A Deficit Reduction Report Card

Danny Yagan

Abstract: This paper provides a deficit reduction "report card" that compares Congress's actual 2025 behavior to the behavior dictated by fiscal feedback rules under which Congress would reduce the deficit when the projected deficit rises. The report card comprises four results. First, given the lagged output gap and the high projected deficit, how did Congress's 2025 legislated changes to the deficit compare to the strong fiscal feedback of the 1980s-1990s Congresses? Second, how did Congress's actual 2025 behavior compare to the minimum fiscal feedback needed to be on track to stabilize the debt with 95 percent probability? Third, how have the economic and policy updates changed the likelihood of r exceeding g over the coming decade? Fourth, given those updates, how much deficit reduction does Congress need to legislate over the coming decade in order to be on track to stabilize the debt with 95 probability? The report card can be updated immediately after each semiannual Congressional Budget Office budget outlook in order to embed stochastic debt sustainability analysis into the budget process.

The figure below illustrates the first result of the deficit reduction report card. The figure's 1984-2004 semiannual data points and best-fit line are reproduced from Auerbach and Yagan (2024 Figure 1a). They show that, on average and conditional on the lagged output gap, Congress reduced the deficit by 0.15 percentage points of GDP when the projected deficit rose by 1 percentage point of potential GDP. For example, in the first period of 1991, the projected five-year deficit averaged 3.4 percent of potential GDP, and Congress enacted legislation that cumulatively reduced the deficit over the coming five years by 0.8 percent of GDP. In the second period of 2001, the projected deficit averaged -2.8 percent of GDP, and Congress legislated the 2001 tax cut as well as spending increases that cumulatively increased the deficit by 0.7 percent of GDP.

New to the figure are the two "2025b" data points, which refer to the second half of the 2025 fiscal year that will be analyzed in Congressional Budget Office's January 2026 update to the budget outlook. The green 2025b data point indicates that if the current Congress followed the same fiscal feedback rule implicit in 1984-2004 behavior, Congress would have reduced the deficit by one percent of GDP on average over the coming five years. Instead, the red 2025b data point shows an early estimate of what Congress actually legislated: a 0.75-percent-of-GDP increase in the deficit.

Figure 1: Congress's 2025 Behavior Relative to Congress 1984-2004

