Abstract

Political leaders are afraid to be honest with the public about the dangers presented by the growing U.S. national debt. Instead, leaders in Congress and presidents have used misleading rhetoric, either pretending to be fiscal conservatives or preaching about improving economic conditions while clearly remaining part of the problem. This thesis analyzes the actions of political leaders who verbally express interest in improving the county’s fiscal problems, but then fail to act. To gain an understanding of the depth of this problem, this thesis will review the legislative branch, federal defense contractors, and the executive branch. The result will be a set of examples of how essential players in each sector fail to lead on fiscal responsibility.

The first chapter on the legislative branch shows that while many variables influence the votes of fiscal conservatives, fiscal conservatives mostly vote based on their political ideologies and priorities. Despite their fiscal conservative claims, a balanced budget does not fit in their political ideologies. The second chapter concludes that systems of accountability over defense contractors have been largely insubstantial during the Iraq War as Congress abdicated much of its oversight power to the executive branch. Over time, party loyalty has become more important than legislators’ respect for Congress as an institution. The third chapter shows that political priorities that inspire presidents to run for office take precedence over their fiscal goals, no matter how sincere the fiscal goals were. This is due to the ease by which persuasive presidents find they can convince the public of false realities regarding the country’s economic conditions. In addition, presidents often find that the reward for balancing the budget is typically far from immediate.
The portfolio concludes that fiscal conservatism is practiced in U.S. politics when it is convenient and not because it is valued. Economic theory has empowered political leaders to easily convince the public of false realities rather than forcing them to be honest about the need to spend less.

Thesis readers:
William Clinger
Thomas Stanton
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Introduction

The U.S. national debt is becoming a detriment to the nation’s economic viability. Political leaders are not sincere with the public about the seriousness of the problem and the necessary solutions. Instead, leaders in Congress and the executive branch have used misleading rhetoric, either pretending to be fiscal conservatives or preaching about improving economic conditions while remaining part of the problem. Explanations for these actions range from fear of curtailing entitlements which could cost politicians votes to wanting political victories on issues that mobilize and inspire the public. But the country’s current financial situation is not sustainable and demands immediate action. This thesis will analyze the actions of political leaders who have verbally expressed interest in helping improve the county’s fiscal problems, and find how and why they steered off course.

To explore this topic in full, this portfolio reviews three cross sections of federal actors. The first chapter will focus on the legislative branch, the second chapter on federal defense contractors, and the third chapter on the executive branch. The result will be a set of three examples of how essential players in each sector are failing to lead when it comes to fiscal responsibility. If fiscal conservatives will not act on their fiscal values, it will be difficult to find a champion in power who will lead the fight to decrease the U.S. debt.

The first chapter focuses on Congress in order to explore why members of Congress say they want to improve the country’s economic problems and then fail to act upon those beliefs. This understanding can help explain what changes need to be made to help fiscal conservatives in Congress act upon their fiscal goals. Congressional action is
what is ultimately needed because though the President submits an annual budget, Congress finalizes the budget, appropriates money and has the ultimate say about how money is collected and spent.

The second chapter highlights defense contractors because of their widespread use by the Federal government. According to the International Consortium of Investigative Journalists, between 1994 and 2002, the Department of Defense (DoD) spent more than $300 billion on 3,061 contracts with private defense companies. Since then, the number of contractors has increased 70 percent within the government. This escalation prompted the Dean of the Army War College Colonel Kevin Cunningham to state that “the U.S. cannot go to war without contractors.”

The increase in contractors, however, has been accompanied by an increase in fraud. A 2007 report by the Committee on Oversight and Government Reform reviewed audits from the Government Accountability Office, the Defense Contract Audit Agency, and the DoD Inspector General. The report established that between 2003 and 2006 contractor fraud was found within 199 contracts which in all were worth more than $1.1 trillion. Yet with the right oversight, defense contractors can help the government can save money. For example, in 1995 the Defense Science Board reported that the Pentagon could save $6 billion a year by contracting out all support functions.

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Clinton’s administration, the White House strove to make the government more efficient through the “reinventing government” campaign. Departments and agencies were asked to decrease their number of employees. As a result of this policy, departments relied on hiring contractors to replace employees. This process was convenient as it had no formal tracking process and did not violate the new federal employee caps. Observing the behavior of contractors will highlight their widespread usage and the lack of congressional accountability.

The third paper explores the executive branch’s role in the skyrocketing national debt. The president’s role in guiding the country towards a fiscally responsible path cannot be overstated. Throughout U.S. history, the president has been given increasing amounts of budget authority. This power has not come from the constitution or from the public but rather directly from Congress. Johns Hopkins Professor Paul Weinstein has argued that the most significant transfer of power to take place within the U.S. government was in 1921 when Congress passed the Budget and Accounting Act, transferring a significant amount of budget authority to the president. This Act created the Bureau of the Budget, now known as the Office of Management and Budget, equipping the president with a staff responsible for creating budget estimates. The Act also mandated that the president write the first draft of the budget and present it to Congress annually. Because the president is able to present his priorities through the budget and in the State of the Union address, he has the ability to steer the country in a more responsible financial direction. This chapter analyzes the rhetoric three presidents have used with regards to fiscal responsibility and compares the rhetoric with their

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actions in office.

The Significance of the Debt

This portfolio is important because of the dangers presented by high U.S. deficits and the resulting exorbitant debt. The U.S. is approaching having a structural deficit. Structural deficits occur when mandatory spending levels exceed what the public is willing to pay in taxes. When tax revenue as a percentage of GDP approaches twenty percent, the public increases its pressure on the government for tax cuts. However, by 2013 mandatory spending will comprise approximately twenty-two percent of GDP, resulting in a structural deficit.

There are three main reasons why citizens should be alarmed by their nation’s rising amount of debt. First, as the U.S. debt increases, the public will invest a larger portion of its wealth in government bonds rather than in private capital such as mortgages and stocks. Economics textbook authors Paul Samuelson and William Nordhaus refer to this type of capital displacement as the worst consequence of a large national debt. This damage can be mitigated if the U.S. sells its debt to foreign nations rather than its own citizens. This course of action, however, results in additional negative consequences, which leads to the second cause for concern.

When the U.S increases its reliance on foreign countries to purchase U.S. debt, those foreign countries will consequently have an increased influence on U.S. foreign policy decisions. As of December 2009, China held $755 billion of U.S. debt and Japan

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9 Ibid.
10 Ibid.
held $769 billion of U.S. debt.\textsuperscript{12} More than half of the publically held U.S. debt is owned by foreign entities.\textsuperscript{13} Trends show that these numbers will continue to increase, augmenting the dependency of the U.S. on these foreign nations.

Perhaps even worse, there may not always be countries or individuals willing to lend to the United States. China, which has traditionally spent as much as one seventh of its economic output buying foreign debt, has been lowering its demand for U.S. treasuries as its leaders realize the need to spend more money domestically in order to stimulate their economy.\textsuperscript{14} China sold $45 billion of U.S. Treasuries towards the end of 2009.\textsuperscript{15}

On the positive side, the more U.S. debt other countries own, the more they will want to see the U.S. succeed, as their fate becomes tied up in the United States. Nonetheless, the U.S. remains in a precarious position when it is not in control of its own financial future.

A third cause for concern over the U.S. debt is that the higher the debt climbs, the larger percentage of the budget the country will have to use to pay off interest on the debt rather than on government programs. By 2014, interest payments are projected to account for a higher percentage of the government’s budget than domestic spending programs.\textsuperscript{16} Luckily, the U.S. has been paying relatively low interest rates on the current debt. However, as the need to borrow increases, CBO director Doug Elmendorf warns that interest rates on these payments will increase.\textsuperscript{17} Leonard Burman, the director of the

\begin{footnotesize}
Urban-Brookings Tax Policy Center, has stated that if fear of potential repayment problems creeps into lenders’ minds, interest rates can skyrocket. These interest payments could cripple the U.S. economy. AEI Director of Economic Policy Kevin Hassett has argued that with such a large debt the U.S. will either need to print more money, which could lead to hyperinflation, or eventually double income taxes to make up the difference.

While there currently remains sufficient demand for U.S. bonds and securities, the prudent move of the U.S. government would be to decrease future risk by lowering deficit spending and decreasing the U.S. debt. U.S. leaders need to turn deficit spending into surplus generation. That this is not occurring, even with leaders who state their desire to be fiscal conservatives, begs the important question why.

Schools of Thought

Throughout U.S. history, altering schools of economic thought have influenced policy makers. One of the long-term consequences of shifting economic thought and policy is the U.S. debt. The initial school of economic thought that influenced Congress and the Office of the President from the country’s founding through the 1930s is Classical Economic Theory. By the 1940s and 1950s, Keynesian Economic Theory grew in its influence over policymakers and was barely questioned until it failed to


19 Kevin Hassett, “Trillion Dollar Spree is Road to Ruin, Not Rally,” Bloomberg News (2009),
correct the hyperinflation of the late 1970s. At that stage, new schools began to emerge with economic models reminiscent of the former Classical Theory but known as Neo-Classical Economics. One of the most influential branches of this new school was Supply-Side Economics, which was heavily relied on by President Reagan and again by President George W. Bush. These various schools must be compared, not only for their differing principles, but also for their impact on the U.S. debt.

Classical Economic Theory states that the economy will self-correct in order to achieve full employment. Without the need for government intervention, economists and politicians could be straight forward about the virtues of a balanced budget. During the 1800s and early 1900s, classical economists compared the state to a family unit in that both needed to take care not to spend more money than was collected. The primary defense of balanced budgets was to avoid burdening future generations with the current generation’s debt, and the realization that though the public wants new spending, if they were told they had to pay extra taxes for new programs, they would no longer support them.

In the late 1930s, policymakers shifted their thinking to Keynesian Economic Theory, since it was able to offer explanations during the Great Depression. The key to this new approach is the belief that the government could increase productivity and keep the country at full employment through monetary and fiscal policy. Under the influence

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21 Ibid., 631.
22 Ibid., 632.
23 Ibid., 637.
24 Ibid., 622.
26 Ibid., 11.
of Keynesian Economics, the government suddenly became responsible for job creation and stabilization and for ensuring high economic output. This created pressure to utilize any available resources to achieve these social goals, even if this required borrowing the capital to do so. Writers James Buchanan and Richard Wagner point out that the result was the creation of “deliberate deficits” which were suddenly rationalized rather than ostracized as they were before the mid-1930s.²⁸

The Neo-Classical Approach emerged from Milton Friedman’s Monetarism Economics, which tweaked Keynesian Economic Theory by stressing the primary need for monetary policy in order to stabilize economic conditions.²⁹ The specific branch within this school of interest to this paper is the Supply-Side Economics School. Supply-Side Economics suggests that incentives and tax cuts are necessary to increase productivity and investments within an economy.³⁰ Supply-side economists believe tax cuts will result in enough increased productivity and wages to counter lost revenue from the initial tax cuts. Therefore, large tax cuts can result in a balanced budget.

Each of these schools has strengths and weaknesses when implemented in the policy arena. Classical Economics was successful at stressing the need for balanced budgets and convincing politicians that they needed to pay for new policy measures through increased taxes rather than through deficit spending. This approach, however, failed to give politicians the tools they needed to be proactive during a recession or depression, when the market did not self-regulate quickly enough for the public.

The Keynesian approach succeeded in helping the country make major economic

³⁰ Ibid., 637.
gains due to government intervention. However, this approach justified deficits resulting in politicians spending increasingly higher amounts with limited self-control. Buchanan and Wager wrote, “…as long as there were economists around to offer plausible reasons for allowing the emerging deficits to go undisturbed, political decision makers were ready to oblige, even if they continued to pay lip service to the old-time principles.”

The Supply-side approach has the strength of creating incentives and popular tax cuts to influence activities that benefit the economy. Its weakness is not ultimately being able to collect as much in taxes from increased revenues as it loses through tax cuts. This paper is primarily a negative reaction to the principles within Keynesian and Supply-side Economics that helped allow politicians to justify the growth in unbalanced budgets. Therefore, the definition this paper will use to describe fiscal conservatives is one that is contrary to traditional conservative orthodoxy and instead promotes reducing U.S. debt by balancing the budget.

Road Map

Unlike every other major U.S. war since 1940, the majority of Congress voted to cut taxes during the Iraq War. While one could speculate that fiscal conservatives would vote in a manner to help balance the budget more than senators overall, this theory is not supported by roll call votes. The first chapter of this portfolio, Tax Cuts During Wartime: The Role of Fiscal Conservative Senators, follows the vote counts of self-identifying fiscal conservatives in the U.S. Senate throughout the 107-110th Congresses.

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This paper will focus on votes on Iraq War spending bills and a series of tax cuts to see if fiscal conservatives voted more frequently to balance the budget than the U.S. Senate as a whole.

Analyzing these votes can help determine what ultimately influenced their decision to stray from their fiscal values. This paper will show that while other variables may influence their votes, fiscal conservatives mostly vote based on their political ideologies and priorities. Despite their claims to be fiscal conservatives, a balanced budget does not fit in their political ideologies.

The second chapter, Systems of Accountability over Defense Contractors, is included in this thesis to complement the first chapter. Assuming that fiscal conservatives in Congress were willing to abandon their fiscal ideals due to the perceived need to fight the Iraq War, this paper will see if Congress at least placed systems of accountability over defense contractors to prevent fraud and waste.

This chapter will find that systems of accountability have been largely insubstantial during the Iraq War as Congress abdicated much of its oversight power to the executive branch. In order to see if this shift in power and lack of congressional oversight is unique to the Iraq War, the paper will compare the Iraq War to systems of accountability over defense contractors during the War of 1812 and the Civil War.

The third chapter, Fiscally Conscious Presidents and the Nation’s Debt, examines presidential rhetoric with regards to fiscal responsibility. Through an examination of the fiscal rhetoric and promises made by Presidents Franklin D. Roosevelt, Ronald Reagan, and Barack Obama, the chapter will look at the commonalities and consequences of misleading language. The chapter will then explore the reasons these leaders diverged
from their fiscal goals.

Similar to the reasons for fiscal irresponsibility observed in chapter one, the evidence from the three presidents in question show that the political priorities that inspire presidents to run for office and get elected take precedence over their fiscal goals, no matter how sincere the fiscal goals were. Once in office, the budget becomes a means to achieving other goals rather than an end unto itself.

This portfolio will conclude by reviewing the key findings from each chapter and then discussing lessons to be learned from these findings. These lessons and suggestions for future research must be taken to heart to ensure a strong fiscal future for the U.S. and its future generations.
Chapter One

Tax Cuts during Wartime: The Role of Fiscal Conservative Senators

Alarmed by the growing U.S. public debt, Americans want legislators who are able to bring the government’s finances under control. Fiscal conservatives, however, must constantly balance their fiscal values with the constant spending demands that may keep them in office. Representatives can support multiple issues but in order to use the term fiscal conservative, one might expect these representatives to find ways to support such causes while maintaining a balanced budget. Interestingly, unlike every other major war since 1940, a majority of Congress voted for tax cuts during the Iraq War. One would expect that fiscal conservatives would vote in ways to help balance the budget more often than Senators overall. This idea, however, has not been supported by roll call votes. Instead, members of Congress have become entrenched in their liberal and conservative ideologies, refusing to do what is necessary to balance the budget.

In order to analyze the influences upon self-identifying fiscal conservative senators, this paper will first consider the current academic literature with regards to factors that influence members of Congress to vote in certain ways. This paper will then analyze voting records of self-identifying fiscal conservatives on key votes on tax cuts and the Iraq War in the 107th through 110th Congresses to determine if fiscal conservatives had a more fiscally responsible voting record than their Senate colleagues as a whole. In the key findings section of the paper, the influence factors that were

highlighted in the literature review will be reviewed for their accurateness and ability to explain why these fiscal conservative senators deflected from their fiscal values during these key votes.

**Literature Review**

In determining the reasons fiscal conservative senators may or may not decide to vote in accordance with their fiscal values, all variables that can influence how a member votes should be considered. Many academic articles and books have been written to establish the factors that determine how senators vote. The variables that have been the focus of the relevant academic literature are ideology, constituent preference, and political party.

Ideology, or a set of beliefs and ideas, is a convenient factor that can explain how a member votes because other potential factors are likely tied to a member’s ideology. For example, it is possible that members of Congress vote predominately along party lines because of their ideologies, since this is what originally drew them to their political parties. The same can be said about constituent preference since voters may have elected a senator because of their similar ideologies. Therefore, it may appear a member is voting for the constituents’ preference when really that preference is one and the same as the member’s ideology. Steven Levitt’s research shows that when members of Congress listen to their constituents, constituents on the same ideological side as the

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members will be three times more influential.\textsuperscript{41} This is because members are already swayed on many issues based on their pre-existing ideologies so constituents who agree with a member’s principals are more effective advocates. Keith Poole and Howard Rosenthal agree about the importance of ideology and write that votes can be accurately predicted by figuring out how liberal or conservative a piece of legislation is and comparing that to how liberal or conservative members’ ideologies are.\textsuperscript{42}

Authors who think that constituencies have a significant amount of influence over members of Congress believe that members vote based on their aspiration to be reelected.\textsuperscript{43} Lewis Froman points out that constituents have a lot of influence for two reasons. First, members reach out to their constituents to find out what they need with the hope of winning their votes in the next election.\textsuperscript{44} Second, even with a lack of expression from constituents, he argues members of Congress know their population enough to be able to vote to keep them satisfied.\textsuperscript{45} Richard Fenno went a step further to explore the various factors that influence members within a constituency. He broke up the parts of a constituency to include the geographic area, the people who will reelect him, his primary supporters (which were the earliest supporters who believe in the members’ platform), and his personal constituents who are his closest advisors and friends.\textsuperscript{46}

Many authors consider party to be the primary factor determining roll calls

\textsuperscript{44} Ibid, 9.
\textsuperscript{45} Ibid, 9.
votes.\textsuperscript{47} Gary Cox and Keith Poole argue that members of Congress realize they can best represent their districts or states if they vote along party lines consistently instead of voting by their ideology or even their constituents’ preferences.\textsuperscript{48} Some political scientists point out that the party variable often becomes more of a requirement than a choice when a Congress is split evenly along party lines.\textsuperscript{49} Thomas Mann and Norman Ornstein argue that during the Bush Administration the executive branch rose in prominence over the legislative branch because of such circumstances. They wrote, “The president set the agenda of Congress and made clear he expected Republican leaders in Congress (his “lieutenants”) to deliver. [Speaker Hastert] proclaimed that his primary responsibility was not to lead and defend the first branch of government but to pass the president’s legislative agenda.”\textsuperscript{50}

With this brief review of the relevant literature in mind, this paper will seek to understand the factors that have resulted in fiscal conservatives voting in ways contrary to achieving a balanced budget in the early twenty-first century.

**Hypothesis**

The United States Congress voted to increase taxes during every major war since 1940 in order to help pay for large unbudgeted expenses.\textsuperscript{51} I hypothesize that fiscal conservatives would be among the members voting to do the same thing during the Iraq


\textsuperscript{49} Thomas Mann and Norman Ornstein, *The Broken Branch* (New York: Oxford University Press, 2006), 139.

\textsuperscript{50} Ibid., 129.

War. If fiscal conservatives did not vote to increase taxes, but rather supported tax cuts during the Iraq War, I hypothesize that it was because fiscal conservatives have ideologies that prioritize other goals before fiscal goals. Furthermore, contrary to the evidence, fiscal conservatives have largely convinced themselves that cutting taxes is fiscally responsible.

**Research Design**

The inherent paradox to be examined in this paper is whether or not self-identifying fiscal conservatives have played a role in allowing Congress to pass tax cuts while simultaneously voting in favor of a series of unbudgeted war spending bills. Though there are other indicators that can be used to determine if fiscal conservatives are contributing to the increasing debt, tax cuts and war-spending bills will be the primary focus for several reasons.

First, there is precedent for members of Congress to vote in a fiscally responsible manner, as Congress has voted to increase taxes during every major war since 1940 in order to pay for some of the costs.\(^{52}\) While government spending still exceeded government revenue during each of these periods,\(^ {53}\) increasing taxes so the nation’s citizenry shared the cost of each war was a display of fiscal responsibility and shared burden. Adjusted for inflation, World War Two cost the U.S. government $4.114 trillion and was financed through tax increases between 1940 and 1943. The Korean War cost the U.S. government $320 billion in 2008 dollars and was financed through tax increases in 1950 and 1951. The Vietnam War cost the U.S. government $686 billion in 2008

\(^{52}\) Ibid., 19.

dollars and was paid for in part with the Tax Adjustment Act of 1966.\textsuperscript{54}

Second, unlike annual appropriation bills that largely continue current programs, the tax cuts and the Iraq War were new spending measures. Therefore, they would have been easier for Congress to vote down than current programs, which have organized constituencies.\textsuperscript{55}

Third, public opinion was divided on both the Iraq War and the tax cuts, allowing members of Congress some flexibility in determining how they should vote. In September 2002 public opinion for sending troops into Iraq was deeply divided, with 57 percent of the public in favor and 38 percent opposed.\textsuperscript{56} In March 2003, when the public was asked if it supported the proposed tax cuts over keeping the deficit down, only 41 percent answered in the affirmative.\textsuperscript{57}

Finally, the Iraq War and tax cuts are exempt from pay-as-you-go (PAYGO)\textsuperscript{58} and carry extraordinary price tags. This has enabled them to make a very noticeable impact on the annual deficit. The annual deficits between 2003 and 2006 were $377 billion, $412 billion, $318 billion and $248 billion, respectively.\textsuperscript{59} These figures stand in stark contrast to the surpluses achieved in years prior, which can be seen on the chart on the following page. According to the Congressional Budget Office (CBO), the amount of money appropriated for the Iraq War in those same years totaled $80 billion, $88 billion,


\textsuperscript{55} Thomas Stanton, “Private Public Management,” \textit{Class Notes at Johns Hopkins University} (November 25, 2008).


\textsuperscript{58} The fiscally sound pay-as-you-go (PAYGO) rule, was designed to prevent new mandatory spending from increasing the deficit and exempts emergency spending such as tax cuts and war spending.

$77 billion, and $116 billion, respectively.\textsuperscript{60} The 2003 tax cut in these years cost $60 billion, $149 billion, $82 billion, and $21 billion, respectively.\textsuperscript{61} While comparing these costs to deficit figures fails to take total government spending into account, unlike the 14 appropriation bills, which are often continuing resolutions, the tax cuts and war spending were new and unfunded initiatives.

\begin{figure}
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\includegraphics[width=\textwidth]{us_surplus_deficit.png}
\caption{U.S. Surplus/Deficit}
\end{figure}

Source of Data: Congressional Budget Office and Office of Management and Budget\textsuperscript{62}

Despite legislators’ hopes that tax cuts will result in significantly increased revenue, data disproves such a correlation. David Leonhardt wrote, “Any new revenue that tax cuts brought in paled in comparison with their cost. This is why the deficit jumped under the last two tax-cutting presidents (Ronald Reagan and George W. Bush).


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and fell under the last two tax-raising presidents (George H.W. Bush and Bill Clinton).”  

In 2006, Jerry Tempalski conducted a study that attempted to assess the effect of tax bills. This study found that tax increases since the 1940s resulted in higher government revenue and tax cuts since the 1940s resulted in lower government revenue.  

It could be argued that fiscal conservatives can keep budgets balanced even if they vote in favor of lower taxes and unbudgeted emergency war spending bills, as long as they vote against spending in other areas. Indicators such as votes to decrease spending in redundant government programs, eliminate government waste and do away with earmarks are useful but not sufficient to judge fiscal conservatism. For example, the Congressional Research Service provided statistics listing the cost of earmarks in 2004 through 2006 with costs of approximately $45 billion, $47 billion, and $64 billion, respectively. While fixing the entitlement system is often cited as an indicator, during the 107th-110th Congresses, entitlement growth did not play a significant role in these annual deficits. Federal budget expert Charles Konigsberg points to the CBO’s Budget and Economic Outlook for years 2003-2012 to show that entitlements were not a major factor in the shift from a predicted surplus to predicted deficit. The chart on the following page depicts the causes most responsible for the decline of the fiscal outlook between fiscal year 2001 and fiscal year 2002. The chart shows that the 2001 tax cuts

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68 Ibid., 370.
were the most significant factor in the economic decline, taking up 42 percent of the pie.

![Pie chart showing causes of the $4 trillion decline in the fiscal outlook from FY2001 to FY2002]

Source: Congressional Budget Office: Budget and Economic Outlook

After this graph was produced, however, the U.S. Congress voted on a prescription drug benefit to be added to Medicare. The Medicare Prescription Drug, Improvement, and Modernization Act, which was the vehicle for Medicare Part D, was scored by the Congressional Budget Office at $394.5 billion over the first ten years.

Due to the high cost of this unfunded spending measure, the end of this paper will include a brief discussion of the votes of the fiscal conservatives mentioned throughout this paper on this piece of legislation. For the aforementioned reasons the crux of this paper will remain focused on tax cuts and war spending.

Votes in favor of tax cuts do not inherently contradict the term fiscal conservative. Some self-identifying fiscal conservatives argue that they vote to cut taxes because by

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limiting revenue, Congress will be forced to spend less. Others remain committed to the aforementioned idea that extra money in the hands of the public will spur production and the economy. Only if tax-cutting legislators also vote to lower spending initiatives, however, are they legitimately trying to balance the budget.

Therefore, this paper considers senators to be fiscally responsible if they vote against tax cuts and against war spending, if they vote for tax cuts and against war spending, or if they vote against tax cuts and for war spending. All of these scenarios show members are consciously thinking about keeping the budget in line with spending.

In order to analyze fiscal conservatives’ votes on the Iraq War and tax cuts in the U.S. Congress, this paper will follow the votes of self-identifying fiscal conservative U.S senators in the 107th through 110th Congresses and compare them with the their Senate colleagues. For the purposes of this paper, “fiscal conservatives” will describe members of Congress who declare themselves to be fiscal conservatives in those exact terms on their web sites. The seven Senate Republicans who self-identified as fiscal conservatives on their web sites in the 110th Congress were Larry Craig (R-ID), Mike Crapo (R-ID), John Sununu (R-NH), John Cornyn (R-TX), John Ensign (R-NV), Richard Lugar (R-IN) and George Voinovich (R-OH). The four Senate Democrats who self-identified as fiscal conservatives on their web sites in the 110th Congress were Bill Nelson (D-FL), Evan Bayh (D-IN), Ben Nelson (D-NE) and John Kerry (D-MA). The term fiscal conservative will be analyzed by comparing the votes of self-identifying and non self-identifying Democrats and Republicans in the Senate throughout the 107th through 110th

72 Senator Ben Nelson links to a NY Times article from his website in which he is called a fiscal conservative. For the purposes of this paper, this will be considered to imply self-identification with the term.
Congresses.

Plausible reasons why members may have voted for tax cuts during war may be that allegiance to political party, staunch adherence to an ideology, or wanting to please constituents took precedence over fiscal values. To find out if fiscal conservatives prioritized voting along party lines over fiscal values, this paper will compare the votes of fiscal conservatives to votes of their parties’ other members. To see if fiscal conservatives prioritized their constituents’ preferences over their fiscal values, this paper will view Gallup polls on tax cuts and the deficit during these years to find out if the public demanded they vote in a fiscally irresponsible manner. To see if the votes were based on ideology over fiscal constraint, this paper will consider the fiscal conservatives’ rankings of liberalism and conservatism according to the National Journal.

Research

This paper has established that tax cuts have decreased federal revenue and that the Iraq War has increased federal spending. Self-identifying as a fiscal conservative implies concern about the growing debt. Logical actions that would derive from such a concern would be to either increase taxes during the war or to vote against war spending in order to lower taxes. The following research focuses on votes taken by self-identifying fiscal conservative legislators in the U.S. Senate to see if their actions reflected these actions. If they did not consistently vote against tax cuts during wartime, as other Congresses have done since 1940, this research will seek to find out why.

Fiscal Values

Contrary to their self-proclaimed fiscally conservative identify, most fiscal conservative Senate Republicans have voted consistently to decrease taxes while voting
in favor of increased war spending. When the Senate voted to allow force in Iraq, all five of the self-identifying fiscal conservatives in office at the time voted in the affirmative.\textsuperscript{73}

### Self-identifying Fiscal Conservatives’ Votes on Iraq War and Tax Cuts

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While the vote to allow force in Iraq did not include an official cost, the Congressional Budget Office offered a pre-vote estimate that the war could cost between $9 and $13 billion to enter, $6 to $9 billion a month during the war, and $5 and $7 billion

to leave. They also advised that the cost of an occupation post pullout could cost between $1 and $4 billion a month.  

When funding for the Iraq War was well underway in 2003, all seven of the fiscally conservatives voted to extend President Bush’s tax cuts. All seven fiscally conservative Republicans also voted in favor of Emergency Supplemental Appropriations for Iraq and Afghanistan in 2004, 2005, and 2006. In 2007, all seven fiscally conservative Senate Republicans voted for a $120 billion Iraq War spending bill. In spite of passing billions of dollars in war appropriations, all seven fiscal conservatives voted for the 2003 tax cuts and six of the seven voted to extend the tax cuts in 2005.

There have, however, been some displays of fiscal responsibility on the part of certain fiscal conservatives. Self-identifying fiscal conservative Senator George Voinovich (R-OH) was one of the three Senate Republicans who voted against the 2005 tax cuts. In fact, Voinovich believed that the opposite action was needed at the time. Soon after this vote, he said, "I have to say this, and I know it is controversial, but if you look at the extraordinary costs that we had with the war and homeland security and Katrina, the logical thing that one would think about is to ask for a temporary tax increase

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to pay for them. According to the vote chart, Senate Democrats have also voted in ways contrary to balancing the budget, though not as often as their Republican colleagues. Two of the four self-identifying fiscally conservative Senate Democrats, John Kerry and Evan Bayh, voted against tax cuts during war. John Kerry has consistently voted against the tax cuts and against war spending bills. Evan Bayh, while voting in favor of the war spending bills, voted against the tax cut bills, which is still fiscally responsible.

The other two self-identifying fiscally conservative Senate Democrats, Ben Nelson and Bill Nelson, have not consistently voted in ways that would help to balance the budget. Bill Nelson voted for each war-spending bill but while he voted against the 2003 tax cuts, he voted in favor of the 2005 tax cuts. Like most Republicans, Senator Ben Nelson voted for all of the war-spending bills while supporting the 2003 and 2005 tax cuts.

Based on these votes, it is clear that fiscally conservative Senate Democrats have voted to try to balance the budget more often than Senate Republicans. However, self-identifying fiscal conservative senators in both parties have voted for tax cuts while voting for war spending. This paper will now analyze the reasons these senators may have voted contrary to their fiscal conservative claims.

**Political Party**

One explanation for the observation that Senate Democrats were more likely than

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82 See previous vote counts as referenced in the Senate Republican section of the vote analysis.
83 Ibid.
Senate Republicans to help balance the budget based on tax cuts and war spending is that a Republican President proposed these two legislative initiatives. While political party may provide an explanation, it is not an excuse as there are historical examples and precedence of the majority party voting against the same party’s president on tax cuts. For example, when President Kennedy proposed tax cuts to help the economy in 1962, the Democratic majority in Congress voted against the proposal. Since 72 percent of the public opposed tax cuts if it meant increasing the debt, Senate Democrats voted alongside public opinion rather than with the President. Since the 1960s, and especially since the 1980s, tax cuts gained popularity despite the country’s enormous debt. Therefore, Democratic fiscal conservatives need to be compared with their Senate Democrat colleagues to make sure non fiscal conservatives did not vote in fiscally responsible ways more often than they did. The same cross referencing will also be done with Senate Republicans in order to see if the self-identifying fiscal conservatives acted, as a group, more fiscally responsible than their colleagues.

According to the chart on page 28, political party seems to have played a significant role in determining how members of both parties voted on tax cuts. 96 percent of Senate Democrats voted against the 2003 tax cut and 93 percent of Senate Democrats voted against the 2005 tax cut. Only one percent of Senate Republicans opposed the 2003 tax cut and only seven percent opposed the 2005 tax cut. However, when comparing the votes of fiscal conservative members to those of their colleagues, in 11 of 14 votes, both Democrat and Republican senators as a whole voted in a more fiscally responsible manner than the fiscal conservatives.

Self-identifying fiscal conservative Senate Democrats voted against both tax cuts at a much lower percentage than Senate Democrats did overall. Seventy-five percent of fiscal conservative Senate Democrats voted against the 2003 tax cuts compared with 96 percent of Senate Democrats. Fifty percent of fiscal conservative Senate Democrats voted against the 2005 tax cuts compared with 93 percent of Senate Democrats. Fiscal conservative Democrats did not behave in a more fiscally conservative manner than other Senate Democrats.

Within the Republican Party, political party was clearly one of the reasons that such a low percentage of Senate Republicans voted against the 2003 and 2005 tax cuts. However, of the six percent of Senate Republicans who broke from the party line to vote against the 2003 tax cuts, none were self-identifying fiscal conservatives. In 2005, seven percent of Senate Republicans voted against, or abstained from, the tax cut vote but only one was a self-identifying fiscal conservative. Thus, among the Republican Party, there were certain members willing to vote against tax cuts despite party pressures. Yet with the exception of Senator Voinovich’s vote against the 2005 tax cuts, fiscal conservative Senate Republicans were not willing to do so.

Similar outcomes were found when comparing fiscal conservatives to their party as a whole on war spending votes. Senate Democrats largely voted to support supplemental war spending once the war was in progress, though 42 percent of Senate Democrats voted against authorizing force in Iraq in 2002. Of these members, none were self-identifying fiscal conservative Democrats. While small percentages within the Republican Party voted against war spending in 2002, 2003, 2004, and 2007, not one of these votes were made by fiscally conservative Republican senators.
Self-Identifying Fiscal Conservatives’ Votes on Iraq War and Tax Cuts in the US Senate in the 107th-110th Congresses Compared with Overall Party Voting Records
Fiscal conservative Democratic Senators did vote in a more fiscally responsible manner than the rest of their party for the Iraq War Supplemental bills of 2003, 2004, and 2007. These three votes are only votes of the sixteen comparisons analyzed when a group of self-identifying fiscal conservatives voted in a more fiscally responsible manner than their party as a whole. Therefore, as the previous chart made clear, political party cannot be the sole explanation as to why fiscal conservatives strayed from their fiscal values during these votes.

Another variable that could explain why fiscal conservatives in Congress voted for tax cuts during war rather than attempting to balance the budget could be that they wanted to reflect the wishes of their constituents. To see if this variable was largely responsible for their voting behavior, this paper will review Gallup Poll results on tax cuts during, and then observe how the junior or senior senator in each self-identifying fiscal conservative’s state voted on the Iraq War and tax cuts. Since both senators are representing the same constituents, this paper will examine whether the other senator from the same state regularly voted in a more fiscally responsible way than the fiscal conservative.

According to national Gallup Polls from 2003, prior to the tax cuts that year, Americans rated the budget deficit as a more important issue than tax cuts.86 A poll taken after the tax cuts passed showed that one third of the country thought that the cuts would hurt the economy while one third thought they would help it.87 The number of individuals who thought the cuts would help the economy increased after President Bush

spoke to the country numerous times in order to promote this policy measure. While the public was split overall on tax cuts, 74 percent of Republicans, 38 percent of Independents, and 30 percent of Democrats approved the tax cuts. In 2005, 77 percent of Americans felt that dealing with the federal deficit was an extremely important problem, compared with 66 percent of the public who felt that tax cuts were an extremely important priority. Prior to the 2005 tax cuts, 52 percent of Americans overall supported making the tax cuts permanent, with 70 percent of Republicans approving such a move and only 30 percent of Democrats supporting this policy. This would explain why more Republican senators voted in favor of the tax cuts than Democratic senators.

While analyzing polls is useful, they are limited in their usefulness since they reflect national concerns. To see if senators are responding to constituent preferences, one must look to constituent preferences specifically within a specific state. To take a step further in observing if these members evaded voting in a fiscally responsible way due to their own constituents’ preferences, this paper will compare each fiscal conservative senator to the state’s other senator. If the other senator voted in a more fiscally conservative manner and is also from the same political party, constituent preference must not have been a major factor in persuading fiscal conservatives to vote against their fiscal values.

During the vote to authorize military force in Iraq, both Bill Nelson and John Kerry voted in a more fiscally irresponsible way than the other Democratic Senators from

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88 Ibid.
89 Ibid.
Florida and Massachusetts. In 2004, when voting on the war supplemental, once again, Senator Bill Nelson voted in a less fiscally responsible way than his counterpart Senator Graham, who voted against the emergency spending. Fiscal conservatives Bayh and Lugar from Indiana both voted in a fiscally irresponsible manner so constituency may have played a role here. The same could be said for fiscal conservative Ensign whose Senate counterpart Democratic Senator Reid also voted in a fiscally irresponsible manner. For most of the votes observed in this paper, the fiscal conservative either voted the same way as the second senator in their state or in a less fiscally conservative way. The one time a fiscal conservative voted in a more fiscal conservative manner than the other state senator from the same party was when Senator Voinovich voted against the 2005 tax cut. Thus, while fiscal conservatives may at times be voting against their fiscal values to reflect their constituents’ preferences, in most cases from this paper, the second senator from the same state voted in a more fiscal conservative way than the fiscal conservative, eliminating constituent preference as a plausible explanation.

**Ideology**

Ideology is a third explanation for why most self-identifying fiscal conservatives voted against their fiscal values by supporting tax cuts during war. Patriotic votes for the Iraq War and tax cuts for the wealthy can both be considered ideologically conservative votes. Therefore, self-identifying fiscal conservatives who are also socially liberal may actually appear to be working to balance the budget but may really have been voting against war spending and tax cuts because of their liberal values. This theory is supported by the fact that almost all Democrats voted in favor of war spending in 2005.
and 2006, when Tsunami Relief and Hurricane Relief were included in the legislation.

John Kerry appears to be fiscally conservative based on his voting record on tax cuts and war spending votes. However, according to the National Journal’s rankings, Senator Kerry is the 20th most liberal member of the Senate. It is possible, therefore, that his votes were more influenced by his liberalism than his fiscal values. Senator Voinovich also appeared to be the most fiscally conservative among Senate Republicans. According to the National Journal, he is also one of the most liberal members in the Republican Party. Had this paper’s indicators been based on social and domestic votes, which are considered more liberal, these same fiscal conservatives may have appeared to be the members who cared least about a balanced budget. For example, when President Bush pushed for Economic Stimulus Act of 2008 which cost $152 billion in 2008, John Kerry and George Voinovich, who had appeared to be the most fiscally conservative members of their respective parties in this paper, voted in the affirmative.

National Journal’s Scores of the Most Liberal and Conservative Senators in 2007

<table>
<thead>
<tr>
<th>Senator</th>
<th>Party</th>
<th>Rank</th>
</tr>
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<tbody>
<tr>
<td>Kerry, John, D-Mass.</td>
<td>D-Mass.</td>
<td>20th</td>
</tr>
<tr>
<td>Nelson, Bill, D-Fla.</td>
<td>D-Fla.</td>
<td>34th</td>
</tr>
<tr>
<td>Bayh, Evan, D-Ind.</td>
<td>D-Ind.</td>
<td>38th</td>
</tr>
<tr>
<td>Nelson, Ben, D-Neb.</td>
<td>D-Neb.</td>
<td>53rd</td>
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<tr>
<td>Lugar, Richard, R-Ind.</td>
<td>R-Ind.</td>
<td>42nd</td>
</tr>
<tr>
<td>Voinovich, George, R-Ohio</td>
<td>R-Ohio</td>
<td>41st</td>
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<tr>
<td>Sununu, John, R-N.H</td>
<td>R-N.H</td>
<td>36th</td>
</tr>
<tr>
<td>Craig, Larry, R-Idaho</td>
<td>R-Idaho</td>
<td>21st</td>
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On the other side of the spectrum, those who are most conservative may have voted for war spending because their ideology places a higher preference on patriotism and national defense than on their fiscal values. That the most conservative-ranked members in both parties consistently voted for war spending and the most liberal-ranked members in both parties consistently voted against war spending shows that ideology is more important to some fiscal conservative members than their fiscal values.

**Other Spending Indicator: Medicare Part D**

Thus far this paper has for the most part assumed that for self-identifying fiscal conservatives to act fiscally responsible, they would have to avoid increasing war spending while decreasing taxes. However, it is slightly unfair to only focus on two spending measures and ignore all domestic programs. To balance the argument, additional research was conducted to review how the eleven fiscal conservatives in this paper voted on Medicare Part D. Once again, it would be hypothesized that fiscal conservatives would vote against a largely unfunded mandate that would add tens of billions per year in entitlement spending.

An analysis of the 2003 roll call vote on H.R. 1 shows that five out of the seven fiscal conservative Republicans voted in favor of the legislation, despite the fact that all seven voted in favor of the 2003 tax cuts.\(^9\) One of the four fiscally conservative

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\(^9\) Voters Database, “H.R. 1 Conference Report; Prescription Drug and Medicare Improvement Act of
Democrats, Ben Nelson, voted for H.R. 1 despite voting in favor of the 2003 tax cuts. Ben Nelson’s colleague from Nebraska, Republican Chuck Hagel, voted against H.R. 1, and thus in a more fiscally responsible way despite not claiming a fiscal conservative identity on his website. In an op-ed explaining his vote, Senator Hagel said, “I voted against the Medicare reform bill because it will not strengthen Medicare and does not responsibly address the need for prescription drug coverage. It will add trillions of dollars onto Medicare's current $13.5 trillion in unfunded liabilities for future generations.”96 Richard Lugar also supported this legislation even though his colleague from Indiana, Evan Bayh, voted against it. Despite the fact that most Republicans supported President Bush on his priority, nine Republican Senators crossed party lines on this vote and thus the other fiscal conservatives had cover to vote alongside their fiscal values but failed to do so.

**Conclusion**

This paper assumed the personal preference of fiscal conservatives is to try to balance the budget, but that definition of fiscal conservatism is somewhat dated since many fiscal conservatives today believe in proactive monetary and fiscal policy to achieve broader economic goals, rather than in balancing the budget. Despite the fact that Congress went through this same exercise in the 1980s falsely thinking tax cuts would generate enough revenue to pay for themselves, members of Congress have not been willing to learn from that lesson. This is most likely because if members can convince themselves and the public that the tax cuts will pay for themselves, they will see

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little reason not to support this politically popular policy.

By analyzing key votes, it becomes clear that fiscal conservatism is one of many priorities for members of Congress to take into account when voting, and is not a self-identity or unwavering belief. All of the fiscal conservatives mentioned in this paper certainly have fiscal conservative tendencies. While party and constituent preference certainly exert considerable pressure on members of Congress, clearly other members from both parties have overcome these pressures to vote in more fiscally responsible ways than the self-identifying fiscal conservatives.

The fiscally conservative members seem to have voted based on their ideologies regarding tax cuts, domestic spending, and war. One would think that balancing the budget would comprise part of a fiscal conservative’s ideology but this is clearly not the case. To continue to refer to oneself as a fiscal conservative while voting for bills that are significantly increasing the U.S. debt is misleading to the public and irresponsible. Acting in this manner is not going to decrease U.S. debt.

The definition of fiscal responsibility in this paper centered on balancing the budget by either increasing taxes and decreasing spending, decreasing taxes and decreasing spending, or increasing taxes and increasing spending. Yet, with the current situation of the U.S. debt, fiscal responsibility today must include the acceptance of both tax increases and spending decreases. The Keynesian definition of a fiscal conservative must return to its original glory in order to achieve budget surpluses again.
Chapter Two
Systems of Accountability over Defense Contractors

Throughout U.S. history, the Department of Defense (DoD) has increasingly utilized and has come to rely on private contractors. When Congress appropriates funds to the DoD and those funds are used directly by federal employees, Congress is able to exercise oversight of such funds, as the DoD is directly accountable to Congress. Systems of checks and balances have a chance to play out to protect both citizens’ security and their pocketbooks. When the DoD hires defense contractors, the executive branch and its departments are primarily responsible for enforcing contracts. Though some argue defense contracts should be kept confidential in order to avoid delays caused by systems of accountability, when defense contractors work with the U.S. government, legally, their primary responsibility is to earn profits for their shareholders. Congress’ primary responsibility is to the citizens of the United States. This paper will show that when Congress allows an executive branch that is uninterested in accountability to take over the role of oversight, the amount of fraud and waste by defense contractors skyrockets.

This paper is significant because the U.S. public debt greatly increases during wartime. As the appropriator, Congress must make sure it is responsible in passing legislation that minimizes the annual deficit, which includes ensuring appropriated funds are not wasted. In 2007, when Congress put together a report on contractor fraud across the government, in reviewing 700 audit reports prepared by the Government Accountability Office, the Defense Contract Audit Agency, and the DoD Inspector
General, 199 contracts worth $1.1 trillion were found to have significant waste.\(^{97}\) Systems of accountability are essential since a significant amount of defense funds is spent on contractors.

**Literature Review**

In light of the dramatic increase in the use of private contractors by the federal government, scholars have used case studies and research to contribute to the debate about how to improve accountability structures. Many scholars agree on the benefits of contracting because of the competitive nature of the free market, thus leading to lower prices and trimmed waste.\(^{98}\) However, scholars Janna Hansen and Paul Starr have pointed out inaccuracies in assuming that contracting simplifies the government’s work and that accountability is ensured through competition.\(^{99}\) Hansen observed that while there may be competition in the open bidding process for government contracts, once the competition ends, a contractor may have a monopoly in that industry, and will become inefficient.\(^{100}\) Starr points out that even in cases where costs are lower with contractors, by only looking at costs, the quality of the output is ignored.\(^{101}\) Thus, it has become clear that when using contractors, more than a reliance on free market competition is needed to hold contractors accountable for their delegated authority.\(^{102}\)


\(^{100}\) Ibid., 2472.


Another common belief about contracting is that by hiring contractors the government can appear to be smaller in size, thus improving its public image. During President Clinton’s time in office, his administration strove to make the government more efficient through the “reinventing government” campaign. Departments and agencies were asked to decrease their number of employees. As a result of this policy, departments relied on hiring contractors to replace employees. Paul Light has pointed out the conveniences of this process as it had no formal tracking process and thus would not violate new federal employee caps. However, it quickly became evident that though private contractors were potentially more efficient, they would require just as much oversight as federal employees.

A third advantage of using contractors, especially in the defense industry, is the experience and expertise of the available employees in the contracting sector. Colonel Gerald Schumacher has written that U.S. defense contractors often come from the former ranks of the U.S. military and may have more military experience than recently trained U.S. soldiers. Private contractors are ready to be deployed to the most dangerous locations and war zones in the world at a moment’s notice. The government can avoid the costs associated with the upkeep of an enormous military during times of peace if they know they can hire qualified and capable private defense contractors when needed.

Many challenges have surfaced regarding administrative oversight over contractors. One such obstacle is that the government lacks the resources to perform the oversight and thus the larger the contractor, the more passive the government is forced to

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be in its accountability standards. He has observed that due to a lack of resources, the government must focus on pre-project oversight, which entails choosing the right contractor and creating standards, rather than active engagement in the implementation process, where the “burden of proof” falls upon federal agencies rather than upon contractors.

There is widespread agreement on the need for additional accountability and there have been many academic articles on ways to improve such systems and structures. For example, there have been suggestions to depart from cost-based accountability, which lists costs and regulations but may not allow the market to lower prices from an approved list and uses excessive resources on compliance. Alternatives to cost-based accounting include incentive contracts, competitive contracting through a bidding process, deciding prices once work has begun and some costs are known, and firm fixed-price contracts based on reliable estimates.

Another suggestion to improve government accountability over contractors is for the government to switch from a top-down, or hierarchical, approach to a cooperative network management style. Donald Kettl suggests that the government must create

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107 Ibid., 538.
109 Ibid, 520.
systems to extract as much information as possible from contractors.\textsuperscript{111} For the government to pretend it can control outside players simply because of a contract is not realistic. Paul Posner has written extensively on network theory, observing when the government determines accountability standards for contractors, those accountability goals may not be viewed as legitimate by contractors.\textsuperscript{112} However, if the network responsible for a project, including both the government and the private stakeholders, determines goals and targets, costs may decrease and transparency can increase.\textsuperscript{113} In another book, Posner argues that if a contractor is involved in creating goals, they may even end up supporting harsh punishments for those who diverge from those regulations.\textsuperscript{114}

There has clearly been a strong academic concentration on ways government managers can work to improve their techniques and choose the right tools to hold contractors accountable. However, the aforementioned literature neglects the role of the legislative branch in assisting the managers and also in fulfilling its own duties of having the power of the purse. The legislative branch cannot leave it up to chance for government managers to figure out how to ensure proper oversight. Congress has the right to ensure systems of accountability exist without surpassing the executive branch’s role of executing legislation.

Some academic writing regarding accountability over contractors has considered

\textsuperscript{113} Ibid., 5.
Congress’ role in the process. In 2006, Ornstein and Mann wrote, “In the past six years, congressional oversight of the executive across a range of policies, but especially on foreign and national security policy, has virtually collapsed...Since Congress has shown little appetite for any serious oversight or for using the power of the purse or pointed public hearings to call the executive branch to account, executive agencies that once viewed Congress with at least some trepidation now regard it with contempt.”\footnote{Norman J. Ornstein and Thomas E. Mann, “When Congress Checks Out,” Foreign Affairs, Nov/Dec2006, Vol. 85, Issue 6.}

Ornstein and Mann argue that the reason Congress gave up its check on the executive was that the Republican Party did not want to weaken the Republican president by questioning or scrutinizing its actions.\footnote{Ibid.}

Other writers, however, beginning with McCubbins and Schwartz, have argued that Congress has not abandoned its oversight authority but instead conducts oversight when emergencies arise rather than constantly reviewing all government programs.\footnote{Mathew D. McCubbins and Thomas Schwartz, “Congressional Oversight Overlooked: Police Patrols versus Fire Alarms,” American Journal of Political Science, Vol. 28, No. 1 (Feb., 1984), p.165.}

This type of “fire alarm” oversight is indeed efficient since the government is alerted when a program is malfunctioning but does not need to spend limited resources on the impossible goal of patrolling each and every government program.\footnote{Ibid., 165.}

Epstein and O’Halloran write that imperfect congressional oversight is a good thing since Congress is right to delegate responsibilities as it does not have the time or resources to become experts in every industry.\footnote{David Epstein and Sharyn O’Halloran, “Delegating Powers: a transaction cost politics approach to policy making under separate powers,” (Cambridge University Press: Cambridge, 1999), 10.} The downside of this approach is that by being purely reactive instead of proactive, Congress’s role in detecting fraud will not be taken as
seriously by contractors. Johns Hopkins Professor William Clinger has suggested that one way to ensure systematic oversight is to grant subpoena power to the minority party of oversight committees, especially when the majority party is the same as the party in control of the presidency.\textsuperscript{120}

This paper is of the persuasion that Ornstein and Mann were correct in acknowledging that a political climate change gradually led to the weakening of the legislative branch’s institutional identity. During the War of 1812 and the Civil War the separation of powers listed in the constitution seemed to be more important than any political party or any politician. However, politicians today are more likely to put themselves before Congress as an institution, to the detriment of oversight over contractors.

Hypothesis

If Congress concedes its power to the executive branch in matters of contractor accountability rather than ensuring that strong systems of accountability are established through legislative channels, the chance of contractors defrauding the government will increase.

Research Design

This paper will explore congressional oversight over appropriated funds used by defense contractors. Despite insistence by self-identifying fiscal conservatives in Congress that spending not exceed revenue, many of those same individuals believed the Iraq War was so vital to U.S. security that it justified setting fiscal principles aside.

\textsuperscript{120} William Clinger, email message to author, April 13, 2010.
Assuming the Iraq War was indeed vital enough to justify violating fiscally conservative principles, this paper will consider if systems of accountability were set up as to prevent abuse of government funds when outsourcing defense department responsibilities.

For broader perspective, this paper will compare systems of accountability in place during the War of 1812, the Civil War, and the Iraq War. These wars were chosen because they represent a large span of United States history, and also because all three wars present the same political condition of having the same political party in the majority of both chambers of Congress as well as in the Presidency. Being able to remove political party as a factor, ultimately it becomes clear that as U.S. history progressed, the legislative branch’s power has diminished compared to the executive branch, and congressional oversight over private contractors has been subsequently weakened.

Even though this paper will focus on cases where the same party is in the majority of Congress and the Presidency, effective oversight of executive branch operations is necessary regardless of which party has the majority in Congress. As can be expected, when opposite parties command control of the Presidency and Congress, oversight hearings tend to increase.121

While examining wars from different points in U.S. history allows for an observation of shifting systems of accountability over time, it also presents the strong limitation of changing circumstances which could in themselves account for the shifts in systems of accountability. One such circumstance is the previously mentioned

Reinventing Government program in the 1990s, which resulted in a dramatic increase in contractors and decrease in federal employees as the federal government wanted to show it was limiting its bureaucracy.122 As a result, there was a need for more federal employees to perform oversight over contractors but the government did not have those resources available.123 While this paper argues that weakened systems of accountability stem from the increase in the executive’s power at the expense of the legislative branch, the differences in historical circumstances may in part account for some of the change.

The United States, and much of the world, has long recognized the benefits of defense contractors, including utilizing individuals with prior military experience, having individuals ready to be sent anywhere on a moment’s notice, and avoiding the cost of maintaining a larger military during times of peace. However, the extensive use of defense contractors has drawbacks such as fraud, scandal, and waste. By researching the three aforementioned wars, this paper will consider drawbacks, such as the government receiving lower quality products than expected, contractors performing illegal actions, unfair procurement procedures, and overcharging on government bills. Though some worry that too many regulations would prevent companies from entering the bidding process, fraud is frequent enough that Congress’ role in the oversight process must be analyzed and reconsidered.

In order to compare oversight during each war, this paper will consider what regulations were in place prior to the use of defense contractors, how the regulations were enforced, examples of fraud that took place despite oversight, and what actions were then

123 Ibid., 540.
taken to minimize known fraud.

**Research**

Existing Oversight

There are currently several systems in place to hold defense contractors accountable and to limit fraud and abuse of taxpayer money. Systems of accountability exist within each branch of government, with the majority of oversight designed to take place in the department spending the appropriated funds. Thus, the vast amount of defense contractor oversight exists within the executive branch.

The four agents conducting defense contractor oversight within the executive branch are the Defense Contract Audit Agency (DCAA), the Defense Contract Management Agency (DCMA), the DoD Inspector General, and the State Department’s Office of Defense Trade Controls. The DCAA is in charge of monitoring reimbursements submitted to the DoD by ensuring receipts and reimbursement requests match. The DCMA ensures products delivered to the government by contractors match the performance requirements in contracts.\(^{124}\) While the DoD tries to increase accountability by adding financial incentives to contracts to encourage contractors to complete assignments ahead of schedule, the DCMA ensures quality was not sacrificed for time. Since 1978, the Inspector General has informed Congress and the Secretary of Defense of any fraud or waste in the DoD’s performance. In addition to the DoD IG, there is an IG for funds appropriated for Iraq Reconstruction, which reports to the DoD as

well as to the State Department.\textsuperscript{125} Finally, the State Department’s Office of Trade Controls is required by Traffic in Arms Regulations Law to review contracts before contractors can sell their services to foreign governments.\textsuperscript{126}

Within the legislative branch there are several forms of oversight over defense contractors. The Government Accountability Office (GAO) is Congress’ watchdog for fraud and waste. The GAO write reports about the effectiveness of oversight that aids the public and Congress in figuring out the details of contracts and accountability structures.\textsuperscript{127} Within Congress, the House Committee on Oversight and Government Reform and the Senate Homeland Security and Governmental Affairs Committee and Subcommittee have held investigative hearings on defense contractors.

While Congress’ role of bringing problems and scandals to the public’s attention is important, such practices alone will not put an end to abuses of taxpayer funds. Congress has the ultimate control of accountability by being able to pass new oversight legislation or including stronger regulations within future defense appropriations. During the First World War, the Chairman of the Committee on Appropriations pointed out the challenges of passing stronger accountability measures. He said, “I remember hearing the Chairman of the Committee on Appropriations of the House of Representatives say that his Committee, and Congress as a whole, did not dare to reduce materially the estimates of the officers of the Army and the Navy, even though these officers were asking for hundreds of millions every week. Should Congress fail promptly to

\textsuperscript{127} Ibid.
appropriate as much as was asked and then any reverse was suffered, the people would throw all the blame on the legislature.” 128 Still, throughout much of U.S. history, Congress has been able to effectively regulate and oversee contractors used by the executive branch during wartime.

The judicial branch also has a role to play in overseeing contractors. Courts hear cases brought by whistleblowers, calling out waste based on the False Claims Act, which will be discussed in more detail later in this paper.

In comparing the oversight responsibilities of each branch of the government it becomes clear that the executive branch has the greatest amount of oversight resources and tools since that branch directly hires the contractors. Still, congressional oversight over the entire process has had strong precedence, up until the Iraq War. Accountability clearly suffers when executive leadership feels weak internally about a war and shuns oversight as a result. 129 The combination of the executive branch decreasing oversight and Congress looking the other way is an ineffective system of accountability and a frustrated electorate. By reviewing other wars throughout U.S. history, the reader is reminded that the lack of congressional action and oversight between 2003 and 2006 is not the norm. Congressional oversight was expected in the past, not only by the public, but also by the executive branch itself.

The War of 1812

In the early 1800s, after discovering its merchant ships were under attack by

129 Professor Thomas Stanton, Class Notes, Private and Public Management, Johns Hopkins University, October 28, 2008.
British vessels in the Atlantic Ocean, the U.S. government declared war on the United Kingdom. The U.S. realized there was little chance of securing a victory, however, without the help of the private sector. The United States did not have a large navy, as maintaining such a fleet in times of peace would have been too costly.\textsuperscript{130} The fastest way to enter the war was for the U.S. to make use of private vessels known as privateers. Privateers were granted letters of Marque and Reprisal from the executive branch to give them the legal authority to fight on the country’s behalf. Privateers became very prevalent as evidenced by the fact that after the U.S. Navy became for the most part unable to continue fighting, privateers went on to capture thousands of British vessels.\textsuperscript{131}

The strong regulations set by Congress over privateers show a powerful and responsible legislative branch. Regulation and oversight were necessary as the war increased the U.S. debt from $45 million to approximately $109 million.\textsuperscript{132} In the Act of War declared by Congress in June of 1812, Congress granted President Madison the authority to use letters of marque, as allowed by the U.S. Constitution, in order to carry out the war.\textsuperscript{133} In Congress’ Act Concerning Letters of Marque, Congress required privateers to register with the Secretary of State.\textsuperscript{134} To register, vessels had to pay the United States a bond in case they violated regulations. In such an event the United States collected fines from the privateer. In total, the Act contained seventeen sections outlining regulations for the privateers. Congress made it clear that privateers were to follow such

\textsuperscript{130} Alexander Tabarrok, “Rise, Fall, and Rise again of Privateers,” The Independent Review, Vol. 11, Number 4 (Spring 2007), 566.
\textsuperscript{131} Ibid. 571.
\textsuperscript{133} George Coggeshall, History of the American Privateers, and Letters-of-marque: During Our War with England in the Years 1812, 1813, and 1814 (New York: Published by The author, 1856), xxxviii.
\textsuperscript{134} The Public Statues at Large of the United States of America, Volume 2, 6-12th Congress (Boston: Charlie Little and James Brown, 1850), 759.
regulations, as they stated, “The owners or commanders of vessels having letters of marque and reprisal as aforesaid, who shall violate any of the acts of Congress for the collection of the revenues of the United States and for the prevention of smuggling, shall forfeit the commission or letters of marque and reprisal, and they and the vessels owned or commanded by them, shall be liable to all the penalties and forfeitures attaching to merchant vessels in like cases.”  

Congress also delegated accountability measures to the court system. In Section 6 of the Act, Congress declared that courts shall determine, “when the capture shall have been made without just cause.” Regulations were in place to ensure effective oversight and the courts stood up to their test. When the first two privateers brought in their goods the courts declared they had to be returned since the captured vessels were not yet aware that the war had begun. Because courts had to see captured goods before they could be sold in the United States, the government successfully prevented privateer owners from selling their prizes directly to the public and thus potentially evading required government taxes. Any privateer who tried to evade this process ended up selling their goods without legal title and thus with decreased value. If caught, such a crime was considered to be piracy and was punishable by death.

In addition to the court system, the regulations set by Congress were effective at keeping privateers under control. Regulatory success in the privateer system can be attributed to performance bonds and incentives. Of course, it was impossible for the

135 Ibid. 763.
136 The Public Statues at Large of the United States of America, Volume 2, 6-12th Congress (Boston: Charlie Little and James Brown, 1850), 761.
government to monitor all privateer actions taking place in the seas. Thus, the exact success of congressional regulations is difficult to determine. One way to measure the extent of effective congressional oversight is to view how Congress acted towards fraud that was uncovered within the system.

Even with regulations and laws established by Congress and enforced by the executive branch and courts, there was fraud by private contractors. Some privateers pretended to hold British vessels in search of goods but would really be stocking the vessel with U.S. goods to avoid the trade embargo. President Madison utilized his authority to revoke letters of marque when learning about such illegal actions and abuses. When Congress discovered another abuse - British and American ships pretending to hold each other for ransom and then splitting the company’s ransom - it outlawed ransoming prizes.

Privateers were allowed to participate in war efforts in the first place because it was be good for the country. By allowing citizens who were affected by war to play a role in it, the war could have a quicker end. The motivation of patriotism and profits combined with strict congressional accountability helped minimize fraud and abuse.

**The Civil War**

Unlike the War of 1812, the Civil War was largely conduced by the executive branch. President Lincoln saw no need for a formal war declaration since he believed

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140 Ibid. 58.
141 Ibid. 58.
142 George Coggeshall, *History of the American Privateers, and Letters-of-marque: During Our War with England in the Years 1812, 1813, and 1814* (New York: Published by The author, 1856), xlv.
that war was automatically declared on the North by the act of the South’s departure. Three months after the war started, the House passed the Critterden Resolution stating the purpose of the war was to keep the union together and not to end slavery.\textsuperscript{143} The Resolution contained no instructions or regulations on how to carry out the war or about private contractors. Two years into the Civil War, a speech by Congressman Clement Vallandigham, from the opposite party of the President, expressed frustration with the executive branch: “Soon after the war began the reign of the mob was… supplanted by the iron domination of arbitrary power. Constitutional limitation was broken down… Whatever pleases the President, that is law! … The right to declare war, to raise and support armies, and to provide and maintain a navy, was usurped by the executive.”\textsuperscript{144}

The president determined the country’s needs to fight and win the Civil War, which included the widespread use of defense contractors. The decision about whether or not to use privateers was made among members of President Lincoln’s cabinet rather than by Congress.\textsuperscript{145} The cabinet ultimately decided against their usage and opted instead to hire private ships and utilize private companies for building additional ships for the government.\textsuperscript{146} In addition to beefing up the navy, the United States relied on private contractors for many of its war supplies.\textsuperscript{147}

The use of contracts was regulated to some extent by the executive branch through the use of fiscal incentives, time schedules, and existing legislation. Federal laws

\textsuperscript{145} Stuart Dean Brandes, Warhogs (Kentucky: University Press of Kentucky, 1997), 68.
\textsuperscript{146} Ibid, 69-70.
\textsuperscript{147} Woodworth, Steven and Higham, Robin, The American Civil War (Greenwood Publishing Group, 1996), 508.
and military rules about how to oversee contractors were followed to some extent. For example, in order to elicit bids, the government was required to advertise projects to be outsourced in advance of signing any contract. Though this process was excused during emergencies, the Quartermaster General encouraged those under him to abide by this law whenever they could.\footnote{Mark Wilson, \textit{Business of Civil War} (Johns Hopkins University Press, 2006), 109.} The Quartermaster General was known to have told the senior quartermaster in Philadelphia to start abiding by congressional statues because “two or three days of advertisement are better than none.”\footnote{Ibid. 109.}

Despite attempts by the executive branch to regulate private contractors, fraud and fiscal abuse were rampant. Shipbuilding contractors were known to overcharge by as much as 200 percent per vessel.\footnote{Ibid. 148.} When the State of New York purchased soldier uniforms for its volunteer army from Brooks Brothers, it was soon discovered that the material was of extremely poor quality and that the open bidding process was both unfair and flawed.\footnote{Stuart Dean Brandes, \textit{Warhogs} (Kentucky: University Press of Kentucky, 1997), 71.} Ships and clothing are just two of the many occurrences of fraud and abuse by private contractors during this war.

Due to the enormous cost of the war and the alarming rate of fraud, both President Lincoln and Congress knew the government had to pass legislation to bring abuse under control. The cost of the war was about eight times higher than estimates before the war’s start.\footnote{Ibid., 70.} Public debt, which was $38.5 million at the start of the war, jumped to $2.3 billion by its end.\footnote{Herbert Brown, “The Historical Development of National Expenditures,” \textit{Proceedings of the Academy of Political Science}, Vol. 9, No. 3 (July 1921), 8-9.} Two years into the Civil War, at the urging of the executive branch,
Congress passed the False Claims Act.  

The False Claims Act allowed individuals who saw contractor fraud taking place to become whistleblowers for the government by filing suit on behalf of the government against the contractor. In most instances, fraud consisted of a contractor overcharging the government for an order or the contractor using low quality materials to manufacture war supplies. The incentive for the whistleblower was a certain percentage of recovered funds, which during the Civil War was as high as fifty percent. However, relatively few False Claims Act claims were made and recovered during this time period. Amendments to the Act and increased government contractor spending contributed to the later success of the Act. Today the False Claims Act is hailed by the Department of Justice as the “government’s primary civil tool to combat fraud and abuse in federal programs and procurement.”

The government worked to combat fraud during the Civil War through additional channels. In 1862 the new Secretary of War found there was more than double the number of outstanding contracts than there were products needed. As a result of this finding, the U.S. Senate had the Secretary create a Commission on Ordnance Contracts to scale back the number of contracts to a reasonable amount.

Not all anti-waste measures, however, were initiated by the executive branch. Congress realized that different levels of the government were entering bidding wars for

154 Fred Shannon Albert, The Organization and Administration of the Union Army (Cleveland: Arthur Clark Publisher, 1928), 54-56.
156 Cleveland Laurence (Attorney and Director of Legal Education, Taxpayers Against Fraud Education Fund), in discussion with the author, November 2008.
158 Stuart Dean Brandes, Warhogs (Kentucky: University Press of Kentucky, 1997), 86.
materials and supplies against one another, allowing defense contractors to obtain enormous profits. As a result of congressional action, the process of contracting was largely removed from the state level and brought almost exclusively to the federal level in order to minimize such incidents.159

For additional regulatory measures, Congress passed new legislation that defined private contractors within the military establishment. This new definition opened the door for military courts to convict its suppliers who were caught overcharging the government and military courts began holding private contractors accountable.160

The instigation and leadership for the Civil War derived mostly from the executive, yet despite some congressional frustration, the executive branch respected Congress as the law passing body and frequently turned to it to enact the changes the President believed necessary to prevent fraud. Working together, the two branches were able to achieve some success in limiting defense contractor fraud and abuse.

Leading up to the Twenty First Century

Throughout twentieth-century wars there is evidence of the executive branch respecting Congress’ right to regulate defense contractors. For example, leading up to the Second World War, Congress created a Special Committee to Investigate the National Defense Program, known as the “Truman Committee,” which saved the United States $15 billion. When President Roosevelt was pressured to break up the committee’s work once the war began, he refused, testifying to Congress’ recognized and appreciated role as overseer.161 Even after World War Two, oversight continued to be a strong function of

159 Ibid., 68.
161 Norman Ornstein and Thomas Mann, “When Congress Checks Out,” Foreign Affairs
the legislative branch. During the first six months of 1983, there were 782 oversight hearings in the U.S. House of Representatives. Though this number dropped to 287 by the first six months of 1997, both these numbers were extremely high compared with the amount of oversight that has taken place during the Iraq War.\footnote{Ibid.}

**The Iraq War**

Given the goal of minimizing public debt and considering the scope of contractors in the Iraq War, one would imagine that strong congressional oversight over defense contractors in this war, as per U.S. history, would be a given. At the start of the war, one in ten people sent to Iraq from the U.S. was a defense contractor.\footnote{Deborah Avant, “The Market for Force: The Consequences of Privatizing Security,” (New York: Cambridge University Press, 2005), 1.} U.S. public debt increased from $6.4 trillion before the beginning of the Iraq War to over $10 trillion as of September 2008.\footnote{“Monthly Statement of the Public Debt and Downloadable Files,” *Treasury Direct*, http://www.treasurydirect.gov/govt/reports/pd/mspd/mspd.htm.} The Congressional Budget Office reported that appropriated funds for the Iraq War totaled $81 billion in 2005 and $120 billion in 2006.\footnote{CBO, “Estimated Appropriations Provided for Iraq and the War on Terrorism, 2001-2006,” http://www.cbo.gov/ftpdocs/75xx/doc7506/GWOT_Tables_2006)08.pdf.} However, in analyzing actions that the U.S. Congress has taken during the war, it seems most members of Congress were content trusting, rather than regulating or overseeing, the executive branch.

Earlier this paper presented an overview of the current entities that provide oversight to hold defense contractors accountable, including the DCAA, DCMA, IG, State Department, Congress and courts. When analyzing these structures in light of the


\footnote{Ibid.}


Iraq War, it becomes clear that the executive branch controls both the oversight process and the flow of information, leaving Congress and courts, partly by their allowing, as weaker institutions.

Oversight entities within the executive branch lack adequate resources to be completely effective. Due to resource constraints, the DCAA is only able to review contractors when there is reason to suspect fraud. Between 2000 and 2008, the number of people employed by the DCAA dropped six percent while DoD spending rose one hundred and thirty six percent. Perhaps due to pressures associated with limited staff and audit deadlines, the DCAA has allegedly violated its own regulations by paying a private contractor, Boeing, almost $300 million dollars for a failed project and for telling employees to sugarcoat audit reports. Another entity, the DCMA, is supposed to be a watchdog for the government, but has worked with private contractors to lobby for the continuation of projects that the government has sought to end for budget reasons. The State Department’s Office of Trade Controls also has limitations. DoD can avoid having the State Department monitor its contracts by using DoD’s Foreign Military Sales program to pay for services and then have contractors reimburse their costs.

To top these problems, executive branch oversight is not solely performed by

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166 Steven J. Kelman, Contracting, in The Tools of Government 301 (Lester Salamon, 2002).
168 Ibid.
171 Ibid.
federal employees. During the Iraq War, both DoD and the State Department have been known to hire contractors to review contractors, in flagrant violation of procedures and regulations.\(^{172}\) Though executive departments may find that using contractors to conduct oversight over other contractors is more efficient, conflicts of interest and other questionable issues abound.

One effective system of accountability within the executive branch is the Special Inspector General for Iraq Reconstruction. When Congress appropriated funds in 2004 to rebuild Iraq, it simultaneously created the IG position to ensure the funds were properly managed.\(^{173}\) Though the senior lawyer of President Bush’s campaign was appointed Inspector General, causing many to wonder about the effectiveness of the IG performing oversight, Stuart Bowen, Jr. surprised critics with his pointed reports of mismanagement of funds. Since mid-2007, Bowen and his staff successfully recovered ten million dollars for the government and identified billions more lost to waste and mismanagement.\(^{174}\)

In the absence of a significant amount of executive oversight, Congress’ role is that much more vital. Congressional oversight, however, has been weakened as the executive branch found it could withhold information and still gain approval for its actions. For example, in 2001 Attorney General John Ashcroft changed the standard of releasing documents under the Freedom of Information Act from “foreseeable harm” to “sound legal basis.”\(^{175}\) In 2003, the Office of Management and Budget said that advisory bodies to the executive branch no longer had to share information with the public as


required in the Freedom of Information Act if they hired private contractors to manage the committees.\footnote{Ibid. 159.} The State Department has also been able to withhold defense contracts from Congress. When the State Department reviews defense contracts, they are only required to inform Congress of contracts valued over $50 million.\footnote{Ibid.} Even contracts valued over $50 million that are given to Congress are protected for “national security” and thus contain limited information. Due to the plethora of documents and intelligence unavailable to Congress, the legislative branch has been limited in its ability to pass relevant regulatory laws.

The relationship between the executive branch and Congress to oversee defense contractors has deteriorated in more ways than solely from lack of information. There has been an apparent decrease in respect towards the legislative branch to perform its job during the George W. Bush administration. For example, during the Iraq War, a top DoD official who was the key witness in an oversight hearing cancelled at the last moment. At another oversight hearing about the abuse at Abu Ghraib, in the midst of Defense Secretary Donald Rumsfeld’s presentation, the secretary realized he forgot his key chart at the Pentagon.\footnote{Norman Ornstein and Thomas Mann, “When Congress Checks Out,” \textit{Foreign Affairs} (November/December 2006), www.foreignaffairs.org/20061101faessay85607/norman-j-ornstein-thomas-e-mann/when-congress-checks-out.html.} Such attitudes seem to have percolated down from the executive branch to their contractors. When Blackwater CEO Erik Prince testified before the House Committee on Oversight and Government Reform in 2007 and was asked about Blackwater’s profit from U.S. contracts, Mr. Prince would not give exact numbers and stated to the body responsible for appropriating funds to his company, “We are a private
company, and there is a key word in there, private.”

Erik Price, while not diplomatic, was in fact correct that as a private company Blackwater is legally required to report back to the agency that hired them but not to the U.S. Congress. Tyler Cowen summed up the relationship best in a New York Times article: “Compared with the military, contractors are not subject to direct scrutiny by Congress and they are not covered by international law with the same clarity. Excessive use of private contractors erodes checks and balances, and it substitutes market transactions, controlled by the executive branch, for traditional political mechanisms of accountability.”

Under these conditions and with these challenges, Congress still maintains the ability to improve oversight. Yet, in the first two years of the Iraq War, the House Committee on Oversight and Government Reform only held thirty-seven oversight hearings, a number far below previous congresses. Though surprising, this philosophy fell in line with the ruling party’s leadership. When House Majority Leader Tom DeLay left Congress, he said that when the majority in Congress and the President are from the same party, there is no need for oversight hearings. Fortunately, not all Republicans were of the same mindset. Senate Republicans Charles Grassley, Susan Collins, John McCain and Lindsay Graham “fought many battles, unpopular with their party colleagues, to garner the information they felt was essential to conduct responsible

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congressional oversight of the wars in Afghanistan and Iraq,” though with almost no success.

Courts, which were effective in helping to enforce regulations and laws in past wars, have been turned to again during the Iraq War. In 2004, two individuals worked with a lawyer to file a False Claims Act suit against their former contractor company, Custer Battles, for overcharging the government on a $100 million contract in Iraq. When the Department of Justice refused to join the suit, a federal court eventually took the case and found the contractor to be guilty of the charges. In a Wall Street Journal article, Yochi Dreazen wrote, “Contracting experts say previous administrations often declined to join in False Claims Act lawsuits but the [Bush] administration’s refusal to unseal the cases is unprecedented.”

With elusive accountability and ephemeral oversight, the conditions for abuse and waste have been ripe. Such waste has ranged from not ensuring open competition on many of the contracts used during the Iraq War to scandals such as DoD continuing to grant contracts to private contractor Halliburton despite its having overcharged the government by almost $2 billion.

With public opinion turning on the ongoing war and the 2006 mid-term election resulting in opposing parties in the executive and legislative branches, there has been

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186 Ibid.
somewhat of a renewed spirit to fix the lack of effective oversight. Much of the
congressional reporting and hearings on oversight since then has come from the
Committee on Oversight and Government Reform, chaired by Representative Henry
Waxman (D-CA). Such hearings and pressure, along with insightful reporting by the
media throughout the Iraq War, helped to ensure legislation would pass to improve
oversight. When considering the 2008 Defense Authorization Act, an amendment was
added to create an independent Commission on Wartime Contracting. The idea for the
Commission was based off the successful Truman Commission used during the Second
World War. The 2009 Defense Authorization Act included a provision that established
a federal database to list the performance of federal contractors, something that had not
existed previously. As is evidenced by these improvements, Congress has finally
flexed its muscles by improving oversight through the appropriations process.

To summarize, in the War of 1812, all three branches understood the separation of
powers and knew they needed to respect those separations in order to make the new
government work. By the Civil War, the President had taken over many of the roles and
responsibilities previously undertaken by Congress but still cared about fighting fraud.
Congress was willing to live up to its responsibility and pass laws to ameliorate
accountability problems. During the Iraq War, political parties alone cannot be blamed
for the lack of accountability since in the past members of the same party in the
legislative and executive branches were able to work towards improved oversight.

189 Project on Government Oversight, “POGO Lauds Senate Vote on Wartime Contracting Commission,”
190 Robert O’Harrow, Commission on Wartime Contracting, Washington Post Voices Blog “Government,
191 Project on Government Oversight, “President Bush Sings Law Creating Contractor Responsibility
Rather, the problem is that U.S. leaders and their convictions have become more self-important than the strength of the separate branches of government.

**Conclusion and Key Findings**

Public debt created by war spending may be an unfortunate necessity but abuse of taxpayer dollars is not. Congress has a responsibility to prevent waste by passing laws to guarantee oversight and accountability over defense spending, especially when contractors are utilized. That the majority of contractor oversight is structured to take place within the hiring agency or department is efficient and logical. Supporters of oversight can celebrate the improvement of these structures under congressional, media, and public pressure. Still, Congress must not be forgotten or forget itself as the body that can correct abuses that take place.

By and large, partisanship remains strong and many bills that were introduced throughout the 110th Congress to improve oversight and accountability over defense contractors never became law. For example, in March 2007, Representative Waxman’s Accountability in Contracting Act, which would have limited the amount of noncompetitive contracts, passed through the House in a bipartisan manner, but stalled in the legislative process and never became law.192 Not all progress, however, was stalled. In January 2008, Congress passed and the President signed the Defense Authorization Act, which included the creation of a Commission on Wartime Contracting in Iraq and Afghanistan. This Commission was charged with the responsibility of “assessing the

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extent of waste, fraud, abuse, and mismanagement of wartime contracts.”\textsuperscript{193}

Congress must retake the reigns in the U.S. and regulate where oversight is needed. In the 111\textsuperscript{th} Congress, as the Democratic Party won control over the presidency and both chambers of Congress, they had to take care to avoid the same mistakes made by the Republican Party in the 108\textsuperscript{th} and 109\textsuperscript{th} Congresses, which is to believe oversight over one’s own party is bad politics. The House Oversight and Government Reform Committee Chairman Edolphus Towns began a 2009 hearing on contractor fraud by essentially making the same point. He said, “Waste, fraud, and abuse of wartime contracts transcends politics. Oversight should not be the luxury of a divided government and languish when congressional majorities and the President share a common political party.”\textsuperscript{194} The work he has done in his committee and the report from the Wartime Commission indeed shows that progress has been made overseeing contractor fraud.

Outside of the legislative branch there have been some positive changes in oversight over defense contractors. For example, the DCMA doubled its oversight team in 2008 and planned to send another few hundred employees to Iraq.\textsuperscript{195} The Multi-National Force-Iraq established new requirements to perform oversight over DoD contractors in Iraq and created an Armed Contractor Oversight Division.\textsuperscript{196} Still, more needs to be done by all branches of United States government not to shy away from its responsibilities overseeing defense contractors.

\textsuperscript{196} Ibid.
Those born in the United States in the twentieth century like to believe that U.S. government institutions are strong enough to be taken for granted. Ultimately, however, institutions are only as strong as its leaders. In order for the United States or any government to continue to function, leaders must place government institutions before themselves.
Chapter Three

Fiscally Conscious Presidents and the Nation’s Debt

In February 2009, one month into the new administration, President Barack Obama held a fiscal summit at the White House where he announced his goal to halve the United States’ 1.3 trillion dollar deficit by 2013. To many Americans, this goal sounded like it might decrease the U.S. government’s debt. In reality, President Obama was talking about overspending by only 500 billion dollars in 2013. President Obama never promised to balance the budget; instead he promised to decrease the rate at which the government accumulates debt. This type of rhetoric confuses the public, which might equate deficit reduction with debt reduction. In order to actually reduce the debt, deficits would have to disappear, and the government would need to run multiple surpluses. Reducing the deficit is a positive step, but it is not a solution to the government’s fiscal problems.

This paper will compare fiscal promises and actions taken by Presidents Franklin D. Roosevelt, Ronald Reagan, and Barack Obama. Both Presidents Roosevelt and Reagan stated their desires to be fiscally responsible by decreasing the U.S. debt even in hard economic times, yet each acted in ways that exponentially increased the national debt. Presidents run for the office to enact their ideas and beliefs and once in office, responsible fiscal goals can become obstacles to achieving those beliefs. Fiscal responsibility becomes less important than enacting their agenda. It is that agenda, and not fiscal responsibility, which put them in power in the first place. Regardless of how important fiscal responsibility is to the economic stability of the United States, ultimately
political priorities overcome even fiscally conservative presidents’ desires to balance the budget.

Comparing the presidencies of Franklin D. Roosevelt, Ronald Reagan, and Barack Obama will offer insight into how these three leaders governed in times of economic crisis. This paper will compare the beginnings of each president’s administration to see how they overcame the economic circumstances created before they entered office and how they balanced these actions with their fiscal goals.

Literature Review

Presidential decision making varies largely based on presidential preferences, personality, and outside influences. This paper will look into the reasons Presidents Franklin Roosevelt and Reagan diverged from their goals to balance the budget, why President Obama made a misleading fiscal statement at the beginning of his first term, and whether such divergences were intentional or not. These answers can be found by considering what influences presidents to alter their top priorities once in office. This paper will consider academic literature on both the conditions that allow high deficits to exist as well as the fiscal tendencies of the three aforementioned presidents.

There has been a substantial amount of literature theorizing why the public and the government have allowed deficits to spiral out of control in the United States despite strong support for balanced budgets.197 James Buchanan argues that because of the easy ability to satisfy constituents in the present while bunting costs to future generations, “fiscal prudence simply cannot be made to pay off in democracy.”198 To support this

point, Andres and Franco Modigliani point to the rapid spread of credit cards, reflecting the “enjoy-now-pay-later philosophy.”\footnote{Andrew Modigliani and Franco Modigliani, “The Growth of the Federal Deficit and the Role of Public Attitudes,” \textit{Public Opinion Quarterly} 51 (1987), 465.} But in Paul Peterson’s article “The New Politics of Deficits,” he derides the idea that deficits exist simply because of the desire to enjoy benefits now and postpone costs for later for the primary reason that for much of U.S. history deficits were under control.\footnote{Paul Peterson, “The New Politics of Deficits,” Political Science Quarterly 100, 1985, 576.}

Another explanation for increased deficits in the 1980s and beyond was posed by Robert Inman. He wrote that the increase in the national debt can be attributed to the democratization of Congress in the 1960s and 1970s.\footnote{Robert P. Inman, "Public Debts and Fiscal Politics: How to Decide?” \textit{The American Economic Review} 80.2, Papers and Proceedings of the Hundred and Second Annual Meeting of the American Economic Association (1990), 81.} In his article, he paints a picture of the transition from powerful parties and strong committees to members of Congress becoming more independent and straying from party line votes.\footnote{Robert P. Inman, "Public Debts and Fiscal Politics: How to Decide?” \textit{The American Economic Review} 80.2, Papers and Proceedings of the Hundred and Second Annual Meeting of the American Economic Association (1990), 81.} He attributes this shift to constituents becoming more informed and therefore less likely to blindly support their parent’s political party. Suddenly members of Congress needed to show their constituents they could bring home money for their state or district. Thus began a new era of deal-making where members would engage in logrolling in order to make sure their projects passed, often to the detriment of the national purse.\footnote{Robert P. Inman, "Public Debts and Fiscal Politics: How to Decide?” \textit{The American Economic Review} 80.2, Papers and Proceedings of the Hundred and Second Annual Meeting of the American Economic Association (1990), 81.}

Other authors focused on factors that led the public to support members of Congress who were not fiscal conservatives. In 1978, Christopher Lasch wrote about the “new narcissism” that resulted in the public favoring their own satisfaction over problems
they would be leaving for the next generation. However, by pointing to Gallup Polls conducted during this period, Andre and Franco Modigliani show that the public never approved of tax cuts that would result in budget deficits. Instead, they argue that the shift in the public’s thinking derived from their trust in the new president, Ronald Reagan, who “projected an image of unswerving opposition to government deficits.” Therefore the public supported his agenda when he told them that his policies would not result in deficit spending.

Paul Peterson, however, struggles to accept the notion that deficits resulted from Ronald Reagan alone. Instead, he argues that U.S. deficits, which skyrocketed in the early 1980s, occurred when the public began demanding more services at less cost, and also because of the elevation of monetary policy over fiscal policy. As mentioned in the introduction to this portfolio, the rise of Monetarism justified deficits because of the belief that lower tax rates would result in sufficient increased production to make up from the initial lost revenue.

Other authors argue that the shift to unbalanced budgets took place long before Supply Side Economics became popular in the 1980s and instead was a result of the introduction of Keynesian economics, which affected most presidents from the time of President Roosevelt until Reagan. Keynesian economics states that full employment requires the government to become involved in a capitalistic society through both fiscal and monetary policy. In *Economic Politics: The Costs of Democracy*, William Keech

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205 Ibid., 467.
206 Ibid., 471.
wrote that the acceptance of Keynesian thought “allowed for a public justification for deficits.”209 James Buchanan and Richard Wagner wrote that Keynesian economic results in intentional deficits, which was a problem when the public and their leaders interpreted this to mean that low taxes and high expenditures were sustainable, even during economic booms.210 Yet even this explanation, while accurate, fails to explore whether or not presidents truly believed in this economic thought or simply took advantage of economic theory to justify unbalanced budgets.

It is also helpful to look at literature that explains why some presidents may have misspoken about their goals to improve the country’s economic conditions. According to biography writer Jonathan Alter, Franklin D. Roosevelt’s leadership style was based on pitting his advisors against each other, gathering as much information from each of them as possible, and then siding with whoever was most convincing.211 Alter defined President Roosevelt as the “great experimenter,” which can explain why he started his tenure as U.S. President as a true fiscal conservative and later shifted his policies when he did not see any relief for the suffering masses during the Great Depression.212 Julian Zelizer wrote that the very origin of liberalism and fiscal conservatism can be found in the New Deal.213 He wrote the President Roosevelt aligned ideologically with fiscal conservatism, and knew the electorate did as well, but he supported a fiscal conservative approach for primarily political reasons. The president realized that any large deficits

212 Ibid., 93.
would also mean increased attacks on his agenda. Yet when the Great Depression failed to recede, President Roosevelt realized that a president could not look only to balanced budgets for answers. Presidential appointee Luis Douglas, who served as head of the Bureau of the Budget at the time, believed that people could be helped most effectively through a balanced budget, which would stimulate trust in the economy and investment in the country. Douglas resigned when he could no longer convince the President of this belief.

According to Ronald Reagan expert John Sloan, the leadership style that defined President Reagan was his ability to provide the overall vision of what he wanted but then allow others in his administration to fill in the details. This allowed him to evade responsibility when things went wrong by pleading ignorance. Being a visionary without following through on the details can begin to explain how Reagan’s goal to balance the budget slipped away without his full realization or approval. Yet those close to him saw that these actions were intentional. Andre and Franco Modigliani argued that President Reagan knew he was not being candid when arguing that “tax reform would not be a serious source of deficit.”

President Obama makes informed decisions based on facts but allows personal stories to inspire him to find solutions. He takes his time to deliberately think through problems and to hear diverse opinions on every issue. Despite the grandiose campaign

214 Ibid., 332.
215 Ibid., 337.
216 Ibid., 337-339.
219 Anne Kornblut and Michael A. Fletcher, “In Obama’s Decision-Making, a wide ranger of influences,”
rhetoric about change and hope, the President has been limited as to what he can change and accomplish. President Obama has not made fiscal promises that could not be achieved, such as arriving at a surplus during a recession. Promising to halve an annual deficit, however, does not offer much hope for the country’s economic outlook.

This paper will further William Keech’s thinking that Keynesian economic theory and the justification of deficits is what primarily allowed U.S. Presidents to play they role they did in increasing the federal debt. By showing that the presidents in question understood what impact their actions would have on the debt and actively misled the public will add something new to existing literature. It is true that increased public demands, democratization, and narcissism all played roles in the country’s increasing debt. However, the country’s economic conundrum is largely due to the impact of persuasive presidents taking advantage of economic theory, jargon, and balance sheets to convince the public of a false reality. In other words, these presidents performed these actions because they realized they could easily convince the people of a falsity that the public very much wanted to believe was possible.

Theory and Hypothesis

If U.S. presidents verbally stress the importance of balancing the budget and decreasing budget deficits, it would seem probable that they would take realistic steps towards that outcome while in office. If leaders do not take such steps it is because other goals may have superseded their financial goals, which no longer seemed feasible. As a result, their budget priorities become a means to other ends rather than an end unto
themselves. This paper will look at the rhetoric used by three presidents to express their goals to improve the country’s economic conditions and then seek to find if they were intentionally misleading the public with their fiscal statements.

**Research Design**

Before comparing promises against actions taken by President Franklin D. Roosevelt, President Reagan, and President Obama, it is necessary to explain why these three presidents were chosen for comparison in this paper. First, all of these leaders were faced with dire economic crisis upon entering office, but still stressed the need for fiscal prudence. Second, each of these presidents had their political party in the majority of at least one branch in Congress, allowing them, with some persuasion, to pass landmark pieces of legislation. Finally, these three presidents possessed extraordinary powers of persuasion and oratory skills to be able to leverage the bully pulpit to their advantage.

In 1932 conditions were so calamitous that many Americans doubted the future of both democracy and capitalism. In the hours before President Roosevelt took office, the Governors of New York, Illinois, and Pennsylvania all signed orders that banks in their states would close until future notice. In the year leading up to Franklin Roosevelt’s presidency, there had been runs on 5,000 failing banks. Since the Federal Deposit Insurance Corporation did not yet exist, people with savings in failed banks saw all of their money disappear. Unemployment officially stood at 25 percent nationwide, and reached as high as 80 percent for non-farm workers. The economy was in complete

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221 Ibid, 2.
222 Ibid, 2.
shock from loss of business investment, which was down 90 percent since 1929. The mood of most Americans matched the depression felt by the market. Yet President Roosevelt ran for office committing to balance the budget and condemning the deficits produced by President Hoover.223

The year before Ronald Reagan ascended to the presidency, the economy was experiencing the dangerous combination of high inflation and low economic growth known as stagflation.224 The Consumer Price Index showed that prices doubled even as workers were laid off.225 By the time of Ronald Reagan’s inauguration, inflation had hit 12.5 percent, interest rates were as high as 15.26 percent, and unemployment stood at 7.1 percent.226 In addition, petroleum shortages and a hostage crisis in Iran added to the general anxiety of the times.227 Yet a month into office, Ronald Reagan told the nation that he was confident his administration could achieve a balanced budget.228

The year before President Obama took office, the economy was in a downward spiral. The stock market lost half its value, large-scale layoffs were announced, and giant financial institutions required federal bailouts in order to stay afloat. The housing market slammed to a halt resulting in plummeting home values and increased foreclosures. In the month President Obama was sworn into office, the national unemployment rate stood at 7.6 percent.229 However, within a month of entering office, Obama reassured the nation

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225 Ibid, 33.
that he would work to improve the country’s financial quagmire.\textsuperscript{230}

The political composure of Congress also factored into each president’s decision-making model. If a president’s party commands a congressional majority, the administration should be able to accomplish more of its key priorities and initiatives. During the first year of both Franklin Roosevelt’s and Barack Obama’s presidencies, the Democratic Party was in the majority of both the House of Representatives and the Senate. During Ronald Reagan’s first term, while the Democrats had 56 percent of the seats in the House of Representatives, it was the first time the Republican Party controlled the Senate since 1953.

Finally, the rhetoric and oral abilities of each of these presidents helped them to accomplish many of their goals. During the 1930s thriving dictatorships in Europe led people to believe that the United States could benefit from a bolder type of government during the economic crisis. During President Roosevelt’s inaugural address he claimed that if he did not get quick approval for his legislation to fix the economy, he would utilize executive war powers by waging “war against the economy.”\textsuperscript{231} But President Roosevelt quickly moved beyond his powers of coercion and realized he could accomplish even more through his powers of persuasion. Through his fireside charts, he connected to the public in unprecedented ways and transformed the relationship between the presidency and the public.\textsuperscript{232}

When Ronald Reagan won the presidential election in 1980, his optimism to


\textsuperscript{232} Ibid., 263.
restore the country to its greatness was contagious. He believed a dramatic change was needed and told the nation of the contrast between life in America under the New Deal and a vision of less government interference in the private market. He believed that with more incentives and fewer taxes, private industry would be energized to increase productivity. With such a positive outlook and the belief across the country that major change was needed, President Reagan had the opportunity to make a significant impact.

Barack Obama also had the rare opportunity that the other two aforementioned presidents had to make a significant change in office. His predecessor, George W. Bush, left office with an approval rating of twenty percent, the lowest since Gallup started tracking presidential approval seventy years ago. Voters were frustrated with the direction of the country and made it clear that they were ready for the “change” that was the hallmark of Barack Obama’s election. The mantra used continuously during Obama during the election was “Yes we can.” All three of these leaders possessed the rare gift of unfaltering optimism and persuasion to stay the course.

In order to explore the hypothesis that U.S. presidents are quick to turn fiscal restraint into pure rhetoric once elected, this paper will analyze the initial steps that each of these presidents took during their first one hundred days in office. This will be followed by an analysis of their economic policies to determine if their deficit-increasing actions were intentional.

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Results

Presidents Roosevelt, Reagan, and Obama all made statements during their campaigns or early in their presidencies regarding their desires to decrease the deficit or balance the budget. After exploring such statements made by these presidential candidates or presidents, this section will present data on what these individuals were able to achieve, and how they responded to economic crisis in ways that led them to contradict their fiscal goals. Once challenged with the competing priorities a president must face, all three utilized insincere rhetoric with regards to fiscal responsibility and deficit spending.

Their Fiscal Goals

In a radio address given on July 1932, Presidential Candidate Franklin D. Roosevelt said, “Let us have the courage to stop borrowing to meet continuing deficits. Revenues must cover expenditures by one means or another.”236 In October 1932, in the midst of the Great Depression, he gave a speech in Pittsburgh promising to balance the budget and curtail federal spending.237 Later when his actions were in opposition to the promises made in this speech, his speech writers informed him that the only plausible explanation he could give would be to “deny categorically that you ever made [that statement].”238

In the 1980 presidential debate between President Jimmy Carter and Governor Ronald Reagan, Governor Reagan reiterated his top three priorities for the country. He

238 Ibid, 87.
said, “[several economists across the country have said that] over a 5-year projection, [my economic] plan can permit the extra spending for needed refurbishing of our defensive posture, that it can provide for a balanced budget by 1983, if not earlier, and that we can afford… the tax cuts I have proposed.”\textsuperscript{239} But one year into office, President Reagan explained that his priories centered on the most important issues first, tax cuts and defense, and presumed the public would not want the government to balance the budget if it meant eliminating the tax cuts or “placing the country’s security in peril.”\textsuperscript{240} Although he clearly promised balanced budgets during his campaign, in office he shifted responsibility for achieving those goals by claiming that balanced budgets needed to be achieved by decreasing the size of the “Federal establishment.”\textsuperscript{241}

One month into office, President Obama outlined a new budget that would result in a 2010 deficit of $1.4 trillion.\textsuperscript{242} A few days later, in an attempt to assure the public of his desire to eventually keep the budget under control, he held a financial summit at the White House where he pledged to “cut the deficit we inherited by half by the end of [his] first term in office.”\textsuperscript{243} President Obama used this language to show he is fiscally responsible but this language was ultimately misleading to the public. According to White House projections, President Obama’s plan to halve the deficit would mean a

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\textsuperscript{241} Ibid.
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deficit of $500 billion in 2013.\textsuperscript{244} Since deficits are annual figures and halving the deficit in 2013 does not imply anything about previous years or years to follow, the language he used does not reflect economic realities. The goal to cut the deficit in half, while impressive, is ultimately a goal to only overspend by $500 billion in the year 2013 instead of overspending by $1 trillion in 2013.\textsuperscript{245}

To make matters worse, according to President Obama’s FY10 budget, while deficit spending was set to decrease every year between 2009 and 2013, after that point the deficit was set to begin increasing again.\textsuperscript{246} Even assuming years of constant economic growth, due to continued deficit spending the public debt would grow at a constant pace for the foreseeable future.

\textit{What they Achieved}

Franklin D. Roosevelt, Ronald Reagan, and Barack Obama were prepared and ready to pass new legislation from the moment they were sworn in to the Office of the President. It took President Roosevelt only 100 days to change the nature of the role of the White House and the federal government. In his first 100 days, fifteen significant bills were signed into law, which among other things, created regulations for the financial markets, abolished child labor, helped people facing foreclosure save their homes, and created a minimum wage.\textsuperscript{247} Most impressive was the swiftness of the execution of the legislation signed by President Roosevelt. The Civilian Conservation Corps passed

Congress and hired its first workers only 34 days into the new administration. More than 275,000 Americans were employed under the new program within four months of President Roosevelt taking office.\textsuperscript{248}

President Reagan came to office with three clear goals: “balancing the budget, reducing tax rates, and restoring our defenses.”\textsuperscript{249} He engaged in both legislative policy and administrative changes within months of taking office. By August of his first year in office, his signature Economic Recovery Tax Act (ERTA) became the biggest tax cut to be enacted in U.S. history.\textsuperscript{250} This legislation reduced tax rates by 23 percent and lowered the maximum rate an individual could pay by 50 percent. ERTA decreased the capital gains taxes, and increased estate and gift deductions.\textsuperscript{251} Despite the unprecedenced amount of tax cuts within this bill, President Reagan wanted to further help businesses thrive by loosening bureaucratic regulations. To help the private sector flourish he cut the budgets of regulatory enforcement agencies so they would no longer have the personnel needed to enforce existing regulations.\textsuperscript{252}

President Obama also took advantage of the troubling economic conditions to push through many of his priorities for the country. The American Recovery and Reinvestment Act, an economic stimulus bill with a pricetag of $787 billion was signed into law in President Obama’s first few weeks in office. This spending bill pushed forward fifty of the President’s campaign promises. These promises ranged from providing tax credits to workers, to rebuilding the country’s infrastructure, to doubling

\textsuperscript{248} Ibid, 295.  
\textsuperscript{252} Ibid, 9.
the country’s capacity to produce clean energy.\textsuperscript{253} President Obama was able to fulfill more of his campaign promises when he signed the Omnibus Appropriations Act one month after taking office, which resulted in increased funding for domestic spending programs.\textsuperscript{254} In his 2010 State of the Union address he acknowledged that “if we had taken office in ordinary times, I would have liked nothing more than to start bringing down the deficit. But we took office amid a crisis. And our efforts to prevent a second depression have added another $1 trillion to our national debt.”\textsuperscript{255}

\textit{How they Handled Economic Crisis}

The recessions faced by Presidents Roosevelt, Reagan, and Obama left the government in a position where high deficit spending was arguably necessary to help combat the country’s negative economic conditions. The absence of such an intervention would have likely resulted in even worse economic conditions for the public and significant additional lost revenue. Thus, the presidents were proactive to restore economic growth. Nonetheless, each of these presidents made fiscal promises knowing there was a recession taking place and each was misleading in their rhetoric.

Presidents Roosevelt, Reagan, and Obama differed in their styles of handling their respective financial crisis with regards to fiscal policy. President Roosevelt believed in balancing the federal budget to help restore fiscal responsibility within the government.\textsuperscript{256}

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As a fiscal conservative, he believed that during the depression it was important for the United States to balance its budget so that it stayed out of bankruptcy.\textsuperscript{257} President Roosevelt’s approach to the budget reflected the Classical Economic Theory popular at the time. He believed the country should have the same spending mantra as an individual household: do not spend more money than you take in. This stood in sharp contrast to the idea that the government has both the capacity and responsibility to stimulate the economy through increased spending during recessions. In his attempt to balance the budget, President Roosevelt dramatically restricted the nation’s money supply by cutting federal spending by 31 percent.\textsuperscript{258} It is possible the depression lasted much longer than necessary because of the initial lack of stimulation by the federal government.

Despite attempts to balance the budget, however, President Roosevelt’s administration spent more than it collected in revenue. He was only able to appear fiscally responsible by creating a new budgetary system.\textsuperscript{259} The old budget system listed all of the government’s revenue and spending in one place. The new system kept emergency spending “off-budget.” Therefore the federal budget that the president was claiming to balance did not include any of his spending passed to put people back to work or to improve the economy during the depression.

President Reagan based his economic relief plan on the principle of supply-side economics. Supply-side economics is the belief that by decreasing corporate and individual taxes, there will be more money for businesses and the wealthy to invest back into the economy. However, as authors John Palmer and Isabel Sawhill pointed out in

\textsuperscript{257} Ibid., pg 275.  
\textsuperscript{258} Ibid., 275.  
\textsuperscript{259} Ibid., 276.
1982, “There was no supply-side miracle leading to economic recovery, but the tight monetary policy endorsed by the administration led to a recession.”

Unlike Roosevelt who wanted to experiment until he found something that worked, Ronald Reagan was adamant that the economic theories he employed would work in the long run and refused to enact any other policy.

Today, mainstream economists believe that when an economy is in a recession the government can improve the situation by infusing money to the economy rather than tightening the money supply. With this belief, President Obama focused his attention on a stimulus plan to add more money into the economy, not only to put people back to work but to simultaneously build consumer confidence. Still, President Obama was misleading regarding his goal to “halve the deficit” to improve U.S. finances. President Obama took a risk by breaking from the trickle-down economic theory the United States has used since the 1980s. To support a trickle-up approach, President Obama focused on rebuilding the middle class, which has seen wages remain still or even decrease relative to inflation over the past twenty years. By early 2010 it remained too early to analyze the impact that $1 trillion in domestic spending had on the recession but it remained clear that the goal to “halve the deficit” will not get the U.S. back on track to reverse the skyrocketing debt.

*Coming to Terms with the Abandonment of their Fiscal Goals*

Each of these presidents had different ways of coming to terms with the fact that their spending plans were inconsistent with their hopes to balance the budget or decrease

261 Ibid., 6.
the nation’s debt. It was not until 1936 that President Roosevelt acknowledged that the traditional manner of balancing the budget by simply tightening the government’s belt during a recession would not work and instead bought into the ideas behind Keynesian economics.\footnote{Jonathan Alter, \textit{The Defining Moment: FDR’s Hundred Days and the Triumph of Hope}, (Simon & Schuster: New York, NY, 2006), 276.} Even before 1936, as previously mentioned, he adopted a dual budget system to track emergency spending separately so it would not interfere with his goals to balance the budget.

President Reagan initially insisted that it was possible for him to balance the budget while decreasing taxes and increasing military spending, as long as he could sufficiently cut domestic spending.\footnote{Lou Cannon, “President Reagan: The Role of a Lifetime,” (New York: Touchstone/Simon and Schuster, 1991), 6.} However, after two years in office, he acknowledged this impossibility. Yet rather than retracting some of his tax cuts or slightly decreasing military spending, he simply abandoned his goals of balancing the budget.\footnote{John Palmer and Isabel Sawhill, “The Reagan Experiment,” Urban Institute: Washington, DC, 1982), 7.} Instead, he adopted a new goal of keeping deficits under $100 billion.\footnote{Ibid, 7.} Ronald Reagan later said that not balancing the budget and not cutting more federal spending were his “biggest disappointments” and that the reason he parted from this goal was that there were more important priorities.\footnote{Ronald Reagan, “An American Life,” (New York: Simon and Schuster, 1990), 335.} In 1981, he said, “I did not come here to balance the budget -- not at the expense of my tax-cutting program and my defense program.”\footnote{Dimish D'Souza, “Ronald Reagan: How An Ordinary Man Became an Extraordinary Leader,” (New York: The Free Press, 1997), 104.}

President Obama unabashedly announced that he would move forward with his spending goals while nurturing his goal to make the country more fiscally responsible by
“halving the deficit by 2013,” even though this would result in abnormally high deficit spending. In January 2010 the White House announced it was still working towards that goal. By then President Obama was ready to start tackling the deficit in a more focused way. His administration pushed the Senate to pass PAY-AS-YOU-GO rules that would apply to emergency spending and tax cuts. In addition, President Obama announced plans to create a bipartisan commission to provide Congress with deficit reducing suggestions. Finally, he mandated a three-year non-defense discretionary spending freeze. While these are steps in a positive direction, as the Obama administration acknowledges, discretionary spending makes up only one-sixth of federal spending and the freezes were put into place after increasing the spending levels in his first fiscal budget. While this is a start towards decreasing deficits, it does not even begin to lead to surpluses. Furthermore, President Obama’s emphasis on deficit cutting measures was augmented only after the Democrats lost Edward Kennedy’s Massachusetts Senate seat and felt that more needed to be done to gain the support of independents before the mid-term elections.

**Key Findings**

Presidents Reagan and Obama were well intentioned with their fiscal goals but both lacked sincerity in their follow-through. Ronald Reagan quickly abandoned his goals without remorse once he tasted the victory of a political win for his other two goals,

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273 Ibid.
tax cuts and increasing defense spending. President Obama’s promise to halve the deficit was insincere because it was misleading to a public that does not understand that halving a deficit still increases the U.S. debt. While President Roosevelt believed in his fiscal goals and truly wanted to balance the budget, he attempted to do so by creating a dishonest form of budgeting that removed all emergency spending figures. This budget trickery was not abandoned until 2009 when President Obama vowed to produce an honest budget.

Presidents Roosevelt, Reagan, and Obama turned their attention away from balanced budgets because seemingly more important priorities required budget flexibility. Two months before President Reagan signed the 1981 tax cuts into law, his advisors showed him evidence that the loss of revenue would put the country in danger. The President’s response was that “to waver when victory was at hand seemed a foolish political course.” President Roosevelt truly desired to have a balanced budget but created a dishonest budgeting tradition in order to achieve it.

President Obama was careful not to over promise anything with regards to fiscal goals but still used misleading rhetoric that was unfair to the public who has limited knowledge of economic jargon. A more accurate but less politically savvy way of stating the goal would be, “I will try to ensure that U.S. deficit spending in 2013 is half of U.S. deficit spending in 2009.” Of course said in this manner it does not seem so impressive. That the president set a goal to eventually decrease deficit spending is comforting but more comforting would be a goal to achieve budget surpluses during strong economic times.

President Obama has said this is just the first step of a long process to restore fiscal responsibility to the United States. This acknowledgement is important since achieving his current goal will not result in debt reduction. If the President’s goal is to make the United States more financially secure, while cutting deficit spending in half is good start, many years of budget surpluses during times of economic growth is what is ultimately needed. As history has shown, politics makes raising taxes and cutting spending during economic booms nearly impossible, making a budget surplus seem more elusive than ever.  

Each of the presidents highlighted in this paper are brilliant politicians who knew how to frame what the public wanted to hear with regards to fiscal responsibility. If political leaders from both parties had the courage to be realistic and honest about the costs of giving the country what the people demand, then maybe the country could be led away from staggering deficits.

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Conclusion: Summary and Key Findings

This portfolio sought to find out what factors have lead political leaders who profess to care about the increasing U.S. debt to use fiscally responsible rhetoric but to then actively engage in fiscally irresponsible actions. Understanding these factors in the legislative branch, within the process of federal contracting, and in the executive branch can bring the country a step closer to figuring out what needs to be done to help decrease the U.S. debt. The cases highlighted in this paper make it clear that for many reasons, political leaders do not have the courage to tackle the growing debt and U.S. citizens must realize their role in the political process to take ownership of the growing debt and to seek to reverse it.

The first chapter, Tax Cuts During Wartime: The Role of Fiscal Conservative Senators, looked at why fiscal conservatives were voting to cut taxes during the Iraq war when their fiscal conservative self-identification would suggest they would vote in a more fiscally responsible manner. In order to show that this group of self-identifying fiscally conservative senators truly voted in fiscally irresponsible manners, they were compared to other groups such as the rest of their Senate colleagues and their constituents. Based on roll call votes, this paper found these fiscal conservatives voted to cut taxes while increasing war spending more often than the rest of their political party in the Senate. Based on polls, this paper found that these senators could not blame their fiscally irresponsible votes on constituents, who told Gallup that deficits were more important than tax cuts. Furthermore, when comparing the fiscal conservative senators to the second senator from the same state, the second senator voted in a more fiscally conservative manner in all but one case.
This paper found that ideology is the best explanation of the paradox. Members of Congress who self-identify as fiscal conservatives care about a balanced budget, but only when it is convenient to their ideology. A balanced budget is not one of the pillars of their ideology. Votes for tax cuts and war spending, both traditionally ideologically conservative issues, are pillars for conservative members. Thus self-identifying fiscal conservatives who are also socially liberal appear to be working to balance the budget but really have been voting against war spending and tax cuts because of their liberal ideologies. It is also clear that fiscal conservatives lose leverage when they decide to vote for expensive measures without insisting on fiscal constraints, and only do so when their party is in the presidency.

The second chapter, *Systems of Accountability over Defense Contractors*, reviewed Congress’ role in creating systems of accountability over outside contractors in order to minimize fraud. This paper compared congressional systems of accountability over defense contractors during the War of 1812, the Civil War, and the Iraq War to see how Congress’ role changed over time. The purpose of the paper was to see if Congress, which has been spending far more than the revenue it is collecting, is at least being responsible by making sure tax dollars are not being wasted to the best of its ability.

This paper found that during the War of 1812 and the Civil War there were strong systems of accountability created by Congress to oversee private contractors. During the War of 1812, Congress passed legislation allowing privateers, or privately owned ships, to go after British vessels, but included strict regulations and incentives in the legislation that proved effective at preventing fraud. During the Civil War the executive branch had assumed much more authority than the executive branch exhibited during the War of
1812, but Congress paid close attention to fraud and passed significant legislation to curtail it. In addition to the False Claims Act, Congress passed bills that brought contracting almost exclusively to the federal level to prevent states from outbidding each other, and also legislatively defined private contractors as being within the military establishment so those suspected of fraud could be tried by military tribunals. During both the War of 1812 and the Civil War, the executive and legislative branches worked together to fight an effective war while minimizing fraud and waste.

During the Iraq War, however, systems of accountability have been largely insubstantial as Congress abdicated much of its oversight power to the executive branch. Beginning in 2001, the executive branch began withholding increasing amounts of information from both Congress and the public but still gained congressional approval for emergency spending bills as the war began and progressed. In addition, during the Iraq War, Congress held far fewer oversight hearings than it had in the past. The 2006 mid-term elections resulted in opposite parties commanding the majority of Congress and the Executive. This led to a shift in improved congressional oversight. However, during the Wars of 1812 and the Civil War, the same parties were in the majority of both chambers and the presidency and they were able to work together on strong oversight to decrease fraud. Therefore, this paper has found that over time, party loyalty has become more important than respect for Congress as a separate and independent branch of government.

The third chapter, *Fiscally Conscious Presidents and the Nation’s Debt*, examined the role of the rhetoric regarding fiscal responsibility used by Presidents Franklin D. Roosevelt, Reagan, and Obama. Though each of these presidents was faced with extreme economic conditions upon entering office, they still insisted on fiscal prudence. This
paper strove to find what language they used to stress the need for improved fiscal conditions and then the reasons each of them strayed from their fiscal values.

President Roosevelt ran on a campaign promise to balance the budget but then once in office he realized he couldn’t so he created a new system of budgeting so emergency spending would only be listed off-budget. President Reagan inspired people with his talk of the need to decrease the debt but then moved forward with the largest tax cuts in the country’s history because he found tax cuts and defense to be more important policy measures than a balanced budget. President Obama did not pretend to try to create balanced budgets during the recession and even got rid of President Roosevelt’s off-budget/on-budget system. However, his promise to “halve the deficit by 2013” was insincere because to a public unfamiliar with economic language, it sounded like he was promising to improve the debt.

This paper found that each of these presidents knew the importance of fiscal responsibility but struggled to act in ways that would do justice to improving the country’s economic quagmire. Once in office, these presidents had other priorities and goals that took precedence over their fiscal goals. The budget became a means to achieve other priorities rather than being a priority in itself.

*Lessons Learned*

The country’s debt presents a growing problem for U.S. citizens and their leaders, who are reluctant to take necessary action. There are lessons, however, that can be pulled from the three chapters in this portfolio to help lead the country towards a new direction.

The first lesson is that fiscal conservative language is used by political leaders
who believe in decreasing the deficit but is only acted upon when legislation supports their ideology. Fiscal conservatism has been practiced in U.S. politics when it is convenient and not because it is valued. When liberals spend money on new domestic spending programs they are criticized by fiscal conservatives for expanding the government and overspending. Yet when costly policies involve ideologically conservative issues such as tax cuts and war spending, fiscal conservatives are quick to turn their backs on their fiscal values.

That fiscal conservatives act fiscally responsible only when it is ideologically convenient is the root of the problem. In the first chapter, it became clear that fiscal conservatives in the Senate voted for tax cuts and war spending because their ideology aligned with those issues. Hence self-identifying fiscal conservative John Kerry appeared to be one of the only true fiscal conservatives when really it was likely his liberal ideology that led to his votes against the tax cuts and the Iraq War. In fact all of the self-identifying fiscal conservative senators listed in chapter one put statements attesting to the fact that they are fiscal conservatives on their website yet continued to vote in fiscally irresponsible ways when costly votes were on policy areas they agreed with. In paper two, when fiscal conservative senators voted for continuous unfunded emergency spending bills for the Iraq War, rather than help ensure systems of accountability were in place to prevent fraud, they instead abdicated power to the executive so they would not seem unpatriotic or as if they were trying to slow down war efforts. In paper three, during the election, it was convenient for Presidents Franklin D. Roosevelt and Ronald Reagan to speak about balanced budgets and to criticize the deficits of the previous administrations. Yet once they came into office and their policy priorities had a chance
to become law, they quickly abandoned their fiscal goals. This paper showed that presidents are often eager to use fiscally responsible rhetoric but when it comes down to acting in a fiscally conservative manner or supporting their base ideology, they chose the latter while finding rhetoric to convince the public they are still fiscally responsible.

A second lesson that can be learned is that though it has been disproven with data, there remains a strong section of the public and political leadership who believes tax cuts will not increase the U.S. debt in the long run. In paper one, many of the self-identifying fiscal conservatives did not perceive their actions of passing tax cuts while increasing war spending to be fiscally irresponsible because many of them thought tax cuts would generate enough investment to create enough revenue to make up for the lost revenue from the initial tax cuts. Others knew they would be increasing the deficit but took advantage of Supply Side Theory to win a political victory. In paper three, President Reagan believed it would be possible to cut taxes, increase defense spending, and balance the budget and in fact he ran for office on that very platform. He slowly came to terms with the impossibility of this feat but only after he told the public this would be possible and convinced them to support tax cuts on the premise it would not worsen the annual deficit.

A third lesson that can be taken away from these case studies is that the structure of the U.S. democracy and modern elections leads to behavior that encourages instant gratification and delayed payment when possible. Balancing the budget means cutting important programs or raising unpopular taxes. The consequence of a politician courageous enough to take such steps is a difficult reelection. Yet as was mentioned in paper three, politicians willing to take such steps can win the votes of independent voters.
Still, as was evidenced by the failure of the U.S. Senate to approve a commission on reducing the deficit in the 111th Congress, the steps that must be taken are so difficult that Congress is not even willing to allow a bipartisan commission to offer solutions.

These lessons pessimistically point to continued fiscal irresponsibility in Congress and in the executive branch. But the enormous size of the U.S. debt poses a real threat to the country and steps must be taken to correct fiscal mismanagement.

Recommendations

After internalizing the lessons offered by this paper, an opportunity presents itself to make recommendations on how to solve the problems listed in the paper. Two recommendations that can improve the country’s fiscal situation are asking the public, specifically younger generations, to demand fiscal responsibility in politics, and suggesting that fiscal conservatives in Congress change their negotiation strategy.

First, the public must demand fiscal responsibility in Congress. Voters need to give politicians a reason to believe they will not be punished for being fiscally responsible. When politicians use rhetoric to pretend they are fiscal conservatives they should be called out by the media and by the public at large. The public must come to terms with the seriousness of the debt and accept the need for difficult trade offs. This recommendation would solve the problems highlighted in the first and third papers of politicians using strong fiscally responsible rhetoric but then shirking from those goals when forced to make tough choices. People have not yet demanded fiscal responsibility because some still believe that cutting taxes is the path to a balanced budget and those individuals allow politicians to get away with using false rhetoric. A strong push for
fiscal responsibility and clear solutions must come from the younger generations. Since
the younger generations will be forced to deal with the budget crisis and already expects
to get little back from Social Security, they are in the best position to take charge of the
crisis. To engage the younger generation, responsible budget advocacy organizations
must spend more resources on young advocates by utilizing new social media to build
grassroots support. Rather than focus on what specific changes are needed, the first step
should be to inspire the public to demand more fiscal responsibility from Congress.

Second, fiscal conservatives in Congress clearly have an uphill battle but to
succeed in decreasing the U.S. debt, they must realize stronger negotiation strategies. To
reverse the country’s negative economic conditions, they should engage in negotiations
rather than simply voting against legislation. Fiscal conservatives must not view all
spending measures as win-lose negotiations but instead recognize their power to
influence the final outcome. Fiscal conservatives in Congress have the best chance of
remaining true to their principles by accepting that certain spending bills will pass
through Congress and negotiating to improve systems of fiscal accountability within
legislation. Recognizing that the type of vote count analysis done in the first paper of this
thesis would fail to reflect any such negotiations, fiscal conservatives should do what
they can for the country and to lessen its debt.

Fiscal conservatives have a better chance of arguing for fiscal constraint if they
consistently vote to keep spending in line with revenue. In order to defend their position
with increased legitimacy, true fiscal conservatives must stay consistent from issue to
issue, regardless of if their party is in the majority or the minority.

Because President Obama and the Democratic Party have been working so hard to
get bipartisan support for legislation, the Republican Party would do well to negotiate for fiscal constraint within bills rather than allow the Democrats to resort to reconciliation measures that would make the Republican minority irrelevant.

**Thesis Limitations**

Certain limitations exist within the chapters of this thesis. Though the three papers attempted to cover the various dimensions and dynamics of each branch, some factors are invariably missing. In the first paper, it would be useful to do a second case study analyzing how the same fiscal conservatives have voted on ideologically liberal issues. While the paper tapped into this by looking at war votes that included humanitarian causes, these votes were almost unanimous. By studying ideologically liberal votes where the Senate was split, future research could more accurately separate out how fiscal conservatives voted compared to their colleagues. A second limitation of the first paper is that only vote counts were analyzed. The possibility exists that some of the fiscal conservatives who voted for fiscally irresponsible bills, made a positive impact on the deficit by offering fiscally responsible amendments before offering their support. Observing amendments in addition to final vote counts would offer a more in-depth look at each member’s impact.

In the second paper, the case studies were limited to three wars with just a glimpse at World War Two. It would be useful to expand the research to additional wars, and to especially add more research on World War Two. While the Truman Commission was mentioned in this paper, a full study of the war to compare it to the other three would provide additional insight on how systems of accountability have been used to combat
fraud. This paper was also limited by the lack of research into the political feeling of the
times to truly be able to compare President Lincoln’s power grab over government affairs
to that of President George W. Bush. Through media stories and research into interviews
of people during the Civil War, the resentment of the growth of executive power could be
better compared.

The third paper was limited in that it only viewed case studies where the
president’s party had a congressional majority. Many debt reducing compromises,
including the 1990 agreement by George H.W. Bush to break his campaign promise and
raise taxes because of the Democrat’s willingness to approve of PAYGO, and the
agreements reached during Bill Clinton’s administration that led to budget surpluses, may
have been due to the fact that there were different parties in control of Congress and the
White House. When there are different parties in control of each branch, both parties
want to show the public that they can get things done and can take credit for
achievements. When one party controls both branches, the minority party may shirk
from compromises because they do not want to reward their opposing party during the
next election. This chapter was also limited by only looking at presidents who entered
into power during a financial crisis, and thus were limited by what they could do to
decrease the national debt.

Future research to expand this thesis could touch on some of the ideas mentioned
in the limitations section above. An additional chapter that would be particularly useful
would study the Commission for Fiscal Responsibility and Reform created by President
Obama in February 2010 and to compare it with past commissions to reduce the federal
debt. The chapter could compare the differences and similarities of the political climates
during each commission, the dynamics of political power in each branch and chamber, and the perceived urgency of the problem both in Congress and within the public. Then it could compare what was achieved by past commissions and their limitations, and stress what is needed for the current commission to be successful.

Another chapter that would add to this thesis is one on creative governance in order to maximize output while minimizing cost. This paper would focus on utilizing new technologies to reform how government programs operate and also seek to find current programs that are very cost efficient. While the government currently views itself as an engine that creates economic growth, it must trust the private sector to do that more and find ways to slim its own budgets.

A third chapter that would make an important contribution to this thesis is focusing on long term economic challenges such as entitlement growth. This portfolio barely touched upon Medicare, Medicaid, and Social Security though they make up a large percentage of the federal budget and will continue to grow, particularly as the baby boomer generation begins to retire. This chapter should seek to find solutions from underutilized sources. One factor that the chapter could focus on is studying how comprehensive immigration reform and legalizing 12 million undocumented immigrants, 7 million of whom are in the workforce, could fill in the gap of social security payments needed to fund the baby boomers retirement. However, this should also look at what would happen once those immigrants began to retire should the population not always continue to increase as much as would be needed. The chapter should also focus on what the younger generation can do to lead a movement to seek changes to the Social Security system before the youth have paid enough into the system that would make them become
impediments to change.

These three chapters would touch on essential topics that must be explored in the path to find solutions for the unsustainable debt. The portfolio in its entirety has provided important lessons and recommendations for changes that should be made soon. Without any changes, the financial situation in the United States can take a turn for the worst at any moment.

*The Future without Change*

If the results of this thesis are ignored, the country’s economic conditions could rapidly deteriorate if interest rates were to skyrocket or if fear seeped into the minds of investors regarding the capacity of the U.S. to repay its debts. Since much of the global economy is built upon the U.S. economic system, such dramatic changes would impact global economic conditions and could lead to a severe global depression.

Even in the absence of these worst-case scenarios, if the country were to continue down its current economic path, an increasing percentage of money would have to go towards interest on the debt rather than on policies and programs. This will tie the hands of future generations to enact new programs and to invest in the country.

While the government will continue to use proactive fiscal and monetary policy to spur economic growth and increase the employment rate, there needs to be a return to the idea that frugality is a virtue that must be exercised.
Bibliography for the Introductory Chapter


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