

Paper Abstract: New Democrat, Old Truths: Taxing and Spending and the 90s Boom

This paper will examine the fiscal policies of the Clinton years, with special emphasis on budgetary and tax policy changes that rendered federal fiscal policy more or less progressive. My contention will be that following on the heels of the somewhat less emphatic—and even tentative or uncertain—changes of the Tax Reform Act of 1986 and the Omnibus Budget Reconciliation Act of 1990, President Clinton successfully introduced a series of tax policy and budgetary changes that significantly increased the progressivity of both the federal tax code and the federal budget. I will argue, moreover, that issues of fairness and constituency service aside, these changes engineered a boom in investment, business profits, and American productivity by virtue of their impact on aggregate consumption/savings preferences. A corollary to this narrative is that monetary policy and the administration's dynamic and much touted relationship with the New York bond market and the Federal Reserve ceases to be the most persuasive explanation for successful deficit reduction, the alleged taming of the Phillips curve and the "reduction" of the so-called natural rate of unemployment (or NAIRU, the Non-Accelerating Inflation Rate of Unemployment), and the unlocking or augmenting of American productivity. I will also offer some detail on the relationship of these changes, particularly on the budget side and with respect to both employment and fiscal policy effects, to the status of state and local fiscal policy decisions. Subtle changes here, I will note, connected more vitally to federal policy than most have customarily understood, also contributed to the economic boom of the 1990s.