THE PEW CHARITABLE TRUSTS

FISCAL FACT SHEET

PEW FISCAL ANALYSIS INITIATIVE

In January 2001, the CBO projected that the federal government would erase its debt in 2006 and, by 2011, the U.S. government would be $2.3 trillion in the *black*. The reality, of course, has turned out to be far different.

The Great Debt Shift

Drivers of Federal Debt Since 2001

In January 2001, the Congressional Budget Office (CBO) projected under a current law baseline that the federal government would erase its debt in 2006. By 2011, the U.S. government would be $2.3 trillion in the *black*.

The reality, of course, has turned out to be far different: the U.S. will likely owe $10.4 trillion this year, its largest debt relative to the economy since 1950.

What caused this $12.7 trillion shift? This fiscal fact sheet by the non-partisan Pew Fiscal Analysis Initiative — building on an earlier analysis published in *No Silver Bullet: Paths for Reducing the Federal Debt* — shows that the main drivers of the debt, by far, are the tax cuts and spending increases enacted since 2001. However, no single piece of legislation explains the majority of the debt growth relative to CBO's January 2001 projections.

Background

CBO released its first 10-year federal budget baseline in January 2001 to include projections of publicly-held federal debt through fiscal year 2011.[1] At that time, current law projections foreshadowed a decade of budget surpluses that would pay off all redeemable federal debt by 2006. By the end of September 2011, these excess surpluses would exceed all remaining publicly-held federal debt by $2.3 trillion, or 16 percent of gross domestic product (GDP).[2]

Since January 2001, CBO has updated its projections of fiscal year 2011 federal debt more than 30 times. The latest

[1] Federal fiscal years begin October 1 and end September 30.
[2] All ratios are expressed as a percentage of actual GDP.

revision is from March 2011, when CBO estimated that publicly-held federal debt would reach $10.4 trillion (69 percent of GDP) at the end of September 2011.

Fiscal projections a decade out, even by the best analysts, are inherently imperfect, and this fact sheet shows that forecasting uncertainty explains a meaningful part of the revisions to CBO's debt projections. However, the main driver of the difference between the January 2001 projection and the reality a decade later has been legislative changes. Using CBO data over the last 10 years accounting for its revised projections and official cost estimates for enacted legislation, Pew examined the relative influence of various debt drivers over the past decade.

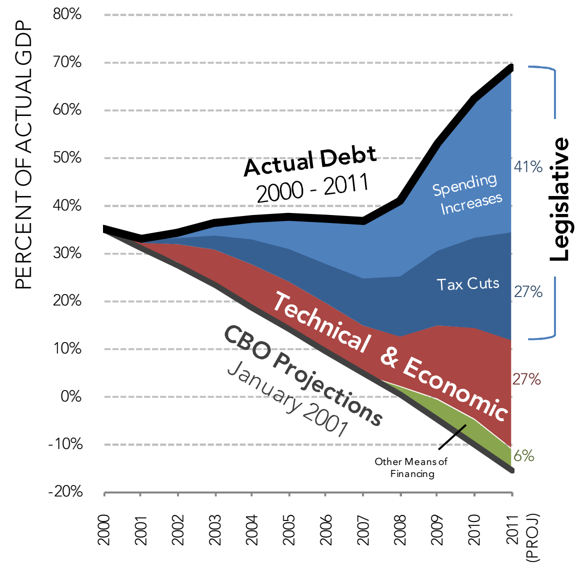
Breaking Down Debt Growth

CBO revises its projections to reflect newly enacted legislation and changes in its economic and technical assumptions. When new legislation increases spending or cuts taxes, CBO projects a higher deficit and debt. It does the opposite when legislation reduces spending or raises taxes. CBO also makes revisions when broader economic conditions change. During a recession, for example, tax revenue declines and spending on programs such as unemployment insurance goes up. Deficit and debt drivers that are neither legislative nor economic are classified as technical revisions. Technical changes

Figure 1

Why CBO's Debt Projections Changed between 2001 and 2011

Broad Categories of Drivers



Source: Pew analysis of Congressional Budget Office (2001 – 2011) data.

Notes: Components of the difference between the January 2001 CBO projection of publicly-held federal debt and actual debt, fiscal years 2001 - 2011. "Spending increases" includes all debt changes caused by changes in discretionary or mandatory spending and categorized as "legislative" by CBO. "Tax cuts" includes all debt changes caused by changes in revenue and categorized as "legislative" by CBO. "Technical & Economic" includes all debt changes categorized as "technical" or "economic" by CBO. "Other Means of Financing" includes costs incurred from caused by loan guarantees, asset sales and other off-budgets changes in the need for the federal government to borrow.

may be caused, for example, by changes in demographics or program participation.[3]

The $12.7 trillion difference between CBO's January 2001 forecast and its March 2011 forecast is the result of all the legislative, economic and technical

[3] Because Pew focuses on changes in federal debt rather than changes in the deficit, we add changes to other means of financing (various off-budget factors that reduce or increase the federal government's need to borrow) to CBO's definition of technical drivers.

changes between those two dates. Figure 1 breaks down debt growth into these broad categories, with the technical and economic drivers combined[4] and the legislative drivers further divided into spending increases and tax cuts. Figure 1 also shows the effect of changes in other means of financing (see technical appendix).

Between 2001 and 2011, about two-thirds (68 percent) of the $12.7 trillion growth in federal debt has been due to new legislation. Forty percent of this legislative growth was the result of tax cuts enacted after January 2001, and 60 percent resulted from spending increases.[5] Technical and economic revisions combined caused about one quarter (27 percent) of the growth, and changes in other means of financing accounted for 6 percent.

Specific Policies & Legislation

Legislative drivers can be further broken down using CBO cost estimates for six high-profile laws enacted over the last 10 years as well as the cost of the operations in Iraq and Afghanistan (see the technical appendix for more information on methodology and data sources). Figure 2 illustrates how the following policies contributed to the change in CBO's debt projections over the last decade:

1. The 2001/2003 tax cuts;[6]
2. The overseas operations in Iraq and Afghanistan;
3. Medicare Part D;[7]
4. The Troubled Asset Relief Program (TARP);
5. The 2009 stimulus;[8] and
6. The December 2010 tax legislation.[9]

Figure 2 also breaks out the combined technical and economic revisions caused by changes in revenue projections, as well as the tax cuts and defense and non-defense spending growth[10] unaccounted for by the overseas operations and the specific pieces of legislation.

Figure 3 shows each factor's share of the net growth in fiscal year 2011 debt relative to the January 2001 CBO baseline. The five most significant legislative drivers are the 2001/2003 tax cuts (13 percent of the 10-year shift), growth in net interest due to legislative changes (11 percent), growth in non-defense spending (10 percent), the operations in Iraq and Afghanistan (10 percent), and the 2009 stimulus

[4] Because CBO's technical adjustments may still partially be a result of economic factors, Pew combines the economic and technical categories

[5] In Figure 1, increases in net interest resulting from legislative drivers have been allocated proportionally.

[6] The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA).

[7] The Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

[8] The American Recovery and Reinvestment Act of 2009.

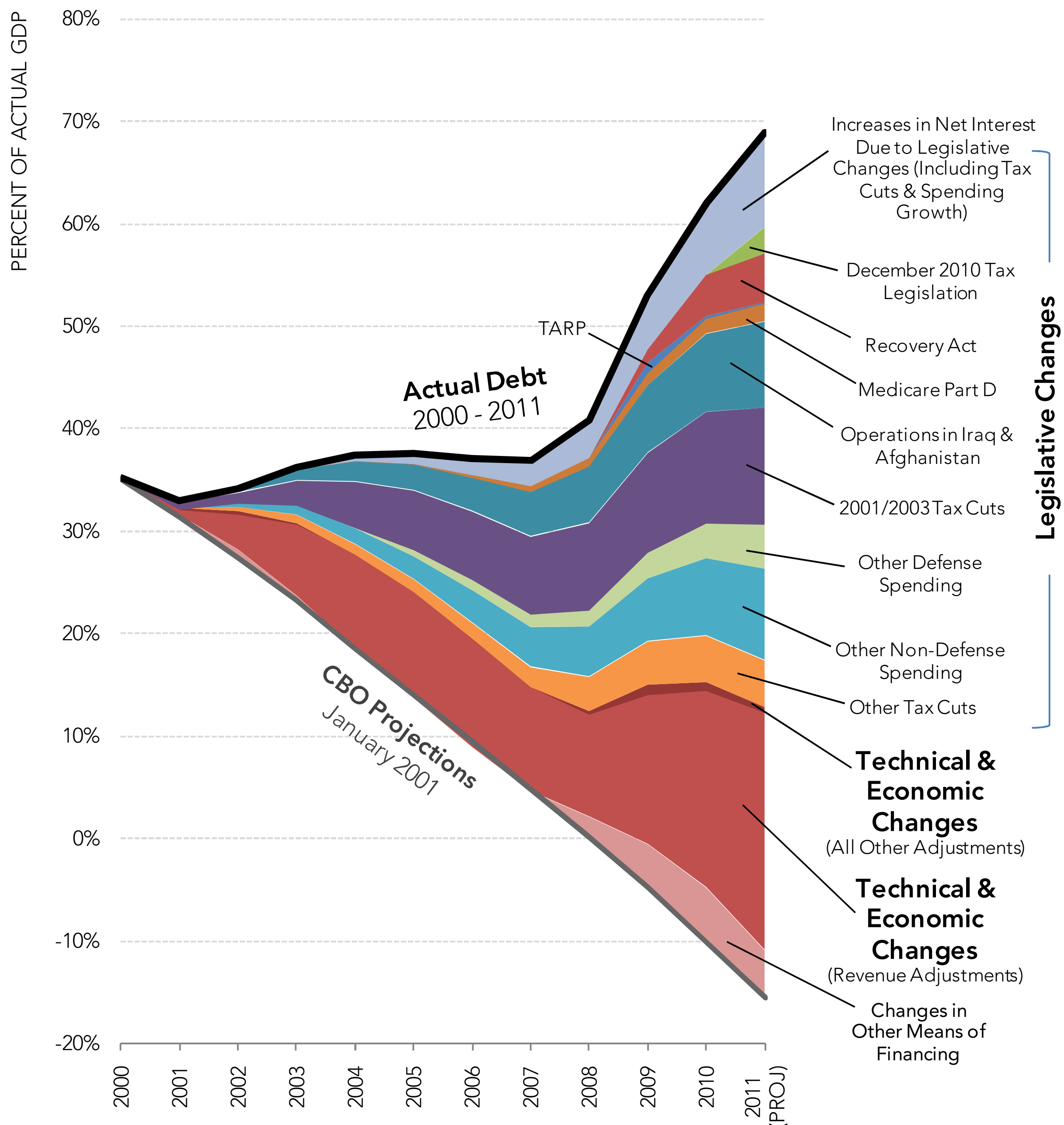
[9] The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

[10] "Defense" and "non-defense" as categorized by Pew for this report include growth in both discretionary and mandatory spending.

Figure 2

Why CBO's Debt Projections Changed between 2001 and 2011

Specific Policies and Drivers



Source: Pew analysis of Congressional Budget Office (2001 – 2011) data.

Notes: Components of the difference between the January 2001 CBO projection of publicly-held federal debt and actual debt, fiscal years 2001 - 2011. For all other notes, see Appendix Table 1.

Figure 3

Shares of the Change in Debt Projections between 2001 and 2011

Specific Policies and Drivers

Source: Pew analysis of Congressional Budget Office (2001 – 2011) data.

Notes: Component share of the difference between the January 2001 CBO projection of publicly-held federal debt and actual debt, fiscal year 2011, as a percent of total debt. For all other notes, see Appendix Table 1.

(6 percent). The non-defense spending growth is mostly the result of annual discretionary appropriations increasing faster than CBO anticipated back in January 2001. Of the other tax cuts, about half of the debt effect is accounted for by the combined cost of three pieces of tax legislation. The rest is due to other legislation.

The largest non-legislative component that Pew analyzed was combined technical and economic revenue adjustments (28 percent), indicating that actual revenue fell below CBO's January 2001 expectations even when controlling for tax cuts enacted between 2001 and 2011. All other technical and economic adjustments contributed only 1 percent of the 10-year shift. Changes in other means of financing account for 6 percent (see technical appendix).

Conclusions

The excess growth in publicly-held federal debt beyond 2001 expectations has been the result of a variety of factors. However, new legislation enacted since January 2001 has been responsible for two-thirds of the debt growth. In the new legislation, roughly three dollars of new spending has been enacted for every two dollars in tax cuts between 2001 and 2011. No single policy or piece of legislation, however, is overwhelmingly responsible for the $12.7 trillion shift in CBO's debt projections for 2011 that occurred between January 2001 and March 2011.

Technical Appendix

Because money is fungible, there is no way to characterize how a particular federal program or policy has affected federal debt in *absolute* terms. However, it is possible to show the change in debt over time *relative* to some baseline projection.

Data Sources

Data on the drivers of debt growth between 2001 and 2011 came from the numerous updates to CBO projections released since January 2001.

See Appendix Table 2 for complete sources on all data used in this fact sheet.

Other Means of Financing

Other means of financing (OMF) is a driver of debt that includes various factors that reduce or increase the federal government's need to borrow, such as asset sales and loan guarantees. OMF is not reported by CBO as part of the unified federal budget deficit, but it affects federal debt just as spending or revenue would and, therefore, is essential when tracking changes to the debt over time. Pew calculated both CBO's January 2001 projection of OMF and actual OMF between 2001 and 2010, as well as CBO's March 2011 projection of OMF for fiscal year 2011. ■

Fiscal Facts - An occasional publication of the Pew Fiscal Analysis Initiative.

The **Pew Fiscal Analysis Initiative** seeks to increase fiscal accountability, responsibility and transparency by providing independent and unbiased information to policy makers and the public as they consider the major policy issues facing our nation.

For additional information, please visit www.pewtrusts.org or contact Samantha Lasky at slasky@pewtrusts.org or 202-540-6390.

Appendix Table 1

Notes to Figures 2 and 3

"Increases in Net Interest Due to Legislative Changes" includes all debt changes caused by changes in interest costs and categorized as "legislative" by CBO. It excludes growth in net interest due to economic or technical revisions.
"December 2010 Tax Legislation" shows CBO's 2011 projected costs of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.
"Recovery Act" shows CBO's 2009 projected costs of the American Recovery and Reinvestment Act of 2009.
"TARP" shows CBO's 2011 projected costs of the Troubled Asset Relief Program.
"Medicare Part D" shows CBO's 2003 projected costs of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.
"Operations in Iraq & Afghanistan" shows CBO's 2011 estimate of the costs of operations in Iraq and Afghanistan.
"2001/2003 Tax Cuts" shows CBO's 2001 and 2003 projected costs of the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs Growth and Tax Relief Reconciliation Act of 2003.
"Other Defense Spending" shows growth in defense discretionary spending unaccounted for by the specific policies.
"Other Non-Defense Spending" shows growth in non-defense discretionary and mandatory spending unaccounted for by the specific policies.
"Other Tax Cuts" shows debt growth caused by legislative decreases in revenue and unaccounted for by the specific policies.
"Technical & Economic (All Other Adjustments)" include all debt changes categorized as "technical" or "economic" by CBO excluding changes caused by changes in revenue.
"Technical & Economic (Revenue Adjustments)" include those debt changes categorized as "technical" or "economic" by CBO and caused by changes in revenue projections.
"Other Means of Financing" includes changes to publicly-held federal debt caused by loan guarentees, asset sales and other off-budgets changes in the need for the federal government to borrow.

Appendix Table 2

Data Sources

General Data	
CBO January 2001 Net Debt Projections	CBO, *Budget and Economic Outlook*, January 2001, p.2. "Net Indebtedness"
Actual Debt, FYs 2000 - 2010	CBO, *Budget and Economic Outlook*, January 2011, p.133.
Latest Debt Projection, FY2011	CBO, *Preliminary Analysis of the President's Budget for 2012,* 18 March 2011, p.20. "Debt Held by the Public"
Actual Fiscal Year GDP, 2000 - 2010	CBO, *Budget and Economic Outlook*, January 2011, Table E-11, p.143.
Latest FY2011 GDP Projection	CBO, *Budget and Economic Outlook*, January 2011, Table 1-4, p.15. "Gross Domestic Product"

Broad Categories	
Technical, Economic, & Legislative Adjustments	CBO, *Budget and Economic Outlook*, (2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011).
	CBO Estimate of President's Budget, (2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011).
	CBO, *Budget and Economic Outlook: An Update*, (2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010).

Specific Legislation	
"2001/2003 Tax Cuts"	CBO, *Pay-As-You-Go Estimate: H.R. 1836 - Economic Growth and Tax Relief Reconciliation Act of 2001*, 4 June 2001. CBO, *Cost Estimate: H.R. 2 - Job and Growth Tax Relief Reconciliation Act of 2003,* 23 May 2003.
"Operations in Iraq and Afghanistan"	CBO, *Budget and Economic Outlook*, January 2011, Box 3-2, p.77.
"Medicare Part D"	CBO, Cost Estimate of H.R. 1: the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Letter to the Honorable William "Bill" M. Thomas, 20 November 2003.
"TARP"	CBO, *Budget and Economic Outlook*, January 2009, p.27. "TARP" CBO, *Budget and Economic Outlook*, January 2011, Table 1-2, p.6. "TARP"
"Recovery Act"	CBO, Cost Estimate of H.R. 1: the American Recovery and Reinvestment Act of 2009, Letter to the Honorable Nancy Pelosi, 13 February 2009.
"December 2010 Tax Legislation"	CBO, *Budget and Economic Outlook*, January 2011, Box 1-1, p.9.