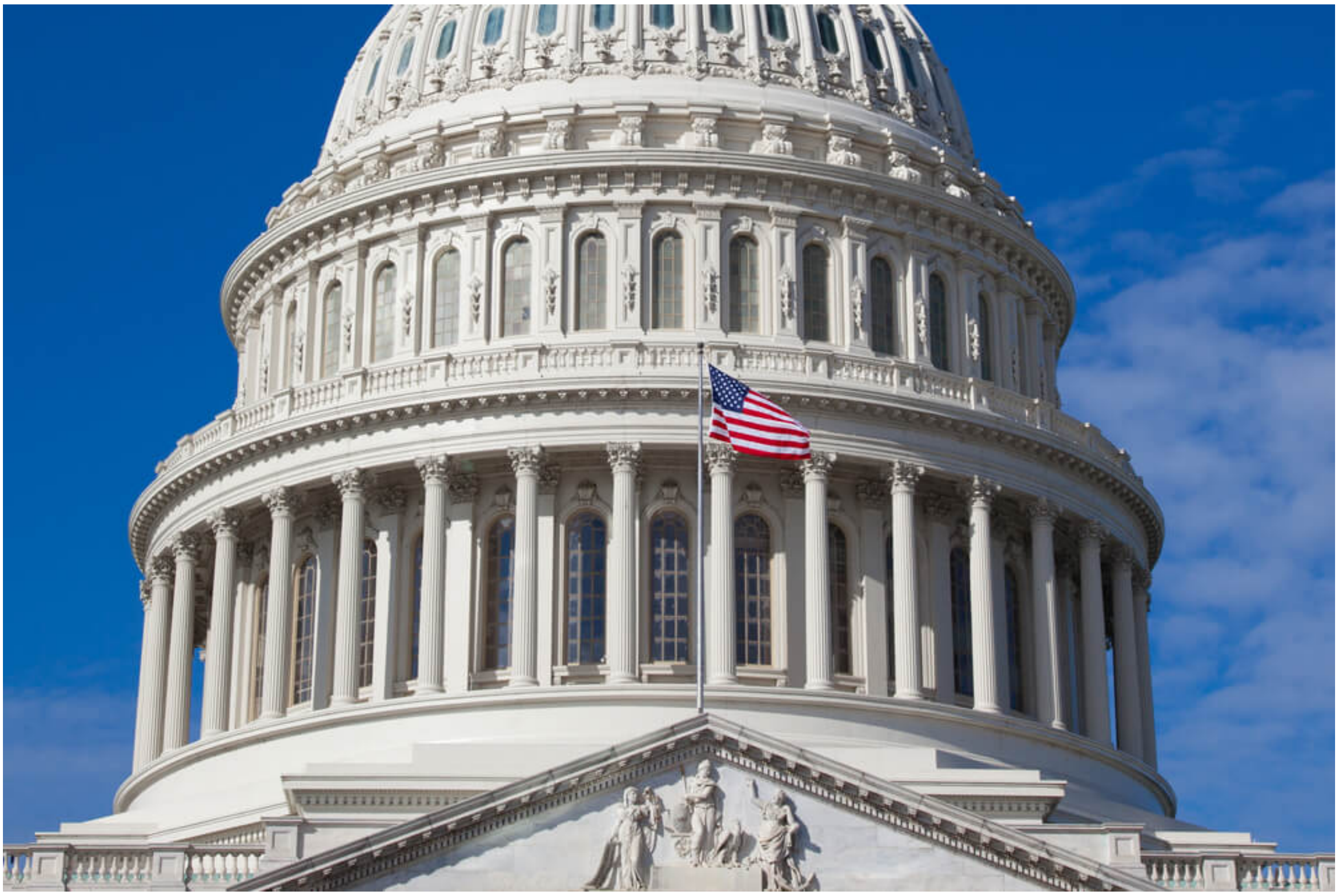
Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

By: Daniel Lacalle

The Big Beautiful Bill Is Much Better Than You Think



The U.S. fiscal outlook is a cause of concern. Everyone understands this. The problem is that most Keynesian economists are unwilling to admit that the deficit problem is entirely a spending problem.

Those who champion higher taxes and spending never consider the negative impact of taxes on growth and jobs or the cyclical nature of receipts.

Outlays increase during periods of economic growth and increase even more rapidly during recessions, which consistently results in higher debt.

High taxes are not a tool to reduce elevated debt but to justify it. By constantly raising expenditure and taxes, governments conduct a slow-motion expropriation of the productive wealth of the nation.

France is the evidence of the Keynesian fiscal trap: the highest tax wedge in the OECD and enormous government spending, and its fiscal outlook is worse than any developed economy, with an unsustainable 5.8% deficit, especially when we consider its enormous unfunded and committed liabilities, which reach 400% of GDP on top of the existing 116% debt to GDP.

Economists' double standards

Interestingly, many economists were glad to support Kamala Harris economic plan, which included large spending increases, higher taxes and more debt.

The Congressional Budget Office assumed an $8.3 trillion debt increase, assuming higher costs and weaker revenues, with debt held by the public rising to 134% of GDP by 2035.

The same economists and Nobel Prize winners who championed the high-tax, higher-spending, and debt-fuelled Harris' programme claim that the Trump administration's Big Beautiful Bill will wreck national accounts. Why?

> Big government is always defended

A large consensus among academics and economists tends to downplay the continuous growth of government size in the economy while ignoring the negative effects of high taxes and an oversized public sector on growth, investment, and productivity.

Big government is always defended. It is not a surprise, as most of these economists hover over governments and publicly funded entities.

Thus, global investors always read negative estimates when any administration promotes tax cuts and spending reductions and virtually nothing when government spending goes out of control.

Understanding the Big Beautiful Bill

The concept of unfunded tax cuts is one of the most insulting. Tax cuts are returning part of the money that citizens have earned. The only unfunded part of a budget is government deficit spending.

Musk has criticised the "Big Beautiful Bill" as "abominable", but we must understand a few things:

Any bill as important as this one will never be perfect. The administration needs to find support among most of the Congress and Senate members, many of whom have different budget priorities.

The bill includes nearly $1.7 trillion in mandatory spending cuts, the largest reduction in U.S. history. These cuts are permanent changes to the law.

> The cumulative deficit reduction could reach $6.6 trillion

The bill will result in a net deficit reduction of

$1.4 trillion over the next decade, after accounting for both the spending cuts and new tax cuts.

It does not consider any positive impacts from discretionary spending cuts, tariff revenues, or improvement in receipts.

The White House further asserts that, when including increased tariff revenues and additional discretionary spending cuts, the cumulative deficit reduction could reach $6.6 trillion.

By extending the 2017 tax cuts, the bill prevents tax hikes on most taxpayers that would have occurred if the cuts expired. It supports investment, consumer spending and economic growth. Targeted tax relief also stimulates economic activity.

Eliminating regulatory burdens will also be essential to spur growth and investment, generating additional tax revenue and reducing the deficit further.

Even a conservative estimate from the Tax Foundation sees a long-term GDP boost of 0.8% from the bill's tax provisions.

Should the administration do more?

What I find amazing is to see that Musk does not consider any Laffer curve effect of this bill. I can understand that statist economists want to deny the obvious positive effect of tax cuts on receipt growth, but a serious entrepreneur like him should at least assume a significant receipt improvement.

In my analysis, these tax cuts and deregulation measures will be a bigger source of deficit reduction than the spending cuts, essential as they are.

If we don't believe in the positive effect of tax cuts and deregulation, no one else will, and the next bill will be big and ugly - Daniel Lacalle

Should the administration do more? Of course. No one, from Bessent to Trump, denies it.

But the U.S. economy needs to grow itself out of this fiscal nightmare, focusing on private sector growth so the spending cuts can be extended and increased. In an economy where 2024 GDP growth was entirely driven by deficit spending, cleaning the mess must be done at the same time as boosting productive growth.

Any libertarian or Austrian economist should support this bill as an essential first step that may not be perfect but is critical for the US economy and consider the Laffer curve impact of lower taxes and the economic boost of deregulation.

If we don't believe in the positive effect of tax cuts and deregulation, no one else will, and the next bill will be big and ugly.