

Policy Backgrounder: The President's FY 2025 Budget

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On Monday, the President submitted the Administration's proposed [Budget](#) for Fiscal Year (FY) 2025. Presidents' budgets generally differ substantially from what will eventually pass Congress, particularly in a divided Congress. However, these budgets indicate both policy priorities and, this year, some of the themes the President will likely emphasize in the fall campaign. The Budget [includes](#) increased spending for many domestic programs; continues defense spending increases given higher geopolitical tensions; and proposes significant tax increases for corporations and high-earning individuals.

- Total spending in the proposal is \$7.266 trillion (25 percent of GDP), an increase of \$1.131 trillion from actual outlays in FY2023. Over 80 percent of this increase is tied to mandatory spending on Social Security, Medicare, other mandatory programs, and to servicing the national debt.
- The President also requests \$1.629 trillion in base discretionary budget authority, an increase of 1.6 percent from 2024 spending levels of \$1.603 trillion. Defense spending rises 4 percent over 2024 levels to \$850 billion, and foreign assistance programs also rise.
- Other discretionary spending priorities in the Budget include education, childcare, and families; border security and immigration; infrastructure; worker protections; and research and AI.
- The Budget proposes several tax increases for corporations and high-income taxpayers, which the Administration projects would increase tax receipts by \$4.9 trillion over the next decade.
- Under the Administration's economic assumptions, the Budget would cut deficits by a cumulative \$3.2 trillion over the next decade, from \$19.5 trillion under current law to \$16.3 trillion. However, total Federal debt held by the public is still expected to climb to 105.6 percent of GDP in 2034, which would be the second highest level in American history.
- The Budget is a statement of priorities and will likely not receive a formal vote in Congress.

Summary of the Budget

Total spending, mandatory spending, and health program spending

Total [spending](#) under the President's proposal is \$7.266 trillion, an increase of \$1.131 trillion from actual outlays in FY2023 (there is no figure yet for actual outlays for 2024). This equals 24.8 percent of GDP. Over 80 percent of the increase in total outlays between FY2023 and FY2025 is tied to mandatory spending on Social Security, Medicare, other mandatory programs, and net interest costs to service the national debt. The increase in the cost of servicing the debt is particularly notable. Interest on the national debt had already increased by 75 percent in four years, from \$375 billion in FY2019 to \$658 billion in FY2023, with the impact of both higher interest rates and higher spending overall. The FY2025 Budget estimates \$965 billion to service the national debt, representing a further 47 percent increase over FY2023 levels. The Budget also projects Medicare spending to be \$936 billion in FY2025 (12 percent increase from FY2024 spending levels) and Medicaid spending to be \$589 billion in FY2025 (4 percent

increase). Over the next decade, Medicare spending grows to \$1.693 trillion in FY2034 (4.0 percent of GDP) and Medicaid spending reaches \$1.035 trillion in FY2034 (2.4 percent of GDP).

Discretionary spending

Discretionary funding requests are almost uniformly—though not entirely—small increases over “likely” 2024 enacted levels (the Budget uses the figures in the [continuing resolution](#) Congress passed in September 2023 to avoid the government shutdown as the baseline for most FY2024 discretionary spending). Overall, the President [requests](#) \$1.629 trillion in base discretionary budget authority, an increase of 1.6 percent from 2024 spending levels of \$1.603 trillion. In some cases, including the Department of Transportation and the Army Corps of Engineers, spending declines in the FY2025 Budget relative to FY2024 spending levels. However, these declines reflect a baseline elevated by the [Infrastructure Investment and Jobs Act](#) (IIJA), which increased funding in these areas.

Defense, the largest category of discretionary funding, rises 4 percent over 2024 levels to \$850 billion, aligning with the allocations in the [Fiscal Responsibility Act of 2023](#). In addition, the Budget reiterates the President’s request for emergency [supplemental](#) assistance for Ukraine, Israel, and Taiwan in FY2024; the Senate has passed the bill, which awaits a vote in the House. The Budget also expects that higher defense spending will continue: base discretionary funding for defense steadily increases in the outyears, growing by about \$20 billion annually from 2026 to 2029, then experiencing a slower annual growth rate of approximately \$7 billion before reaching \$1.018 trillion in 2034.

CED Focus Areas in the Budget

The Budget highlights several areas of CED policy focus in the last year.

Cybersecurity: The Budget provides \$13 billion across civilian departments and agencies. Additionally, the Budget allocates an additional \$103 million for the Cybersecurity and Infrastructure Security Agency (CISA) for a total of \$3 billion in funding to deploy Federal network tools, support CISA’s internal cybersecurity and analytical capabilities, and promote critical infrastructure security coordination and cyber event reporting.

Child care, education, and families: The Budget proposes a new program at the Department of Health and Human Services (HHS) to guarantee affordable, high-quality child care from birth to kindergarten for families earning up to \$200,000. The program, Affordable Child Care for America, [is projected](#) to reach more than 16 million children and is budgeted at \$9.9 billion. In addition, it proposes a new Federal-state partnership at \$5 billion to expand universal, voluntary preschool for all four-year-olds.

The Education Department’s budget is \$82 billion, up 3.1 billion from FY2023. To support kindergarten readiness, the Budget proposes demonstration grants for free, high-quality preschool in school or community-based settings for children from low-income families as well as a \$200 million increase in Title I school funding reaching 90 percent of US school districts. To combat the effects of the pandemic’s disruption on schooling, the Budget offers funding for Academic Acceleration and Achievement Grants to address school attendance, high-quality tutoring, and extended learning. In addition, the Budget addresses two primary challenges that gained greater attention during the pandemic: mental health and the school staff shortage. The Budget commits funding to increase the number of mental health professionals in schools and invests in several existing teacher training, recruitment, and retention programs. The Budget offers a \$200 million increase for the Individuals with Disabilities Education Act (IDEA) program for students with special needs and an additional \$545 million for early intervention programs that serve infants and families. The Budget also includes funding for opportunities and security around the use of artificial intelligence (AI) in schools.

For post-secondary education, the Budget doubles funding for career and technical education, including Career-Connected High Schools which integrate work-based learning, industry-recognized credentials, and college and career advising into the last two years of high school. The Budget also proposes a Reducing the Costs of College Fund which includes competitive awards for public institutions to

incentivize affordability, a Classroom to Career fund for States to offer a minimum of 12 transferable career-connected credits in high school, as well as expanding free community college access through federal-state partnerships. It increases the maximum Pell Grant in support of the Administration's effort to double the maximum award by 2029. The proposal eliminates Federal student loan origination fees.

Border security and immigration: The Budget requests \$62.2 billion in discretionary spending for the Department of Homeland Security (DHS), a 2 percent increase above FY2023. The President also requests \$4.7 billion to establish a Southwest Border Contingency Fund to respond to changing border conditions, which, if fully accessed, would increase DHS' budget to 10 percent above FY2023. Funding includes \$25.9 billion for US Customs and Border Protection (CBP) and Immigration and Customs Enforcement (a \$1.9 billion increase over FY2023). This funding would enable CBP to hire an additional 350 Border Patrol Agents and 310 processing coordinators; spend \$472 million on border security technologies, operational support and removal costs; and support 34,000 ICE immigration detention beds. The budget also includes \$9.3 billion for the Office of Refugee Resettlement to help rebuild the Nation's refugee resettlement infrastructure and \$145 million for US Citizenship and Immigration Services (USCIS) International Refugee Affairs Division to process asylum seekers. To boost capacity at immigration courts and address the backlog of over 2.4 million cases, the budget requests \$981 million (a \$121 million increase) for the Justice Department's Executive Office for Immigration Review to support 25 new immigration judge teams, in addition to investments in digitizing court operations.

The Administration also reiterated its October 2023 [supplemental request](#) for \$11.8 billion (\$8.7 billion for DHS), which it wants included in the FY2024 budget being negotiated in Congress, aimed at investments to build border and immigration capacity. That funding would be used to hire 1,300 additional Border Patrol Agents; to hire 1,000 additional CBP Officers to combat fentanyl and other contraband; to hire an additional 1,600 Asylum Officers and support staff; to hire 375 new immigration judge teams; to investigate criminal organizations and drug traffickers; and to install detection technology at ports of entry.

Infrastructure: The Budget provides authorized funding "supporting" the fourth year of the Infrastructure Investment and Jobs Act (IIJA), totaling [\\$78.4 billion](#) for its highway, highway safety, and transit formula programs (\$15.7 billion above the 2021 level for highways and bridge repair), and other spending across many Departments, including an additional \$9.5 billion in IIJA appropriations for bridge replacement and rehabilitation, electric vehicle charging infrastructure, and other programs. It also "outlines a priority of streamlining permitting capacity to ensure effective project delivery" (a CED recommendation, including \$1 billion "to support [expedited] environmental review and permitting processes."

Workforce: The Budget includes a number of the Administration's workforce and worker protection initiatives, investing \$2 billion in the Department of Labor's worker protection agencies as well as in the Equal Employment Opportunity Commission and the National Labor Relations Board to enforce the Pregnant Workers Fairness Act; advance pay equity; and enforce workers' rights to organize and bargain collectively bargain. The Administration also proposes a national, comprehensive paid family and medical leave program of up to 12 weeks of leave, in addition to calling on Congress to require employers to provide seven job-protected paid sick days each year to all workers. In addition, the Budget expands Registered Apprenticeship programs in areas such as clean energy, construction, semiconductors, transportation and logistics, education, and health care.

Research and AI: The Budget proposes \$20 billion (\$1.2 billion over FY2023 levels) to boost US leadership in research and scientific discovery across major research agencies, including AI. The Budget includes funding to establish Chief AI Officers in Federal agencies, including new AI Offices in the Departments of Homeland Security and Labor; and to support expanded AI hiring across the Federal government. The Budget also allocates funds to the Commerce Department to establish an [AI Safety Institute](#) to operationalize the [NIST AI Risk Management Framework](#). To advance the CHIPS and Science Act commitments to building a domestic semiconductor supply chain, the Budget invests \$20 billion across major research agencies to boost American leadership in research and innovation. The request would provide the National Science Foundation (NSF) \$2 billion for R&D, aligning to priorities under the CHIPS and Science Act, as well as \$30 million for a second year pilot of the [National Artificial Intelligence Research Resource](#) (NAIRR). Additionally, the Energy Department's Office of Science would receive

funding to support its work on AI, high-performance computing to improve climate modeling, clean energy technologies including fusion, and isotope production.

Policy Priorities in the Budget

Budgets are significant as a statement of an Administration's political priorities. The spending outlined in the Budget and the accompanying statements make several points clear.

First, the President seeks to advance the domestic priorities in his State of the Union [address](#) by making [investments](#) to expand access to prescription drugs and behavioral healthcare, restore an expanded Child Tax Credit as enacted in the American Rescue Plan, enhance the Earned Income Tax Credit for low-income workers, promote affordable housing, reduce student debt, and advance the Administration's climate change and environmental policies. These [efforts](#) to "continue to lower costs for working families" will likely be themes of the fall campaign.

Second, the White House [emphasizes](#) US leadership to confront current geopolitical conflicts. In addition to pushing for passage of the national security supplemental for FY2024, the Administration increases overall defense spending, including to support NATO; invests in the submarine industrial base as promised under the AUKUS agreement with Australia and the United Kingdom; and provides additional funding to the Office of Terrorism and Financial Intelligence to implement and enforce US sanctions. The Budget also includes specific investments for the [Partnership for Global Infrastructure and Investment](#) (\$50 billion across the entire Federal government in FY2025) as part of the Western response to China's Belt and Road Initiative, bilateral and regional foreign assistance in the Indo-Pacific region (\$2.1 billion), and increased diplomatic presence and programs in the Indo-Pacific (\$2 billion, some of which was authorized in the CHIPS and Science Act).

Social Security

The Budget also seeks to reflect the Administration's commitment to protect and strengthen Social Security and highlights its willingness to work with Congress to restore the program's solvency. The Budget outlines [principles](#) for strengthening the program, including avoiding benefit cuts and making high-income Americans pay more into Social Security payroll taxes, which are currently [capped](#) at the maximum taxable income of \$168,600 for 2024. While the Budget did not propose specifics, Congressional Democrats working on Social Security have [proposed](#) applying payroll taxes to incomes above \$400,000 and could extend the tax to cover net investment income. The Budget also proposes increases for the Social Security Administration (SSA) for staff, technology, and expansion of Social Security field offices, requesting a total of \$15.4 billion, a \$1.3 billion increase from FY2023.

Tax provisions

As it did last year, the Budget contains extensive proposals for changes to [tax](#) law, including significant tax increases. These proposals have virtually no chance of being enacted in a divided Congress. The Administration believes its [proposals](#) would increase total receipts from a baseline of \$65.4 trillion over the next decade to \$70.3 trillion—\$4.9 trillion in additional receipts. The Administration hopes to use revenues from tax increases to finance core priorities related to expanding child care and early learning, reducing the cost of health care and housing, and promoting postsecondary education and training. In line with the President's promise not to raise income taxes on those earning less than \$400,000, the Budget concentrates tax increases on higher income taxpayers and on corporations and other businesses.

The largest of the proposed tax increases is an increase in the corporate tax rate from 21 percent to 28 percent, raising \$1.35 trillion over a decade. The Budget also raises the Inflation Reduction Act's corporate alternative minimum tax rate from 15 percent to 21 percent, increasing tax receipts by \$137 billion. Other proposed corporate tax changes include revisions to the global minimum tax regime (which the US has not yet adopted and Congress strongly opposes), \$136 billion from adopting the undertaxed profits rule (another component of ongoing international tax treaty negotiations), and reforms to limit inversions (\$374 billion). The Budget would also raise to 4 percent from its current 1 percent the stock

buyback tax included in the Inflation Reduction Act, which the White House estimates will raise \$166 billion. Finally, the President proposes denying deductions for all compensation over \$1 million paid to any employee of a C corporation, raising \$272 billion over the next decade.

Additionally, the Budget expects to raise \$503 billion from the “billionaire minimum tax,” a 25 percent alternative income tax calculation with an alternative base that includes unrealized capital gains (a system not currently used in US tax policy) for taxpayers with wealth greater than \$100 million. Much of the revenue from this tax would be a one-time boon from applying it to the large outstanding stock of unrealized capital gains by current high net worth individuals. As those unrealized capital gains would be recognized as income in the future, the tax will raise less revenue over time.

In addition, the Budget proposes raising the top individual income tax rate to the 39.6 percent rate in effect before the 2017 Tax Cuts and Jobs Act for virtually all taxpayers earning more than \$400,000 a year, raising \$246 billion. Capital gains for taxpayers with incomes over \$1 million would be taxed at ordinary income rates, which the Administration expects would raise \$289 billion. The Budget also proposes to raise funds for Medicare with expansions to the Net Investment Income Tax (NIIT) and Additional Medicare Tax. The NIIT, previously a 3.8 percent tax on high-income taxpayers’ investment income, would rise to 5 percent and apply more broadly to the income of pass-through business owners. The Budget estimates this would raise \$797 billion over the next decade.

Economic Assumptions

The Budget, which takes several months to prepare, relies on economic assumptions finalized in November 2023. The White House [notes](#) that its outlook on economic growth, inflation, and the labor market has improved since that time and a forecast assembled today would likely have higher near-term projections for GDP and lower near-term projections for unemployment. Economic assumptions include real GDP growth slowing to a 1.7 percent year-over-year rate in calendar year 2024, which is consistent with The Conference Board’s [forecast](#). This rate of GDP growth would eventually rebound to a 2.2 percent long-run growth rate, which is more optimistic than The Conference Board’s long-term [forecast](#) of between 1.6-1.7 percent real GDP growth through 2035. The Budget also assumes that Consumer Price Index growth would fall from 4.2 percent in 2023 to 2.9 percent in 2024 and to 2.3 percent thereafter, slightly above the level of inflation that the Federal Reserve targets under its mandate.

The Budget assumes the interest rate on 10-year Treasury notes will fall from 4.4 percent in 2024 to 3.7 percent by 2029. This assumption is somewhat different from that of the Congressional Budget Office (CBO), which in its most recent [Budget and Economic Outlook](#) wrote that the annual average rate for ten-year Treasury notes will fall from a peak of 4.6 percent in 2024 to 3.8 percent in 2027 before rising to a steady rate of 4.1 percent by 2034. After 2026, CBO projects the interest rates on both short-term and long-term Treasury securities to be higher than they were (on average) compared to the decade before the pandemic because of higher Federal debt, productivity growth, and inflation. The Administration [attributes](#) differences in its projections of economic variables to incorporating the Administration’s proposed policies (CBO estimates assume no changes to current law) and to the different publication dates of the forecasts (November 2023 as opposed to February 2024 for the CBO’s latest projections).

Effects on Deficits and Debt

Higher interest rates, which raise spending on interest on the debt, underscore the need for greater focus on debt reduction. Under the White House’s economic assumptions, the proposed Budget would cut deficits by a cumulative \$3.2 trillion over the next decade, from \$19.5 trillion under current law to \$16.3 trillion. However, this would be insufficient to stop or reverse rising levels of national debt, even as a percentage of GDP, instead only slowing its pace. The White House projects that debt held by the public under the Budget will climb from 99.6 percent of GDP in 2024 to 105.6 percent in 2034 (assuming enactment of its proposals, including tax increases). This would be the second highest ratio in US history, exceeded only by the period immediately following World War II. Yet this is still a notably lower ratio than

that [projected](#) by CBO under current law (116 percent of GDP in 2034). High ratios of debt to GDP expose countries to adverse shocks to interest rates, and a heavily indebted country will need to roll over debt into higher interest bonds as its prior bonds mature.

The Budget also projects Federal deficits to decrease in the near term, from 6.6 percent of GDP in FY2024 to 6.1 percent in FY2025 and 5.1 percent in FY2026. Deficits generally continue to decrease through the next eight years, though they remain between 4.3 and 4.7 percent of GDP before reaching 3.9 percent in 2034. The substantial decrease in 2026, however, is partly attributable to assuming the expiration of the 2017 Tax Cuts and Jobs Act legislation, including its tax cuts. But the Budget also [calls](#) for addressing the expiration by extending all middle-class tax cuts and opposing increasing taxes on those earning less than \$400,000 per year, which would preserve the majority of the law's individual income tax cuts. The Budget's projected reduction in deficits in 2026 would likely not be achieved if a deal were struck that preserved most of the 2017 tax law.

Prospects and Next Steps

While hearings on the Budget have already begun, as is typical, the Budget will likely not even receive a formal vote. Instead, it is simply a starting point for negotiations in Congress, and between the Administration and Congress, for the 12 appropriations bills that Congress is supposed to enact by September 30 each year before the new fiscal year begins. One aspect of this process is the budget resolution. Republicans, who control the House, did [release](#) their budget resolution for FY2024 through FY2033, which the House Budget Committee projects will reduce deficits by \$14 trillion over the next decade. The blueprint [proposes](#) to realize these deficit reductions by capping discretionary spending and cutting many discretionary programs enacted under the current Administration. The budget resolution also proposes policy changes to mandatory spending, including establishing work requirements for Medicaid beneficiaries and aligning Medicare payments between hospitals and doctor's offices. However, neither Congress nor even the full House of Representatives is bound by this budget resolution, and its terms would be unacceptable to the Senate, controlled by Democrats.

Even as Congress begins work on FY2025 appropriations bills, its most immediate task remains to enact a final six appropriations bills for the current fiscal year (FY2024) before March 22 or risk a partial government shutdown. Assuming this occurs, work on the FY2025 budget can begin in earnest, yet the path will be hard, particularly in an election year. As in every year over the past decade, the hard work will likely begin only as the current fiscal year approaches its end on September 30—in the middle of the fall campaign—raising the question whether Congress will once again be forced to fund the government for FY2025 through a continuing resolution or a series of them. A final wrinkle in this picture is that under the terms of the Fiscal Responsibility Act, the debt ceiling limit must be raised no later than January 2, 2025, once again forcing very difficult negotiations on raising the debt limit and overall spending.

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