



Fiscal Update of the United States: Resilience, Revenue Gains, and the Road to a Deal

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The U.S. economy is entering the post-shutdown period from a position of underlying strength, supported by solid GDP growth and higher-than-anticipated tariff revenues. The Trump administration guided the government through the longest shutdown in modern history while preserving economic momentum and fiscal stability. However, the federal government remains on a short-term funding track, and the broader fiscal picture continues to be shaped by structural spending pressures, most of which fall outside the control of the executive branch. With Congress having returned from the holiday recess, the next several weeks will center on maintaining economic momentum, monitoring fiscal conditions, and preparing for this month's funding deadline, where the choices between a continuing resolution (CR) or alternative spending deal will determine whether the progress achieved last year is protected or put at risk.

The federal government emerged from the forty-three-day government shutdown into a temporary spending arrangement that extends funding only through January 30, 2026.¹ The temporary arrangement restored back pay, halted reduction-in-force (RIF) actions until the new year, and returned agencies to full operations, but it left the federal government in a short-term posture rather than on a stable appropriations cycle.² It functions as a stopgap, not a broader fiscal resolution. Congress can pass a CR that keeps spending at current levels, which can operate as a "spending cut" by preventing the higher outlays and policy expansions congressional negotiators typically attempt to secure in spending deals. Democrat members of Congress have already signaled renewed demands for expanded

¹ *Continuing Appropriations, Agriculture, Legislative Branch, Military Construction and Veterans Affairs, and Extensions Act, 2026*, H.R. 5371, 119th Cong. (2025).

² *Id.*

health-care subsidies and domestic program increases, making a clean CR a viable option for protecting the progress made over the last year.³

However, the vehicle is not as important as what it achieves. A minimum standard for Congress would be a spending vehicle that spends less, restores RIF authority, advances a targeted rescissions package, and eliminates the prohibitions that prevent agencies from aligning the federal workforce with fiscal realities. Whether achieved through a full-year CR or another responsible spending vehicle, the goal must be to reduce the discretionary baseline and return the federal government to a sustainable footing.

Economic activity entering the shutdown was materially stronger than expected, and the newest data confirm that momentum has continued.⁴ According to the Bureau of Economic Analysis's initial estimate for the third quarter of 2025, real GDP grew at an annualized rate of 4.3 percent, accelerating from 3.8 percent in the second quarter, while current-dollar GDP rose 8.2 percent to reach a new nominal high of over \$31 trillion.⁵ Growth was broad-based: consumer spending strengthened; exports turned up; and federal, state, and local government spending all increased.⁶ Imports fell, contributing positively to GDP. Although private investment declined slightly, the third quarter shows a smaller decrease than earlier in the year, indicating stabilization rather than contraction.⁷ Corporate profits surged by \$166.1 billion, compared to only \$6.8 billion the previous quarter, signaling improving business conditions. Price pressures also moderated into a more stable environment.⁸ The combined effect is an economy where domestic output is rising faster than foreign import competition, where firms are operating with greater efficiency, and where corporate profitability is recovering, even amid a long shutdown. Rather than weakening the economy, the shutdown underscored the resilience of the private sector and the stability of the broader economy.

³ Nolan McCaskill & Richard Cowan, *US Senate Democrats Renew Bid to Extend Obamacare Subsidies*, REUTERS (Dec. 4, 2025), <https://www.reuters.com/business/healthcare-pharmaceuticals/us-senate-democrats-seek-vote-three-year-extension-healthcare-subsidies-2025-12-04/>.

⁴ U.S. Bureau of Economic Analysis, *Gross Domestic Product, 3rd Quarter 2025 (Initial Estimate) and Corporate Profits (Preliminary)* (Dec. 23, 2025), <https://www.bea.gov/news/2025/gross-domestic-product-3rd-quarter-2025-initial-estimate-and-corporate-profits>.

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

⁸ *Id.*

On the fiscal side, tariff policy is currently providing significant revenue support. The Congressional Budget Office reports that tariff rate increases implemented between January and November 2025 raised the effective tariff rate by fourteen percentage points over 2024 levels.⁹ If maintained, these tariffs are projected to reduce primary deficits by \$2.5 trillion and lower interest outlays by an additional \$0.5 trillion over the 2025–2035 period, improving the fiscal outlook by a combined \$3 trillion.¹⁰ President Donald Trump’s tariffs are projected to reduce deficits at a scale by which no historical tariff, tax, or spending policy has precedent. The improvement is helping to stabilize the government’s fiscal trajectory.

Despite these near-term boosts, long-term fiscal pressures remain elevated. Many challenges stemming from “woke and weaponized” bureaucratic spending remain.¹¹ Public debt has risen more than fivefold over the past two decades and is projected to surpass its World War II peak as a share of GDP.¹² These pressures are structural, and Congress has the tools to address them. Without congressional spending discipline in the form of a CR or similar outcome, no amount of administrative efficiency or number of regulatory cuts can permanently offset the growth in mandatory programs and debt-service costs.

The administration’s labor market achievements reflect a broader economic and fiscal strategy aimed at strengthening private-sector growth while reducing the government’s footprint. According to the White House, the economy has added roughly 687,000 private-sector jobs since January 2025, with employment gains concentrated in core industries such as construction, transportation, and manufacturing.¹³ One hundred percent of the job growth has gone to American citizens and not illegal immigrants.¹⁴ Meanwhile, price levels have begun to stabilize, with real wages expected to outpace inflation for the first full year of the administration, easing pressure on households and reinforcing the strength of consumer demand.¹⁵ The administration’s efforts to cut the bloat of the federal government this year have been effective: The government has shed over 270,000

⁹ Phill Swagel, *CBO’s Updated Projections of the Budgetary Effects of Tariffs as of November 15, 2025*, Cong. Budget Office (Nov. 20, 2025), <https://www.cbo.gov/publication/61877>.

¹⁰ *Id.*

¹¹ CRA Staff, *FY2023 Budget: Center for Renewing America*, CTR. FOR RENEWING AM. (Aug. 1, 2023), <https://americarenewing.com/issues/fy2023-budget-center-for-renewing-america/>.

¹² *Id.*

¹³ The White House, *Private Sector Job Growth Fuels President Trump’s Economy* (Dec. 16, 2025), <https://www.whitehouse.gov/articles/2025/12/private-sector-job-growth-fuels-president-trumps-economy/>.

¹⁴ *Id.*

¹⁵ *Id.*

jobs as RIFs and workforce restructuring take hold.¹⁶ This decline in federal employment, paired with accelerating private-sector hiring, reflects an intentional shift away from government expansion and toward a more productive, growth-oriented economy. These labor and price dynamics complement the year's fiscal gains, including strong GDP growth and higher-than-projected tariff revenues, and position the administration to enter the next funding cycle with greater stability and a leaner, more efficient federal structure.

The administration's deregulatory efforts through the Office of Management and Budget (OMB) and Office of Information and Regulatory Affairs (OIRA) have been a significant component of the broader economic strategy to reduce unnecessary costs on businesses and households, spur investment, and improve overall economic efficiency.¹⁷ In 2025, federal agencies submitted more than 1,300 regulatory proposals to OIRA that resulted in 646 deregulatory actions, exceeding the administration's deregulatory targets and yielding an estimated \$211.8 billion in net cost savings for the economy, or the equivalent to over \$600 in savings per American according to OMB's estimates.¹⁸ These actions have focused on eliminating outdated, redundant, or burdensome rules while limiting new regulatory costs, thereby lowering compliance burdens for firms and reducing hidden "taxes" on consumers that can suppress growth and raise prices.¹⁹

Taken together, the overarching picture is one of short-term resilience and encouraging fiscal momentum. The economy emerged from the shutdown with stronger underlying growth than anticipated, and tariff-driven revenues have been a boon for the federal balance sheet. Although the government is operating under a temporary budget fix, the weeks ahead offer an opportunity to capitalize on the economic growth already in progress. The federal government enters the next phase with a firmer foundation and a clearer path toward sustained economic performance. Congress can pass a CR this month that maintains spending at current levels, or pass a new spending deal with a lower baseline. Reinstating RIF authority would further allow agencies to manage personnel appropriately, align operations with fiscal conditions, and preserve the gains made so far, while a targeted rescissions package and additional structural reforms would help ensure

¹⁶ *Id.*

¹⁷ Diana Stancy, *Trump Takes Axe to Federal Red Tape, Cuts 600+ Rules in One Year, Touts Billions in Savings*, FOX NEWS (Dec. 19, 2025), <https://www.foxnews.com/politics/trump-takes-axe-federal-red-tape-cuts-600-rules-one-year-touts-billions-savings>.

¹⁸ *Id.*

¹⁹ *Id.*

that federal spending is brought back into alignment with the administration's fiscal priorities. Congress now bears responsibility for ensuring that this progress is not reversed.