September 2024

The Deficit-Hawk Takeover

How Austerity Politics Constrained Democratic Policymaking

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Acknowledgments

The author would like to thank Tim Barker, Dan Berger, Eileen Boris, Brent Cebul, David Dayen, Oskar Dye-Furstenberg, Lily Geismer, Claire Greilich, Hannah Groch-Begley, Suzanne Kahn, Stephanie Kelton, Nelson Lichtenstein, Isaac Miller, Alice O'Connor, Michael Linden, Lindsay Owens, Elizabeth Pancotti, Charlotte Rosen, Nathan Tankus, Vanessa Williamson, and Aastha Uprety for their feedback, insights, and contributions to this paper. Portions of this brief have been reprinted with permission from *Mastery and Drift: Professional-Class Liberals since the 1960s*, edited by Brent Cebul and Lily Geismer, published by the University of Chicago Press © 2025. All rights reserved.

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Introduction: Tracing the History of Deficit Politics

In the spring of 1977, soon after being elected, President Jimmy Carter had a difficult encounter with Democratic congressional leadership. He wrote in his diary that "the congressional leadership breakfast was devoted almost entirely to expressions on the part of the liberal members (Tip O'Neill, Shirley Chisholm, and John Brademas) that we were neglecting social programs in order to try to balance the budget in four years." Carter noted that O'Neill, then Speaker of the House, "flinched visibly whenever we talked about balancing the federal budget or constraining any of the Great Society programs" (Carter 1982, 73).

In the 1970s, leaders within the Democratic Party were divided on how to approach public spending and federal deficits. Carter represented a newly prominent wing of the party that was moving away from the Rooseveltian embrace of Keynesianism—utilizing public policy, including government spending, to try to ensure economic stability—and instead favored balanced budgets. While most Democrats still generally believed in some degree of countercyclical policies in a recession, after Carter, they became less willing to utilize deficits to fulfill the goals of economic stability and were more cautious in their countercyclical initiatives. By the end of the century, one side had won this debate about party priorities. In 1993, President Bill Clinton raged sarcastically, "Where are all the Democrats? We're Eisenhower Republicans here, and we are fighting the Reagan Republicans. We stand for lower deficits and free trade and the bond market. Isn't that great?" Despite Clinton's frustration, this new consensus would only solidify over the rest of his time in office. By the 2000s, Democrats across much of the ideological spectrum had firmly embraced the gospel of balanced budgets.

This brief explores how this transformation in approach came about. How did the party most associated with the New Deal, Keynesianism, and countercyclical, fiscal-directed economic management become a party that sought to adhere to balanced-budget fiscal orthodoxy? Why did Democrats embrace a framework that demonized deficits and sought their reduction as a means to lower interest rates and facilitate private sector investment, a fiscal approach that tolerated the organized abandonment of the population to the market and constricted the ambitions of the public sector (Gilmore 2002)?

In the 1940s, liberals debated various means of direct and indirect government investment, but they took as a given that the private sector was ill-equipped for the task of stabilizing investment across business cycles, and thus stabilizing the production of needed goods and services (Harris 1948, 372). The ascent of Democratic deficit hawks ratcheted down the expectations of governments, suggesting that the most important thing policymakers could do is not to provide for the public, but to satisfy private investors.

Democratic deficit hawks believed shrinking the deficit would encourage the Federal Reserve to lower interest rates, which would catalyze private investment and ultimately create new jobs (Rubin and Weisberg 2004, 355–56). Producing a public good or service ceased to be the key metric of sound economic policymaking. Instead, a policy's cost-effectiveness or impact on the deficit took precedence. The government's role was thus mainly to create a climate that pleased private businesses and investors, upon whom, they believed, the social and economic vitality of society overall now rested. As this form of politics became entrenched within the Democratic Party, the deficit hawks constrained social spending proposals at all times, even during recessions.

To be clear, the deficit is important to economic policy, though not in the way that deficit-hawk rhetoric represents it. According to sectoral-balance analysis, developed by British post-Keynesian economist Wynne Godley, a federal government deficit will be offset with a surplus in the nongovernmental sector, and vice versa: A government surplus will be counterbalanced with a nongovernmental or private deficit (Godley 1999). Sectoral-balance analysis emphasizes governmental and nongovernmental sectors as different accounting identities.

Versions of this viewpoint were influential within New Deal–era economic debates. When he was at the Treasury Department in 1934, economist Lauchlin Currie developed a data series called the "Net Contribution of the Federal Government to National Buying Power." This series would render the net surplus or deficit of government expenditures minus tax receipts to analyze the government's impact on the economy. If the government took in more tax receipts than it spent—i.e., reducing the budget deficit—it would generally operate as a contractionary force on the economy. And by contrast, if the government received less in taxes than it spent—increasing the deficit—then it would serve to stimulate the economy (Currie 1938). Decades later, economist Alan Sweezy, Currie's Keynesian compatriot, emphasized the importance of Currie's innovation: "This was both a technical improvement on the official deficit as a measure of the impact of the government's fiscal operations on the economy, and even more important a semantic triumph of the first magnitude," he stressed (Sweezy 1972). Yet, this perspective was never able to become hegemonic in the Roosevelt administration or beyond, as Currie's boss, Treasury Secretary Henry Morgenthau, adhered to more traditional fiscal conservatism (Zelizer 2000).

Instead, relative intellectual incoherence would become a hallmark of post–New Deal economic policy, with the disjointedness on the issue of public debt a particularly salient feature of this general dynamic (Smith 2020, 59). While most Democratic policymakers after the New Deal generally agreed that some degree of ameliorative countercyclical economic policy was necessary during a recession, there was never firm agreement on the specific role deficits and their composition should play.

Additionally, even from a sectoral-balance—or Currie-inflected "net contribution"—perspective, the composition and distribution of specific fiscal policies would shape their impacts.[1]

In exploring how deficit hawks came to dominate Democratic policymaking between the 1970s and the 2000s—and what was lost as a result—this paper argues that we need a new approach. In the last four years, we have seen an administration willing to break with a half century of neoliberal orthodoxy in much of its economic policy, but this shift is tentative and piecemeal. Policymakers' decisions about how to manage deficits in the next few years will be critical to defining a progressive, post-neoliberal approach to economic governance.

Rethinking Keynesianism and Political Struggle

The global economic turmoil of the 1970s shook every facet of social life—from daily diets to wait times for gasoline—and would drastically reshape economic ideas. In the first half of the decade, two significant supply shocks pushed up the rate of inflation. The first shock came to food systems in 1973–74 due to bad harvests and crop failures, among other factors. The second and more famous shock to energy markets was directly political in nature. In response to US support for Israel in the 1973 October War, Arab oil producers in the Organization of Petroleum Exporting Countries (OPEC) declared an embargo on the US producer states in OPEC and then used their market power to raise the price of oil, which soon quadrupled. Later in the decade, a similar supply-driven dynamic drove up food prices thanks to the idiosyncrasies of weather and agriculture. Each year between 1978 and 1980 saw food's share of the consumer price index (CPI) grow by over 10.3 percent. By 1981, the food shock had subsided, falling to 4.4 percent (Blinder and Rudd 2013, 138–39; Brew 2022, 122). Such supply disruptions also impacted energy markets, as the Iranian Revolution produced a second oil price spike. These shocks to supply created a difficult mix of economic impacts—recession combined with inflation.

[1] For example, with regard to managing inflation, it is true that fiscal contraction would likely undermine inflation due to the removal of purchasing power from the economy. But much would depend on *how* this would be done. For instance, one Congressional Budget Office analysis of the Inflation Reduction Act (IRA) notes that the law's new regulations on drug pricing will reduce costs to Medicare and Medicaid and result in $237 billion in deficit reduction between 2022–31. This provision would not necessarily have the deleterious impact on purchasing power that other kinds of deficit reduction would have. Similarly, reducing the deficit via stronger Internal Revenue Service enforcement of tax collection from the wealthy would be unlikely to undermine purchasing power in significant ways. Accordingly, the IRA's discussion of the deficit is an improvement to the Rubinomics-inflected one that reigned from the 1980s to 2020, which held: Reduce the deficit irrespective of inflation. See Higgins 2023.

These economic challenges also brought a new word into the public lexicon: stagflation, or stagnation plus inflation. Conservative policymakers in the Nixon-Ford administration used a variety of techniques—including relatively successful wage and price controls—to try to balance the economic turmoil with Nixon's 1972 reelection ambitions (Elrod 2021). But after his victory, the administration turned toward what they called the "old-time religion" of fiscal and monetary austerity—a far cry from Keynesian policies (Department of Treasury 1974; Stein, forthcoming). During this moment—when loosely Keynesian economics dominated intellectually—policymakers struggled to find answers that could accord with their broader ideological principles, were politically actionable and popular, and could be economically successful. They did not find much durable success.

The lack of policy success to manage stagflation led many to claim that Keynesianism could not answer the problems of the 1970s, a point commonly echoed by many historians (Gerstle 2022, 62). Yet it was not that Keynesianism was unable to understand or address the economic turbulence of the 1970s (Blinder 2022, 80; Eichner 1986, 113–14). Rather, neo-Keynesianism, the dominant form of Keynesianism at the time—which grafted a limited version of Keynesian macroeconomics onto neoclassical microeconomic foundations to forge the famed "neoclassical synthesis"—had difficulty creating remedies that policymakers found politically efficacious.

By contrast, a group of post-Keynesianism economists such as Joan Robinson and Alfred Eichner *did* have sound and even cutting-edge analyses and ideas of creating stability, but the core challenges they faced were political, not intellectual (Eichner 1978, 17). In contrast to the neo-Keynesian school, Robinson famously dubbed the neoclassical synthesis as "bastard Keynesianism . . . [which] never even pretended to discuss the use of resources." In general, however, it was not that either neo-Keynesian or post-Keynesian analysts lacked an intellectual understanding of simultaneous inflation and unemployment; what they lacked in the 1970s was the political power to actualize their solutions. Robinson further stressed this point regarding the inflation of the early 1970s: "So-called Keynesian policy was not really applied in such a way as to maintain stability," she emphasized (Robinson 1974; Robinson 1976). Robinson's former student, economist Gar Alperovitz, was a leader of Consumers Opposed to Inflation in the Necessities (COIN), an organization that put forward innovative strategies for managing inflation. These included income policies like wage and price controls, credit controls, and economic planning (Alperovitz and Faux 1981). Some of COIN's proposals even received support from the AFL-CIO leader George Meany and the labor movement. But COIN's post-Keynesian solutions were not tried in any serious way. As Alperovitz later reflected, "we got meetings with the president . . . that was a symbolic achievement . . . but there was no successful legislative achievement at all."[2] The fact that policymaking is rarely steered by optimal

[2] Gar Alperovitz, "Consumers Opposed to Inflation in the Necessities," phone interview with author, August 16, 2019.

solutions should not be taken by analysts as the failure of Keynesianism. Accepting such assessments risks perpetuating the idea there was no alternative to neoliberalism.

One outcome of the melee over economic policy in the 1970s was that policymakers who blamed deficits for the decade's inflation began to reject deficit spending. This signaled a shift away from the ideas of the early 1960s. In 1962, President John F. Kennedy devoted a portion of his Yale commencement address to the Keynesian economics of deficits—representing a high point for presidential leadership on the issue of public spending. "The myth persists that federal deficits create inflation and budget surpluses prevent it," he said. "But honest assessment plainly requires a more sophisticated view than the old and automatic cliché that deficits automatically bring inflation." At least on that day, Kennedy wanted to focus on different questions—those concerned with the full implementation of resources. "How can we generate the buying power which can consume what we produce on our farms and in our factories?" he asked (Kennedy 1962). Kennedy's questions were at the heart of the post-Keynesian analytic Robinson and Eichner had outlined. But such questions were never able to become hegemonic within the party, with the aforementioned incoherence on deficits typifying the prominent stance.

While many at the time—and still today—viewed inflation as resulting from an overheated economy, Eichner and the post-Keynesian emphasis on resources differed. Inflation was not due simply to excess demand. It was not, as the famed cliché usually says, "too much money chasing too few goods." For Eichner, inflation was about resources and their distribution in relation to consumer demand for them. Accordingly, slowing the economy and inhibiting production via high interest rates was counterproductive, since it decreased output, thus further aggravating prices. Nor was reducing aggregate demand in an attempt to cool inflation a socially just option, since it would likely add increased unemployment atop rising prices (Eichner 1986, 135–36). "The conventional policy instruments, by curtailing the level of economic activity, simply reduce the amount of income and output available for distribution, thereby heightening the social conflict underlying the inflationary process," Eichner noted in 1978 (17). In the years that followed, however, overemphasis on the deficit by economists and policymakers occluded more fundamental questions about resources—what they are, how they are made, and how the government could direct their creation and distribution.[3] Such nuanced viewpoints regarding deficits, inflation, and resource distribution would become relatively obsolete within the Democratic policy establishment, in favor of deficit-hawk politics.

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[3] For this line of creative thinking, I am informed by Fred Lee's emphasis on the social construction of resources and the capacity of the state to direct their creation. I am also indebted to conversations with Nathan Tankus on this point, as well as Lee's overall thought. See: Lee and Jo 2018, 64, 208.

Abandoning Deficit Spending in the 1970s

Although deficit-hawk politics did not begin in the 1970s, they took on rising salience because of the stagflation crisis and Jimmy Carter's political ascent. In the late 1950s, even a historically hostile organization like the Chamber of Commerce had softened its stance toward deficit spending, explicitly opposing any effort to mandate a balanced budget (Collins 1981, 169). But during Carter's presidency—and alongside a shift in economic thinking that sought to use the state to protect the market—the Democrats' relative embrace of deficit spending began to unravel (Slobodian 2018, 6).

President Gerald Ford had governed via austerity in terms of expenditures. He had vetoed a proposal from congressional Democrats for ameliorative public works and jobs programs and vowed to veto any other congressional spending unrelated to energy or the military. But in terms of broader fiscal policy, he had also authorized a relatively stimulative 1975 tax cut as a response to that year's recession (Ford 1975; Stein 2016; Stein forthcoming; Meeropol 2001). As a result of the tax reduction and the recession, the deficit had been increasing, and Carter had homed in on it to one-up his opponent for a lack of fiscal rectitude during the campaign.

But even after the election, Carter carried such an attitude into his administration. His disdain for deficit spending put him out of step with his Democratic colleagues, such as House Majority Leader Tip O'Neill, and provoked conflict within the Democratic caucus. But he was drawing on an alternative historical lineage than those who admired the party of President Franklin D. Roosevelt or the economic theories of Keynes. "I had pledged during my campaign to emphasize fiscal responsibility and strive for a balanced budget," he later wrote. "This had not been a popular stand with some members of my party, but it was compatible with the beliefs of Southern Democrats and of Democratic Presidents I admired, like Jefferson, Madison, Jackson, and Wilson" (Carter 1982, 21). Appealing to middle-class and suburban constituencies without union contracts and cost-of-living-adjustments, Carter linked budget deficits to inflation and framed reducing inflation as more important than reducing unemployment (Morgan 2009, 47).

While Carter's background was in state and local politics, where balanced budgets were far more necessary and often legally required, he expressed a seemingly overarching moral philosophy that federal deficit spending was sinful (Schragger 2012). Carter's assessments put him closer in alignment with that of Ford's former treasury secretary William Simon, who in 1978 and 1980 published widely read books attacking social spending and deficits as sources of inflation. While not speaking in the culture-war framing embraced by Simon —for whom deficit spending had a moral component linked to reactionary views on racial and sexual politics (Simon 1978; Simon 1980)—Carter essentially accepted the terms of debate presented by Simon and Republicans. Accordingly, Carter criticized fellow Democrats like Speaker O'Neill and

Rep. Chisholm, "to whom the phrase 'balanced budget' coming from a Democratic President was almost blasphemous" (Carter 1982, 81).

As Carter tried to develop a strategy to manage inflation, deficit reduction became even more critical. This strategy emerged partly due to the removal of other options to manage inflation—such as utilizing forceful price controls, which were applied during World War II under Roosevelt's Office of Price Administration and used during Nixon's initial experiment with them in the lead up to his 1972 reelection campaign. But organized business lobbies like the Business Roundtable had successfully forced these techniques off the political table (Waterhouse 2013). Inclined toward economic conservatism and without adequate political tools at his disposal (Schultze 2011), Carter appointed Federal Reserve Chair Paul Volcker. Volcker then sought to deflate the economy by any means necessary: a harsh recession—the worst since the 1930s. At the time, many economists and pundits blamed inflation on deficits and what they construed as disproportionate money in circulation, under the belief that inflation simply resulted from excess demand. Volcker too, like others at the Fed, promoted the theory that deficits accelerated inflation. As political scientist James Savage has emphasized, "the loss of legitimacy [for deficits] was largely caused by Democratic leaders who failed to defend the policy of deficit spending when it most needed defending, during the mid and late 1970s" (Savage 1988, 162). This trend would intensify in the 1980s under the leadership of an influential set of New Democrats and their advisors.

The Political Entry of Robert Rubin

Jimmy Carter's vice president, Walter Mondale, would further entrench Carter's deficit-hawk stance during his 1984 run for the presidency. Despite jobs and unemployment being among the top concerns in the country after years of grinding recessions, Mondale eschewed running on a significant program to address unemployment. Instead, he focused on the deficit. Like President Ford's, Reagan's mammoth 1981 tax cut had grown the deficit. Yet as it was especially tilted in favor of the wealthy—dropping the top marginal tax rate from 70 percent to 50 percent and reducing the capital gains tax from 28 percent to 20 percent—it did not support working and middle-class households struggling under the weight of a brutal recession, a curtailed social safety net, and high interest rates (Brownlee 2016, 186). But accepting the Democratic Party nomination for president, Mondale did not offer much. He told the American people that he would raise taxes: "By the end of my first term, I will reduce the Reagan budget deficit by two-thirds . . . Mr. Reagan will raise taxes, and so will I. He won't tell you. I just did." At the time, almost 9 million people were unemployed—they were still awaiting the economic recovery that had supposedly already begun. Yet, Mondale told his audience that there would be no significant public spending to counteract Ronald Reagan's domestic austerity or mollify their pain. Mondale warned Congress not to even try him. "We must cut

spending and pay as we go. If you don't hold the line, I will. That is what the veto is for" (Bush et al. 1984, 489).

Mondale's views were hardly a shared assumption among the Democratic Party or its milieu of economists. A few months earlier, at a hearing of the Joint Economic Committee (JEC), Democratic representative Augustus Hawkins had described this economic framework as a setup. "In placing deficits as the big issue that we go into this discussion revolving around, we get into the trap of using that as merely an excuse for cutting domestic spending," he said (Hawkins 1984). At the hearing, leading economist Robert Eisner underscored that federal deficits were stimulative. "The debt of the Government is an asset to private individuals," Eisner had written a few months earlier in the *New York Times*—a view he echoed in the JEC hearings (Eisner 1983). Economist Leon Keyserling, a New Deal stalwart who had served as head of President Harry Truman's Council of Economic Advisors (CEA), also stressed that private debt—not public debt—was the issue to be preoccupied by. "I do not see how anybody can deny that this kind of increase in the consumer debt burden is more serious and less manageable than the increase in the federal deficit," he said (Keyserling 1984). After all, private individuals—unlike the federal government—do not control the currency; private individuals—unlike the Congress—do not direct the Federal Reserve's policy mandates. Despite rhetorical appeals from politicians that the federal government needed to tighten its belt, the federal government was not a household.

But Mondale had been prodded along on his deficit-phobia by his business council of some 300 executives. Especially prominent was Goldman Sachs's Robert Rubin, who operated as Mondale's campaign finance chairman in New York. Rubin was joined by other leading investment bankers in visiting Mondale's home the month of the party convention to discuss his deficit-reduction plans, pushing him to balance the budget and increase taxes. As one attendee explained, "It's very important to have senior officers of financial firms who are Democrats . . . Democrats, as a matter of business policy, need to take a strong and aggressive position on curbing deficits" (Miller 1984). Rubin shared this view. And his aversion to federal deficits—along with his influence on the Democratic Party—would only increase over the coming years. Soon, it earned its own moniker: Rubinomics.

At the core of Rubinomics was deficit reduction as a strategy to lower interest rates to stimulate private investment. Per Rubinomics, high deficits inevitably lead to high interest rates, which curtails borrowing, investment, and economic activity. As Rubin explained in his memoir, his disdain for Reagan's budget deficits propelled him into deeper involvement with the Democratic Party. While Rubin did not eschew deficits wholesale, especially not in a recession, he feared the long-term fiscal and economic situation for the US. When questioned on the shaky empirical veracity of the matter, however, Rubin would appeal to "the laws of economics" or "introductory economics," under the notion that—at some point or another—what he considered the precarious budgetary position of the federal government would provoke a crisis. "The first thing

you learn in Introductory Economics," Rubin argued, "is that supply and demand determine price." Under this thinking, as long as US government debt was in ample supply, bond traders would demand a higher premium in order to buy it (Rubin and Weisberg 2004, 93, 119–20, 355–56, 363). But, in the 1980s, the candidates who backed Rubinomics —including Mondale and, in 1988, Michael Dukakis—lost their elections, partly due to their focus on the issue of government debt. Despite such electoral failures, the New Democrats still managed to successfully narrate the party's challenges in the decade as a result of being too solicitous towards organized labor, civil rights, and environmental organizations (Geismer 2022).

While Mondale later lamented to Rubin that he failed to make the direness of the nation's fiscal condition relevant to voters' lives, there was a different audience in mind for deficit-hawk politics (Rubin and Weisberg 2004, 356). Geared as it was toward ephemeral ideas of business confidence, deficit-hawk politics helped fuse Democrats to the finance sector and Wall Street (Schlozman and Rosenfeld 2024, 195–203). By the 1990s, however, the deficit-hawk framework would receive some degree of electoral validation during the Clinton administration.

Bill Clinton and the Triumph of Rubinomics

As Bill Clinton transitioned into the presidency, he was caught between two visions for economic policy. There was, on the one hand, an industrial policy and public investment agenda championed by his future labor secretary Robert Reich. On the other hand was the faction that Rubin embodied, which was most concerned with deficit reduction. Though deficit reduction was present as a campaign agenda item, it was not necessarily dominant. It was only during the post-election transition period that shrinking the deficit became the key economic policy lodestar.

Clinton's deficit reduction agenda was also bolstered by the third-party candidacy of Ross Perot, who made it the heart of his campaign. As Bruce Reed, Clinton's deputy campaign manager, later reflected, "[Perot] was concerned about the deficit. He had tapped into Americans' concerns about how Washington was broken. Clinton's natural instincts were in that direction" (Reed 2004). This view was echoed by Rubin and others in the campaign (Rubin 2011; Blinder 2003). Democratic Leadership Council (DLC) leader Al From later considered cutting the deficit and reducing public sector jobs to be a crucial factor in demonstrating that Clinton had the "toughness to govern" and "the ability to stand up to interest groups" (From 2006). For From and the DLC, the interest groups they wanted to defy were members of the Democrats' traditional coalition: civil rights organizations and labor unions.

For Rubin, this robust, multi-angled attack against the deficit was essential to shaping public attitudes. "You had relatively high unemployment and there was a broad feeling, among the American people, that this was associated in some way, in some causal way,

with our fiscal deficits," he said. If it took a popular front and a diverse alliance against fascism in the 1930s to construct an agenda hospitable to deficits, it took a kindred one to unmake it. "I do think that that [anti-deficit attitude] was a product of a lot of different voices," Rubin stressed, highlighting the role of Clinton's opponents, Perot and Democrat Paul Tsongas (Rubin 2011). While overturning the Keynesian agenda had many components, the abandonment of deficits by Democrats was a critical one.

When constructing his White House team, Clinton surrounded himself with fiscal hawks who would ultimately undermine his public investment agenda. For treasury secretary, Clinton appointed Lloyd Bentsen, a DLC member and former head of the Senate Finance Committee (Seaberry 1986). At the Office of Management and Budget (OMB), he placed another DLC member, former congressman and deficit hawk Leon Panetta. As Panetta's deputy director, Clinton appointed Alice Rivlin, an economist and arch deficit hawk who had been the first director of the Congressional Budget Office (CBO). Rivlin had established the CBO as a key institution of ostensibly nonpartisan, anti-deficit politics focused on cost effectiveness.

Clinton placed Rubin in charge of the newly created National Economic Council (NEC), which was intended to elevate economics and its leitmotif of efficiency as an overarching style of reasoning in policymaking (Berman 2022, 217). Although the Council of Economic Advisors (CEA) had existed since 1946, when it was established as part of a broader Keynesian agenda under the 1946 Employment Act, its role had since grown to focus more on economic analysis than on policy. In Rubin and Clinton's vision, the NEC would have a more robust role in policymaking. As Rubin recalled, Clinton wanted the NEC "to do for economic policy what the National Security Council did to coordinate foreign policy" (Rubin and Weisberg 2004, 107).

Powerful as Rubin was, the deficit-hawk attitude went far beyond him. Chris Edley, a senior economic policy advisor on the transition team and associate director at OMB, stressed how deficit-phobia was a relatively natural inclination for Clinton. "I don't think it's fair to portray [Rubin] as some kind of a Svengali who captured Clinton's imagination," he said. "[Clinton] came to the presidency as certainly a fiscal moderate, if not a fiscal conservative." Having worked on domestic policy in the Carter administration and for the Dukakis campaign, Edley thought this understanding of Clinton's disposition toward deficits was crucial to the wider shift in the party agenda that DLC members sought to catalyze. A critical element of this policy matrix, Edley believed, was the shifting rationales for the deficit hawkery. He understood Carter's anti-deficit attitude to be based on the former president's morals. By contrast, the ascent of the NEC and the rising prestige of the economics profession framed the issue differently for Clinton. The establishment of the NEC "created a mechanism for both collecting and amplifying the perspectives of economists," Edley emphasized (2010). By handing issues of public debt and its use over solely to economists, who could argue that quantitative analysis justified their views, the Clinton administration silenced political debates about what the role of government should be.

But despite all the performative sophistication of the economics profession and the NEC, there was not necessarily a coherent science undergirding the assumptions about deficits that so governed their choices. Alice Rivlin was asked in an oral history, "as an economist, how do you determine, say, what is an acceptable and unacceptable level of debt and deficit . . .. What is the science and mathematics that go into something like that?" She replied, "Oh, there isn't science and mathematics" (Rivlin 2011). Rubin made a similar point: "I was concerned that creating credibility with financial markets might take longer than one would hope," he noted, regarding the lag time between deficit reduction action and its effective impact. This was a critical variable in economic policymaking, since it could influence electoral outcomes. If—as intended— deficit reduction yielded lower interest rates but wasn't timed with an electoral cycle, it could make for bad politics. "I remember saying that there was nothing scientific about how much deficit reduction would have credibility and create a real economic impact," Rubin said (Rubin and Weisberg 2004, 121).

Nonetheless, these performances had an audience in mind. Throughout the Clinton administration, there was a widely shared understanding that both Wall Street and Alan Greenspan's Federal Reserve would react favorably to deficit reduction. "For us to achieve those lower interest rates . . . financial markets would have to believe that the administration was serious about deficit reduction," Rubin said (Rubin and Weisberg 2004, 121). Edley similarly recalled, "[they believed] deficit reduction was intrinsically important for economic health. But probably even more important was the effect that a policy of deficit reduction had on Wall Street perceptions" (Edley 2010). Rather than debating the future of public investment and rethinking economic governance after the Cold War, the Clinton administration's economic policy sought to please the Fed, create lower long-term interest rates, and facilitate private investment in the sectors investors deemed most likely to be profitable.

Reflecting on the Clinton administration's deficit reduction, economist Joseph Stiglitz—a former chairman of Clinton's CEA—provided something of a mea culpa on deficit reduction. He noted that the New Democrats went overboard on cutting the deficit, seeking to eradicate the idea of the "tax-and-spend" liberal. He also believed that many of his colleagues and others misattributed the reasons for the relative economic recovery in the Clinton years. "We cannot simply observe that the deficit was reduced and the economy recovered, and say that the deficit reduction *caused* the recovery . . . interest rates would have fallen anyway." As he explained, "the forces taming inflation—weaker unions, increased international competition, increasing productivity—were already at play, and it was the lower inflation as well as the deficit reduction that lowered long-term interest rates." Meanwhile, Stiglitz observed, the Clinton Treasury Department's preoccupation with deficit reduction prevented the administration from taking advantage of lower rates to steer public investment into areas of need. "When the Council of Economic Advisers proposed a modest program to improve the dilapidated conditions of some of our inner-city schools, Treasury,

with its fixation on deficit reduction, spoke against the idea," he recalled (Stiglitz 2003, 53). While the political language of sound finance and deficit reduction was often shrouded in circumlocutions, it had profound implications for the social, economic, and employment security of historically marginalized groups (Lubiano 1992; HoSang and Lowndes 2019). In this way, deficit-hawk politics were bound up with those of race and gender. Given the choice between deficit reduction or investments in and governmental support for marginalized and oppressed people, the cost-benefit calculus of deficit-hawk policymakers consistently tilted toward the former.

This retreat from deficit spending signaled an abandonment of the public sector and meant ceding investment decisions to private actors, with all their attendant discriminatory practices and choices. Completing a campaign promise that angered organized labor but was a core component of the deficit reduction agenda, Clinton sought to reduce the federal workforce by 100,000 people as part of a broader push to reinvent government. By the end of Clinton's presidency, with the federal workforce cut by 426,000 workers, Clinton's lieutenant in the operation, DLC stalwart Elaine Kamarck, boasted of producing "the smallest government since Dwight D. Eisenhower was president" (Kamarck 2013). This highlighted the shift that Clinton's presidency had consolidated. Rather than seeking to advance the public sector and develop public goods, the administration prioritized private-sector jobs, irrespective of quality or industry.

A sectoral-balance perspective puts an even harsher light on the Clinton surpluses that resulted from these choices. Under Clinton's reduced deficits, the personal savings rate plummeted and household debt spiked—this was the other side of policies of "Rubinomics" geared at federal deficit reduction. As economists Dimitri Papadimitriou and Randall Wray noted in 1998, "deficit reduction . . . played a significant role in depressing aggregate demand, which was offset only by unsustainable private sector borrowing" (1). As the Clinton surpluses dragged down the buying power of consumers, families increasingly turned to credit to make ends meet. When Clinton took office in January 1993, the personal savings rate was 8.6 percent. But the rate had fallen to 4.9 percent upon his exit in January 2001. Similarly, debt service payments as a percentage of disposable income also increased during this time, from 10.4 percent in the first quarter of 1993 to 12.1 percent in the first quarter of 2001 (See Figure 1; US BEA 2023; Board of Governors of the Federal Reserve System 2023). Reviewing the 2000 Economic Report of the President, economist James Galbraith emphasized similar conclusions. "Thus we have the Keynesian devolution," he wrote. "Debts have gone private." Presciently, Galbraith warned, "these debts, at roughly four times that of the federal government, have the collective power to keep fiscal drag in check, at least for a time" (Galbraith 2000).

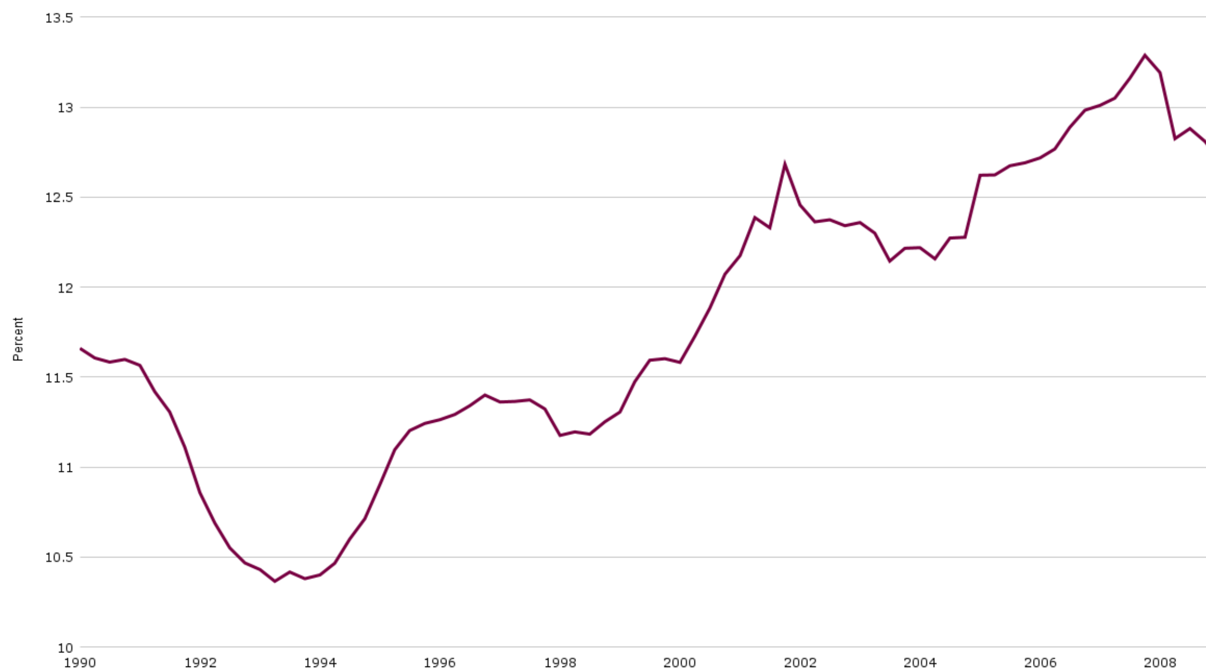

Figure 1: As the federal government balanced its budget during the Clinton administration (1992–2000), household indebtedness increased (Board of Governors of the Federal Reserve System 2024a). Although the Bush administration (2001–2008) renewed deficits, his policies favored the rich and contributed to continued increases in debt service payment rates.

Although from a sectoral-balanced perspective the large deficits of the Bush era would be a net support to the nongovernmental sector, their composition—tax cuts tilted toward the wealthy and expenditures on the military—meant they were less effective as a support for working and middle-class Americans. These tax cuts of 2001 and 2003, combined with the wars in Iraq and Afghanistan, renewed large deficits but generally failed to buoy the wealth of those in the lower three income tax brackets—those who made less than $137,000 (Horton 2017). Thus—although sectoral-balance analysis can provide a guide to the general macroeconomy—the precise composition and distribution of taxation and expenditures play an important role in shaping the social and economic impacts of deficits. The Bush tax cuts, like the Reagan ones before and the Trump ones after, furthered the Republican-led decline of tax progressivity. Each of these tax cuts and their impact on the deficit reduced Democrats' appetite to undertake ambitious public spending.

As Democrats grew increasingly concerned about the deficit, their Republican counterparts focused their attention on pleasing the wealthy while continuing to score rhetorical points by tarring Democrats as "tax-and-spend" liberals. These tax cuts also enabled what Galbraith and others dubbed a "plutonomy," in which a small group of elites with a lower marginal propensity to consume amass and control large amounts of wealth (Galbraith 2010). As he quipped at the time, "quick-convert

Keynesians are unlikely to be good ones," noting that in this case, increasing deficits did little for the broader population. (Galbraith 2003). As a result, the economy became increasingly reliant on this wealthy group for consumer demand, leading their consumption habits to shape investment patterns. Overall, for Bush, debts to the nongovernmental sector were an essential part of his plan for maintaining aggregate demand. Thus, the trajectory of the consumer and household debt service did not shift significantly—and in fact increased—during the era of the Bush deficits (See Figure 1; Board of Governors of the Federal Reserve System 2024a; Board of Governors of the Federal Reserve System 2024b). But those private debts—particularly in housing—would help blow up the world economy in 2007–08, and help usher into office Barack Obama.

Barack Obama and the Hegemony of Rubinomics

As Obama entered office during a historic recession and housing crisis, he relied on many of Clinton's economists and staffers and their policy playbook that overemphasized fiscal discipline. By doing so, his administration constricted their own ambitions about what kinds of economic recovery policies they should even propose. After securing the Democratic Party nomination in the summer of 2008, Obama added Jason Furman as the key economist on his staff, a selection that almost immediately raised red flags from organized labor and progressives. Furman arrived after having directed Rubin's anti-deficit Hamilton Project at the Brookings Institution (Uchitelle 2008). Over the ensuing weeks, Obama began regular conference calls with Rubin's successor as Clinton's treasury secretary, Larry Summers; former Fed Chair and sound-money enthusiast Paul Volcker; ultra-wealthy investor Warren Buffet, and others to evaluate the current economic environment and consider policy responses (Langley 2008). As Obama transition team member Reed Hundt, a colleague of Rubin and Summers in the Clinton administration, described the thinking among this group, "the big risk was that excessive deficit spending might cause the private sector to demand higher interest rates out of fear of inflation" (Hundt 2019, 57). Despite the economic crisis, the Rubinomics framework that dominated the Clinton administration was poised to do the same in the Obama presidency.

With unemployment at 6.8 percent in November 2008 and rapidly rising, president-elect Obama began to formulate a plan for a stimulus (US BLS 2022d). Incoming head of his CEA, Christina Romer, calculated that a $1.7–1.8 trillion fiscal package was needed, but Obama's team could not figure out what to put in such a legislative package without including tax cuts—a strategy they disliked since they were hoping to later balance the budget (Hundt 2019, 131–32). The paucity of shelf-ready projects to invest in was also further evidence of the collapse of political imagination and overall of the abandonment of the public sector during the rise of Rubinomics. Additionally, Summers, who was incoming head of Obama's NEC, dismissed Romer's proposed figure as politically—though not economically—unattainable. He thus

excluded it from the memo that the economics team presented to Obama (Scheiber 2012). Reflecting on this crucial choice, journalist Ryan Grim commented, “Summers was out of his lane, play-acting as a pundit, guessing what was politically feasible” (Grim 2019, 127). Summers recalled, “I did tell Christy [Romer] that we don’t know how to spend $1.7 trillion and it will just freak the room out, so it’s better to leave this out.” Summers’s assessment was also constrained by the attitude of the economists in the room toward deficits. Romer remembered the transition team eschewing her proposals for a stimulus of around $1.2 trillion—which she deemed necessary to achieve an unemployment rate below 7 percent. “Peter Orszag . . . didn’t want to go that big [because the deficit would be so large],” she said (Hundt 2019). The unemployment rate had already risen half a percentage point to 7.3 percent by December; in the month after the election, another 750,000 people had lost their jobs (US BLS 2022b; US BLS 2022d).

The questions Summers had raised about the ability to pass the magnitude of economic plan deemed necessary by Romer were real concerns. But they were also circumscribed by strategic choices. Obama chose not to lobby Congress with the political and economic urgency that the moment demanded (Grim 2019, 128). So, instead of focusing on what was needed, the Obama administration—hamstrung by a deficit-hawk economic team—curtailed their request to a limited, $800 billion stimulus.

In February 2009, Obama opened his first message to Congress by acknowledging the pain of everyday people in the recession. “It’s the worry you wake up with and the source of sleepless nights,” he said. “It’s the job you thought you’d retire from but now have lost.” However, he then reiterated the threat of large deficits and his willingness to “make hard choices to bring our deficit down,” announcing that a Rubinomics framework would follow the recently passed American Recovery and Reinvestment Act:

> I asked this Congress to send me a recovery plan by Presidents’ Day that would put people back to work and put money in their pockets. Not because I believe in bigger government—I don’t. Not because I’m not mindful of the massive debt we’ve inherited—I am. I called for action because the failure to do so would have cost more jobs and caused more hardships. In fact, a failure to act would have worsened our long-term deficit by assuring weak economic growth for years. (Obama 2009)

The president promised that “over the next two years, this plan will save or create 3.5 million jobs” (Obama 2009). But there were 13 million people unemployed at the time (US BLS 2022a). By assuaging the fears of deficit hawks, endorsing Rubinomics orthodoxy, and failing to pursue the robust stimulus that Romer and others suggested was needed, Obama ensured that the impact of the recession would stretch on.

Unemployment kept rising for more than a year after the speech, peaking above 15 million people and 10 percent of the labor force in October 2009. Unemployment remained above 14 million people until January 2011. Still, during his January 2010 State of the Union address, Obama doubled down on deficit-phobia. He affirmed the necessity of the stimulus that was passed nearly a year prior, but then pivoted:

> Families across the country are tightening their belts and making tough decisions. The federal government should do the same . . . Starting in 2011, we are prepared to freeze government spending for three years . . . Like any cash-strapped family, we will work within a budget to invest in what we need and sacrifice what we don't. And if I have to enforce this discipline by veto, I will. (Obama 2010)

Just as Mondale had issued Congress a veto threat with almost 9 million people unemployed as he accepted the Democratic nomination in 1984, President Obama echoed this move. This time, however, it was to a Democratic congress, 10 months before a midterm election, with the unemployment rate at 10 percent—15 million people were actively searching for work, and who knows how many more had quit looking. Unemployment would not return to February 2009 levels for another three years (US BLS 2022a; US BLS 2022c).

Partly because of inadequate federal support, state budgets were ravaged, as revenue from income, sales, and property taxes all dropped. States have far less debt-bearing capacity than the federal government because they do not control the currency. Additionally, almost all states have balanced budget laws and consequently slashed their budgets in their attempts to manage the crisis. Although insufficient, the stimulus did help—just not enough. In the fourth quarter of 2009, with unemployment hovering around 10 percent with 15 million people looking for work, combined local, state, and federal government spending declined. By 2012, 46 states were cutting services and laying off workers (Pollack 2011). Between July 2008 and May 2014, the local education sector lost more than 4 percent of its workforce, 350,000 employees. To this day, the education sector has never returned to the staffing levels of July 2008 (US BLS 2024).

Thanks to the deficit-hawk principles that Democrats embraced—and which constrained their own policy ambitions—the social and economic effects of the 2008 recession stretched far into the 2010s, shaping what many have called a "lost decade." It took almost the entirety of Obama's presidency for unemployment to fall below 5 percent, first hitting that mark in January 2016. In contrast, the rapid economic recovery from the COVID-19–induced recession has provided support for the hypothesis that much more could have been done to help the economy after 2008, had policymakers overcome their fear of deficits. After the 2008 recession, the unemployment rate did not dip below 5 percent for any consecutive 3-month span until December 2016, or 90 months after the recession technically ended. By contrast,

powered by large fiscal support, the economy hit the same mark 18 months after the COVID-induced recession ended, and unemployment has remained below 5 percent since September 2021.

Conclusion: Beyond the Deficit-Hawk Paradigm

Amid seemingly dry debates over the budget, it is easy to lose sight of the real harm anti-deficit policy choices wrought on the nation's most vulnerable groups, including millions of debt-saddled and downwardly mobile Americans. Importantly, these debates about the deficit were also debates over state design, state capacity, and democratic governance (Rahman 2023; Rahman 2024a).

Deficit-hawk politics reflected a broader transformation in the Democratic Party's political priorities—a policy pivot catering to "Reagan Democrats" and suburban white voters at the expense of the labor and civil rights movements. It was about reordering public policy to prioritize private-sector jobs, and it placed wealthy investors, venture capital funds, and banks fully in the driver's seat of deciding what goods and services were created—a retreat from the more ambitious aspirations of New Deal liberalism (Gilbert et al. 1938, 42-43, 56-62; Wallace 1945, 214–215; Keyserling 1948, 81–94). From the deficit-hawk view, the public sector existed to do things like assist capital formation via tax incentives and accelerated depreciation schedules, and to train workers for whatever the private market foresaw as profitable. The public sector's role in creating economic stability for households, on the other hand, would be shrunk. Whether deficit hawks recognized it or not, debates over the role of deficits were fundamentally about whose life chances were worthy of governmental support.

While the New Deal's social compact had imagined—if never fully realized—employing deficit spending to ensure economic stability, the commitment to balanced-budget orthodoxy heralded a retreat from these aspirations and techniques. The official platforms of the Democratic Party track this transformation in policy priorities and prevailing ideologies, from the rise of full employment in the 1940s to the dominance of balanced budgets after the 1980s. The 1972 Democratic Party platform, reflecting the power of the full-employment agenda, emphasized that "full employment—a guaranteed job for all—is the primary economic objective of the Democratic Party" (The American Presidency Project 1976). Such a view was echoed again in 1976 and 1980, as it had been in prior decades. But by 1984, full employment barely warranted a mention in the platform—the federal budget deficit, meanwhile, drew 37 references (The American Presidency Project 1984; see Figure 2). That shift in focus would persist during the Clinton years and beyond. This was not just an effort to score political points in election years. At a core level, deficit-hawk politics were about reordering governmental priorities, constraining the ambitions and achievements of the public sector. These policies would eventually undermine efforts to ameliorate the harms of the 2008 recession, and they continue to curtail the prospect for adequately

addressing climate change, or making other necessary investments in the care sector that are needed to make the 21st century livable. In short, Democrats need to slough off the shackled imagination of deficit-hawk politics to meaningfully confront the clear challenges ahead.

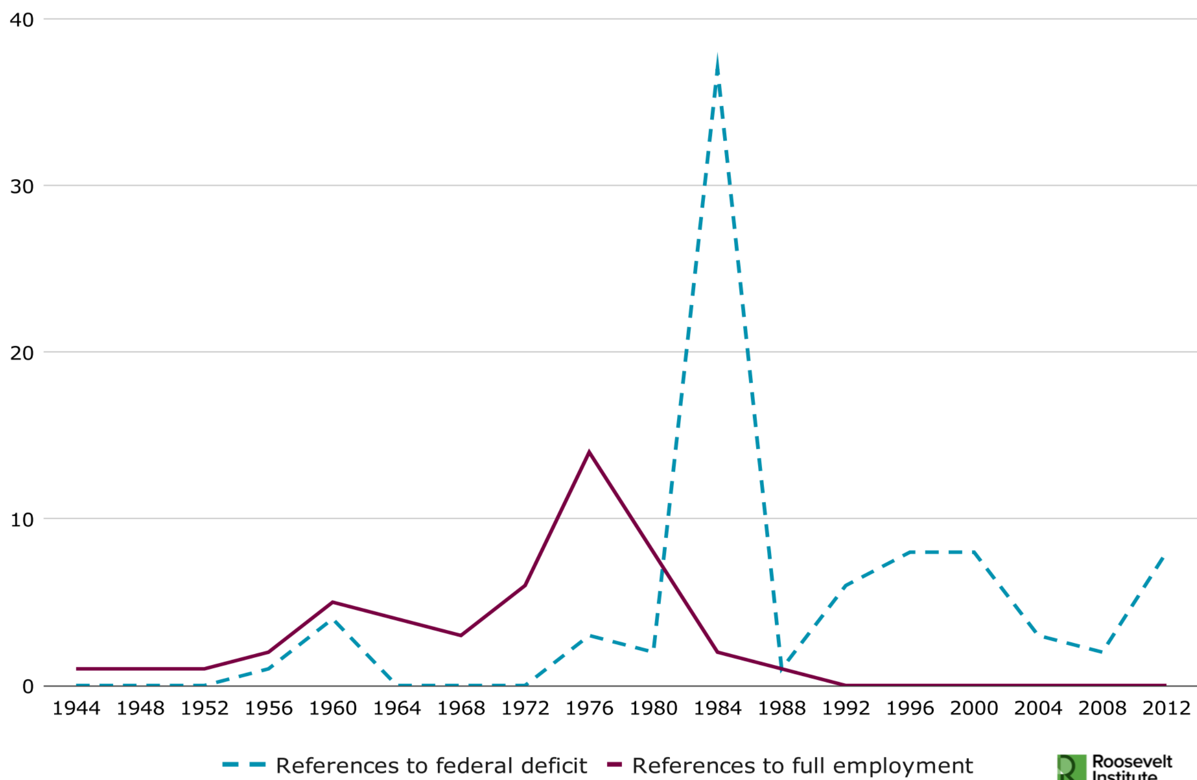

Figure 2: Author's analysis of Democratic Party platforms.

The Biden administration's unfolding green industrial strategy therefore poses questions for the future of deficit-hawk politics, the form public investment can take, and of the role of the public sector more broadly (Rahman 2024b). While the Biden administration is staffed with many veterans of the Clinton and Obama years, it also includes those beyond the traditional circuit of policymakers and economists and included a group to the left of those mainstays, while excluding some of the most powerful deficit-hawk economists. The administration's expansive fiscal agenda, including industrial policies, has led some analysts to wonder whether Rubinomics is dead—even hazarding that such shifts were evidence of a "economic policy revolution" (Waldman 2022).

Indeed, the Inflation Reduction Act demonstrated a different trajectory than that of the traditional Rubinomics policy matrix. Under the law, the Biden administration recognized that supply-side public investments and government regulation each have a role to play in managing inflation and the broader economy. This was a tremendous

policy development. It signaled a shift away from a four-decade paradigm that prioritized deficit reduction and monetary policy as the main tools of economic management, and fiscal discipline as an essential metric of good economic policy. Similarly, the willingness to include tax increases on the wealthy in the IRA deviated from both the plutonomic trajectory of Republicans' tax cuts and Rubin's view, which opposed "anything that sounded like class warfare" (Rubin and Weisberg 2004, 160). While it is too soon to fully evaluate whether the era of the deficit-hawk Democrat is dead or merely dormant, such a moment of change should prompt questions about what kind of society—and what constituency—liberal policies should cultivate. These are debates that proponents of a Green New Deal and a high-care, low-carbon economy (Wong 2022) have forced onto the party agenda. To fulfill such a vision, liberals must eradicate the deficit-hawk paradigm for good.

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