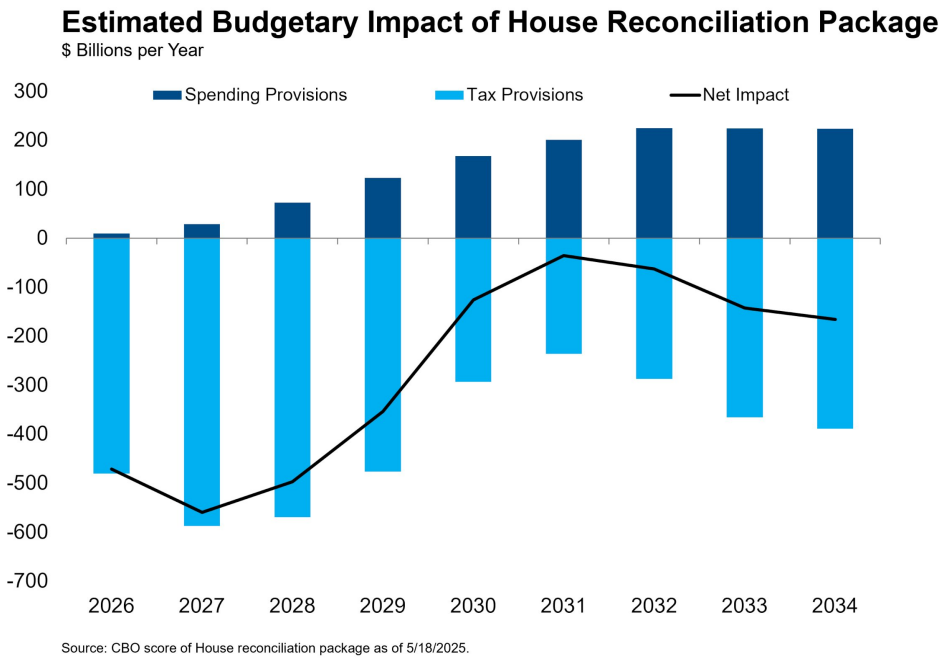
CHIEF ECONOMIST UPDATES

House Reconciliation Package is Even More Irresponsible Than It Appears

May 23, 2025
Author: Stephen Douglass



Source: CBO score of House reconciliation package as of 5/18/2025.

The House of Representatives passed their version of the reconciliation bill yesterday by a vote of 215-214. The legislation as written would increase federal deficits by an estimated $2.5 trillion over the next decade, exacerbating America's fiscal woes even as interest costs reach record highs relative to GDP. But House passage is just one step in the lengthy reconciliation process, and the final outcome is likely to be even more fiscally irresponsible. For starters, the House legislation includes nearly $1 trillion in Medicaid cuts that appear unlikely to survive in the Senate. Additionally, the House legislation itself is full of budgetary gimmicks.

Most egregiously, the House legislation frontloads tax cuts and backloads spending cuts within the 10-year budgetary window. While the individual tax provisions from the 2017 Tax Cuts and Jobs Act are made permanent, the new individual tax provisions expire after 2029 (including exemptions on tips and overtime, and an increased standard deduction for seniors). The spending cuts, even if they were to survive the Senate, are backloaded such that 70% occur in 2030 or later. This legislation would provide future Congresses ample opportunity to repeal the Medicaid cuts and dare them to let populist tax cuts expire. We have seen this movie many times before and do not expect future Congressional leaders to miraculously discover fiscal rectitude. More likely,

the tax cuts will be extended, the spending cuts will be watered down, and the cost of the bill will be as much as two times higher than its current score.

The Senate will now take up the legislation. We expect final passage in early August ahead of the debt limit X-date. While we have some hope that the Senate will avoid some of these budgetary gimmicks, they also appear likely to remove the Medicaid cuts. We expect that the final legislation will increase the 10-year deficit by about $5 trillion.

We remain convinced that one day America will have to get serious about fiscal reform. Passage of this reconciliation package through the House tells us that Republicans have no intention of tackling that challenge this year.

For additional details, please review our October 2024 webinar on America's long-run fiscal outlook.

Disclosure Information

This material has been prepared by NISA Investment Advisors, LLC (“NISA”). This material is subject to change without notice. This is for information and illustrative purposes only. It is not, and should not be regarded as “investment advice” or as a “recommendation” regarding a course of action, including without limitation as those terms are used in any applicable law or regulation. This information is provided with the understanding that with respect to the material provided herein (i) NISA is not acting in a fiduciary or advisory capacity under any contract with you, or any applicable law or regulation, (ii) that you will make your own independent decision with respect to any course of action in connection herewith, as to whether such course of action is appropriate or proper based on your own judgment and your specific circumstances and objectives, (iii) that you are capable of understanding and assessing the merits of a course of action and evaluating investment risks independently, and (iv) to the extent you are acting with respect to an ERISA plan, you are deemed to represent to NISA that you qualify and shall be treated as an independent fiduciary for purposes of applicable regulation. NISA does not purport to and does not, in any fashion, provide tax, accounting, actuarial, recordkeeping, legal, broker/dealer or any related services. You should consult your advisors with respect to these areas and the material presented herein. You may not rely on the material contained herein. NISA shall not have any liability for any damages of any kind whatsoever relating to this material. No part of this document may be reproduced in any manner, in whole or in part, without the written permission of NISA except for your internal use. This material is being provided to you at no cost and any fees paid by you to NISA are solely for the provision of investment management services pursuant to a written agreement. All of the foregoing statements apply regardless of (i) whether you now currently or may in the future become a client of NISA and (ii) the terms contained in any applicable investment management agreement or similar contract between you and NISA.