EconoFact Chats: The Macroeconomics of the Outcome of the Election
Mark Zandi, Moody's Analytics
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I'm Michael Klein, executive editor of EconoFact, a non-partisan, web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein
Presidential candidates promise prosperity. How likely is it that their proposed policies will foster economic growth, low inflation, a vibrant labor market, and a healthy macroeconomy? We don't want to rely on candidates' assurances for obvious reasons. It would be helpful and indeed important to have a non-partisan analysis of proposed policies so voters can make better informed choices. In this election cycle, we do in fact have just such an analysis that is co-authored by my guest today, Mark Zandi. Mark is Chief Economist of Moody's Analytics, where he directs economic research. He also serves on the board of directors of MGIC, the nation's largest private mortgage insurance company, as well as PolicyMap and the Coleridge Initiative. He is the author of '*Paying the Price, Ending the Great Recession and Beginning a New American Century*,' which provides an assessment of the monetary and fiscal policy responses to the Great Recession and *Financial Shock: A 360 Degree Look at the Subprime Mortgage Implosion and How to Avoid the Next Financial Crisis*. Mark, welcome back to EconoFact Chats.

Mark Zandi
Thank you, Michael. It's good to be with you.

Michael Klein
It's really good to have you on. I'd to start off by noting that you and your co-authors at Moody's, Brendan La Cerda and Justin Begley, state up front in this report 'assessing the macroeconomic consequences of Biden versus Trump, We do not endorse or support any political party or candidate, including those in the upcoming presidential election.' So, what is the goal of this analysis and who is the intended audience?

Mark Zandi
Well, the goal is to provide an unbiased assessment of the policy proposals put forward by the candidates as they put them forward. And we do this because we forecast the economy. We have many clients, businesses, government, all types of organizations that use our forecasts for their planning purposes and investment purposes. And to do a forecast for the U.S. economy, you need to have a view of where fiscal policy is headed, tax policy, spending policy, regulatory policy. And to do that, you have to have a sense of what the makeup of government is going to look like going forward. You know, in many other times, the differences between the presidential candidates was too small to make that big a difference, in terms of the ultimate policy and what It meant for the economy. But in this go around with Trump v. Biden, there's some very large

differences between the two. So very, very important to consider those policies and what those macroeconomic implications are if you’re doing forecasting like we are.

Michael Klein
An important point that you make at the outset of your report is that the macroeconomic consequences of the election depend not just on who wins a presidential election, but what happens in the congressional elections as well.

Mark Zandi
Yeah, that's absolutely right. I mean, you know, it's one thing if it’s former President Trump who wins re-election, and Congress is Republican, both the House and the Senate, so a sweep, a Republican sweep. That's one thing because obviously in that case, President Trump and lawmakers can get a lot more done legislatively, and through the regulatory process. But if it's, you know, a Biden wins re-election with a divided Congress, that's a whole other thing altogether. Much more difficult to get legislation through the divided Congress, and you can have different outcomes. So, in the paper we did, we consider various alternative scenarios with regard to the makeup of government. A Republican sweep, a Democratic sweep, which at this point seems much less likely, a Trump with a divided Congress, and a Biden with a divided Congress. So, under those four different alternative scenarios, you get very different outcomes for what kind of policies will actually make their way through the process, and get into law and ultimately have macroeconomic consequences.

Michael Klein
What do you and your co-authors identify as the main levers that the President and Congress can pull that affect macroeconomic outcomes?

Mark Zandi
Well, there are many. I mean, the most obvious is tax and spending policy, and we've got some big decisions on that front after the election next year. As you know, the so-called Trump tax cuts, the tax cuts that were implemented back in 2018, the Tax Cut and Jobs Act, those tax cuts for individuals expire at the end of 2025. So that has to be figured out by the next President and the next Congress. And then a lot of other tax issues, but also a lot of spending issues…significant cutbacks in discretionary spending. And given the budgetary situation, the large budget deficits and rising debt load, there's a lot of pressure to rein in spending to an even greater degree, and obviously a lot of hard choices have to be made around that. So fiscal policy is critical. Also trade policy, you know, that's been front and center in terms of the debate and discussion. Trump and Vice President to be, or elect or I'm not even sure what you call him, JD Vance. Anointed by President Trump or appointed by President Trump to be his VP candidate – also is very anti-free trade, very much on board with tariffs and other restrictive trade policies. So that's key. And other regulatory policies from, what do we do about anti-trust to environmental regulation to regulation of the banking and financial system, all those things are up in the air and will be determined to a large degree by who wins this selection and what the make-up of government will be on the other side of all of this.

Michael Klein
So, you hinted at the ways in which you looked at what the projected policies will be. Uncharacteristically, we have two candidates who both served as president, so, I imagine you can look at their records. Did you consider other things to come up with the likely presidential policies?

Mark Zandi
Well, for President Biden, very easy to do, right? Because he has to put pen to paper with the budget every year. And so, the fiscal year 2025 budget proposal that's in the public domain is explicit. You know, line item by line item. Here's the policy. Here's the estimated cost of that policy over time. So pretty much an open book with regard to President Biden. Former President Trump, much more difficult to do. So, we glean his potential policies from his speeches, from press releases, from his website, from conversations with different members of his team, and do our best to get a grip on what we think his policies will be. Now, it's gotten clear in recent weeks, he's become more explicit and repeated it over and over again. So, it's becoming easier to figure out what he has in mind here. But obviously, less transparent than President Biden just out of necessity. President Biden has to be explicit. He has to put forward a clear budget because he is the president of the United States.

Michael Klein
So, what do you see as the area where there's the greatest difference between what would happen if there's President Trump or President Biden? And what do you see as the area where there wouldn't be much of a difference at all?

Mark Zandi
Well, there are a lot of differences. I think first, top of mind is trade policy, tariffs. President Trump has proposed a 10% tariff across the board, 60% on China, although in our analysis, we assume that that was more bluster than anything. 60% would be, I think, impossible to digest. So we assume 10% on Chinese imports in the United States as well. President Biden has begun to implement some tariffs, but very surgically. EVs and solar panels imported from China, for example, now face a 100% tariff. So very strategic, politically driven kind of tariffs. President Trump is across the board. And that's something that he can, and will probably do based on executive order. So it doesn't even need to go through the legislative process. He'll probably be challenged in the courts, no doubt. But by the time that's adjudicated, it probably will be irrelevant. Then there's immigration policy. Both will be more restrictive with regard to the number of immigrants coming across the board. President Biden has already, through recent executive [order], caused a rather dramatic slowing in the number of immigrants coming across, looking for asylum. That's being challenged in the courts, but that's been implemented. The real difference there is on deportations. President Trump wants to deport the undocumented immigrants in the country and a range of estimates, but that could be up to 15 million people. In our analysis, we assumed that he wouldn't be able to deport 15 million people, but he would deport enough to make a difference in terms of the economic outlook, and that's important. And I mentioned tax policy. Very big differences there. President Trump will extend all his tax cuts. President Biden will allow tax rates to go back up to where they were pre-TCGA, Tax Cut and Jobs Act, Trump tax cuts for folks that make over $400,000 a year. President Trump wants to cut the corporate tax rate again. He did that with the TCGA from 35% to 21%. He wants to lower it

again. Biden wants to raise that back up to 28%. And then there's a lot on the Inflation Reduction Act. I don't think Trump will touch much that's been done with regard to infrastructure legislation under President Biden or CHIPS Act, which is in full swing now and helping to support a very significant pickup in chip construction and production here in the United States. He won't touch that, I don't think. But on the Inflation Reduction Act, that's the large package of tax subsidies and other benefits to support, to move to a clean energy economy, President Trump would try to roll much of that back and use, I think, some of the savings to help provide more subsidy for fossil fuel. So I can go on and on and on, but those are kind of the big things that will have significant macroeconomic consequences.

Michael Klein
So what does your analysis find as a consequence of these different policies for growth, for inflation, for unemployment, and so on?

Mark Zandi
Well, if you take the scenario where it's a Republican sweep, so let's now former President Trump wins re-election, Congress, Senate houses, Republican President Trump gets exactly what he wants. And we also made the assumption that his policies are implemented on day one, on his first day in office in January of 2025. Those policies, the tariffs, the deportations, the deficit finance tax cuts, they would be inflationary. They would add to the nation's inflation, and it would slow growth. So, in my view, moving the economy in a direction you don't want to go – slower growth, higher rates of inflation. And to some degree, it's intuitive. Higher tariffs mean higher prices. You could argue that the tariffs are a one-off. They raise price level once, and that's the end of the story. Maybe, maybe not. I suspect there will be a lot of uncertainty with regard to the tariffs, and that will probably induce businesses to start moving supply chains around and making other types of investment decisions that are not as economic, and that could add to inflationary pressures going forward, because it just adds to the costs of producing goods globally and getting them to store-shelves and people's homes. The deportations, there's a lot of cross currents there in terms of what it means for inflation, but the initial effect will be to exacerbate the labor shortages in key sectors of the economy – agriculture, construction, transportation, distribution, retailing, leisure hospitality, childcare, elder care, costs will go up. That will add to inflationary pressures. And of course, deficit finance tax cuts, when the economy is at full employment, which it is, the unemployment rate is low, 4.1%, that will add to demand and juice up inflation as well. So, there are a lot of cross currents there, both in terms of growth and inflation, but when you add it all up, that would be inflationary, add to inflation, and higher interest rates, the Fed would have to respond to that and raise the odds of a much weaker economy and potentially even a recession at some point, depending on how it's all rolled out. I'll stop right there. Because I think, actually Michael, that scenario, the Republican sweep, Trump President, Congress Republican, now feels like the most likely scenario here going forward. Obviously, lots of things can happen between now and election day, but at the current time, given recent events, that feels like the most likely scenario.

Michael Klein
One issue that you didn't mention is the national debt. I guess with slower growth, and with higher interest rates, we'd see the national debt getting bigger under that scenario because of the

interest burden in the debt. We have a very good memo on that, and the fact that slower growth would be associated with higher deficits.

Mark Zandi
Yeah, that's correct. In our analysis, I'm speaking from memory, so these numbers may not be exactly right, but in the status quo, and by the way, the status quo is Biden wins re-election, and Congress is split, the deficit to GDP going forward, at least in President Biden's term, would be about 5%. Right now, there are about 6 [percent], they'd be about 5 [percent], because his policies actually reduce the deficit because he's raising taxes, and using that revenue to reduce deficits. President Trump's deficit to GDP will be about 6%. It won't come in or remain roughly where it is, so that means the nation's debt to GDP ratio will be stable under a Biden administration. Again, if he gets what he wants, in a split Congress, but under President Trump in a Republican sweep, the debt to GDP ratio will rise about four to five percentage points over the period in which he's president over the next four years, so a very different kind of trajectory on deficits and debt. By the way, when the CBO, the Congressional Budget Office, focused the nonpartisan of budgeteers, a part of government that did the numbers for us on the budget, they do these long-term projections and they say, if current policy remains in place, the nation's debt to GDP ratio will go from 100% today to 165% 30 years from now. That's when the forecast ends, but you can do your own forecast after that. But that assumes that the Trump tax cuts expire because that's current law. If those tax cuts are extended, then 30 years from now, the debt to GDP ratio will be 175%. So that just gives you some context in terms of what it means for deficits and debt.

Michael Klein
Yeah, we have memos on the projections of the debt, and even under current policy with the Tax Cut and Jobs Act expiring, as you mentioned, it's pretty striking, but it's especially sort of alarming if those things change. You limit your analysis to the policies that we were discussing, but there are other factors as well. For example, you note that you're not considering regulatory and antitrust policies, because those are important for particular industries more so than for the macroeconomy. But you also mentioned the possibility that President Trump may, as you write, 'work to impede the independence of the Federal Reserve in the conduct of monetary policy.' We saw in his previous term, he wanted to appoint Judy Shelton to the Fed, who is a big critic of the Fed, and that didn't go through, but we could have big changes in the Fed. Jay Powell is up for reappointment and so on. How big a deal would this be if the President has more control over the Fed? And how likely would it be that a re-elected President Trump could in fact do this?

Mark Zandi
A big deal. I think a key part, maybe a necessary part of a well-functioning economy, market economy, is an independent central bank. If the central bank, in this case the Federal Reserve is captured by the government, then policy won't be designed to support the best economic outcome in the long run. It'll be used to support political objectives in the near term, and that always ends very badly, at least in historical experience of looking around the world. Generally, it leads to much higher rates of inflation. There's a lot of pressure to juice things up with an easy monetary policy to get re-elected. So, that idea, we did not include this in our analysis because it's highly speculative, and he hasn't said anything that this is what he has in mind. I brought it up in the paper because there are credible reports that the campaign is thinking along these lines.

What could they do to give the newly appointed President Trump more sway over the Federal Reserve and its monetary policy decisions? The Wall Street Journal ran a story, and so I felt comfortable bringing that up. It also is important to bring up in the context, as you said in his first term, there was, I think, an effort to put folks on the Federal Reserve that were, in a sense, beholden to President Trump and his political views and his policy views. It did not happen because the Senate, although under Republican control, the majority leader was Mitch McConnell, and he didn't let these folks get through the process. That may not be the case in the next Congress, and we could easily see the Federal Reserve change. The people on the board change very quickly, and the board be, in a sense, captured by President Trump. That would be a problem. That would be a mistake for the economy, and add to the inflation, I talked about earlier with regard to the tariffs and the deportations and the deficit-financed tax cuts. But again, we did not include that in our analysis. By the way, Michael, the other thing we did not consider in our analysis on the tariffs was the potential for retaliation by other countries, which clearly there would be. Other countries aren't going to stand still. The Chinese and others aren't going to stand still. They're going to retaliate with their own tariffs, so that has economic consequences. We did not include it in the analysis because that would make the analysis pretty intractable, pretty tough to do. We are actually taking a crack at it now but decided not to do it for that go-around.

Michael Klein
In fact, that's what's happened in the past with the increase in tariffs, and the Chinese did retaliate, especially against agricultural goods. On the Fed, one of the first memos that I published in EconoFact is called ‘Leaning on the Fed.’ It looks at the historical experience of having a central bank that's more or less independent, and the analysis that I did there, which is backed up by lots of empirical analyses by many economists, shows exactly what you mentioned, that when the central bank is less independent, the outcomes are worse, especially for inflation. Another important policy that President Trump said he would undertake and is backed up by the Project 2025 document would be the replacement of civil servants with political appointees. What type of effects would this change in the civil service have on the economy?

Mark Zandi
Well, it's hard to connect the dots. I'm not a fan of that idea. I think our civil servants are key to providing continuity in terms of not policy, but also in terms of the execution on policy. That is really critical to a well-functioning economy. I'm speaking to you now as a business person, I started my own company back in the day and sold it to Moody’s, so I was a startup, a small business owner, and now part of a large multinational. I have a couple hundred economists around the world that work with me, so we manage it like a business. I can tell you the one thing that really is most important is clarity and certainty. Whatever rule you want to give me, whatever regulation you think is important to have, fine. I want bright yellow lines, and I want those bright yellow lines to remain where they are. That's what the civil service does. It takes laws and turns them into things that are actionable and that businesses can actually use. As a businessperson, you can't make an investment decision or a hiring decision unless you can put it into a spreadsheet. You put a number in a cell and calculate what is the return on that action going to be. Unless you have bright yellow lines with certainty, you can't do that, and therefore there's going to be less investment, less hiring, and a weaker economy. Hard to connect the dots, actually exactly how big an impact that will be. Again, in our analysis, we didn't try to do that. I'm not a fan of going down that road. I don't think that's conducive to a well-functioning

economy in the long run, but hard to put a number to what kind of impact that will be at any given point in time.

Michael Klein
To conclude, Mark, rightly or wrongly, presidents get the credit or the blame for the performance of the macroeconomy. How important, in fact, are presidents' policies for macroeconomic outcomes? Would it be different if you have policies that are sort of so out of the norm as compared to what you described earlier as kind of within a more narrow range between different candidates?

Mark Zandi
I think presidential policies matter a lot. Particularly, obviously in times of crises, they are critical. What the president decides to do is ultimately vital to determining how things are going to play out. You can see that in the pandemic. You can see that in the financial crisis. But I think even in kind of business-as-usual times and typical times, these policies, they make a big difference in terms of how economies ultimately perform. Particularly the kind of policies we're talking about here, trade policy, immigration policy, tax policy, particularly these are big changes to the tax code that we're talking about. In the context of our large budget deficits and rising debt load, the kind of discussion and changes that will be put into place on the spending side are also really very important. And regulatory changes, they're harder to connect the dots back to macroeconomic consequence, but they add up and they matter over long periods of time. Decisions around environmental regulation are going to have really important implications for CO_2 emissions and climate change. It doesn't matter in any given year. It's not going to matter next year or the year after, but over the next generation or two, that could make all the difference in the world. So, I think it makes a big difference what policies presidents pursue and espouse. Big changes happen when you have a united government, when one party controls the presidency, the House, and the Senate. If it's a divided government, things move much more slowly, as the president has much less impact. But when the president has their party in control of Congress, things happen. That's when we got the Tax Cut and Jobs Act when President Trump had a Republican Congress back in the first two years of his term. And of course, President Biden got a lot done in his first two years when he had a democratic control of Congress, the infrastructure legislation, the CHIPS Act, the Inflation Reduction Act, the American Rescue Plan. These are massive economic policies with big implications. So, I don't buy into the idea that presidents don't matter for the economy. They matter, and they matter a lot. Final thing I'll say is listen to what they're saying, because the one thing I have learned from the 2016, 2020 elections is what these guys say they're going to do, they're going to do it. They may not be able to get exactly what they're saying because of political constraints. And there might be a little bit of political bluster there to get a point across. But at the end of the day, they're telling you they're going to raise tariffs, they're going to raise tariffs. They're telling you that they're going to raise taxes, they're going to raise taxes. They're telling you that we're going to end subsidies for clean energy and use those for fossil fuel, that's what they're going to do. So, I would listen very carefully to what the candidates are saying.

Michael Klein
Well, given the importance of presidents for the economy and the need for voters to have good non-partisan analysis, I applaud the efforts that you and your co-authors did to understand what

the implications would be under different electoral outcomes. So Mark, thanks very much for joining me today. I really appreciate it, and I appreciate the work that you've been doing in this area.

Mark Zandi
Oh, Michael, you're so kind. I'll take those compliments and feedback, and I really appreciate that.

Michael Klein
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