Current Budget Proposals Set Us on the Road to Fiscal Crisis

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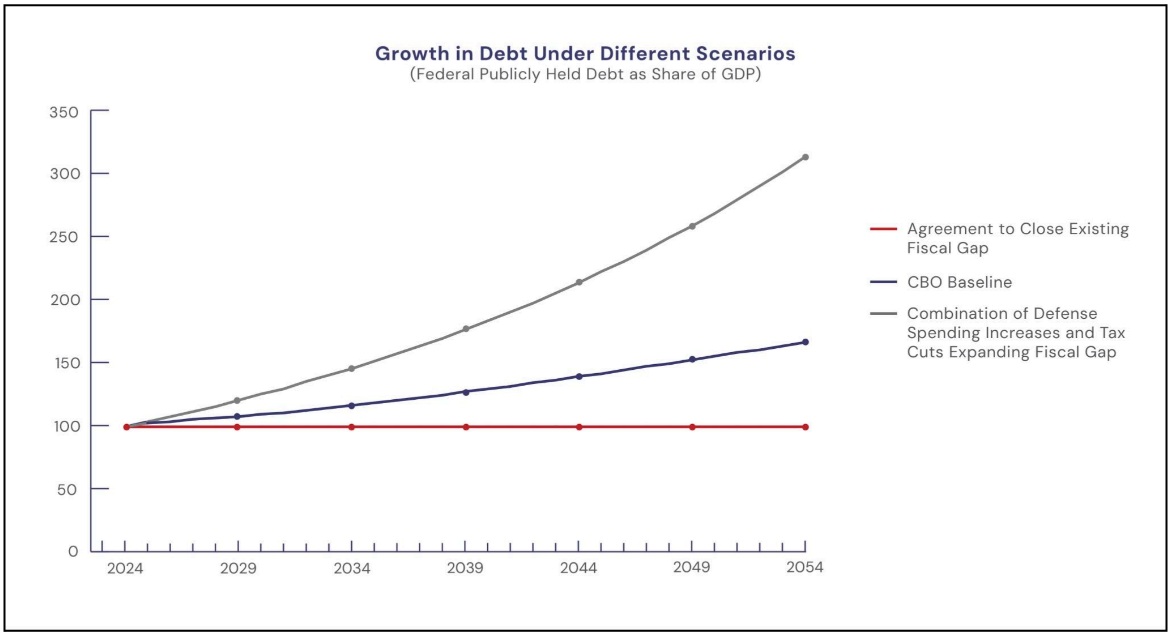
May 14, 2025

OVERVIEW

In January 2025, the Quincy Institute published a report laying out the dire fiscal implications of a major unfunded increase in defense spending combined with tax cuts. A combination of large defense budget increases and tax cuts would dramatically grow the publicly held federal debt, significantly harming America's long-term economic security and therefore national security.

Current congressional reconciliation and Trump administration budget proposals constitute the first step to this kind of fiscal crisis. The January report describes how a combination of major increases in defense spending and tax cuts could cause the debt — already projected to grow from about 98 percent of gross domestic product, or GDP, at the end of 2024 to 166 percent of GDP by 2054 — to instead grow to as much as 310 percent of GDP. In other words, this dangerous combination of policies could more than triple the increase in the national debt, with potentially severe consequences for long-term economic growth.

The proposals currently being made by Congress and the administration — a military budget in excess of $1 trillion annually combined with massive unfunded tax cuts — take us down the path to exactly this kind of catastrophic debt impact.



DISCUSSION

As previous reports for the Quincy Institute have argued, current levels of defense spending are more than adequate to meet key U.S. national security requirements and exceed what would be needed were the United States to adopt a more restrained approach to its security. In the Quincy Institute report, *Active Denial: A Roadmap to a More Effective, Stabilizing, and Sustainable U.S. Defense Strategy in Asia*, for example, its authors estimated that depending on the specific strategy and missions embraced, a more restrained approach to U.S. national security could be effectively supported — even with annual defense budgets as much as 10 percent below current levels.

The United States already spends far more on defense than China does and enjoys an advantage in defense spending well above what it did over the Soviet Union during the Cold War. Moreover, as a share of their economies, the United States already spends far more than what U.S. allies and friends in both Europe and East Asia — the countries the U.S. military is largely intended to help defend — spend on their own militaries, or what China spends.

Nevertheless, the Trump administration and Congress appear to be committed to enacting a large and sustained increase in military spending. While we do not yet have a detailed picture of the administration's long-term defense budget plans, the administration's so-called skinny budget, released on May 2, proposes a 2026 defense budget (including reconciliation funding) that would top $1 trillion. This marks a 13 percent jump from this year's level. This increase is in the same ballpark as the annual increases enacted during the Reagan administration's Cold War buildup that ultimately resulted in a 50 percent real (i.e., inflation-adjusted) increase in the defense budget over five years. An increase of that magnitude would also be in line with proposals supported by, among others, the chair of the U.S. Senate Armed Services Committee, Roger Wicker, to raise defense spending to the equivalent of 5 percent of GDP. Under that proposal, the average share of GDP allocated to defense each year would be about 2.2 percent higher, over the long term, than under current projections — approximately a 60 percent increase in military spending as a share of the economy.

At the same time that the administration has been setting the stage for a potentially massive increase in military spending, the Republican leadership in the House and Senate have been moving with great determination to reach closure on a "reconciliation" bill that would allow Congress — with only a simple majority in both chambers — to implement a package of large tax cuts. The House's instructions call for tax cuts costing about $4.5 trillion over the next 10 years, while the Senate's version includes tax cuts of $5.3 trillion over the decade. The House and Senate reconciliation instructions also include increases totaling $300 billion primarily for defense and $350 billion primarily for homeland security, about $100 billion of which the administration intends to apply specifically to its proposed fiscal year 2026 defense budget increase.

In theory, these tax cuts and spending increases could be paid for by offsetting reductions in spending outside of defense, homeland security, and other Trump administration priorities. However, making such cuts — especially as a means of financing large tax cuts directed largely to wealthy Americans — is a very tough sell. Reflecting this reality, the House's reconciliation instructions seek to offset only about $1.5 trillion (less than one-third) of the cost of its tax and spending proposals. However, even such a partial offset may prove difficult to enact, let alone sustain over the long run. Notwithstanding political rhetoric to the contrary, it is simply not possible to find savings of that magnitude without cutting programs that, one way or another, negatively impact sizable numbers of Americans. Witness, for example, the decision of House Republicans to focus proposed cuts largely on Medicaid — a program that provides health insurance to 72 million low-, moderate-, and middle-income Americans — and the intense opposition that proposal has generated.

The Senate's reconciliation instructions cast even more doubt on the likelihood that the cost of the proposed tax cuts will be more than, at best, very partially offset by spending cuts in nonsecurity programs. Those instructions include essentially no offsets. Worse, in an unprecedented example of fiscal irresponsibility and budget process gimmickry, the Republican–controlled Senate Budget Committee has announced that $3.8 trillion of the proposed $5.3 trillion tax cuts included in its reconciliation instructions will simply not "score" as a cost increasing the deficit. This will remove any incentive to find offsets during the decade or the procedural need to find permanent offsets — even though the Senate intends to make those unscored tax cuts permanent. In other words, Senate Republicans propose to simply ignore the deficit impact of the majority of their proposed tax cuts.

If the Senate's reconciliation instructions were ultimately enacted, by 2034 annual revenue losses resulting from the proposed tax cuts would be equivalent to roughly 1.5 percent to 2.1 percent of GDP — with the larger number based on the assumption that any new tax cuts included in the package would (as the Republican leadership clearly hopes and intends) initially be frontloaded but ultimately made permanent. Since the House plan includes somewhat smaller tax cuts and $1.5 trillion in offsets, it would have a smaller impact on deficits and debt. But the impact would still be significant and — if the political will cannot be found to make or sustain the proposed offsetting cuts to Medicaid and other programs — the effect on revenues of the House proposal would be only modestly less significant than that resulting from the Senate proposal.

At this point, insufficient detail is available to estimate precisely what effect implementing these proposals would have, over the long term, on the growth of the debt. However, it is clear that the combination of the tax cuts proposed in the House or Senate reconciliation instructions and the increases in defense spending contemplated — if not yet fully proposed — by the Trump administration and Republican Congress — would result in an extremely large increase in the debt. Indeed, there is enough information to suggest that implementing tax and spending policies along these lines could grow the debt to levels comparable in size to those described in the January Quincy Institute report (and noted above).

At present, the fiscal gap — the difference between annual primary (i.e., noninterest) federal spending and revenue — is equivalent to about 1.5 percent of GDP. The January Quincy Institute report estimated, based on Congressional Budget Office, or CBO, models, that a combination of projected defense spending increases and tax cuts would cause the fiscal gap to grow to some 4.9 percent of GDP and cause the debt to increase dramatically beyond baseline projections, to nearly 310 percent of GDP by 2054. Alarmingly, the increases in defense spending and cuts in taxes currently being contemplated by the administration and Congress are of a magnitude that could cause a comparable expansion of the fiscal gap and, thus, explosion of the debt.

It has become fashionable to claim that "deficits don't matter." But the massive growth in the debt burden that would result from a dramatic boost in defense spending combined with large tax cuts would significantly increase the risks to the country's long-term economic growth and its ability to respond to economic downturns, as well as exacerbate the potential for excessive borrowing to trigger a financial crisis. CBO and other models conclude that, by the 2050s, uncontrolled growth in debt levels could create trillions of dollars in annual costs to the economy. In the end, such policies would do far more to damage than to enhance U.S. national security.

CONCLUSION

Instead of a new round of unsustainable and unnecessary increases in defense spending and tax cuts, policymakers in Washington should be looking for ways to stabilize the U.S. debt. The growing debt burden stems not from any dramatic growth in federal primary spending — which has increased only modestly as a share of GDP over the past 30 years — but from the growing mismatch between spending and revenue, which is projected to cause interest payments to skyrocket.

The current gap between revenues and expenditures that would need to be closed to stabilize the debt, as noted above, is at present the equivalent of about 1.5 percent of GDP. A deal to close a gap of this magnitude, involving a combination of tax increases and spending cuts, is eminently doable — in mathematical and budgetary terms. But it will happen only if there is a willingness on the part of the Trump administration and both political parties in Congress to compromise and place a real, rather than simply rhetorical, priority on stabilizing the debt. Right-sizing the military budget to America's true security needs should be an important part of that effort. One can only hope that it is not yet too late for this administration and Congress to avert the enactment of a package of tax cuts and military spending increases that are likely to dig the debt hole the U.S. is currently in much, much deeper.

About the Author

Steven Kosiak is a non-resident fellow at the Quincy Institute and a partner at ISM Strategies in Washington D.C. He is also a senior adjunct faculty member at American University's School of International Service and an adjunct senior fellow at the Center for a New American Security. Prior to joining ISM Strategies in the fall of 2014, he served for five-and-a-half years as the Office of Management and Budget associate director for defense and international affairs and the senior White House official for national security and foreign policy budgeting. From 1996 to 2009, Mr. Kosiak was vice president for budget studies at the Center for Strategic and Budgetary Assessments, CSBA. From 2000–08 he was an adjunct faculty member at Georgetown University's Security Studies program.

In recent years, much of his work has focused on the U.S.-China military competition and U.S. defense and international affairs programs and spending. While at CSBA he authored reports and briefing papers on topics ranging from weapons modernization, space programs, force structure, readiness, and military compensation, to the cost of military operations and the implications for national security spending of overall federal budget trends and priorities.

Kosiak holds a J.D. from the Georgetown University Law Center (1998), an M.P.A. from the Princeton School of Public and International Affairs (1986), and a B.A. in history and political science from the University of Minnesota (1982).

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