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POLICY POINTS

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THE 109TH CONGRESS TRACK RECORD ON THE BUDGET: MAKING DEFICITS WORSE

The 109th Congress took already large projected budget deficits and passed legislation that will make them larger. The legislation increased projected deficits from 2005 (the year the Congress convened) through 2011 (when the current five-year budget window ends) by a total of $535 billion. Moreover, the budget deterioration over the past six fiscal years — 2000 to 2006 — is the second largest deterioration for any six-year period in the past half century.[1]

Specifically:

- The $535 billion increase consists of $488 billion in costs for "emergency" legislation — for Iraq, Afghanistan, the "war on terror," and the response to Hurricane Katrina and other natural disasters — and $116 billion from new tax cuts, partially offset by $75 billion in reductions in domestic programs.[2] (An earlier edition of this analysis reported that the 109th Congress had increased the 2005-2011 deficit by $452 billion. After that analysis was issued, Congress enacted supplemental, emergency funding for the Iraq and Afghanistan wars, increasing the total to $535 billion.)

Table 1:
Deficit Effect of Legislation Enacted in the 109th Congress
(cumulative totals in billions of dollars)

	In 2005/06	In 2005-11
Tax cuts	5	116
Emergency legislation for Iraq and the "war on terror"	122	340
Emergency legislation for Katrina and other disasters	61	149
Defense and international	-1	6
Cuts in entitlements	-4	-51
Cuts in domestic discretionary	1	-24
Total	**184**	**535**

* All amounts include both direct costs and the resulting increases or decreases in interest on the debt.

[1] The six-year deterioration is the second largest in half a century whether deficits are measured as a share of the Gross Domestic Product or in dollar terms. The largest was from 1998-2004.

[2] These figures and all others that follow reflect the direct costs of enacted tax and spending legislation, as estimated by the Congressional Budget Office and the Joint Committee on Taxation, and the increases in interest payments on the debt caused by those direct costs. These figures do not include changes in deficits or deficit forecasts caused by economic or technical changes rather than by policymakers' actions, nor do they include costs or savings from legislation that has not yet been enacted. These figures include the additional emergency funding that Congress provided for operations in Iraq and Afghanistan before adjourning at the end of September. However, they do not reflect the non-emergency appropriations made in either the Defense or the Homeland Security appropriations bills for 2007, since it is impossible to assess the effect of these bills on the deficit until Congress completes its work on the 2007 budget.

- The $488 billion in emergency costs includes $340 billion related to Iraq, Afghanistan, and anti-terrorism efforts and $149 billion for Katrina and other, smaller natural disasters (including Katrina-related tax relief).

- Thus, all of the increase in the deficit caused by legislation other than "emergency" bills (for Iraq, Afghanistan, terrorism, and natural disasters) was the result of tax cuts.

- About three-quarters of the $116 billion in tax cuts result from the tax reconciliation bill enacted in May 2006, the centerpiece of which was a two-year extension of capital gains and dividend tax cuts. That bill will provide annual tax cuts averaging $20 apiece for households in the middle fifth of the income distribution but $43,000 apiece for the 0.2 percent of households with annual incomes of more than $1 million, according to the Urban Institute-Brookings Institution Tax Policy Center.[3]

Distribution of Major Reconciliation Tax Cuts

Income Class	Average Tax Cut
Middle 20 percent	$20
Top 1 percent	$14,100
Over $1 million	$43,000

Source: Urban-Brookings Tax Policy Center
Figures show the effect of the bill if all provisions were in full effect in 2006.

- The largest piece of the $75 billion in domestic programs reductions resulted from the budget reconciliation bill enacted in February 2006. A substantial share of the reductions in that bill came in low-income programs such as Medicaid and child support enforcement.

- In summary, legislation enacted by the 109th Congress swelled deficits even beyond the effects of emergency legislation, cut taxes primarily for the most well-off, and squeezed assistance for some of the nation's poorer and more vulnerable families. By so doing, the 109th Congress contributed to further widening the income gap between the most well-off households and other Americans -- even as Census and other government data showed the economic gains from the current recovery are being distributed more unevenly than in any other recovery since the end of World War II.

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The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.

[3] These Tax Policy Center estimates reflect the effect of the bill on different income groups in 2006 if all provisions of the bill were in full effect that year.