

Chicken Hawks: a quick note on the US budget reconciliation bill

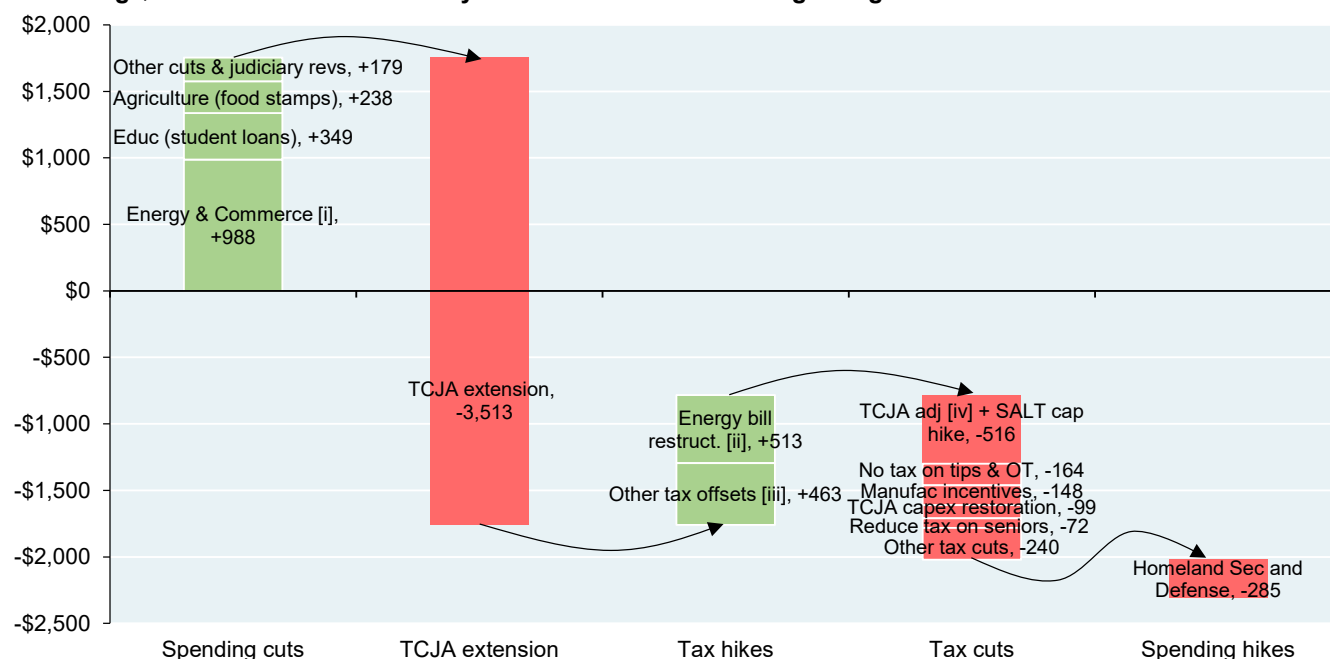
There is general agreement from Yale's Budget Lab, the Committee for a Responsible Federal Budget, Piper Sandler and other analysts that the bill would add \$2.8 to \$3.4 trillion to deficits over the next ten years when including interest on the incremental debt, and when compared to the CBO baseline¹. If certain temporary provisions become permanent, the cost could reach \$5 trillion. And this is after the alleged impact of "**GOP budget hawks**" in the House, a designation that should probably be retired at this point². The reconciliation bill now goes to the Senate where we do not expect major changes.

The first chart shows the major widgets of the House bill: first some spending cuts which are mostly Medicaid, food stamps and student loans; then extension of all TCJA tax cut provisions; then some offsets to raise revenue, mostly assorted tax hikes (including a retaliatory tax on companies from other countries that I'm in favor of³) and a sharply scaled back energy bill; then some new tax cuts (on tips, overtime, seniors, SALT etc) and some manufacturing incentives; and then at the end of the chart, funding for homeland security and defense.

Budget reconciliation bill: what passed the House

Scenario outcome: \$2.3 trillion expansion of budget deficit over 10 year window vs CBO baseline

Assuming \$4 trillion instruction to Ways and Means Committee regarding allowable increase in net deficit



Source: JPMAM, Piper Sandler, May 24, 2025. [i] Includes Medicaid cuts (work requirements \$273, provider taxes & state directed payments \$184, eligibility & enrollment \$155). [ii] Mostly EV tax credit termination plus scaled back PTC/ITC/45x credits. [iii] Includes modifications to premium tax credit & retaliatory tax on foreign multinationals. [iv] Refers to expanded TCJA individual & estate tax provisions such as increasing the standard deduction, raising the child tax credit, boosting the deduction rate for qualified business income & raising the estate tax exemption. Positives/green = spending cuts & tax hikes; negatives/red = tax cuts & spending hikes.

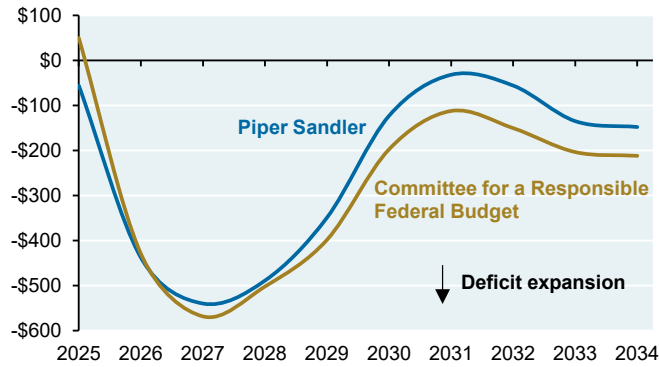
¹ Trump has been clear since before the election that his policies were going to expand the deficit. In our September 30, 2024 Eye on the Market, we included two charts showing the net budget deficit impact of both Trump and Harris policies over the ten year budget window. For Trump, we showed an expansion of \$3-\$4 trillion when compared to the CBO baseline. For Harris the projected expansion was smaller, around \$1.5 trillion, partially since her plan was to allow higher-income (>\$400 AGI) tax cuts to expire

² Based on their completely negligible impact on the budget process, we should retire the concept of "GOP fiscal hawks" and replace it with "GOP chicken hawks". Alongside the elephant and donkey, chicken hawks could have their own animal kingdom designation: **Henery Hawk**, the diminutive chicken hawk that appeared in 12 Looney Tunes and Merrie Melodies features from 1942 to 1961, usually appearing alongside Foghorn Leghorn

³ One section of the bill targets countries like Canada, the UK, France and Australia that impose digital services taxes on large US tech companies. Such taxes are **poorly disguised service sector tariffs**, and a reflection of Europe's inability to develop its own cohort of thriving large cap tech companies; we wrote about them [here](#).

The reconciliation bill is very front-loaded: more deficit expansion and stimulus through to the 2028 election and then less thereafter when the bulk of the spending cuts start to kick in.

Estimated impact of reconciliation bill on CBO baseline deficit, US\$, billions

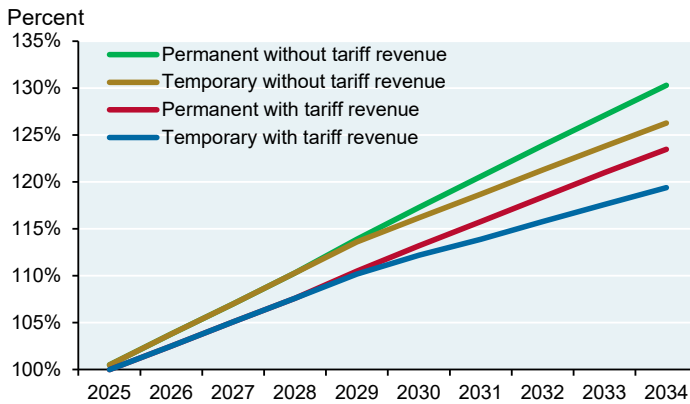


Source: Piper Sandler, CRFB, JPMAM, May 2025

These deficit impact estimates are “static”; they do not include whatever benefits may accrue from additional growth due to stimulus (dynamic scoring), and they exclude tariff revenues. Tariff impacts on budget projections are complicated: tariff revenue would only be considered in a legislative score if the tariffs were part of the legislation, and in this case, tariffs are not materially included in the reconciliation bill. Tariff revenue generated through Trump’s executive actions will be incorporated into CBO next baseline later this summer, and would be included based on tariffs in effect when they compute the baseline.

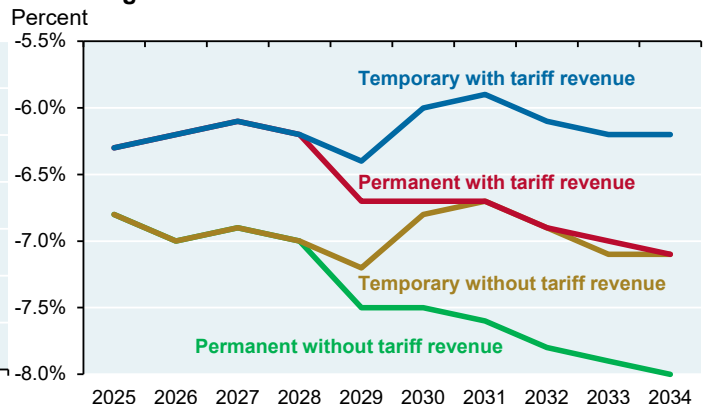
That said, how much might tariff revenues alleviate the debt and deficit situation? Yale’s Budget Lab released a series of charts showing four scenarios: tax cut provisions temporary or permanent, and tariff revenues included or excluded. The Tax Foundation assumes \$2 trillion of tariff collections over the next ten years, but such projections have an enormous degree of uncertainty given the probability of foreign and domestic import substitution, the likely impact of lower GDP growth on overall tax collections and the cost of foreign retaliation. The challenge in this kind of exercise is similar to one we covered in the May 1 piece on DOGE: cutting 20%-25% of IRS staff would reduce employee headcount, but most estimates project multiples of such savings in lost IRS tax collections (the CBO estimates that for every \$1 cut to enforcement the Treasury loses \$5-\$9 in revenue from uncollected taxes). In any case, even when tariffs are included, the Federal debt rises anyway.

Federal debt to GDP



Source: Yale Budget Lab, May 2025

Total budget deficit to GDP



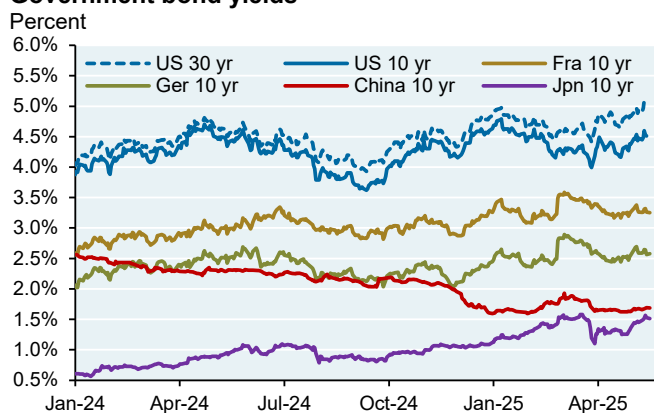
Source: Yale Budget Lab, May 2025

The charts on the prior page are in stark contrast to White House comments about the impact of the bill:

"This bill does not add to the deficit. In fact, according to the Council of Economic Advisers, this bill will save \$1.6 trillion, and the president absolutely understands and hears the concerns of fiscal conservatives and of Americans who want to get our fiscal house in order," White House press secretary Karoline Leavitt stated⁴. "That's what the intention of this bill is. There's \$1.6 trillion worth of savings in this bill," she continued. "That's the largest savings for any legislation that has ever passed Capitol Hill in our nation's history."

I don't have the energy right now to deconstruct Leavitt's comments so I'm just going to leave it at that. This is after all an administration that keeps insisting that exporters to the US pay for US tariffs despite practically no real world evidence that this is the case (as illustrated in the Trump Tracker charts on import prices).

Since the April lows, 10 year and 30 year US interest rates have gone up by 50-60 basis points. It's unclear just how much of this is related to the increasing reality of a worsening debt situation and the recent Moody's downgrade, but it's certainly not helping bond market investors. There has been a generalized increase in rates for a variety of reasons in the developed world, including the need for Europe to finance more of its own defense, the cumulative impact of deglobalization and an end of Bank of Japan purchases of JGBs.

Government bond yields

Source: Bloomberg, JPMAM, May 23, 2025

In case you missed it: AI deep dive

The prior Eye on the Market from May 13 looked at rising corporate AI adoption, the mixed bag on improving AI capabilities, how AI adopter market cap is ~2.5x higher than the market cap of "tariff victims", and how US tech companies are priced fairly relative to other developed market sectors when looking at their higher return on equity

Michael Cembalest

JP Morgan Asset Management

Quote of the week, from the Wall Street Journal: "Is Trump Trying to Destroy Harvard? The order against foreign students turns away the world's brightest", May 23, 2025

"This will be terribly damaging to America's ability to attract talented young people who bring their enterprise and intellectual capital to the US. Non-citizens accounted for more than half of doctoral degrees in AI-related fields in 2022. Many have gone to work at US companies like Nvidia or started their own.

The National Foundation for American Policy finds that immigrants have founded or cofounded nearly two-thirds (65% or 28 of 43) of the top AI companies in the United States, and 70% of full-time graduate students in fields related to artificial intelligence are international students. Immigrants have also started more than half of America's privately-held startups valued at \$1 billion or more.

Even if it's modified, Ms. Noem's order will echo around the world as a signal that the US is no longer open to educate the world's brightest young people. Foreign students will get the message and take their talents elsewhere. China's politburo must be laughing at their good luck that their main adversary is hamstringing itself; first with tariffs that make its firms less competitive, and now with an assault on immigrant talent.

Like most of US higher education, Harvard needed a jolt to return to its mission of educating open minds. But that requires reform. The Trump Administration seems to think it needs to destroy Harvard to save it. This is the opposite of making America great."

The WSJ has been much more consistent on this kind of messaging of its core beliefs than the Business Council or the Business Roundtable; just my opinion.

⁴ "Trump Press Secretary on Effects of Budget Bill", The New Republic, May 19, 2025

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