

CBO: ONE BIG BEAUTIFUL BILL GROWS THE ECONOMY, CUTS TAXES & SLOWS WELFARE SPENDING

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The [Congressional Budget Office](#) (CBO) has updated its [budget baseline](#) for the first time since January 2025, covering fiscal years (FYs) 2026 through 2036. CBO's report provides its first set of projections on the federal budget and the economy since the passage of the [One Big Beautiful Bill Act](#) (OBBB) in July 2025.

Due to the OBBB's policy changes for tax, welfare, and more, the fiscal status quo has changed significantly. However, one vital reality [remains unchanged](#): Congress must keep working to rein in the growth of total federal spending.

OBBB Grows the Economy

A combination of demand-side changes (more disposable income from lower income taxes) and supply-side changes (incentivizing business investment) caused by the OBBB is expected to bolster economic growth and productivity. CBO now projects that GDP will reach \$45 trillion in FY 2035, an increase of \$1.1 trillion from last year's projection.

From [CBO's report](#): "That near-term increase in aggregate demand is driven mostly by the provisions of the law that make more resources available to households, boost the incentives to invest, and increase government spending. In the long run, the law increases real GDP through its net effects on the supply of labor, private capital, and total factor productivity."

Through 2034, CBO estimates that the OBBB will result in \$1.1 trillion of additional business investment on buildings, equipment, and intellectual property. Better incentives for work are expected to increase hours worked by 0.6% over the same period, along with a 0.4% increase to the workforce.

There are complicating factors for legislators to keep in mind. For example, CBO projects that the OBBB will result in higher interest rates. One cause of this would be an increase in private borrowing to take advantage of a stronger investment climate, creating more competition in debt markets and increasing rates on Treasury bonds. In turn, higher interest rates increase interest spending, exacerbating deficits.

OBBB Cuts Taxes

The OBBB extended lower income tax rates on households and businesses originally passed in the 2017 Tax Cuts and Jobs Act. Crucially, Congress made many key rate cuts and reforms permanent.

Comparing the new CBO baseline to the [January 2025](#) iteration, projected revenues from individual income taxes are expected to be \$2.8 trillion lower from FY 2026 through 2035, and to consume on average 1% less per year relative to the size of the economy.

The corporate income tax picture is complicated – and positive. While corporate tax revenues are expected to be lower from FY 2026 through 2029, the revenues are higher from 2030 through 2035 and total \$38 billion more over the 2026–2035 span. Due to an increase in projected gross domestic product (GDP), corporate tax revenues are expected to be slightly smaller as a share of the economy.

Since an ideal tax policy generates revenue while producing minimal strain on economic growth, this suggests that the OBBB’s [corporate tax changes](#) to remove tax penalties against investment and research and development hit the mark.

It is worth noting that despite the overall revenue reduction from the OBBB’s tax cuts, the new CBO baseline projects that revenue will be at or above 17.5% of GDP from FY 2026 onward, which is higher than the 50-year (1975–2025) revenue average of 17.3% of GDP. This is due to CBO projecting a significant increase in customs duties from tariffs levied by President Trump in 2025.

Customs revenues could ultimately be lower than CBO’s projections for a variety of reasons, including [trade deals](#) that lower tariffs, [legal battles](#) over tariff authority, and legislative action. A large reduction in customs revenue would result in total revenue falling below the 50-year average.

OBBB Reforms Welfare

The OBBB also featured historic [welfare reforms](#), in particular for [Medicaid](#) and [Food Stamps](#). Both programs were mismanaged during the Biden Administration, leading to tremendous amounts of waste and fraud.

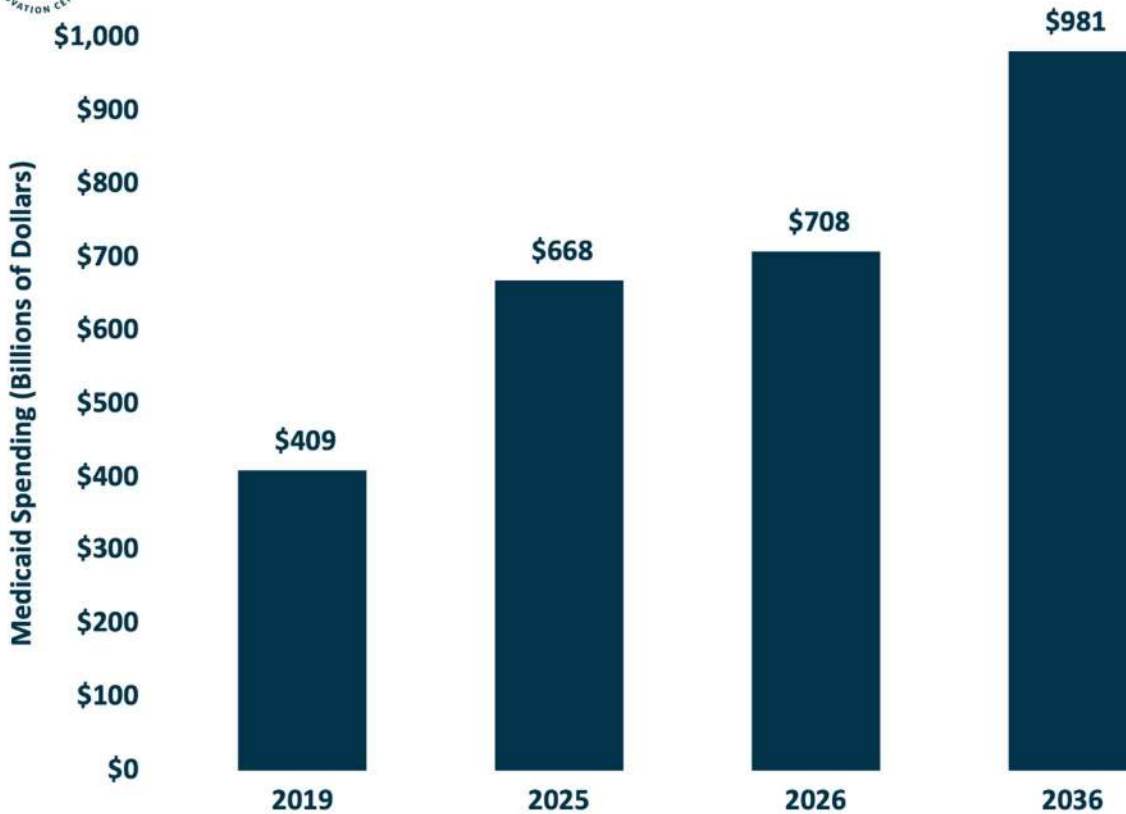
For the FY 2026 to 2035 period, CBO’s new baseline is a combined \$142 billion lower for Food Stamps. Rather than harming at-risk Americans, the OBBB’s reforms are focused on common sense work requirements, incentivizing states to stop fraudulent enrollments, and keeping illegal aliens from being eligible.

The OBBB achieved even larger savings in the Medicaid program through a [wide range](#) of reforms that will fight [improper payments](#), wasteful [schemes](#) from state governments, and adding reasonable work requirements. All told, CBO estimates that Medicaid spending for the FY 2026 to 2035 period will be \$515 billion lower than the previous year’s estimate.

Sadly, critics claim that these savings amount to “deep cuts” or “slashing” Medicaid. CBO’s baseline update shows that these attacks are a [myth](#). Despite the OBBB’s vital savings, CBO projects that federal spending on Medicaid will increase every year, merely at a slower rate than the pre-OBBB projection.



Medicaid Spending Growth



The idea that this constitutes a “cut” is based on [Washington Math](#), where spending growth (no matter how dramatic) is taken for granted and reductions to the growth are portrayed as devastating cuts.

The simple fact is that Medicaid, like too many federal benefit programs, was on an unsustainable trajectory before the OBBB. Medicaid spending increased by 63% from FY 2019 to 2025 alone.

In last year’s CBO baseline, Medicaid spending was expected to grow by roughly [5% per year](#), much faster than the economic growth. In the latest baseline, Medicaid spending is projected to grow by an average of 3.3% per year from FY 2026 through 2036. Thus, the OBBB served to merely tap the brakes on Medicaid.

For decades, Washington D.C. created runaway growth in mandatory program spending and refused to act on widely known dysfunctions. The OBBB’s welfare reforms mark a turning point: Congress addressed flaws in large and politically sensitive programs for the sake of budgetary savings. This should be a model for future action on [larger programs](#) that threaten to bankrupt the nation unless Congress reduces their rate of spending growth.

