The Great Debt Shift: Methodology

MAY 2011

This addendum describes the methodology the Pew Fiscal Analysis Initiative used in *The Great Debt Shift*.

Projected versus Actual Debt

The first step in the analysis was to choose a baseline debt projection to compare to the actual debt numbers. CBO's January 2001 *Budget and Economic Outlook* marked the first CBO baseline to include projections for fiscal year 2011,[1] therefore Pew used CBO's projection of publicly-held federal debt from this document as the benchmark for its analysis.[2]

Actual debt through fiscal year 2010 comes from CBO's January 2011 *Budget and Economic Outlook*, while the latest projection for debt in fiscal year 2011 comes from CBO's March 2011 current law baseline.

For fiscal year 2011 debt, Pew uses the latest fiscal year 2011 GDP projections from CBO included in the January 2011 *Outlook*. In *The Great Debt Shift*, Pew expresses all debt as a percent of actual gross domestic product (GDP) to account for inflation, population growth and other economic factors affecting the United States' capacity for issuing debt.

Broad Drivers of the Change in Debt Projections

To fully account for the shift between CBO's January 2001 debt projections and actual debt, Pew used over thirty CBO reports released between March 2001 and March 2011 and recorded the size and cause of every change to CBO's baseline projections in one of two broad categories: 1) legislative, and 2) technical & economic. Based on this CBO data, Pew further broke down the legislative category into spending increases (made up of legislative changes in defense and non-defense spending, as well as the proportion of net interest attributable to these spending growth categories) and tax cuts (legislative revenue changes plus the proportion of net interest attributable to revenue decreases).[3]

Other means of financing (OMF) is the final remaining component, but is not directly reported by CBO. Pew calculated OMF by taking the annual difference between the deficit and the change in publicly-held debt. The change in OMF depicted in *The Great Debt Shift* is the difference between actual OMF (including the latest projected OMF for fiscal year 2011) and the OMF projected by CBO in January 2001.

Starting with CBO's original January 2001 projection of ten-year deficits and OMF, and then subtracting all technical & economic and legislative and OMF adjustments, the result is the actual annual deficit plus OMF. Summing up these adjustments cumulatively expresses them as debt rather than deficit drivers.

Specific Legislation and Policies

Pew used costs estimates from CBO to account for the costs of six specific policies through fiscal year 2011: the 2001 and 2003 tax cuts, the overseas operations in Iraq and Afghanistan, the Medicare Part D prescription drug benefit, the Troubled Asset Relief Program (TARP), the 2009 stimulus and the December 2010 tax legislation. Since CBO rarely recalculates its cost estimates of legislation, all estimates except for TARP and the overseas Iraq and Afghanistan operations come from CBO's original cost estimates of the legislation as enacted. For TARP, CBO has updated its estimate several times, and Pew used the latest estimate from January 2011. Pew also used CBO's latest January 2011 cost estimate of the operations in Iraq and Afghanistan.[4, 5]

Each cost estimate of specific legislation was further divided into the broad non-interest legislative categories (defense, non-defense and tax cuts), and Pew subtracted these components from the broad debt drivers. For TARP, Pew followed CBO's methodology by using their 2008 estimate as the legislative effect of the legislation and classifying the difference between that initial estimate and the reestimate CBO made in 2011 as a technical revision. Pew recategorized any legislative debt growth remaining after accounting for these six policies as other defense spending, other non-defense spending and other tax cuts. Pew aggregated all legislative net interest growth into a single separate category, and OMF was calculated in exactly the same manner for the detailed breakdown as it did for the broad drivers. Finally, the technical & economic component was allocated between revenue decreases and spending increases.

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[1] Federal fiscal years run from October 1 of the previous calendar year through September 30 of the eponymous calendar year.

[2] Because the CBO projected, in January 2001, that persistent surpluses would accumulate as savings and would offset non-redeemable federal debt, Pew used CBO's projection of "net indebtedness."

[3] To split legislative net interest between spending increases and tax cuts, Pew used the ratio of cumulative legislative spending increases to cumulative tax cuts through each year.

[4] Since no estimates of outlays for the operations in Iraq and Afghanistan exist, Pew used CBO's estimate of budget authority. However, CBO and OMB estimates of outlay rates for the overseas operations are high (greater than 90 percent in the first year), so total budget authority through 2011 is a close approximation of total spending through 2011.

[5] CBO also has reestimated the costs of the 2009 stimulus, but the new estimates do not include sufficient detail for Pew to categorize the revisions between categories.