more indecision and result in even greater difficulties in trying to resolve budget disputes.

Role of Budget Cuts in Maintaining Government Spending

Balancing the budget is facilitated by cuts in spending. Cuts in spending are never popular, and they are especially unpopular in a country such as the United States, which provides few, if any, social services, compared with other Western European, industrialized democracies. Thus, when cuts are made in education, Medicare, and so forth, they have an even greater impact on the poorer members of society who are unable to earn a living wage.

In the early 1990s, Republican President Bush and the leaders of the Democratically controlled Congress wished to avoid the large automatic spending cuts that they saw looming under the provisions of various bills. After extensive maneuvering and one failed attempt at compromise, a bipartisan agreement was finally reached on a five-year, \$490 billion deficit-reduction bill. The major points of the compromise were tax hikes on wealthier Americans, increased gasoline taxes, and cuts in Medicare.

In addition to specific tax hikes and spending cuts, the compromise included important structural provisions designed to enforce budgetary restraint. Caps were placed on certain kinds of discretionary spending. No spending

increases would be allowed on these items before 1996.

"Pay as You Go" provisions were applied to entitlement spending programs including social security and Medicare. Congress could increase spending for these programs only if it enacted tax increases to pay for them or cut spending in other programs to offset them.

United States Budget Today

Republicans' Perspective

Few conservatives would question the statement that the federal government operates too many programs and spends far too much money. Indeed, as America enters the 21st century, total federal outlays have reached \$1.8 trillion one-fifth of the nation's entire wealth as measured by gross domestic product [GDP] (Sperry, 2001).

From a Republican perspective, not only does Washington spend too much money, it also wastes money on unnecessary programs. For Republicans, federal over-spending is caused by three basic habits. First, politicians exaggerate non-existent or trivial problems to justify new programs or pour more funds into existing ones favored by special interests. Second, an institutionalized "we can do it better than you" attitude tempts Washington to make a federal case out of almost every problem. Third,

if a problem is solved or a mission achieved because of federal intervention, Washington refuses to retire the agency or the initiative (Issue 2000, 2000).

According to Republican ideology, America has outgrown the need for a large government. America is entering the new millennium more prosperous, productive, and more satisfied (Sperry, 2001). For Republicans, the only role for government is that of protecting national security, managing an efficient judicial system, and developing a sound foreign policy (Sperry, 2001).

The Republicans are especially concerned with the following details:

Federal domestic discretionary spending has grown from \$181 billion in 1990 to over \$300 billion in 2000, an increase of 65 percent in just 10 years. Total federal outlays have increased \$600 billion since 1990. Economic growth in the private sector has increased federal revenues from \$1 trillion to \$1.9 trillion over the same period; the result has been sustained federal budget surpluses for the first time in a generation. Consequently, the most critical budget-related questions facing candidates and voters in the 2000 elections concerned how much of this excess tax revenue should be controlled by government, and how much should be returned to the people to enable them to save and invest for their futures? (Issues 2000, 2000)

To deal with the various difficulties that a balanced budget presents, Republicans have proffered the following principles of federalism:

1. A government policy that governs least will govern best. Excessive federal spending undermines freedom and prosperity. Policymakers must restructure the federal government so that it can focus on its core responsibilities and perform them well.
2. Budget accountability is key. The federal budget contains over 1,500 line items to fund 19 broad budget function categories. Such a process supports a government full of redundant, obsolete, and overlapping programs at the same time that it hides waste, fraud, and abuse. Congress and the president have a responsibility to voters to make the budget process more accessible and to force the unelected federal bureaucracy to be more accountable for producing results for the money that it spends.
3. Excess tax dollars belong to the people, not the bureaucrats. Budget surpluses should be returned to the people in the form of tax cuts.
4. Decisions about public spending should be made as close to the people involved as possible. Programs and policy implementation efforts should be devolved to the level of government

closest to the people involved, regardless of any claims of economies scale that large bureaucracies put forth.

5. Middle-class entitlements and corporate welfare should be curbed. Policymakers should not use middle-class entitlements and corporate welfare as a way to gain popular support for wasteful programs (Leadman, 2000).

Democratic Party's View of the Budget

From the Democrats' perspective, one of the most important considerations is the Congressional Budget Office's baseline forecast, which is intended to measure the implications of maintaining current budgetary policies. However, how one should project current policy into the future is not always obvious. The baseline forecasts project current policy subjects to a variety of statutory requirements, which limit the scope of the forecast's underlying assumptions and time horizons. Revenues, offsetting receipts, and mandatory spending are generally assumed to continue as they are currently structured in the law.

One of the areas with which Democrats are particularly concerned is that of entitlement programs, which include programs such as Medicare and Medicaid, as

well as retirement benefits (Social Security). When Democrats analyze entitlement programs, they often look ahead. For instance, looking beyond 2010 is particularly important because the rapid growth in entitlement programs is driven by an aging population and by rapidly rising medical care expenditures (Auerbach & Gale, 2000). To take these and other factors into account, one must estimate the long-term fiscal gap.

The fiscal gap is the size of the permanent increase in taxes or reductions in non-interest expenditures (as a constant share of GDP) that would be required now to keep the long-run ratio of government debt to GDP at its current level. The fiscal gap gives a sense of the current budgetary status of the government, taking into account long-term influences.

To generate these estimates, the Congressional Budget Office uses 10-year forecasts. After that, one assumes that all revenues and non-interest expenditures will remain a constant share of GDP (Auerbach & Gale, 2000). Social Security and Medicare outlays follow the intermediate projections in the reports released by the trustees of the funds. Discretionary spending, federal consumption of goods and services, and all other government programs, with the exception of net interest,

are assumed to grow with GDP after 2010. Tax revenues are a constant share of GDP, except for supplementary medical insurance premiums collected for Medicare, which grow relative to GDP.

As one source analyzes the aforementioned data:

In light of the recent political pressure to raise spending and/or cut taxes, it seems highly unlikely that there will be any immediate action to reduce the fiscal gap. But delaying the implementation of necessary tax increases or spending cuts will simply raise the required fiscal correction at the time of implementation. (Auerbach & Gale, 2000)

In the 1980s and the early 1990s, when the country faced both short-term and long-term deficits, the short-term deficits helped focus Democrats' attention in a way that helped reduce long-term gaps. Today, the United States faces the same trade-off between current and future generations as in earlier decades, and it is still confronting a long-term shortfall. But, the current policy for the Democrats focuses on ways to use the budget surplus that would improve living standards for the majority of Americans.

Managing a Budget Surplus

Until recently, large and persistent deficits dominated the federal budget. For most of the past two decades, lawmakers struggled to find common ground on new

policies that would eliminate those deficits. In the 1980s, their efforts met with little success; but in the 1990s, a strong economy and the end of the Cold War combined with a series of three multi-year budget agreements (in 1990, 1993, and 1997) to produce a dramatic reversal in the federal budgetary outlook.

The reversal happened with stunning speed. Fiscal year 1998 ended with a sizable surplus of about \$70 billion in the total budget (Dwight, 1999). The Congressional Budget Office projected that under current policy and current assumptions about the economy, surpluses in the total budget would continue to grow.

Nevertheless, the emergence of projected surpluses does not mean that budgetary discipline should be abandoned. For at least four reasons, choices and trade-offs must be made, even in an era of surpluses:

1. If the economy weakens significantly, projected surpluses in the total budget could diminish or disappear, and the emergence of on-budget surpluses could be delayed. Major new budgetary commitments that were not offset would only hasten such a trend.
2. Maintaining budgetary discipline would help ease the long-term budgetary pressures that will emerge with the aging of the baby-boom generation. In fact, annual deficits are projected to return as those pressures mount after 2010.

3. The discretionary spending limits and pay-as-you-go requirement established by the Budget Enforcement Act of 1990 are still in force. In particular, the limits for 2000 allow for less spending than was appropriated for 1999. Trade-offs will be necessary to keep spending within those limits and still fund priority programs.
4. Trade-offs will also be necessary to allow paying down the national debt. In particular, major budgetary proposals should take such likely effects into consideration. (Dwight, 1999)

Although burgeoning surpluses may seemingly widen the range of policy options, they do not make them easy or obvious. Changes will be controversial and complex, and reaching a consensus on them is likely to be a difficult and protracted process. As lawmakers consider the various options, maintaining budgetary discipline will help to preserve projected surpluses and lower the federal debt.

As can be seen from the information presented in this chapter, the U.S. federal budget has been marked by periods of considerable debt as well as by periods of balanced growth. Currently, the U.S. budget remains balanced, and President George W. Bush is planning a significant tax decrease for citizens. However, given that the economy is slowing and more people are becoming unemployed, one wonders whether it will be possible to maintain a balanced budget. At some point, the U.S.

government must recognize that it cannot pay its bills without incurring debt if it does not have a source of revenue.

CHAPTER FOUR
THE BUDGET OF THE UNITED ARAB
EMIRATES

Historical Examination

Since it gained statehood, the government of the United Arab Emirates has sought to create a federal budget that relies predominantly on oil revenues. For this reason, observers classify the state as a rentier one (Snyder, 2000) and note that, unless it can diversify, the chances for federal budgetary surpluses remain meager.

To understand the nature of the U.A.E.'s rentier economy, one must recognize that U.A.E. public finance has been immensely affected by the large decline in crude oil prices and, consequently, oil revenues. Oil is still the dominant source of income and plays a significant and crucial role in the economy of the entire region (Al-Mualla, 2000). In 1998, the decline of oil prices as a percentage of GDP created a significant deficit budget deficit and has negatively impacted government activity.

By 1999, however, oil prices began to rise, producing a positive impact upon the government's budget. Nevertheless, it is important to point out that the U.A.E. government remains so dependent upon oil revenues that a

decline in oil prices can have a deleterious impact upon government spending. In contrast, a rise in oil prices can produce significant budget surpluses. However, as capitalist economic systems must learn to control business cycles, so too must the government of the U.A.E. learn to minimize the impact of changes in the price of oil. One way that it can accomplish this is by diversifying its economic base and investing in non-oil economic sectors such as business and finance.

Currently, oil revenues are expected to increase to about \$14 billion in 1999, compared to \$8 billion in 1998. These revenues represent 63% of the country's total revenues generated in 1999 (Al-Siddiqi, 2000). Other revenues from non-oil sectors have increased, including revenues generated by ministries, local governments' services, and customs departments. Such revenues are expected to reach \$16 billion in 1999 (Al-Siddiqi, 2000).

Historically, the U.A.E. federal budget has been based, as noted above, upon oil receipts. Although the U.A.E. government has spent considerable time and effort developing its oil sector, it nonetheless recognizes that it must diversify into new markets. As such, emirates like Dubai have developed a trade-based economy that relies predominantly on national and international business.

Although other emirates view Dubai as a model of success in terms of diversification, emirates such as Sharjah, Ajman, Um Al-Quwain, Ras al khaymah, and Al Fujayrah simply do not have the revenues necessary to diversify in this manner.

To understand the U.A.E. federal budget, one must understand the general structure of how the government provides money and benefits to the emirates. The emirate of Abu Dhabi, which is the seat of power as well as the emirate possessing the largest oil reserves, provides the financial means for the budgets of the other emirates. That is, the six other emirates rely upon the financial resources that Abu Dhabi gives them via its significant oil revenues (Al-Jazer, 1999). Thus, once Abu Dhabi calculates its budget for a given year, it then allocates resources to the other emirates on the basis of land/population ratios. The other emirates, in turn, form their budgets on the basis of the funds that Abu Dhabi will contribute during any given fiscal year.

In general, one of the most important areas of budgetary spending is education (Al-Otaiba, 1998). The government places considerable importance upon educating its citizens and, as proof of its import, one need only examine the federal budget. In the federal budget for

2000, education received 15% of total government spending allowances. Thus, the U.A.E. believes that if it is to diversify away from oil, it must have an educated citizenry that is capable of spearheading such diversification projects.

Another important component of the U.A.E. budget is healthcare. During the past ten years, the government has increased the amount that it allots to this important sector. Unlike other developing countries, which spend more on military procurement than on healthcare, the United Arab Emirates emphasizes that a healthy, educated citizenry is the best guarantee that the country will survive in the event that Western countries no longer have use for its significant oil reserves, or oil reserves are depleted.

To better understand the budget of the U.A.E., consider the budgetary outline for 1999 as presented in Table 3. From this budget, it is clear that the U.A.E. receives more than half of its budgetary funds from oil resources. At the same time, its current expenditures greatly exceed its capital expenditures, meaning that the country has absorbed some short-term debt. This debt, however, is not significant, and the U.A.E.'s financial reserves in countries such as Switzerland and the United

Kingdom are more than sufficient to offset this financial imbalance (Al-Siddiqi, 2000).

Today, public expenditures constitute an important factor in activating the local market through the immense developmental expenditures in which the government participates. Total public expenditures amounted to roughly \$23 billion in 1999, representing an increase of \$500 million over 1998 figures (Al-Mualla, 2000). The government considers such an increase to be in line with its policy that aims to rationalize expenditure and reduce the deficit. Such improvements in the reduction of financial deficit can be attributed to the significant increase in oil revenues.

Role of Budget Cuts in Government Spending

According to a recent article in *Gulf News*, the government of the United Arab Emirates is becoming more concerned with finding ways to reduce its short-term debt (Jameson Al). In addition, although the country has a high confidence rating from financial institutions like Moody's and Llyods of London, it must nonetheless find new ways to convince investors that the United Arab Emirates is a safe place for their financial resources. Thus, to reduce

short-term debt and promote investor confidence, the government is looking to cut various budgetary programs.

Currently, the U.A.E. is one of the most successful welfare states in the world. Its citizens enjoy free education, free health care, free housing, and generous pensions with little or no obligation on their part. In fact, the government confers such benefits to all citizens of the U.A.E., regardless of whether they are employed, are traveling, or reside abroad. Despite such myriad benefits, the government recognizes that such expenses are costly and that, over the long run, they must be reduced. Their reduction will trigger a series of protests within the country and, for this reason, the government is searching for ways that it can implement budget cuts without sparking nation-wide protests.

One of the principal areas in which the government hopes to begin implementing budget cuts is in the relatively harmless section of automobile subsidies. Currently, the government provides citizens with the money that they need to purchase cars overseas and import them into the U.A.E. However, not only is this costly for the government, but it also contributes to an increasing congestion and pollution problem within major cities such as Abu Dhabi and Dubai. Thus, one of the first areas in

which the government hopes to begin making budget cuts is one that is likely to have little significant impact, especially since citizens will still be able to purchase vehicles from dealers within the U.A.E.

Despite budget cut ideas such as those mentioned above, the government of the U.A.E. remains apprehensive to do much more than sabre-rattling when it comes to actually making budget cuts. It fears that regional crisis will break out once budget cuts are implemented. In particular, U.A.E. ruling elites look to countries such as Saudi Arabia, which also experimented with budget cuts, and fears that popular unrest will upset the country's otherwise politically stable environment. As political unrest will result in a loss of investor confidence as well as civil disobedience, the U.A.E. fears budget cuts that will anger the population as well as foreign investors.

Although the future of budget cuts remains uncertain, it is clear that the U.A.E. cannot continue indefinitely to provide its citizens with the luxuries of free health care, education, accommodation, and transportation. That budget cuts will eventually have to be made is inevitable, but what is most pressing is the fact that the country must realize that its oil resources (and, perhaps, demand

for its oil resources) will also not continue indefinitely. Thus, the government will have to make very hard choices but, if it can make these choices rationally and calmly, it is likely to experience a somewhat less hostile domestic reaction to budget cuts.

C. Current States of Budget Cuts Within the U.A.E.

Currently, the government has not embarked upon any significant budget cuts, fearing that such cuts will produce an unpleasant domestic response. This is not to say, however, that the government shirks its responsibility to manage the country's budget and financial matters. The government is keen to ensure that it does not incur any significant long-term debt but, at the same time, it is unwilling to upset the relative political harmony that the country currently experiences.

In terms of social services, the government is unlikely in the near future to look to this sector as a source of possible budget cuts. The social services sector includes social and personal services together with governmental services. It attained 13.6% of the U.A.E.'s total GDP in 1999 (Samer, 2001). The U.A.E. government has given special priority to this sector through the provision, development, and dissemination of various services, especially education, health, social care,

utilities, and so forth, which have achieved a high degree of efficiency and development. The country's high living standard and increase in income levels have lead to an increase in the volume of demand for such services.

The country's keenness to provide governmental services to all citizens is one of the main goals in the government's sustainable development process. For this reason, the U.A.E. is unlikely to center budget cuts within this sector. However, given that the social services sector is one of the most expensive sectors that drains government financial resources, one would think that the government would like to reduce costs in this area. The reality, however, is that the government simply cannot afford to do so, at least in political terms.

One of the spending areas that the government has considered cutting is infrastructure and development. Currently, the government follows a policy that enables it to replace buildings and infrastructures that were built more than ten years ago. Often, the destruction and reconstruction of such buildings is unnecessary but, because it generates some financial resources for the government-owned companies involved, the government has not sought to stop such practices. However, given the country's need to reduce its budget, diminishing resources

devoted to construction and development may be a good start (Magen, 2000).

As can be seen, the government of the U.A.E. is keen to reduce spending but, at the same time, is uncertain of where such spending cuts should be made or when such cuts should take place. In addition, the government is reluctant to engage in too significant of budget cuts, for fear that such cuts will result in social upheaval wherein the citizens attempt to overthrow a government that they believe is acting against their best interests. The key to reducing the country's dependence on what amounts to government welfare is to implement budget cuts very slowly. If the government moves too quickly, citizen approbation is likely. However, if the government moves too slowly, economic tensions may result. Thus, the government is in a precarious position in which the one option *not* available is the decision not to act.

Theoretical propositions abound here. All governments, to survive, must maintain the allegiance of a majority of citizens. However, when policies aimed at ensuring arrival all have negative downsides, ruling elites at total vats in a skinner box -- They get burned whichever direction they move

CHAPTER FIVE

THE NECESSITY OF BUDGET CUTS

Necessity of Budget Cuts

In this research project, the goal has been to illustrate the similarities and differences between government spending in the United States and the United Arab Emirates. In particular, the paper focuses on the nature of budgets and budget cuts, illustrating whether any similarity exists between the two countries. At this point, the following conclusions can be reached.

Are Budget Cuts Necessary

Currently, the U.S. is experiencing what for the past forty years has been a non-existent phenomenon: a balanced budget. The government has managed to balance incoming revenues with expenditures and, in this manner, has reconciled its debt. However, the country still maintains a considerable current account debt, implying that the country's exports are less than its imports. In the long-term, failure to balance the current account may have a significant impact on the ability of the U.S. government to balance its budget (Josplin, 2001).

The U.S. government was able to balance its budget during the second term of Bill Clinton's presidency. One

of the most significant reasons for Clinton's success stemmed from the tremendous overall economic health and the boom in retail sales. Consumer confidence was high, and it was as though the country could (financially) do no wrong. Within this setting, Clinton had only minimal difficulty getting Congress to pass his plan for balancing the budget.

Despite the fact that the budget was balanced, one must examine the importance of a balanced budget during times of economic well being as well as during times of economic downturn. Currently, the United States is experiencing an economic slowdown, where it is witnessing the failure of many small businesses and an increasing inability of consumers to pay their debts. Under such circumstances, one must question whether the U.S. can afford to engage in further budget cuts. At the same time, one must also question whether the Republican Party is the ideal party to have in charge of budget cuts during a downturn in the business cycle.

The Republican Party platform stipulates that government budget cuts are necessary to reduce an otherwise bloated bureaucracy. But, during economic turmoil, government spending is necessary to stimulate the economy. In the absence of such spending, the negative

impact of downturns in the business cycle can be great, especially on the lower-income members of society (Carroll, 1998). Thus, one must question whether the current state of the U.S. economy warrants further budget cuts.

If anything, one could argue that budget cuts have gone too far in the United States. One of the most important factors that contributed to Bill Clinton's success in balancing the budget was the fact that he lowered government spending on health care, welfare, and other public assistance programs. Although the decrease in spending within these sectors stimulated the economy and helped to balance the budget, it produced a very serious, if not harmful, impact upon the nation's lower and lower-middle income families. In fact, many families find it difficult to pay their bills despite the fact that they may have two or more wage earners (Ehrenreich, 2001). Thus, one could argue that the United States should not continue to promote budget cuts, at least not at a time when the country is experiencing an economic downturn.

In contrast to the United States, the United Arab Emirates should seriously consider budget cuts. But, whereas the United States will consider budget cuts primarily within the realm of social services, the United

Arab Emirates is loath to make any serious cuts within this sector. However, given the size and significance of the welfare state within the U.A.E., it is clear that this must be the target for budget cuts.

Despite the fact that budget cuts within the U.A.E. are necessary, one must recognize that any budget cuts will be seen as an outright attack on a population that has grown accustomed to free social services and extended holidays. This, in turn, makes it difficult for the government to decide where and when such budget cuts should be made. The deciding factor in budget cuts is ascertaining how the cuts will affect different segments of the population and, if so, to what extent. The best policy for the government to follow is to begin budget cuts in those sectors, such as development and infrastructure that will have the least direct impact upon citizens' quality of life.

Budget cuts in the United Arab Emirates are necessary because the U.A.E., unlike the United States, is primarily dependent upon one resource to support its economy: black gold. Austerity measures now could help citizens to acclimate later, when oil resources are used up or when the developed countries switch to alternative fuel sources. If the government unnecessarily prolongs budget

cuts, and if the country faces a situation in which others no longer want its oil, it will be too late to remedy the situation and, at the same time, keep the populace at bay.

Thus, one of the only choices open to the government is to begin budget cuts as soon as possible. Whereas one could argue that budget cuts in the United States have gone too far and have hurt rather than helped the majority of Americans, one could argue the opposite in the case of the United Arab Emirates. In the U.A.E., budget cuts have not gone far enough, if they have gone anywhere at all.

The government has made some efforts in the area of discussing budget cuts, but it has yet to implement them (Al-Faiyom, 2000). When the public learns of proposed budget cuts, they are adamantly opposed to any cuts that will alter their lifestyle. In fact, the opinion of the citizens of the U.A.E. can be summarized as follows:

"Leave our lifestyles alone. When the oil runs out, we'll deal with our altered lifestyles at that point in time" (Al-Faiyom, 2000).

It remains evident that budget cuts in the United States and the United Arab Emirates are used for the same purpose: to restore fiscal order. However, the developmental state in which both countries currently find themselves, as well as the economic differences between

the two countries, mean that both are at opposite sides of the spectrum when it comes to the issue of budget cuts. Thus, whereas budget cuts may not be necessary in the United States at this point in time (given the economic trouble that the country is experiencing), the opposite is the case in the United Arab Emirates.

While budget cuts can have a positive impact on the financial and economic standing of the United Arab Emirates, such cuts are likely to produce negative effects that resemble the negative effects of budget cuts in the United States. For example, in the United States budget, cuts hit the poorest individuals and families the hardest, while the cuts barely scraped the skin of the country's wealthiest families (Carroll, 1998). In a similar manner, budget cuts in the United Arab Emirates are likely to have a significant impact on the country's poorest families, leaving the wealthier families relatively unscathed. As a result, one of the conclusions, which can be reached, is that, with the way government budgets are currently structured, budget cuts will benefit the wealthy and hurt the poor. Any budget cuts that result in a polarization of society in this manner are, by definition, unhealthy, and could produce civil disorder.

Policy Implications of Budget Cuts

As noted in the preceding paragraphs, while additional budget cuts may be necessary in the United Arab Emirates and somewhat unnecessary in the United States (depending upon one's political persuasion), the fact remains that any budget cuts are likely to be unpopular, at least in the short term. This unpopularity, in turn, has additional implications for policy formation within a larger context in both countries. Budget cuts that result in an angered citizenry may lead to policy changes in other areas in which the lives of a majority of individuals are affected. For this reason, one cannot conclude that leaders in the United States and the United Arab Emirates can make budget cuts within a political vacuum.

In the U.S., additional budget cuts may be made in Medicare and Medicaid, as well as in education – sectors in which the government spends a sizeable percentage of its financial resources. Such cuts, however, may affect the more needy individuals in the U.S., who rely on government assistance to help cover the cost of medical and educational expenses. A decrease in such assistance may produce a backlash of anti-Republican sentiment – a backlash that the Bush Administration must try to quell if

it is to remain in power (Walker, 2000). One way that Bush may try to quell this backlash is by directing a percentage of government funds to church-sponsored charities. Currently, Bush is trying to establish a government office that will cater to such charities, but public skepticism concerning the implications of the separation of church and state remains.

In the United Arab Emirates, any steps that the government takes to reduce government spending will be unpopular. Given a citizenry and an ex-patriot community that has grown accustomed to free electricity, subsidized housing, and generous bonuses, it will be difficult for the government to impose budget cuts and not expect a public outcry. Indeed, discussions at local *majlises* indicate that citizens are directly opposed to any reduction in their standard of living. Although the government does not seek to reduce the living standard, its desire to decrease its expenditures on health care and education will mean that citizens will have to save, rather than spend, their money. This, in turn, will limit their consumption habits and, indirectly, lower their living standard. Although the government wants to avoid such a scenario at all cost, it is unclear how the

government will simultaneously preserve living standards and make the necessary budget cuts.

To cope with the public reaction to budget cuts, the U.A.E. government has been considering increasing its reliance on the *Bait al-Mal*. The *Bait* is a repository for the charity funds that are collected every year following the end of the month of Ramadan. These funds are distributed to needy citizens throughout the community, and they can also be used to help cover medical expenses, educational expenses, and so forth. Thus, like the United States, the U.A.E. government is looking toward religious organizations to fill the gap that will be left following the government's decision to make budget cuts.

As can be seen, whether the government of the United States or the government of the United Arab Emirates decides to make cuts, the fact remains that the budget cuts will induce leaders to make changes in other governmental policies. These changes are necessary to curb the difficulties that people within both countries will experience as budget cuts take affect. As governments such as those of the U.S. and the U.A.E. are recognizing, other policy changes must accompany budget cuts. These changes are necessary if the integrity of the countries' social, political, and economic structure is to be maintained.

Can Governments Avoid Budget Cuts

Given that budget cuts are unlikely to be popular in the United States and the United Arab Emirates, one would like to believe that the leaders within both countries would try to avoid them. The reality, however, is that governments cannot spend money that they do not have nor, at the same time, can they risk incurring additional debt. For this reason, budget cuts become a necessity rather than an option.

In the United States, the government has made considerable budget cuts over the last eight years but, given that the country's trade balance is such that imports greatly exceed exports, additional cuts are necessary. These cuts will help to restore financial equilibrium and also help to alleviate the country's remaining outstanding debt. Thus, from this perspective, it appears that budget cuts in the United States are necessary, although the government wants to avoid at all costs the public upheaval that may result.

In the United Arab Emirates, budget cuts are not necessary at this moment in time. This is because the government is currently running a significant budget surplus and has the financial wherewithal to finance public health care, public education, and other public

works projects (Azeem, 2000). Thus, from a financial perspective, the country does not need budget cuts.

However, from a long-term economic perspective, it is in the government's best interest to begin budget cuts now, when leaders still have the financial resources to quell public disapproval of the cuts. Given the country's considerable dependence upon oil resources, as well as its lack of other natural resources, it is very vulnerable to changes in the supply and demand for oil. For this reason, government leaders cannot always expect that their finances will remain sound and, to prepare for the time when others no longer demand oil or when alternatives to oil have been found and commercialized, they must begin making their citizens accustomed to lower health care and education expenditures. By taking a few unpopular steps now (i.e., in the form of budget cuts), the ruling leaders can preserve their long-term political interests to remain in power. In the event that the leaders try to reduce the budget only when the government no longer has any money, the popular backlash may be so strong that the ruling party will be unable to maintain its control over the state. As can be seen, budget cuts are necessary in both the United States and the United Arab Emirates, despite the fact that both will most likely be unpopular.

The nature of government is such that budget cuts are inevitable, and it is merely the timing of such cuts that differs from one government to the next. Nevertheless, although budget cuts are inevitable, there are steps that the U.S. and U.A.E. governments can take to avoid any political backlash that might result. These steps, in turn, are often subsumed under the broad category of "policy changes" or "policy initiatives."

CHAPTER SIX

RECOMMENDATIONS AND CONCLUSIONS

Based upon this author's findings, it is clear that the issue of budget cuts is a touchy one. Budget cuts that may or may not result in financial health are often the only means to achieving the much-desired balanced budget. However, one must recognize that, just like debt, an unbalanced budget is not always bad. For example, low-interest debt that helps people pay for college is not necessarily bad debt, provided that the people who graduate can find jobs that pay enough to help them repay their debt. In a similar manner, unbalanced government budgets that are unbalanced because the government is using the additional resources to pay for basic social services are not necessarily bad. If the government needs to pay for basic social services to ensure the overall health of its people, and if such payments are not excessive, then an unbalanced budget may, in the long term, produce more benefits than losses. This is especially true if the healthy and educated individuals are willing and able to contribute successfully to their government in some manner.

For this reason, one cannot automatically claim that a balanced budget should be the goal of all governments.

Under some circumstances, balanced budgets are necessary, but not when maintaining balanced budgets result in impoverishment and a decline in social services. On the other hand, failure to balance a government budget because the government is spending money on unnecessary expenditures such as plastic surgery for citizens (Al-Oshb, 2000) is a sign that government spending is out-of-control. Thus, between the extremes of starving a population and providing them with the means to ensure that their every need is met, a healthy balance must be found. At this point, however, neither the United States nor the United Arab Emirates has been able to achieve such a balance.

APPENDIX A
UNITED STATES FISCAL SPENDING

U.S. Fiscal Spending During 1990-1999 (in billions of \$)

Year	Spending	GDP 1	Entitle	GDP 2	Interest	GDP 3	Receipts	GDP 4	Outlays	GDP 5
1990	300.5	5.7	627	10.9	184.4	3.2	58.7	1	1253.2	21.8
1991	533.3	9	702.3	11.8	195.5	3.3	105.7	1.8	1324.2	22.3
1992	534.6	8.6	716.1	11.5	199.4	3.2	68.4	1.1	1381.7	22.2
1993	541	8.2	736.5	11.2	198.7	3.6	66.6	1	1409.5	21.5
1994	543.9	7.8	783.6	11.3	203	2.9	68.5	1	1461.9	21
1995	545.7	7.5	517.7	11.2	232.2	3.2	79.7	1.1	1515.8	20.7
1996	534.5	6.9	856.9	11.1	241.1	3.1	71.9	0.9	1560.6	20.3
1997	554.7	6.7	896.3	11	244	3	77	1.1	1601.3	19.6
1998	555.6	6.4	938	10.9	241.2	2.8	88	0.9	1652.6	19.1
1999	558.9	6.3	976.8	10.7	229.7	2.5	81.9	0.9	1703	18.7

Source: Congressional Budget Office

APPENDIX B
DISCRETIONARY OUTLAYS

Discretionary Outlays, Fiscal Years 1990-1999

(as % of GDP)

Year	Defense	International	Domestic	Total
1990	5.2	0.3	3.2	8.7
1991	5.4	0.3	3.3	9
1992	4.9	0.3	3.4	8.6
1993	4.5	0.3	3.5	8.2
1994	4.1	0.3	3.5	7.8
1995	3.7	0.3	3.4	7.5
1996	3.5	0.2	3.2	6.9
1997	3.3	0.2	3.2	6.7
1998	3.3	0.2	3.1	6.4
1999	3	0.2	3.1	6.3

Source: Congressional Budget Office

APPENDIX C
UNITED STATES FEDERAL SPENDING
DURING 2000

U.S. Federal Spending During 2000 (%)

Item	Percentage Ratio
- Reserve Pending Social Security	6%
- Other Means - Tested Entitlements	6%
- Other Mandatory	6%
- Medicaid	6%
- Medicare	12%
- Net Interest	11%
- Social Security	23%
- Defense	14%
- Non-Defense	16%

Source: Budget of the United States Government

Fiscal Year 2000.

APPENDIX D
REVENUE AND EXPENDITURE FOR
THE UNITED ARAB EMIRATES

Total Public Revenue and Expenditure for the United Arab Emirates (in millions of \$)

Items	1999	1998	1997	1996
Capital Expenditures	35052	28625	25064	35217
Crude Oil Revenues	41310	24208	41140	37007
Current Expenditures	41148	45652	41212	41452
Final Deficit	11236	28103	6939	20319
Other Revenues	23564	20866	18197	19343
Total Public Expenditures	76200	74277	66276	76669
Total Public Revenues	64964	4673	59337	56350

Source: Humaid bin Ahmed Al-Mualla, *U.A.E. Annual Economic*

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