

Congressional Briefing on the Budget Dilemma

Spring 2025

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BUDGET PROJECTIONS FOR FY 2020

(As of March 6, 2020)

OUTLAYS	\$4.7 Trillion
REVENUES	\$3.6 Trillion
DEFICIT	\$1.1 Trillion
DEBT HELD BY THE PUBLIC (End of Fiscal Year)	\$17.8 Trillion

GDP was approximately \$21.7 Trillion in FY2020-1Q

Pre-COVID 19

Projections for **2025**

Budget deficit:
\$1.9 trillion

Debt held by
the public:
100% of GDP

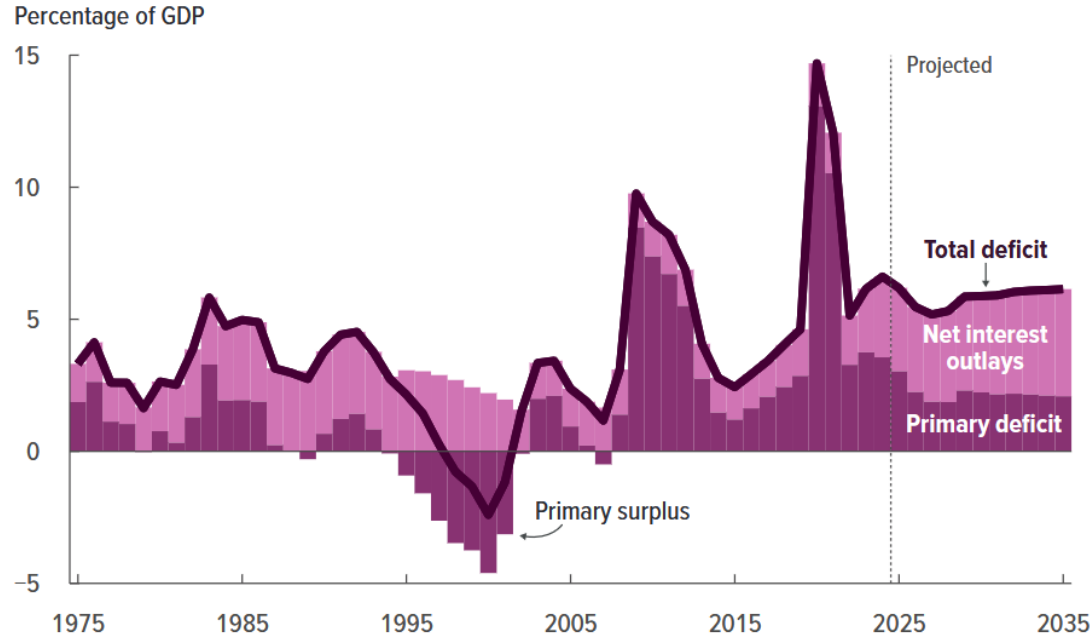
Outlays:
\$7.0 trillion

Revenues:
\$5.2 trillion

Debt over the long haul

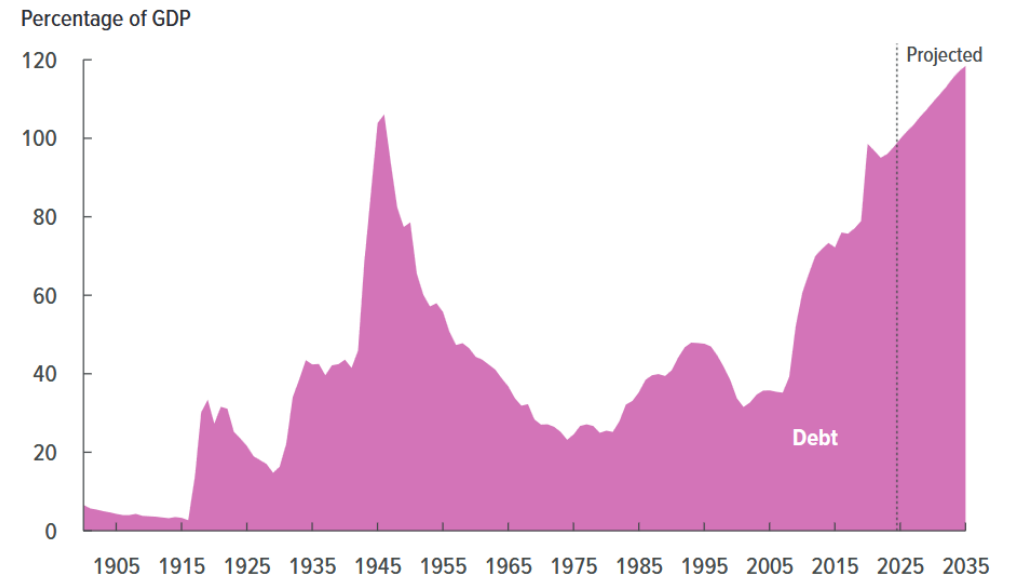
Total Deficit, Net Interest Outlays, and Primary Deficit

In CBO's projections, the total deficit—the amount by which outlays exceed revenues—equals 6.1 percent of GDP in 2035. By that year, net interest payments grow to 4.1 percent of GDP and account for about one-sixth of all federal spending. The primary deficit (which excludes those payments) equals 2.1 percent of GDP in 2035.

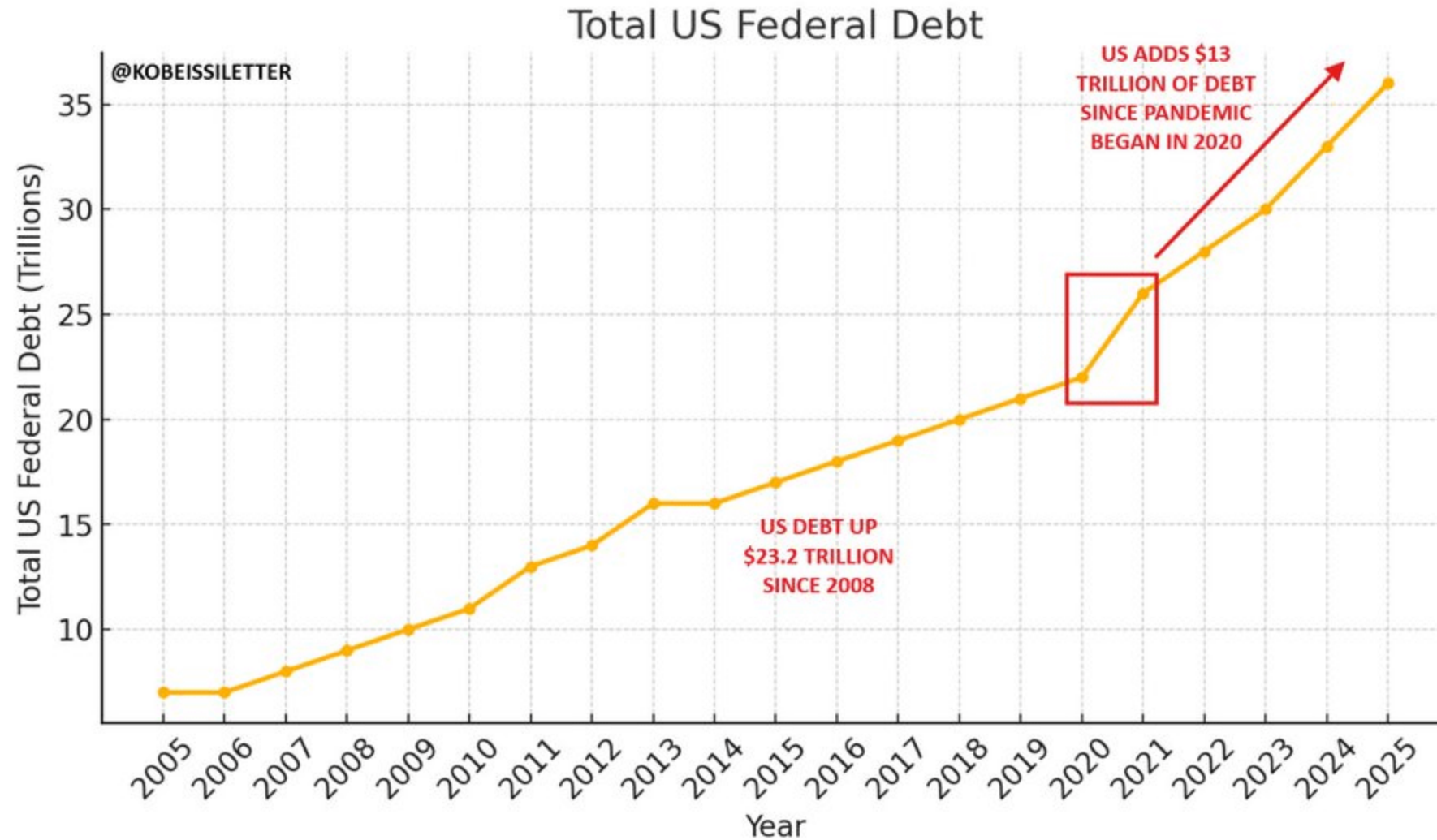


Federal Debt Held by the Public

Debt held by the public rises each year. From 2025 to 2035, it swells from 100 percent of GDP to 118 percent—an amount greater than at any point in the nation's history. (For more details about CBO's budget projections, see Appendix B.)



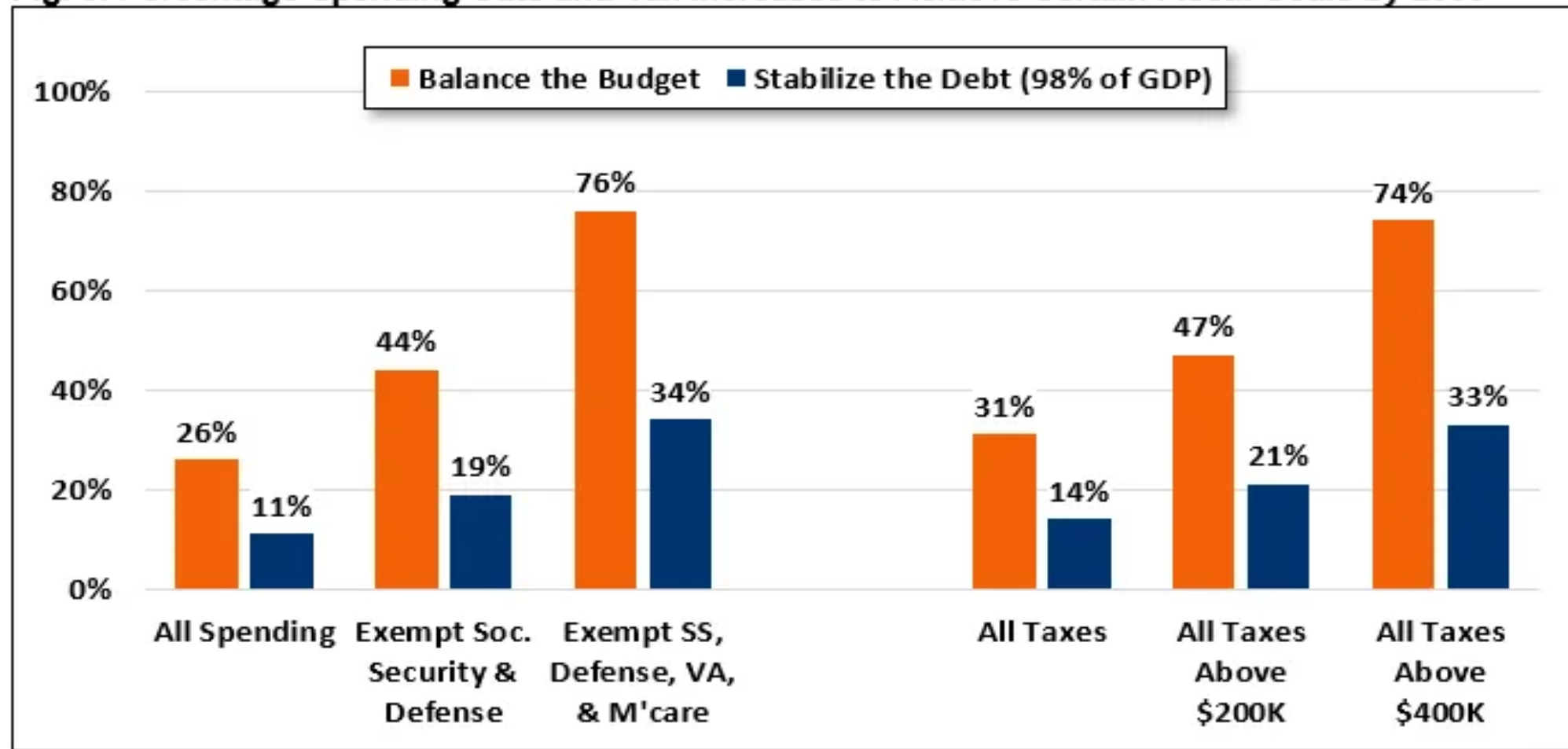
Debt Limit this Century



\$9.2 Trillion of the \$36 Trillion will need to be financed during 2025

If You Take Things Off the Table

Fig. 3: Percentage Spending Cuts and Tax Increases to Achieve Certain Fiscal Goals by 2033

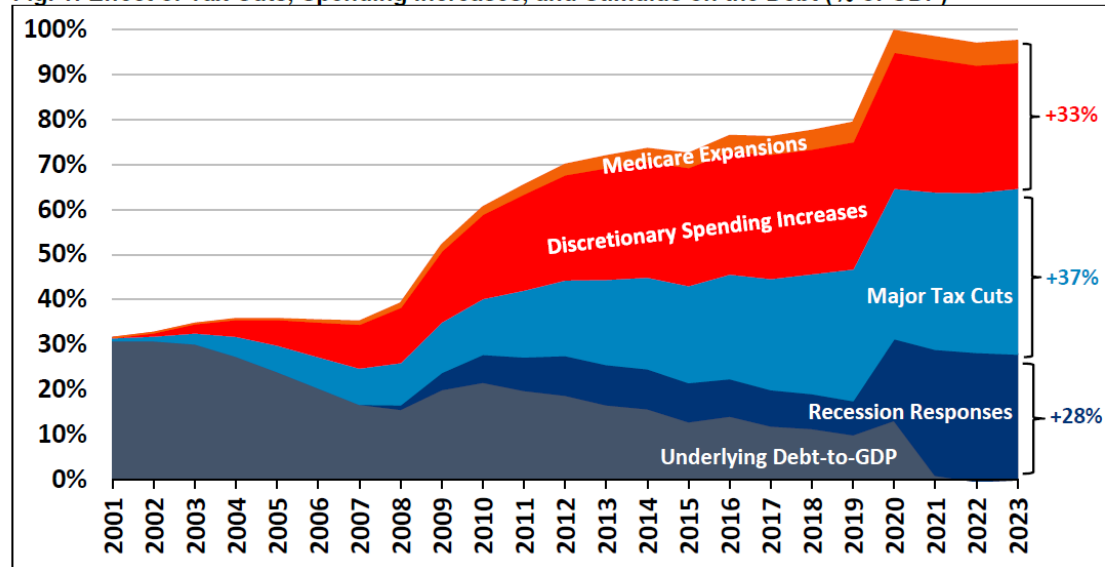


Note: Taxes above \$200k and \$400k includes all corporate and estate taxes as well as income and payroll taxes above those thresholds. Estimates are rough and assume policies are enacted immediately and phased in.

Sources: Committee for a Responsible Federal Budget and Congressional Budget Office.

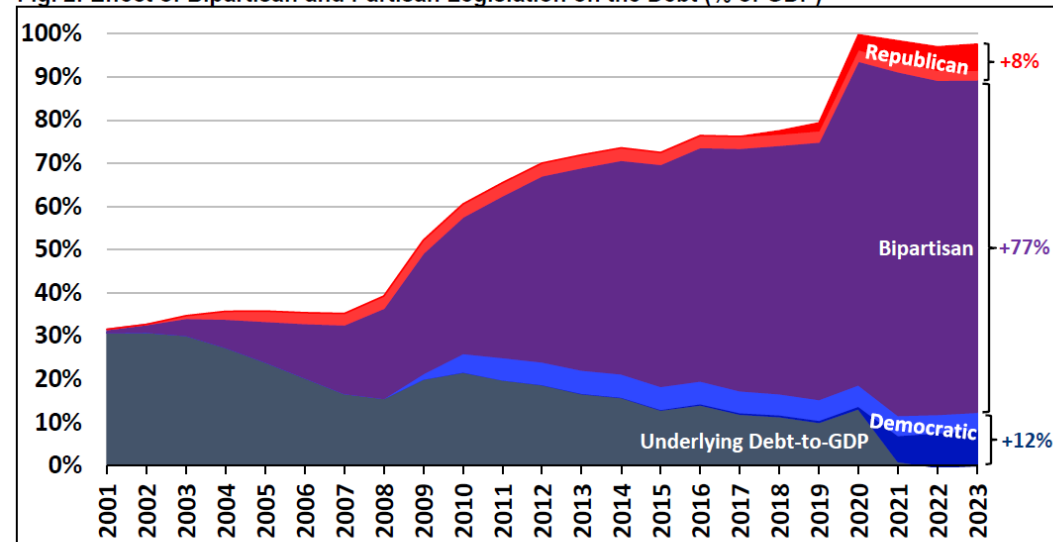
How we got here - From Riches to Rags – Committee for a Responsible Federal Budget – crft.org

Fig. 1: Effect of Tax Cuts, Spending Increases, and Stimulus on the Debt (% of GDP)



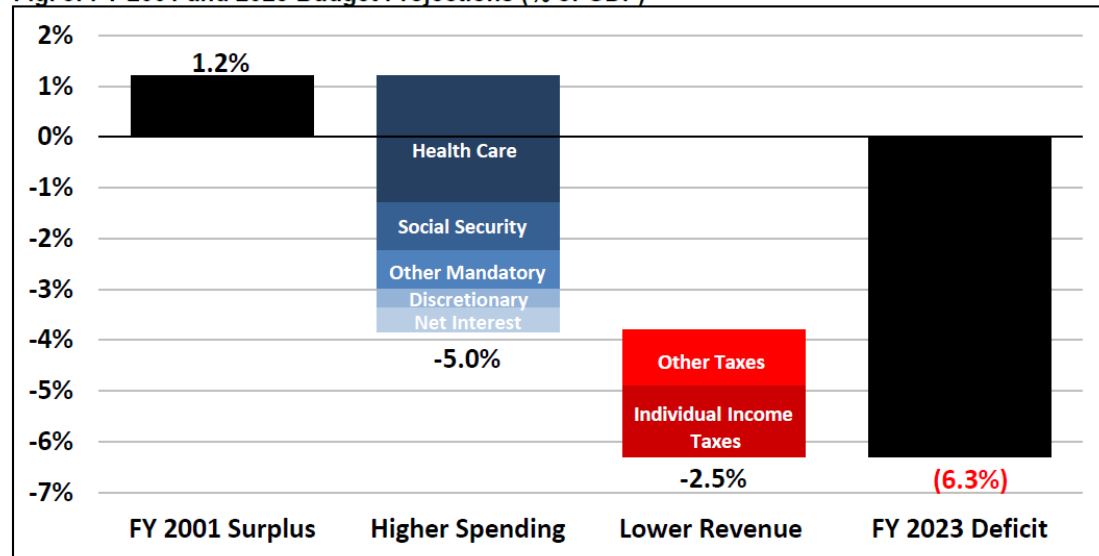
Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.

Fig. 2: Effect of Bipartisan and Partisan Legislation on the Debt (% of GDP)



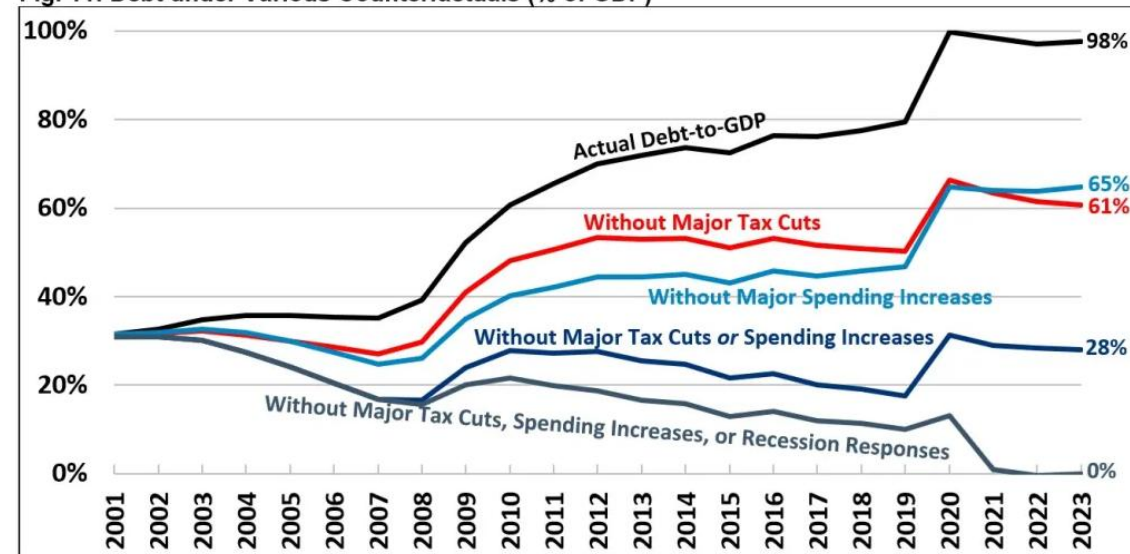
Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.
Dark colors represent exclusive support from one party; lighter colors represent dominant support.

Fig. 3: FY 2001 and 2023 Budget Projections (% of GDP)

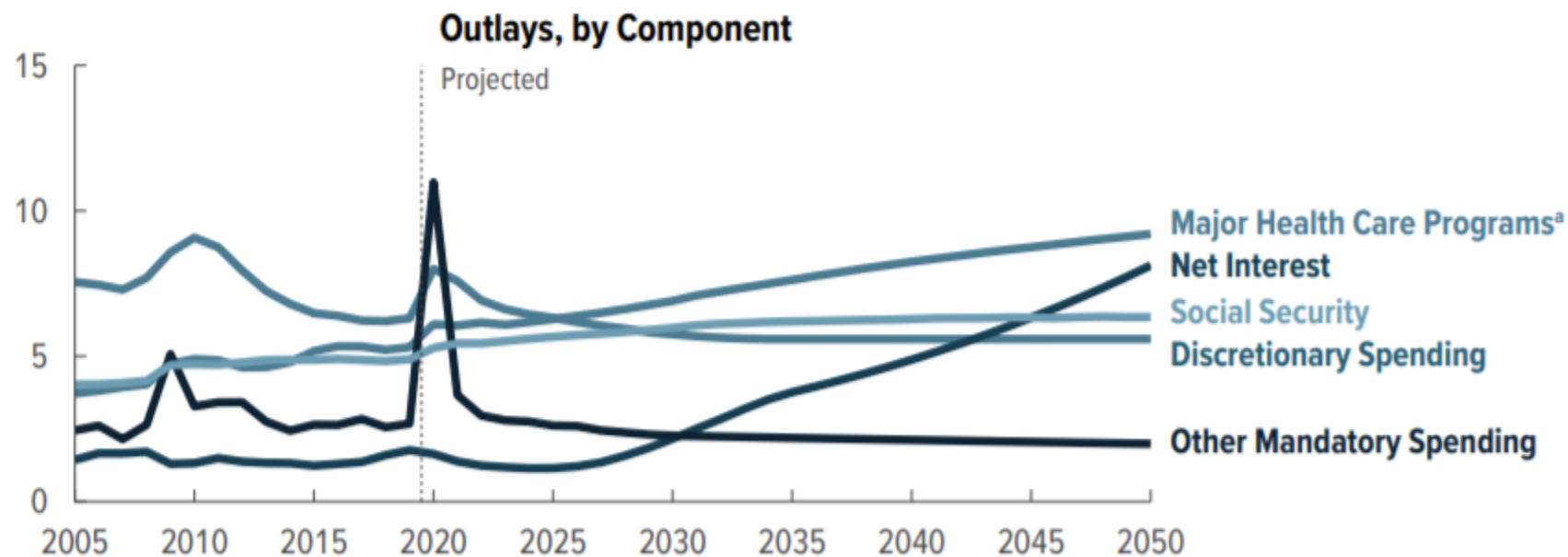


Sources: Congressional Budget Office and Committee for a Responsible Federal Budget.

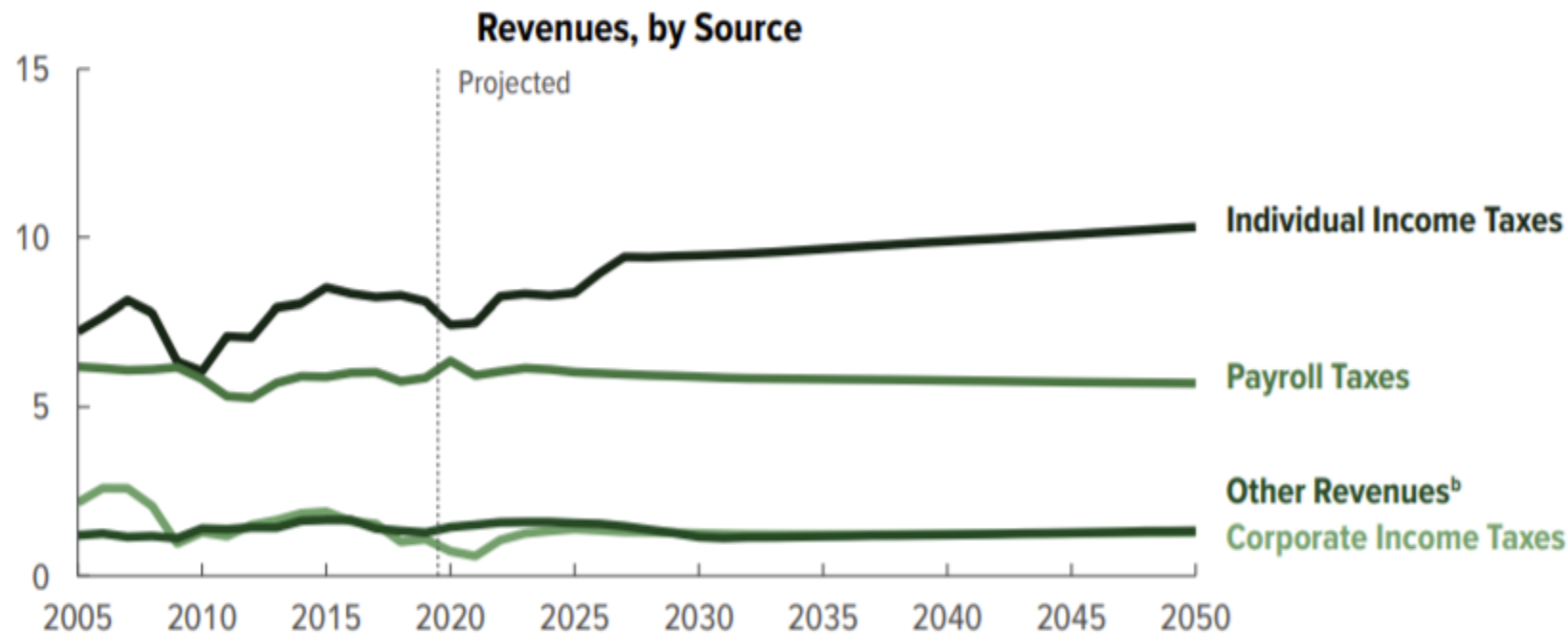
Fig. 11: Debt under Various Counterfactuals (% of GDP)



Sources: Congressional Budget Office, Treasury Department, and Committee for a Responsible Federal Budget.



Over the long term, net spending for interest, as well as spending on the major health care programs and Social Security, is projected to rise in relation to GDP; other spending, in total, is projected to decline.

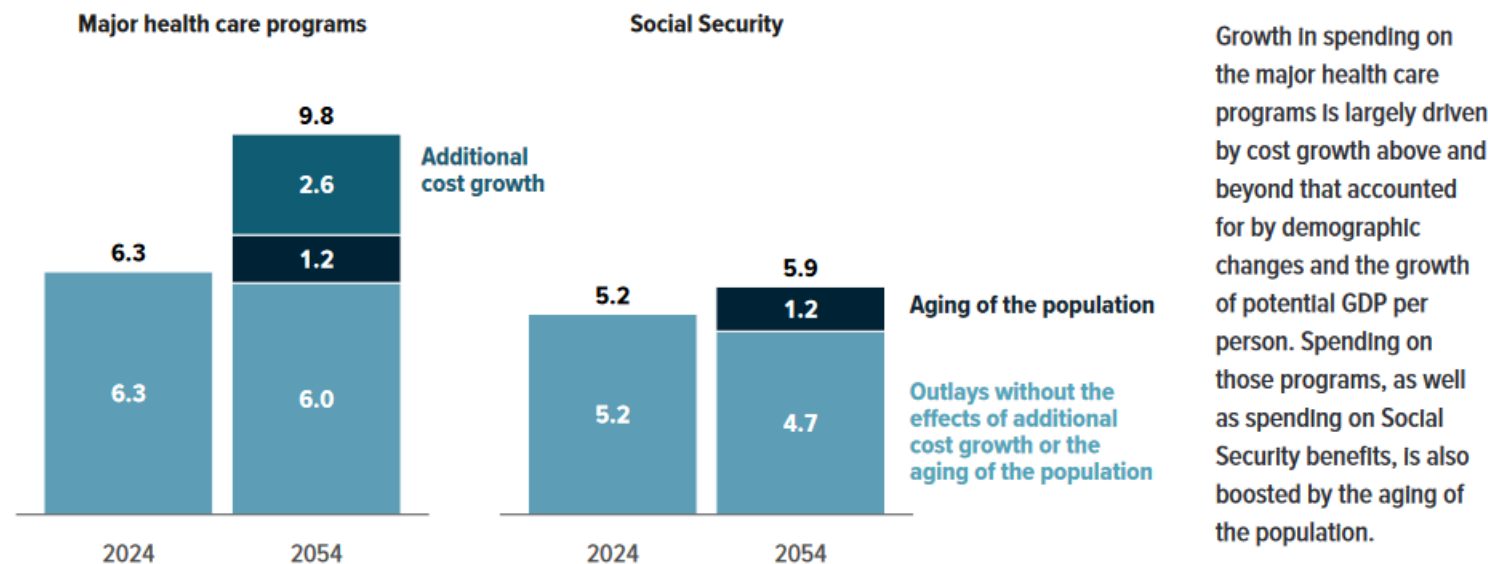


Increases in individual income taxes account for most of the rise in total revenues relative to GDP. Receipts from all other sources, taken together, are projected to be slightly higher in 2050 than they are today.

Figure 2-5.

Composition of Growth in Outlays for the Major Health Care Programs and Social Security, 2024 to 2054

Percentage of GDP



Data source: Congressional Budget Office. See www.cbo.gov/publication/59711#data.

The spending on the major health care programs examined here consists of gross spending on Medicare (which does not account for premiums or other offsetting receipts), Medicaid, and the Children's Health Insurance Program, as well as premium tax credits for health insurance purchased through the marketplaces established under the Affordable Care Act and related spending. The premium tax credits subsidize the purchase of health insurance. Related spending is spending to subsidize health insurance provided through the Basic Health Program and to stabilize premiums for health insurance purchased by individuals and small employers.

Additional cost growth is the extent to which the growth rate of nominal health care spending per person (adjusted to remove the effects of demographic changes) exceeds the growth rate of potential GDP per person. Potential GDP is the maximum sustainable output of the economy.

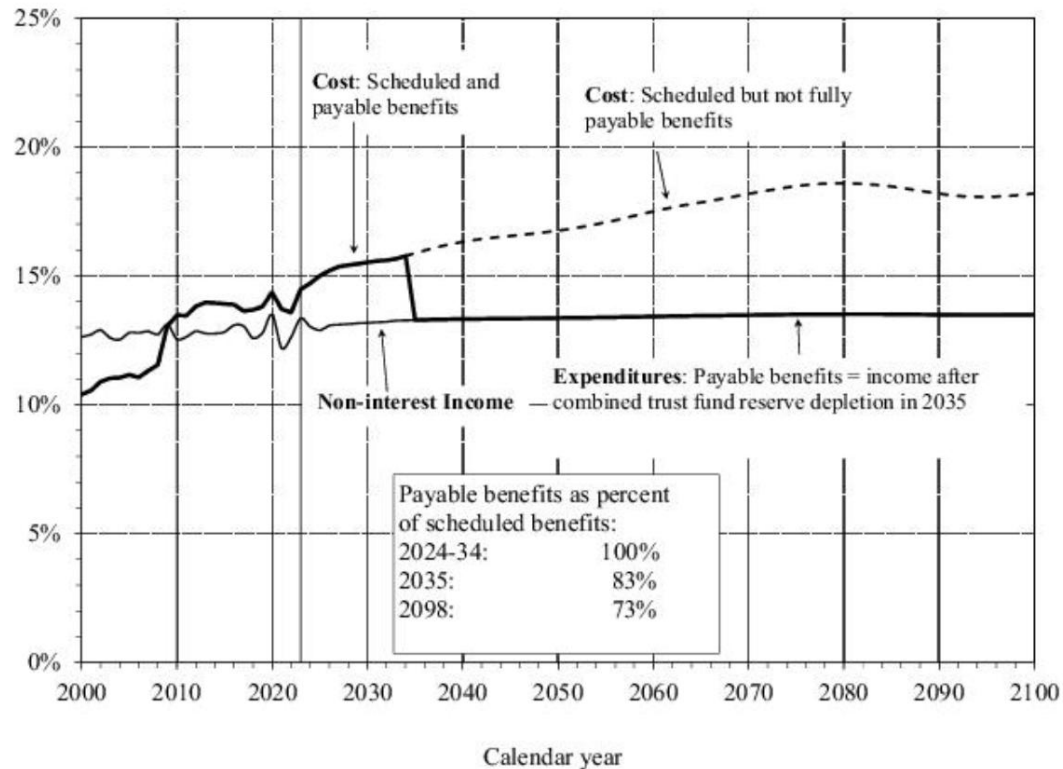
GDP = gross domestic product.

Estimates over the last three years have gone down for Additional Cost Growth (-0.4) and Aging (-0.1).

<https://www.cbo.gov/system/files/2024-03/59711-Long-Term-Outlook-2024.pdf>

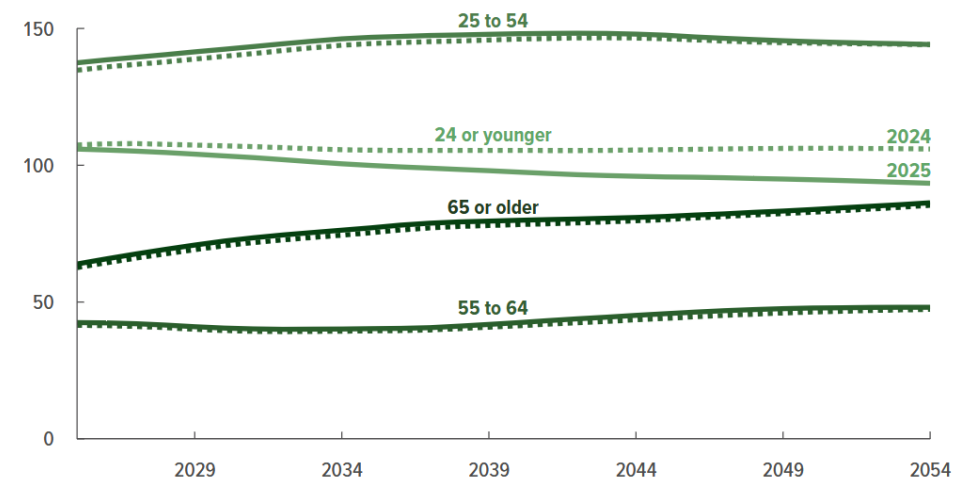
Social Security Trust Fund Empty in 2034

Figure II.D2.—OASDI Income, Cost, and Expenditures as Percentages of Taxable Payroll
[Under intermediate assumptions]



Population Size, by Age Group, in CBO's 2024 and 2025 Projections

Millions of people



CBO now projects a smaller population age 24 or younger over the next three decades than it projected last year. That change largely reflects reductions in CBO's projections of the total fertility rate.

<https://www.cbo.gov/system/files/2025-01/60875-demographic-outlook.pdf>

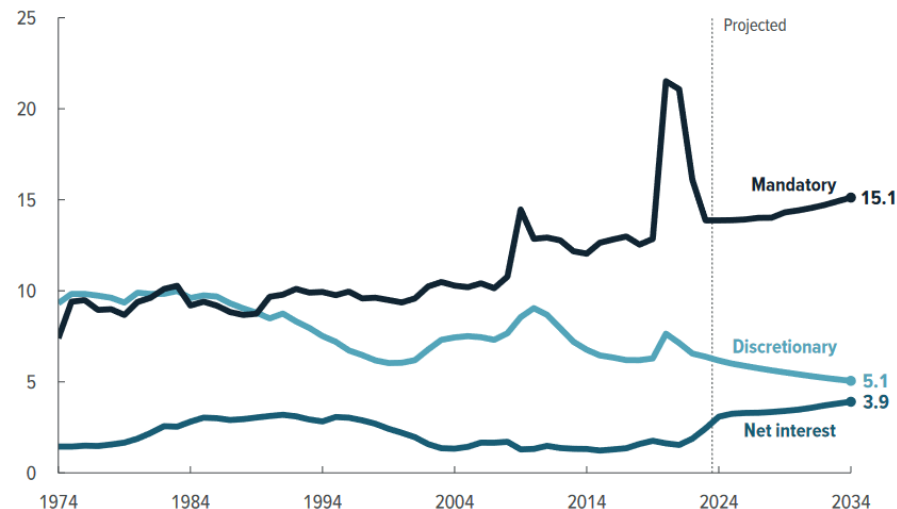
https://www.ssa.gov/OACT/TR/2024/II_D_project.html#105057

In 2035, **only 83%** of benefits due can be paid by Social Security revenue.

Figure 1-4.

Outlays, by Category

Percentage of GDP

Data source: Congressional Budget Office. See www.cbo.gov/publication/59710#data.

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All projections presented here have been adjusted to exclude the effects of those timing shifts. Historical amounts have been adjusted as far back as the available data will allow.

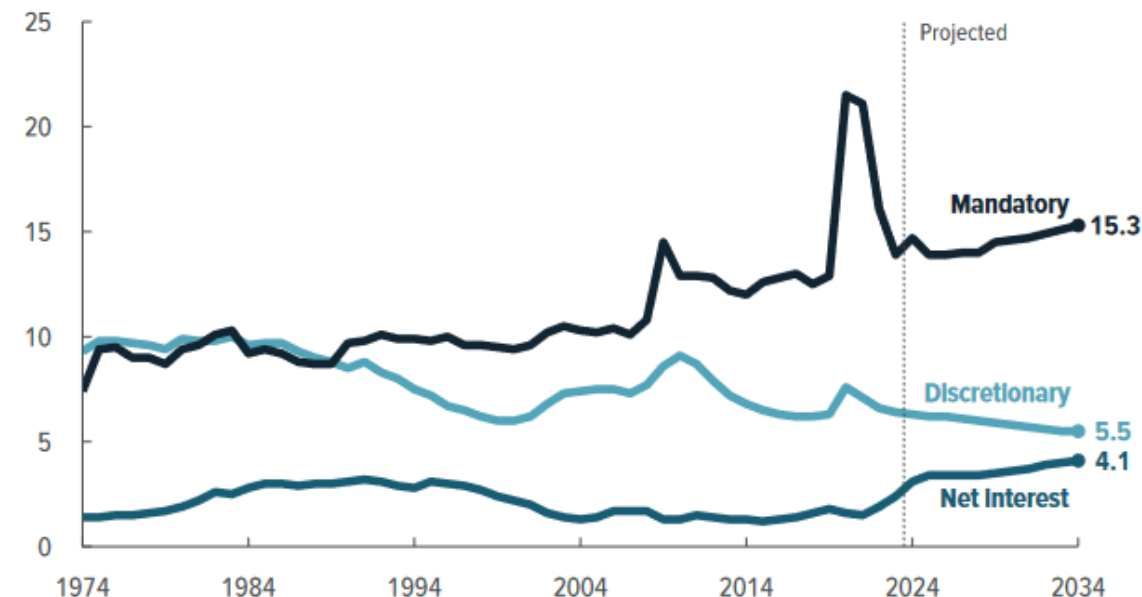
GDP = gross domestic product.

Feb 2024

In CBO's projections, rising spending for Social Security and Medicare boosts mandatory outlays. Discretionary spending as a share of GDP falls to historic lows. And mounting debt and higher interest rates cause net outlays for interest to increase. Starting next year, those outlays are greater in relation to GDP than at any point since at least 1940, the first year for which the Office of Management and Budget reports such data.

May 2024

Percentage of GDP



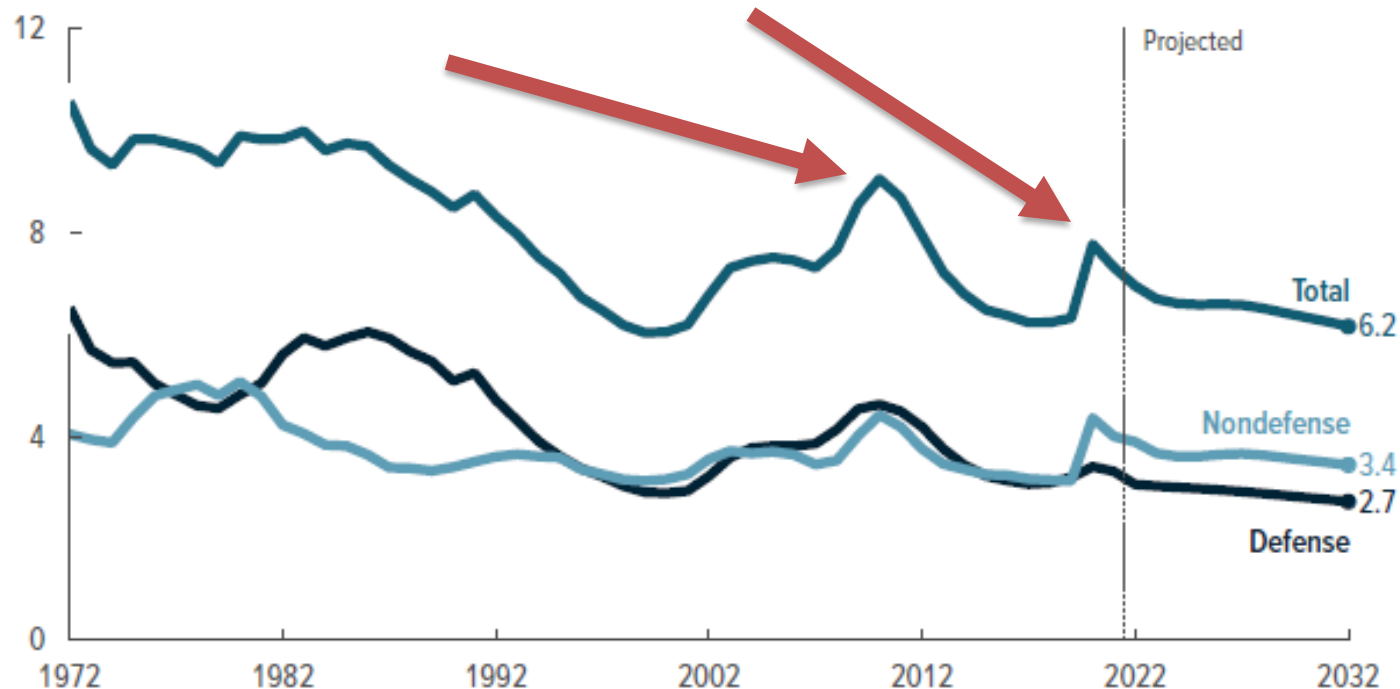
Mandatory spending averaged 12.7% of GDP from 2010-2019 and **10.7% of GDP from 1970-2019**

Bumps due to Great Recession and COVID

Figure 3-3.

Discretionary Outlays, by Category

Percentage of GDP



In CBO's projections, discretionary outlays as a percentage of GDP fall this year and next, as spending related to the coronavirus pandemic wanes. Such outlays continue to decline because the projections reflect the assumption that discretionary funding will grow at the rate of inflation, which is projected to be slower than the growth of nominal GDP.

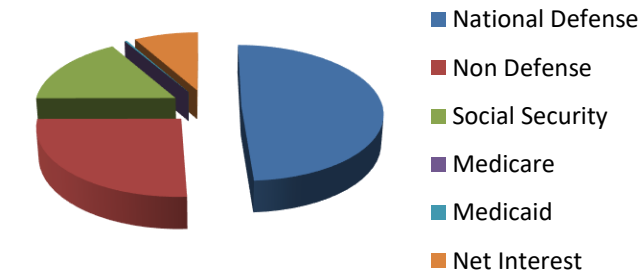
Data source: Congressional Budget Office, using data from the Office of Management and Budget. See www.cbo.gov/publication/57950#data.

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Outlays have been adjusted to exclude the effects of those shifts.

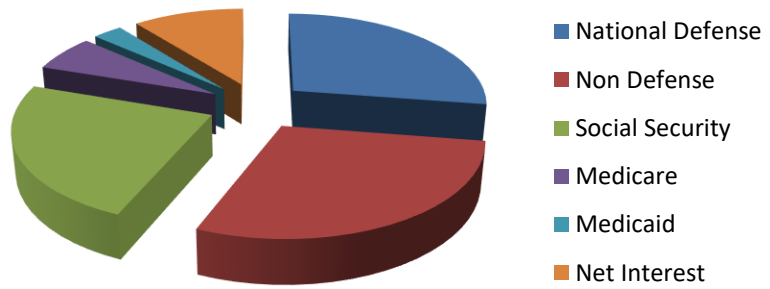
GDP = gross domestic product.

Federal Spending by Category

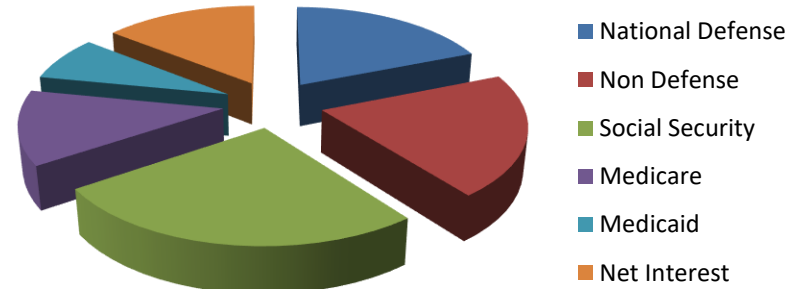
1965



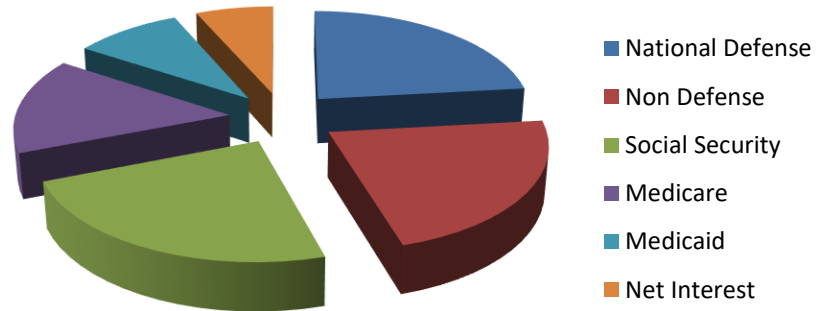
1980



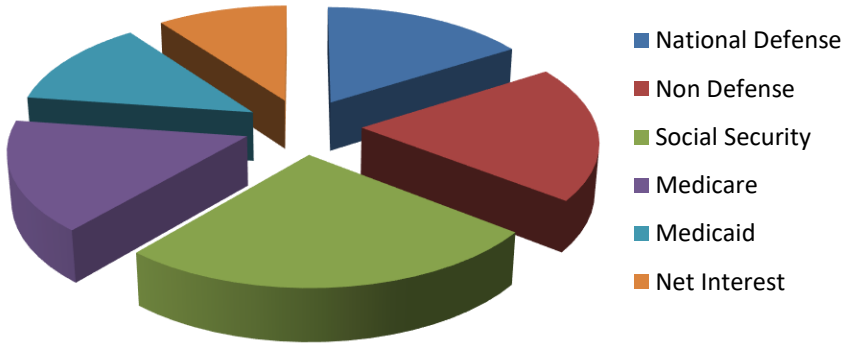
2000



2010



2022



2028 Est.

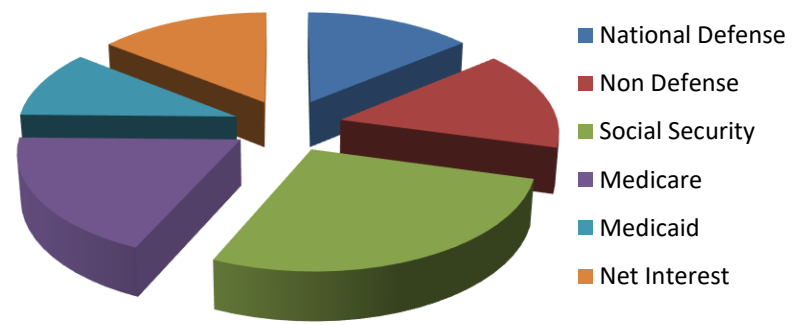
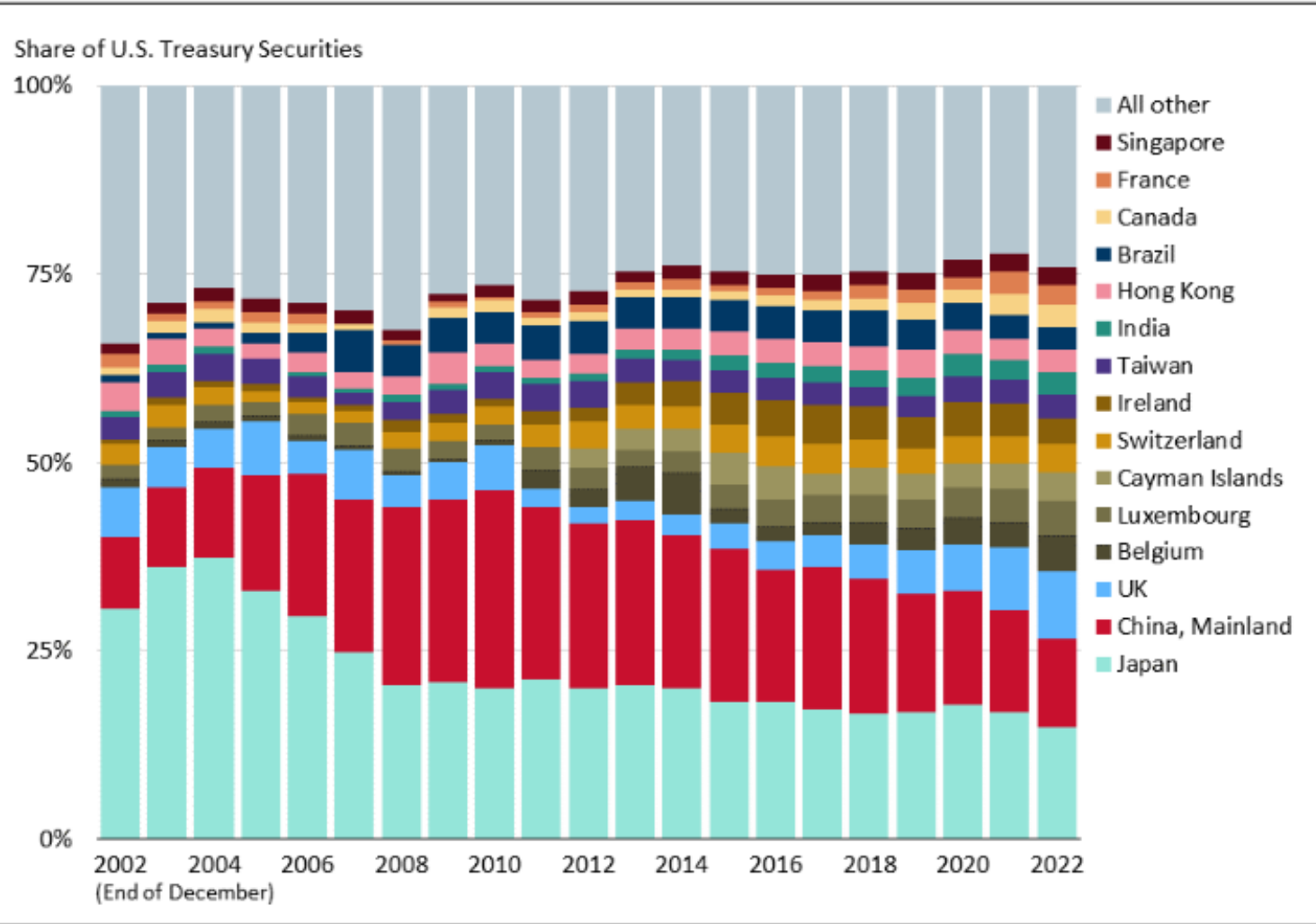


Figure 2. Composition of Foreign Holdings of U.S. Treasury Securities (2002-2022)

Figure is interactive in the HTML version of this report.



Source: Created by CRS. Data from Treasury Department International Capital System (TIC), at <https://ticdata.treasury.gov/Publish/mfh.txt> and <https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/mfhhis01.txt>.

Notes: Data as of May 2023. The Treasury Department's data track the location of an asset, not its owner's nationality. A Chinese investor who buys U.S. securities and keeps them in the custody of a Belgian bank would

Table 2. Top 10 Foreign Holders of Federal Debt, by Country
(data as of May 9, 2023)

Country	December 2022		Country	December 2018	
	Amount Held (\$ billions)	Percentage of All Foreign Holdings in Federal Debt		Amount Held (\$ billions)	Percentage of All Foreign Holdings in Federal Debt
Japan	\$1,076.3	14.71%	Mainland China	\$1,124.3	17.93%
Mainland China	\$867.1	11.85%	Japan	\$1,039.7	16.58%
United Kingdom	\$654.5	8.94%	Brazil	\$303.1	4.83%
Belgium	\$354.3	4.84%	United Kingdom	\$288.0	4.59%
Luxembourg	\$329.4	4.50%	Ireland	\$279.9	4.46%
Cayman Islands	\$283.8	3.88%	Luxembourg	\$230.5	3.68%
Switzerland	\$269.7	3.69%	Switzerland	\$229.9	3.67%
Ireland	\$254.8	3.48%	Cayman Islands	\$225.6	3.60%
Taiwan	\$225.5	3.08%	Hong Kong	\$196.3	3.13%
India	\$224.1	3.06%	Belgium	\$185.1	2.95%
Total top 10 countries of foreign investors in federal debt	\$4,539.5	62.0%	Total top 10 countries of foreign investors in federal debt	\$4,102.4	65.4%
Total all foreign investment in federal debt	\$7,318.7	100%	Total all foreign investment in federal debt	\$6,270.1	100%

Source: Treasury Department International Capital System (TIC), <https://ticdata.treasury.gov/Publish/mfh.txt> and <https://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfhhis01.txt>.

Notes: Data, including estimated foreign holders of federal debt historically by month, in these Treasury Department tables are periodically adjusted. Aggregate data totals in Table 1 vary slightly from aggregate data totals in Table 2 because of minor technical differences between the two sources. Percentage approximations calculated by CRS. Percentages may not sum to 100% due to rounding.

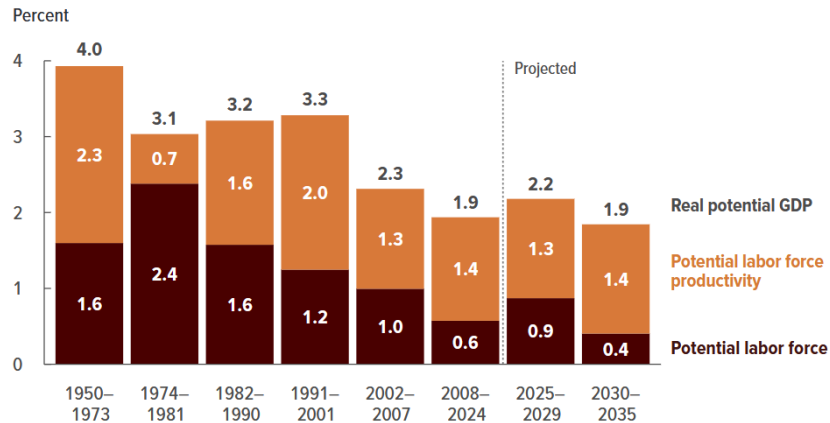
Figure 2 shows the changing composition of foreign holdings over time since 2002.

<https://crsreports.congress.gov/product/pdf/RS/RS22331/47>

How we fix? Growth potential

Figure 3.

Average Annual Growth of Real Potential GDP and Its Components



Data source: Congressional Budget Office. See www.cbo.gov/publication/61135#data.

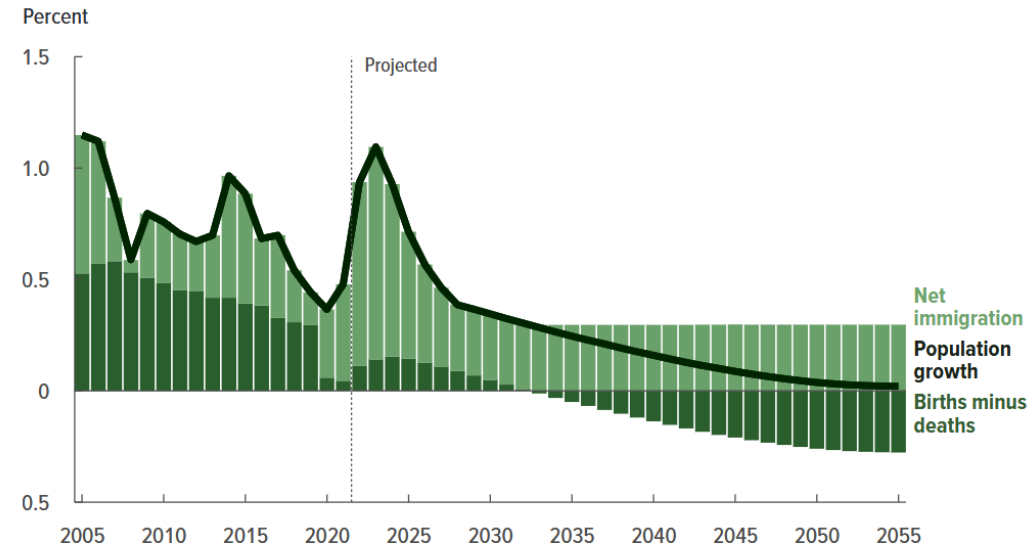
Real values are nominal values that have been adjusted to remove the effects of changes in prices.

Real potential GDP is CBO's estimate of the amount of real GDP that could be produced if labor and capital were employed at their maximum sustainable rates. Its growth is the sum of the growth of the potential labor force and of potential labor force productivity. The potential labor force is CBO's estimate of how big the labor force would be if economic output and other key variables were at their maximum sustainable amounts. Potential labor force productivity is the ratio of real potential GDP to the potential labor force.

The bars show average annual growth rates over the specified periods. Those rates are calculated using calendar year data.

GDP = gross domestic product.

Population Growth and Contributing Factors

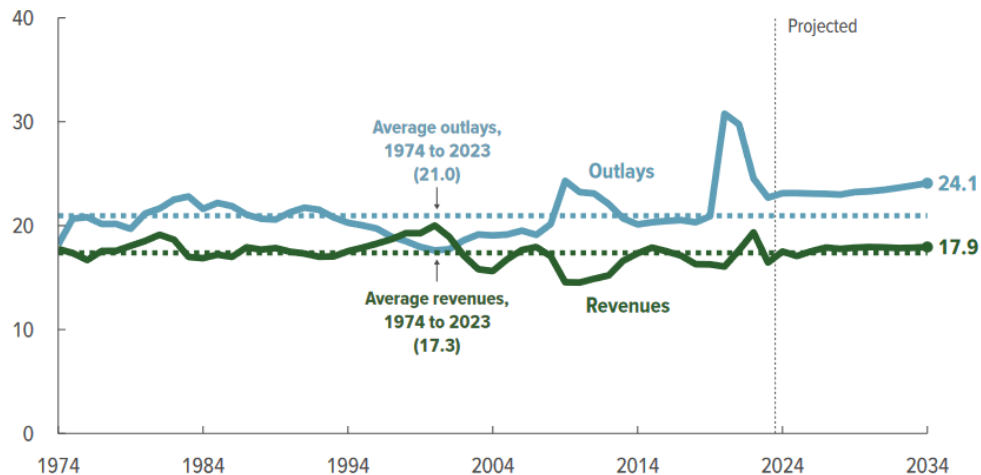


What About Revenue?

Figure 1-3.

Total Federal Outlays and Revenues

Percentage of GDP



Data source: Congressional Budget Office. See www.cbo.gov/publication/59710#data.

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All projections presented here have been adjusted to exclude the effects of those timing shifts. Historical amounts have been adjusted as far back as the available data will allow.

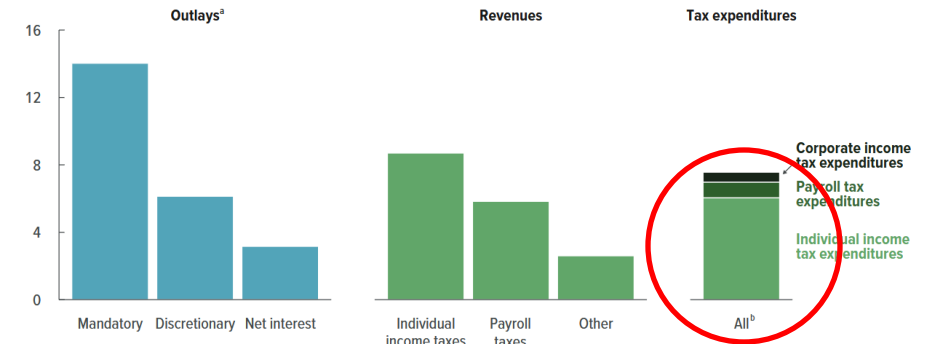
GDP = gross domestic product.

Tax expenditures are provisions of the tax system (such as tax credits and deductions) that cause revenues to be lower than they would be otherwise. Like federal spending programs, tax expenditures contribute to the budget deficit. In 2023, the total revenues forgone because of tax expenditures are projected to equal 7.4 percent of GDP.

Figure D-1.

Estimated Outlays, Revenues, and Tax Expenditures in Fiscal Year 2025

Percentage of GDP



Tax expenditures are provisions of the tax system (such as tax credits and deductions) that cause revenues to be lower than they would be otherwise. Like federal spending programs, tax expenditures contribute to the budget deficit. In 2025, the total revenues forgone because of tax expenditures are projected to equal 7.6 percent of GDP (or \$2.3 trillion).

Data source: Congressional Budget Office, using estimates by the staff of the Joint Committee on Taxation. See www.cbo.gov/publication/60870#data.

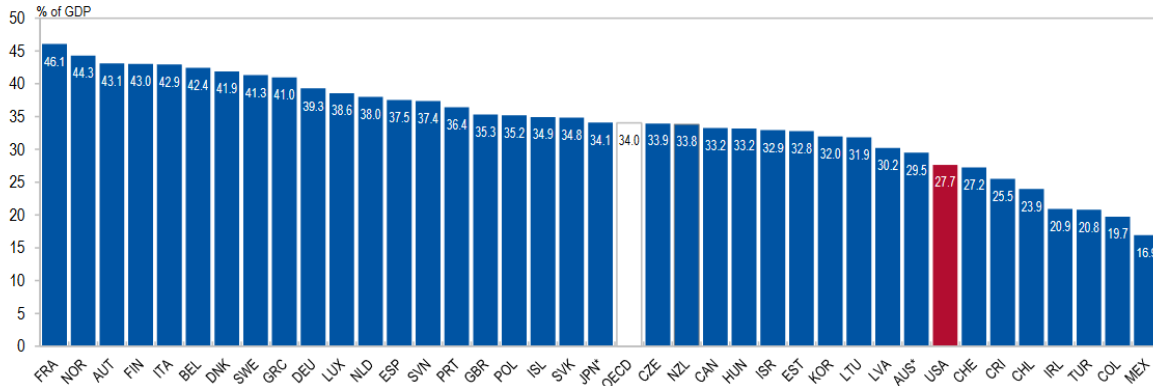
GDP = gross domestic product.

a. The outlay portions of refundable tax credits are included in tax expenditures as well as in mandatory outlays. In 2025, they are estimated to total 0.8 percent of GDP.

b. This total is the sum of the estimates for each separate tax expenditure and does not account for interactions among them. However, CBO estimates that the total for all tax expenditures roughly equals the sum of the estimates for each separate tax expenditure. Because estimates of tax expenditures are based on people's behavior with current provisions of the tax code in place, they do not reflect the amount of revenues that would be collected if provisions were eliminated and taxpayers adjusted their activities accordingly.

Tax-to-GDP ratio compared to the OECD, 2022

The United States ranked 31st¹ out of 38 OECD countries in terms of the tax-to-GDP ratio in 2022. In 2022, the United States had a tax-to-GDP ratio of 27.7% compared with the OECD average of 34.0%. In 2021, the United States was ranked 32nd out of the 38 OECD countries in terms of the tax-to-GDP ratio.



* Australia and Japan are unable to provide provisional 2022 data, therefore their latest 2021 data are presented within this country note.

1. In this note, the country with the highest level or share is ranked first and the country with the lowest level or share is ranked 38th.

Note: In the OECD classification the term "taxes" is confined to compulsory unrequited payments to general government or to a supranational authority. Taxes are unrequited in the sense that benefits provided by government to taxpayers are not normally in proportion to their payments.

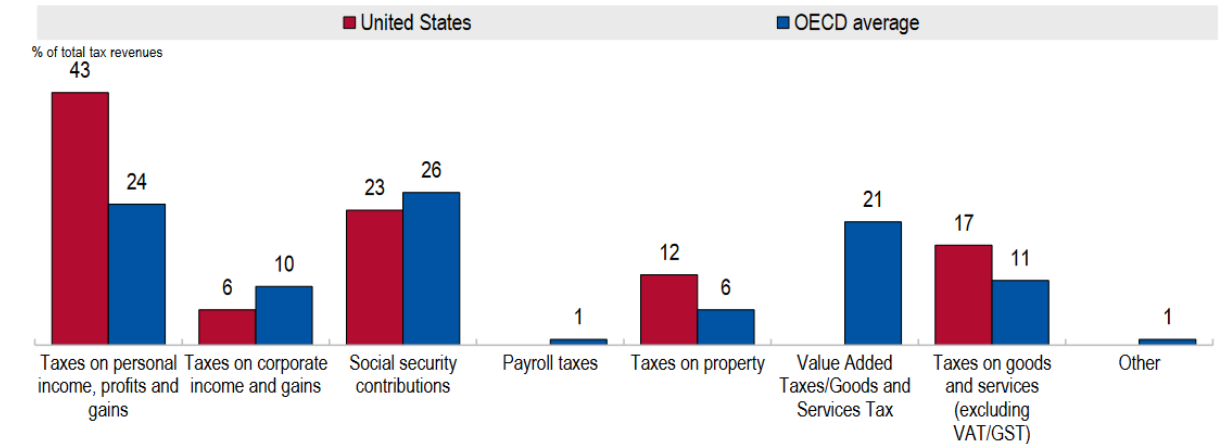
US Raises Revenue Differently

US Revenue Versus Other Developed Countries

Tax structures

Tax structure compared to the OECD average, 2021

The structure of tax receipts in the United States compared with the OECD average is shown in the figure below.



Relative to the OECD average, the tax structure in the United States is characterised by:

- » Substantially higher revenues from taxes on personal income, profits & gains, and higher revenues from property taxes and goods & services taxes (excluding VAT/GST).
- » A lower proportion of revenues from taxes on corporate income & gains and social security contributions.
- » No revenues from payroll taxes; and value-added taxes.