

BBB: Mostly More of the Same

For the first time in a long time, Congress and the President pushed through a “normal” tax and spending bill. After TARP, “shovel ready” projects, fiscal cliffs, massive COVID stimulus and a Green New Deal spending surge, it’s about time a bill that keeps tax rates stable and reduces some spending was passed.

Maybe it’s because we are so used to growing government every time Congress legislates...but the One Big Beautiful Bill (BBB) is causing the media to outdo itself. Either it’s the worst bill ever and people will die, or it will unleash a new era of prosperity for the US economy.

The truth is that it will do neither of these things. Don’t get us wrong. We would have voted for it if we were members mostly because the BBB extends the tax cuts originally enacted back in 2017. The tax rate structure, including a top tax rate of 37% on regular income, will remain in place “permanently” (so no future “fiscal cliff”) unless and until a new law is passed. In addition, the estate and gift tax exemptions that were increased in 2017 are now permanent, as well.

We also support permanent bonus depreciation for business investment as well as the expensing of domestic research and development costs. Making sure these rules are as permanent as possible should boost investment, raise worker productivity, and (mildly) increase the long-term growth rate of the US economy.

But the BBB is not Reagan 2.0. Most of the tax rates were the law already. New tax cuts (on tips, SS, or overtime) are not

at “the margin.” In other words, supply-side incentives are not impacted in any significant way. The BBB is largely extending current policy past the end of this year, when much of the 2017 law would have expired in the absence of the BBB. Yes, if the BBB wasn’t passed, tax rates would have gone up and hurt the economy; but that doesn’t mean that passing the BBB makes tax policy that much better than it is in 2025.

In the meantime, some media outlets are portraying the spending cuts in the BBB as extreme, which is ridiculous. The federal government spent \$6.8 trillion in Fiscal Year 2024. Including the effects of the BBB, total spending will be about \$10.1 trillion in FY 2034 versus \$10.3 trillion without the BBB, a spending reduction of only 2%.

In addition, spending relative to GDP will be higher in ten years than it is right now. In other words, all the BBB did was slow the growth of spending, not actually make cuts in overall spending.

Which is why the most important fiscal policy debate is still to come. Will Congress pass a real budget, and will we appropriate significantly less discretionary spending in the years ahead? This is a once in a generation opportunity for policymakers to reset the fiscal clock. A major drop in that spending could reset the budget baseline in a way that saves taxpayers \$2 - 3 trillion in the decade to come.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-15 / 7:30 am	CPI – Jun	+0.3%	+0.3%		+0.1%
7:30 am	“Core” CPI – Jun	+0.3%	+0.3%		+0.1%
7:30 am	Empire State Mfg Survey – Jul	-9.1	-10.1		-16.0
7-16 / 7:30 am	PPI – Jun	+0.2%	+0.3%		+0.1%
7:30 am	“Core” PPI – Jun	+0.2%	+0.3%		+0.1%
8:15 am	Industrial Production – Jun	+0.1%	+0.1%		-0.2%
8:15 am	Capacity Utilization – Jun	77.4%	77.4%		77.4%
7-17 / 7:30 am	Retail Sales – Jun	+0.1%	+0.2%		-0.9%
7:30 am	Retail Sales Ex-Auto – Jun	+0.3%	+0.3%		-0.3%
7:30 am	Philly Fed Survey – Jul	-1.0	6.7		-4.0
7:30 am	Import Prices – Jun	+0.3%	+0.3%		0.0%
7:30 am	Export Prices – Jun	-0.1%	+0.2%		-0.9%
9:00 am	Business Inventories – May	0.0%	0.0%		0.0%
7-18 / 7:30 am	Housing Starts – Jun	1.295 Mil	1.293 Mil		1.256 Mil