

## **EconoFact Chats: The Presidential Candidates' Economic Policies**

**Mark Zandi, Chief Economist, Moody's Analytics**

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### **Michael Klein**

I'm Michael Klein, executive editor of EconoFact, a nonpartisan, 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](http://www.econofact.org).

### **Michael Klein**

What will the outcome of the election mean for the economy? In July, I spoke on this podcast with Mark Zandi, Chief Economist of Moody's Analytics, about an analysis that he and his colleagues conducted concerning the likely economic outcomes of a Biden versus Trump administration. It so happens that the day we posted that interview, July 21st, was the day that Biden dropped out of the presidential race. But the new candidacy of Kamala Harris isn't the only reason to revisit the candidates' economic policies. Both candidates have said more about the issues since the summer, although in many ways both sets of policy prescriptions are somewhat vague. And, rightly or wrongly, people see the president as the steward of the economy. So, I'm pleased to welcome Mark back to EconoFact Chats. Mark directs economic research at Moody Analytics. He also serves on the board of directors of the MGIC, the nation's largest private mortgage insurance company. Mark, thanks for joining me yet again on EconoFact Chats.

### **Mark Zandi**

Thanks, Michael. I really appreciate the opportunity. Thank you.

### **Michael Klein**

Mark, in our last two EconoFact weekend readings, we highlighted our work on topics that have been of particular interest during this election season. These include trade, taxes, inflation, housing, and immigration. In our previous discussion, you made the point that the economic consequences of the election depend not only on who wins the presidency, but also which parties control each of the houses of Congress. Can you speak to that once more, please?

### **Mark Zandi**

Yeah, I do think that this is a very consequential election, that the policies that have been put forward by the two candidates, VP Harris and former President Trump, are very different, and they'll take us on a very different path on the other side. Obviously, it depends on the makeup of the government. If we have a divided government, that's one thing. If one party controls the

presidency and the Congress, that's another. But under any scenario, I do think we're going to go down two different economic paths, depending on how the election plays out, for sure.

**Michael Klein**

Mark, you have a blog called The Macroeconomic Fallout of Trump's Tariff Proposals. And in this, you point out that this is one area where it's somewhat less important who is in Congress, because the president has more control over tariff policy, separate from the desires of Congress, than with other economic policies. Can you speak to that a little bit?

**Mark Zandi**

Yeah, it goes to trade law. Trade law provides the president and the U.S. trade representative, which is part of the executive branch, significant authorities to impose tariffs, without going to Congress for approval. There doesn't need to be legislation. The 1974 Trade Act, under different provisions, provides that authority, and there's other, under different emergency powers, the president can invoke to impose tariffs. So tariffs are a set of policies that the president, the executive branch can implement without really going to Congress. There are some governors on that, legal governors. But, you know, at the end of the day, a president wants to impose tariffs, he or she'll take his chances and the courts will be adjudicated many months, years down the road. So it's, you know, practically speaking, the president has a lot of authority here and can impose tariffs pretty much at will.

**Michael Klein**

People note that President Biden kept in place many of the tariffs enacted during the Trump administration, and presumably Kamala Harris would not change this. But there is a big difference, isn't there, in what candidate Trump is proposing with regards to tariff and the current tariff structure?

**Mark Zandi**

Indeed. One is just scale, you know, the tariffs that former President Trump imposed in his first term and that President Biden currently has not taken off is about \$300 to \$400 billion in imported goods into the U.S., mostly from China. Of course, President Trump has been talking about broad-based universal tariffs, a 10% tariff, at times a 20% tariff, 60% tariff on Chinese goods. And he's even talked about 100, 200% tariffs on specific products, on specific companies. And that adds up to \$3, \$3.5 trillion. So the scale here is very different. I think, you know, President Biden is kind of playing the cards that he was dealt with. You know, President Trump put these tariffs on China in place back in his first term. And it puts President Biden in a tough spot. If he takes those tariffs off, even if he wanted to, it would probably send the wrong signal to the Chinese. I think there's widespread agreement, and this is bipartisan, that the Chinese aren't playing fair. And therefore, you know, taking those tariffs off would be sending the wrong signal from a national security perspective.

**Michael Klein**

So I started out by asking about tariffs for three reasons. One is the relative autonomy that presidents have in this sphere, as you mentioned. Another is that this issue represents one of the starkest differences in economic policy between the two candidates. You spoke to both of those points. And the third reason is that, as you point out in that blog, *The Macroeconomic Fallout of Trump's Tariff Proposals*, the effects of tariffs like the ones candidate Trump is proposing would have widespread effects throughout the economy. So let's start off with how tariffs would affect the cost of both imported goods, and domestically produced goods that compete with those imports. Trump has consistently maintained that foreign exporters bear the cost of tariffs. Is that correct?

**Mark Zandi**

No, that's not clearly not the evidence. In fact, you know, obviously, we have a lot of data points here based on the tariff increases that he imposed in his first term. And it's, you know, the evidence is clear, that the incidence of the tariff, or the impact of the tariff is almost exclusively on the consumer, on the American consumer. So it's effectively a tax on the American consumer. They're just going to pay, if it's a 10% tariff across the board, they'll pay 10% more or more or less, maybe a little bit south of that, because there might be some of that tariff that's eaten by the producer or the foreign producer or the wholesaler or distributor. But far, far and away, it's going to be the American consumer that pays the price. So that's the biggest impact. And of course, you know, imported goods are not only consumed directly, but businesses import a lot of capital equipment and other materials and supplies. And so their cost structures would rise as a result of the higher tariffs on the things that they're purchasing, that are imported. And they would then pass that along to consumers as well. So this is very clearly...it's just a tax in the form of a higher price on all imported goods, if President Trump gets his way and he has a universal broad based increase in tariffs.

**Michael Klein**

I had a previous conversation with Maury Obstfeld, who points out that it's worse than a tax in a lot of ways. And one way that it's worse is that there are domestic goods and those prices will rise to meet the prices of the imported goods. But there's no tax revenue that is collected on them.

**Mark Zandi**

Great point. Yeah, that's a great point, you know, because, you know, obviously, if the price of the imported good goes up because of the tariff that gives a green light to domestic competitors to raise their price as well, maybe not quite as much, and they still can take market share. And, of course, on tariffs, the government's collecting the tax, the revenue, but on the other goods, that's not the case. Yeah, there's also other pernicious effects. I mean, obviously, there's the potential retaliation by other countries, which is almost certainly going to happen if President Trump is

able to impose tariffs of the magnitude he's talking about. And also, you know, imposing tariffs is a pretty messy thing. Under President Trump's first term, when a business felt like it was wronged or that the tariff was going to be an undue hardship or a national security issue, they could petition and get relief. And then it became a question of tariffs on what products, which countries over what period of time, you know, this very much crony capitalism. And obviously, that adds to cost and uncertainty and also fans the higher prices and the inflationary pressure. So there's a lot of different ways, pernicious ways that the tariff works in raising prices and generates more inflation in our economy. And obviously, inflation has been the number one issue for us now for the past, you know, three, four years since the pandemic hit. And we've finally got inflation under control. The higher tariffs would blow that all apart and we'd be back, you know, struggling with higher inflation again.

### **Michael Klein**

Well, you actually play out that scenario in your blog post. One of the consequences of the Trump tariffs would be to raise inflationary pressures, and the Federal Reserve would have to respond to this by raising interest rates. What would the effect of that be?

### **Mark Zandi**

Not good. Not good, Michael. So, you know, the higher tariffs result in some combination of higher inflation and higher interest rates. Obviously, the Fed has been working really hard over the past several years to get inflation back in. That goes to the interest rate hikes they imposed back in 2022 and 2023. And still, even to this day, even though they've cut rates, they're still very high. They're still focused on getting inflation back down. And higher tariffs would just upset all of that. Inflation would be back up again. And, you know, they would ultimately have to respond. I mean, I think at first what they would do is just freeze in place, because the higher tariffs is also a hit to growth, and the Fed also is focused on making sure the economy is at full employment. It's a negative supply shock. So they won't know, should we be responding to the weaker growth and lowering rates, or should we be responding to the higher inflation and raising rates? And so I think at least for a while, they'll just kind of freeze, which means, you know, the Fed won't be able to follow through on the rate cuts that everyone's anticipating. And that by itself will do damage. And, of course, the higher inflation and the higher interest rates together will weigh on the economy and economic growth will be impaired. And under some scenarios, depending on the scale and magnitude of the tariff increases, how broad based, how high, over what period of time, you know, you can get a recession, particularly when you consider the retaliation that other countries are going to come forward with as a result of the higher tariffs.

### **Michael Klein**

And when we think about slower growth, that also feeds into a bigger deficit because tax receipts go down and the kind of counter cyclical spending, the automatic stabilizers kick in. Well, Trump says that the tariff revenues would be big enough such that we wouldn't have to worry about the

deficit. He's even lately talked about eliminating the income tax. How reasonable is it to think that tariff revenues could make any kind of dent in the federal budget deficit?

**Mark Zandi**

Yeah, I don't see it as a reasonable approach. I mean, if you do a little bit of arithmetic, you and, you know, have to make some assumptions about, to your point, that the slower growth will impact revenues and spending and all else being equal add to deficits. You would have to probably impose tariffs that are about 100 percent, not 10, not 20, not 60, kind of 100. And just think about that, the disruptions that would create. Again, you know, if you impose 100 percent tariffs, that means other countries are going to come back right at us, and depends on the country, but places like China or Mexico will probably come back tit for tat, you know, increase tariffs like comparable to the tariffs that we've imposed, and other countries like Canada or the EU European Union would impose tariffs maybe not quite as high, but, you know, get pretty close to that. So you get into a very ugly situation very quickly. So it's just not realistic to think that you can replace the income tax with higher tariffs. It's just not not plausible.

**Michael Klein**

Well, those higher tariffs, but even the ones of 10 or 20 percent blow up the post-World War II rules based international trading system as well. And that, I imagine, also would introduce a lot of uncertainty into the economy.

**Mark Zandi**

Yeah, that's the other thing. I mean, you think about it, if you're a business person, a business and you're, you know, in the business of importing products from overseas to bring in here to put them on U.S. store shelves and grocery stores, just think about the uncertainty that these tariffs would create. I mean, how long are these tariffs going to remain in place? At what level? With which countries? And if you can't answer those questions, you certainly can't make big investment decisions. Like the Federal Reserve, I think businesses, American businesses would freeze in place as well. They would just stop. They don't know what to do because of the uncertainty. And, of course, that ultimately adds to the cost structure, the entire cost structure of delivering those products to American consumers and causes even higher inflation. So it's not only...I think people think, oh, tariffs are like a one time pop to inflation. You get this price increase and that's the end of the story. No, you know, it has very pernicious, long-lasting effects on supply chains and productivity and efficiency. And, you know, I think the inflationary effects will be much longer lasting than that, particularly in the context of the scale that we're talking about here. One quick thing, Michael, though, I should say, you know, there is a lot of thought or discussion in the business community that, you know, perhaps President Trump is, this is just political bluster. He's politicking, you know, it's signaling to his political base that he really isn't going to impose these higher tariffs. Or he's just negotiating, right? He's just in a negotiating position with the Chinese or with the Canadians and the Mexicans because the USMCA is going

to come up for a refresh in 2026. I'm sure there's some of that. I'm sure my guess is he's not going to go to 10 percent across the board or 20 percent, 60 percent on China. But I would recommend that folks listen to, for example, he gave a really very lengthy interview with the Economic Club of Chicago a couple weeks ago. He was interviewed by the editor-in-chief of Bloomberg, who is very much an anti-tariff kind of person. So it was a really good conversation. I'll have to tell you, President Trump was quite cogent in his position. He defended the tariffs and he said, this is why I like tariffs. Not that I agree with anything that he said, but he was very cogent about it. But the point is, he's going to do what he says he's going to do. He's going to raise tariffs. So, again, maybe not 10 percent, not 20 percent on \$3.4 trillion of imports into the U.S., but these are going to be tariffs at scale. And I think people should, you know, plan for that, you know, if he does become president.

### **Michael Klein**

So we've been talking mostly about president, presidential candidate Donald Trump right now, because the tariff structure that Harris has been talking about is to the extent that she has been talking about it is pretty much the status quo, whereas Trump's talking about something quite distinct. But what about the fiscal plans put forward by Kamala Harris to the extent that these have been well articulated, what do you see as the implications of this?

### **Mark Zandi**

Well, you know, let's be realistic here. I mean, in all likelihood, if she wins, she's going to be facing a divided government, and the Senate is going to go Republican. I mean, of all of all the things we can feel reasonably, this is going to be obviously a very close election, razor close, you know, historically close election, it feels like. And so you can't say anything with confidence. But one thing you can state with confidence is that the Senate is probably going to flip to the Republicans, just given the election, you know, map that and all the elections that are occurring across the country. So if that's the case, VP Harris as president is going to face a divided Congress. And if that's the case, it's unlikely she's going to get much of anything done. It literally is the economic policy status quo. There are some things she has to get done. You know, the tax cuts that were implemented under President Trump for individuals expire at the end of 2025. And I don't think anyone, including VP Harris, wants to see those tax cuts expire for people below a certain income level. She put four thousand annual income as the threshold. So, you know, some policy, some legislation has to occur, but it's going to be very, very limited. And at the end of the day, I think we're going to end up with policy that's very similar to what we have now. So, you know, she's put forward a lot of proposals. She adopted the Biden budget plan, which is quite extensive and lots of moving parts and on the tax side, on the spending side. But it's all that's really theoretical. And from a practical nuts and bolts perspective, it's all pretty much irrelevant. It's the status quo. There might be a few things that change around tax policy, maybe even immigration reform is possible, given the bipartisan support for that. But I wouldn't count on it. I think it's going to be just, you know, the policy that's in place today and the

economy you have today is the policy you're going to have in place a year from now and the economy you're going to have a year from now.

**Michael Klein**

Just to advertise some of our other stuff, we have a podcast with Bill Gale of the Brookings Institution about the possibility that the Tax Cut and Jobs Act provisions would expire. And Bill went into that in a lot of detail.

**Mark Zandi**

Did he agree with me, Michael? Did he agree?

**Michael Klein**

Yeah, he agreed with you.

**Mark Zandi**

Oh, did he? Okay.

**Michael Klein**

You're both really smart guys.

**Mark Zandi**

Oh, yeah. No, I like Bill maybe because he agrees with me, but he's a very good economist. I've had him on my podcast.

**Michael Klein**

So you said that it looks like if Kamala Harris wins and if there's divided government, we would be pretty much a year from now where we are today. I actually heard you on the radio today on NPR saying how good the economy is right now, especially compared to other industrial countries. So I guess that means it wouldn't be such a bad thing, right?

**Mark Zandi**

That'd be my perspective. I mean, I think the economy, you know, the economy, I should say as a preface, I have this image of the economy as this big elephant, right? And depending on which part of the elephant you touch, you can get a different kind of perspective on things. Some parts of the elephant are doing very, very well. Some parts not so much. But if you take a big step back and take a look at the entire elephant it's doing very, very well. I mean, the numbers are incredibly compelling. The economy is growing 3%. That's real GDP growth. That's, you know, very strong growth, much higher than anyone would have anticipated, you know, even a year or two ago. And that's happening even while inflation is moderating and unemployment is low and stable. The unemployment rate is 4% which is full employment, and inflation is back to 2%. And

that's because the economy's potential growth is even stronger, and strengthened, in part because of improvements in productivity gains and the strong immigration that's coming in, flows of immigration that's coming into the country. So, you know, the stock market's at a record high, the housing values, if you're lucky enough to own your own home, two-thirds of Americans do, you know, you're benefiting from the higher housing values. You know, most people, not everyone, but most people locked in the previously low record low interest rates and their debt burdens are low and stable. So, in aggregate, we're doing well. Now, again, you know, which part of the elephant touch matters? I mean, I think folks that are kind of at the lower middle parts of the distribution, income distribution, they're struggling. Folks in the middle to upper part of the distribution, they're doing quite well. So, there are distinctions to be made that are very, very important and very critical to, you know, good economic policy. But in total, the U.S. economy is hitting on all cylinders and we're the envy of the rest of the world. I mean, I travel all over the world for my work, talking to government officials and businesses and central banks. And we are the envy of the world. You know, everybody wants to know what's the secret sauce in the American economy. Why are we doing so well?

**Michael Klein**

You mentioned immigration. And another sort of signature policy proposal of candidate Trump is mass deportation. There is a real question of whether or not that could be carried out, but even if it's done at a fraction of what he's talking about, what would that mean for the economy?

**Mark Zandi**

Yeah, I'm not a fan of that either. I mean, I'm totally on board with we've got to control the flow of immigrants across the southern border. I mean, I think that's a national security issue. I'm totally on board with that. I think that's bipartisan. I mean, President Biden imposed an executive order a few months ago to limit the number of asylum seekers that can come across the border. It seems to be working. You know, immigration flows have really come down quite a bit. But instead of mass deportation, which would be highly disruptive to many businesses across the country, in fact, you know, the housing industry in particular would get nailed because about a third of the workers in the construction trades are foreign born. And that would be highly disruptive, so we, you know, we have an affordable housing shortage. We don't have enough homes. Builders can't put up enough homes. And if we deport immigrants on scale, mass deportation hits industries like construction just exacerbates that and raises the cost of housing and makes it even more difficult for young people to become homeowners. So that's a really bad idea. But we need immigration reform. You know, to make our immigration laws more sensible that we, you know, we allow immigrants into the country that have the skills that are needed by our businesses to generate strong economic growth. By the way, we need immigrants of all skill levels. Obviously, highly skilled technical people, doctors, lawyers, tech people in the IT industry. But we need lower skilled workers as well in the agriculture, construction, manufacturing industries, all of the above. But we need to do it in a sensible way. And if we

could do that, then, you know, that could be a game changer in terms of economic growth because it not only lifts labor supply, but immigrants tend to be risk takers and more entrepreneurial and innovative. And it lifts labor productivity growth. So really the best way to address our long term growth and fiscal issues. So I'm all on board with immigration reform, but I'm just not a fan of mass deportation. I don't think that works. And by the way, there's another case in point where I don't think President Trump can actually deport, you know, 10, 11, 12, 13 million unauthorized immigrants in the country. But even if he deports a few hundred thousand a year, that's a deal. That's a pretty big deal and will weigh very heavily on the economy and be inflationary because those folks are not going to be able to work. Those labor markets can be very tight and wage and price pressures are going to intensify. So, you know, I think that's another ingredient to higher inflation, higher interest rates and a weaker economy.

**Michael Klein**

Our last EconoFact Chats podcast is on the economic impact of immigration in the United States. And it was with two economists at the Analysis Group, Jee Lehman and Yao Liu, and they were reporting on a big report that the Analysis Group did on immigration. So we covered a lot of those topics in that. And I found it really interesting what they had to say.

**Mark Zandi**

I'll have to listen to that. Yeah, that sounds interesting.

**Michael Klein**

Yeah, you should listen to all our podcasts.

**Mark Zandi**

Indeed. Yeah, yeah. That sounds like a particularly interesting one.

**Michael Klein**

So, Mark, I'd like to close by going back to something I talked about in the introduction. The president is seen as a steward of the economy, even though in many ways that role may be better attributed to the chair of the Federal Reserve. But nonetheless, people look to the president for steering the economy to the extent that he or she can do it. What do you see as the differences between the candidates for their broader economic stewardship beyond what we've already discussed?

**Mark Zandi**

Yeah, I mean, just a quick pushback on that the presidents don't matter. I don't know that you said that, but maybe I'm putting words in your mouth, but in my mind, they matter. They matter a lot. You know, obviously, in times of crises like the financial crisis back a generation ago or the pandemic, what the president does and the leadership that that person provides is critical to

navigating through. But even business as usual, economic policy is really important. You can see that with President Biden's policies with regard to the infrastructure legislation, the CHIPS Act, the Inflation Reduction Act. Those are really very substantive pieces of legislation that are having very meaningful impacts on the economy and will going forward. I mean, to just give you one statistic, if you look at how much businesses spend on building manufacturing facilities, what we used to call factories, in the ten years leading up to the CHIPS Act, it was about \$75 billion per annum, give or take a little higher, a little lower. Right now, last I looked, we're at \$225 billion per annum. And that's the CHIPS Act, that's the infrastructure law. So what presidents do here really does matter to the economy. This gets us to the election. I think it's just very different kinds of perspectives on things. I think President Trump, broadly speaking, and I run the risk of overgeneralizing, but broadly speaking, it's an isolationist kind of policy. That's what tariffs are, and deportation. It's like pulling away from the rest of the economy, the global economy. And he's also obviously a big fan of tax cuts across the board. And he's been talking a lot about more tax cuts for corporations. Clearly, he doesn't think this, but I think the arithmetic is compelling that these things will be deficit financed, at least in large part, not totally, because you could generate some more tariff revenue. But that's another focus of his proposals. Harris is more about the cost of living for lower and middle-income Americans. She's really focused on things like the cost of housing. She's put forward a pretty detailed plan on increasing housing supply and other assistance. She's focused on prescription drug costs. She's focused on taxes. So she talks about cutting, keeping the tax rate down for people who make less than \$400K, but raising them for folks that make over \$400K to take that revenue to pay for things like an expansion of the child tax credit or earned income tax credit. Those are tax breaks that will go to lower and middle-income Americans. So she's focused on how do I address, I think what is now the number one issue for Americans, and that is the cost of living. How do I help people improve their purchasing power going forward?

**Mark Zandi**

Well, Mark, a few days after we post this interview, the election will be held. Hopefully, soon after that, we'll know the results one way or the other. And I really appreciate you taking the time to discuss with me what potentially could happen if the election goes one way or the other. Your insights, as always, are really valuable, and I welcome them very much.

**Mark Zandi**

Well, the only thing I say, Michael, is buckle in, and it may be more than a few days after this podcast that we know who the next president is. It could be a few weeks. Hopefully not. But clearly something to be prepared for. Thank you. I really appreciate the opportunity.

**Michael Klein**

Well, it's great to have you on. Thanks again, Mark.

**Michael Klein**

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