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EVEN WITH NEW BUDGET PROJECTIONS, BUDGET DETERIORATION FROM 2000-2006 WILL BE THE LARGEST 6-YEAR DETERIORATION IN HALF A CENTURY

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The Congressional Budget Office has issued new estimates that show that the budget deficit will be 2.0 percent of the Gross Domestic Product in 2006, down from the 2.8 percent of GDP that CBO had estimated (under Administration policies) earlier this year. Over the last month, the Administration has celebrated the reduction in the size of the estimated 2006 deficit. However, a deficit of 2.0 percent of GDP is no cause for celebration, particularly considering that the budget was in surplus as recently as 2001. Indeed, even taking into account this recent improvement, the deterioration in the nation's fiscal situation over the last six years is the worst six-year deterioration in a half century.

This six-year deterioration from a surplus of 2.4 percent of GDP in 2000 to an estimated deficit of 2.0 percent this year — a deterioration equal to 4.4 percent of GDP — is just the latest of several exceptional fiscal deteriorations recorded in recent years. The second and third worst six-year fiscal deteriorations of the last half century concluded in 2004 and 2005, respectively. The last several years also have seen the worst two-year, three-year, four-year, and five-year fiscal deteriorations in the last half century.¹ The complete set of data, taken directly from figures provided by the Administration and CBO, is shown in the Appendix, and the best and worst six-year results are shown in Table 1 and Figure 1.

This pattern of record-setting deteriorations stands in stark contrast to the 1990s, which saw the best six-year fiscal *improvement* of the last 50 years as the budget swung from a deficit of 4.7 percent of GDP in 1992 to a surplus of 0.8 percent of GDP in 1998. In addition to generating the remainder of the five best six-year fiscal improvements, the budget policies of the 1990s also generated the best three-year, four-

TABLE 1: Best and Worst Six-Year Swings in Budget Balance 1956-2006

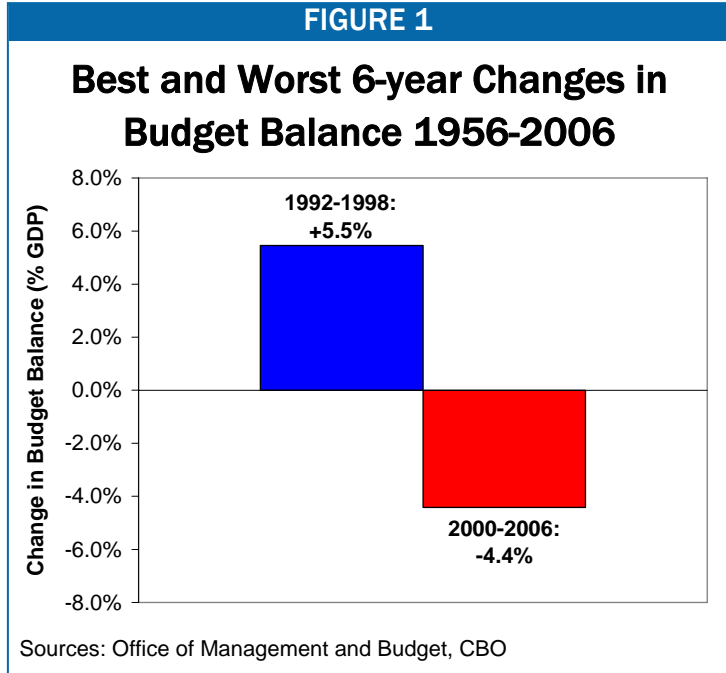
	Rank	First and Last Year of 6-Year Period	Change in Budget Balance (% GDP)
Five Best	1	1992-1998	5.5%
	2	1994-2000	5.4%
	3	1993-1999	5.3%
	4	1991-1997	4.3%
	5	1995-2001	3.5%
Five Worst	1	2000-2006	-4.4%
	2	1998-2004	-4.4%
	3	1999-2005	-4.0%
	4	1970-1976	-4.0%
	5	1969-1975	-3.8%

Sources: Office of Management and Budget, CBO.
 NOTE: The deterioration from 2000 to 2006 is slightly greater than 4.4 percent of GDP while the deterioration from 1998 to 2004 is slightly less.

¹ The worst one-year deterioration occurred between 1974 and 1975 and resulted from a major recession.

year, and five-year improvements of the last half century.²

While some of the differences between the experience of the 1990s and the first part of the current decade relate to differences in economic performance rather than differences in policy, two key differences between the budget policies of the 1990s and those of the current decade should be noted. First, the 1990s began with two tax increases that helped pare the nation's deficits, while the current decade began with a pair of tax cuts that set the stage for the record fiscal deteriorations. Second, during the 1990s, the pay-as-you go rule enjoyed bipartisan support, and it successfully forced lawmakers to grapple with tradeoffs and to finance tax cuts or entitlement expansions. In contrast, the pay-as-you-go rule was circumvented at the beginning of the current decade and then permitted to lapse, allowing Congress to pass numerous rounds of tax cuts and some entitlement expansions (such as the Medicare prescription drug benefit) without paying for them.



² The best one-year improvement occurred between 1968 and 1969. The best two-year improvement occurred between 1968 and 1970.

Appendix

This appendix shows all the improvements (in black) or deteriorations (in red) in the budget margin — the deficit or surplus — over the last half century. The first column shows how much better or worse the margin was in a given year, relative to the previous year. The second column shows how much better or worse it was, relative to two years before, and so on.

Changes in Budget Balance 1956-2006						
	1 year	2 years	3 years	4 years	5 years	6 years
1956	1.7%	1.2%	2.7%	1.4%	-1.0%	2.1%
1957	-0.2%	1.5%	1.1%	2.5%	1.2%	-1.1%
1958	-1.4%	-1.5%	0.2%	-0.3%	1.1%	-0.2%
1959	-2.0%	-3.4%	-3.5%	-1.9%	-2.3%	-0.9%
1960	2.7%	0.7%	-0.7%	-0.9%	0.8%	0.4%
1961	-0.7%	2.0%	0.0%	-1.4%	-1.6%	0.1%
1962	-0.6%	-1.3%	1.4%	-0.7%	-2.0%	-2.2%
1963	0.5%	-0.2%	-0.9%	1.8%	-0.2%	-1.6%
1964	-0.1%	0.3%	-0.3%	-1.0%	1.7%	-0.3%
1965	0.7%	0.6%	1.1%	0.4%	-0.3%	2.4%
1966	-0.3%	0.4%	0.3%	0.8%	0.1%	-0.5%
1967	-0.6%	-0.9%	-0.1%	-0.3%	0.2%	-0.4%
1968	-1.8%	-2.4%	-2.7%	-2.0%	-2.1%	-1.6%
1969	3.2%	1.4%	0.8%	0.5%	1.3%	1.1%
1970	-0.6%	2.6%	0.8%	0.2%	-0.1%	0.6%
1971	-1.9%	-2.5%	0.8%	-1.1%	-1.6%	-1.9%
1972	0.1%	-1.7%	-2.3%	0.9%	-0.9%	-1.5%
1973	0.8%	1.0%	-0.9%	-1.5%	1.8%	-0.1%
1974	0.7%	1.6%	1.7%	-0.1%	-0.8%	2.5%
1975	-3.0%	-2.3%	-1.4%	-1.3%	-3.1%	-3.8%
1976	-0.8%	-3.8%	-3.1%	-2.3%	-2.1%	-4.0%
1977	1.5%	0.7%	-2.3%	-1.6%	-0.7%	-0.6%
1978	0.0%	1.6%	0.7%	-2.2%	-1.5%	-0.7%
1979	1.0%	1.1%	2.6%	1.8%	-1.2%	-0.5%
1980	-1.1%	0.0%	0.0%	1.5%	0.7%	-2.3%
1981	0.1%	-1.0%	0.1%	0.1%	1.7%	0.8%
1982	-1.4%	-1.3%	-2.3%	-1.3%	-1.2%	0.3%
1983	-2.1%	-3.5%	-3.3%	-4.4%	-3.4%	-3.3%
1984	1.2%	-0.9%	-2.2%	-2.1%	-3.2%	-2.2%
1985	-0.3%	0.9%	-1.2%	-2.5%	-2.4%	-3.5%
1986	0.1%	-0.2%	1.0%	-1.0%	-2.4%	-2.3%
1987	1.8%	1.9%	1.6%	2.8%	0.7%	-0.6%
1988	0.1%	1.9%	2.0%	1.7%	2.9%	0.9%
1989	0.3%	0.4%	2.2%	2.3%	2.0%	3.2%
1990	-1.0%	-0.8%	-0.6%	1.2%	1.3%	1.0%
1991	-0.7%	-1.7%	-1.4%	-1.3%	0.5%	0.6%
1992	-0.1%	-0.8%	-1.8%	-1.6%	-1.4%	0.4%
1993	0.8%	0.7%	0.0%	-1.1%	-0.8%	-0.7%
1994	1.0%	1.7%	1.6%	0.9%	-0.1%	0.2%
1995	0.7%	1.6%	2.4%	2.3%	1.6%	0.6%
1996	0.8%	1.5%	2.5%	3.3%	3.1%	2.5%
1997	1.1%	2.0%	2.7%	3.6%	4.4%	4.3%
1998	1.1%	2.2%	3.0%	3.7%	4.7%	5.5%
1999	0.6%	1.6%	2.8%	3.6%	4.3%	5.3%
2000	1.1%	1.6%	2.7%	3.8%	4.7%	5.4%
2001	-1.2%	-0.1%	0.5%	1.5%	2.7%	3.5%
2002	-2.8%	-4.0%	-2.9%	-2.3%	-1.3%	-0.1%
2003	-2.0%	-4.8%	-5.9%	-4.9%	-4.3%	-3.2%
2004	-0.1%	-2.1%	-4.8%	-6.0%	-5.0%	-4.4%
2005	1.0%	0.9%	-1.1%	-3.9%	-5.0%	-4.0%
2006	0.6%	1.6%	1.5%	-0.5%	-3.3%	-4.4%

Legend
<i>Direction of Change</i>
Positive
Negative
<i>Largest Changes</i>
Largest improvement
Largest deterioration