Setting Fiscal Targets

Nov 2025

Committee for a Responsible Federal Budget

CRFB.org

Our Fiscal Outlook

Committee for a Responsible Federal Budget

CRFB.org

Last Year, We Spent $1.8 Trillion More than We Raised

IN FY 2025…

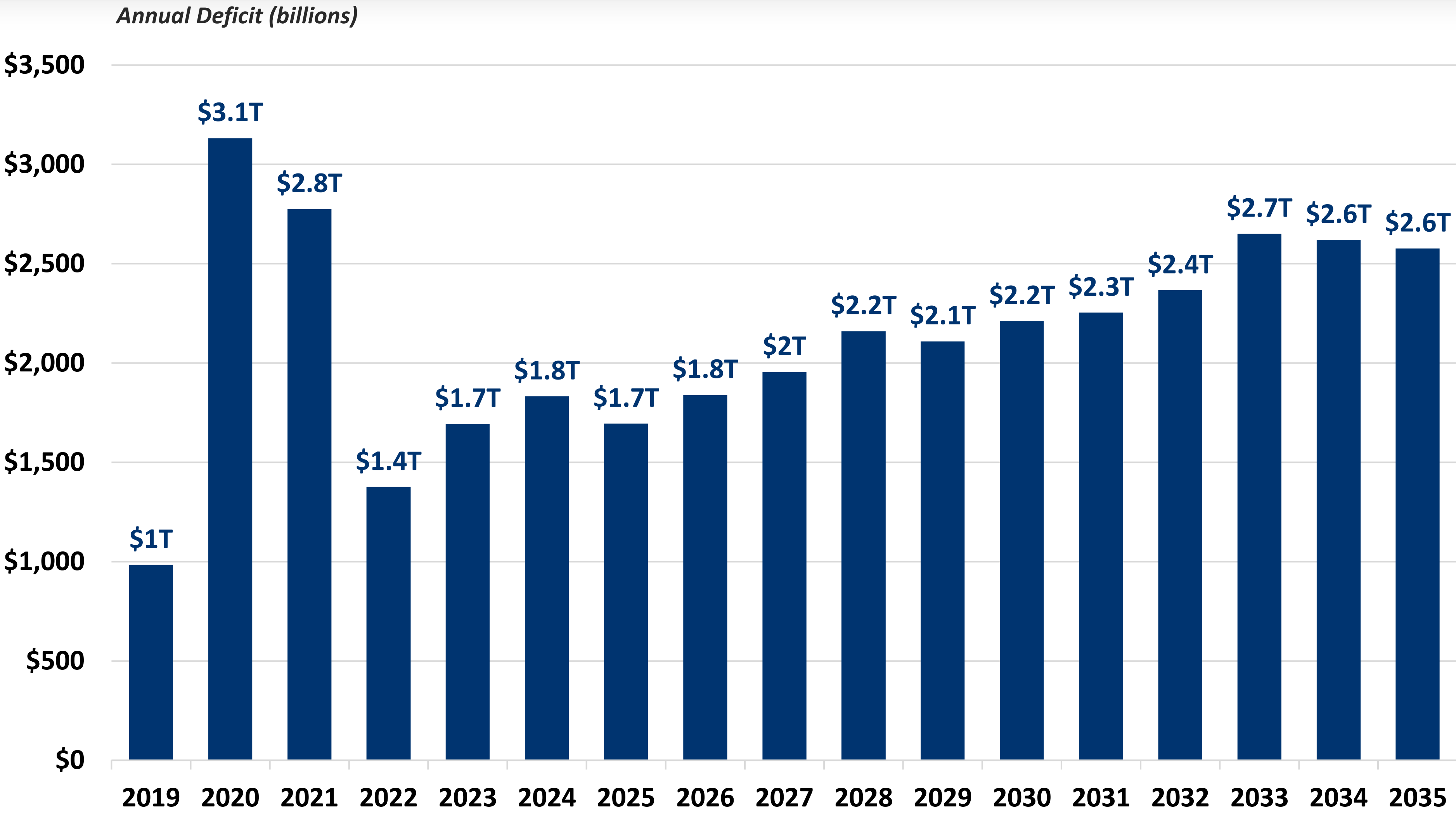
TOTAL REVENUE

$5.2 TRILLION

TOTAL SPENDING

$7.0 TRILLION

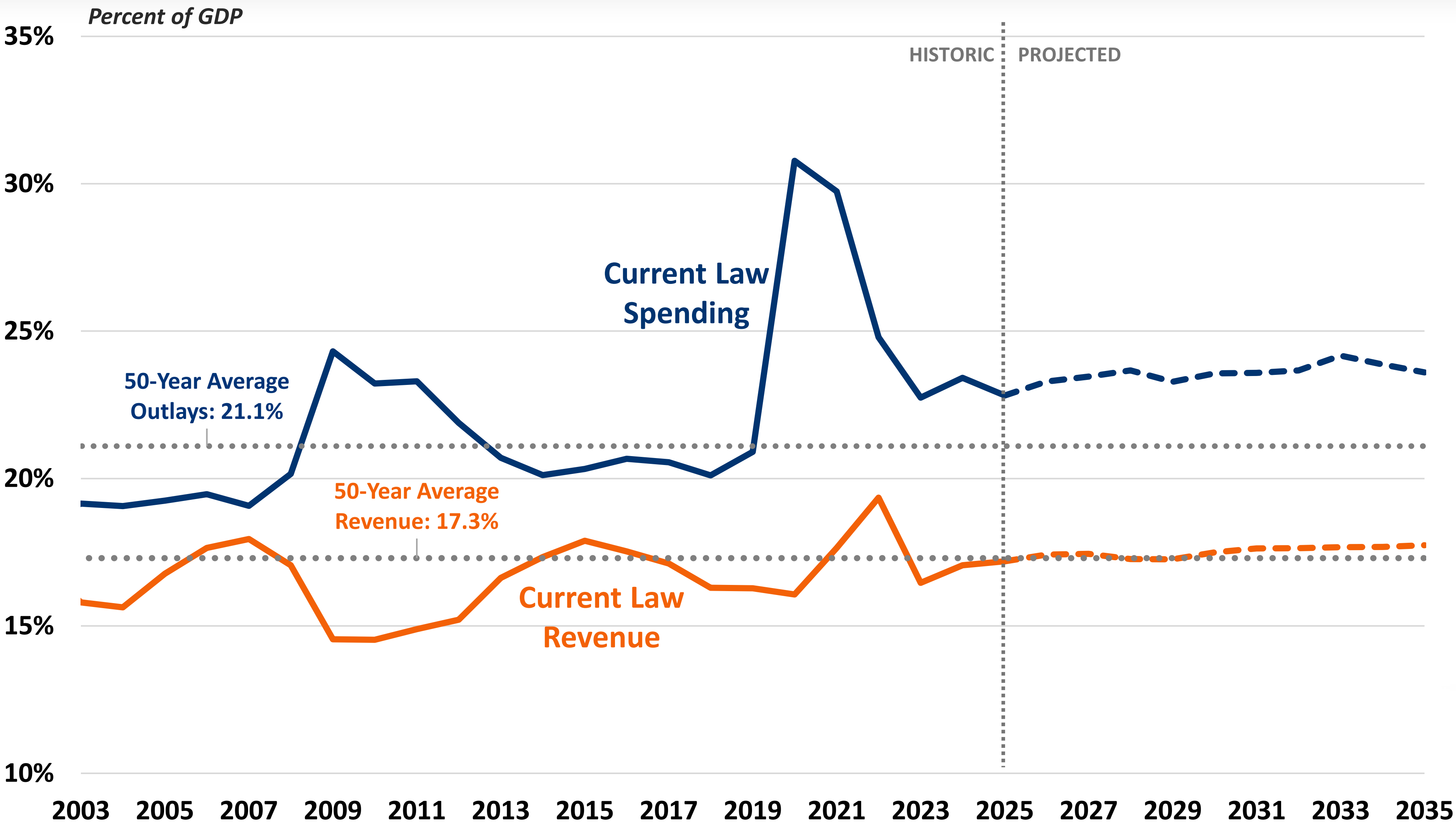
Deficits Are On the Rise



Sources: CRFB estimates based on data from Congressional Budget Office, U.S. Census Bureau, and Center for Medicare and Medicaid Services.

CRFB.org

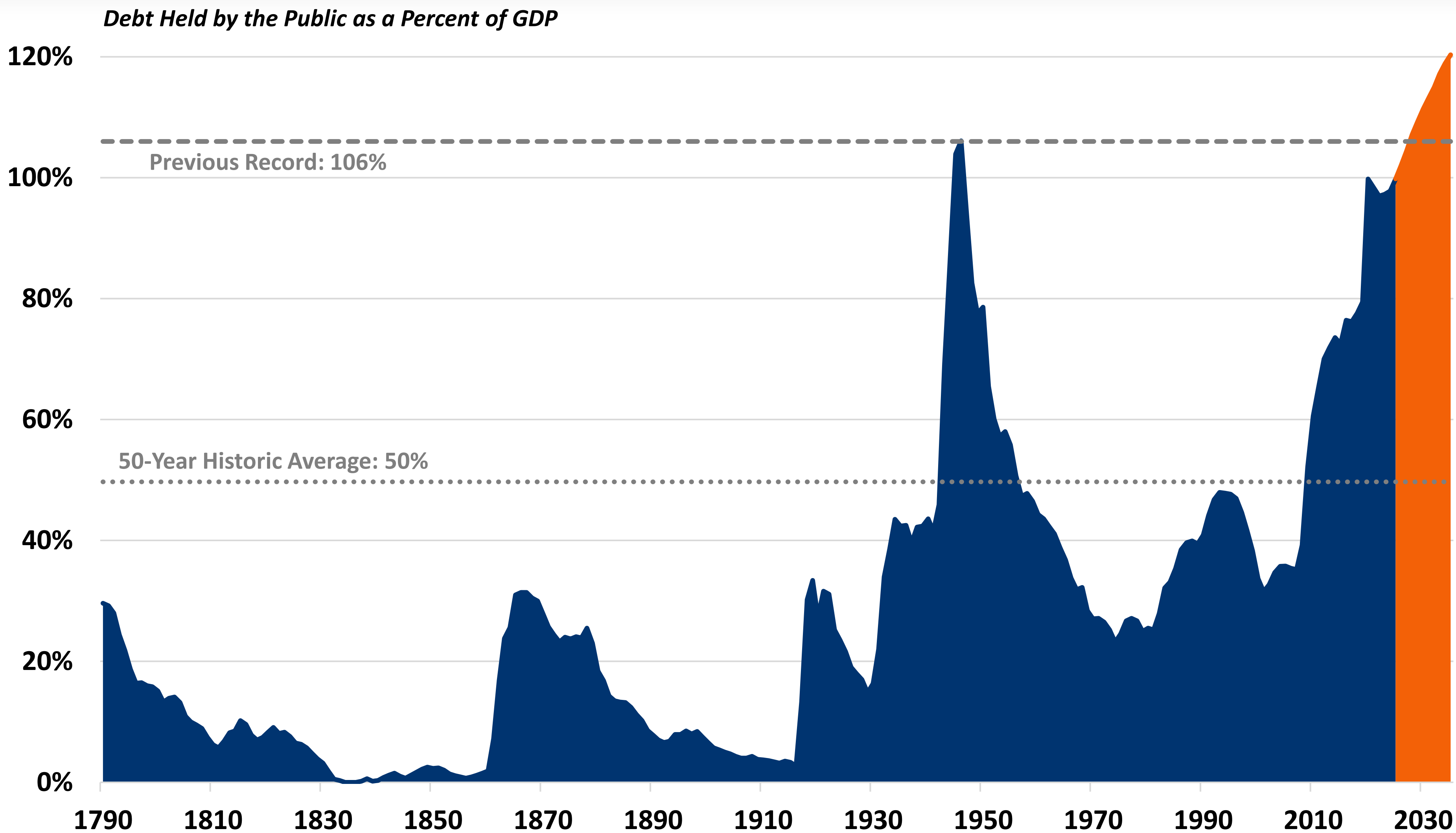
There's a Large Gap Between Revenue and Spending



Sources: CRFB estimates based on data from Congressional Budget Office, U.S. Census Bureau, and Center for Medicare and Medicaid Services.

CRFB.org

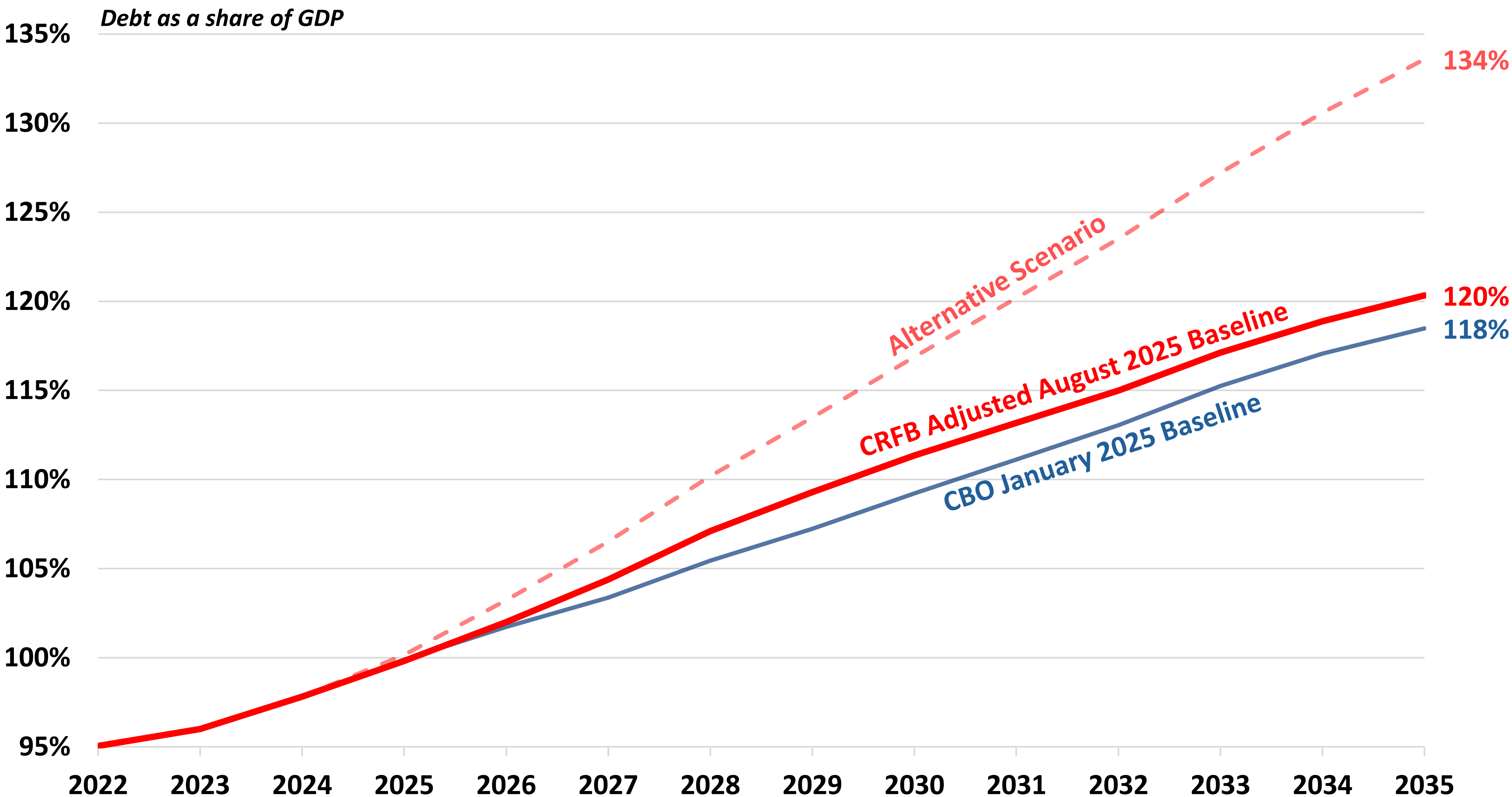
Debt Is Approaching Record Levels



Sources: CRFB estimates based on data from Congressional Budget Office, U.S. Census Bureau, and Center for Medicare and Medicaid Services.

CRFB.org

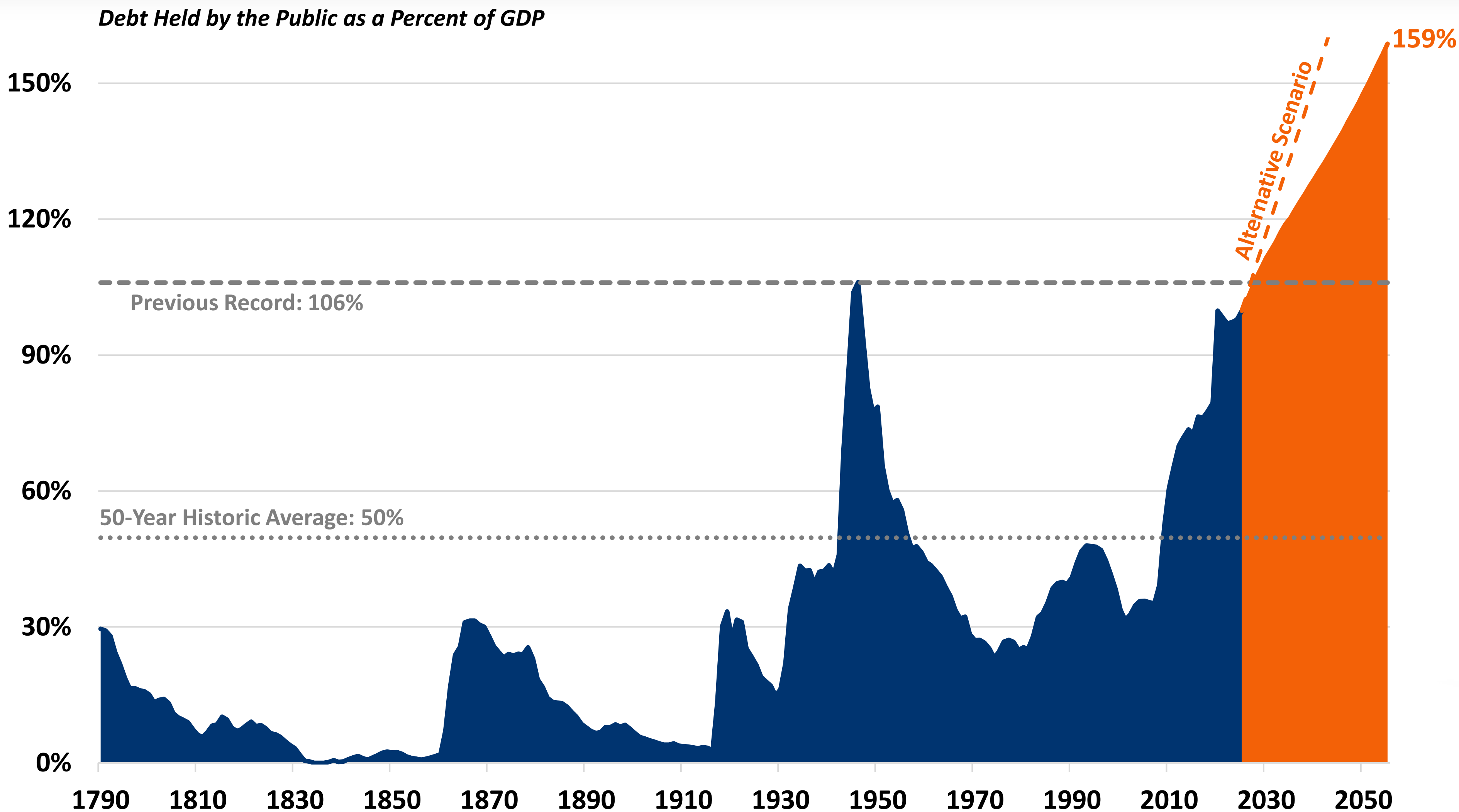
And Could Reach Them Faster



Source: CRFB estimates based on data from CBO, U.S. Census Bureau, and Centers for Medicare & Medicaid Services.

CRFB.org

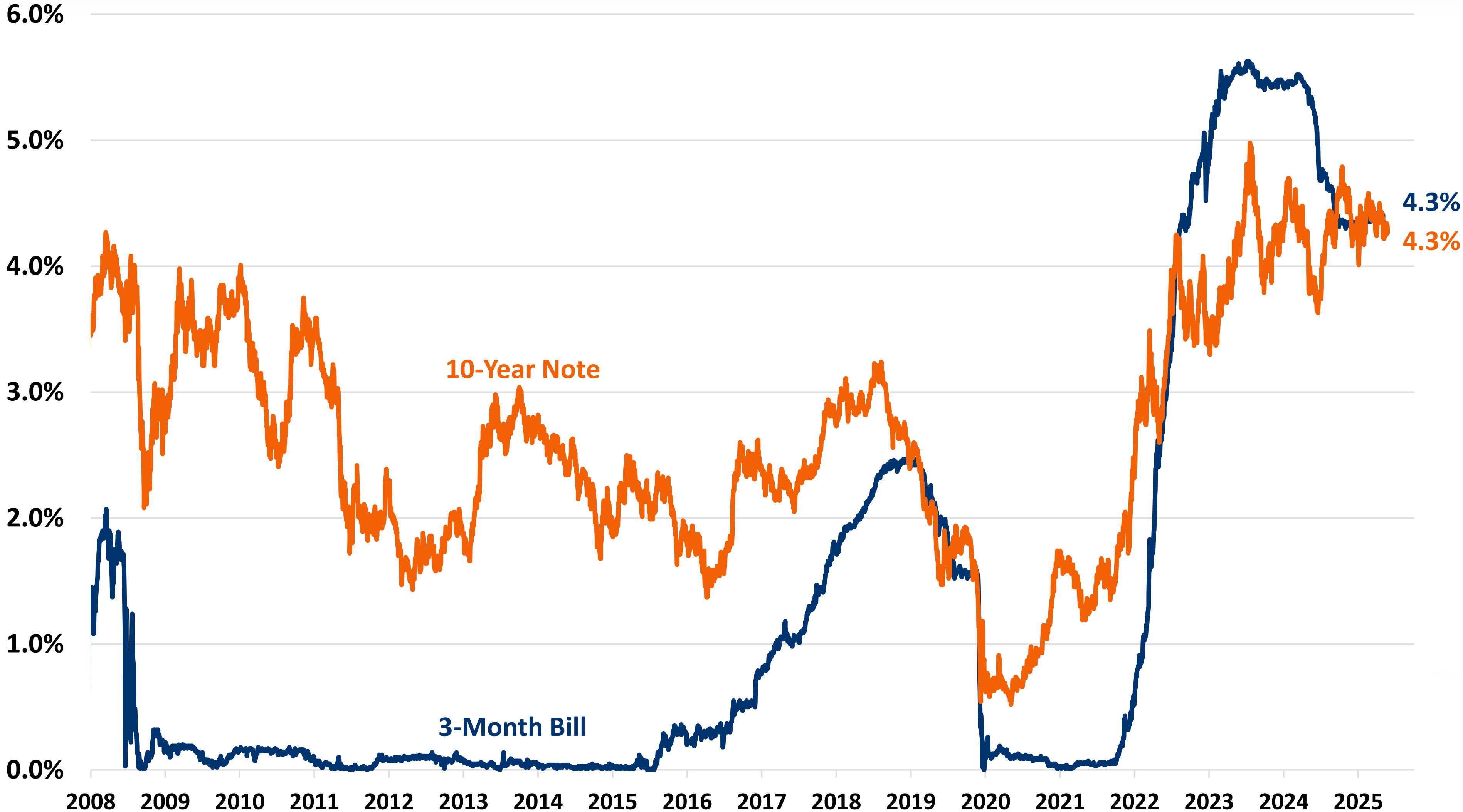
The Long-Run Outlook is Even Worse



Sources: CRFB estimates based on data from Congressional Budget Office, U.S. Census Bureau, and Center for Medicare and Medicaid Services.

CRFB.org

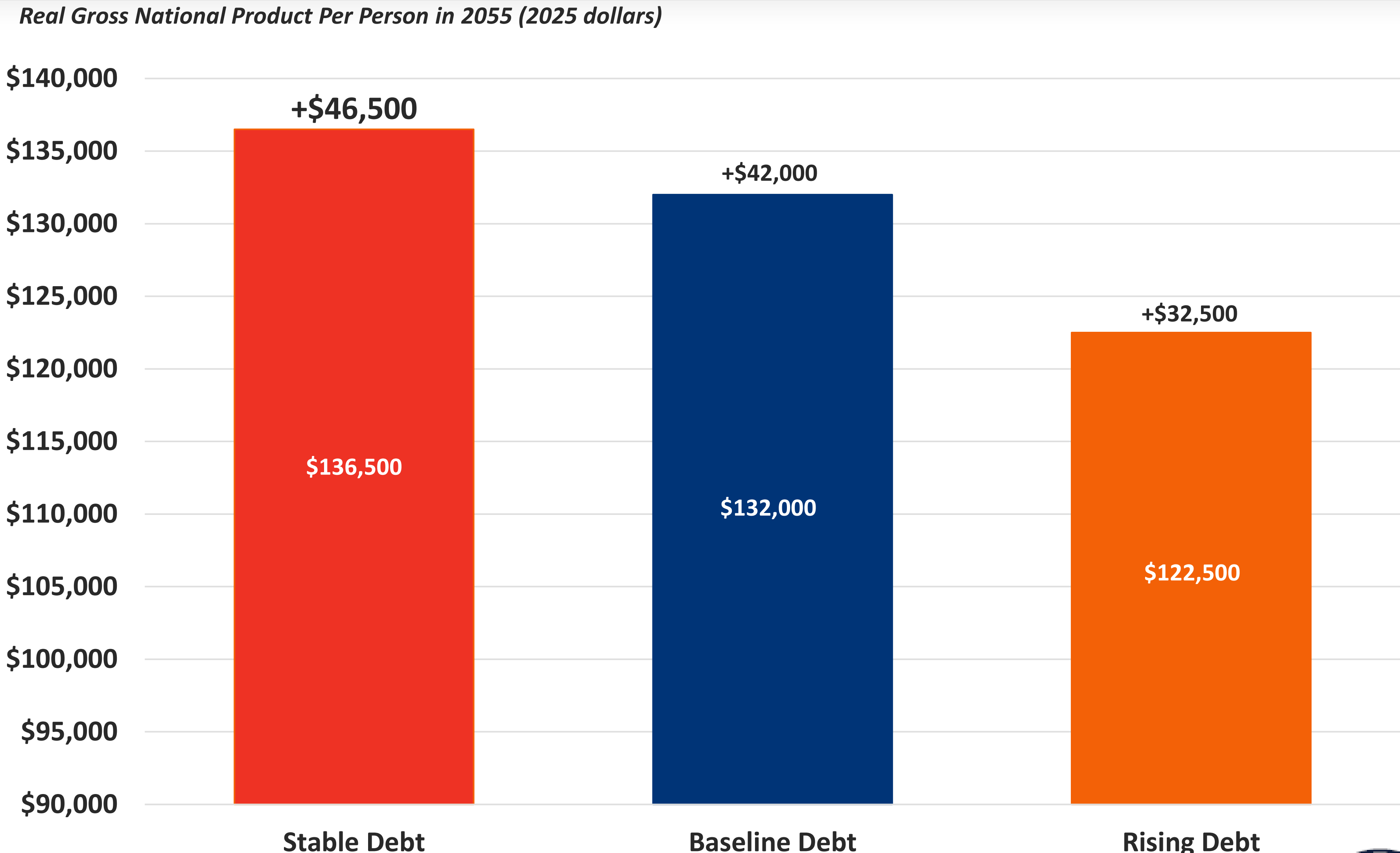
Rising Debt Pushes Up Interest Rates...



Source: U.S. Department of Treasury

CRFB.org

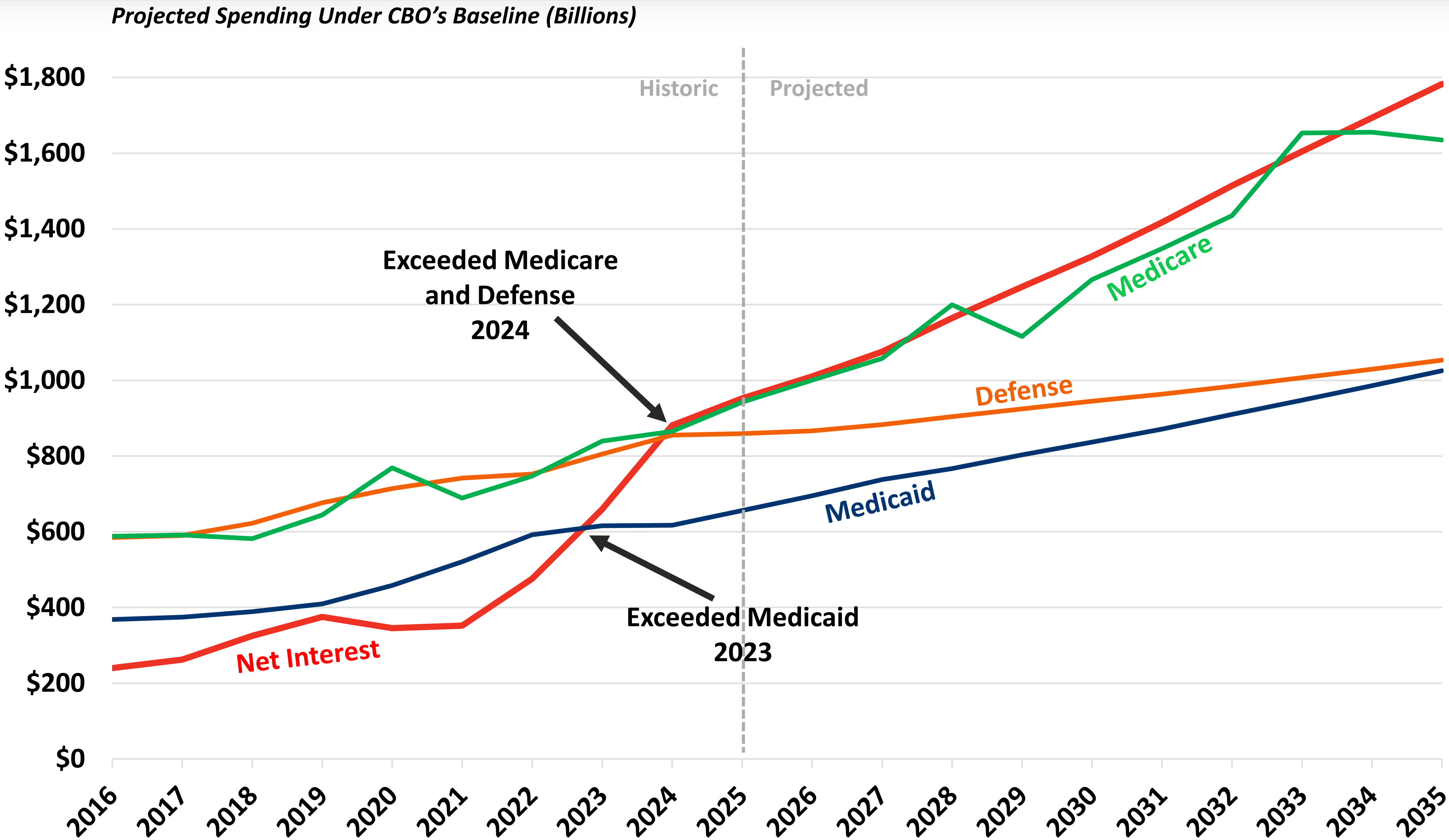
And Slows Income Growth



Source: Congressional Budget Office and the Committee for a Responsible Federal Budget

CRFB.org

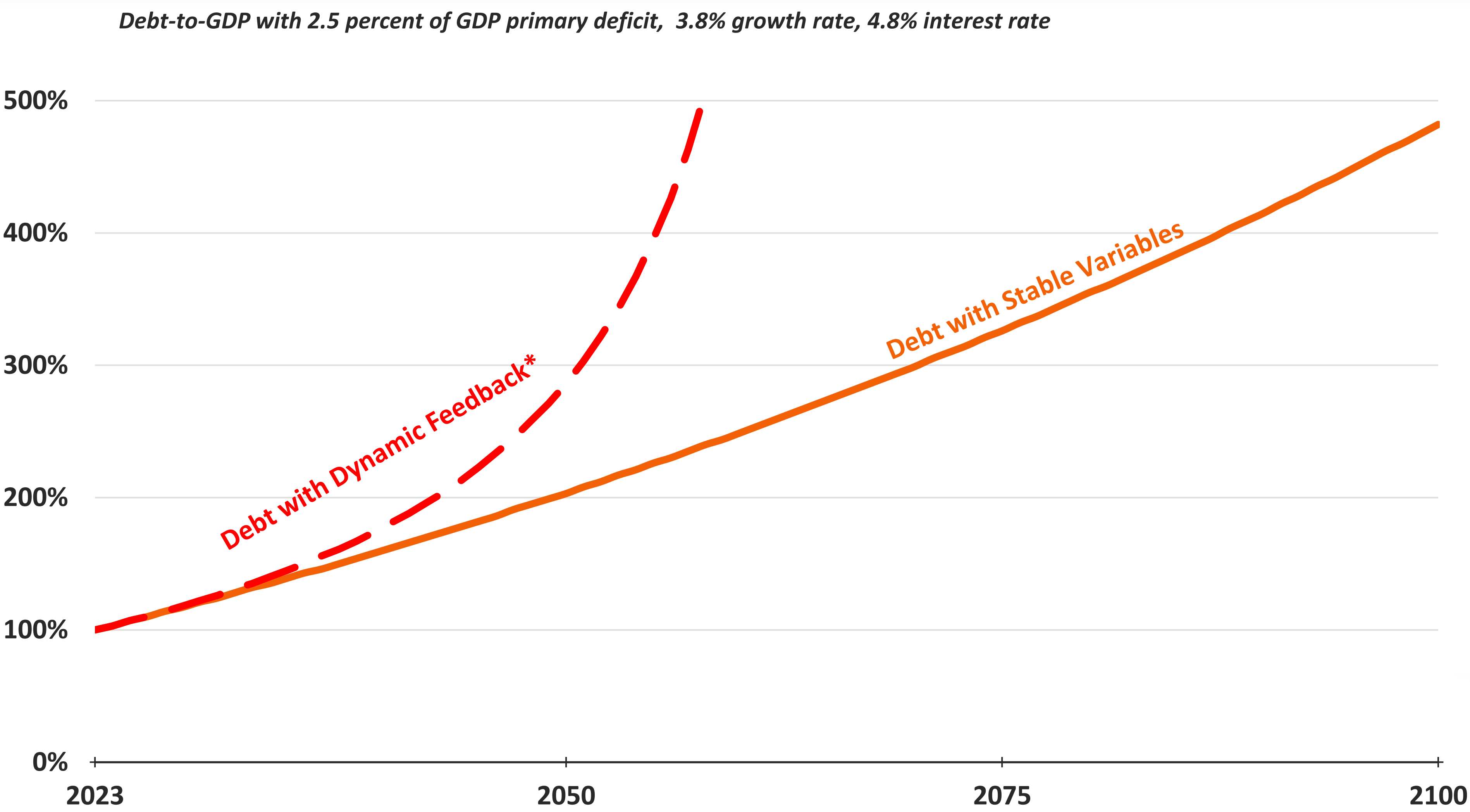
High Debt Means Exploding Interest Payments



CRFB.org

Sources: Congressional Budget Office & Office of Management and Budget.

And Could Spark An Uncontrollable Debt Spiral



Sources: Committee for a Responsible Federal Budget.

**Interest rates increase 2bp and GDP growth decreases 0.25bp for every one percentage point increase in debt-to-GDP*

CRFB.org

Fiscal Targets

Committee for a Responsible Federal Budget

CRFB.org

Benefits of a Fiscal Target

- Fiscal targets improve fiscal discipline
- Fiscal targets create a "guiding light" for budgetary and fiscal policy decisions – changing the discussion from **if** to **how**
- Fiscal targets strengthen consideration of the fiscal implications of all policy decisions
- Fiscal targets reassure creditors and investors as to the soundness and stability of fiscal policy and markets
- Fiscal targets usually lead to decreased debt levels and improved fiscal outlooks in countries that have adopted them

Types of Fiscal Targets

Kind of Fiscal Target	Examples
Balanced Budget Targets	• 49 Out of 50 U.S. States (except Vermont) • Swiss Debt Brake (structural balance rule) • U.S. Government through early 2000s, by norm
Deficit Targets	• Graham-Rudman-Hollings Act (USA) • German Debt Brake
Debt-to-GDP Targets	• Swedish Debt Anchor
Debt **and** Deficit Targets	• Maastricht Treaty/Stability & Growth Pact (European Union) • Indonesian Deficit and Debt Ceilings
Spending Ceilings and/or Revenue Floors	• Swedish Spending Ceiling • Kenyan Revenue Floor
Primary Deficit Target	n/a

EU Fiscal Targets

1992 Maastricht Treaty "Convergence Criteria"

- Annual budget deficits of no more than **3% of GDP**
- Gross government debt of no more than **60% of GDP**
- Inflation within 1.5% of best performing states
- Interest rates within 2% of best performing states
- Exchange rate stability toward Euro

2024 Stability & Growth Pact "Economic Governance Framework"

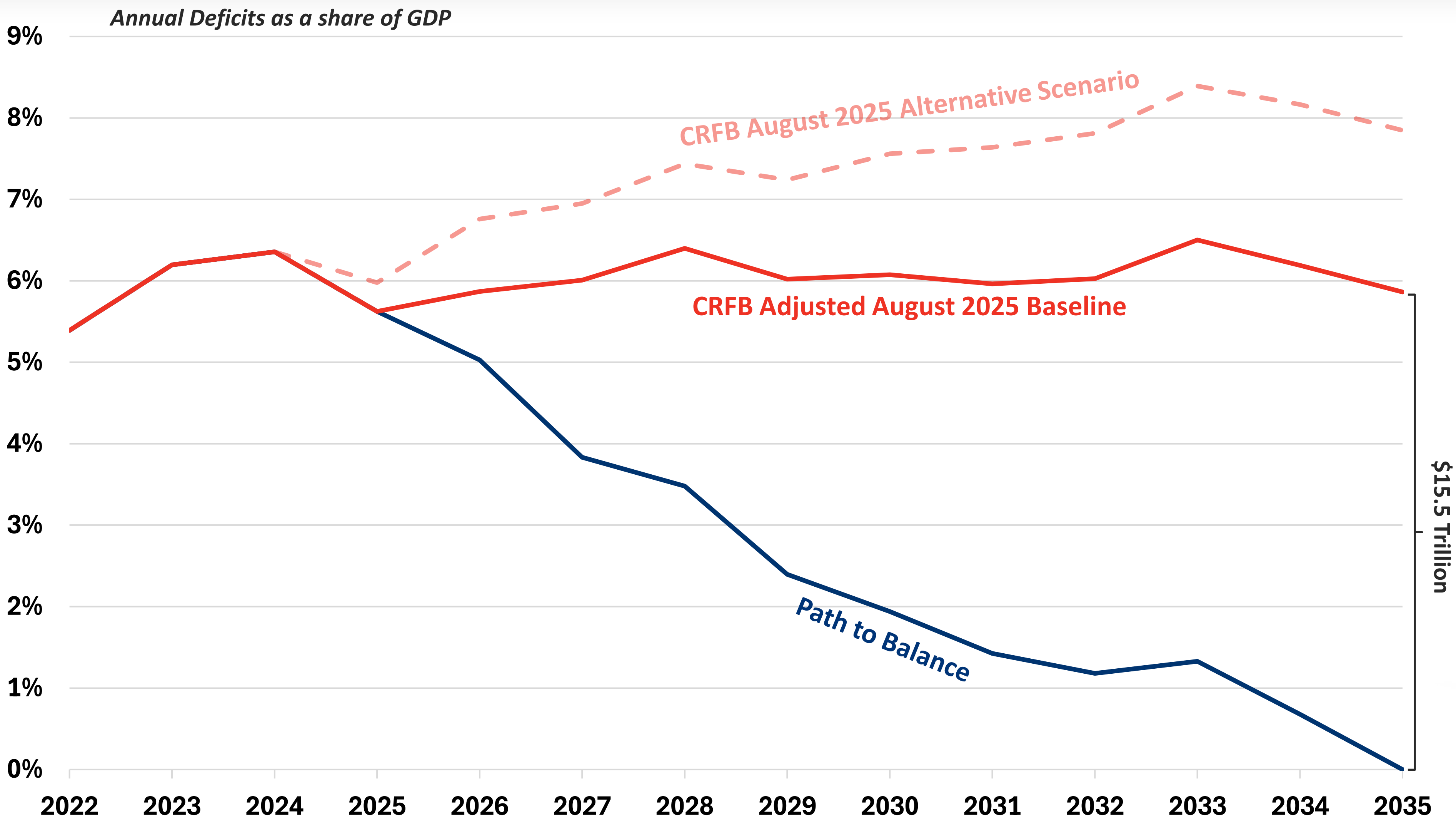
- Reaffirmed **3% of GDP** deficit target **60%** debt target
- Set fiscal planning parameters to help countries avoid breaching fiscal target
- Established rules and procedures ("Excessive Deficit Procedure") for returning to compliance when targets are breached

Achieving Fiscal Targets

Deficit Reduction Needed to Achieve Certain Fiscal Targets

	FY 2026-2030	FY 2026-2035
Deficit Targets		
4 percent of GDP	$2.5 trillion	$5.0 trillion
3 percent of GDP	**$3.5 trillion**	**$7.5 trillion**
2 percent of GDP	$4.5 trillion	$10.0 trillion
Primary Balance	$3.0 trillion	$5.5 trillion
On-Budget Balance'	$6.0 trillion	$12.0 trillion
Full Budget Balance	**$7.0 trillion**	**$15.5 trillion**
Debt Targets		
110 percent of GDP	$0.5 trillion	$4.5 trillion
100 percent of GDP	**$4.0 trillion**	**$9.0 trillion**
90 percent of GDP	$8.0 trillion	$13.5 trillion
80 percent of GDP	$11.5 trillion	$17.5 trillion

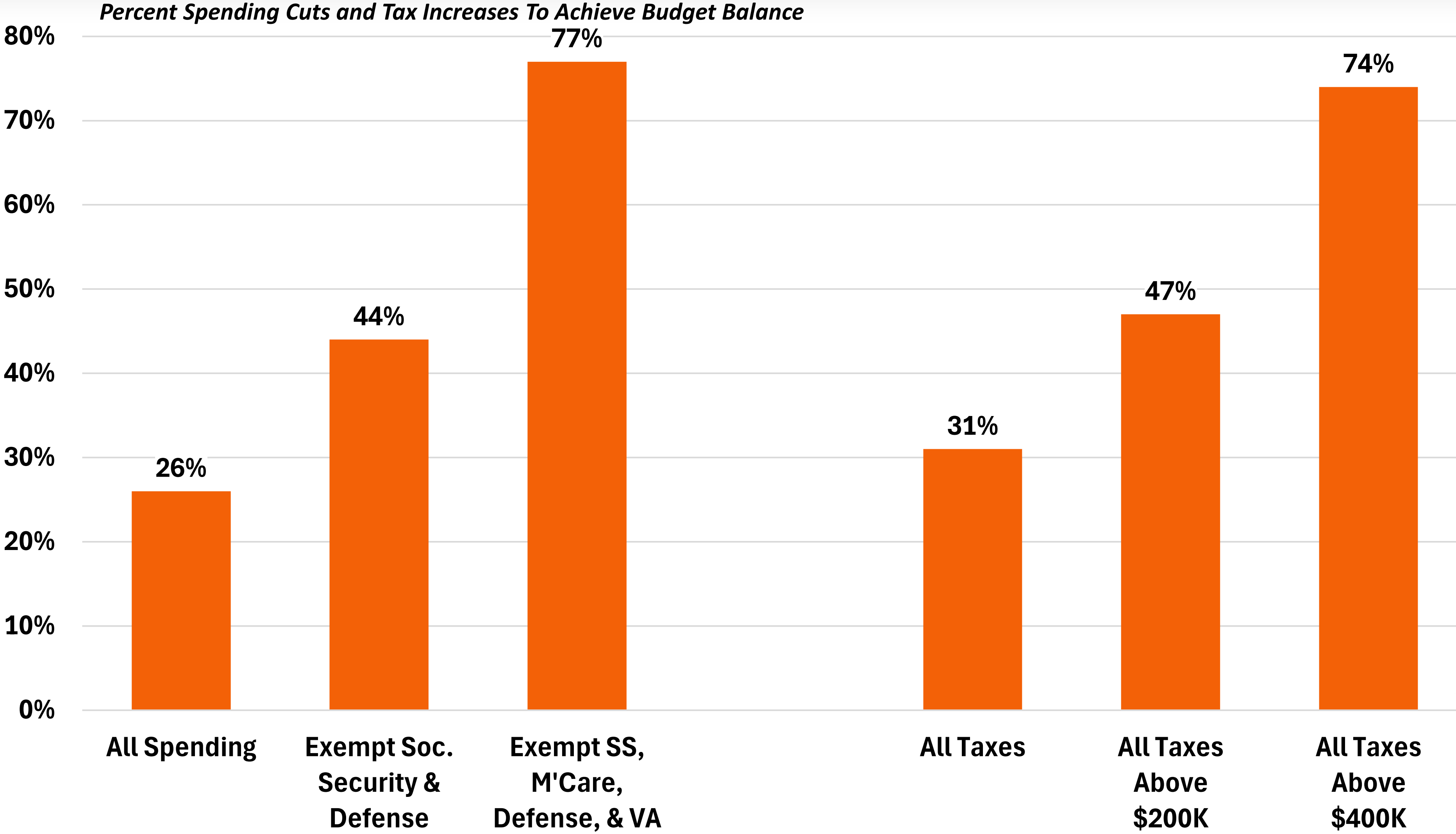
Possible Target: Balance the Budget



Sources: *CRFB estimates based on data from CBO, U.S. Census Bureau, Centers for Medicare & Medicaid Services, and Social Security Administration.*
Note: Estimates assume savings begin in FY 2026 and follow a path similar to offsets in OBBBA.

CRFB.org

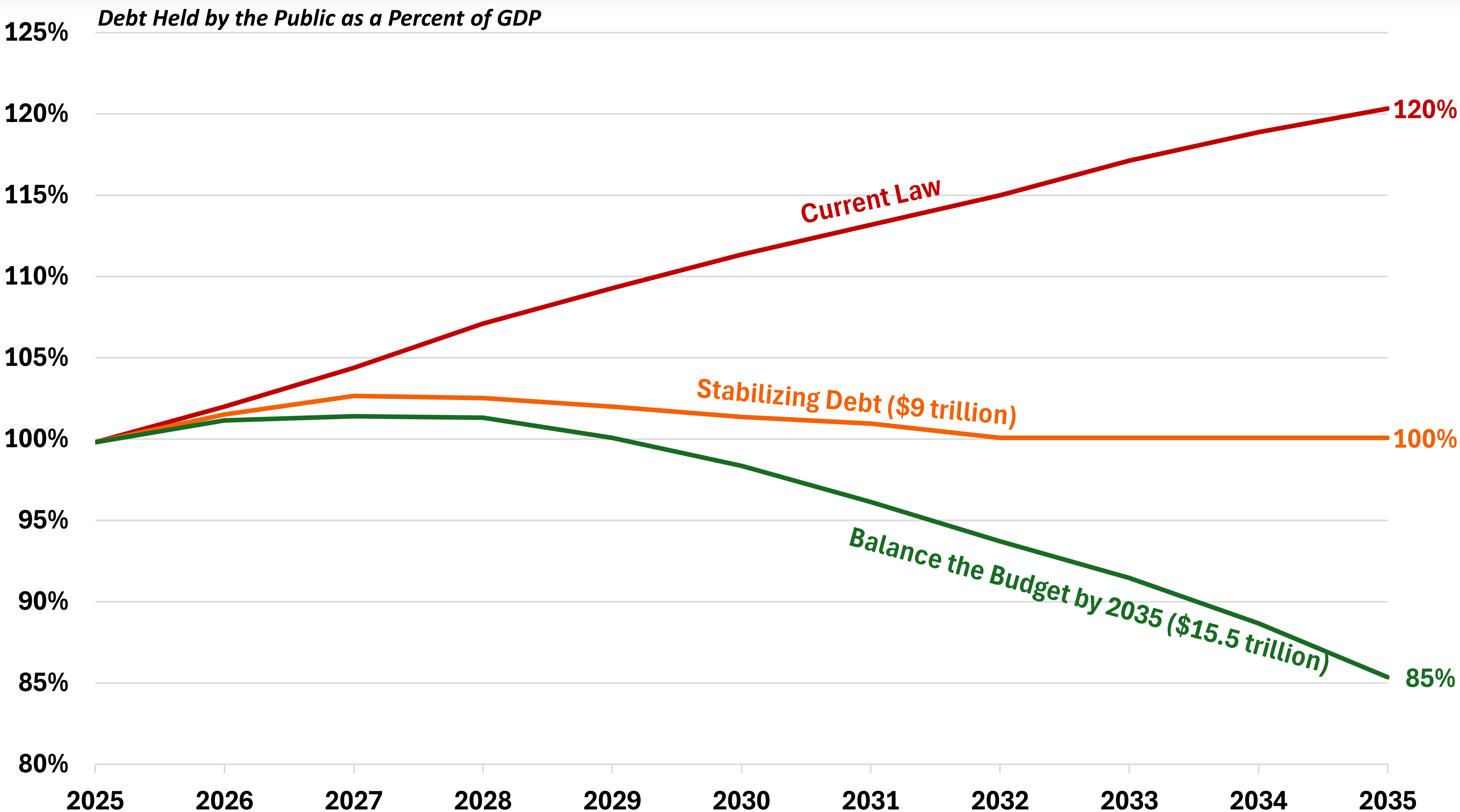
Balancing the Budget Is Likely Untenable



Note: Taxes above $200K and $500K includes all corporate and estate taxes as well as income and payroll taxes above those thresholds. Estimates are rough and assume policies are enacted immediately and phased in.
Sources: Committee for a Responsible Federal Budget, Congressional Budget Office

CRFB.org

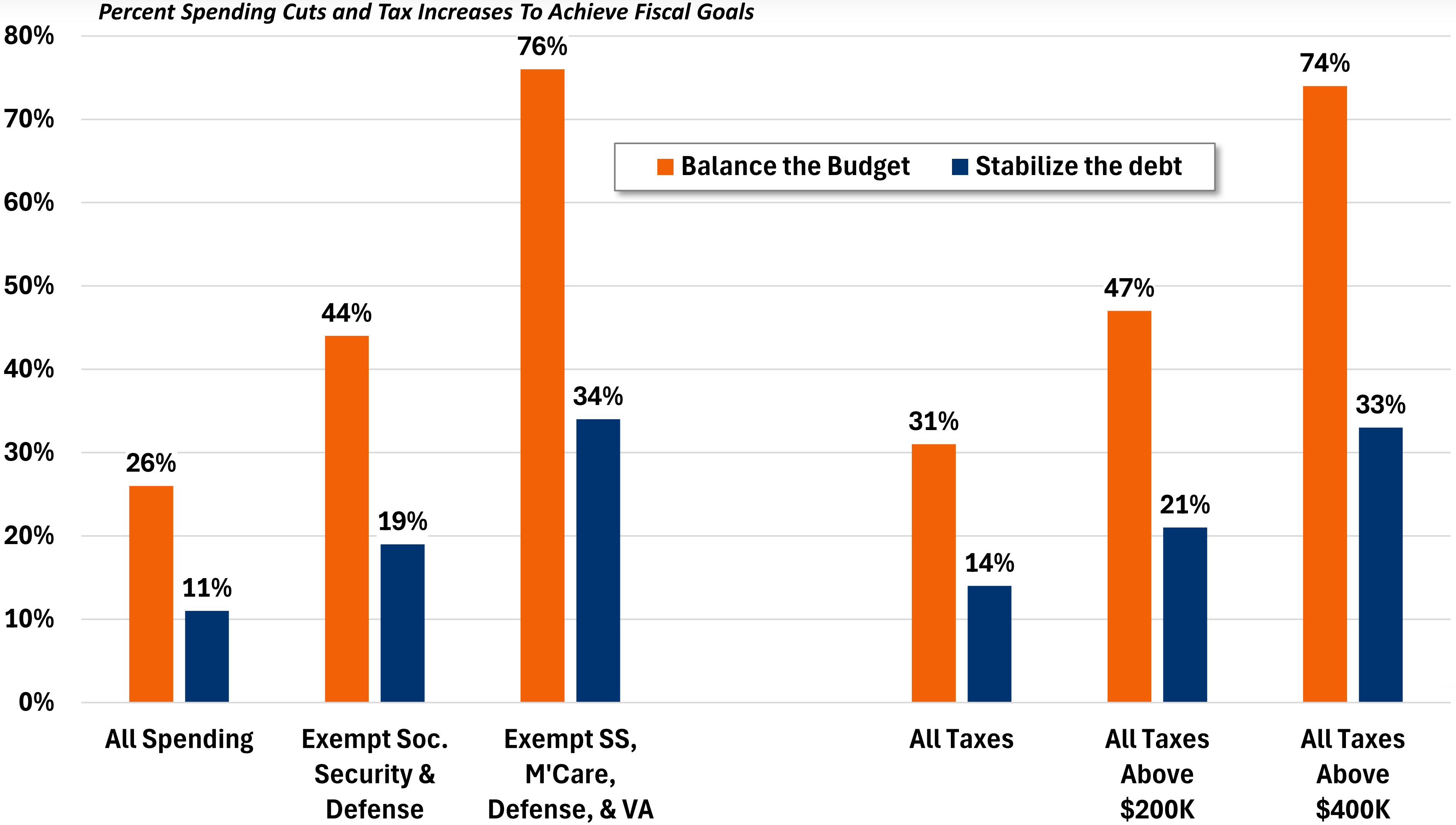
Possible Target: Stabilize the Debt



Sources: CRFB estimates based on data from Congressional Budget Office, U.S. Census Bureau, and Center for Medicare and Medicaid Services.

CRFB.org

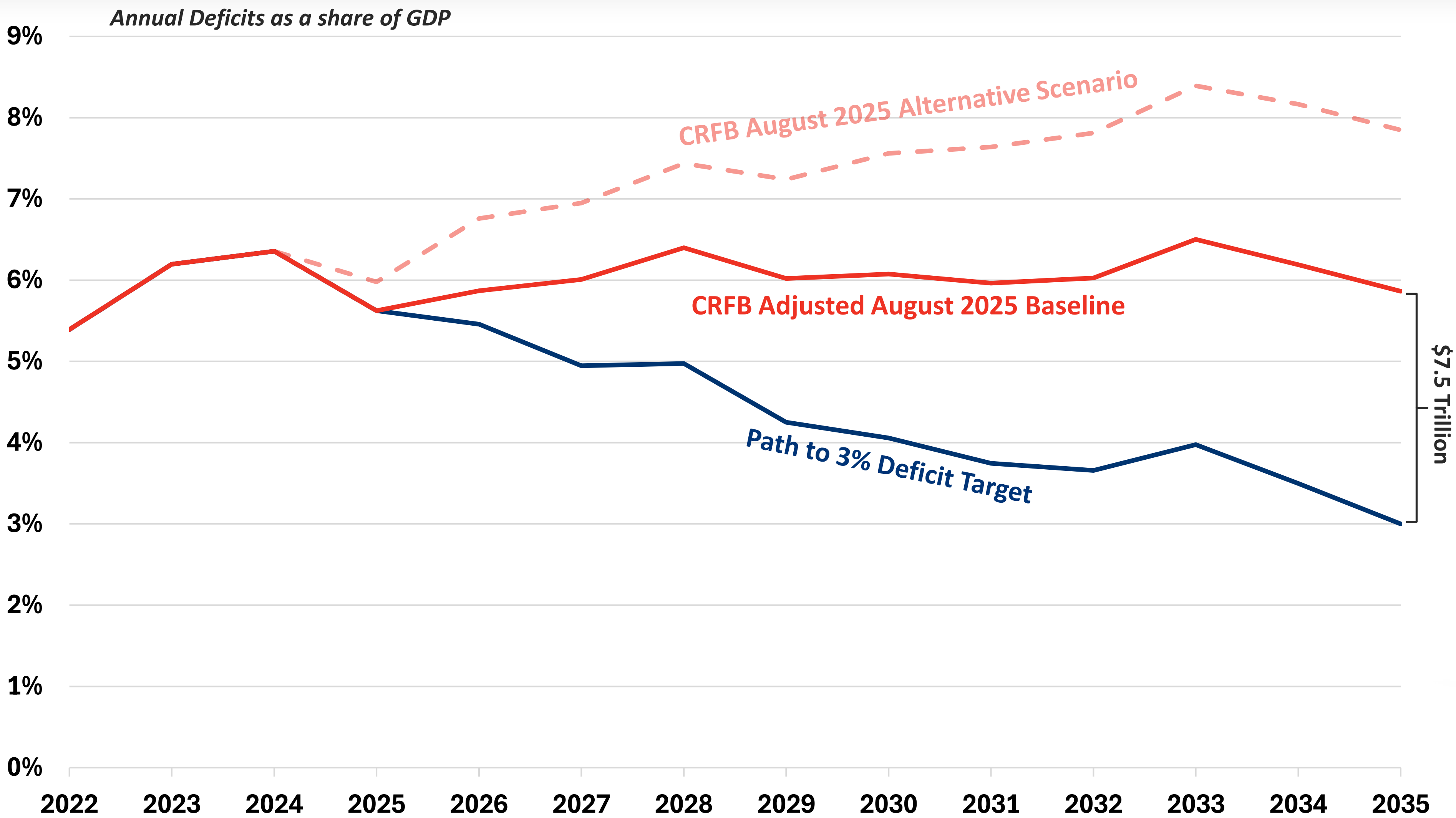
Stabilizing Debt is Still Aggressive, But Doable



Note: Taxes above $200K and $500K includes all corporate and estate taxes as well as income and payroll taxes above those thresholds. Estimates are rough and assume policies are enacted immediately and phased in.
Sources: Committee for a Responsible Federal Budget, Congressional Budget Office

CRFB.org

Possible Target: 3% of GDP Deficit



Sources: CRFB estimates based on data from CBO, U.S. Census Bureau, Centers for Medicare & Medicaid Services, and Social Security Administration.
Note: Estimates assume savings begin in FY 2026 and follow a path similar to offsets in OBBBA.

CRFB.org

Benefits of 3% of GDP Deficit Target

✓ **Puts Debt on a Sustainable Path** – Debt-to-GDP falls so long as nominal growth rate exceeds 3% of GDP *(growth projections = 3.8%)*

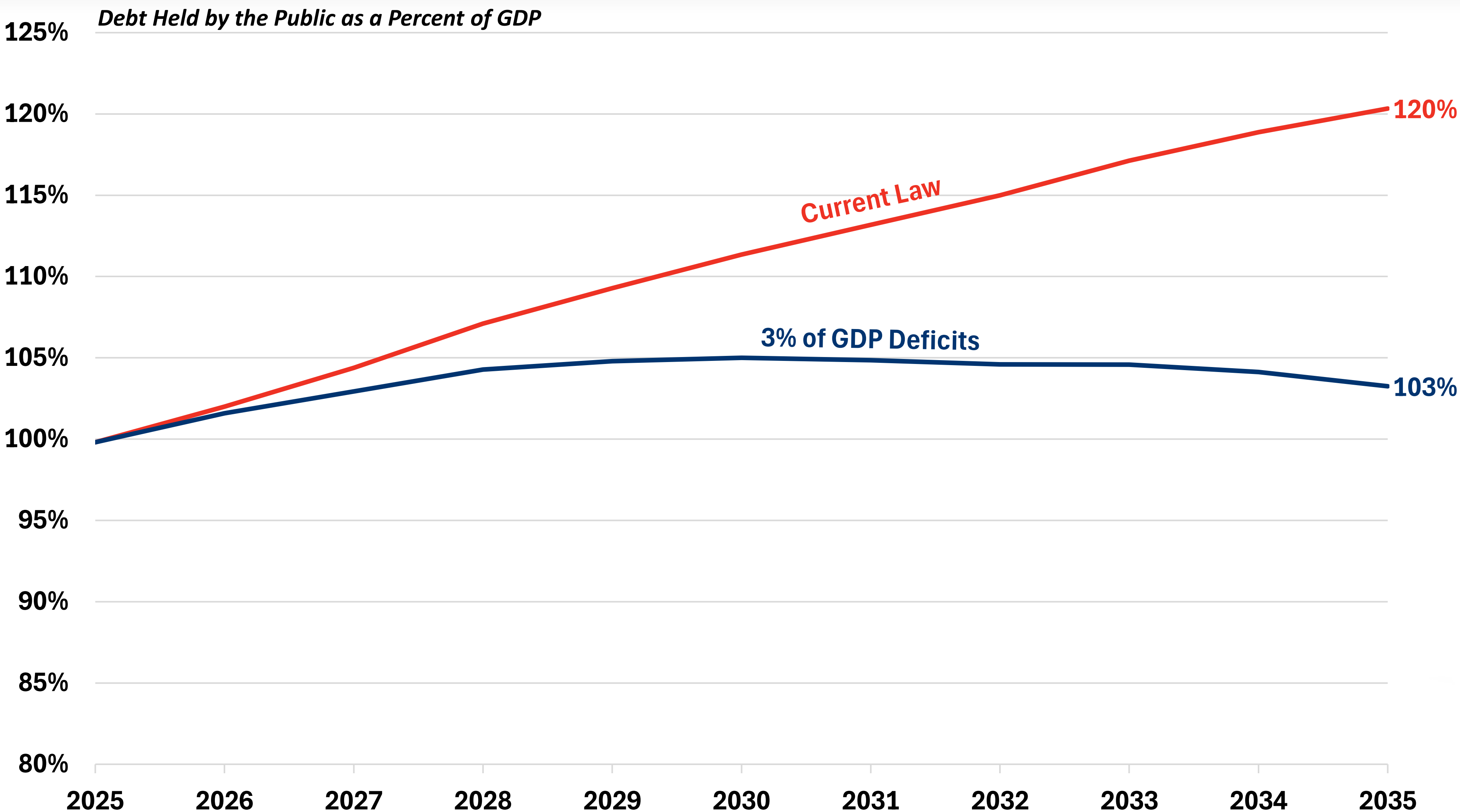
✓ **Targets What Policymakers Control** – Focuses on future taxes and spending, whereas debt comes from past taxes and spending

✓ **Represents an *Achievable* Target** – Requires cutting deficits in half to where they were in 2016, not ending deficits

✓ **Built on International Precedent** – European Union target under Maastricht Treaty and Stability & Growth Pact

✓ **Has Broad Bipartisan Support** – Targeted in Obama and Trump Administrations. Supported by Scott Bessent, Ray Dalio, Jason Furman, and the full CRFB Board of Directors, among others.

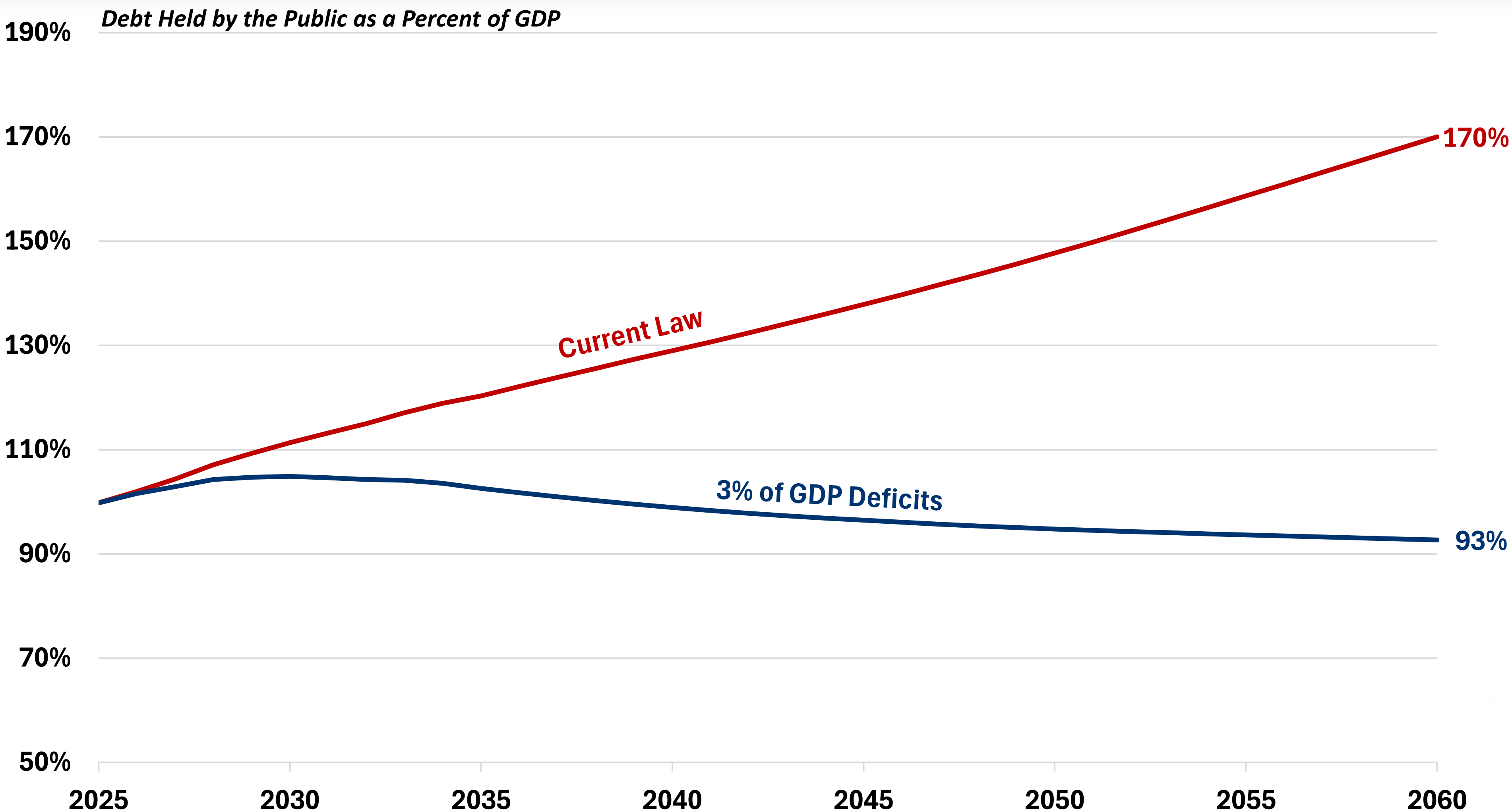
3% Target Puts Debt on Slow Downward Path



CRFB.org

Sources: Committee for a Responsible Federal Budget, Congressional Budget Office

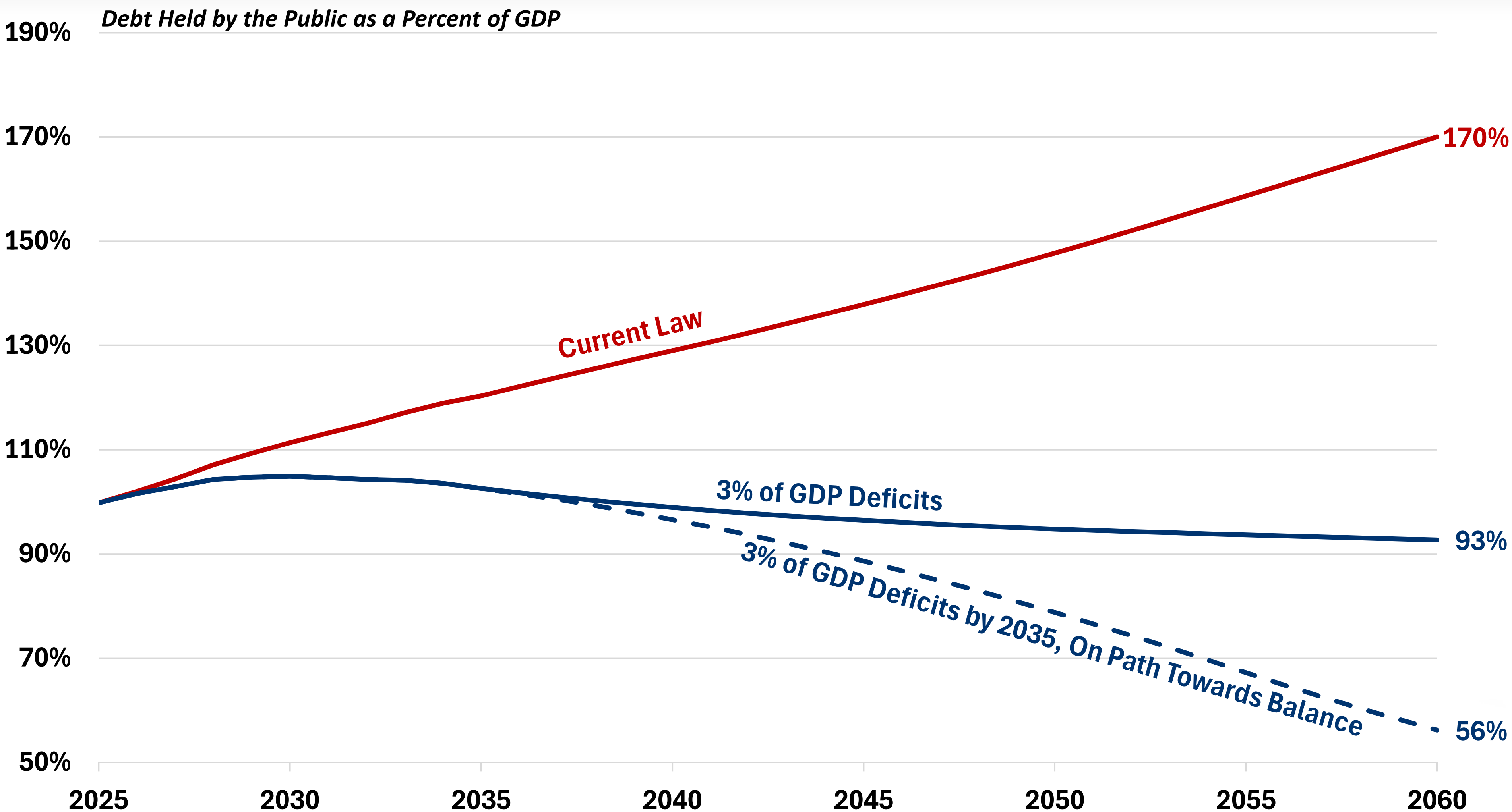
3% Target Puts Debt on Slow Downward Path



Note: "3% of GDP Deficits" assumes deficits decline to 3% of GDP by 2035 then stay there through 2060 and that GDP is slightly higher than baseline as a result of lower deficits.
Sources: Committee for a Responsible Federal Budget, Congressional Budget Office

CRFB.org

3% Target Puts Debt on Slow Downward Path



Note: "3% of GDP Deficits" assumes deficits decline to 3% of GDP by 2035 then stay there through 2060 and that GDP is slightly higher as a result of lower deficits.
"3% of GDP Deficits by 2035, On Path Towards Balance" assumes deficits decline to 3% of GDP by 2035, then decline at a slower, linear rate to 0% by 2055.
Sources: Committee for a Responsible Federal Budget, Congressional Budget Office

CRFB.org

> The basic picture has not changed — if the US doesn't cut the deficit to **3% of the GDP**, and soon, we risk facing an economic heart attack in the next three years.
>
> **- Ray Dalio**

> The right fiscal goal was to make sure the debt was falling as a share of the economy, which would require the deficit being below about **3% of GDP.**
>
> **- Jason Furman**

GETTING TO 3%
AN OPEN LETTER TO LAWMAKERS

The United States is on a dangerous fiscal path, with debt approaching record levels as a share of the economy, annual interest costs exceeding what we spend on our national defense, and deficits approaching **$2 trillion** per year. Failure to address our fiscal outlook will lead to slower income growth, higher interest rates, heightened national security risks, reduced fiscal space to address future emergencies, and increased risk of a fiscal crisis.

As Members of the Board of Directors of the Committee for a Responsible Federal Budget, we encourage all lawmakers to agree to a fiscal goal of reducing annual budget deficits to 3% of gross domestic product (GDP), about half its current level of roughly 6% of GDP. While significant policy changes will ultimately be needed to bring spending and revenue more closely in line, uniting around a meaningful and realistic fiscal target is an important first step toward stemming our out-of-control national debt.

> "For the sake of our economy, our national security, and the livelihood of our children and grandchildren, we encourage you to agree to adopt a 3% deficit target ... and put the federal budget on a sustainable path."

There is no single "right" fiscal target or level of borrowing. Nonetheless, reducing deficits to 3% of GDP will be sufficient to put debt on a downward path relative to the economy and realistic enough to be achievable. More modest targets would leave the nation on an unsustainable path, while more ambitious targets such as a balanced budget are likely out of reach in the near term.

Establishing a 3% of GDP deficit target in the United States would align us with our European partners, who are expected to target deficits of 3% of GDP established by the 1992 Maastricht Treaty and most recently reaffirmed by the 2024 updates to the EU's Stability and Growth Pact. The 3% of GDP deficit target has also received bipartisan support in the U.S., including from Treasury Secretary Scott Bessent and others from the Trump Administration, as well as by the Obama Administration in the early 2010s. Furthermore, policy experts and business leaders also support reducing deficits to 3% of GDP.

For the sake of our economy, our national security, and the livelihood of our children and grandchildren, we encourage you to agree to adopt a 3% deficit target, or some similar target, and work with urgency toward enacting the necessary spending and revenue changes to achieve this target and put the federal budget on a sustainable path.

Committee for a Responsible Federal Budget

> I would urge [President Trump] to make public his desire to get the **deficit down to 3%** by the end of his term
>
> **- Scott Bessent**

> The Obama Administration is committed to putting U.S. public finances on a sound and credible medium-term trajectory. That is why the Administration will... work to reduce our fiscal deficit to **3% of GDP**
>
> **- Barack Obama**

CRFB.org

Ideas to Support Your Fiscal Target

1. Talk about the importance of fiscal targets in the press, floor speeches, social media, etc.
2. Sign a letter supporting the target.
3. Hold a hearing on the importance of fiscal targets.
4. Include target in "Sense of Congress" or similar bill.
5. Require President's budget to meet target.
6. Reform House or Senate rules to make it more difficult to waive budget enforcement when in violation of targets.
7. Release a plan to achieve target.
8. Achieve target in budget resolutions.
9. Establish enforcement mechanism to achieve target.
10. Draft legislation that meets target.