ECONOMIC VIEWPOINT

What to think of the *One Big Beautiful Bill Act*?

By Francis Généreux, Principal Economist

The centrepiece of President Trump's budget and tax agenda was passed a few weeks ago by the US House of Representatives. But the sprawling, 1,038-page bill hasn't been finalized, as it still has to pass the Senate. While the upper chamber of Congress could pass the bill as written, it also has the power to introduce amendments—potentially sweeping ones. What can be said about the current version? Despite its hefty budgetary cost, the "One Big Beautiful Bill" does little to address the problems facing the US economy. At best, it could provide a modest boost to economic growth, particularly in 2026. However, the resulting increase in federal debt is likely to further fuel concerns about the state of US public finances.

The House of Representatives narrowly passed the *One Big Beautiful Bill Act* (OBBBA) on May 22. It is now up to the Senate to weigh in. Some Republican senators have already expressed their concern over certain provisions of the House-approved bill. They must nevertheless respect specific budgetary constraints to pass the bill using the budget reconciliation process, which bypasses the need for a Senate supermajority—which would be impossible to achieve unless some Democrats could be persuaded to vote for it. The Republicans have said they want to pass the OBBBA so President Trump can sign it into law by the national holiday on July 4.

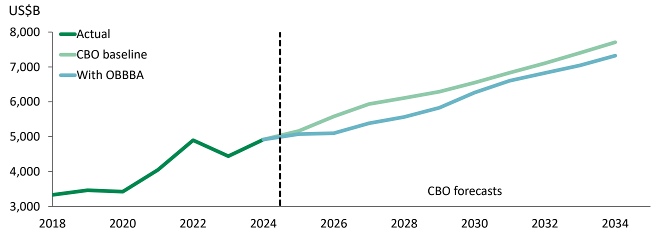
Big

So, what's in the bill? They're calling it "big" for a reason. The OBBBA is packed with measures, some of which will have major repercussions on the economy or the budget, while others are more limited in scope. Most importantly, it fulfills a number of the biggest promises made by Donald Trump during the election. Of particular note is the extension of the 2017 tax cuts, which would otherwise expire at the end of this year. Individual taxpayers can look forward to new deductions for seniors, tax exemptions on tips and overtime pay, and a new deduction on auto loan interest. The bill also creates what it calls "Trump accounts" for children. The federal government will deposit US$1,000 into these accounts if they're opened within a year of the child's birth. Parents can deposit up to US$5,000 a year. Eventually these funds could be used to pay for school, buy a first home or start a business.

As for businesses, the most important measures reinstate 100% first-year depreciation for investments in equipment and technology, increase the small business tax deduction, and create a new tax credit for businesses that hire US citizens in high-unemployment areas. But the House jettisoned one of Trump's campaign promises—to lower the corporate tax rate from 21% to 15%.

It's clear that these provisions will create a significant budget shortfall for the US Treasury (graph 1), so the bill also introduces measures to mitigate the financial impact. These include the gradual elimination of tax credits and incentives tied to Biden-era policies like the *Inflation Reduction Act*, as well as major restrictions on eligibility for Medicaid, health insurance subsidies (Obamacare) and food stamps. Non-citizens would no longer be eligible for a number of assistance programs. A revised cap on the federal deduction for state and local taxes (SALT)

Graph 1
The OBBBA Would Reduce Federal Government Revenues

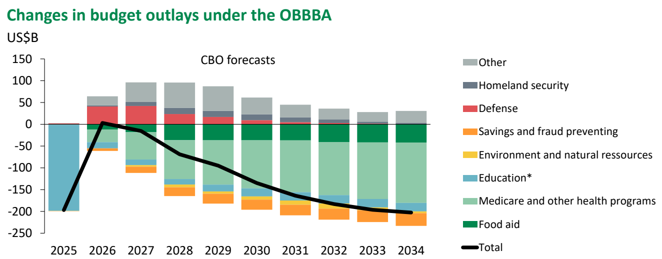


OBBBA: *One Big Beautiful Bill Act*; CBO: Congressional Budget Office
CBO and Desjardins Economic Studies

would also funnel more money to Washington. In addition, the OBBBA creates a 3.5% tax on money transferred abroad (which is often sent by immigrant workers).

The bill also cuts many federal expenditures, particularly in departments that have already been targeted by the Trump administration and DOGE. This spending is generally related to the fight against climate change, environmental regulations or federal land management. On the other hand, the bill ramps up spending in other areas, especially homeland security and defence (graph 2).

Graph 2
The Bill Proposes Cuts to Social Spending



OBBBA: *One Big Beautiful Bill Act*; CBO: Congressional Budget Office
* The 2025 decline is primarily due to student loan repayments.
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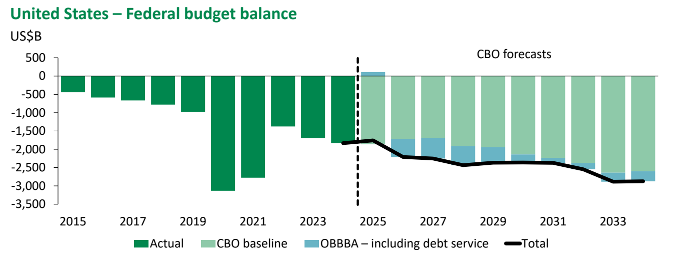
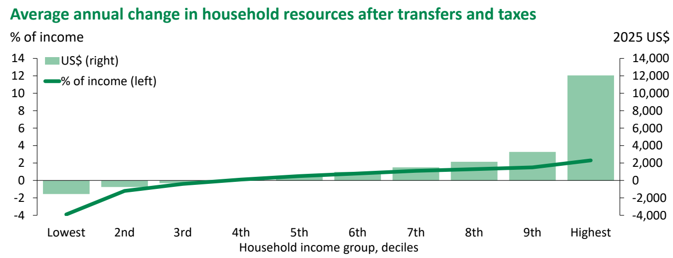
Graph 3
The OBBBA Would Lead to Even Larger Deficits



OBBBA: *One Big Beautiful Bill Act*; CBO: Congressional Budget Office
CBO, Office of Management and Budget and Desjardins Economic Studies

Graph 4
The Proposed Measures Are Largely Regressive



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Is It a "Disgusting Abomination" or "One of the Greatest Bills Ever Presented to Congress"?

These remarks—the first made by Elon Musk on X and the second by President Trump on Truth Social—demonstrate the extremes of opinion over the OBBBA, even within the political right. Musk's main reason for opposing the bill is its budgetary impact, which he claims negates DOGE's spending cuts. Naturally, the Democrats also strongly oppose the bill, particularly its cuts to Medicare to fund tax breaks for the wealthy.

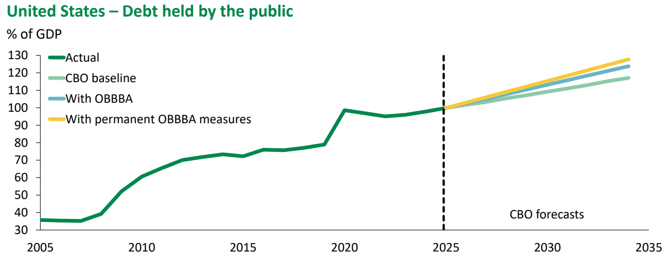
Both of these criticisms are backed by several analyses that were recently published by independent organizations. For instance, the Congressional Budget Office (CBO) projects that, as passed by the House, the OBBBA would add a total of US$2,416B to the deficit over ten years, along with an additional US$551B in interest on the debt over the same period (graph 3). The CBO also says that the bill would result in 10.9 million people losing their health insurance (mainly due to restrictions on Medicaid). Finally, the organization also forecasts that, under the OBBBA, the poorest 10% of US households would see their income decline by 3.9%, while income for the wealthiest 10% would rise by 2.3% (graph 4). The OBBBA's cuts to social programs and taxes would therefore exacerbate income and wealth inequality within the United States.

This bill, which President Trump so dearly wants to pass, may have some negative consequences, but what will it do for economic growth? The CBO still hasn't published an analysis of the bill's economic impacts. But other independent organizations have. The Congressional Joint Committee on Taxation estimates that the OBBBA would add 0.4% to real GDP over ten years. The Penn Wharton Budget Model sees a similar increase, while the Tax Foundation projects a bigger boost, with GDP coming in 0.8% higher over the same period. The Budget Lab at Yale believes the bill's impact would be positive over the short term, but negative over the long term as a result of higher debt. We also expect the bill to fuel growth, especially in 2026. However, this is similar to our earlier projections, which were based on Donald Trump's campaign promises and were incorporated into our economic scenarios in November. It's worth pointing out that these forecasts differ sharply from the optimistic projections of the White House's Council of Economic Advisers. The CEA expects real GDP growth to be 4.2% to 5.2% higher over the next four years and 2.9% to 3.5% over the long term.

What About the Debt (and the Debt Ceiling)?

The US federal government's finances were already on shaky ground, and the cost of the OBBBA adds another enormous financial burden. According to the CBO, the bill will increase publicly held federal debt from 99.9% of GDP in 2025 to 123.8% in 2034. It's also important to note that many of the OBBBA's tax measures are set to expire in 2028. Extending these measures, as is currently proposed for the 2017 tax cuts, would further increase deficits and the debt, which would rise to 127.7% of GDP by 2034 (graph 5).

Graph 5
Federal Debt Is Projected to Rise at a Faster Pace



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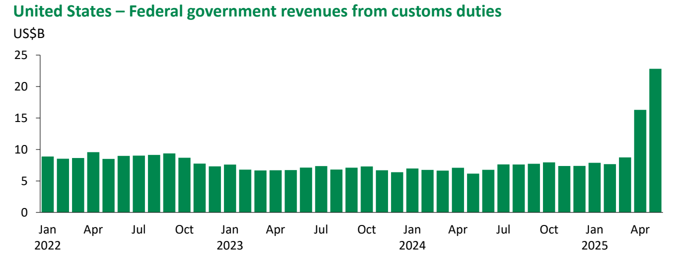
Although over the next decade the OBBBA would add US$3,000B to the already projected deficit of approximately US$21,000B, it does not include a corresponding increase in the debt ceiling. Keep in mind that, since hitting the debt ceiling in January, the US Treasury has been relying on "extraordinary measures" to keep the government funded. The House-approved bill would raise the debt ceiling by just US$4,000B. This may only cover the deficit for the next few years, which means the economy could face the threat of another debt ceiling standoff before the 2028 election.

However, the White House views the OBBBA as just one of several tools at its disposal. The projected deficit may be reduced by other factors, such as revenue generated by President Trump's tariffs. His trade policy is a work in progress, so it's unclear whether the "reciprocal" tariffs announced in April will return. Additional protectionist measures could also be announced. Or the administration could sign bilateral agreements (though the promised "90 deals in 90 days" appear to be out of reach). The CBO estimates that tariffs could reduce the federal deficit by US$2,800B over ten years, which practically offsets the cost of the OBBBA. But this assumes that the tariffs in place in mid-May would remain unchanged throughout the forecast horizon. That said, the duties actually collected by the federal government (graph 6) in April (US$16.3B) and May (US$22.8B) suggest that tariff revenues may disappoint if, as expected, import volumes adjust downward.

The Trump administration is also proposing additional cuts to federal spending by using the rescission process to claw back funding previously appropriated by Congress. Many of the proposed cuts in the rescissions package currently making its way through Congress were recommended by DOGE and target the State Department (foreign aid) and the

Graph 6
Federal Revenues from Tariffs Have Recently Increased



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Corporation for Public Broadcasting. The resulting savings won't amount to much: just US$9.3B. But bigger cuts of this type could be made later on.

That said, there are other variables that could throw everything off course, and the risks in this respect are significant. The bond market is already showing some anxiety over the rise in debt levels. Investors may also be disappointed by the apparent lack of commitment to balancing public finances, as the Republican majority prioritizes additional tax cuts over deficit reduction. President Trump's protectionist policy has also clouded foreign investor sentiment towards the United States. In this respect, the OBBBA introduces another disincentive by proposing changes to taxes on non-residents (Section 899). This would allow the government to retaliate against what it believes to be unfair foreign taxes by raising the withholding tax on passive income (such as dividends, interest, royalties and capital gains) that foreign individuals, corporations and governments earn from US securities. These factors could push interest rates higher than expected and increase the cost of servicing the federal debt, while hampering economic growth.

But Is It Beautiful?

In conclusion, although the Senate could still make changes to the bill, the OBBBA does little to address the problems facing the US economy. Since much of the bill's cost comes from extending measures that are already in place (the 2017 tax cuts), its overall impact on the broader economy will be limited, even as it dramatically inflates the deficit. The government also seems completely uninterested in dealing with income inequality, access to health care, the energy transition and international development. Some of its proposed tax cuts seem unnecessary, although certain measures may encourage businesses to invest, despite the uncertain environment. Unless tariffs inject vast sums into the federal coffers, the debt is expected to rise sharply. This is likely to remain a concern for investors, especially those outside the United States, who already have questions about the resilience of the US economy, the greenback's safe-haven status, the strength of American institutions and the country's openness to foreign investment.