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Surpluses During President Clinton's Term

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Surpluses during President Clinton's term

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Abstract

In this paper, I have outlined the underlying factors that led to budget surpluses in the post-Keynesian era, specifically focusing on the United States during fiscal years 1998 to 2001. During this period, Mr. William Jefferson "Bill" Clinton was the president of the United States. Prior to these budget surplus years, the United States ran budget surpluses during 1969. This paper presents the history and analysis of incentives of different actors in a political economy and relates that to various budget related legislative and economic events that took place prior and during 1998 to 2001 period, primarily focusing on the actions of the Congress, the President, and reactions of the citizens (voters). President Clinton along with his party went above and beyond the basic fundamentals of Public Choice theory and successfully lifted the nation suffering from structural deficits. In doing so, the Democratic Party suffered significant political losses. In a democracy, it is the citizens who elect their representatives; therefore they are responsible for maintaining their nations financial strength. Returning to the pre-Keynesian precepts is the solution for getting rid of the current nation's debt, which has accumulated to an enormous amount of 103.3% of nation's GDP. It is the responsibility of the voters to give politicians the incentives to return to the pre-Keynesian precepts of fiscal conservatism.

Surpluses during President Clinton's term

1. Introduction

It all started with thinking of politicians who sincerely desire and work hard to improve the overall well-being and general conditions of their country. Specifically concentrating on the policies that do not have any short-term visible positive outcomes, instead those policies may have negative implications in the short-term. Short-term positive outcomes of any policy are those improvements that fulfill the current demands of a specific group of constituents or are widely conspicuous during the term of those politicians who voted for those policies. Thereby improving their chances of getting re-elected or augmenting their political capital. So the question arises, why some politician go against the general public's sentiment of simply fulfilling their constituent's current or short-term needs, why some politicians come up with policies that are inclined towards the long-term well being of the entire nation or their constituency, the outcomes that are likely to become reality only long after those politicians have already completed their term in office, and no one correlates or even remembers them by the time their policies start reaping fruit. And at that time, other politicians who are in office and had nothing to do with those policies proudly claim all the credit. What are the incentives that drive those politicians who have long-term perspectives, why are they determined to securing the future of their country? Or put in another way, how come those politicians are able to align their self-interests with the long-term interests and well being of their nation?

After almost three decades of structural deficits, the United States Federal government was able to achieve budget surpluses by raising taxes and reducing spending. President Clinton with his Democratic Party members enacted an unpopular budget that led to shifting of power from Democrats to Republicans in both chambers. The passing of an unpopular budget during 1993 demonstrated that some politicians do believe in public interest instead of tactfully adhering to the fundamentals of the public choice theory. The reactions of voters showed that in a post-Keynesian era, politicians are punished for seeking public interest; which suggests that voters bear the ultimate responsibility for their nation's fiscal state.

In the initial introductory sub-sections, I will briefly explain the public choice theory, and the differences between pre- and post-Keynesian era with respect to fiscal conservatism and fiscal irresponsibility. Section two will briefly mention the fiscal history of the U.S and the budget surpluses during President Clinton's time. Section three, will outline the important events that happened before and after passing the of 1993 budget. Section four will analyze the economic outcomes of 1993 budget. And

final section will conclude with highlighting the significance of the voters' decision in maintaining their nation's fiscal health.

1.1 Public Choice

One of the founders of Public Choice theory, Dr. James M. Buchanan stated that the goal of every actor in a capitalistic economy is to maximize their own utility.^[15] Actors maximize their utility by promoting their self-interests. Politicians being one type of actors in the economy also try to maximize their utility. The politicians listen to the majority of their constituents' demands and try to fulfill those demands that may have maximum positive effect on their political capital, and thereby improving their own chances of being re-elected. Those demands require spending on public projects, reducing taxes, or tinkering with regulations. In order to enhance their chances of being re-elected, the politicians implement or promote only those policies that are aligned with the demands of majority of their constituents. And at the same time may ignore the general well being of the entire community or nation, which may have long-term adverse implications. After understanding the incentive structure on which the Public Choice theory is based, the biggest question that should arise in everyone's mind is, why any country will ever have budget surpluses? Specifically, how did the United States managed to recover from sustained structural deficits to surpluses during President Clinton's term (Chart - 1). The fundamentals of the Public Choice theory are based on the premise that, the incentives to save are much lower than the incentives to spend. In order to secure their self-interests, the politicians should ignore mounting deficits, spend lavishly on public goods, and levy as lower taxes as possible.¹

Rising deficits and accumulating debt from borrowed money should not be a concern to most of the citizens, specifically till the time the nation seems to be flourishing, the living standards of the citizens are constantly rising - at least on the surface. However, some citizens may show concerns about the rising deficits, but most will not be willing to accept higher taxes or reductions in funding for public programs. This shows the discrepancy between their stated and revealed preferences.² Even though, due to borrowing,

¹ Buchanan and Wagner: Democracy in Deficit, page 7 ^[8]

² "In the Black: Explanations for the Federal Budget Surplus", *Social Science Journal* volume 40 issue 1 by Patrick Fisher: The public's lack of concern toward the nation running in the red can be seen in their political responses. Citizens tend to worry about the deficit only when the economy is bad (White & Wildavsky, 1989). The problems that federal officials faced when budgeting were in part a result of the inconsistencies of what the public says it wanted (Fisher, 1999a; Schick, 1996). Polls showed that while the federal government was producing large deficits in the 1980s and early 1990s most respondents voiced a concern about the deficit but at the same time were reluctant to pay higher taxes and were opposed to suggested program cuts (Schick, 1996). The large deficits of the 1980s and early 1990s may be said to be reasonably in accord with the preferences of the mass public (White & Wildavsky, 1989). Thus, deficits were in part the result of the fact the members of Congress and the White House listened to their constituents (Fisher, 1999a). ^[11]

the deficits keeps on accumulating year-after-year as debt, the constituents or citizens remain indifferent because they are not confronted with any corresponding additional taxes.³ The debt keeps on rising, eventually becoming a burden on the future generations. The satisfaction of short-term needs by deficit financing diminishes the prospects of the future generations. This adverse economic behavior may also be explained by the “tragedy of commons”, as the entire nation keeps on accumulating large sums of debt, and no single individual is identified liable.⁴ The public debt is never treated same as the private debt.⁵ Many additional public projects get sanctioned due to lack of taxpayers' resistance under deficit financing norm.⁶ Constituents seeking short-term gratification, ignoring the long-term repercussions, and the politicians following their constituents demands in order to get elected and re-elected cause a vicious cycle of fiscal indiscipline leading to massive amounts of structural deficits. This fiscal indiscipline also leads to the expansion of public sector, lowers national productivity, and may also lead to higher inflation. And finally, if drastic measures are not implemented to reduce the massive debt, the nations may reach to the brink of sovereign default. The best contemporary example is the fiscal situation of Greece. [\[18\]](#)

1.2 John Maynard Keynes

John Maynard Keynes was a proponent of deficit financing, according to him, once the economy dwindles into recession; the self-equilibrating endogenous forces are not sufficient. Only the exogenous forces could lift the depressed economy back to its pre-depression level. This ideology is also known as the Keynesian theory.⁷ In order for a capitalistic country to start accumulating debt, first of all, its institutions should support borrowing, and confluence of three main factors should come into play: first, majority of it's constituents or citizens demonstrate fiscal irresponsibility, second, its politicians follow Public Choice theory, and third, other capitalistic countries of the world or its own citizens are willing to lend regardless of the mounting deficits.[\[1\]](#) This situation occurs when the prevailing incentive structure promotes spending or fiscal indiscipline (prevalent in post-Keynesian era) instead of saving or fiscal conservatism (favored in pre-Keynesian era).

Mr. Franklin D. Roosevelt, during his presidential campaign in 1932, supported the notion of balanced-budget and spoke against government borrowing, but once in office, it didn't take much time for him to realize the government funded programs were politically popular and raising taxes were not.

³ Buchanan and Wagner: Democracy in Deficit, page 13 [\[8\]](#)

⁴ Buchanan and Wagner: Democracy in Deficit, page 19,35 [\[8\]](#)

⁵ Buchanan and Wagner: Democracy in Deficit, page 19 [\[8\]](#)

⁶ Buchanan and Wagner: Democracy in Deficit, page 23 [\[8\]](#)

⁷ Buchanan and Wagner: Democracy in Deficit, page 21,29 [\[8\]](#)

President Franklin D. Roosevelt followed Keynesian economics by implementing series of public programs during 1933 to 1936 under the name 'The New Deal', while completely ignoring the rising budget deficits. Then, in 1946, John Keynes theory again manifested in the form of “Full Employment Act” becoming a law in the United States, this law added more responsibility to the government. The government was then made in charge of maintaining prosperity of the nation by introducing stabilization policies, also known as counter-cyclical policies.⁸ Tax cut of 1964 is one of the most prominent examples of Keynesian policies taking their full dominance in the United States. Even though, the economy was not suffering from any depression or recession, the taxes were still reduced regardless of the mounting budget deficits.⁹ Then came even bigger tax cuts during President Reagan's term when the Cold War spending was at its peak, and the trend continued during President George W Bush's term, also known as Bush tax cuts that are in place even today. (Refer Chart - 1 for budget deficits 1961 - 2008)

1.3 Pre-Keynesian era

But if the actors consider the finances of their nation same as they consider the finances of their household or their private firms, where the outlays are balanced with revenues, and they keep a constant check on themselves by avoiding extravagance.¹⁰ Where, they try hard to achieve a balance budget by living within their means, by maintaining fiscal discipline - may give us clues as to why some politicians consider long-term public interest as their highest priority. The pre-Keynesian era is attributed to such fiscal discipline, where one of the main objectives of the politicians and obviously supported by their constituents was to encourage budget surpluses at least during the time of peace, so that those surpluses could be used during the time of wars, depressions, or epidemics.¹¹

The federal budget of the United States during most of its initial 200 years after becoming a nation was free from structural deficits, and mostly sustained surpluses.[\[4\]](#) These sustained surpluses may also be attributed to the United States being on the gold standard, which had built-in price stabilization to curb monetary expansion. This was the time when the public finances were treated by the politicians same as the private finances are treated by the individuals.¹² Until 1930s, the government's role was limited to providing public goods & services and to pay for them by levying taxes (not by borrowing), and not to get itself involved in distribution of income among individuals and to avoid distorting the economy by introducing

⁸ Buchanan and Wagner: Democracy in Deficit, page 32 [\[8\]](#)

⁹ Buchanan and Wagner: Democracy in Deficit, page 50 [\[8\]](#)

¹⁰ Buchanan and Wagner: Democracy in Deficit, page 10 [\[8\]](#)

¹¹ Buchanan and Wagner: Democracy in Deficit, page 11 [\[8\]](#)

¹² Buchanan and Wagner: Democracy in Deficit, page 23 [\[8\]](#)

counter-cyclical policies.¹³ The fiscal discipline was a norm, the budget surpluses were consistent and the deficit used to surface only during the time of wars or depressions. During pre-Keynesian era, most economists believed in the self-equilibrating nature of the capitalist economy, that the self-interests of individuals work as an invisible hand to regenerate prosperity and restore high-employment.^[11] It was considered that, any negative exogenous shocks will have short-term negative effects but will be taken care of by its self-equilibrating nature, reverting it to its pre-shock level or higher.¹⁴

2. The Clinton years: 1998 to 2001 and Prior

Since 1961, the United States once had \$3 billion in budget surplus during 1968, after that, it took almost three decades for the nation to generate budget surpluses again, the deficits during these periods (fiscal year 1961 to 1968 and 1969 to 1987) were structural in nature (Chart - 1). The cyclical deficit emerge due to some short-term negative shocks to the economy, whereas, structural deficits are long-term and endemic in nature.^[11] After almost three decades of structural deficits, when Mr. Clinton ^[16] presided the nation, the United States generated a total of \$559.3 billion surpluses during 1998 to 2001, the largest surplus amount in the nations history of a single year was \$236.2 billion ^[20], and was generated in the fiscal year of 2000. A constant decline of deficit started in the year 1993 and it took six years to free the nation from deficits (Chart - 1). The above surplus amount includes social security payments. Excluding the social security surplus from the overall surpluses shows a much lower total of (\$1.9 billion in 1999 and \$86.4 billion in 2000).¹⁵ The surplus figures according to the accrual-based accounting were \$69.2 billion, \$76.9 billion, and \$46 billion for fiscal years 1998 to 2000 respectively.¹⁶ Chart - 2 shows the total budget surplus or deficit, the on-budget excludes the social security surpluses from the total surplus. During fiscal years 1998 to 2000, the federal revenues were greater than the federal outlays, and the public debt steadily declined.

According to President Clinton, the federal government paid down the national debt \$223 billion in the fiscal year 2000, and \$360 billion in three years since 1998. This was the largest debt reduction in the history of the United States.¹⁷ (President Clinton is referring to public debt not the national debt)

¹³ Buchanan and Wagner: Democracy in Deficit, page 22 ^[8]

¹⁴ Buchanan and Wagner: Democracy in Deficit, page 27 ^[8]

¹⁵ Refer section 4.1 Rising Nation's Debt for more information ^[3]

¹⁶ For calculating budget surpluses or deficits, the United States government uses cash-based accounting that does not include any future government obligations such as Social Security payments, Medicare costs, whereas, the accrual based accounting adds all the future promises ^[3]

¹⁷ Refer section 4.1 Rising Nation's Debt for more information ^[14]

3. The Clinton Years: Public Choice or Public Interest

Receiving the budget projections and the size of the budget deficit from the Congressional Budget Office, the Clinton's administration prioritized deficit reduction as their main objective. Looking at the budget deficit projections himself, President Clinton took the advice of his economic advisors and Alan Greenspan (Federal Reserve Chairmen at that time). He abandoned his campaign promise of cutting taxes for the middle-class. President Clinton believed that *"Without deficit reduction, we can't have sustained economic growth."*^[12] According to him, being fiscally conservative was the only way to lift the still struggling economy from the 1991 recession.^[10] He believed that if mounting deficit were reduced, the interest rates on the bonds would come down, leading to the sustained economic growth. He tried to convince the citizens by stressing that *his budget plan is the only way out of "economic danger" and that it lives up to "every one of the principles" he outlined in his economic package. "At stake is the very survival of the American dream," he said, urging listeners to ask their senators and representatives to support his plan. "We can't afford not to act."* ^[12]

Going against the public choice theory was a costly maneuver for the Democratic Party; several members of the congress who voted in favor of this bill were defeated during their re-election bids. It is hard to correlate these events as many other factors are involved during the voting process, but following are the remarks by President Bill Clinton on achieving the budget surplus. Friday, October 2, 1998,

"The Vice President also noted that there were several former Members of Congress here who voted for the budget in 1993. There are quite a number here, and since they-most of them who are here paid quite a high price for doing what makes it possible for us to be here today,"^[17]

The Democrats controlled the White House, the House of Representatives, and the United States Senate during 1993. President Clinton's determination to reduce budget deficits, and his ability to persuade Democrats members of Congress to take difficult steps (counter to Public Choice theory) and break the status quo in order to secure nation's financial future resulted in the enactment of OBRA-1993.^[13] In doing so, President Clinton and his party's congressional democrats put their political future at risk.

Bill Clinton on submission of 1999 budget on February 2, 1998

"And doing something about the deficit was one of the reasons I ran for President in 1992."

"That is the gamble we took in 1993 -- a gamble now that I thought was not such a gamble at all. But it did, as the Vice President said, cost several members of Congress their jobs." ^[6]

The Republicans and the Democrats disagree on how to balance the nation's budget, Democrats are inclined to increasing taxes (specifically on higher income earners), and are in favor of offering federal programs to the citizens, whereas, the Republicans are in favor of spending cuts and are reluctant to raising taxes. However, for the reader's knowledge, the OBRA-90 raised taxes and was signed by Republican President George H. W. Bush, by doing so he broke his campaign promise of not raising taxes.

On November 8, 1994, after OBRA-93 [\[13\]](#) became law, for the first time in 40 years, the Democrats lost control of both the house and the senate as a result of mid-term congressional elections. The Republicans led by Newt Gingrich promised various popular and institutional reforms, and gained majority in the Congress for the first time since 1957. Fifty-four congressional seats moved from Democrats to Republicans. If there was any correlation between passing of the OBRA-93 and the Democrats losing both the House and the Senate, then either President Clinton misjudged the voters and their foresight, or he was determined to lower the mounting budget deficits regardless of voters' reactions. Or, the majority of the voters misjudge presidential candidate Bill Clinton during election and elected the wrong candidate (a believer of pre-Keynesian precepts in post-Keynesian era) as their president.

President Clinton on September 21, 2000,

"This dramatic fiscal progress did not happen by accident. A long-term commitment to tough choices and fiscal discipline, not to short-term political gestures, has helped put America on track to pay down the debt by 2012."[\[7\]](#)

Following the path of other post-Keynesian era politicians, President Clinton could have also superficially lifted the country from the sluggish recovery of 1991 recession by simply borrowing or monetizing the debt. Borrowing would have added to the already large sums of accumulated debt and deficits, and monetizing would have acted as an implicit tax resulting from inflation. But instead, he took bold steps by formulating hard-to-sell budget even to his own party members. A budget that increased taxes and reduced spending. President Clinton's motive was to see his country on a solid financial foundation. The country that flourishes on a strong, intrinsic, sustained economic growth. According to his advisors, the only way to materialize such growth was by reducing the bond interest rates, and that could only be achieved by reducing the mounting deficit. President Clinton's incentive was to see his fellow citizens and coming generations debt free.

4. Let's Analyze

Looking at the revenue bars on Chart - 2, the revenues started rising from fiscal year 1993 to 2000, and then declined from 2001 and 2002. The possible reasons for such a constant increase in revenues during this period may be attributed to an increase in tax revenues as a result of changes in federal tax laws (broadening the tax base or raising the tax rate) and/or to an intrinsic economic growth that led to higher tax revenues.

The total governmental revenues consist of individual income taxes, corporate income taxes, social security taxes, excise taxes, estate and gift taxes, custom duties, and other taxes, of these sources of government's income, the individual income taxes has the biggest contribution, then the social security taxes, and then the corporate income taxes, the remaining types of taxes have very low contributions comparatively (Chart - 3).

First, let's examine if there were any changes in the tax laws that might have contributed to higher tax revenues. The Omnibus Budget Reconciliation Act of 1990 also known as OBRA-90 [\[19\]](#) was enacted on November 5, 1990, signed by President George H. W. Bush. The main objective of this statute was to reduce the national budget deficit. This statute included Budget Enforcement Act of 1990, which established the "pay-as-you-go" or "PAYGO" ¹⁸ process for discretionary spending and taxes, and enforced a set of caps on annually appropriated spending. It also established the sequestration procedures to enforce pay-as-you-go requirements and deficit targets.

Once OBRA-90 was signed into law, it led to an increase in individual and payroll taxes, the alternate minimum tax was also increased, itemized deductions were temporarily limited through 1995, the cap on taxable wages for hospital insurance (Medicare) was raised, a supplemental unemployment insurance surtax was imposed, new excise taxes were imposed on consumer discretionary goods such as cars, boats, airplanes, and furs, additional excise taxes were imposed on motor fuels, alcoholic beverages, tobacco, and air travel.

In continuation of OBRA-90, after three years, came the Omnibus Budget Reconciliation Act of

¹⁸ Under "PAYGO" rule, any new spending that increases government's outlays was required to be compensated by an equivalent amount of revenue increases or spending reductions. A sequestration is triggered when any new spending of non-exempt mandatory programs is introduced to avoid further budget deficits. The Office of Management and Budget calculates these figures.

1993 also known as OBRA-93¹⁹, was enacted on August 10, 1993, signed by President Bill Clinton. This statute was unofficially known as Deficit Reduction Act of 1993. The section that dealt with taxes was known as the Revenue Reconciliation Act of 1993. This statute raised the individual income taxes to 36% for income earned over \$115,000 and 39.6% along with 10% surtax for income earned over \$250,000 (top 1.2% wage earners). In other words, the tax code became more progressive in nature, raised corporate income tax from 34% to 35%, raised transportation fuels taxes; the taxable portion of social security was also raised. The social security tax of states and local employees without any other pension coverage was extended. It also phased-out personal exemptions and permanently extended the limits on itemized deductions that were temporarily limited to 1995 in OBRA-90.

Now, let's investigate whether there was an exceptional intrinsic economic growth that could have added to higher tax revenues. For the fiscal year 1991, the GDP of United States was \$5.93 trillion, after a decade, it was \$9.89 trillion, an increase of 65% (Chart - 4). The unemployment rate during the fiscal year 1991 was 6.8%, grew to 7.7% for the subsequent year, and then started steadily declining, reaching 4% during the fiscal year 2000, dropped to the lowest level in more than 30 years according to the Bureau of Labor Statistics (Chart - 5). Health of the United States stock market is measured by three of its major indexes, during 1990s the 'Dow Jones' and the 'S&P 500' indexes rose 4.6 times, and the 'NASDAQ' soared 9.1 times (Chart - 6). The NASDAQ index comprise information technology companies, it more than doubled during 1999. This period is known as the 'dot.com' boom, when stocks of most of information technology companies were at their peak, and record numbers of initial public offerings were filed with Securities and Exchange Commission. The total number of millionaires filing taxes increased from 66,485 to 238,685 from fiscal year 1993 to 2000, an increase of 3.59 times.[\[22\]](#) The capital gains from soaring stock market also resulted in additional unexpected tax revenues at the rate of 28%, almost twice the present rate of 15% (for individuals in higher tax brackets) and 0% (for lower tax brackets).

Clinton's Administration also deserves credit for expanding the international commerce by promoting and negotiating over 300 free and fair trade agreements with other countries of the world. According to Census.gov foreign trade statistic, exports grew by 73.9% from \$616,882 million to \$1,072,783 million during years 1992 to 2000. According to Mr. Lawrence Summers then deputy Treasury secretary, the lowering of the international trade transaction cost that resulted from Clinton's trade policies directly benefited the U.S consumers in two ways, by reducing the prices and by keeping the inflation low.

¹⁹ OBRA-93 was approved on a margin by single vote both in senate (51-50) and house (218-217), none of the Republican Congressmen or Senators voted for this bill. The passage of this bill was historic because the majority party (Democratic party) had passed a major bill without any support of the opposition party (Republican Party).

According to him, those benefits could be considered as “*the largest tax cut in the history of the world.*” [2] According to the United States Department of Commerce, Office of the chief Economist, the number of jobs supported by exports of goods and services increased from 7.2 million to 9.2 from 1993 to 2000 (Chart - 12). [22]

A steady growth of GDP (Chart - 4), constant decline of unemployment (Chart - 5), huge gains in the stock market (Chart - 6), low inflation rate ranging from 2.5% to 3%, in other words, purchasing power of money going up [24] (Chart - 10), job growth due to exports (Chart - 12), people moving up in the tax bracket due to economic boom [22], and more progressive and higher tax rates after the enactment of OBRA-90 and OBRA-93 had a combined effect on significantly increasing the government's revenues. During this time the social security revenues were more than the social security outlays causing a social security surplus. Chart - 2 depicts a steady increase of revenue as a percentage of GDP from fiscal year 1993 to 2000.

Now, let's consider the expenditure (outlays) side of the budget equation, it may give us more insight about the budget surpluses. The expenditures as a percentage of GDP declined from 21.4% to 18.2% from fiscal year 1993 to 2000 (Chart – 7). The federal spending as a percentage of GDP was lowest since 1966. The debt held by the public as a percentage of GDP was reduced from 49% to 32.5% (Chart – 9), that led to even further reductions of government expenditures as the net interest payment declined from 3% to 2% of GDP during the same period. Lower government's appetite to borrow led to lower interest rates, and lesser crowding out of private investment. The discretionary spending reduced from 9% to 6.3% as a percentage of GDP from 1991 to 2000. The discretionary spending includes the defense, domestic, and international spending. The defense spending declined significantly from 5.4% to 3% of GDP, also known as the “peace time dividend” that United States benefited after the end of the Cold War (Chart - 8). As the economy was growing, the nation's poverty rate was declining, the demand for welfare programs also declined from 2.4% of GDP in fiscal year 1991 to 0.9% in fiscal year 2000. Mandatory spending, also known as programmatic spending, declined slightly during budget surplus years (Chart - 8).

4.1 Rising Nation's Debt

Even though there were four years of budget surpluses (including social security surpluses), the national debt during Clinton's presidency never stopped rising. From fiscal year 1993 to 2000, the total debt rose 33% from \$4.24 trillion to \$5.66 trillion. The total federal or national debt includes the debt held by the public and the intragovernmental holdings. The debt held by the public consist of debt instruments issued

by the government that can be bought by public, for example, U.S treasury bonds, U.S treasury bills, etc. Intragovernmental holdings, also known as intragovernmental debt, that includes Government Account Series (GAS) securities held by government trust funds, revolving funds, and special funds. In the United States these funds are Medicare Trust Fund, the Social Security Trust Fund, Federal Financing Bank securities, etc. A government incurs intragovernmental debt when it borrows from its own funds. Chart - 9 depicts that the debt held by public started declining significantly during the budget surplus years, whereas the intragovernmental holdings kept on rising. During budget surplus years when the economy was booming and higher tax revenues were being received by the government, the social security trust fund also ran surpluses, the social security surpluses were automatically used to pay down the debt held by the public, that led to an increase in intergovernmental holdings.²⁰

5. Conclusion

George H. W. Bush took an initiative of reducing the nation's mounting debt by signing OBRA-90, and then, President Bill Clinton used it as a stepping-stone, with the help of his party members signed OBRA-93, and emerged as a fiscally responsible leader. He was successful in increasing government revenues, reducing spending, and promoting free and fair trade policies. And at the same time, he was lucky that the economy did better than expected, and the nation avoided any major expensive local and global conflicts. The outcome of the mid-term elections after the enactment of OBRA-93 demonstrated that the voters did not reward Democrats for seeking Public Interest. The results of President Clinton's fiscally conservative policies tell us that he was a long-term thinker. Instead of finding easy way out from the struggling economy by borrowing or printing more money during his terms, he decided to curb spending and raise taxes. He could envision the accumulation of unbearable amounts of debt if nothing was done about it, which he could have easily passed on to his successor. He believed that being fiscally responsible, he could bring the struggling economy back on track. He wanted to secure the future of the coming generations. Being an influential leader, he was successful in persuading at least his party members to do what was best for their nation. He surely managed to bring back the surpluses, and also reduced the rate at which the national debt was accumulating even if only the “on-budget” surpluses (excluding the social security surpluses) are considered.

²⁰ The Social Security Administration is legally required to take all its surpluses and buy U.S. Government securities, and the U.S. Government readily sells those securities, which automatically and immediately becomes intragovernmental holdings (Craig Steiner, 2007) [\[5\]](#)

The post-Keynesian era is a reflection of how myopic the citizens (voters and politicians) have become. Short-term gratification and indifference toward mounting nation's debt have become the norm. The citizens should understand the consequences of mounting debt and future obligations. The citizens should learn from history and from other countries that are either on the verge of or have already experienced sovereign default. Wisdom of voters in electing their leaders is reflected by their nation's current economic health and ability to pay its future obligations. If voters will reward politicians who demonstrate fiscal constraint, then the same Public Choice theory with its utility maximizing fundamentals will help introduce stricter constitutional constraints in order to keep the budget going out of proportions. Stricter constitutional constraints or institutions will also overcome the 'free rider' problem. In a democratic system, it is solely the responsibility of each and every citizen to think above and beyond their own current demands and consider the overall well being of their nation and future generations.

As of March 29, 2012 the United States has accumulated \$15.589 trillion of debt, which is 103.3% of its GDP, and \$50,030 debt per Capita, and the debt clock keeps ticking.[\[25\]](#)

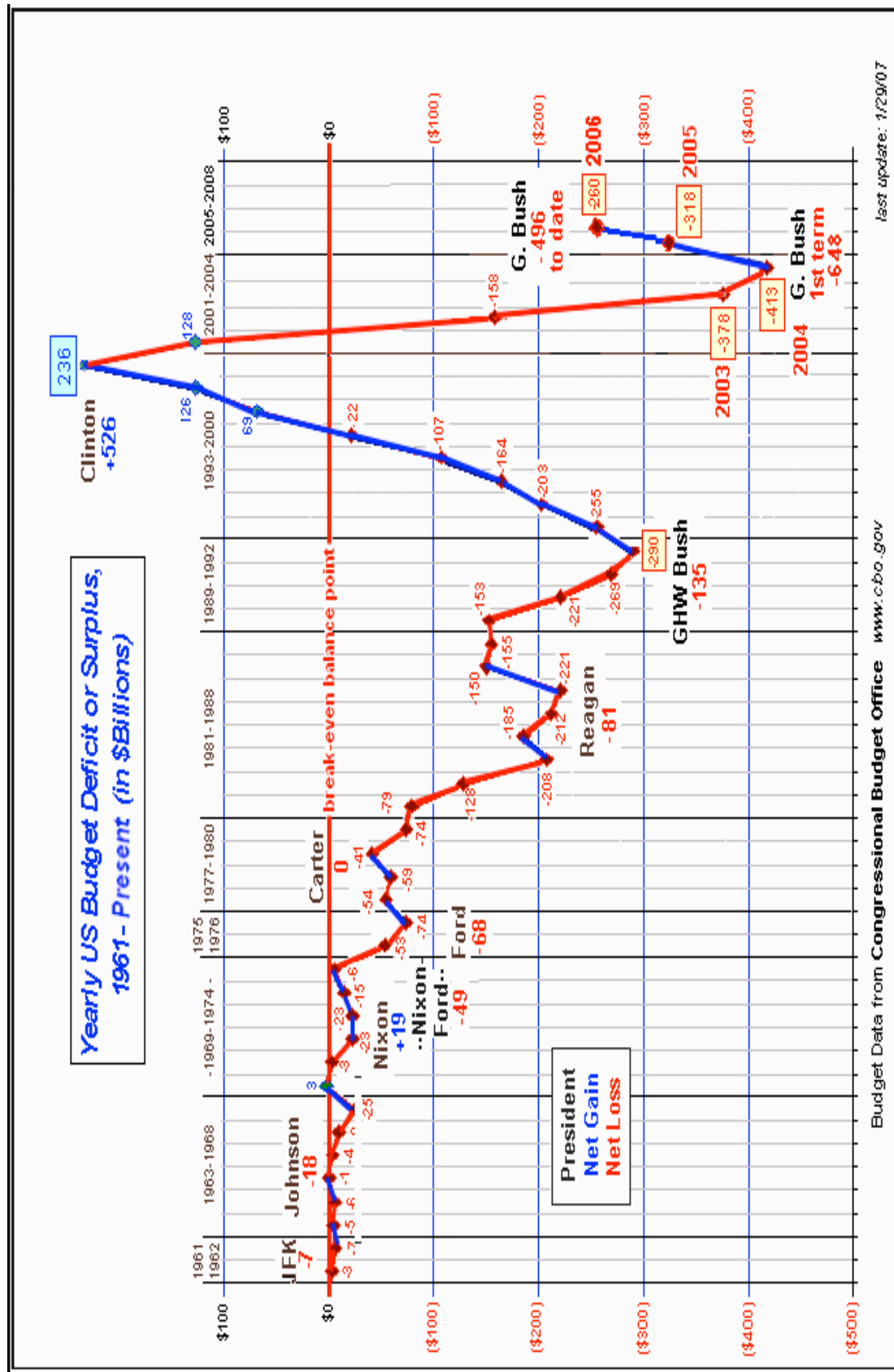
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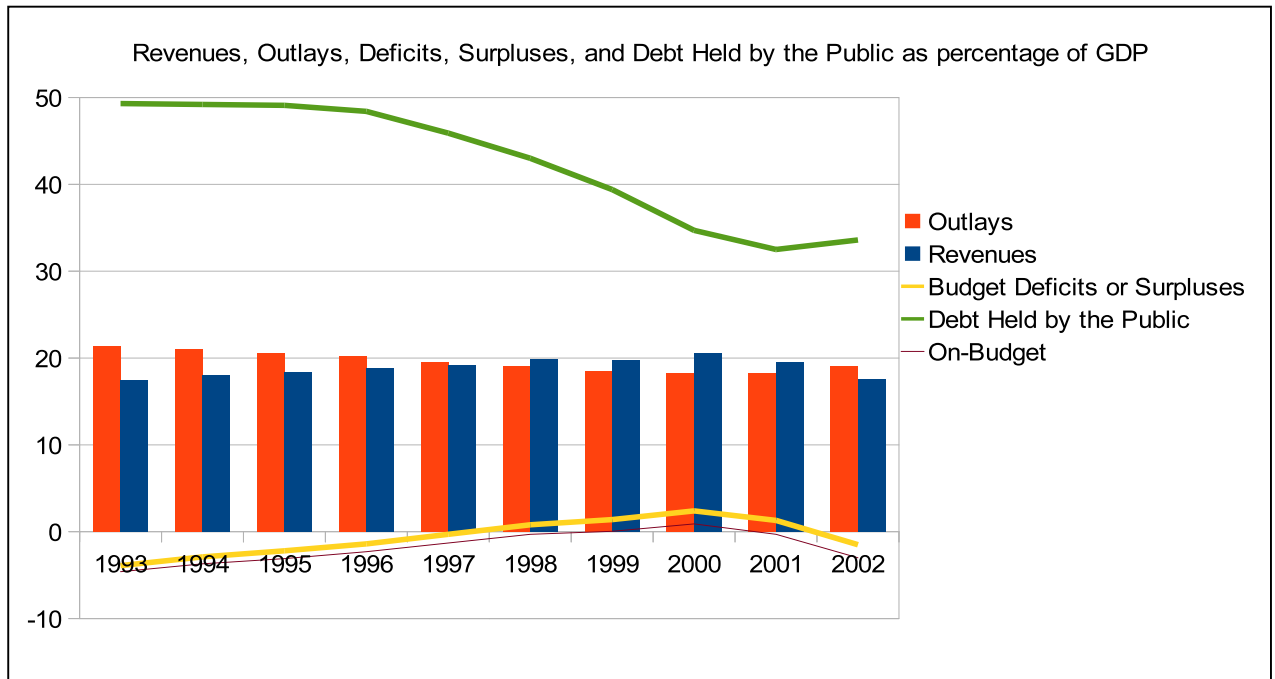
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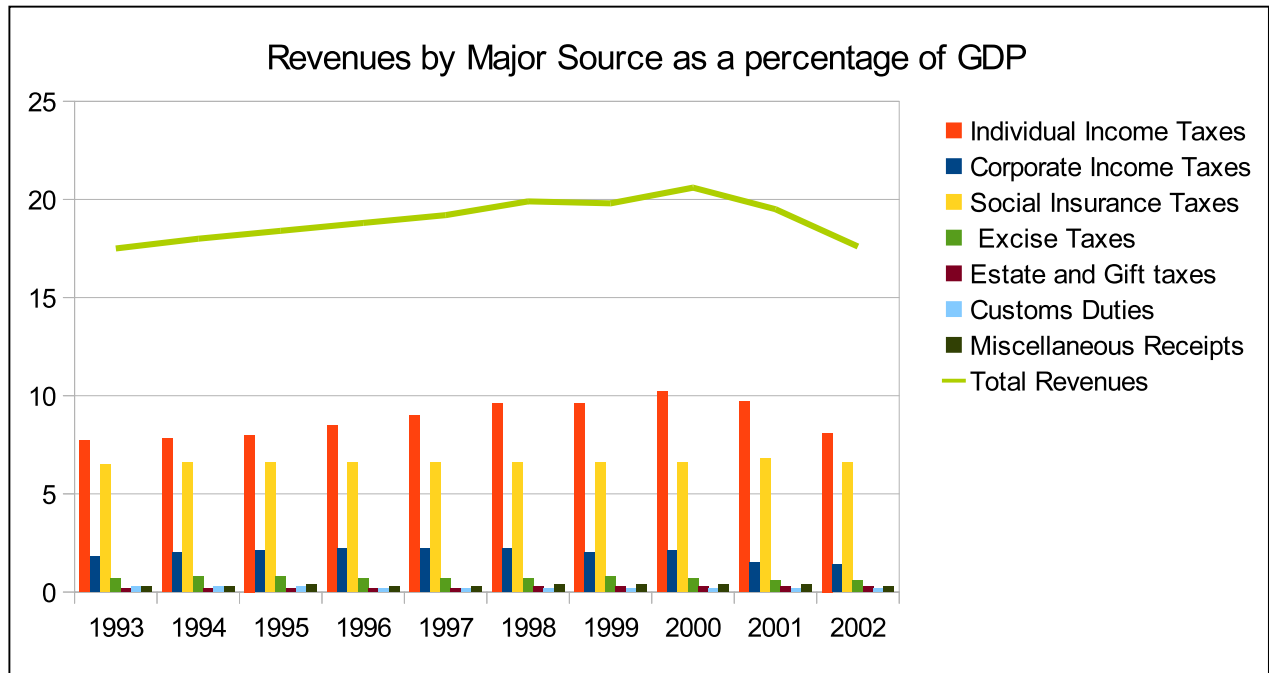


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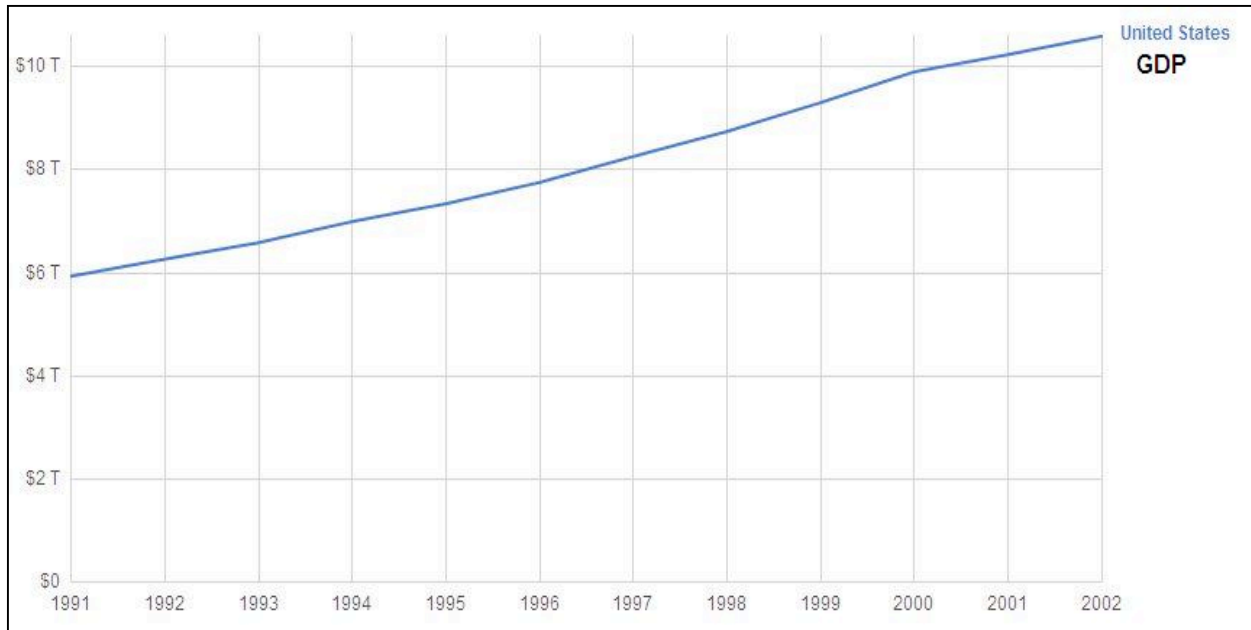
Chart - 2



Data source: Congressional Budget office's Budget and economic outlook: Historical Budget data

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Chart – 3



Data Source: <http://www.google.com/publicdata>

Chart – 4



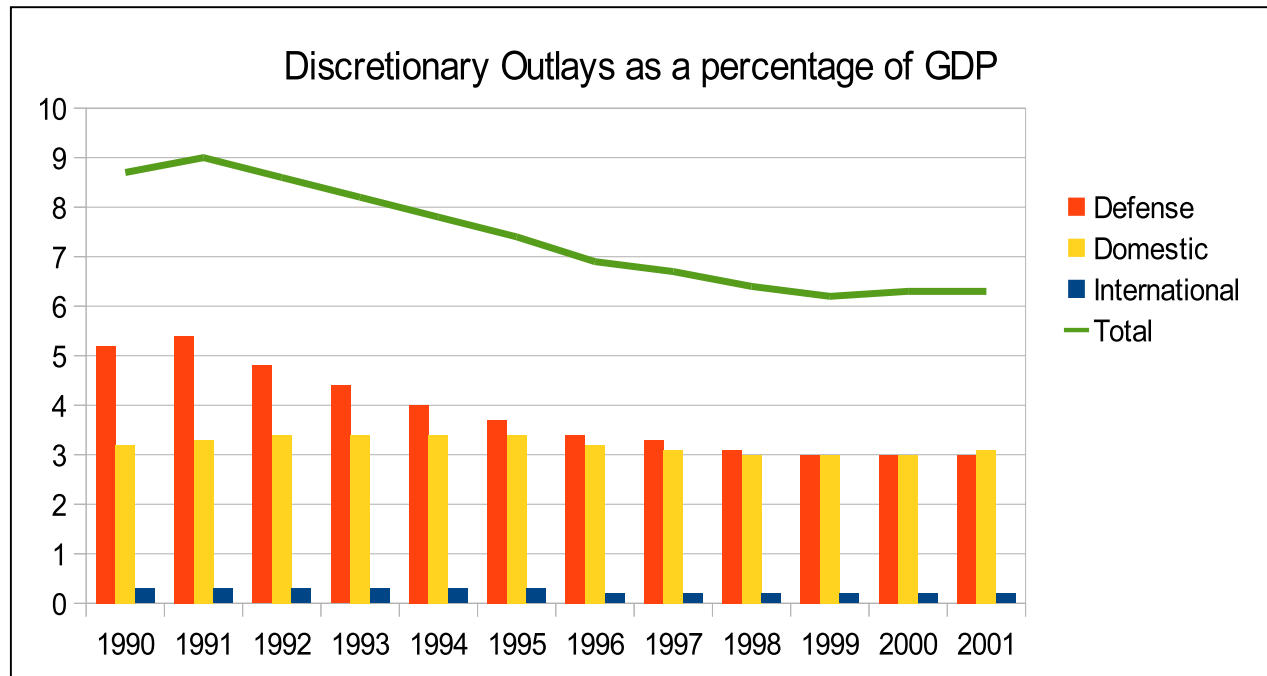
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Chart – 5



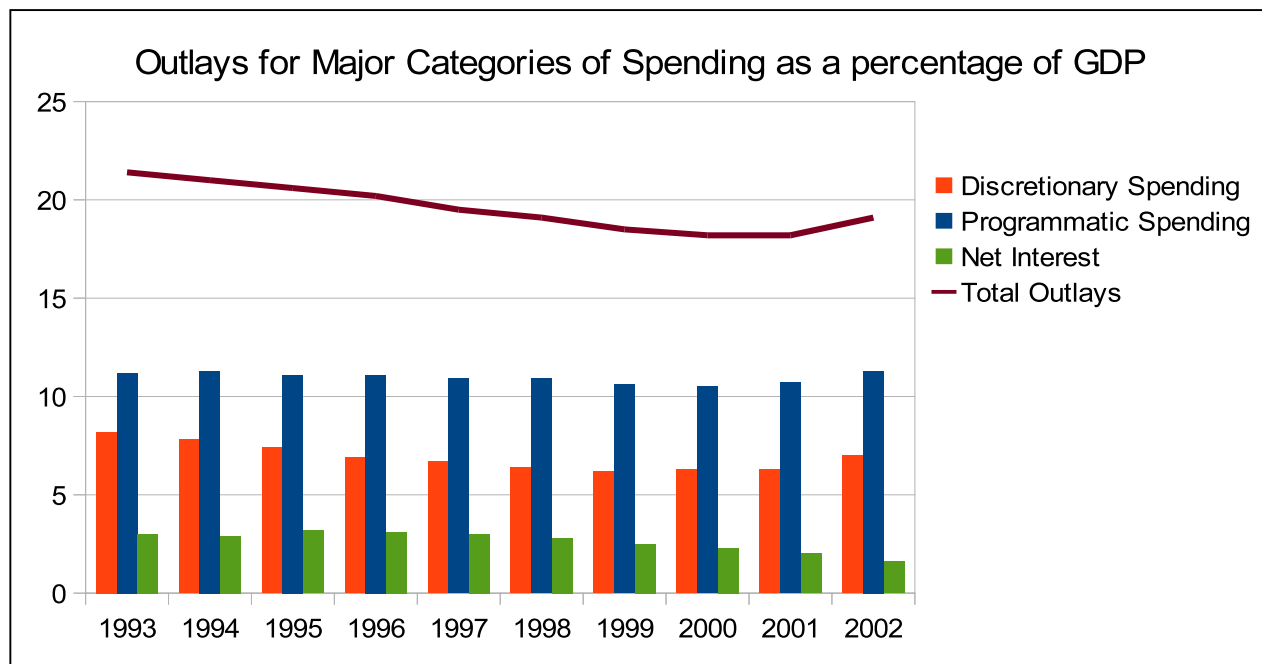
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Chart - 6



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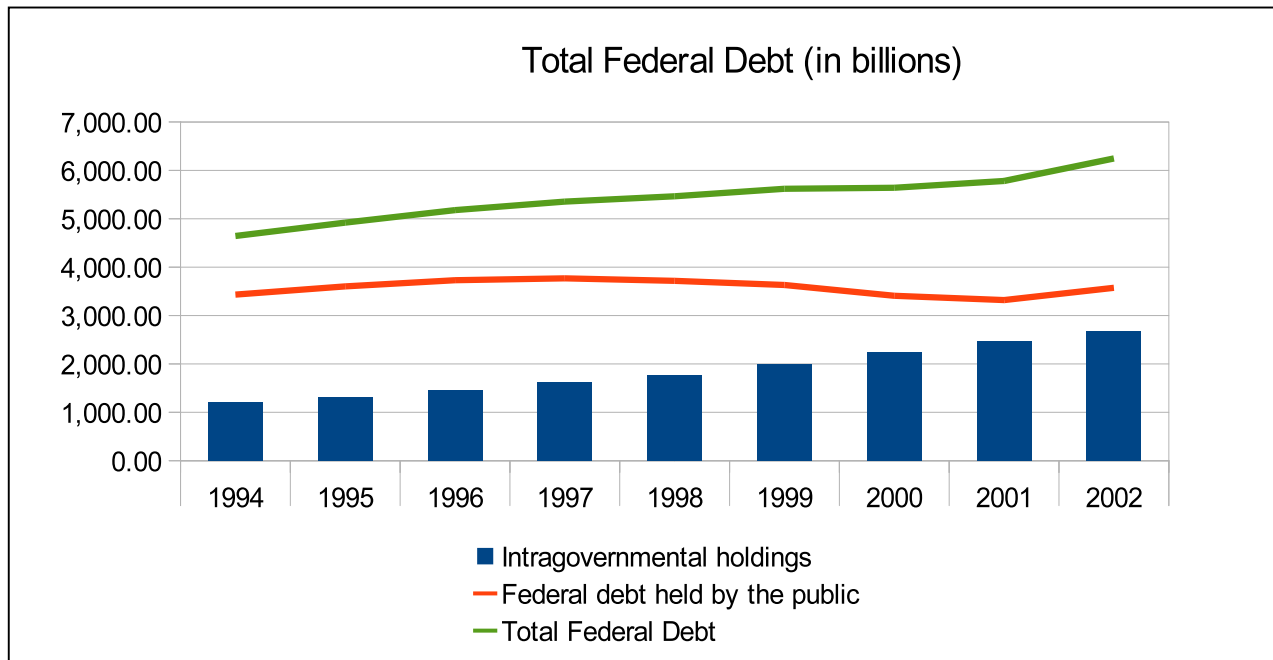
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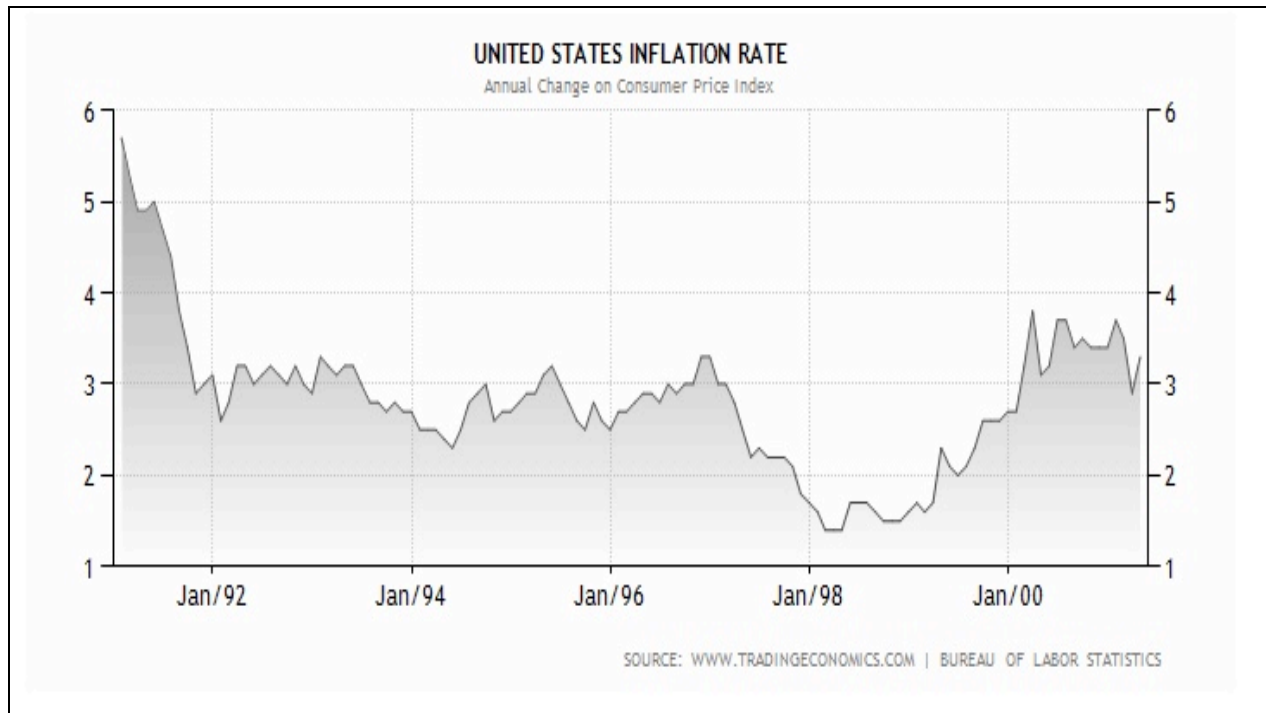
Chart - 8



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Chart – 9



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Chart – 10



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Chart – 11