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Redistribution in Reverse: The Macroeconomics of the OBBB

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About IMPA The Institute for Macroeconomic & Policy Analysis (IMPA), housed at the Economics Department of American University, is a nonpartisan research institute focused on macroeconomics, inequality, and economic policy. The IMPA model emphasizes the widespread prevalence of market power in goods and labor markets, heterogeneity among sectors and firms in the economy, and income and wealth inequality.

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Key Takeaways

- From a macroeconomic perspective, the OBBB fails on every front: it increases the deficit, weakens the social safety net, and raises inequality, without delivering credible economic gains.
- The House bill treats tax cuts for high-income households as a red line, even amid limited fiscal space. If the Senate follows this approach, it may pursue deeper cuts to social insurance programs like Medicaid. Treating these programs as just another budget line, while ignoring their long-term economic benefits, would be a major policy mistake.
- We estimate that OBBB would lower GDP by approximately 0.5% after 10 years and more than 1.0% after 30 years. Federal revenue would be approximately 6.85% lower in ten years, implying a total of \$2.9 trillion in deficits over a 10-year budget window (2025–2034).
- The proposed repeal of IRA tax credits account for approximately half of the total contractionary effect in our full analysis.
- If the OBBB's temporary provisions are ultimately made permanent, the business depreciation provisions mitigate the overall contractionary effect, but this comes at the cost of a larger budget shortfall.
- We estimate that the bill would have a markedly regressive distributional impact: By 2034, under the House bill, after-tax incomes would increase by over 2% for the top 10% of households, while the bottom 10% would see their incomes decline by more than 5%.

The Big Picture of the OBBB Debate

On May 22, 2025, the U.S. House of Representatives passed a sweeping budget reconciliation bill that would significantly reshape federal tax and spending priorities. Marketed as a pro-growth overhaul, the "One Big Beautiful Bill" (OBBB) extends and expands core provisions of the 2017 Tax Cuts and Jobs Act—benefits that disproportionately favor high-income households—while imposing deep cuts to social programs such as Medicaid and SNAP. It also rolls back major clean energy incentives established under the Inflation Reduction Act.

Now, as part of the reconciliation process, the focus has shifted to the Senate, which is expected to release its own version of the bill in the coming weeks. This opens a key opportunity to reconsider the House's approach and advance a more balanced, forward-looking fiscal plan. In this report, we first examine the economics of the House bill's major provisions to bring clarity to a debate that has so far been dominated by headline figures and topline estimates. We then present a macroeconomic assessment of the House's version of the OBBB.

The False Trade-Off Behind the House Bill

From a macroeconomic perspective, the House bill fails on every front. It worsens the deficit, weakens the social safety net, and increases inequality, without plausibly generating any economic gains. The bill treats tax cuts for the wealthy as a red line, even in the face of limited fiscal space. As a result, it forces a false choice between reducing the deficit and maintaining core social insurance programs. The House bill opts to cut Medicaid and other low-income assistance programs by nearly \$1.3 trillion, and, due to the size of the tax cuts, the bill still leaves a projected \$2.4 trillion cumulative deficit from 2025 to 2034 under conventional scoring.¹ From a macroeconomic standpoint, this is not the fiscal reform the United States needs. Instead, it is redistribution in reverse. It is a transfer of resources from working families to those at the top, with pro-growth rhetoric unsupported by research to mask the scale of the fiscal imbalance.²

What's at Stake in the Senate Debate

As the debate moves to the Senate, there are two potential scenarios. First, Republican senators may accept the core provisions of the House bill while downplaying the deficit projections. So far, there have been troubling signals in this regard. These include the use of unrealistic growth assumptions, indications that current policy (rather than current law) may be used as the budget baseline, and maneuvers that strategically time tax and spending provisions to meet deficit-reduction targets only on paper. This path would harm the most vulnerable and merely postpone the challenge of deficit reduction.

A second scenario is possible if senators acknowledge the fiscal reality but still resist raising taxes on top earners. In that case, faced with a choice between deficit reduction and preserving programs like Medicaid and SNAP, we are concerned that senators may choose the former, leading to even deeper cuts that fall hardest on the most vulnerable. Research, described below, suggests that such an outcome would be even more damaging over time.

¹Congressional Budget Office, *Estimated Budgetary Effects of H.R. 1, the One Big Beautiful Bill Act*, June 4, 2025, https://www.cbo.gov/publication/61461 (accessed June 4, 2025).

²We borrow the term "redistribution in reverse" from Matt Watkins, "The Tip Trick," *Common Dreams*, May 22, 2025, https://www.commondreams.org/opinion/trump-budget-starves-workers. The opinion article illustrates the implications of the bill through the story of a worker directly affected by its provisions.

How Macroeconomic Models Can Shape the Senate Debate

The second scenario is particularly concerning given that it may be reinforced by the assumptions embedded in some macroeconomic policy models used to evaluate the bill. While all models (including, of course, our own) have limitations, several of those informing the current debate appear to place considerable weight on labor supply responses to safety net cuts, as well as on strong crowding-out effects from higher deficits.³

This raises a serious concern: further Medicaid cuts in the Senate may, under the hood of these models, generate what looks like a "double dividend"—that is, more labor supply and less crowding-out—resulting in improved dynamic scores. But this logic overlooks the essential role that programs like Medicaid play in economic stability, household welfare, and long-run productivity and is at odds with extensive empirical research, which we describe below, that provide insights not incorporated into the models. We are not suggesting that every empirical insight be built into a single model; instead, we suggest that caution is needed when using assumptions with strong policy and welfare implications. Prioritizing short-term fiscal optics over the foundations of inclusive growth would be a grave mistake.

Distributional Provisions and Macroeconomic Implications

In this section, we analyze select provisions in the OBBB that have notable distributional impact, focusing on their economic justification—or lack thereof.⁴ The following section provides a macroeconomic evaluation of the major provisions in the OBBB.

• Extension of TCJA Individual Tax Cuts The OBBB makes permanent two key provisions from the TCJA: reduced marginal income tax rates and the relaxed Alternative Minimum Tax (AMT). While the TCJA lowered marginal tax rates across all brackets, the greatest dollar benefits accrued to top earners. The AMT, originally designed to ensure high-income households pay at least a minimum level of tax, was also substantially weakened. Specifically, the TCJA raised the exemption amount and increased the phaseout threshold, effectively shielding many high-income households from the AMT. The two provisions work in tandem to lower taxes on the wealthiest: the new tax schedule lowers ordinary liability at the top, and the relaxed AMT ensures that those reductions are not clawed back through minimum tax rules. In addition to being regressive, these provisions are the costliest in the current bill. The extension of the AMT exemption alone would cost \$1.4 trillion. Policymakers could instead consider raising top marginal rates and restoring the integrity of the AMT, which would reduce both deficits and inequality without harming economic performance.⁵

³For example, see Penn Wharton Budget Model, The House-Passed Reconciliation Bill: Budget, Economic, and Distributonal Effects, May 23, 2025, https://budgetmodel.wharton.upenn.edu/issues/2025/5/23/house-reconciliation-bill -budget-economic-and-distributional-effects-may-22-2025, which is explicit about this mechanism. Also see Joint Committee on Taxation, Estimated Revenue Effects Of Tax Provisions To Provide For Reconciliation Of The Fiscal Year 2025 Budget As Passed By The House Of Representatives On May 22, 2025. JCX-26-25R, Washington, DC, June 2, 2025, https://www.jct.gov/publications/2025/jcx-26-25r/ (accessed June 2, 2025). The JCT's Taxation's analysis excludes nontax provisions, but the crowding-out effect remains a key channel, though it is partially mitigated by the monetary policy response in one of the models weighted in their analysis.

 $^{^{4}}$ Unless otherwise noted, estimates of impacts on government revenue in this section are from Joint Committee on Taxation, *Report JCX-26-25R*.

⁵Cuts to top tax rates are associated with increases in the pretax income share of the top one percent but not with higher economic growth. See Thomas Piketty, Emmanuel Saez, and Stefanie Stantcheva. "Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities," *American Economic Journal: Economic Policy* 6, no. 1 (2014): 230–271,

- **QBI Deduction** The bill makes the TCJA's Qualified Business Income (QBI) deduction permanent and increases it to 23%. This provision disproportionately benefits high-income business owners and contributes to widening inequality, while carrying an estimated cost of \$820 billion over the 2025–2034 period. Notably, Republican legislators propose this change alongside an extension of the TCJA's 100% bonus depreciation through 2029, continuing the 2017 strategy of reducing business tax rates while allowing full expensing of investment. In this context, the QBI deduction is unlikely to have any meaningful impact on investment between 2025 and 2029; rather, it would function largely as a windfall for business owners. Even after full expensing has expired, the QBI deduction will likely have minimal impact because most investment costs are deductible through accelerated depreciation. Policymakers should not extend this costly, regressive, and economically unjustifiable tax preference.⁶
- Cuts to Medicaid and SNAP As noted above, the House's version of the OBBB proposes changes to the Medicaid, SNAP and other low-income assistance programs that the CBO estimates will cut nearly \$1.3 trillion from their budgets. Medicaid and SNAP are essential social insurance programs that provide risk-sharing in the U.S. economy, in which households are frequently exposed to health, income, and employment shocks. Cutting spending on these programs, whether directly or indirectly through work requirements that undermine their core purpose, runs counter to basic economic principles. While most macroeconomic models, including ours, treat social insurance programs solely as government transfers targeting those most in need, a growing body of empirical evidence suggests they also function as long-term investments in social infrastructure. Research shows these programs improve long-term health and economic outcomes and are cost-effective over time.⁷ They save lives, reduce disability, and allow low-income households to allocate their resources more efficiently. As emphasized above, estimates of their macroeconomic effects should be interpreted with caution, recognizing that policy models may understate their full long-run value. For these reasons, policymakers should not seek to reduce deficits by cutting core social insurance programs like Medicaid and SNAP. It is fundamentally misguided to reduce support for low-income households while cutting taxes for high earners.
- **SALT Deduction** The TCJA capped state and local tax (SALT) deductions at \$10,000. The OBBB raises the cap to \$40,000 in 2025, with a phase-out for taxpayers earning over \$500,000, regardless of filing status. While this provision is projected to raise \$786 billion over ten years relative to a

https://doi.org/10.1257/pol.6.1.230.

⁶As we discuss in our recent report, there is broad consensus among economists that the QBI deduction is unnecessary and regressive, offering little to no meaningful economic benefit. Recent research shows the QBI deduction has no discernible effect on real investment, wages, or employment among firms more exposed to the policy; instead, it primarily benefits owners and a small group of high-earning workers, reflecting rent-sharing rather than broad-based economic gains. See also Lucas Goodman, Katherine Lim, Bruce Sacerdote, and Andrew Whitten, "How Do Business Owners Respond to a Tax Cut? Examining the 199A Deduction for Pass-Through Firms," *Journal of Public Economics*, 242 (2025): 105293, https://dx.doi.org/10.1016/j.jpubeco.2024.105293, and Max Risch, "Does Taxing Business Owners Affect Employees? Evidence from a Change in the Top Marginal Tax Rate," *Quarterly Journal of Economics*, 39, no. 1 (2024): 637–692, https://doi.org/10.1093/qje/qjad040.

⁷See Angela Wyse and Bruce D. Meyer, "Saved by Medicaid: New Evidence on Health Insurance and Mortality from the Universe of Low-Income Adults," NBER Working Paper 33719 (2025), https://www.nber.org/papers/w33719, and Andrew Goodman-Bacon, "The Long-Run Effects of Childhood Insurance Coverage: Medicaid Implementation, Adult Health, and Labor Market Outcomes," American Economic Review, 111, no. 8 (2021): 2550–2593, https://dx.doi.org/10.1257/aer.20171671.

	2034	2039	2044	2049	2054
As Written					
GDP	-0.54	-0.70	-0.84	-0.95	-1.03
Govt. Revenue	-6.85	-8.05	-8.28	-8.46	-8.60
Provisions Permanent					
GDP	-0.07	-0.10	-0.12	-0.13	-0.14
Govt. Revenue	-7.05	-8.54	-8.84	-9.06	-9.24

Table 1: IMPA model-predicted effects of major provisions of the OBBB on key macroeconomic outcomes over time (annual percent change relative to a current law baseline). *As Written* shows the effects under the assumption that temporary provisions expire as described in the text of the House bill; *Provisions Permanent* shows the effects under the assumption that temporary provisions in the OBBB will be extended permanently.

pre-TCJA baseline with no SALT cap, it would instead cost approximately \$350 billion over the same period when measured against a TCJA baseline, providing substantial tax benefits to high-income earners in high-tax states.⁸ Like the other provisions, it is regressive, not expected to generate broad economic gains, and carries a large budgetary cost. We see no compelling economic rationale for its inclusion.⁹

• Temporary Low-Income Tax Measures The OBBB provisions include "No Tax on Tips," "No Tax on Overtime," and "No Tax on Auto Loan Interest." Although these are claimed by proponents to be tax relief for low-income households, they target a narrow slice of the low-income population that already faces minimal income tax liability, limiting their practical benefit. For instance, the cost of the "No Tax on Tips" provision is estimated at less than \$40 billion over ten years—minuscule compared to the \$1.4 *trillion* estimate for the AMT exemption. Moreover, the structure of these deductions opens the door to potential misuse by higher-income households who may reclassify regular earnings as overtime or tips to reduce their tax burden. Finally, these provisions, unlike other changes that reduce the liability for high-income households like the AMT, are temporary and scheduled to expire in 2028. As a result, the policy appears largely performative—symbolically pro-worker but offering little meaningful relief in practice.

Macroeconomic Effects of the OBBB

In Table 1, we illustrate the macroeconomic effects of the largest provisions of the OBBB using IMPA's macro model. Included are the extension of the TCJA's modified marginal tax rates, the increased standard deduction and its temporary enhancement, the termination of the deduction for personal exemptions, the

⁸See Andrew Loutz, "How Would the 2025 House Tax Bill Change the SALT Deduction?" *Bipartisan Policy Center*, June 9, 2025, https://bipartisanpolicy.org/blog/how-would-the-2025-house-tax-bill-change-the-salt-deduction/.

⁹For a comprehensive analysis on the geography of SALT deduction, showing that the local portion of the SALT deduction primarily benefits areas with relatively wealthy and homogeneous populations, see Gladriel Shobe and Matthew S. Johnson, "Geographic Inequality and the SALT Deduction," March 19, 2025, http://dx.doi.org/10.2139/ssrn.5185918.

extension of the increased child tax credit, the extension and permanent enhancement of the QBI deduction, the modified extension of the increased AMT exemption and phaseout thresholds, new limitations on itemized deductions, the increase of the SALT deduction cap, no tax on tips, no tax on overtime, no tax on auto loan interest, the enhanced deduction for seniors, the termination of green credits, the enhanced depreciation provisions (including temporary provisions related to structures and R&D spending), and the cuts to Medicaid and SNAP.

IMPA Model Features Relevant for This Analysis

The following features of the IMPA model are relevant for this analysis:

- Income inequality and wealth inequality are generated by a combination of idiosyncratic and demographic factors and by the unequally distributed returns to wealth.
- Wealth is divided among equity in C-corporations, ownership of pass-through businesses, and low-yield assets, each of which is taxed under distinct rules according to US law.
- Household portfolios are calibrated so that corporate wealth and pass-through ownership is highly concentrated at the top of the wealth distribution, in line with the data.
- Household income is taxed according to the U.S. tax schedule, incorporating credits and deductions as defined in the federal tax code.

Main Results

We present two scenarios. In the baseline As Written scenario, which assumes that the House's version of the OBBB is enacted and that its temporary provisions are allowed to expire, the bill would reduce GDP by approximately 0.5% after 10 years and by over 1.0% in 30 years, compared to predicted GDP if the OBBB is not enacted and the TCJA's temporary provisions are allowed to expire. This contraction occurs alongside a substantial reduction in government revenue. Federal revenue would be approximately 6.85% lower in ten years, implying a total of \$2.9 trillion in deficits over a 10-year budget window (2025–2034).

In our model, the negative effects on GDP are primarily driven by the proposed repeal of IRA tax credits and major spending cuts, most notably to Medicaid. The permanent extension of the Qualified Business Income (QBI) deduction also contributes a mildly negative long-run effect through general equilibrium channels, primarily due to wealth effects.¹⁰

It is important to note that several of business tax provisions in the OBBB are temporary and, therefore, do not generate lasting effects on long-run investment in the **As Written** scenario. These provisions include full and immediate expensing of investment in equipment, machinery, and R&D through 2029, and of investment in structures through 2028, as well as the expansion of interest deductibility via the redefinition of adjusted taxable income (from Earnings Before Interest and Taxes to Earnings Before Interest, Taxes, Depreciation, and Amortization) through 2029.

¹⁰For an explanation of the general equilibrium channels, please see our previous reports on the QBI deduction, on top individual tax rates, and on clean energy credits.

The **Provisions Permanent** scenario assumes that the House's version of the OBBB is enacted and that its temporary provisions are ultimately made permanent. In this case, the bill would have a smaller negative impact on GDP. In this scenario, the permanence of business depreciation provisions supports investment, which partly offsets the impact of the other contractionary provisions.

This scenario would, however, have significantly higher fiscal cost. Federal revenue would be approximately 7.05% lower than under current law after 10 years and 9.24% lower after 30 years, widening the projected deficit beyond that of the baseline OBBB version.

IRA Tax Credits

The results above include the proposed repeal of approximately \$559 billion in clean energy tax credits introduced under the Inflation Reduction Act.¹¹ These credits are intended to promote private investment in sectors such as renewable energy, battery production, and domestic clean-tech manufacturing. To assess their macroeconomic impact, we model a scenario in which only the IRA credits are withdrawn, using a baseline where the TCJA provisions expire as scheduled. In this scenario, we find that GDP would be 0.26% lower in 2034 and 0.52% lower in 2054. In other words, repeal of the clean energy tax credits accounts for approximately half of the total contractionary effect of the OBBB overall, as shown in Table 1. This decline is driven primarily by reduced investment.

Our estimates likely understate the full long-run benefits of IRA credits, as they do not account for positive externalities that fall outside standard GDP measures, such as reduced emissions. While further research is needed to assess the effectiveness of these credits, we believe that, rather than repealing them, policymakers should engage in a serious discussion about how to strengthen and better target these incentives to benefit economically distressed or disadvantaged local communities.

The Economics of the Business Tax Provisions

Bonus depreciation and related incentives typically have a positive effect on investment, as is the case in our model.¹² While policy discussions often take for granted that "more investment is always better," and tend to highlight this response as evidence of policy success, this assumption deserves careful scrutiny.

First, bonus depreciation and related provisions should not be considered in isolation from broader discussions about tax rates, including discussions about the corporate tax rate and the QBI deduction. For instance, if full expensing provisions are made permanent, that should prompt a serious discussion about raising the corporate tax rate to generate revenue, since full expensing effectively eliminates the marginal tax burden on new investment. This is a well-established result in public finance, but it is one that policymakers sometimes appear willing to overlook.¹³

Second, the macroeconomics literature has long shown that under realistic conditions, such as life-

¹¹Amounts as estimated in Joint Committee on Taxation, *Report JCX-26-25R*.

¹²See Gabriel Chodorow-Reich, Matthew Smith, Owen M. Zidar, and Eric Zwick, "Tax Policy and Investment in a Global Economy," NBER Working Paper No. 32180, March 2024, https://doi.org/10.3386/w32180. The authors show that full expensing had a positive effect on investment among firms most affected by the reform.

¹³For macroeconomic implications, see Ignacio González, Juan A. Montecino, and Joseph E. Stiglitz, "Equity Prices, Market Power, and Optimal Corporate Tax Policy," *European Economic Review* 176 (July 2025): 105039, https://doi.org/ 10.1016/j.euroecorev.2025.105039.

cycle behavior or incomplete financial markets, capital income taxes should not be zero.¹⁴ This result has become even more relevant in light of recent research showing that increases in the capital stock, particularly through automation, can adversely affect workers.¹⁵ Unfortunately, policy models, including ours, are not fully equipped to capture these trade-offs. But this research is relevant to the debate over the OBBB because it implies that businesses should not be allowed to fully and immediately deduct 100% of capital costs. In fact, existing depreciation rules are already quite generous, as they allow for accelerated cost recovery. More research is needed to evaluate the relative effectiveness of different policy tools, but in our view, broad-based tax preferences for capital are a blunt instrument. Policymakers should instead prioritize improving targeted approaches, such as IRA-type credits, that better align private investment with long-term climate and social priorities.

Assumptions on Interest Rates and Crowding-Out

In our baseline estimates, crowding-out effects from government debt are absent because we assume that demand for government bonds is inelastic. This is equivalent to assuming that the Federal Reserve targets a constant real interest rate, so higher deficits do not lead to increased borrowing costs and reduced private investment. In other words, the government is assumed to meet its long-term budget needs without generating additional economic effects. We consider this a reasonable baseline assumption for isolating the core mechanisms of the bill. Given that the bill increases the deficit, our estimated GDP effects should therefore be viewed as conservative, since any additional negative impact from crowding out would further reinforce the overall contractionary outcome.¹⁶

As an illustrative exercise, we consider crowding-out effects using a standard elasticity between the real interest rate and the budget deficit.¹⁷ By 2034, GDP in the "As Written" scenario falls by 0.82% and government revenue falls by 7.12%. These declines are larger than the 0.54% and 6.85% declines reported in Table 1. In the "Provisions Permanent" case, GDP falls by 0.31% and revenue falls by 7.32%, versus baseline declines of 0.07% and 7.05%.

Distributional Impacts of the OBBB

Our model-based distributional analysis shows that the benefits of the OBBB would be overwhelmingly skewed toward high-income households. Figure 1 illustrates this by highlighting the percentage change in after-tax household income for poor versus rich households after 10 years under the OBBB. The changes are relative to a baseline in which the expiring provisions of the TCJA are allowed to lapse. We find that

¹⁴See, for example, Juan Carlos Conesa, Sagiri Kitao, and Dirk Krueger, "Taxing Capital? Not a Bad Idea after All!" American Economic Review 99, no. 1 (March 2009): 25-48, https://www.aeaweb.org/articles?id=10.1257/aer.99.1.25.

¹⁵See Daron Acemoglu. "Capital and Wages," *International Economic Review* 66, no. 1 (2025): 3–24, https://doi.org/10.1111/iere.12733.

¹⁶While this assumption holds for the interest rate, it does not apply to the average return on capital, as the supply of capital remains upward sloping in our model. This generates return heterogeneity, which is a key driver of wealth inequality in the model. For further analysis, see Lídia Brun, Ignacio González, and Juan Montecino, "Corporate Taxation and Market Power Wealth," April 5, 2023, http://dx.doi.org/10.2139/ssrn.4410717

¹⁷We assume that each percentage point increase in the projected deficit-to-GDP ratio raises interest rates by approximately 25 basis points. See Thomas Laubach, "New Evidence on the Interest Rate Effects of Budget Deficits and Debt," *Journal of the European Economic Association* 7, no. 4 (2009): 858-885, https://doi.org/10.1162/JEEA.2009.7.4.858.

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Figure 1: IMPA model-predicted dynamic distributional effects of major provisions of the OBBB after 10 years (in 2034). Set of bars on left shows impact of all major provisions (see text for list). Middle set shows impact of cuts to Medicaid and SNAP alone. Set on right shows impact of extending TCJA's individual rates, and the extension and expansion of QBI and AMT. Blue bars show the impact on after-tax income of the bottom 10%, and red bars show the impact on the top 10%. Impacts measured as the *percentage change in income relative to TCJA's expiration*.

under the House bill, the top 10% of households by income would see an increase of approximately 2.18% in their after-tax income, while the bottom 10% of households would see their incomes shrink by 5.20%.¹⁸

With limited fiscal space, the House bill effectively shifts the fiscal burden onto low-income households. Cuts to Medicaid reduce their disposable income, functioning much like a regressive tax. As noted above, provisions targeted to low-income households like "No Tax on Tips" are largely symbolic, offering little and temporary tax relief to low-income taxpayers. Our assessment is that the current bill contains no meaningful support for the working population to counterbalance its regressive effects.

We highlight the sources of these skewed distributional impacts by focusing on two sets of major provisions with significant redistributive implications. To do this, we model these two scenarios:

- Medicaid and SNAP cuts In this scenario, Congress enacts only the proposed cuts to SNAP and Medicaid. All temporary provisions in the 2017 Tax Cuts and Jobs Act (TCJA) are allowed to expire, and no other OBBB provisions are enacted.
- Individual Rates + AMT + QBI In this scenario, Congress extends the TCJA's lower individual income tax rates, higher income thresholds, and increased Alternative Minimum Tax (AMT) exemptions and thresholds. It also increases the Qualified Business Income (QBI) deduction to 23%. No other provisions of the OBBB are enacted.

The figure shows that these provisions would be the main drivers of the distributional effects of this bill. They would significantly benefit high-income households, while simultaneously reducing income for

¹⁸Because our results include contractionary dynamic effects, our estimated impact on the bottom 10% is slightly more negative than the conventional distributional estimates from CBO/JCT. See Congressional Budget Office, *Preliminary Analysis of the Distributional Effects of the One Big Beautiful Bill Act*, May 20, 2025, https://www.cbo.gov/publication/61422 (accessed June 4, 2025).

low-income groups. The cuts to Medicaid and SNAP alone would reduce the incomes of households at the bottom of the income distribution by approximately 4.5%, while making no difference to the households at the top of the distribution. The changes to the individual tax rates, QBI, and AMT alone would raise the incomes of the richest households by more than 2.3%, while they would slightly reduce the incomes of the poorest due to contractionary effects.

The Real Path to Growth and Fiscal Responsibility

As macroeconomists, we recommend that the Senate reject the House-passed budget bill. This position is shared by many leading economists, including several Nobel laureates, who have expressed concern over the bill's regressive structure. Strengthening public capacity, improving the safety net, and reducing inequality are not just important policy goals, they also support long-term economic growth and prosperity.

From the standpoint of deficit reduction and debt sustainability, the arithmetic is clear: there is no room to maneuver without raising taxes on high-income households. Over the past 25 years, the U.S. has narrowed its fiscal base, primarily by making the tax code more regressive. As economists, we emphasize that fiscal consolidation cannot be treated as a narrow accounting exercise, detached from the broader economic context. The current U.S. social insurance system serves society's most vulnerable, and any attempt to curb the deficit must not come at their expense. What is needed now is a serious commitment to restoring revenue by raising taxes on those best positioned to contribute: high-income earners and the wealthy. In our opinion, this is the only fiscally and macroeconomically responsible path forward.