ECONOMIC VIEWPOINT

The November 5 Election and the US Economy

The Candidate Platforms and Economic Issues

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The stakes of the upcoming presidential election on November 5 are very high. While voters may be chiefly focused on inflation and the economy, there are other issues—like immigration, trade policy and fiscal policy—that could have far-reaching implications for both the US economy and the rest of the planet. In this *Economic Viewpoint*, we'll examine the main economic issues in play, and how they're addressed in each candidate's policy platform. It's worth pointing out that neither candidate has a solid plan for keeping prices in check, even though voters consistently name soaring inflation as a top concern. But former president Donald Trump's more aggressive proposals for tariffs and immigration could result in weaker growth and higher inflation than both our baseline scenario and what we could expect if Vice President Kamala Harris took office.

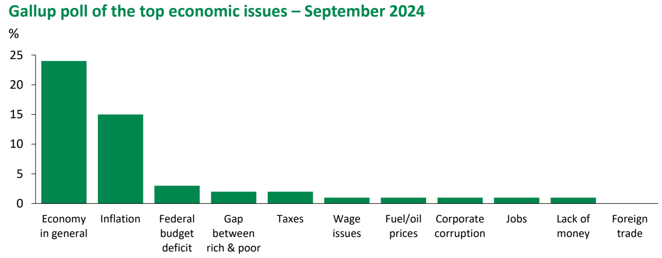
For Voters, the Economy and Inflation Are Top of Mind

Most polls about the November 5 election show that voter choice will be heavily informed by economic performance. This is hardly surprising—the economy is always top of mind during electoral campaigns. When the election takes place during a recession, as it did in 2008, the issue takes on even greater importance. Given the current economic situation, which is not so bad, we might have assumed that economic concerns would take a backseat to other, social concerns. But instead, they've returned to the forefront, as voters remain dissatisfied with the economy and recent period of high inflation.

A recent Gallup poll shows that voters rank inflation (15%) and the economy in general (24%) among the most important problems facing the country. Much further down the list are the federal budget deficit (3%), unemployment and jobs (1%) and lack of money (1%) (graph 1). Surprisingly, some of the issues being hotly debated by Trump and Harris seem quite detached from real voter concerns. This is the case for taxes (2%), fuel and oil prices (1%) and foreign trade/the trade deficit (not mentioned by poll respondents). Yet these three issues have been highlighted on the campaign trail because they illustrate where the candidates' agendas diverge the most.

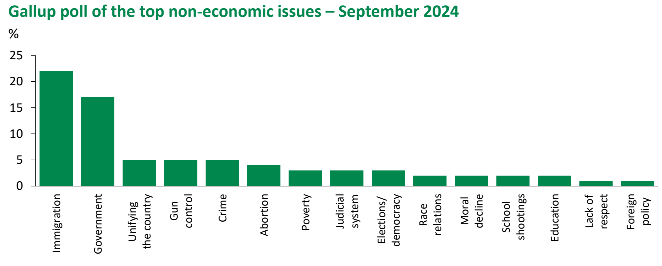
Of course, non-economic concerns also matter to voters (graph 2). Immigration (22%) and government leadership (17%) were both ranked above inflation. Other surveys from

Graph 1
Voters See Inflation and the Economy in General as the Most Important Economic Problems
Gallup poll of the top economic issues – September 2024



Gallup and Desjardins Economic Studies

Graph 2
Immigration Is the Top Non-Economic Issue for Voters
Gallup poll of the top non-economic issues – September 2024



Gallup and Desjardins Economic Studies

PEW Research, ABC News/IPSOS, The New York Times and The Wall Street Journal show that voters also care deeply about healthcare, crime, guns, Supreme Court appointments and abortion.

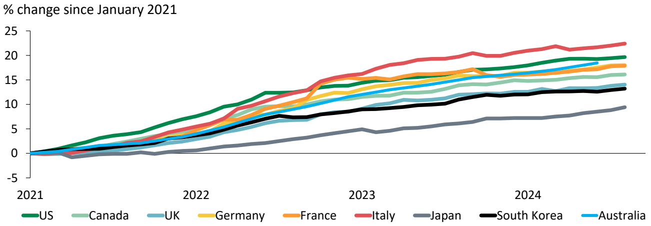
Voters Favour Trump on the Economy

With the economy and inflation being chief voter concerns, Trump has an advantage over Harris. In general, respondents from most polls believe Trump will make better economic policy decisions. The same holds true when voters are asked who will do a better job controlling inflation. Voters are unimpressed with the Biden administration's economic track record, and that seems to be hurting Harris. On social matters, except for immigration and crime, voters trust Harris over Trump.

Issue #1: Inflation

While the worst of the pandemic is behind us, soaring prices have continued to make headlines. There are many reasons that prices have jumped since winter 2021. In the United States, as elsewhere, inflation was worsened by global supply chain disruptions, imbalanced demand for goods and services, and a tight labour market putting upward pressure on wages. As previously mentioned, surveys show widespread dissatisfaction with how the Biden administration has handled the cost-of-living increase. Republican messaging has successfully tied the surge in inflation to Democratic public policies. Prices have grown a bit more in the United States than in most other major advanced economies—only the United Kingdom has seen greater price pressure (graph 3).

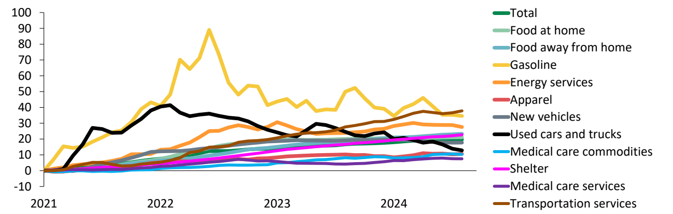
Graph 3
Prices Have Risen a Bit More in the United States than in Most Other Major Advanced Economies
Consumer price index
% change since January 2021



Datastream and Desjardins Economic Studies

In the United States, price growth has varied wildly for different categories of goods and services. Much of the increase we've seen since 2021 came from a spike in gasoline and used cars prices, though they've since calmed down (graph 4). Transportation services, particularly auto insurance, have had

Graph 4
Inflation Started to Take Off When Gasoline and Used Car Prices Spiked
Consumer price index
% change since January 2021



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the most sustained rise. Since early 2021, housing costs and food costs (including groceries and restaurants) have climbed over 20%. That's a substantial jump, given that these categories together account for nearly half of household spending.

The cost-of-living increase is a top economic concern for households, but it's hard to see how either candidate's proposals would yield immediate concrete results. Harris wants to bring down housing costs by speeding up home construction. She also plans to lower prescription drug prices by expanding the cap on out-of-pocket expenses that the Biden administration created for people over 65, and by building on Medicare's power to negotiate drug costs. Finally, Harris hopes to work with the states to implement a nationwide policy to fight price gouging on food. Trump has said that he will "end inflation and make America affordable again." To do so, Republicans promise to lower energy costs for households and businesses by increasing production. They've also vowed to cut regulations, stop illegal immigration (which Trump claims has driven up housing, education and healthcare costs) and restore geopolitical stability, which would rein in commodity prices.

THOUGHTS ON ISSUE #1

Inflation

It's hard to see how the candidates' policy proposals would affect prices, nationwide, in the near term. Policies that focus on improving supply (of energy, houses, etc.) or productivity (through deregulation or higher investments) could have favorable consequences—but inflation could ramp up one more if demand is increased through fiscal policy, or if supply is curbed by removing immigrants from the workforce. Consumer prices might also increase significantly if steep tariffs are introduced, as proposed by Trump. (See Issue #4 on page 5)

Issue #2: Taxation and the 2018 Tax Cuts

As mentioned above, voters are not particularly concerned about taxes right now. All the same, fiscal policy is the main tool through which presidents influence the economy, even if Congress has the power of the purse. The state of the budget, and how its perceived by investors and rating agencies, can also pose problems.

Nobody wins an election by saying they'll raise taxes. So every four years, presidential candidates instead commit to further easing the tax burden on households. Typically, Republican candidates want to reduce taxes for all households and businesses, whereas Democratic proposals focus on cutting taxes for the middle class and lower-income families while making corporations and wealthy individuals pay more. This year's election is no exception.

However, a fiscal policy deadline is approaching. Many of the tax provisions enacted by the *Tax Cuts and Jobs Act* (TCJA), passed in December 2017 and signed into law by then-president Trump on January 1, 2018, are set to expire. The main tax relief measures will come to an end on December 31, 2025. If they aren't extended or made permanent before then, individuals and businesses will face a "fiscal cliff" in 2026 that could hamper economic growth. But renewing all of the provisions would lead to a significant shortfall in federal finances. Last May, the Congressional Budget Office (CBO) estimated that the cost over 10 years[1] would be US$3,973B, excluding interest outlays. Further analyses put the cost including interest at more than US$5,000B.

With the deadline looming, the next president and Congress will need to make important decisions for the year ahead. The candidates differ in how they'd approach this issue, and each has included additional tax measures in their agenda.

Harris and the Democrats would largely continue with Biden's plan for the economy, echoing many of the measures his administration has included in the budgets proposed to Congress. Harris's biggest pledge has been to maintain the current tax cuts for individuals making less than US$400,000. This measure alone would cost roughly US$2,700B over 10 years. However, Kamala Harris proposes to partially offset this shortfall by letting the provisions for wealthier individuals expire, restoring the top marginal rate of 39.6%. Under current provisions, the top rate is 37%, so this move would bring in US$600B over 10 years. Her tax plan also includes other measures to tax wealthy individuals and corporations. They include a "billionaire minimum income tax, increasing the corporate tax to 28%, quadrupling the tax on stock buybacks" and for households making over US$1M per year, "a long-term capital gains increase from 20% to 28%." The Committee for a Responsible Federal Budget (CRFB) estimates that these measures would raise US$1,900B over a decade. These additional revenues wouldn't necessarily reduce the deficit, as the Democrats have also proposed new tax relief measures. The most expensive policy option would be increasing the child tax credit, granting up to US$3,000 or US$3,600 for each child and up to US$6,000 for newborns. This alone could cost more than US$1,000B over 10 years. Harris's plan also includes enhancements to the earned-income tax credit for individuals (US$150B over 10 years), the *Affordable Care Act* health care premium credit (US$400B) and a new US$25,000 tax credit for first-time homebuyers (US$100B). She is also proposing to exempt tips from income tax (between US$100B and US$200B). Harris has also floated the idea of expanding the startup expenses deduction from US$5,000 to US$50,000 (US$25B).

Donald Trump's goal is obviously to extend all of the tax cuts he signed into law in 2018, which would cost between US$4,000B and US$5,000B, as mentioned above. However, he also plans to build on those cuts and has proposed lowering the corporate tax rate from 21% to 15%. It is estimated that this proposal could result in a shortfall of more than US$500B over 10 years, but that the loss may be higher or lower depending on how the reduction is implemented. At another time, Trump mentioned lowering the corporate tax rate to 20%, which would result in a much smaller shortfall. Republicans have also talked about exempting tips from personal income tax. And Trump has called for ending taxes on all social security benefits, even though some of these benefits are already tax exempt for lower-income seniors. The revenue from these taxes goes into the funds that pay for Social Security and Medicare. The CRFB estimates that a complete exemption, as proposed, would lead to a shortfall between US$1,600B and US$1,800B, jeopardizing both the Social Security and Medicare programs. Other estimates place the loss at around US$1,200B. Donald Trump has also announced his intention to eliminate taxes on overtime, which would result in a revenue loss of US$1,700B—or even more, if workers changed their behaviours. At the same time, Trump has said he will repeal measures from the *Inflation Reduction Act* (IRA), signed into law by President Biden in 2022. That includes some tax credits, which would bring in an estimated US$900B, or slightly more, over 10 years. This is one of the rare income-generating options proposed by Trump, outside of his planned tariffs.

[1] US budget projections typically cover a period of 10 fiscal years.

THOUGHTS ON ISSUE #2

Taxation

When you look at the tax plans being proposed, it's easy to forget that the US federal government is already in a precarious position, budget-wise. Both candidates have plans with cuts that go beyond the ones implemented in 2018. However, the tax plan being advanced by the Democrats would generate more revenue than the Republican plan. That being said, Trump's fiscal policies could boost household disposable income and corporate profits in the short term, which would lead to economic growth. That growth would, however, come with a risk of deepening income inequality in the United States. And the government may make inflation worse if it introduces too many relief measures without also making sizable spending cuts.

Issue #3: Climate Change, Industrial Policy, Energy and Regulations

Each of these is an issue in and of itself, and each of them illustrates the stark contrast between Trump's and Harris's platforms. The most striking difference, though, lies in their position on climate change. Democrats and Republicans have opposing opinions on the matter, which explains why the candidates have such markedly different approaches to energy policy, federal regulations and industrial policy.

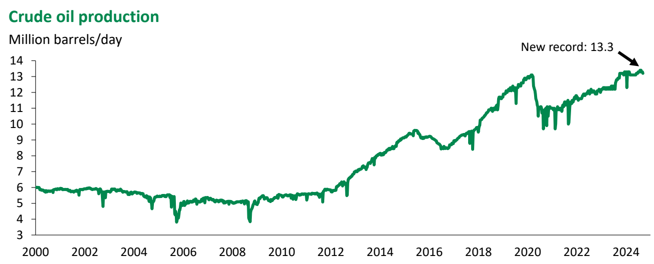
Kamala Harris talks less about climate change than Biden did in 2020. In the list of issues published on Harris's campaign site, it comes in dead last. That said, climate change does not appear a single time in Donald Trump's 20 core promises, nor is it included in the Republican platform. The environment would clearly not be a priority for a second Trump administration.

Harris might be focusing less on climate change because the Biden administration has already taken action. Through the IRA, the sitting president has passed many of the measures he promised in 2020 to facilitate the transition to a net-zero economy. Through this plan, nearly US$800B will be paid out over the next decade to fight climate change. In her role as United States Vice President, Kamala Harris cast the tie-breaking vote to pass the IRA through the Senate. When you read the Democratic Party Platform, you get the impression that they want to give the IRA time to prove its worth and generate concrete benefits. The party also intends to keep joining and coordinating international efforts to fight climate change; remember that Biden brought the United States back into the Paris Agreement after Trump withdrew from it. Harris has also emphasized her record as Attorney General of California, where she cracked down on polluters and the oil industry. The US transition to clean energy, along with the stronger supply chains, is also central to the industrial policy enacted by the Biden administration.

Since Biden took office, the environment has been a clear consideration in the regulatory program.

The contrast with Donald Trump and the Republican party couldn't be sharper. Their party platform makes no mention of the environment, climate change or even pollution. These topics are only brought up when the party promises to eliminate Biden's policies on electric vehicles and end the "Socialist Green New Deal." They obviously plan to gut regulations limiting oil, natural gas and coal production. At the same time, total energy production is higher than ever in the United States, surpassing the levels observed under Trump. Crude oil has even set a new record (graph 5).

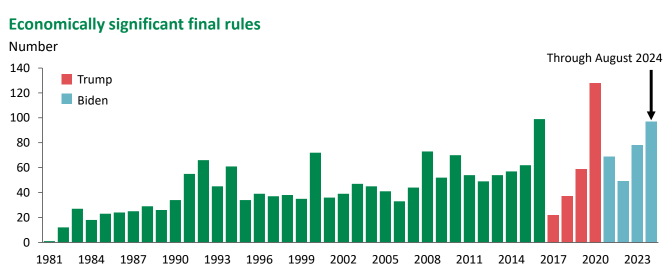
Graph 5
US Crude Production Is at a Record High



U.S. Energy Information Administration and Desjardins Economic Studies

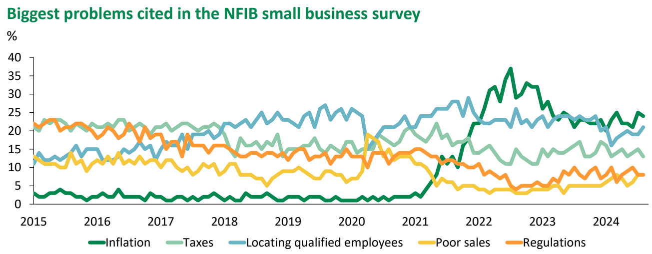
Deregulation is a cornerstone of Donald Trump's economic agenda. Republicans see federal regulations as a source of inflation and a significant barrier to entrepreneurship, job creation, and economic growth. The Biden administration has published more economically significant final rules than the Trump administration (outside of 2020, when the pandemic changed the status quo), and a historically large number of new regulations have been passed in 2023 and 2024 (graph 6). That said, the net impact that regulation—or deregulation—has on the economy is not very clear and small businesses don't currently view regulations as a major issue (graph 7 on page 5).

Graph 6
Regulatory Growth Slowed Under Trump and Picked Up Under Biden



George Washington University Regulatory Studies Center and Desjardins Economic Studies

Graph 7
Small Businesses Don't Consider Regulation a Top Issue Right Now



National Federation of Independent Business and Desjardins Economic Studies

THOUGHTS ON ISSUE #3

Climate Change, Industrial Policy, Energy and Regulations

Trump's absolute lack of consideration for climate change provides insight into his overall agenda. He refuses to make short-term sacrifices to address long-term issues, especially one that he doesn't seem to believe in. It's true that we could see higher economic growth in response to his proposed measures to quickly boost fossil fuel production and eliminate regulations promoting the shift to clean energy. But these short-term gains could come at the cost of longer-term growth, which may be increasingly undermined by rising temperatures and a growing number of natural disasters. The United States could also eventually be outpaced by other countries as they adopt technology that pays off over a longer horizon. It also remains to be seen if a second Trump administration would really be able to undo the policies, programs and incentives created through the IRA. Especially since some the benefits are already being seen in the US manufacturing industry, including in states where Republican politicians hold office. We get the impression that Kamala Harris would mainly uphold and build upon the regulations already adopted by the Biden administration. But her additional support for small businesses is an interesting addition.

Issue #4: Trade Policy

Trade policy is a critical issue at stake in this election. Tariffs are a key part of Trump's economic policy, along with tax cuts and deregulation. The former president believes that nearly any problem can be solved with tariffs. In a speech to the Economic Club of New York, Trump claimed that tariffs could be used to remedy ailing public finances and fund new social programs like childcare. At another recent event, he seemed to suggest that tariffs on imported food would help American farmers and bring down prices at the grocery store. Generally, these remarks suggest that Trump has forgotten that tariffs aren't directly paid by foreign governments or businesses. Instead, these costs are borne by importers, who ultimately pass them on to American consumers. It's hard to see how a tariff increase would help with inflation, reduce the deficit or contribute meaningfully to economic growth.

Harris and the Biden administration don't view tariffs and other trade barriers as a universal remedy, but rather as a tool that can further industrial policy. They can also be used to protect against unfair trade practices or to prop up a fragile or key industry. For example, the Biden administration has upheld most of the tariffs Trump imposed on China. The administration also introduced additional tariffs on imports from China in strategic sectors including steel and aluminum, semiconductors, electric vehicles, batteries, critical minerals, solar cells, ship-to-shore cranes, and medical products. At the same time, Biden lifted other tariffs and limitations implemented by Trump, including those applied to steel and aluminum imports from Europe; the European Union then lifted their own retaliatory countermeasures. Under Kamala Harris, we could expect more of the same targeted policy, particularly toward China. Her platform states that she "will not tolerate unfair trade practices from China or any competitor that undermines American workers." What exactly constitutes "unfair" or a threat to national security is often quite broad for Americans. And some of these trade decisions could hinder progress on other goals. For example, imposing a 100% tariff on Chinese electric vehicles could limit consumer choice, especially for lower-income individuals. This would ultimately slow down the electrification of transportation. As we said at the beginning of President Trump's term, protectionism comes at a real cost.

Harris brought up the costs of protectionism and tariffs during the debate on September 10. She attacked Trump's protectionist policy, equating his tariffs to a sales tax and linking them to higher prices. Since she criticized his proposed tariffs, it's safe to assume she wouldn't apply high tariffs across the board, were she to be elected. We can't call her a champion of free trade, but she's at least less protectionist than the former president.

But what is Donald Trump's real position? If we rely solely on his public statements, it's hard to determine what his real plan is for trade. For example, he claims that he'll raise tariffs, but hasn't confirmed by how much. At least two different options have been mentioned.

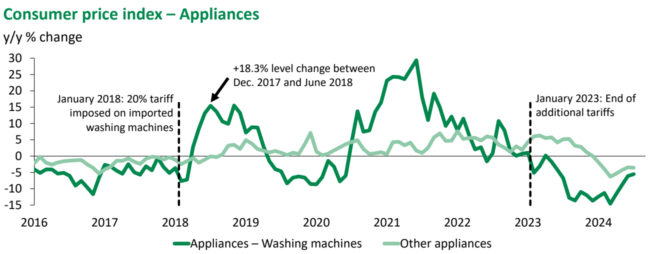
A Global Tariff of 10% and a 60% Tariff on Chinese Goods

This is the most frequently invoked option. This suggests that all US imports of goods from other countries would be subject to a customs duty of 10%. But Trump has also raised the possibility of a 20% global tariff. And in both cases, the tariff would be 60% on imports of Chinese goods. Obviously, tariffs of this magnitude would have serious repercussions for the US economy, trade (including the retaliatory measures that would likely be introduced), the global economy, and for import, producer and consumer prices. While the exact estimates vary, everyone tends to agree: this would obstruct economic growth and harm employment to such an extent that it would erase any benefits from Trump's proposed tax cuts. The Tax Foundation, which is considered a centre-right and pro-business organization, estimates that if the 10% universal tariff and 60% Chinese tariff were applied, real GDP would drop 0.8% over the long term, and 674,000 jobs would be lost, all against their baseline scenario. If the universal tariff was raised to 20%, real GDP would lose an additional 0.5% and employment would shed an additional 402,000 jobs. And if other countries retaliated against the United States, long-run GDP would fall another 0.4% and yet another 362,000 jobs would be lost.

Retaliatory measures often provoke a domestic political reaction, as governments attempt to mitigate the consequences for affected workers and industries. For example, when China imposed retaliatory tariffs on US agricultural products, Washington wound up paying US$60B in assistance to US farmers between 2018 and 2020. This was 92% of the income generated by the tariff on Chinese imports.

Tariff increases would also contribute to stronger inflation. Tariffs are paid by importers, who then pass that cost along to consumers. When the Trump administration introduced its tariffs, US consumers ultimately paid the entire price. For example, we can see that the 20% tariff on washing machines that was in place from January 2018 to January 2023 had a direct impact on consumer prices (graph 8). If 10% tariffs were applied to all imports (with a 60% tariff on Chinese goods), Oxford Economics estimates that annual change to the consumer price index (CPI) for all items less food and energy would accelerate by nearly 0.7 percentage points. A document from the Peterson Institute for International Economics (PIIE) estimates that the costs passed on to US consumers would be 1.8% of real GDP. For a typical household in the middle of the income distribution, this would be the equivalent of an annual tax of at least US$1,700.

Graph 8
Tariffs Affect People Directly

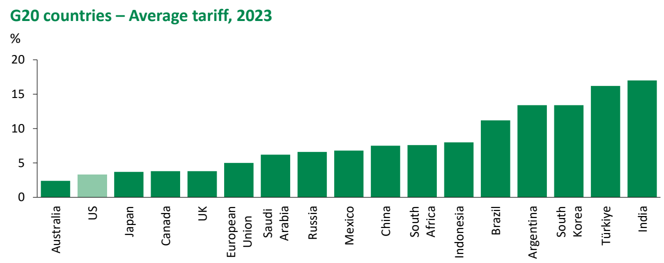


Bureau of Labor Statistics, Justin Wolfers and Desjardins Economic Studies

Reciprocal Tariff Policy

Trump has also occasionally raised the idea of a reciprocal trade policy. The idea would be to match whatever tariff another country imposes on US goods. This idea was originally advanced when Trump was in office, and in January 2019, a similar bill was introduced in Congress by a Republican member of the House of Representatives. It would give the president the power to impose tariffs equal to those imposed by a foreign country on the same type of good; it would also allow the president to impose a tariff rate equivalent to the non-tariff restrictions a country imposes on that type of good. This is in line with what Trump has been describing: "If China or any country makes us pay a 100% or 200% tariff, we will make them pay a reciprocal tariff of 100% or 200% right back. In other words, if you screw us, we will then screw you. It's very easy, very simple, a very simple plan." A reciprocal trade policy like this would be especially destabilizing for emerging economies that have high customs duties, such as India, where the average tariff (applying the World Trade Organization's most-favoured-nation principle) is 17.0%, compared to 3.3% for the United States and 7.5% for China (graph 9).

Graph 9
The United States Has Relatively Low Tariffs



World Trade Organization and Desjardins Economic Studies

By reading the Republican party platform, we can imagine that their trade policy would involve both global tariffs and reciprocal tariffs, depending on whichever is higher for that good. It states that, "Republicans will support baseline Tariffs on Foreign-made goods, pass the *Trump Reciprocal Trade Act*, and respond to unfair Trading practices." Donald Trump has also already brought up the idea of using tariffs to force other North Atlantic Treaty Organization (NATO) members to increase their funding of the alliance, or to force countries to use US dollars for international transactions.

Trump's policy seems rather extreme, harkening back to a time when tariffs were a major source of government funding and trade was less important. That said, some analysts see Trump's statements as a negotiating stance, not a real call for a new trade war. It would be a way to force the world—especially China and, to a lesser extent, the European Union—to the bargaining table in a bid to reduce all tariffs on US goods and encourage countries to buy more US goods or to directly invest in the United States.

THOUGHTS ON ISSUE #4

Trade Policy

There is a marked contrast between the trade policy we'd see in a second Trump term and what we'd see under a Harris administration. We can assume Harris's policies would be quite similar to what's already in place. Trump, on the other hand, clearly wishes to build on his policies from his first term. He frequently brings up high tariffs in his speeches and interviews, viewing them as a solution to both the trade deficit and budget deficit. But this protectionist stance would heighten the risks of a new trade war. New tariffs would hamper economic growth and drive up unemployment and inflation—all of which would be even worse if other countries retaliate. Free trade agreements like Canada–United States–Mexico Agreement (CUSMA) would also be weakened and may not survive. The negative consequences that these tariffs would have on the economy, their effect on import volume, the odds of the US dollar appreciating and harming exports, and the likelihood of countermeasures all mean that it would be surprising to see revenues as high as the former president expects. It all seems like more trouble than it's worth. And even if it's just a negotiating stance, it's a very risky strategy.

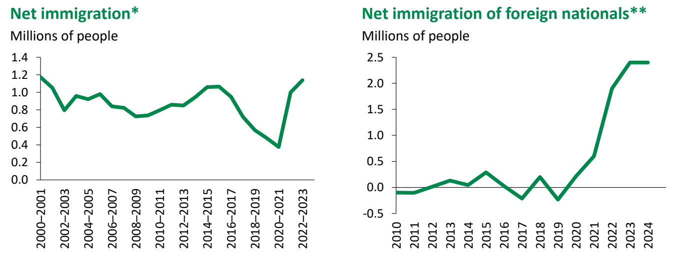
Issue #5: Immigration

Immigration is another point where the two candidates diverge significantly. It's also one of the key concerns mentioned by voters. The Gallup poll discussed earlier had immigration ranked as the most important non-economic problem. However, the degree of importance granted to this issue primarily reflects the divide between Democrats and Republicans.

Immigration, especially illegal or unauthorized immigration, has often been the subject of heated debate in previous US elections. But when Donald Trump entered the primary in 2016, the issue took on new significance. While immigration fears dwindled in 2020 during the pandemic, when borders closed for public health reasons, the recent surge in immigration has revived voter concerns (graph 10).

Donald Trump and the Republican party have denounced the increase in immigrants, including asylum seekers, as well as the presumed number of illegal border crossings. The former president frequently refers to the migrant "invasion": he used the word 13 times in his speech on the final night of the Republican National Convention in July.

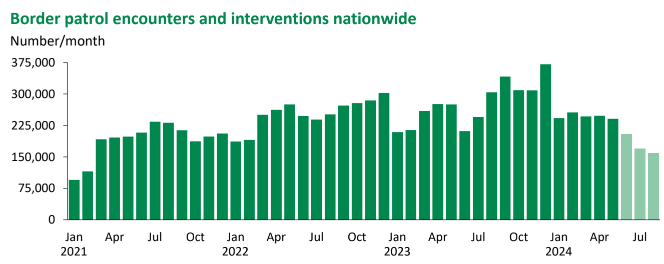
Graph 10
Immigration to the United States Is Up



* Based on U.S. Census Bureau data, 12-month period from July 1 to June 30 of each year;
** Based on a Congressional Budget Office estimate.
Brookings, William H. Frey, U.S. Census Bureau, Congressional Budget Office and Desjardins Economic Studies

Until this year, the Biden administration wasn't overly concerned by the rebound in immigration, viewing it alternately as a return to balance after the pandemic, or proof of the US economy's strength and appeal. However, they were spurred into action following a sharp increase in border patrol encounters, combined with a Republican-fueled narrative that mass migration exacerbates inflation pressures. A bipartisan border security bill was sent to Congress but was ultimately blocked, largely due to objections from former president Trump. Since then, new administrative measures, including limitations on asylum seekers, have slowed down border crossings (graph 11). Harris has said that she would support and sign the bipartisan bill that was negotiated in Congress. It included more funding (US$20.2B over 10 years) for border security, intended to speed up the hiring process for border security and immigration services, expedite the processing of claims and set up a border enhancement authority.

Graph 11
Border Crossings Are Down Recently



U.S. Customs and Border Protection and Desjardins Economic Studies

Donald Trump's policy is much more extreme. On this matter as well, he hopes to build on what he already accomplished—or attempted—during his term. The first two promises on his list of core promises are "Seal the border and stop the migrant invasion" and "Carry out the largest deportation operation in American history." The Republican platform goes so far as to suggest re-deploying army and navy troops that are currently abroad, using them to secure the border. The platform further states, "The Republican Party is committed to sending Illegal Aliens back home and removing those who have violated our Laws." Some people interpret this as meaning they want to deport legal immigrants who have broken the law.

There were an estimated 11 million unauthorized immigrants in the United States in 2022, and this number has undoubtedly grown considerably since then. Nearly 8.3 million of those immigrants were a part of the labour force in 2022 (about 4.8% of the total labour force), and that number has also kept rising.

It's hard to quantify the impact that a mass immigration crackdown and deportation plan would have. It looks like the president would be able to use their executive powers to implement it, without Congress approval. Given how important this subject is to Donald Trump, he would likely attempt to move fast. That said, legal recourse could slow down implementation. And from an operational standpoint, it would probably be hard to carry out a deportation of this magnitude. Finally, it would be all but impossible to deport a large number of people without affecting production capacity. We could expect the immigrants who are already in federal custody (around 37,000 as of mid-September, and another 177,000 under surveillance) to be expelled swiftly, but finding and deporting those who are already integrated into US society would be a much greater challenge.

The economic consequences would likely be severe. The PIIE estimates that deporting 1.3 million immigrants would lower real GDP by more than 1% and push inflation up 0.5 percentage points. Deporting 7.5 million people would slash real GDP by more than 7% and cause inflation to balloon by 3 percentage points over the baseline scenario. Food prices would increase the most. Other firms also believe that mass deportation efforts, or even a marked slowdown in immigration, would harm economic growth and fuel inflation, while eating into public finances.

THOUGHTS ON ISSUE #5

Immigration

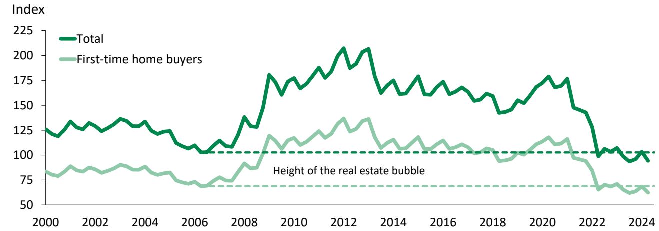
Donald Trump has attached a lot of importance to immigration, which makes it a major economic issue in this election. Under Harris, we could expect a return to more modest migration levels than we've seen in the last few years, but the change wouldn't be drastic. But if Donald Trump were elected and managed to move forward with his agenda, we would witness a paradigm shift in the state of the US economy. Year after year, the economy has relied on contributions from legal and illegal immigrants. A dramatic slowdown in immigration would limit growth potential in the United States, especially since the population is aging. A steep, swift drop in net immigration—or a massive deportation of immigrants who are already working—would lead to a considerable slowdown or contraction in economic activity, all while generating ample inflationary pressures.

Issue #6: Housing

Housing costs are one of the top financial concerns for US households. Their budgets have been strained by rising home prices during the pandemic, higher rents, mortgage rate hikes, higher home insurance premiums and growing utilities costs (gas, electricity). According to a Gallup personal finance poll, voters believe that the costs of owning or renting a home are the second most important financial problem they face (after inflation). According to data from the Bureau of Labor Statistics, housing expenses account for nearly a third of household spending.

Rising mortgage interest rates have caused the housing market to slow. But because housing is in short supply, property prices have continued to rise. The S&P/Case-Shiller Home Price Index for existing homes in 20 of the largest US cities, is around 50% higher than it was at the end of 2019. The situation is especially challenging for first-time home buyers. The first-time buyer housing affordability index was just 62.5 in the second quarter of 2024, lower than it was at the worst of the 2000s housing bubble (graph 12).

Graph 12
Homes Are Even Less Affordable Than They Were at the Height of the 2000s Real Estate Bubble
Affordability indexes



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Finding the right balance in housing policies is always a dangerous game. Boosting demand without increasing supply could result in higher prices instead of improved access to property.

The Democratic platform wants to introduce both supply-side and demand-side measures. The party would like to add three million additional housing starts over the next four years. To do so, Harris would roll out a tax incentive to help builders construct homes for first-time buyers, enhance the tax credit for rental housing construction and set up a US$40B fund to help local governments facilitate construction. She also intends to streamline bureaucracy and accelerate the building permit process. Democrats also want to curb investment firm purchases of homes, since they appear to be limiting current supply. To increase demand and affordability, Harris would offer a US$25,000 tax credit for first-time homebuyers.

The Republican agenda, under Donald Trump, would also help first-time homebuyers through tax incentives. His platform also calls for less red tape and the option to build homes on some land owned by the federal government.

THOUGHTS ON ISSUE #6

Housing

Kamala Harris has made housing a cornerstone of her platform and campaign. But the measures she's announced are risky, and demand could grow more swiftly than supply. But Trump's plan is light on specifics and relies on deregulation to kickstart supply. Furthermore, other items on his agenda could hurt the housing market. A drop in immigration—or deportations—could have negative consequences for the residential housing supply. Tariffs could also help drive up the cost of building materials.

How these Programs Affect Public Finances

There are many economic issues at stake in this election. Both candidates have come up with a number of solutions to deal with them in the term ahead. And most of those solutions come at a significant cost.

But the US federal finances aren't in great shape right now, and outlooks aren't particularly rosy. Neither Trump nor Harris seems to have a real plan for addressing the budget deficit. According to the CBO, the average total deficit for the decade ahead should be US$1,872B for each fiscal year, assuming the 2018 tax cuts aren't extended (graph 13 on page 10).

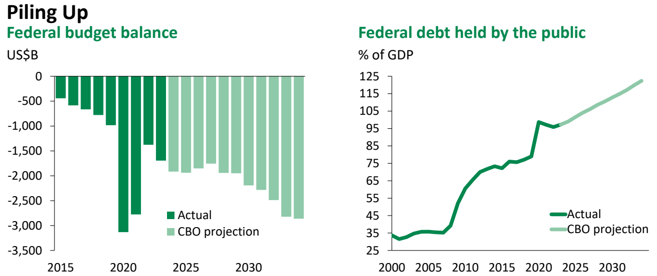
Each candidate's policy proposals would add to this deficit. The biggest shortfall would come from extending the 2018 tax cuts that are set to expire in 2026. The 10-year cost of the main fiscal and budget measures proposed by Kamala Harris and Donald Trump, as discussed in this *Economic Viewpoint*, are laid out in the table below. The housing tax credits proposed by the Democratic party are planned over four years, which means their costs would be higher during a Harris term.

Table
Budget Impacts of the Candidates' Policy Proposals over 10 Years

Kamala Harris		Donald Trump	
Policy proposal	**US$B**	**Policy proposal**	**US$B**
Extending the tax cuts for those making less than $400,000	-2,700	Extending the tax cuts	-4,000
Raising the child tax credit to $3,600	-1,100	Eliminating taxes on overtime pay	-1,700
Providing a $6,000 tax credit for newborns	-100	Eliminating taxes on Social Security benefits	-1,200
Expanding the earned-income tax credit	-150	Lowering the corporate tax rate to 15%	-500
Making the health insurance tax credit permanent	-400	Eliminating taxes on tips	-150
Eliminating taxes on tips	-150	Raising tariffs	1,750
Offering a tax credit and incentives for housing developers over 4 years	-100	Eliminating the Inflation Reduction Act tax credits	900
Providing down-payment assistance to first-time homebuyers over 4 years	-100		
Increasing startup assistance to new businesses	-25		
Passing the bipartisan immigration bill	-20		
Increasing the corporate tax rate to 28%	1,000		
Raising the capital gains tax	900		
Negotiating lower Medicare drug costs	250		
Total over 10 years	**-2,695**		**-4,900**

Committee for a Responsible Federal Budget, Penn Wharton Budget Model, Peterson Institute for International Economics, Tax Foundation, Congressional Budget Office and Desjardins Economic Studies

Graph 13
Even If the Tax Cuts Aren't Extended, Deficits Will Probably Keep Piling Up

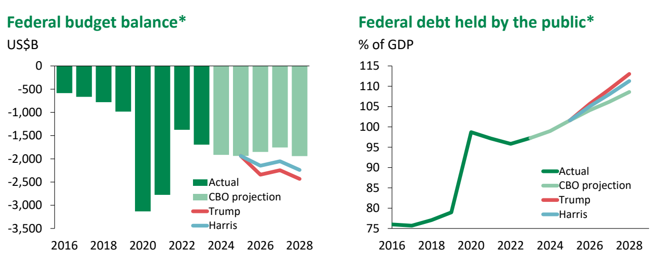


CBO: Congressional Budget Office
CBO and Desjardins Economic Studies

Donald Trump and Republicans do call for spending cuts, in addition to repealing the IRA, but they aren't specific. A budget plan proposed last winter by congressional Republicans called for a 23% cut in federal government spending over 10 years (US$19,000B in total). While this effort would greatly offset the tax cuts and improve public finances, Trump has not approved this plan, and it seems difficult to enact. It therefore seems risky to take it into consideration. The former president instead plans to use tariffs to finance his fiscal relief measures. The option Trump invokes the most frequently (10% global tariff and 60% for China) would raise between US$2,250B and US$2,600B over 10 years. But those estimates don't take into account any changes in import levels, or the countermeasures that would likely be imposed (and which would probably force the government to provide financial relief to affected industries). The economic slowdown would likely be significant, and the real income generated by these tariffs would likely be more modest. Let's assume US$1,750B over 10 years. The financial consequences of a decline in immigration are difficult to evaluate. The CBO recently estimated that recent surge in immigration has in fact helped to reduce the deficit. The opposite could happen if immigration was reduced or, even worse, if mass deportations were carried out.

Both platforms would clearly inflate deficits and grow the debt (graph 14). This situation could revive investor fears sooner or later, but in the medium term could also foil political plans. At some point, the government will have to either find more revenues or cut its spending.

Graph 14
Both Candidates' Platforms Would Grow the Deficit and the Debt



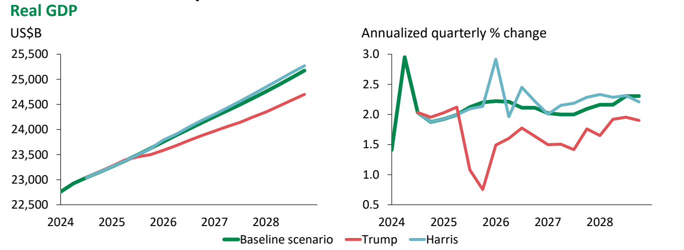
CBO: Congressional Budget Office; * Static estimates using the CBO's baseline forecasts, including those for other spending and revenues, GDP and interest rates. Without Donald Trump's immigration policies.
CBO and Desjardins Economic Studies

Conclusion: The Potential Economic Impacts of a Harris or Trump Win

As we've seen, some of the candidates' policy proposals could have meaningful implications for the economy. But a full extension of the 2018 tax cuts isn't one of them. Our baseline scenario doesn't include any major changes to fiscal policy, meaning it assumes the TCJA will be extended effective January 1, 2026. We also need to consider current economic conditions and our current forecasts, which see slightly-below-potential real GDP gains. In such a scenario with limited excess production capacity, the multiplier effect of tax or spending cuts would be rather modest. When the economy is already doing well, stimulus measures have more of an impact on inflation than on real GDP growth or employment. Supply-side policies such as deregulation are seen as attractive because they can boost potential or ease inflationary pressures. Keep in mind that our economic forecasts for both candidates are predicated on Congress passing much of their agenda. But that's unlikely, especially if government remains divided. The forecasts also assume the candidates' major policy proposals won't take effect until FY2026, which begins in October 2025.

If Kamala Harris wins, the single biggest driver of growth would be the expanded child and earned-income tax credits—especially if they're means-tested like they were during the pandemic. These measures would boost the disposable income of Americans who save less than their wealthier neighbours, potentially stimulating consumer spending. Housing starts and residential investment could also grow a bit faster. But Harris's proposed tax hikes on corporations and the wealthy could hamper growth, partially offsetting the increase in disposable income for lower-income Americans and slowing growth in non-residential investment. Overall, real GDP would be slightly better under a Harris administration than in the baseline scenario (graph 15).

Graph 15
Increased Protectionism and Lower Immigration Would Mean Slower Growth Under Trump



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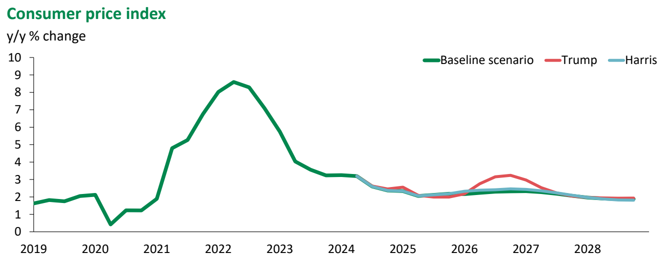
Donald Trump's policy proposals would have a much bigger economic impact. At the start of his term, if not immediately after the election, we could see a positive reaction from the stock market and from business and consumer confidence like we did in 2016–2017. And corporate tax cuts and deregulation could bolster investment. But those effects could all be offset by higher tariffs and lower immigration. If Trump raises tariffs, expect imports, exports and business inventory investment to decline. Higher inflation (graph 16) would eat into real disposable income and slow consumer spending, especially on goods. Lower immigration would also mean less consumer spending and less residential investment. All told, real GDP would come in about 2% below our baseline scenario under a second Trump administration. And as we discussed, a new trade war, lower immigration or mass deportations could have far greater economic implications, while implementing Trump's full agenda would have significant downside risks that add uncertainty to the scenario. The election will obviously have implications for the Canadian economy as well, which we'll discuss in a future *Economic Viewpoint*.

Graph 16
Higher Tariffs and Lower Immigration Would Drive Up Inflation



Bureau of Labor Statistics and Desjardins Economic Studies

Which party controls Congress will also be critical, as it will determine whether the new president can pass their agenda. Assuming the same party controls both Congress and the White House, a Harris administration would probably result in something closer to the status quo and our baseline scenario than a second Trump administration would. Another Trump term would likely fuel uncertainty like his first did, though his policy of tax cuts and deregulation was popular with financial markets—and businesses and consumers, if you go by confidence indexes. But geopolitics, the economy, financial markets and Fed rate decisions could also factor into the policy choices of a Harris or Trump administration. And while the president does hold a lot of sway, a number of other things could influence the direction of the economy as well.