FY 2025 Budget Reconciliation: Facts, Figures, and Analysis

U.S. Senator Ron Johnson

June 18, 2025

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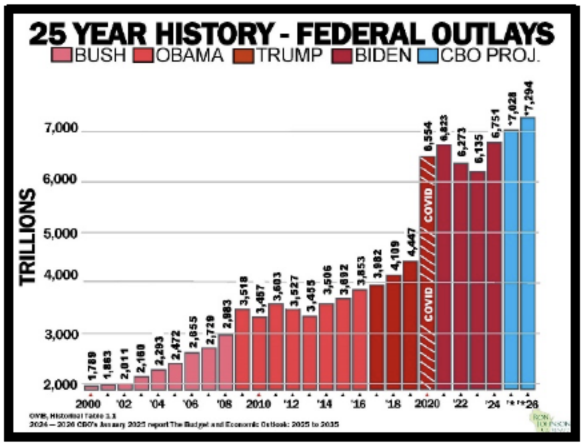
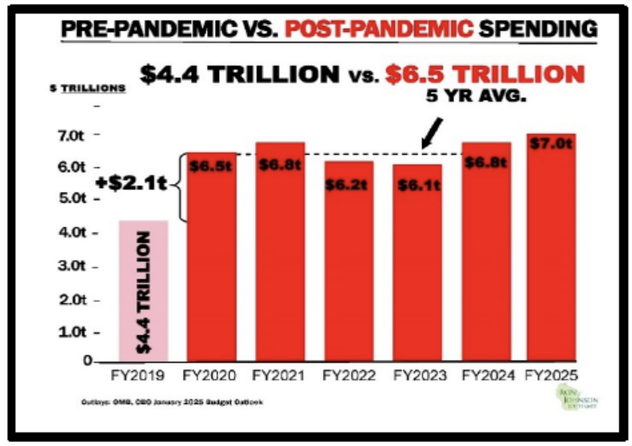
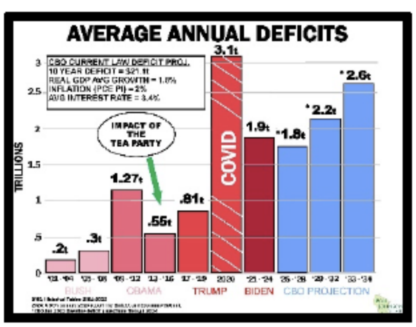
I. Executive Summary

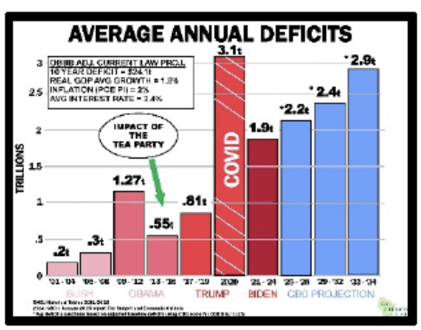
The primary purpose of this report is to graphically show what so many Republican leaders have repeatedly stated, including President Trump in his November 2, 2011 tweet, "Washington has a spending problem, not a revenue problem."[1] Fueled by spending levels that exploded during the pandemic but never receded, our fiscal situation is far worse than when President Trump posted that tweet in 2011. These two charts illustrate that spending explosion:

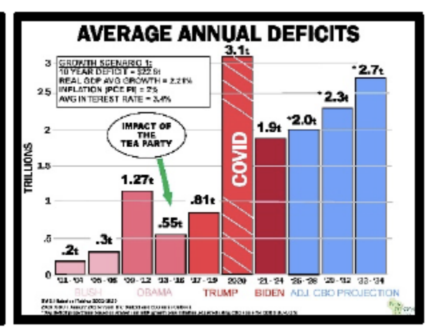


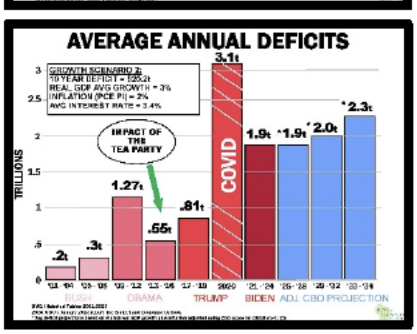


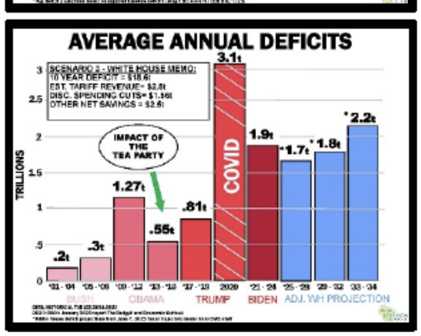
This report is based on a simple model that provides alternate growth scenarios to CBO's baseline deficit projection adjusted by its score of the One Big Beautiful Bill (OBBB). The model adjusts GDP levels using compound annual growth rates (CAGRs) of 2.21%, 3%, and 4% and then calculates federal revenue as a percentage of GDP using 17.1% as the assumed rate over the entire period. This was the rate in FY2024 and is estimated to be the rate in FY2025 (see page 19). It also happens to be the average rate over the last 50 years (see page 20). The charts depicting these scenarios are shown below and described in the report:

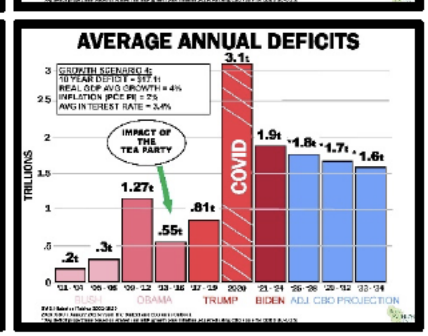












The charts graphically depict what is difficult to convey using numbers alone—none of the scenarios bring us even close to returning to pre-pandemic deficit levels. Although economic growth is an essential element to returning to fiscal sanity, without primarily focusing on the spending problem, we have no hope of bringing deficits down to a manageable level.

Below is a summary of the average annual deficits and 10-year (2025-2034) cumulative deficits for the scenarios included in the report. These are the most important numbers to focus on:

Average Annual and 10-Year Cumulative Deficit Projections

	Average Annual Deficit	**10-Year (2025-2034) Deficit**
CBO's January 2025 Baseline Projection	$2.1 trillion	$21.1 trillion
CBO's Baseline Projection adjusted for OBBB	$2.4 trillion	$24.1 trillion
Scenario 1: 2.21% Real GDP Growth	$2.3 trillion	$22.6 trillion
Adjusted for Debt Service	$2.2 trillion	$22.2 trillion
Scenario 2: 3% Real GDP Growth	$2.0 trillion	$20.2 trillion
Adjusted for Debt Service	$1.9 trillion	$19.4 trillion
Scenario 3: White House June 7th Memo	$1.9 trillion	$18.6 trillion
Scenario 4: 4% Real GDP Growth	$1.7 trillion	$17.1 trillion
Adjusted for Debt Service	$1.6 trillion	$15.6 trillion

As discussed in the report, even achieving sustained 3% growth is highly uncertain, and at that level we still experience deficits that average roughly $2 trillion. Without addressing out-of-control spending that has increased at an unprecedented level since the pandemic, America's fiscal situation will remain dire.

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Technical Notes

The Congressional Budget Office's (CBO) January 2025 "Budget and Economic Outlook: 2025 to 2035" provides the baseline 10-year projection against which all scenarios and policy changes are compared and scored.[2] Since 10-year totals in that document use the period FY2026-FY2035 and the CBO score on the One Big Beautiful Bill (OBBB) uses FY2025-FY2034,[3] this report uses the latter period and provides those totals in the body of the report.

The changes in "primary" deficits in the various scenarios do not account for changes in debt level or net interest expense. CBO's score of OBBB includes a score of $551 billion increase in debt servicing costs on a $2.4 trillion underlying score.[4] That translates to approximately $230 billion lower debt servicing costs per $1 trillion of reduced deficit, or $23 billion per year. The impact of debt service for Scenarios 1, 2, and 4 is adjusted above. The White House Memo scenario (Scenario 3) includes the lower cost of debt service in its projections.

II. One Big Beautiful Bill Sensitivity Analysis

CBO Baseline Budget Projections, by Category

	Actual, 2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Total 2026–2030	Total 2026–2035
							In billions of dollars							
Revenues														
Individual income taxes	2,426	2,621	2,968	3,253	3,355	3,455	3,584	3,721	3,870	4,037	4,220	4,413	16,615	36,876
Payroll taxes	1,709	1,759	1,840	1,915	1,990	2,072	2,155	2,242	2,329	2,419	2,510	2,605	9,973	22,078
Corporate income taxes	530	524	495	469	462	453	450	456	468	493	503	517	2,329	4,767
Other[a]	253	259	277	298	301	310	360	416	439	456	474	496	1,545	3,827
Total	**4,918**	**5,163**	**5,580**	**5,935**	**6,108**	**6,290**	**6,549**	**6,834**	**7,106**	**7,405**	**7,708**	**8,031**	**30,463**	**67,548**
On-budget	3,658	3,859	4,217	4,516	4,637	4,760	4,959	5,180	5,389	5,623	5,860	6,114	23,088	51,254
Off-budget[b]	1,260	1,304	1,364	1,418	1,472	1,530	1,591	1,654	1,718	1,782	1,848	1,917	7,375	16,293
Outlays														
Mandatory	4,060	4,228	4,386	4,596	4,852	4,948	5,276	5,520	5,788	6,208	6,341	6,465	24,058	54,380
Discretionary	1,810	1,848	1,897	1,951	2,002	2,033	2,086	2,130	2,175	2,229	2,271	2,315	9,969	21,090
Net interest	881	952	1,010	1,075	1,164	1,247	1,328	1,417	1,514	1,605	1,694	1,783	5,825	13,836
Total	**6,750**	**7,028**	**7,294**	**7,622**	**8,019**	**8,228**	**8,689**	**9,067**	**9,477**	**10,042**	**10,306**	**10,563**	**39,852**	**89,306**
On-budget	5,430	5,603	5,784	6,029	6,325	6,434	6,791	7,060	7,357	7,809	7,972	8,126	31,363	69,687
Off-budget[b]	1,320	1,425	1,509	1,593	1,694	1,795	1,898	2,007	2,120	2,233	2,334	2,436	8,489	19,619
Total deficit (-)[c]	**-1,832**	**-1,865**	**-1,713**	**-1,687**	**-1,911**	**-1,938**	**-2,140**	**-2,233**	**-2,371**	**-2,637**	**-2,597**	**-2,531**	**-9,389**	**-21,758**
On-budget	-1,772	-1,744	-1,568	-1,513	-1,688	-1,674	-1,832	-1,880	-1,968	-2,186	-2,112	-2,012	-8,274	-18,432
Off-budget[b]	-60	-121	-146	-174	-223	-265	-308	-353	-403	-451	-485	-519	-1,115	-3,326
Primary deficit (-)[c,d]	-951	-913	-703	-612	-746	-691	-812	-816	-857	-1,033	-904	-749	-3,564	-7,922
Debt held by the public	28,199	30,103	31,883	33,636	35,601	37,581	39,748	41,992	44,372	46,985	49,556	52,056	n.a.	n.a.
Addendum:														
GDP	28,828	30,136	31,341	32,538	33,765	35,047	36,394	37,792	39,252	40,768	42,330	43,936	169,085	373,164
							As a percentage of GDP							
Revenues														
Individual income taxes	8.4	8.7	9.5	10.0	9.9	9.9	9.8	9.8	9.9	9.9	10.0	10.0	9.8	9.9
Payroll taxes	5.9	5.8	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Corporate income taxes	1.8	1.7	1.6	1.4	1.4	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.4	1.3
Other[a]	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.1	1.1	1.1	1.1	1.1	0.9	1.0
Total	**17.1**	**17.1**	**17.8**	**18.2**	**18.1**	**17.9**	**18.0**	**18.1**	**18.1**	**18.2**	**18.2**	**18.3**	**18.0**	**18.1**
On-budget	12.7	12.8	13.5	13.9	13.7	13.6	13.6	13.7	13.7	13.8	13.8	13.9	13.7	13.7
Off-budget[b]	4.4	4.3	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Outlays														
Mandatory	14.1	14.0	14.0	14.1	14.4	14.1	14.5	14.6	14.7	15.2	15.0	14.7	14.2	14.6
Discretionary	6.3	6.1	6.1	6.0	5.9	5.8	5.7	5.6	5.5	5.5	5.4	5.3	5.9	5.7
Net interest	3.1	3.2	3.2	3.3	3.4	3.6	3.6	3.7	3.9	3.9	4.0	4.1	3.4	3.7
Total	**23.4**	**23.3**	**23.3**	**23.4**	**23.8**	**23.5**	**23.9**	**24.0**	**24.1**	**24.6**	**24.3**	**24.0**	**23.6**	**23.9**
On-budget	18.8	18.6	18.5	18.5	18.7	18.4	18.7	18.7	18.7	19.2	18.8	18.5	18.5	18.7
Off-budget[b]	4.6	4.7	4.8	4.9	5.0	5.1	5.2	5.3	5.4	5.5	5.5	5.5	5.0	5.3
Total deficit (-)[c]	**-6.4**	**-6.2**	**-5.5**	**-5.2**	**-5.7**	**-5.5**	**-5.9**	**-5.9**	**-6.0**	**-6.5**	**-6.1**	**-5.8**	**-5.6**	**-5.8**
On-budget	-6.1	-5.8	-5.0	-4.6	-5.0	-4.8	-5.0	-5.0	-5.0	-5.4	-5.0	-4.6	-4.9	-4.9
Off-budget[b]	-0.2	-0.4	-0.5	-0.5	-0.7	-0.8	-0.8	-0.9	-1.0	-1.1	-1.1	-1.2	-0.7	-0.9
Primary deficit (-)[c,d]	-3.3	-3.0	-2.2	-1.9	-2.2	-2.0	-2.2	-2.2	-2.2	-2.5	-2.1	-1.7	-2.1	-2.1
Debt held by the public	97.8	99.9	101.7	103.4	105.4	107.2	109.2	111.1	113.0	115.3	117.1	118.5	n.a.	n.a.

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

GDP = gross domestic product; n.a. = not applicable.

a. Consists of excise taxes, remittances from the Federal Reserve System, customs duties, estate and gift taxes, and miscellaneous fees and fines.

b. The revenues and outlays of the Social Security trust funds and the net cash flow of the Postal Service are classified as off-budget.

c. When outlays exceed revenues, the result is a deficit. Values in this row were calculated by subtracting outlays from revenues; thus, negative values indicate deficits.

d. Primary deficits exclude net outlays for interest.

The table above provides the Congressional Budget Office's (CBO) 10-year totals of the primary budgetary line items for FY2026-FY2035.[5] It is what CBO uses to compare various policy changes to in its scoring process.[6] It uses "current law" for projecting revenue, but largely uses "current policy" for projecting outlays.[7] In other words, CBO assumes Congress will reauthorize many expiring spending programs, and spending levels will continue on their current trajectory. But CBO assumes Congress will allow expiring tax provisions to, in fact, expire and so extending them will have a score (budgetary and deficit impact).

This has become a very confusing aspect of the debate over the One Big Beautiful Bill (OBBB). Separate from CBO, the Senate Budget Committee decides what budget projection it will use in the budget reconciliation process.[8] Budget Committee Chairman Lindsey Graham decided to treat taxes and spending the same way by using "current policy" projections for both.[9] The practical impact of that decision means that there is no score for extending the remaining parts of the Tax Cuts and Jobs Act (TCJA), and making those parts permanent requires no offsetting deficit reduction, as otherwise required by the Byrd Rule in the Senate.[10]

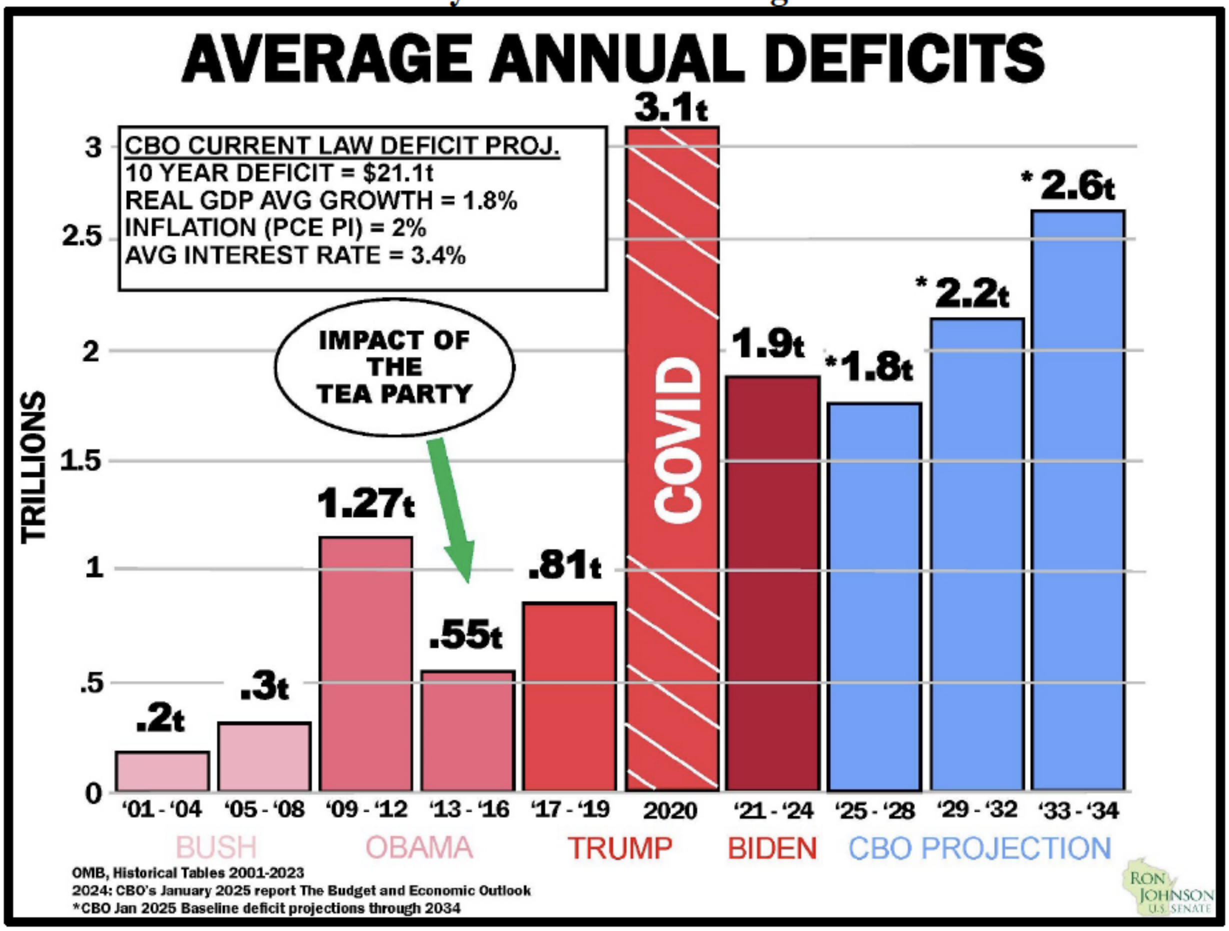
Regardless of how the Senate scores OBBB, the House required CBO to compare and score OBBB against CBO's January 2025 projection based on "current law" for revenue, which projects a cumulative 10-year deficit of $21.1 trillion.[11] If CBO had used a "current policy" revenue projection, it would have shown a cumulative 10-year deficit of approximately $25.1 trillion, as discussed below. The impact of this difference, and the confusion it creates, is explained in greater detail in this report.

Another confusing aspect of CBO's score for OBBB is that CBO uses the 10-year period FY2025-FY2034 instead of the FY2026-FY2035 totals shown in the table above.[12] From the table, and for reference throughout the remainder of this report, below are the cumulative 10-year totals for the OBBB scoring period (FY2025-FY2034).[13]

CBO Baseline (2025-2034)

Revenue	$64.7 trillion
Outlays	$85.8 trillion
Deficit	$21.1 trillion
Net Interest	$13.0 trillion
GDP	$359.4 trillion

CBO January 2025 Baseline Budgeted Deficits



10-year (2025-2034) Cumulative Projected Deficit: <u>$21.1 trillion</u>
Assumes automatic tax increase (approx. $4.0t) takes effect in 2026

This chart shows the explosion in deficit spending during President Obama's first term, the spending and deficit restraint imposed by the Tea Party movement in his second term, the increase in deficits resulting from Democrat demands during President Trump's first three years, the massive deficit spending due to the Covid-19 pandemic in 2020, and the reckless continuation of pandemic level spending under President Biden.

The 10-year projections (FY2025-FY2034) are based on CBO's January 2025 report, The Budget and Economic Outlook: 2025 to 2035.[14] These projections assume "current law" for revenue, which includes an automatic tax increase taking effect in FY2026. The CBO score for the OBBB uses the "current law" baseline cumulative deficit of $21.1 trillion and compares OBBB provisions against that amount.

There is quite a bit of understandable confusion and misrepresentation surrounding the Senate's use of "current policy" in order to make the extension of the TCJA permanent. In a letter to Congressman David Schweikert dated March 21, 2025, CBO analyzed "the effects of an alternative budget scenario in which provisions of the 2017 tax act that changed the individual income tax are extended indefinitely," combined with "the effects of permanently extending the higher estate and gift tax exemptions, permanently extending provisions that allow businesses to immediately deduct the full cost of certain investments, and maintaining the rules that were in effect in 2024 for several business tax provisions."[15] CBO concluded, "Primary deficits over the first decade of the projection period (fiscal years 2025 to 2034) are about $4 trillion larger."[16] As a result, we can assume the impact of that tax increase in CBO's "current law" projection reduces the cumulative deficit for 2025-2034 by approximately $4 trillion.

The Senate's use of "current policy" does not make the $4 trillion in assumed revenue gain from the scheduled tax increase magically disappear. If CBO had scored the OBBB against a "current policy" baseline, they would have started with a 10-year deficit of $25.1 trillion instead of $21.1 trillion, and CBO's score would have been adjusted $4 trillion lower (-$1 trillion deficit effect instead of +$3.0 trillion). As a result, final cumulative 10-year deficits would have been the same as detailed below.

OBBB Score Comparisons: Accurate Versus Inaccurate

OBBB Score Compared To:	**Accurate Analysis Current Law**	**Accurate Analysis Current Policy**	**Inaccurate Analysis "Mixed Score"**
CBO Projected Deficit	$21.1 trillion	$25.1 trillion	$21.1 trillion
CBO Score for OBBB (Change in Deficit)	+ $3.0 trillion	- $1.0 trillion	- $1.0 trillion
10-year Deficit after OBBB	$24.1 trillion	$24.1 trillion	$20.1 trillion

The first two methods above are accurate and produce the same result, a $24.1 trillion, 10-year cumulative deficit after the extension of TCJA. What some people are doing is mixing a "current law" projection with a "current policy" score to produce an inaccurate analysis of the 10-year cumulative deficit: $20.1 trillion.

On June 7, 2025, the White House released a memo titled, "The One Big Beautiful Bill Improves the Fiscal Trajectory."[17] On one hand, the memo is clarifying because some of the numbers included can now be used commonly in the ongoing discussion. Unfortunately, they continue to use "current policy" versus "current law" in a misleading fashion.

The White House memo starts by adjusting CBO's "current law" baseline 10-year cumulative deficit of $21.1 trillion by adding $3.8 trillion to account for the extension of TCJA and $0.6 trillion for an increase in debt service.[18] This results in a "current policy" baseline deficit of $25.5 trillion, similar to the $25.1 trillion used above had CBO scored OBBB against the current policy baseline (the main difference is the added debt service).[19] The memo then goes on to detail nine additional items impacting the baseline deficit, totaling $6.7 trillion to $6.9 trillion. This total includes deficit reductions of $2.8 trillion, $1.6 trillion, and $0.8 trillion for tariff revenue, discretionary spending, and debt servicing, respectively.[20] The description used for this total is "Deficit Reduction from Trump Policies."[21] This is where the memo's analysis is misleading.

CBO's scores compare all changes to its "current law" baseline deficit of $21.1 trillion.[22] The White House's $6.7 trillion to $6.9 trillion deficit reduction is in relation to the "current policy" baseline it calculated to be $25.5 trillion. Applied to the "current policy" baseline deficit of $25.5 trillion, those reductions would result in a best-case revised 10-year deficit of $18.6 trillion and would score as a $2.5 trillion reduction (not $6.7 to $6.9 trillion) to the "current law" baseline used by CBO.

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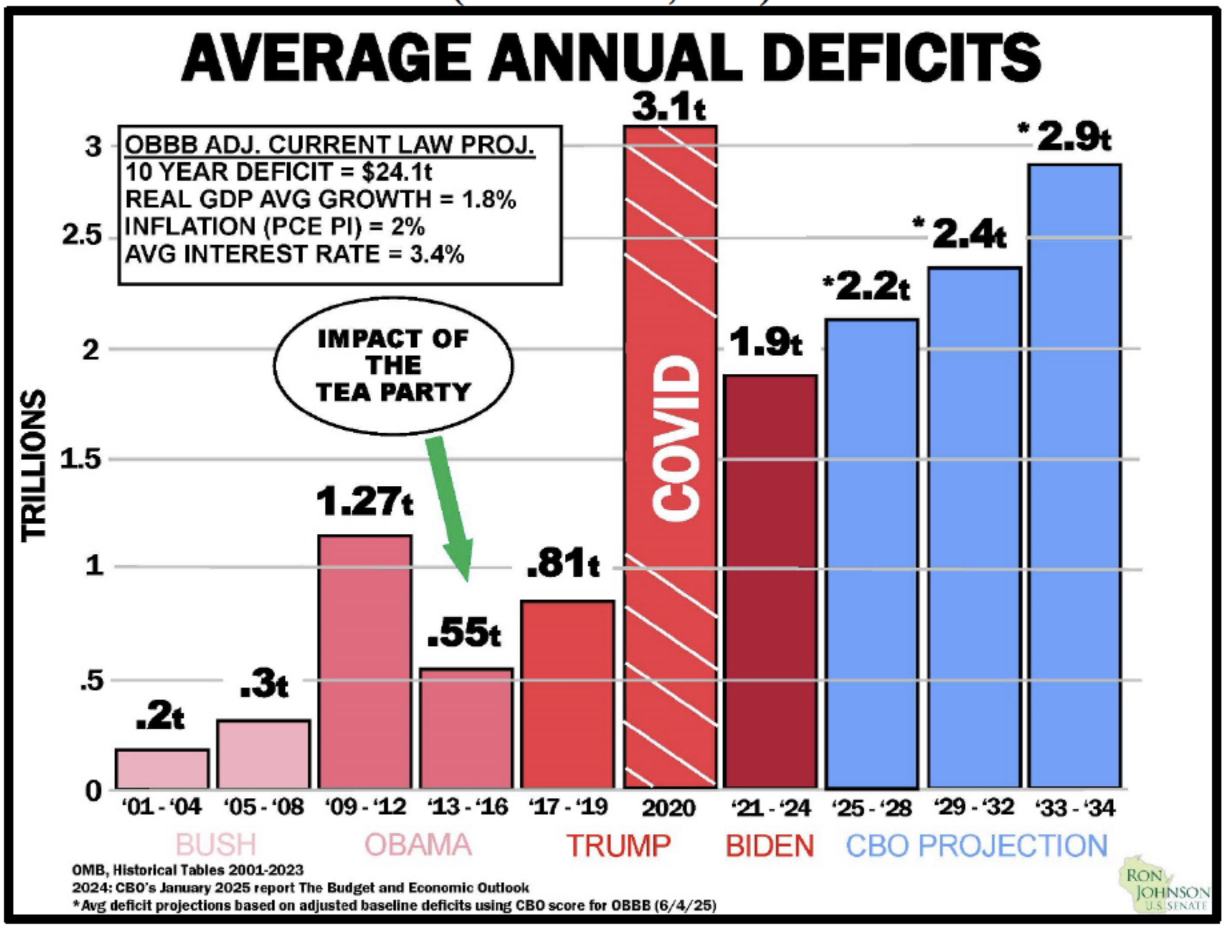
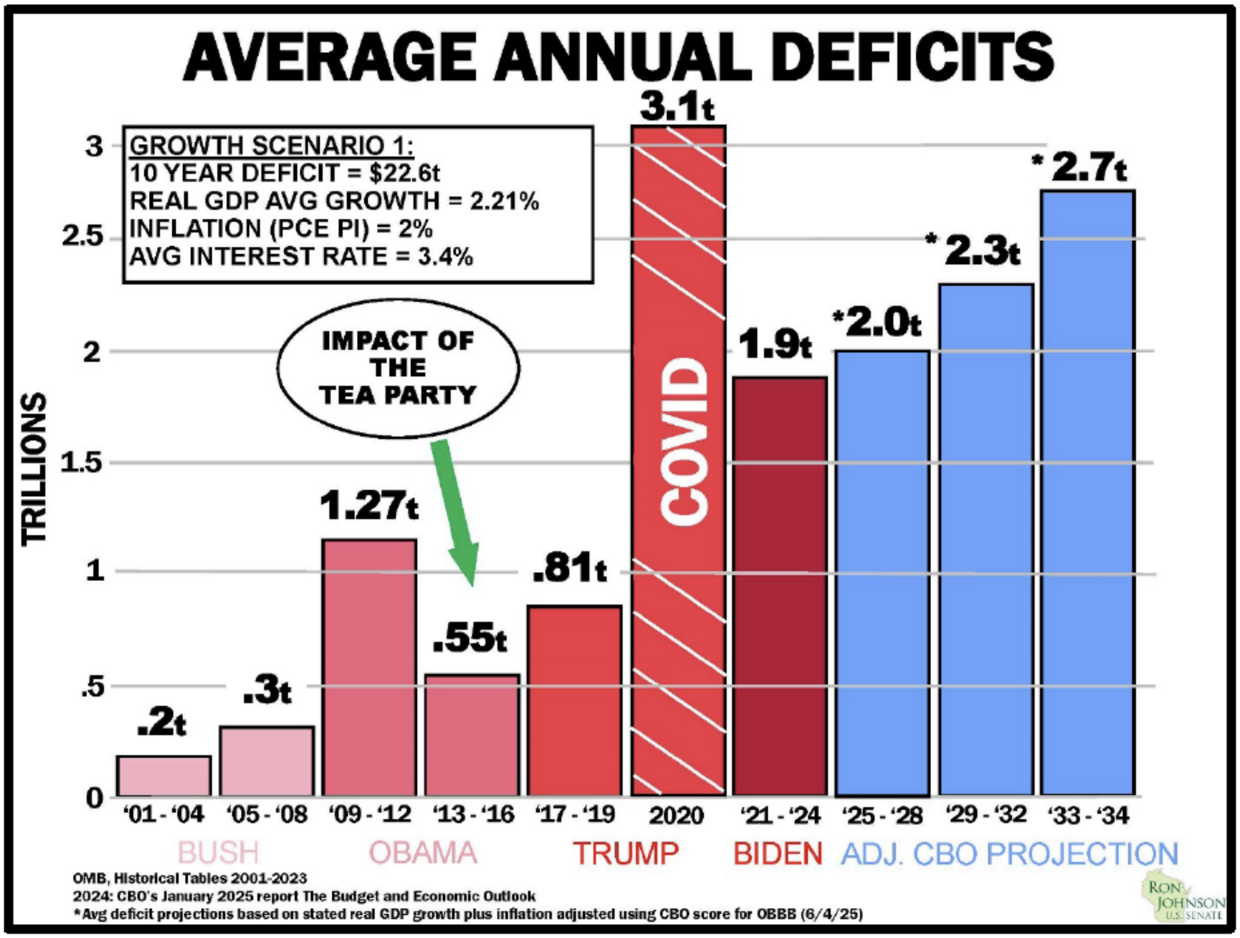
CBO January 2025 Baseline Budgeted Deficits
Adjusted by CBO Score of OBBB
(dated June 4, 2025)



10-year (2025-2034) Cumulative Projected Deficit: <u>$24.1 trillion</u>
Reflects extension of TCJA and revenue as percent of GDP = 17.1%

The chart above shows the impact of the OBBB on CBO's January 2025 10-year projected deficit based on "current law," which assumed approximately $4 trillion additional revenue from the scheduled tax increase.[23] As demonstrated above, regardless of which baseline is used, the result is the same. CBO is now projecting the cumulative deficit (FY2025-FY2034) will increase from $21.1 trillion to $24.1 trillion.[24] The upward slope of average annual deficits increases after the OBBB, from a range of $1.8 trillion to $2.6 trillion per year in the baseline projection, to a higher starting point and range of $2.2 trillion to $2.9 trillion average annual deficits after OBBB. Clearly, the OBBB does <u>not</u> bend the deficit trajectory downward. It adds $3 trillion to the cumulative deficit and continues the upward trajectory on the same unsustainable path.

CBO January 2025 Baseline Budgeted Deficits
Adjusted by CBO Score of OBBB
Growth Scenario 1: Real GDP Growth of 2.21%



10-year (2025-2034) Cumulative Projected Deficit: $22.6 trillion

A legitimate criticism of CBO's 10-year projection and OBBB score is that they both assume only 1.8% annual GDP growth.[25] The actual 25-year average growth in real GDP for the period 2000-2024 is 2.21% (see table below).[26] The chart above presents the first of four scenarios and shows the impact of using the higher real GDP growth rate (2.21%) instead of the 1.8% rate CBO used. This sensitivity analysis uses only the impact on revenue at 17.1% of GDP based on the higher growth rate. It does not account for the lower net interest expense on lower debt levels that result from the increased revenue. Although lower than the cumulative amount and trajectory of deficits projected based on OBBB's score, 10-year cumulative deficits in this scenario still exceed CBO's January 2025 baseline ($22.6 trillion versus $21.1 trillion) and continue to increase over time.

Real GDP Average Growth

Historic Real GDP Average Growth	Rate
1950-59	4.25%
1960-69	4.53%
1970-79	3.23%
1980-89	3.12%
1990-99	3.23%
2000-09	1.92%
2010-19	2.40%
2020-24	2.42%

21st Century Real GDP Average Growth	Rate
2000-24	2.21%

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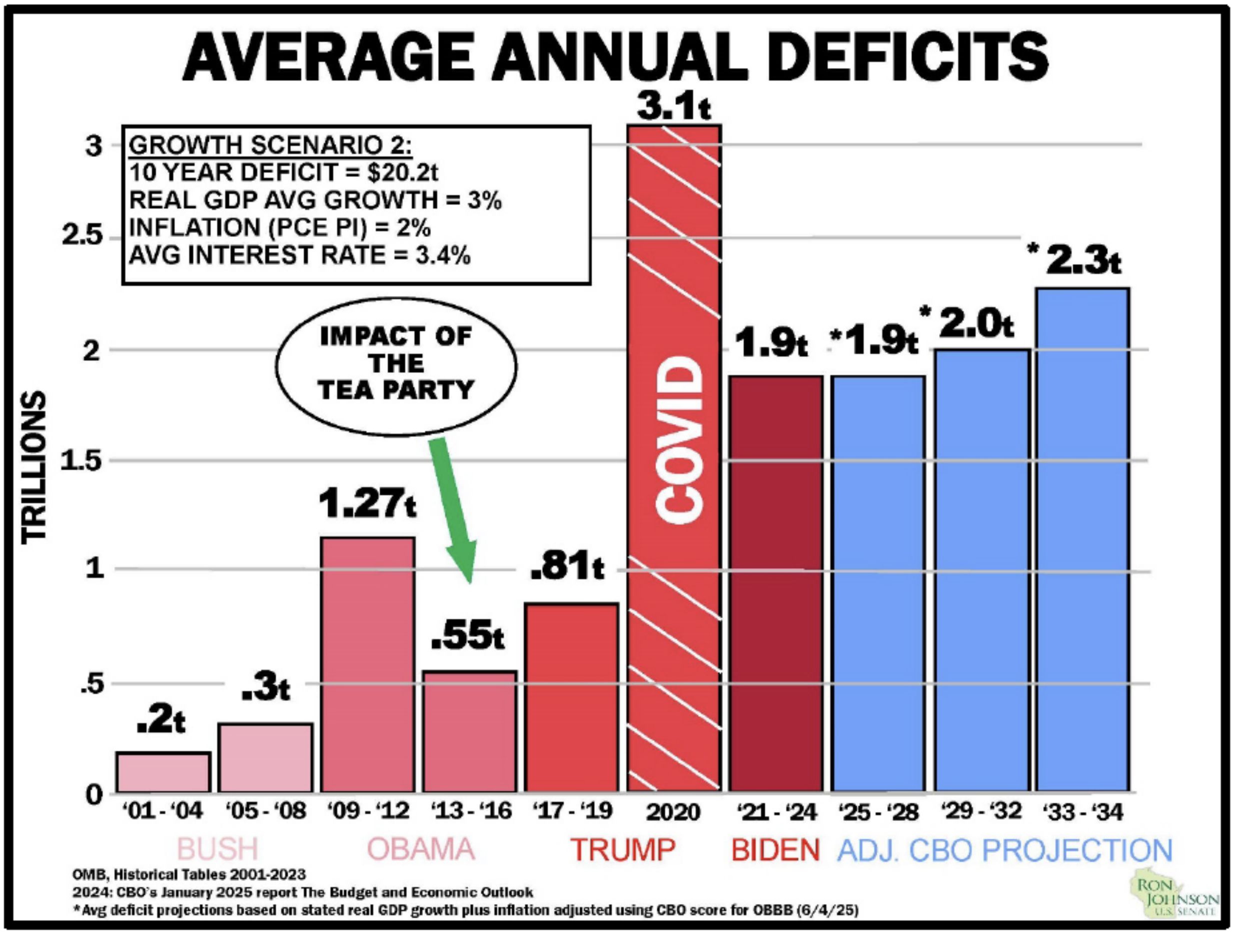
CBO January 2025 Baseline Budgeted Deficits
Adjusted by CBO Score of OBBB
Growth Scenario 2: Real GDP Growth of 3%



10-year (2025-2034) Cumulative Projected Deficit: $20.2 trillion

Scenario 2 in the chart above shows the impact of using a real GDP growth rate of 3% instead of the 1.8% rate CBO used. This sensitivity analysis is calculated using the same method as used in Scenario 1 (2.21% real GDP growth). Here, 3% real GDP growth produces a somewhat better than breakeven scenario with a 10-year cumulative deficit of $20.2 trillion versus the $21.1 trillion baseline. Although the 2025-2028 average deficit starts higher at $1.9 trillion than the $1.8 trillion baseline, the average deficits are flatter in 2029-2034 than the baseline.

Achieving 3% growth by 2028 is one of Treasury Secretary Scott Bessent's three key economic goals that he laid out at the start of this administration.[27] It is a worthy goal, and economic growth is a key component to restoring fiscal sanity. But as the chart above shows, absent spending reductions, 3% growth only begins to flatten the deficit curve; it does not bend it down on a trajectory toward balancing the budget. As Secretary Bessent stated in his confirmation hearing, "[T]he United States does not have a revenue problem. We have a spending problem."[28]

The second of Secretary Bessent's three economic goals for 2028 is to limit the annual deficit to 3% of GDP.[29] CBO projects GDP to reach $33.8 trillion by 2028.[30] A deficit that is 3% of $33.8 trillion would equal $1 trillion—$1.4 trillion less than the approximately $2.4 trillion deficit CBO projects for FY2028 in its score of OBBB.[31] If CBO's FY2028 deficit projection of $2.4 trillion under OBBB is correct, GDP would have to reach $80 trillion to meet the 3% of GDP goal. It should be obvious that deficit reduction that focuses on returning to a reasonable pre-pandemic level of spending provides the best path to achieving this goal.

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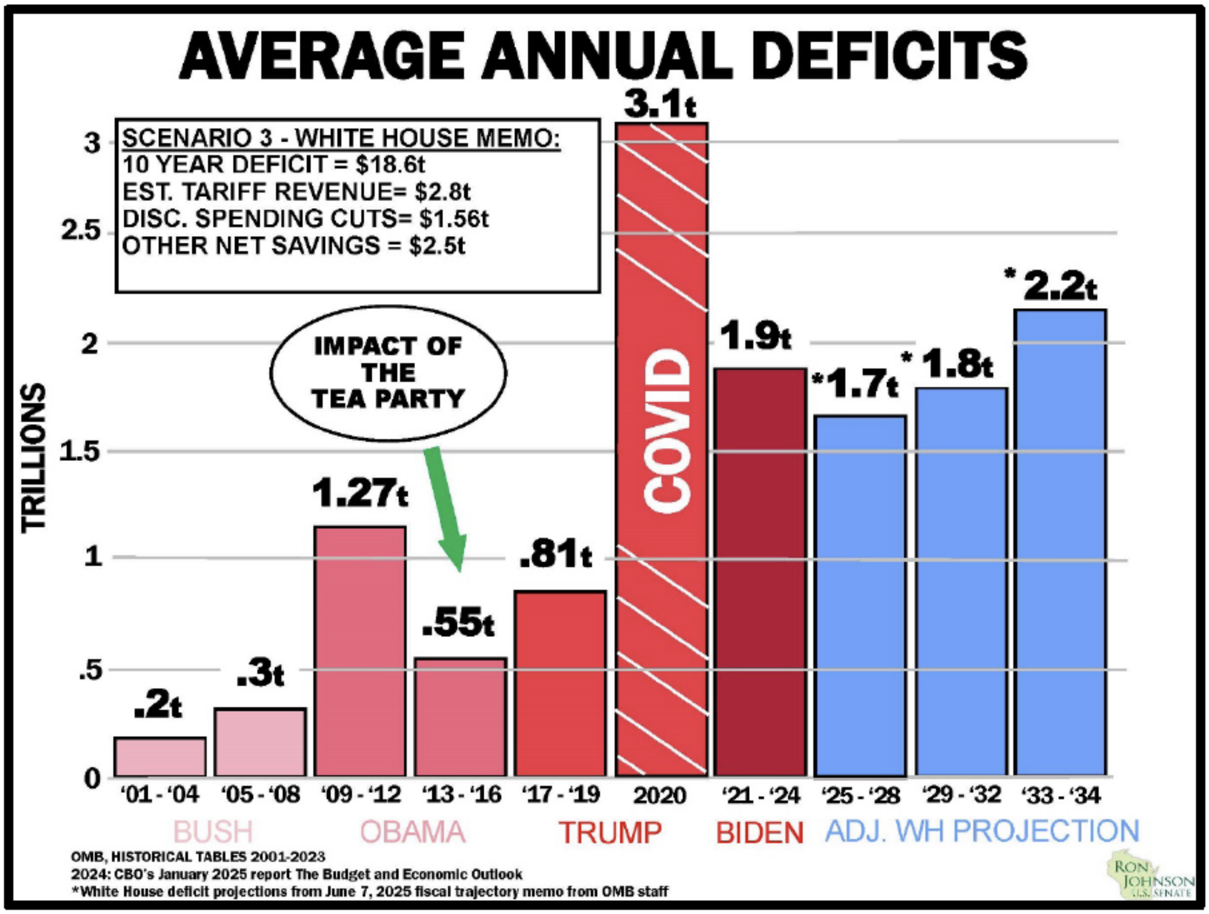
CBO January 2025 Baseline Budgeted Deficits
Adjusted by White House Memo
Scenario 3: White House Memo



10-year (2025-2034) Cumulative Projected Deficit: <u>$18.6 trillion</u>

As discussed above, on June 7, 2025, the White House released a memo titled, "The One Big Beautiful Bill Improves the Fiscal Trajectory."[32] In it, they recalculate the 10-year (2025-2034) projected deficit from $21.1 trillion to $25.5 trillion to reflect the impact of using a "current policy" baseline. It goes on to describe and predict reductions to that deficit figure somewhere between $6.7 trillion and $6.9 trillion. Using the larger reduction number, this scenario yields the 10-year deficit of $18.6 trillion as noted above. To create this scenario, the $6.9 trillion deficit reduction was spread on a pro rata basis using the annual deficit amounts projected by CBO in its score of OBBB and depicted in the above chart on page 10 titled, "CBO January 2025 Baseline Budgeted Deficits – Adjusted by CBO Score of OBBB (dated June 4, 2025)."

The most notable differences in the White House projection versus CBO are the inclusion of $2.8 trillion in tariff revenue and $1.6 trillion in discretionary spending reductions. In terms of discretionary spending, the memo describes "significant discretionary spending cuts" and "reversing Biden administration policies that expand welfare benefits through regulations." Other than those descriptions, there is no additional explanation on how the discretionary saving will be achieved and codified. It is hard to imagine Democrats agreeing to spending reductions through the appropriations process, leaving regulatory changes, rescissions, funding restraint through continuing resolutions, and possibly impoundment (which will be challenged in the courts) as the only methods available to reduce discretionary spending.

Tariffs are already being challenged in the courts, and if the administration loses these battles, it is doubtful Congress would act to keep sweeping tariffs in place. As a result, the $2.8 trillion in projected tariff revenue is highly problematic. Across the board tariffs also represent a recessionary risk, as America learned the hard way in the 1930s with the Smoot-Hawley Tariff Act.

As Milton Friedman said in an April 1987 op-ed for the *Wall Street Journal*, though blaming Smoot-Hawley for the Great Depression "gives it too much 'credit'…it did impose heavy costs on the American consumer, did deepen the Depression, and did usher in a decade of 'beggar-thy-neighbor policies' around the world."[33]

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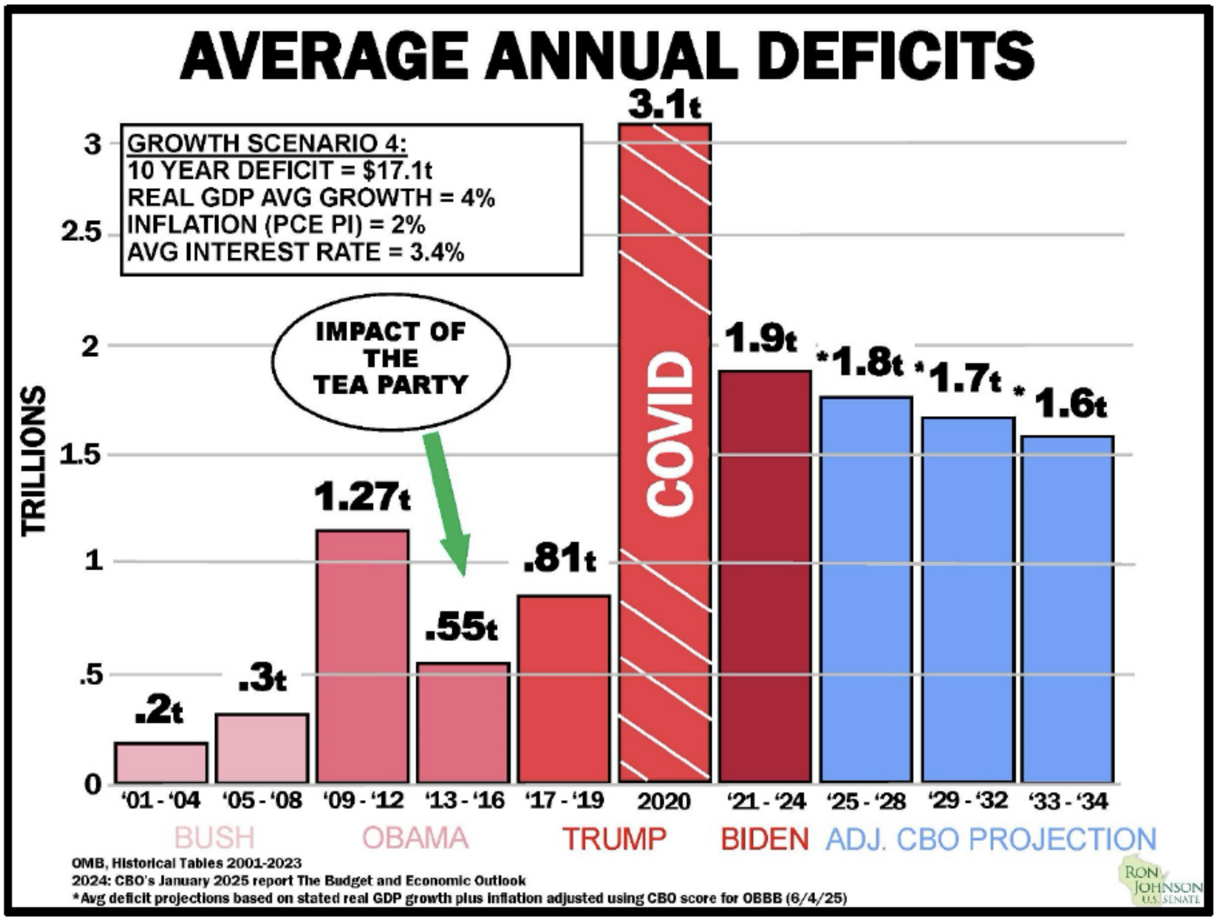
CBO January 2025 Baseline Budgeted Deficits
Adjusted by CBO Score of OBBB
Growth Scenario 4: Real GDP Growth of 4%



10-year (2025-2034) Cumulative Projected Deficit: $17.1 trillion

Achieving 4% growth, if even possible, would reduce the baseline cumulative deficit by $4.0 trillion and start bending the deficit trajectory down from $1.8 trillion average annual deficits in FY2025-2028 to $1.6 trillion average deficits in FY2033-2034. Unfortunately, the last decade experiencing real GDP growth of 4% or higher was 1960-1969.[34] The thirty-year period following the 1960s (1970-1999) experienced average real GDP growth of 3.2%, and the average for the first 25 years of this century has declined to only 2.21%.[35]

Economists Carmen Reinhart and Kenneth Rogoff offer an explanation for this declining GDP growth. In their 2009 book titled, "This Time Is Different: Eight Centuries of Financial Folly," Reinhart and Rogoff conducted a historical macroeconomic analysis of economic crises that occurred in dozens of countries over hundreds of years. They found historical patterns preceding financial crises, including an accumulation of public debt.[36] In their 2010 article, *Growth in a Time of Debt,* Reinhart and Rogoff found, "[A]cross both advanced countries and emerging markets, high debt/GDP levels (90 percent and above) are associated with notably lower growth outcomes."[37]

III. Other Considerations

a. Debt Effects on Growth

Debt Held by the Public as Percentage of GDP (in billions $)

Year	CBO Projected GDP	CBO Projected Public Debt	% GDP	CBO Projected Deficit	Total Debt	% GDP
Before OBBB						
2024	28,828	28,199	97.8%	1,832	36,200	125.6%
2025	30,136	30,103	99.9%	1,865	38,732	128.5%
2026	31,341	31,883	101.7%	1,713	38,580	123.1%
2027	32,538	33,636	103.4%	1,687	40,267	123.8%
2028	33,765	35,601	105.4%	1,911	42,178	124.9%
2029	35,047	37,581	107.2%	1,938	44,116	125.9%
2030	36,394	39,748	109.2%	2,140	46,256	127.1%
2031	37,792	41,992	111.1%	2,233	48,489	128.3%
2032	39,252	44,372	113.0%	2,371	50,860	129.6%
2033	40,768	46,985	115.2%	2,637	53,497	131.2%
2034	42,330	49,556	117.1%	2,597	56,094	132.5%
2035	43,936	52,056	118.5%	2,531	58,625	133.4%
Total	373,163			21,758		
After OBBB						
Year	**CBO Projected GDP**	**CBO Projected Public Debt**	**% GDP**	**CBO Projected Deficit**	**Total Debt**	**% GDP**
2025	30,136	29,956	99.4%	1,757	38,624	128.2%
2026	31,341	32,166	102.6%	2,210	40,834	130.3%
2027	32,538	34,419	105.8%	2,253	43,087	132.4%
2028	33,765	36,853	109.1%	2,434	45,521	134.8%
2029	35,047	39,219	111.9%	2,366	47,887	136.6%
2030	36,394	41,580	114.2%	2,361	50,248	138.1%
2031	37,792	43,953	116.3%	2,373	52,621	139.2%
2032	39,252	46,501	118.5%	2,548	55,169	140.6%
2033	40,768	49,386	121.1%	2,885	58,054	142.4%
2034	42,330	52,258	123.5%	2,872	60,926	143.9%
2035	43,936	55,130	125.5%	2,872	63,798	145.2%
Total	373,163			24,059		

As the table above shows, U.S. debt held by the public as a percentage of GDP currently hovers close to 100%, and total U.S. federal debt to GDP exceeds 125%. Both ratios exceed Reinhart and Rogoff's warning threshold of 90% associated with "notably lower" growth.[38] With decade-average real GDP growth already having declined from 4.5% in the 1960s to 3.2% over the next 30 years, and further to 2.21% over the last 25 years, how realistic is it to assume maintaining even 3% growth over the next decade?

Reinhart and Rogoff's warning threshold of 90% applies to "external debt" as a percentage of GDP,[39] which would approximate debt held by the public. The nearly $3 trillion added to the debt by the OBBB would increase that ratio to 125% of GDP by 2034. This means growing our way out of this debt crisis is becoming less and less likely, further diminishing the prospects that new tax cuts—not specifically and well designed for economic growth—will pay for themselves.

b. Did the Tax Cuts and Jobs Act pay for itself? Answer: Probably not.

A brief analysis of actual revenue versus projected revenue after 2017's TCJA will help illustrate this point. Below is a table detailing actual revenue,[40] CBO's April 2018 post-TCJA downward revenue revision,[41] and revenue inflated annually using the Consumer Price Index for All Urban Consumers (CPI-U).[42]

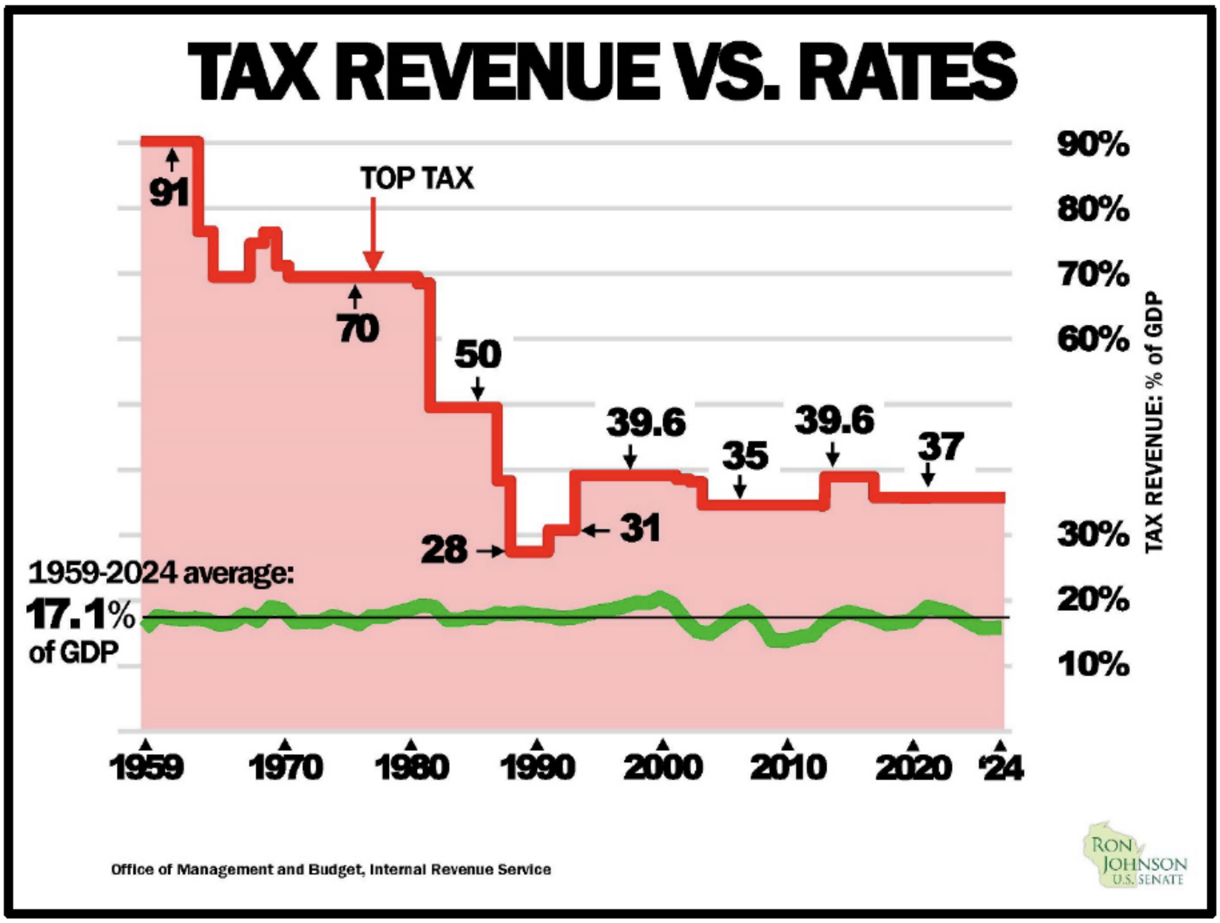
Actual Revenue Compared to Annually Inflated Revenue (in billions $)

Fiscal Year	GDP	Actual Revenue	% GDP	Post-TCJA Rev. April '18	Variance	Deficit	9/30 CPI	Annually Inflated Revenue
2017	19,288	3,316	17.2%	3,316	0	-666	246.819	3,316
2018	20,336	3,330	16.4%	3,339	-9	-779	252.439	3,392
2019	21,216	3,463	16.3%	3,490	-27	-984	256.759	3,387
2020	21,323	3,421	16.0%	3,680	-259	-3,133	260.280	3,510
2021	23,594	4,047	17.2%	3,829	218	-2,775	274.310	3,605
2022	25,744	4,897	19.0%	4,016	881	-1,376	296.808	4,379
2023	27,721	4,439	16.0%	4,232	207	-1,695	307.789	5,078
2024	28,766	4,918	17.1%	4,448	470	-1,832	315.301	4,547
2018-24		28,515		27,034	1,481			27,899
Difference				1,481				616

Actual revenue in the first two years of TCJA's implementation (2018 and 2019) fell $36 billion short of CBO's April 2018 post-TCJA downward revision. The 2020 pandemic recession, with the resulting massive deficit spending and forty-year high inflation, rendered the remaining projections irrelevant. But we can calculate the impact inflation had on revenue by annually adjusting the previous year's actual revenue by the increase in CPI-U and using those numbers for comparison. Doing so yields 7-year (2018-2024) total inflation-adjusted revenue of $27,899 billion versus actual 7-year revenue of $28,515 billion, a $616 billion difference.

Because 7-year actual revenue exceeded CBO's April 2018 downward revision by $1,481 billion, and CBO scored the TCJA as reducing revenue by $1,421 billion over the same period,[43] that evidence is used to claim the TCJA paid for itself. But when you consider that $865 billion ($27,899 minus $27,034) can be attributed to inflation, and at least some of the remaining $616 billion can be attributed to the economic impact of massive deficit spending, the claim that the TCJA paid for itself in seven years is hard to support.

What should be noted, however, is that seven years after the enactment of TCJA, revenue as a percentage of GDP is 17.1%, back to where it was before the TCJA tax cuts were implemented. This is further proof that no matter how hard liberals try to punish success with high top marginal tax rates, and regardless of what those top rates are, the federal government, over the last 50 years, extracted approximately 17.1% of GDP in revenue on average. The chart below illustrates this reality.



The lessons for policymakers should be obvious. For liberals, stop trying to grow government by punishing success: it simply does not work. For conservatives, tax cuts do not automatically pay for themselves. Some will, others probably won't. A simple and rational tax system based on common sense principles—such as income is income, wherewithal to pay, and low rates with a broad base—would produce the most economic benefits. We are simply not smart enough to efficiently and effectively engineer our society and economy through tax policy.

With that in mind, a thorough review and debate regarding OBBB's tax provisions is warranted. Back in 2017, we should have also focused on our spending problem and enacted real spending cuts to pay for making all of TCJA permanent. Had we done so, the business provisions would not have expired, and we would not be facing a massive automatic tax increase in 2026 or having this confusing debate over "current policy" versus "current law." Let's not make the same mistake again. Any tax provision worth including should be worth making permanent. Any new tax cuts need to stand a good chance of paying for themselves through economic growth, or at least be justified by simplifying and rationalizing our tax code.

The tax provision with the greatest impact on OBBB's score (approx. $4 trillion)[44] is the extension of what remains of the TCJA. This was a stimulative tax cut in 2018, but extending it would simply maintain the status quo in 2026. It is hard to see how maintaining status quo tax rates would lead to explosive growth. Allowing tax rates to rise could certainly harm economic growth and not result in the revenue CBO projects in its "current law" baseline. But that would indicate CBO's baseline is a rosy scenario, with the cumulative deficit increasing further if those revenue projections are not met.

c. *Interest Rate Risk*

In addition to the uncertainty surrounding economic growth and the revenue it will or will not provide, significant deficit risk exists relative to the interest rates that will be paid on our growing debt. The average annual interest rate the federal government has paid on its debt over the last 50 years is 5.03%.[45] A simple analysis using CBO's January 2025 Budget and Economic Outlook, and dividing yearly net interest by the average of beginning and ending debt held by the public, yields a 10-year average annual interest rate of 3.4% (see below).[46]

Average Annual Interest Rate on Debt Held by the Public (in billions $)

Year	Debt Held by Public	Net Interest	Interest Rate
2025	30,103	952	3.23%
2026	31,883	1,010	3.26%
2027	33,636	1,075	3.28%
2028	35,601	1,164	3.36%
2029	37,581	1,247	3.41%
2030	39,748	1,328	3.43%
2031	41,992	1,417	3.47%
2032	44,372	1,514	3.51%
2033	46,985	1,605	3.51%
2034	49,556	1,694	3.51%
		Average	***3.40%***

As global creditors watch Moody's downgrade of the U.S. debt rating, due to no significant action being taken to bend the deficit trajectory down,[47] interest rates are continuing to climb.[48] The table below illustrates this disconcerting trend:

U.S. Treasury Par Yield Curve Rates

Date	1-Year	2-Year	5-Year	10-Year	30-Year
Dec 2020	0.10%	0.13%	0.36%	0.93%	1.65%
Dec 2021	0.39%	0.73%	1.26%	1.52%	1.90%
Dec 2022	4.73%	4.41%	3.99%	3.88%	3.97%
Dec 2023	4.79%	4.23%	3.84%	3.88%	4.03%
Dec 2024	4.16%	4.25%	4.38%	4.58%	4.78%
May 2025	4.11%	3.89%	3.96%	4.41%	4.92%

Credit rate risk will vary based on how much progress is made in bending the deficit trajectory downward. Based on the table on the previous page titled "Average Annual Interest Rate of Debt Held by the Public," for every 1% increase in average rates above the projected 3.4%, 10-year cumulative net interest will increase by approximately $4 trillion. Based on Reinhart and Rogoff's hypothesis on increasing debt levels limiting growth, it is hard to imagine better than 3% average growth sustained over the next decade. With that in mind, below are three interest risk scenarios based on growth rates modeled above.

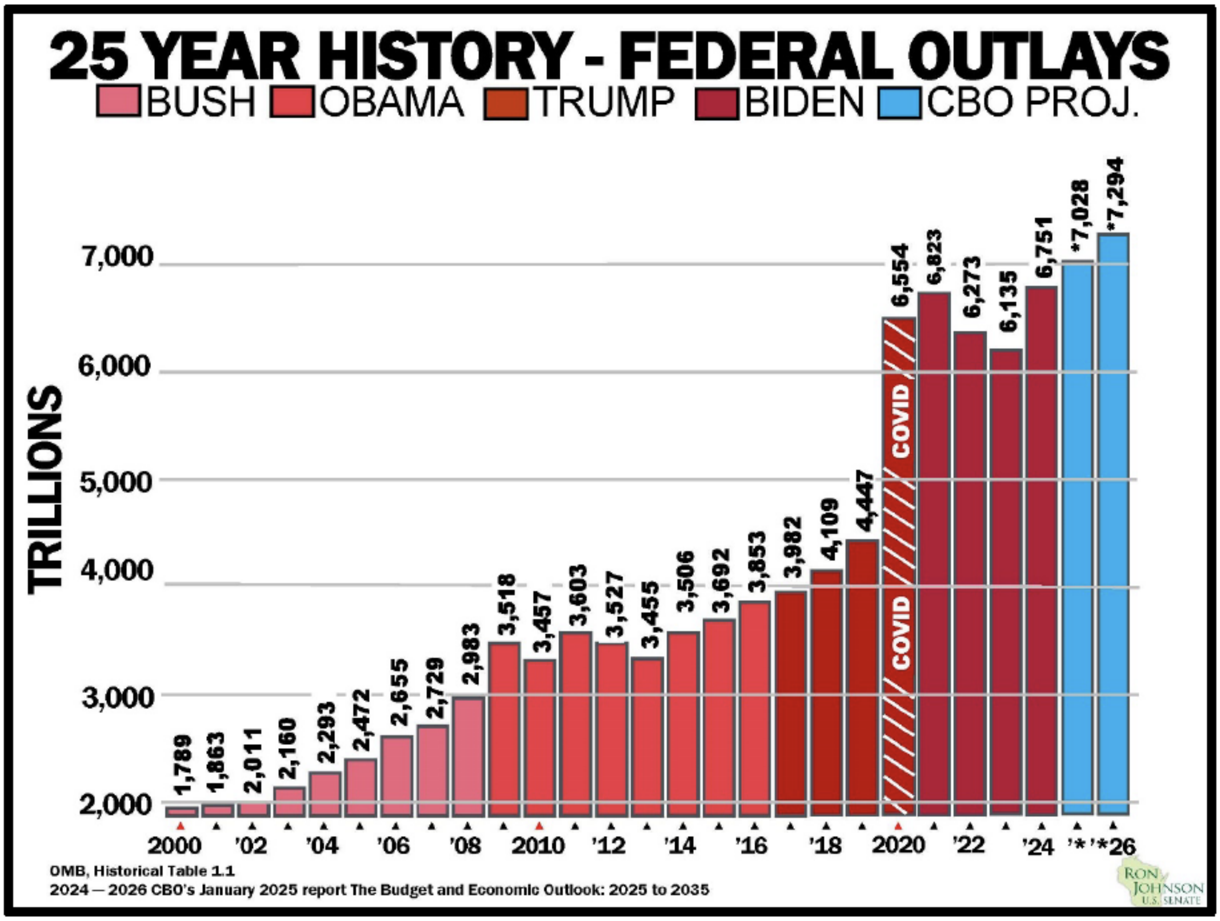
Interest Rate Risk for Deficit Scenarios

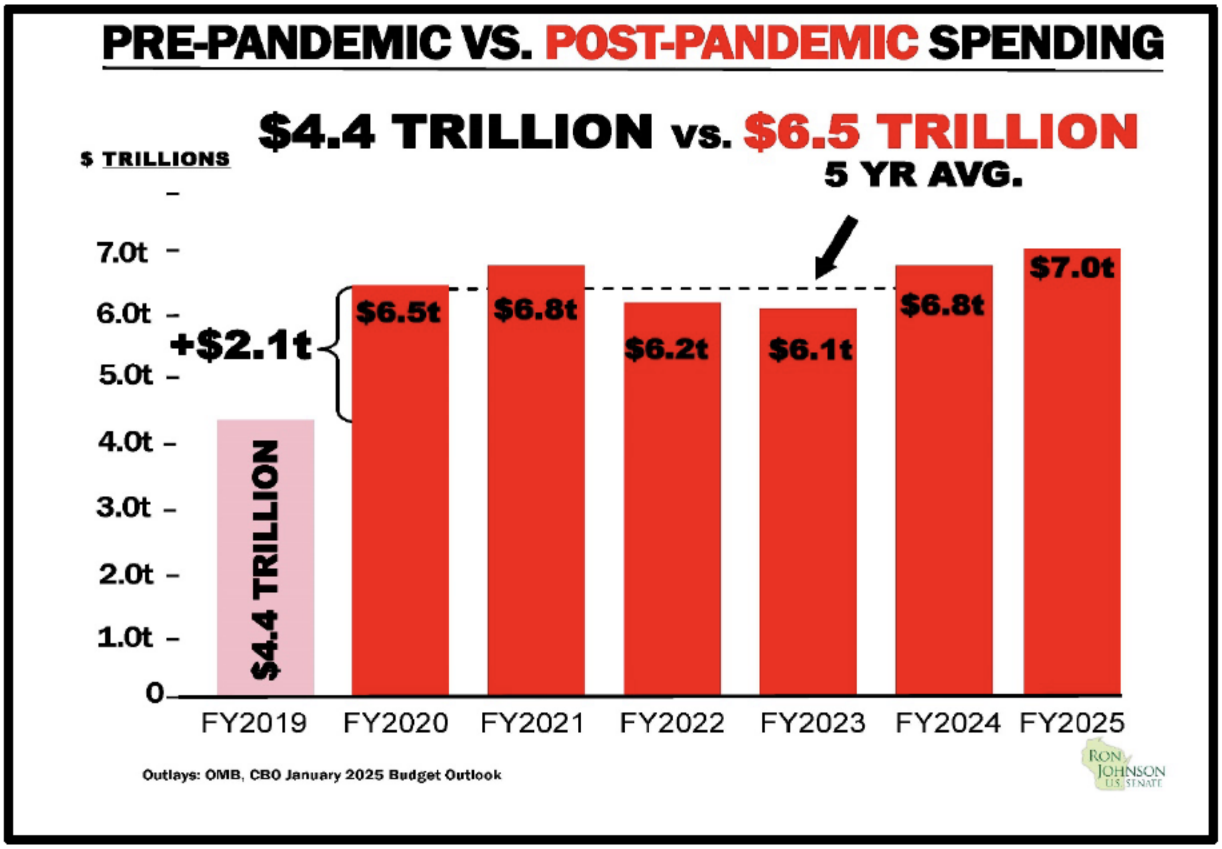
	1.8% Growth	2.21% Growth	3.0% Growth
10-year Deficit (2025-2034)	$24.1 trillion	$22.6 trillion	$20.2 trillion
Interest Rate Risk (1%, 0.5%, 0.25%)	$4.0 trillion	$2.0 trillion	$1.0 trillion
Adjusted 10-year Deficit	$28.1 trillion	$24.6 trillion	$21.2 trillion

No one can accurately predict the future, and when it comes to the federal budget, revenue and interest costs are probably the most difficult to predict. None of the above scenarios are unreasonably pessimistic, and none of them show a deficit less than CBO's January 2025 Budget Outlook before OBBB. But the first two scenarios do show a significant increase in the projected deficit. None of the scenarios specifically include the risk of recession, although the 1.8% and 2.21% reflect decade averages where recession or near-recession years lowered those averages.

III. Discussion

Based on the above facts, figures, and sensitivity analysis, it is hard to see the OBBB improving our dire fiscal situation. Our current fiscal reality has primarily been driven by out-of-control spending for decades, but in particular, the unprecedented increase during and since the pandemic. The charts below illustrate the out-of-control spending.





Other than during World War II, the 58% increase in spending we've experienced over the last six years is unprecedented.[49] In 1941, total outlays were $13.7 billion and 11.7% of GDP.[50] Outlays peaked in 1945 at $92.7 billion and 41% of GDP. That was a 577% increase, ten times larger than what we experienced with the pandemic.[51]

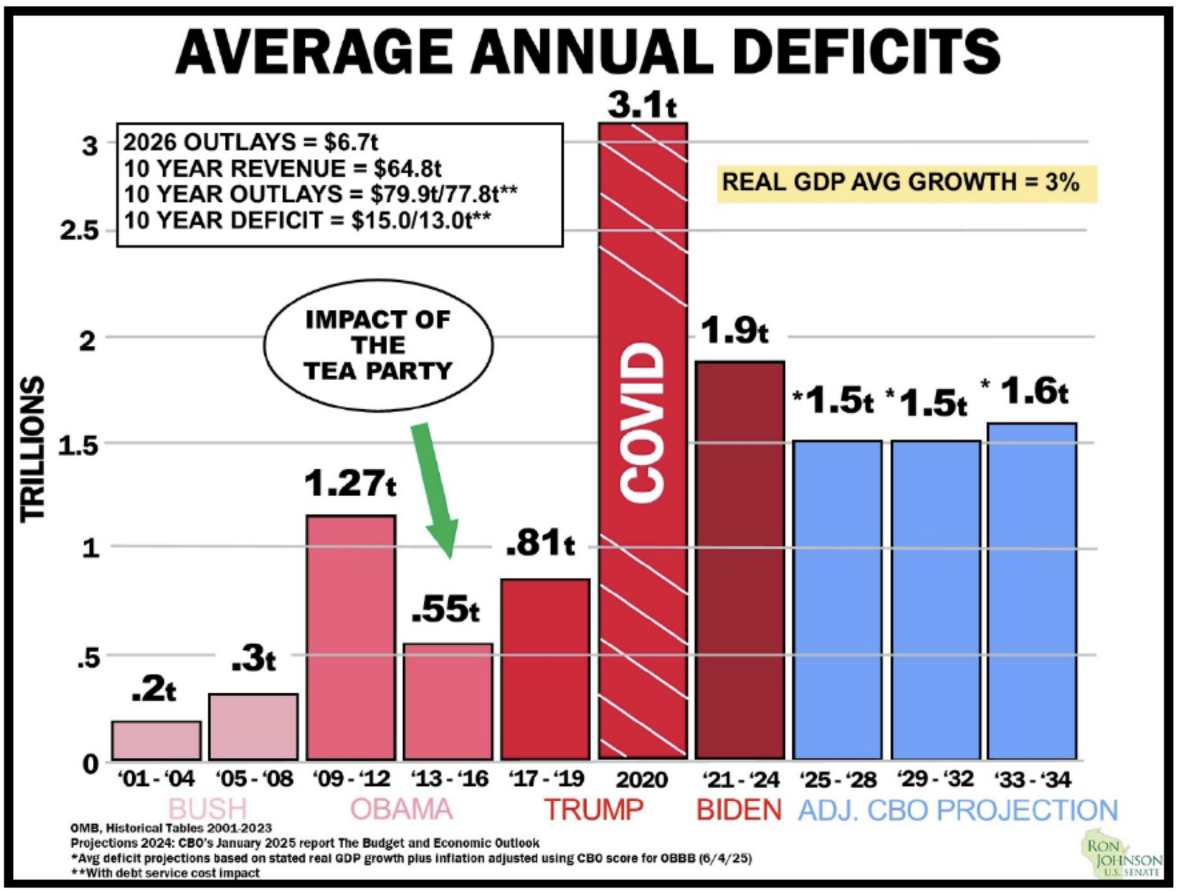
Fortunately, we were governed by the Greatest Generation back then. Congress and President Truman understood World War II was an extraordinary event and that spending had to return to a reasonable pre-war level. By 1948, federal outlays were $29.8 billion and back to 11.4% of GDP.[52] So we know shrinking government is possible. The only question is whether or not our generation will rise to the occasion and stop the immoral mortgaging of our children's and grandchildren's future.

Responsible leaders would have returned FY2021 spending and deficit levels to reasonable pre-pandemic levels under $5 trillion and $1 trillion, respectively. Unfortunately, President Biden and Congressional Democrats were in charge and continued the unprecedented and reckless spending spree. Had they been responsible, we probably would not have experienced forty-year high inflation levels and the concurrent devaluation of the dollar (a dollar held in 2019 is now only worth 80 cents).[53]

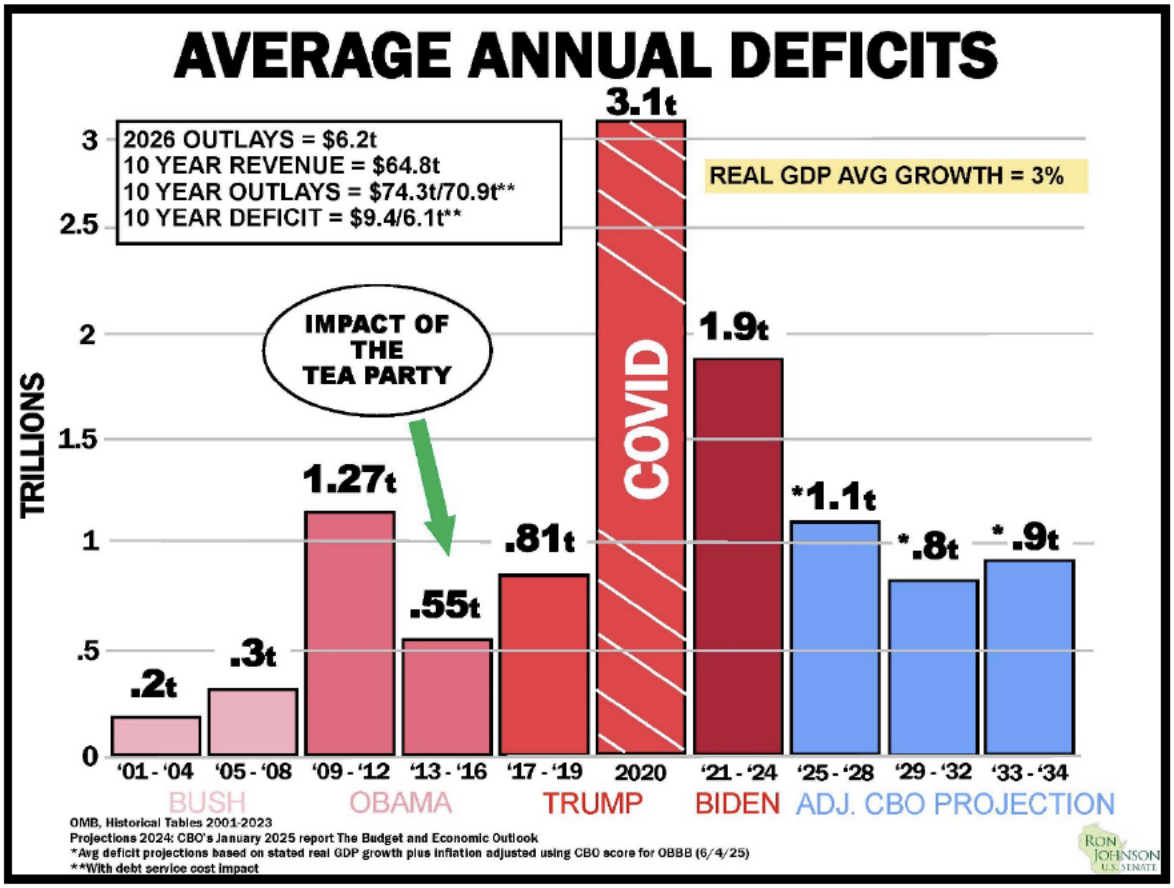
No amount of wishful thinking or attacking the messengers will refute the often-repeated truism, "We don't have a revenue problem, we have a spending problem." It starts with the fact Congress has never had any process that has worked to control spending. Congress does not have a balanced budget requirement, the Appropriations Committees that were established to rein in the spending by authorizing committees[54] did not work, and the Budget Act of 1974,[55] Simpson-Bowles,[56] and the Budget Control Act[57] ended up not working either.

a. *Path Forward*

Senator Johnson has proposed a number of options for returning to a more reasonable pre-pandemic level of spending using actual outlays from 1998, 2014, and 2019 under President Clinton, President Obama, and President Trump, respectively.[58] The federal government was not spending too little in any of those years. These options exempt Social Security, Medicare, and interest on the debt by using FY2025 projected spending on those items and increasing all other spending by population growth and inflation. This yields pre-pandemic baseline budgets ranging from $5.5 to $6.5 trillion.



One pre-pandemic spending option for FY2025 uses FY2019 actual outlays—adjusted as described above—yielding an amount of $6.5 trillion. The above chart represents a scenario in which future year spending (2026-2034) has been reset at a similar discount—7.5% below the $7.0 trillion CBO projected outlays for FY2025. The model uses 92.5% of CBO's projected outlays for the remaining 9 years (FY2026-FY2034), resulting in 10-year total outlays of $79.9 trillion and a 10-year deficit of $15.0 trillion before accounting for lower debt servicing costs of approximately $2.1 trillion over that same period. Although a significant improvement over previously shown scenarios, it still results in a deficit exceeding $1 trillion in FY2034. In order to have any hope of achieving a balanced budget by the end of 10 years, spending will have to be lower.



Another pre-pandemic spending option for FY2025 uses President Trump's FY2021 Budget, with projected outlays for FY2025—also adjusted as described above—yielding an amount of $6.0 trillion. This is the approximate figure the Senate used in its first FY2025 budget resolution.[59] The above chart represents a scenario in which future year spending (2026-2034) has been reset at a similar discount—14.6% below the $7.0 trillion CBO projected outlays for FY2025. The model uses 85.4% of CBO's projected outlays for the remaining 9 years (FY2026-FY2034), resulting in 10-year total outlays of $74.3 trillion and a 10-year deficit of $9.4 trillion before accounting for lower debt servicing costs of approximately $3.3 trillion over that same period. Factoring in lower debt servicing costs, this scenario could potentially produce a balanced budget by 2034.

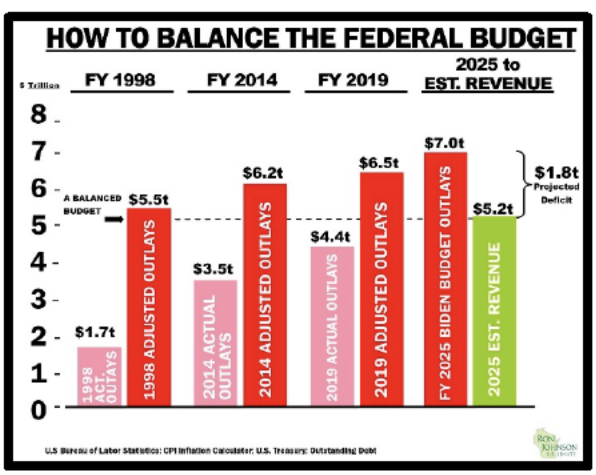
The table below summarizes 10-year (2025-2034) total revenue, outlays, and deficits for CBO's January 2025 baseline, CBO's score of OBBB, and the different scenarios outlined above in the report. Where appropriate, the 10-year totals are adjusted for the estimated change in the cost of debt service.

10-Year (2025-2034) Revenue, Outlays, Deficit Projections

	Revenue	Outlays	Deficit
CBO's January 2025 Baseline Projection	$64.7 trillion	$85.8 trillion	$21.1 trillion
CBO's Baseline Projection adjusted for OBBB	$61.0 trillion	$85.1 trillion	$24.1 trillion
Scenario 1: 2.21% Real GDP Growth	$62.5 trillion	$84.7 trillion	$22.2 trillion
Scenario 2: 3% Real GDP Growth	$64.8 trillion	$84.2 trillion	$19.4 trillion
Scenario 3: White House June 7th Memo	$63.7 trillion	$82.4 trillion	$18.7 trillion
Scenario 4: 4% Real GDP Growth	$67.9 trillion	$83.5 trillion	$15.6 trillion
Scenario 5: +3% GDP, -7.5% Spending	$64.8 trillion	$77.8 trillion	$13.0 trillion
Scenario 6: +3% GDP, -14.6% Spending	$64.8 trillion	$70.9 trillion	$6.1 trillion

As the above table demonstrates, the only scenario that significantly raises more revenue than CBO's baseline 10-year projection of $64.7 trillion requires a real GDP CAGR of 4%. Although the 4% growth scenario does reduce the 10-year deficit by 26%, it still falls far short of balancing the budget by 2034 with a projected deficit solidly over $1 trillion. Even the 3% growth scenario combined with a 7.5% reduction in spending does not result in a balanced budget by 2034. Only the 3% growth scenario combined with a 14.6% spending reduction puts us on a path to pre-pandemic deficit levels within 10 years. Achieving a balanced budget would require either higher economic growth or more spending reduction.

In normal times, a 14.6% reduction in federal spending would seem unthinkable, but these are not normal times. In one fiscal year, 2020, spending increased a whopping 47% ($4,447 to $6,554 billion) and 58% since FY2019 ($4,447 to $7,028 billion).[60] So, in one year, spending increased by more than $2 trillion, yet the OBBB has spending reductions less than that over 10 years. It is eminently doable to pare spending back to a reasonable pre-pandemic level. But it will take a solid commitment to do so, and a process to achieve and maintain it. Senator Johnson has proposed a robust line-by-line budget and program review process designed to do just that.



Pre-Pandemic Spending Options and Variances

	Current CBO Forecast FY2025	Fully Inflated Clinton 1998	Variance	Fully Inflated Obama 2014	Variance	Fully Inflated Trump 2019	Variance
Other Mandatory*	$1,058	$465	$593	$639	$419	$819	$239
Non-Defense Disc.	974	669	305	815	159	829	145
Subtotal	2,032	1,134	898	1,454	578	1,648	384
Medicaid	656	245	411	431	225	523	133
Subtotal	2,688	1,379	1,309	1,885	803	2,171	517
Social Security, Medicare, Defense Disc., Net Interest	4,340	4,137	203	4,334	6	4,345	-5
Total Outlays	$7,028	$5,516	$1,512	$6,219	$809	$6,516	$512

**Other Mandatory excludes Social Security, Medicare, Medicaid*

The table above shows the fully inflated actual outlays in FY1998, FY2014, and FY2019 compared to the current forecast for FY2025.[61] Again, these options exempt Social Security, Medicare, and interest on the debt by using FY2025 projected spending on those items and increasing all other spending by population growth and inflation. The FY2025 forecasted outlays exceed the fully inflated actual outlays for Other Mandatory and Non-Defense Discretionary combined by $898, $578, and $384 billion over FY1998, FY2014, and FY2019, respectively. If Medicaid outlays are included, those variances balloon to $1,309, $803, and $517 billion, respectively. Here is where we should start looking, and this is the kind of analysis and control we should apply to a line-by-line and program-by-program forensic review of the federal budget.

Since Congress has not yet taken the time to do the hard work of forensically auditing every line of federal spending and every one of the more than 2,600 federal government programs,[62] we cannot expect to achieve a pre-pandemic level of spending in the current budget reconciliation bill being debated. It will take a multi-step approach and a joint commitment by the President and both chambers of Congress.

In his address to the Joint Session of Congress on March 4, 2025, President Trump pledged, "And in the near future I want to do what has not been done in 24 years—balance the federal budget."[63] The first step in accomplishing this goal must be to bend the trajectory of deficits down toward balancing the budget. It is clear from the above facts, figures, and analysis that OBBB does not accomplish that goal. The most important element required to do so is returning to a reasonable pre-pandemic level of spending. As President Trump tweeted on November 2, 2011, "Washington has a spending problem, not a revenue problem."[64] He was right back then, and he is right now in setting a goal of balancing the budget. This is our best chance to restore fiscal sanity and put the federal government on a sustainable path. We simply cannot squander this unique opportunity.

[1] https://x.com/realdonaldtrump/status/131735240115896320
[2] https://www.cbo.gov/system/files/2025-01/60870-Outlook-2025.pdf
[3] https://www.cbo.gov/publication/61461
[4] https://www.cbo.gov/system/files/2025-06/61459-Debt-Service.pdf
[5] https://www.cbo.gov/system/files/2025-01/60870-Outlook-2025.pdf
[6] https://www.cbo.gov/publication/61461
[7] https://www.cbo.gov/system/files/2023-04/58916.pdf
[8] https://www.govinfo.gov/content/pkg/COMPS-10356/pdf/COMPS-10356.pdf
[9] https://www.congress.gov/bill/119th-congress/senate-concurrent-resolution/7
[10] https://www.govinfo.gov/content/pkg/COMPS-10356/pdf/COMPS-10356.pdf
[11] https://www.congress.gov/bill/119th-congress/house-concurrent-resolution/14
[12] https://www.cbo.gov/publication/61461
[13] https://www.cbo.gov/system/files/2025-01/60870-Outlook-2025.pdf
[14] PCE PI refers to the Personal Consumption Expenditures Price Index.
[15] https://www.cbo.gov/system/files/2025-03/61255-Schweikert.pdf
[16] https://www.cbo.gov/system/files/2025-03/61255-Schweikert.pdf
[17] https://www.whitehouse.gov/articles/2025/06/memo-the-one-big-beautiful-bill-improves-the-fiscal-trajectory/
[18] https://www.whitehouse.gov/articles/2025/06/memo-the-one-big-beautiful-bill-improves-the-fiscal-trajectory/
[19] https://www.whitehouse.gov/articles/2025/06/memo-the-one-big-beautiful-bill-improves-the-fiscal-trajectory/
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