Fiscal Lab
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Brief

Economic Growth Rates Necessary to Eliminate the Federal Deficit: An Update for 2026

Can the federal government balance the revenues and outlays without making fiscal changes? Here's how much growth it would take.

> If mandatory spending follows the path in the current CBO baseline, then real GDP growth will need to average 4.67 percent per year to eliminate the deficit in 10 years.
>
> If Congress makes an immediate 20 percent cut in mandatory outlays, then real growth would need to average 3.02 percent per year to eliminate the deficit.
>
> If reductions in mandatory outlays occurred through slowing their growth by 2 percent per year from the baseline, then real GDP growth would need to average 3.41 percent per year to eliminate the deficit.
>
> A less demanding target is primary balance, in which revenues cover all noninterest spending. Without spending cuts, real GDP growth of 2.93 percent per year would reach primary balance in 10 years.

Parker Sheppard, Ph.D., and William Beach, D.Phil.
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Gross federal debt passed $40 trillion in August 2026.[1] Debt held by the public, the measure we use throughout this Brief, stands at $32 trillion, or about 101 percent of Gross Domestic Product (GDP). Without further action, the Congressional Budget Office (CBO) projects that debt held by the public will climb to 120 percent of GDP by 2036, surpassing the record of 106 percent set in 1946, and to 175 percent by 2056.[2]

Another year has passed without major fiscal reform, and the administration continues to point to economic growth as the way to fix the fiscal situation. When asked about the debt milestone in August, Treasury Secretary Scott Bessent said that "there's nothing magic about the $40 trillion number. And we can grow our way out of that."[3] Economic growth does improve the budget, because generally revenues rise with GDP while most spending does not. But few who make that argument say how much growth the fix would require. An idea of the necessary targets could help Congress craft legislation to balance the budget.

This Brief updates the previous calculations we published last September with CBO's February 2026 baseline. The deficit outlook has worsened, so the required growth rates have risen. Eliminating the deficit in 10 years without spending cuts now requires real GDP growth to average 4.67 percent per year, up from 4.31 percent in our estimate last year.

We provide some back-of-the-envelope estimates of that golden economic growth rate below. We also show the growth required to balance the budget under two different scenarios with cuts to mandatory spending. In this year's update we also include calculations of the growth required to reach primary balance, in which revenues cover all spending except interest on the debt.

Economic Growth Without Spending Cuts

If Congress makes no changes to taxes or spending, we estimate that US real (inflation-adjusted) GDP would need to grow **2.88 percentage points (288 basis points) per year faster** than the baseline of the Congressional Budget Office (CBO) for each of the 10 years in the current budget window (2027 to 2036) for the annual deficit to fall near to zero by the end of that period (Table 1).

[1] US Department of the Treasury, "Debt to the Penny," last updated September 10, 2026. Total public debt outstanding first closed above $40 trillion on August 18, 2026.
[2] *The Budget and Economic Outlook: 2026 to 2036* (Congressional Budget Office, February 11, 2026).
[3] CNBC, "CNBC Exclusive: Transcript: U.S. Treasury Secretary Scott Bessent Speaks with CNBC's Sara Eisen on 'Squawk on the Street' Today," August 20, 2026.

Table 1. Real GDP growth needed to balance the budget in FY2036
(Average annual percent growth, 2027–2036)

	Baseline	Additional	Total
No spending cuts	1.79	2.88	**4.67**
Immediate 20% cut in mandatory outlays	1.79	1.22	**3.02**
2% slower growth in mandatory outlays	1.79	1.61	**3.41**

Figures are average annual growth rates for 2027–2036. See the attached workbook with the authors' calculations.
SOURCE: AUTHORS' CALCULATIONS BASED ON CBO'S FEBRUARY 2026 BASELINE.

While CBO projects that real GDP growth will settle to 1.8 percent per year, the needed growth would imply an average of 4.67 percent per year. For reference, the US economy has achieved that growth rate in only 27 percent of quarters since 1947.[4]

With that rate of real growth, debt held by the public falls to 68 percent of GDP by the end of the budget window, compared to 120 percent in the baseline.

An Immediate Cut in Mandatory Spending

Suppose instead that Congress were to reduce mandatory outlays by 20 percent in the first year of the budget window, allowing mandatory outlays to grow from the lower level at the same rate as in baseline. Then real GDP would need to grow an **additional 1.22 percentage points per year** to balance the budget at the end of the window.

That puts the annual average at 3.02 percent per year. Real growth has averaged 2.09 percent over the past two years, but the economy has reached 3.02 percent in about half of the quarters since 1947.[5]

Such a cut in mandatory outlays would reduce the deficit by $19.4 trillion over 10 years.

[4] Federal Reserve Bank of St. Louis, "Real Gross Domestic Product (GDPC1)," dataset for 1947–2026, accessed August 31, 2026.
[5] Federal Reserve Bank of St. Louis, "Real Gross Domestic Product (GDPC1)."

Slower Growth in Mandatory Spending

Instead of a sharp cut in the first year, Congress may prefer to phase in the cuts by slowing the growth of mandatory spending. Suppose that the first year of the budget window reduces mandatory outlays by 2 percent outlays in the baseline instead of 20 percent and that mandatory outlays grow 2 percent more slowly than in the baseline in each subsequent year.

In that case, real GDP would need to grow **1.61 percentage points per year faster** to balance the budget by the last year. The average annual growth rate would be 3.41 percent per year, a growth rate seen in 45 percent of the quarters since 1947.[6]

By phasing in the cuts, this plan reduces the deficit by only $14.5 trillion over 10 years.

Growth to Reach Primary Balance

Congress could also aim for primary balance, in which revenues cover all noninterest spending and the remaining deficit equals net interest outlays. Primary balance requires far less growth than total balance (Table 2).

Table 2. Real GDP growth needed to reach primary balance in FY2036
(Average annual percent growth, 2027–2036)

	Baseline	Additional	Total
No spending cuts	1.79	1.13	**2.93**
Immediate 20% cut in mandatory outlays	1.79	−0.55	**1.25**
2% slower growth in mandatory outlays	1.79	−0.34	**1.46**

Figures are average annual growth rates for 2027–2036. See the attached workbook with the authors' calculations.
SOURCE: AUTHORS' CALCULATIONS BASED ON CBO'S FEBRUARY 2026 BASELINE.

Without spending cuts, real GDP growth of 2.93 percent per year reaches primary balance by 2036. That pace roughly stabilizes the debt: That is, debt held by the public ends the window at 98 percent of GDP, near its current share, instead of rising to 120 percent in the baseline.

[6] Federal Reserve Bank of St. Louis, "Real Gross Domestic Product (GDPC1)."

With either package of mandatory spending cuts, the budget reaches primary balance by 2036 even if real GDP grows more slowly than in the CBO baseline.

Other Scenarios

At the Fiscal Lab on Capitol Hill, we want to be transparent about how we arrive at our results. We also want to empower congressional staff to experiment on their own.

That's why we are publishing a workbook with this report that allows users to reproduce our calculations and try their own policy scenarios. In the workbook, highlighted cells are modifiable inputs describing faster real growth, an initial cut in mandatory spending, and slower subsequent growth in mandatory outlays. As users modify the inputs, the table for the alternative scenario adjusts automatically.

Details About the Calculation

To find the target growth rate, we increased real GDP growth while using CBO baselines for mandatory or discretionary spending.[7]

Net interest payments follow the same proportion to debt but shrink with reductions in debt. Total revenues follow the same proportion to GDP as the CBO baseline, so that revenues grow with GDP.

Thus, the increased revenue and decreased interest expense reduce the deficit and slow down the growth in debt. Changes in the deficit for initial years reduce total federal debt in subsequent years.

We also use the CBO baseline price level as measured by the GDP price index.

The primary deficit equals the total deficit plus net interest. The workbook reports it for the baseline and for each alternative scenario.

William Beach is the Executive Director of the Fiscal Lab on Capitol Hill.

Parker Sheppard is a Senior Fellow in Economics at the Fiscal Lab on Capitol Hill.

[7] *The Budget and Economic Outlook: 2026 to 2036*.