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Budget



Lawmakers in both parties bemoan rising deficits, but they offer differing solutions. FINN GOMEZ/ GETTY IMAGES

U.S. Budget Hole Gets Deeper As Deficit Nears \$2 Trillion

BY RICHARD RUBIN

WASHINGTON—The U.S. budget deficit climbed to nearly \$2 trillion in the fiscal year that ended Sept. 30, according to the Congressional Budget Office, deepening the federal government's persistent red-ink trend.

The \$1.993 trillion deficit was 12% above the 2025 level in nominal dollars, reaching the highest level since 2021. The U.S. spent \$7.4 trillion last year, up 6%, and it collected \$5.4 trillion in revenue, up 3%.

The deficit also stayed high as a share of gross domestic product, the metric that economists watch closely. Although the final fiscal 2026 GDP number hasn't been released yet, budget experts expect the deficit to surpass 6% of GDP, compared with 5.8% in fiscal 2025.

The CBO's preliminary full-year deficit reading shows the country's finances stuck in an unusual rut that alarms policymakers but hasn't moved them to change course. Six-plus years into an economic expansion, the U.S. is running annual deficits normally seen only during recessions and wars. This year's jump in bond yields makes the fiscal trajectory even more challenging because it drives up annual interest costs on the \$32 trillion publicly held debt.

The Trump administration and the Republican-controlled Congress took several steps to reduce red ink since gaining full control of Washington in early 2025. They shrank the federal workforce, curtailed clean-energy tax

breaks, let some healthcare subsidies expire and lowered food-stamp enrollment.

But the surge in tariff revenue President Trump hoped for didn't happen fully because the Supreme Court ruled he overstepped his legal authority, forcing the government to issue refunds. And Republicans increased deficits by expanding immigration-enforcement spending, extending expiring tax cuts and cutting taxes further.

"They could have blown it up worse, and they wanted to, some of them," said Douglas Holtz-Eakin, a former CBO director who now runs the conservative American Action Forum. "They didn't make any real progress, so we just wandered along."

Headed into the next month's midterms, neither party has emphasized deficit reduction, and both have floated ideas that could increase deficits. Trump, a Republican, has promised \$5,000 checks for adult U.S. citizens at a cost of more than \$1 trillion—if

voters keep the GOP in control of Congress. He also wants to boost military spending sharply. Democrats, meanwhile, are running on restoring healthcare spending cuts made by Republicans.

'Unsustainable trend'

The continually big U.S. deficits—hovering around 6% of gross domestic product— are historically unusual outside of economic downturns and national emergencies.

"Running \$2 trillion deficits in a growing economy with low unemployment and no major emergency situation going on is an unsustainable trend," said Shai Akabas, vice president of economic policy at the Bipartisan Policy Center. It is "not what we should be doing when circumstances are relatively calm."

The annual deficits have accumulated into a publicly held debt that is surpassing 100% of GDP and heading toward the post-World War II record in a few years. Notes

After World War II, military spending declined and the U.S. sometimes ran annual budget surpluses. That drove the debt burden downward.

Now, structural forces are driving deficits and debt higher. The government's largest programs are Social Security and Medicare. Both are growing faster than the rest of the budget, and both are popular with voters.

The government's interest costs are also climbing, consuming more than \$1 of every \$5 of tax revenue, and policymakers can't do much about that directly. Last year, the U.S. paid more than \$1.1 trillion in net interest on the public debt, according to CBO. That climbed \$115 billion, or 11% above the 2025 level, and it effectively accounted for more than half of the deficit increase. The U.S. spent more on interest than it did on increasing more than it spent on national defense or Medicare.

The rising interest burden doesn't include much effect from the recent run-up in Treasury yields that pushed the yield on the benchmark 10-year note to 24-year highs. That rate shift takes longer to filter into the budget because it only affects new debt that gets issued as older debt comes due. Note

Lawmakers in both parties bemoan the rising deficits, but they have starkly different approaches.

Senate Budget Committee Chairman Ron Johnson (R., Wis.) said Congress pushed up spending during the pandemic and hasn't done enough to reduce it. "I harangued my colleagues, and obviously it was completely ignored," he said in an interview this week. "It's out-of-control spending, which we just refuse to rein back in to a reasonable level."

The path forward

In the post-election congressional session, Republicans might consider a one-party budget bill to implement a military spending increase. Johnson said he is eyeing changes to reduce fraud in federal programs.

Trump officials have said they would release a "fiscal consolidation" plan to reduce deficits toward Treasury Secretary Scott Bessent's target of 3% of GDP. But Trump has said he wants to issue the \$5,000 checks, which would almost certainly be paid for with more borrowing, and he has pledged to block efforts to reduce Social Security or Medicare benefits.

Democrats said the government should reverse declines in tax enforcement and raise taxes on corporations and high-income households.

"There's this sort of culture of impunity for primarily rich tax evaders that the government does not want to pursue," said Corey Husak, director of tax policy at the Democratic-aligned Center for American Progress.

The deficits are unsustainable, said Rep. Brendan Boyle (D., Pa.), who is likely to lead the Budget Committee if Democrats take control of the House in next month's election.

"While Republicans have been completely hypocritical on the debt issue, that doesn't make the problem of a massive deficit any less real," he said. "Any serious plan must include finally making billionaires shoulder more of the burden."

Some of the effects of Republicans' 2025 "one big, beautiful bill" started to show up in the fiscal 2026 budget data. Corporate tax revenue decreased by \$70 billion, or 16%, though they rebounded some in September.

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