Macro Roundup Article

Headline: From Riches to Rags: Causes of Fiscal Deterioration Since 2001

Article Link: https://www.crfb.org/papers/riches-rags-causes-fiscal-deterioration-2001

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Tweet: A @budgethawks analysis finds rising new spending relative to GDP drove about 2/3 of the growth in annual budget deficits since 2001 while declining revenue explains 1/3. Absent these policy choices debt would have been fully paid off.

Summary: In 2001, the Congressional Budget Office (CBO) projected that the national debt would effectively be paid off in full by the end of Fiscal Year (FY) 2009. Instead, federal debt held by the public grew from 32% of Gross Domestic Product (GDP) at the end of FY 2001 to 98% of GDP at the end of FY 2023. Reviewing major deficit-increasing legislation and executive actions over the past 22 years, we find that major tax cuts are responsible for 37 percentage points of debt-to-GDP, net discretionary spending increases and major Medicare expansions are responsible for 33 percentage points, and response measures to the Great Recession and the COVID-19 pandemic and recession – before accounting for economic feedback – explain 28 percentage points. Absent any two of these sets of policies, the debt-to-GDP ratio would be near the FY 2001 level. Debt would be fully paid off without tax cuts, spending increases, and recession responses.

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Primary Topic: Fiscal Deficits

Topics: Database, Fiscal Deficits, Fiscal Policy, Government Spending, Taxation, Very Important, Weekly

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