Final research project

US federal budget process: The President versus Congress

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Preface

Writing this research paper has been quite a journey and has taken longer than was expected. Due to private circumstances and the fact that I started to work full-time at the start of the research project the process was delayed for some time. In the last two years, different research proposals and designs have passed in review and high piles of books and articles have been read. The continuous support and guidance of professor Van Nispen were of great value and I have appreciated his constructive and motivating comments. It has been a privilege to have him as my thesis supervisor. Considering the progress on this research project, the following lessons can be learned.

In formulating the research objective and research question, much literature was read. However, in practice, it is difficult to find focus in the literature evaluated without knowing which way to go. In a following project, it would be sensible to first carefully consider the topic of interest before starting the literature search. Also, it is found that it is sometimes better to just start writing and working on the paper instead of finding the perfect question at the beginning of the project; the research question is subject of change during the entire research project.

With regard to the theoretical framework, focusing on one theory is found to be important. Incorporating two main theories into the project – as was tried in the first version of this research paper – splits the paper in two, creating an unbalanced and unfocused paper. Also, it is of importance to reconsider the theoretical framework when the empirical part of the research project is completed; does the theoretical framework still fit the data found or do elements need to be revised. The conceptual model is the basis for the empirical part of the research project; completing this model has been very helpful in finding and completing the empirical data. It helped structure the empirical part of this research project. Also, it helped structure the literature and theory into a comprehensive literature review and theoretical framework.

The empirical part of this research has proved to be the most fun to work on. The data found proved differently than was expected beforehand. However, at the same time the results confirmed the theory, which was remarkable to find. Also, the statistical data – even though they are not significant – confirmed the results found in the literature review and budget analysis. The fact that all elements proved to be parts of the same puzzle was a very satisfying result. Much can be said about the empirical part of this research paper; of course, the results are shallow as the analysis was limited to a (semi)macro-economic level and further research is required to gain insight into the political deliberation process. Also, the two houses of Congress were considered one to enable the empirical analyses. Furthermore, the differences in the presidential, House and Senate's budgets limited the possibilities of comparison. However, I do think that the results found in this research project are of value; they consistent all throughout the project, which seems to imply that they are in fact representative for the every-day practice.

It has to be said that performing the statistical analysis was complex. During my years of studying public administration – first the transition (‘schakel’) year and then the master year – we never had any courses on statistical analyses or SPSS. If I were to give any advice to the Erasmus University Rotterdam, it would be to include at least one course of statistics in the master’s program or transition year.

Finally, it is of the utmost importance to choose a topic of research that is of interest to the researcher. I have worked on the topic of the US federal budget process for two years, but it still interests me as much today as it did two years ago. The fact that the budget is a continuous topic of current events and the budget process being under continuous scrutiny to make it more efficient and effective has contributed to this. This has helped to stay motivated in working on the project.

Should this research project ever be repeated, it would hopefully be completed in a shorter period of time. Also, I have learned to restrict the scope of the research project in the first stages of the project. Still, the process of writing this research paper required time and thought development and it has improved the quality of the research paper at hand. All in all, it has been a very interesting and demanding project and it marks the end of a great period, studying Public Administration at the Erasmus University Rotterdam. Choosing to stop working and start a study of public administration was a deliberate choice. After working for a number of years in the private sector, ranging from private banking to the pharmaceutical industry, I came to the conclusion that this was not my future. My active participation in a political party and my wish to contribute more to society led to the choice to go back to university. Public administration studies brought me knowledge about the public sector, both in the Netherlands and abroad, and it taught me to reconsider operational processes I had come to know in the private sector. I enjoyed the combination of lectures and working groups; it helped to both learn more about the theories of public administration and to implement them in daily practice examples. I have enjoyed and valued the discussions in the working groups about current events in public administration. I now work in the public sector, as interim manager both at the national and municipal level. I can now implement the theories learned in my every-day practice and I enjoy it very much. I will, therefore, never regret the choice I made four years ago to go back to university and study Public Administration.

Gideon van Zwieten
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Introduction

On February 1st, 2010, president Barack Obama presented his federal budget proposal for 2011. In this budgetary proposal, Obama announced that during his four-year term he would not aim for a balanced budget as the economic situation required an economic recovery plan that did not allow for budgetary reform (White House, 2010). One year later, on February 1st, 2011, president Obama presented his budget proposal for 2012. The main item on his budgetary agenda: cutting the budget deficit in half before the end of his presidency (Volkskrant, 2011).

The explicit choice of a president to either aim for a balanced budget or to consciously maintain a budgetary deficit is the main topic of this current research project. Why, when in general governments are expected to minimize budget deficits and submit sane and balanced budgets all over the world, does the US president explicitly choose to maintain – and possibly even increase – the deficit existing on the US federal budget? And why – one year later – does he decide the opposite? What factors determine the president's choice? But also, what is the role of the president in the budgetary process? Does this presidential choice determine the outcome of the budget or are other factors of determining influence? What factors determine the outcome of the US federal budget? In this research project an answer to these questions is sought.

Reaching a balanced budget?

Reaching a balanced budget has been on the political agenda for years. Since the late 1970s, the political will to change the Constitution by adopting a balanced budget amendment was present in both the House of Representatives and the Senate. In order to send the amendment to the states for ratification, however, it must be approved by two-thirds of those voting in each chamber. Up to now this two-thirds margin has never been reached (Mitchell, 1993).

This is not to say that politicians have never aimed for a balanced budget – one initiative proved to be successful: the starting point of analysis in this research project is the Balanced Budget Act of 1997. This omnibus act opted to bring the president's budget in balance by fiscal year 2002. A five-year plan to balance the federal budget included recommended changes in federal revenues and expenditures. A total of $127 billion in net deficit reduction was to be reached between 1998 and 2002 (CBO, 1997)[i]. In 1999, a balanced budget was realized.

Still, in 2010 the president's budget shows a deficit of $ 1.29 trillion (White House, 2010). The only balanced budget submitted by the president to Congress in over 50 years prove to be the budgets for the fiscal years 1999 to 2001. Since 2002 there has not been a balanced budget, let alone a surplus on the budget. The question is why?

Research objective

This research project focuses on the US federal budget process. The objective of this research project is to gain insight into the factors that determine the outcome of the federal budget and the extent to which these factors determine the decision-making process regarding this budget.

Also, the role and behavior of the different actors involved in the decision-making process is analyzed. Insight is gained by analyzing the differences between the presidential budget proposal and the congressional budget resolution between 1996 and 2006 – both the differences between both documents, the differences both in and between the documents over the years and the internal and external factors influencing this process.

The unit of analysis in this research project is the annual federal budget – submitted by the president, amended by Congress and finalized by a presidential signature. The US federal budget can be considered a (good) indicator of a broader federal policy agenda of the President and Congress respectively. It gives a complete (financial) overview of the policy objectives set for the following fiscal year (Schick, 1994).

The scope of this research project is limited to eleven years, from 1996 to 2006. In this period the office of President of the United States was held by two men: Bill Clinton and George W. Bush - one Democrat and one Republican.

Theoretical relevance

This survey contributes to theories on (the decision-making processes in) public budgeting. This study tests existing theories on federal budget policy in the United States and updates the data available, thus contributing to further developing these theories. More specifically, this project tests whether the principles of public choice and fiscal policy explain the modern-day federal budget process of the United States. Furthermore, the results of this survey provide insight into the influence of a president on public policy-development in the United States, the position of the president in the federal budget process and the relation between the president and Congress. The results of this research project may very well be generalized to budget processes all over the world. The issues that influence the US budget process will also be of influence in, for example, western European countries. The quest for a balanced budget is general in nature. This research project, however, can be considered a case study of US politics.

Societal relevance

During electoral campaigns candidates promise their voters the world. These promises, however, hardly ever seem to result in hardcore policy proposals. This study gives insight into the reasons why policy promises cannot always be realized, by explaining the federal budget process and role of the parties involved. Also, this research project explains why the US federal budget shows an increasing deficit. Thus providing the voter with more information on and with openness into the public policy debate.

Central research question

This leads to the central question of this final research project:

How can the balance (deficit/surplus) in the annual federal budget of the United States of America between 1996 and 2006 be explained?

The following subquestions can be formulated following the central research question:

1. What were the budget results between 1996 and 2006 on a) the presidential budget proposal and b) the concurrent congressional budget resolution, what differences exist between these two budget documents between 1996 and 2006 and what explains these differences?
2. What *internal factors in the US political system* can be identified and to what extent do they explain
    a. whether and how a balanced budget is sought?
    b. the budget outcome that is realized?
3. What was the federal budget policy between 1996 and 2006 and how did this affect the budget outcome?
4. What actors in the US budget process can be identified, what is their role in the budget process and to what extent do they explain
    a. whether and how a balanced budget is sought?
    b. the budget outcome that is realized?
5. What *external factors, both economic and political,* can be identified between 1996 and 2006 and to what extent did they influence
    a. whether and how a balanced budget was sought?
    b. the budget outcome?

Research methods

Given the research question formulated for this research project, three methods were applied to answer this question: literature study, desk research and in-depth interviews.

Literature study

Earlier research on topics relevant to this current research project were collected and analyzed: theories on public choice, public budgeting and decision-making strategies are discussed in the following chapters of this research paper (please see chapter two and appendices I and II).

Desk research

’t Hart, van Dijk, de Goede, Jansen and Teunissen (1998: 94) describe desk research as a method of data collection “with which existing documents or archived data (in archives, libraries or databases) as well as behavior of people ‘collected’ in the ‘traces of their lives’ (garbage, etc) are collected and analyzed on content”. Desk research can be summarized as an analysis of existing, secondary, data. The advantage of desk research is that it is a rather simple and fast research method. Possible obstacles may be that not all data required are available on the internet or are confidential in nature.

In this research project the following existing data will be analyzed:

- The president's budget (including the presidential message) submitted to Congress between 1996 and 2006 → analysis is limited to the following budget functions: defense, international affairs, homeland security, health, Medicare and social security. Outlays are analyzed, at a macro-level and at a semi-macro level distinguishing between mandatory and discretionary spending. Revenues are analyzed at a macro-level and at a semi-macro level distinguishing between the different taxations.
- The congressional concurrent resolution adopted between 1996 and 2006 → analysis is limited to the following budget functions: defense, international affairs, homeland security, health, Medicare and social security. Outlays are analyzed, at a macro-level and at a semi-macro level distinguishing between mandatory and discretionary spending. Revenues are analyzed at a macro-level and at a semi-macro level distinguishing between the different taxations.
- The vetoes to appropriations bills in the congressional concurrent resolution issued by the president between 1996 and 2006.

The budget functions were selected based on a first analysis of the main occurrences within the US political system between 1996 and 2006. The occurrences identified were: the war on the balanced budget, the reform of the social security system, the attacks on the USA on 9/11 and the subsequent war on terror, and finally the global economic situation. The budget functions most influenced by these events have been included in the analysis of this research project. These functions are also the main contributors to the budget – health, Medicare and social security are the largest budget function with regard to mandatory spending; defense, international affairs and homeland security are the second-largest budget function and contain mainly discretionary means.

Other data that were obtained through desk research are:

- The composition of Congress between 1996 and 2006.
- The presidential and congressional fiscal policies between 1996 and 2006
- Bipartisanship on the federal policy agenda between 1996 and 2006
- External circumstances (both political and economic) between 1996 and 2006

All these data are retrieved from websites affiliated to relevant political institutions. For the president's budget, data were retrieved from the website of the Governmental Printing Office (http://www.gpoaccess.gov/usbudget/browse.html). For the budget resolutions, the archives on the website of the Library of Congress (http://thomas.loc.gov/cgi-bin/thomas) were consulted. Both the concurrent budget resolution – including the House of Representatives' resolution, the Senate's amendments and the conference agreement - and conference reports are available on this website. The vetoes issued by the presidents on the congressional concurrent resolution could be found on the website of the Office of Management and Budget (OMB) (http://www.whitehouse.gov/omb/).

The reason for choosing desk research as one of the research methods applied in this current research project, lies in the fact that this research project is both descriptive and explanatory. Desk research can be used to answer the main research question and all of the subquestions formulated in the context of this project. The pitfall of desk research is that not all information required may be available. Information can be confidential or not publicly accessible. Also, analyzing the data available may lead to questions that cannot be answered through further desk research. To prevent these pitfalls and to ensure that all information required is collected, the data collected through desk research are completed with data collected through in-depth interviews.

In-depth interviews with open and closed questions

't Hart, van Dijk, de Goede and Teunissen (1998: 94) argue that the in-depth interview can be considered a research method in the category of 'surveys'. The 'survey' is a strategy with which a researcher collects information by asking pre-formulated questions to a respondent. These questions can be asked either on paper or in a personal interview. Baarda and de Goede (1998: 23) state that the information required is known before the in-depth interview itself; this enables the researcher to ask directed questions, trying to collect specific information. The advantages of the oral interview are that it offers the possibility to ask many questions, to ask more complicated questions and to discuss a question in depth. Much information can be collected this way.

In this research project, the in-depth interview were used for three purposes:

- To collect additional information to the information already collected through desk research, on the political decision-making processes of that time that cannot be found in the budget documents themselves. Additional information concerns log rolling and pork barrel processes, political relations between the president and Congress, etc.
- To verify the data and information collected through desk research, to ensure that the data used for analysis is complete and correct.
- The interviews also enabled asking for personal views and opinions from the respondents and to complete the picture on the federal budget process and the factors that determine the political process underlying this federal budget formulation process.

As the interviews were to collect additional information, they were executed after the desk research was concluded and can be considered a second phase in the research project. The specific questions asked in the interviews were determined by the outcomes of the desk research; for the questionnaire, please see appendix VI. Given that the interviews were used to collect additional information, they were structured – using open questions but also using statements that were put before the respondents, asking them to react to these statements.

The following people were interviewed:

- Bas Godijn, policy advisor Department Western Hemisphere, Dutch Ministry of Finance
- Peter Potman, deputy head Department Western Hemisphere, Dutch Ministry of Foreign Affairs
- Thomas Gijswijt, researcher University of Nijmegen, Department of Northern American Studies

Possible disadvantages of in-depth interview are that people may provide socially acceptable answers, less people want to participate in oral interviews, they relatively take more time and you can speak to only a limited number of people (Baarda and de Goede, 1998: 23, 24). The disadvantage of socially acceptable answers is of lesser relevance to this research project. The interviews are used to verify the already collected data and to add information to the data set. The answers given by the respondents can be checked on the basis of the information already collected – by asking counter questions the moment a respondent provides information that seems to be contradictory to the results already found. Also, the topics discussed in the interviews do not affect the respondents personally; they are interviewed for being experts on US federal politics and the US budget process. They were, therefore, less inclined to give socially acceptable answers as it does not affect their personal behavior, norms and values. The other disadvantages identified by Baarda and de Goede (1998) were taken into account when approaching the respondents.

Research design

Theory on research methods and design identifies four types of research design (Buttolph Johnson and Reynolds, 2008): (quasi-)experimental design, non-experimental large N design, comparative case study design, single case study design. The research design of the research project is the 'single case-study'. Within this single case study, a comparative case study is executed, as the different federal budgets are compared. Each annual federal budget is considered to be one case, leading up to a total of 11 case studies (the years 1996 to 2006) within one case-study (the US federal budget process).

The case study permits a deeper understanding of causal relations, explication of a general explanatory theory and the development of hypotheses regarding difficult-to-observe phenomena (Buttolph Johnson and Reynolds, 2008: 154). Case studies have a number of disadvantages. These include the lack of rigor used in presenting evidence and the possibility for bias in using it, the problem of generalization, the amount of work in analyzing a case thoroughly and complete and the strength of the causal inferences that result from it (Buttolph Johnson and Reynolds, 2008: 153-154). A comparative case study design is a design in which two or more case studies are analyzed and the results are compared. The advantage of using a comparative case study is that it allows for replication and thus increases the explanatory power and external validity (Buttolph Johnson and Reynolds, 2008: 153). The single case study is used in research on topics of which only a few are known or available. The single case study is often used complementary to other case study researches.

Motivation for the chosen research design

The reason for using a single case study in this research project is the complexity of the case study and the fact that the data concentrate on US federal policy, of which there is only one in the United States. In chapter three information is provided on the international norms of budgeting; the US budget process is compared to these international norms and differences and similarities are discussed. This information makes it possible to distinguish the US budget process as one case-study in the international budgeting system.

The reasons for choosing the research design of case study include the wish for in-depth analysis (given the complexity of the topic), and qualitative analysis is required to enable for a complete and comprehensive analysis of this policy area, in order to answer the research question. The federal budget process of the United States of America is extensive and complex in nature. Given the complexity of the topic, preference is given to an thorough analysis of just this one case study, compared to analyzing a large number of case studies more superficially. Furthermore, choosing just one case study does not imply that the analysis is limited. Because of the complexity of the topic, analysis can be done at several levels and on the basis of several factors. This makes the analysis thorough and extensive, and gives a more complete picture of the US federal budget process than a more superficial analysis of a larger number of policy issues. As the case study is used for descriptive and explanatory purposes, in order to analyze the decision-making processes involved in the US budget process and the factors that influence these processes, the small number of cases studies and the thorough analysis are the most suitable method of analysis (Buttolph Johnson and Reynolds, 2008: 149). In addition, given the structure of the US political system, the federal budget is an example of a policy issue that receives attention at a federal level – compared to a large number of policy issues that are handled at state level. This makes the case study indicative for federal policy-making processes.

The reason for choosing the comparative case study within this one case study, lies in the fact that this research project is a small longitudinal study – from fiscal year 1996 to fiscal year 2006. By applying the comparative case study research design, it becomes possible to compare the federal budgets over the years, enabling conclusions with regard to developments in the budget and the decision-making process over these years. This enriches the results and conclusions of this current research project.

Validity

External validity

External validity is defined as "the extent to which the results of an experiment can be generalized across populations, times and settings" (Buttolph Johnson and Reynolds, 2008: 135). In small N studies – such as a case-study, the generalization of results is problematic. This is considered one of the disadvantages of this type of research design (Buttolph Johnson and Reynolds, 2008: 153). The external validity can be increased by using a longitudinal design (stretching a longer time period or different historic stages), the extension of the geographical scope (more countries, ministries, etc) or looking at sub-units (departments instead of ministries, counties instead of countries, etc) (Buttolph Johnson and Reynolds, 2008: 135).

Motivation for the external validity of this research project

The extent to which the results of the case study included in this research project can be generalized over populations, times and settings is expected to be limited. However, the research design has been adjusted as to increase the external validity with regard to theory development. First of all, the policy is analyzed over a period of eleven years, including three different administrations (one Democrat and two Republican) and two presidents (one Democrat and one Republican). This implies that the experiment results can be generalized to both major political parties active in public administration and politics and to the developments experienced in both parties over time. It offers the opportunity of pattern matching (Buttolph Johnson and Reynolds, 2008: 151). Secondly, the policy analyzed concerns federal policy, that is applicable to the United States as a whole. It is, therefore, of concern to people of all backgrounds – regarding social status, economic status, religion and ethnicity – living in the country. Also, the experiment covers a time frame of eleven years, thus including developments in the population that have occurred over time. Thirdly, the federal budget can be considered a (good) indicator of a broader federal policy agenda of the President and Congress respectively. It gives a complete (financial) overview of the policy objectives set for the following fiscal year (Schick, 1994).

Internal validity

Internal validity is defined as "the research procedure demonstrated [is] a true cause-and-effect relationship that was not created by spurious factors" (Buttolph Johnson and Reynolds, 2008: 133). In small N designs the internal validity is controlled for by the degree of match between the hypothesis and the research results, or a mismatch with possible alternative explanations. In the comparable case study the internal validity is increased by selecting comparable case studies (Buttolph Johnson and Reynolds, 2008: 133).

Motivation internal validity in this research project

The true cause-and-effect relationship is central in this research project. Spurious factors, therefore, need to be controlled for. In this research project the possible occurrence of spurious factors is overcome by including these factors in the analysis. In this research project this includes factors such as external economic and political developments. These factors are expected to influence the policy-making process and as such manipulate the presidential influence on federal policy-making. However, due to practical considerations, not all external factors that may be of influence to the US budget process are included in this research project; factors such as the media and interest groups are left out of the analysis. The results of this research project will prove if further analysis including these factors will be necessary. The internal validity is increased by the timeframe included in this research project, i.e., a period of eleven years, covering federal policy-making between 1996 and 2006. It, therefore, enables to also include maturation of the policy in the research project – a mature policy issue might be more difficult to alter or influence than a new policy issue. In addition, the federal budgets included in this research project can be considered individual case-studies within a case-study. By comparing the results obtained from these sub-case-studies, the overall results gain in validity as well.

Structure of the paper

This research paper is structured as follows. Chapter two offers the theoretical framework for the research project, by discussing theories on budgetary decision-making. The unit of analysis, dependent and independent variables and conceptualization of central notions are presented in this chapter. Finally, a conceptual model is presented on the basis of which the empirical part of this research paper is executed. Chapter three presents the case-study: the US federal budget process. Chapter four presents the results of the analysis of this research project, by providing insight into four hypotheses. Chapter five provides a conclusion with regard to these results and answers the central research question of this research project. Finally, references for this research project are given. Appendices to this research paper provide an overview of the US political system, the federal budget process and the analytical scheme used to obtain the results. Also, the results from both the desk research and interviews held are included in the appendices.

Chapter 2: Budget balance – a theoretical framework

In the previous chapter, the framework of this current research paper was presented. In both the research objective and the research question the concept of 'budget' was presented as a central concept to this research project. Appendix I provides a more detailed discussion of the concepts of 'public budget' and 'public budgeting'. This chapter provides a theoretical framework with regard to the budget and budgetary decision-making processes.

Budgetary policy: Providing a budgetary framework

The budgetary decision-making process is highly complex, given the overwhelming size of the budget, the programmatic diversity, the technical demands, the tight timeframes and the large number of people involved in the process. Budgeting, however, lies at the very heart of a democracy, as in this document the policy preferences are laid down that are executed in the following year and by which party (Wildavsky, 2001). Rubin (1990: 58) argues that the budget process is political "1) because it gives some participants more control over whether money is spent on one project or another, in one place or another, 2) because it structures the competition between agencies and programs and 3) because it influences or is believed to influence policy outcomes, such as the overall size of the budget, the distribution of costs and benefits, etc". As Wildavsky summarizes (2001: xviii), the process of formulating a budget determines "who gets what and how and why" and it is, therefore, the most important policy instrument available to elected politicians.

In short, a budget can have three outcomes: a surplus, a balanced budget or a deficit. The actual outcome is expected to be influenced by the elected politicians, who often use the budget as an instrument to influence the economy. Mitchel (1993) argues that a government has two policy instruments at its disposal to interfere in the economy:

- monetary policy, affecting economic activity through controlling the supply of money and a task of the central or national bank
- and fiscal policy, focused on taxation, government spending and associated borrowing. Fiscal policy is made by political institutions and is a responsibility of the Ministry of Finance.

The balanced budget amendment itself can be considered an instrument of US federal fiscal policy. Given the focus of this research project, this paragraph focuses on fiscal policy. Weeks and Patel (2007: 2) indicate that "(f)iscal policy includes taxation and expenditure policies of the central government, which are normally implemented by the Ministry of Finance". Therefore, decisions on governmental spending and tax structure are political, as "politicians, not economists determine fiscal policy" (Crain and Muris, 1995: 313). These decisions are made within the political institutions of the governmental system. As financial means are limited, fiscal decisions are always made within restraints.

Fiscal policy evolving over time

Decisions on fiscal policy trigger political debate; theory on fiscal policy is, however, also a topic of theoretical debate. Three ideological views on fiscal policy can be identified: the classical view, the Keynesian view and the neoliberal view.

Classical view

The most important theorists of the classical view – Adam Smith (1723 – 1790), David Ricardo (1772 – 1823) and John Stuart Mill (1806 – 1873) – considered public debt to be a negative influence on the economy. Burger (2003) explains Adam Smith's theory in that public debt obstructs capital accumulation, thus providing an incentive for investors to emigrate their investments to other markets. Ricardo supported Smith in this view; he considered public debt to raise taxes, thus influencing the decision of potential tax-payers to either leave or stay. To overcome this public debt, public revenues need to exceed public expenditure, creating a surplus. Mill adds that debt reduces national savings, which then cannot be spend another – more productive – manner (Burger, 2003). Savings produce investment and positively influence the economy.

Keynesianism

In the late 1880s, a new pro-active view on fiscal policy was introduced. For a period of roughly 35 years, Keynes' theory of macroeconomics provided the central paradigm for macroeconomics. The central notion of this theory is that saving has no positive effect on investment as long as the economy suffers unemployment. Keynesian economics is based on the following presumptions (Blinder, 1988: 279):

1) aggregate demand is influenced by a host of economic decisions, both private and public, and sometimes behaves erratically;
2) changes in aggregate demand, whether anticipated or unanticipated, have their greatest short-run impact on real output and employment, not on prices;
3) goods markets and, especially, labor markets respond only sluggishly to shocks (i.e., prices and wages do not move quickly to clear markets);
4) unemployment is both too high on average and too variable
5) stabilization policy reduces the amplitude of business cycles
6) combatting unemployment is more important than conquering inflation.

The first three tenets are assertions about positive economics, believing that fiscal policy can change aggregate demand and thus influence the economy. While the last three are normative assertions, considering the government to use its leverage over aggregate demand to reduce the amplitude of business cycles – thus implementing a countercyclical fiscal policy (Blinder, 1988).

Neoliberalism

In the early 1970s, however, a countermovement gained support. The Keynesian view on economics was considered too demand-oriented, neglecting the supply-side variables (such as oil and import prices). Worldwide economics of the 1970s and 1980s were tremendously influenced by these supply-side variables; a new idea emerged, being a neoliberal view on economics. In this view the central notion government is democratic, limits its sphere of command with limited interference in a self-equilibrating market. Four cornerstones of liberalism can be considered: 1) self-equilibrating market in the long-run, 2) theory of rational expectations (government intervention creates depressions and recessions), 3) supply creates its own demand and 4) rational choice theory of a democratic government presenting the electorate with goods in order to maximize votes. The implications of this neoliberal view on decision-making strategies in fiscal policy is elaborated upon in the following paragraph on decision-making strategies.

Budgetary decision-making

Both Lee, Johnson and Jones (2004: 21) and Gosling (2009: 28) state that in rational decision-making, decisions are made following a series of ordered, logical steps. The following steps are identified:

1. Identifying the objectives and rank them in order of priority
2. Identifying all alternatives that might realize the objectives
3. Selecting criteria by which to evaluate each alternative
4. Choosing the alternative that best meets the criteria.

Those parties involved in the budgetary decision-making process, apply strategies to obtain that their preferences prevail in the political dispute on the budget.

Actors in the budgetary process

Several theories have been formulated on how both individuals and groups determine what the contents of their strategy will be and what priorities to set. In other words, how decisions are made. Basic assumption in all theories is the idea that the limitations on human capabilities to use all the information that might be collected and analyzed need to be taken into account when analyzing a decision-making system (Lee, Johnson & Jones, 2004). Wildavsky (2001) argues that participants in the process adopt heuristic aids to calculations, for them to deal with this complexity. One of the aids is the roles of the actors involved in the process – i.e., the expectations of behavior attached to their institutional position. These roles are part of the division of labor and make the budgeting process more predictable to its participants.

Wildavsky (2001: 183) identifies two types of actors: advocates and guardians. Advocates are the administrative agencies that opt for increased spending, while guardians are the central control organs that guard for increased spending. Each of these parties expects the other to do its job; agencies can advocate for more money, because they know the central control organs will impose limits, while the central control organ expects the agencies to advocate for more money and will push expenditures as much as they can. The urge of agencies to want more money, in order to survive and grow, is an integrate part of the agency's existence. Resource allocation and increase of the clientele group is easier with rising levels of appropriations. The central control organs, the guardians, have the duty to limit expenditure and – depending on the political objectives of the executive and legislature – to prevent a budget deficit.

At a group level – the macroeconomic level – Wildavsky (2001: 184) states that the roles of 'guardian' and 'advocate' act as calculating mechanisms. Guardians and advocates play in a mixed motive game – though they conflict, they must work together. The guardians need the advocates' budget proposals to formulate the budget; the advocates need the guardian's money to function. However, if – in the process – it is unclear for what amount an agency should be appropriated – thus giving too much or too little funds – trust is reduced between the two actors, as they do not know what to depend on. The agency does not know how much they can spend, while the central control agency does not know how much to give. And without trust, high levels of control are required. A general agreement on the total allowable spending can prevent this situation – a president's or congressional fiscal policy may give such a framework (Wildavsky 2001).

At the individual level – the microeconomic level – individuals make an optimal choice to maximize their own utility (Rubin, 1990). This view on the economic behavior of individuals, providing a theoretical framework for studies of individual preferences is found in the theory of public choice.

Public choice: A normative perspective on budgetary decision-making

The theory of public choice combines economics and politics, defining public choice as the application or extension of economic theory to the realm of political and governmental choices (Buchanan, 1978: 3).

The analysis of the preferences mentioned above lies at the heart of public choice theory. The way in which these preferences are analyzed, however, can be approached from different perspectives. A number of different perspectives on public choice can be identified. On the one extreme we find the more hardcore economic perspective on public choice. In this body of ideas public choice is approached from a public finance point of view, administering economic models to political issues. Pareto optimality conditions are sought to explain market failure in public finance policy (Cullis and Jones, 1998). On the other extreme we find a more normative perspective on public choice. The central notion of this normative perspective is that it is not in a politician's nature to pursue a balanced budget. Politicians seek to maximize their utility, being for example re-election. The costs of pursuing a collective good always exceed the costs of the individual good (Buchanan, 1978). Politicians will, therefore, strive to maximize their own profits ('rent'), instead of choosing collective action. This assumption that individuals (being voters or politicians) act rationally in their own self-interest is the central notion of the normative theory of public choice (McNutt, 1996). Public choice, as such, explains the existence of deficits in budget.

This normative perspective on public choice emphasizes the political character of public choice and is illustrative for the view that is applied in this current research paper. This perspective is, therefore, further elaborated upon, neglecting the other perspectives of public choice as they are of lesser relevance to this research project.

Development of the normative public choice theory

In public choice, governmental policy is the product of ordinary men and women, who try to grasp the complexity of the whole process by making decisions based on differing (individual) preferences – they choose the policy they seem most fit (Buchanan, 1978). Unanimity will hardly ever be the result of a vote (McNutt, 1996). The question, then, is how these differences are reconciled into a collective outcome in the institutions of a political system. Black (1958) found that a simple majority voting does not suffice; no one proposal will defeat the other proposals submitted by the other individuals, creating a continuous cycle among the alternatives at hand. The outcome will depend on when the voting stops. The last proposal to be voted upon will be the winning proposal.

Arrow (1970) states, however, that individuals do not make a decision on purely market principles but also include side conditions in their decision-making cycle. Individuals seek to further their self-interest and utilities within the constraints they face (Buchanan, 1986). Black (1958) adds that each individual in a collective system will have one preferred proposal (single peak), but there will also be one proposal that is acceptable within the side conditions held by an individual. This one proposal will be acceptable to the median voter. More individuals will be satisfied with a result in the middle than at either extreme of a single dimension (Buchanan & Yoon, 2002).

This theory can be applied to both the supply-side of politics – being the political parties trying to maximize their power – and the demand-side of politics – being the citizens who seek to influence political decision-making to maximize their own profit.

On the supply-side, log-rolling and pork barrel prove to be important instruments to politicians (McNutt, 1996). Are we to apply these notions to the decision-making cycle in public finance, one can conclude that politics is a zero-sum game. On either extremes of the scale we find an extreme limitation of expenditures and an extreme rise in expenditure. The median will always be to maintain the status quo and not spend any money. Mueller (1959), however, finds that a series of median majority votes will lead to an over-extension of the budget. Buchanan (1978) argues that this is caused by uncertainty among the individuals participating in a political institution on how their interest will lie after a sequence of votes. Individuals in politics seek to maximize their power and they want to increase the likelihood of their success (Cullis & Jones, 1998; Buchanan, 1986). Log-rolling often offers the solution. By trading votes on a policy proposal that is less important to one's constituents for a vote on a proposal that is of importance, strategic votes can be gained. Through this pork-barrel politics politicians try to maximize their political income (McNutt, 1996).

On the demand side of the public sector, citizens seek 'self respect and self control' through voting. They select their preferred policy through the electoral process (McNutt, 1996). In voting, the individual selects among a series of available strategies, and if rational, will choose the strategy that maximally furthers the achievement focused on the ultimate end-state (Buchanan & Yoon, 2006).

Of course, the supply-side and demand-side of politics are intertwined. Buchanan (1978) explains that political parties and political individuals will always seek to maximize the number of votes for their party. They require the support of a large fraction of their electorate to maintain their position in Congress (Arrow, 1978). They, therefore, seek to 'earn political income' (Buchanan, 1978: 12), with revenues exceeding investments. Political income is achieved by proposing and implementing policies with characteristics desired by citizens (Breton, 1978) and this 'rent-seeking' behavior can, therefore, be applied to many activities of the political institution, such as granting earmarked funds to specific groups of recipients, lowering taxes toward election time to ensure re-election, log-rolling, etc.

Still, Buchanan (1978) argues that investing politically to earn political income will also include wasteful investments. Given that, in politics, one speculates with public resources, the pressure to minimize waste is limited. As politicians want to maximize their political income, more and more investments will be made, also causing more and more waste will be 'produced'. The utility-maximizing behavior of individuals will, therefore, lead to increasing investments, leading to increasing waste. This causes the budget to run into a deficit. For example, towards elections, politicians can lower taxes to guarantee re-election; however, raising the taxes after the elections are held and re-election is guaranteed, will not take place. This causes revenues to drop, but expenditures are maintained at the same levels, resulting in a budgetary deficit.

Seeking a balanced budget

Does this imply that a balanced budget will never be reached? No. Yet, it does imply that a balanced budget will only be sought in times of economic prosperity. It is only in times of economic growth that the offsets of waste can be paid for without losing public capital. Politicians will, therefore, try to create economic conditions in which a financial 'buffer' can be established, anticipating for economic hard times. The public will, then, not suffer the consequences of an economic crisis, as the financial means are available to balance the budget (Buchanan, 1978).

Wildavsky (2001) argues that budgeting serves the needs of governance. A government that strives to turn the financial deficit into a balanced budget, has three instruments at its disposal: a raise in taxes, a cut-back in expenditures and a strengthening of economic growth. If a government continues to invest in times of economic recession, increasing the deficit even further, the benefits of economic prosperous times will no longer 'cover' for the deficits created. This, once again, causes a deficit on the budget and the checks on government do no longer exist in such a situation. Buchanan (1978) calls this the 'Leviathan-state'.

One of the causes of this Leviathan-state is, according to Ricketts (1978: 178), the fact that individuals on the demand side do not always reveal their preferences in some form of political process. Alessina and Perotti (in Cullis & Jones, 1998: 264) add that the electorate does not grasp the complexity of the government budget, which makes it hard for them to estimate what the benefits and costs of public expenditure programs are. They explain the growth in deficits as a result of the increased electoral security of incumbents in Congress; the need for accountability lowers and relaxes the political constraint on deficit finance. Second, Ricketts (1978) argues that public policy will hardly ever be as 'efficient' as formulated in the public choice theory. Breton (1978) confirms that public policies are not homogeneous; some groups of individuals will value a specific policy more than other groups. Unanimous policy, that benefits all groups equally, does not exist. One of the functions of politics, then, is to establish rules which enable individuals and groups with different sets of interests to pursue widely differing objectives without the emergence of conflict. "Politics should be limited to that set of interactions where private values or interest spaces come into potential conflict" (Buchanan, 1986: 46). The political order needs to be constructed in such a way that politicians cannot 'abuse' their political power for self-serving behavior. This order is a moral order, in which participants in social interaction treat each other as moral individuals, but do so without a sense of shared loyalties. A person's relative share in the status quo of that order will be determined by luck, choice, effort and birth (Buchanan, 1986). Given that the individuals in this order seek to maximize their self-interest, it is the role of the government to enforce the law and keep the peace (Buchanan, 1986). Only constitutional constraints can stop the members of the order to seek their self-interest. In the view of public choice only constitutional constraint ensures that a balanced budget returns. It is, however, disputed whether these constitutional constraints are feasible in the actual budgetary process; it is claimed that these constitutional frames are too rigid and too weak to adapt to developments in the budget; the required policy changes will always come too late to be of any countercyclical effect (Wildavsky, in Van Nispen, 2009).

Fiscal strategies: An empirical view on budgetary decision-making

The need to maximize utility explains why governments would want to interfere in the economy. What, however, determines whether they actually do so? Saiz (2001) identifies three forces that determine whether a government actively interferes in the economy. The first is the level of competition between political institutions. This competition can be between state and federal level, between states but also between the institutions at a federal level (president versus Congress for example). Political institutions seek to maximize their profits. States, for example, strive to develop markets and pursue development policies to improve their economic position. The same goes for the federal government, representing the interests of the country as a whole. This leads to competition for the limited federal resources and inflicts political conflicts when interests collide. Log-rolling and pork barrel politics can be considered the results of these levels of competition – this view is comparable to the view on the supply-side of politics in the theory on public choice.

The second force is the fiscal stress (or slack) caused by externalities; the environment in which policy is shaped affects the extent to which fiscal stress is experienced and the innovativeness of the policy created. For example, in a period of economic recession citizens demand for more governmental services. Responding to these demands creates a situation of fiscal stress, prompting a government to come up with either creative policy solutions or maladaptive solutions. Externalities, such as the environment in which a government operates, determines what policy solutions are found. This view concurs with the view in the theory of public choice that states that a balanced budget will only be sought in economically prosperous times, when the offsets of waste can be paid for without losing public capital.

The third force is a political one. The political norms and values held by the actors in the policy process influence the outcome of policy. Economic development strategies are ideologically determined by the political color of the leadership in office. Liberals and conservatives prefer a free market, but accept economic intervention when its goal is to stimulate growth; while Democrats value government intervention to realize more stability and equality in society. McNutt (1996: 74) adds an argument to this discussion by stating that the political color of a government also determines the choices made. A right wing government will instinctively fight inflation, causing either a recession or a slowdown in growth. If inflation remains low, the economy will find its natural growth rate. A left wing government will initially expand the economy until inflation expectations adjust and the economy returns to its natural rate of growth. When the president and majorities in the House and Senate are of different political color, this may inflict political conflict on fiscal policy.

The norms and values in office are determined by the electorate – they choose the political color of their political leadership. As a consequence, the political actors are found to mediate between policy outcome and voter taste as they are required to take account of the interests and wishes of the constituents who have given them the political leadership. Niskanen (1978) underlines this theory in stating that governments will adjust the perceived price of federal services to the levels of current voters; this can cause an increase in federal spending, thus enhancing the federal deficit. Hallerberg and de Souza (2000) add that fiscal policy decisions are determined by the political business cycle; in election time, governments will more actively interfere in the economy to gain vote. This supports Buchanan's view (1978; 1986) that people always seek to maximize their profits: citizens try to increase their control, politicians try to maximize the number of voters – especially in times of elections. Hallerberg and de Souza (2000) identify two types of political business cycle. The first is the partisan political business cycle; leftist politicians will prefer higher rates of growth and, therefore, tolerate higher levels of inflation or budget deficits than rightist governments will. The fiscal strategy is adjusted to the wish of the rank and file of the elected government. The second type is the opportunistic political business cycle, in which voters are expected to support the incumbent when their economic position is healthy and to support the opponent when their economic position is weak. Governments can attract votes if they can boost the economy shortly before elections (Hallerberg & de Souza, 2000: 4). The level of political conflict will, in this view, affect the fiscal strategy applied by a government.

The extent to which these three forces were of influence between 1996 and 2006 is tested in the empirical part of this research project.

Budgetary policy: Exogenous or endogenous external influences?

Both the normative perspective on political decision-making and the empirical perspectives identified above lead to the conclusion that politicians intervene in the budget to maximize their political profits, that on the supply-side of politics competition is common ground and external factors influence the decision-making process. However, to what extent are interventions in the budget successful? Do government interventions influence the economy?

Kopcke, Tootell and Triest (2006) state that two views on the economy and the ability of a government to stabilize or affect economic activity through budgetary policy can be identified. The first view, the equilibrium view, expects the economy to quickly recover after disturbances; changes in budgetary policy have little or even negative effect on stabilizing the economy. Jones (2002) states that, in this view, budgetary policy is endogenous. Niskanen (1978), Lombardo and Sutherland (2003) are found to be supporters of this theory. Niskanen (1978) restricted his attention to the relation between government budgetary policy and inflation. He found that federal deficits do not appear to have any significant effect on the inflation rate; this implies that budgetary policy has little to no effect on the economy. Lombardo and Sutherland (2003) confirm this finding, by stating that government expenditure has a limited ability to stabilize the economy, though coordination of this expenditure can improve welfare.

Musgrave (1985), moreover, argues that budgetary policy has not prevented public sector failure. Due to technological and demographic changes, changes in relative costs and the growth of per capita income government expenditure has increased rapidly over the last fifty years. These developments have had their effect on the correct level of budgetary provisions for goods and services. This, in his view, has caused deficits on the budget balance. Governments have not been able to compensate these growing expenditures through budgetary policy.

The alternate view, however, is that an economy does not adjust as automatically to disturbances; changes in budgetary policy are used to stabilize the economy or aggregate economic activity, in order to fight federal deficits. Jones (2002) argues that in this view, budgetary policy is considered exogenous to the decisions of private agents, so that budgetary policy can respond to other exogenous shocks. Easterly and Rebelo (1993), Hallerberg and de Souza (2000) and Kopcke, Tootell and Triest (2006) and Blinder (2006) are among those supporting this theory of budgetary policy.

Kopcke, Tootell and Triest (2006) argue that the extent to which these factors will react to budgetary policy depends on whether it is at full employment and at full operating levels. When an economy is at full employment, a tax-cut today, for example, will not necessarily increase consumption spending; when households do not expect their disposable income to raise any higher, tax-cuts will not lead to higher consumption levels and may even increase private saving. As a result, national savings, interest rates and investment spending will be affected. However, if an economy is not yet at full employment, a tax-cut may increase consumption, national savings, etc. Based on this assessment, they identify a number of factors that are of influence on the economy and can be affected by budgetary policy. These factors are interest rates, household consumption, national savings, investment / business spending and capital inflow from abroad.

Easterly and Rebelo (1993) also consider budgetary policy to be an important determinant in economic growth. They argue that there is a strong correlation between the level of economic development and the budgetary structure: while poor countries rely heavily on international trade taxes, income taxes are an important factor in developed countries. Hallerberg and de Souza (2000) add that the level of capital mobility and exchange rates will determine the relative effectiveness of budgetary policy. When capital is not mobile, budgetary policy will affect the economy; however, if capital is mobile, exchanges rates become of influence. If exchange rates are flexible, a government can better apply monetary policies to influence the economy; however, if exchange rates are fixed, then budgetary policy is the only way to redirect the economy. In their view, a strong government making the right decisions can influence the economy in order to reduce budget deficits. Blinder (2006) argues that both temporary and permanent tax changes do influence consumption spending; it leads him to conclude that tax changes are an effective fiscal instrument for stabilization. He adds that these tax changes are most effective when focused on those households that are most likely to change their consumption pattern in response to temporary changes in their disposable income. This underlines the theory of Kopcke, Tootell and Triest (2006) that the effectiveness of fiscal policy depends on the levels of employment and operating levels. Auerbach (2006) claims that governments actively adjust fiscal policy to budget conditions, implementing a countercyclical policy – an increase in budget surplus leads to a reduction in revenues and an increase in expenditure.

Based on the literature discussed above, it can be concluded that the ability of coordinated fiscal policy to stabilize or stimulate economy is disputed. With regard to the empirical results of this research project it is, therefore, expected that fiscal policy will not prove to be the determining factor in explaining the budget balance between 1996 and 2006. The results will show whether fiscal policy is proved to be of influence on the economic situation between 1996 and 2006.

Conceptual model

In this chapter, theories on fiscal policy and public choice have been discussed. In the empirical part of this study, the budget balance and the extent to which these factors determined the budget balance between 1996 and 2006 are tested. To this end, the analytical model presented below can be formulated. In this flowchart, the relations between the dependent, independent and intervening variables of this research project are visualized.

Unit of analysis & variables

Given the scope of this research project and deducting from the theory discussed in this chapter, the following variables can be identified.

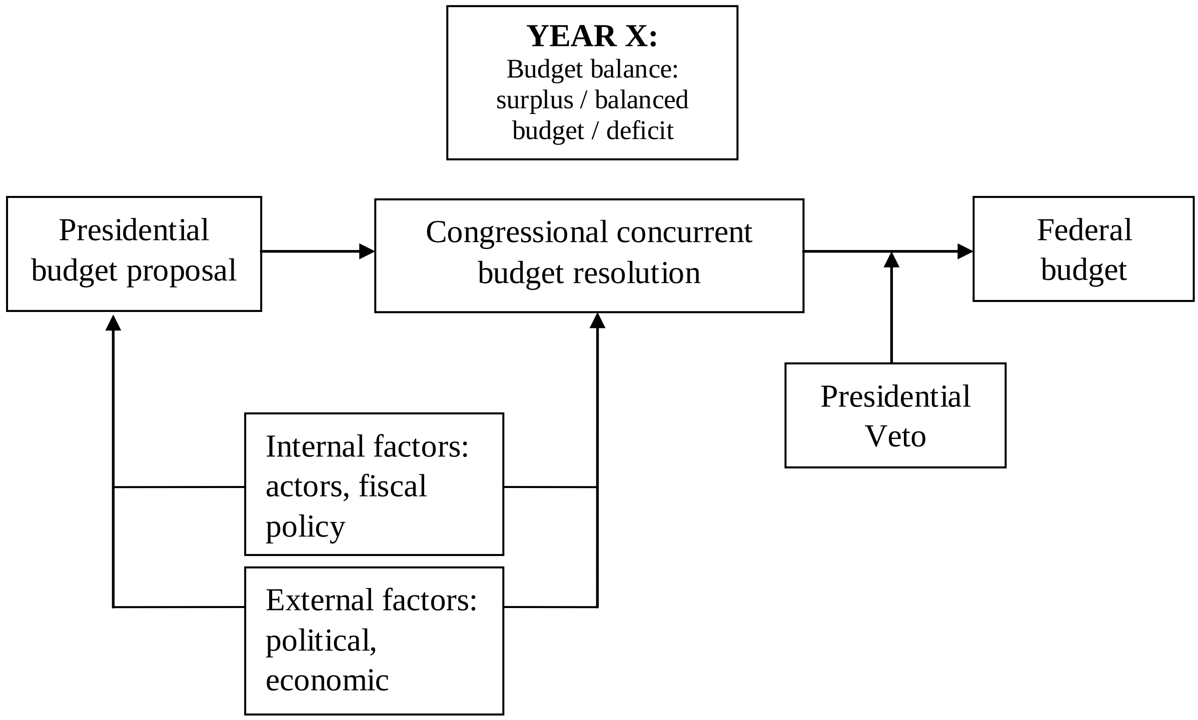
The *unit of analysis* in this research project is the US federal budget. This is the presidential budget proposal submitted to Congress, but amended by Congress in a concurrent resolution and finalized by a presidential signature. Both the presidential budget proposal and the congressional budget resolution are included in the analysis of this research project, to enable a comparative analysis. This comparison is made per year to gain insight into the political decision-making process, and over the years to determine a trend with regard to the policy instruments applied and the development of the budget (deficit/surplus).

Based on the literature discussed above, a number of factors can distinguished that may be of influence in determining the outcome of the budget balance: fiscal policy, externalities (both political and economic) and the US political system (level of political conflict, actors in the system) itself. In the empirical part of this research project, insight is provided into the extent that these factors actually influence the budget balance and it is analyzed which factor is of determining influence.

As such, the following *variables* can be distinguished.

- Dependent variable: Federal budget
- Independent variables:
  - Presidential budget proposal
  - Concurrent congressional budget resolution
  - Presidential veto
- Intervening variables:
  - Internal factors: actors in political system, fiscal policy
  - External factors: political, economic

The following conceptual model visualizes how these variables are interrelated.



Hypotheses

Based on the theoretical framework discussed and the conceptual model presented above, a number of hypotheses can be formulated regarding the expected results:

Hypothesis 1:
The US political system decreases the possibility of a balanced budget.

In chapter two and appendix I the US federal budget process was analyzed. It was stated that the US federal budget process deviates from international norms and standards with regard to the position of the different actors in the budget process, the process itself and the constitutional requirements. The role of the Executive is much more important in the US system than in most other countries; the Executive submits a budget proposal, not the Ministry of Finance. Also, the role of the legislature differs in that Congress takes longer (4 months longer than the OECD-average) to adopt the budget, has no limitations as to amending the budget and has no targets or ceilings with regard to expenditure. Furthermore, the US Constitution does not require a balanced budget. Based on these factors, it is expected that the US political system itself decreases the possibility of a balanced budget.

To test this hypothesis, the following questions will be addressed in this research project:
- What is the US political system?
- Is the US political system representative within international norms?
- What is the level of political conflict in the US political system? What is the composition of Congress? What were bipartisan policy themes between 1996 and 2006? To what extent do the president's budget and the congressional budget resolution comply?
- What is the level of conflict between state and federal level? When did congressional elections take place? What changed in the composition of Congress?
- How does the political system influence the budget balance?

Hypothesis 2:
A Democratic president increases his expenditure. If his aim is to reach a balanced budget, he will raise taxes to compensate for the expenditure increase. A Republican president will lower taxes; if his aim is to reach a balanced budget he will need to lower government expenditure.

In chapter two, the process up to reaching the Balanced Budget Act of 1997 was analyzed. It was concluded that during his presidential campaign, reaching a balanced budget was already one of President Clinton's top priorities. However, at the start of his presidency, he was faced with a considerable deficit on the federal budget and changed his fiscal strategy (Kelly, 1993). In 1999, he submitted a balanced budget to Congress. The question is, how did he reach a balanced budget? What fiscal policy did he apply? During the presidency of President Bush, the balanced budget turned into a deficit. The question is, why did he not maintain the balanced budget situation he found at the start of his presidency?

To test this hypothesis, the following questions will be addressed in this research project:
- What is the presidential fiscal policy between 1996 and 2006. Does a president aim to reach a balanced budget and if so, does he succeed? What is the budget result between 1996 and 2006?
- What fiscal instruments does the president apply is his aim to reach a balanced budget?
- Also, does Congress support the president in his fiscal policy? Does Congress aim to reach a balanced budget? And does Congress apply other fiscal instruments?
- What was the development between 1996 and 2006 with regard to taxation, to total spending (where there any expenditure cut-backs?) and to economic growth?
- Was the budget balance influenced by these factors?

Hypothesis 3:
A balanced budget will only be sought for and reached in times of economic prosperity.

In this chapter, theory on public choice was analyzed. It was concluded that a balanced budget will only be sought in times of economic prosperity. It is only in times of economic growth that the offsets of waste can be paid for without losing public capital (Buchanan, 1978).

To test this hypothesis, the following questions will be addressed in this research project:
- What were the external economic circumstances between 1996 and 2006?
- What external factors influenced the internal political decision-making process?
- How did they influence the budget balance?

Hypothesis 4:
External circumstances (economic and political) is the predominant factor in explaining what kind of balance is reached on the US federal budget (balanced budget / surplus / deficit).

In the conceptual model presented above, the following factors were determined to be of influence on the balance of the budget:
- Public choice / budgetary variables: size of the budget, actors/political system, fiscal instruments
- External factors: political and economic.

The question is, which of these factors is of determining influence? To provide insight into this hypothesis, all factors are tested in chapter four. To determine whether the factors identified actually explain the balance on the budget, a regression analysis was executed weighing all variables to the dependent variable budget balance.

Insight into these hypotheses was provided in the empirical part of this research project. The results are presented in chapter four.

Operationalizing concepts and variables

To enable testing of the hypotheses, the main concepts and variables need to be made operational by defining indicators to measure these concepts (Punch, 2005).

Operationalizing the main concept: budget

The main concept that can be identified, is the concept of '(federal) budget'. In this chapter, a theoretical framework was presented. It was discussed that formulating a budget can have three outcomes: a surplus, a balanced budget or a deficit. Based on the theories on budget policy and budgetary decision-making discussed in this chapter, in this research project the budget is analyzed on the basis of the following indicators (Wildavsky, 2001; Frey, 1978; Buchanan, 1978):

1. *Size (deficit/balanced budget/surplus, revenues vs costs)*
2. *Role of the actors in the US political system (president, Congress)*
3. *Fiscal policy (a raise in taxes, a cut-back in expenditures, a strengthening of economic growth).*

These three indicators are included in the conceptual model presented above. Indicators 2 and 3 in the theoretical definition of ‘budget’ (i.e., ‘actors in US political system’ and ‘fiscal policy’) are also concepts reflected in the first two hypotheses that require a further specification. They are considered to be the internal factors within the political system that influence the outcome of the budget. They are operationalized in the following paragraph, being intervening variables in the conceptual model.

In this conceptual model, three types of budget are identified: the president’s budget, the congressional budget resolution, and the federal budget.

Operationalizing the variables

The following theoretical and operational definitions are provided for these three budgets:

Independent variables

- Presidential budget proposal

Theoretical definition: a detailed outline of the administration’s policy and funding priorities as well as a presentation of the economic outlook for the coming fiscal year. The president’s budget, which estimates spending, revenue and borrowing levels, is compiled from input by the various federal agencies, with funding broken down into twenty budget function categories (see also chapter 2 and appendix II).
Operational definition: the president’s budget proposal submitted to Congress for fiscal years 1996 to 2006, with a special focus on the budget functions ‘health’, ‘Medicare’, ‘social security’, ‘defense’, ‘international’ and ‘department for homeland security’.

- Congressional concurrent budget resolution

Theoretical definition: a joint resolution of the House of Representatives and the Senate, marking up their views on the budget, based on hearings on the budget, testimonies from administration officials, Members of Congress and expert witnesses (see also chapter 2 and appendix II).
Operational definition: the concurrent budget resolution adopted by Congress for fiscal years 1996 to 2006, with a special focus on the budget functions ‘health’, ‘Medicare’, ‘social security’, ‘defense’, ‘international’ and ‘department for homeland security’. The concurrent congressional budget resolution is the result of budgetary proposals by the House of Representatives, that are subsequently amended by the Senate. The Senate itself does not – in general – propose its own budget. The Senate merely proposes amendments to the budgetary text of the House of Representatives. It is, therefore, quite difficult to analyze the budgetary texts of both parties in Congress separately. It is, therefore, decided to include the concurrent congressional budget resolution as one document in the analysis of this research project. This budget resolution is the result of deliberations in Congress as a whole.

- Presidential veto

Theoretical definition: a line-item veto issued by the president on the concurrent resolution of Congress, to restrict amendments of Congress on the president’s budget.

Operational definition: the vetoes issued by the President of the United States on the congressional concurrent budget resolution between 1996 and 2006. During this period, the president issued four vetoes that were not overridden by Congress:

- 1996: an Omnibus Consolidated Recissions and Appropriations Act covers the incompletely funded appropriations bills for the US Departments of Commerce/State/Justice, Labor/Health, Human Services/Education, Veteran Affairs/Housing and Urban Development/Independent Agencies ($5.1 billion)
- 1999: appropriations bill for Agriculture, Rural Development, Food and Drug Administration, and related agencies. President proposed to sign Senate's version of text; accepted by Congress ($5,3 billion)
- 2000: District of Columbia Appropriations Act ($ PM); total amount remains – president proposes to remove provisions; accepted by Congress.
- 2000: Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act ($ 1,27 billion)

The Omnibus Consolidated Recissions and Appropriations Act is signed on April 26, 1996 after a full half year of political struggle between the president and Congress, four continuing resolutions and a 27-day shutdown of government. The president restored $5.1 billion of the $8.1 billion that Congress wanted to cut on the budget functions mentioned above.

Dependent variable: federal budget

Appendix II gives an overview of the budgetary process in the US political system. In this process, the concurrent budgetary resolution is made by Congress in reaction to the president's budget. The congressional resolution states the total budget awarded to the president. In this budget, caps are identified for defense, international and mandatory spending. The means that remain are to be appropriated for discretionary spending. Any spending above the three caps must be compensated by cutting in discretionary spending in the same cap. When the budget resolution is adopted, House and Senate act on thirteen appropriations bills, dividing the budget between departments and agencies. The president, finally, signs or vetoes the appropriations bills, completing the budget process. Based on this theoretical description of the budgetary process, in this research project the following operational definition is provided for 'federal budget':

The concurrent budget resolution adopted by Congress for fiscal years 1996 to 2006.

This implies that the federal budget and the concurrent budget resolution are considered to be equal. The vetoes do not influence the totals in the budget resolution, as the total amount of the appropriations bills equals the total on the budget resolution. Caps are set to divide the means available in the budget (Lee, Johnson & Jones, 2004). At a macroeconomic and semi-macroeconomic level the totals remain unchanged, due to the caps set (Lee, Johnson & Jones, 2004). Of course, the political process that takes place to come to a federal budget will include political conflict and deliberation between the president and Congress. Also, at a micro level, pork spending takes place, allocating means to causes that do not necessary serve a national interest. Given that this research project focuses on the budget itself at a macroeconomic and semi-macroeconomic level, the political deliberation (including the issuance of vetoes by the president that were overridden by Congress), is considered outside the scope of this research project. Therefore, in the context of this research project – the congressional budget resolution is considered to equal the federal budget. When spoken of the federal budget, this implies the concurrent budget resolution adopted by Congress.

Still, at a (semi)macroeconomic level, the differences between the president's budget and the congressional resolution are of interest to this research project. It is analyzed whether internal and external factors influence the president's budget and the congressional resolution differently, or lead to different policy decisions by both actors. It is also expected that the urge of individual members of Congress to serve their local interests will create an upward pressure on the congressional budget resolution, raising the levels of expenditure above the levels proposed by the president. Furthermore, it can be analyzed whether the president's budget is in fact 'dead on arrival' (see appendix II) when submitted to Congress at a (semi)macroeconomic level. To this end, the results for both the president's budget and the congressional resolution are presented.

Intervening variables

The following variables were identified to be intervening variables in the conceptual model: internal factors and external factors.

- Internal factors

The intervening variable 'internal factor' is operationalized by two indicators: actors in the US political system and fiscal policy.

- (Actors in) the US political system

Theoretical definition: the political system is a system dealing with matters concerned with acquiring or exercising power within a group or an organization (Oxford Advanced Learner's Dictionary, 1995). A detailed description of the US political system is presented in appendix II.
Operational definition: the two main political actors participating in the US political system, being the president of the United States and Congress.

- President: the person that filled the position of the president of the United States between 1996 and 2006. These persons were: President William J. Clinton (1996 – 2000) and President George W. Bush (2001 – 2006).
- Congress: the House of Representatives and the Senate combined. In this research project, the House of Representatives and the Senate are considered one entity, being Congress (see also operationalization of 'congressional budget resolution').

Behavior of the actors in the US political system is analyzed through the level of political conflict, between the president and Congress and at an individual level between the state and federal level. The level of political conflict is analyzed on the basis of partisanship in decision-making and popular approval rates. *Operational definition:* the party composition of the House of Representatives and the Senate between 1996 and 2006, level of bipartisanship in outlays on large budget functions, differences in expenditure between president's budget proposal and congressional budget resolution, competition between state and federal level, popular approval rates.

- Fiscal policy

Theoretical definition: a plan of action regarding economy and budget, statement of ideas regarding economy and budget, etc. proposed or adopted by a government, political party, business, etc. (Oxford Advanced Learner's Dictionary, 1995). Singh (2003) argues that topics such as job growth, income and welfare are included in fiscal policy.
Operational definition: incremental character of the outlays and revenues between 1996 and 2006, level of taxation between 1996 and 2006, development in outlays of both president and Congress between 1996 and 2006, development in economic growth, fiscal strategy applied by the president between 1996 and 2006.

The second intervening variable is 'external factors'. This factor is operationalized as follows.

- External factors: economic and political circumstances outside the political system

Theoretical definition: Schick (2007) argues that external factors that influence both the presidential budget proposal and the budget resolution are economic and political circumstances, media and interest groups. The operational definition is limited to the only elements included in this research project, being the economic and political circumstances.

o Economic circumstances

Operational definition: economic circumstances between 1996 and 2006 that influenced the economic situation of the United States.

o Political circumstances

Operational definition: political developments between 1996 and 2006 that influenced the decision-making process by the political actors involved in formulating the US federal budget.

The following chapter presents the results found in the empirical part of this research project, by testing the hypotheses formulated in this chapter – following the operationalization of concepts and variables presented above.

Chapter 3: The US federal budget – a case study

Government spending at federal, state and local levels consumes about 42% of the US gross domestic income. Federal spending takes up about 20% of all government spending, running up to a total of $ 2.902 trillion (fiscal year 2008) (Schick, 2007: 42). This chapter presents the case-study of the US federal budget. First the budget process is discussed, followed by an international comparison of the budget system. Third, the budget development from 1992 onwards is elaborated upon.

US federal budget process

The Constitution does not require the president to prepare a budget proposal. However, the presidential budget has become one of the major policy-making tools he has. The budget process offers him the opportunity to set out his vision; his political power lies in setting priorities for spending the scarce financial resources available. Each year before the first Monday in February he submits a comprehensive plan to Congress, formulating national priorities, identifying policy tradeoffs, and specifying the level of borrowing – if any – needed to finance the spending package (Gosling, 2009). This is called the President's Budget. The presidential budget proposal is established in a decentralized manner. Agencies – in Wildavsky's (2001) terms, the 'advocates' – formulate a proposal for the following fiscal year, in which they describe their policy plan and request for the financial means to execute this plan. OMB – the presidential advisory agency for financial and economic affairs, and in Wildavsky's (2001) terms the 'guardians' – reviews the agency request in the fall, after which it gives a recommendation on program and financial means required. It is, however, the president (with the help of the OMB) who determines which agency is awarded what funds.

The presidential budget is merely a request to Congress; federal agencies cannot spend money or initiate programs based on this budget proposal. The presidential budget is the starting point for congressional deliberation. Often, the president's budget is declared 'dead on arrival' the moment he submits it to Congress (Schick, 2007). The president's budget does, however, provide a framework for political deliberation in Congress (respondent 1 in interviews).

Congress's role – as legislature – is to react to the president's budget proposal. Congressional budget action takes place within four sets of committees: budget committees, authorizing committees, appropriations committees and revenue committees (Schick, 2007: 55). The budget committees formulate an alternative plan for the president's budget proposal. This is the so-called budget resolution. This resolution sets forth congressional budget priorities for the next fiscal year. It specifies the budget totals (total revenue, budget authority, outlays, surplus or deficit, public debt) and allocates financial means to about twenty functional categories. The budget committees can, therefore, be considered the guardians of the congressional budget process. The authorizing and appropriations committees, subsequently, report on the direct spending and discretionary spending respectively proposed in the budget resolutions. These two committees can be considered the advocates of the congressional budget process. The revenue committees report on the revenues included in the resolution. The Houses each adopt their own resolution, after which they deliberate on a joint resolution, the so-called concurrent congressional budget resolution. The final step in the process is that the president signs or vetoes the 20 functional categories included in the concurrent congressional resolution. If the president issues a veto, a deliberation process between president and Congress takes place. When the president and Congress have found a joint solution, then the federal budget is signed by the president and the fiscal year can commence.

The US budget process and the role of the different actors is discussed in detail in appendix II.

US federal budget in an international context

If we are to compare the US system to the OECD international norms (see appendix II for the complete data), the following information can be provided. The US budget process itself proves to take up much more time than the OECD-average: up a total of 20 months, while on average the budget drafting process takes up between seven to fifteen months at maximum. The US budget is by far the longest process in the OECD-framework.

Table 3.1: duration of the budget drafting process (OECD, 2007)

5 months	7 months	8 months	9 months	10 months	12 months	13 months	14 months	15 months	20 months
3.3%	10.0%	6.7%	16.7%	10.0%	30.0%	10.0%	3.3%	3.3%	3.3%

As stated above, the role of the Executive is important in the US budget process; he holds budget authority and has the power to veto the budget package. Based on the OECD-survey, it can be concluded that the role of the US Executive is much more important than in the average OECD-member state; in 83.3% of all OECD-countries, the Ministry of Finance holds budget authority, while in only 3.3% of all OECD-countries the executive holds this position. Furthermore, in only 10% of OECD-member states the Executive has veto power with regard to the budget package.

Table 3.2: comparison of location budget authority (OECD, 2007)

Budget authority		
Parties identified	Result	US situation
Ministry of Finance	83,30%	
Office of the Chief Executive	3,30%	X
The Central Budget Authority is split between two or more agencies	6,70%	
Other	6,70%	

Also the role of the legislature differs. Congress takes more time to formulate a budget resolution than the average legislature: four months more than the average number of 6 months. Also, Congress has no limitations in amending the president's budget proposal and has no targets or ceilings with regard to expenditure. The results presented above show that in no more than 20% of all member states fiscal limits are in place.

The process of formulating the congressional budget resolution also deviates from average; this is partly caused by the US political system. In only 16.7% of all OECD-countries, the two chambers have equal powers over the budget, comparable to the US case. However, in 40% of all countries, the legislature is unicameral, while in one-third of all countries there are two chambers, but the lower chamber is dominant in the budgetary process.

Table 3.3.: relative power of legislative chambers over budget process (OECD, 2007)

Relative powers of chambers over budget	**Number of countries**	**Percentage (of the whole sample)**
The Legislature is unicameral	12	40.0%
There are two chambers with equal powers over the budget	5	16.7%
There are two chambers but only the lower chamber is involved in the budget process	6	20%
Both chambers are involved in the budget process but the lower chamber can overrule the upper chamber	4	13.3%
Other	3	10%

In the US system, in both Houses a single budget committee formally considers the budget aggregates and sectoral committees consider spending for sector specific appropriations. Sixty percent of all OECD-countries do not know a single budget committee. Of the countries that do know such a committee, in 75% of the cases only the Lower Chamber has such a committee.

However, the US process is comparable to the OECD-average where the dominance of the congressional decision-making is concerned: like in the US, in 53.3% of all countries the legislature's budget is incorporated in the government's budget proposal without any changes. In this respect, the US budget is comparable to the international standards.

Table 3.4: comparison on role of legislature (OECD, 2007)

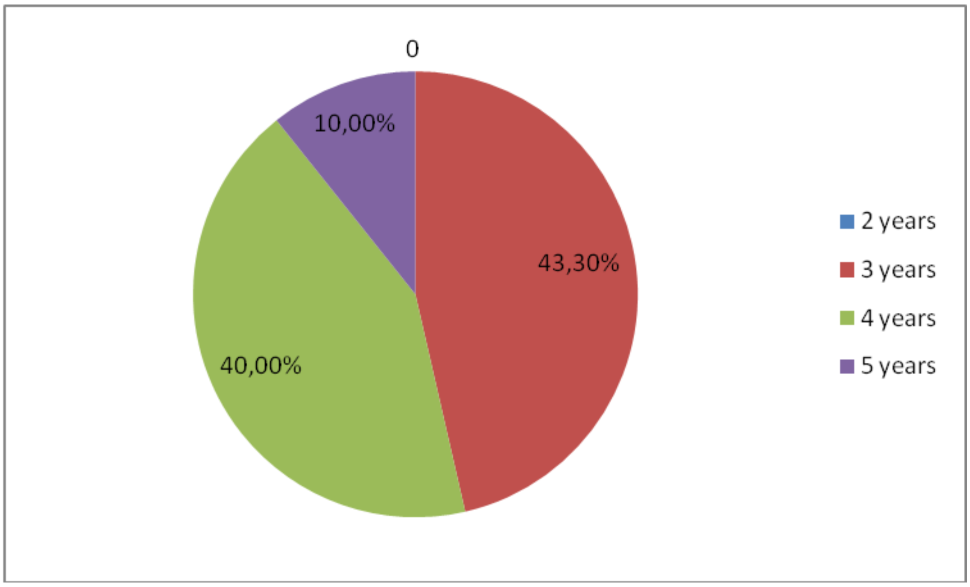
Role of legislature		
Roles identified	Result	US situation
Legislature prepares budget and Central Budget Authority includes it in Government's budget proposal without changes	53.3%	X
Legislature is subject to the same procedures and policies as any other governmental organization	26.7%	
Legislature prepares its budget independently	6.7%	
Other	13.3%	

Also with regard to the contents of the budget, differences can be identified between the US budget process and the average in the OECD-framework. First, economic assumptions are made by a more 'objective' institution, being an institution affiliated to the Legislature. This is the case in 10% of all OECD member states. In half of the countries, the Ministry of Finance is responsible for formulating economic assumptions.

Table 3.5: comparison on role in formulating economic assumptions (OECD, 2007)

Economic assumptions		
Roles identified	Result	US situation
Central budget authority	13.3%	
Ministry of Finance	50%	
Prime minister's office	3.3%	
Independent government body	10%	X
Private sector	6.7%	
Other	16.7%	

Second, expenditure estimates are made on a longer term (5 years instead of an average of 3 to 4 years), and are not limited by targets or ceilings. This differs from international standards in that the US budget focuses on longer-term expenditures, covering a whole presidency. Other OECD-member states focus on short-term expenditure goals.



Graph 3.1: multi-year expenditure (OECD, 2007)

Third, the Economic assumptions and fiscal estimates are not made public. As such, they do not form part of the public deliberation, but are for limited use to the parties involved in the US budget process. In 36.7% of all OECD-countries, the economic assumptions are not made public. However, in the rest of the countries the information is provided in a different number of ways (see table 3.6).

Table 3.6: are economic assumptions made public? (OECD, 2007)

Made public?	Result	US situation
No	36.7%	X
Yes, but only to certain parts of the Legislature	23.3%	
Yes, it is publicly available on request	36.7%	
Yes, it is published	3.3%	

It can be concluded that the US budgetary system differs quite a lot from international standards and norms. This especially goes for the roles of the actors – the president and Congress – in the budget process. First of all, the position of the Office of the Executive is quite unique. The veto-power the Executive holds, is known in only a limited number of OECD-member states. Also, the fact that the Executive holds the budget authority is not according to the OECD average. The role of the legislature, in that the legislature's amendments to the presidential budget proposal are accepted without changes, is comparable to other OECD-member states. However, the fact that Congress can limitlessly amend the presidential proposal is comparable to only a fifth of all member states. Also the fact that Congress has its own budgetary office, is rather unique and known in only 10% of all member states. The length of the budget process also deviates from average; the budget process in the US takes about 20 months, compared to twelve months on average.

Budget before 1996: The road to the Balanced Budget Act of 1997

Over the years, the US budget process has been subject to reforms to further improve the process. Appendix II provides an overview of the reforms that have been introduced since 1974. As stated in chapter 1 of this research paper, the starting point of this research project is the Balanced Budget Act of 1997.

President Clinton is known to have been an advocate of balancing the budget before his days 'in the office'. His presidential campaign centered around economic renewal, using the slogan 'It's the economy, stupid!' to communicate this policy focus. His top two priorities in this strategy were to control the budgetary deficit and to introduce a public investment revolution (Morgan, 2009: 161). On his accession in 1992, the CBO forecasts were that the budget would escalate dramatically, reaching a deficit of $ 653 billion by fiscal year 2003, or 7% of the GDP. President Clinton was firmly committed to bringing the deficit under control. Between his election and his inauguration, his priority shifted from public investment to deficit reduction (Gosling, 2009). In the first months of his presidency, President Clinton proposed an economic plan that contained a number of cuts and savings on defense and an increase in taxes. This latter policy was a clear change from his presidential campaign promise of cutting taxes for middle-class families (Morgan, 2009). The Republicans fought the president on the contents of his proposal; where the president opted for high revenues, higher taxes and preservation of social programs such as Medicare, the Republicans opposed the high revenues, higher taxes and wanted to cut social programs (Morgan, 2009: 176).

The President subsequently invested a huge part of his political capital to pass the budget bill in the reconciliation stage of the budget process, the Omnibus Budget and Reconciliation Act (OBRA). The act opted a deficit reduction of $432.9 billion over five years through revenue enhancement, a cut in entitlement funds and a tax-raise for the 20% highest income groups. It received a minimal approval of two votes – 218 to 216 – in the House of Representatives. To get the Senate to vote for the bill, President Clinton agreed to establish a bipartisan commission to propose ways of controlling mandatory programs (Morgan, 2009).

The slow economic recovery and the too ambitious policy agenda of the president led to a Republican win during the mid-term elections of 1994. During their campaign, the Republicans 'closed a Contract with America'. The Contract with American entails that if the Republicans would win a majority in Congress, they would pass eight reforms and ten bills. The reforms were: 1) require all laws to apply to the rest of the country also apply to Congress, 2) select a major, independent auditing firm to conduct a comprehensive audit of Congress for waste, fraud or abuse, 3) cut the number of House committees and committee staff, 4) limit the terms of all committee chairs, 5) ban the casting of proxy votes in committee, 6) require committee meetings to be open to the public, 7) require a 3/5 majority vote to pass a tax increase, 8) guarantee an honest accounting of the federal budget by implementing zero base-line budgeting. The ten bills that were proposed, introduced significant changes, such as a balanced budget requirement, tax cuts for small businesses, families and seniors, social security reform, welfare reform, etc (Gingrich, Gillespie & Schellhas, 1994).

Both Congress and the President supported the objective of reaching a balanced budget, but fought a heavy political battle on how to reach this balanced budget. The 1994 elections, however, proved to be a turning point in the political battle on the balanced budget. During the 1995 and 1996 budget processes, both parties refused to compromise; it climaxed in government shutdown. During the budget process for the 1996 federal budget, the president used his veto three times, creating three government shut downs and fourteen continuing resolutions (Gosling, 2009).

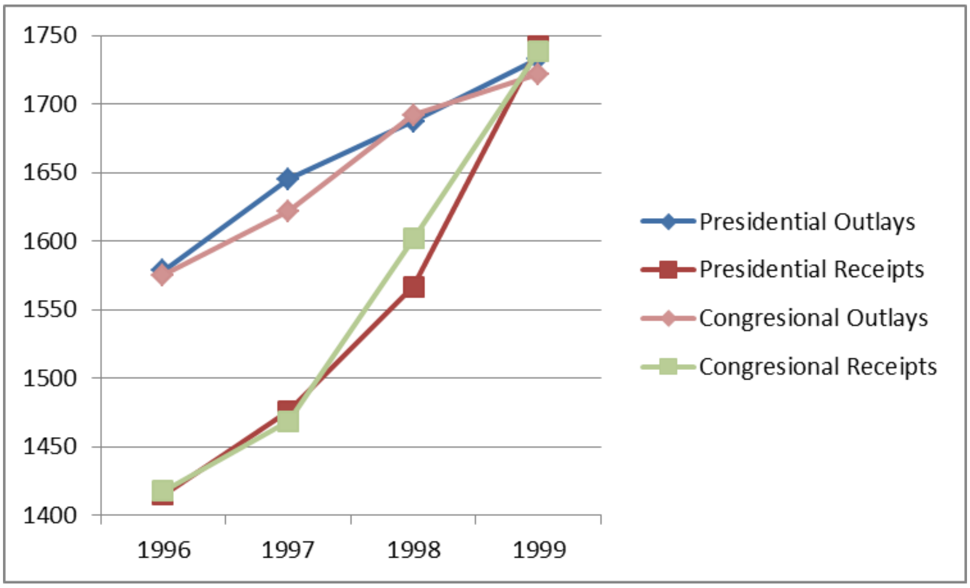
The crucial factor in the battle on the balanced budget was who would win the support of the public. It was President Clinton who won, as public opinion blamed the Republicans for the shutdowns. Republican insistence on defining the balanced budget fight as one over political values rather than over fiscal responsibility worked to the president's advantage. President Clinton advertised his balanced budget plans underlining his wish to protect the elderly, safeguard Medicaid and other anti-poverty programs, etc. He got the debate back onto Democratic values (Morgan, 2009). The adversaries in the budget confrontation of 1995 settled their differences through compromise in 1996. President Clinton had greater satisfaction as he was given what he wanted. However, both parties were left with an established framework to formulate a bipartisan plan to reach a balanced budget. The result would be the Balanced Budget Act, that was signed into law on August 5, 1997 – this is the starting point of this current research project.

Development of the US federal budget between 1996 and 2006

This research project focuses on the period 1996 to 2006. Between 1996 and 2006, the federal budget was found to develop as follows.

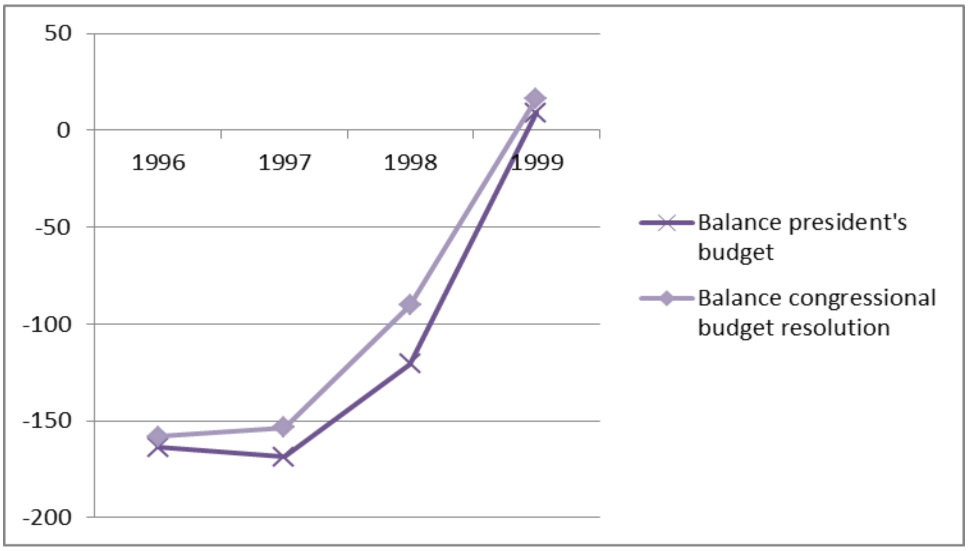
President Clinton: 1996 to 1999

Between 1996 and 1999, President Clinton held the Office of the President of the United States. The following graph presents the development on both the presidential budget proposal and the congressional budget resolution. Outlays on both the president's budget and the congressional resolution show a steady increase. The graph shows that no cut-back in expenditure was realized during these years – neither on the president's budget nor in the congressional budget resolution. Receipts also show a continuous growth and grow much faster than outlays during these years. Both revenues and outlays present comparable trends.



Graph 3.2: total outlays and revenues on president's budget and congressional budget resolution between 1996 and 1999. Differences between the revenues on the president's budget and the congressional budget resolution are caused by the use of different numbers – OMB and CBO respectively.

Graph 3.2 shows that between 1996 and 1998 outlays exceed revenues; this implies that a deficit existed on the budget. In 1999, however, revenue levels are higher than the outlays, indicating that a budget surplus was realized. Graph 3.3 confirms these findings; the graph shows that the balance on both the president's budget and the congressional budget resolution improves, from a deficit of -$164 billion on the president's budget and -$158 billion on the congressional resolution in 1996 to a surplus on both budgets in 1999.



Graph 3.3: budget balance on president's budget and congressional budget resolution between 1996 and 1999

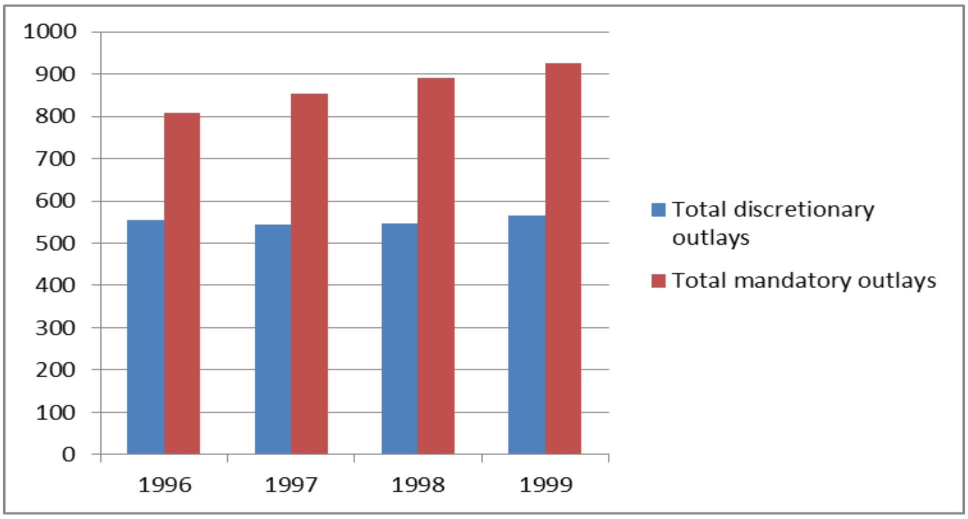
In appendix II, two types of spending on the budget were identified (Gosling, 2009):

- mandatory entitlements, which the government is obliged to provide to all persons who legally qualify for federal assistance have the right to receive it – thus limiting the financial flexibility of the budget, as part of the budget needs to be spent regardless of the policy choices made;
- and discretionary spending, being the flexible part of the budget that can be appropriated annually to the policy priorities set for the subsequent year.

The following graphs present more detailed information on the outlays on both the president's budget and the congressional budget resolution.

President's budget

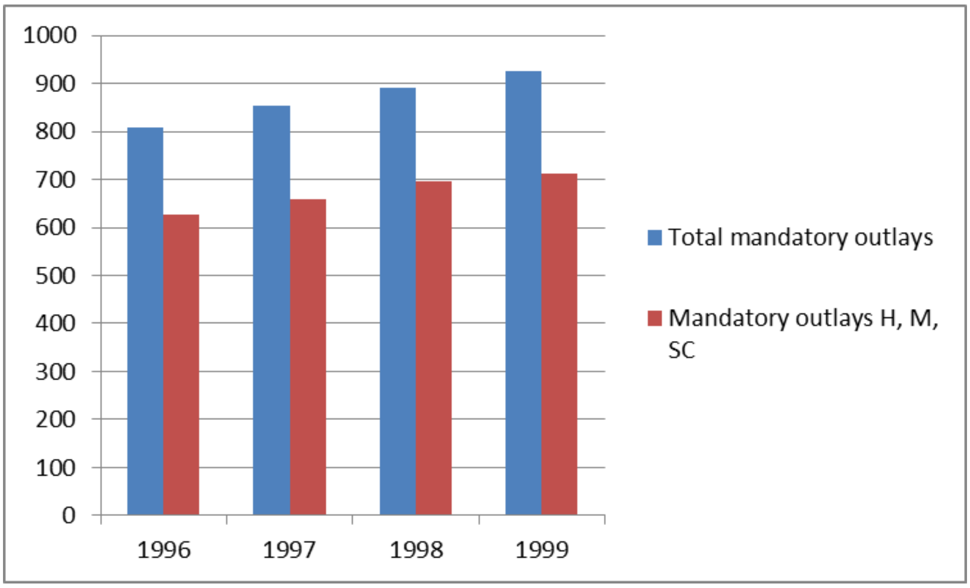
The following graph divides the total outlays between mandatory spending and discretionary spending on the president's budget.



Graph 3.4: total discretionary spending and total mandatory spending on president's budget between 1996 and 1999

The graph indicates that mandatory spending increases slightly, while discretionary spending is kept stable. The graph also demonstrates that mandatory spending is considerably higher than the totals on discretionary spending. This implies that more than half of the president's budget is set; the flexible means are limited to a small portion of the total spending cap. The stable numbers in discretionary spending – the part of the budget he was able to influence – seem to imply that the president chose to limit expenditure.

Graph 3.5 demonstrates what part of the total mandatory outlays is spent on health (including Medicaid) (H), Medicare (M) and social security (SC). The graph shows that the mandatory spending on these budget functions presents a similar growth pattern to the total mandatory spending.



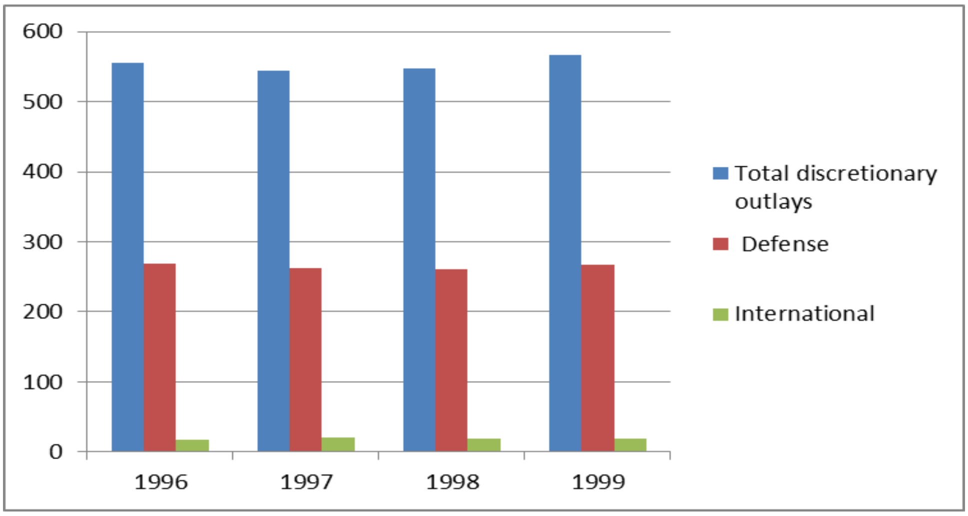
Graph 3.5: total mandatory outlays compared to mandatory outlays on budget functions health (incl. Medicaid), Medicare and social security between 1996 and 1999 (in $ billion).

The following table shows the numbers on mandatory outlays for the budget functions national defense, international and homeland security between 1996 and 1999. The differences between total mandatory spending and discretionary spending on these three budget functions are significant and can, therefore, not be presented clearly in a graph. The table shows that mandatory spending on these budget functions is low and does not significantly influence the total mandatory outlays. The budget function 'homeland security' did not yet exist in these years.

Table 3.7: overview of mandatory outlays on president's budget for budget functions national defense, international and homeland security between 1996 and 1999 (in $ billion)

	1996	1997	1998	1999
Total	808	855	890	925
National defense	-8	-4	-1	-1
International	-1	-5	-4	-4
Homeland security				

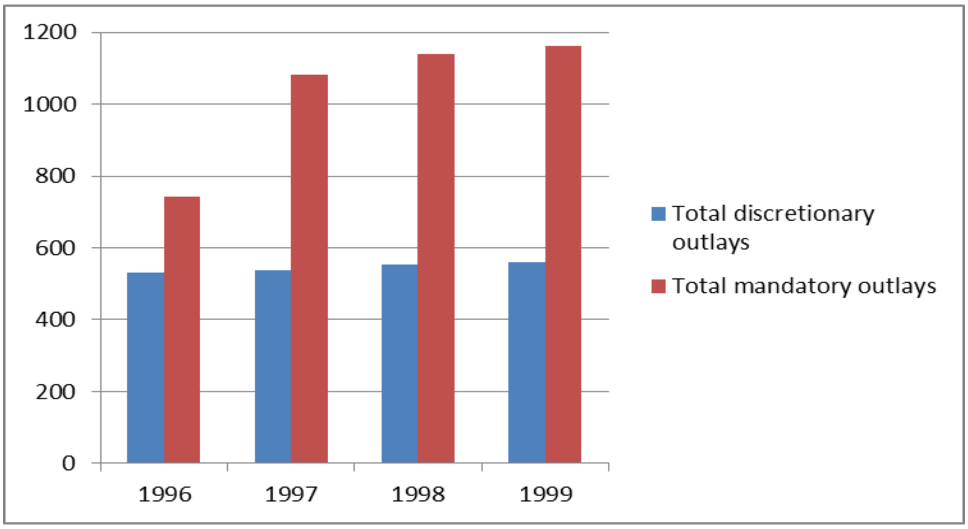
Discretionary outlays on the president's budget increased just slightly, from $ 555 billion in 1996 to $ 566 billion in 1999 (see also graph 3.6). The following graph shows that the discretionary outlays on the budget functions 'defense' and 'international' present a comparable development and remain remarkably stable. Discretionary outlays form about half of the total discretionary outlays and will, therefore, be of influence on the total discretionary spending. Given that the discretionary spending on the budget can be freely appropriated, it is concluded that the president has actively chosen to limit this spending – both on the total and on these two specific budget functions.



Graph 3.6: total discretionary outlays compared to discretionary outlays on budget functions national defense and international between 1996 and 1999 (in $ billion)

Congressional budget resolution

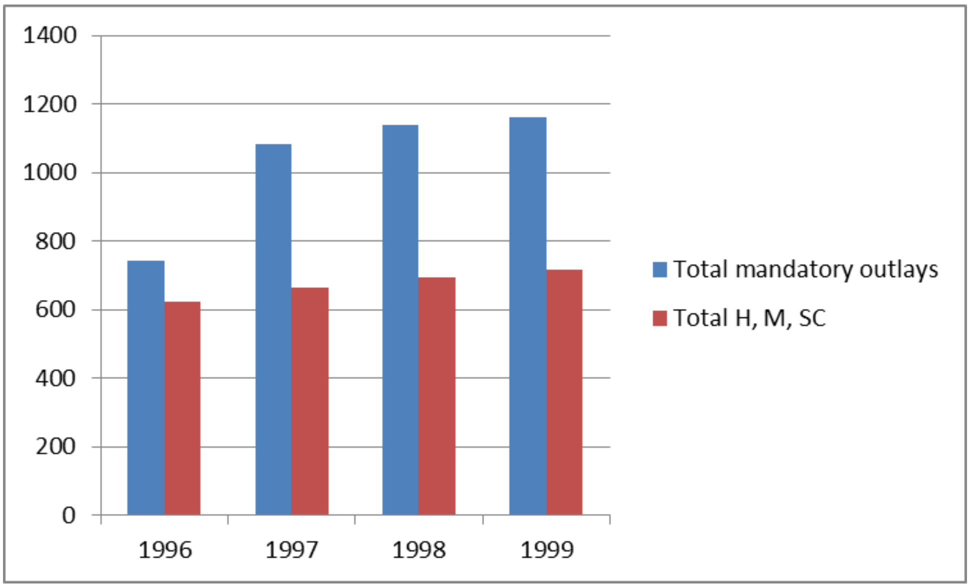
If we are to analyze these same data for the congressional budget resolution, the following graphs can be presented.



Graph 3.7: total discretionary and mandatory outlays on congressional budget resolution between 1996 and 1999 (in $ billion)

Graph 3.7 shows the total mandatory and discretionary outlays on the congressional budget resolution between 1996 and 1999. The graph indicates that mandatory spending has increased quite rapidly while the discretionary outlays remain stable between 1996 and 1999.

Graph 3.8 illustrates the portion of the total mandatory spending that is allocated to the budget functions health (incl. Medicaid), Medicare and social security. Comparable to the president's budget, the mandatory outlays on these three budget functions grow at a comparable rate to the total mandatory outlays until fiscal year 1999.



Graph 3.8: total mandatory outlays on congressional budget resolution compared to mandatory outlays on budget functions health (incl. Medicaid), Medicare and social security between 1996 and 1999 (in $ billion).

Table 3.8: overview of mandatory outlays on congressional budget resolution for budget functions national defense, international and homeland security between 1996 and 1999 (in $ billion)

	1996	**1997**	**1998**	**1999**
Total	744	1084	1139	1161
National defense	1	-1	-1	-1
International	5	-4	-5	-4
Homeland security				

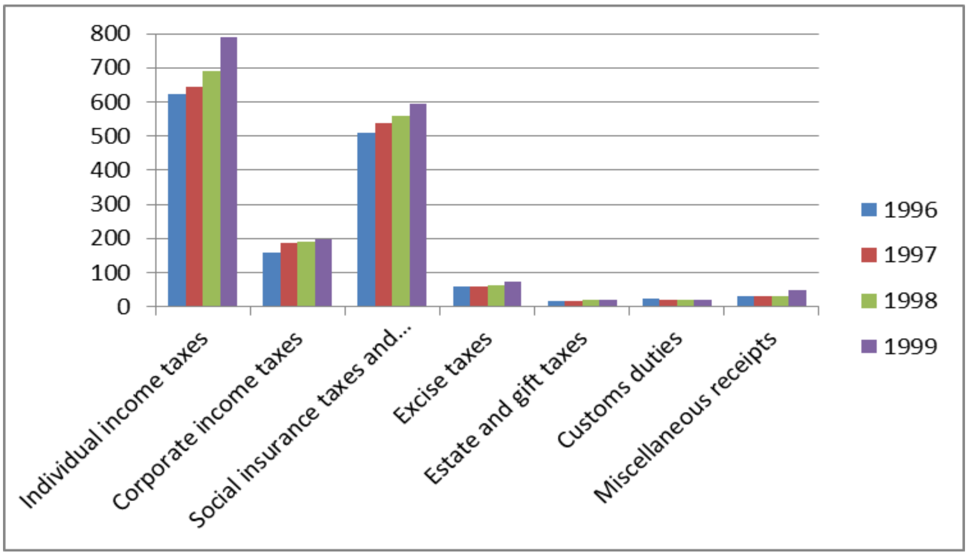
The mandatory outlays on the budget functions national defense, international and homeland security are neglectable and do not influence Congress' mandatory outlays. They are presented in table 3.8. However, with regard to discretionary spending, these budget functions are relevant. The following graph gives an indication of the total discretionary spending on the congressional budget resolution that is allocated to these three budget functions.

Graph 3.9: total discretionary outlays on congressional budget resolution compared to discretionary outlays on budget functions national defense, international and homeland security between 1996 and 1999 (in $ billion)

The graph shows that the discretionary spending on the budget functions national defense and international is about half of the total discretionary spending. The relative portion of the total spending remains stable between 1996 and 1999; this might – comparable to the president's budget – be an explicit choice of Congress in an attempt to limit government spending.

Revenues

The following graph presents more detailed information on the development in revenues between 1996 and 2006. Given the similarity in data between the president's budget and the congressional budget resolution, and given the fact that in the context of the research project the concurrent congressional budget resolution is considered equal to the federal budget, the following graph presents the revenues on the congressional budget resolution.



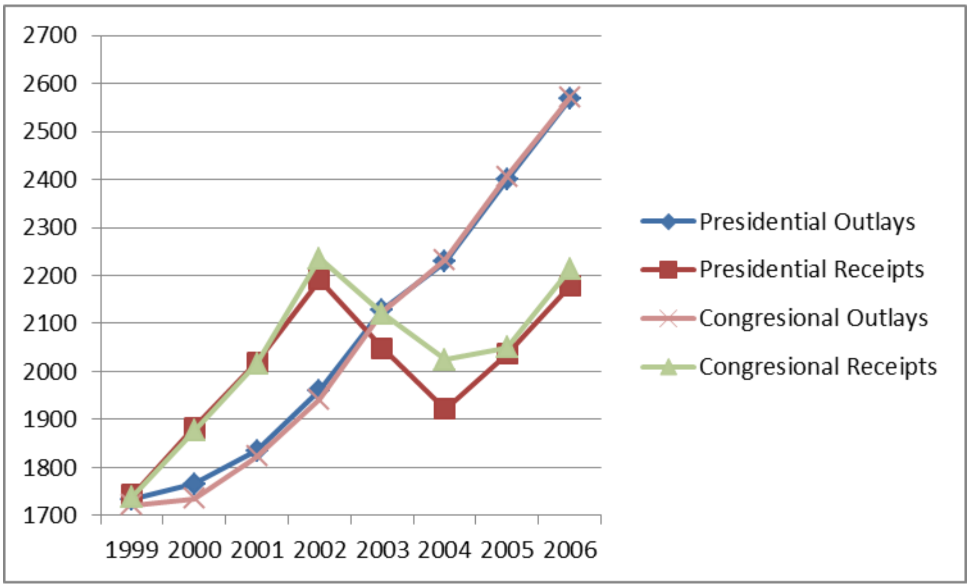
Graph 3.10: revenues on the congressional budget resolution between 1996 and 1999 (in $ billion). Given that in this research project the budget resolution is equal to the federal budget, it is considered that the revenues on the budget resolution are the revenues equal to revenues on the federal budget.

The graph indicates that revenues on all tax categories increased between 1996 and 1999. The individual income taxes show a remarkable increase; this can be considered an indication of the economically favorable circumstances – lower levels of unemployment implies that more people have a job and, therefore, more people pay income taxes. This increases the governmental revenues.

President George W. Bush: 2000 to 2006

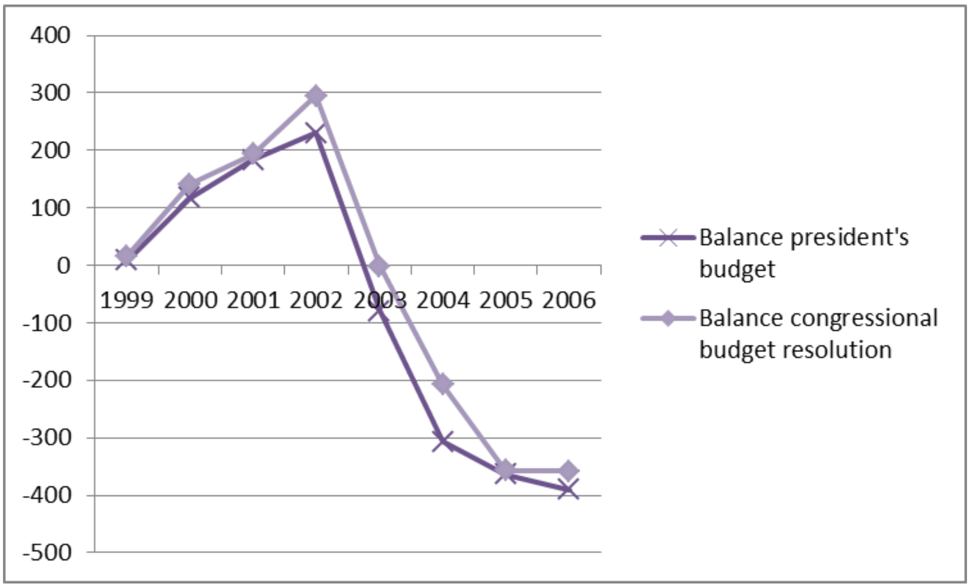
In 2000, President Bush took over the Office of the President. The following graph presents the outlays and revenues on both the president's budget and the congresssional budget resolution. The presidency of George Bush started in 2000; however, the year 1999 is also included in the graphs to be able to determine the development in the budget between the presidencies of Clinton and Bush.

Up to 2002, a surplus exists on the federal budget. From 2002 onwards, revenues on the budget drop. However, outlays on both budgets increase rapidly, causing a deficit to return on the budget in 2003.



Graph 3.11: total outlays and revenues on president's budget and congressional budget resolution between 1999 and 2006. Differences between the revenues on the president's budget and the congressional budget resolution are caused by the use of different numbers – OMB and CBO respectively.

Graph 3.12 confirms these findings; while between 2000 and 2002 the surplus slightly increases, in 2003 the deficit returns and increases rapidly to a tremendous deficit of about $-400 billion.

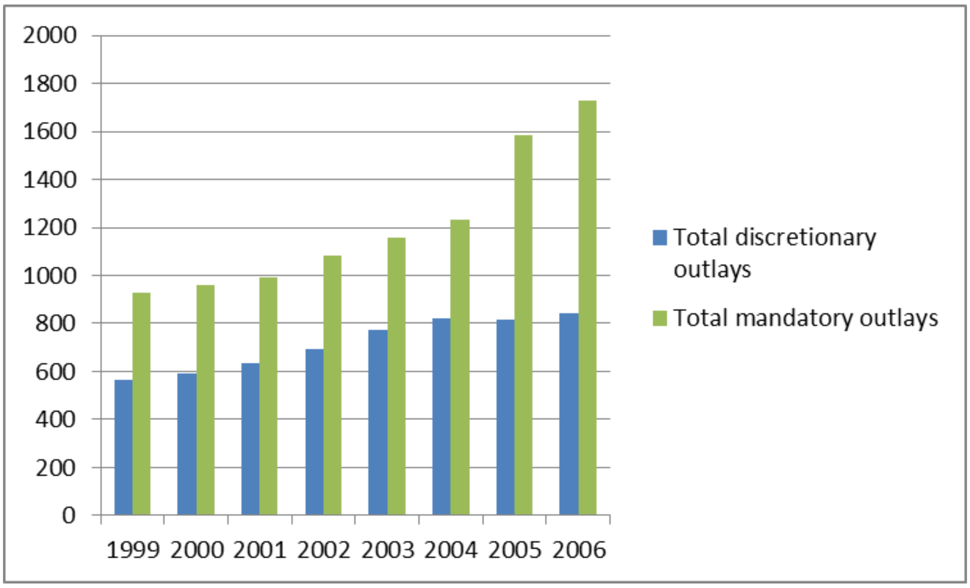


Graph 3.12: budget balance on president's budget and congressional budget resolution between 1999 and 2006

In order to look closer at what created the deficit, the budget functions relevant to this research project are analyzed in more detail. The president's budget and the congressional budget resolution are considered separately.

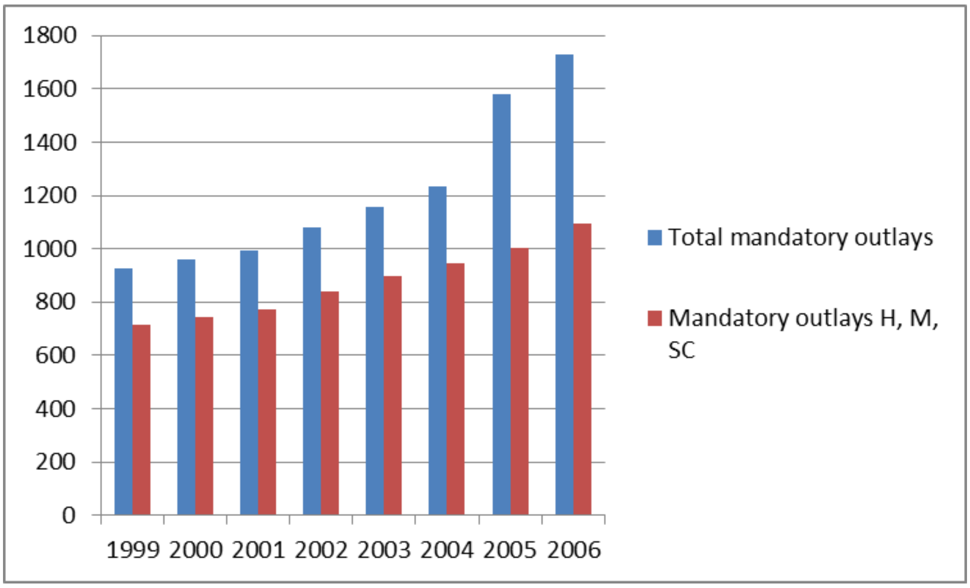
President's budget

The following graph presents the total discretionary spending and total mandatory spending on the president's budget between 2000 and 2006. The graph shows that discretionary outlays increase considerably between 2000 and 2004, after which they remain stable. Mandatory spending, on the other hand, increases tremendously, with an extreme in 2005 and 2006.



Graph 3.13: total discretionary and mandatory outlays on president's budget between 1999 and 2006 (in $ billion)

To determine what caused the increase in mandatory spending, the three largest budget functions on mandatory spending are considered. Graph 3.14 demonstrates what part of the total mandatory outlays is spent on health (including Medicaid) (H), Medicare (M) and social security (SC). The graph shows that the mandatory spending on these budget functions differs from the growth pattern in the total mandatory spending; mandatory outlays on these three budget functions increase at a stable pace and do not present a sudden increase in spending in 2005.



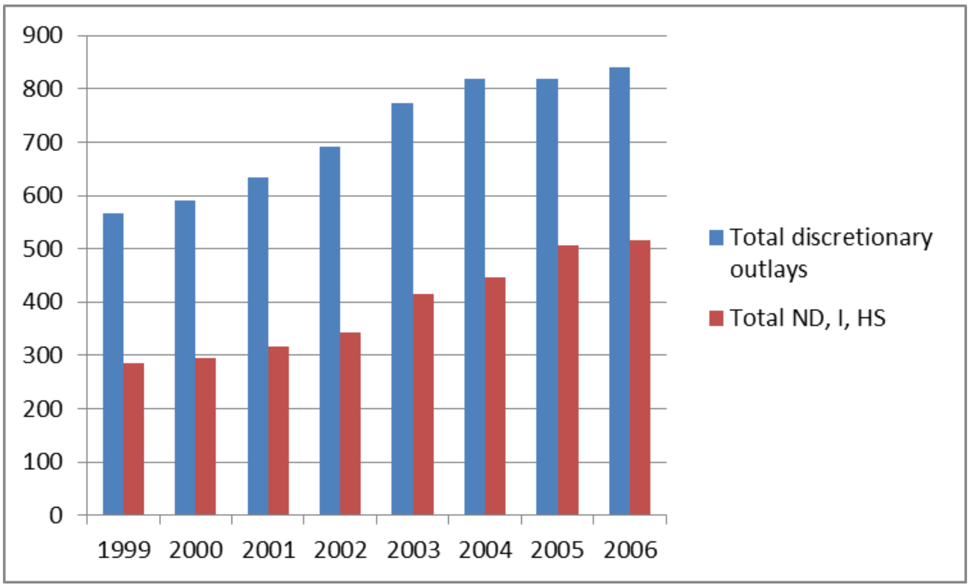
Graph 3.14: total mandatory outlays compared to mandatory outlays on budget functions health (incl. Medicaid), Medicare and social security between 1999 and 2006 (in $ billion).

The following table shows the numbers on mandatory outlays for the budget functions national defense, international and homeland security between 1999 and 2006. Again, the differences between total mandatory spending and discretionary spending on these three budget functions are significant and can, therefore, not be presented clearly in a graph. The table shows that mandatory spending on these budget functions is low and does not significantly influence the total mandatory outlays.

Table 3.9: overview of mandatory outlays on president's budget for budget functions national defense, international and homeland security between 2000 and 2006 (in $ billion)

	1999	2000	2001	2002	2003	2004	2005	2006
Total	925	959	993	1081	1159	1234	1582	1728
National defense	-1	-1	-1	0	-12	1	1	3
International	-4	-4	-4	-4	-1	0	-2	-2
Homeland security					-5	-1	-1	-2

In 2003, the budget function 'homeland security' is created. Again, the mandatory outlays on this new budget function are very limited. The discretionary outlays on these budget functions need to be considered to be able to provide a complete picture. The following graph visualizes the discretionary spending on the budget functions defense, international and homeland security compared to the total discretionary spending.

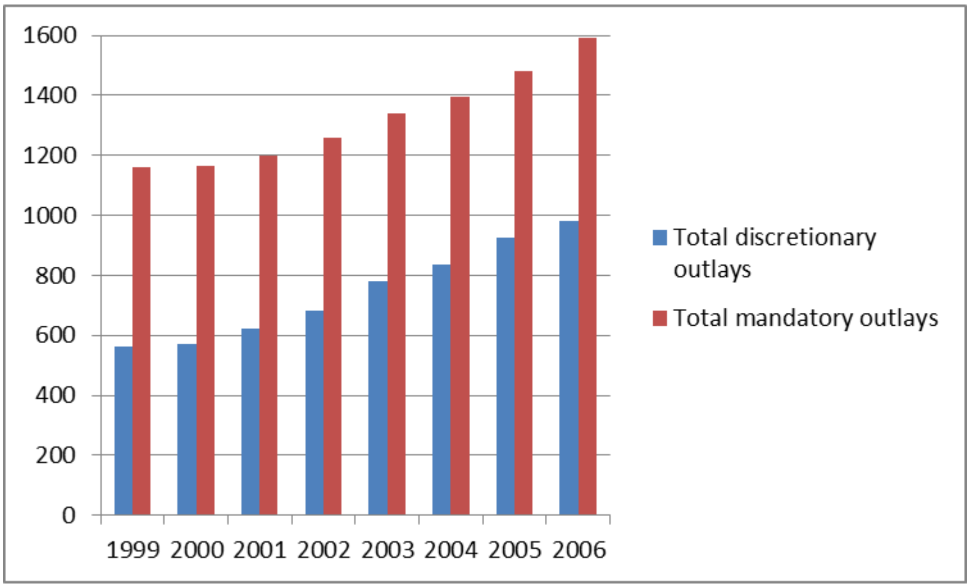


Graph 3.15: total discretionary outlays on congressional budget resolution compared to discretionary outlays on budget functions national defense, international and homeland security between 1999 and 2006 (in $ billion)

The graph indicates that discretionary outlays on the three budget functions increase rapidly between 2000 and 2006 and become a relatively larger part of the total discretionary spending. This discretionary spending continues to increase even though the total discretionary outlays remain stable between 2004 and 2006. This implies that the increase in spending on these three budget functions is a deliberate choice of the president.

Congressional budget resolution

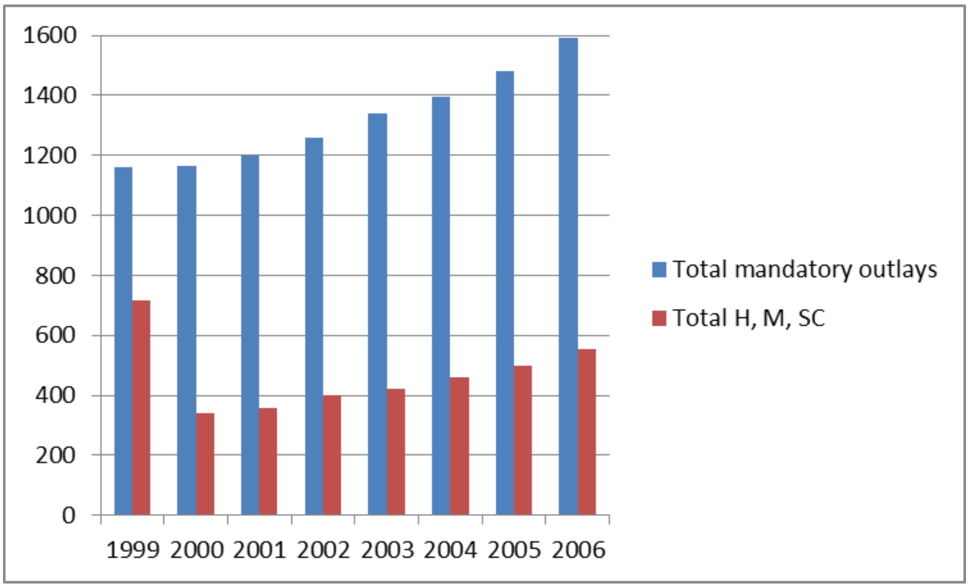
If we are to analyze these same data for the congressional budget resolution, the following graphs can be presented.



Graph 3.16: total discretionary and mandatory outlays on congressional budget resolution between 1999 and 2006 (in $ billion)

The graph shows that both the total mandatory spending and the total discretionary spending present a continuous increase. From fiscal year 2001 onwards the discretionary spending increases relatively fast and takes up a relatively larger share of the total outlays on the congressional budget resolution.

Graph 3.17 illustrates the portion of the total mandatory spending that is allocated to the budget functions health (incl. Medicaid), Medicare and social security. The graph presents a slight increase in mandatory spending; however, compared to the fiscal year 1999, a considerable cut-back in the mandatory outlays on health, Medicare and social security is visible. This remarkable cut-back can be explained as follows: from fiscal year 2000 onwards, the social security trust funds are no longer on-budget but are put off-budget, in order to enable a balanced budget. Until today, these trust funds remain off-budget on the congressional budget resolution. Should they be on the on-budget overview, mandatory spending would in total be higher and mandatory spending on the budget function social security would proportionately take a larger share of the mandatory spending. The data presented here, are, therefore, not the complete mandatory outlays. However, given that the budget resolution is the unit of analysis in this research project, only the data included in the budget are included in the analysis.



Graph 3.17: total mandatory outlays compared to mandatory outlays on budget functions health (incl. Medicaid), Medicare and social security between 1999 and 2006 (in $ billion).

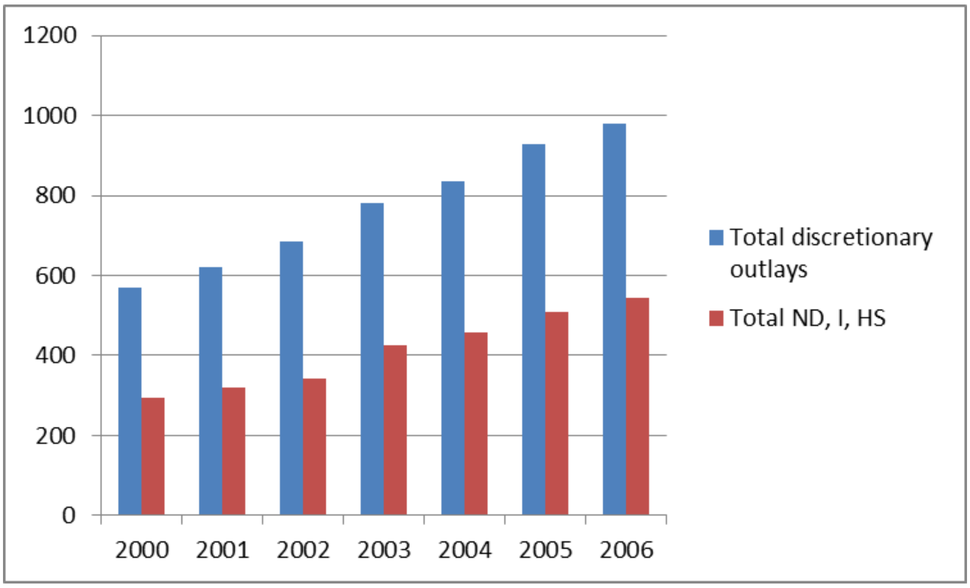
The total mandatory outlays increase rapidly during these years; the outlays on the three budget functions almost double. The relative outlays on these three functions compared to the total mandatory outlays also remain stable; this seems to imply that the outlays on the budget functions Health and Medicare increase disproportionately.

Table 3.10 presents the mandatory spending on the budget functions defense, international and homeland security. Again, the mandatory outlays on the budget functions national defense, international and homeland security are neglectable; the discretionary spending, however, is of interest (see graph 3.18).

Table 3.10: overview of mandatory outlays on congressional budget resolution for budget functions national defense, international and homeland security between 2000 and 2006 (in $ billion)

	1999	2000	2001	2002	2003	2004	2005	2006
Total	1161	1164	1201	1258	1341	1396	1479	1591
National defense	-1	-1	-1	0	0	0	2	3
International	-4	-4	-4	-4	-3	-3	-3	-3
Homeland security					-1	-1	1	6

The graph shows that the discretionary spending on the budget functions national defense, international and homeland security is about half of the total discretionary spending. The relative portion of the total spending increases slightly between 1996 and 2006, from 52% in 1996 to 55.5% in 2006.



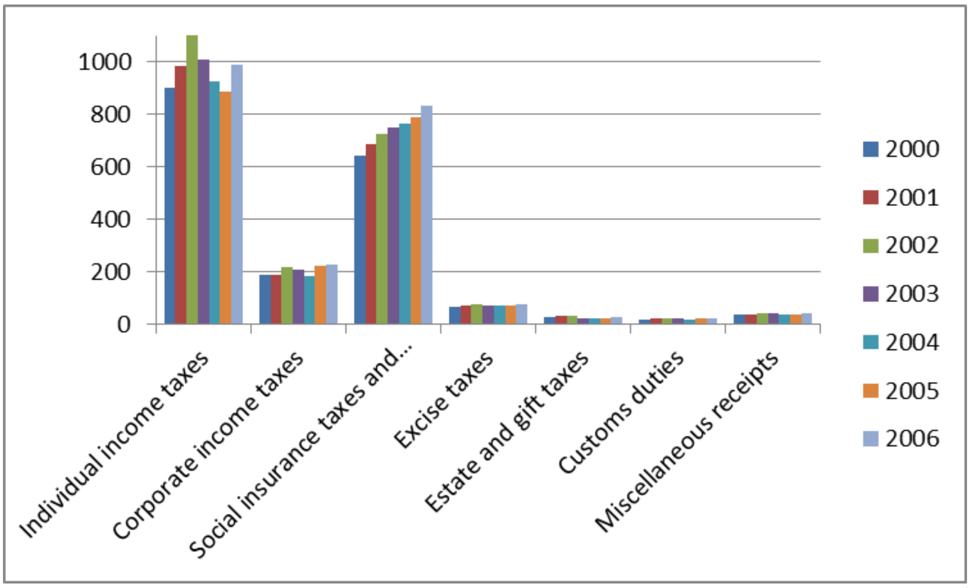
Graph 3.18: total discretionary outlays on congressional budget resolution compared to discretionary outlays on budget functions national defense, international and homeland security between 2000 and 2006 (in $ billion)

Increase in discretionary spending on these three budget functions almost equals the increase in total discretionary outlays on the concurrent congressional budget resolution.

In summary, it can be concluded that during 2000 and 2006, spending on the budget increased tremendously. The discretionary spending on the budget functions ‘national defense’, ‘international affairs’ and ‘homeland security’ contribute to the increase in outlays.

Revenues

The following graph presents the revenues on the federal budget from 2000 to 2006. The graph shows that revenues on all taxations increase between 2000 and 2002, but then revenues drop for three subsequent years. In 2006, the tax revenues recover slightly. The worsening economic circumstances are visible in this graph as well; the tax revenues on social security increase continuously, while revenues on individual income taxes drop.



Graph 3.19: revenues on the congressional budget resolution between 2000 and 2006 (in $ billion). Given that in this research project the budget resolution is equal to the federal budget, it is considered that the revenues on the budget resolution are the revenues equal to revenues on the federal budget.

Conclusion

In this case-study, the budget development between 1996 and 2006 is discussed. In this period, two presidents held the Office of the President: President Clinton and President Bush. The presidency of Clinton is characterized by increasing mandatory spending, but limited discretionary spending. There is no cut-back in expenditure, but as revenues increase a balanced budget is reached in 1999. The budgets of the president and Congress are remarkably similar. The presidency of Bush is characterized by increased spending, both in discretionary and in mandatory spending. Revenues decline. The budget deficit returns in 2003. The congressional budget resolution presents a similar trend.

Jager, Jepma and Kamphuis (1998) argue that government policy takes its effect with a two-year delay. This is in fact found in the graphs presenting the budget between 1999 and 2006. Between 2000 – the first year of Bush's presidency – and 2002, discretionary spending on defense and international affairs remain stable and do not start to increase until 2003 (see graphs 3.9 and 3.18). The revenues on the budget continue to increase between 2000 and 2002 and only experience a fall in 2003 (see graphs 3.10 and 3.19). Furthermore, the problems President Obama – President Bush's successor – was faced with at the beginning of his term are a clear example of this theory. Respondent 1 in the interviews states that President Obama was forced to take stimulating measures to save the economy, thus increasing the budget deficit even further, otherwise the US economy would have collapsed. One year later, the deficit has developed to such heights that the finances need to be rehabilitated, to ensure a financially healthy situation in the future. He adds that the budget deficit developed under president Bush will haunt the US economy for decades.

In chapter two, a number of hypotheses were formulated based on the theories discussed. The following chapter provides insight into these hypotheses with regard to the results of this research project.

Chapter 4: Hypotheses

In chapter two, it was stated that a budget can have three outcomes: a surplus, a balanced budget or a deficit. The factors fiscal policy, externalities (both political and economic) and the US political system (level of political conflict, actors in the system) were identified to influence the outcome of the budgetary process. In this chapter, the extent to which these factors explain the budget outcome between 1996 and 2006 is analyzed. It is also determined which of these factors is of predominant influence. Based on the theoretical framework presented in chapter two a number of hypotheses were formulated regarding the expected results in this research project.

1. The US political system decreases the possibility of a balanced budget.
2. A Democratic president increases his expenditure. If his aim is to reach a balanced budget, he will raise taxes to compensate for the expenditure increase. A Republican president will lower taxes; if his aim is to reach a balanced budget he will need to lower government expenditure.
3. A balanced budget will only be sought for and reached in times of economic prosperity.
4. External circumstances (economic and political) is the predominant factor in explaining what kind of balance is reached on the US federal budget (balanced budget / surplus / deficit).

Analysis is presented per hypothesis; the results are grouped in such manner as to test the hypotheses.

Hypothesis 1: US political system

Hypothesis 1 is *The US political system decreases the possibility of a balanced budget.*

In chapter two, the political force was one of the forces identified by Saiz (2001) to determine whether and how a government interferes in the economy. The political system itself and the level of political conflict and competition between the actors – between state and federal level and between the political institutions at a federal level – were identified as factors in this political force. This hypothesis includes the independent variables in this research project – the president's budget proposal, the congressional budget resolution and the presidential veto – and provides insight into the role of one of the intervening variables identified, (the actors in) the US political system.

The US political system in an international context

Let us first consider the US political system itself. Both in chapter three and the appendices II and III the US political system and the US budget process are discussed in detail. In chapter three, the US political system was presented in the international context of the OECD norms for budget practices and procedures. It was found that the US federal budget process is quite unique and deviates from the mean. The main differences between the US system and the international mean concerned the position of the executive, the role of the legislature and the legal framework.

Does the political budget complicate reaching a balanced budget? The answer proves to be 'yes'. Respondent 2 confirms in his interview that the whole system is focused on maintaining the status quo. Due to the trias politicia, awarding equal powers to all three institutions in the system (including the judicial power), the president and Congress need each other to reach a decision; respondent 3 adds that they fight each other as equals, no one institution has the decisive vote. Does the political system itself explain the outcome of the budget? Based on the data presented in chapter three and appendices II and III, this question is tentatively answered with 'no'. The budgetary system and the roles of each of the political institutions in this process is laid down in the Constitution. The system itself can only be changed by constitutional amendment and up to now there is no one proposed amendment to which all actors have agreed. As such, the system remains unchanged and cannot explain the variance in budget balance between 1996 and 2006. The continuous budgetary reforms presented in appendix II, however, do imply that the budget process is a topic of political deliberation. The several budget acts adopted between the 1920s and the present indicate that the people involved in the budgetary process have tried to change the procedures (Morgan, 2009); this current research project, for example, is based on the Balanced Budget Act of 1997, in which measures were presented to reach a balanced budget in 2002. The behavior of the actors in the US political system and the extent to which they collaborate in reaching a certain (fiscal) policy objective may, therefore, explain the budget balance - their decisions determine the budget outcome. Further analysis of the actors in the system is required to provide a decisive answer.

The actors in the system: Levels of political conflict

The president versus Congress

In chapter three, the US federal budget process was discussed. Two main actors were identified: the president and Congress. The president is the guardian of the budget. In Congress, both guardians and advocates are found; this leads to much deliberation on the budget. It was argued (see chapter 2) that competition between the political institutions may be one of the forces that determine whether a government actively interferes in the economy – and thus tries to actively influence the budget outcome. Political institutions seek to maximize their profits (McNutt, 1996). Two political business cycles were identified that may explain why levels of political conflict may be higher or lower: the partisan political business cycle (when the president and majorities in the House and Senate are of different political color, this may inflict political conflict) and the opportunistic political business cycle (the opposition in Congress will either support the president or oppose him, dependent on his popular approval rates) (Hallerberg & de Souza, 2000: 4). Both cycles are analyzed further.

Partisan political business cycle

The first political business cycle concerns the level of political conflict between the president and Congress; to what extent is the president backed by a majority of his political party in either the House of Representatives or the Senate. Tables 4.1 and 4.2 provide an overview of the composition of the House and the Senate between 1996 and 2006.

Table 4.1: development in composition House of Representatives between 1996 and 2006

House of Representatives

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Dem	206	206	211	211	212	212	204	204	202	202	202
Rep	228	228	223	223	221	221	229	229	232	232	233
Ind	1	1	1	1	2	2	1	1	1	1	0

Table 4.2: development in composition Senate between 1996 and 2006

Senate

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Dem	45	45	45	45	50	50	48	48	44	44	49
Rep	55	55	55	55	50	50	51	51	55	55	49
Ind	0	0	0	0	0	0	1	1	1	1	0

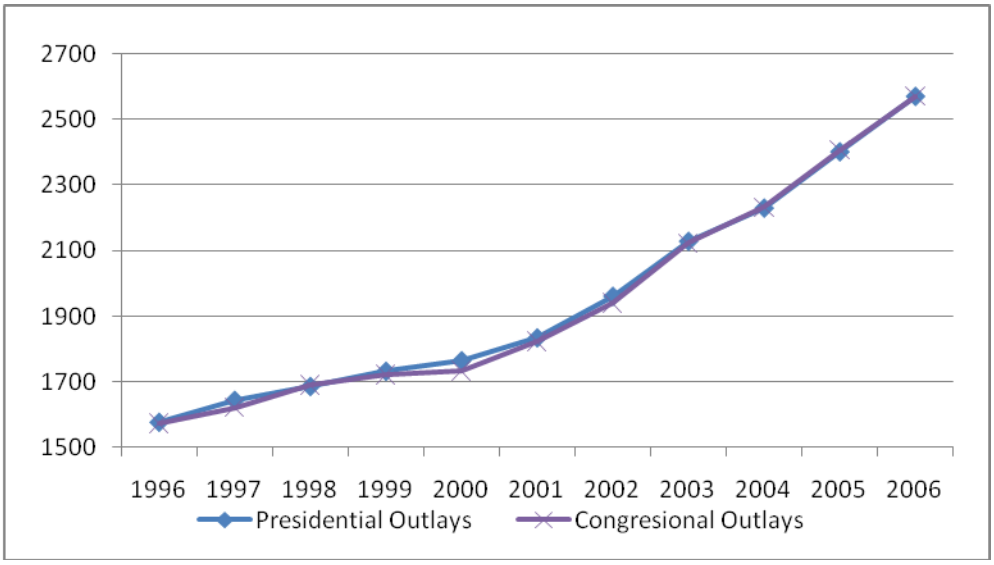
The tables demonstrate the changeability of the composition of Congress. To gain insight into the level of possible political conflict (Lev), a comparison can be made between the president's political party (Pres) and the majority party in Congress (Cong). This leads to the following table.

Table 4.3: level of political conflict between president and Congress

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Pres	D	D	D	D	D	R	R	R	R	R	R
Cong	R	R	R	R	R	R	R	R	R	R	R
Lev	High	High	High	High	High	Low	Low	Low	Low	Low	Low

The Democratic party in Congress had an electoral victory during the congressional elections of 1998, winning 5 seats in the House of Representatives. However, the Republican Party maintained its majority and President Clinton continued to face a hostile Congress. In 2000, President Clinton's last year, the Republican Party lost two seats, but the Democratic Party only grew one seat as an independent candidate obtained a seat. In 2002, the Republican Party wins a landslide victory in both the House of Representatives and the Senate. In 2003, the Democratic Party regains a number of seats in the Senate, but the House of Representatives is still dominated the Republican Party. In general, the Republican Party has held a majority during the whole period of analysis, and President Bush faced a friendly Congress during his years of presidency.

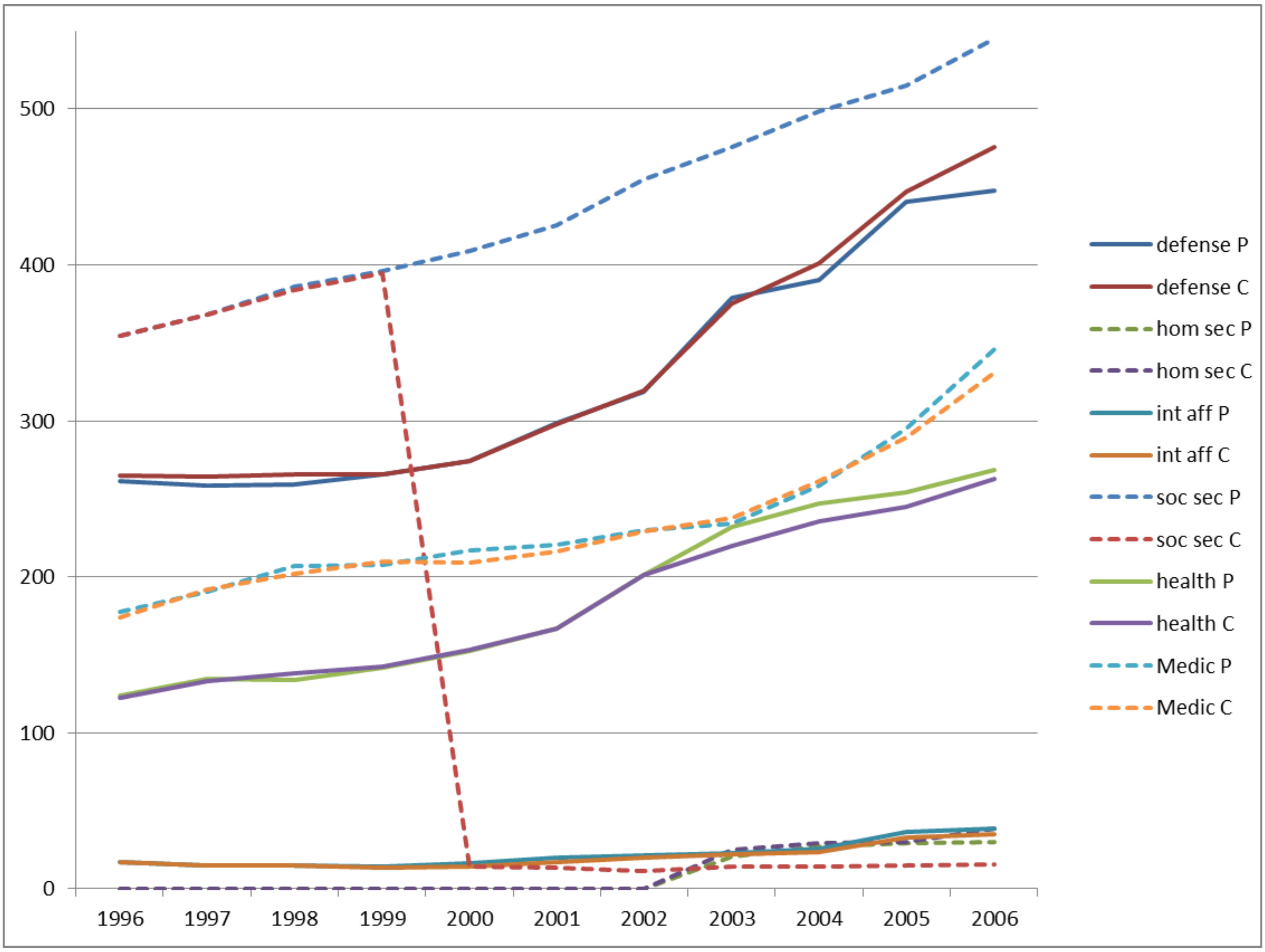
Do these levels of political conflict explain the variance in budget outcome between 1996 and 2006? Following the theory on the partisan political business cycle, the high levels of political conflict between 1996 and 2000 would have resulted in differences in expenditure between the president's budget and the congressional budget resolution. In chapter three, it was already found that both during the presidency of President Clinton and during the presidency of President Bush both budgets were remarkably similar. The following graph on the total expenditure on both budgets illustrates this.



Graph 4.1: total outlays on president's budget and congressional budgetary resolution between 1996 and 2006

Even though at a macro level the results may be comparable, differences may exist at a semi-macroeconomic level; graph 4.2 compares the total spending on both the president's budget and the congressional budget resolution for six budget functions: defense, international, homeland security, health, Medicare and social security. The graph indicates that on all budget functions, except for social security, the president and Congress spent comparable amounts of money between 1996 and 2006 – even in the period between 1996 and 1999, when the levels of political conflict were found to be high.

In chapter three it was concluded that the budget functions defense, international and homeland security have very limited mandatory spending; most part of the budget is discretionary. This implies that the means for these three budget functions are quite flexible, and subsequently, it implies that Congress and the president have willingly allocated similar amounts of money to these budget functions. The two institutions actively agree on these budget functions. Analyzing the outlays in itself, it can be concluded that up to fiscal year 2000, the outlays on defense where quite stable. From fiscal year 2001 onwards, however, defense spending increases tremendously, doubling in less than five years. The cause of this tremendous increase if further analyzed in answering hypothesis 3; for now, it can be concluded that the similarities in spending between the president and Congress are an indication of Congress' support for the president's policy.



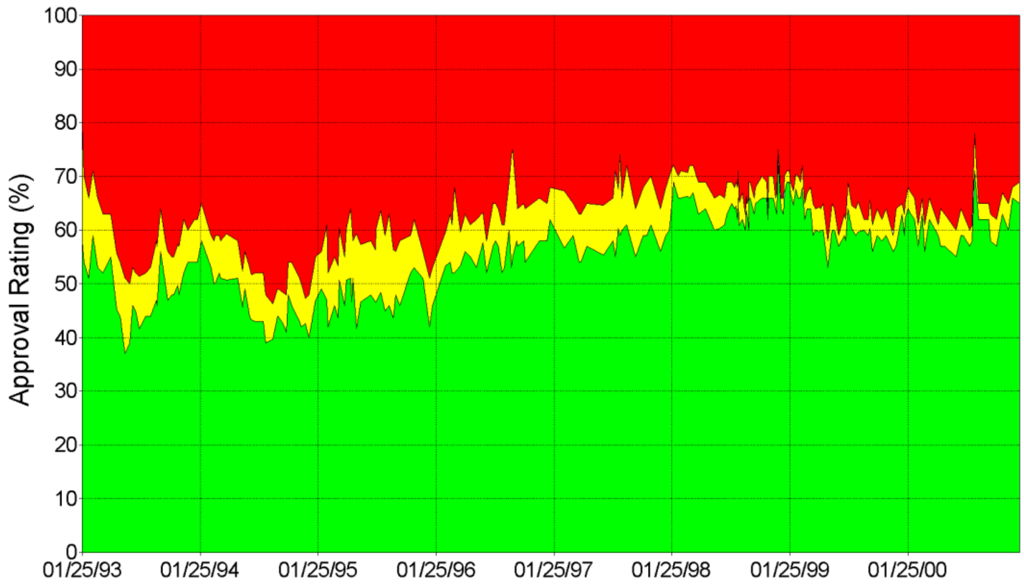
Graph 4.2: comparison of expenditure president and Congress on budget functions defense, homeland security, international affairs, social security, health and Medicare (P = president, C = Congress), between 1996 and 2006.

The differences on expenditure for the budget functions health and Medicare are also small. This can partly be explained by the high amount of mandatory spending in this budget function; the means for discretionary spending are limited, which minimizes the differences between both budgets. The results on social security, as presented in graph 4.2, are striking. For fiscal year 2000, Congress decided to keep the means for the social security trust funds off the budget, in order to maintain a balanced budget (see also chapter 3).

Given the results presented above, it is concluded that for the timeframe 1996 to 2006, the level of political conflict between the president and Congress is no indicator for the budget balance at a (semi)macroeconomic level[ii]. What, then, explains that, despite the high levels of political conflict between 1996 and 2000, outlay levels of both the president and Congress are remarkably equal? One explanation may be found in the opportunistic political business cycle.

Opportunistic political business cycle

The second cycle identifies the popular approval vote of the president as a factor for political conflict between president and Congress: the more popular a president, the less political conflict. The following images present the popular approval votes of both President Clinton and President Bush. First, the approval rates of President Clinton are analyzed.



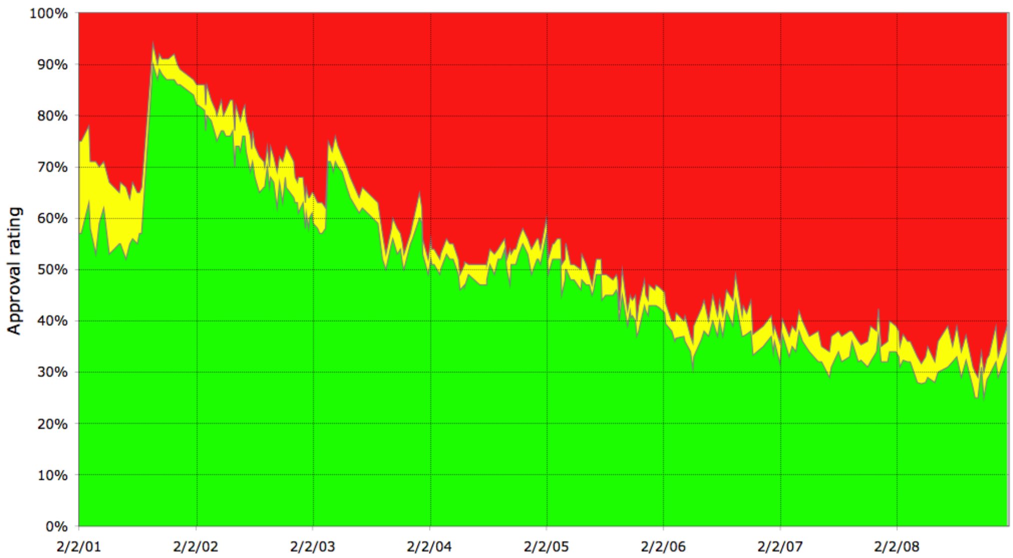
Graph 4.3: popular approval votes President Clinton (Gallup Poll, 2011).

As was already stated in chapter 3, in 1996 President Clinton's approval rates were relatively high, with approval scores of over 70% mid 1996. The Budget Balance Act of 1997 – the starting point of this current research project – was found to be the result of this popular approval; the president was backed by the people in his quest for a balanced budget, while the Republican Party lost public support. Still, President Clinton was faced with a hostile Congress during the whole second presidency, from 1996 to 2000. How are these approval rates reflected in the budget?

Graph 4.2 showed the expenditure on both the president's budget and the congressional resolution for the budget functions 'defense', 'international', 'homeland security', 'health', 'Medicare' and 'social security'. From 1996 to 1999, small differences are visible between the president's budget and the congressional budget resolution. However, for a hostile Congress, the bipartisanship on spending on all six budget functions is remarkable. The high approval rates of President Clinton may provide the explanation; the Republican majority in Congress did not wish to oppose a popular president. This finding supports the theory.

Respondent 1 in the interviews (see appendix VII) adds that the president's most important tool is to influence the public. The public responds to political debate; given that the president is more visible than the members of Congress, he will be able to direct public opinion. He will try to change public opinion towards his policy ideas; if he fails, he can conclude that the idea is too vulnerable to push through Congress and withdraw the proposal. He uses public opinion to test his political ideas. President Clinton actively tried to influence public opinion; he used his public support to push his agenda. Another argument brought up by respondent 1 is that in a honeymoon period, Congress will show more respect for a president's policy, thus not attacking him as badly. President Clinton is found to have deliberately used the honeymoon period of his second presidency to introduce his balanced budget policy. Not only did he enjoy high levels of popular approval, but in the honeymoon period Congress traditionally respects a president's policies more. Respondent 3 confirms these statements.

The following graph shows the approval rates for President Bush; in the early years of his presidency, his approval rates hit the ceiling, after which they cave in. Following the theory, it is implied that the approval rates of the president in the early years of the 21st century are an important reason for bipartisanship between the president and Congress. The Democratic opposition did not fight the president, but supported his policy because they did not want to oppose the popular president. Given that this popularity developed in the second year of his term, the honeymoon period does not seem to apply here. Furthermore, economic circumstances are not the reason for his popular success; in chapter three it was found that economic growth drops in the first years of his presidency. His success needs to be find in other factors; these factors are further analyzed when providing insight in hypothesis 3.



Graph 4.4: popular approval votes President Bush (Gallup Poll, 2011).

The opportunistic political business cycle seems to explain the bipartisan expenditure between the president and Congress. It, however, does not explain the variance on the budget between 1996 and 2000. The findings imply that popular approval rates correspond to economic prosperity; in turn, approval rates influence the level of political conflict between Congress and the president and will, therefore, influence the decision-making process. However, the outcome of the budget appears to be determined by other factors.

State versus federal level

In contrast to this collective perspective on the political dimension of decision-making discussed in the political business cycles, the theory of public choice focuses on the behavior of individual politicians. Individuals in politics seek to maximize their power and they want to increase the likelihood of their success (Cullis & Jones, 1998; Buchanan, 1986). Buchanan (1978) affirms that political parties and political individuals will always seek to maximize the number of votes for their party. They require the support of a large fraction of their electorate to maintain their position in Congress (Arrow, 1978). They, therefore, seek to 'earn political income' (Buchanan, 1978: 12), which is achieved by proposing and implementing policies with characteristics desired by citizens (Breton, 1978).

Saiz (2001) identified that political competition on individual level may occur between the state and federal levels of government. In the US political system, members of the House of Representatives serve two-year terms while members of the Senate serve six-year terms. The terms are staggered; every two years about one-third of the Senate is up for election. The two-year terms of the members of the House of Representatives cause that political agents focus on short-term goals and quick wins to ensure re-election at state level in the bi-annual election cycle. They will not be willing to make difficult policy decisions that may jeopardize their re-election. Also, members of Congress are elected politicians; their constituents expect them to represent their interests. As such, members of Congress will vote according to their state interests and will try to integrate these interests in policy plans. The president, acting on a federal level, forms a counterbalance. He formulates policy at a federal level and is expected to take the interests of all Americans into account. His policy is, therefore, at a more abstract level and generalized – with less detail for local interests. The fact that members of Congress try to meet local demands is expected to cause an upward pressure on the expenditure side of the congressional budget resolution, through processes of pork barrel and logrolling (Saiz, 2001; Morgan, 2009). Maximizing political income produces more and more investments – causing increasing 'waste' (Buchanan, 1978).

The respondents in the interviews confirm these theoretical statements. Respondent 1 argues that the increase in expenditure on the budget is a direct consequence of local interests. Politicians can strengthen their position when the budget is raised on budget functions that meet local interests. Respondent 3 adds that local interests make it impossible to cut-back in expenditure at a federal level; Members of Congress come to Washington to take, not to bring anything. They do not feel responsible for the federal budget, and do not have anything to win by diminishing expenditure. Furthermore, they all add a 'pet-project' to the budget, creating an upward spiral. If anyone can influence the budget, it is the president – his presidential budget proposal provides a framework for deliberation in Congress. "If the president would not present a proposal that can be used as a framework for the discussion, Congress would never be able to come to a concurrent budget resolution."

Based on the results presented in graph 4.2, it can be concluded that the expenditure on the budget does show a continuous growth. However, it was already concluded that the budget functions health, Medicare and social security consist mainly of mandatory spending. Furthermore, it was concluded that on the budget functions defense, homeland security and social security the expenditure on the congressional budget resolution is even lower than on the president's budget. At a (semi)macro-economic level, there does not appear to be an upward pressure and the interference of state interests at a federal level does not prove to be of influence. This may be explained by the caps that – at the (semi)macro-economic level – are put on the budget functions national defense , international and mandatory spending. At a microeconomic level, the contents of the budget functions – and the appropriation of means – may well be influenced by pork barrel and log rolling discussions. However, these discussions do not affect the total expenditure levels of the budget itself and of the budget functions, and are, therefore, not found or proved in the context of this research project. To determine the extent to which the tension between state and federal level influences the contents of the federal budget, further research is required.

Conclusion with regard to hypothesis 1

With regard to hypothesis 1, *the US political system decreases the possibility of a balanced budget*, the following can be concluded.

Reflecting on the theory, the results found provide contradictory proof regarding the theories discussed in chapter two. The results deny that partisanship enhances levels of political conflict; even though high levels of political conflict were expected between 1996 and 2000, the president and Congress were found to concur on the outlays on a number of major budget functions[iii]. At a (semi)macroeconomic level, political conflict does not prove to be a determining factor in realizing a balanced budget. These data do not help explain the variance on the budget outcome between 1996 and 2006.

However, the theory on the opportunistic political business cycle was confirmed. With regard to the opportunistic political business cycle, it was found that both President Clinton and President Bush (in the second year of his presidency) experienced high levels of popular approval. It was concluded that this can be considered an explanation for the low levels of political conflict found between the outlays on the president's budget and the congressional budget resolution. It was stated that economically favorable circumstances may explain the president's approval rates; economically health voters support the incumbent, while voters in economic distress chose the opponent. President Clinton also proved to use the honeymoon period of his second presidency to introduce a radical policy with the view of reaching a balanced budget. For President Bush, however, neither argument applies. The opportunistic political business cycle explains the comparable results found on the president's budget and the congressional budget resolution; it, however, does not explain the variance on the budget between 1996 and 2000. The outcome of the budget appears to be determined by other factors.

With regard to the hypothesis, it can be concluded that the US political system itself does seem to decrease the possibility of reaching a balanced budget. The US federal budget process is not representative for the international definition of budget processes. In developing the budget, there are no fiscal rules that place limits on fiscal policy. There are no expenditure targets or ceilings. There is no need to equal revenues and outlays; a deficit is a common characteristic of US budgeting. The trias politica in US politicas proves to complicate the political process; the parties have a hold on each other as no one institution has the decisive vote. The budgetary process itself is influenced by many factors – internal, such as the competition between state and federal level, but also external, by popular approval votes. High levels of bipartisanship were found in the outlays on the budget between 1996 and 2006. Bipartisanship is, however, no guarantee for reaching or maintaining a balanced budget. The results of this research project indicate that between 1996 and 2006 the president and Congress appropriated comparable amounts to defense, international affairs, homeland security, health and Medicare. This did not prevent that the budget surplus of the late 1990s / beginning 2000 turned into a deficit a few years later. The US political system may decrease the possibility of a balanced budget, but it does not seem to be of decisive importance. Also, the political factor does not help explain the variance on the budget outcome between 1996 and 2006.

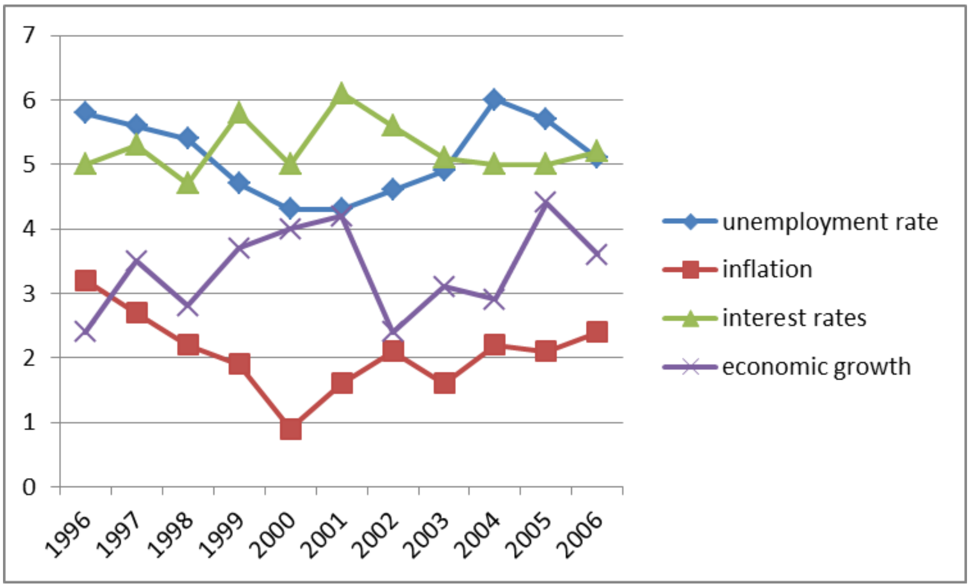
Still, based on the results presented above, it is concluded that hypothesis 1 - *The US political system decreases the possibility of a balanced budget* – can be confirmed.

Hypothesis 2: Presidential fiscal policy

Hypothesis 2 is *A Democratic president increases his expenditure. If his aim is to reach a balanced budget, he will raise taxes to compensate for the expenditure increase. A Republican president will lower taxes; if his aim is to reach a balanced budget he will need to lower government expenditure.*

In chapter two, three forces were identified that determine whether a government actively interferes in the economy. One of these forces is the political norms held by the actors in the policy process. It was stated that fiscal policy strategies are ideologically determined by the political color of the leadership in office; Liberals and Republicans prefer a free market and will instinctively fight inflation, while Democrats value government intervention to realize more stability and equality in society (McNutt, 1996; Saiz, 2001).

There is much discussion, however, whether government intervention actually influences the economy. On the one hand, theorists (e.g., Niskanen, 1978; Lombardo and Sutherland, 2003) believe that government expenditure has little to no effect on the economy. On the other hand, theorists (e.g., Kopcke, Tootell and Triest, 2006; Hallerberg and de Souza, 2000) claim that changes in fiscal policy can be used to stabilize the economy or aggregate economic activity. Kopcke, Tootell and Triest (2006) argue that the following factors can be affected by fiscal policy: interest rates, household consumption, national savings, investment / business spending and capital inflow from abroad. These factors will be included in the analysis presented below. The results of this research project are expected to provide support for one of these views. To provide a framework for the analysis, the following graph presents the economic circumstances between 1996 and 2006.



Graph 4.5: economic circumstances between 1996 and 2006

The intervening variable 'fiscal policy' is the topic of interest in this hypothesis. The questions central to this analysis is whether the fiscal policy applied by the president between 1996 and 2006 was of influence on the budget balance in this timeframe, whether Congress supported the president and whether the fiscal policy applied can explain the budget outcome? In chapter three, the development of the budget was discussed; in presenting the results on hypothesis 2, reference is made to the data presented in chapter three.

Presidential fiscal policy

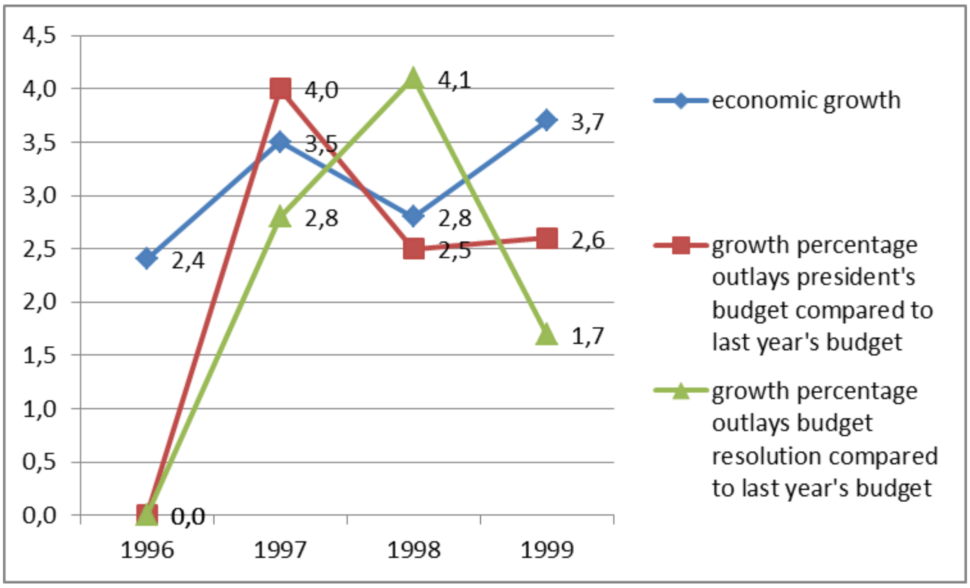
Schick (2007: 85) argues that 'each president brings to the office personal characteristics, along with political skills and weaknesses. Some are interested in financial matters and welcome the opportunity to make revenue and expenditure policy; others distance themselves from the budget and its myriad decisions and details'. Wildavsky (2001) argues that a president has three instruments at its disposal to shape his fiscal policy: a raise in taxes, a cut-back in expenditures and a strengthening of economic growth. The fiscal policy of each of these two presidents and the consequences for the budget balance are analyzed below; appendix IV presents the involvement of President Clinton and President Bush in the budgetary process.

President Clinton

President Clinton was known for his active involvement in the budget process. At the beginning of his presidency, Clinton appointed the budget – to fight the deficit – the highest legislative priority for his presidency. President Clinton's involvement focused on the expenditure side of the budget, sending change-oriented budgets to Congress and actively wielding his veto-pen when Congress proposes bills that ran counter to his budgetary preferences. His decisions concern the size and direction of government, the composition of tax legislation and the shape of policy initiatives. He was known to be actively involved in the negotiation process with Congress on matters in dispute (Schick, 1994).

President Clinton's economic plan to fight the deficit, that was introduced in the first years of his presidency, did include a number of measures to raise taxes. Taxes on the wealthiest 1.2% of Americans were raised. The plan also imposed a new energy tax on all Americans and subjected about a quarter of those receiving Social Security payments to higher taxes on their benefits. Furthermore, the earned income tax credit (EITC) – a refundable tax credit for families with children – was expanded to relief low-income families. And, finally, economic conditions and policies were adapted to attract investors in the bond markets; it was aimed to decline long-term interest rates. As already argued in presenting the results on hypothesis one, the success of President Clinton's plan is that it was introduced in the honeymoon period of his second presidency. Even the Republican opposition, weary of tax raises, supported the president's plan. The congressional support for the plan was a 218 to 216 vote in the House (Morgan, 2009).

In chapter three, the development of the budget during the Clinton era was analyzed. It was found that President Clinton chose not to implement a cut-back in expenditure to fight the deficit. However, he did chose to limit budget expenditure to decrease the budget deficit and Congress appears to have followed his example. To confirm these findings, the following graph compares the levels of economic growth to the growth percentages on both the president's budget and the congressional resolution.



Graph 4.6: comparison between economic growth rates and growth percentages in outlays on president's budget and congressional budget resolution between 1996 and 1999 (in %). NB: in 1996 the growth percentage on outlays compared to the previous year is 0%, this is the first year of analysis.

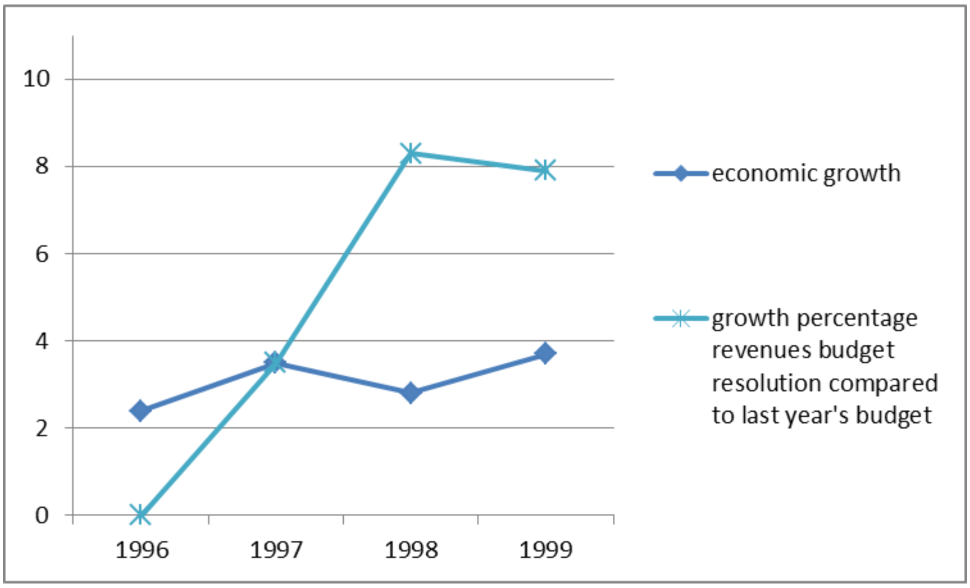
Graph 4.6 shows that economic growth percentages were comparable to the growth percentages in outlays on both budgets; this implies that both the president and Congress chose to limit their spending to the levels of economic growth, in an attempt to diminish the budget deficit.

A third fiscal instrument is the stimulation of economic growth. Economic growth can be stimulated through inflation, through an increase in government spending or through a decline in interest rates. President Clinton's plan to fight the deficit did include measures to stimulate the economy, such as to improve the investment climate of the US.

Graph 4.5 showed that interest rates fluctuate between fiscal years 1998 and 2002. This may be caused by measures taken by the to fight the deficit; by decreasing the interest rates, household consumption can be stimulated, while high rates of interest lead to higher levels of consumer savings. However, the fluctuation is the complete equal of the fluctuation in economic growth and it is, therefore, concluded that the interest rates are influenced by economic growth and not so much by the president's fiscal policy. Government expenditure was limited to the levels of economic growth, while inflation decreased.

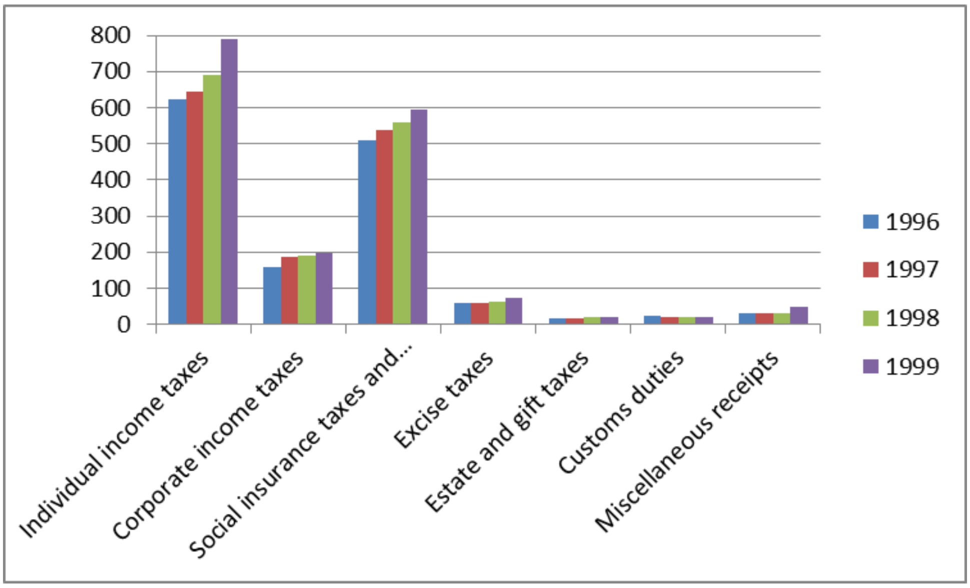
It can be concluded that the president chose to raise taxes and stimulate economic growth, while lowering his expenditures up to the levels of economic growth and not exceeding them. Congress is proved to follow the president's strategy. Did these instruments influence the budget balance?

It was already established that growth percentages in outlays on both the president's budget and the congressional budget resolution were equal to or lower than economic growth. With regard to the revenues, the following graph shows whether revenues exceeded economic growth. This can be considered an indication that revenues were influenced by fiscal policy.



Graph 4.7: comparison between economic growth rates and growth percentages in revenues on congressional budget resolution between 1996 and 1999 (in %). Given that in this research project the budget resolution is equal to the federal budget, it is considered that the revenues on the budget resolution are the revenues equal to revenues on the federal budget. NB: in 1996 the growth percentage on revenues compared to the previous year is 0% this is the first year of analysis.

The graph shows that in each year between 1996 and 1999 the growth percentages in revenues are higher than the economic growth percentage; in these years the revenues exceeded the revenues that would have been received based on the growth of the economy. This implies that other factors positively influenced revenues. These factors may be the tax increases and economic stimulation plan implemented by the president and supported by Congress. Higher levels of taxation lead to higher levels of revenues. Also, by improving the economic conditions for foreign investments in the country, new investors may have been attracted, increasing the incoming capital flow. To confirm this statement, the revenues on the budget need to be considered.



Graph 4.8: revenues on congressional budget resolution between 1996 and 1999. In this graph, the revenues are based on the congressional budget resolution – given that in this research project the budget resolution is equal to the federal budget, it is considered that the revenues on the budget resolution are the revenues equal to revenues on the federal budget.

The graph shows that the increased revenues mostly come from individual income taxes and social insurance taxes. These tax increases are a direct consequence of lower levels of unemployment, which in turn is a direct consequence of economic growth (this statement is confirmed in the interviews by respondent 2). However, President Clinton did increase taxation on the incomes of the wealthiest 1.2% of American people. Also, he increased taxes on the benefits received from social security, thus improving the benefits on the social insurance taxes and contributions. Although the favorable economic circumstances are an important factor in increasing the revenues on these two taxes, the president's fiscal policy plan may have very well contributed to the increase in revenues.

The increase in excise taxes, the taxes raised on the production of domestic companies, indicates that domestic production increased. This is also a sign of economic prosperity. Given that the domestic market was not a priority of the president's plan, it is concluded that this increase in domestic production can be ascribed to the favorable economic circumstances. The increase in revenues on the corporate income tax revenues, however, may be a result of the president's fiscal policy. These taxes are a direct result of a capital inflow from abroad, one of the priorities in the president's plan. If we are to consider the results presented above, it can be concluded that the president's fiscal policy influenced investment / business spending and capital inflow. The interest rates seem to be a direct result of the economic growth and cannot be ascribed to the president's fiscal policy.

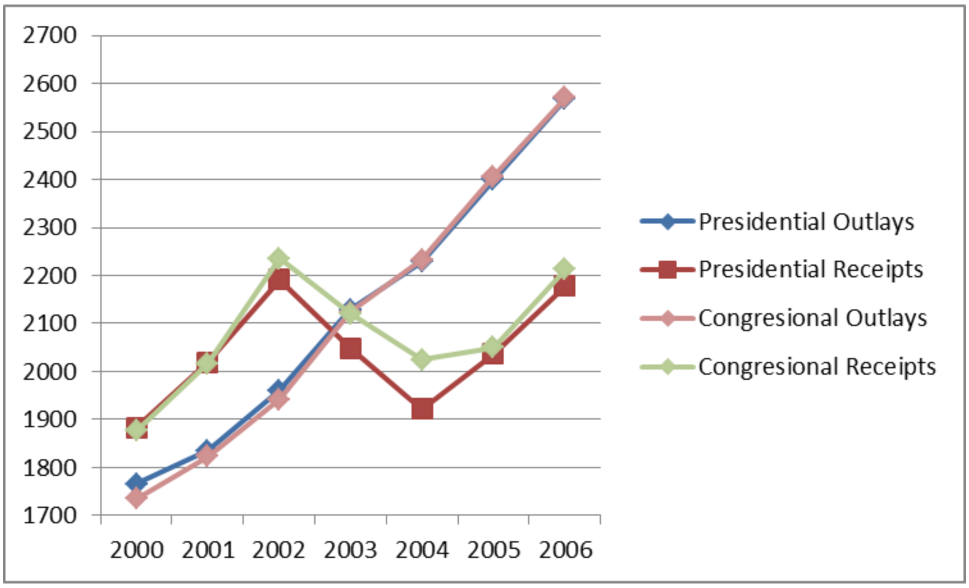
It can be concluded that the improvement of the budget balance between 1996 and 2000, from a deficit of $158 billion in 1996 to a surplus of $16 billion in 1999, is the result of increased revenues and limited government expenditure. Does President Clinton's fiscal policy explain this development in the budget balance between 1996 and 2000? It can be concluded that his fiscal policy did contribute to the budget outcome. The limited expenditure of both the president and Congress is one indication. The increased revenues – with growth levels exceeding the levels of economic growth – may be explained by the increased revenues on individual income tax, social insurance tax and contributions, the corporate income tax. Given that these taxes were all part of the president's fiscal policy plan, it may be concluded that his fiscal policy has influenced revenues on the federal budget. However, it has to be said that the economically favorable circumstances are of influence as well; due to the high levels of economic growth, unemployment rates dropped, which in turn influenced revenues from taxes, and lowered inflation. It is, therefore, concluded that the president's fiscal policy does partially explain the budget outcome between 1996 and 1999, but the circumstances in which the budget comes about – in this case the favorable economic circumstances – are an important explanatory factor as well.

President Bush

President George W. Bush's engagement in budgetary affairs was characterized by a focus on the revenue side of the budget – he was a strong opponent of an elevation in taxation and was a strong believer of the free market principle. He showed little interest in expenditure matters and was rarely involved in the political negotiation process on spending issues. His focus was on unbalanced budgets. Appendix IV showed that during the Bush presidency, the following three topics dominated his policy agenda: fighting the war on terror, protecting the homeland and stimulating the economy.

President Bush's policy was a combination of tax cuts, increase in government expenditure to fight the war on terror and free-market ideology (Morgan, 2009). Between 2002 and 2003, President Bush introduced a tax-cut for all tax-payers. The lowest income rate was lowered from 15 to 10%, all other rates were lowered 2% and the highest rate went from 39.6 to 35%. The earned income tax credit was further expanded. President Bush did not interfere in the market to stimulate growth; this concurs with his belief in free market ideology. Congress stated that this plan did not benefit the middle class, and would increase the gap between rich and poor. It was also feared that the tax-cuts would worsen the long-term budget results; the deficit was expected to increase tremendously as a consequence. In the end, however, Congress adopted the plan (Morgan, 2009). This may be explained by the statements of the interview respondents on the honeymoon period of a president.

The development in the balance on the federal budget between 2000 and 2006 was presented in graph 4.5. The graph showed that up to 2002, both the president's budget and the congressional budget resolution present a surplus. From 2003 onwards, however, a deficit is found. This deficit increases rapidly, from -$2 billion in 2003 on the congressional budget resolution to -$358 billion, and from -$80 billion to -$390 billion on the president's budget. In chapter three, the development in the budget during the presidency of Bush was discussed. It was found that outlays increased tremendously during these six years, both on the president's budget and on the congressional budget resolution. The outlays are substantive and from 2002 exceed revenues, which results in a deficit on the budget balance on both budgets.

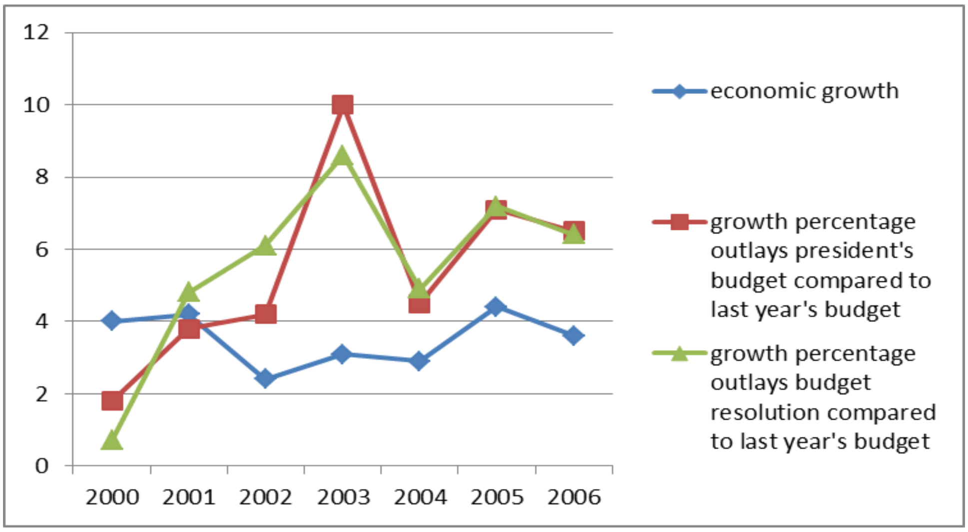


Graph 4.9: total outlays and revenues on president's budget and congressional budget resolution between 2000 and 2006. Differences between the revenues on the president's budget and the congressional budget resolution are caused by the use of different numbers – OMB and CBO respectively.

The drop in revenues does contribute to the development of a deficit on the budget, but the increase in expenditure seems to be the predominant factor in negatively influencing the budget balance. The question is whether this increase in expenditure was a deliberate choice or a result of external circumstances. To determine whether the budget balance was influenced by the president or not, these economic circumstances need to be considered.

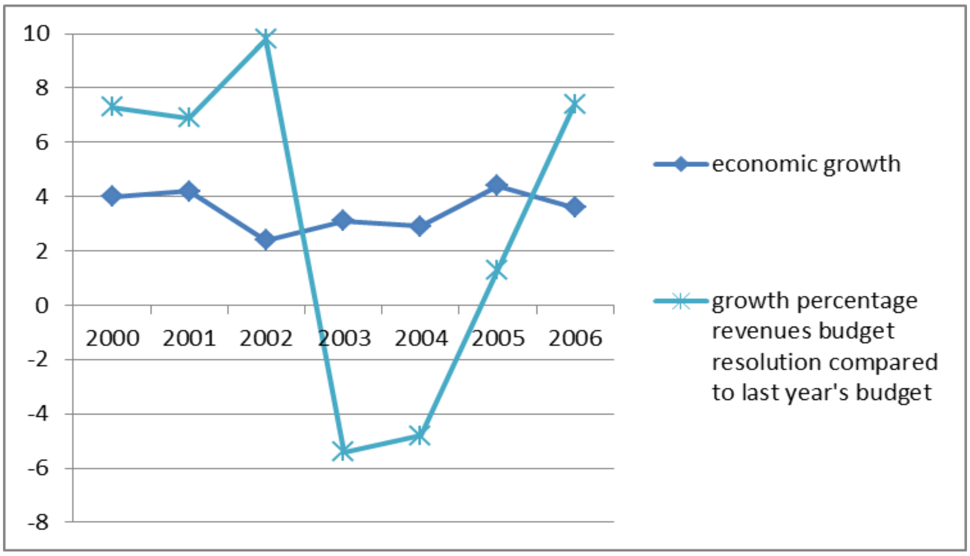
Graph 4.5 showed that from 2002 onwards the economic circumstances deteriorate – unemployment rates and inflation rates rise, while economic growth drops. Interest rates show a downward trend, but remain stable from 2002 onwards. The rise in unemployment rates may be a direct result from the economic circumstances; this will cause a decrease in revenues on the budget. It is concluded that the economic circumstances will have affected the federal budget, with regard to the revenues. However, it was already concluded that the deficit was mainly caused by a tremendous increase in expenditure. Given that no cut-back in expenditure is shown, it can be concluded that President Bush did not apply the fiscal instrument of expenditure cut-back in his fiscal policy. However, it may be that he tried to pace his expenditure in an attempt to stop the financial fall of the budget. To determine whether the outlays were in fact such a substantive as they appear, the outlays are compared to the economic growth.

The graph shows that growth percentages in outlays on both budgets exceed the levels of economic growth tremendously. This implies that both the president and Congress chose to spend more money than was available given the economic growth. It can, therefore, be concluded that they willingly let the deficit on the budget develop. In answering hypothesis 1, six budget functions were analyzed (see graph 4.2). It was found that the outlays on defense and homeland security increase remarkably; all outlay increase was discretionary spending, and thus deliberate spending. This graph is also of interest to explain why a deficit returned on the president's budget in fiscal year 2003: for this year, revenues decreased by 7% (see graph 4.9), while outlays were increased by 10%. This had disastrous consequences for the budget balance.



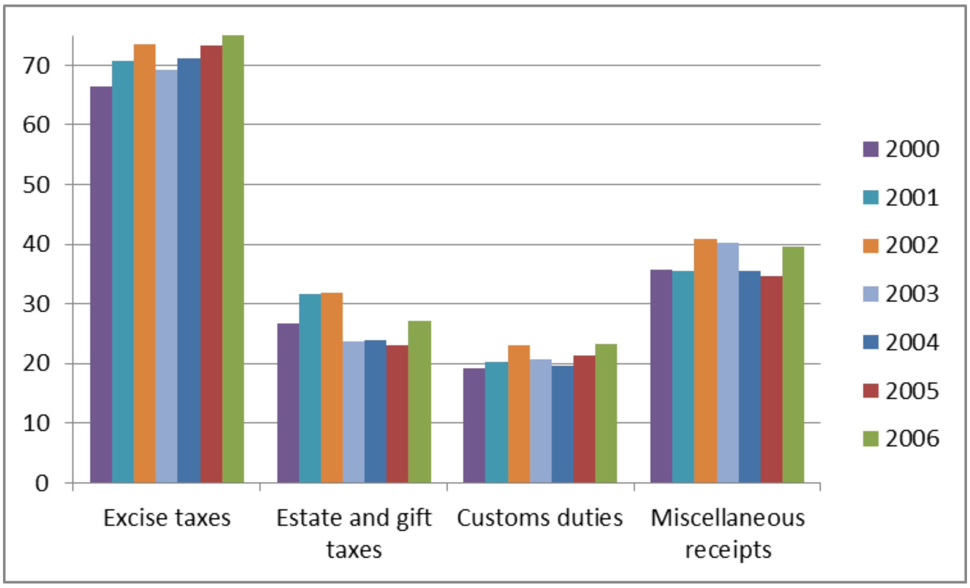
Graph 4.10: comparison between economic growth rates and growth percentages in outlays on president's budget and congressional budget resolution between 2000 and 2006 (in %).

It can be concluded that on the expenditure side of the budget, the president has willingly chosen to spend more money on defense. This is in line with the main policy topics on his agenda: the war on terror and protecting the homeland. Congress has supported the president in this. A deficit developed on the budget; the question is, whether this is a direct consequence of the higher levels of spending of both political institutions or whether other factors were of influence as well. One of these factors may be a drop in revenues. Graph 4.11 shows that revenues fluctuate between 2000 and 2006; after a continued growth up to 2001, revenues drop for three subsequent years. This fall-back may have contributed to creating a deficit on the budget. The question is whether revenues dropped at a similar pace as economic growth, or whether revenues were influenced by other factors such as the president's fiscal policy. The following graph compares economic growth percentages to revenue growth.



Graph 4.11: comparison between economic growth rates and growth percentages in revenues on the congressional budget resolution between 2000 and 2006 (in %). Given that in this research project the budget resolution is equal to the federal budget, it is considered that the revenues on the budget resolution are the revenues equal to revenues on the federal budget.

The graph indicates that growth percentages in revenues follow the trend in economic growth; if economic growth levels drop, the revenue levels drop one year later. This implies that revenues follow the development in economic growth. The fluctuations, however, are much more extreme. This implies that other factors are of influence besides the dropping levels of economic growth. One of these factors may be the president's fiscal policy. As was stated above, President Bush was a fierce opponent of tax elevation. He introduced a plan to cut taxes; this may be the reason for the fall in revenues found in 2002. Lower levels of taxation lead to lower levels of revenues. To determine whether the tax cut did influence the revenue levels, the revenues on the budget need to be considered. In chapter three (graph 3.19), the revenues were presented. The graph showed that revenues on individual income taxes drop in 2003 and subsequent years; in 2006 a recovery takes place. The tax-cut introduced by the president in 2002 focused on individual income taxes and seems to be reflected in these data. The social insurance tax revenues increase continuously; this implies that increasing numbers of people benefit from social security – this is an indication of worsening economic circumstances and is not so much the result of the president's fiscal policy. The following graph presents the revenues on three specific taxations – these data are included in graph 3.19 but are too small to read.



Graph 4.12: revenues on congressional budget resolution between 2000 and 2006. In this graph, the revenues are based on the congressional budget resolution – given that in this research project the budget resolution is equal to the federal budget, it is considered that the revenues on the budget resolution are the revenues equal to revenues on the federal budget.

All three specific tax revenues present a drop in revenues in 2003. The most prominent data in this graph are the revenues on estate and gift taxes. These revenues show a clear fall-back in 2003 and do not recover until 2006. These results may be a consequence of the president's tax plan introduced in 2002; however, the economic growth also drops dramatically in 2003 and may be of consequence on the revenues as well. It is unclear whether it is the president's tax-cut or the economic growth that is of determining influence. However, given that the unemployment rates only start to increase from 2004 onwards, while tax revenues drop one year earlier in 2003, it is concluded that the president's fiscal policy plan did have some influence. This is supported by the respondents of the interviews. All three state that President Bush 'misused' his political leverage to introduce an impressive tax-cut; he was able to pass his plan through Congress because of his high approval rates and the fact that he introduced his plans during the honeymoon period of his presidency.

President Bush's fiscal policy was a true conservative agenda, with tax-cuts and a focus on the revenue side of the budget. His policy not to interfere in the market are reflected in the fact that none of the factors identified by Kopcke, Toottell and Triest (2006) – interest rates, household consumption, national savings, investment / business spending and capital inflow from abroad – seem to be affected by his fiscal policy. These elements follow developments in the market. However, he did make deliberate fiscal choices. He deliberately chose not to balance the budget or to cut-back in expenditure; this is reflected in the increased levels of expenditure. He also chose to introduce a tax-cut that negatively influenced revenues on the budget. It can, therefore, be concluded that the president's fiscal strategies may explain the budget balance between 2002 – when the tax-cut plan was introduced – and 2006. However, comparable to the results found for President Clinton, the external circumstances did contribute to the budget balance. The deteriorating economic circumstances are such an external factor. But what, for example, made President Bush decide to spend higher levels of money on defense? This is further analyzed in the next paragraph.

Conclusion with regard to hypothesis 2

With regard to hypothesis 2 – *A Democratic president increases his expenditure. If his aim is to reach a balanced budget, he will raise taxes to compensate for the expenditure increase. A Republican president will lower taxes; if his aim is to reach a balanced budget he will need to lower government expenditure* – the following can be concluded.

It can be concluded that the fiscal instruments applied have had significant influence on the budget balance and may explain the budget outcome between 1996 and 2006. President Clinton's policy of limited government spending and higher levels of taxation led to a balanced budget and years of balance surplus. Bush's policy of increased government spending and low taxation increased the deficit on the budget. However, it is argued that the economic circumstances were also of tremendous influence and contribute to the actual budget outcome. Clinton's policy only led to results, because revenues were high due to high levels of economic growth, low levels of unemployment and stable interest rates and decreasing inflation. Bush's policy was worsened because of unfavorable economic circumstances and lower levels of revenues. If the economy were health and prosperous, increased government spending would not have had the negative effect on the budget balance it had now. This hypothesis is tested in the following paragraph.

Reflecting on the theory, it can be concluded that the results presented above seem to support the theorists who state that a president's fiscal policy will not influence the economy. The results show that a president's fiscal policy will influence the budget outcome – as long as Congress supports the president in his policies. However, if the economic circumstances are considered, such as economic growth, interest rates, inflation rates, etc., it can tentatively be concluded – based on the results of this research project – that these are not influenced by the government's policy. It is the other way aroud; these circumstances determine the context in which the budget is formulated and will as such influence the budget balance.

Finally, given the data presented above, it can be concluded that *hypothesis 2 can be partially confirmed*. The hypothesis with regard to the Republican president can be confirmed; yet, the Democratic president – who was expected to raise government expenditure and rais taxes – did the opposite. In his attempt to reach a balanced budget, he limited outlays while raising taxes. To this end, the hypothesis is partially confirmed.

Hypothesis 3: A balanced budget in economic prosperity

Hypothesis 3 is *a balanced budget will only be sought for and reached in times of economic prosperity.*

In answering hypothesis 2, it was found that the budget balance cannot be explained merely by the president's fiscal policy; other factors seem to be of influence as well. A factor that may prove to explain the budget balance, was found to be the economic circumstances in which the budget is formulated. In chapter three, Saiz (2001) stated that the environment in which policy is shaped determines the policy solutions that are found. In public choice theory, one of the central notions is that a balanced budget will only be sought in times of economic prosperity. It is only in times of economic growth that the offsets of waste can be paid for without losing public capital. Politicians will, therefore, try to create economic conditions in which a financial 'buffer' can be established, anticipating for economic hard times. The public will, then, not suffer the consequences of an economic crisis, as the financial means are available to balance the budget. In answering hypothesis 3, this statement is further analyzed. Appendix IV provides a detailed overview of the external factors that influenced the US budget process between 1996 and 2006. The data presented here are based on the overview in this appendix.

Defining the environment: External factors between 1996 and 2006

The overview provided in appendix IV identifies a number of events that may have influenced the budget balance between 1996 and 2006. In summary, the following events may be of influence on the budget balance between 1996 and 2006:

- economic development – prosperity (1996 – 2001), recession (2001 – 2006)
- attacks on the US on September 11, 2001

Within the political spectrum, two policy developments are of interest:

- the battle for a balanced budget
- the battle on how to spend the budget surplus and the social security reform

It is now analyzed to what extent these factors are of influence on the budget balance.

<u>Economic development</u>

The first factor identified is the economic situation. Economic development first and foremost influences the revenues on a budget; less favorable circumstances influence unemployment rates – which in turn influences the revenues on individual income taxes and social insurance taxes for example – and inflation – which in turn influences household consumption (De Boer, Brouwers and Koetzier, 1988). Graph 4.5 and appendix IV showed that the US experienced some economically flourishing years between 1996 and 2001. From 1996 to 2000 – with the exception of 1998 – the economic growth is consistent. This is followed by lower levels of unemployment and lower levels of inflation. In 1999 the US economy was the healthiest for over a generation.

From 2000 onwards, a worldwide recession developed, which inevitably influenced the US economy. In 2000, the US economy still shows robust growth, low unemployment and low inflation. However, a financial turmoil starts to spread the foreign markets; the Russian government nearly defaults on its debts. In 2001, the US profits from international turmoil as the US economy is still in excellent health: more foreign imports of products due to high consumer demands. From 2002, the economic turmoil kicks in; economic growth shows a sharp decline, while stock markets plummet and unemployment rates increase. The following years show decelerated growth and recession.

It is expected that this development will have influenced the revenues on the budget. In answering hypothesis 2, it was already established that revenues do follow the trend of economic growth, but the results are much more extreme. These extreme results on the revenues can be explained by the fiscal policy applied by the president – both by President Clinton, who raised taxes and, therefore, elevated his revenues, and by President Bush, who cut taxes and, therefore, limited his revenues even further. It can be concluded, however, that in general revenues do follow the trend of economic growth.

Both the percentages of economic growth and the development in revenues are a clear indication of the economic circumstances in which the political process took place. As presented at the beginning of this chapter, the economic circumstances were favorable in the late 1990s. High economic growth and high levels of revenue growth confirm this finding. From 2000 onwards a global economic crisis also affected the US economy, pushing the economy into an economic recession. This is represented in the graphs presented above, where economic growth diminishes in 2002 to 2004 and revenues decline sharply. From 2005 onwards, the economy seems to recover.

Did economic growth, however, influence the budget balance between 1996 and 2006? To this end, the budget balance is compared to economic growth trend. The following table presents the development in the budget balance between 1996 and 2006.

Table 4.4: development in budget balance between 1996 and 2006 (in $ billion)

Budget (in billions $)	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
President's budget											
Revenues	1,414.9	1,476.4	1,566.8	1,742.4	1,883.0	2,019.0	2,191.0	2,048.0	1,922.0	2,036.0	2,178.0
% In / decrease	*n/a*	*+4.2*	*+5.8*	*+10.1*	*+7.5*	*+6.7*	*+7.8*	*-7.0*	*-6.6*	*+5.6*	*+6.5*
Outlays	1,578.6	1,645.2	1,687.4	1,733.2	1,765.7	1,835.0	1,916.0	2,128.0	2,229.0	2,400.0	2,568.0
% In / decrease	*n/a*	*+4*	*+2.5*	*+2.6*	*+1.8*	*+3.8*	*+4.2*	*+10.0*	*+4.5*	*+7.1*	*+6.5*
Deficit:- /surplus:+	-163.7	-168.8	-120.6	+9.5	+117.3	+ 184	+230	-80	-307	-326	-390
Congressional budget resolution											
Revenues	1,418.0	1,469.0	1,602.0	1,739.0	1,877.0	2,016.0	2,236.0	2,121.0	2,024.0	2,050.0	2,213.0
% In / decrease	*n/a*	*+3.5*	*+8.3*	*+7.9*	*+7.3*	*+6.9*	*+9.8*	*-5.4*	*-4.8*	*+1.3*	*+7.4*
Outlays	1,576.0	1,622.0	1,692.0	1,722.0	1,735.0	1,823.0	1,941.0	2,123.0	2,232.0	2,407.0	2,571.0
% In / decrease	*n/a*	*+2.8*	*+4.1*	*+1.7*	*+0.7*	*+4.8*	*+6.1*	*+8.6*	*+4.9*	*+7.2*	*+6.4*
Deficit:- /surplus:+	-158	-153	-90	+17	+141	+193	+295	-2	-208	-357	-358
% economic growth	***2.4***	***3.5***	***2.8***	***3.7***	***4.0***	***4.2***	***2.4***	***3.1***	***2.9***	***4.4***	***3.6***

If we are to compare the data presented in this table to the development in economic growth, it can be concluded that the development in the budget balance follows the development in economic growth. Between 1996 and 2002 revenues on both the president's budget and the congressional budget resolution increase continuously; outlays also increase, but this growth is relatively less than the growth in revenues. In 1999, a balanced budget (and surplus) is reached on both the president's budget and the congressional budget resolution. From 2002 to 2004, however, revenues decline, while outlays increase rapidly. A deficit on the federal budget returns. This decline in revenues seems to be caused by the decline in economic growth. Table 4.4 also shows that from 2003 onwards, growth percentages on outlays were extremely high, with 10% growth in 2003 on the president's budget and 8.6% on the congressional budget resolution. also in subsequent years, growth percentages on outlays were impressively high, exceeding the growth percentages on revenues.

Should a president wish to reach or maintain a balanced budget, higher levels of revenue obviously help him in reaching this objective. As such, it can tentatively be concluded that economic prosperity helps a president in reaching a balanced budget. The respondents confirm this view in the interviews. Respondent 1 states that economically difficult circumstances can be a political weapon for the opposition, as they can blame the president for the bad circumstances. Respondent 2 says that positive economic circumstances are required to find public support for radical decisions, such as a tax-raise. The question that remains, however, is whether economic prosperity is a necessary precondition for a president to even formulate the aim of reaching a balanced budget.

Battle for a balanced budget

To this end, it is important to know to whether both President Clinton and President Bush had the aim to reach a balanced budget in the first place.

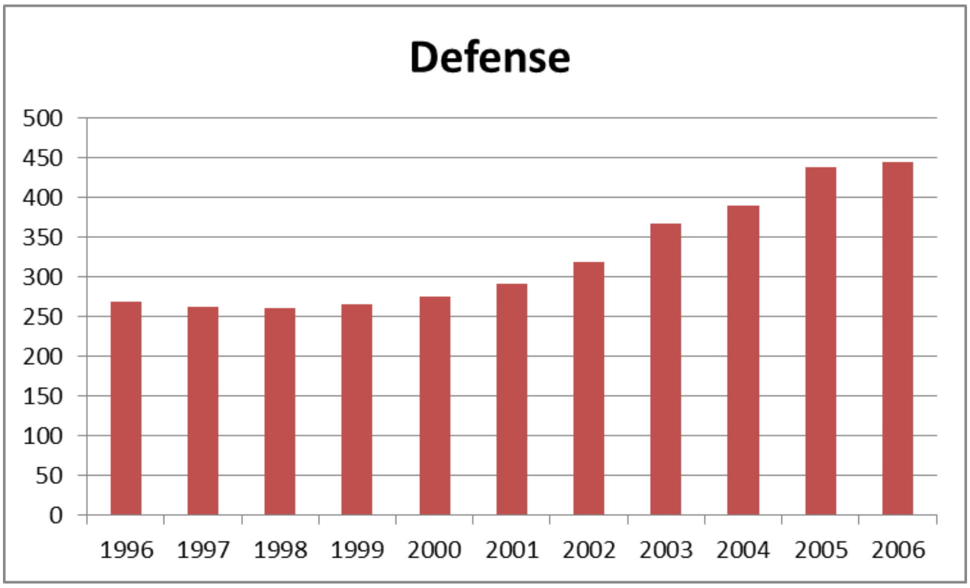
In chapter three, it was found that to President Clinton reaching a balanced budget was already an important issue in his presidential campaign of 1992. It was also found that President Clinton was actively involved in the budget process between 1992 and 1996, in a political battle with the Republican majority in Congress on how to reach a balanced budget. President Clinton's involvement focused on the expenditure side of the budget, sending change-oriented budgets to Congress and actively wielding his veto-pen when Congress proposes bills that ran counter to his budgetary preferences. The results in appendix IV and chapter 3 indicate that the president and Congress joint each other in their quest for a balanced budget. It can be concluded that the aim for a balanced budget was a political decision, that would influence the decision-making process; policy would be shaped so as to realize a balanced budget. The economic circumstances helped the president to realize the balanced budget – if these circumstances had not been as favorable, a balanced budget may not have been realized. But the policy objective was there before the economic circumstances became of influence.

President George W. Bush's engagement in budgetary affairs, in contrast, was characterized by a focus on the revenue side of the budget – he was found to focus on unbalanced budgets and he was a strong opponent of an elevation in taxation. He showed little interest in expenditure matters. This will have influenced his fiscal policy, in that he did not try to reach a balanced budget.

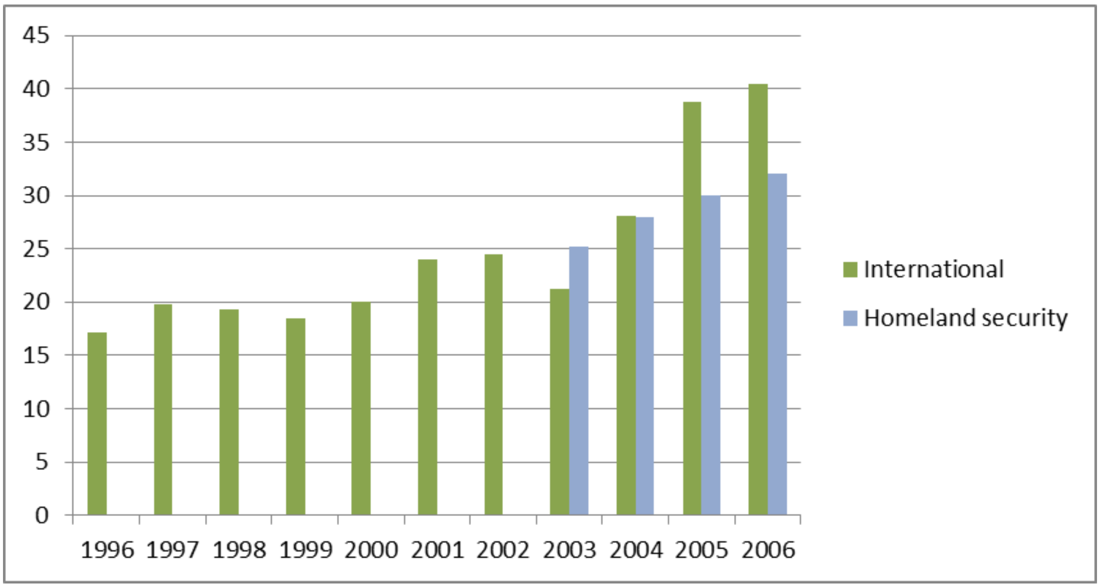
The September 11, 2001 attacks

The main factor that shaped President Bush's policy agenda, however, proves to be another external factor. The attacks on the United States on September 11, 2001 prove to have strongly influenced the decision-making in subsequent years. The results show that the war on terror abroad and the urge to protect the homeland from any further attacks increased bipartisanship and lead to a fully funding of all the president's initiatives to reach both goals. The respondents in the interviews share this view; all three state that President Bush was able to push his policy agenda because of these attacks (see appendix IV).

The impact of these two events is reflected in the policy agenda between 2000 and 2006. Appendix IV shows that during these years the agenda remains unchanged and focuses on: winning the war on terror, protecting the homeland and strengthening the economy. Did these events influence the budget balance? To this extent, the budget functions 'defense', 'international' and 'homeland security' are considered; these budget functions are directly connected to war-related policy expenses. If the 2001 attacks have influenced the budget, it will be reflected in these budget functions. In answering hypothesis 1, it was already concluded that these three budget functions mainly consist of discretionary spending – the levels of mandatory spending are negligible. Any changes in these budget functions will be the result of deliberate policy decisions of the president. The following graphs present the outlays on the three budget functions 'defense', 'international' and 'homeland security', from 2001 – the year of the attacks to 2006.



Graph 4.13: discretionary outlays on the budget function 'defense' between 1996 and 2006



Graph 4.14: discretionary outlays on budget functions 'international' and 'homeland security' between 1996 and 2006

These graphs show that from 1996 to 2000, discretionary outlays are rather stable; from 2001, outlays on both defense and international increase rapidly, while the discretionary outlays on homeland security start at a considerable level in 2003 and continue to grow. These graphs confirm that after the 2001 attacks, the outlays on these three budget functions increase considerably; this is in line with the policy agenda, in which the war on terror and protection of the homeland are the two top priorities. In chapter three, it was found that the relative portion of the total discretionary outlays that is appropriated to the budget functions defense (ND), international (I) and homeland security (HS) increased. The following table confirms this statement; in 1996 about half of all discretionary outlays concern the budget functions defense, international and homeland security, while in 2006, two thirds of the total outlays concern these three budget functions.

Table 4.5: total discretionary outlays versus outlays on budget functions defense (ND), international (I) and homeland security (HS) between 1996 and 2006.

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total discret. outlays	555	544	548	566	592	634	692	773	819	818	840
Total ND, I, HS	286	283	279	285	295	316	344	414	446	507	517
% ND/I/HS of total	**51.5**	**52**	**50.9**	**50.3**	**49.8**	**49.8**	**49.7**	**53.6**	**54.4**	**61.8**	**61.5**

The rapid increase in spending on the budget functions national defense, international and homeland security proves to have influenced the budget totals between 2001 and 2006. The results also prove that the external factor of the 2001 attacks has influenced the budget.

Conclusion with regard to hypothesis 3

With regard to hypothesis 3 – *a balanced budget will only be sought for and reached in times of economic prosperity* – the following can be concluded.

Do external circumstances shape the policy agenda – as was argued by Saiz (2001) – or does the policy agenda determine the contents of the budget and do external circumstances contribute to realizing this policy agenda? At first sight both statements appear to be true if we are to consider the results of this research project. Two separate events lead to two different interpretations. First, the policy agenda of President Bush was shaped by external circumstances. The September 11, 2001 attacks shifted his policy priority and made the war on terror and protecting the homeland to two of his three top legislative priorities all through his two presidencies. In contrast, to President Clinton the budget was one of the top priorities of his presidential campaign and would become one of the top legislative priorities of his presidency. During his first presidency, the budget was one of the main political conflict issues between him and Congress, but at the beginning of his second presidency, a bipartisan initiative was launched to realize a balanced budget. The favorable economic circumstances helped him reach this balanced budget in 1999. It seems that external circumstances helped him shape his policy but did not determine his policy. However, are we to look closer, we find that President Clinton was faced with extraordinary circumstances at the beginning of his presidency – being a budget deficit that was the largest in the history of the United States. He had to act on the budget, in order to control the deficit, to prevent it from dominating his presidency in a negative way. This being said, it can be concluded that these external circumstances did shape his policy agenda, and more specifically his fiscal policy agenda at the beginning of his presidency. These findings, thus, support the theoretical view of Saiz (2001), that the circumstances shape the policy solutions.

The theory on public choice discussed in chapter three stated that a president will only seek a balanced budget in times of economic prosperity, so that he does not lose public capital. The results do not provide a decisive answer. The findings show that economically favorable circumstances will help a president win this public support, as the public will not experience the consequences of this balanced budget fiscal policy as hard as they would in economically difficult times. Interview respondent 2 confirms that, as a budget does not start at zero, but at a deficit, a balanced budget requires first a downsizing of the budget and subsequently a balanced budget proposal. This requires economically positive circumstances. However, given that 1) President Clinton had already made the budget one of his top priorities during his presidential campaign, that 2) in that period the economy recovered only slowly from the hard economic recession of the 1980s and that 3) on his accession in 1992, the CBO forecasts were that the budget would escalate dramatically, reaching a deficit of $ 653 billion by fiscal year 2003, or 7% of the GDP, it has to be concluded that President Clinton did not face economic favorable circumstances when introducing his political ambition to reach a balanced budget. The data presented in chapter two did indicate that the crucial factor in the battle on the balanced budget was who would win the support of the public. It is, therefore, concluded that the public support is the crucial factor in determining whether a president will aim for a balanced budget.

In general, it can be concluded that there is a correlation between external circumstances and the balance on the budget. External circumstances may either help shape a president's fiscal policy or determine the contents of his fiscal policy. Either way, external circumstances are found to help explain the budget balance between 1996 and 2006. With regard to the hypothesis, it is concluded that economic prosperity helps a president reach a balanced budget; there is no doubt about that. Still, it is not proven that economic prosperity is a *conditio sine qua non* for reaching a balanced budget. It is found that a president's fiscal policy focus does contribute to actually realizing a budget balance. If a president does not decide to make reaching a balanced budget a priority on his policy agenda, a balanced budget will not be reached. Respondent 1 adds "it is a political choice of the president if he pursues a balanced budget; if he feels he has the public support to disregard the financial deficit, he will do so [as it prevents him from making politically difficult decisions]. Congress, of course, has to support a president's fiscal policy.

With regard to the hypothesis, it is concluded that *hypothesis 3 is not confirmed.*

Hypothesis 4: Predominant factor on budget balance

Hypothesis 4 is *external circumstances (economic and political) is the predominant factor in explaining what kind of balance is reached on the US federal budget (balanced budget / surplus / deficit).*

In the conceptual model presented in chapter three of this research paper, the following factors were determined to be of influence on the balance of the budget:

- Public choice / budgetary variables: size of the budget, actors/political system, fiscal instruments
- External factors: political and economic.

Based on the analyses for hypotheses 1, 2 and 3, it can tentatively be concluded that the political factors in the US political system – being the system itself and the levels of political conflict – are not of predominant influence on the budget balance. It can also be concluded that the president's fiscal policy does exert influence on the budget balance, but this, in turn, is influenced by external circumstances – either political or economic. Taking all this in consideration, it is tentatively concluded that the external factors, both political and economic, presented in hypothesis 3, are of determining influence on the political decision-making with regard to the budget. To confirm this tentative conclusion, a number of regressive analysis was executed. These analyses focus on the congressional budget resolution, that in this research project is considered equal to the federal budget. The following tables present a summary of the results. A complete overview of the results can be found in appendix V.

Table 4.6a: Model Summary

Multiple R	,958
R Square	,917
Adjusted R Square	,814
Std. Error of the Estimate	,156
Log-likelihood Function Value	-6,187

Table 4.6b: ANOVA

	Sum of Squares	df	Mean Square	F	Sig. α = 0.05
Regression	1,085	5	,217	8,892	,027
Residual	,098	4	,024		
Total	1,183	9			

Table 4.6c: Coefficients

	Unstandardized Coefficients		Standardized Coefficients		t	Sig. α = 0.05
	B	Std. Error	Beta	Std. Error		
(Constant)	29,343	18,488			1,587	,188
fiscalinstrument3	,917	,447	,545	,265	2,052	,109
Composition	,343	,380	,661	,732	,903	,417
extevents1	-10,000	6,249	-3,491	2,182	-1,600	,185
intevents1	-2,161	1,147	-1,302	,692	-1,883	,133
intevents2	-8,917	5,501	-3,267	2,015	-1,621	,180

Table 4.6d: Excluded Variables

	Beta In	Partial Correlation	Minimum Tolerance	t	Sig. α = 0.05
extevents2	1,000	1,000	,000	,000	.

Table 4.6a shows that the factors ‘external factors’, ‘internal factors (policy initiatives)’, ‘fiscal instruments’ and ‘composition of the Congress (level of political conflict)’ explain for 91,7% of all variance on the budget balance of the congressional budget resolution. Table

4.6b shows that the larger part of the variance can be explained – being 1,085 out of 1,183. These factors do seem to determine the outcome of the budget balance on the congressional concurrent resolution. None of the scores are significant at $\alpha = 0.05$. These tables, however, do not explain which factor is of determining influence. A number of more detailed regression analyses were, therefore, executed.

The first regression analysis concerns the causal relation between the budget balance on the congressional budget resolution and the political and economic external events taking place that may influence the budget outcome. These events are: the 9/11 attacks and the subsequent war on terror, and the economic crisis. First, the two events have been correlated to determine whether these two factors were influenced by each other. Table 4.7 shows that the correlation is significant (at $\alpha = 0.01$), which means that they are correlated in time; both events occurred in the same time frame. They can, therefore, be used simultaneously in a regression analysis.

Table 4.7: Correlation between external variables 'war on terror' and 'economic crisis'

		waronterror	Eccrisis
waronterror	Pearson Correlation	1	,823**
	Sig. (2-tailed)		,002
	N	11	11
eccrisis	Pearson Correlation	,823**	1
	Sig. (2-tailed)	,002	
	N	11	11

**. Correlation is significant at the 0.01 level (2-tailed).

Then a regression analysis was executed. The results are presented below. Table 4.8 shows that 39,3% of the variance of 'budget balance on the congressional resolution' can be explained by 'economic crisis' and 'war on terror' (R Square 0,393). The causal relation between the budget balance on the congressional resolution and these external factors is not significant (at $\alpha = 0.05$), at 0,448. There is no statistical correlation between these factors and the budget balance. This implies that these two events influence the budget balance independently. The factor 'economic crisis' does not affect the influence the other factor exerts.

Table 4.8: results on regression analysis between budget balance congressional budget resolution and external factors (war on terror, economic crisis)

Multiple R	R Square	Adjusted R Square	Apparent Prediction Error
,627	,393	-,012	,607

Dependent Variable: budgetbalres Predictors: waronterror eccrisis

ANOVA

	Sum of Squares	df	Mean Square	F	Sig. α = 0.05
Regression	4,320	4	1,080	,970	,488
Residual	6,680	6	1,113		
Total	11,000	10			

Dependent Variable: budgetbalres

Predictors: waronterror eccrisis

The second regression analysis executed was an analysis of the causal relation between the budget balance on the congressional budget resolution and the internal events that were analyzed, being the war on the balanced budget and the social security reform. These factors were related to each other, as the social security reform was a product of the surplus realized on the budget. However, the influence of each 'event' on the budget balance proves to be independent, at Pearson correlation at 0,828, a score that is significant at α = 0.05. The results on the regression analysis are as follows:

Table 4.9: results on regression analysis between budget balance congressional budget resolution and internal factors (war on balanced budget, social security reform)

Model Summary

Multiple R	R Square	Adjusted R Square	Apparent Prediction Error
,426	,182	-,364	,818

Dependent Variable: budgetbalres

Predictors: warbattlebudget socialsecurityreform

ANOVA

	Sum of Squares	df	Mean Square	F	Sig. α = 0.05
Regression	1,997	4	,499	,333	,847
Residual	9,003	6	1,501		
Total	11,000	10			

ANOVA

	Sum of Squares	df	Mean Square	F	Sig. α = 0.05
Regression	1,997	4	,499	,333	,847
Residual	9,003	6	1,501		
Total	11,000	10			

Dependent Variable: budgetbalres

Predictors: warbattlebudget socialsecurityreform

Coefficients

	Standardized Coefficients				
	Beta	Bootstrap (1000) Estimate of Std. Error	Df	F	Sig. α = 0.05
warbattlebudget	-,747	,467	2	2,560	,157
socialsecurityreform	,687	,494	2	1,935	,225

The variance on the budget balance is for 18,2% explained by the internal factors 'war on the balanced budget' and 'social security reform' (R Square = 0,182). The causal relation is not significant at 0,157 for the war on the balanced budget (at α = 0.05) and at 0,225 for the social security reform (at α = 0.05). There is no statistical correlation between these two factors; the results imply that these two factors have no direct relation with the budget balance, in that they influence the outcome of the budget.

The third regression analysis was an analysis on the causal relation between fiscal instruments and the budget balance on the congressional budget resolution. Results show that – dependent on the type of pseudo R Square definition chosen – about a quarter of the variance in the budget balance can be explained by fiscal instruments. Scores are not significant (at α = 0.05), at 0,192. It is found that the fiscal instruments do not directly correlate to the budget balance; even though they may be of influence, this is an indirect influence – there is no statistical correlation between the budget balance and these instruments.

Table 4.10: Pseudo R-Square scores on causal relation between budget balance on congressional budget resolution and fiscal instruments

Model Fitting Information

Model	-2 Log Likelihood	Chi-Square	df	Sig. α = 0.05
Intercept Only	10,587			
Final	7,289	3,298	2	,192

Link function: Logit.

Goodness-of-Fit

	Chi-Square	df	Sig. $\alpha = 0.05$
Pearson	1,440	2	,487
Deviance	1,816	2	,403

Link function: Logit.

Cox and Snell	,259
Nagelkerke	,308
McFadden	,164

The following table summarizes the results presented above:

Table 4.11: Summary of results on R Square scores

Causal relation between the pres.budget / con. resolution and …	**R Square score on congressional budget resolution**	**Significance at α = 0.05 for congressional resolution**
External factors (9/11 attacks / economic crisis)	0,334	No; score = 0,337
Internal factors (bipartisanship)	0,182	No; score = 0,157
Fiscal instruments	Between 0,259 and 0,164	No; score = 0,192
Composition (level of political conflict)	Between 0,300 en 0,195	No; score = 0,370

No statistical correlations are found between the factors identified in this research project and the budget balance. This implies that the factors found do not directly influence the budget balance. Given the results found in this research project, however, it can be concluded that these factors are of influence on the budgetary decision-making process, even though they do not directly influence the outcome of the budget. This implies that they do, *indirectly*, influence the budget outcome.

Based on the results presented for hypothesis 3, the hypothesis *external circumstances (economic and political) is the predominant factor in explaining what kind of balance is reached on the US federal budget (balanced budget / surplus / deficit)* can, thus, be partially confirmed.

Chapter 5: Conclusions

In chapter two, a theoretical framework was presented for the empirical part of this research project. In chapter three, a case study was presented with regard to the US budget process. In chapter four, the results of the empirical research were presented. In this chapter, conclusions are drawn with regard to these results and the research question of this research project is answered.

The following research question was formulated for this research project.

How can the balance (deficit/surplus) in the annual federal budget of the United States of America between 1996 and 2006 be explained?

The following subquestions were formulated following from the central research question:

1. What were the budget results between 1996 and 2006 on a) the presidential budget proposal and b) the concurrent congressional budget resolution, what differences exist between these two budget documents between 1996 and 2006 and what explains these differences?
2. What *internal factors in the US political system* can be identified and to what extent do they explain
    a. whether and how a balanced budget is sought?
    b. the budget outcome that is realized?
3. What was the federal budget policy between 1996 and 2006 and how did this affect the budget outcome?
4. What actors in the US budget process can be identified, what is their role in the budget process and to what extent do they explain
    a. whether and how a balanced budget is sought?
    b. the budget outcome that is realized?
5. What *external factors, both economic and political,* can be identified between 1996 and 2006 and to what extent did they influence
    a. whether and how a balanced budget was sought?
    b. the budget outcome?

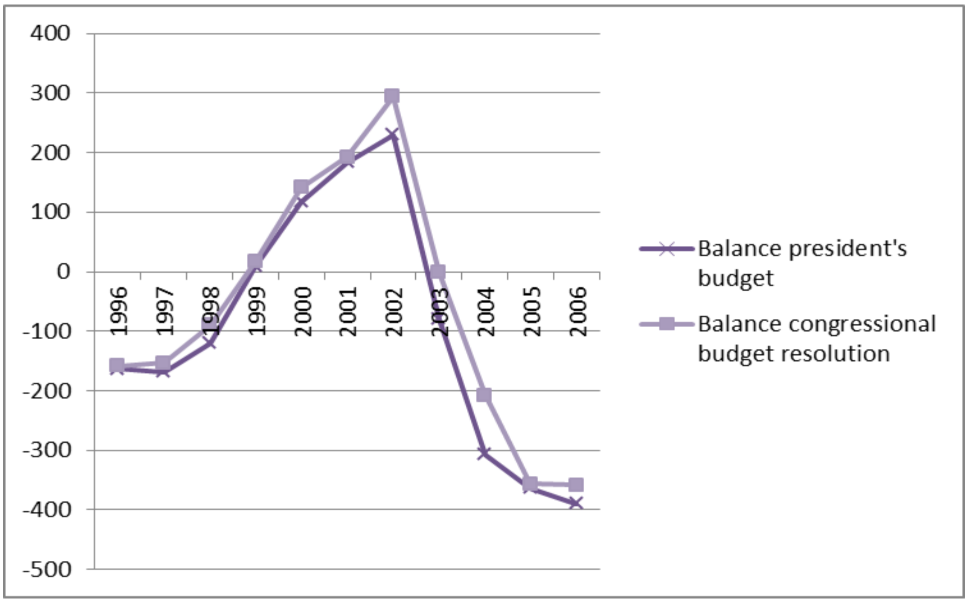
The results found are now used to answer the research question that was central to this research project. However, first the subquestions are answered and conclusions are drawn to the influence of the different factors mentioned above. Subsequently, the central research question is answered and an overall conclusion is provided with regard to the results found and the value of these results, both from an empirical and in a theoretical perspective.

Budget results between 1996 and 2006

<u>Subquestion 1</u> of this research project was: *What were the budget results between 1996 and 2006 on a) the presidential budget proposal and b) the concurrent congressional budget resolution, what differences exist between these two budget documents between 1996 and 2006 and what explains these differences?*

With regard to subquestion 1, it can be concluded that:

- in 1999 a balanced budget was established, followed by three years of surplus. In 2003, the budget deficit returned; the deficit increases rapidly, and runs up to $400 billion in 2006; that is four times the deficit that existed in the early 1990s, before a balanced budget was established.



Graph 5.1 development in budget balance on president's budget and congressional budget resolution between 1996 and 2006

- the president's budget and the congressional budget resolution show a similar trend, both in outlays and in revenues. Total outlays on both budgets increase continuously between 1996 and 2006; the increase between 2000 and 2006 is, however, steeper than in preceding years. From 2000, expenditure on both the president's budget and the congressional budget resolution were proved to increase rapidly. Revenues proved to fluctuate between 1996 and 2006. The statement in chapter two, that the president's budget proposal is 'dead on arrival' the moment it is submitted to Congress (Schick, 2007), is found to be false at a (semi)macro-economic level;
- between 1996 and 2000 high levels of concurrence are found between the president's budget and the congressional budget resolution – at a (semi)macroeconomic level -, despite high levels of political conflict;
- given the similarities between the president's budget and the congressional budget resolution, it is not so much the differences that require an explanation, but the similarities between the two budgets;
- the explanation for these minor differences where major differences were expected, was found in the opportunistic political business cycle. The theory on the opportunistic political business cycle states that the more popular a president, the less political conflict. Opposition will not attack a president who is backed by the people. Also, economically health voters support the incumbent, while voters in economic distress chose the opponent. Economic prosperity will positively influence a president's approval rates. President Clinton enjoyed high levels of popular approval at the beginning of his second turn; these high rates were found to be the result of the deliberation process toward the Balanced Budget Act of 1997. With regard to the theory discussed in chapter three, it can

be concluded that the theory on the political business cycles is confirmed by the results of this research project.
- between 2000 and 2006, Congress supports the president in his choices to increase expenditure even in times of economic recession – the Republican majority in Congress and the 9/11 attacks are the explanation.

Internal factors

Graph 5.1 presented a fluctuation in the budget balance between 1996 and 2006. The question central to this research project is what explains this fluctuation. Subquestion 2 focuses on the internal factors in the US political system, that may be of influence on the budget balance.

Subquestion 2 was
What internal factors in the US political system can be identified and to what extent do they explain
a. whether and how a balanced budget is sought?
b. the budget outcome that is realized?

The internal factors in the US political system that were analyzed in the context of this research project are: the system itself, the actors participating in it, the fiscal policy formulated during these years. For each of these factors, separate conclusions are formulated below.

The US political system

It was found that the US political system complicates reaching a balanced budget. The lack of a constitutional requirement, the long deliberation process in Congress, the deviation in numbers between the OMB and CBO and the fact that the president has the power to veto the budget package at the end of the deal appear to complicate the process compared to other OECD-countries. Also the trias politica, with equality for all institutions in the US system and no institution with a decisive vote, was found to have a hold of the system. It was, furthermore, found that the political system itself does not explain the outcome of the budget. The political system of the 1990s, when a balanced budget was reached, was no different from the political system of the early 2000s, when the deficit returned. The behavior of the parties involved in the US political system, however, was found to be of influence.

Actors in the US political system

Subquestion 4 was
What actors in the US budget process can be identified, what is their role in the budget process and to what extent do they explain
a. whether and how a balanced budget is sought?
b. the budget outcome that is realized?

In appendix II, the US budget process was explained in detail. The following actors involved in the political process were identified (Schick, 2007):
- the agencies that formulate budget proposals that are then scrutinized by the OMB,
- the OMB that decides which proposals end up in the president's budget,
- the president who submits a budget proposal to Congress on February 1 and has the authority to finalize the budget with his signature,

- the budget committees, authorizing committees, appropriations committees and revenue committees in Congress – both in the House and in the Senate – that each have a role to play in formulating the concurrent congressional budget resolution.

In chapter three, it was found that the president and the budget committees are the parties to determine whether a balanced budget is sought; they are the ‘guardians’ of the budget.

The theory on public choice discussed in chapter three stated that a president will only seek a balanced budget in times of economic prosperity, so that he does not lose public capital. This statement was tested for the second presidency of President Clinton, when a balanced budget was realized. The results do not provide a decisive answer. It was found that the president has a decisive voice in whether a balanced budget is actually sought, it is a deliberate political choice. In providing insight into hypothesis 3 (chapter 4) it was concluded that it is not so much the economic prosperity that determines whether a balanced budget is sought, but the sense of urgency and the public support. The extent to which Congress will support the president depends on the public support rates of the president. The extraordinary circumstances President Clinton was faced with at the beginning of his presidency, forced him to take action even in less favorable times. Still, economically favorable circumstances will help him win this public support, as the public will not experience the consequences of this balanced budget fiscal policy as hard as they would in economically difficult times. These findings confirm the theory on public choice, as discussed in chapter 2.

It is concluded that
- the main actors in the US budgetary process are the president and the budget committees of Congress;
- whether a president will seek a balanced budget, depends on the public support he receives;
- a president will favor public support above economic circumstances; as long as he is secured of this, he will take action;
- economically favorable circumstances will help a president win public support and will, therefore, contribute to the decision whether a president will seek a balanced budget;
- public support will determine whether Congress supports a president in his aim to seek a balanced budget.

To determine how a budget balance is sought by these parties and whether they actively influence the budget outcome, further analysis is required on the concept of fiscal policy.

Fiscal policy

Subquestion 3 was *What was the federal budget policy between 1996 and 2006 and how did this affect the budget outcome?*

President Clinton proved to be actively involved in the budget process and negotiations with Congress. Taxes were levied, while government expenditures were restricted to the levels of economic growth. The results support the theory discussed in chapter three (Saiz, 2001) that a Democratic president will intervene in the economy to realize stability and equality. Even though the level of political conflict between the president and Congress was high, President

Clinton´s tax plans were approved by Congress. It was found that the favorable economic circumstances contributed to reaching the president's fiscal aim of reaching a balanced budget in 1999.

Between 2000 and 2006, the federal budget policy was a policy of unbalanced budgets. President Bush proposed tax cuts and exerted high levels of government expenditure to fight economic recession and the war on terror. Free-market ideology dominated the presidential budget policy. The results confirm the theory discussed in chapter three (Saiz, 2001) that conservatives are reluctant to interfere in the economy. It was also found that Bush' fiscal policy did influence the revenues on the federal budget. While revenues already dropped due to deteriorating economic circumstances, there revenues dropped even further due to the tax cut introduced by the president. As such, Bush's policy of increased government spending and low taxation increased the deficit on the budget. Congress supported the president´s expenditure policy and, to some extent, his tax-cuts, developing a deficit on the congressional budget resolution as well.

Conclusions with regard to internal factors

With regard to subquestion 3 (federal budget policy) it is concluded that:

- the federal budget policy between 1996 and 2006 was a policy of low levels of expenditure, higher levels of taxes and a focus on budget balance. Between 2000 and 2006, the federal budget policy was one of budget deficits, high levels of government expenditure and low levels of taxes;
- the president's fiscal policy – supported by Congress – did influence the budget outcome between 1996 and 2006; the actual budget outcome is determined by a combination of external factors – such as the economic circumstances – and the fiscal policy applied;
- in the Clinton era, the budget balance was positively influenced by the president's fiscal policy – a balanced budget was created by a combination of economically favorable circumstances and a policy of limited government expenditure and tax increase;
- in the Bush era, the president's fiscal policy negatively influenced the budget outcome. The budget deficit was returned due to economically deteriorating circumstances – negatively influencing the revenues on the budget, but the deficit was worsened by the president's fiscal policy of increased expenditure and a considerable tax cut.

With regard to subquestion 4 (role of the actors in the US political system) it is concluded that:

- the president uses his fiscal policy to determine how a balanced budget is sought;
- the president – as an actor in the US political system – does influence the balance on the budget. A president's success, however, depends on the congressional support he receives.
- in the case of high levels of political conflict between a president and Congress, the public approval rates of a president determine whether Congress supports a president's policy;
- Congress – as an actor in the US political system – does influence the balance on the budget.

With regard to subquestion 2 (internal factors) it is concluded that:

- the actors in the US political system and the fiscal policy applied are the two internal factors of influence in determining whether and how a balanced budget is sought and in explaining the budget outcome;
- the president and the budget committees of Congress determine whether a balanced budget is sought;
- the fiscal policy applied by the president and Congress determines how a balanced budget is sought;
- the fiscal policy applied does contribute to explaining the budget outcome. However, other external factors are required to provide a complete explanatory picture;
- the president requires congressional support to realize his fiscal policy, and, thus, to determine his influence on the budget balance.

External factors

Saiz (2001) stated that the circumstances in which the policy is formulated, shape the policy solution.

Subquestion 5 was
What external factors, both economic and political, can be identified between 1996 and 2006 and to what extent did they influence
a. whether and how a balanced budget was sought?
b. the budget outcome?

The external factors identified in chapter four were the economic circumstances (economic prosperity in the late 1990s and economic recession in the first years of the 21st century) and the 9/11 attacks on the USA in 2001. It was found that both events influenced the decision-making process with regard to US budget balance.

Did the economic circumstances determine whether President Clinton decided to seek a balanced budget? This question is tentatively answered with ‘yes’. In chapter two, it was found that President Clinton was faced with an enormous budget deficit at the beginning of his presidency. In his presidential campaign he already made this budget deficit a priority in his legislative agenda. He had to control the deficit, to prevent it from dominating his presidency in a negative way. This being said, it can be concluded that these external circumstances did shape his policy agenda, and more specifically his fiscal policy agenda at the beginning of his presidency. The favorable economic circumstances of the later 1990s subsequently helped him realize this balanced budget. Did it influence how he sought a balanced budget? The answer is yes. During his presidential campaign, Clinton focused his fiscal policy on public investment; however, at the beginning of his presidency, he shifted from public investment to deficit reduction. The size of the deficit forced him to reconsider his strategy and shift to hardcore reduction measures. Did the economic circumstances determine the budget outcome? In answering subquestions 2, 3 en 4 it was already established that external and internal factors are interrelated and both are required to explain the budget outcome.

The second factor were the attacks on the US on September 11, 2001. This factor proved to shape President Bush’s policy agenda. The results show that the war on terror abroad and the urge to protect the homeland from any further attacks increased bipartisanship and led to a fully funding of all the president's initiatives to reach both goals. The fact that President Bush did not opt for a balanced budget, the 9/11 attacks do not explain whether and how a balanced budget is sought. They do, however, contribute to explaining the budgetary decision-making between 2000 and 2006 and indirectly help explain the budget outcome.

With regard to subquestion 5 (external factors) the following can be concluded:
- external factors help explain whether a balanced budget is reached. However, it is the president's fiscal policy choices that ultimately determine whether a balanced budget is on the agenda;
- external factors do help explain how a balanced budget is reached. President Clinton adjusted his fiscal policy at the beginning of his presidency, due to the external circumstances he faced;
- economic circumstances indirectly help explain the budget outcome between 1996 and 2006. The economic circumstances helped President Clinton reach a balanced budget, as revenues increased due to economically favorable circumstances. The economic circumstances worsened the budget balance in the Bush era, when government expenditure was already elevated due to the 9/11 attacks.
- The 9/11 attacks help explain the expenditure side of the federal budget between 2000 and 2006, with increased spending levels on the budget functions 'defense' and 'homeland security'.
- External circumstances may either help shape a president's fiscal policy or determine the contents of his fiscal policy. Either way, the external factors do not entirely determine the budget outcome, but they are found to help explain the budget balance between 1996 and 2006.
- These findings support the theoretical view of Saiz (2001), that the circumstances shape the policy solutions. External factors have a determining impact on the budgetary decision-making process.

An overall conclusion: Answering the research question

The research question central to this research project, was:

How can the balance (deficit/surplus) in the annual federal budget of the United States of America between 1996 and 2006 be explained?

Based on the results obtained in this research project and considering the conclusions presented above, the central research question can be answered as follows.

The balance in the annual budget of the United States of America between 1996 and 2006 can be explained by the fiscal policy decisions of the president – supported by Congress – and the external circumstances – the economic circumstances, but also the 9/11 attacks on the US in 2001 – influencing the political decision-making process and the revenues on the budget.

- Between 1996 and 2000, the balance is explained by an active fiscal policy of president and Congress focused on reaching a balanced budget, by limiting government expenditure and tax increases. The favorable economic circumstances help increase revenues and thus to create a balanced budget three years before the aimed date (1999 instead of 2002).

- Between 2000 and 2006, the budget balance can be explained by a president's fiscal policy focused on increased spending an a considerable tax-cut, in combination with economically worsening circumstances – which deteriorated levels of revenue on the budget. The externality of the 9/11 attacks further increased the president's spending levels, thus worsening the deficit even further.

Suggestions to improve the US federal budget process

Based on the results found in this research project, a number of suggestions can be done to improve the US federal budget process. The first suggestion concerns the data provided by the central control organs OMB and CBO for budgetary calculations. While the president uses the OMB data in formulating his budget proposal, Congress uses CBO data. As both organs use different projections and numbers, the data provided to each of these political actors differ. This is, for example, found in the revenues on the budget; the tax revenues differ on the presidential budget proposal and the congressional budget resolution, even though in practice revenues can factually be determined as the money is actually received at the Department of Finance. Ensuring that both the president and Congress use the same data for their projections and budgetary calculations would help making the budget process more transparent and efficient.

A second suggestion concerns the role of Congress in the US budgetary process. Both the House of Representatives and the Senate formulate budget resolutions, that are then integrated into a concurrent congressional budget resolution after months of mutual deliberation. It would speed up the budgetary process if the four budgetary committees in the House and the Senate would work together, coming to one budgetary proposal that could then be voted in both houses.

A third suggestion is to oblige the president to submit a balanced budget. Buchanan (1986: 46) argues that "politics should be limited to that set of interactions where private values or interest spaces come into potential conflict". He argues that only constitutional constraints can stop the members of the political order to seek their-self-interest. In this view of public choice only constitutional constraint ensures that a balanced budget is created. A constitutional amendment to oblige Congress to adopt a balanced budget has proved to be a bridge too far, but the president has no constitutional obligation to submit a budget; why not initiate an experiment in which the president himself starts the political deliberation process with a balanced sheet. Congress is allowed to amend the contents of the budget but is also prohibited to create a deficit on the budget, the totals on the president's budget have to be respected. Obliging both political actors in the budget process to formulate a balanced budget creates a limited framework in which both actors can participate. It also means that large budget functions, that no place a heavy burden on the US budget – such as social reform, Medicare, etc. – have to be reformed. It will save the US economy an enormous amount of money in debt relief and interest payments; these means can be used to realize the necessary reforms on the large budget devourers.

Limitations to research project

Of course, the scope of this research project was limited. Not only in time, from 1996 to 2006, but also with regard to the elements included in the analysis. This research project has not been executed flawlessly. The main limitation of this research project is the level of analysis applied. It is found that at a macroeconomic (total outlays / revenues on president's budget and congressional resolution) and at a semi macroeconomic level (distinction between mandatory and discretionary spending) the president's budget and the congressional budget resolution are quite similar. Totals in outlays and revenues on both budgets are remarkably similar, also the development in budget balance and in mandatory and discretionary outlays on a number of different budget functions show a similar pattern. However, it is a fact that the budget is the result of intense political deliberation. This is not found in the results presented in this research project. To identify these political processes, analysis needs to be performed at microeconomic levels – by analyzing the discretionary spending on a specific budget function of the president's budget and compare it at a similar level to the congressional budget resolution.

Another limitation is that fact that, in the context of this research project, the concurrent congressional budget resolution is considered to be one single unit. Of course, the researcher realizes that the congressional budget resolution is the product of the budget resolution of the House and the amendments of the Senate to the House's resolution. However, given the data available, it was decided to not consider both documents separately, as calculations would become necessary. This would alter the data, making the results less valid. To gain insight into the political process behind the federal budget, it would be of interest to include the House's resolution and the Senate's amendments separately.

A third limitation concerns the statistical outcome of the results found in this research project. None of the results prove to be statistically significant. This implies that the results cannot be generalized to the theory of public choice formulated in chapter three. Further research is required to determine why the results are not significant and to improve the research design.

Of course, this is not a comprehensive list of limitations. These are, however, the main limitations identified during the research project itself. Researchers reading this research paper will identify other limitations in this research project and it would be of value to hear these criticisms.

Suggestions for further research

Further research is required to further analyze a number of the conclusions drawn in this chapter. First of all, future research can include a number of other external factors in the analysis, such as the media and interest groups. These elements were left out of this current research project, given the scope of the project. Second, further research can include a larger timeframe, in order to test the results presented in this research project. This research project was limited to a period of eleven years and a limited number of presidents. By including other presidents in the analysis, this conclusion can be confirmed or rejected. However – given Obama's statement at the beginning of his term that he would not aim for a balanced budget given the economic hardships facing his presidency, the conclusions formulated in this research project seem to be valid. A third option for further research can be the political process behind the US federal budget, as already stated above with regard to the limitations of this research project. Fourth, it would be of interest to test whether the conclusions of this research project differ at another norm for incrementalism. In this research project, incrementalism was defined at a 1% growth limit; what if the norm was set at, for example, 5% - which is another common denominator in literature on incrementalism?

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Endnotes:

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[i] For a more detailed description of the Balanced Budget act, please see chapter 2.

[ii] This is not to say that, at lower levels, there is no political deliberation before formulating a final proposal; to answer this question, further research is required.

[iii] What, then, explains this contradiction between the expected hostilities between the president and Congress and the found bipartisanship? The answer may very well be found in the political decision-making process itself. The outcome of the process may be very similar for both parties, and the hard data on this outcome – being the concurrent budget resolution that is only vetoed upon twice in twelve years on minor policy themes – may present bipartisanship, but the process up to reaching this outcome may have been politically rough. An example is the political battle on how to spend the budgetary surpluses, as was presented in appendix IV. The surplus on the president's budget is almost identical to the surplus on the concurrent congressional budget resolution, but high levels of political conflict can be found on expenditure of the budget. Another example is the fiscal year 1999, when President Clinton threatened to veto seven appropriations bills because the House proposed a 1% cut on the president's total budget proposal (Antonelli, 1998). However, just one veto sustained as Congress did not attempt to override the veto. To answer this question, further research is required.