

The FY2025 President's Budget in Historical Context

Updated September 10, 2024

On March 11, 2024, the Biden Administration submitted its [budget for FY2025](#), which proposes increased federal revenues, continued growth in mandatory outlays, and decreased discretionary outlays relative to the size of the economy. In June 2024, the Congressional Budget Office issued its analysis of the Administration's [discretionary proposals](#) and updated [baseline estimates](#). This Insight discusses the Administration's fiscal proposals in the context of longer-term budgetary trends and highlights selected events and legislation.

Revenues

Figure 1 shows federal receipts by major category as a share of gross domestic product (GDP) since FY1962. Federal receipts exceeded outlays (dark blue line) in five years (FY1969, FY1998-FY2001). In every other year, the government ran a deficit, which required borrowing through the sale of Treasury securities. Economic conditions and employment levels affect tax receipts, as do major tax measures.

Individual income taxes and payroll taxes, such as for Social Security and Medicare, have long been the largest revenue components. [Corporate income taxes](#) as a share of GDP fell from 3.5% in FY1962 to 1.6% in FY2023.

The [Revenue Act of 1964](#) (proposed in 1963 by President Kennedy and signed in 1964 by President Lyndon B. Johnson) lowered high Korean War-era marginal tax rates. Other acts adjusted the tax code to offset bracket creep, where inflation pushed households into higher tax brackets. The 1981 [Kemp-Roth act](#) indexed brackets and cut marginal rates by about a quarter. The 1986 [Tax Reform Act](#) lowered [marginal rates and curtailed many tax preferences](#) while aiming to be budget neutral. A 1993 omnibus act increased certain taxes, helping to reduce deficits. Major tax acts in 2001, 2003, 2013, and 2017 reduced various tax rates.

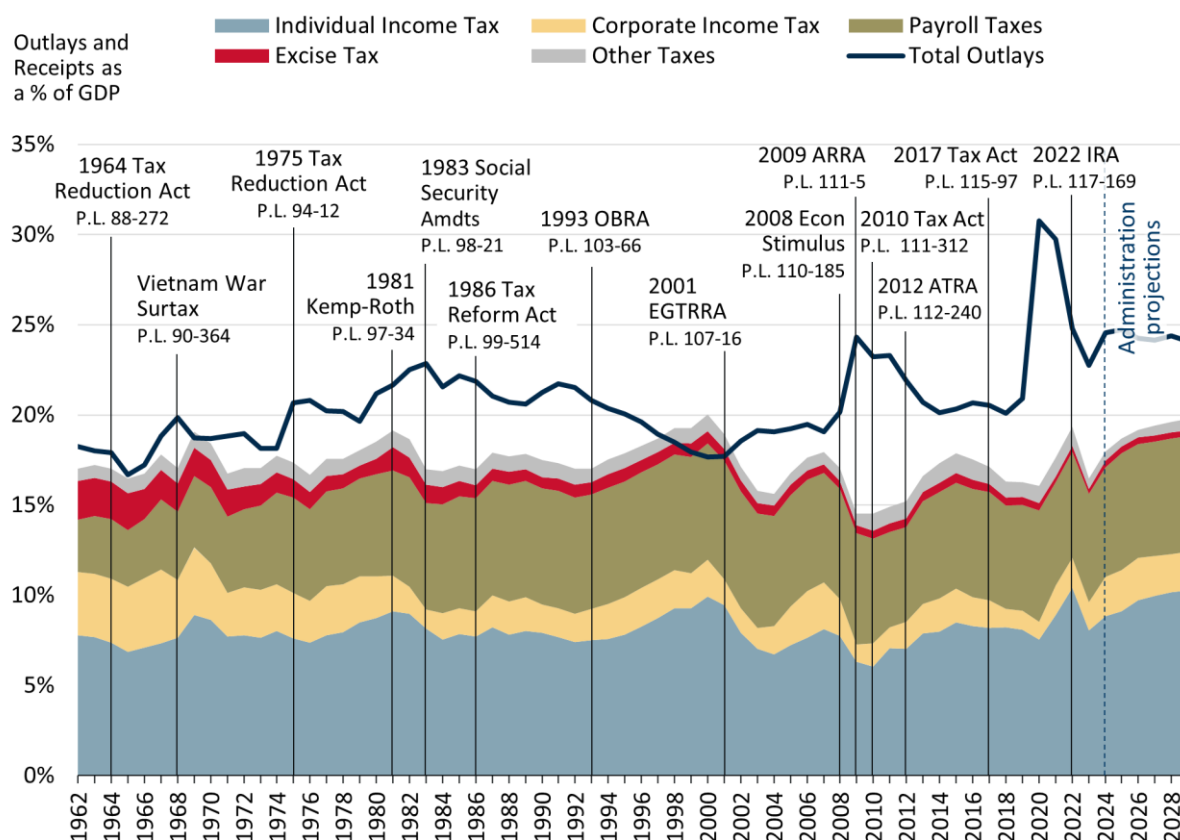
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Figure 1. Federal Receipts by Major Category As a Percentage of GDP, FY1962-FY2029

Figure is interactive in the HTML version of this Insight

**Source:** CRS calculations based on [OMB](#) and [Bureau of Economic Analysis \(BEA\)](#) data.**Notes:** Revenue and outlay data are for fiscal years. Acts are shown in the calendar year in which they were enacted. FY2024 values are estimated and those for later years reflect Administration proposals and projections. Blue labels in HTML version are clickable links.

Most individual tax provisions of the [2017 tax act](#) are scheduled to [expire at the end of CY2025](#), providing an opportunity for Congress and the President to revisit federal tax policy. The 2017 act permanently lowered the corporate income tax rate to 21% and temporarily lowered some individual income tax rates, among other changes. The act also capped the state and local tax (SALT) deduction, which resulted in tax increases for some households.

The Biden Administration's FY2025 budget proposes increasing the corporate income tax rate to 28% and raising tax rates on high-income households, as well as expanding the Child Tax Credit, among other provisions. It projects federal receipts as a share of GDP would rise from 16.5% in FY2023 to 19.8% in FY2029.

Outlays

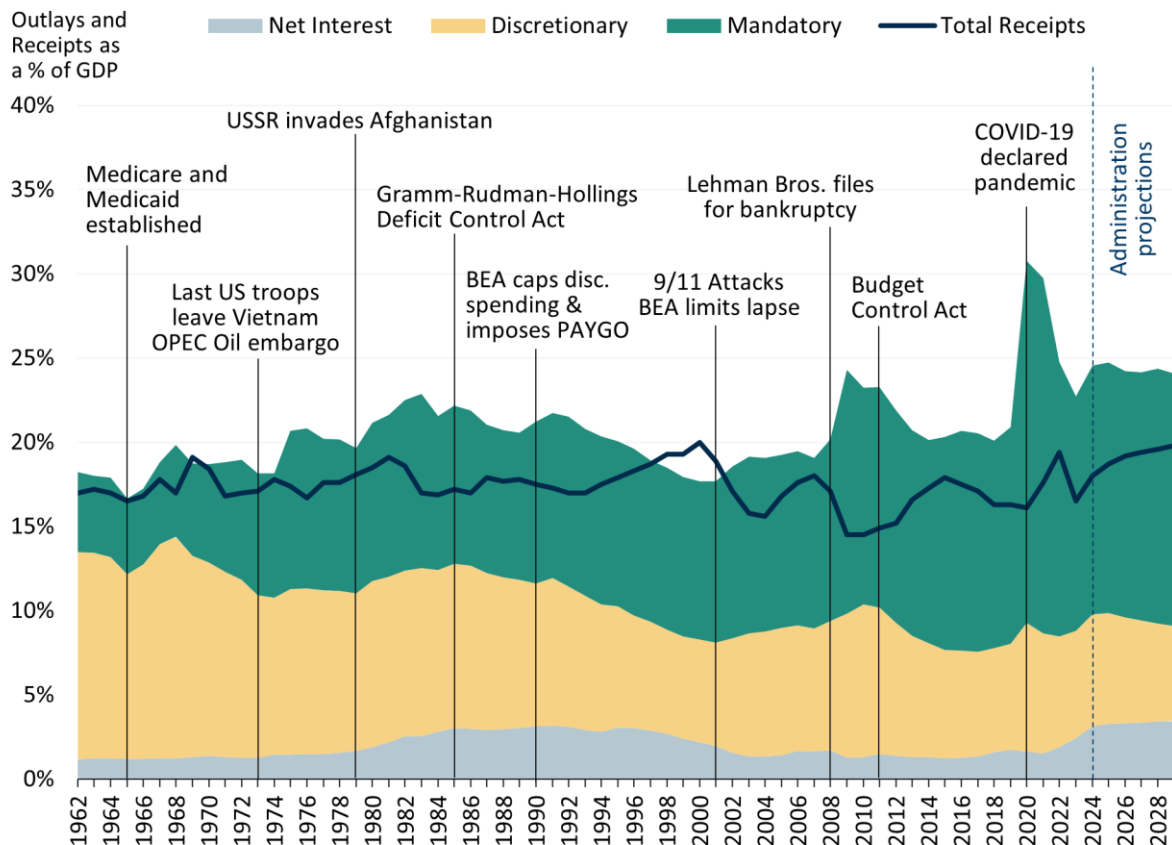
Figure 2 shows [federal outlays](#) by Budget Enforcement Act (P.L. 101-508) categories since FY1962 and total receipts (dark blue line), both measured as shares of GDP. Annual appropriations acts fund and control discretionary outlays. Other laws fund [mandatory outlays](#). Discretionary spending mostly supports federal agencies' operations, including those of the Department of Defense. Mandatory spending mostly

supports social insurance, health, and retirement programs. Over time, mandatory spending's share of federal outlays has grown, while discretionary spending's share has declined.

Rising federal deficits in the 1980s spurred Congress to set constraints on deficit levels through the 1985 Gramm-Rudman-Hollings Act. In 1990, the Budget Enforcement Act set statutory caps on discretionary budget authority (BA) and established pay-as-you-go (PAYGO) limits on mandatory spending and tax cuts. PAYGO and discretionary caps expired shortly after the attacks of September 11, 2001 (9/11 attacks). The Budget Control Act (P.L. 112-25) reimposed caps on discretionary spending through FY2021, for the most part setting separate limits on defense and nondefense BA. The [Fiscal Responsibility Act of 2023](#) set new caps on defense and nondefense discretionary spending for FY2024 and FY2025.

Figure 2. Federal Outlays by Budget Enforcement Act Category As a Percentage of GDP, FY1962-FY2029

Figure is interactive in the HTML version of this Insight.



Source: CRS calculations based on [OMB](#) and [Bureau of Economic Analysis \(BEA\)](#) data. Historical events shown in calendar years.

Notes: Revenue and outlay data are for fiscal years. Laws are shown in the calendar year in which they were enacted. FY2024 values are estimated and those for later years reflect Administration proposals and projections.

Mandatory Outlays

Figure 3 shows major components of mandatory outlays. Social Security, [created in 1935](#) during the Great Depression to provide for old-age retirement, is now the largest federal program. A [1972](#) act raised

Social Security benefits, [tied them to a cost-of-living index](#), and created the [Supplemental Security Income](#) program. Financial concerns prompted a [1983 act](#) limiting certain benefits and raising employee and employer contribution rates. Baby Boom retirements have increased Social Security outlays in the past decade and will likely continue to raise them in coming years.

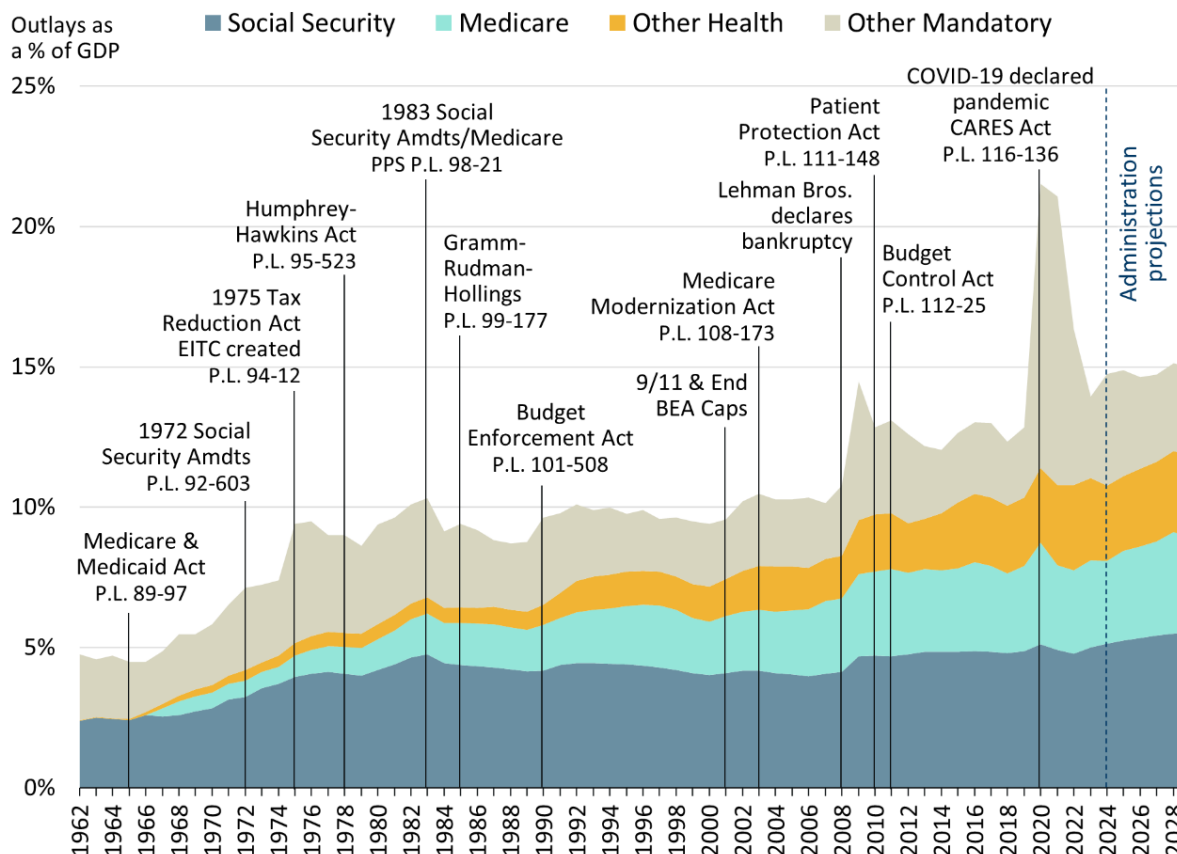
In 1965, [Medicare](#) and [Medicaid](#) (shown within *Other Health*) were established to provide health care to the elderly and to low-income individuals. As beneficiary populations and health care costs rose, so did federal health outlays. Major legislation in [1996](#) and [1997](#) limited certain [income security](#) and [health care](#) programs.

Many mandatory programs act as [automatic stabilizers](#) that mitigate macroeconomic fluctuations. When incomes drop during recessions, more households become eligible for social benefits and tax collections fall. Other economic shocks—including the 1973-1974 Organization of the Petroleum Exporting Countries (OPEC) [oil embargo](#); the [2007-2009 financial crisis](#), exemplified by the failure of the Lehman Brothers investment bank, and the ensuing Great Recession; and the COVID-19 pandemic—led to [robust federal fiscal responses](#).

Net interest costs as a share of GDP fell in the late 1990s as falling interest rates outpaced debt accumulation. In recent years, large COVID-19-era debt increases and rising interest rates combined to raise net interest costs.

Figure 3. Mandatory Outlays by Category As a Percentage of GDP, FY1962-FY2029

Figure is interactive in the HTML version of this Insight.



Source: CRS calculations based on [OMB](#) and [Bureau of Economic Analysis \(BEA\)](#) data.

Notes: Revenue and outlay data are for fiscal years. Acts are shown in the calendar year in which they were enacted. FY2024 values are estimated and those for later years reflect Administration proposals and projections.

The Administration's FY2025 budget opposes reductions in [Social Security](#) and [Medicare](#), but proposes measures aimed at reducing drug and health care costs. The [Administration would also](#) expand paid [family and medical leave](#) and spend more on [public health programs](#). Mandatory spending, according to [Administration projections](#), will be below pandemic-era levels but above pre-pandemic levels.

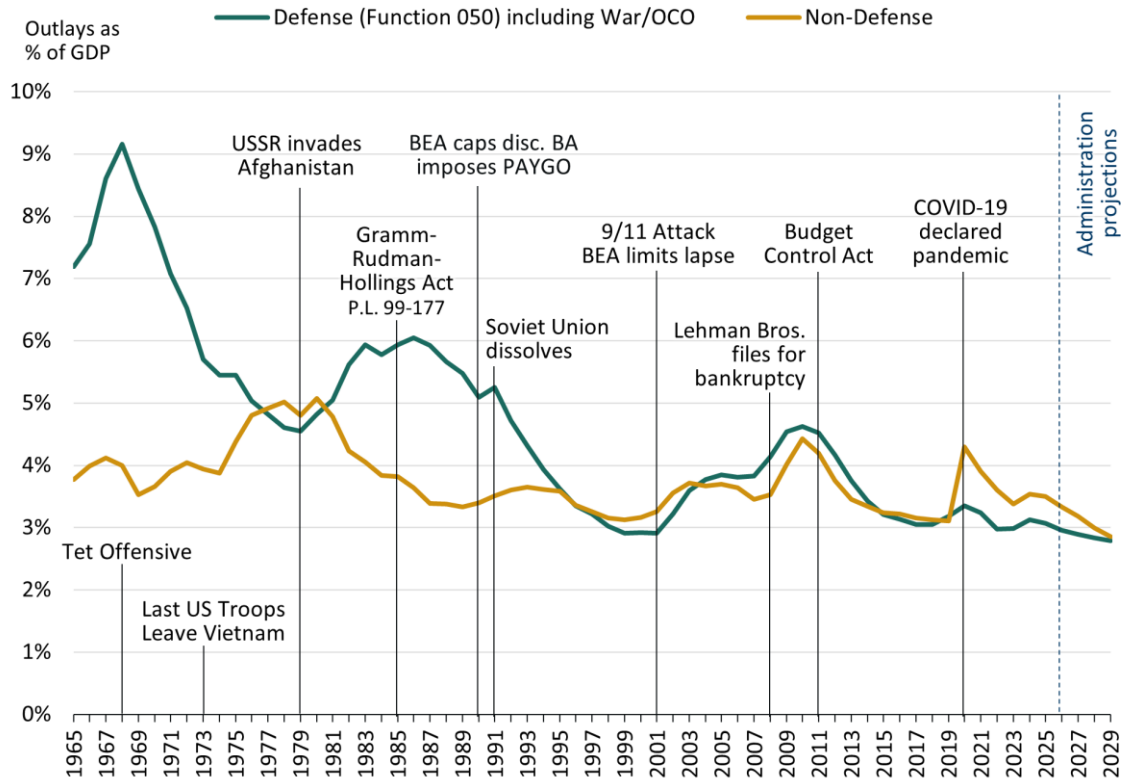
Discretionary Outlays

Figure 4 shows discretionary defense and nondefense outlays measured as shares of GDP. After the 1968 [Tet offensive](#) and U.S. [deescalation](#) in Vietnam, defense spending fell sharply. Following the Soviet Union's invasion of Afghanistan in 1979, defense outlays rose dramatically, reaching 6% of GDP in the [mid-1980s](#). The Soviet Union's 1991 dissolution yielded a "peace dividend" and [falling defense outlays](#). The 9/11 attacks, lapsing of Budget Enforcement Act budgetary limits, and wars in Afghanistan and Iraq all increased discretionary outlays in the aughts. After elevated spending responding to the [2007-2009 Great Recession](#), the 2011 [Budget Control Act](#) reestablished caps on discretionary spending through FY2021. The 2023 [Fiscal Responsibility Act](#) restored caps for FY2024 and FY2025.

According to Administration projections, both defense and nondefense discretionary outlays will continue to fall as a share of GDP in coming years. Defense discretionary outlays are mostly [projected to rise](#), but more slowly than GDP growth. The Administration proposes a [2.8% increase in nondefense discretionary outlays for FY2025](#) over estimated FY2024 levels, and small reductions for later years.

Figure 4. Discretionary Defense and Nondefense Outlays As a Percentage of GDP, FY1977-FY2029

Figure is interactive in the HTML version of this Insight.



Source: CRS calculations based on [OMB](#) and [Bureau of Economic Analysis \(BEA\)](#) data.

Notes: Revenue and outlay data are for fiscal years. Acts are shown in the calendar year in which they were enacted. FY2024 values are estimated and those for later years reflect Administration proposals and projections.

Author Information

D. Andrew Austin
Analyst in Economic Policy

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