Copenhagen Business School

DK-2000 Frederiksberg

Line of study: Cand.ling.merc./Master of Arts in International Business Communication

Master's thesis/kandidatafhandling

English Title:

Fiscal Policy of the Obama Administration

- A Response to the Financial Crisis Characterized by a Keynesian Approach or by Fiscal Consolidation

Danish Title:

Obama-administrationens økonomiske politik

- Et svar på finanskrisen baseret på keynesianisme eller på økonomisk konsolidering?

- Written by Claus Richard Bernhard Nielsen

Civil Registration number:

Handed in: 12th May 2016

Supervisor: Edward Ashbee

Number of characters: 148,326

Number of pages: 65

Declaration of Authorship

Abstract in Danish/Resumé på dansk:

I denne afhandling vil jeg argumentere for at Obama-administrationens økonomiske politik fra 2008 og frem til i dag i højere grad har haft karakter af et moderat neoliberalt end et keynesiansk svar på finanskrisen i 2008. Moderat neoliberalisme skal her forstås som en tilgang til økonomisk politik der i overvejende grad er præget af neoliberale politikker, hvoriblandt nogle politikker dog også rummer Keynesianske elementer, såsom The American Recovery and Reinvestment Act of 2009 (ARRA), der ofte har været anset for i overvejende grad at være et keynesiansk tiltag, mens andre tiltag f.eks. indenfor skattelovgivning, eksempelvis The American Taxpayers' Relief Act of 2012, samt flere budgetforslag peger i en endnu mere neoliberal retning, hvilket ofte har været overset.

Ydermere vil jeg i denne afhandling behandle spørgsmålet om hvorfor Obama-administrationens økonomiske politik som helhed kan betragtes som værende overvejende moderat neoliberal. Jeg vil her argumentere for at denne økonomiske politik til dels var resultatet af de begrænsninger der omgav Obama-administrationen, dvs. de bredere strukturelle kræfter der var på spil, og til dels var resultatet af det politiske tankesæt der også herskede i blandt visse medlemmer af Obama-administrationen, dvs. at den økonomiske politik også til dels var baseret på politisk overbevisning. De strukturelle kræfter udgjordes af det politiske miljø i Washington, hvilket bl.a. betød at Obama-administrationen nogle gange havde vanskeligheder ved at finde støtte til sin økonomiske politik i Kongressen lige som nogle blandt Demokraterne ikke i særlig høj grad har støttet keynesiansk-inspirerede politiske tiltag. Desuden kan Obama-administrationen have haft et begrænset råderum at manøvrere i politisk som følge af de finansielle markeders struktur, når man tager disse markeders reaktion til keynesianske tiltag i betragtning.

Abstract in English/Resumé på engelsk:

In this dissertation, I will argue that the fiscal budget policies of the Obama Administration from 2008 till the present day, represented a soft neo-liberal response to the financial crisis of 2008, rather than a Keynesian one. Soft neo-liberalism should here be understood as an approach which is primarily characterized by neo-liberal policies, while some other policy initiatives clearly were inspired by Keynesianism like, most notably, The American Recovery and Reinvestment Act of 2009 (ARRA) which has drawn much attention as being basically Keynesian in nature, while others, which is often overlooked, like The Tax Relief Act and some Annual Budget proposals point in a neo-liberal direction. Therefore, I argue that, when added up, the Obama Administration's response to the financial crisis is a soft neo-liberal one.

Furthermore, when asking why these policies as a whole can be characterized as a neo-liberal approach, I will argue that these policies partly were the result of the limits surrounding the Obama administration, i.e. that broader structural forces were at play, and partly that they were the result of ideas fostered by The White House, i.e. a construction of beliefs. The structural forces include the political framework in Washington, i.e. the Obama administration's difficulty in finding support in Congress just as some Democrats may not have been overwhelmingly supportive of Keynesian-inspired measures. Moreover, the Obama administration may have been limited by the structure of the financial markets, thus limiting the possibilities for maneuvering politically when taking US markets' response to distinctly Keynesian policy options into account.

Table of Contents:

****

Introduction

Background and Problem

This dissertation, "Fiscal Policy of the Obama Administration - A Response to the Financial Crisis Characterized by a Keynesian Approach or by Fiscal Consolidation" suggests as its hypothesis that the fiscal policy of the Obama administration represented a soft neo-liberal response to the financial crisis of 2008 rather than a Keynesian one. The term “soft neo-liberal” should in this context be understood as a fiscal policy in which there despite a Keynesian-inspired starting point in the form of the intention of pursuing stimulus policies, the actual policies which were implemented often contained a high degree of fiscal consolidation approaches. For example, even though the American Recovery and Reinvestment Act of 2008 (ARRA) certainly did contain Keynesian elements both its scope and e.g. some elements concerning tax relief also demonstrated a restraint or even a reluctance to implementing fully-fledged Keynesian fiscal policies. This trend became even clearer e.g. during later budget negotiations. As such, the “net result” was often policies with fiscal consolidation high on their agenda, yet still containing some Keynesian-inspired elements.

The question of whether or not the fiscal policies of the Obama administration have been more neo-liberal than Keynesian in their character is important because there among many at the time just before and when President Obama took office was the expectation that the Obama administration’s fiscal policies would differ radically form that of the previous administration, i.e. that its response to the financial crisis would be one that was heavily influenced by Keynesian ideas. This perception is even sometimes still prevalent in debates over the Obama administration’s fiscal policies. The actual policies and economic priorities of the Obama administration, however, differed considerably – as will be demonstrated in this dissertation – from the policies that a “purely” Keynesian ideationally based administration would conduct.

Furthermore, the question of the degree to which the Obama administration’s fiscal policies could be said to have a Keynesian or a fiscal consolidation character is important to unravel because while right wing commentators and critics have criticized it for being too Keynesian, critics from the left held the exact opposite viewpoint, namely that the Obama administration’s fiscal policies had a neo-liberal character with emphasis on fiscal consolidation.

Therefore, this dissertation sets out as its first overall goal to examine the degree to which the fiscal policy of the Obama administration can be said to be based on a Keynesian ideational mindset or a fiscal consolidation approach. On the basis of this, my dissertation will thus advance the hypothesis that the fiscal policies of the Obama administration represented a soft neo-liberal approach rather than a Keynesian one. This is the first aim of this dissertation.

The second overall question that this dissertation aims to provide answers to is as to why the fiscal policies of the Obama administration have been characterized more by a soft neo-liberal than a Keynesian approach.

This question is important because what at the time just before and when President Obama took office may have been expected by many to be a departure from the fiscal policies of previous administrations in many ways did not alter radically from the policies of previous administrations. Therefore, it is of interest to investigate the reasons why this was the case: Was it due to the dependency on a Republican majority in Congress after the midterm elections in 2010, or was it due to the need to address the concerns of fiscally conservative Democrats, or, finally, did the fiscally conservative stance of key persons within the Obama administration – and the also relative fiscally conservative stance of President Obama himself – also play an important role? To provide answers to these questions thus constitute the second aim of this dissertation.

On the basis of this, the following research question and delimitation of the subject emerge:

Research question

In this dissertation, I ask if the fiscal policy of the Obama administration following the financial crisis of 2008 had a more neo-liberal character than a Keynesian one and, if so, why this was the case.

Delimitation of the subject

This dissertation examines the fiscal policy of the Obama administration and asks to what extent this fiscal policy was characterized by a Keynesian or a fiscal consolidation approach.

Limitaions

As such, there are three main limitations to the subject of this dissertation:

Firstly, this dissertation examines the fiscal policies of the Obama administration, but it is not a *qualitative* judgement of the possible benefits of – or drawbacks to – the Obama administration's fiscal policies, merely of their character, i.e., the *effects* of these policies on selected fields like budget deficits, budget priorities just as the composition of tax revenue will be *examined*, all primarily through statistical data. Yet I will not in this dissertation assess their possible beneficial or damaging effects to the US economy neither in the short or in the long run; the findings will function as a basis for assessing the *character* of fiscal policies.

Secondly, the examination of the reasons why fiscal policies were more soft neo-liberal than Keynesian in their character will in this dissertation primarily focus and be based on early stimulus policies and negotiation situations leading up to them because 1) these early stimulus policy initiatives were the ones where the Obama administration to a higher degree than later on was able to act more freely from the influence of a Republican-dominated Congress and as such a more fair picture of the actual intentions of the Obama administration can be presented and 2) because these early initiatives were a precursor for the policy-making stance of the Obama administration later on and, finally, 3) because most thorough literature in the form of, e.g. books written about the political processes behind the fiscal policy of the Obama administration has been written relatively early after the first few years after President Obama took office.

Thirdly and lastly, the subject field of this dissertation is fiscal policy – and not monetary policy. Therefore, monetary policy will not be included as part of the basis for the characterization of the economic policies of the Obama administration but will only be touched on very superficially when e.g. argumentation put forward by either left-wing or right-wing critics of the Obama administration for instance include the effects of fiscal policies on monetary matters like interest rate levels – and in turn their effect back on economic activity and thus the room for maneuvering in fiscal policy-making.

Theory and Methodology

Theories

When answering the first overall question of my dissertation, namely the degree to which the fiscal policy of the Obama administration can be said to be based on a Keynesian ideational mindset or a fiscal consolidation approach, the two main theories that will be applied will be

1) Keynes' theories on how to stimulate the economy through public investment and targeted taxation policies as described in Skidelsky's book *Keynes – The Return of the Master* (Skidelsky, 2009). These theories will be used partly to assess the character of the Obama administration's fiscal policies and partly when investigating the argumentation behind the critiques of these policies – particularly the ones coming from the left.

2) Keynes' theories will be counterweighted by various libertarian schools of thought all emphasizing limited government involvement in the economy and the damaging effects of increased government spending (including fiscal and monetary expansion). There will, however, be particular focus on the libertarian theories advanced by Austrian school adherents as these present this critique of Keynesian economic policy-making and government involvement in the economy in general in the clearest way. This strand of Austrian school theoretical thinking is very notably represented in the theories advanced by F. A. Hayek and Ludwig von Mises (Stedman Jones, 2012).

Furthermore, when investigating defense vs. non-defense spending, the theory of the permanent arms economy will be used. The theory of the permanent arms economy deals with government's inclination to maintain – or increase – defense spending as a means to counteract the falling rate of profit by diverting investments from other forms of production to defense spending through taxation. This theory has been advanced by Michael Kidron (Kidron, 1967) and will in this dissertation be used in combination with Keynesian theory to assess the level of defense spending as a means to boost the economy through what this strand of Marxist critique also refers to as accidental Keynesianism.

When answering the second overall question of my dissertation, namely why the fiscal policies of the Obama administration have been characterized more by a soft neo-liberal than a Keynesian approach, two theories of policy-making and policy change will be applied: Kingdon's Multiple Streams model and Sabatier's Advocacy Coalition Framework, which both will serve as supporting theories for why the fiscal policies of the Obama administration took the shape they did. Kingdon's Multiple Streams model emphasizes the emergence of new powerful ideas and suggests that policy change is often radical and eruptive (Brunner, 2008). Sabatier's Advocacy Coalition Framework model of explaining policy-making has as its basic tenet that it sees the policy process as being a competition between coalitions of actors who advocate beliefs about policy problems and solutions (Kübler, 2001: 624). Therefore, both Kingdon's Multiple Streams model and Sabatier's Advocacy Coalition Framework will contribute to explaining both why the fiscal policies of the Obama administration took the shape they did and, just as importantly, they will contribute to providing an explanation as to why the Obama administration did not pursue Keynesian fiscal policies more wholeheartedly.

Common for all of the theories described just above is that they will be dealt with in much more detail in the relevant chapters. Here they will both be outlined much more thoroughly and their relevance for – and connection to – the fiscal policy-making of the Obama administration and the political processes behind this will be highlighted and discussed.

Method

In order to examine my hypothesis that the fiscal policies of the Obama administration represented a soft neo-liberal response to the financial crisis of 2008 rather than a Keynesian one, the arguments put forward by both right-wing and left-wing commentators alike in debates over the Obama administration's fiscal policies will be presented and investigated. Therefore, the chapters *Critique from the right: Obama's fiscal policies after the financial crisis of 2008 were too Keynesian-inspired in their character* and *Critique from the left: Stimulus policies were inadequate, too little Keynesianism, too much neo-liberal austerity and not enough social buffer* will be based on the argumentation put forward by commentators, writers and critics of the Obama administration's fiscal policies from the right and the left side of the US political spectrum, respectively. These chapters will be structured around the various topics or points of critiques and be exemplified through the critics' argumentation and discussion in order to give an impression of the debate over the Obama administration's fiscal policies.

These arguments will in the chapter *Keynesianism or Fiscal Consolidation? - Examining Key Fiscal Policies of the Obama administration* be "tested" by investigating some of the actual results (again quantitatively and not qualitatively, as mentioned above) of the Obama administration's fiscal policies, including the development of budget deficits, the budget priorities of the Obama administration, types of spending – and spending restraint – and the development in revenue levels. For this end, sources in the form of statistics from the Congressional Budget Office (CBO) will be used. As such, there is a high degree of empirical sources in the *chapter Keynesianism or Fiscal Consolidation? - Examining Key Fiscal Policies of the Obama administration*. This chapter will also include a survey of the key elements of The American Recovery and Reconciliation Act of 2009 (ARRA) and an investigation of the limitations to this Act in terms of the degree to which it was a Keynesian-inspired policy in practice. In the same way, taxation policies including The American Taxpayers' Relief Act of 2012 will be subject to an investigation of their Keynesian or non-Keynesian character. ARRA and selected taxation policies with emphasis on The American Taxpayers' Relief Act of 2012 will thus also serve as exemplification of the Obama administration's fiscal policies as these were notable examples of its fiscal policy approach. Moreover, this chapter will also focus on defense vs. non-defense spending as this topic also highlights how both defense spending and other forms of government spending may or may not be used to boost the economy.

The second goal of this dissertation is, as mentioned above, to provide answers as to why the fiscal policies of the Obama administration have been characterized more by a soft neo-liberal than a Keynesian approach. For this end, the political processes leading up to the adaptation of key fiscal policies will be investigated in the chapter *Why did the Obama administration's fiscal policy take the course it did?* In this connection, the primary focus will also be on the American Recovery and Reinvestment Act of 2008 – and on subsequent budget negotiations in November 2010 where emphasis was on reducing the federal deficit. These negotiation situations demonstrated how it was necessary for the Obama administration to navigate in a political environment where both right wing Republicans and fiscally conservative Democrats had to be considered just as differing opinions within the inner-circle of the Obama administration – and President Obama's own ambivalent position to Keynesian policy-making and resistance to government deficits played an important role.

As mentioned above both Kingdon's Multiple Streams model and Sabatier's Advocacy Coalition Framework will provide the theoretical basis for looking into why the Obama administration's fiscal policy took the course it did. The more practical basis will be provided by books containing accounts of policy-making processes. One such account of the processes behind the making of fiscal policies is *The Price of Politics* by Bob Woodward (Woodward, 2012). This source could be said to be controversial because this highly detailed book not only contains numerous accounts based on interviews with various participants in negotiations; on the basis of these interviews Woodward also in many cases makes assumptions about the motives of these actors. Therefore, other similar sources in the form of particularly two books discussing some of the same political processes will be used both in their own right and as supportive sources for Woodward. These books are: *The Escape Artists* by Noam Scheiber (Scheiber, 2012) and *Confidence Men* by Ron Suskind (Suskind, 2012). Woodward's book *The Price of Politics* (Woodward, 2012) will, however, still be used extensively as I consider it, despite its shortcomings, to be well-founded as it builds on numerous sources through many interviews and as such is thoroughly researched.

On the basis of these methodological considerations, this dissertation – from an overall perspective – thus aims to demonstrate that the fiscal policies of the Obama administration represented a soft neo-liberal approach rather than a Keynesian one and that this is not just a consequence of a reluctant Republican-dominated Congress but that it is also rooted in a basic reluctance within the Obama administration, which is shared by President Obama himself, to accept large government deficits, which a "fully-fledged" Keynesian approach to fiscal policy-making would imply.

****

Critique from the right: Obama's fiscal policies after the financial crisis of 2008 were too Keynesian-inspired in their character

Critique of the Obama administration's fiscal policies as a response to the financial crisis after 2008 came from commentators, writers and politicians on the right representing various strands of libertarian schools of thought ranging from neoclassical to Austrian school libertarians . This becomes clear when taking outset in the issues on which these critics base their argumentation and which points of critique they advance.

Below, I will, therefore, take outset in the issues emphasized by - and main points of critique and arguments advanced by - various critics and categorize these critiques according to which libertarian schools of thought they are inspired by.

Issues of concern about Obama's fiscal policies emphasized by right wing critics

Broadly speaking, the issues of concern emphasized by right wing critics can be categorized as mainly being economic or mainly philosophical critiques even though these sometimes overlap. Therefore, it may be more fair to say that when points of critique are advanced by various critics, these critiques have an economic or a philosophical basis but that e.g. philosophical critiques to some extent are often backed by economic argumentation or vice versa. This is also an important reason why I will take outset in the issues raised by various critics: The issues, and the argumentation advanced by critics, may be categorized as being based on a particular school of thought, while it is of less importance whether the individual critics could be - or would wish to be - categorized as belonging completely to a particular school of thought even though their argumentation when criticizing selected fiscal policies may be based solidly on the ideational basis of a particular libertarian school of thought.

Moreover, I will also examine the extent to which the direction that critique of the Obama administration's fiscal policies can be said to be developing from having a fragmentary character at the time just before and early after the inauguration of President Obama to having a more coherent one later on in 2009 and 2010.

Critiques addressing concerns over government expansion, malinvestment and crowding out of the private sector

Some early critiques of the Obama administration's fiscal policies tend to take outset in the more basic ideational tenets of libertarian thought.

For example, just two days after President Obama assumed office, adjunct scholar at the Austrian school philosophically based Mises Institute, Frank Shostak, in his article *Can Fiscal Stimulus Revive the US Economy?* (Shostak, 2009) expressed concerns about the stimulus plan which the Obama administration was expected to implement and which many economists and commentators at that time deemed necessary in order to revive the economy. In this article, Shostak argues that the reasoning behind the need for a stimulus plan is flawed in several ways.

Central to Shostak's argumentation is that the attempt to raise GDP by means of government spending is not based on *"real funding"* (ibid.), i.e. on an increase in the production of real goods and services. Instead it is solely based on taxation - resources which are taken from producers and diverted to the government. This transfer of money is, according to Shostak, highly problematic because, as he states, *government doesn't create any real wealth"* (ibid.). According to Keynes, GDP could be raised by using underutilized resources. But Shostak finds that government spending, which does not generate wealth, does not raise GDP and, therefore, will cause inflation (ibid.) for instance because the cost that an increased number of staff in government organizations will entail can only come from the productive layers of society according to Shostak.

This argument clearly rests on Austrian school thinking. As Daniel Stedman Jones points to in his book on the development of libertarian thought *Masters of the Universe*, both Hayek and Ludwig von Mises emphasized that fiscal and monetary expansion creates inflationary pressures (Stedman Jones, 2012: 184). This should be seen in the perspective that a central assumption in the Austrian school ideational mindset is that governments are regarded as merely being bureaucratic obstacles to the private sector and to individuals. Therefore, when resources are diverted from the productive layers of society to unproductive governments it will cause inflation exactly because the economic resources invested in government will only crowd out investments in the private sector and not add to GDP thus reducing the value of money.

Moreover, increased government spending could actually also lead to a further slowdown in the economy because the diversion of resources from the private sector to the government sector will entail that fewer resources are left for e.g. production of goods and services and maintenance of machinery, thus making the private sector less efficient (ibid.). In another article, Shostak also argues that demand (or consumption) in itself cannot spark production. Rather it is the other way around: An increase in supply (or production) of final goods permits an increased demand, which again makes an increase in capital goods necessary - something that can only be accomplished if these investments in capital goods stem from real savings (Shostak, 2010). In effect, Shostak again, emphasizes that diversion of resources already being utilized and not originating from increased production cannot contribute positively to GDP or to reinvigorating the economy.

The issue of government expansion and malinvestment - and their wider societal implications is also addressed by the libertarian author and newspaper and magazine columnist Amity Shlaes who also has been a fierce critic of how the Obama administration planned stimulus policies. Drawing substantially on her ideas presented in her book *the forgotten man: A New History of the Great Depression* (Shlaes, A., 2007), she in a web column (Shlaes, 2008) is deeply concerned that then president-elect Barack Obama seemed to be heavily inspired by Franklin D. Roosevelt's New Deal policies.

Shlaes points to the inherent danger that New Deal inspired stimulus programs very well may carry a risk of creating new constituent groups because the many construction works which signaled Roosevelt's presence (ibid.: 262) made a clear message that Washington was there to help out troubled towns (ibid.). In other words, Shlaes finds that Roosevelt in this way created a reciprocal dependency between Washington and local governments - and the ones whose employment depended on the continuation and possible expansion of such construction projects.

Thus, Shlaes bases her criticism on the - general libertarian - concern which is particularly emphasized by Austrian school adherents, namely, that government expansion concentrates power among a public sector elite. This process where government expansion through increasing investment in society and regulation of the market could lead to an ever more power centered society where government bureaucracies exist solely for their own sake is also a central argument throughout Hayek's *The road to Serfdom* (Hayek, 1944) even though Hayek uses this argument when warning against the tendency to promote outright socialism at the time when he wrote this work.

Another example of the fear of government expansion is given in an article by CATO Institute director of economic studies Jeffrey Miron, *The Case Against the Fiscal Stimulus* (Miron, 2009). Miron finds that government stimulus both creates uncertainty about which projects government will support and that when money is handed out by the government there is a risk that rent seeking and excessive risk taking will take place, thus further promoting room for economic instability and distortions as well as malinvestment (ibid.: 522).

Miron also questions the part of the stimulus package which seeks to promote energy efficiency. One reason for this is that investments in this field risk being *"done badly"* (ibid.: 526) because they tend to be rushed through. Another reason is that energy investments will probably not use unemployed resources (ibid.) whereby Miron says that this in effect will draw investments from other sectors. Miron also questions the basic tenet of the productiveness of investing in infrastructure as part of a stimulus plan because this strategy carries the risk that investments will be directed at e.g. building unnecessary roads thus wasting economic resources (ibid.: 527).

Here, Miron in effect highlights the basic libertarian concern that governments possess far less knowledge than the many individual market actors about where investments and resources should be diverted. This concern is also addressed by Miron when he highlights the central concern of Austrian school adherents, crowding out, because he questions the maybe most quintessentially Keynesian part of the stimulus package, namely to invest in infrastructure projects. He finds that the implementation of such projects - and the selection of the right projects - require time while fiscal stimulus should happen quickly and that investments in infrastructure simply will draw employment from other activities (ibid.).

The absence of general decreased tax rates in the Obama administration's fiscal policies

The element most often focused on in the Keynesian stimulus policies toolbox is that of higher public spending, which often overshadows that of lower tax rates. It is not surprising that libertarians often point to this latter element as being pivotal, because this is an element of fiscal policy which they in fact share with Keynesians. The absence of decreased tax rates is thus a central point of critique often brought forward by libertarians. The lack of general decreased tax rates is highlighted by e.g. Jeffrey Miron in the article *The Case Against the Fiscal Stimulus* (Miron 2010: 523). Miron argues that *"lower taxes, especially decreased tax rates"* (ibid.) is the most efficient component in a Keynesian inspired stimulus package, which he finds is backed by substantial empirical evidence. As such, Miron criticizes President Obama's policies on what Miron sees as being its own merits, namely a Keynesian ideational foundation.

When Miron turns to address the specific elements of the Obama administration's stimulus package he first and foremost criticizes tax cuts and transfer increases. He finds the tax cuts that have been implemented through the stimulus bill to have been too specific, i.e. for instance directed at specific groups, which was the case with the increase in the alternative minimum tax floor, a payroll tax floor introduced in 2009 and various tax cuts aimed at businesses (ibid.: 524). As mentioned above, reductions in tax rates would have worked far better according to Miron.

Shlaes argues that Obama's plans for taxation initiatives in combination with the parts of the stimulus plan regarding increased spending on particularly infrastructure constitute a dangerous cocktail (Shlaes, 2008). By emphasizing the combination of these two elements, she is in line with Miron's concerns above (Miron, 2009: 523) that, even from a Keynesian starting point, government investments to stimulate the economy must be accompanied by general reductions in tax rates.

In particular, Shlaes highlights it as being problematic that if then president-elect Obama and his team uncritically follow the same path regarding heavy taxation of the rich as Roosevelt did, this will carry a huge risk of causing high unemployment (Shlaes, 2008). In her book *the forgotten man: A New History of the Great Depression* (Shlaes, 2007), she also addresses how Roosevelt and his administration argued that taxing big business, apart from balancing the budget, would also give more room to smaller companies and entrepreneurs (ibid.: 248). In combination with the various social programs in New Deal policies this would provide these groups and workers with more cash to spend. The inclination among these constituents to spend more would also be enhanced because they as a consequence of these social programs and the supposedly larger room for maneuvering for small businesses would make them happier and thus more productive (ibid.).

When Shlaes emphasizes that various investments in stimulus policies - including social programs are not accompanied by decreased tax rates, or that they are even accompanied by higher taxes, - she suggests that Roosevelt's New Deal policies were counterproductive as she in 2007 and 2008 feared that president-elect Obama's policies would be. At the same time, she highlights how New Deal policies - and president-elect Obama's plans for recovery policies - were actually not fully in accordance with Keynesian principles, as Roosevelt emphasized higher taxation of particularly the rich and both Roosevelt and Obama left out the very central component of Keynesian policy-making, namely decreased general tax rates, which also Miron highlighted.

Both Miron's and Shlaes' arguments concerning the need for tax reductions constitute just as much a general libertarian concern about minimal state intervention and lower taxation which is shared by neoclassical, Chicago school adherents and Austrians alike. It is a basic tenet of economic policy for all strands of libertarian schools that lower taxes enhance the efficiency of the economy because it retains economic resources within the private, productive, sector, apart from the ideational tenet that lower taxes further private ownership for individuals, which is a point that would be stressed particularly by Austrians.

Economic critiques of the Obama administration's fiscal policies:

Deficit spending - and its related problems

The paper *Monetary and Fiscal Policies Following Crisis Management* by Dr. Mickey D. Levy, former chief economist of the Bank of America and presently chief economist of Blenheim Capital Management (Levy, 2009: 1-2), which has been posted at the Shadow Open Market Committee's website focuses particularly on potential problems in the American Recovery and Reinvestment Act (ARRA). The Shadow Open Market Committee is a group of also libertarian and monetarist economists.

Levy finds that the budgetary estimates which the fiscal policies of the Obama administration rest on, are built on a number of fundamental underlying assumptions which do not hold water when analyzed further:

- First, Levy quotes the Congressional Budget Office’s (CBO) baseline projections budget estimates which state that budget deficits will remain above 3 per cent throughout a 10-year projection period – providing that there is full employment (ibid.: 5-6). However, Levy assesses that budget deficits will be far higher because there will most likely not be full employment, because health care legislation costs are excluded from the estimates and last, but not least, because government spending will remain above 23 per cent of GDP, which is high in historical terms (ibid.: 6). This is, according to Levy, a direct consequence of the doubling of net interest costs resulting from the recent recession and countercyclical policy responses; and in this calculation is not even included the *"permanent budget impacts of recent tax and spending legislation"* (ibid.).

- Second, Levy also quotes the CBO's emphasis on the unrealistic nature of its baseline projections. For example, the baseline projections include the expiration of the Bush administration's tax cuts of 2001-2003, which is not realistic (ibid.).
- Third, no matter which assumptions that are included in the CBO's calculations, the thing Levy finds *"most striking"* (ibid.) is that even at full employment, the projected deficits are a larger share of GDP than in *"almost all prior recessions"* (ibid.).
- Fourth, the costs of the above fiscal policies will, according to Levy, have the effect that the budget deficit sizes which have been normal *"cyclical budget shortfalls during recessions"* (ibid.) – even when low unemployment and a good economic performance is included in the calculations (ibid.) - will become higher than expected during the present financial crisis.

Levy finds that the high budget deficits mentioned above will have dire consequences in the future. First, publicly held debt is likely to rise to as much as 80 per cent of GDP, which is double its 2008 level (ibid.), instead of the CBO constrained baseline projections of only 62 per cent.

Second, Levy finds it problematic that the debt which is being created in these years will burden future taxpayers disproportionately when considering that the present rising debt almost supports current consumption and not the productive capacity or growth in the future (ibid.).

Obama's stimulus policies will not reduce unemployment

Shlaes is also in other ways very critical of the tendency to use Roosevelt's New Deal stimulus policies as a beacon for the Obama administration for successful handling of the financial crisis of 2008 as she questions many of the results of New Deal policies. In *the forgotten man: A New History of the Great Depression* (Shlaes, 2007: 259) Shlaes notes that in 1935 despite the establishment of stimulus programs designed to create jobs like the Public Works Administration (PWA) and the Works Project Administration (WPA) *"only 700,000 jobs had been created since 1932"* and that 20 per cent of all men remained unemployed in 1935 (ibid.). Considering that Roosevelt had promised to *"put millions to work by the autumn of 1933"* as Shlaes notes in a column in Bloomberg.com (Shlaes, 2009) and that 20 to 30 per cent of all men remained unemployed throughout the 1930s (ibid.) suggests a very meager result of Roosevelt's stimulus policies in this field.

Shlaes' fears of the what she sees as the lack of positive effects of President Obama's stimulus policies on unemployment rates are also addressed at a much later time by former Speaker of the House, John Boehner in his report *Stuck on "Stimulus"* (Boehner, 2010). Boehner addresses failure of President Obama's stimulus plan to - not nearly - create the number of jobs that had been promised which Boehner sees as disappointing because President Obama *"promised to make jobs a priority in 2010"* (ibid.: 2). Boehner uses President Obama's own benchmark (a payroll unemployment of 137.55 million people at the end of 2009) as a measuring stick for assessing to what extent the stimulus policies have been successful in reducing unemployment. As the payroll employment figure in May 2010 was at 130.57 million people, Boehner sees this a very poor result (ibid.). Boehner sees government expansion - and spending - as well as new taxes as being the elements which are most counterproductive to creating new jobs (ibid.: 1).

How did the above critiques develop?

When looking at the various points of critique of the Obama administration's fiscal policies above, the early critiques tend to revolve around more philosophically based and general, less concrete, concerns over President Obama's stimulus policies.

This can be observed when Shostak criticizes one of the basic tenets of Keynesian stimulus policy, namely when he establishes that government spending is not real funding and that this will cause inflation. That this process is central to Austrian school thinking is backed by Stedman Jones in his book on libertarian thought *Masters of the Universe*. Moreover, Shostak also denies the Keynesian assumption that demand cannot spark production.

Shlaes suggests that stimulus programs carry the risk of creating government expansion and dependencies between the (federal) state and those depending on these programs for their livelihoods, whereas Miron highlights that stimulus policies tend to cause malinvestment as many government investments very well may be unnecessary in the long run as government possesses far less knowledge than the many individual market actors on how to allocate resources. This is also a basic libertarian and particularly Austrian school assumption.

Miron also addresses the concern of crowding out, which Austrian school adherents stress, as he fears that e.g. infrastructure projects will simply draw resources and employment from other fields and sectors.

Both Miron and Shlaes are also concerned that the element of Keynesian stimulus policy of general tax reductions is largely absent the Obama administration's fiscal policy program; they both refer to the fact that this, even from a Keynesian perspective, is just a pivotal part of stimulus policies as government spending is.

Levy turns to more economically based critiques when he addresses budget deficit projections and government spending which are projected to remain well over GDP and that this will prevent future growth.

Both Shlaes and Boehner stress that the Obama administration's stimulus policies will fail, and have failed, to reduce unemployment, respectively. Shlaes does this in a historical perspective by comparing the Obama administration's policies to President Roosevelt's New Deal initiatives, whereas Boehner provides empirical, statistical evidence that reducing unemployment until mid-2010 has failed.

From the above, it is clear that many of these relatively early critiques take outset in basic ideational libertarian assumptions which are often particularly stressed by Austrian school adherents. This is, of course, quite natural as a new policy agenda, which the Obama administration's stimulus policies represented, would be likely to provoke ideationally based opposition from libertarian writers and commentators. It is, therefore, also not surprising that Miron from CATO, and particularly Shostak who is based at the Austrian school institution the Mises Institute, are the ones who particularly stress ideationally based arguments countering Keynesian stimulus policy in general and more specifically the Obama administration's (plans for) stimulus policies. Interestingly, when Miron and Shlaes address the issue of tax reduction, they also, as mentioned above, partly base their criticism on an ideational foundation, namely that general tax reductions are just as much part of the "Keynesian toolbox" as government spending is.

The more economic-based, less fragmented and more specific critiques emerged some time after President Obama took office.

These critiques are to a much greater extent based on statistical and empirical material, here represented by Levy's reference to budget deficit projections and Boehner's critique of President Obama's failure to reduce unemployment by mid-2010.

When looking at the early critiques as a whole these are often more fragmented in relation to each other exactly because they tend to be ideationally based. Even though they could be said to be coherent in the sense that the libertarian critics often emphasize the same issues, i.e. malinvestment, crowding out, taxation, etc., these critiques as a whole do not to the same degree represent a just as coherent picture as later critiques because they attack what they see as the problems with stimulus policies from different angles. For instance, Shostak bases his critiques on questioning the basic Keynesian tenet that demand in itself can spark production, whereas Shlaes concentrates on how increased government spending and malinvestment may influence society by, as mentioned above, fostering new dependencies between government and constituent groups relying on government for retaining their jobs. Furthermore, Shlaes bases her criticism on the historical context of President Roosevelt's New Deal policies, also when she addresses unemployment. Miron questions yet another point pivotal to Keynesian policy-making, namely investment in infrastructure.

The later critiques tend to be more coherent in two ways. Both the individual critics focus on more specific issues like Levy does when addressing budget deficits already in September 2009 and, not least, when Boehner in 2010 focuses on the disappointing results of the efforts of the Obama administration to create new jobs, which he backs by statistics.

Furthermore, when seeing these later critiques as a whole, they also represent a more coherent picture in the sense that even though the critiques deal with different issues there in some cases could be said to be an intercausal relationship between them: the budget deficit projections as a result of increased government spending that Levy addresses and which he predicts will have dire consequences in future are one of the elements which caused the meager results regarding unemployment which Boehner points to as he also stresses increased government spending as a huge problem. This relationship of intercausality between points of critique is merely a result of the fact that a more coherent picture of the state of the economy and the preliminary results of stimulus policies emerges - and the way individual libertarian critics see and interpret this. Therefore, critiques of the Obama administration's fiscal policies develop from having a more fragmented character initially to representing an - at least more - coherent picture later on.

Critique from the left: Stimulus policies were inadequate, too little Keynesianism, too much neo-liberal austerity and not enough social buffer

The critiques of the Obama administration's fiscal policies from the left of the US political spectrum generally emphasize that Obama's stimulus policies were too inadequate and too unfocused while some critics also point to the lack of elements which could provide a social cushion for the ones that are affected the most by the recession just as the rise in inequality is a concern of some critics.

Taxation policies - and their consequences

Some critiques revolve around the taxation policies which also were part of the American Recovery and Reinvestment Act (ARRA). Partly because these are seen by some critics as being too unfocused and partly because they constituted too big a part of the Recovery Act as compared to increased public spending.

Obama's plans for making tax relief constitute a sizeable part of ARRA already worried Paul Krugman in early January 2009. Krugman found it problematic that out of the planned stimulus of $775 billion as much as $300 billion was meant to consist of tax cuts (Krugman, 2009). The figures in the final Act were slightly different.

Seen in a Keynesian critical perspective, it is particularly the composition of these tax cuts which Krugman finds problematic, namely that business tax cuts constitute half of these tax relief initiatives. While payroll tax cuts according to Krugman are efficient, business tax cuts are far less so because these do not raise GDP nearly as much as payroll tax cuts do (ibid.).

This reasoning clearly rests on a Keynesian mindset, because spending (public and private) is central to a Keynesian stimulus approach. In a Keynesian perspective, payroll tax cuts would add to the propensity to spend, thus reinvigorating the economy and raising GDP, whereas business tax reductions to some extent would add to saving because not all of these reductions would end up in investment for productive purposes and thereby not contribute to channeling the flow of money into private consumption. So when Krugman addresses the importance of furthering the propensity to spend through taxation policies - and in this connection distinguishes between payroll tax relief and reduction of business taxes - the underlying assumption of payroll tax relief as an efficient means to stimulate the economy while business tax reductions may end up as savings rests on basic Keynesian theories, because Keynes considered saving as a subtraction from consumption demand while not adding to investment demand, because savings are primarily a demand for cash, not for capital goods (Skidelsky, 2009: 91).

The fact that tax cuts constitute a large section of the stimulus package is also seen as being problematic by economist and Columbia University Professor Joseph E. Stiglitz. However, he sees all types of tax reductions as being problematic when considering the state of the economy at the time, and just after, the implementation of the stimulus package (Stiglitz, 2009). When baring in mind the that Americans at that time were heavily indebted and unemployment was high, Stiglitz feared that a considerable part of tax reductions would end up as savings and not add to private spending (ibid.).

When questioning the reasoning behind tax reductions as a means to further private spending per se (and not only business tax reductions) - at least in the economic situation of the US at that time - Stiglitz actually positions himself slightly to the left of Krugman in this question as Krugman, as noted above, does recognize a positive effect of general tax reductions, but only questions the wisdom in reducing business taxes as a means to further spending - a position which adheres more strictly to the Keynesian mindset.

When moving further left in the US political spectrum, critiques of the Obama administration's taxation policies also move away from resting solely on Keynesian argumentation to an evaluation which is based more on distributional and structural concerns over the effects of the taxation system.

One such example is seen in a comment made by the left wing and labor movement affiliated Economic Policy Institute (Fieldhouse, 2011). In this article, Economic Policy Institute commentator Andrew Fieldhouse finds it to be positive that President Obama so far had been consistent in letting the Bush-era tax cuts expire, which is in accordance with his campaign pledge. In President Obama's 2012 budget proposal tax relief for low and middle income earners will be extended while top marginal taxes will be increased, deductions for top earners will be limited and the preferential rate on capital gains will increase. Fieldhouse finds it problematic, though, that deficit reduction to a high degree will be achieved by implementing spending cuts (ibid.).

This comment from EPI in part rests on classical Keynesian argumentation along the same lines as Krugman does in his assessment of President Obama's taxation policies, above, by underscoring the importance of constructing taxation models according to the principle of emphasizing general tax relief for low and middle income earners while not focusing on reducing taxes for (large) businesses and on capital gains because tax relief targeted at low and middle income earners is seen as being the most efficient means to increase spending and economic activity. However, while Krugman primarily criticizes business tax cuts for not furthering the end of increasing spending, Fieldhouse from the EPI, as noted above, also sees it as being important that deductions are limited and capital gains taxes are not lowered. This points to a criticism which extends beyond the pivotal Keynesian principle that tax deductions should be implemented in a way which furthers spending and thus growth. When Fieldhouse addresses the elements of limiting deductions and maintaining capital gains taxes at relatively high levels, this also points to a wider concern for the distributional effects of taxation policies and thus income equality in US society - which also Fieldhouse's emphasis on maintaining a high degree of progressivity in the taxation system indicates. These are general left-wing concerns rather than strictly being Keynesian ones.

Inadequate levels of public spending - and its consequences

Another recurrent point of critique from the left during the time since President Obama took office and implemented stimulus policies has been that these have been inadequate and insufficient as an attempt to counter the effects of the financial crisis of 2008.

The point of view that the Obama administration's fiscal policies contained too low public spending levels is seen across a wide section of the critiques stemming from the left in the US political spectrum.

From a classical Keynesian perspective, Krugman is modestly critical towards the results of the Recovery Act even though he fully supports the basic idea behind it: to add to growth through increased public spending and also maintains that it was beneficial for the US economy in many ways (Krugman, 2014). When compared to some nations in the EU, which pursued strict austerity policies, these countries did have much larger declines in output and unemployment than the US, Krugman argues. Furthermore, badly needed investments in infrastructure and green energy were positive effects of the stimulus package as well (ibid.). What Krugman finds problematic, though, is that the stimulus was too small and turned into a temporary measure to boost the economy at the height of the financial crisis because it by many was seen as a failure - and, therefore, emphasis on reducing unemployment disappeared more or less from the political agenda and was replaced with a concern over budget deficits (ibid.).

Again, Krugman argumentation is built on a classical element within the Keynesian mindset, namely that Keynes emphasized the role of public investment (Skidelsky, 2009: 90) as opposed the monetarists' emphasis on the regulation of interest rates as almost the only instrument the government could and should apply to boost or dampen the economy. Keynes' emphasis on investment was closely connected to how he saw demand as the central factor which could spur production.

Too many budget cuts

The concerns over budget cuts is very well exemplified in a commentary by Rebecca Thiess from the Economic Policy Institute (EPI) about the expected consequences of the budget cuts in President Obama's 2012 budget request (Thiess, 2011). Here, the main concerns are that two-thirds of the $ 1 trillion deficit reduction included in the 2012 budget request consists of budget cuts while the remainder stems from revenue increases and that President Obama at that time planned a five-year freeze on non-security discretionary spending (ibid.).

Budget cuts are the other side of the coin of inadequate spending levels, and thus what is seen by Thiess from the EPI as too many budget cuts - in terms of economic and theoretical reasoning from a Keynesian perspective - of course rests on the same Keynesian assumptions of how public investments creates jobs and economic growth as dealt with above. However, the commentary primarily points to concerns over the effects of budget cuts regarding social consequences for low-income groups within US society and regarding inequality in general. Particularly targeted aid for low-income groups like for instance home energy assistance and community development - and services - block grants would be hit by these proposed budget cuts. This confirms the tendency that critics from institutions which are usually considered to be to the left of classical Keynesians like Krugman tend to emphasize social policy and inequality concerns. The issues of the lack of social provisions and inequality will be dealt with more thoroughly below.

Apart from the commentary's focus on social consequences of the proposed budget cuts, it is of particular interest here that Theiss underscores that these budget cuts are in opposition to the Obama administration's stated policies to further community-building investments. Furthermore, she in the same commentary criticizes the Republican Party's proposed spending cuts. As such, she actually points to the assumption that the austerity approach which the budget cuts represent to some extent are proposed out of political necessity, i.e. to obtain support in Congress, rather than it is the what the Obama administration sees as an ideal fiscal policy.

Rising inequality: The lack of social buffers to counter the effects of the financial crisis

When looking at points of critique dealing with the lack of providing sufficient social buffers in the form of various social provisions critics' focus in their argumentation move away from - solely - resting on Keynesian emphasis on remedying the economy towards concerns for easing the plight of those affected by the financial crisis. Therefore, these critiques are to a large extent coming from commentators who are positioned further to the left than e.g. Krugman and Stiglitz.

For example, what is seen as President Obama's one-sided focus on recovery - while ignoring the effects of the crisis on particularly the unemployed and low-waged and under-employed workers is criticized in the article *A Modern Safety Net* in the liberal (i.e. left-wing in the American sense) magazine The American Prospect (Boots, 2009). In the article, this is seen as important, because unemployment during the first part of the financial crisis was particularly prevalent among workers with the least education (and who were the ones that often were economically weak in advance).

In this article, it is argued that the shift of focus in government social provisions from income support for the most needy to focusing on those who do have affiliation to the labor market (a process which began almost ten years before the financial crisis) has meant that programs like the Supplemental Nutrition Assistance Program (SNAP) and other similar ones work far better both when it comes to providing basic needs for the poorest and for lifting people out of deep poverty than programs like The Temporary Assistance for Needy Families (TANF), which is tied to the work-first principle (ibid.). Furthermore, the article highlights that unemployment benefit is ill-suited to provide protection for approximately two-thirds of those unemployed due to today's structure of the labor market which is characterized by flexibility with shorter periods of employment, part-time jobs, etc.; a process which has been reinforced after the financial crisis. Moreover, the need to provide sufficient support for low-income families while e.g. attending various training activities is also stressed in the article *A Modern Safety Net* (ibid.).

The article *A Modern Safety Net* thus exemplifies how the more left-wing/liberal critiques tend to focus on providing basic needs - and better living conditions - for particularly the poorest sections of the population, also as a means to reduce or limit inequality while focus is less on rigidly keeping unemployment low by inciting people to have maximum affiliation with the labor market through work encouraging schemes.

Even though a classical Keynesian approach by no means would preclude the necessity of social provisions, the stance presented in the article *A Modern Safety Net* clearly differs from a purely Keynesian argumentation where focus is not as much on keeping unemployment low as a social buffer in itself as it is on being one of the means to reinvigorate the economy by maintaining purchasing power and to further a dynamic economy. In other words, this article's focus on the social and inequality effects of the lack of sufficient social provisions can be seen from its almost absent focus on the Keynesian reasoning for keeping unemployment low as a means to keep the economy afloat, namely because Keynes saw it as key to ensure full employment; and therefore, it was vital to fill the gap between consumption and production, which could easily occur, because consumption is the relatively more stable element of demand than investment is according to Keynes' "psychological law", which states that when income rises, consumption rises less than income, and when income drops, consumption does not fall with the relatively same proportion (Skidelsky, 2009: 90).

A similar focus on the need for extra social provisions as a necessary supplement to stimulus policies is seen in an article at NYTimes.com by economics professor Christina Romer (Romer, 2011). Romer argues that it is vital to provide relief for the 11 million households where their mortgages exceeded the value of their homes at that time (ibid.). Romer, however, builds her argument not only around the need to bring relief to these home owners form a social provision or inequality aspect, but in fact supports it with a Keynesian argument, namely, that this is key to bringing the economy back on track because high debt is an obstacle to consumer demand (ibid.).

Interestingly, Kevin Drum from the left-wing magazine *Mother Jones* criticizes Romer's article as he thinks Romer overlooks the fact that no one (i.e. who favors a better housing plan) denies that government stimulus is also needed because this will increase growth and thus lower debt burdens (Drum, 2011). In other words, Drum sees no opposition between a more active housing policy and stimulus policies.

This discussion between Romer and Drum illustrates the ambiguity among many on the left when judging the Obama administration's fiscal policies, i.e., that there is a reluctance among some on the left to criticize President Obama's policies.

Even though the points of critiques just above tend to be based primarily on a concern about the lack of sufficient social provisions and its consequences for low-income and poor groups and the rising inequality which is seen to be a consequence of this, there are also examples of how left-wing points of critique combine these concerns with the application of classical Keynesian instruments. For example, Ethan Pollack from the EPI points to how the public investments in infrastructure, which were part of ARRA, will reduce hourly wage inequality because the jobs resulting from these investments primarily will be held by workers without a college degree and by unionized workers (Pollack, 2009). In other words, the classical Keynesian instrument of increasing public investments with the purposes of reinvigorating the economy (increasing demand) and of reducing unemployment will have the "side-effect" of also reducing inequality which is more a general left-wing concern than only a Keynesian one.

Different variants of left-wing critiques - different emphases on various issues

As mentioned above, the critiques and the argumentation behind them could - at a basic level - be divided into ones which are founded on the concern about how to reinvigorate and stimulate the economy through various fiscal policies, and on the other side, critiques which are founded on social concerns, i.e. how particularly low-wage groups and the poor are affected by the Obama administration's fiscal policies like for example taxation policies - or maybe to a larger extent how they are affected by the absence of various social buffer policies. Among some sections and critics on the left there is also a concern about how the Obama administration's fiscal policies affect societal structure in terms of their failure to address inequality sufficiently.

When looking at which sources the more socially concerned critiques come from, there is a tendency towards that the further left in the US political spectrum you get, the more prevalent is this form of critique. It is, therefore, not surprising that critics from left-wing and liberal (in the US sense) media like *Mother Jones* and *The American Prospect* - and an institution like the EPI - tend to emphasize these points of critique.

For example, when Fieldhouse from the EPI points to the distributional effects of maintaining a limitation on deductions and maintaining high capital gains taxes as well as the importance of progressivity in the taxation system he emphasizes the need to limit inequality and thus focuses not only how to stimulate the economy. In *Mother Jones* and *The American Prospect* the critics focus even more on "purely" structural and social concerns like inequality and marginalization of certain low-income groups - and how these groups are affected economically by the lack of sufficient social provisions.

On the other hand, the issues of how to design taxation policies and to maintain or increase public spending in the optimal way in order to stimulate the economy and to further growth is emphasized by more center-left critics like Krugman and Stiglitz. Their argumentation, and in particular that of Krugman, is, as dealt with above, to a large extent founded solidly on Keynesian assumptions whereas critique from the EPI tend to combine Keynesian reasoning with concerns over social consequences of the Obama administration's fiscal policies.

Keynesianism or Fiscal Consolidation? - Examining Key Fiscal Policies of the Obama administration

In order to assess the degree to which the fiscal policies of the Obama administration have had a Keynesian or a fiscal consolidation character, I will examine how great the Obama administration's commitment to austerity has been. For this end, the following focal points will be used to determine this question:

- **How fast budget have budget cuts been made?** (which will be measured by surveying the budget deficit as a proportion of GDP from 2010 till 2015 in comparison to other key countries (please see below)).
- **Which areas were subject to budget cuts - or budget restraint?**, e.g. social spending, defense, non-defense, etc.
- **Development in revenue levels: Which forms of taxation that constituted the major sources of revenue from 2010 till 2015.**
- A survey of the key fiscal policy initiatives ARRA and the American Taxpayers Relief Act of 2012.

These factors will also be put in an international comparative perspective by looking into similar key figures from other western countries like the UK, France and Denmark, also in order to assess the degree to which the Obama administration's fiscal policies could be characterized by a Keynesian or a fiscal consolidation approach seen in comparison to other selected key countries.

How fast have budget cuts been made?

When measuring how fast budget cuts have been made, 2010 will be used as a base year because this year was still at the height of the financial crisis and also represents a point in time from which the effects of the Obama administration's fiscal policy initiatives began to be reflected in economic data.

In the table below, the development in the budget deficit figures as a percentage of GDP in the US from 2010 till 2014 will be compared to the corresponding figures from the following European countries: The UK, France, Ireland, Germany and Denmark:

Table 1: Budget deficits as a percentage of GDP:

	2010	2011	2012	2013	2014
United States	-12.0	-10.6	- 8.8	- 5.3	- 4.9
Denmark	- 2.7	- 2.1	- 3.5	- 1.1	- 1.5
France	- 6.8	- 5.1	- 4.8	- 4.1	- 3.9
Germany	- 4.2	- 1.0	- 0.1	- 0.1	- 0.3
Ireland	- 32.3	- 12.5	- 8.0	- 5.7	- 3.9
United Kingdom	- 9.7	- 7.7	- 8.3	- 5.7	- 5.7

Source: Adapted from Organisation for Economic Cooperation and Development (2015) *General Government: General government deficit.* Retrieved January 25, 2016 from: https://data.oecd.org/gga/general-government-deficit.htm

Considering that even though the US began with a relatively high budget deficit of - 12.0 % in 2010 as shown in Table 1, above, the drop of 7.1 percentage points down to - 4.9 % in 2014 clearly indicates a commitment to austerity policies. When compared to some countries which also adhered to austerity policies like the UK, Germany, France and Denmark, the US falls into the same category as these regarding the fiscal policy course, even though the US came from a higher (worse) starting point than most of them (with the exception of Germany which was the country in Europe that was by far most committed to austerity policies).

The budget deficit reductions in the US from double digit figures in 2010 and 2011 down to -4.9 in 2014 shows that both the rhetoric of the Obama administration, and the expectations of many, about boosting the economy as a response to the crisis was replaced by a commitment to fiscal consolidation and austerity when it came to the actual implementation of fiscal policy and the high speed with which this was pursued.

Whereas the primary focus in for example the Economic Report of the President in 2010 was on rebuilding and stimulating the economy (United States Government Printing Office, 2010), there was a shift of emphasis towards deficit reduction in the Economic Report of the President in 2012 (United States Government Printing Office, 2012).

For example, in the section *The Importance of Restoring Fiscal Sustainability* there is concern that persistent periods of budget deficits will result in higher interest rates thus reducing consumption spending on durables and housing (ibid., 94).

Which areas were subject to budget cuts - or budget restraint?

The Obama administration's emphasis on deficit reduction led to budget cuts in some - but far from all - areas from 2010 and onwards. Below, there will be a survey of how the overall trends have been in this process, i.e. to what extent various categories of public spending on mandatory outlays have been exposed to cuts - or subject merely to modest budget increases. The table below displays from an overall perspective the budgetary development of major fields of public expenditure on mandatory outlays in billions (USD):

Table 2: Budgetary developments in major fields of public expenditure on mandatory outlays – 2010 and onwards (in billions of USD):

	Social Security	Medicare	Medicaid	Income Security	Other Retirement and Disability	Other Programs
2010:	700,8	520,5	272,8	437,3	138,4	40,5
2011:	724,9	559,6	275,0	404,1	144,2	127,2
2012:	767,7	551,2	250,5	353,6	143,5	192,2
2013:	807,8	585,2	265,4	339,5	152,5	185,9
2014:	844,9	599,8	301,5	310,9	157,5	161,2
2015:	881,9	633,7	349,8	301,8	161,5	226,7

Source: Adapted from Congressional Budget Office (2016). *Historical Budget Data, January 2016. Table F-5. Mandatory Outlays since* 1966. Retrieved January 29 from

https://www.cbo.gov/sites/default/files/51134-2016-01-HistoricalBudgetData.xlsx

From Table 2 it can be seen that expenses on some key mandatory outlays (Social Security, Medicare, Medicaid and other retirement and disability) have actually risen from 2010 until 2015.

This development seems to point to a to a phenomenon which is often seen (early on) in crises, namely that public spending, tends to rise after a crisis has set in regardless of whether or not the government pursues austerity or Keynesian-inspired fiscal policies. This phenomenon is linked to the fact that the automatic stabilizers, i.e., most importantly, social spending on the outlay side tend to increase during a crisis. A rise in the areas of public spending mentioned above can, of course, result from a deliberate government policy to focus on these areas. However, it is also quite natural that for instance Social Security expenses rise after a crisis has set in, exactly because such outlay programs are mandatory and leaves only limited space for the government to maneuver in the short term.

Interestingly, though, one of the above areas within mandatory outlays stands out, namely income security, which has dropped from USD 437.3 billion in 2010 down to 404.1 billion already in 2011 and down to 301.8 billion in 2015. This significant drop in expenses for income security indicates that the Obama administration has emphasized a high degree of austerity in its fiscal policies. When asking why this particular field stands out from other social programs, part of the explanation could be that various elements of income security more easily can be adjusted and cut back than Medicare, Medicaid and Social Security which are considered to be cornerstones of US social programs by large sections of the population and as such are much more difficult to reform fundamentally than Income Security programs which tend to assist poorer groups on a more temporary basis.

As mentioned above, some social expenses tend to rise - and add to the deficit - early on during recessions regardless of whether government policies lean towards Keynesianism or not. This phenomenon should, however, not be confused with the same phenomenon which often occurs if government invests fields like infrastructure and production-boosting measures which are typical Keynesian fiscal policy elements and also would add to increased government spending and potentially lead to budget deficits. Therefore, the trends which can be deducted from the above figures in Table 2 do not, necessarily, by themselves suggest a Keynesian fiscal policy, exactly because they represent social expenses and not production-boosting measures. Still, increased social expenditure may also be used by Keynesian-leaning governments as a form of government spending to boost the economy (please see below also).

Even though there have been significant increases in government spending in most key areas of mandatory outlays increases become less significant though when measuring them as their proportion to GDP as can be seen in Table 3, below:

Table 3: Mandatory outlays as a percentage of GDP:

	Social Security	Medicare	Medicaid	Income Security	Other Retirement and Disability	Other Programs
2010:	4.7	3.5	1.8	3.0	0.9	0.3
2011:	4.7	3.6	1.8	2.6	0.9	0.8
2012:	4.8	3.4	1.6	2.2	0.9	1.2
2013:	4.9	3.5	1.6	2.1	0.9	1.1
2014:	4.9	3.5	1.8	1.8	0.9	0.9
2015:	5.0	3.6	2.0	1.7	0.9	1.3

Source: Adapted from Congressional Budget Office (2016). *Historical Budget Data, January 2016. Table F-5. Mandatory Outlays since* 1966. Retrieved January 29 from

https://www.cbo.gov/sites/default/files/51134-2016-01-HistoricalBudgetData.xlsx

From Table 3 it can be seen that outlays when measured as a percentage of GDP have only risen slightly in all areas with the notable exception of income security which has been subject to a sharp drop from 3.0 % in 2010 down to 1.7 % of GDP in 2015. In both Tables 1 and 2 it is of course important to take inflation into consideration as the figures are not indexed in constant USD. When comparing Tables 2 and 3, the still considerable increases in most outlay posts in Table 2 become much less marked when measured as a percentage of GDP; the post other retirement and disability even remains entirely constant throughout the period.

This suggests that the Obama administration has adhered to a fiscal consolidation approach much more than a Keynesian one considering that various forms of social expenditure costs tend to increase significantly after a crisis sets in particularly due to rising unemployment levels.

As mentioned above, even though increased social expenditure costs by themselves do not indicate a Keynesian fiscal policy, social expenditure may – also at times – be used as a means to jump-start the economy in a time of crisis as a form of discretionary Keynesianism. However, the findings from Tables 2 and 3, as explained above, do not indicate this. Considering that social expenditure posts did not increase significantly as automatic stabilizers like these often tend to do during crises, but actually by and large remained stable while the figure for income security even dropped significantly, this trend underscores that the Obama administration – in the field of social expenditure – in practice did not adhere to Keynesianism as a conscious strategy, i.e. discretionary Keynesianism.

Defense vs. nondefense spending

When measuring the development in defense spending it is clear that this area has been subject to budget cuts, which can be seen in Table 4, below:

Table 4: Defense and Nondefense spending (in billions of USD):

	Defense	Nondefense	Total
2010	688,9	658,3	1.347,2
2011	699,4	647,7	1.347,1
2012	670,5	615,6	1.286,1
2013	625,8	576,4	1.202,1
2014	596,4	582,2	1.178,7
2015	582,2	583,0	1.165,2

Source: Adapted from Congressional Budget Office (2016). *Historical Budget Data, January 2016. Table F-4. Mandatory Outlays since* 1966. Retrieved January 29 from

https://www.cbo.gov/sites/default/files/51134-2016-01-HistoricalBudgetData.xlsx

The drop from 688,9 billion dollars in 2010 down to 582, billion dollars in 2015 is significant. Yet, when compared to the corresponding figures from nondefense spending (2010: 658,3 - 2015: 583,0) the cuts in defense spending are of course still larger than in nondefense but not very markedly so. When comparing defense and non-defense spending as a percentage of GDP, this picture is reinforced, as decreases in spending for defense and nondefense purposes are almost identical. Yet, defense spending drops slightly more than nondefense spending as it is seen in Table 5, below. Non-defense spending, which includes other forms of government spending which could boost the economy by using a Keynesian approach, like investments in various projects, infrastructure, etc. is also subject to a substantial drop, almost similar to that in defense spending.

Table 5: Defense and Nondefense spending as a percentage of GDP:

	Defense	Nondefense	Total
2010	4,7	4,4	9,1
2011	4,5	4,2	8,8
2012	4,2	3,8	8,0
2013	3,8	3,5	7,3
2014	3,5	3,4	6,9
2015	3,3	3,3	6,5

Source: Adapted from Congressional Budget Office (2016). *Historical Budget Data, January 2016. Table F-4. Mandatory Outlays since* 1966. Retrieved January 29 from

https://www.cbo.gov/sites/default/files/51134-2016-01-HistoricalBudgetData.xlsx

From the findings above it is seen that the Obama administration pursued a budget policy which was characterized by a fiscal consolidation approach.

First, the commitment to fiscal consolidation is seen in the speed with which budget deficit reduction was achieved as Table 1, above, shows. Deficit reduction was pursued with the same eagerness as countries like the UK which also were committed to austerity. The US in fact achieved a larger reduction of its budget deficit than the UK did. Second, when looking at which areas that were subject to budget cuts, or maybe rather budget restraint, one particular area - income security - stands out. Particularly when held up against other social programs like Social Security, Medicare and Medicaid the difference is striking as Tables 2 and 3 show. Taking into consideration that the budget cuts on income security took place during the years when the financial crisis hit US society the most with high unemployment as a consequence shows that the Obama administration had fiscal consolidation high on its agenda, as also the Economic Report of the President in 2012 indicated, as mentioned above. Thirdly, other social programs (e.g. Social Security, Medicare and Medicaid) were not subject to outright budget cuts, but rather went through a process of budget restraint[1] and only modest increases as also Table 2 also shows. Fourthly, Tables 4 and 5 show that even though budget cuts in defense certainly did take place, these were only somewhat higher than those in nondefense. What was significant was that total spending as a percentage of GDP dropped significantly.

Considering that deficit reduction in the form of budget cuts on outlays by and large took place as budget restraint, with the notable exception of Income Security, the next section, below, will therefore investigate the revenue side of deficit reduction, i.e. to what extent tax increases were part of the Obama administration's fiscal policy and which forms of taxation that were subject to increases, e.g. payroll or corporate taxes.

Development in revenue levels: Which forms of taxation constituted the major sources of revenue from 2010 till 2015.

In order to determine to what extent fiscal consolidation was pursued through budget cuts or tax increases, I will in this section look into from which forms of taxation that were the major sources of revenue obtained by the US government from 2010 until 2015. I will, therefore, focus on individual income taxes, payroll taxes and corporate income taxes. In Table 6, below, the development in the revenue from these three forms of taxation will be listed:

[1] It should be noted that the distinction between budget cuts and budget restraint is often unclear in political debates over this question. This unclarity is rooted in political differences reflected in the way the term budget cuts should be understood. Neoliberal debaters most often contend that budget cuts should be understood in absolute terms, i.e. that budget cuts only occur if government spending in a given field decreases in absolute numbers, whereas left-leaning debaters would contend that if a budget increase which has occurred over a long period of time suddenly becomes smaller, this will constitute a de facto budget cut as also both inflation and the budget outlays development as a percentage of GDP is taken into consideration.

Table 6: Revenue by source (in billions of USD):			
	Individual income taxes	Payroll taxes	Corporate Income taxes
2010	898,5	864,8	191,4
2011	1.091,5	818,8	181,1
2012	1.132,2	845,3	242,3
2013	1.316,4	947,8	273,5
2014	1.394,6	1.023,5	320,7
2015	1.540,8	1.065,3	343,8

Source: Adapted from Congressional Budget Office (2016). *Historical Budget Data, January 2016. Table F-2. Mandatory Outlays since* 1966. Retrieved January 29 from

https://www.cbo.gov/sites/default/files/51134-2016-01-HistoricalBudgetData.xlsx

From Table 6, above, a clear picture of the development in revenue sources emerges: Even though revenue from particularly individual income taxes and also somewhat from payroll taxes increase, the increase in corporate income taxes stands out (from 191,4 billion USD in 2010 to 343,8 billion USD in 2015). These figures are in line with the Obama administration´s taxation policies. In the Economic Report of the President in 2012 (United States Government Printing Office, 2012), a *Balanced Approach to Deficit Reduction* is advanced where a balance between spending cuts and sustainable tax revenues is sought (ibid., 95). In this part of the Economic Report of the President, focus is on *"eliminating ineffective tax cuts to high-income taxpayers"* (ibid.) while the Obama administration wishes to extend "*the payroll tax cut into 2012"* (ibid., 97).

As such, the Obama administration´s strategy is reflected in the figures, above, as revenue from individual income taxes rose throughout the period as described in Table 5 because also revenue from high income tax payers is included in this category. Yet, also revenue from payroll taxes rose, though less significantly. As mentioned above, also revenue from corporate income taxes rose significantly.

The figures also suggest that the Obama administration during this period also has had a Keynesian element in its approach to fiscal policy. By not making payroll taxes constitute a significantly larger source of revenue from 2010 till 2015 while not refraining from letting revenue from corporate income taxes rise substantially - even during the midst of a crisis where this source of revenue would normally fall, it could appear as if the Obama administration has leaned up against the Keynesian assumption that personal taxes add to the propensity to spend whereas lower corporate taxes tend to end up in savings and, according to Keynesian theory, therefore does not invigorate the economy.

As revenue from individual income taxes has also risen, this indicates the same Keynesian approach as in this category of taxation is also included tax revenues from high income earners. However, one should bear in mind that the approach of extending the payroll tax cuts, as mentioned above (ibid.), just as well may be followed in order to accommodate the large sections of the Democratic electorate who are low or medium paid wage earners. As such, the emphasis on maintaining low payroll taxes while taxing "Corporate America", which is popular among the left-wing sections of Democratic voters, just as well may reflect political necessity as it is a result of a strong ideational commitment to Keynesian principles.

When added up: To what extent did fiscal consolidation consist of expenditure cuts or tax increases?

When looking at which measures the Obama administration applied in order to achieve fiscal consolidation from 2010 till 2015 two items on the expenditure side stand out: First, expenses for income security dropped significantly as shown in Tables 2 and 3, above. Particularly when measured as a percentage of GDP (Table 3) this has drop in expenditure stands out. Second, the drop from 688.9 to 582.2 billion dollars on defense spending from 2010 till 2015 (Table 4), respectively, is also significant. On the revenue side the rise in corporate income taxes and to some extent in individual income taxes (Table 6) is significant, whereas the rise in payroll taxes is much more modest.

As such, budget cuts - and for many areas budget restraint - in particularly the areas mentioned just above constituted a major component of the Obama administration´s fiscal policy. However, it was also balanced by the fact that especially corporate income taxes were a major component of its fiscal policy. Therefore, it can be concluded that the fiscal consolidation pursued by the Obama administration was one which overwhelmingly rested on an austerity approach which applied neoliberal measures in the form of budget cuts but which, also, applied some Keynesian measures as also corporate income taxes increased as a major source of revenue. Therefore, the next section, below, will look into some of the key fiscal policy initiatives of the Obama administration, as these have often been characterized as being Keynesian-inspired; yet, as the statistics above show, the results of the Obama administration's fiscal policies by far do not indicate an entirely Keynesian approach.

Key fiscal policy initiatives– and their limitations

When considering the degree to which key policy initiatives like the American Recovery and Reinvestment Act of 2009 (ARRA) and the Tax Relief Act can be characterized as being Keynesian-inspired fiscal policies it is important to consider the limitations to them. This is so because there very well may be a considerable difference between the original intention of the bills and the end result of the legislation which was implemented.

The following principles, stated in the Act, govern the intentions of ARRA (U.S. Government Publishing Office, 2009: 2):

(1) To preserve and create jobs and promote economic recovery.

(2) To assist those most impacted by the recession.

(3) To provide investments needed to increase economic efficiency by spurring technological advances in science and health.

(4) To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.

(5) To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

From these guiding principles it is clearly seen that the emphasis of ARRA was 1) on job preservation - and creation, public investments that will boost the economy and develop the country's infrastructure as well as on social protection measures, and 2) on stabilization of government budgets. As such, ARRA rests, in terms of principles, partly on traditional Keynesian fiscal policies and partly on a fiscal consolidation approach. This is only to some extent in line with the findings based on Tables 1 to 6, above, which constitute a measure of the actual fiscal policies (of which ARRA is a substantial part) that were implemented as the tables outline the prioritization of budget outlays and cuts.

In terms of numbers, out of the total budget of ARRA of 787 billion USD, ARRA contained 288 billion in tax cuts, an additional 224 billion for entitlement programs, and 275 billion for contracts, grants and loans (Woodward, 2012: 25).

The parts which constitute the core of ARRA also build on Keynesian principles even though the result of the actual fiscal policies implemented may not present a "purely" Keynesian picture.

Some of the core fields – and agencies – for which ARRA contained appropriation provisions for, included among others (ibid.: 1):

- Agriculture and rural development
- Commerce, Justice, Science and related agencies
- Defense
- Energy and water development
- Financial services and general government
- Department of Homeland Security
- Departments of Labor, Health and Human Services
- Military construction and veterans' affairs

Moreover, ARRA contained:

- Tax provisions
- Assistance for unemployed workers and struggling families
- Provisions for Medicare and Medicaid information technology
- Provisions for broadband development

As such, ARRA contained provisions for increased spending in a number of fields. When assessing the degree to which Keynesianism was a driving force behind ARRA, a distinction between two forms of public investment and spending, which Noam Scheiber points to in his book *The Escape Artists* (Scheiber, 2012: 101-102) can be made. Scheiber argues that a stimulus package like ARRA is never entirely Keynesian in its character because two opposing political goals have to be considered, namely, on the one hand to boost the economy as fast as possible and on the other the need for politicians (including the President) to leave a lasting imprint on society (ibid.: 101). This results in the dilemma of spending government funds in fields which would have an almost immediate effect (Keynesian boosting of the economy) held against spending funds on e.g. large infrastructure projects which leave a lasting legacy in society (larger political visions).

However, this distinction is partly flawed because Scheiber here in reality does not make a distinction between a Keynesian and a non-Keynesian fiscal policy but rather distinguishes between the rate of speed with which the effect of Keynesian fiscal policies produce their effects. To exclude e.g. long-term infrastructure projects from the Keynesian toolbox is not correct. The economic effects of such projects may very well materialize many years from now but they are still part of Keynesian fiscal policy instruments. Apart from having long-term impacts on the economy, for instance infrastructure projects could also sometimes have an almost immediate effect on for example employment, investment, etc. which could boost the economy in the short term. Therefore, there is reason to question this exclusion of what could be coined "monumental public investments" from Keynesian fiscal policy making; as Scheiber himself points out, no politician would not rationalize his suggestions for projects as ones which did not create jobs (ibid.:103). Nevertheless, it is useful to use Scheibers's distinction as a starting point when considering the limitations to ARRA and other key fiscal policies of the Obama administration because this distinction highlights how these fiscal policies can be measured in terms of being ones which would be most likely to produce results for the economy within a limited scope of time. When looking at the limitations to ARRA this, here, means the limits which constitute constraints to implementing Keynesian policies because the degree to which this is the case is one of the pivotal questions in this dissertation.

ARRA's parts and their potential problems

Very broadly speaking, the appropriation provisions for entitlement programs (the $224 billion) like assistance to the unemployed as well as tax provisions containing tax cuts and credits for individuals and families (the $228 billion) can be said to belong to the category of fiscal policies which are designed to produce relatively quick results – and which Scheiber refers to as being the Keynsian part of the stimulus package – as they are intended to further private spending immediately, whereas some of the $275 billion set aside for contracts, grants and loans – also very broadly speaking – belong to the category which in some instances only produces economic results in the long term – and which according to Scheiber also contains economic support for projects would carry the risk of "merely" being ones which leave a lasting imprint on the country (Scheiber, 2012: 101). Moreover, many stimulus projects also run the risk of being politicians' "pet causes" as Scheiber also points out (ibid.: 103), i.e., projects which for instance could be driven by local or other narrow interests. As such, appropriations for these kind of stimulus projects could in fact very well end up as being the type of stimulus projects which Scheiber describes as being ones which mainly leave an imprint on the country and do not add significantly to growth. Thus, even though the composition of the stimulus package is not in itself problematic, it should be borne in mind that $275 billion set aside for contracts, grants and loans did carry a risk of not boosting the economy as a Keynesian tool, but that some of these public investments could have been ones which by and large only met relatively narrow – and political – interests, sometimes with a strong local bias.

ARRA was insufficient

First, one of the basic constraints to implementing Keynesian fiscal policies through ARRA is, of course, the question if the stimulus package was big enough. In order for the stimulus package to work sufficiently from a Keynesian starting point it may – ideally – have had to be bigger. As Scheiber points out, the White House during the negotiations prior to ARRA's passage may have hoped to reach a deal where the budget of ARRA landed on a figure somewhere between $850 billion and $900 billion (Scheiber, 2012: 109). In fact, then Chairperson of the Council of Economic Advisers Christina Romer had in December 2008 advised that the stimulus package had to have a size of at least $800 billion to be *minimally effective* and to have a size of app. $1.8 trillion to fully make the economy recover (ibid.: 40). During negotiations leading up to the final version of the stimulus package Republican demands for scaling down the ARRA stimulus package meant that *tens of billions of dollars* intended to aid states and many more billions intended for health care subsidies to the unemployed as well as tax cuts for low-and middle-income workers had been sliced off the final bill (ibid.: 107). As Scheiber points out, these figures that were left out of the stimulus package represent resources that would have been excellent *sources of stimulus* (ibid.). As such, the final version of ARRA came to have less of a Keynesian character than originally intended. As regards aid to states, the insufficiency of the stimulus package was also highlighted by the fact that a substantial part of the economic resources which the states would receive would go to cover *their normal budgetary outlays* because the states had very few funds as it was (Suskind, 2012: 162).

Tax cuts were too unfocused

During the negotiations leading up to the adoption of the stimulus plan President Obama accepted a two-year extension of the Bush tax cuts of 2001 and 2003 which were soon to expire in a trade-off where he instead got a one-year extension of unemployment benefits and a payroll tax cut (Suskind, 2012: 462). In general, the tax cuts that the Obama administration implemented were just as much benefitting the high income earners because the tax cuts by and large were going equally to all income strata (ibid,: 162). This means that the taxation policies which were implemented by the Obama administration did not leave an imprint of a purely Keynesian approach. Keynesian-inspired tax cuts would always focus on lowering taxes for middle and low income earners because these are the groups with the highest propensity to increase their private spending whereas tax cuts for high income earners, according to Keynesian theory, for a large part is much more likely to end up in private savings. As mentioned above, Keynes considered saving as a subtraction from consumption demand while not adding to investment demand, because savings are primarily a demand for cash, not for capital goods (Skidelsky, 2009: 91). Suskind also highlights this phenomenon and also adds that tax cuts for the wealthy in addition to adding to savings, in some instances, is also used to bring down debt (ibid.). Even President Bush's own Treasury Secretary Paul O'Neill had at the time when the Bush tax cuts were introduced warned that these were not as stimulatory as claimed and that they *did not return … their lost tax revenue* (ibid.: 463). Suskind, however, finds that it is only partly correct that most of the tax cuts went to the wealthiest because a substantial part also went to middle-class tax cuts (ibid.). This shows that Keynesian thinking – and reasoning – in some instances has pervaded fiscal policy thinking far into the right side of the political spectrum.

Furthermore, The American Taxpayers' Relief Act of 2012 (hereafter the Tax Relief Act) did also not present a clear picture of an administration which adhered to a Keynesian approach as regards fiscal policy. The Tax Relief Act was a partial resolution to the Fiscal Cliff which, had the Tax Relief Act and other pieces of legislation not been passed, would have meant that the United States government would have been operating with deficit spending. Even though the Tax Relief Act meant that the guarantee to extend the Bush tax cuts of 2001 and 2003 for high income earners expired (as mentioned above), the way that taxation policy was composed through the Tax Relief Act did present a blurred picture as regards the extent to which tax codes rested on a Keynesian basis. First, the tax Relief Act did – in practice – extend most of the Bush tax cuts for individuals (incomes of up to $400,000) and for families (incomes of up to $450,000) (Davidson, 2013).

However, some tax breaks for people with incomes of more than $500,000 did expire (Barro, 2015). Second, the Tax Relief Act of 2012 (and also the Affordable Care Act which effectively imposed new taxes on high incomes) together *raised the maximum tax rate on regular income by more than five points* (ibid.). Moreover, these Acts rose taxes by nine points on capital income (e.g. capital gains and dividends) just as the value of some tax deductions (ibid.).

These measures point in a Keynesian direction because the high incomes which were the primary targets of tax increases again according to Keynesian theory are more likely to end up in savings. Deductions also tend to benefit those at the high end of the income scale most. Yet, this only partially points in a Keynesian direction as the relatively high limits for the extension of the Bush tax cuts mentioned above ($400,000 and 450,000 for families, respectively) also include income earners at the high end of the scale.

One central part of the Tax Relief Act was, though, that the payroll tax cuts were allowed to expire thus rising from 4.2 to 6.2 per cent (Davidson, 2013). The expiration of the payroll tax cuts adds to the regressive nature of this tax because high income earners pay the same amount of money as those at the lower end of the income scale (ibid.) due to technicalities built into this form of taxation. This, in turn, means that the relatively low incomes, which according to Keynesian theory, are the ones which primarily should drive up private consumption are taxed more heavily than before.

Thus, from an overall perspective the tax Relief Act of 2012 can by no means be said to have rested completely on a Keynesian approach. The payroll tax cuts and the one-year extension of unemployment benefits achieved during negotiations leading up to the adoption of ARRA just as the expiration of some tax breaks for people with incomes of more than $500,000 (which was part of the Tax Relief Act) do point to an element of Keynesian intent behind parts of the Obama administration's fiscal policies whereas the expiration of the same payroll tax cuts after the adoption of the Tax Relief Act of course suggests that this element was of less importance to the Obama administration. Particularly when seen in conjunction with the fact that (the extension of) tax cuts both in the early days of the Obama administration and after the adoption of the Tax Relief Act just as much benefitted high income earners as low income earners this does suggest that the taxation policies did not build on a wholeheartedly Keynesian ideational basis.

Defense vs. nondefense spending – and its connection to Keynesian policymaking

One of the indications that the fiscal policy of the Obama administration was not predominantly Keynesian is the fact that also defense spending, both in billions of dollars and as a percentage of GDP, actually dropped significantly as Tables 4 and 5 above show, respectively. This is so because defense spending, particularly in a time overshadowed by terrorist threats and instability around the world, would have "invited" a Keynesian-leaning administration to also use enhanced defense spending as a tool also to boost the economy. Yet, defense spending was also only subject to modest cuts as Table 4 shows and remained stable as a percentage of GDP as Table 5 shows. This also demonstrates that the Obama administration did not use defense spending as a tool to boost the economy but also that it did not deprioritize defense spending.

Nor did the Obama administration conduct a form of accidental Keynesianism. The term accidental Keynesianism is one strand of Marxist critique of maintaining high defense budgets, building on the thesis of the permanent arms economy advanced by Michael Kidron (Kidron, 1967). It addresses government's inclination to maintain – or increase – defense spending as a means to counteract the falling rate of profit by diverting investments from other forms of production to defense spending through taxation. Therefore, defense spending tends to be maintained permanently at high levels, according to Kidron's theory. Even though this Marxist critique could be said to be more relevant during a time of economic expansion where investing was more prone to create overproduction it also implicitly – or accidentally – addresses Keynesian tenets and the policy course taken by the Obama administration during the years of the financial crisis. The fact that the Obama administration by and large retained defense spending at the same level throughout the period from 2010 till 2015 and it only marginally constituted a smaller percentage of GDP in 2015 than in 2010 demonstrates that the Obama administration on the one hand did not use defense spending as a tool to boost the economy and, moreover, it followed the path of previous administrations by maintaining it as an integral part of the economy, which according to Kidron's theory of the permanent arms economy suggests that the Obama administration refrained from bringing back economic resources from defense spending to other, productive, sectors within the economy. This means that the Obama administration did not adhere to Keynesian principles in the particular field of defense spending but instead leaned towards neo-liberal principles where the channeling of (too many) resources into other forms of public investment and production is *ruled out* as an option as Kidron argues (ibid.).

The overall picture of the Obama administration's fiscal policy approach

Altogether, both figures on spending and revenue (as displayed in the statistics above) and the implementation of key fiscal policies like ARRA and the American Taxpayers' Relief Act of 2012 as well as the development in defense spending show that the Obama administration by and large pursued a fiscal consolidation approach. However, there were elements, particularly in taxation policies, which pointed in a Keynesian-inspired direction. At least a partial Keynesian intent is reflected in some pieces of taxation policies. Yet, the overall picture is one which is dominated by a fiscal consolidation approach.

Why did the Obama administration's fiscal policy take the course it did?

This chapter will examine the political processes behind some of the key fiscal policies of the Obama administration which are mentioned in previous chapters. Therefore, emphasis will be on *why* the overall picture of the Obama administration's fiscal policy looked less Keynesian than could be expected. Thus, even though this chapter takes its point of departure in ARRA and subsequent policy-making, emphasis will not be so much on a detailed examination of these policies but instead on the political processes during negotiations over fiscal policy and on why fiscal policies often were characterized by fiscal consolidation as much as by a Keynesian approach. *One* of the key fiscal policy items which this chapter will take its point of departure in will be the American Recovery and Reinvestment Act of 2009 because the political processes (particularly within the Obama administration) during negotiations over ARRA in many ways defined its approach to fiscal policy making. Other fiscal policies and fiscal policy negotiations will also be included when relevant for examining the political processes within the Obama administration and between this and other actors. As this chapter examines the *reasons why* fiscal policies were designed the way they were, two theoretical models on policy-making will be outlined in some detail, just below, namely Kingdon's Multiple Streams model and Sabatier's Advocacy Coalition Framework because these in some instances will serve as explanatory models for why the Obama administration's fiscal policies took the shape they did.

As mentioned in the chapter above, when examining the fiscal policy course taken by the Obama administration there may have been a discrepancy between the intent of (parts of) the Obama administration concerning the desired fiscal policy direction and the actual fiscal policies pursued by it. When looking at why the fiscal policies of the Obama administration took the form they did, i.e. that there was a strong element of fiscal consolidation in them it is, as mentioned just above, useful to use two explanatory models of policy change and policy making as theoretical bases for examining this question, namely, Kingdon's Multiple Streams model and Sabatier's Advocacy Coalition Framework. Considering the importance of these explanatory models for providing part of answers as to why the Obama administration's fiscal policies took the course they did, this chapter will, therefore, be initiated with a basic overview of these models, just below.

Kingdon's Multiple Streams model is a departure from explaining political processes on the basis of power and influence and instead focuses on the emergence of powerful ideas which become prevalent in politics and society at large (Brunner, 2008: 501). As such, policy change is *radical* *and eruptive* (ibid.). When issues in society are generated and *become issues,* and how the responses made to them by policy makers are shaped, Kingdon uses the "garbage can model" in which issues/problems and solutions are dumped by participants in a "choice opportunity garbage can" from which these problems and solutions can be brought to the attention of policy makers (ibid.). When policy makers then respond to these issues and problems and try to find solutions, Kingdon identifies three streams which determine the decision process, namely problems, policies and politics as described below (ibid.: 501-502):

- The problem stream is the issue or problem itself, which can surface the political agenda when light is shed upon it through indicators (e.g. data and reports), important events (including disasters) or through the media or through public debates.
- The policy stream should be understood as the space where ideas float around, are confronted and combined (ibid.). Which of the ideas that reach the surface and the ones which do not is influenced by policy communities which form the environment of the policy stream. The ideas in the policy stream must be *technically feasible, fit the community's dominant values and be able to anticipate potential constraints under which this might operate* (ibid.: 502). As a result of this competition of ideas is, thus, the emergence of alternatives to the dominant agenda (ibid.). As such, the policy stream has to do with the possible solutions (based on ideas) to the issues/problems.
- The political stream is the element which determines *the status of the agenda item*, i.e. how important it is and as such the political stream works separately from the two first streams (ibid.). the status – or the importance – attached to a given agenda item is governed by public opinion, organized political forces (e.g. parties and pressure groups), changes in government personnel and jurisdiction and various forms of consensus-building like bargaining (ibid.).

It is when these three forces join and *temporarily create advantageous choice opportunities* (ibid.) that policy windows or windows of opportunity are being created, i.e. the problem is recognized, an available solution is developed and when political change provides fertile ground for policy change while constraints are not severe as well (ibid.).

As such, Kingdon's Multiple Streams Model provides one approach to examining how and why political processes and change take place the way they do. The model presents a more complex picture emphasizing ideas and interests than more traditional models emphasizing power and influence as Brunner also notes. However, it is not entirely correct to separate the issues of power and particularly influence from the equation of policy-making as Brunner tends to do (as mentioned above). Even though Kingdon's Multiple Streams Model is more complex and incorporates events, the media, public opinion, etc. – and that the driving forces behind policy change consists not *only* of the relative strengths of powerful groups – the element of power and influence as a driving force behind policy making and change is by no means absent in Kingdon's model. Brunner quotes Kingdon, who states that the policy entrepreneurs, who represent the environment of the policy stream, *who are willing to invest resources of various kinds in hopes of a future return in the form of policies they favour* (ibid.), and as Brunner notes himself, *They are crucial to the survival of an idea and open up policy communities to gain acceptability for a policy* (ibid.). These policy communities and their success in promoting their interests certainly do also rest on their relative power to each other and society as a whole. The same can be said of the political parties, pressure groups and changes in personnel and jurisdiction of governments whose degree of success also rests on (relative) power and particularly influence, e.g. due to their influence in the media. Yet, the much broader framework for examining policy change which Kingdon's Multiple Streams offer provides room for a much more nuanced – and complex – picture of what forms policy-making.

Sabatier's Advocacy Coalition Framework model of explaining policy-making is in some ways more traditional than Kingdon's Multiple Streams model as it also incorporates the elements of power and influence to a larger degree.

The Advocacy Coalition Framework model (ACF) basic tenet is that it sees the policy process as being a *competition between coalitions of actors who advocate beliefs about policy problems and solutions* (Kübler, 2001: 624). The environment of this competition is policy subsystems where actors who are concerned with an issue seek to influence public policy which is relevant for this issue (ibid.). The ACF also argues that the responses to public policies (policy-making) that actors, or policy subsystems make are guided by belief systems which consist of three structural categories (ibid.):

- **The deep core** which represents the basic, underlying values regarding society, the individual and the world at large. Thus, in a public policy context this is also very much connected to political ideologies.
- **The policy core** represents the strategies and policy positions that are used in order to reach the goals which are part of the deep core of the policy subsystem.
- A set of **secondary aspects** dealing with *instrumental* considerations, i.e. how to reach the goals of – or implement – the policy core.

The deep core is the structural category which is most resistant to change and decreases down through the policy core and the secondary aspects category (ibid.). Thus, the ACF suggests that ideationally based assumptions are the ones which are most difficult to change. Therefore, as Kübler states, *coalitions form around beliefs and particularly around policy core beliefs* (ibid.). The methods used by coalitions (particularly outside the inner-circle of politics) to achieve their policy goals include influencing legislatures and office holders of governmental positions and trying to affect public opinion e.g. through the media (ibid.). As such, Kübler sees the ACF as perceiving *policy change as a transformation of a hegemonic belief system within a policy subsystem* (ibid.). In other words, actors – or advocacy coalitions – try to influence the policies, and sometimes the more basic values, of the political system or society by forming advocacy groups among actors and exerting their influence through these.

How is the Advocacy Coalition Framework model then relevant for examining the largely internal political processes which formed the basis for policy-making within the Obama administration and in collaboration with Congress?

First, the ACF can be applied exactly because the advocacy coalition groups in reality are also formed within the political system, i.e. groupings within the Obama administration and within and across the two major parties. Furthermore, advocacy coalitions – or groups with common interests and goals – can also be formed between the political establishment and (powerful) interest groups in society. For example, groups within the financial sector may have either common interests with – or try to exert their influence with – (groups of) politicians just as the Tea Party faction within the Republican Party has been very influential. Second, the ACF model provides an explanatory framework for how and why political processes take place the way they do, i.e. how values form the basis for policy strategy options which again governs considerations on how to implement policies (the deep core, the policy core and secondary aspects, respectively). Third, and lastly, ACF also provides an explanatory model for why it is often extremely difficult to alter the political course radically. This could partly be due to the pressure from coalitions formed between politicians and other interest groups and partly due to the difficulty in changing basic values and assumptions of belief systems in society and policy-making (the deep core) which ACF assumes is by far the most difficult one to change of the three structural categories.

President Obama's own bipartisan approach during the ARRA negotiations and subsequent policy-making

When examining the reasons why President Obama's actual fiscal policies were just as much soft neo-liberal in their character as they were Keynesian, as seen in the chapter *Keynesianism or fiscal consolidation? - Examining key fiscal policies of the Obama administration*, just above, the negotiation process leading up to the adoption of ARRA is pivotal.

President-elect Obama already at this stage in early January 2009 put great emphasis on applying a bipartisan approach when designing a stimulus package as he summoned both Democratic and notable conservative and libertarian Republicans (leaders of the House of Representatives and the Senate) for a meeting (Woodward, 2012: 5). These included, among others, House Republican Minority leader, John Boehner and Virginia Representative and minority whip Eric Cantor. These - and other Republicans attending this meeting - all emphasized elements like tax cuts and the need to prevent government bureaucracy from expanding (ibid.: 6, 8-9). Throughout the negotiations of what was to become ARRA, particularly Cantor made several fiscally conservative proposals regarding tax relief containing among other things tax reductions for low-income earners, a 20 per cent deduction for income of small businesses and a proposal stating the principle that no tax increases should be made to pay for stimulus spending (ibid.: 13-14). Even though proposals such as these – of course – were not in line with the Obama team's fiscal policy agenda it, nevertheless shows that the Obama team was not entirely repellent to the idea of maintaining a high degree of fiscal consolidation in its fiscal policies as it was interested in involving the Republican right in negotiations over stimulus policies – maybe out of the recognition that the political reality could change later on (that the Democrats could lose the majority in Congress) which would necessitate bipartisan cooperation.

Also the intended contents of the stimulus package pointed in the direction of a bipartisan and deficit-aware approach. Apart from the classical Keynesian elements of public investment in the form of spending on infrastructure and job-creating projects the stimulus package would also include tax cuts, which would also accommodate the Republicans (ibid.: 5). President-elect Obama’s emphasis on creating fiscal discipline to "tame the growing federal deficit" (ibid.) is also clearly more in line with a Republican/neo-liberal approach, and second, the tax cuts which were also part of the Obama team's proposal for a stimulus package were just as much a libertarian recipe for stimulating the economy even though it is also part of the Keynesian "toolbox". Also the fact that the tax cuts included in the stimulus plan went equally to all income strata was an adaptation of fiscal policies to Republican principles (Suskind, 2012: 162). A clear indication of President-elect Obama’s willingness to reach out to Republicans was also seen in his receptiveness to Senate Republican Minority Leader Mitch McConnel’s suggestion that federal financing for the Medicare and Medicaid programs should be altered so that federal grants should change status from grants to loans (Woodward, 2012: 6). Considering the importance of these programs to Democrats, this accommodating position is remarkable.

This bipartisan approach became necessary after the midterm elections in November 2010 when the Republicans gained a solid majority of the House of Representatives. Many of the newly elected Republicans in the House even had strong ties to the anti-tax and anti-government Tea Party faction within the Republican Party (ibid.: 58), thus strengthening the power of the wing of the Republican Party represented most notably by Eric Cantor who also had strong connections to the Tea Party movement (ibid.: 62, 377). After the midterm elections in November 2010 when the new Congress would have a Republican majority negotiations began over the plan pieced together by former Republican senator Alan Simpson and former Chief of staff to Bill Clinton, the Democrat Erskine Bowles, which aimed to tame the federal deficit by $4 trillion over ten years by implementing spending cuts and increasing tax revenues (ibid.: 59). Negotiations over this plan highlighted the difficulties of bipartisanship when the opposing policy goals of Democrats and conservative – sometimes Tea-Party affiliated – Republicans had to be considered. Even though it contained Keynesian-inspired measures like the elimination of all deductions and more taxing of income from investments, capital gains and dividends whereas individual rates would be lowered it also contained proposals to raise the retirement age and cuts in entitlement spending (ibid.: 59-60). This meant that the plan as a whole was equally unacceptable for both Democrats and Tea Party-leaning Republicans like Grover Norquist (ibid.). Therefore, also Republicans like Cantor held that the

Bush tax cuts had to be extended (ibid.. 62), whereas President Obama suggested that lower incomes should remain under the Bush tax cuts extensions while higher income earners could be subject to rate increases (ibid.: 64). These competing goals were also reflected in the end result of the negotiations: The lower- and middle-class Bush tax cuts were extended while the high-income tax cuts expired (ibid.). This process could in many ways be said to be a precursor to the political situations to come. In other words, the deal over taxes was bipartisan in character.

Why did the Obama administration then adopt this bipartisan approach, particularly after the new Congress became reality after November 2010? First, the bipartisanship approach was of course – apparently – based on the political necessity to accommodate to the Republican majority in Congress. As such, Sabatier's Advocacy Coalition Framework theory (ACF) provides an explanatory model to the deeper reasons why President Obama and his administration had to adopt their fiscal policies to the new Congressional situation because the influential Tea Party movement and other conservative Republicans represented one of the competing coalitions of actors mentioned in the overview of Sabatier's theory, above. Apart from also increasingly becoming part of Beltway politics in Washington, the Tea Party movement also represents part of the political hinterland of the Republican party and as such is one of the advocacy coalitions outside the inner-circle of politics which according to Kübler try to influence policy-making (Kübler, 2001, 426).

In turn, the Tea Party movement represents some of the most basic traditional values of US society, namely the resistance to excessive government and to (high) taxation, again representing government involvement in the economy. As such, the conservative wing of the Republican Party and particularly the Tea Party movement represent the basic underlying values of US society, i.e. what Sabatier refers to as the *deep core* set of beliefs (ibid.). These deep core values or policy core values – around which the Tea Party movement is formed are the ones which are most difficult to change in policy-making (ibid.) and, thus, Tea Partiers represent a reaction to the Keynesian answers to the crisis which reached the surface of the political debate at that time. Instead, the limited government and anti-taxation approach pursued by conservative and Tea Party Republicans represented a return to traditional, *deep core* values of US society.

Divisions within the Democratic Party, the Obama team and President Obama's own fiscal policy ambivalence

One reason for why the incoming Obama administration put emphasis on maintaining a strong element of fiscal consolidation in its stimulus policy was the need for President Obama to take the House of representatives Blue Dog Coalition into account. The Blue dogs are a group of House Democrats defining themselves as fiscal conservatives (Woodward, 2012: 18-19). The Blue Dog Coalition within the Democratic Party can be said to represent another side of what Woodward refers to as the competing priorities in President Obama's fiscal policy agenda: To tame the deficit and the need for the government to inject resources into the economy (ibid.: 20). The Blue Dog Democrats were elected in swing congressional districts in which Republicans and Democrats at elections ran close races (ibid.: 19). They were, thus, often able to take votes from the Republicans exactly because their economic policy stance was close to that of Republicans. This also meant that a majority of them were willing to vote against the stimulus plan (ibid.).

According to Woodward, President Obama himself felt affiliated to the "Blue Dog" mindset (ibid.: 19) of deficit hawkishness and the importance of building confidence among private investors just as political adviser David Plouffe once noted that when characterizing Obama's fiscal policy stance: *there is a Blue Dog streak in him* (ibid.: 92). Vice President Biden's chief of staff, Ron Klain, applied the same characterization of President Obama (ibid.: 70).

The vagueness between applying a Keynesian approach or an approach based more on fiscal consolidation for stimulating the economy is also seen within President-elect Obama´s team during negotiations leading up to the adaptation of ARRA. While for example Larry Summers, the incoming head of the National Economic Council, was very much focused on increasing demand and kick-starting this through public spending, Timothy Geithner who was appointed Treasury Secretary and Peter Orszag who was appointed as director of the White House Office of Management and Budget still recognized the need for a short-term stimulus but they were equally concerned about addressing deficit reduction (ibid.: 9-11).

These *contradictory policy requirements*, as Woodward describes the disagreement on fiscal policy approaches within the Obama administration's economic team (ibid.: 11), are also addressed by Scheiber who points to Geithner's and Orszag's reaction to then Chairperson of the Council of Economic Affairs Christian Romer's plea for a much larger stimulus package during negotiations leading up to the adoptation of ARRA (Scheiber, 2012: 28). Here, Scheiber highlights how Geithner and Orszag were concerned about a large stimulus package. Orszag had particularly two concerns about a large stimulus package, namely that even though stimulus spending was intended to be temporary there was a danger that it would affect the federal budget for years, thus adding further to the deficit (ibid.). Moreover, Orszag also doubted that the extra infusion of resources into the economy could actually find good use, meaning that spending might have to be postponed into the future – maybe after the crisis had subsided – or that taxes had to be lowered substantially, a situation which would not suit all Democrats in Congress well (ibid.).

Part of the reasoning behind the Obama team's so-called deficit hawks' concern over excessive stimulus spending rested on the worry of market reactions. Also during negotiations over ARRA, Orszag supported the line of argumentation in a memo outlining that a too large stimulus could *panic investors* (ibid.: 41). Also later in 2009 during budget negotiations including suggestions for further stimulus after ARRA, both Geithner's and Orszag's commitment to reducing the budget deficit was clear. Geithner had since the transition supported a plan which would reduce the deficit to 3 per cent and particularly after the financial crisis had lifted Geithner found that deficit reduction was at least just as important as further stimulus policies (ibid.: 149).

Orszag, however, was even more "hawkish" when it came to deficit reduction. Already during the transition he found it pivotal that the deficit should be kept low in order not to *undermine the confidence of businessmen and money managers* (ibid.. 150), which in turn could hinder private investment and thus prolong the crisis. Scheiber did not see Orszag as being ideationally against stimulus per se, but emphasizes that he was – at least – equally concerned about deficit reduction which meant that stimulus had to be combined with saving measures (ibid.: 151).

Geithner's, and particularly Orszag's, stance was thus clearly in contrast to that of Larry Summers and Christina Romer. As mentioned above, Romer was in favor of a much larger stimulus and Summers did not attach very great importance to the question of business and market confidence (ibid.: 150). In fact, Orszag – also during ARRA negotiations – warned that an excessive stimulus package would make the administration look *"wacky lefty"* (Suskind, 2012: 154). Moreover, he also consulted then chief of staff Rahm Emmanuel on how to limit Summers's influence on the budget process (Scheiber, 2012:156). The concern over market reactions to large budget deficits was also based on the need to keep *debt out of the hands of foreign nations* as Scheiber quotes Barack Obama for stating in his years as a senator (ibid.: 154). In the same period, Orszag had written a study in which he emphasized how deficits would cause higher interest rates thus damaging the economy (ibid.). In this way, both Barack Obama and Peter Orszag had demonstrated a clear "Blue Dog" stance to fiscal policy: A purely Keynesian fiscal policy in which budget deficits matter less – as Larry Summers would hold – would according to Obama and Orszag affect monetary policy, i.e. cause higher interest rates, which in turn would affect the overall economy thus also leaving less room for maneuvering in fiscal policy-making.

In May 2011 negotiations took place on how to avoid the debt ceiling crisis of 2011, where the only possibility of preventing the US from defaulting on its $14.3 trillion debt would be to increase the debt ceiling (Woodward, 2012: 111). Again, the newly elected House Republicans, among whom many had Tea Party affiliations, posed problems to the Obama administration as they were not willing to increase the debt ceiling, which in turn meant that all Democratic votes were badly needed (ibid.). In light of this situation, President Obama suggested a three-to-one solution where a $ 4 trillion deficit reduction over 12 years thus would entail $ 3 trillion in cuts and $ 1 trillion in extra tax revenue (ibid.: 113). Again, President Obama went for a solution which was influenced much more by fiscal consolidation than by Keynesianism. Of course, the situation left very little room for maneuvering; yet, this process also showed that President Obama once again was dependent on accommodating both (Tea Party) Republicans and Blue Dog Democrats just as he himself did not see it as being controversial suggesting this kind of fiscal policies.

Above, I found that the reasons for why the Obama administration's fiscal policies rested just as much on fiscal consolidation as on Keynesianism include the bipartisan approach adopted by the Obama administration resulting from the increasing strength of the Republican right including the Tea Party movement. Also the need to accommodate policies to "Blue Dog" Democrats played a significant role in this connection. Yet, there were also strong indications that President Obama himself leaned towards a fiscally conservative "Blue Dog" policy-making course. Moreover, the fiscal consolidation outlook of parts of the members of the Obama administration's economic team, particularly Timothy Geithner and Peter Orszag also played a considerable role for the design of fiscal policies.

How can the high degree of fiscal consolidation in the Obama administration's policies be explained?

In all of the examples of negotiations and political situations mentioned above the overall question is why the Obama administration did not to a larger extent apply Keynesian fiscal policies as could be expected given its initial emphasis on implementing a large stimulus package.

As mentioned above, the Republican right and the Tea Party movement represented one of the advocacy coalitions in Sabatier's Advocacy Coalition Framework model. Apart from – of course – being part of the political system, particularly the Tea Party movement also represents part of the political hinterland of the Republican party and as such is one of the advocacy coalitions outside the inner-circle of politics which according to Kübler try to influence policy-making (Kübler, 2001, 426), as mentioned above. Furthermore, I found that the Tea Party movement's ideational basis represents one of Sabatier's three structural categories, the *deep core* values in US society. As the deep core is the structural category most resistant to change, this also explains why the Obama administration had to take its adversaries' points of view into consideration when planning the contents of the stimulus package and when entering negotiations.

I also found that the Blue Dog coalition within the Democratic party exerted a great deal of influence over policy-making when fiscal policies were to be designed. Here, the Advocacy Coalition Framework model can along the same lines as that of the Republican right and the Tea Party movement be used as an explanatory model for why this group was able to influence policy-making: As an advocacy coalition competing among others and formed around policy core beliefs it will promote its policy agenda. Even though the Blue Dog coalition is solidly placed within the inner-circle of the political system it still represents currents among the parts of the US electorate and rests on *deep core* beliefs about government involvement in the economy and makes use of strategies and policy positions (the structural category *the policy core*) in order to achieve its goals that are part of the policy core.

When considering the Blue Dog coalition in conjunction with the indications that President Obama to a considerable extent also shared the fiscal policy outlook of the Blue Dog coalition, this also provides an explanation for why the Obama administration's fiscal policies to a large extent represented a continuation more than an eruptive change as Kingdon's Multiple Streams model argues that policy change takes place under: Policies are extremely difficult to alter fundamentally if they go against the basic values and assumptions of belief systems in society and policy-making in society, i.e. the deep core structural category.

Therefore, Kingdon's Multiple Streams model can thus also be incorporated into the explanatory framework as it also provides a supportive part of the explanation for why fiscal policy did *not* change in a, as Brunner phrases it, *radical and eruptive* way (Brunner, 2008: 501). In other words, there were a number of obstacles to opening up the policy window of carrying through Keynesian policy-making even though the first of Kingdon's streams – the problem stream – was present after the financial crisis: The indicators (data, reports and the consequences of the crisis) surfaced the political agenda, as Kingdon puts it (Brunner, 2008: 501-502).

The first obstacle was that a one of the ideas in Kingdon's second stream, *the policy stream*, was not present: As mentioned above, the ideas entailed in Keynesianism of more state involvement in the economy did not *fit the community's dominant values* as Brunner states is a condition for policy change (ibid.: 502). Apart from Republicans – including Tea Partiers – both Blue Dog Democrats and President Obama himself were all more than reluctant to carry through a full Keynesian policy agenda.

The second obstacle was that Keynesian policy-making in some instances was not *able to anticipate potential constraints under which this might operate* as another of the conditions for ideas to reach the surface in Kingdon's policy stream (ibid.). One of these constraints is the fear of market reactions as mentioned above. The loss of confidence among (foreign) investors and lenders which continuing large budget deficits would entail would in turn mean higher interest rates, which all according to many within the Obama administration would be highly damaging to recovery and the US economy in the long run.

Thirdly and lastly, what is referred to as *changes in government personnel and jurisdiction* in Kingdon's last policy stream, the *political stream* (ibid.), was also a significant factor for why policy-making was not subject to radical change: The relatively fiscally conservative members of the Obama administration like Timothy Geithner and Peter Orszag (and to some extent President Obama himself) were all very cautious about implementing Keynesian policies which would entail the acceptance of large budget deficits.

As it is when the three forces of the problem stream, the policy stream and the political stream join *and temporarily create advantageous choice opportunities* (ibid.) that policy windows are being created, it becomes clear why the Obama administration did not to a much larger extent implement Keynesian policies: Even though the problem (the financial crisis and its effects), i.e. in the problem stream, certainly was recognized, obstacles to conducting Keynesian policies presented themselves in the policy stream and in the political stream in the form of incompatibility to the community's dominant values, economic considerations which were constraints and the position and opinions of key members of the Obama administration. As such, some of the necessary requirements in the first of Kingdon's two streams were not present in order to change policy-making in a radical and eruptive way.

Conclusion

The first aim of this dissertation, "Fiscal Policy of the Obama Administration - A Response to the Financial Crisis Characterized by a Keynesian Approach or by Fiscal Consolidation", was to sustain the hypothesis that the fiscal policy of the Obama administration represented a soft neo-liberal response to the financial crisis of 2008 rather than a Keynesian one. The basis for establishing this was, first, to determine to what extent the Obama administration's fiscal policies represented a soft neo-liberal approach more than a Keynesian one. As such, it was useful to survey the critiques put forward by both right- and left-leaning critics in the debate over stimulus policies following the financial crisis of 2008.

I found that the critiques from the right emphasized concerns over crowding out, malinvestment, government expansion in general and deficit spending, which would burden future taxpayers and lead to diminished growth in the future as consequences of the Obama administration’s stimulus policies, whereas critiques from the left emphasized the problematic composition of tax cuts as business tax cuts constituted half of all tax relief initiatives in the stimulus package, which from a Keynesian perspective would only add to saving and not to spending as payroll tax cuts would. Other issues of concern included the relatively small size of the stimulus package just as there were concerns over the distributional effects of the Obama administration’s fiscal policies which could lead to increased inequality. I also found that the further left from where critiques stemmed there was a tendency that focus shifted from concerns over how to reinvigorate and stimulate the economy to more socially based concerns about how low-income groups were affected by the Obama administration’s fiscal policies.

Key to determining the character of the Obama administration’s fiscal policies in terms of being soft neo-liberal or Keynesian, i.e. its degree of commitment to austerity, was to first to measure the US budget deficit as a percentage of GDP in a comparative perspective to that of selected European countries. Here, I found that there had been a strong commitment to austerity policies as there had been a significant drop in the US budget deficits from 2010 to 2014, quite similar to countries like e.g. the UK. Second, I found that some mandatory social outlays had only risen slightly in the period – and that income security had even dropped in both absolute numbers and as percentages of GDP. This is a another clear indication that the Obama administration did not adhere to a purely Keynesian approach, as social expenditure tend to rise during recessions as automatic stabilizers – and also sometimes used consciously by Keynesian-leaning governments to boost private spending.

I also found that both defense and non-defense spending figures showed that the Obama administration pursued a budget policy characterized by a fiscal consolidation approach. As a percentage of GDP, spending dropped considerably. Public investments in neither defense or non-defense sectors were thus used to boost the economy.

I found that taxation policy was the field in which the element of Keynesian fiscal policy-making was most prevalent because particularly corporate taxes rose significantly more than individual and payroll taxes (as Keynesian theory holds that low corporate taxes end up as savings while lower personal tax rates add to the propensity to spend).

When looking at how ARRA was composed, I also found that the relatively large part set aside for contracts grants and loans carried a risk that some of these projects may not boost the economy, but instead end up serving narrow political interests. I also found that ARRA, from a Keynesian perspective was far too small to have full effect as a means to boost the economy significantly. Also the American Taxpayers' Relief Act of 2012 presented the same blurred picture of a Keynesian approach to fiscal policy making as it just as much benefitted high income earners as those with low or medium incomes.

The second aim of this dissertation was to examine why the fiscal policy of the Obama administration represented a soft neo-liberal response to the financial crisis of 2008 rather than a Keynesian one. I found that a several political conditions played a role, namely, first, that the Obama administration had to take what was to become the Republican majority after the 2010 midterm elections into account. Moreover, divisions within the Democratic party itself where the fiscally conservative faction the "Blue Dog" coalition played a significant role in the design of fiscal policies. This fiscally conservative stance was also present among members of the inner-circle of the Obama economic team just as President Obama himself put great emphasis on deficit reduction.

This means that it was not *only* due to political necessity that the Obama administration did not pursue a more outspoken Keynesian fiscal policy approach but that it was just as much a reluctance deep within the Obama administration to change fiscal policy-making radically. This points to an overall explanation as to why this was not possible, namely that it is, as held by Sabatier, extremely difficult to change the *deep core* values of society, which in the US context implies limited government influence over – and involvement in – the economy, both as a result of the Obama administration's own reluctance to change policies *radically and eruptively* as Kingdon phrases it and when strong advocacy groups like the Tea Party movement and the Blue Dog coalition exert their influence as Sabatier points to.

From my findings in this dissertation I can thus conclude that there has been a high degree of fiscal consolidation in the fiscal policies of the Obama administration as there was emphasis on budget cuts – or budget restraint – in order to reduce budget deficits. Yet, there were also elements of Keynesian policy approaches as tax relief initiatives focused on maintaining low personal income and payroll taxes while corporate taxes were allowed to rise substantially. As such, the fiscal policy of the Obama administration can – from an overall perspective – be characterized as being soft neo-liberal.

Furthermore, I can conclude that both political necessity in the form of pressure from the Republicans as well as reluctance within the Obama administration and from President Obama himself were factors which prevented the Obama administration from adopting a more wholeheartedly Keynesian approach to fiscal policy-making and instead adhering to a soft neo-liberal approach emphasizing fiscal consolidation. The overall reason for this was that it is extremely difficult to change policy approaches which go against the deep core values of society, both due to pressure from advocacy groups representing theses values – but equally due to a deep reluctance among members of the Obama administration itself to change policies fundamentally.

Bibliography

Barro, J. (2015, December 30). “Thanks, Obama: Highest Earners’ Tax Rates Rose Sharply in 2013”, *The New York Times*.

Retrieved March 9 from:

http://www.nytimes.com/2015/12/31/upshot/thanks-obama-highest-earners-tax-rates-rose-sharply-in-2013.html

Boehner, J. (2010, June 30). “Stuck on "Stimulus" How Washington Democrats' Spending Spree Is Destroying American Jobs”. *The Office of the Republican Leader*

Retrieved November 19, 2015 from

http://www.speaker.gov/sites/speaker.house.gov/files/UploadedFiles/Boehner_Stuck_on_Stimulus_Policy_Report.pdf

Boots, S. (2009, August 16). “A Modern Safety Net”. *The American Prospect*.

Retrieved December 12, 2015 from

http://prospect.org/article/modern-safety-net

Brunner, S. (2008). “Understanding policy change: Multiple streams and emissions trading in Germany”, *Global Environmental Change*, *Volume 18, Issue 3, August 2008*.

Retrieved March 17, 2016 from

http://ac.els-cdn.com/S0959378008000459/1-s2.0-S0959378008000459-main.pdf?_tid=0cd45a82-ec23-11e5-bd4a-00000aab0f26&acdnat=1458207278_5f91fabae32e016174bc9220504faec9

Congressional Budget Office, (2016). “Historical Budget Data, January 2016. Tables F-1, F-2, F-3, F-4 and F5. Mandatory Outlays since 1966”.

Retrieved January 29 , 2016 from

https://www.cbo.gov/sites/default/files/51134-2016-01-HistoricalBudgetData.xlsx

Davidson, A. (2013, January 2). “The Payroll tax and Obama’s Next Fight”, *The New Yorker*.

Retrieved March 8 from

http://www.newyorker.com/news/daily-comment/the-payroll-tax-and-obamas-next-fight

Drum, K. (2011, September 26). “Housing vs. Fiscal Stimulus: Why Not Both?” *Mother Jones*.

Retrieved December 14, 2015 from

http://www.motherjones.com/kevin-drum/2011/09/housing-vs-fiscal-stimulus-why-not-both

Fieldhouse, A. (2011, February 14). “President Obama’s 2012 budget. An analysis of tax policies”, *Economic Policy Institute Commentary Budget, Taxes and Public Investment*.

Retrieved December 6, 2015 from
http://www.epi.org/publication/president_obamas_fy_2012_budget_an_analysis_of_tax_policies/

Hayek, F. A. (2010). *The Road to Serfdom*, New York: Routledge.

Kidron, M. (1967), A Permanent Arms Economy. *International Socialism (1st series), No.28,* pp.8-12. Spring. Retrieved February 22, 2016 from

https://www.marxists.org/archive/kidron/works/1967/xx/permarms.htm

Krugman, P. (2009, January 6). Stimulus arithmetic (wonkish but important). *NYTimes.com. The Opinion Pages.*

Retrieved December 4, 2015 from

http://krugman.blogs.nytimes.com/2009/01/06/stimulus-arithmetic-wonkish-but-important/

Krugman, P. (2014, February 20). The Stimulus Tragedy. *NYTimes.com. The Opinion Pages.*

Retrieved December 10, 2015 from

http://www.nytimes.com/2014/02/21/opinion/krugman-the-stimulus-tragedy.html

Kübler, D. (2001). Understanding policy change with the advocacy

coalition framework: an application to Swiss drug policy, *Journal of European Public Policy*, 8:4,

623-641.

Retrieved March 18 from

http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.470.2248&rep=rep1&type=pdf

Levy, M. (2009, September 30) Monetary and Fiscal Policies Following Crisis Management. *Shadow Open Market Committee*, Retrieved October 29, 2015 from

http://shadowfed.org/wp-content/uploads/2010/03/090930_mickey_levy.pdf

Miron, J. (2010) The Case Against the Fiscal Stimulus. *Harward Journal of Law & Public Policy, Vol. 33, 519*-529. *The Cato Institute*. Retrieved October 13, 2015 from object.cato.org/sites/cato.org/files/articles/miron-harvardlawreview.pdf

Pollack, E. (2009, April 2, 2009). Transportation investments reduce income inequality. *Economic Policy Institute. Economic Snapshot. Inequality and Poverty.*

Retrieved December 15, 2015 from

http://www.epi.org/publication/snapshots_20090402/

Romer, C. (2011, September 24). A Plan on Jobs Deserves a Hearing. *NYTimes.com. Economy*.

Retrieved December 14, 2015 from

http://www.nytimes.com/2011/09/25/business/economy/obamas-jobs-plan-deserves-a-hearing.html?_r=0

Scheiber, N. (2012), *The Escape Artists. How Obama's Team Fumbled the Economy*, New York: Simon & Schuster Paperbacks.

Shlaes, A. (2007). *The Forgotten Man: A New History of The Great Depression.* New York: Harper Collins Publishers.

Shlaes, A. (2008, November 12). Obama's Tax Planning Needs New View of New Deal. *Bloomberg.com*.
Retrieved October 20, 2015 from
http://www.bloomberg.com/apps/news?pid=newsarchive&sid=axDkSme2k8AQ

Shlaes, A. (2009, February 18). Cheering for Obama's stimulus buys into 1930s myth. *Bloomberg.com*.

Retrieved October 21, 2015 from

http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aPQDtpOebjKI

Shostak, F. (2009, January 22). Can Fiscal Stimulus Revive the US Economy? *Mises Institute*.

Retrieved October 22, 2015 from

https://mises.org/library/can-fiscal-stimulus-revive-us-economy

Shostak, F. (2010, September 17). Does the US Economy Need Another Stimulus Package? *Mises Institute*

Retrieved October 23, 2015 from

https://mises.org/library/does-us-economy-need-another-stimulus-package

Skidelsky, R. (2009). *Keynes – The Return of the Master*. London: Allen Lane. Penguin Group. Penguin Books Ltd.

Stedman Jones, D. (2012). *Masters of the Universe*. Hayek, Friedman, and the Birth of Neoliberal Politics. *Princeton, New Jersey: Princeton University Press*.

Stiglitz, J. (2009, March 6). How to Fail to Recover. *Project Syndicate The World's Opinion Page*.

Retrieved December 5, 2015 from

http://www.project-syndicate.org/commentary/how-to-fail-to-recover

Suskind, R. (2012), *Confidence Men*, New York: Harper Perennial

Thiess, R. (2011, February 14). President Obama's 2012 budget. An analysis of the budget cuts. *Economic Policy Institute. Commentary. Budget, Taxes and Public Investment.*

Retrieved December 16, 2015 from

http://www.epi.org/publication/president_obamas_fy_2012_budget_an_analysis_of_the_budget_cuts/

United States Government Printing Office, (2010). *Economic Report Of The President. Together With The Annual Report Of The Council Of Economic Advisors*, February.

Retrieved January 27 from

https://www.whitehouse.gov/sites/default/files/microsites/economic-report-president.pdf

United States Government Printing Office, (2012). *Economic Report Of The President. Together With The Annual Report Of The Council Of Economic Advisors*, February.

Retrieved January 27, 2016 from

https://www.whitehouse.gov/sites/default/files/microsites/ERP_2012_Complete.pdf

U.S: Government Publishing Office, (2009). *One Hundred Eleventh Congress of the United States of America AT THE FIRST SESSION Begun and held at the City of Washington on Tuesday, the sixth day of January, two thousand and nine. An Act. The "American Recovery and Reinvestment Act of 2009".* Retrieved February 17, 2016 from

https://www.gpo.gov/fdsys/pkg/BILLS-111hr1enr/pdf/BILLS-111hr1enr.pdf

Woodward, B. (2012), *The Price of Politics*, London: Simon & Schuster UK Ltd.