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Can the US budget be cut by trillions?

Elon Musk, the commissioner for government efficiency in the future Trump administration, believes it is possible to save trillions of dollars in the US federal budget. We analyze the structure of spending and estimate the chances of such a government efficiency miracle being realized.

Saving with a chainsaw...

The future Trump administration has taken up the cause of reducing what it sees as the excessive size of the state and wants to significantly increase the efficiency of the government apparatus. To this end, Donald Trump has announced the establishment of a new commission, the Department of Government Efficiency (DOGE), to be led by Elon Musk and Vivek Ramaswamy. The two have explained their mission in an [opinion article](#). They write that many spending decisions are made by unelected bureaucrats, and that most regulations are also set by them, bypassing the people's elected representatives. This ever-expanding bureaucracy is an existential threat to the republic. Therefore, a radical downsizing of the state is necessary.

Elon Musk estimates that \$2 trillion could be saved each year, and a significant reduction in staff would also help to achieve this. Ultimately, this reflects an attitude shaped by the private sector: when costs get out of hand, tough decisions are called for. This is the only way to make an institution efficient again.

... to force a turn-around of the public budget

It is hard to dispute the diagnosis that the federal budget is significantly out of balance. Over the last twenty years, the US federal budget has shown significant deficits even at times of full employment and high growth rates. In the fiscal year just ended, the shortfall amounted to 6.4% of GDP. For the next ten years, the Congressional Budget Office (CBO) expects deficits of a similar magnitude (Chart 1). And the CBO's assumptions appear rather heroic. For example, it is assumed that the tax cuts from the first Trump administration will be reversed from 2026. This will not happen, however. Rather, Trump's promises make higher deficits more likely if no countermeasures are taken.

2 December 2024

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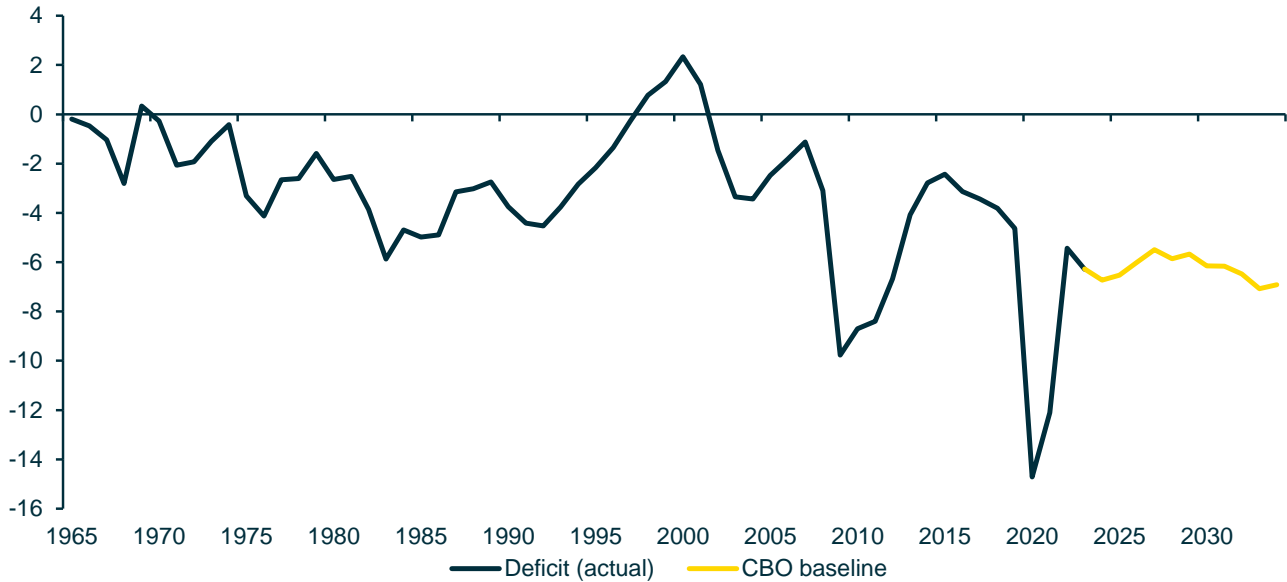
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Chart 1 - Austerity is called for...

US federal government’s budget balance in % of GDP, fiscal years. As of 2025: CBO projection



Source: CBO, Commerzbank Research

But where to cut?

But where could massive cuts actually be made? The US federal government spent around \$6³/₄ trillion in 2024. Cuts of \$2 trillion would require the budget to shrink by about 30%. However, Donald Trump has already declared major items off-limits for cuts, and others cannot be reduced:

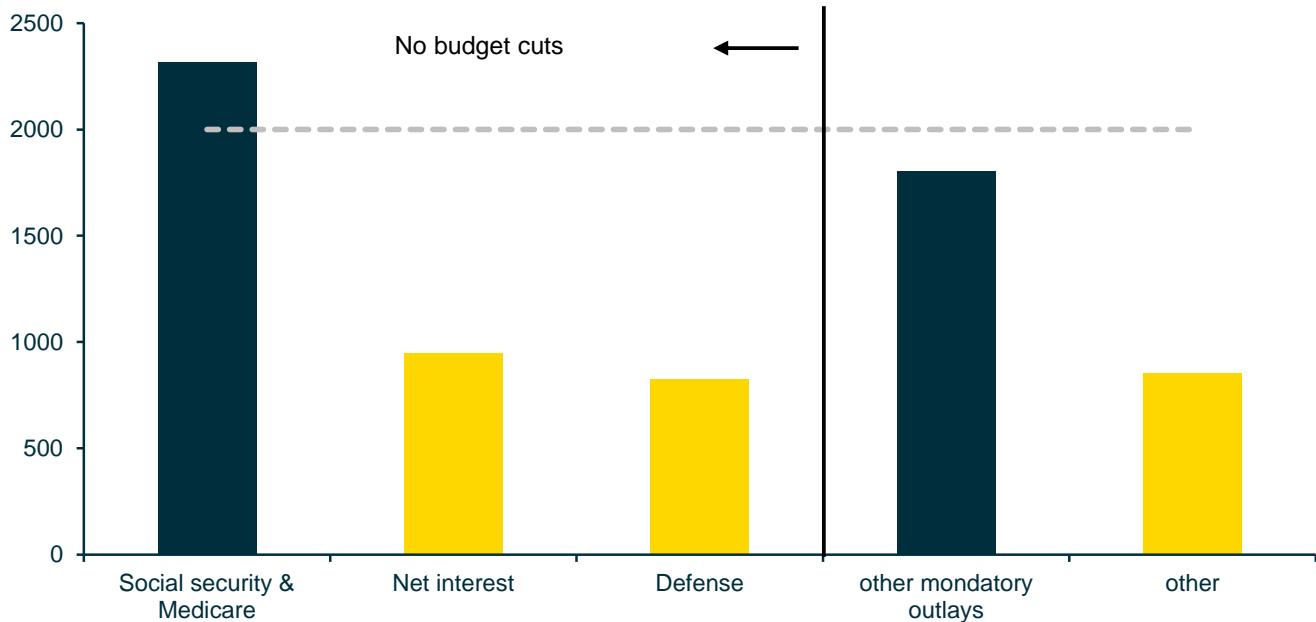
- Trump has excluded **social security benefits** (around 1450 billion dollars in the last financial year) from cuts, as well as state health insurance for older Americans (**Medicare**, expenditure of 870 billion dollars).
- The **interest on** the national debt cannot be reduced either, since the government would hardly want to cause a national bankruptcy.
- Cuts in **defense spending** are also hardly possible due to the tense global political situation. The Pentagon spent \$826 billion in the last fiscal year.

This leaves almost \$4.1 trillion - more than 60% of the 2024 budget - available for cuts (Chart 2).



Chart 2 - Almost 7 trillion dollars - and little room for budget cuts

US federal budget: Outlays in fiscal year 2024, partly estimated, in billion dollars. Horizontal line: 2000 billion dollars savings target



Source: CBO, Commerzbank Research

Of the remaining \$2.66 trillion, major savings in some areas are unlikely to be achieved for political reasons:

- **Medicaid**, the health insurance program for lower-income Americans, spent around \$620 billion in 2025. According to estimates, well over half of these funds go to population groups such as the blind or disabled. Many nursing homes receive a considerable portion of their budget from Medicaid. Medicaid is also one of the mandatory benefits, i.e. benefits to which beneficiaries are legally entitled. These benefits do not have to be reauthorized by Congress annually as part of the budget process. A reduction would require a change in the legal basis for eligibility.
- The **Veteran Administration** spent over \$320 billion in 2024. This money is used, among other things, to finance veterans’ hospitals for soldiers injured in action.

Consequently, cost-cutting proposals usually focus on the remaining budget items. However, even by the most generous accounting, these amount to no more than \$1 trillion. This figure also includes funds for research funding and space travel.

Even the dissolution of heavily criticized agencies such as the Department of Education (with a budget of \$270 billion) and the Consumer Financial Protection Bureau (budget of less than \$1 billion) would probably only save a few hundred billion dollars at best. It is by no means certain that such savings would be made quickly, as fierce opposition in the form of lawsuits would likely be the result.

... and how much can personnel be reduced?

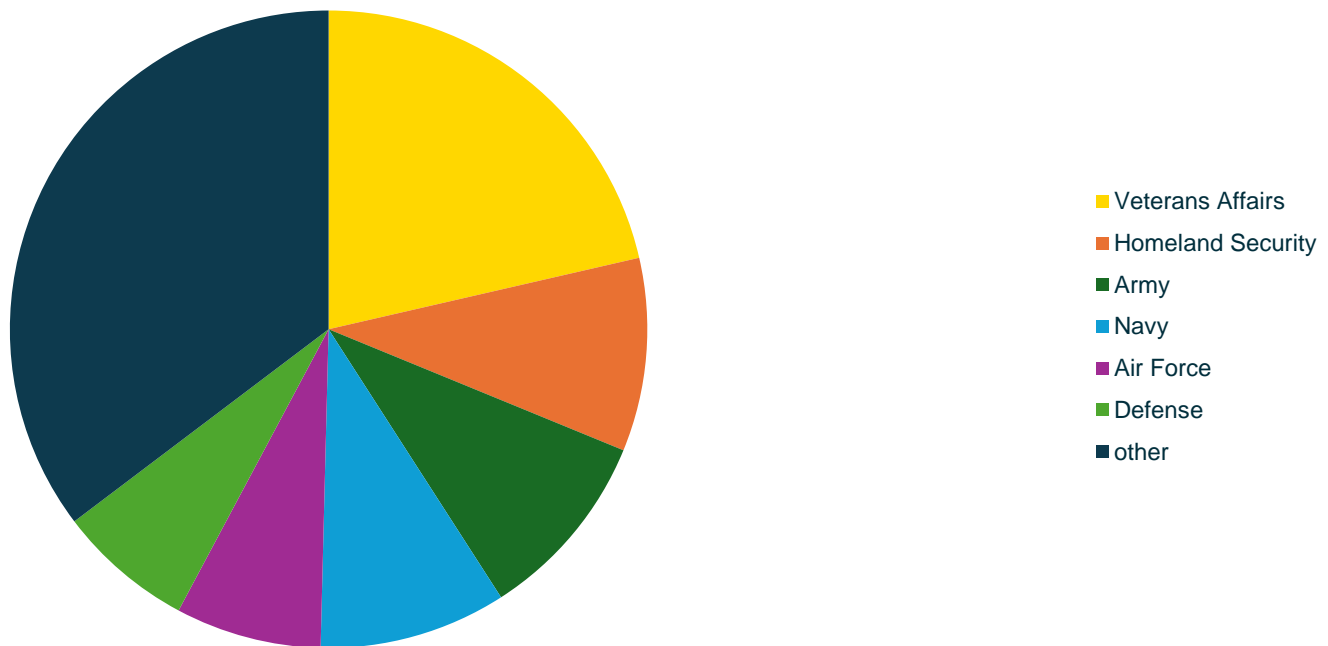
What about personnel costs, which are always the focus of efficiency-boosting measures in the private sector? In the US, 23 million people, or one in seven workers, are employed by the government. However, around 90% of these are employed by state and , in particular, local governments and are therefore outside the scope of the DOGE. The federal government, excluding the postal service, employs only around 2.3 million civilian workers. This limits the potential for savings in the federal budget.

Furthermore, most federal employees work in the defense sector in the broadest sense. The departments for veterans affairs, homeland security, the army, navy, air force and the defense department account for two-thirds of all federal employees (the Department of Veterans Affairs alone has 371,000 employees working in veterans’ health care). However, Trump is unlikely to want to make savings in these areas. All other agencies combined, however, account for only one-third of the employees (Chart 3). The Department of Education, for example, which critics describe as superfluous, employs only around 4,000 people, or 0.2% of federal employees. While it is certainly realistic to make savings here and there, overall these are unlikely to be significant.



In any case, personnel costs are not the deciding factor at the federal level. The civil employees of the US federal government cost 384 billion dollars in 2024 (salaries and non-wage labor costs), or about 5% of the federal budget. In this sense, the state is more like an insurance company that moves large sums of money with relatively limited personnel.

Chart 3 - Most federal employees have defense-related jobs
civilian federal employees by department/agency, as of March 2024



Source: Fedscope, Commerzbank Research

To reduce outlays, tasks have to be cut

This leaves only the elimination of government services as a way to achieve noticeable savings. However, it is questionable whether this would be supported by the Republican members of Congress. After all, they would incur the displeasure of voters who would have to do without the services they are accustomed to. The savings target of 2 trillion dollars per year is therefore unrealistic. Other starting points for a more restrained state, which the Trump administration is likely to pursue, are deregulation measures. This applies in particular to the energy sector, where the restrictions on fossil fuels imposed under Biden are to be lifted.



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This report was completed 2/12/2024 09:10 CET and disseminated 2/12/2024 09:10 CET.

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