The United States is facing significant and fundamental budgetary challenges. The federal government’s budget deficit for fiscal year 2011 was $1.3 trillion, or 8.7% of gross domestic product (GDP), that deficit was the third-largest shortfall in the past 40 years.

In 2011, federal spending (outlays) exceeded 24% of GDP, the third-highest level in the past 40 years, while federal revenues were just over 15% of GDP, the third-lowest level during that period. If economic conditions improve, spending will decline relative to GDP and revenues will rise. But even so, under current policies, a large gap between spending and revenues will persist.

Annual budget deficits occur when spending exceeds revenues; the government must borrow to cover such a shortfall. Federal debt held by the public is the total value of outstanding Treasury bills, notes, bonds, and other debt instruments (excluding Treasury securities held by the Federal Reserve) that have accumulated over time to finance the government’s activities. At the end of fiscal year 2011, debt held by the public amounted to $10.1 trillion, or 67% of GDP. Another $4.4 trillion in Treasury securities were held by other federal government accounts, representing amounts that one part of the government (mostly the Social Security Administration) had lent to another (the Treasury).

In 2011, the United States government spent $2.3 trillion on a range of activities and programs.

**Mandatory Spending**
- Social Security: 4.5% of GDP, $2.2 trillion
- Medicare: 4.3% of GDP, $725 billion
- Medicaid: 1.6% of GDP, $545 billion
- Other: 3.0% of GDP, $353 billion

**Discretionary Spending**
- Consists primarily of benefit programs for which the Congress sets eligibility rules and benefit formulas:
  - Social Security and Medicare’s Hospital Insurance program: 7.3% of GDP, $480 billion
  - Retirement, veterans’ benefits, the earned income tax credit, food stamps, and other programs: 4.0% of GDP, $302 billion

**Net Interest**
- 1.2% of GDP, $277 billion

**Revenues**
- Income Taxes: 18% of GDP, $2.3 trillion
- Individual Income Taxes: 7.7% of GDP, $819 billion
- Social Insurance Taxes: 15% of GDP, $1.3 trillion
- Corporate Income Taxes: 1.0% of GDP, $133 billion
- Other: 1.1% of GDP, $119 billion

**Annual Deficit or Surplus = Revenues – Outlays**

In fiscal year 2011, the U.S. government received $2.3 trillion in revenues and spent $2.5 trillion, resulting in a $200 billion deficit, or 0.9% of GDP. Since 1971, annual deficits have exceeded 0.5% of GDP only once, in fiscal year 1975. Annual deficits have exceeded 2.5% of GDP in each of the past four years.

**Debt Held by the Public as a Share of GDP**
- In 1971, it totaled 10.8% of GDP; at 8.7% of GDP in 2011, it is below the 40-year average of 9.9%.

**Debt Held by the Public as a Share of GDP**
- From 1971 to 2011, it has climbed from 24% to 70% of GDP. In 2011, $10.1 trillion was owed, or 67% of GDP. Exposure to high rates of inflation and deflation could affect the real value of debt held by the public.

For more information, see these CBO publications:
- The Budget and Economic Outlook: An Update (http://go.usa.gov/5Ho)
- CBO’s 2012 Long-Term Budget Outlook (http://go.usa.gov/5HA)
- An Analysis of the President’s FY 2013 Budget Proposals for Fiscal Year 2013 (http://go.usa.gov/5H7)
- For more information on CBO’s budgetary analysis, see these CBO publications: