The Daily Dish

One Big, Beautiful Step Forward

DOUGLAS HOLTZ-EAKIN | JULY 2, 2025

Today the House of Representatives will convene with the goal of sending the One Big Beautiful Bill Act (OBBBA) to the president's desk for his signature. That is because yesterday Vice President JD Vance cast the deciding vote as the OBBBA passed the Senate by a 51-50 margin. That was an important step – but only a step – toward resolving some of the policy risks that have plagued the U.S. economy.

From the perspective of December 2024, the U.S. economy was in good shape: Gross domestic product (GDP) growth had been 3.1, 3.0, and 2.4 percent over the previous three quarters, unemployment was a hair above 4 percent, the economy was creating 150,000 jobs a month, and inflation was low (maybe not at the 2-percent target, but low) and stable. The outlook for 2025 was more of the same…except for some policy risks.

There were four foreseeable risks: a government shutdown, the need to raise the debt limit, the sunset of the 2017 Tax Cuts and Jobs Act (TCJA), and the path forward for interest rates. The government shutdown was addressed in early March. Should the House complete its work, the debt limit will be raised without any financial market turmoil, and the specter of a TCJA sunset and $425 billion tax hike in 2026 will be eliminated.

That is good news. Indeed, the best thing about the OBBBA tax policy is avoiding the large tax hike and what would probably be a recession. Beyond that, the tax policy in the OBBBA is underwhelming. Most of it is simply extending current law, which will have no discernable impact on growth. A second bucket has some beneficial, pro-growth expensing provisions for equipment investment, research and development costs, and some manufacturing structures. These will have a very modest impact on the trend growth rate. The final bucket has campaign promises – no tax on tips, no tax on overtime, etc. – that might be good politics but are junk tax policy. (Eakinomics opined on the energy policy here.)

When combined with the headwinds from additional deficit finance, the growth impacts will be nil at best.

Sadly, the policy risks foreseeable from December 2024 do not constitute the whole list of issues. The Trump Administration has added substantial downside risk with its aggressive use of tariffs. Yesterday the president indicated that he was not inclined to extend the “pause” on reciprocal tariffs that ends on July 9, so the risk of repeating the “Liberation Day” Economic Massacre remains. And the president is apparently intent on complicating the future path of interest rates through both his tariff policies and his incessant carping about the Fed and Chairman Powell.

So, yes, yesterday was an important step forward. But the journey is far from over.