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# FROM SURPLUS TO DEFICIT:
## Legislation Enacted Over the Last Six Years Has Raised the Debt by $2.3 Trillion

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The adjournment of the 109th Congress provides an opportunity for a broad look at the budget legislation enacted since a new Administration and Congress took office at the start of 2001. This review finds that the national debt at the end of fiscal year 2006 (which ended September 30) was nearly twice as large as it would have been if Congress had left the budget on automatic pilot since 2001.

Estimates provided in August 2006 by the Congressional Budget Office show that the direct cost of legislation enacted since January 2001 and the resulting increases in interest on the debt amounted to $633 billion in 2006 alone — and totaled $2.3 trillion over the six-year period 2001 through 2006. This left the debt (i.e., the "debt held by the public") at $4.8 trillion (or 37 percent of GDP) at the end of 2006, rather than at the $2.5 trillion level (19 percent of GDP) it would have attained had no changes in policy been enacted.[1]

**TABLE 1**

**Effect on the debt of legislation enacted over the last six years**

| | In 2006 | Cumulative, 2001-2006 | |
|---|---|---|---|
| | billions | billions | % of total |
| Tax cuts | $252 | $1,159 | 51% |
| Defense, international, and homeland security, incl. wars in Iraq and Afghanistan | 238 | 767 | 33% |
| Entitlements, incl. flood insurance | 75 | 229 | 10% |
| Domestic discretionary programs, incl. Katrina relief | 68 | 139 | 6% |
| **Total** | **633** | **2,294** | **100%** |

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

As Table 1 shows, the largest costs — $1.2 trillion over six years — resulted from the tax cuts enacted since the start of 2001. Increased spending for defense, international affairs, and homeland security —

[1] To calculate this figure, CBO compares the government's actual levels of outlays and revenues to the levels of outlays and revenues that would have occurred had Congress simply maintained the budget policies in place in January 2001 by making no changes to tax or entitlement law and maintaining discretionary funding at the level approved for 2001, adjusted for inflation.

primarily for prosecuting the wars in Iraq and Afghanistan — also was quite costly, amounting to almost $800 billion to date. Together, tax cuts and the spending increases for these security programs account for 84 percent of the increases in debt racked up by Congress and the President over this period.

In short, Congress' fiscal performance has been dismal. Underlying this sizeable increase in debt has been the second largest deterioration in the budget deficit for any six-year period in the past half century.[2]

Congress' actions over the last six years are particularly disquieting in light of the impending budgetary challenges posed by rising health-care costs and the retirement of the baby-boom generation. Faced with these challenges, Congress should have acted to reduce the debt, not to increase it.

Moreover, as shown in Table 2, the costly tax cuts passed by the last three congresses were regressive; that is, they benefited the very well-off more than any other income group. Consequently, these congresses contributed to further widening the income gap between the best-off households and other Americans, even as Census and other government data showed that the economic gains from the current expansion were being distributed more unevenly than the gains from any other expansion since the end of World War II.

**TABLE 2**

**Distribution of Major Tax Cuts**

| Household Income Category | Average Annual Tax Cut: Dollars | Average Annual Tax Cut: % change in after-tax income |
|---|---|---|
| Middle 20 percent | $748 | 2.5% |
| Top 1 percent | $39,020 | 5.0% |
| Over $1 million | $111,549 | 5.7% |

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

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