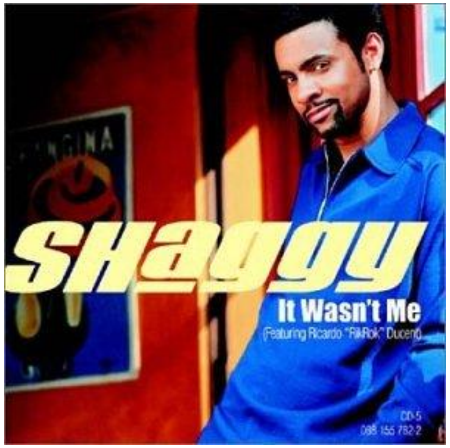
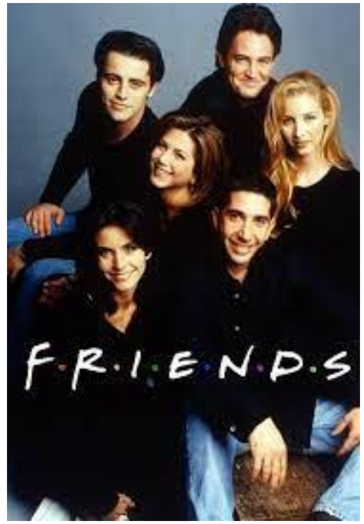
From Riches to Rags: Causes of Fiscal Deterioration Since 2001

January 2024

Committee for a Responsible Federal Budget

2001 Was a Different Time





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Our Fiscal Situation Has Since Deteriorated Dramatically

In 2001, the U.S. Federal Government:

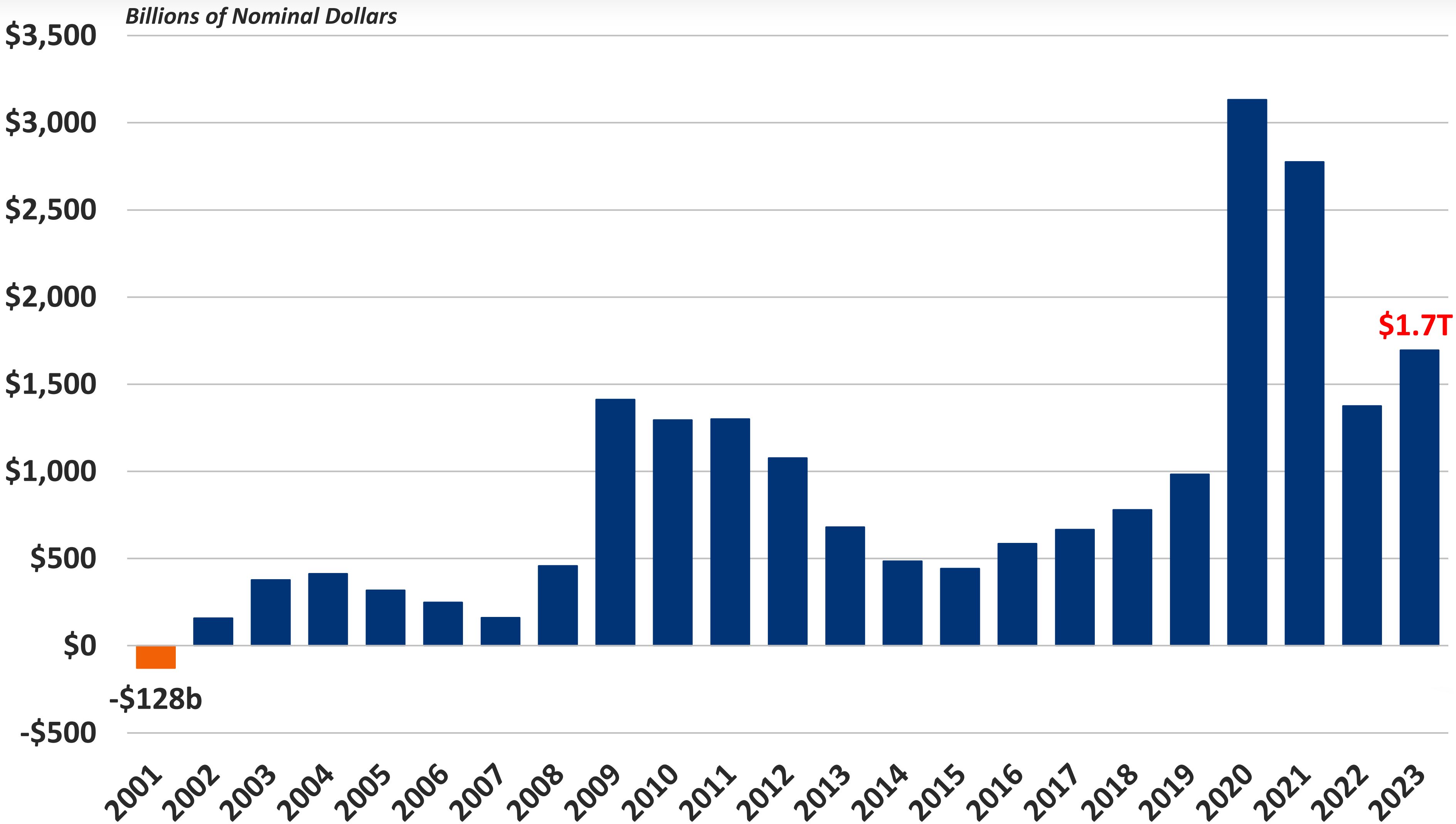
- Ran a $128 billion (1.2% of GDP) surplus
- Owed $3.3 trillion (32% of GDP) of debt
- Was projected to *pay off* the debt as soon as 2009*

In 2023, the U.S. Federal Government:

- Ran a $1.7 trillion (6.3% of GDP) deficit
- Owed $26.3 trillion (98% of GDP) of debt
- Faces rising debt as far as the eye can see

*2001 projections were based on overly rosy economic assumptions.
In reality, it would have taken longer to pay off the debt.

Modest Surpluses Have Turned to Huge Deficits



Sources: Congressional Budget Office, Treasury Department, and Committee for a Responsible Federal Budget.

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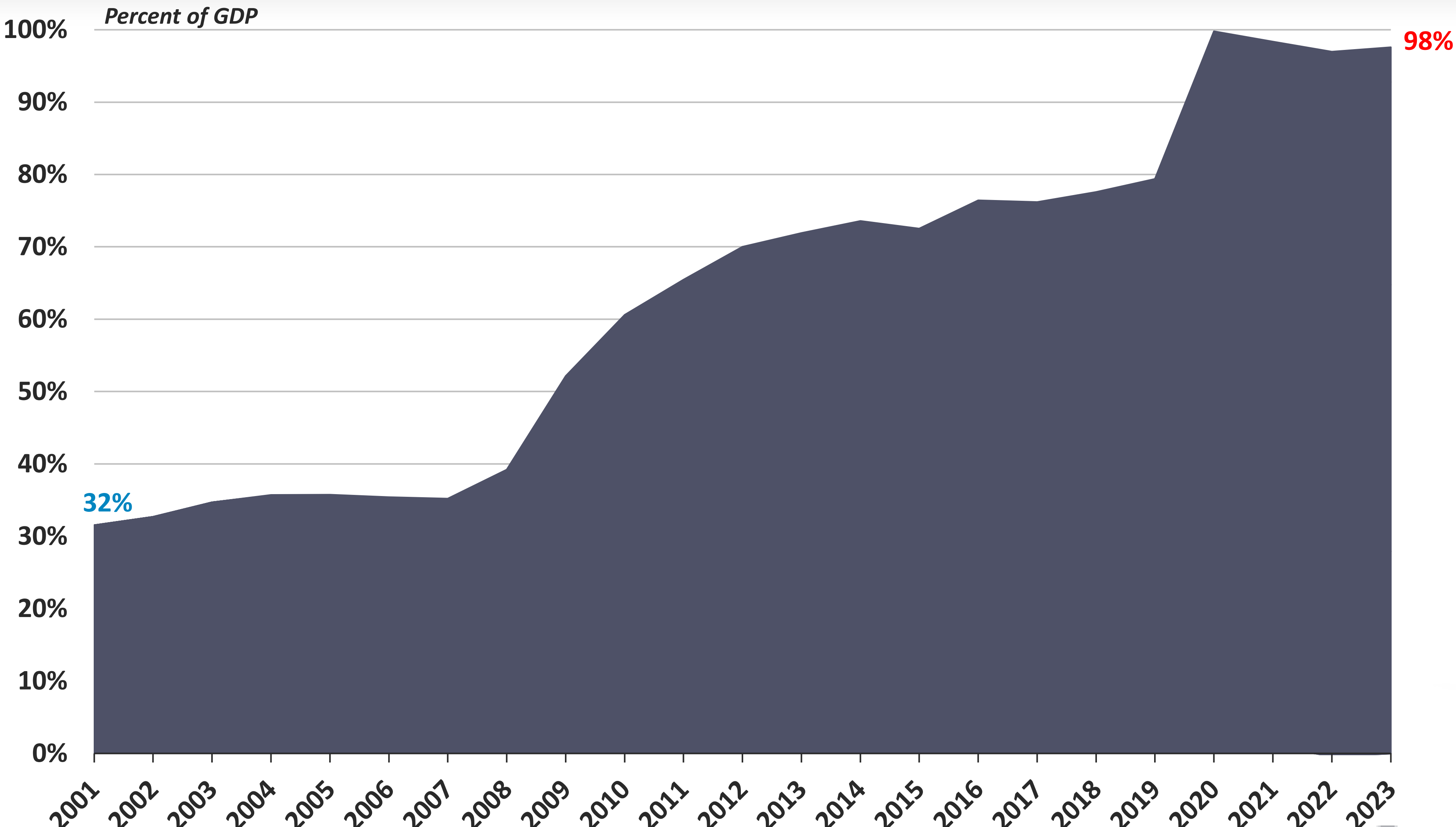
Debt Tripled as a Share of the Economy



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Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.

What Caused Our Fiscal Deterioration?

The Wars

Runaway Entitlement Spending

Tax Cuts; So Many Tax Cuts

Rising Health Costs

Stimulus & COVID Relief

Population Aging

Definitely the Tax Cuts!

Spending Increases

Declining Tax Collections

Past Studies Offer Conflicting Answers

In his March 2023 piece "Tax Cuts are Primarily Responsible for the Increasing Debt Ratio," Bobby Kogan estimates that major tax cuts added 38 percent of GDP to the debt while recession response added 26 percent. These figures closely match our estimates of 37 and 28 percent, respectively. Differences stem mainly from the fact that Kogan's estimates account for more tax cut laws than ours and distributes AMT patches differently, that we account for COVID-19 related executive actions that he does not, and from different methods to calculate interest. Kogan's analysis does not account for the cost of Medicare or discretionary spending increases, which would eliminate the debt if incorporated.

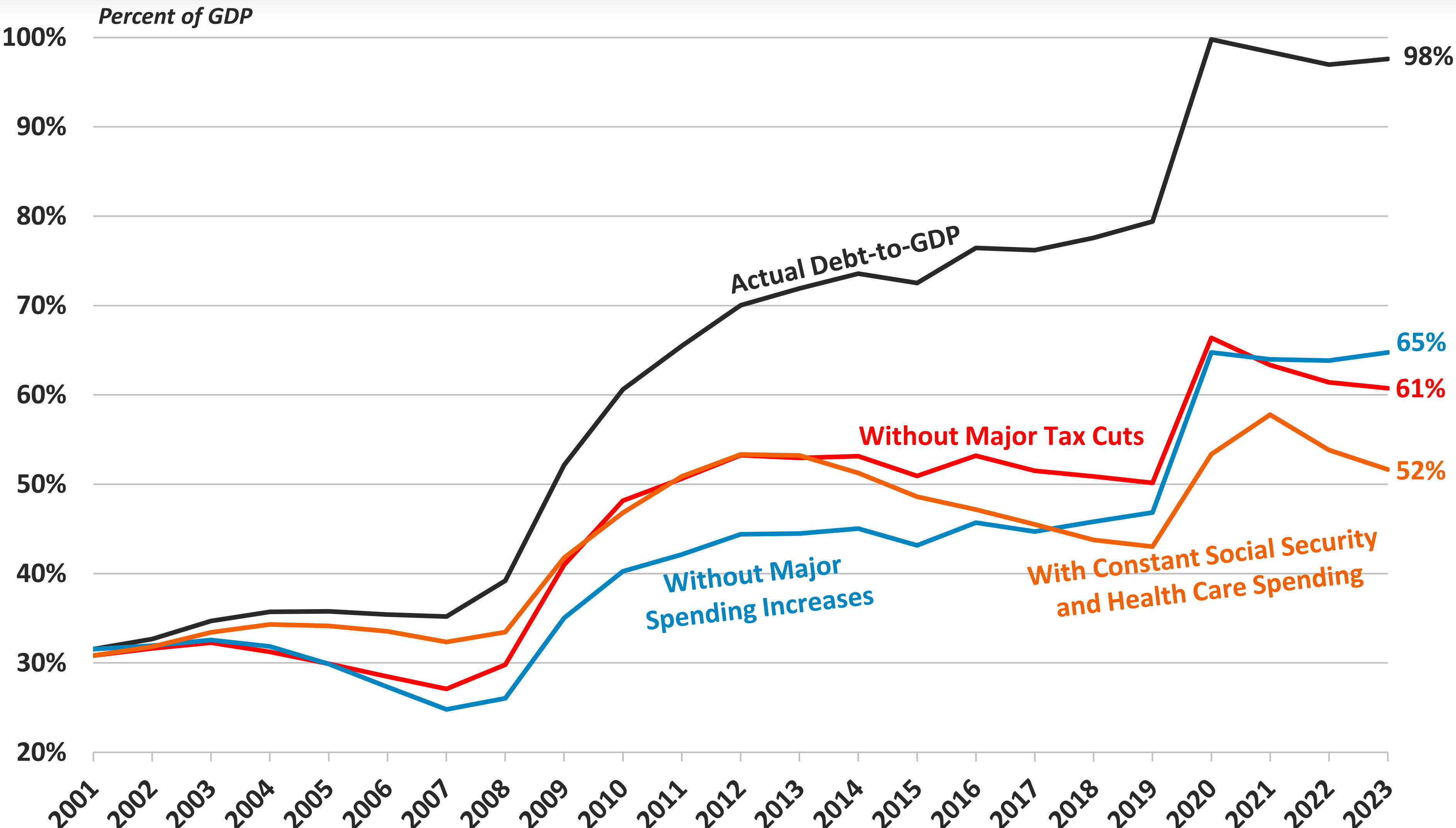
In its June 2012 analysis, "Changes in CBO's Baseline Projections Since January 2001," CBO estimated that discretionary legislative changes cost $2.9 trillion through 2011 – nearly identical to our estimate of $2.9 trillion through 2011. CBO estimated revenue and mandatory spending changes cost $4.2 trillion, compared to our $3.4 trillion for major changes. Differences stem mainly from the fact that CBO incorporates more legislation than we do but also because CBO estimates the effects of the TARP and Medicare Part D programs based on the original score while we adjust for actual costs. CBO's discretionary estimates differ from ours in that it includes parts of the ARRA stimulus bill, which is roughly offset by the fact that CBO's 2001 and subsequent baseline generally over-estimated future inflation and thus baseline spending.

In his November 2013 piece "Why We Have Federal Deficits: The Policy Decisions That Created Them," Charles Blahous found that over three-quarters of the country's long-term fiscal imbalance was the result of legislation enacted between 1965 and 1972 – mainly the establishment of Medicare and Medicaid without full offsets. Because Blahous's piece takes a longer view and uses a completely different methodology than ours, it is not comparable.

In his December 2023 piece, "Nostalgia for 1990s Individual Income Tax Rates Is Misguided," Kyle Pomerleau estimates that restoring the tax code to 1997 law would raise $724 billion in 2024. Similarly, we estimate major tax cuts lose about $800 billion of revenue in 2023. Differences likely stem mainly from the fact that we include corporate tax cuts and don't assume the reversal of significant tax increases, and that we start at 2000 law rather than 1997 law.

Finally, in his chartbook "Spending, Taxes, and Deficits: A Book of Charts," Brian Riedl shows that 64 percent of the growth in the deficit since 2000 is from higher spending (with 58 percent from mandatory spending), while 36 percent is from lower revenue. This is very similar to our estimate that 67 percent of deficit growth is from higher spending (with 56 percent from mandatory spending) and 33 percent from lower revenue. Differences stem from the fact that Riedl compares to 2000 and we compare to 2001, and from the fact that he adjusts the 2023 deficit for an accounting quirk related to student debt cancellation.

And They Are All (Basically) Right



Sources: Congressional Budget Office, Treasury Department, and Committee for a Responsible Federal Budget.

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We Did the Math…..

FROM RICHES TO RAGS:
CAUSES OF FISCAL DETERIORATION SINCE 2001

Looking at the policy changes enacted since the beginning of 2001, we find:

- Debt is **37 percent of GDP** higher due to major tax cuts, **33 percent** higher due to major spending increases, and **28 percent** higher due to recession responses.
- Most debt – **77 percent of GDP** – can be attributed to bipartisan legislation.
- Absent these tax cuts and spending increases, the debt would be **fully paid off.**

Comparing spending and revenue as a share of the economy over time, we find:

- Rising spending relative to GDP explains about **two-thirds** of the growth in annual budget deficits since 2001, while declining revenue explains **one-third.**
- Had revenue remained stable as a share of the economy, the debt would be **half its size**; had primary spending been stable, it would be **nearly paid off.**

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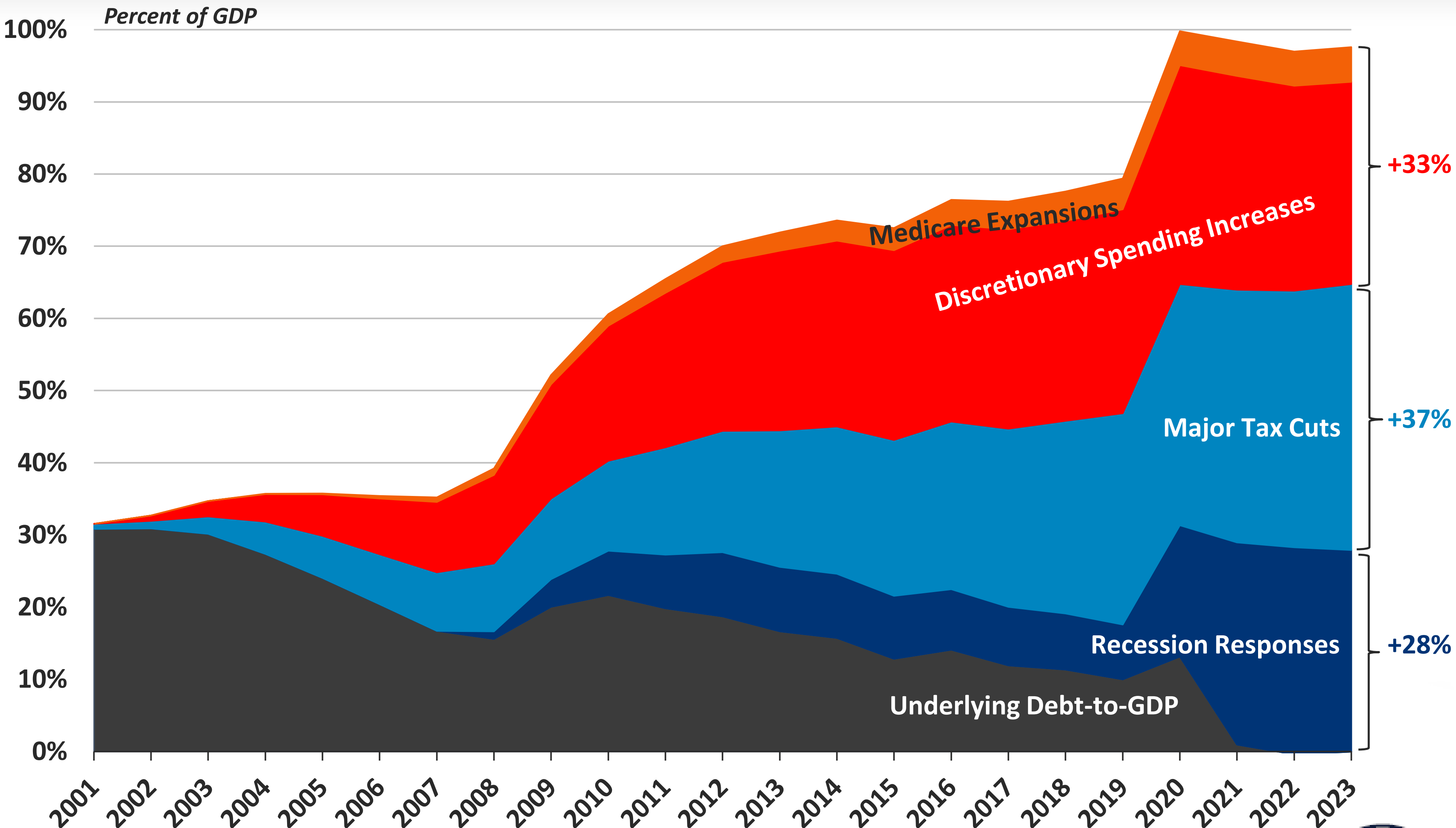
But Without New Policies, Debt Would Be Paid Off



Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.
This graph accounts for policy changes enacted 2001, and not existing built-in changes such as the automatic growth of Social Security and Medicare.

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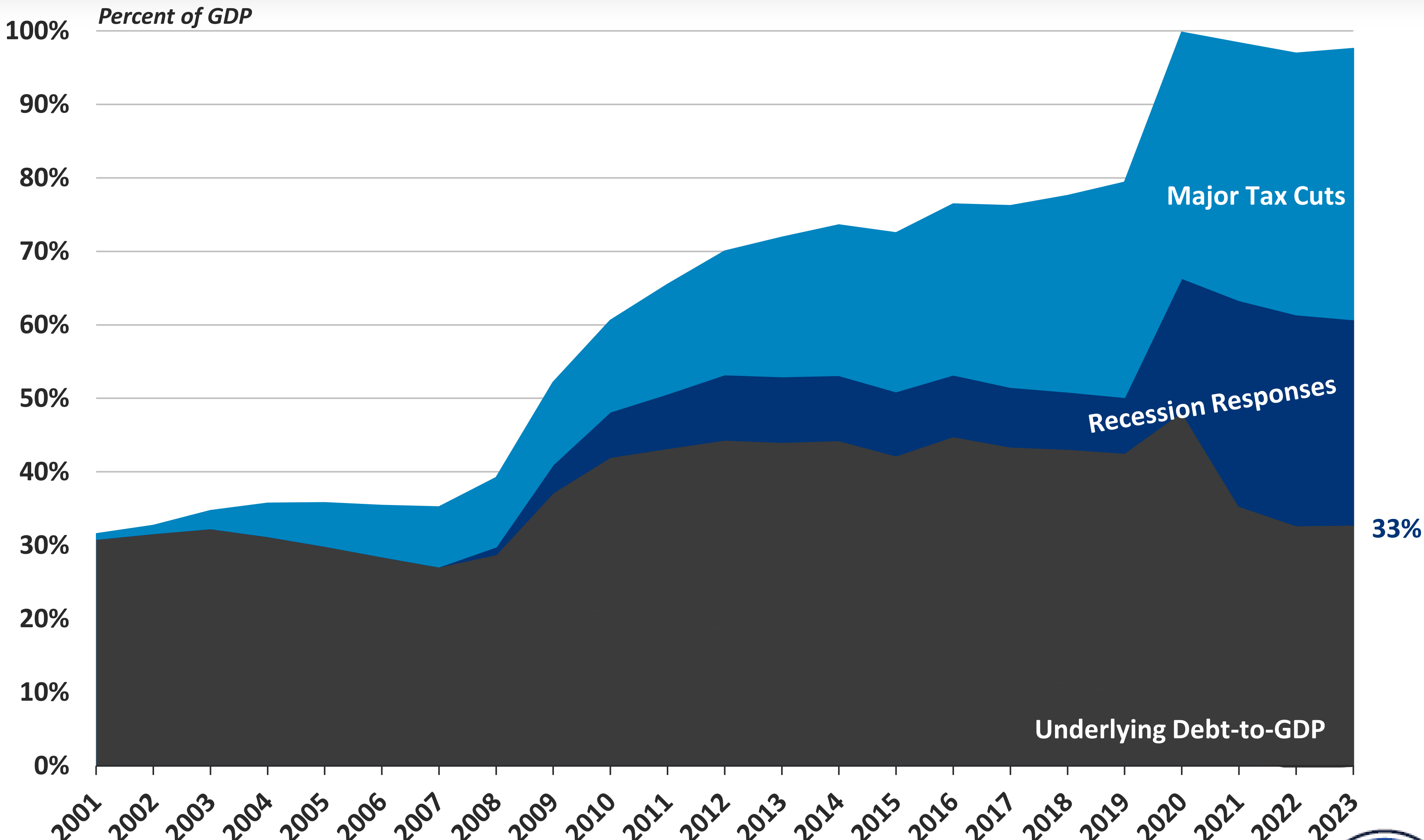
You Could Blame Debt Growth on Tax Cuts



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Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.

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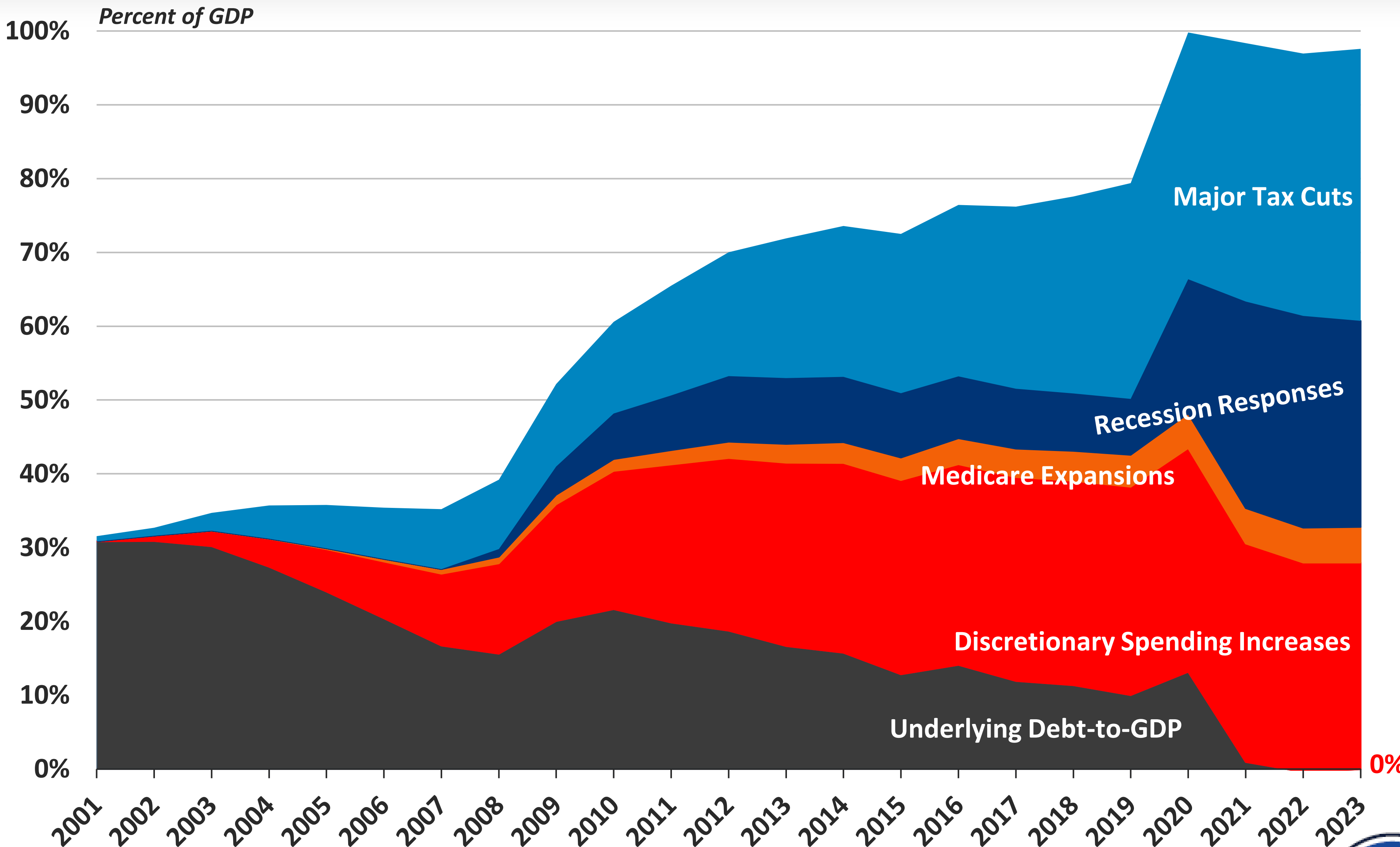

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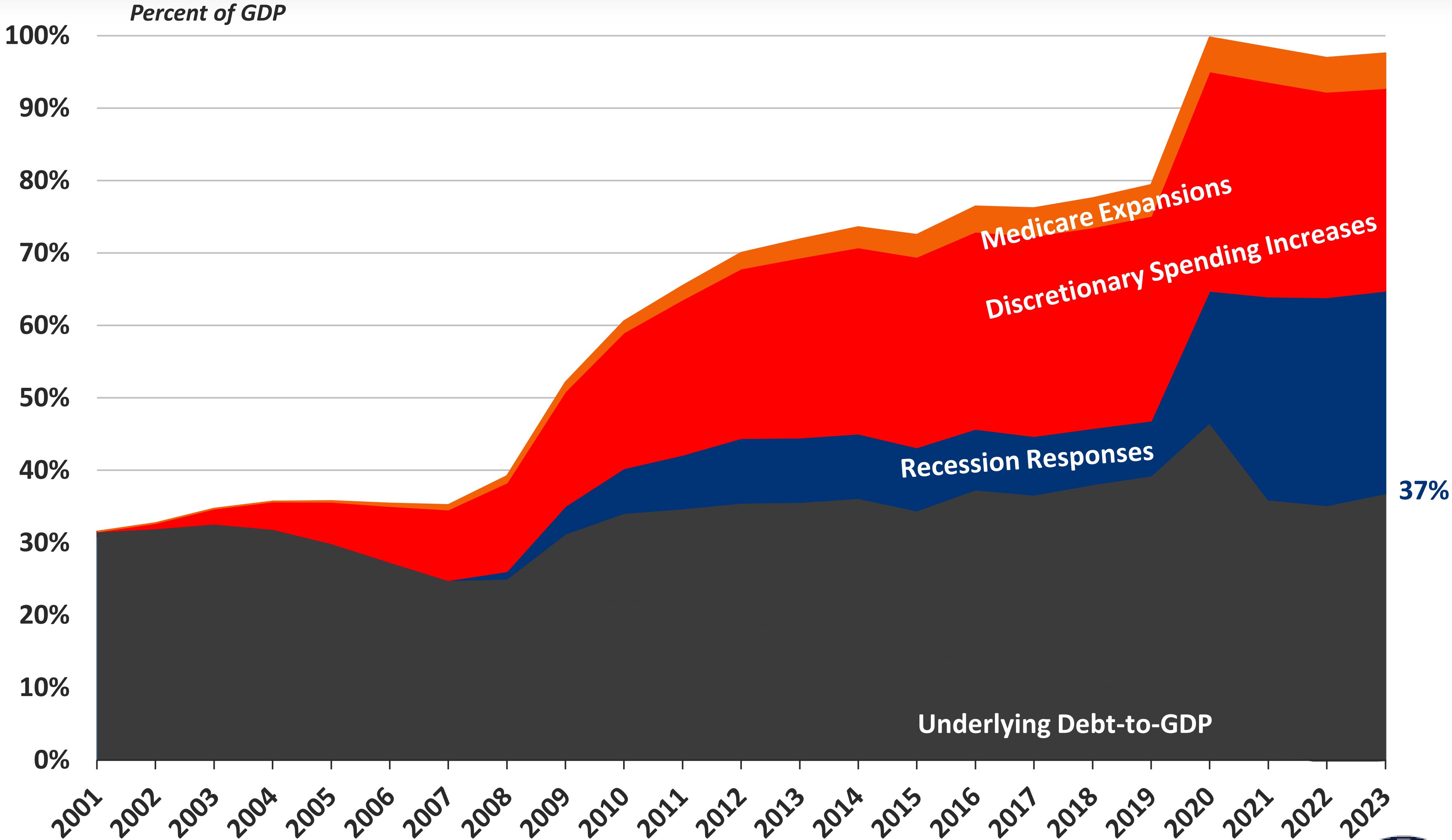
Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.

Or You Could Blame Debt Growth on Spending Hikes



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Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.

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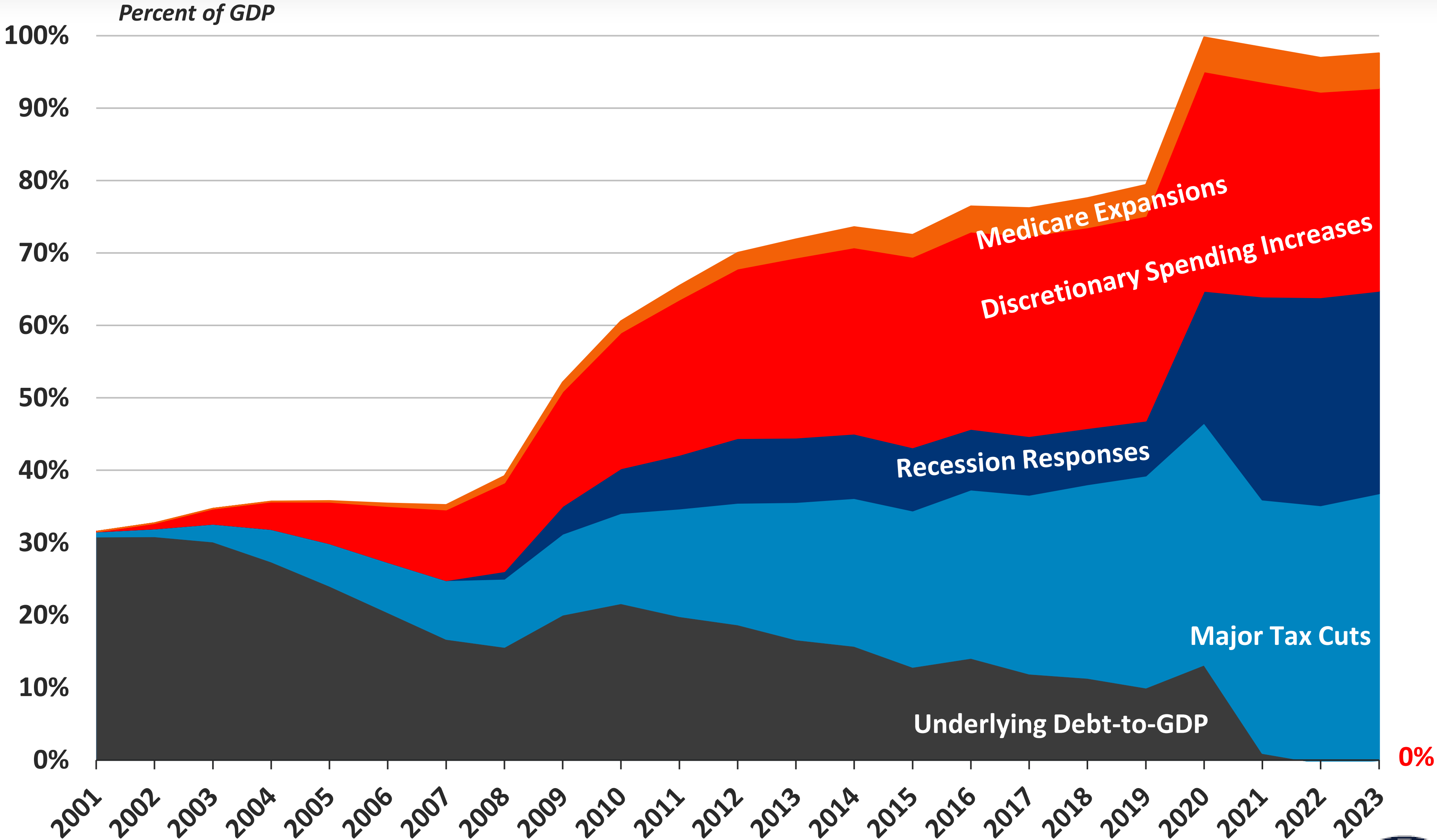

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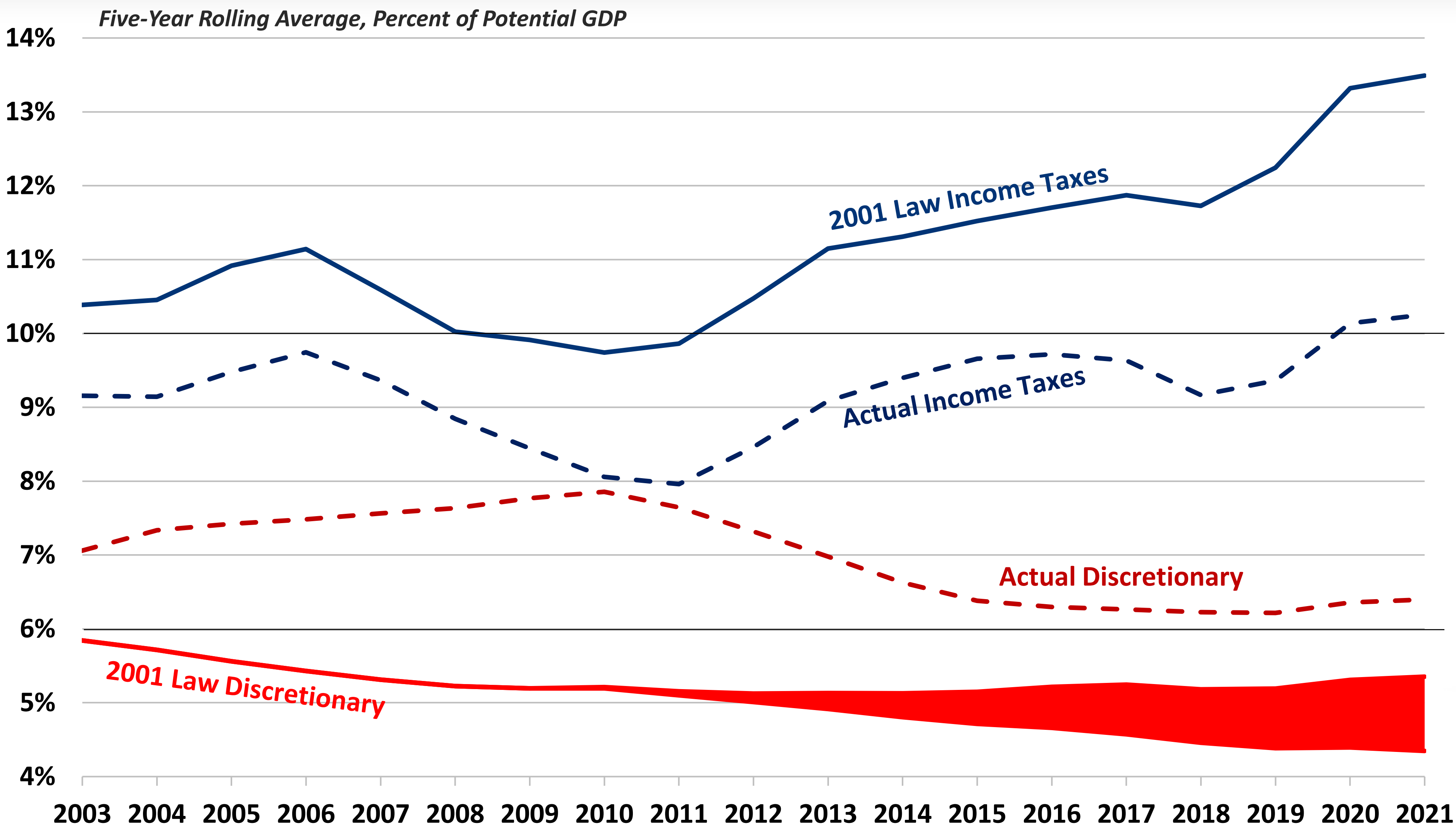
Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.

Congress Held Revenue & Approps Steady As % of GDP



Sources: *Congressional Budget Office, Treasury Department, and Committee for a Responsible Federal Budget.*

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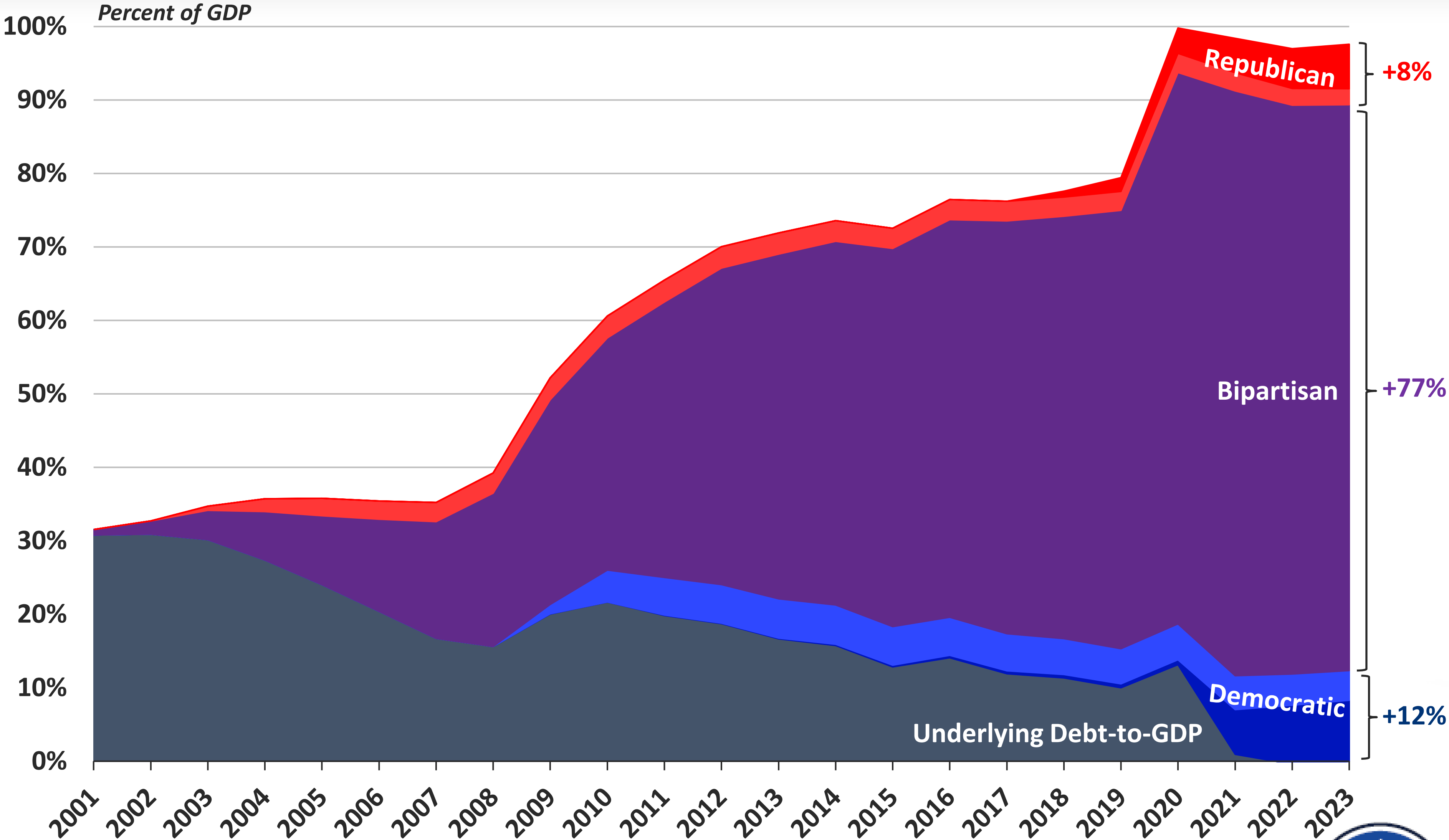
Most Policy Actions Were Bipartisan



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Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.

But That's Just One Way to Look At It….

Looking Exclusively at Policy Changes

- Does not account for automatic spending growth
- Assumes taxes would have risen as a share of GDP forever
- Assumes discretionary spending would have shrunk as a share of the economy over time
- Ignores legislation enacted prior to 2001

An alternative approach would:

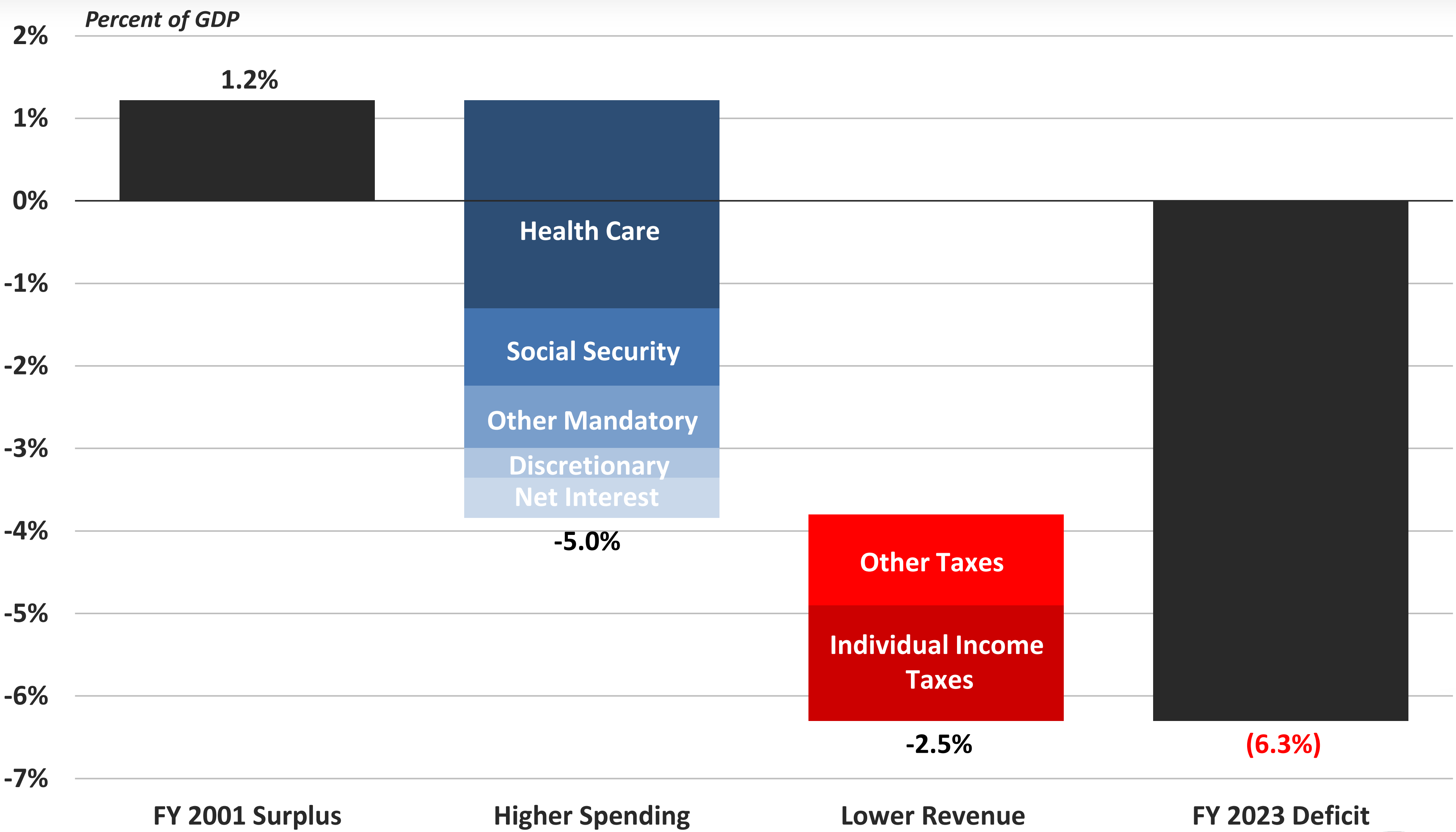
- Compare spending and revenue in 2001 to 2023 (as % of GDP)
- Examine what has changed over time

Deficits Have Grown by 7.5% of GDP Since 2001

	2001	2023	Change (% of GDP)
Spending	**17.7%**	**22.7%**	**+5.0%**
Health Care	3.3%	5.8%	+2.5%
Social Security	4.1%	5.0%	+0.9%
Other Mandatory*	2.2%	3.0%	+0.8%
Nondefense Discretionary	3.3%	3.5%	+0.2%
Defense Discretionary	2.9%	3.0%	+0.1%
Net Interest	2.0%	2.4%	+0.5%
Revenue	**18.9%**	**16.5%**	**-2.5%**
Individual Income Taxes	9.4%	8.1%	-1.4%
Payroll Taxes	6.6%	6.0%	-0.6%
Other Taxes	2.9%	2.4%	-0.5%
Surplus/Deficit (-)	**1.2%**	**-6.3%**	**-7.5%**

Sources: Congressional Budget Office, Treasury Department, and Committee for a Responsible Federal Budget.
**FY 2023 "other mandatory" understates true size of spending since it includes 1.2 percent of GDP in one-time "savings" from the Supreme Court's decision to rule student debt cancellation illegal. FY 2001 understates steady-state revenue due to one-time tax rebates but overstates it due to a temporary surge in capital gains and other revenue.*

Two-Thirds is Higher Spending, One-Third Lower Revenue



Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.

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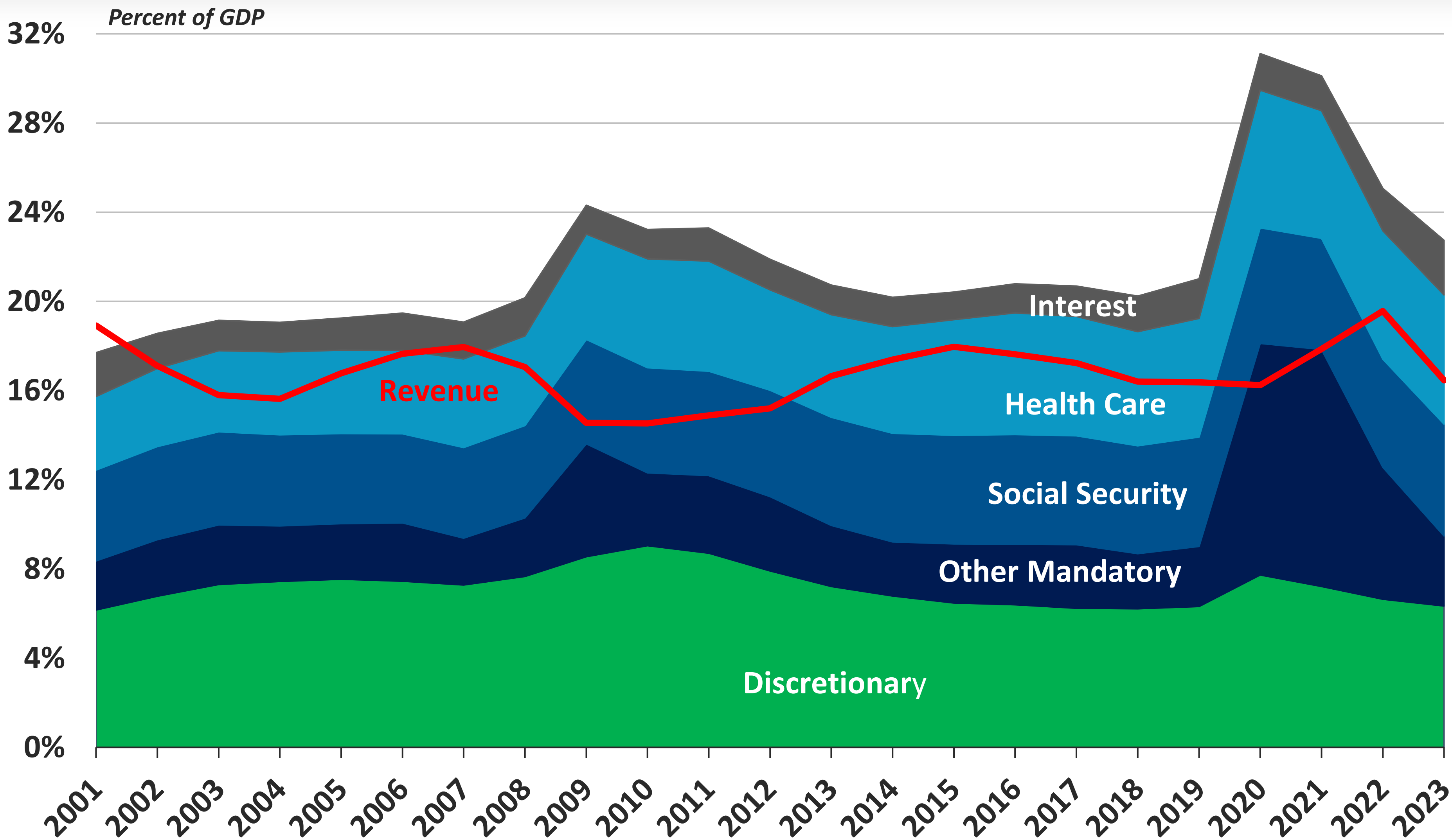
Mainly Higher Health & Retirement Spending



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Sources: Congressional Budget Office, Treasury Department, and Committee for a Responsible Federal Budget.

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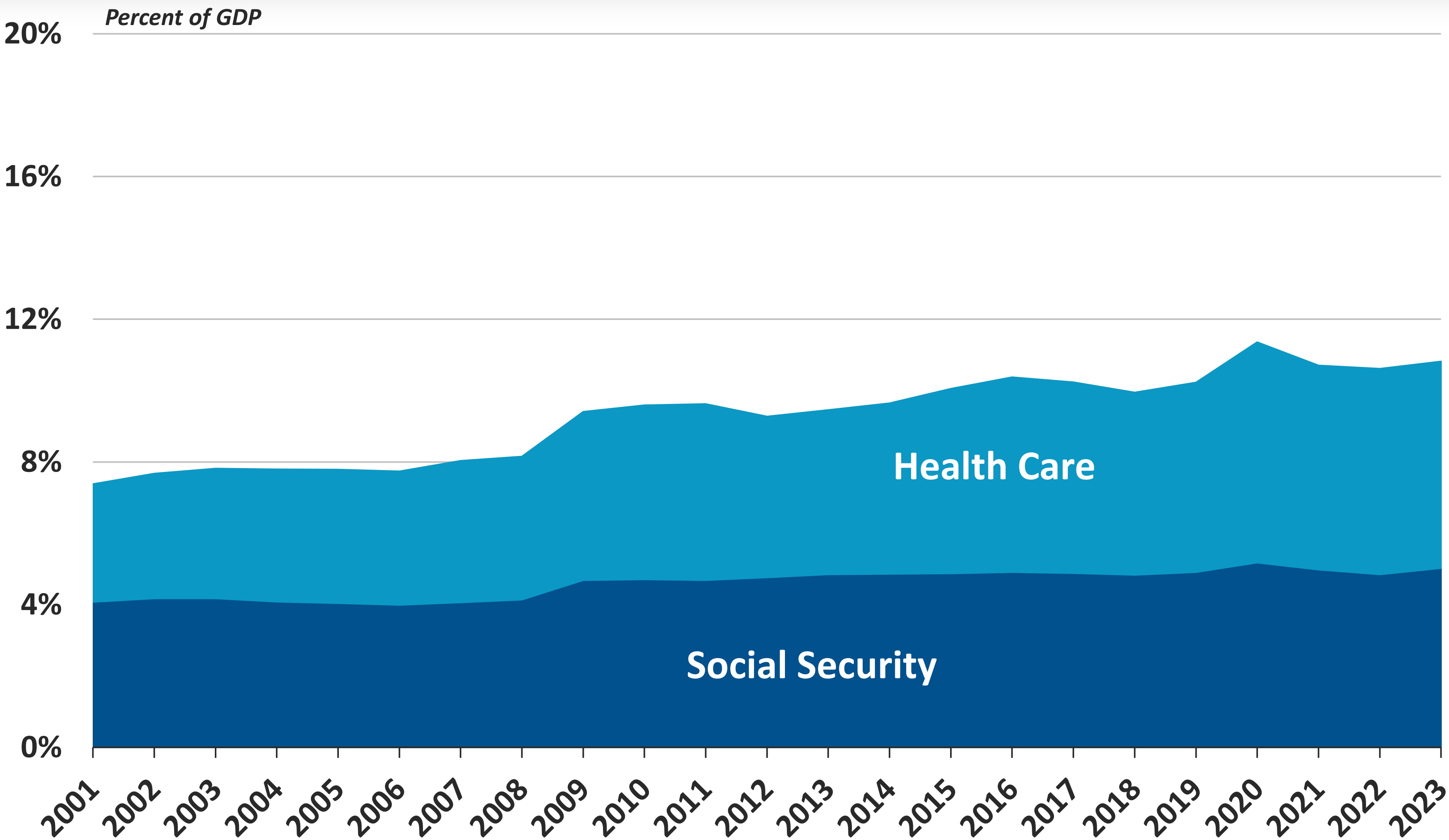

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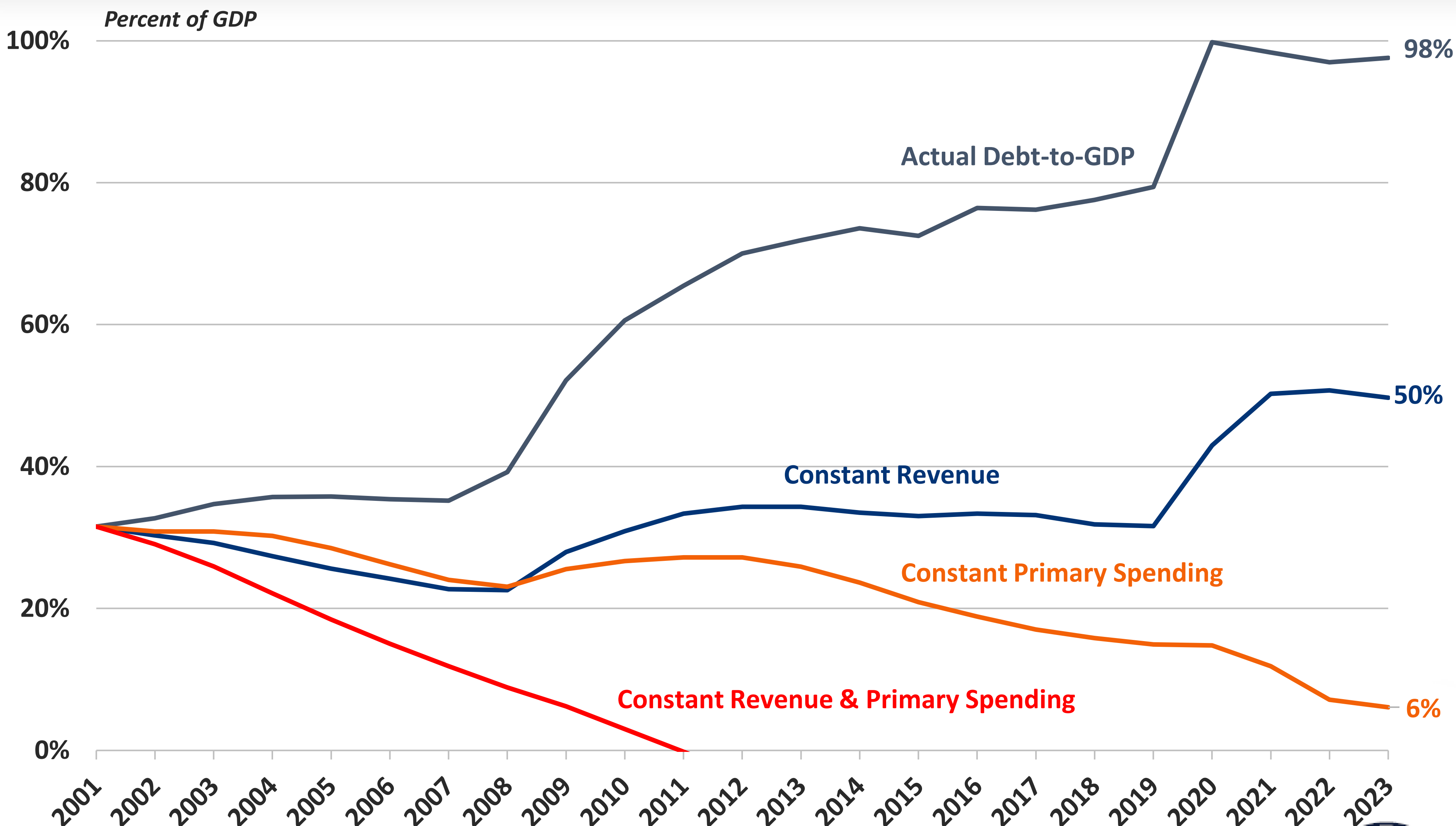
Sources: Congressional Budget Office, Department of Treasury, and Committee for a Responsible Federal Budget.

Debt Would Be Lower with Steady Spending or Revenue



Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.
Note: Scenarios assume no increase in federal financial assets. If government-issued loans and other measures matched actual levels despite revenue and spending constraints, the debt-to-GDP ratio would be up to 10 percentage points higher.

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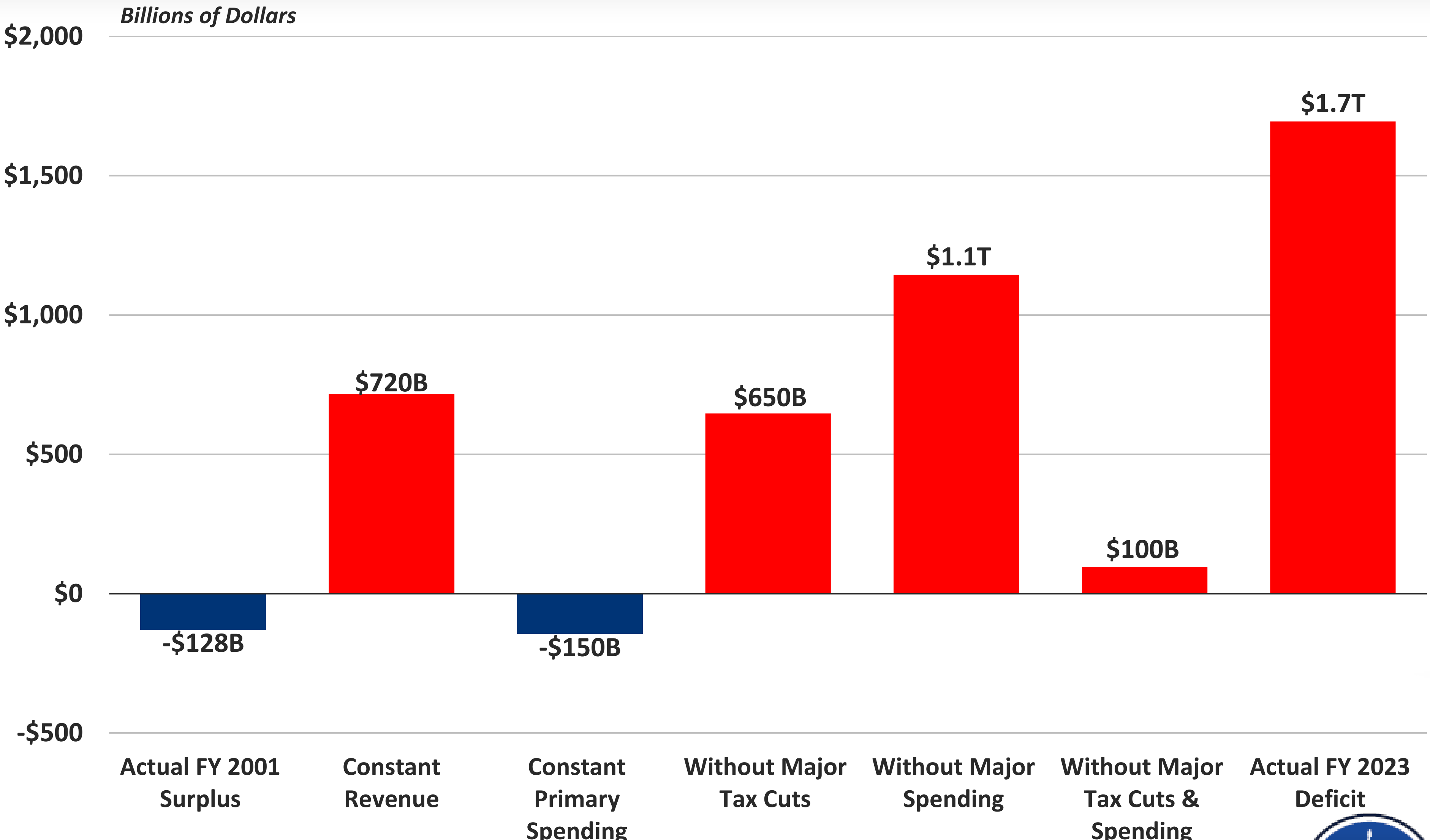
Under All Scenarios, Deficits Would Be Smaller



Sources: Congressional Budget Office, Treasury Department, and Committee for a Responsible Federal Budget.

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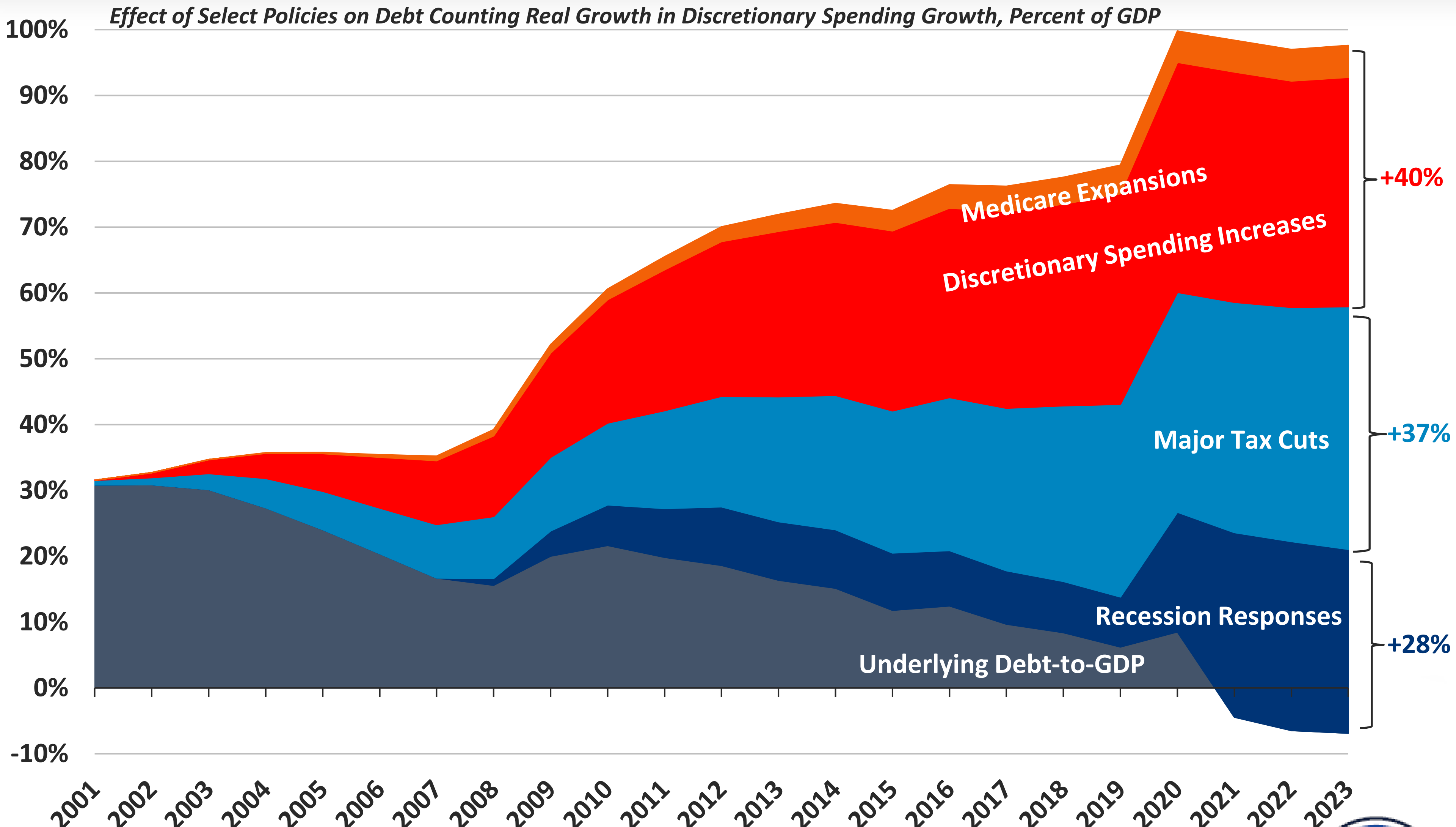
Different Methods Yield Different Results



Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.

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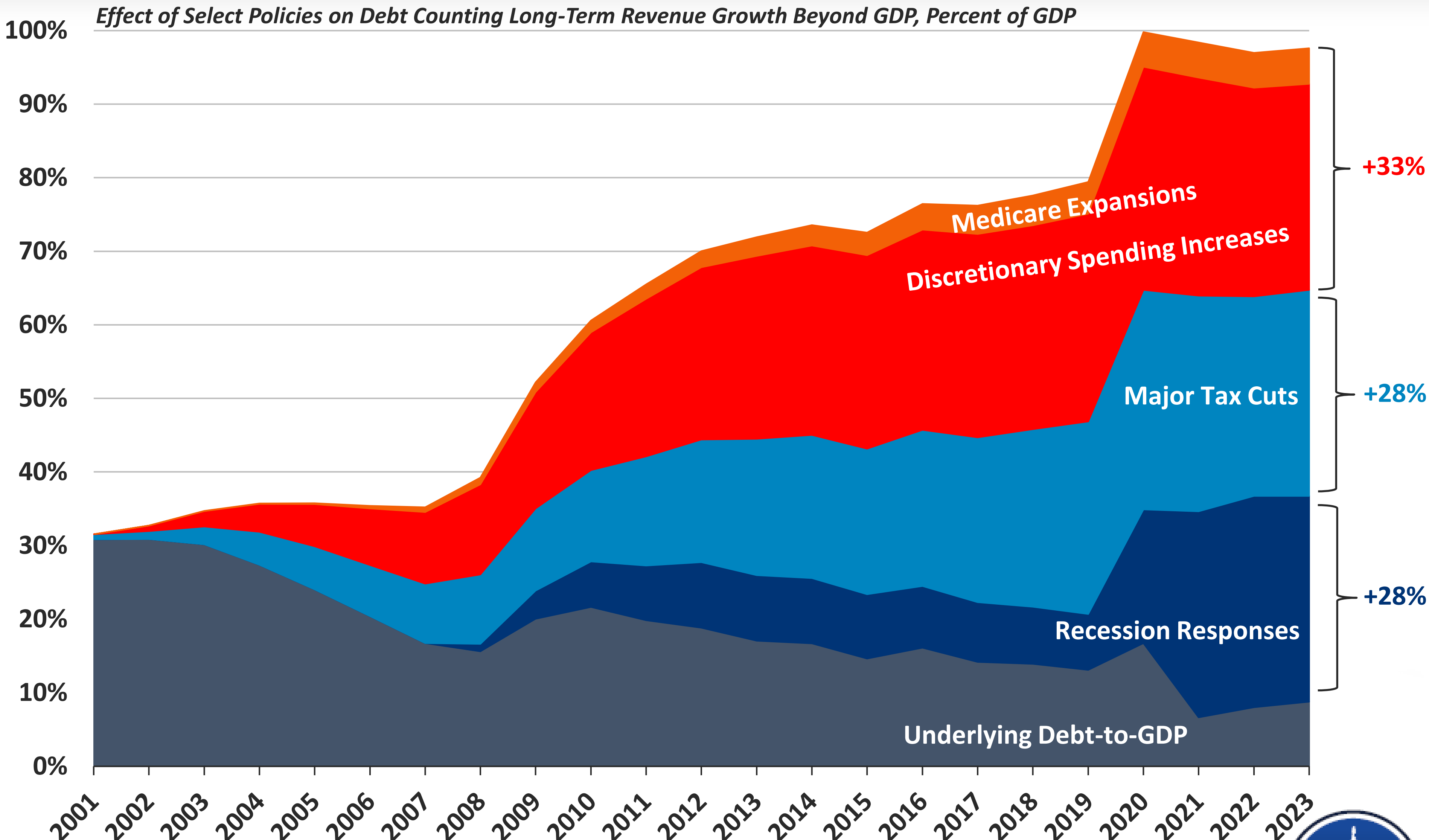

Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.

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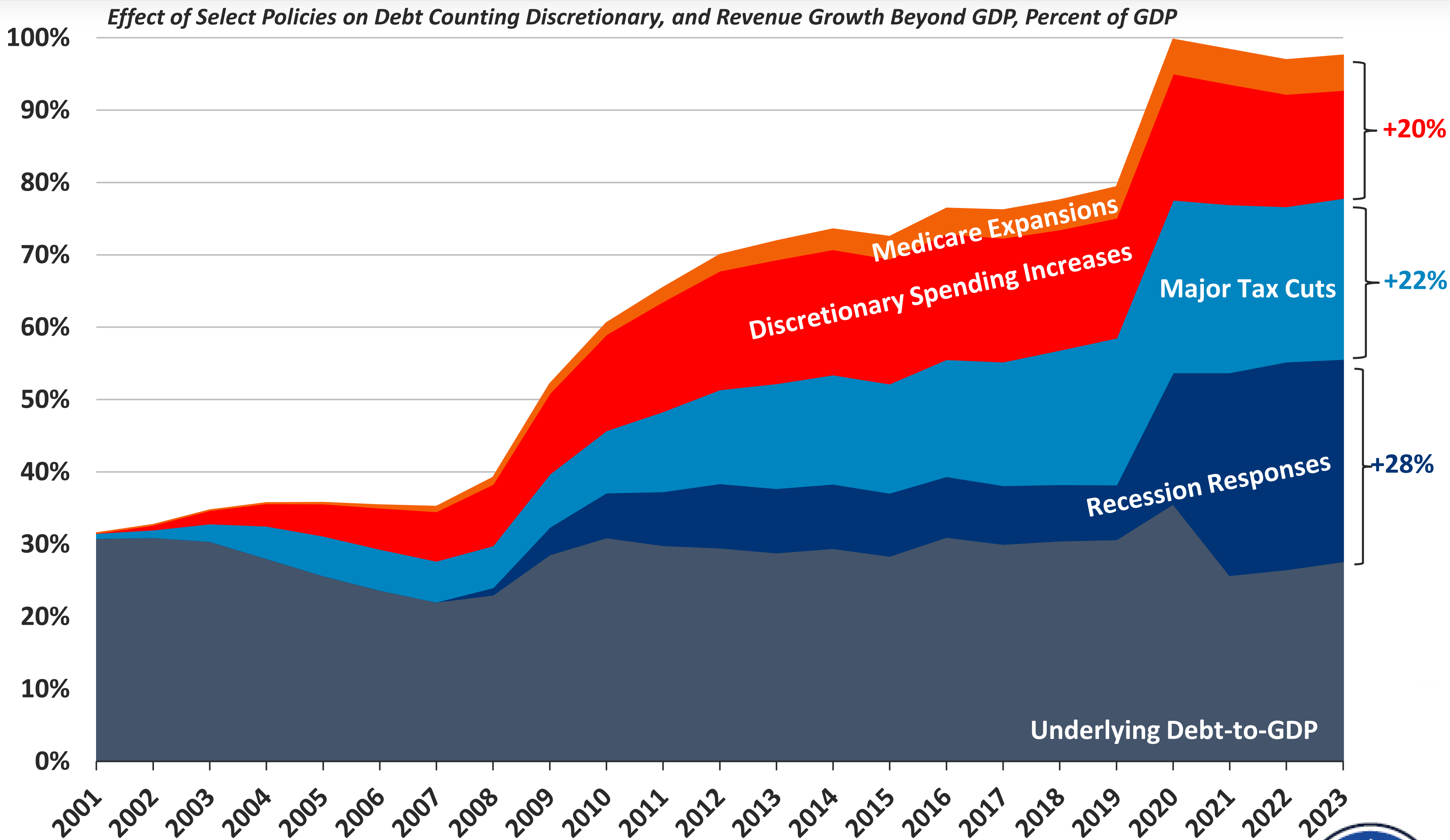

Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.

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Can We get Out of This Mess the Way We Got Into It?

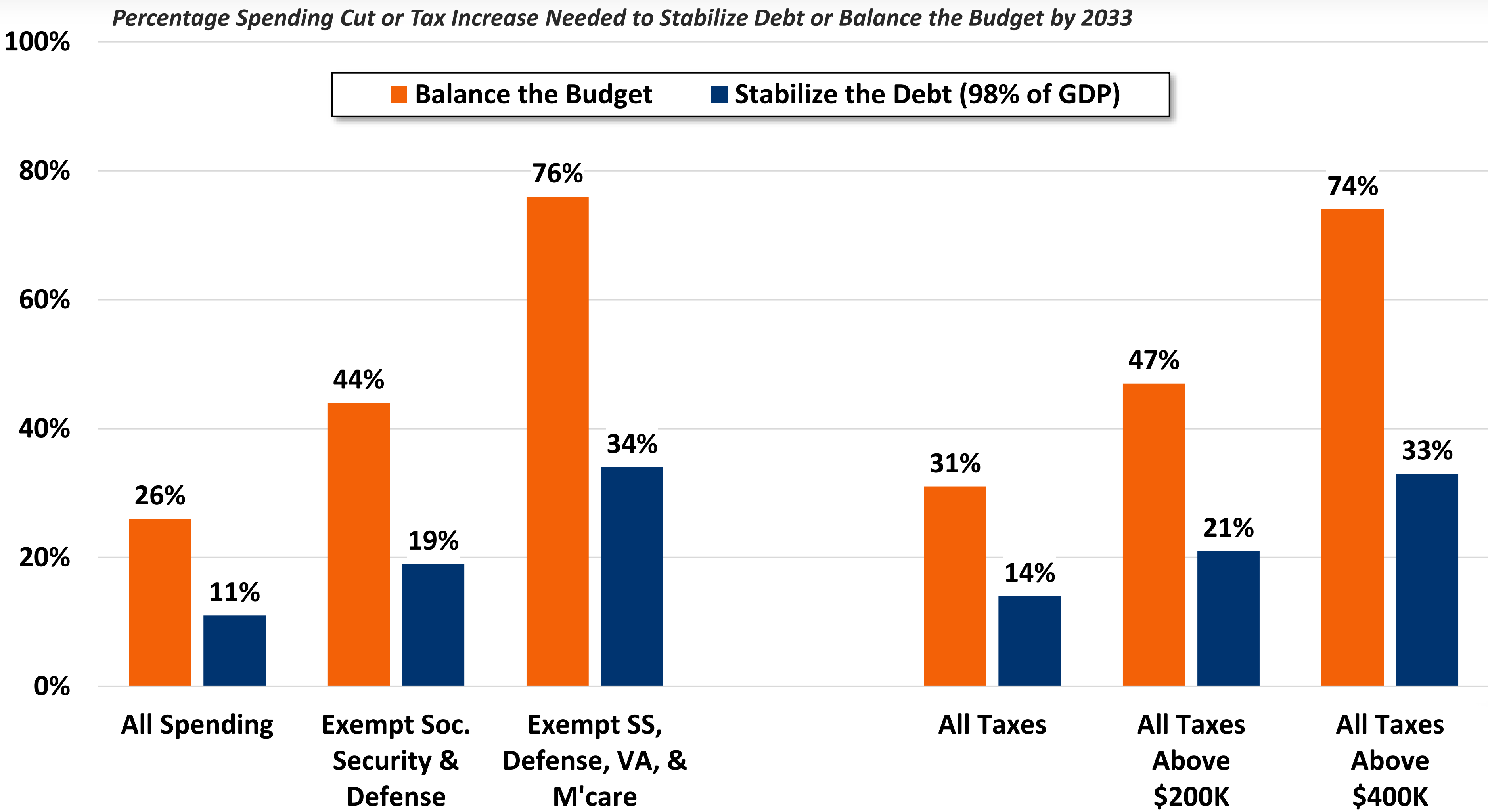
We Could Revert to Pre-2001 Law, But…

- We can't change the past
- A lot of the costs were temporary (wars, COVID relief, TCJA)
- Pre-2001 law means WAY higher taxes for everyone – higher rates, smaller credits, more taxpayers, ¼ of taxpayers on AMT
- Pre-2001 law means no Medicare drug benefit, big military cuts, no homeland security dept, big domestic cuts, etc

We Could Revert to Pre-2001 Levels, But…

- With more seniors & higher health costs, per-person Social Security & Medicare benefits would have to be cut dramatically
- Taxes would have to go up >15% -- big tax hike
- Still need to figure out all the details….

But Spending and Revenue Must Both Be On the Table



Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.
Figures are adjusted to exclude the effect of timing shifts.
Note that "defense" refers only to defense discretionary spending and "veterans" refers to only veterans mandatory spending.
Note: Taxes above $200k and $400k includes all corporate and estate taxes as well as income and payroll taxes above those thresholds. Estimates are rough.

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But Spending and Revenue Must Both Be On the Table

Outline of 2022 CRFB Blueprint for Reducing Debt and Inflation

Policy	Lower Spending	Higher Revenue	Total Savings
Lower Health Care Costs	$1.2 trillion	$300 billion	$1.5 trillion
Reform the Tax Code	n/a	$1.0 trillion	$1.0 trillion
Limit Discretionary Spending	$1.5 trillion	n/a	$1.5 trillion
Support Affordable Energy and Infrastructure	$100 billion	$400 billion	$500 billion
Enact Pro-Growth Social Security Reform	$300 billion	$700 billion	$1.0 trillion
Enact Further Reforms	$500 billion	n/a	$500 billion
Subtotal, Primary Savings	**$3.6 trillion**	**$2.4 trillion**	**$6.0 trillion**
Net Interest Savings	n/a	n/a	$1.0 trillion
Total Deficit Reduction	**n/a**	**n/a**	**$7.0 trillion**