Economy:

Reducing the Deficit

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THE CENTER FOR POLICY PROGRESS

Top Line

1. **The US budget deficit is growing rapidly, leading to unsustainable increases in the federal debt.** As of December 2025, the Federal debt is over $38 trillion. It has doubled in just the past ten years. This high debt puts US creditworthiness at risk, and the interest on the debt adds even more to our Federal Budget deficit every year.

2. **Actions by the Trump Administration are increasing the Budget Deficit and accelerating growth in the Federal Debt.** These include tax cuts which reduce Federal revenues and primarily benefit the wealthy, wasteful spending programs, and cuts to IRS staffing that are projected to reduce taxes collected.

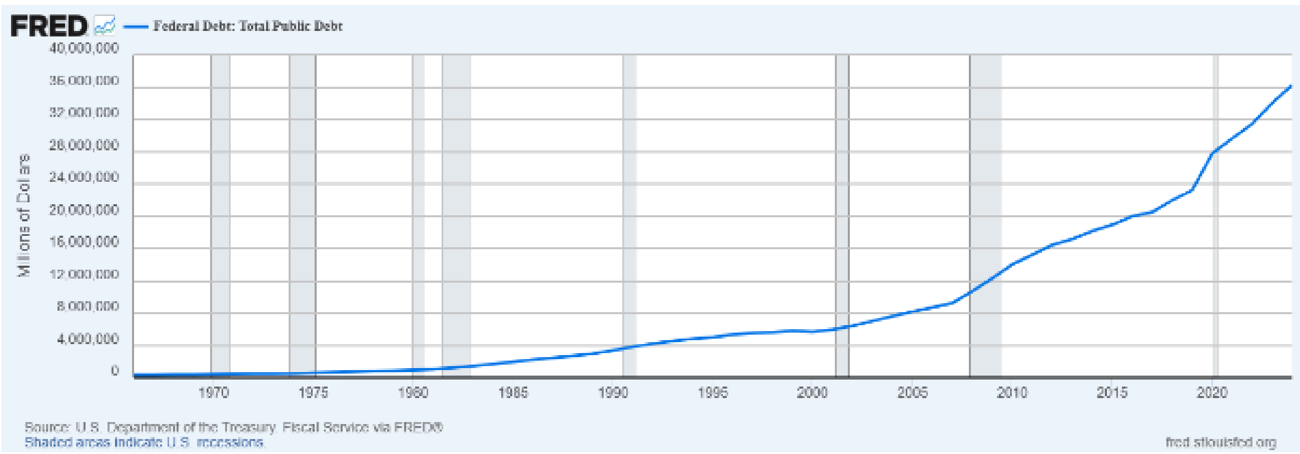
3. **Responsible policies can help to reduce the Budget Deficit.** Responsible budget policies include reversing the Bush and Trump tax cuts for the wealthy and corporations, raising the ceiling for Social Security and Medicare taxes, funding the IRS so that we collect the taxes that are due, and thoughtfully reducing avoidable expenses.

Our Federal Debt is dangerously high, and Trump administration policies are making it worse. We need to implement responsible, common-sense policies to reduce the deficit and control the growth of our Federal Debt.

Backup

1. **The US budget deficit is growing rapidly, leading to unsustainable increases in the federal debt.**

   a. The Federal Budget Deficit has grown over time and now far surpasses $1 trillion per year. As a result, our Federal Debt (the cumulative effect of all these annual deficits) is now over $38 trillion dollars. (1)



Source: Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/GFDEBTN#

   b. The **"budget deficit"** is the amount that our spending exceeds Federal Revenues (mostly taxes) in a year. The "**Federal Debt"** is the amount we owe in total. So, if in a given year the deficit is $1 trillion, the Federal Debt goes up by $1 trillion.

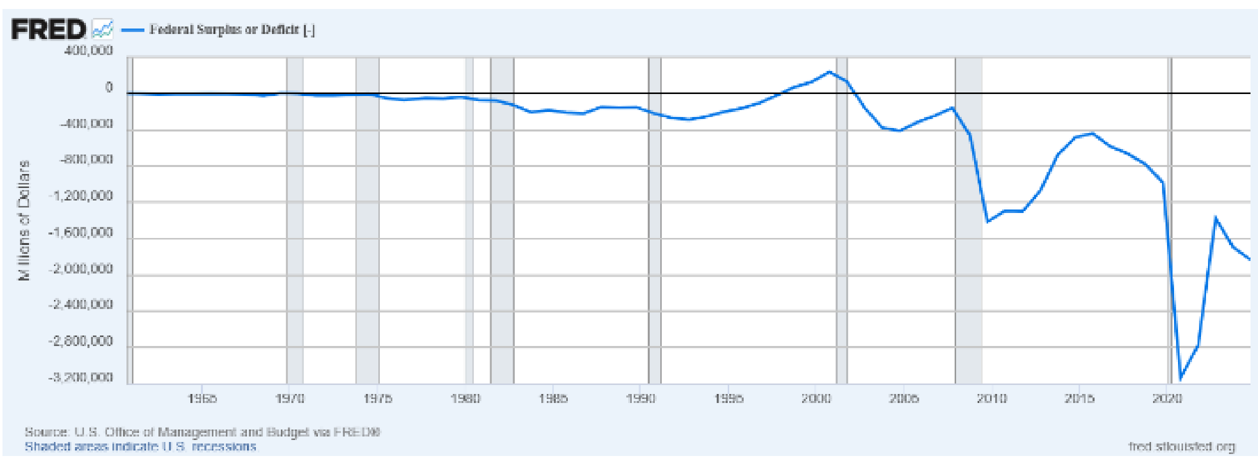
   c. **The history of US Budget Deficits over the past 45 years shows that in general, deficits have increased during Republican administrations and declined during Democratic administrations.** As shown in the graph below, despite the Republicans' claim to be fiscally responsible, history tells a different story.

   - Our deficits were relatively small before 1980.
   - However, beginning with the Reagan and GHW Bush Administrations (1981 – 1992), we began to incur large deficits.
   - Those deficits declined during the Clinton administration (1993 – 2000), and we actually had budget surpluses at the end of his term.
   - However, deficits exploded during the GW Bush Administration (2001 – 2008), driven by the wars in Iraq and Afghanistan and large tax cuts, primarily

for wealthy households and corporations. Then deficits also exploded at the end of the GW Bush Administration because of the Great Recession (2008 and 2009).

- Deficits declined significantly under Obama (2009 – 2016), and then grew during the first Trump Administration (2017 – 2020), even before the COVID pandemic.
- The stimulus programs implemented by both the Trump and Biden administrations in response to the COVID pandemic created huge deficits in 2020 and 2021.
- Since then, the Biden administration (2021 – 2024) rapidly reduced the deficit, although it remains at a high level.

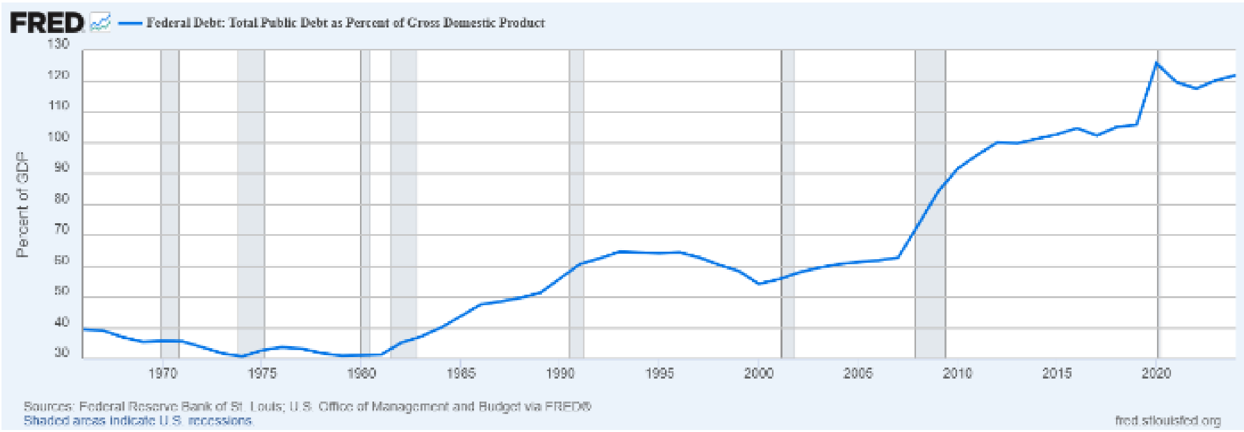
- **To summarize this history of the last 30 years: The Federal Budget Deficit got better under Clinton, Obama and Biden. It got worse under Bush and Trump.**



Source - Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/FYFSD#

d. A large Budget Deficit and the resulting Federal Debt is a problem for many reasons:

- **First, and most obviously, it is money that we owe and therefore it is a debt we are passing on to future generations.**
- **Not only has the debt grown, but it has grown faster than our economy has grown.** Federal Debt **as a percent of GDP** passed 100% in about 2012 and is now over 120% of GDP. (2) (see chart below)



Source: Source: Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/GFDEGDQ188S#

- **Our debt as a percentage of GDP is much higher than most other large, advanced countries.** It is interesting that many of these other countries maintain much more comprehensive social safety nets and do so with much lower levels of debt.

Debt as a Percent of GDP

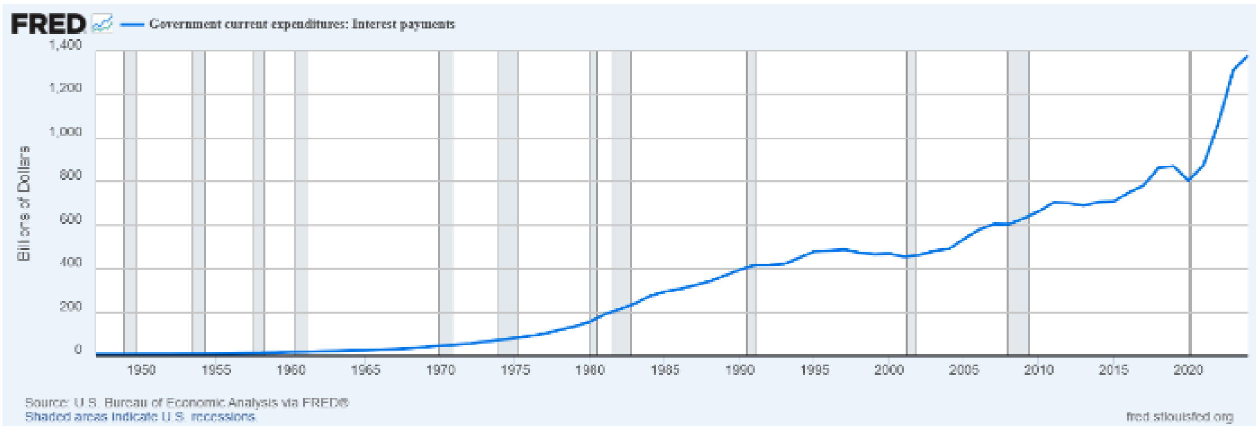
US and Other Large Advanced Countries (2023)

Country	Central Debt as a % of GDP
Japan	205.6%
Italy	131.7%
United States	**112.3%**
United Kingdom	100.5%
Spain	98.1%
France	92.3%
Belgium	87.2%
Israel	60.3%
Austria	59.0%
Canada	49.9%
Korea (Republic of)	48.9%
Germany	44.9%
Australia	34.8%
Sweden	32.2%
Switzerland	14.7%
Average excluding US	**75.7%**

Source: International Monetary Fund, https://www.imf.org/external/datamapper/CG_DEBT_GDP@GDD/CHN/FRA/DEU/ITA/JPN/GBR/USA

Note: Data not available for Czechia or the Netherlands.

- **As the debt grows, so does the interest on that debt.** This interest expense crowds out other necessary spending. Interest on the debt is now over $1.3 trillion a year. That is about $3.5 billion every day, just to pay the interest on money we borrowed in the past.



Source: Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/A180RC1Q027SBEA#

- **Higher debt levels decrease the creditworthiness of US debt** (e.g. Treasury bonds). In May of 2025, the credit rating agency Moody's downgraded US debt, citing "the inability of the nation to address large and growing deficits." (3) A lower credit rating causes the interest rate to go up, making it even more costly to finance the debt.

For these reasons, Americans are rightly concerned about the Budget Deficit and the Federal Debt. A recent Gallup survey found that over half of Americans (53%) personally worry about federal spending and the budget deficit "a great deal", and another 28% worry about it "a fair amount". That is **over 80% of us who are worried about the deficit and the debt. (4)**

2. Actions by the Trump Administration are increasing the Budget Deficit and accelerating growth in the Federal Debt

During the 2024 campaign, Trump promised to reduce the Federal Debt. In January 2024, he stated *"we're going to pay off our debt."* (5). However, not only is he not paying off any of the debt, but he is also adding to it at an accelerating rate.

a. **Tax cuts, which mostly benefit the wealthy** - Trump cut taxes in his first administration, and his “One Big Beautiful Bill” (OBBB) made those cuts permanent. These cuts reduce taxes primarily for high income households and corporations. They also reduce Federal revenues, which increases the deficit. The Congressional Budget Office and the Joint Committee on Taxation (JCT), both non-partisan institutions working for Congress, estimate that the OBBB will increase deficits by $3.4 trillion over the next 10 years, on top of the large deficits already projected. (6)

b. **Wasteful spending** - The Trump administration has also implemented many wasteful spending programs, which add to the deficit. Examples are many, and include almost $1 billion to remodel a jet given to Trump by the government of Qatar. This is not only costly but also sets an example of waste and abuse. (6)

   In early 2025 the Trump administration created the Department of Government Efficiency, or DOGE. This was billed as an effort to reduce wasteful spending, but it failed to reduce spending. According to an analysis by the Center for Economic and Policy Research, “The government is not more efficient than before, it did not reduce overall spending, and it failed to uncover much in the way of government waste.” (17)

c. **Cuts to IRS staffing are projected to reduce taxes collected**, as fewer resources are available to identify tax fraud and mistakes, and to make sure the US collects the full taxes that are owed.

   - Trump’s proposed budget cuts IRS enforcement spending by 50% in 2027, relative to 2025. The Budget Lab at Yale estimates that the cuts will result in $395 billion in forgone revenue over the next 10 years. (7)
   - The cost savings from the reduced IRS staffing are only $45 billion over 10 years, so the net increase to the debt is estimated at $350 billion. This could be even more if the reduced staffing leads to increased noncompliance. (7)
   - The funding cuts will make it far easier for wealthy people and large businesses to avoid paying the taxes they owe.

In total, including the increased interest costs, the "Big Beautiful Bill" signed by President Trump in July 2025 is projected to add $4.1 trillion to the national debt through 2034. (8)

Even before Trump, our deficits were a serious problem. And now economists warn that the increased debt from the OBBB and other Trump actions is putting our country at severe risk. "It's like the house is burning down and we're throwing in some accelerant instead of some fire extinguisher," said Kent Smetters, professor of economics and public policy at the University of Pennsylvania Wharton (Trump's alma mater). **"Even without this bill, our fiscal house is burning … we're not too big to fail."** (9)

3. Responsible policies to reduce the Budget Deficit

Several responsible actions can help to reduce the deficit and slow the growth of the Federal debt. These either involve increasing revenues or reducing the amount we spend.

a. Reverse the Bush and Trump tax cuts for the wealthy and corporations.

- The top marginal tax rate on the highest incomes is currently 37%. As recently as 1986, it was 50%, and in 1970 it was 70%. (10) When these higher rates were in effect our deficits were very small. In fact, over 90% of the Federal Debt has been added since the top marginal tax rate was reduced from 50% to 38.5% in 1987 during the Reagan administration.
- The Wharton School at the University of Pennsylvania has modelled out the impact of various proposals to increase taxes on the wealthiest households. They find that a combination of changes, including **raising the top tax rate from 37% to 45%, taxing capital gains at ordinary tax rates, and raising the corporate tax rate from 21 to 28% could reduce the deficit by over $200 billion a year**, and the effect grows over time. These changes would have little or no effect on households below the 90th income percentile. (11)
- Republicans often claim that cutting taxes for the wealthy will spur economic growth, and thus they will pay for themselves. This is often referred to as "trickle-down" economics - the money that the rich retain will eventually trickle down to everyone else. But our experience with trickle-down economics since the Reagan Administration demonstrates that it doesn't work.
  - The Roosevelt Institute points out that "Reagan argued that tax cuts for the wealthy would trickle down, creating jobs and spurring economic growth that would lift all boats. Yet we've seen the opposite unfold. Since 1980, inequality has soared. Mounting evidence suggests that **tax cuts for the**

wealthy make the rich richer and have little effect on economic growth or employment." (12)

  - The London School of Economics looked at the effect of tax policies across 18 advanced countries. They found "The incomes of the rich grew much faster in countries where tax rates were lowered. Instead of trickling down to the middle class, tax cuts for the rich may not accomplish much more than help the rich keep more of their riches and exacerbate income inequality." (13)

b. Raise the ceiling for Social Security taxes

- Federal Insurance Contributions Act (FICA) taxes provide revenue for Social Security and Medicare.
- As of early 2026, employers and employees each pay 7.65 percent of wages or salary in FICA taxes, split between two social insurance programs. Dedicated Social Security taxes are 6.2 percent and are only levied up to a maximum amount, or "Cap", that is determined annually. The other 1.45 percent is dedicated to Medicare's Hospital Insurance program and is not subject to an earnings cap. (14)
- The cap on earnings for Social Security is $176,100 as of 2025. (14) Income over that amount is not subject to the Social Security portion of FICA taxes. This makes the tax regressive – people with very high incomes pay a lower rate than people with lower incomes.
- Eliminating or raising the cap would improve the financial solvency of Social Security. Under the current law, Social Security reserves are projected to be exhausted by 2035, at which time benefits will have to be reduced, or deficit spending will be required to maintain benefits. Eliminating the cap could extend the system's solvency by several decades and reduce the risk of increasing the federal deficit. (14)
- The Social Security trustees estimate that eliminating the Social Security tax cap would raise an additional $3.2 trillion over 10 years. (15)

c. Restore funding to the IRS so that we collect the taxes that are due.

- The Tax Law Center points out that the cuts to IRS funding in the One Big Beautiful Bill "Would Declare Open Season for High-End Tax Evasion… (the proposed cuts) will **cost hundreds of billions of dollars or more in revenue** over the next decade. The funding cuts would make it far easier for wealthy people and large businesses to avoid paying the taxes they owe." (16)

- Treasury, the Congressional Budget Office, and non-partisan experts consistently find that cuts to IRS enforcement resources add substantially to the deficit. (16)
- Reversing these cuts will enable the IRS to enforce tax law and collect the taxes that are due.

d. Reduce avoidable expenses.

- Despite the failure of the Republicans DOGE program, there are undoubtedly opportunities to reduce waste in the Federal Budget.
- “Improper payments” represent a big opportunity. The Government Accounting Office found that at least $162 billion a year is lost to improper payments. The GAO has recommended actions to Congress to address this, including increasing transparency in federal spending, and using advanced data analytics to identify problem areas. The GAO’s detailed report on this is here. (18)
- Address Defense Department spending. One of the many weaknesses of the failed DOGE program was that it ignored most Defense Department spending, focusing only on diversity initiatives. (19) The National Taxpayers Union has identified several opportunities, including reviewing our overseas bases to ensure all are still relevant (a previous review during the GW Bush administration resulted in annual savings of $3.8 billion), and enforcing contracting rules to reduce overpayments. (20) Other organizations, ranging from the Libertarian Cato Institute to the progressive Peter G. Peterson Foundation, have called for reductions to US Defense Spending. (21, 22)

More Information

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