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# Democrats Have Options to Meet Fiscal Goals

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Democrats need a fiscal strategy that is grounded in both values and math. A growing number of progressive experts argue that the status quo is not sustainable. [1] Currently, deficits are near 6% of GDP—a level historically seen only during major crises like wars or recessions—and are projected to approach 7% by the end of the decade. Republican tax cuts have made the long-term challenge even harder.

Improving the nation's fiscal outlook will require real tradeoffs. But it does not require abandoning Democratic priorities. A responsible fiscal agenda can reduce deficits, protect popular programs, invest in the country's future, and show voters that Democrats are prepared to govern seriously.

The first step is understanding the scale of the challenge. There are many possible deficit reduction targets, but here's the bottom line: any meaningful improvement will require trillions of dollars in savings and revenue. That is daunting, but not impossible. Solving Social Security's financing shortfall, repealing major parts of the One Big Beautiful Bill Act, and capturing stronger growth from AI-driven innovation could each make a substantial contribution. This memo walks through the size of the problem, the benchmarks policymakers should use, and suggestions on how to begin closing the gap.

# Paths to Restoring Fiscal Stability

Deficits will be nearly 6% of GDP ($1.9 trillion) this year and are projected to reach 7% of GDP ($3.1 trillion) by the end of the decade. [2] Republicans' One Big Beautiful Bill Act (OBBBA) worsened an already bleak fiscal picture. President Trump has attempted to use tariffs to paint a rosier fiscal picture, but that tactic has been limited by the Supreme Court.

To reduce the annual deficit to 3% of GDP by the end of the decade—a commonly used fiscal target with support across the political spectrum—policymakers would need to reduce deficits by around $10 trillion over 10 years. [3] Getting deficits down to this level would likely stabilize the debt-to-GDP ratio at 100% by the end of the decade. [4]

Even if the politics of achieving these savings in the next few years remain challenging, doing nothing is not an option. Even modest reforms can lay the groundwork for a stronger fiscal outlook and create the political conditions for more ambitious action.

Policymakers achieved a budget surplus by the end of the 1990s by finding savings that *totaled* 2.9% of GDP over the decade. [5] A similar-sized effort over the next 10 years would require finding savings of $11.6 trillion. However, this 1990s deficit reduction was enacted over three legislative packages, not a single grand bargain. A modest goal of finding savings equal to 1% of GDP—a figurative down payment that could be built upon by future Congresses—would require deficit reduction of roughly $4 trillion over 10 years.

A 1% of GDP deficit reduction over 10 years would reduce debt-to-GDP by 10 percentage points by the end of the decade (down from 124% to 114%), while matching the more ambitious scale of 1990s deficit reduction would reduce debt-to-GDP by 30 percentage points by the end of the decade (to 94%). [6] Either path would be more favorable than the status quo.

If a Democrat-led budget bill slipped to 2029, deficit reduction might be more politically tenable, but the math more challenging. If policymakers waited an additional two years to take meaningful action on the budget, they would need an additional $3.5 trillion in additional savings—and this is before any policy promises like reversing Medicaid and SNAP cuts or extending tax cuts, let alone anything more transformative. [7]

## Key Policies Can Do Much of the Heavy Lifting

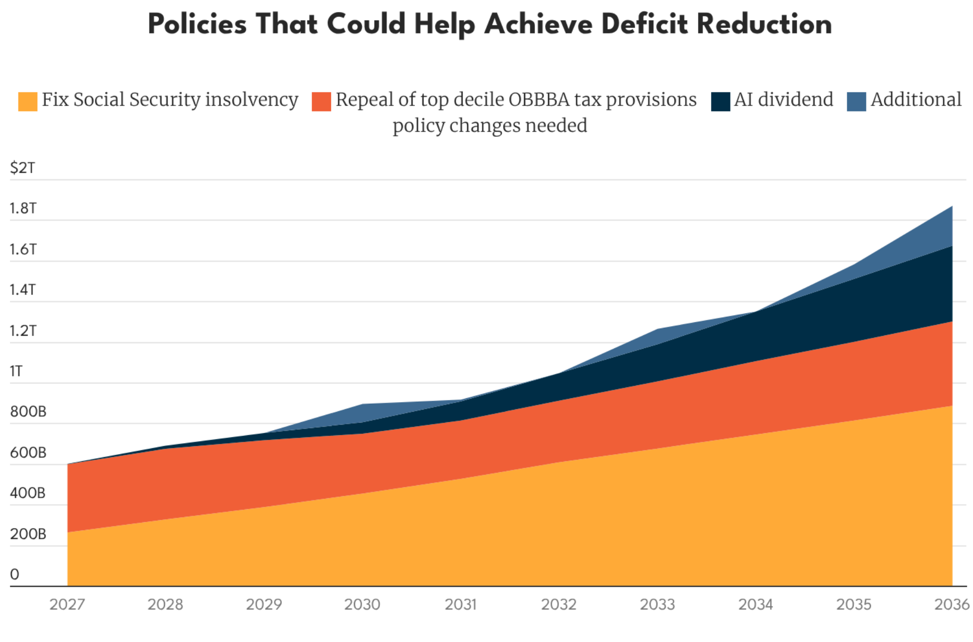
Policymakers have hope, though. Here are three opportunities that can do much of the major lifting to improve the budget picture:

**Repeal OBBBA:** As we've covered previously, OBBBA accounts for 20% of the deficits over the next decade. [8] Repealing OBBBA tax benefits that primarily benefit wealthy households would contribute roughly a third (34%, or $3.4 trillion with interest) to a 3% deficit target as discussed earlier. [9] Full repeal of OBBBA tax provisions would reduce deficits by around $4.9 trillion over 10 years, and full repeal of all OBBBA that also restores the spending cuts to Medicaid and SNAP would reduce deficits by around $3.5 trillion over 10 years. [10] Yet, for a variety of political reasons, complete repeal of OBBBA may not be on the table.

**Save Social Security:** Making the Social Security old age trust fund solvent would bridge roughly half (57%) of the gap to get the deficit to a 3% of GDP path by the end of the decade. [11] There are many options for fixing the Social Security trust fund that require some combination of changes to the revenue and benefits of the program. Notably, although additional revenue will need to play a major role, it would be extremely difficult to save Social Security through revenue alone.

**Use The Economic Dividend From AI:** The fiscal success of the 1990s was partially due to policymakers' decisions, but the federal budget also benefited from a post-Cold War peace dividend and economic boom. [12] If artificial intelligence is going to be the boon to the economy that we and many others think it will be, economic growth should help bolster the fiscal health of the nation. [13] A key economic analysis from the Budget Lab at Yale estimated a net 0.8% of GDP improvement to deficits stemming from AI, improved productivity, and adjustment costs to help workers by 2035. [14] This would be 15% of the gap to meeting the 3% deficit target. [15]

Taken together, these three policies meet the deficit based on 10-year budget savings, but will have a slight shortfall in the last year.




**Source:** Third Way calculations based on data from the Congressional Budget Office and the Budget Lab at Yale.

To be sure, nothing in these fiscal scenarios addresses the costs of new problems or ongoing Democratic policy priorities. The incoming Democratic class in 2027 or 2029 may want to reverse the Medicaid and SNAP cuts from OBBBA, extend expiring tax provisions from OBBBA they see as benefitting the middle class, or further invest in the care economy, housing, among other priorities. A new fiscal commission is a positive step to potentially finding balance between priorities. [16] It is possible to improve the fiscal outlook while protecting popular programs and building a stronger future, but it requires careful decision making.

## ENDNOTES


1. Bernstein, Jared, Adam Shaw, and Daniel Posthumus, "The US Budget Math Is Looking Dangerous," Stanford Institute for Economic Policy Research, July 2025, https://siepr.stanford.edu/publications/policy-brief/us-budget-math-looking-dangerous. Accessed 10 July 2026. And; Kogan, Bobby, and Jared Bernstein, "Why the National Debt Matters More Than It Used To and Why We Should Not Count on AI To Fix the Problem," Center for American Progress, 23 June 2026, https://www.americanprogress.org/article/why-the-national-debt-matters-more-than-it-used-to-and-why-we-should-not-count-on-ai-to-fix-the-problem/. Accessed 10 July 2026. And; DePillis, Lydia, "Federal Debt Is Now Worrying Even Progressives," The New York Times, 30 January 2025, https://www.nytimes.com/2025/01/30/business/economy/federal-debt-worries.html. Accessed 10 July 2026.

2. Deficit projections change based on different assumptions about the level of tariff revenue. This headline number adjusts CBO's baseline with the Budget Lab at Yale's projects of tariff revenue post SCOTUS ruling. Congressional Budget Office, "The Budget and Economic Outlook: 2026 to 2036," Congressional Budget Office, 11 February 2026, https://www.cbo.gov/publication/61882. Accessed 10 July 2026. And; The Budget Lab at Yale, "State of U.S. Tariffs: April 8, 2026," The Budget Lab at Yale, 8 April 2026, https://budgetlab.yale.edu/research/state-us-tariffs-april-8-2026. Accessed 10 July 2026.

3. Third Way calculations based on Congressional Budget Office, "The Budget and Economic Outlook: 2026 to 2036," Congressional Budget Office, 11 February 2026, https://www.cbo.gov/publication/61882. Accessed 10 July 2026. And; The Budget Lab at Yale, "State of U.S. Tariffs: April 8, 2026," The Budget Lab at Yale, 8 April 2026, https://budgetlab.yale.edu/research/state-us-tariffs-april-8-2026. Accessed 10 July 2026.

To reach to 3% of GDP deficits by 2036, policymakers would need to reduce deficits by a total of $8.2 trillion over 10 years under the CBO's February baseline—which assumes full Trump tariff revenue. Under an alternative baseline in which only some of the Trump tariff revenue is maintained, policymakers would need to find $10.0 trillion in savings over 10 years. The illustrative pathway to 3% of GDP deficits was inspired by a proposal from the Committee for a Responsible Federal Budget.

For more information, see Committee for a Responsible Federal Budget, "The Case for a 3% of GDP Deficit Target," Committee for a Responsible Federal Budget, 4 May 2026, https://www.crfb.org/papers/case-3-gdp-deficit-target. Accessed 10 July 2026.

If policymakers pursued an even more ambitious plan of immediately cutting deficits to 3% of GDP and maintaining that level through the end of the decade, they would need to find savings of at least $12.5 trillion over 10 years and as much as $13.9 trillion over 10 years.  Achieving 3% of GDP deficits over 10 years—assuming it started in 2027—would more stabilize the debt at 100% of GDP. By the end of the decade, debt to GDP would actually fall to 89%.

4. Under the CBO's February 2026 baseline, Third Way's pathway to 3% of GDP deficits would achieve 98% of the debt reduction goal by 2036. (This baseline assumes full Trump tariff revenue.) Under an alternative baseline in which only some of the Trump tariff revenue is maintained, Third Way's pathway to 3% of GDP deficits would achieve 102% of the debt reduction goal by 2036.

5. Moller, Zach, and Annie Shuppy, "Revenue Won't Solve It All," Third Way, 1 October 2024, https://www.thirdway.org/report/revenue-wont-solve-it-all. Accessed 10 July 2026. And; Shuppy, Annie, and Zach Moller, "What It Will Take to Fix the GOP's Fiscal Mess," Third Way, 18 November 2025, https://www.thirdway.org/report/what-it-will-take-to-fix-the-gops-fiscal-mess. Accessed 10 July 2026.

6. Third Way calculations based on Congressional Budget Office, "The Budget and Economic Outlook: 2026 to 2036," Congressional Budget Office, 11 February 2026, https://www.cbo.gov/publication/61882. Accessed 10 July 2026. And; The Budget Lab at Yale, "State of U.S. Tariffs: April 8, 2026," The Budget Lab at Yale, 8 April 2026, https://budgetlab.yale.edu/research/state-us-tariffs-april-8-2026. Accessed 10 July 2026.

Third Way calculations assume debt and debt-to-GDP from under an alternative baseline in which only some of the Trump tariff revenue is maintained. Under this alternative baseline, debt-to-GDP would be 124% by 2036. Under the CBO's Feb. 2026 baseline that assumes full Trump tariff revenue, debt-to-GDP would be 120% by 2036.

7. Third Way calculations based on Congressional Budget Office, "The Budget and Economic Outlook: 2026 to 2036," Congressional Budget Office, 11 February 2026, https://www.cbo.gov/publication/61882. Accessed 10 July 2026. And; The Budget Lab at Yale, "State of U.S. Tariffs: April 8, 2026," The Budget Lab at Yale, 8 April 2026, https://budgetlab.yale.edu/research/state-us-tariffs-april-8-2026. Accessed 10 July 2026.

An additional $3 trillion would be needed under the CBO February 2026 baseline. An additional $3.5 trillion would be needed under the alternative baseline in which only some of the Trump tariff revenue is maintained.

Some estimates show that reversing SNAP and Medicaid cuts enacted during the Trump administration would cost $2.2 trillion over 10 years and that reinstating health care premium tax credit enhancements would cost $460 billion over 10 years.

For more information, see Duke, Brendan, "A Framework to Evaluate Affordability Proposals," Center on Budget and Policy Priorities, 15 June 2026, https://www.cbpp.org/research/federal-budget/a-framework-to-evaluate-affordability-proposals. Accessed 10 July 2026.

8. Shuppy, Annie, and Zach Moller, "OBBBA Is 20% of the Next Decade's Deficit," Third Way, 26 March 2026, https://www.thirdway.org/memo/obbba-is-20-of-the-next-decades-deficit. Accessed 10 July 2026.

9. Third Way calculations based on CBO analysis of distributional effects of OBBBA. According to this framework, the top income decile of households receives around 57% of the average change in household resources from changes to federal taxes and cash transfers.

See Congressional Budget Office, "Letter to the Honorable Brendan F. Boyle, the Honorable Hakeem Jeffries, the Honorable Jeff Merkley, and the Honorable Chuck Schumer About the Distributional Effects of Public Law 119-21," Congressional Budget Office, 11 August 2025, https://www.cbo.gov/publication/61367. Accessed 10 July 2026. And;

Congressional Budget Office, “The Budget and Economic Outlook: 2026 to 2036,” Congressional Budget Office, 11 February 2026, https://www.cbo.gov/publication/61882. Accessed 10 July 2026.

10. CBO baseline numbers on the budget impact of OBBBA were shifted to a 2027-2036 window from the original 2026-2035 window included in the February 2026 baseline.

See Congressional Budget Office, “The Budget and Economic Outlook: 2026 to 2036,” Congressional Budget Office, 11 February 2026, https://www.cbo.gov/publication/61882. Accessed 10 July 2026.

11. Third Way calculations based on Congressional Budget Office, “The Budget and Economic Outlook: 2026 to 2036, Details About Baseline Projections for Selected Programs, Social Security Trust Funds”, 11 February 2026, https://www.cbo.gov/publication/61882. Accessed 10 July 2026.

12. Riedl, Jessica, “How Did the Budget Get Balanced in the Late 1990s?,” Brookings Institution, 11 May 2026, https://www.brookings.edu/articles/how-did-the-budget-get-balanced-in-the-late-1990s/. Accessed 10 July 2026.

13. Policymakers on both sides of the political spectrum have proposed acquiring or taxing shares of AI company and investing it in a sovereign wealth fund.

See Criddle, Cristina, and George Hammond, “Trump Administration Explores Giving Americans a Stake in AI,” Financial Times, 2 July 2026, https://www.ft.com/content/7c803eab-8e80-4431-9a87-e943bf00e00b?syn-25a6b1a6=1. Accessed 10 July 2026. And; Mollenkamp, Allison, “Sovereign Wealth Fund Tax on AI Companies Unveiled by Sanders,” Roll Call, 18 June 2026, https://rollcall.com/2026/06/18/sovereign-wealth-fund-tax-on-ai-companies-unveiled-by-sanders/. Accessed 10 July 2026. And; Stein, Jeff, and Samuel Larreal, “Senior U.S. Officials Eye Government Shares in AI Giants,” NOTUS, 4 June 2026, https://www.notus.org/technology/trump-ai-stake-openai. Accessed 10 July 2026.

**14.** Gaudette, Rory, and Zach Moller, "How Will AI Impact the Federal Budget?," Third Way, 17 June 2026, https://www.thirdway.org/memo/how-will-ai-impact-the-federal-budget. Accessed 10 July 2026. And; Gimbel, Martha, Ernie Tedeschi, and Chye-Ching Huang, "What Might AI Adoption Mean for the Fiscal and Economic Outlook?," The Budget Lab at Yale, 6 May 2026 (updated 19 May 2026), https://budgetlab.yale.edu/research/what-might-ai-adoption-mean-fiscal-and-economic-outlook. Accessed 10 July 2026. And; Karger, Ezra, Otto Kuusela, Jason Abaluck, Kevin Bryan, Basil Halperin, Todd Jones, Connacher Murphy, Phil Trammell, Matt Reynolds, Dan Mayland, Ria Viswanathan, Ananaya Mittal, Rebecca Ceppas de Castro, Josh Rosenberg, and Philip E. Tetlock, "Forecasting the Economic Effects of AI," Forecasting Research Institute, 31 March 2026 (revised 20 May 2026), https://forecastingresearch.org/research/economic-effects-of-ai. Accessed 10 July 2026.

The Budget Lab at Yale, using surveys of AI and economics experts, but not their own assessment, finds AI could reduce deficits more substantially (down 1.6 percentage points of GDP) under favorable productivity scenarios. But those fiscal improvements shrink considerably (to 0.8 percentage points of GDP) once the model accounts for potential labor market disruptions and spending tied to displaced workers.

**15.** For purposes of measuring the budget impact of AI policy in this paper, Third Way ran an AI adoption scenario on the Budget Lab at Yale's BLSMM model which yielded a productivity boost and labor-force participation decline, but in which policymakers responded with a modest unemployment insurance increase to support workers. Assumptions about GDP were also adjusted to account for this AI adoption scenario, and the illustrative deficit pathway was adjusted to account for the new GDP levels.

Third Way calculations based on Congressional Budget Office, "The Budget and Economic Outlook: 2026 to 2036," Congressional Budget Office, 11 February 2026, https://www.cbo.gov/publication/61882. Accessed 10 July 2026. And; The Budget Lab at Yale, "State of U.S. Tariffs: April 8, 2026," The Budget Lab at Yale, 8 April 2026, https://budgetlab.yale.edu/research/state-us-tariffs-april-8-2026. Accessed 10 July 2026. And; Matheny, Ken, Martha Gimbel, Ernie Tedeschi, and Chye-Ching Huang, "The Budget Lab Small Macro Model (BLSMM)," The Budget Lab at Yale, 6 May 2026, https://budgetlab.yale.edu/research/budget-lab-small-macro-model-blsmm. Accessed 10 July 2026.

16. Committee for a Responsible Federal Budget, “Senators Introduce Fiscal Commission Act,” Committee for a Responsible Federal Budget, 27 March 2026, https://www.crfb.org/blogs/senators-introduce-fiscal-commission-act. Accessed 10 July 2026.