Economic Policy Institute

June 2, 2025

The Honorable John Thune
Senate Majority Leader
U.S. Senate
Washington, DC 20510

The Honorable Chuck Schumer
Senate Minority Leader
U.S. Senate
Washington, DC 20510

The Honorable Mike Crapo
Chair, Committee on Finance
U.S. Senate
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member, Committee on Finance U.S. Senate
Washington, DC 20510

Re: The upside-down priorities of the reconciliation bill: Adding significantly to debt while reducing incomes for the bottom 40%

Dear Leader Thune, Leader Schumer, Chair Crapo, Ranking Member Wyden, and Senators:

As economists who have devoted our careers to researching how economies can grow and how the benefits of this growth can be translated into broadly shared prosperity and security, we have grave concerns about the budget reconciliation bill passed by the U.S. House of Representatives on May 22, 2025.

The most acute and immediate damage stemming from this bill would be felt by the millions of American families losing key safety net protections like Medicaid and Supplemental Nutrition Assistance Program (SNAP) benefits. The Medicaid cuts constitute a sad step backward in the nation's commitment to providing access to health care for all. Proponents of the House bill often claim that these Medicaid cuts can be achieved simply by imposing work reporting requirements on healthy, working-age adults. But healthy, working-age adults are by definition not heavy consumers of health spending, so achieving the budgeted Medicaid cuts will obviously harm others as well.

Medicaid provides health insurance coverage for low-income Americans, but this includes paying out-of-pocket health costs for low-income retired Medicare recipients and providing nursing home and in-home care services for elderly Americans. Medicaid also covers 41% of all births in the United States, including over 50% of all births in Louisiana, Mississippi, New Mexico, and Oklahoma. Work reporting requirements will obviously yield no savings from these Medicaid functions.

Besides providing affordable health care to families, Medicaid is also crucial to state budgets and hospital systems throughout the country—particularly in rural areas. In 2023, the federal government sent $615 billion to state governments to cover Medicaid spending; this federal contribution accounted for over 75% of total state Medicaid spending in more than 19 states. Rural hospitals in states that accepted the Medicaid expansion that was part of the Affordable Care Act were 62% less likely to close than rural hospitals in non-expansion states.

In addition to Medicaid, the House bill also significantly cuts SNAP. These steep cuts to the social safety net are being undertaken to defray the staggering cost of the tax cuts included in the House bill, including the hidden cost of preserving the large corporate income tax cut passed in the 2017 tax law. But even these sharp spending cuts will pay for far less than half of the tax cuts (not even including the cost of maintaining the corporate income tax cuts of the 2017 law).

U.S. structural deficits are already too high, with real debt service payments approaching their historic highs in the past year. The House bill layers $3.8 trillion in additional tax cuts ($5.3 trillion if all provisions are made permanent) on top of these existing fiscal gaps—and these tax cuts are overwhelmingly tilted toward the highest-income households. Even with the safety net cuts, the House bill leads to public debt rising by over $3 trillion in coming years (and over $5 trillion over the next decade if provisions are made permanent rather than phasing out). The higher debt and deficits will put noticeable upward pressure on both inflation and interest rates in coming years.

The combination of cuts to key safety net programs like Medicaid and SNAP and tax cuts disproportionately benefiting higher-income households means that the House budget constitutes an extremely large upward redistribution of income. Given how much this bill adds to the U.S. debt, it is shocking that it still imposes absolute losses on the bottom 40% of U.S households (if some of the fiscal cost is absorbed in future bills with extremely high and broad tariffs, the share of households seeing absolute losses will increase rapidly).
The United States has a number of pressing economic challenges to address, many of which require a greater level of state capacity to navigate—capacity that will be eroded by large tax cuts. The House bill addresses none of the nation's key economic challenges usefully and exacerbates many of them. The Senate should refuse to pass this bill and start over from scratch on the budget.

Sincerely,

Daron Acemoglu
MIT Economics

Peter Diamond
MIT Economics

Oliver Hart
Harvard University

Simon Johnson
MIT Sloan School of Management

Paul Krugman
Graduate Center, City University of New York

Joseph Stiglitz
Columbia University