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The Macroeconomic Consequences: Trump vs. Biden

INTRODUCTION

In this analysis we assess the macroeconomic consequences of the economic policies proposed by the presidential candidates. During their campaigns, President Trump and Vice President Biden have put forward a wide range of proposals to change the tax code, government spending, and other economic policies.

The Macroeconomic Consequences: Trump vs. Biden[1]

BY MARK ZANDI AND BERNARD YAROS[2]

In this analysis we assess the macroeconomic consequences of the economic policies proposed by the presidential candidates. During their campaigns, President Trump and Vice President Biden have put forward a wide range of proposals to change the tax code, government spending, and other economic policies.

We consider four scenarios. The most likely, or baseline, scenario (40% probability) assumes Biden wins the presidency but will need to negotiate with a skeptical Senate that remains under Republican control, while the House remains Democratic (see Chart 1).[3] The Current Policy Scenario (35% probability) is consistent with Trump being re-elected to a second term, the Senate remaining under Republican control, and the House under Democratic control. This would maintain the status quo and policies that are currently in place. The third, less likely Democratic Sweep Scenario (20% probability) assumes Biden and the Democrats sweep the presidency and Congress and fully implement the economic agenda Biden has explicitly outlined in his speeches and interviews and on his campaign's website.[4] Finally, we consider a much less likely Republican Sweep Scenario (5% probability) in which Trump is re-elected and the Republicans sweep Congress and fully adopt the policies Trump espouses as gleaned from his administration's most recent budget and his speeches and campaign website.

We use the Moody's Analytics[5] model of the U.S. and global economy for this analysis.[6] The model is similar to those used by the Federal Reserve Board and Congressional Budget Office for forecasting, budgeting and policy analysis. The Moody's Analytics model has been used to evaluate the plethora of fiscal and monetary policies implemented during the financial crisis and COVID-19 pandemic, and many of the economic policies proposed by presidential candidates in other elections.[7]

Quantifying the economic impact of Trump's policies is complicated by their lack of transparency and specificity. This requires us to make more assumptions regarding their design and size. Evaluating Biden's policies is complicated by the wide range of his proposals. Some are familiar and we have already modeled and analyzed them, including some of his plans for tax increases, infrastructure spending, and the minimum wage. However, some of his other proposals are more novel, such as for elder care and clean energy infrastructure. Some economic policies that have come up during the campaign are not included in this analysis, most notable being regulatory and anti-trust policies. While these policies may have significant impacts on specific industries or companies, they are not expected to have meaningful macroeconomic impacts.[8]

To determine the longer-term economic impact of the candidates' policy proposals, the Moody's Analytics macroeconomic model is simulated over the decade through 2030. This is consistent with the Congressional Budget Office's horizon for the federal government's budget and policy analysis. The assumption is that the candidates' policies are implemented soon after they take office in January and do not change through the remainder of the decade. That is, no other significant fiscal policy changes are legislated. Monetary policy is determined in the model based on the Federal Reserve Board's newly announced framework for conducting monetary policy, in which the Fed has committed not to begin normalizing interest

Chart 1: 2020 Election Scenarios

Ordered from most to least likely

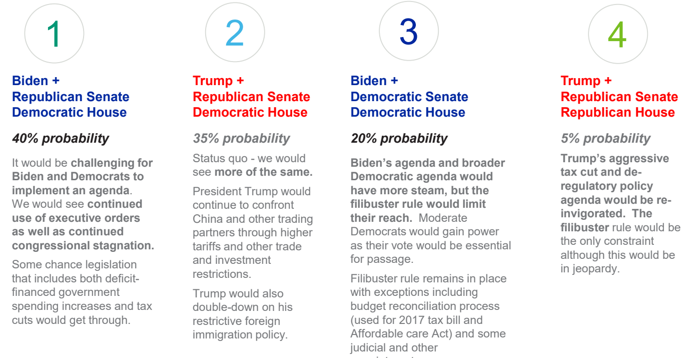


Table 1: Economic Outlook Under Democratic Sweep Scenario

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2020-2024	2020-2030
Real GDP												**Avg annual growth**	
$ tril	18,148.8	18,914.3	20,366.8	21,040.7	21,427.5	21,757.1	22,162.0	22,644.2	23,116.8	23,585.0	24,075.6	4.2	2.9
% Change	*-4.9*	*4.2*	*7.7*	*3.3*	*1.8*	*1.5*	*1.9*	*2.2*	*2.1*	*2.0*	*2.1*		
Nonfarm employment												**Change**	
Mil	141.3	142.6	150.8	155.7	157.7	158.7	159.5	160.6	161.3	162.1	163.0	16.5	21.7
Change, ths	-9,648.1	1,282.3	8,220.5	4,878.2	2,073.1	922.8	864.2	1,033.0	768.3	769.0	925.8		
												Avg	
Unemployment rate, %	9.1	8.3	5.2	4.1	4.1	4.2	4.3	4.2	4.3	4.3	4.3	5.4	4.7
Labor force participation rate, %	61.9	62.1	62.6	63.3	63.6	63.7	63.7	63.6	63.6	63.5	63.4	62.9	63.3
Real disposable income												**Avg annual growth**	
2012$ ths	124.5	117.7	121.4	125.5	126.6	127.7	128.9	130.5	132.5	134.5	136.6	0.4	0.9
% change	*5.8*	*-5.5*	*3.2*	*3.4*	*0.9*	*0.9*	*0.9*	*1.3*	*1.5*	*1.5*	*1.5*		
												Avg	
Homeownership rate, %	66.5	65.4	65.6	65.9	66.3	66.5	66.6	66.7	66.8	66.8	66.8	65.8	66.4
S&P Stock Price Index												**Avg annual growth**	
Index	2,946.0	2,932.5	3,090.4	3,215.4	3,424.5	3,662.8	3,838.5	4,009.5	4,167.0	4,313.0	4,466.1	3.8	4.2
% change	*1.2*	*-0.5*	*5.4*	*4.0*	*6.5*	*7.0*	*4.8*	*4.5*	*3.9*	*3.5*	*3.6*		
Corporate profits													
$ bil	1,995.8	2,347.7	2,576.5	2,688.2	2,775.5	2,867.1	2,965.5	3,076.6	3,190.7	3,304.3	3,418.3	8.6	5.5
% change	*-11.3*	*17.6*	*9.7*	*4.3*	*3.2*	*3.3*	*3.4*	*3.7*	*3.7*	*3.6*	*3.5*		
												Avg	
Federal funds rate, %	0.4	0.1	0.1	0.5	1.5	2.4	2.6	2.7	2.7	2.6	2.5	0.5	1.8
10-yr Treasury yield, %	0.8	1.1	2.1	3.0	3.7	4.1	4.4	4.5	4.5	4.4	4.4	2.5	3.6
Static federal budget deficit, CY , $ bil	-3,939.0	-3,281.6	-2,813.7	-2,017.6	-1,862.0	-1,884.4	-1,964.6	-2,073.5	-2,168.0	-2,265.5	-2,351.8	-2,493.7	-2,268.3
Federal debt-to-GDP ratio, CY , %	100.1	109.6	112.0	116.0	119.1	121.1	123.1	124.6	126.2	127.9	129.7	114.2	120.9

Sources: BEA, BLS, Census Bureau, Treasury, Moody's Analytics

rates until the economy is at full employment and inflation has been consistently above the Fed's 2% inflation target. All of the scenarios assume that the worst of the COVID-19 crisis and its economic fallout are over, and that the pandemic will wind down with an effective and widely distributed vaccine beginning soon after the next president is sworn in.[9]

Democratic Sweep Scenario

The economic outlook is strongest under the scenario in which Biden and the Democrats sweep Congress and fully adopt their economic agenda. In this scenario, the economy is expected to create 18.6 million jobs during Biden's term as president, and the economy returns to full employment, with unemployment of just over 4%, by the second half of 2022 (see Table 1). During Biden's presidency, the average American household's real after-tax income increases by approximately $4,800, and the homeownership rate and house prices increase modestly. Stock prices also rise, but the gains are limited. This is because of high current market valuations that limit prospects for near-term gains and the pedestrian growth in corporate profits under Biden's policies, as more of the benefits from the stronger economy under his policies go to workers.

Near-term economic growth is lifted by Biden's aggressive government spending plans, which are deficit-financed in significant part. Stronger anticipated global trade and foreign immigration also contribute (see Table 2). His proposal calls for additional spending of $7.3 trillion over the next decade on a static basis on infrastructure, education, and the social safety net including everything from Social Security to housing and healthcare. The bulk of the spending is slated to happen during his term as president in an effort to generate more jobs to return the economy to full employment as quickly as possible (see Appendix: Biden's Fiscal Policies in Detail).[10]

While Biden's spending plans are financed in part by higher taxes on corporations and the well-to-do that come to $4.1 trillion over the decade on a static basis, the net of these crosscurrents is to boost economic activity.

Table 2: Static Budget Score of Vice President Biden's Economic Plan

FY, $ bil

	2021-2024	Cumulative 2021-2030
Static budget deficit	**(2,505.9)**	**(3,170.7)**
Total government spending	**3,947.6**	**7,269.9**
Infrastructure	2,338.4	2,390.0
Transportation	872.4	900.0
"Made in America"	700.0	700.0
Clean energy	472.8	490.0
Other structures	293.1	300.0
Education	636.3	1,906.4
Higher education	366.9	1,006.5
K-12	159.7	600.0
Student loan debt relief	109.8	299.9
Social safety net	367.8	1,498.5
Child and elderly care	256.5	1,025.0
Social Security	63.4	328.6
Labor provisions	47.8	144.9
Healthcare	605.1	1,475.0
Coverage expansion	687.5	1,900.0
Rural health & opioid crisis	79.5	325.0
Programmatic feedback	(122.4)	(350.0)
Health reforms	(39.5)	(400.0)
Total tax revenues	**1,441.7**	**4,099.2**
Individual taxes	302.6	963.1
Payroll taxes	317.2	997.6
Corporate taxes	822.0	2,138.5

Source: Moody's Analytics

Greater government spending adds directly to GDP and jobs, while the higher tax burden has an indirect impact through business investment and the spending and saving behavior of high-income households. Since these households will not reduce their spending one-for-one in response to their higher tax bills and will use their savings and other financial resources, the near-term impact on GDP and jobs is mitigated.

Longer-term growth under Biden's policies is also stronger because on net they expand the supply side of the economy—the quantity and quality of labor and capital needed to produce goods and services. His plan to increase spending on the nation's infrastructure also boosts business competitiveness and productivity. His paid family leave and elder care plans would increase labor force participation, which is approximately a percentage point higher a decade from now as a result, while increased spending on higher education and early childhood education would raise the educational attainment of workers. Increased global trade and foreign immigration would increase the size of the workforce, both skilled and unskilled, and support stronger productivity.

These benefits to long-term growth will more than offset the economic costs from the higher marginal corporate and personal tax rates under his plan that reduce the incentives to save, invest and work, the disincentives to work and save from the larger social benefits, and the higher federal minimum wage that would be phased in over a long enough period to mitigate much of its negative effects on jobs.[11]

Biden's economic proposals will result in an increase in the federal government's budget deficits and debt load, particularly early in his administration. Under his proposals, the budget deficit on a dynamic basis will be a cumulative $2 trillion greater during his first term and $2.6 trillion over the decade. Publicly traded federal debt as a percent of GDP will increase from 108% when he takes office to 120% by the end of his term and 130% by the end of the decade.

However, mitigating the macroeconomic consequences of the larger budget deficits are continued low interest rates. Interest rates are the principal channel through which a larger government debt load impacts the economy. Biden as president would inherit an economy with high unemployment that is far from full employment, ensuring that through much of his term the Federal Reserve will maintain its zero interest rate policy and long-term interest rates will remain low. Moreover, as the economy returns to full employment, government spending under Biden's policies abates, resulting in much smaller budget deficits later in the decade.

Low- and middle-income households are the primary beneficiaries of Biden's economic proposals. Their tax bill will remain roughly the same as it is today, but they are significant beneficiaries of increased government spending on education, healthcare, housing, a plethora of other social programs, and a larger economy. High-income and wealthier households pay meaningfully more in taxes under Biden's policies, as do corporations. This weighs on stock prices and dividend income, the benefits of which largely accrue to those in the top part of the income and wealth distribution.

Republican Sweep Scenario

The economic outlook is weakest under the scenario in which Trump and the Republicans sweep Congress and fully adopt their economic agenda. In this scenario, the economy is expected to create 11.2 million jobs during Trump's second term as president, and it is not until the first half of 2024 that the economy returns to full employment (see Table 3). Given the lackluster growth coming out of the COVID-19 crisis, unemployment remains persistently higher and the economy suffers some hysteresis.[12] Full employment is consistent with an unemployment rate of just less than

Table 3: Economic Outlook Under Republican Sweep Scenario

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2020-2024	2020-2030
Real GDP												Avg annual growth	
$ tril	18,148.8	18,678.2	19,396.6	20,025.3	20,488.4	20,869.0	21,260.6	21,690.1	22,105.9	22,532.0	22,960.0	3.1	2.4
% change	*-4.9*	*2.9*	*3.8*	*3.2*	*2.3*	*1.9*	*1.9*	*2.0*	*1.9*	*1.9*	*1.9*		
Nonfarm employment												Change	
Mil	141.3	141.9	145.0	148.7	150.5	151.1	151.8	152.5	152.9	153.5	154.2	9.3	12.9
Change, ths	-9,648.1	565.9	3,123.7	3,718.6	1,855.8	598.0	668.1	649.2	445.7	634.7	681.7		
												Avg	
Unemployment rate, %	9.1	8.5	7.1	5.4	4.8	4.9	4.9	5.0	5.0	5.0	4.9	6.4	5.6
Labor force participation rate, %	61.9	62.0	61.9	62.0	62.1	62.1	62.1	62.1	62.1	62.0	62.2	62.0	62.1
Real disposable income												Avg annual growth	
2012$ ths	124.5	118.2	118.4	120.6	122.2	123.7	125.6	127.7	129.4	131.6	133.7	-0.5	0.7
% change	*5.8*	*-5.1*	*0.2*	*1.9*	*1.3*	*1.2*	*1.5*	*1.7*	*1.3*	*1.6*	*1.6*		
												Avg	
Homeownership rate, %	66.5	65.4	65.5	65.7	65.9	66.1	66.1	66.1	66.2	66.2	66.2	65.6	65.9
S&P Stock Price Index												Avg annual growth	
Index	2,946.0	2,954.7	3,126.0	3,181.1	3,340.9	3,549.9	3,723.0	3,907.0	4,089.7	4,268.5	4,441.2	3.2	4.2
% change	*1.2*	*0.3*	*5.8*	*1.8*	*5.0*	*6.3*	*4.9*	*4.9*	*4.7*	*4.4*	*4.0*		
Corporate profits													
$ bil	1,995.8	2,313.5	2,453.4	2,517.7	2,621.2	2,746.2	2,866.0	2,983.5	3,106.5	3,229.3	3,351.7	7.1	5.3
% change	*-11.3*	*16.0*	*6.0*	*2.6*	*4.1*	*4.8*	*4.4*	*4.1*	*4.1*	*4.0*	*3.8*		
												Avg	
Federal funds rate, %	0.4	0.1	0.1	0.1	0.7	1.7	2.5	2.6	2.6	2.5	2.5	0.2	1.5
10-yr Treasury yield, %	0.8	1.1	2.1	3.0	3.6	4.0	4.2	4.3	4.3	4.2	4.2	2.4	3.5
Static federal budget deficit, CY , $ bil	-3,939.0	-2,581.4	-2,002.2	-1,843.9	-1,803.7	-1,875.1	-1,948.1	-2,149.4	-2,228.6	-2,306.8	-2,365.3	-2,057.8	-2,110.4
Federal debt-to-GDP ratio, CY , %	100.1	109.1	110.7	113.4	115.7	117.6	119.8	122.1	124.5	126.7	129.1	112.3	118.9

Sources: BEA, BLS, Census Bureau, Treasury, Moody's Analytics

5% and a labor force participation rate that never fully recovers to its pre-pandemic highs.

The softer labor market weighs on wage growth, and the average American household's real after-tax income does not change much during the president's term. The homeownership rate and house prices increase modestly, and while stock prices rise, the gains are limited given high current market valuations and pedestrian growth in corporate profits due to the more slowly growing economy.

Trump has proposed much less expansive support to the economy from tax and spending policies, perhaps anticipating a strong so-called V-shape recovery from the downturn caused by the pandemic (see Table 4).[13] On taxes, he proposes to make permanent the tax cuts for higher-income households and businesses that were part of his 2017 tax cuts and which under current law are slated to expire in the next few years. We also assume that he provides workers with a temporary break on their payroll taxes in keeping with the spirit of his recent executive order to allow workers to suspend their payroll tax payments through the end of the year, although under that order workers must pay the money back. The tax cuts in total cost $1.9 trillion over the next decade on a static basis (see Appendix: Trump's Fiscal Policies in Detail).

On government spending, Trump proposes a sizable infrastructure plan costing $1 trillion over the decade, but this is more than offset by spending cuts across a wide range of nondefense programs. Healthcare, education and social welfare programs suffer the biggest cuts. In total, the president proposes to implement $740 billion in spending reductions over the decade.

The net of Trump's proposed tax cuts and government spending increases is a modest increase in the government's budget deficits, totaling $250 billion during his first term and $1 trillion over the decade on a dynamic basis. The nation's publicly traded debt increases from 108% when he takes office to 117% by the end of his second term and 130% by the end of the decade.

The economy suffers in Trump's second term, as we expect he will double down on

Table 4: Static Budget Score of President Trump's Economic Plan

FY, $ bil

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Cumulative 2021-2024	Cumulative 2021-2030
Static budget deficit	**(199.6)**	**(37.7)**	**(49.5)**	**(47.3)**	**(60.8)**	**(111.4)**	**(202.9)**	**(182.4)**	**(153.5)**	**(108.0)**	**(334.0)**	**(1,153.2)**
Total government spending	**3.6**	**7.9**	**12.1**	**0.3**	**(18.2)**	**(74.6)**	**(105.9)**	**(137.5)**	**(180.7)**	**(244.1)**	**23.9**	**(737.1)**
Infrastructure	65.2	91.1	111.6	126.2	125.9	112.0	109.3	109.6	115.9	117.1	394.1	1,084.0
Healthcare	(26.5)	(51.3)	(62.8)	(77.2)	(90.4)	(106.2)	(114.3)	(123.7)	(133.5)	(142.6)	(217.8)	(928.4)
Social safety net	(26.4)	(34.1)	(37.9)	(40.4)	(45.2)	(50.2)	(54.0)	(60.0)	(65.2)	(71.7)	(138.7)	(485.0)
Education	(7.2)	(12.2)	(15.6)	(17.3)	(18.1)	(18.7)	(19.5)	(20.0)	(20.5)	(21.0)	(52.2)	(170.0)
Other	(1.6)	14.4	16.7	8.9	9.5	(11.4)	(27.5)	(43.4)	(77.4)	(125.9)	38.4	(237.7)
Total tax revenues	**(196.0)**	**(29.7)**	**(37.4)**	**(47.0)**	**(79.0)**	**(186.0)**	**(308.9)**	**(319.9)**	**(334.3)**	**(352.1)**	**(310.1)**	**(1,890.3)**
Individual taxes	(23.7)	(27.5)	(25.9)	(26.0)	(50.7)	(153.0)	(274.6)	(292.4)	(311.8)	(332.0)	(103.1)	(1,517.6)
Payroll taxes	(172.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(172.2)	(172.2)
Corporate taxes	(0.0)	(2.3)	(11.5)	(21.0)	(28.3)	(33.0)	(34.3)	(27.5)	(22.4)	(20.1)	(34.8)	(200.5)

Source: Moody's Analytics

the foreign trade and immigration policies he pursued in his first term. This means a resumption of the tariff war with China that was put on hold late last year with the so-called Phase One trade deal with that nation. While the pandemic would have complicated the implementation of even the best designed trade deal, there is little evidence that the Chinese had any intention to abide by the Phase One deal, other than where it was in China's economic interest, such as by importing more U.S. agricultural products. When the dust settles after the pandemic, and it becomes clearer that Chinese behavior has not changed appreciably, the tariff wars are likely to heat up again. The significant increase in tariffs during Trump's first term—from an effective tariff rate of 1.5% when he took office to a peak of more than 6% just prior to the Phase One deal—acted like a tax increase on the U.S. economy, hurting U.S. manufacturers, transportation companies, and farmers in particular. More of the same is expected in Trump's second term.

Tensions with other trading partners are also likely to remain high. The small improvement in the U.S. and Chinese bilateral trade deficit since the trade war began has been offset by widening deficits between the U.S. and other nations. Global manufacturers have not meaningfully shifted production back to the U.S. They have shifted instead to other countries with lower production costs. Since Trump has focused his ire on nations with which the U.S. runs trade deficits, he likely will not feel any less upset in his next four years.

We also assume that Trump will continue to pursue a highly restrictive foreign immigration policy. In the more than quarter-century prior to the Trump administration, net immigration to the U.S. averaged close to 1 million per annum. In the president's first term, immigration has sharply declined and is estimated at closer to 750,000 annually. This number is assumed to weaken even further to near 500,000 annually in this second term as fewer immigrants are able to come to the U.S. and more of those already living in the U.S. return to their native countries. This is a significant impediment to longer-term economic growth, as it slows growth in both the labor force, which is problematic given prospects for declines in the native working-age population, and labor productivity.[14]

Split Congress Scenarios

While the Democratic and Republican Sweep Scenarios bookend the possible election outcomes and resulting economic policies and impacts, it is much more likely that neither Trump nor Biden will have the political luxury of having their party control both the Senate and House. In our baseline scenario, Biden wins the presidency but is confronted by a Republican Senate, and in the modestly less likely Current Policy Scenario, Trump wins a second term but must continue to grapple with a Democratic House.

In either scenario, it is difficult to see the political path to big changes in tax and government spending policies. Biden in the baseline scenario may have some legislative wiggle room using the budget reconciliation process and possible horse trading with the Republican Senate.[15] Given prospects that the economy will still be struggling next year in its recovery from the pandemic and less concern over budget deficits given the Fed's commitment to maintain its zero interest rate policy for some time, there may be a way to strike a deal on more infrastructure and social spending in exchange for some tax cuts targeted to middle-income households. Trump in the Current Policy Scenario may also find a similar legislative way forward with the Democratic House. Nonetheless, the assumption is that any fiscal policy changes in these scenarios are much more modest.

With legislation difficult to achieve, policy will continue to be made mostly by presidential executive order. Most significant, we assume Trump will continue to use his executive authority to pursue his restrictive trade and immigration policies, while Biden will use this authority to unwind those policies. Biden will continue to aggressively confront the Chinese to abide by international trade laws,

Table 5: Economic Outlook Under Baseline Scenario

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2020-2024	2020-2030
Real GDP												Avg annual growth	
$ tril	18,148.8	18,615.2	19,581.1	20,336.5	20,822.8	21,231.7	21,629.3	22,059.7	22,527.7	22,994.1	23,467.0	3.5	2.6
% change	*-4.9*	*2.6*	*5.2*	*3.9*	*2.4*	*2.0*	*1.9*	*2.0*	*2.1*	*2.1*	*2.1*		
Nonfarm employment												Change	
Mil	141.3	141.4	146.1	150.7	152.9	153.7	154.4	155.1	155.8	156.7	157.7	11.6	16.4
Change, ths	-9,648.1	0.1	4.7	4.6	2.1	0.8	0.7	0.7	0.8	0.9	1.0		
												Avg	
Unemployment rate, %	9.1	8.8	6.6	4.8	4.5	4.7	4.8	4.9	4.9	4.8	4.7	6.2	5.3
Labor force participation rate, %	61.9	62.0	61.9	62.1	62.5	62.6	62.6	62.6	62.5	62.4	62.3	62.1	62.3
Real disposable income												Avg annual growth	
2012$ ths	124.5	14,920.2	15,330.4	15,870.6	16,263.5	16,592.2	16,887.2	17,208.6	17,622.1	18,059.8	18,498.4	238.1	64.9
% change	*5.8*	*-5.9*	*2.8*	*3.5*	*2.5*	*2.0*	*1.8*	*1.9*	*2.4*	*2.5*	*2.4*		
												Avg	
Homeownership rate, %	66.5	65.4	65.6	65.8	66.1	66.2	66.3	66.4	66.4	66.4	66.4	65.7	66.1
S&P Stock Price Index												Avg annual growth	
Index	2,946.0	2,943.3	3,123.0	3,192.5	3,363.2	3,576.8	3,752.4	3,958.8	4,155.9	4,337.6	4,525.7	3.4	4.4
% change	*1.2*	*-0.1*	*6.1*	*2.2*	*5.4*	*6.4*	*4.9*	*5.5*	*5.0*	*4.4*	*4.3*		
Corporate profits													
$ bil	1,995.8	2,346.8	2,530.3	2,618.5	2,732.4	2,858.0	2,978.5	3,096.0	3,218.6	3,343.9	3,471.5	8.2	5.7
% change	*-11.3*	*17.6*	*7.8*	*3.5*	*4.4*	*4.6*	*4.2*	*4.0*	*4.0*	*3.9*	*3.8*		
												Avg	
Federal funds rate, %	0.4	0.1	0.1	0.5	1.5	2.4	2.6	2.7	2.7	2.6	2.5	0.5	1.8
10-yr Treasury yield, %	0.8	1.1	2.1	2.9	3.6	3.9	4.2	4.3	4.3	4.2	4.1	2.4	3.5
Static federal budget deficit, CY , $ bil	-3,939.0	-2,396.1	-1,895.8	-1,714.0	-1,694.3	-1,747.5	-1,770.7	-1,888.4	-1,982.8	-2,069.2	-2,151.0	-1,925.0	-1,931.0
Federal debt-to-GDP ratio, CY , %	100.1	111.5	112.1	113.2	114.7	115.6	117.2	118.8	120.1	121.4	123.1	112.9	116.8

Sources: BEA, BLS, Census Bureau, Treasury, Moody's Analytics

but we assume he does this by re-engaging with the World Trade Organization and implementing other multinational strategies to deal with the Chinese. Biden has talked about the possibility of recommitting to a modified Trans-Pacific Partnership free trade agreement with tougher labor and environmental provisions. The TPP was the deal between the U.S. and other Pacific rim nations that excluded China, because China did not play fair. The Obama administration had agreed to the TPP, but Trump withdrew from it with one of his first executive orders.

On foreign immigration, in the baseline we assume Biden would use his executive authority to return to the pre-Trump immigration policy that allows close to 1 million immigrants into the U.S. each year. In the Current Policy Scenario, Trump is assumed to maintain current immigration policy that allows 750,000 migrants into the country annually.

Under the baseline, the economy creates 13.6 million jobs during Biden's term as president and returns to full employment by summer 2023 (see Table 5). Meanwhile, under the Current Policy Scenario, the economy during Trump's second term creates 11.8 million jobs and returns to full employment toward year's end 2023 (see Table 6).

Trump vs. Biden

We expect only modest differences in enacted policy and the economic outlook with a split Congress, regardless of who is president, but the differences seem likely to be meaningful if Trump or Biden win the presidency with Congress under their party's control. To be sure, there is no prospect that all of their proposals would get through the legislative process and into law fully intact, and their policies could quickly change on the other side of the election depending on economic and political circumstances. However, the proposals they have made during the campaign are a statement on the candidates' philosophies and priorities. It is instructive to consider the economic outlook if they were adopted in their totality.

To this end, even allowing for some variability in the accuracy of the economic modeling and underlying assumptions that drive

Table 6: Economic Outlook Under Current Policy Scenario

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2020-2024	2020-2030
Real GDP												**Avg annual growth**	
$ tril	18,148.8	18,565.1	19,392.4	20,101.3	20,580.3	20,978.7	21,363.1	21,777.8	22,222.1	22,662.4	23,108.0	3.2	2.4
% change	*-4.9*	*2.3*	*4.5*	*3.7*	*2.4*	*1.9*	*1.8*	*1.9*	*2.0*	*2.0*	*2.0*		
Nonfarm employment												**Change**	
Mil	141.3	141.0	144.8	149.1	151.1	151.8	152.5	153.1	153.7	154.4	155.2	9.8	13.9
Change, ths	-9,648.1	-259.1	3,820.7	4,243.3	2,001.8	745.1	645.3	571.3	622.0	735.9	815.1		
												Avg	
Unemployment rate, %	9.1	8.9	7.1	5.2	4.7	4.8	4.9	4.9	4.9	4.8	4.7	6.5	5.5
Labor force participation rate, %	61.9	61.9	61.9	62.0	62.1	62.2	62.2	62.2	62.1	62.0	61.9	62.0	62.1
Real disposable income												**Avg annual growth**	
2012$ ths	124.5	116.5	118.3	121.2	122.9	124.1	125.2	126.4	128.3	130.4	132.4	-0.3	0.6
% change	*5.8*	*-6.5*	*1.6*	*2.4*	*1.4*	*1.0*	*0.8*	*1.0*	*1.5*	*1.6*	*1.5*		
												Avg	
Homeownership rate, %	66.5	65.4	65.5	65.7	66.0	66.1	66.2	66.2	66.2	66.2	66.2	65.7	66.0
S&P Stock Price Index												**Avg annual growth**	
Index	2,946.0	2,841.8	2,990.8	3,051.8	3,215.7	3,424.3	3,595.8	3,798.1	3,991.9	4,171.0	4,356.8	2.2	4.0
% change	*1.2*	*-3.5*	*5.2*	*2.0*	*5.4*	*6.5*	*5.0*	*5.6*	*5.1*	*4.5*	*4.5*		
Corporate profits													
$ bil	1,995.8	2,321.8	2,481.6	2,560.9	2,674.8	2,803.9	2,925.0	3,042.1	3,162.6	3,285.2	3,410.2	7.6	5.5
% change	*-11.3*	*16.4*	*6.9*	*3.2*	*4.4*	*4.8*	*4.3*	*4.0*	*4.0*	*3.9*	*3.8*		
												Avg	
Federal funds rate, %	0.4	0.1	0.1	0.5	1.4	2.4	2.6	2.6	2.6	2.5	2.5	0.5	1.7
10-yr Treasury yield, %	0.8	1.1	2.0	2.9	3.5	3.9	4.2	4.3	4.2	4.2	4.1	2.4	3.4
Static federal budget deficit, CY , $ bil	-3,939.0	-2,419.0	-1,978.2	-1,809.6	-1,775.7	-1,824.1	-1,847.6	-1,962.1	-2,059.4	-2,150.4	-2,237.4	-1,995.6	-2,006.3
Federal debt-to-GDP ratio, CY , %	100.1	109.1	110.1	112.3	114.4	116.0	118.1	119.9	121.6	123.1	125.0	111.5	117.0

Sources: BEA, BLS, Census Bureau, Treasury, Moody's Analytics

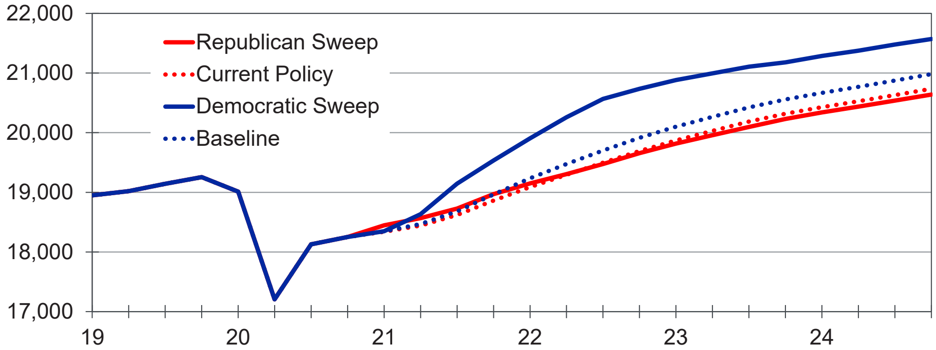
our analysis, we conclude that Biden's economic proposals would result in a stronger U.S. economy than Trump's. Largely because of Biden's substantially more expansive fiscal policies, the economy would return to full employment more quickly coming out of the pandemic than under Trump—in the second half of 2022 under Biden compared with the first half of 2024 under Trump. Biden's reversal of Trump's policies on foreign trade and immigration would also contribute to stronger economic growth, so that by the end of their terms in 2024, real GDP would be $960 billion, or 4.5%, larger under Biden than Trump (see Chart 2). This translates into 7.4 million more jobs under Biden than Trump (see Chart 3). Longer-run growth also receives more of a boost under Biden's policies, since they lift both labor force participation and productivity growth, though the effect is modest over the 10-year horizon of the analysis. It takes longer for Biden's focus on educational attainment, clean energy and other infrastructure, elder care, and paid family leave to have a significant impact on the economy's long-run growth potential. And Biden's increase in corporate tax rates dents business investment and productivity growth.

Biden's policies will result in substantially larger federal budget deficits than Trump's, particularly during their terms as president. Biden's policies cost $2.5 trillion during his time as president on a static basis, while Trump's add only a few hundred billion dollars. Their policies add a similar amount to the nation's deficits in the out-years—after their presidencies—of the 10-year budget horizon, with a total static cost of less than $1 trillion. Biden's spending proposals are front-loaded, particularly on infrastructure, and wind down soon after the economy returns to full employment. In the case of Trump, there is a burst of infrastructure spending late in his term, but the bulk of his tax cuts is back-loaded, occurring in the second half of the decade.

Negative economic fallout from Biden's larger near-term deficits is mitigated significantly. The reason: With the economy far from full employment and inflation moribund when Biden takes office, the Federal Reserve's vows

Chart 2: Real GDP Under Different Election Scenarios

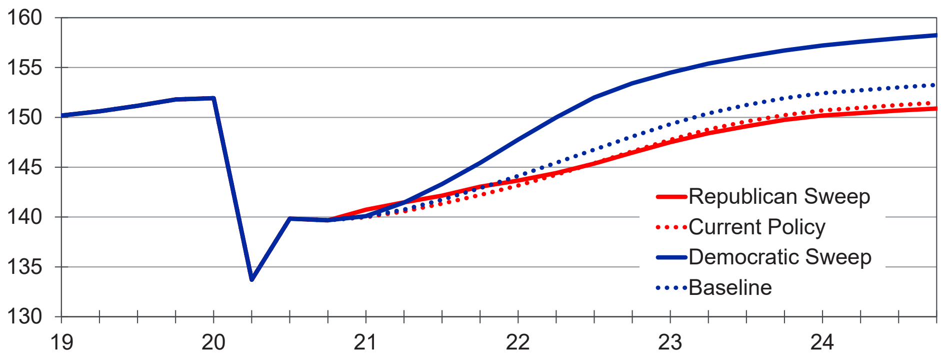
Real GDP, 2012$ bil



Sources: BEA, Moody's Analytics

Chart 3: Jobs Under Different Election Scenarios

Nonfarm employment, mil



Sources: BEA, Moody's Analytics

on employment and inflation mean it will keep interest rates very low for much of the next presidential term. Higher interest rates are the principal channel through which deficits weigh on economic growth. Moreover, the stronger economic growth supported by Biden's policies generates more tax revenue and less government spending. The results are dynamic budget costs of closer to $2 trillion during his term. The stronger growth and increase in GDP also mean that by the end of the decade, Biden's and Trump's policies result in a similar 130% publicly traded federal government debt-to-GDP ratio. This compares with 108% when they take office.

Lower- and middle-income households benefit more from Biden's policies than Trump's. Biden ramps up government spending on education, healthcare and other social programs, the benefits of which largely go to those in the bottom half of the income distribution. Meanwhile, he meaningfully increases taxes on the well-to-do, financial institutions and businesses to help pay for it. Trump largely does the reverse. He makes permanent the temporary tax cuts he implemented in his first term. The benefits largely go to higher-income households and businesses, while government spending is scaled back on healthcare and a range of social programs, the benefits of which go mainly to those with lesser incomes and wealth.

Voters have a very clear choice in deciding their next president. Trump and Biden could not have more different governing approaches and policies, and this is especially true when it comes to economic policy.

Appendix: Biden's Fiscal Policies in Detail

Vice President Biden has proposed a wide range of changes to the tax code and government spending. In total, he is calling for $4.1 trillion in tax increases and an additional $7.3 trillion in government spending over the next decade. The government's deficits will be $3.2 trillion larger on a static basis and $2.6 trillion on a dynamic basis, after accounting for the benefits to the budget of the stronger economy resulting from his policies. His tax and spending proposals are presented in detail in the discussion that follows.

On taxes[16]

Biden plans to increase taxes paid by corporations and high-income and wealthy taxpayers (see Table 1). Lower- and middle-income households, including those in all but the top quintile of the income distribution, are not materially impacted by the tax increases. These groups will bear some modest incidence of the higher corporate income taxes, but this will be more-or-less washed out by the various tax breaks in Biden's plan. Together, Biden's tax proposals would raise substantial revenue and make the tax system more progressive.

The largest source of new tax revenue in the vice president's plan comes from increasing taxes on corporations. Of the $4.1 trillion in total tax revenue collected under his plan over the next decade on a static basis, more than half comes from higher corporate taxes. The bulk of this results from an increase from 21% to 28% in the top marginal tax rate paid by corporations. This hike would partially reverse the reduction in the corporate tax rate from 35% to 21% that President Trump implemented as part of the Tax Cuts and Jobs Act passed at the end of 2017. Biden would also impose a minimum 15% tax on companies' book income, increase the minimum tax on profits earned by foreign subsidiaries of U.S. firms, and scale back tax subsidies for the commercial real estate and fossil fuel industries. The vice president proposes some tax breaks, including his "Made in America" tax credit to incent companies to move their operations to the U.S., more low-income housing tax credits, and various tax credits to encourage green investment and help distressed manufacturing communities.

Another large source of new tax revenue in Biden's plan is the 12.6% Social Security payroll tax on annual earnings of more than $400,000. The current earnings cap subject to the payroll tax is almost $138,000. Because of the persistent skewing of the income distribution over the past several decades, the amount of earnings subject to the payroll tax has steadily declined. Biden's proposal would address this. Because the earnings cap increases every year by the rise in national wages, the cap will eventually climb to $400,000 and the payroll tax will apply to all earnings. This change will put the Social Security trust fund on much sounder financial footing, and it will raise close to $1 trillion in revenue over the next decade on a static basis, about one-third of the total tax revenue raised under Biden's plan.

The remaining tax revenue raised under Biden's plan comes from high-income households. The vice president would roll back the tax cuts that those earning more than $400,000 received under Trump's TCJA, tax capital gains and dividend income like ordinary income for those making more than $1 million in total income, tax unrealized capital gains at death, and limit the use of itemized deductions. Biden provides a range of individual tax breaks to incent better environmental practices, including clean cars and more efficient homes and appliances, and to help student loan borrowers and increase retirement savings.

On government spending[17]

Biden plans to substantially increase government spending, using the additional tax revenues he raises to help defray some of the costs. His proposal calls for additional spending of $7.9 trillion on a static basis, including on infrastructure, education, the social safety net, and healthcare, with the bulk of the spending slated to happen during his term as president in an effort to generate more jobs to return the economy to full employment as quickly as possible.

Of all of Biden's spending initiatives, the most expansive is on infrastructure. On a static basis, he would increase such spending by $2.4 trillion for the decade—all of it to be spent during his term (see Table 2). This includes increases for traditional transportation infrastructure, clean energy investments, R&D and innovation, and "Made in America" government purchases of American-made products. There would also be additional monies for social infrastructure, including affordable housing, public schools, community colleges, historically black colleges and universities, and rural broadband.

Biden is also calling for a large increase in an array of educational initiatives. He proposes to spend $1.9 trillion over 10 years on a static basis on pre-K, K-12 and higher education (see Table 3). Attending a public college or university would be tuition-free for children in families with incomes of less than $125,000. All student loan borrowers would benefit from a significant expansion of existing income-based repayment programs. Biden also proposes universal pre-K for 3- and 4-year-olds, and substantially more Title 1 funding to pay public school teachers more competitively.

The social safety net would meaningfully expand under Biden (see Table 4). He would spend an additional $1.5 trillion over 10 years on a static basis on various social programs, with the largest outlays going to workers to receive paid family and medical leave for up to 12 weeks.[18] This benefit would be worth at least two-thirds of workers' wages up to a ceiling. Biden would also help pay for elder care, allowing families more choice to provide necessary care at home or in supportive community situations. Social Security benefits would increase for widowers and the oldest Americans, and money would go to help expand short-term compensation, also known as Work Share, in the unemployment insurance program.

The healthcare system would also receive a significant infusion of funding under a President Biden primarily via the Affordable Care Act (see Table 5). The ACA would have the wherewithal to raise subsidies to increase enrollment, automatically enroll low-income individuals into premium-free coverage, and to establish a new public option, which received considerable attention during the Democratic primaries. Healthcare spending would also increase to address the opioid crisis and rural health issues. Some of these added costs would be paid via lower prescription drug prices—Medicare would be permitted to negotiate prices, and importation of cheaper drugs from overseas would be permitted. The 10-year static budget cost of the proposed changes to the healthcare system comes to nearly $1.5 trillion.

Table 1: Static Budget Score of Biden's Tax Plan

Static effect on federal tax revenue, $ bil

	Cumulative	
	2021-2024	2020-2030
Total tax revenue	**1,441.7**	**4,099.2**
Individual income taxes	**302.6**	**963.1**
Tax capital gains and dividends at same rate as ordinary income above $1 million of income and tax unrealized capital gains at death	149.3	462.2
Limit tax benefit of itemized deductions to 28% of value	56.4	310.2
Tax compliance investments and sanctions	60.0	300.0
Restore the estate, gift, and generation-skipping transfer (GST) tax parameters in effect in 2009	94.0	266.7
Phase out qualified business income deduction above $400,000 of income	164.2	218.6
Restore pre-TCJA rates above $400,000 of income	109.9	143.3
Restore limitations on itemized deductions above $400,000 of income	52.6	69.9
First Down Payment Tax Credit	-54.2	-153.7
Clean Cars for America Rebates	-58.6	-145.0
Make the child tax credit and dependent care tax credit fully refundable for 2021 and increase their generosity	-122.2	-124.7
Provide a tax credit for family caregivers of individuals with physical and cognitive needs	-29.8	-99.5
Replace the deductibility of worker IRA/DC pension contributions with 26% refundable tax credit	-47.7	-54.3
Tax credit of up to a total of $8,000 to low- to middle-income families to help pay for child care	-16.2	-53.6
New renter's tax credit to reduce rent and utilities to 30% of income for low-income households who may not qualify for Section 8 vouchers	-20.0	-50.0
Restore the full electric vehicle tax credit and target it to middle-income consumers	-8.6	-30.0
Establish automatic IRAs and a small business start-up credit for offering retirement plans	-6.6	-26.8
Consumer appliance rebates	-9.5	-25.0
Reinstate tax credits for residential energy efficiency	-7.4	-25.0
Make permanent the New Markets Tax Credit	-1.6	-11.9
Extend EITC to childless workers age 65 and older	-1.2	-4.2
Exempt forgiven student loans from taxable income	-0.1	-4.0
Payroll taxes	**317.2**	**997.6**
Apply 12.4% Old-Age, Survivors, and Disability Insurance payroll tax to earnings above $400,000	317.2	997.6
Corporate income taxes	**822.0**	**2,138.5**
Increase corporate income tax rate to 28%	444.9	1,341.0
Reduce the global intangible low-tax income deduction from 50% to 25%	182.2	314.3
Eliminate certain tax preferences for the real estate industry	100.0	303.6
Impose 15% minimum tax on global book income	54.9	174.6
Impose a financial fee	39.6	111.4
Eliminate tax preferences for fossil fuels	11.2	20.3
End tax deduction for direct-to-consumer prescription drug advertising	5.5	15.8
Tighten the rules for classifying independent contractors	4.1	14.7
Power generation and storage credits	-5.7	-100.0
Restore the energy investment tax credit and make permanent	-10.0	-25.8
Low-Income Housing Tax Credit	-1.2	-10.8
Enact Senator Jeff Merkley's Good Jobs for 21st Century Energy Act	-0.6	-10.0
Provide a tax credit for carbon dioxide investment and sequestration	-2.4	-7.8
Provide a tax credit for distressed manufacturing communities	-0.4	-2.6
Provide "Made in America" tax credit and remove tax deductions for shipping jobs overseas	-0.1	-0.2

Sources: Biden Campaign, JCT, Tax Policy Center, Treasury, Moody's Analytics

Table 2: Static Budget Score of Biden's Infrastructure Plan

Static effect on federal budget deficit, $ bil

	Cumulative 2021-2024	Cumulative 2021-2030
Total infrastructure	**2,338.4**	**2,390.0**
Transportation infrastructure	**872.4**	**900.0**
Kick-start repair of highways, bridges and roads	50.0	50.0
Transformational Projects Program	40.0	40.0
Increase Army Corps of Engineers funding	8.8	25.0
Roughly double funding for key competitive grant programs	5.7	17.0
Transit projects for low-income areas with limited transportation options	10.0	10.0
Other	758.0	758.0
"Made in America"	**700.0**	**700.0**
Federal procurement of an array of products made by American workers from clean vehicles to steel and critical medical supplies	400.0	400.0
R&D funding directed to 5G, artificial intelligence, biotechnology, and clean energy, among others	300.0	300.0
Clean energy	**472.8**	**490.0**
Conservation, remediation and resilience	85.0	85.0
Fossil Legacy Reclamation	50.0	50.0
Power transmission support	50.0	50.0
Environmental Justice Fund	50.0	50.0
Water infrastructure	50.0	50.0
Clean Energy Standard Block Grants	40.0	40.0
Manufacturing retooling and retrofits	35.0	35.0
Deploy 500,000 new public charging outlets by end of 2030	7.8	25.0
Energy transition package	25.0	25.0
Transform local transportation funding to be more sustainable	15.0	15.0
HUD-DOE weatherization assistance	15.0	15.0
Energy Efficiency and Conservation Block Grants	15.0	15.0
RUS funding related to fossil generation	10.0	10.0
Other	25.0	25.0
Other structures	**293.1**	**300.0**
Modernize public school facilities	100.0	100.0
Affordable Housing Fund	100.0	100.0
Investments in facilities and technology at community colleges, HBCUs, TCUs and MSIs	38.0	38.0
Rural broadband infrastructure	20.0	20.0
Pass the Ending Homelessness Act to invest in housing units for the homeless	13.0	13.0
Cities Revitalization Fund	10.0	10.0
Expand flexible funding for the Community Development Block Grant	3.1	10.0
Other	9.0	9.0

Sources: Biden Campaign, Moody's Analytics

Table 3: Static Budget Score of Biden's Education Plan

Static effect on federal budget deficit, $ bil

	Cumulative 2021-2024	Cumulative 2021-2030
Total education	**636.3**	**1,906.4**
K-12 funding	**159.7**	**600.0**
Triple Title I funding for public schools	72.1	250.0
Provide universal pre-kindergarten to all 3- and 4-yr-olds	25.9	150.0
Allow teachers to mentor other teachers while being compensated for the extra work	35.6	100.0
Roughly triple federal funding to public schools for children with disabilities	26.1	100.0
Higher education	**366.9**	**1,006.5**
Make public colleges and universities tuition-free for all families with incomes below $125,000	191.3	522.9
Double the maximum value of Pell grants	146.4	393.1
Workforce training, including community-college apprenticeships	15.7	50.0
Increase affordability, enrollment, completion and career-building at HBCUs, TCUs and MSIs	13.5	40.5
Student loan debt	**109.8**	**299.9**
Simplify and increase generosity of the income-based repayment program	104.1	284.6
New Public Service Loan Forgiveness Program offering $10,000 of undergrad or grad student loan debt relief for every yr of service up to 5 yrs	5.6	15.3

Sources: Biden Campaign, CBO, CRFB, Georgetown Univ. Center on Education and the Workforce, NCES, Urban Institute, Moody's Analytics

Table 4: Static Budget Score of Biden Social Safety Net Plan

Static effect on federal budget deficit, $ bil

	Cumulative 2021-2024	Cumulative 2021-2030
Total social safety net	**367.8**	**1,498.5**
Elder and child care	**256.5**	**1,025.0**
Create a national paid family and medical leave program to give all workers up to 12 wks of paid leave	114.5	570.0
Give Americans more choice to receive care at home or in supportive community situations	140.4	450.0
Cash assistance grants to survivors of sexual or domestic violence who need to pay for day care and transportation, among others	1.6	5.0
Social Security	**63.4**	**328.6**
Compute the COLA using the Consumer Price Index for the Elderly (CPI-E) rather than the CPI	10.4	120.5
Protect widowers from steep benefit cuts	32.7	109.5
Higher benefit for oldest Americans	18.1	68.7
Minimum benefit for lifelong workers	2.3	29.9
Labor	**47.8**	**144.9**
Enact the Paycheck Fairness Act	42.5	136.3
Make short-term compensation, also known as work-sharing, 100% federally funded and secure participation of all 50 U.S. states, DC, and territories	5.3	8.7

Sources: Biden Campaign, CBO, Department of Labor, Social Security Administration, Moody's Analytics

Table 5: Static Budget Score of Biden's Healthcare Plan

Static effect on federal budget deficit, $ bil

	Cumulative 2021-2024	2021-2030
Total healthcare	**605.1**	**1,475.0**
Health spending	**727.5**	**1,825.0**
Build on Affordable Care Act, establish a new public insurance option, and automatically enroll low-income individuals into premium-free coverage	613.3	1,700.0
Lower the Medicare eligibility age from 65 to 60 yrs old	74.3	200.0
Boost rural health and mental health funding	40.1	200.0
Address the opioid crisis through flexible grants to states and localities for prevention, treatment and recovery efforts, among others	39.3	125.0
Cost-cutting health reforms and programmatic revenue effects	**122.4**	**350.0**
Allow Medicare to negotiate drug prices directly and limit launch prices for drugs facing no competition	-20.3	-300.0
Coverage expansion revenue feedback	-108.2	-300.0
Limit price increases for certain drugs to the rate of inflation and allow purchase of prescription drugs from other countries, among others	-19.2	-100.0
End surprise medical billing	-14.2	-50.0

Sources: Biden Campaign, CBO, CRFB, Moody's Analytics

Appendix: Trump's Fiscal Policies in Detail

The Trump campaign has released the president's policy agenda for a second term, but it is lacking in details regarding its economic priorities. Therefore, to assess President Trump's economic plan we relied on the president's speeches and statements and the fiscal proposals contained in his fiscal 2021 budget. We surmise his economic plan would include $1.9 trillion in tax cuts and more than $700 billion in government spending reductions over the next decade. The government's deficits will be larger by $1.2 trillion on a static basis and $1 trillion on a dynamic basis after accounting for the benefits to the budget of the stronger economy resulting from his policies. His tax and spending proposals are presented in detail in the discussion that follows.

On taxes[19]

Trump would substantially cut taxes over the next decade (see Table 1). The largest source of tax cuts comes from permanently extending the individual income tax provisions of the 2017 Tax Cuts and Jobs Act, which are set to expire after 2025 under current law. These include lower individual income tax rates, an expanded child tax credit, less income subject to the alternative minimum tax, and increased estate and gift tax exemptions. The principal beneficiaries of the president's tax cuts would be households with higher incomes and net worth.

The Trump administration has long supported indexing capital gains to inflation, and we assume he implements this tax cut in his second term. Capital gains taxes are assessed on the difference between the sale price of an asset and its original purchase price. This difference is measured in nominal terms. However, if the initial value of the asset were allowed to be adjusted for inflation, it would reduce the taxable gain of the asset.

The president has also long advocated for reducing payroll taxes. Indeed, he signed an executive order this summer to temporarily defer employee-side Social Security taxes for workers below an annual $100,000 income threshold through the end of the year. However, eligible taxpayers would still be on the hook to repay the deferred payroll taxes in 2021, which would create numerous headaches for payroll departments. Therefore, few employers will stop withholding and submitting payroll taxes owed by their employees, rendering this executive action largely ineffective. But given the president's long-standing support for such a tax cut, we assume Trump would enact a payroll tax holiday early in his second term.

The president has proposed several other changes to the personal tax code that we assume he would implement. These include establishing a federal tax credit for voluntary donations to state-based scholarship programs, allowing Medicare beneficiaries with high-deductible health plans to make tax-deductible contributions to health savings accounts or medical savings accounts, and repealing specific energy-related tax credits.

On corporate taxes, the president would extend immediate expensing of capital outlays at a 100% rate. Under current law, the portion of business investment in equipment and certain other assets that can be expensed is 100% through 2022, 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026, after which the provision expires. He would provide "Made in America" tax credits to incent insourcing of jobs to America. Toward that same aim, he would establish tax credits for companies that bring jobs back from China and allow businesses in essential industries to deduct 100% of certain expenses if they bring their manufacturing back to the U.S.

On government spending[20]

Trump has proposed cuts in government spending to partially offset the revenue losses under his tax plan (see Table 2). Healthcare would bear the brunt of his spending cuts. He would reduce Medicare payments for graduate medical education, uncompensated care, bad debts, post-acute care providers, hospice care, and hospital-owned physician offices. In addition, he would derive Medicaid savings by continuing Disproportionate Share Hospital allotment reductions and implementing self-sufficiency and work requirements. Reforms to drug pricing and medical malpractice would also be on the table.

The social safety net would face significant cuts as well. The president would reduce welfare spending, especially for the Supplemental Nutrition Assistance Program and Temporary Assistance for Needy Families. Federal disability programs would be overhauled, and the administration would crack down on Social Security payment integrity. Finally, Trump would target a reduction in health and retirement benefits for federal government employees.

Student loan programs would become less generous under Trump's economic plan. He would replace existing income-based student loan repayment plans with a single one that caps monthly payments at 12.5% of discretionary income. He would eliminate subsidized student loans and the Public Service Loan Forgiveness program.

Not all of Trump's plan consists of spending cuts. He has also called for a 10-year reauthorization of surface transportation programs of more than $800 billion and additional investments of $190 billion on water infrastructure and broadband, among others. Infrastructure spending under the Trump economic plan would peak in the middle of the decade. He would also provide $166 billion in defense funding to support the Pentagon's National Defense Strategy. Finally, he would allocate smaller amounts of funding for paid parental leave, the opioids crisis, and mental health.

The president's budget includes a few major proposals that we did not include in our analysis. For example, he calls for significant cutbacks in nondefense discretionary spending. Even if Republicans were to sweep the House, Senate and White House on Election Day, the annual appropriations process will still be a largely bipartisan exercise, and Democrats would never allow such nondefense spending cuts to occur. The president's budget also includes his "health reform vision," but a lack of details kept us from including it in our analysis.

Table 1: Static Budget Score of Trump's Tax Plan

Static effect on federal tax revenue, $ bil

	Cumulative 2021-2024	Cumulative 2020-2030
Total tax revenue	**-310.1**	**-1,890.3**
Individual income taxes	**-103.1**	**-1,517.6**
Permanently extend provisions of the 2017 tax law that lowered the tax burden for individual taxpayers	-20.0	-1,353.6
Index capital gains to inflation	-80.0	-200.0
Establish Education Freedom Scholarships, which creates an annual federal tax credit for voluntary donations to state-based scholarship programs	-16.0	-45.8
Give Medicare beneficiaries with high deductible health plans the option to make tax deductible contributions to HSAs or MSAs	-4.7	-16.3
Improve tax administration	11.7	81.6
Repeal specific energy-related tax credits	5.9	16.5
Payroll taxes	**-172.2**	**-172.2**
Suspend employee-side 6.2% Social Security payroll tax for first four mo of 2021	-172.2	-172.2
Corporate income taxes	**-34.8**	**-200.5**
Extend partial expensing of equipment property at 100% rate	-34.8	-200.2
Provide "Made in America" tax credit and remove tax deductions for shipping jobs overseas	-0.1	-0.2

Sources: CBO, OMB, Social Security Administration, Tax Policy Center, Treasury, Moody's Analytics

Table 2: Static Budget Score of Trump's Spending Plan

Static effect on federal budget deficit, $ bil

	Cumulative 2021-2024	Cumulative 2021-2030
Total spending	**23.9**	**-737.1**
Infrastructure	**394.1**	**1,084.0**
10-yr reauthorization of surface transportation programs	273.9	885.0
Additional infrastructure investments	113.2	190.0
Federal Capital Revolving Fund	6.9	9.0
Healthcare	**-217.8**	**-928.4**
Reduce Medicare payments for uncompensated care, post-acute care, hospice care, and hospital-owned physician offices, among others	-107.8	-464.8
Implement Medicaid community engagement requirement	-48.7	-152.4
Enact comprehensive drug pricing reform	-26.2	-135.0
Other Medicaid savings	-16.4	-55.1
End surprise medical billing	-14.2	-50.0
Enact medical malpractice reform	-5.4	-40.3
Enable CMS to recoup improper payments and continue Medicaid Disproportionate Share Hospital allotment reductions	-1.6	-37.8
Address opioids and mental health	2.5	7.0
Social safety net	**-138.7**	**-485.0**
Reduce welfare spending particularly on SNAP and TANF	-105.7	-292.1
Modify government contribution rates to federal health benefit programs and reduce retirement benefits for federal employees	-15.3	-89.0
Overhaul federal disability programs and improve Social Security payment integrity	-7.0	-76.0
Implement agricultural program reforms	-17.6	-56.0
Provide paid parental leave	6.9	28.1
Education	**-52.2**	**-170.0**
Create single income-driven student loan repayment plan	-18.2	-59.8
Eliminate Public Service Loan Forgiveness	-15.6	-52.2
Eliminate standard repayment cap	-10.0	-27.6
Eliminate subsidized student loans	-5.6	-18.3
Use combined AGI to calculate loan payments for married filing separately	-1.5	-4.9
Other	-1.2	-7.2
Other	**38.4**	**-237.7**
Provide defense funding to support the National Defense Strategy	127.1	166.0
Other spending reductions, reforms, or adjustments	-88.6	-403.7

Sources: CRFB, OMB, Moody's Analytics

Endnotes

1 Moody's Analytics provides economic analysis and does not endorse or support any political party or candidate, including those in the 2020 U.S. presidential election. This paper is part of the ongoing analysis by Moody's Analytics of the economic implications of the candidates' policy proposals in the election. Moody's Analytics has published a series of reports throughout the election cycle analysing the candidates' proposed tax and economic plans.

2 The authors have not made contributions to either presidential candidate during this election cycle. Mark Zandi previously served as an economic advisor to the 2008 John McCain presidential campaign.

3 This is the Moody's Analytics August 2020 baseline. The likelihood of these scenarios is based on current poll results and our model of the presidential election outcome.

4 In the Democratic Sweep and Republican Sweep Scenarios we effectively assume the Senate does away with the filibuster rule to allow for full adoption of Biden's and Trump's policies, respectively. This further reduces the odds that these scenarios will actually occur, but they bookend the possible economic outlooks due to policy changes resulting from the outcome of the election.

5 Moody's Analytics, a unit of Moody's Corp., provides economic analysis to market participants to help them measure and manage risk. It operates independently of Moody's Investors Service, the credit ratings agency.

6 A detailed description of the Moody's Analytics model of the U.S. economy is available here. More detailed validation documentation is available on request.

7 See "The Macroeconomic Consequences of Mr. Trump's Economic Policies," Mark Zandi, Chris Lafakis, Dan White and Adam Ozimek, Moody's Analytics white paper, June 2016. And see "The Macroeconomic Consequences of Secretary Clinton's Economic Policies," Mark Zandi, Chris Lafakis and Adam Ozimek, Moody's Analytics white paper, July 2016.

8 See "Death, Taxes and Regulation?" Mitch Murphy, Mark Zandi and Dante DeAntonio, Moody's Analytics white paper, August 2018.

9 This is a tenuous assumption given prospects that the virus will intensify as the weather gets cooler and people move indoors where transmission is easier. If there is a serious second wave, the outlook and policy response could change significantly.

10 The static budget cost of a tax or government spending policy does not account for the impact of that policy on economic growth and the resulting impact on the cost of that policy. The dynamic budget cost does account for this.

11 Biden has called for a $15 minimum wage, although he does not specify over what period of time it would be implemented. However, we assume that the federal minimum wage is raised incrementally over six years until it reaches $15 in 2027. This assumption is based from the Raise the Wage Act of 2019 passed last year by House Democrats.

12 Hysteresis is a reduction in the economy's potential due to a significant economic shock such as a pandemic, which causes a large number of business failures and bankruptcies, permanent job loss, credit problems, and reduced mobility of labor and capital. Once hysteresis sets in, it is difficult to reverse. Hysteresis effects are built into the Moody's Analytics macro model.

13 The Trump administration has consistently argued that the U.S. economy will rebound quickly from the pandemic, fully recovering in just a few months. That is, it will experience a V-shape recovery.

14 According to an analysis by the CBO of the last major legislative attempt at immigration reform in 2013, "immigration of highly skilled immigrants would tend to generate additional technological advancements, such as new inventions and improvements in production processes."

15 Under current Senate rules, budget reconciliation allows for tax and government policies that are budget neutral over the 10-year budget horizon.

16 Our analysis of Biden's tax proposals relies significantly on analysis by the Tax Policy Center.

17 Our analysis of Biden's spending proposals relies significantly on analysis by the Committee for a Responsible Federal Budget.

18 Similar to the FAMILY Act sponsored by Senator Kirsten Gillibrand (D-NY). Unlike the FAMILY Act, however, Biden does not support an across-the-board payroll tax increase to pay for the plan (nor an employer mandate) and instead would pay for it with a portion of the proposed taxes on the wealthy.

19 Our analysis of Trump's tax proposals leans heavily on alternative budget forecasts from the Congressional Budget Office, analysis by the Tax Policy Center, and Trump's fiscal 2021 budget.

20 Our assumptions for Trump's spending plan rely significantly on his fiscal 2021 budget proposals.

About the Authors

Mark Zandi is chief economist of Moody's Analytics, where he directs economic research. Moody's Analytics, a subsidiary of Moody's Corp., is a leading provider of economic research, data and analytical tools. Dr. Zandi is a cofounder of Economy.com, which Moody's purchased in 2005.

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A trusted adviser to policymakers and an influential source of economic analysis for businesses, journalists and the public, Dr. Zandi frequently testifies before Congress on topics including the economic outlook, the nation's daunting fiscal challenges, the merits of fiscal stimulus, financial regulatory reform, and foreclosure mitigation.

Dr. Zandi conducts regular briefings on the economy for corporate boards, trade associations and policymakers at all levels. He is on the board of directors of MGIC, the nation's largest private mortgage insurance company, and The Reinvestment Fund, a large CDFI that makes investments in disadvantaged neighborhoods. He is often quoted in national and global publications and interviewed by major news media outlets, and is a frequent guest on CNBC, NPR, Meet the Press, CNN, and various other national networks and news programs.

Dr. Zandi 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 response to the Great Recession. His other book, *Financial Shock: A 360º Look at the Subprime Mortgage Implosion, and How to Avoid the Next Financial Crisis*, is described by The New York Times as the "clearest guide" to the financial crisis.

Dr. Zandi earned his BS from the Wharton School at the University of Pennsylvania and his PhD at the University of Pennsylvania. He lives with his wife and three children in the suburbs of Philadelphia.

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