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THE COMPOSITION OF PAST DEFICIT-REDUCTION PACKAGES —AND LESSONS FOR THE NEXT ONE

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Revenue increases were a part of every major deficit-reduction package in the 1980s and 1990s until the Balanced Budget Act of 1997. In several cases — notably in 1982 and 1984 (where they offset a portion of President Reagan’s large tax cuts of 1981) — they dominated the package. In several other cases — 1987, 1990, and 1993 — they contributed one-third to more than one-half of the *total* savings (including the debt-service savings), and a larger share of the *policy* savings (i.e., if the debt service savings are set to the side rather than counted as a spending cut).

Both the 1990 and 1993 deficit-reduction packages included significant savings in discretionary spending, made possible in part by the “peace dividend” at the end of the Cold War. The 1997 package also assumed significant discretionary savings, but those proved to be unrealistic as a streak of surpluses in 1998-2001 weakened policymakers’ resolve to stay within the caps that package established. The Budget Control Act of 2011 consisted overwhelmingly of cuts to future discretionary spending, which — if fully implemented — will drive such spending to its lowest level in over six decades as a percent of gross domestic product (GDP).

A key aim of fiscal sustainability is a stable or declining ratio of debt to GDP. To stabilize that ratio, we need to get deficits in the medium term down to about 3 percent of GDP. But under current policies, the deficit will be about 4 percent to 5 percent of GDP for the next decade even *after* the economy recovers and *after* we have phased down operations in Iraq and Afghanistan. So we need to cut the deficit by 1 percent to 2 percent of GDP in the coming decade — an amount that rivals the biggest deficit-reduction efforts of the past. Meanwhile, the nation faces a graying population and continued demands on government in the areas of defense, homeland security, veterans’ care, infrastructure, and other needs; the amount of deficit reduction for future decades will need to be larger.

Given the size of that challenge, and the need to phase in any entitlement changes gradually, the next round of deficit reduction must include substantial revenue increases. In fact, simply letting the Bush tax cuts expire at the end of 2012 — or paying for those provisions that we choose to extend — would essentially stabilize the deficit for the next decade, buying us time to adopt gradual changes in entitlement programs and figure out the best ways to control health-care costs without jeopardizing coverage.

Technical Note

Data come from the Congressional Budget Office (CBO) and the U.S. Department of Treasury. Particularly for the older packages, it is impossible to find complete data, hence the large number of entries labeled “not available” (n.a.). Specific sources are noted. The tabulations cover omnibus deficit-*reduction* deals only; therefore, they omit a number of deficit-*increasing* packages, such as the 1981 Reagan tax cuts, the 2001 and 2003 Bush tax cuts, and the 2003 Medicare drug law. The tabulations also omit some major deficit-reducing laws, such as the 1983 Social Security Amendments and the 1996 welfare reform law, which essentially represented efforts to redesign specific programs rather than parts of a more comprehensive budget deal.

Because these estimates span nearly two decades, it is more meaningful to compare the packages’ effects as a proportion of the economy rather than in dollar terms. And because it takes time for many provisions to be fully phased in — especially because many take effect at the start of a calendar year, three months after the beginning of the fiscal year in question — it is generally more useful to look at their impacts as a percentage of GDP in the fifth year, rather than over the five-year period.¹

¹ Until 1992, CBO and most other government agencies emphasized gross national product (GNP) rather than GDP. The two series generally move closely together, and the switch doesn’t materially affect historical budget comparisons. See Box 1-2, “The Switch from GNP to GDP,” in CBO, *The Economic and Budget Outlook: Fiscal Years 1993-1997*, January 1992.

Table 1
Summary of Major Deficit-Reduction Packages Enacted Since 1982

	Period		Change in component, as a percent of GDP		Overall composition	Remarks
			Over 5 years	In 5th year		
Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA)	1983-1987	Revenues	1.0%	1.2%	n.a.	Estimates depict revenue effects only, which were the main focus of TEFRA. Although year-by-year numbers are unavailable, CBO's September 1982 report suggests that non-interest outlay savings in two measures (TEFRA and a separate reconciliation bill) were about one-third as big as TEFRA's revenue increases.
		Outlays	n.a.	n.a.	n.a.	
		Deficit	n.a.	n.a.	n.a.	
Deficit Reduction Act of 1984	1985-1989	Revenues	0.4%	0.5%	82%	Estimates depict direct effects of DRA only (revenues and mandatory spending) and omit debt-service savings. Also omit effects of separate, smaller reconciliation and farm bills.
		Outlays	-0.1%	-0.1%	18%	
		Deficit	-0.5%	-0.6%	100%	
1987 budget summit	1988-1992	Revenues	0.3%	0.2%	39%	Estimates include revenues, mandatory spending, discretionary spending, and debt service.
		Outlays	-0.4%	-0.5%	61%	
		Deficit	-0.7%	-0.7%	100%	
Omnibus Budget Reconciliation Act (OBRA) of 1990/budget summit	1991-1995	Revenues	0.5%	0.5%	33%	Estimates include revenues, mandatory spending, discretionary spending, and debt service.
		Outlays	-0.9%	-1.6%	67%	
		Deficit	-1.4%	-2.1%	100%	
OBRA 1993	1994-1998	Revenues	0.7%	0.7%	56%	Estimates include revenues, mandatory spending, discretionary spending, and debt service.
		Outlays	-0.5%	-1.1%	44%	
		Deficit	-1.2%	-1.8%	100%	
Balanced Budget Act of 1997 and Taxpayer Relief Act of 1997	1998-2002	Revenues	-0.2%	-0.2%	-68%	Estimates include revenues, mandatory spending, discretionary spending, and debt service.
		Outlays	-0.4%	-1.1%	168%	
		Deficit	-0.2%	-1.0%	100%	
Budget Control Act of 2011	2012-2016	Revenues	0.0%	0.0%	0%	Estimates include discretionary spending caps, program-integrity provisions, some mandatory provisions, and debt service. Act contained no revenue provisions.
		Outlays	-0.3%	-0.5%	100%	
		Deficit	-0.3%	-0.5%	100%	

Source: Center on Budget and Policy Priorities based on data from Congressional Budget Office and U.S. Department of Treasury. Changes in revenues, outlays, and deficits are expressed as a percent of GDP to enable better comparability across time. Those changes indicate the size of the package; the "composition" indicates its *mix*. Several major packages are omitted because of a lack of data; see notes to Table 2.

Table 2
Major Deficit-Reduction Packages Enacted Since 1982 :
Changes in Revenues, Outlays, and Deficit, in Billions of Dollars and as a Percent of GNP or GDP

	Years after enactment						Composition		
	1	2	3	4	5	5-yr. total	Policy	Total	
Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) ^a	1983-1987								
Revenues, \$billions	18	38	42	47	54	199	n.a.	n.a.	
Outlays, \$billions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Deficit, \$billions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Revenues/GNP	0.6%	1.1%	1.1%	1.1%	1.2%	1.0%			
Outlays/GNP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Deficit/GNP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Deficit Reduction Act of 1984 ^b	1985-1989								
Revenues, \$billions	11	17	23	25	27	103	82%	n.a.	
Outlays, \$billions (mandatory)	-4	-4	-5	-4	-5	-22	18%	n.a.	
Deficit, \$billions	-15	-21	-28	-29	-32	-125	100%	n.a.	
Revenues/GNP	0.3%	0.4%	0.5%	0.5%	0.5%	0.4%			
Outlays/GNP	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%			
Deficit/GNP	-0.4%	-0.5%	-0.6%	-0.6%	-0.6%	-0.5%			
1987 budget summit ^c	1988-1992								
Revenues, \$billions	11	16	18	17	13	75	n.a.	39%	
Outlays, \$billions — see below [*]	-23	-20	-22	-25	-29	-119	n.a.	61%	
Deficit, \$billions	-34	-36	-40	-42	-42	-193	n.a.	100%	
[*] Mandatory	-14	-7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Discretionary	-8	-9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Debt service	-1	-3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Revenues/GNP	0.2%	0.3%	0.3%	0.3%	0.2%	0.3%			
Outlays/GNP	-0.5%	-0.4%	-0.4%	-0.4%	-0.5%	-0.4%			
Deficit/GNP	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%			
OBRA 1990/budget summit ^d	1991-1995								
Revenues, \$billions	18	33	32	37	39	159	38%	33%	
Outlays, \$billions — see below [*]	-15	-36	-57	-94	-121	-323	62%	67%	
Deficit, \$billions	-33	-69	-89	-131	-160	-482	100%	100%	
[*] Mandatory	-9	-12	-16	-19	-19	-75	18%	16%	
Discretionary	-6	-19	-31	-58	-75	-189	45%	39%	
Debt service	-1	-4	-10	-17	-27	-59	n.a.	12%	
Revenues/GNP	0.3%	0.5%	0.5%	0.5%	0.5%	0.5%			
Outlays/GNP	-0.3%	-0.6%	-0.9%	-1.3%	-1.6%	-0.9%			
Deficit/GNP	-0.6%	-1.1%	-1.3%	-1.9%	-2.1%	-1.4%			
OBRA 1993 ^e	1994-1998								
Revenues, \$billions	26	44	52	61	59	241	62%	56%	
Outlays, \$billions — see below [*]	-7	-12	-31	-57	-84	-192	38%	44%	
Deficit, \$billions	-33	-56	-83	-118	-143	-433	100%	100%	
[*] Mandatory	-5	-9	-17	-21	-26	-77	20%	18%	
Discretionary	0	0	-8	-23	-38	-69	18%	16%	

Table 2

**Major Deficit-Reduction Packages Enacted Since 1982 :
Changes in Revenues, Outlays, and Deficit, in Billions of Dollars and as a Percent of GNP or GDP**

	Years after enactment						Composition		
	1	2	3	4	5	5-yr. total	Policy	Total	
Debt service	-1	-3	-8	-14	-21	-47	n.a.	11%	
Revenues/GDP	0.4%	0.6%	0.7%	0.8%	0.7%	0.7%			
Outlays/GDP	-0.1%	-0.2%	-0.4%	-0.8%	-1.1%	-0.5%			
Deficit/GDP	-0.5%	-0.8%	-1.2%	-1.6%	-1.8%	-1.2%			
Balanced Budget Act of 1997 and Taxpayer Relief Act of 1997^f		1998-2002							
Revenues, \$billions	-9	-7	-23	-24	-18	-80	-71%	-69%	
Outlays, \$billions — see below *	12	-10	-43	-48	-109	-198	171%	169%	
Deficit, \$billions	21	-3	-20	-24	-91	-118	100%	100%	
* Mandatory	1	-10	-30	-16	-52	-107	94%	91%	
Discretionary	11	-1	-14	-31	-53	-89	77%	75%	
Debt service	0	1	1	-1	-4	-2	n.a.	3%	
Revenues/GDP	-0.1%	-0.1%	-0.3%	-0.3%	-0.2%	-0.2%			
Outlays/GDP	0.1%	-0.1%	-0.5%	-0.5%	-1.1%	-0.4%			
Deficit/GDP	0.3%	0.0%	-0.2%	-0.3%	-0.9%	-0.2%			
Budget Control Act of 2011^g		2012-2016							
Revenues, \$billions	0	0	0	0	0	0	0%	0%	
Outlays, \$billions — see below *	-21	-42	-59	-75	-87	-284	100%	100%	
Deficit, \$billions	-21	-42	-59	-75	-87	-284	100%	100%	
* Mandatory	3	5	2	-3	-4	3	-1%	-1%	
Discretionary	-25	-46	-58	-66	-73	-268	101%	94%	
Debt service	0	-1	-3	-6	-10	-20	n.a.	7%	
Revenues/GDP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			
Outlays/GDP	-0.1%	-0.3%	-0.3%	-0.4%	-0.5%	-0.3%			
Deficit/GDP	-0.1%	-0.3%	-0.3%	-0.4%	-0.5%	-0.3%			

Most estimates were available only in billions of dollars (with no extra digits), and therefore sums may contain minor rounding errors.

Effects as a percentage of GNP or GDP are shown based on the economic forecast used by CBO at the time.

Although the 5-year average is shown for percentages of GDP, it is most appropriate to look at that figure for the *final* year of the package.

Policy savings represent the direct changes to revenues and non-interest spending; total savings include the indirect debt-service savings.

Sources: Congressional Budget Office (CBO), various reports; Jerry Tempalski, "Revenue Effects of Major Tax Bills," U.S. Department of Treasury, Office of Tax Analysis (OTA), Working Paper 81 (September 2006, revised June 2011); Robert Keith, "Deficit Impact of Reconciliation Legislation Enacted in 1990, 1993, and 1997," Congressional Research Service (updated August 30, 2005); Thomas E. Mann, Norman J. Ornstein, Molly Reynolds, "Truth and Reconciliation: Sidestepping the Filibuster," April 20, 2009, http://www.brookings.edu/articles/2009/0420_budget_mann.aspx.

Omitted:

- Surface Transportation Act of 1982 (\$18 billion in revenue increases over five years, 1983-1987). Source: CBO February 1984, OTA 2006.
- Social Security Amendments of 1983 (\$59 billion in revenue increases over five years, 1984-1988; outlay savings are unavailable, but in the near term came chiefly from delaying the cost-of-living adjustment by six months). Source: CBO February 1985.
- OBRA83 (-\$8 billion, 1984-87); COBRA85 (-\$25 billion, 1986-89); OBRA86 (-\$17 billion, 1987-89); OBRA89 (-\$39 billion, 1990-92); PRWORA (-\$54 billion, 1997-2002); DRA05 (-\$39 billion, 2006-2010). Source: Mann *et al.*, 2009.
- Gramm-Rudman, fall 1985 (over the 1986-1990 period, CBO showed \$208 billion in savings from 1986 appropriations action, \$85 billion from 1986 sequestration, and an additional \$59 billion from moving from a 3 percent to a zero assumption for real growth in baseline defense spending; however, CBO did not identify other legislative changes). Source: CBO February 1986.

a. Source: CBO February 1983; OTA numbers differ slightly. The two reconciliation bills enacted in 1982 also reduced outlays, but CBO did not publish year-by-year totals. See CBO September 1982 update, p. 61: "The Congress has recently enacted two major measures designed to implement the budget resolution. [TEFRA] raised revenues by \$100 billion and cut spending by \$17 billion in 1983-85. [OBRA-82] reduced outlays by an additional \$13 billion over the same period." Note that those sums are for three (not five) years and exclude debt service. TEFRA and OBRA-82 implemented the famous "3-for-1" compromise of 1982, in which \$3 of spending reductions were to occur for every \$1 tax increase. Although some conservatives complain that the spending

reductions did not materialize, that is disingenuous; a portion of the spending cuts reflected interest-rate savings, as well as debt-service savings, that would never be “scored.” David Stockman (in *The Triumph of Politics*) states that Congress delivered on its part of the bargain but the Administration failed to identify promised management savings and balked at defense cuts.

b. Source: CBO February 1985 (for dollar effects) and February 1983 (for GNP); OTA numbers differ slightly. Outlay estimates are not available; near-term outlay savings came chiefly from shifting COLAs from June to December.

c. Source: CBO September 1984. (CBO revised these numbers slightly in a February 1985 report, and OTA numbers match the revised estimate.)

Separately, the Budget Reconciliation Act and the Agriculture Act were estimated to have reduced outlays by \$5 billion and \$14 billion, respectively, over the 1985-1989 period. Outlays include mandatory spending only, and omit debt-service savings.

d. Source: CBO February 1988; OTA numbers differ slightly. Details for 1988-89 only available from Box II-1.

e. Source: CBO January 1991 (cited in CRS, 2005).

f. Source: CBO September 1993 (cited in CRS, 2005).

g. Source: CBO September 1997 (cited in CRS, 2005).

h. Source: CBO letter to Speaker Boehner, August 1, 2011.