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The $1.77 Trillion Deficit: *Understanding America's Federal Debt*

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EXECUTIVE SUMMARY

America's economy already has one hand tied behind its back. Soon both hands will be tied by our massive federal debt of $40 trillion. In 2025, the federal government spent nearly $1 trillion on interest–more than it spent on national defense. Imagine how much better we could have spent or saved that money. Having to pay down the debt—and the interest on it—will prevent us from spending on national defense and necessary domestic policies.

We do not have a huge federal debt because government taxes people too little; we have a large debt because government spends too much. Federal revenue in 2025 was close to the historical average. But spending was substantially higher. Much of that growth came from increases in Social Security, Medicare, and Medicaid.

Unless Congress and the president get our fiscal house in order, America is headed for economic calamity.

Key findings include:

- Interest on the national debt is nearly $1 trillion per year and consumes 3.2% of the economy. Those payments cover nothing but the cost of past borrowing—not current national priorities. Interest has surpassed national defense as the federal government's second-largest spending category.
- Tax collections remain close to their historical average, which is 17.3% share of the economy. But expenditures in 2025 equated to 23.1% of the economy. Higher spending, rather than lower revenue, drives today's deficits.
- The biggest increases have been in federal retirement and healthcare programs. Since 1971, Social Security spending has risen from 3.2% to 5.2% of GDP. Spending on Medicare and other federal health programs has increased even faster.

Federal deficits are abstract, but their consequences are very real. When the government spends far more than it collects year after year, interest costs rise, economic growth can slow, and fewer tax dollars remain for priorities Americans care about.

Consider this. The federal deficit in 2025 was $1,774,700,000,000. Since that number is too large for people to grasp we will put it into context. If you spent one dollar every minute since the birth of Christ, you still would not have spent $1.77 trillion. Or, imagine a football field covered with $1 bills laid flat. The one-year 2025 federal deficit is large enough to cover that football field—endzone to endzone— and rise to the height of a 110 story building. [1]

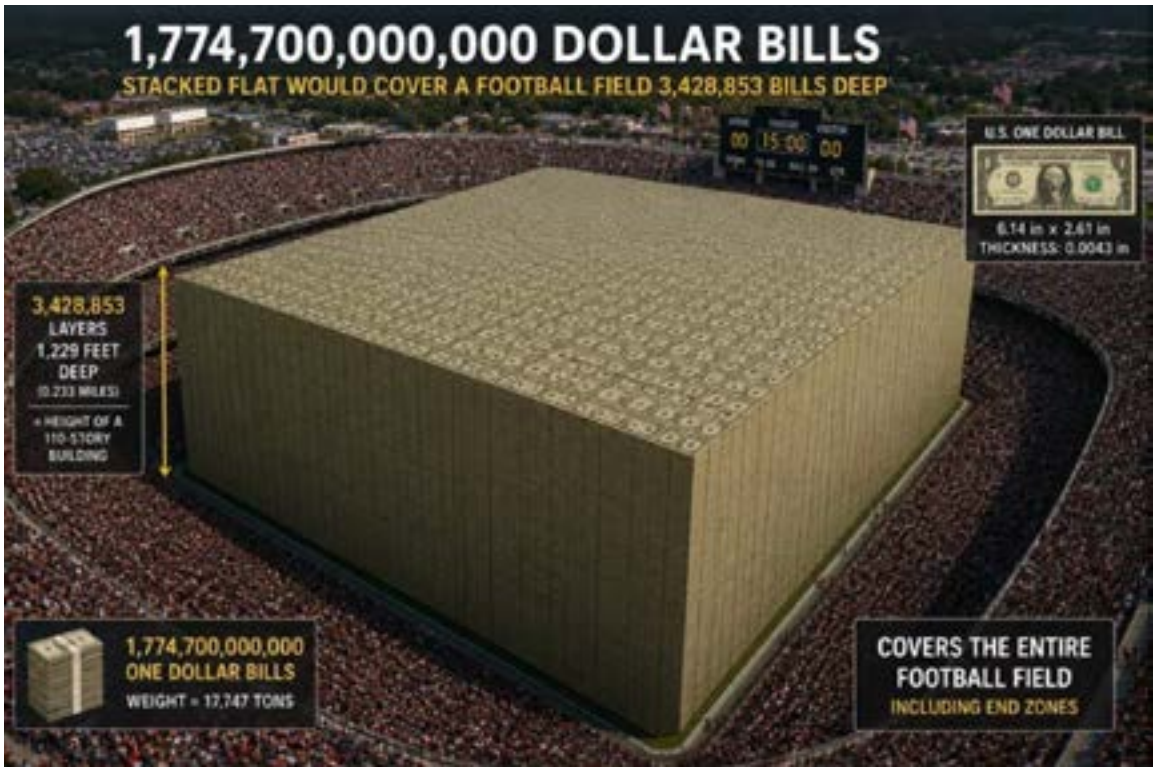

Figure 1: 2025 National Deficit

[1] A trillion dollars today is not the same as a trillion dollars several decades ago. The economy—and the federal budget—has grown enormously. To make fair comparisons over time, this report measures taxes and spending as a share of the entire U.S. economy, or gross domestic product (GDP). Using GDP will allow us to discuss how much of the nation's economy the federal government is bringing in as taxes and paying out as expenses.

As shown in Figure 2, the 2025 deficit was equivalent to 5.8% of America's GDP.[2] Since 1947, the federal government has run a deficit 67 out of 79 years. [3] What this means is that the average deficit across the years has been 3.3% of GDP. The only periods when the federal government ran consistent surpluses were the boom years immediately after WWII (1947-1949) and during the dot-com boom (1998-2001). The highest deficits in 79 years were during the COVID crisis in 2020 and 2021 (14.5% and 12.0%). In 2020, the federal government spent $1.90 for every $1.00 it brought in as tax revenue.

Figure 2: Surplus or Deficit as Percentage of GDP

Note: Line represents the difference between total federal revenues as percentage of GDP and total federal expenditures as percentage of GDP. Data computed by authors from Office of Management and Budget (OMB) Table 1.2 Summary of Receipts, Outlays, and Surpluses or Deficits as Percentage of GDP: 1930 – 2025 https://www.whitehouse.gov/omb/information-resources/budget/historical-tables/

[2] GDP is the total money value of all finished goods and services made inside the country in a given year.

[3] We started this measure after World War II. Since WWII had such a drastic impact on the economy, including those years would greatly distort any comparisons we could make. But as a note of interest, the average deficit during WWII was 21.7% of GDP from 1942-1945.

Is the Growing Deficit Due to Low Taxation Rates or Greater Spending?

Some argue that decreasing tax rates have caused our growing deficits.[4] The data do not back up those claims. (Even the increased revenue from proposals such as a wealth tax on the richest Americans cover less than half the current annual federal deficit.) The average federal revenue as a share of the economy from 1947-2025 is 17.2% of GDP. The highest rate (20%) occurred in 2000 while the lowest rate (14.2%) occurred in 1950. In 2025, the federal government brought in revenue equivalent to 17.3% of GDP. That is slightly above average. As Figure 3 shows, the 2025 federal revenue as a share of the economy is near the center of the distribution for annual federal revenue as a share of the economy. What this means is that taxes are growing at a similar rate as the economy.

Figure 3: Federal Revenue as a Percentage of GDP
Note: Line represents total federal revenues as percentage of GDP as reported in Office of Management and Budget (OMB) Table 1.2 Summary of Receipts, Outlays, and Surpluses or Deficits as Percentage of GDP: 1930 – 2025 https://www.whitehouse.gov/omb/information-resources/budget/historical-tables/

Of course, this does not mean that tax rates are sufficient or that Congress should not adjust them. We are not taking a position about the proper level of taxation. It simply indicates that the size of the deficit is not a function of excessively low taxation rates.

Federal revenue as a share of the economy can fluctuate due to factors other than changes in tax rates. For example, federal revenue temporarily rose in 2022 partly because investors reported unusually large capital gains[5] and because rapidly rising wages pushed some taxpayers into higher tax brackets[6].

[4] https://www.epi.org/publication/raising-taxes-on-the-ultrarich-a-necessary-first-step-to-restore-faith-in-american-democracy-and-the-public-sector/
[5] Capital gains realizations in 2021 (taxed in 2022), were 2.2% of GDP higher than the 40 year average. Source: https://www.cbo.gov/publication/58147
[6] The Internal Revenue Service sets the adjustments to income thresholds before the start of the tax year, which means that the adjustments are based on inflation in the previous year. Because of that lag, a larger share of income may be taxed at higher rates during periods of high inflation. Source: https://www.cbo.gov/publication/58147

However, since the largest portion of government revenue comes from individual taxation, tax rates do have a significant impact on federal revenues. The last time the federal government had a surplus rather than a deficit, 1998-2001, the average federal revenue as a share of the economy was 19.4% of GDP and included the highest rate of 20% of GDP in 2000.

While federal revenue as a share of the economy in 2025 was near the 79-year average, federal spending was not. In 2025, the federal government spent $7.01 trillion, an amount equivalent to 23.2% of GDP. The historical average spending since 1947 is 19.8%. The government spent far more than it took in.

The thinner line in Figure 4 shows the actual number of dollars spent each year, without adjusting for inflation. That total has risen dramatically as the country and economy have grown. Total federal expenditures in 1947 were $34.5 billion, which was 14.4% of GDP at that time. Federal spending can stay the same as a share of GDP while still increasing in dollars. As the economy grows, the same percentage of GDP equals more money. Federal spending grew from 14.4% of the economy in 1947 to 23.1% in 2025. This means federal spending has grown faster than the economy; otherwise, its share of GDP would have remained steady.

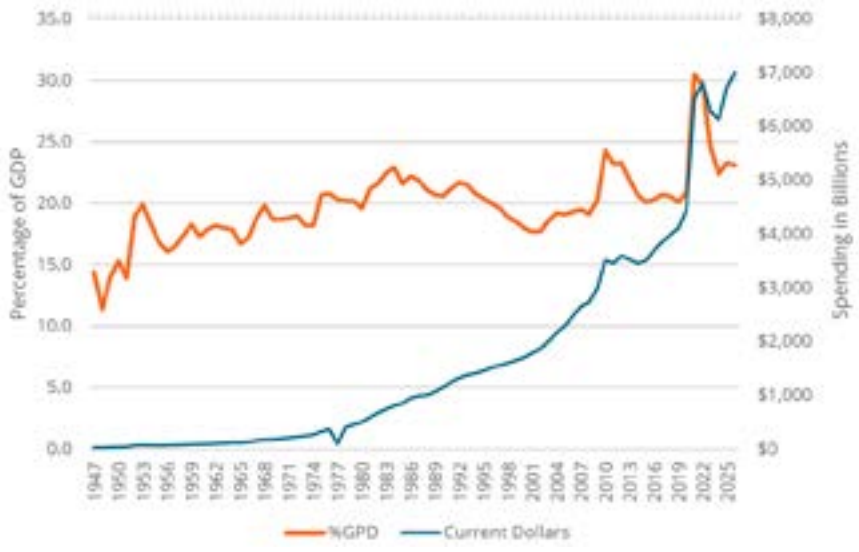

Figure 4: Federal Expenditures as a Percentage of GDP
Note: Thick line represents total federal expenditures as a share of the economy. Thin line represents total federal expenditures in current dollars. Data reported by Office of Management and Budget (OMB) Table 3.1 Outlays by Superfunction and Function: 1940-2031 https://www.whitehouse.gov/omb/information-resources/budget/historical-tables/

INFLATION ADJUSTED DOLLARS VS PERCENT GDP

When comparing spending over time, researchers will often use inflation adjusted dollars to represent change in dollar amounts. This works well when comparing prices on a stable scale such as prices between two points in time.

However, when discussing major economic functions such as national tax revenues or expenditures, inflation adjusted dollars provide only part of the picture. Gross Domestic Product (GDP) measures the total output in goods and services produced within an economy. Expressing revenues or expenditures as a percentage of GDP shows their size relative to the economy which provides a useful measure of the government's fiscal claim on national economic resources.

Since 2000, there have been two notable spikes in federal expenditures. The first occurred in 2008 around the Great Recession. Federal spending jumped to 24.3% of GDP. The second spike occurred during the COVID crisis. In 2020 and 2021, federal expenditures equaled 30.5% and 29.6% of GDP, respectively. Federal expenditures were supposed to return to pre-COVID levels after the crisis. They have not. Since 2022, the federal government has spent an average of 23.3% of GDP.

When we compare revenues and expenditures, we see the growth of annual deficits over time. In Figure 5, the dotted line shows revenues as a share of the economy while the solid line shows expenditures. What this means is that over time, federal spending has risen faster than federal revenue. The widening distance between the two lines represents increasingly large annual deficits.

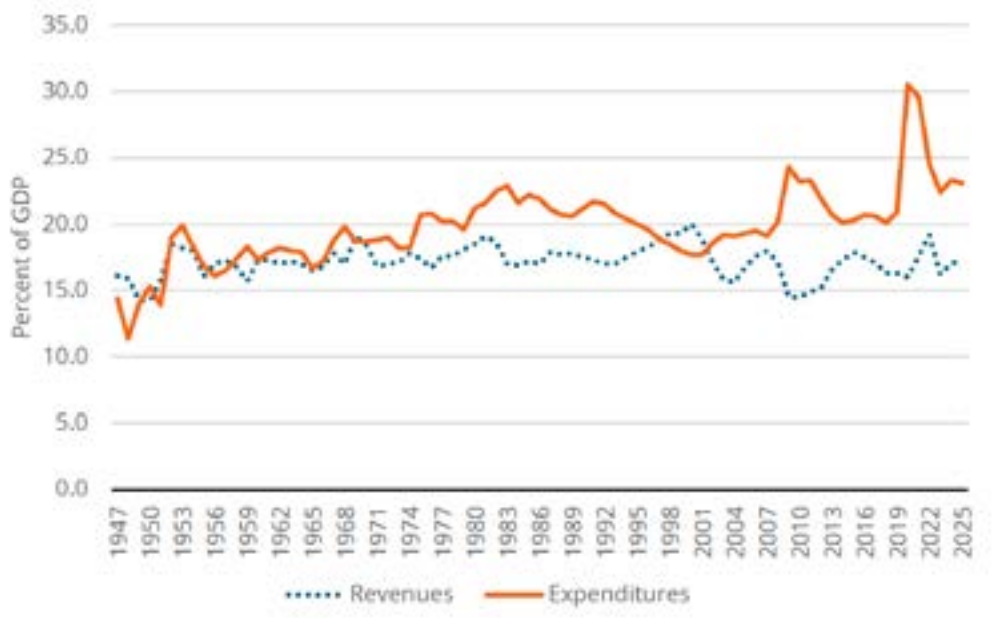

Figure 5: Revenues and Expenditures as Percent of GDP

Note: Thick line represents total federal expenditures as percentage of GDP. Dotted line represents total federal revenues as percentage of GDP. Data computed by authors from Office of Management and Budget (OMB) Table 1.2 Summary of Receipts, Outlays, and Surpluses or Deficits as Percentage of GDP: 1930 – 2025 and Table 3.1 Outlays by Superfunction and Function: 1940-2031 https://www.whitehouse.gov/omb/information-resources/budget/historical-tables/

There is a clear and persistent gap between revenues and expenditures. An average federal revenue as a share of the economy of 17.2% of GDP and annual federal spending as a share of the economy of 19.8% paints a clear picture. Table 1 shows the average percentage of GDP for revenues and expenditures for each 20-year period. The average gap from 2007 to present represents the largest growth of annual deficits during the last 79 years. Considering the slopes of the trendlines in Figure 5, we should expect the size of the annual deficit to continue to grow each year unless Congress makes significant changes in federal fiscal policies.

	Percentage of GDP		
	Revenues	Expenditures	Deficit
1947-1966	16.7%	16.7%	0.0%
1967-1986	17.6%	20.3%	2.7%
1987-2006	17.8%	19.7%	1.9%
2007-2025	16.7%	22.6%	5.9%

Table 1: Average Percentage of GDP for Revenues and Expenditures

Where Is the Money Being Spent?

To understand why spending has grown, we need to look at where the money goes. Again, comparing each category with the size of the economy allows us to separate real long-term growth from inflation.

Many graphs of federal expenditures focus on discretionary spending only. National defense is by far the largest portion of the discretionary budget. This often leads to the belief that defense spending is the largest aspect of federal expenditures. That is wrong.

In 2025, spending on national defense made up only 13.1% of the total federal budget and consumed 3.0% of GDP. During WWII, national defense dominated federal spending and consumed up to 37% of GDP. Figure 6 shows the share of the economy spent on national defense has shrunk significantly since 1947. Expenditure on national defense for 2025 was just 3.0% of GDP. What this means is that current spending on national defense is at one of the lowest levels in modern history.

The largest spending category was spending on human resources. The federal budget groups Social Security, Medicare, Medicaid, education, veterans' benefits, and other assistance programs into a broad category officially called "human resources." This category made up 67% of the federal budget and consumed 15.5% of GDP.

Total expenditure to cover the interest on the national debt in 2025 was actually larger than total expenditure on national defense. Interest on the debt was 13.8% of the federal budget (consumed 3.2% of GDP).

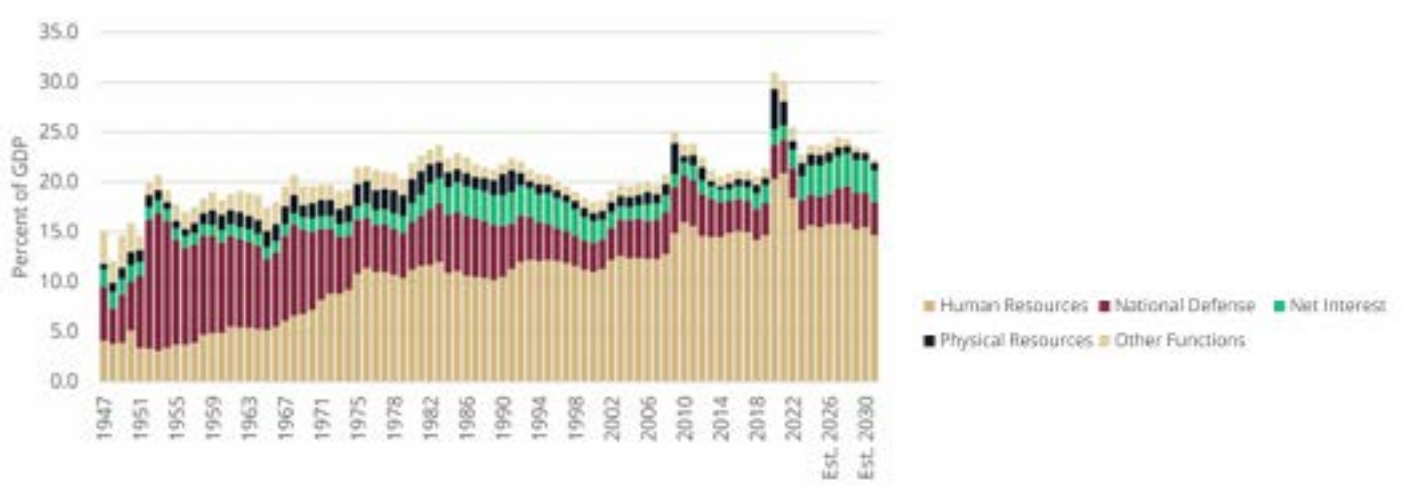

Figure 6: Expenditures by Category as Percentage of GDP
Note: Data reported by Office of Management and Budget (OMB) Table 3.1 Outlays by Superfunction and Function: 1940-2031
https://www.whitehouse.gov/omb/information-resources/budget/historical-tables/

Retirement, Healthcare, and Other Benefit Programs Spending

Retirement, healthcare, and other benefit programs displaced national defense as the largest category of federal spending in 1971. In 2025, the United States spent five times more on retirement, healthcare, and other benefit programs expenditures as it did on national defense. In 1971, the federal government spent 8.2% of GDP ($730 billion in 2025 dollars). That rate has increased to 15.5% of GDP which equates to $4.7 trillion dollars in 2025. This shows that even when adjusting for inflation and growth of the economy, the primary source of the increase in federal expenditures has been the growth of these areas of spending.

Retirement, Healthcare, and Other Benefit Programs by Function

Since a substantial part of the spending on retirement, healthcare, and other benefit programs comes from Great Society reforms that began in the late 1960s, we will use 1971 as the starting point for comparisons of changes to retirement, healthcare, and other benefit programs spending by function.[7]

The largest long-term increases have come from federal retirement and healthcare programs. Since 1971, Social Security spending has risen from 3.2% to 5.2% of GDP. Spending on Medicare and other federal health programshas increased even faster. To put these numbers in perspective, in 2025 spending for Social Security was $1.6 trillion with spending for Medicare and Health just under $1 trillion each.

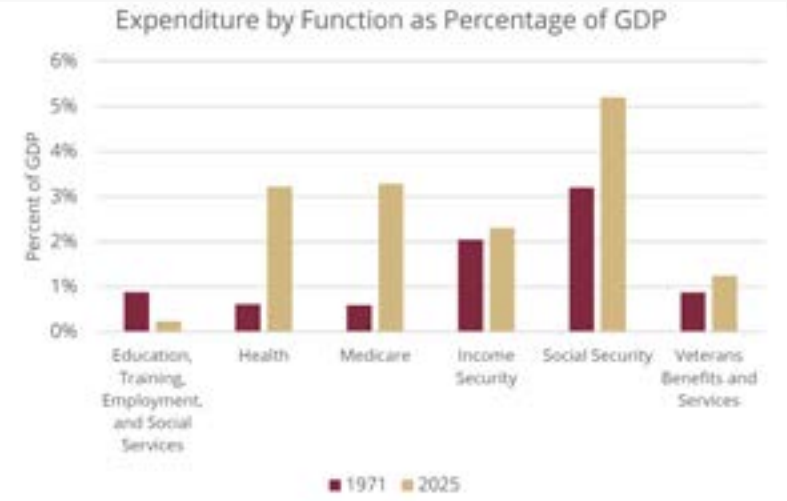

Figure 7: Retirement, Healthcare, and Other Benefit Programs Spending by Function (in 2025 Dollars), 1971:2025
Note: Bars show share of the economy spent on each budget function. Data computed by authors from Office of Management and Budget (OMB) Table 3.1 Outlays by Superfunction and Function: 1940-2031 https://www.whitehouse.gov/omb/information-resources/budget/historical-tables/

National Defense Spending

Headlines tell us that the United States spends more on defense than the next counties combined.[8] However, when examining the total U.S. budget national defense spending has greatly diminished as a share of the economy. Spending on National Defense has dropped from 9.8% of GDP in 1957 to 3.0% in 2025. Defense spending remains enormous—nearly $1 trillion in 2025—but it is not large enough to explain the entire deficit. Even eliminating all defense spending would not have closed the $1.77 trillion gap in 2025.

Figure 8: National Defense Spending as a Percentage of GDP
Note: Line represents total federal expenditures on national defense function as percentage of GDP. Data reported by Office of Management and Budget (OMB) Table 3.1 Outlays by Superfunction and Function: 1940-2031 https://www.whitehouse.gov/omb/information-resources/budget/historical-tables/

[7] You can find more details on the Human Resources functions and subfunctions in appendix table A1: Functions and Subfunctions of Human Resources Expenditures

[8] https://www.pgpf.org/article/the-united-states-spends-more-on-defense-than-the-next-6-countries-combined/

Interest on the National Debt

One area where the United States could reduce spending in the long term, save money, and strengthen the economy would be to pay down the national debt and reduce the spending on net interest paid each year. The U.S. national debt is approximately $40 trillion, which equates to 124% of GDP. If we continue to run annual deficits, our national debt will continue to grow. In 2025, the federal government spent nearly $1 trillion just paying interest on the national debt. That money did not build roads, fund schools, provide benefits, or reduce taxes. It paid for borrowing from previous years. This amount means the second largest expenditure function after retirement, healthcare, and other benefit programs was paying interest on the debt.

As Figure 9 shows, the cost to pay the interest on the national debt does fluctuate. It is sensitive to interest rates and other economic factors. Interest costs can rise or fall with interest rates. But with the national debt continuing to grow and borrowing costs expected to remain elevated, interest is likely to consume a substantial share of the federal budget for years.[9] Higher interest rates plus the growing annual deficits will likely result in interest on the national debt consuming at least 3.2% of GDP for the next several years.

Figure 9: Interest on the National Debt as Percent of GDP
Note: Line represents total federal expenditures on net interest function as percentage of GDP. Data reported by Office of Management and Budget (OMB) Table 3.1 Outlays by Superfunction and Function: 1940-2031 https://www.whitehouse.gov/omb/information-resources/budget/historical-tables/v

[9] According to the Congressional Budget Office (CBO) interest rates are expected to stay higher through 2036. https://www.cbo.gov/publication/62105

Conclusion

This report does not present a solution as to how to balance the national budget. No single organization or report can resolve such a complex problem. However, we have contextualized the size and sources of our national debt in a way that will advance understanding and spur discussion among Americans. Contrary to what most politicians say on the campaign stump, there is no easy way to solve the debt problem. Taxes are near their postwar average, while spending is historically high, particularl for retirement and healthcare programs. Closing a deficit of this size will require lawmakers to make difficult decisions. Until annual deficits shrink, the national debt—and the interest bill attached to it—will continue to grow.

Table A1: Functions and Subfunctions of Human Resources Expenditures

Function	Subfunction	Programs
Income Security	General Retirement and Disability	Non-Socal Security pension and disability
	Federal Employee Retirement	Civilian and military retirement and disability
	Unemployment	Federal unemployment benefits
	Housing Assistance	Supports low-income households through tenant- and project-based rent programs
	Nutrition Assist	SNAP and WIC
	Other Income Security	Welfare, family support, foster care, SSI, EITC
Education, Training, Employment, and Social Services	Elementary, Secondary, and Vocational Education	Funds K-12 school improvements, support for disadvantaged students, and vocational programs
	Higher Education	Pell Grants and federal student loans
	Research and General Education Aids	Education research, Library of Congress, museums, National Endowment for the Arts
	Training and Employment	Job training, Job Corps, employment placement
	Other Labor Services	Regulates labor markets, gathers labor statistics (via the Bureau of Labor Statistics), and handles mediation.
	Social Services	Provides grants for social services block grants such as Head Start
Health	Healthcare Services	Medicaid, CHIP, ACA subsidies, Indian Health Services
	Health Research and Training	National Institutes of Health, professional health training services
	Consumer and Occupational Health and Safety	FDA, CDC
Medicare	Medicare	Parts A, B, and D
Social Security	Old-Age and Survivors Insurance	Monthly benefits
	Disability Insurance	Qualifying long-term disability monthly benefits
	Administration	Operational expenses for SSA
Veterans' Benefits and Services	Income Security for Veterans	Service-connected disability compensation, survivors' dependency compensation
	Veterans Education, Training, and Rehabilitation	GI Bill and vocational rehabilitation
	Hospital and Medical Care	VA Hospitals, outpatient clinics, and community care
	Veterans Housing	VA home loan guarantees, housing grants for disabled veterans