A Blended Approach to Fiscal Policy: Democrats and Republicans Work Together to Decrease Deficits and Debts

Author: Paige Neer
Subject: Economics

Abstract

The purpose of this research is to explain the different approaches to economic policy according to both the Democratic and Republican parties. Through my research, I found that Democrats take more of a fiscal approach, while Republicans take a monetary one. Although the two parties have differing views, both search for the same ultimate goal: achieving the optimal economy. In order to reach this goal, I found that in the end, the approach to economic policy is actually a blended one between the Democratic and Republican Parties by utilizing both monetary and fiscal policies. Throughout this paper, I will be focusing on each parties' respective approaches to fiscal policy.

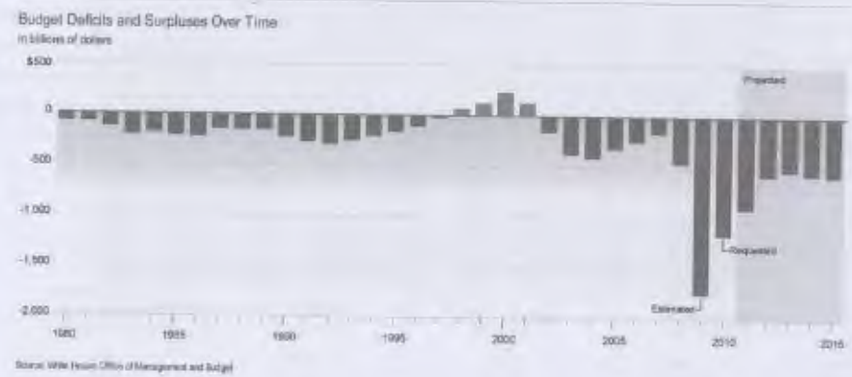
Throughout all presidential elections, Democrats and Republicans have disagreed with one another on many national topics, and economic policy has been a very crucial topic- especially throughout the recent economic cycle. Both Democrats and Republicans feel that they offer the best approach to stimulating our optimal economy, but which approach has proven to be the most effective and beneficial for achieving this goal?

Democratic candidates usually lean on fiscal policy, while Republicans lean more toward monetary policies. For example, during budget deficits, Republicans most likely rely on the "actions of central banks to achieve macroeconomic policy objectives such as price stability, full employment, and stable economic growth" (*Board of Governors of the Federal Reserve System*, 2016). On the other hand, Democrats are more likely to support "changes in the taxing and spending of the federal government for purposes of expanding or contracting the level of aggregate demand" (Well, 2008). However different the approaches may be, fiscal and monetary policies actually tend to be a blended approach to the overall economic policy. This means that we cannot achieve our optimal economic state by only utilizing fiscal policy nor by only utilizing monetary policy. The two policies work off of one another by way of stabilizing the economy. The purpose of fiscal policy ultimately is to stabilize economic growth in order to avoid a repeated cycle of economic expansion and contraction. (Economics Help, 2015). The goals of monetary policy are to promote the maximum sustainable output and employment as well as to promote stable prices (Federal Reserve Bank of San Francisco, 2016).

Even though Republicans and Democrats encourage different approaches to economic policy, whether it may be fiscal or monetary, both parties ultimately want the same result: an overall economic balance. However, for the last ten to fifteen years, we have

experienced a great budget deficit, which caused the economy to sink into a recession from 2007 to 2009.

President George W. Bush and President Barack Obama both contributed to the damages and deficits to our economy. In 2001, we experienced a budget surplus of $3.5 trillion and in 2008 we ended up with a deficit of $5.5 trillion. Although the deficit has decreased since 2008, we are currently experiencing a budget deficit of $534 billion as of March 2016 (CBO, 2016). The diagram below is a representation of the budget deficits and surpluses over the last thirty-five years.



Source: White House Office of Management and Budget. Budget Deficits and Surpluses over Time, 1980-2015

Throughout this paper, my goal is to explain the causes of the budget deficit through the lens of fiscal policy versus monetary policy. This will be based on the actions of former President George W. Bush leading to the Great Recession of 2007-2009, as well as the actions of President Barack Obama at the time he entered office in 2009, to the year 2016. Even though the Republican and Democratic parties have different approaches to economic policy, each party has the same goal: to create the most optimal U.S. economy. Therefore, in the end, Republicans and Democrats create a blended approach between fiscal and monetary policies in order to reach the economic goal.

When former President George W. Bush took office in 2001, the economy was experiencing a budget surplus of $3.5 trillion. When Obama took over as president in 2009 the economy faced a budget deficit of $5.5 trillion. How did we end up there? A question that has fascinated many economists and government leaders for years.

Bruce Bartlett, author of "The Fiscal Legacy of George W. Bush," for the New York Times actually held senior policy roles in the Reagan and George H.W. Bush administrations. He is now an author and writer for the New York Times. In his article, Bartlett explained that in January of 2001, the Congressional Budget Office (CBO) projected that the government would have a budget surplus of $3.5 trillion from 2001 to 2008 as long as no major changes to economic policy would occur during that time. In 2008, instead of the

proposed surplus, the federal government faced a budget deficit of $5.5 trillion (Bartlett, 2012). Though many critics have deemed the resulting deficit to be entirely Bush's doing, Bartlett claimed that Bush disagreed with the proposal from the CBO because he believed the "do nothing" approach would only lead to higher government spending. He believed that even though we were experiencing a surplus, unsuspecting upcoming events could cause the government to spend more heavily because of the surplus. However, the CBO had their own reasons to believe that this would not happen (Bartlett, 2012). The CBO believed that there would be a surplus for two reasons. The first, and main reason, they attributed was to a large income tax increase in 1993 that caused the economy to boom in 1994. Before the tax increase, the majority of Republicans in Congress voted against it because they believed it would destroy the economy in the long-run. At that time, however, it seemed as though these Congress members were wrong because we had a 4.1% increase in our economy in 1994 (Bartlett, 2012). It can be seen in the table below that the spending cuts continued into 1993. In that same year, there were few tax increases, and the economy boomed at 2.8 percent growth from 1993 to 1994.

TABLE 1

U.S. Fiscal Consolidation and Growth During the 1990s

	Tax Increases (% of GDP)	Spending Cuts (% of GDP)	Total (% of GDP)	Ensuing GDP growth (log difference, next year minus current year)
1990	0.26%	0.07%	0.33%	-1.6%
1991	0.29	0.29	0.58	2.0
1992	0.24	0.28	0.52	1.5
1993	0.08	0.23	0.32	2.8
1994	0.4	0.5	0.9	1.3
1995	0.2	0.33	0.53	2.5
1996	0.08	0.22	0.29	3.2
1997	0.06	0.24	0.3	3.1
1998	0	0.15	0.15	3.6

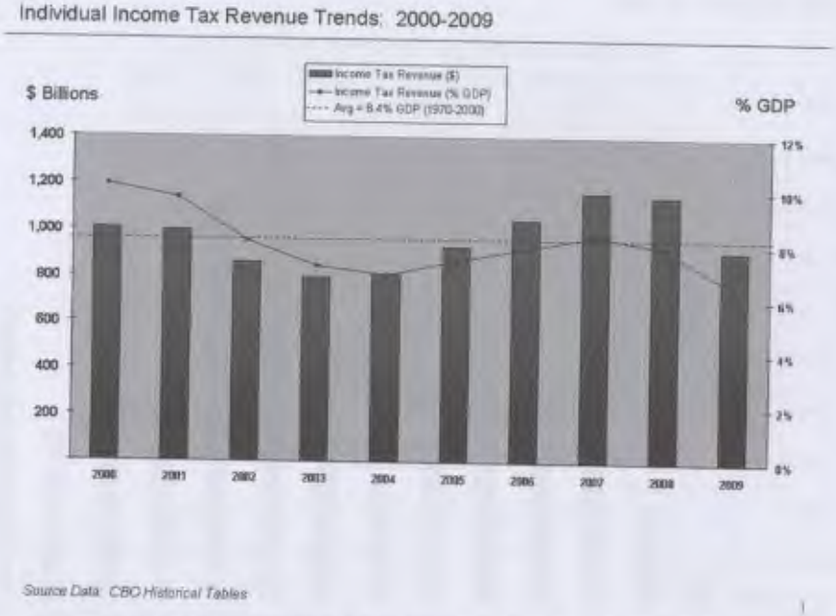
Source: Pete Devries, Jaime Guajardo, Daniel Leigh, and Andrea Pescatori, "A New Action-based Dataset of Fiscal Consolidation," International Monetary Fund, June 2011, pp. 81-85, http://www.imf.org/external/pubs/ft/wp/2011/wp11128.pdf (accessed June 11, 2013).

IB 3966 heritage.org

Source: Furth, S. U.S. Fiscal Consolidation and Growth during the 1990s, 1990-1998

The second major reason that the CBO projected the budget surplus was due to the creation of "PAYGO," also known as "PAY-as-you-go." PAYGO was a requirement that spending could not be increased, nor could taxes be cut, unless offset by spending cuts or tax increases. Because of the creation of PAYGO, the CBO believed that Bush's concerns of higher government spending were irrelevant (Bartlett, 2012).

Because of an anticipated revenue growth, Republicans believed that the budget surpluses would be greater than the originally projected $3.5 trillion from the CBO. So, Republicans pushed for a big tax cut even though that was one of the things PAYGO was created to prevent. This then caused the economy to slow, leading to a mild recession in March of 2001. Although this tax cut did not help the economy in any way, Republicans pushed for more tax cuts in 2002, 2003, 2004, 2006 and 2008. "Treasury hemorrhaged revenue, which fell to 17.5 percent of the gross domestic product (GDP) in 2008 from 20.6 percent in 2000. Republicans abolished PAYGO in 2002, and spending rose to 20.7 percent of GDP in 2008 from 18.2 percent in 2001" (Bartlett, 2012). By the time these tax cuts had taken their toll on the economy, they had increased the national debt by $1.6 trillion (Bartlett, 2012).



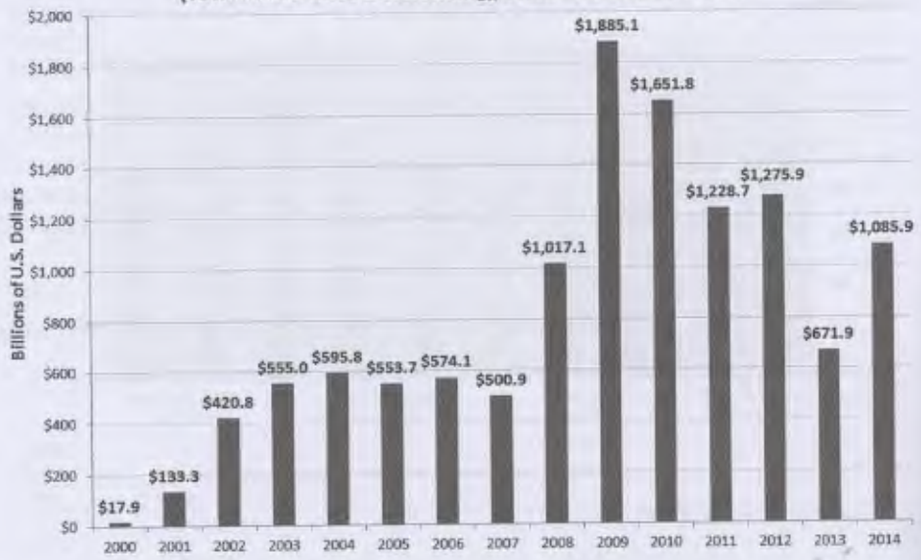
Source: CBO Historical Tables. Individual Income Tax Revenue Trends, 2000-2009

The above graph shows "the Federal individual income tax revenue trends from 2000-2009 (dollars and % GDP)" (CBO Historical Tables). These tax cuts continued into 2010 after President Barack Obama had already taken over office. These remaining cuts reduced revenues by another $369 billion which was then added onto the already $1.6 trillion in national debt. Obama and the Democratic Congress continued to push some tax cuts of their own. First, these led to reduction in revenues by $407 billion in 2009 and 2010, then because of the slower growth, revenues were even further reduced by $1.3 trillion (Bartlett, 2012). By 2011, revenues had been reduced another $105 billion due to the furtherance of the tax cuts originally enacted by Bush.

During the administration of then-President George W. Bush, legislated increases in spending led to $2.4 trillion in deficits which added to the debt through 2008. Economic factors had a very small impact on increased spending- only $27 billion total. The reason for this is because "interest rates were much lower than the CBO had anticipated, causing lower spending for interest on the debt" (Bartlett, 2012). The graph below shows the U.S. National Debt throughout the fiscal years 2000-2014. The national debt increased significantly between 2008 and 2009, the result of government spending and taxing in order to pull us out of the recession.

The unfunded wars in Iraq and Afghanistan increased the debt by $795 billion through the fiscal year of 2008. When President Obama chose to continue these wars, he added another $488 billion to this debt by the end of fiscal year 2011. Most people are quick to blame all of the budget deficit, national debt, and the eventual recession on former President George W. Bush because of the war, however, these facts prove that Obama is partly to blame as well.

Year Over Year Changes in the U.S. National Debt (Total Public Debt Outstanding), Fiscal Years 2000 - 2014



Source: U.S. Treasury Department, Author's Calculations

Source: United States Treasury Department. Year over Year Changes in the U.S. National Debt (Total Public Debt Outstanding) Fiscal Years 2000-2014

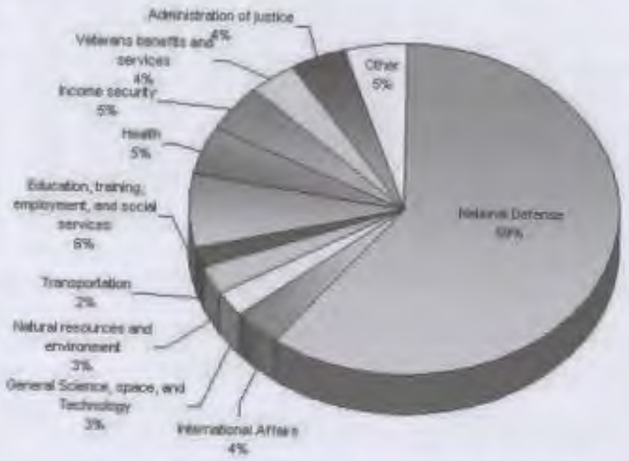
William Hamilton, a writer for *The Washington Post* wrote an article, "Bush Began to Plan War Three Months after 9/11," claiming just that. He explained that Bush wanted war to be his very last resort, however he wanted to have that card to pull the moment it appeared to be necessary for the wellbeing of the country (Hamilton, 2004). In most of Hamilton's article, he discusses the book, *Plan of Attack*, written by Bob Woodward about George W. Bush and his plan to begin a war against Iraq and Afghanistan following the 9/11 terrorist attacks in New York. On many occasions, Woodward interviewed Bush regarding his decision to begin combat operations in Iraq. Bush told Woodward:

"'I believe we have a duty to free people. I would hope we wouldn't have to do it militarily, but we have a duty. I am prepared to risk my presidency to do what I think is right. I was going to act and if it could cost the presidency, I fully realized that'" (Woodward, 2004).

Government spending became extremely crucial in 2009 while the economy was coming out of the recession. According to the table below, in 2009, fifty-nine percent of government spending went to national defense for the war that President Bush enacted.

After 2008, it became very difficult to know what Obama was responsible for spending and what Bush was responsible for spending. "The fiscal year 2009 began Oct. 1, 2008. That was before Obama was elected, and nearly four months before he took office on

Proposed Federal Discretionary Budget, FY2008



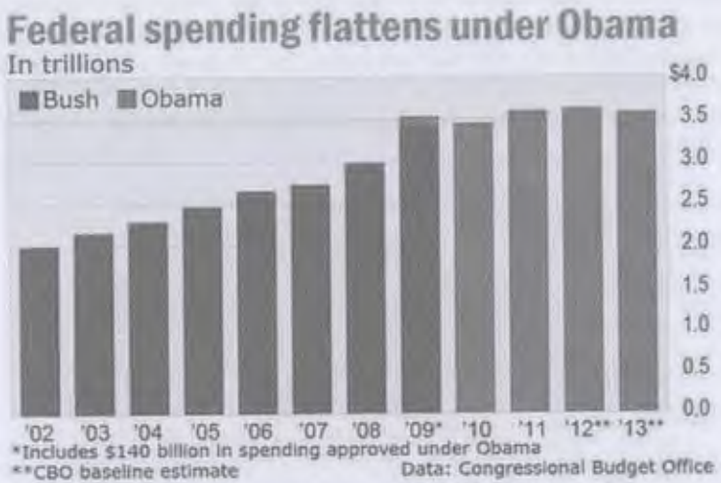
Source: Hynd, S. Proposed Federal Discretionary Budget, FY 2009

Jan. 20, 2009" (Jackson, 2012). There were items that President Bush had signed for that were finally being set into motion when Obama took over as president. These items fell under Obama's budget rather than Bush's even though they were technically Bush's financial decisions. This creates an illusion that Obama made more government purchases than Bush, however it is difficult to tell whether that is true or not.

In order to find which president spent more money in 2009, Brooks Jackson, author of "Obama's Spending, 'Inferno' or Not?," explained that everything signed by or set into motion by President Bush up until September 30, 2008, as well as those set into motion before Obama took over office January 20, 2009, technically should have been Bush's responsibility, even though it instead fell under Obama.

"One factor beyond Obama's control was an automatic 5.8 percent cost of living increase announced in October 2008 and given to Social Security beneficiaries in January 2009. It was the largest since 1982. Social Security spending alone rose $66 billion in fiscal 2009, and Medicare spending, driven by rising medical costs, rose $39 billion" (Jackson, 2012).

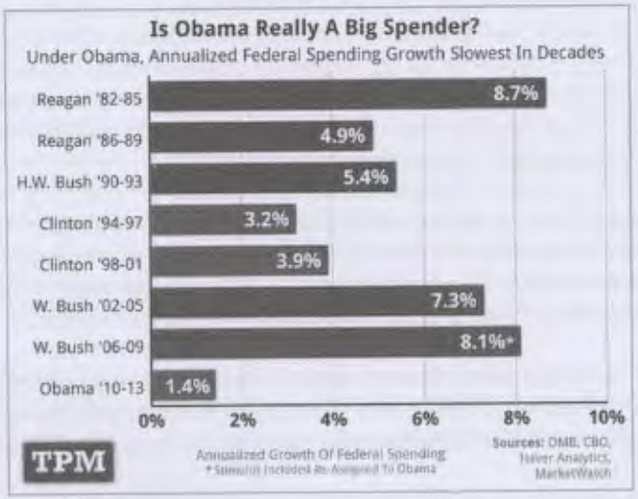
When he first came into office, Obama was mainly trying to prevent government spending from growing even more. Hence, even though the numbers make it seem like he was a big spender, government spending actually was fairly constant from 2010 to 2013 even though it was still high.



The big surge in federal spending happened in fiscal 2009, before Obama took office. Since then, spending growth has been relatively flat.

Source: Media Matters for America. Federal Spending Flattens under Obama, 2002-2013

Obama's government spending actually proved to be lower than any other president in office since 1982. In the previous graph, the numbers are high only because of the spending whirlwind that Bush had caused. The reason Obama's spending percentage was low, was because he maintained a constant level of spending for the first several years that he took over the presidency. The graph below gives a very simple breakdown of government spending by all presidents since 1982.



Source: Media Matters for America. Is Obama Really a Big Spender? 1982-2013

The United States economy faced a budget deficit from 1980-1987, a short surplus from 1998-2001, and fell back into a deficit from 2002 until now. There have been many factors that had a causal effect on the long-run deficits that America has experienced. The most severe deficit occurred as a result of President George W. Bush's defense spending accounts, which sent the economy into an eventual recession. When President Obama took office in January of 2009, he was forced to address the deficits caused by the financing of two wars. Although the economy already faced an extreme deficit and national debt, he made the decision to continue the wars, which resulted in additional national defense spending. Since then, Obama has funded several healthcare plans for the country, and still was able to pull the economy out of the recession and decrease the national debt. Although government deficits remain high even now, government spending has not significantly increased nor decreased for the last several years.

After decades of increased government spending, tax increases by the Democratic Party and tax cuts pushed by the Republican Party, the financing of two international wars, and a two-year recession, government leaders have just recently been able to reduce America's national debt. Government spending is currently at a constant level and the national debt has decreased significantly. In the upcoming years, economists and government leaders project that the current budget deficit and national debt will continue to decrease under the current fiscal policy. Although Republicans and Democrats have contrasting approaches to fiscal policy, the economic goal remains the same: both parties strive for the optimal economy for the American people.

References

Bartlett, B. The Fiscal Legacy of George W. Bush. (12 June 2012). *The New York Times*. Web. Retrieved 19 April 2016, from: http://economix.blogs.nytimes.com/2012/06/12/the-fiscal-legacy-of-george-w-bush/?_r=0

Board of Governors of the Federal Reserve System. Web. Retrieved 30 January 17, from: https://www.federalreserve.gov/faqs/money_12855.htm

Federal Reserve Bank of San Francisco. "What are the Goals of the U.S. Monetary Policy?" Web. Retrieved 29 April 2016, from: http://www.frbsf.org/us-monetary-policy-Introduction/goals/

Hamilton, W. (17 April 2004). "Bush Began to Plan War Three Months After 9/11." *The Washington Post*. Web. Retrieved 29 April 2016, from: http://www.washingtonpost.com/wp-dyn/articles/A17347-2004Apr16.html

Hoyer, S. The Democratic Whip. (2013). *United States House of Representatives*. Web. Retrieved 18 April 2016, from: http://www.democraticwhip.gov/issues/fiscal-responsibility

Jackson, B. (4 June 2012). "Obama's Spending: 'Inferno' or Not?" FactCheck.Org. Web. Retrieved 29 April 2016, from: http://www.factcheck.org/2012/06/obamas-spending-inferno-or-not/

Well, D.N. (2008). "The Concise Encyclopedia of Economics: Fiscal Policy." Library of Economics and Liberty. Web. Retrieved 30 January 2017, from: http://www.econlib.org/library/Enc/FiscalPolicy.html

Woodward, B. (19 April 2004). "Plan of Attack." Simon & Schuster. Print.

Tables and Graphs

CBO Historical Tables. *Individual Income Tax Revenue Trends, 2000-2009*[Table]. Retrieved 29 April 2016, from: https://en.wikipedia.org/wiki/Bush_tax_cuts

Furth, S. *U.S. Fiscal Consolidation and Growth during the 1990s, 1990-1998*[Table]. Retrieved 29 April 2016, from: http://www.heritage.org/research/reports/2013/06/did-tax-increases-or-spending-cuts-preface-the-1990s-boom

Hynd, S. *Proposed Federal Discretionary Budget, FY 2009*[Table]. Retrieved 29 April 2016, from: http://crooksandliars.com/cernig/obama-proposes-defense-cut-above-2007-level

Media Matters for America. *Federal Spending Flattens under Obama, 2002-2013*[Table]. Retrieved 29 April 2016, from: http://mediamatters.org/research/2012/05/24/despite-being-warned-right-wing-media-buy-into/176530

Media Matters for America. *Is Obama Really a Big Spender? 1982-2013*[Table]. Retrieved 29 April 2016, from: http://mediamatters.org/research/2012/05/24/despite-being-warned-right-wing-media-buy-into/176530

United States Treasury Department. *Year over Year Changes in the U.S. National Debt (Total Public Debt Outstanding) Fiscal Years 2000-2014*[Table]. Retrieved 29 April 2016, from: https://www.treasury.gov/resource-center/faqs/Markets/Pages/national-debt.aspx

White House Office of Management and Budget. *Budget Deficits and Surpluses over Time, 1980-2015*[Table]. Retrieved 29 April 2016, from: https://www.whitehouse.gov/omb/budget

Testimony and Accuracy: How Memory's Truth Can Become Fiction

Author: Jessica Ann Fennen
Subject: Psychlogy/Criminal Justice

Abstract

The present study assesses the effect wording has on testimony accuracy and corresponding confidence amongst 58 participants. The experiment began with an audio recording of a fictional crime story. Participants described the events of the crime in their own words. Testimony confidence was also measured. The sample was split into three groups: a control group that did not receive the independent variable (control; N=19), a group that received multiple choice questions with language taken directly from the audio recording (exact wording group; N=19), and a group that received language different from what was used in the audio recording (different wording group; N=20). When measuring the effect wording had on both testimony and confidence, statistically insignificant results were found. However, the present study did find that memory is unreliable and untrustworthy where valid testimony is concerned.

Forensic psychology is the intersection of the psychological sciences and the criminal justice system. The origins of forensic psychology trace back to the 1800s, but it was not until the early 2000s that the American Psychological Association recognized it as its own distinguishable field. The founders of forensic psychology and their research are what established the science as it is today; it is concerned with the mental states of delinquents and criminals, the impact of testimony in court proceedings, the psychological health of those employed by the criminal justice system, counseling and therapy for victims of crime, research regarding criminal tendencies, the creation of models for programs of crime prevention, evaluation of the mental health of defendants facing trial, and the assessment of guardians and children in child custody hearings (Weiner & Hess, 1998). In the field of forensic psychology, one of the most heavily researched areas is witness testimony, and many of the most important contributions to forensic psychology began with James McKeen Cattell and his study on testimony accuracy and confidence.

Cattell conducted an experiment on 56 of his junior psychology students at Columbia University in 1893; his aim was to determine how much doubt or assuredness people would have in their answers to simple questions, of which he asked four (Cattell, 1895). In regards to the first question, which asked the participants to determine what the weather was a week ago, only seven of the 56 were correct. Cattell explained that such a simple question could be used in a court of law by an attorney to lend credit to a witness's testimony, both the witness's honesty and its accuracy (1895). Three other simple questions were asked: one pertained to which tree first lost its leaves in the fall, a second