



# Global Macro Research

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#US

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#Politics

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#Scenarios

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## What would Harris do?

Kamala Harris has set out a more fiscally expansive and regulatory-heavy policy platform than Joe Biden, but the likelihood she will be able to implement it in full is slim. However, in response to her improved polling and new policy platform, we have updated our US election scenarios.

### Key Takeaways

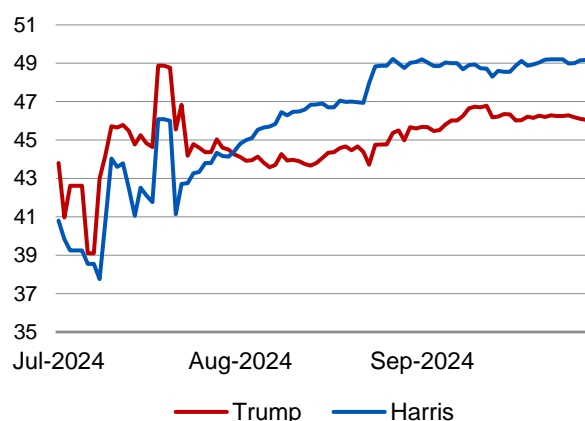
- The US election is effectively a toss-up. Harris leads in the polls, but Trump has advantages in the Electoral College, higher approval on the economy and polling errors in his favour. Our election scenarios show a 50% chance of either candidate winning.
- Harris has set out a more fiscally expansive policy platform than Biden, promising a package of tax credits. But she is also proposing higher corporation tax, and increased regulation on certain business practices.
- However, Harris would struggle to implement much of this agenda unless she got a unified Congress. But we think this is unlikely and give it just a 10% probability.
- Still, a Harris government with a divided Congress, which we see as a 40% probability, may be able to pass watered-down aspects of her agenda. Republican interest in child tax credit and immigration reform makes bipartisan agreement possible.
- We continue to think there are multiple potential versions of a Trump presidency, depending on the congressional outcome and his governing style. Crucially though, much of Trump's trade agenda can be passed with executive orders.
- We assign a 25% probability to trade war, 15% to a market-friendly outcome involving tax cuts and deregulation, and a 10% probability to a potentially volatile scenario involving tax cuts, deregulation, protectionism, and the overt politicisation of monetary policy.

### Harris has changed the race

The US election looks to be a toss-up. Kamala Harris has built a lead in national head-to-head polling (see Figure 1) and a majority of swing states. But this could be negated if previous polling errors – which in 2016 and 2020 showed the Democratic candidates performing better against Trump than they did in the election – are repeated.

Republicans have had an advantage in the electoral college in recent elections, while Donald Trump continues to lead on the key issue of the economy.

**Figure 1: Harris has a lead over Trump in national head-to-head polling**



Source: abrdn, Silver Bulletin, September 2024

The Harris campaign has tried to distance itself from the Biden administration.



Most importantly, it has tried to address voters' cost of living concerns by announcing new tax cuts and credits, and regulatory changes to limit corporate pricing power.

**Would the Senate get in the way of this agenda?**

Much of Harris' policy agenda would require the support of Congress and cannot be passed through executive orders.

However, the most likely scenario if Harris wins the election is a divided Congress in which Democrats win the House and Republicans take the Senate (see Figure 2).

**Figure 2: Congressional outcomes are highly conditional on the presidential result**

Subjective Congressional probabilities in event of Trump:

	House	Senate
Republican	50%	95%
Democrat	50%	5%

Subjective Congressional probabilities in event of Harris:

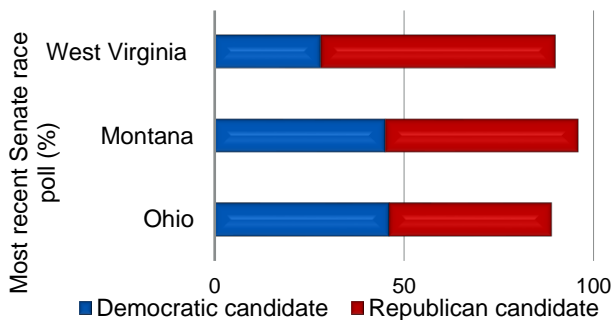
	House	Senate
Republican	20%	75%
Democrat	80%	25%

Source: abrdn, September 2024

This is because, in this electoral cycle, the Senate map favours Republicans. Democrats hold a 51-49 majority and are defending 23 seats, three of which are in states won by Trump in 2020 (Montana, Ohio and West Virginia). Meanwhile, Republicans are defending 11 seats, all of which are considered relatively safe re-election prospects.

Still, there is a possibility, albeit slim, for Democrats to keep the Senate if Harris becomes president. To do so, the party would need to retain two of the three most vulnerable seats and avoid losses elsewhere (see Figure 3). This would leave the (Democratic) vice president as the tiebreak vote, allowing the party to retain a majority.

**Figure 3: Current polling indicates Republicans will flip enough seats to win the Senate**



Source: abrdn, 538, September 2024

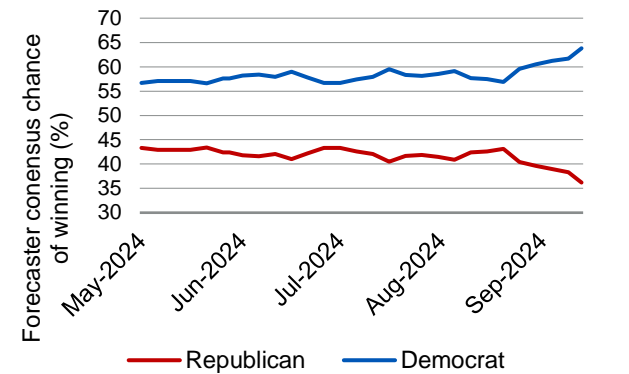
But Republicans remain the strong favourites to control the Senate in either presidential outcome, which could prove to be an insurmountable barrier to the implementation of much of Harris' agenda.

**Trump would have a better chance of a sweep, but faces a challenge to flip the House**

Given advantages in the Senate and the possibility of polling errors, a Republican sweep of the White House and Congress is more likely.

However, it is becoming increasingly likely that the Democrats take control of the House even in a Trump victory, given gains in generic polling averages (see Figure 4). The likelihood of a 'wave' election for either party has fallen.

**Figure 4: Election forecasts have shown an increasing probability Democrats take control of the House**



Source: abrdn, Race to the White House, September 2024

**A compromise on fiscal policy is likely**

A Harris presidency without control of Congress would lead to greater policy continuity than either Harris with unified government or any form of Trump-led government as she would struggle to pass her agenda.

Nonetheless, there are some aspects of her platform that are likely to hold bipartisan appeal and some form of major tax legislation will be needed next year under any government composition to prevent past tax cuts expiring.

Harris has pledged to increase taxes on high earners and corporations to partially offset the costs of tax credits for low and middle earners. Revenue raising measures are mostly aligned with those set out in President Joe Biden's 2025 budget proposal except for corporate income tax, for which Harris proposes a smaller increase to 28%. Harris would tax long-term capital gains and qualified dividends at 28% for taxable income above \$1 million. She has also adopted Trump's proposal to exempt tips from federal income tax.

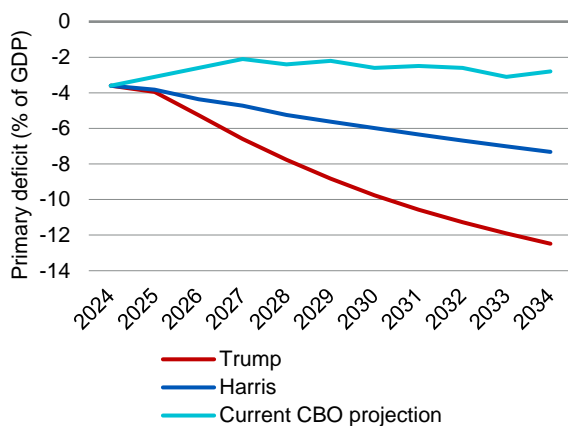
Harris would also increase the top individual income tax rate to 39.6 percent on income above \$400,000 for single filers and \$450,000 for joint filers. Like Biden, she has promised no tax increases for those earning under \$400,000.



Harris has also pledged a series of tax credit expansions. The majority of these are revivals of expired measures included in Biden's American Rescue Plan Act (ARPA).

Harris would revive ARPA's Child Tax Credit on a permanent basis, as well as increase the credit for newborns to \$6000. The ARPA earned income tax credit (EITC) expansion for workers without qualifying children would also be revived and extended. Harris would also introduce a \$25,000 tax credit for first time homebuyers.

**Figure 5: Harris' policy agenda would widen the deficit if implemented in full, but not as much as Trump's**



Source: abrdn, University of Pennsylvania, Congressional Budget Office, September 2024

Harris has also proposed some additional tax credits for businesses. These include an unspecified tax incentive for housebuilders who build starter homes sold to first-time buyers, as well as a \$40 billion fund to create tax incentives for businesses building affordable rental housing. She has also proposed an expansion of the Section 195 startup expense deduction from \$5,000 to \$50,000.

#### Harris would increase regulatory oversight of corporate pricing power...

Harris has pledged to introduce a ban on "price gouging" by grocers and to increase the regulatory powers of the Federal Trade Commission. The campaign has not given details of how the ban would work in practice. State-level price-gouging bans focus on preventing significant price increases of relevant products in emergency situations. If Harris' proposal uses this legislation as its inspiration, it is unlikely to have any significant effect on grocery pricing.

Harris would also expand the \$35 insulin price cap and \$2000 out-of-pocket expense cap to everyone, rather than just to seniors, as Biden proposed. She would also accelerate the speed of Medicare negotiations over prescription medications.

Any significant expansion of regulatory powers in a divided or Republican-controlled Congress is unlikely. Centrist Democrats may also oppose the plans, meaning passage

of regulatory legislation would not be guaranteed even in a Democrat clean sweep.

#### ...attempt to curtail illegal immigration and asylum...

Harris' principal pledge on immigration is to pass the Border Act 2024, which failed to pass Congress this year. This bipartisan bill focuses on measures to reduce illegal immigration and reform the asylum system and would also create 50,000 new work and family visas over five years.

If implemented, the policy may have some impact on reducing illegal migration and asylum to the US, but this is likely to be limited relative to Trump's plans. Harris' plan is unlikely to significantly affect labour market dynamics or inflation relative to the current baseline.

#### ...and not deviate significantly from Biden on foreign policy

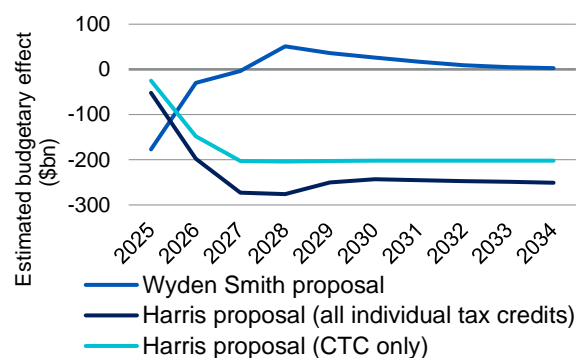
There is no indication Harris would significantly move away from Biden's foreign policy. A continuation of the 'small yard, high fence' trade approach to China, with gradually increasing tariffs on a narrow group of products, is likely. She would also continue to be a vocal supporter of Ukraine, though – like Biden – her ability to provide additional aid will be dependent on Congress.

#### Tax policy will be at the top of Congress' agenda, regardless of the election result

The Tax Cuts and Jobs Act (TCJA) individual income tax cuts are due to expire in 2025. There is bipartisan agreement on at least a partial extension of these. So, a substantial piece of tax legislation is likely to be the principal early focus of the next Congress, regardless of the outcome of the election (see Figure 7).

A divided Congress would likely see the passage of the Wyden Smith tax bill, a bipartisan proposal which combines an extended child tax credit with the restoration of R&D tax credits for businesses, immediate expensing of capital investment, and flexibility for deducting interest costs. The bill, which could support business investment, is more limited in scope than likely changes under any unified government.

**Figure 6: There should be bipartisan support for child tax credit and corporate tax deal**



Source: abrdn, University of Pennsylvania, September 2024



### **Economic implications of a Harris presidency**

In the event of a Harris victory and Democratic control of Congress, we expect significant changes to the US tax code. These would create some material distributional effects, and in aggregate constitute a loosening in fiscal policy.

Indeed, this would push the deficit some 1.7ppts of GDP wider by the end of Harris' four-year presidential term. This would be consistent with a noteworthy loosening of fiscal policy, especially given that the US is already running a large budget shortfall. However, this stands at less than half of the 4.2ppts widening we would pencil in over the next four years should Trump deliver his full policy agenda.

Given that the fiscal multiplier on the specific tax cuts Harris proposes is probably greater than the multiplier on the tax increases, we would expect a boost to GDP growth of between 0.2-0.3ppts each year over this period. This

infusion of demand would imply firmer domestically generated price pressures and a slower pace of FOMC easing than in our base case.

Under a scenario where Harris wins the presidency, but the Democrats do not control Congress, we assume most of the personal tax cuts that are due to expire next year would be extended, preventing a sharp tightening in fiscal policy, and that Congress would pass some combination of child tax credit and tax relief on business investment expensing.

These measures would add to the deficit, but the overall impact at around 0.1-0.2ppts would be notably smaller and probably not sufficient to materially change the growth, inflation or monetary policy outlook. Indeed, we continue to view this scenario as one characterised by policy continuity from a macro and market perspective.

### **Authors**

Lizzy Galbraith and James McCann



**Figure 7: Policy under Harris would be conditional on the makeup of Congress**

	Likelihood under unified Democratic Congress	Likelihood under divided Congress
Raise the corporate tax rate from 21% to 28%	High	Low
Tax unrealized capital gains at death over \$5 million and tax capital gains over \$1 million at 28%	Possible	Low
Extend tax cuts for those earning under \$400k	High	High
Reintroduce \$3600 child tax credit and \$6000 for newborns	High	High, but more limited
First time homebuyers \$25000 tax credit	High	Low
Passage of the Border Act 2024	High	High, but more restrictive
Replace Foreign Derived Tangible Income	High	Depends on details
Expand Section 195 startup expense deduction from \$5,000 to \$50,000	High	Probable
Introduce a federal ban on price gouging for food and groceries	Unlikely to be a priority	Low



Figure 8: US electoral and macro scenarios

	Description	Indicative probability	Policies and impacts
<b>Constrained Harris</b>	Harris wins the presidency but Republicans take the Senate. The expiration of the TCJA in 2025 means a bipartisan agreement on a tax bill will be the major focus of Congress.	40%	<ul style="list-style-type: none"> <li>Legislative achievements in Biden's term are protected, though some downward pressure on IRA funding is likely.</li> <li>The Tax Cuts and Jobs Act (TCJA) is extended for those earning under \$400,000 on a temporary basis.</li> <li>Bipartisan agreement on an expanded child tax agreement and the restoration of R&amp;D tax credits for businesses leads to the passage of the Wyden/Smith bill.</li> <li>Government spending essentially flat in real terms.</li> <li>National Security Agreement to address unauthorised immigration putting some downward pressure on migration.</li> <li>Harris continues the 'small yard high fence' national security and industrial policy strategy.</li> <li>This policy agenda would drive some modest widening in the fiscal deficit, but not large enough to materially shift the dial on growth or inflation with cyclical considerations dominating the outlook, driving a steady monetary easing.</li> </ul>
<b>Blue wave</b>	Harris secures the presidency and a unified Congress. She focuses on progressive tax policy and addressing cost of living concerns through regulatory changes.	10%	<ul style="list-style-type: none"> <li>Increase the top tax rate on long-term capital gains to 28 percent for taxable income above \$1 million.</li> <li>Extension of TCJA for those earning under \$400,000. Expand the child tax credit.</li> <li>IRA funding protected.</li> <li>Increase regulatory powers and oversight for consumer businesses, and additional caps on prescription drug costs.</li> <li>A sizeable widening in the deficit drives domestic growth and inflation pressures modestly higher, leading to a slightly softer pace of easing from the Fed</li> <li>Risk sentiment responds more to the increase in corporation tax and regulatory than the positive fiscal stimulus, resulting in a negative hit to equities.</li> </ul>
<b>Trump trade war 2.0</b>	Trump wins the election and focuses on fulfilling campaign pledges on trade and immigration through executive orders. A split Congress curtails legislative efforts, including tax cutting.	25%	<ul style="list-style-type: none"> <li>Trump uses executive orders to introduce a 60% tariff on Chinese goods he targeted in his first term, resulting in an effective average bilateral tariff on Chinese goods of 40% and selective tariffs on some other sectors and countries.</li> <li>TCJA is extended, but no additional corporation tax cut passed.</li> <li>Upward pressure on government spending levels.</li> <li>Immigration and asylum curtailed through executive orders.</li> <li>Economically, this pushes upwards on inflation, downward on growth, and the Fed eases more slowly. Risk sentiment is negative.</li> </ul>
<b>Trump delivers for markets</b>	Trump's agenda largely follows the pattern set in the first half of his first term, with effort focussed on deregulation and tax cuts.	15%	<ul style="list-style-type: none"> <li>Trump passes a second major tax cutting bill. Sunsetting clauses in the TCJA are removed and corporation tax is reduced to 15% for some businesses.</li> <li>Hard cap on the costs of government regulation. Anti-trust policy becomes more permissive amid broader deregulation.</li> <li>Trump uses tariff threats as leverage to begin trade negotiations. Blanket tariffs are avoided as a result.</li> <li>This policy mix leads to stronger aggregate demand growth, which sees monetary policy somewhat tighter than in the baseline and potentially higher equilibrium rates. The deficit widens substantially on the back of looser monetary policy.</li> <li>Higher corporate profits buoyant risk sentiment offsets the impact of higher discount rates, helping to support equities and other risk assets, with domestic US assets attracting overseas capital.</li> </ul>
<b>Full-fat Trump</b>	Trump takes advantage of a unified Republican Congress to enact his entire political platform – across trade, immigration, fiscal and regulatory policy.	10%	<ul style="list-style-type: none"> <li>Trump takes advantage of a Republican controlled Congress to pass a second major tax cutting bill. Sunsetting clauses in the TCJA are removed and corporation tax is reduced to 15%. The deficit rises.</li> <li>40% average bilateral tariff on China, along with a reshoring plan for all essential goods.</li> <li>Comprehensive immigration reform to limit illegal and legal forms of immigration. Deportations likely to increase.</li> <li>Economy hit by significant inflationary shock, while the impact on growth would depend on risk sentiment and the monetary policy response.</li> <li>Trump attempts to pressure the Fed into not delivering the degree of monetary tightening that might be normally associated with this kind of shock, undermining central bank credibility.</li> </ul>





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