ECONOMIC VIEWPOINT

United States: Public Finances

Caught Between the President's Dreams and Reality

By Francis Généreux, Principal Economist

President Trump has repeatedly claimed that the budget could be balanced through spending cuts and higher tariffs. But the budget shortfall is so big that it's hard to see how they could actually be enough. Aside from the massive deficit, we also need to consider the cost of extending the 2017 tax cuts, additional promises of tax relief for businesses and households, and increased spending on immigration controls, defence and security. The budget proposals currently before Congress don't go far enough to eliminate deficits anytime soon.

"BALANCED BUDGET!!! DJT"

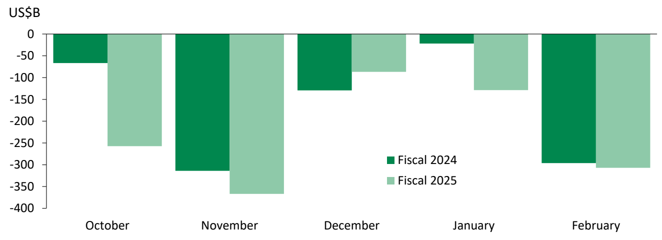
It's hard to figure out what Donald Trump meant with this outburst on Truth Social at 7 a.m. on Friday, February 7. Was he just making a wish? Was he giving an actual directive to the entire administrative and political apparatus under his leadership? Or was he making a promise to the 9.3 million people who follow him on that social network and 341 million Americans?

Whatever he meant, balancing the budget will be a big challenge for the United States. At the close of fiscal 2024 (September 30), the federal government's deficit stood at US$1.832 trillion (6.4% of GDP). The situation only got worse during the first five months of fiscal 2025. When you add up all monthly deficits since the fiscal year started last October, the total is US$318.5 billion higher than for the first five months of fiscal 2024 (graph 1).

It doesn't look like things will get much better, either, given the legislation in force when Donald Trump was inaugurated 47th president of the United States. In January, the Congressional Budget Office (CBO) saw the deficit hitting US$1.865 trillion by the time the current fiscal year ends in September (graph 2).

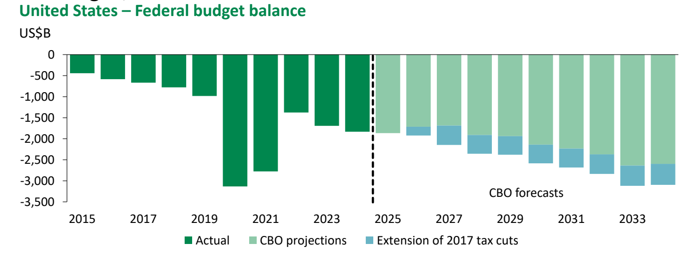
The situation could improve somewhat in fiscal 2026, with a projected deficit of $1.713 trillion. But that's based on current legislation. The CBO forecast doesn't take into account the extension of some or all of the 2017 tax reductions, which are slated to expire on December 31, nor does it consider the possibility of even deeper tax cuts. According to the CBO, even

Graph 1
Federal Public Finances Have Continued to Deteriorate Since the Start of the Current Fiscal Year
United States – Monthly federal budget balance



U.S. Treasury and Desjardins Economic Studies

Graph 2
Deficits Won't Be Significantly Reduced If Current Legislation Remains Unchanged, and Even Less So If the 2017 Tax Cuts Are Extended
United States – Federal budget balance



CBO: Congressional Budget Office
CBO, Office of Management and Budget and Desjardins Economic Studies

if we ignore how an extension would affect the cost of servicing the debt, renewing all of the cuts would swell the primary deficit by at least another US$232 billion in fiscal 2026. That means the federal government's annual shortfall would be close to US$2 trillion next year. That's not exactly a balanced budget. Over ten years, the cost of extending the tax cuts would add up to US$4.3 trillion.

Can President Trump and the Republican congressional majority turn this ship around? The White House is clearly making an effort, especially through the "Department of Government Efficiency" (DOGE), but it's really up to Congress to take the initiative.

Congress is working on a 2026 budget that prioritizes renewing the 2017 tax cuts. But it will be quite some time before it's finalized, and a lot of work still needs to be done.

A Shutdown Averted

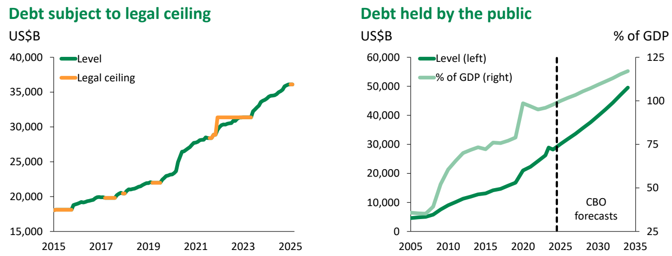
The first order of business was to ensure the government is funded through the end of this fiscal year, thereby preventing a shutdown that otherwise might have started earlier this month. The issue was resolved by passing a Continuing Resolution that kept most departmental funding at current levels, while increasing defence spending by US$6 billion and cutting US$13 billion from non-defence spending (including health care, education, housing and urban development, environment and social services)[1].

What About the Debt Ceiling?

Although a partial government shutdown was averted, the debt ceiling remains a problem. The debt ceiling was hit on January 21 (graph 3). Since then, the US Treasury has resorted to extraordinary measures to keep the government financed without issuing new debt on the markets. But these extraordinary measures can only do so much, and the CBO says they'll be exhausted by August or September. If the government ends up needing more funding than the CBO expects, the extraordinary measures could even run out as early as May. Congress will need to act soon to prevent a government default. One possible solution could be through bills setting out the next budget. If that takes too long, Congress would have to pass another resolution, which would probably need the approval of Democratic senators to avoid a filibuster.

[1] The resolution also prevents members of Congress from attempting to terminate Trump's February 1 declaration of a national emergency justifying the imposition of additional tariffs on imports from China, Mexico and Canada.

Graph 3
The Federal Government Has Hit the Legal Debt Ceiling



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And the Budget?

The filibuster will also be a critical issue in passing a 2026 budget that's aligned with Republican priorities. It's quite clear that the Republicans don't have the 60 Senate votes required to bypass a Democratic filibuster and pass legislation that fulfills the biggest campaign promises made by their party and President Trump. There are procedures, such as budget reconciliation, that are exempt from the filibuster rule, but they are limited.

The Republican majority in the House of Representatives laid the foundation for the 2026 budget. And what would that be? According to the Committee for a Responsible Federal Budget, the draft bill adds US$300 billion in spending on defence, homeland security and the judiciary over a 10-year period, which is the usual time horizon covered by federal budget bills and analyses. The same budget also called for nearly US$2 trillion in spending cuts (again, over ten years). Most of that would come from energy and commerce (-US$880 billion, primarily by rolling back measures passed by the Biden administration), education and workforce (-US$330 billion), and agriculture (-US$230 billion, including food assistance for low-income families). It also includes tax expenditures (tax cuts) amounting to US$4.5 trillion over ten years. That's basically the cost of extending the 2017 tax cuts, including the resulting debt servicing costs. For now, there isn't much slack left in the budget to implement the other tax cuts promised by Donald Trump during the election campaign. These include a reduction of corporate taxes and the elimination of taxes on tips, overtime and social security benefits, which could collectively cost US$3.55 trillion over ten years. If the 2017 tax cuts are allowed to expire and no new budget measures are introduced, the Republican plan would reduce the deficit by around US$1.7 trillion over ten years or an average of US$170 billion per year. That won't do much to balance the budget, given the size of existing and projected deficits based on current legislation.

Senate Republicans have also put forward their own proposals. But to move forward with the reconciliation process, which limits the Democrats' ability to block them, they'll probably base their proposal on the House plan. It will take several weeks to come up with a single proposal that will please both chambers of Congress and the president. Republican leaders hope to have the budget wrapped up by early April, but that seems unrealistic.

Will DOGE and Tariff Man Save the Day?

The congressional proposals floated up to now can't even get close to balancing the US budget. So far, most of the efforts to right the financial ship seem to be coming from the White House, either through its trade policy or the unconventional tactics of Tesla and SpaceX CEO Elon Musk.

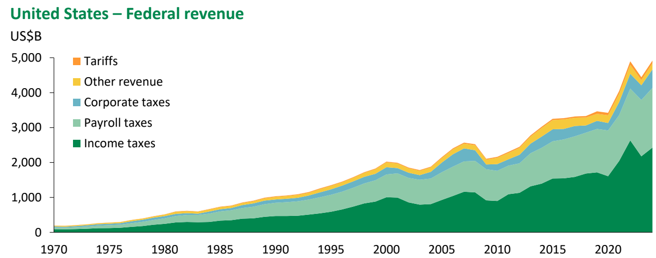
Much has been made of Musk-led DOGE's attempts to slash the budget and downsize the civil service. DOGE supposedly found a number of ways to trim the budget by using cutting-edge IT to detect waste and fraud. Its efficiency leaderboard currently claims all of its "savings" add up to US$140 billion. But receipts for only 30% of that total are posted right now, and a slew of mistakes and exaggerations have been identified since they were first posted. According to some independent estimates, the actual, verifiable amount of savings may be much lower. That doesn't even factor in the judgments by various courts to block DOGE's efforts, while the constitutionality of its actions has been called into question.

Even if DOGE can go ahead with its cuts and the Trump administration's other decisions stand, especially the elimination of agencies (USAID, the Department of Education and more), the Trump-imposed realignment of the state doesn't seem to be enough to restore balance to public finances. Furthermore, President Trump's priorities, especially in relation to immigration and security, could lead to additional spending beyond what is already included or even proposed in Republican budget plans.

Consequently, more sources of revenue will have to be found. However, the president and Republicans are determined not to raise taxes, so that's out of the question—unless of course they disguise tax hikes as trade policy.

Donald Trump seems to believe tariffs will solve all of America's problems, including the budget. For many years, especially during the last election, he's claimed tariffs could spark a US industrial renaissance while also bringing in substantial revenue for the federal government. Meanwhile he continues to insist—falsely—that the tariffs will be paid by foreigners. But it's actually American importers who normally pay US customs duties. In fiscal 2024, tariffs added US$83.7 billion to government coffers, which is a tiny fraction of total federal revenue (graph 4). This amount is set to increase considerably. All of the changes to trade policy that Trump has already put in place or announced—such

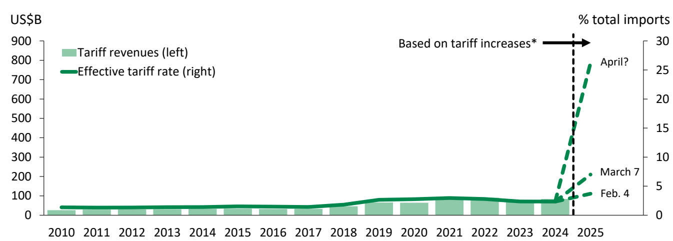
Graph 4
Import Tariffs Account for Only a Tiny Fraction of Federal Revenue



Congressional Budget Office and Desjardins Economic Studies

as higher tariffs on China, Mexico and Canada, and additional tariffs on steel, aluminum and automobiles—will quadruple tariffs (graph 5). That doesn't even include other announcements that are expected in early April. Based on the assumptions of our most recent economic scenarios, which see the exemptions for Canada and Mexico ending and so-called reciprocal tariffs of 25% imposed on other countries in April, tariffs could bring in as much as US$800 billion every year. But that figure was calculated based on amounts imported in 2024. Tariffs that high would normally curb import volumes while also slowing economic growth. In fact, our scenarios expect a technical recession in 2025. Actual revenues would therefore be lower. On top of that, our scenarios see tariffs being reduced in 2026.

Graph 5
The Planned Tariffs Would Raise the Effective Tariff Rate and Bring In a Lot More Revenue



* Effective rate of planned tariffs when applied to 2024 imports, without taking into account the negative impact that higher tariffs would have on import volumes and economic growth.
U.S. Treasury, U.S. Census Bureau, U.S. International Trade Commission and Desjardins Economic Studies

Still, tariff revenue wouldn't be negligible. If you add that to potential savings found by DOGE and, above all, announced restrictions on the federal government's role, the total impact on the deficit would be relatively large. But would it be enough to balance the budget? No. In a highly optimistic scenario, the annual shortfall could be trimmed by around US$1 trillion. That's less than the projected deficit and doesn't even take new tax cuts into account.

So, to get back to the original question: BALANCED BUDGET? Not yet, Mr. President!