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AMERICAN COMPASS

Budget Model

First Edition

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EXECUTIVE SUMMARY

- **Ten-year budgets have become exercises in wishful thinking that bear no relation to either fiscal or political realities.**

  - Democratic budgets make emergency spending permanent and leave trillions in deficits as far as the eye can see, while Republican budgets rely upon spending cuts that not even Republicans support or rely upon economic growth to close gaps.

  - Such proposals are not only dead on arrival in Congress, but also disregard the overwhelming preference of American voters for deficit reduction through a combination of both higher taxes and lower spending.

- **The American Compass Budget Model avoids the various gimmicks of most budgeting exercises to provide a straightforward picture of the options available to policymakers.**

  - A moderate scenario with potentially palatable options makes progress but leaves spending well above available revenue.

  - An aggressive scenario reaches balance but only by accepting a variety of tradeoffs that would ensure rejection by partisans on all sides.

- **All signs point toward revenue and spending between 19–20% of GDP as the plausible long-term target for fiscal sustainability, but...**

  - Progress requires incremental steps that build trust and credibility rather than futile pursuit of ultimatums and grand bargains that dominate political debates; and

  - The goal should be finding $250 billion in concrete spending cuts and $150 billion in concrete tax increases that both sides could tolerate and see through.

INTRODUCTION

The comprehensive ten-year budget proposal is one of Washington's least productive exercises.

On the Left, budgets are merely wish lists of new spending, accompanied by a vague handwave at some plainly insufficient set of tax increases to "ensure the wealthiest Americans pay their fair share," in the words of President Joe Biden's FY2025 budget. That proposal leaves spending as a share of gross domestic product (GDP) higher in 2033–34 (24.4%) than in the pandemic-inflated 2022–23 (23.8%) and the deficit still hovering near $2 trillion. Debt held by the public increases 60%, to $45 trillion.

Confront a Democrat about such problems and the lack of even basic budget knowledge becomes quickly apparent. Congressman Ro Khanna, for instance, has proposed closing the deficit by "end[ing] the tax breaks for the ultra-rich" while dramatically *increasing* spending, though his plan relied entirely on misunderstanding a Center for American Progress paper that was about the cost of past tax cuts, mainly for households with income below $250K.

On the Right, budgets are lists of implausible spending cuts unpopular even with Republican voters, typically paired with yet more tax cuts and baseless assumptions that faster economic growth will cure the remaining imbalances. The Heritage Foundation's Budget Blueprint for Fiscal Year 2023, for instance, called for cutting Medicare by 45%. The Center for Renewing America's 2023 Budget Proposal extends the *Tax Cuts and Jobs Act* but then reaches balance by crediting itself with $775 billion in "revenue increase from economic assumptions."

After years performing the part of "fiscal conservative," former House Speaker Paul Ryan finally found himself with a GOP Congress and White House in 2017. Republicans failed to "repeal Obamacare," "block-grant Medicaid," or indeed pursue any of the dramatic spending reforms that are the lynchpin of their budget proposals. They did pass a massive, deficit-financed tax cut. The deficit as a share of GDP rose every year from 2016–19 and spending as a share of GDP was higher at the period's end than at its start.

The proposals and posturing from all sides share several features: They rely upon the formal budgeting categories established by law, for instance the distinction between "mandatory" and "discretionary" spending, regardless of the spending's purpose. They include inflation, so that taxes collected and funds expended in nearly every category appear always to be rising, even if the real value of that money has not changed at all. They imagine away politics, envisioning a world in which one side achieves all its priorities and the other gets nothing. Unsurprisingly, they lead to no actual progress.

The most "serious" suggestion, invariably, is formation of a "blue-ribbon commission" to develop a "long-term blueprint" for reducing the nation's "unfunded liabilities." If all goes well, the sides can come together in committing vaguely to adjusting programs at some point many years in the future, asking no one to make sacrifices today. Such an approach, rather than doing anything about the nation's unsustainable deficits, solidifies the assumption that no one can or should make any of the difficult decisions that are necessary.

The American Compass Approach

As an alternative, this paper presents a budget model that demonstrates the realities of the federal budget, the implausibility of the talking points offered as solutions, and the inescapable tradeoffs that will be required to make progress. The model organizes spending in commonsense categories that align with present policy debates, reports amounts in real dollars, and shows how much deficit reduction can plausibly be achieved through the various policy options on the table.

The model avoids assumptions that yet another tax cut will spur economic growth or that the government will suddenly develop the capacity to tackle "waste, fraud, and abuse" more effectively than in the past and thereby reduce deficits at no cost to anyone. That wishful thinking is inappropriate for a nation that has spent further and further beyond its means for two decades and counting. The task now is to actually reduce the deficit, bringing what the government sends out back into line with what it brings in. If growth surges and spending falls faster than expected, then the politicians can cut taxes and launch new programs. The time for handing out the goodies and hoping to collect payment later has long since passed.

The model illustrates a Moderate Case in which the kinds of tax increases and spending cuts commonly floated come nowhere near restoring the budget to balance, and an Aggressive Case that does reach balance but would likely be rejected out of hand by everyone on all sides. That is the point: No one's commitments are defensible, all will have to compromise.

Those believing they can close the deficit consistent with their nonnegotiable priorities are welcome to give it a shot. The entire model, with all underlying data and assumptions, is available for download. Any user can choose which policies to implement. The model is also a work-in-progress, and additional policy options that merit consideration will be added in the future.

Unlike the purist political leaders, the American people understand the challenge intuitively, as is apparent in the American Compass polling data released alongside the model. By overwhelming margins, Americans not only agree that "the budget deficit is a serious problem and the nation must be willing to take even painful steps to solve it," but also would include both tax increases and spending cuts in a deficit-reduction package.

Rather than pursue implausible ten-year paths to balanced budgets that have no chance of adoption, politicians should focus on a task that is at once much harder and far more achievable: building trust between the two sides and credibility with the public that deficit reduction is in fact a priority and that compromise is worthwhile. Democrats must show that they are pursuing tax increases not to finance yet more new programs, but rather to accompany declines in expenditures. Republicans must show that they are pursuing spending cuts not to facilitate yet another tax cut, but rather to accompany higher tax revenue.

That exercise does not require a "grand bargain" or a "blue-ribbon commission," only hard-headed horse-trading from partisans who, in passionately pursuing their priorities, are able to keep in mind that their top priority is a sustainable future for the nation. Could the sides find $150 billion in annual tax revenue and $250 billion in annual spending cuts, all to be implemented concretely over the next two years? That's about 20% of what will ultimately be needed, and would represent the lowest-hanging fruit, in roughly the ratio that the American people say they want.

If it were to happen, the radicals on each side would be deprived of their talking points that the necessary steps are either impossible or irresponsible. If it does not happen, the nation will continue on its present course until crisis leaves only much worse choices.

ABOUT THE MODEL

The American Compass Budget Model uses the Congressional Budget Office's Budget and Economic Outlook (CBO, February 2024) as its baseline for revenues and expenditures as well as all macroeconomic assumptions including gross domestic product, inflation, interest rates, and imports. Figures for 2019 are from the May 2019 Updated Budget Projections.

All model outputs can be viewed in either nominal dollars or 2024 dollars, converted from nominal using the Consumer Price Index for All Urban Consumers (CPI-U). Nominal GDP is also deflated using CPI-U, rather than a GDP deflator, to maintain constant share-of-GDP figures in both real and nominal terms.

Revenue

The revenue baseline is presented in Table 1-1 and adopts the CBO's categorization.

Expenditures

The spending baseline is presented in Table 1-2, with all expenditures recategorized from CBO's program-level forecasts for outlays as follows.

- Social Insurance consists of *Medicare and Social Security*, *Veterans & Federal Pensions*, and *Offsetting Receipts*.

  - Medicare and Social Security includes all accounts within the major spending categories of "Medicare" and "Social Security."

  - Veterans & Federal Pensions includes:

    - Civilian retirement expenditures titled "Central Intelligence Agency Retirement and Disability System," "Civil service retirement and disability fund," "Employees and retired employees health benefits funds," "Government payment for annuitants, employees health benefits," "Payment to Foreign Service retirement and disability fund," and "Retirement pay and medical benefits for commissioned officers";

    - Military retirement expenditures titled "Military retirement fund"; and

    - Veterans affairs benefits provided by the Department of Veteran Affairs, titled "Compensation and pensions" and "Cost of War Toxic Exposure Fund."

  - *Offsetting Receipts* includes all expenditures categorized within the major spending category of "Offsetting Receipts." Note that this category includes some small amounts of offsetting receipts not pertaining to social insurance programs.

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- Other Programs consists of *Great Society*, *Defense*, *Refundable Credits*, *Temporary and Unpopular Programs*, and *Everything Else*.

  - *Great Society* encompasses federal anti-poverty and means-tested programs, including:

    - Medicaid expenditures within the major spending category of "Medicaid";

    - The account titled "Supplemental Nutrition Assistance Program";

    - The account titled "Child Nutrition Programs";

    - The account titled "Supplemental security income program";

    - Unemployment compensation expenditures titled "Unemployment trust fund" and "State unemployment insurance and employment service operations";

    - The account titled "Temporary assistance for needy families";

    - Family support and foster care accounts titled "Payments for Foster Care and Permanency" and "Payments to States for child support enforcement and family supp[ort]";

    - Child care accounts titled "Child care entitlement to States" and "Payments to States for the child care and development block gran[t]";

    - Affordable Care Act accounts titled "Refundable Premium Tax Credit" and "Risk Adjustment Program Payments";

    - The account titled "Children's Health Insurance Fund";

    - Housing programs operated by the Department of Housing and Urban Development in the "Housing Programs" and "Public and Indian Housing Programs" bureaus; and

    - Community development programs operated by the Department of Housing and Urban Development in the "Community Planning and Development" bureau.

  - *Defense* includes all expenditures within the major spending category of "Defense."

  - *Refundable credits* includes the accounts titled "Payment where earned income credit exceeds liability for tax" and "Payment Where Child Tax Credit Exceeds Liability for Tax." Note that these expenditures include only a portion of the cost of these programs, with the remainder consisting of tax expenditures that reduce income tax liability.

  - *Temporary and unpopular programs* encompasses remaining COVID-19 expenditures as well as higher education spending and green energy

programs, identified as least popular in American Compass polling data, including:

- COVID accounts titled "Public health and social services emergency fund," "U.S. Coronavirus Refundable Credits," and "Education Stabilization Fund";

- Student loan accounts operated by the Department of Education in the "Office of Federal Student Aid" bureau; and

- Energy programs operated by the Department of Energy in the "Energy Programs" bureau as well as accounts titled "Elective Payment for Energy Property and Electricity Produced Fr[om Certain Renewable Resources]" and "Clen Vehicle Credit." Note that the Energy Programs bureau includes some energy programs not associated with climate policy.

- *Everything Else* includes all expenditures not otherwise categorized, with the exception of *Net Interest*.

- The Net Interest baseline figure includes all expenditures within the major spending category of "Net Interest." In modeled scenarios, Net Interest is calculated with the interactive table provided by CBO in its Budget and Economic Outlook. Note that, for estimating interest payments in real terms, year-by-year changes to the deficit and accompanying debt-service costs are calculated in nominal terms and then converted back to 2024 dollars.

Scenarios

The model incorporates a wide range of policy options, based primarily on those with ten-year budget impact greater than $100 billion that CBO identified in its Options for Reducing the Deficit (December 2022). Additional options for extending provisions of the Tax Cuts and Jobs Act (which expire in the baseline) are drawn from CBO's Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues (May 2023). Taxable income beyond various thresholds is calculated from Internal Revenue Service's statistical tables (Publication 1304, November 2022). Additional spending pathways are modeled based on rules such as "capped at 2024 level" or "reduced by 2% annually."

Policy changes take effect beginning in FY2025. Where estimates are not available in fiscal years 2033 or 2034, amounts are estimated as growing with inflation from FY2032.

Table 2-1 describes the options incorporated in the *Moderate* and *Aggressive* cases, for which full budget impacts are then presented in Tables 2-2 and 2-3, respectively. Users may choose options of their own in the workbook's Model Options tab, generating an updated budget scenario in (digital only) Table 2-0, Dynamic Case. Instructions are available in the workbook's READ ME tab.

Moderate Case

In the moderate case, revenue is raised from:

- Individual income taxes: limiting the benefit of itemized deductions to 4% of adjusted gross income (scored by CBO);

- Corporate income taxes: raising the tax rate from 21% to 25% (scored by CBO per percentage-point increase); and

- Other taxes: imposing a global tariff of 5% on all imports (cost calculated on base of all imports with assumption that import volume falls by 10%).

These changes raise approximately $300 billion per year (2024 dollars) and increase revenue as a share of GDP from 17.5% in 2024 to 18.9% in 2034.

In the moderate case, spending is cut from:

- Medicare and Social Security: changing cost-sharing rules for Medicare and restricting Medicap (scored by CBO);

- Great Society: returning spending in 2025 to its 2019 level and capping it;

- Defense: capping spending at its 2024 level;

- Refundable credits: maintaining spending at its 2024 level (note, this represents an increase from baseline);

- Temporary and unpopular programs: reducing spending by 50%, beginning in 2025; and

- Everything else: returning spending in 2025 to its 2019 level and then reducing it by 2% per year thereafter.

These changes reduce spending by $500 billion per year by 2034. As a result of both higher revenue and lower spending over the period, Net Interest in 2034 is also $200 billion below the baseline. In total, spending as a share of GDP declines from 22.9% in 2024 to 21.9% in 2034.

Aggressive Case

The *Aggressive Case* includes all actions from the *Moderate Case*. In addition, in the aggressive case, revenue is raised from:

- Corporate income taxes: further raising the tax rate to 28% (scored by CBO per percentage-point increase);

- Other taxes: raising the global tariff to 10% on all imports (cost calculated on base of all imports with assumption that import volume falls by 20%); and

- Other taxes: imposing a financial transaction tax (scored by CBO).

These changes raise approximately $550 billion per year (2024 dollars) relative to baseline and increase revenue as a share of GDP from 17.5% in 2024 to 19.6% in 2034.

In the aggressive case, spending is cut from:

- Medicare and Social Security: five additional reforms reviewed by CBO (scored by CBO);

- Great Society: returning spending in 2025 to its 2019 level and then reducing it by 2% per year thereafter;

- Defense: capping spending in 2025 at its 2024 level and then reducing it by 2% per year thereafter;

- Refundable credits: adopting the current baseline (no change in spending);

- Temporary and unpopular programs: eliminating all spending, beginning in 2025; and

- Everything else: returning spending in 2025 to its 2019 level and then reducing it by 2% per year thereafter, as in the moderate case.

These changes reduce spending by $1,100 billion per year by 2034. As a result of both higher revenue and lower spending over the period, Net Interest in 2034 is also $400 billion below the baseline. In total, spending as a share of GDP declines from 22.9% in 2024 to 19.5% in 2034.

Comparison to Other Budgets

Both the Heritage Foundation and the Center for Renewing America (CRA) produced FY2023 budgets that balance after ten years at approximately 17% of GDP in both revenue and expenditures.

In Heritage's case, the budget makes further tax cuts from the baseline while achieving balance by making 45% reductions to both Medicare (saving 1.9% of GDP) and Non-Defense Discretionary spending (saving 1.6% of GDP), while cutting other health care spending—primarily Medicaid and the Affordable Care Act—by two-thirds (saving 1.7% of GDP). A framework along these lines is a non-starter on both sides of the aisle and conflicts directly with the priorities of voters across the political spectrum.

CRA's budget makes tax cuts of a similar magnitude to Heritage's, but takes a more plausible approach to spending cuts. It reduces Medicaid by one-third and Medicare by one-tenth while leaving Social Security untouched. Non-Defense Discretionary spending falls by close to 40% and, notably, Defense spending falls by almost 15%.

How does the CRA budget balance, with tax cuts like Heritage's but less aggressive spending cuts? By adding an extra $4 trillion in GDP. CRA forecasts that its favored policies will lead to much higher economic growth, thereby pushing nominal GDP in 2032 from a baseline of $36.7 trillion up

to $40.4 trillion. Along with this growth, according to CRA, will come an additional $775 billion in annual tax revenue.

In an apples-to-apples comparison with the Heritage budget and American Compass's model, excluding an assumption of higher growth, CRA lowers revenue to $6.2 trillion (17.0% of $36.7 trillion in GDP) and spending to $7.0 trillion (19.1% of $36.7 trillion in GDP). Only by boosting the revenue figure to $7.0 trillion does the budget balance, and only by boosting the GDP figure to $40.4 trillion does the balance occur at 17% rather than 19% of GDP.

Conclusions

The American Compass Budget Model, the Heritage budget, and the CRA budget all tell the same story: There is no plausible path to cutting spending to 17% of GDP that Republicans would support, let alone Democrats. Reaching 19% will require a herculean effort and painful tradeoffs on issues like entitlements and defense spending, but at least the math could hypothetically work.

Perhaps not by coincidence, 19% of GDP is the level of spending and revenue that Speaker Ryan's FY2013 "Path to Prosperity" budget targeted for the mid-2030s—at the time, the gold standard for a responsible, limited-government approach. That same figure, 19% of GDP, also represents the average level of both revenue and spending from 1995–2001, when the Newt Gingrich–led Congress and Bill Clinton White House delivered the most recent period of budget sanity. And, remarkably, American Compass polling finds that the median American would prefer a 60/40 ratio of spending cuts to tax increases, which points to the same landing place. Closing the forecasted 2025 budget gap of 23.1% spending and 17.1% revenue (as shares of GDP) in that manner would lead to spending and revenue levels of 19.5% of GDP. The 50/50 ratio preferred by the median Democrat lands at 20.1%, the 67/33 ratio preferred by the median Independent lands at 19.1%, the 75/25 ratio preferred by the median Republican lands at 18.6%.

All those figures are closer to each other than to the proposals put forth by partisans in Washington. They circle around an obvious landing point toward which the initial steps from all sides are easy enough to discern. The gains for whoever has the courage to head that direction will be quite large, the benefits to the nation even larger.

Table 1-1.

CBO Revenue Baseline and Deficit

	Est., 2019	Est., 2024	Fcast., 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
in billions of dollars												
Individual Income Taxes	1,752	2,469	2,520	2,789	3,031	3,124	3,251	3,381	3,511	3,634	3,793	3,973
Payroll Taxes	1,233	1,663	1,734	1,812	1,884	1,960	2,039	2,121	2,205	2,291	2,379	2,466
Corporate Income Taxes	245	569	494	491	484	491	501	511	519	519	533	551
Extending TCJA	0	0	0	0	0	0	0	0	0	0	0	0
Other Taxes	280	234	247	259	283	296	355	402	421	445	464	485
Total Revenue	**3,511**	**4,935**	**4,996**	**5,351**	**5,683**	**5,870**	**6,147**	**6,414**	**6,656**	**6,890**	**7,168**	**7,474**
Expenditures	**4,407**	**6,442**	**6,768**	**7,042**	**7,323**	**7,715**	**7,870**	**8,331**	**8,710**	**9,128**	**9,724**	**10,054**
Deficit	**-896**	**-1,507**	**-1,772**	**-1,692**	**-1,640**	**-1,844**	**-1,723**	**-1,917**	**-2,054**	**-2,238**	**-2,556**	**-2,579**
in billions of 2024 dollars												
Individual Income Taxes	2,140	2,469	2,458	2,657	2,826	2,850	2,902	2,952	2,999	3,035	3,098	3,173
Payroll Taxes	1,507	1,663	1,692	1,726	1,757	1,788	1,820	1,852	1,883	1,914	1,943	1,970
Corporate Income Taxes	299	569	482	468	451	448	447	446	443	434	436	440
Extending TCJA	0	0	0	0	0	0	0	0	0	0	0	0
Other Taxes	342	234	241	247	263	270	317	351	359	372	379	388
Total Revenue	**4,288**	**4,935**	**4,873**	**5,098**	**5,297**	**5,355**	**5,486**	**5,600**	**5,684**	**5,754**	**5,855**	**5,970**
Expenditures	**5,383**	**6,442**	**6,602**	**6,710**	**6,827**	**7,038**	**7,024**	**7,274**	**7,438**	**7,624**	**7,943**	**8,031**
Deficit	**-1,095**	**-1,507**	**-1,728**	**-1,612**	**-1,529**	**-1,683**	**-1,538**	**-1,673**	**-1,754**	**-1,869**	**-2,088**	**-2,060**
as percent of real gross domestic product												
Individual Income Taxes	8.2	8.8	8.6	9.1	9.5	9.5	9.5	9.5	9.5	9.4	9.5	9.5
Payroll Taxes	5.8	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	1.2	2.0	1.7	1.6	1.5	1.5	1.5	1.4	1.4	1.3	1.3	1.3
Extending TCJA	-	-	-	-	-	-	-	-	-	-	-	-
Other Taxes	1.3	0.8	0.8	0.8	0.9	0.9	1.0	1.1	1.1	1.2	1.2	1.2
Total Revenue	**16.5**	**17.5**	**17.1**	**17.5**	**17.9**	**17.8**	**17.9**	**17.9**	**17.9**	**17.8**	**17.9**	**17.9**
Expenditures	**20.7**	**22.9**	**23.1**	**23.1**	**23.1**	**23.3**	**22.9**	**23.3**	**23.4**	**23.6**	**24.2**	**24.1**
Deficit	**(4.2)**	**(5.3)**	**(6.1)**	**(5.5)**	**(5.2)**	**(5.6)**	**(5.0)**	**(5.4)**	**(5.5)**	**(5.8)**	**(6.4)**	**(6.2)**
Addendum:												
CPI-U	254.4	310.7	318.5	326.1	333.3	340.6	348.1	355.8	363.8	372.0	380.4	388.9
GDP (nominal)	21,275	28,177	29,256	30,504	31,756	33,043	34,375	35,746	37,157	38,609	40,106	41,646
GDP (2024$ CPI-U)	25,987	28,177	28,538	29,063	29,603	30,144	30,680	31,210	31,731	32,247	32,759	33,266

Data sources: Congressional Budget Office, February 2024 and May 2019 10-year budget estimates.
Notes: See Appendix for American Compass categorization of outlays.

Table 1-2.

CBO Expenditure Baseline

	Actual, 2019	Est., 2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
						in billions of dollars						
Medicare & Social Security	1,815	2,507	2,713	2,879	3,065	3,335	3,376	3,668	3,889	4,123	4,493	4,669
Veterans & Federal Pensions	261	366	417	455	473	520	487	535	557	578	631	629
Offsetting Receipts	-276	-347	-369	-381	-405	-432	-455	-492	-524	-545	-582	-614
Social Insurance subtotal	1,800	2,527	2,761	2,953	3,132	3,423	3,408	3,712	3,922	4,156	4,543	4,684
Great Society	724	1,040	1,046	1,062	1,110	1,161	1,197	1,251	1,300	1,358	1,421	1,476
Defense	666	818	846	870	888	913	921	946	966	985	1,018	1,035
Refundable Credits	87	92	98	99	83	84	85	85	85	86	86	86
Temp. and Unpopular Programs	125	223	210	183	169	172	174	171	171	173	170	167
Everything Else	623	873	855	871	890	856	915	925	937	938	959	977
Other Programs subtotal	2,226	3,046	3,056	3,085	3,141	3,186	3,292	3,378	3,460	3,541	3,654	3,742
Net Interest	382	870	951	1,005	1,049	1,105	1,170	1,241	1,328	1,430	1,527	1,628
Total	**4,407**	**6,442**	**6,768**	**7,042**	**7,323**	**7,715**	**7,870**	**8,331**	**8,710**	**9,128**	**9,724**	**10,054**

	Actual, 2019	Est., 2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
						in billions of 2024 dollars						
Medicare & Social Security	2,217	2,507	2,646	2,743	2,857	3,043	3,013	3,203	3,321	3,444	3,670	3,730
Veterans & Federal Pensions	318	366	407	433	441	474	435	467	475	483	516	502
Offsetting Receipts	-337	-347	-360	-363	-378	-394	-406	-430	-447	-455	-475	-490
Social Insurance subtotal	2,198	2,527	2,694	2,813	2,920	3,123	3,042	3,241	3,349	3,471	3,710	3,741
Great Society	884	1,040	1,021	1,012	1,035	1,059	1,069	1,092	1,110	1,134	1,161	1,179
Defense	814	818	825	829	828	833	822	826	825	823	832	827
Refundable Credits	107	92	95	94	78	77	76	74	73	72	71	69
Temp. and Unpopular Programs	153	223	205	174	158	157	155	150	146	145	139	133
Everything Else	762	873	834	830	830	781	817	808	800	783	783	780
Other Programs subtotal	2,719	3,046	2,981	2,939	2,928	2,906	2,938	2,950	2,955	2,958	2,985	2,989
Net Interest	466	870	927	957	978	1,008	1,044	1,083	1,134	1,195	1,248	1,301
Total	**5,383**	**6,442**	**6,602**	**6,710**	**6,827**	**7,038**	**7,024**	**7,274**	**7,438**	**7,624**	**7,943**	**8,031**

	Actual, 2019	Est., 2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
						as percent of gross domestic product						
Medicare & Social Security	8.5	8.9	9.3	9.4	9.7	10.1	9.8	10.3	10.5	10.7	11.2	11.2
Veterans & Federal Pensions	1.2	1.3	1.4	1.5	1.5	1.6	1.4	1.5	1.5	1.5	1.6	1.5
Offsetting Receipts	(1.3)	(1.2)	(1.3)	(1.2)	(1.3)	(1.3)	(1.3)	(1.4)	(1.4)	(1.4)	(1.5)	(1.5)
Social Insurance subtotal	8.5	9.0	9.4	9.7	9.9	10.4	9.9	10.4	10.6	10.8	11.3	11.2
Great Society	3.4	3.7	3.6	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Defense	3.1	2.9	2.9	2.9	2.8	2.8	2.7	2.6	2.6	2.6	2.5	2.5
Refundable Credits	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Temp. and Unpopular Programs	0.6	0.8	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Everything Else	2.9	3.1	2.9	2.9	2.8	2.6	2.7	2.6	2.5	2.4	2.4	2.3
Other Programs subtotal	10.5	10.8	10.4	10.1	9.9	9.6	9.6	9.5	9.3	9.2	9.1	9.0
Net Interest	1.8	3.1	3.2	3.3	3.3	3.3	3.4	3.5	3.6	3.7	3.8	3.9
Total	**20.7**	**22.9**	**23.1**	**23.1**	**23.1**	**23.3**	**22.9**	**23.3**	**23.4**	**23.6**	**24.2**	**24.1**
Addendum:												
CPI-U	254.4	310.7	318.5	326.1	333.3	340.6	348.1	355.8	363.8	372.0	380.4	388.9
GDP (nominal)	21,275	28,177	29,256	30,504	31,756	33,043	34,375	35,746	37,157	38,609	40,106	41,646
GDP (2024$ CPI-U)	25,987	28,177	28,538	29,063	29,603	30,144	30,680	31,210	31,731	32,247	32,759	33,266

Data sources: Congressional Budget Office, February 2024 and May 2019 10-year budget estimates.
Notes: See Appendix for American Compass categorization of outlays.

Table 2-1.

American Compass Scenario Overview

	Fcast., 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
				in billions of 2024 dollars						
Individual Income Taxes	**2,458**	**2,657**	**2,826**	**2,850**	**2,902**	**2,952**	**2,999**	**3,035**	**3,098**	**3,173**
Mod: Limit benefit of itemized deductions to 4% of AGI	29	46	56	59	61	63	66	68	68	68
Agg: Limit benefit of itemized deductions to 4% of AGI	29	46	56	59	61	63	66	68	68	68
Payroll Taxes	**1,692**	**1,726**	**1,757**	**1,788**	**1,820**	**1,852**	**1,883**	**1,914**	**1,943**	**1,970**
Corporate Income Taxes	**482**	**468**	**451**	**448**	**447**	**446**	**443**	**434**	**436**	**440**
Mod: Raise corporate tax rate to 25%	44	48	50	50	51	51	51	51	51	51
Agg: Raise corporate tax rate to 28%	77	84	87	88	89	89	88	90	90	90
Extending TCJA	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other Taxes	**241**	**247**	**263**	**270**	**317**	**351**	**359**	**372**	**379**	**388**
Mod: 5% global tariff	175	178	182	186	189	192	194	197	200	203
Agg: 10% global tariff	311	316	323	330	336	341	346	351	356	360
Agg: Financial transaction tax	23	28	30	30	31	32	32	33	33	33
Baseline Revenue Total	**4,873**	**5,098**	**5,297**	**5,355**	**5,486**	**5,600**	**5,684**	**5,754**	**5,855**	**5,970**
Moderate Case: Revenue Increase	*248*	*272*	*287*	*295*	*300*	*305*	*310*	*317*	*320*	*322*
Aggressive Case: Revenue Increase	*440*	*474*	*495*	*507*	*516*	*524*	*532*	*542*	*547*	*551*
Medicare & Social Security	**2,646**	**2,743**	**2,857**	**3,043**	**3,013**	**3,203**	**3,321**	**3,444**	**3,670**	**3,730**
Mod: Change cost-sharing rules for Medicare, restrict Medigap	0	-12	-16	-16	-16	-16	-16	-17	-17	-17
Agg: Change cost-sharing rules for Medicare, restrict Medigap	0	-12	-16	-16	-16	-16	-16	-17	-17	-17
Agg: Increase Medicare Part B premiums	-19	-30	-41	-53	-55	-59	-64	-69	-69	-69
Agg: Reduce Medicare Advantage benchmarks	-15	-35	-44	-51	-43	-51	-54	-57	-57	-57
Agg: Raise retirement age for Social Security	-1	-2	-4	-5	-11	-17	-27	-38	-38	-38
Agg: Add bend point at 50th percentile, reduce PIA factors	-1	-4	-7	-12	-19	-28	-38	-51	-51	-51
Agg: Use an alternative measure of inflation for Social Security	-6	-10	-13	-17	-21	-25	-29	-32	-32	-32
Veterans & Federal Pensions	**407**	**433**	**441**	**474**	**435**	**467**	**475**	**483**	**516**	**502**
Offsetting Receipts	**-360**	**-363**	**-378**	**-394**	**-406**	**-430**	**-447**	**-455**	**-475**	**-490**
Great Society	**1,021**	**1,012**	**1,035**	**1,059**	**1,069**	**1,092**	**1,110**	**1,134**	**1,161**	**1,179**
Mod: 2019 cap	-137	-128	-151	-175	-185	-208	-226	-251	-277	-295
Agg: 2019 cap, reduce 2%/year	-137	-146	-186	-227	-253	-293	-327	-367	-409	-442
Defense	**825**	**829**	**828**	**833**	**822**	**826**	**825**	**823**	**832**	**827**
Mod: 2024 cap	-8	-11	-10	-15	-4	-8	-8	-6	-14	-9
Agg: 2024 cap, reduce 2%/year	-8	-27	-43	-63	-68	-87	-101	-113	-136	-145
Refundable Credits	**95**	**94**	**78**	**77**	**76**	**74**	**73**	**72**	**71**	**69**
Mod: Maintain at 2024	-3	-2	14	15	16	18	19	20	21	23
Agg: Current budget	0	0	0	0	0	0	0	0	0	0
Temp. and Unpopular Programs	**205**	**174**	**158**	**157**	**155**	**150**	**146**	**145**	**139**	**133**
Mod: Reduce by 50%	-102	-87	-79	-78	-78	-75	-73	-72	-69	-67
Agg: Eliminate	-205	-174	-158	-157	-155	-150	-146	-145	-139	-133
Everything Else	**834**	**830**	**830**	**781**	**817**	**808**	**800**	**783**	**783**	**780**
Mod: 2019 cap, reduce 2%/year	-73	-84	-99	-64	-114	-119	-126	-122	-135	-145
Agg: 2019 cap, reduce 2%/year	-73	-84	-99	-64	-114	-119	-126	-122	-135	-145
Net Interest	**927**	**957**	**978**	**1,008**	**1,044**	**1,083**	**1,134**	**1,195**	**1,248**	**1,301**
Mod: Interest Savings [calculated]	-13	-36	-55	-73	-92	-115	-140	-166	-194	-222
Agg: Interest Savings [calculated]	-21	-58	-91	-124	-160	-204	-252	-303	-359	-417
Baseline Expenditures Total	**6,602**	**6,710**	**6,827**	**7,038**	**7,024**	**7,274**	**7,438**	**7,624**	**7,943**	**8,031**
Moderate Case: Expenditures Decrease	*-336*	*-361*	*-396*	*-406*	*-473*	*-524*	*-570*	*-613*	*-685*	*-733*
Aggressive Case: Expenditures Decrease	*-484*	*-582*	*-700*	*-789*	*-916*	*-1,049*	*-1,180*	*-1,314*	*-1,441*	*-1,546*
Baseline Deficit	**-1,728**	**-1,612**	**-1,529**	**-1,683**	**-1,538**	**-1,673**	**-1,754**	**-1,869**	**-2,088**	**-2,060**
Moderate Case: Deficit Reduction	*584*	*633*	*683*	*701*	*774*	*829*	*880*	*930*	*1,004*	*1,055*
Aggressive Case: Deficit Reduction	*924*	*1,056*	*1,196*	*1,296*	*1,432*	*1,572*	*1,712*	*1,856*	*1,988*	*2,098*

Data sources: Congressional Budget Office (CBO), February 2024 and May 2019 10-year budget estimates; CBO Options for Reducing the Deficit, December 2022; Internal Revenue Service, Statistics of Income Division, Publication 1304, November 2022
Notes: See Appendix for American Compass categorization of outlays and scenario definitions; tariff revenue assumes imports decline by two times tariff rate.

Table 2-2.

American Compass Moderate Case

	Est., 2019	Est., 2024	Fcast., 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
							in billions of 2024 dollars					
Individual Income Taxes	2,140	2,469	2,487	2,703	2,882	2,908	2,963	3,015	3,064	3,104	3,166	3,242
Payroll Taxes	1,507	1,663	1,692	1,726	1,757	1,788	1,820	1,852	1,883	1,914	1,943	1,970
Corporate Income Taxes	299	569	526	516	501	498	498	496	493	485	487	491
Extending TCJA	0	0	0	0	0	0	0	0	0	0	0	0
Other Taxes	342	234	416	424	445	455	506	543	554	569	579	590
Total Revenue	**4,288**	**4,935**	**5,121**	**5,370**	**5,584**	**5,650**	**5,786**	**5,905**	**5,995**	**6,071**	**6,175**	**6,293**
Medicare & Social Security	2,217	2,507	2,646	2,730	2,841	3,027	2,997	3,187	3,305	3,427	3,653	3,713
Veterans & Federal Pensions	318	366	407	433	441	474	435	467	475	483	516	502
Offsetting Receipts	-337	-347	-360	-363	-378	-394	-406	-430	-447	-455	-475	-490
Social Insurance subtotal	2,198	2,527	2,694	2,801	2,904	3,108	3,026	3,225	3,333	3,455	3,694	3,725
Great Society	884	1,040	884	884	884	884	884	884	884	884	884	884
Defense	814	818	818	818	818	818	818	818	818	818	818	818
Refundable Credits	107	92	92	92	92	92	92	92	92	92	92	92
Temp. and Unpopular Programs	153	223	102	87	79	78	78	75	73	72	69	67
Everything Else	762	873	762	746	731	717	702	688	675	661	648	635
Other Programs subtotal	2,719	3,046	2,657	2,627	2,604	2,588	2,573	2,557	2,541	2,527	2,511	2,495
Net Interest	466	870	914	921	923	936	952	968	994	1,029	1,054	1,078
Total Expenditures	**5,383**	**6,442**	**6,265**	**6,349**	**6,431**	**6,632**	**6,551**	**6,750**	**6,868**	**7,010**	**7,258**	**7,298**
Deficit	**-1,095**	**-1,507**	**-1,144**	**-979**	**-847**	**-982**	**-765**	**-844**	**-874**	**-939**	**-1,084**	**-1,005**

	Est., 2019	Est., 2024	Fcast., 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
							as percent of real gross domestic product					
Individual Income Taxes	8.2	8.8	8.7	9.3	9.7	9.6	9.7	9.7	9.7	9.6	9.7	9.7
Payroll Taxes	5.8	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	1.2	2.0	1.8	1.8	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.5
Extending TCJA	-	-	-	-	-	-	-	-	-	-	-	-
Other Taxes	1.3	0.8	1.5	1.5	1.5	1.5	1.6	1.7	1.7	1.8	1.8	1.8
Total Revenue	**16.5**	**17.5**	**17.9**	**18.5**	**18.9**	**18.7**	**18.9**	**18.9**	**18.9**	**18.8**	**18.8**	**18.9**
Social Insurance Programs	8.5	9.0	9.4	9.6	9.8	10.3	9.9	10.3	10.5	10.7	11.3	11.2
Other Programs	10.5	10.8	9.3	9.0	8.8	8.6	8.4	8.2	8.0	7.8	7.7	7.5
Net Interest	1.8	3.1	3.2	3.2	3.1	3.1	3.1	3.1	3.1	3.2	3.2	3.2
Total Expenditures	**20.7**	**22.9**	**22.0**	**21.8**	**21.7**	**22.0**	**21.4**	**21.6**	**21.6**	**21.7**	**22.2**	**21.9**
Deficit	**(4.2)**	**(5.3)**	**(4.0)**	**(3.4)**	**(2.9)**	**(3.3)**	**(2.5)**	**(2.7)**	**(2.8)**	**(2.9)**	**(3.3)**	**(3.0)**
Addendum:												
CPI-U	254.4	310.7	318.5	326.1	333.3	340.6	348.1	355.8	363.8	372.0	380.4	388.9
GDP (nominal)	21,275	28,177	29,256	30,504	31,756	33,043	34,375	35,746	37,157	38,609	40,106	41,646
GDP (2024$ CPI-U)	25,987	28,177	28,538	29,063	29,603	30,144	30,680	31,210	31,731	32,247	32,759	33,266

Data sources: Congressional Budget Office (CBO), February 2024 and May 2019 10-year budget estimates; CBO Options for Reducing the Deficit, December 2022; Internal Revenue Service, Statistics of Income Division, Publication 1304, November 2022
Notes: See Appendix for American Compass categorization of outlays and scenario definitions; tariff revenue assumes imports decline by two times tariff rate.

Table 2-3.

American Compass Aggressive Case

	Est., 2019	Est., 2024	Fcast., 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
						in billions of 2024 dollars						
Individual Income Taxes	2,140	2,469	2,487	2,703	2,882	2,908	2,963	3,015	3,064	3,104	3,166	3,242
Payroll Taxes	1,507	1,663	1,692	1,726	1,757	1,788	1,820	1,852	1,883	1,914	1,943	1,970
Corporate Income Taxes	299	569	559	552	538	536	536	534	531	524	526	530
Extending TCJA	0	0	0	0	0	0	0	0	0	0	0	0
Other Taxes	342	234	575	591	616	630	684	724	737	755	767	780
Total Revenue	**4,288**	**4,935**	**5,313**	**5,572**	**5,793**	**5,863**	**6,002**	**6,124**	**6,216**	**6,296**	**6,402**	**6,522**
Medicare & Social Security	2,217	2,507	2,605	2,650	2,733	2,889	2,849	3,007	3,093	3,180	3,406	3,466
Veterans & Federal Pensions	318	366	407	433	441	474	435	467	475	483	516	502
Offsetting Receipts	-337	-347	-360	-363	-378	-394	-406	-430	-447	-455	-475	-490
Social Insurance subtotal	2,198	2,527	2,652	2,721	2,796	2,969	2,877	3,045	3,121	3,208	3,447	3,478
Great Society	884	1,040	884	866	849	832	815	799	783	767	752	737
Defense	814	818	818	801	785	769	754	739	724	710	696	682
Refundable Credits	107	92	95	94	78	77	76	74	73	72	71	69
Temp. and Unpopular Programs	153	223	0	0	0	0	0	0	0	0	0	0
Everything Else	762	873	762	746	731	717	702	688	675	661	648	635
Other Programs subtotal	2,719	3,046	2,558	2,508	2,443	2,395	2,348	2,301	2,255	2,210	2,166	2,123
Net Interest	466	870	906	899	887	885	884	879	883	891	889	884
Total Expenditures	**5,383**	**6,442**	**6,117**	**6,128**	**6,126**	**6,249**	**6,109**	**6,225**	**6,258**	**6,309**	**6,502**	**6,484**
Deficit	**-1,095**	**-1,507**	**-804**	**-556**	**-334**	**-386**	**-106**	**-101**	**-43**	**-13**	**-100**	**37**

	Est., 2019	Est., 2024	Fcast., 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
						as percent of real gross domestic product						
Individual Income Taxes	8.2	8.8	8.7	9.3	9.7	9.6	9.7	9.7	9.7	9.6	9.7	9.7
Payroll Taxes	5.8	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	1.2	2.0	2.0	1.9	1.8	1.8	1.7	1.7	1.7	1.6	1.6	1.6
Extending TCJA	-	-	-	-	-	-	-	-	-	-	-	-
Other Taxes	1.3	0.8	2.0	2.0	2.1	2.1	2.2	2.3	2.3	2.3	2.3	2.3
Total Revenue	**16.5**	**17.5**	**18.6**	**19.2**	**19.6**	**19.4**	**19.6**	**19.6**	**19.6**	**19.5**	**19.5**	**19.6**
Social Insurance Programs	8.5	9.0	9.3	9.4	9.4	9.8	9.4	9.8	9.8	9.9	10.5	10.5
Other Programs	10.5	10.8	9.0	8.6	8.3	7.9	7.7	7.4	7.1	6.9	6.6	6.4
Net Interest	1.8	3.1	3.2	3.1	3.0	2.9	2.9	2.8	2.8	2.8	2.7	2.7
Total Expenditures	**20.7**	**22.9**	**21.4**	**21.1**	**20.7**	**20.7**	**19.9**	**19.9**	**19.7**	**19.6**	**19.8**	**19.5**
Deficit	**(4.2)**	**(5.3)**	**(2.8)**	**(1.9)**	**(1.1)**	**(1.3)**	**(0.3)**	**(0.3)**	**(0.1)**	**(0.0)**	**(0.3)**	**0.1**
Addendum:												
CPI-U	254.4	310.7	318.5	326.1	333.3	340.6	348.1	355.8	363.8	372.0	380.4	388.9
GDP (nominal)	21,275	28,177	29,256	30,504	31,756	33,043	34,375	35,746	37,157	38,609	40,106	41,646
GDP (2024$ CPI-U)	25,987	28,177	28,538	29,063	29,603	30,144	30,680	31,210	31,731	32,247	32,759	33,266

Data sources: Congressional Budget Office (CBO), February 2024 and May 2019 10-year budget estimates; CBO Options for Reducing the Deficit, December 2022; Internal Revenue Service, Statistics of Income Division, Publication 1304, November 2022
Notes: See Appendix for American Compass categorization of outlays and scenario definitions; tariff revenue assumes imports decline by two times tariff rate.

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