



The Election: Implications for Policy Change?

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Macro/International Issues

- Fiscal policy
 - short run
 - long run
- Labor markets
- Trade policy
 - tariffs
 - sanctions
- Immigration

Summary

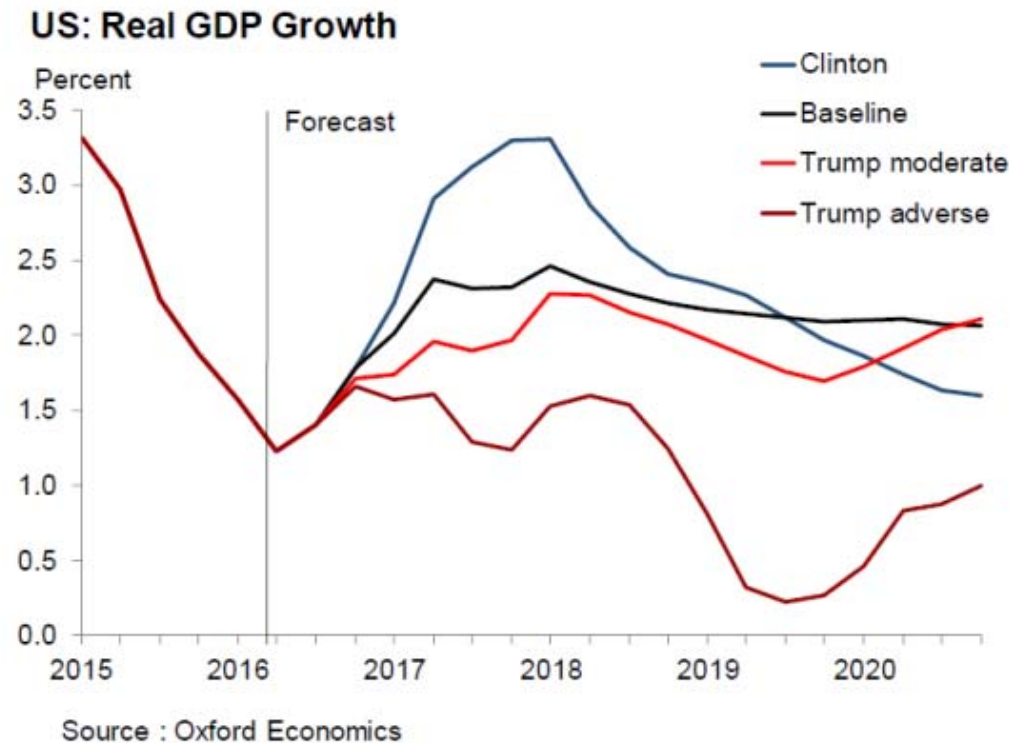
	Trump	Clinton
Taxes	Initially -\$9 trillion (40% for top 1% income) Reduced to \$4 tn; Watered down \$1tn? <ul style="list-style-type: none"> • Collapse tax brackets (12-25-33%) • Repeal AMT • Reduce corporate tax rate to 15% 	Raise +\$1.1 tn (90% on top 5% income) <ul style="list-style-type: none"> • 4% surcharge on AGI >\$5mil • 30% min on AGI >1mil • Limit deductions • Increase capital gains
Spending	Against cuts to Medicare, Social Security & Medicaid; vowed to +defense spend & childcare assist but no details Assume 75%-100% revenue loss is offset	Spend ~+\$1.5 tn: <ul style="list-style-type: none"> • New college compact (free access) • Expand early childhood edu • More infrastructure spend
Deficit	Static increase if 75% spending cut Dynamic increase (less growth)	Static increase by 1.5% of GDP <i>Dynamic decrease</i> 0.2% 2020 (+ growth)
Trade	45% & 35% tariffs on China and Mexico → Dialed back to 15% and 10%?	Shift to the left during primaries (TPP) → DNC platform evasive (LT protectionism risk)
Immigration	600,000 illegals deported/year	Immigration reform +600,000/year
Min wage	No concrete proposal	Increase to \$15/hour (\$1 per year?)

"Trump vs Clinton: Polarization & uncertainty," *Research Briefing* (Oxford Economics, 19 Sept. 2016)

Table 4.1: Transmission of 'Trump presidency weighs on US growth' adverse scenario

Assumption	Transmission channel	Impact
More protectionist trade policy	Lower exports for tariffed countries, as well as countries less directly affected. Price pressures from increased import prices	Lower aggregate demand. Higher inflation in countries which establish tariffs.
Series of tax cuts offset over time by spending cuts and increased borrowing	US fiscal policy initially provides domestic demand stimulus, then has contractionary effects; knock-on impact on other countries' export demand	Initial boost to aggregate demand in the US and beyond, followed by contractionary effects
Reduction in illegal immigration	Increase in population/labour force in countries receiving returning migrants; reduction in US population/labour force	Higher domestic demand and potential growth in countries receiving returning migrants; reduced domestic demand and potential growth in US
Domestic and global confidence shock	Investment and large consumption decisions postponed, exacerbated by impact of lower equity prices on wealth and cost of capital	Weaker domestic demand. Weaker supply growth as capital accumulation slows
Deterioration in market sentiment	Lower US and global equity prices; higher sovereign spreads in EMs affected by tariffs	Dampened business and consumer spending, reflecting negative wealth effects and rising cost of borrowing as credit conditions tighten
Reduced openness weighs on productivity	Weaker productivity growth in countries adopting a less open trade policy, reflecting a deterioration in resource allocation, weaker competition and reduced access for domestic producers to intermediate inputs	Weaker growth in potential supply, with greater inflationary pressure for a given level of demand

Macroeconomic Effects (static)

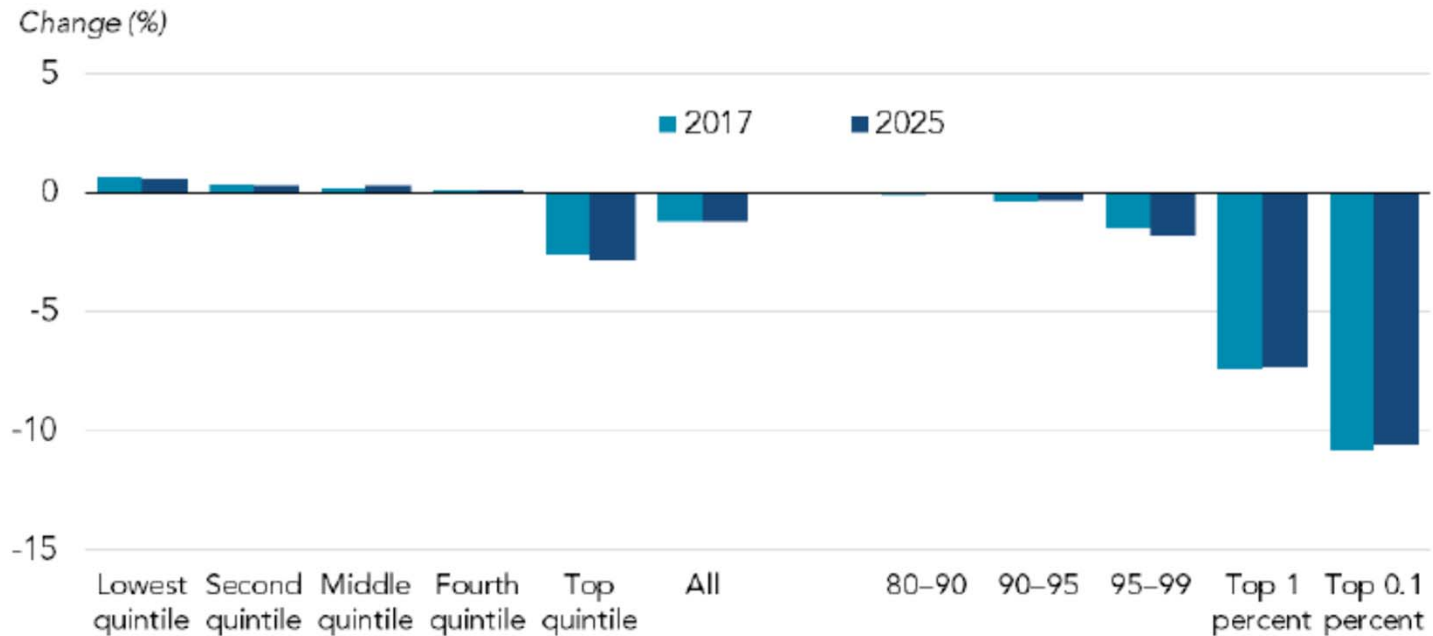


In the '**Trump adverse**' scenario, high trade tariffs would spark retaliation while important government spending cuts, an anti-immigration stance and negative confidence impact would severely constrain growth. A '**Trump moderate**' scenario would see many policies dialed back and imposed temporarily thus lessening the economic blow. The "**Clinton**" proposal would assume her policies are implemented as proposed, while the "**Baseline**" assumes a status quo policy environment.

Clinton Tax Plan

FIGURE 1

Change in After-Tax Income under Clinton Tax Plan
By expanded cash income percentile, 2017 and 2025



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Clinton Tax Plan

TABLE 3

Effect of Clinton Tax Plan on Federal Revenues, Deficits, and the Debt
FY 2016–36



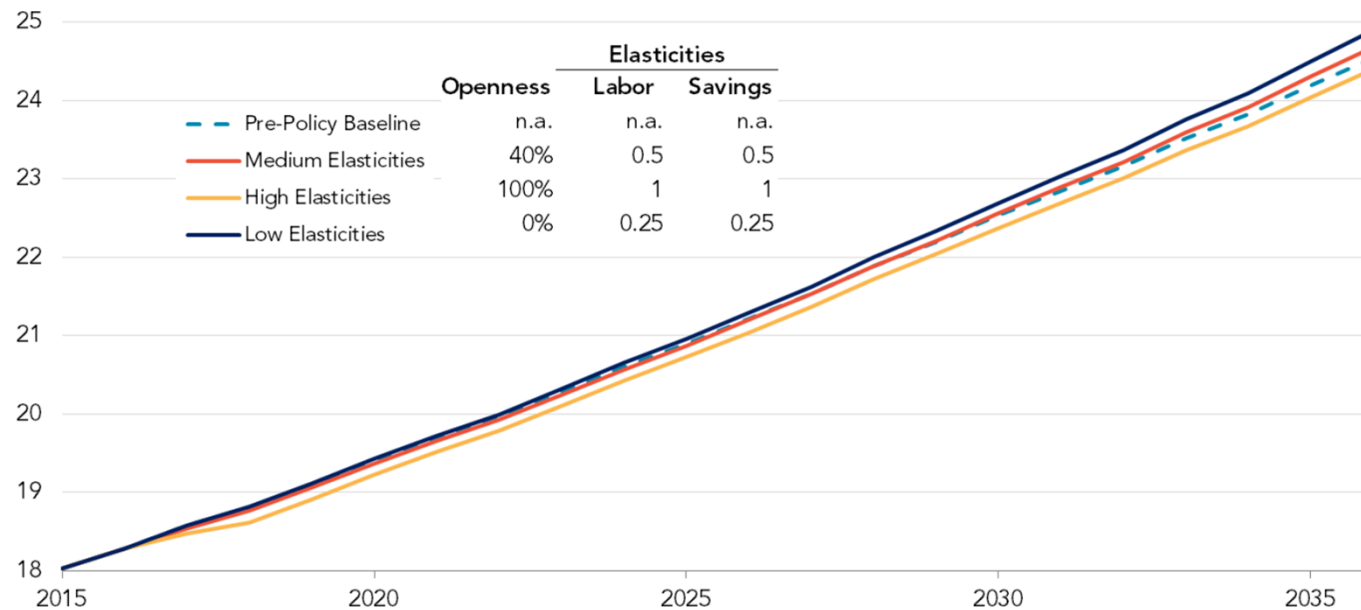
	Fiscal Year												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2016–26	2027–36
Estimates before macro feedback													
Revenue gain (\$ billions)	8.2	38.3	83.5	109.7	121.0	133.1	148.8	161.9	173.7	186.1	199.7	1,363.8	2,718.2
As a percentage of GDP (%)	0.0	0.2	0.4	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.6	0.8
Decrease in interest (\$ billions)	0.0	0.6	2.1	6.1	10.4	15.5	21.1	27.6	34.8	42.6	51.1	211.9	1,162.4
Decrease in deficit (\$ billions)	8.2	38.8	85.5	115.7	131.4	148.6	170.0	189.5	208.5	228.6	250.9	1,575.7	3,880.6
Decrease in debt ² (\$ billions)	8.2	47.1	132.6	248.3	379.7	528.3	698.3	887.8	1,096.2	1,324.9	1,575.7	1,575.7	5,456.4
Cumulative decrease in debt relative to GDP (%)	0.0	0.2	0.7	1.2	1.7	2.3	3.0	3.6	4.3	5.0	5.7	5.7	13.1
Addendum: GDP (end of period: \$ billions)	18,493.8	19,296.5	20,127.1	20,906.0	21,709.7	22,593.2	23,527.5	24,497.2	25,505.6	26,559.2	27,660.0	27,660.0	41,511.7

Clinton Tax Plan (omits spending)

FIGURE 2
GDP under Clinton Tax Plan
Before and after macro response



Trillions of 2015 dollars



Source: Penn Wharton Budget Model (PWBM) overlapping generations model, based on Urban-Brookings Tax Policy Center (TPC) simulations.

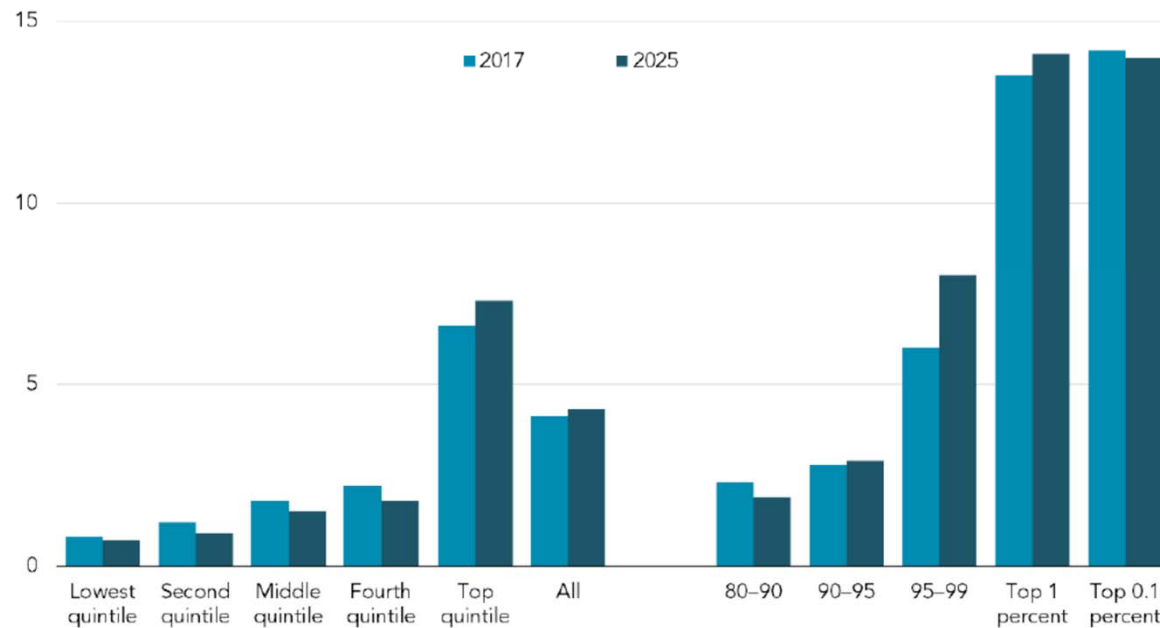
Trump Tax Plan

FIGURE 1

Percent Change in After-Tax Income under Revised Trump Plan
By expanded cash income percentile, 2017 and 2025



Change (%)



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Trump Tax Plan

TABLE 3

Effect of Revised Trump Plan on Federal Revenues, Deficits, and the Debt
FY 2016–36



	Fiscal Year												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2016–26	2027–36
Estimates before macro feedback													
Revenue loss ^a (\$ billions)	5.6	341.0	564.7	607.2	632.7	637.3	634.2	645.4	666.3	691.8	724.2	6,150.4	8,941.0
As a percentage of GDP (%)	0.0	1.8	2.8	2.9	2.9	2.8	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Additional interest (\$ billions)	0.0	3.9	15.0	39.5	63.5	89.6	116.0	144.0	173.4	204.7	237.8	1,087.4	4,751.4
Increase in deficit (\$ billions)	5.6	345.0	579.7	646.7	696.2	726.9	750.2	789.4	839.7	896.4	962.0	7,237.8	13,692.4
Increase in debt ^b (\$ billions)	5.6	350.6	930.3	1,577.1	2,273.2	3,000.1	3,750.3	4,539.6	5,379.3	6,275.8	7,237.8	7,237.8	20,930.2
Cumulative increase in debt relative to GDP (%)	0.0	1.8	4.6	7.5	10.5	13.3	15.9	18.5	21.1	23.6	26.2	26.2	50.4
Addendum: GDP (end of period; \$ billions)	18,493.8	19,296.5	20,127.1	20,906.0	21,709.7	22,593.2	23,527.5	24,497.2	25,505.6	26,559.2	27,660.0	27,660.0	41,511.7

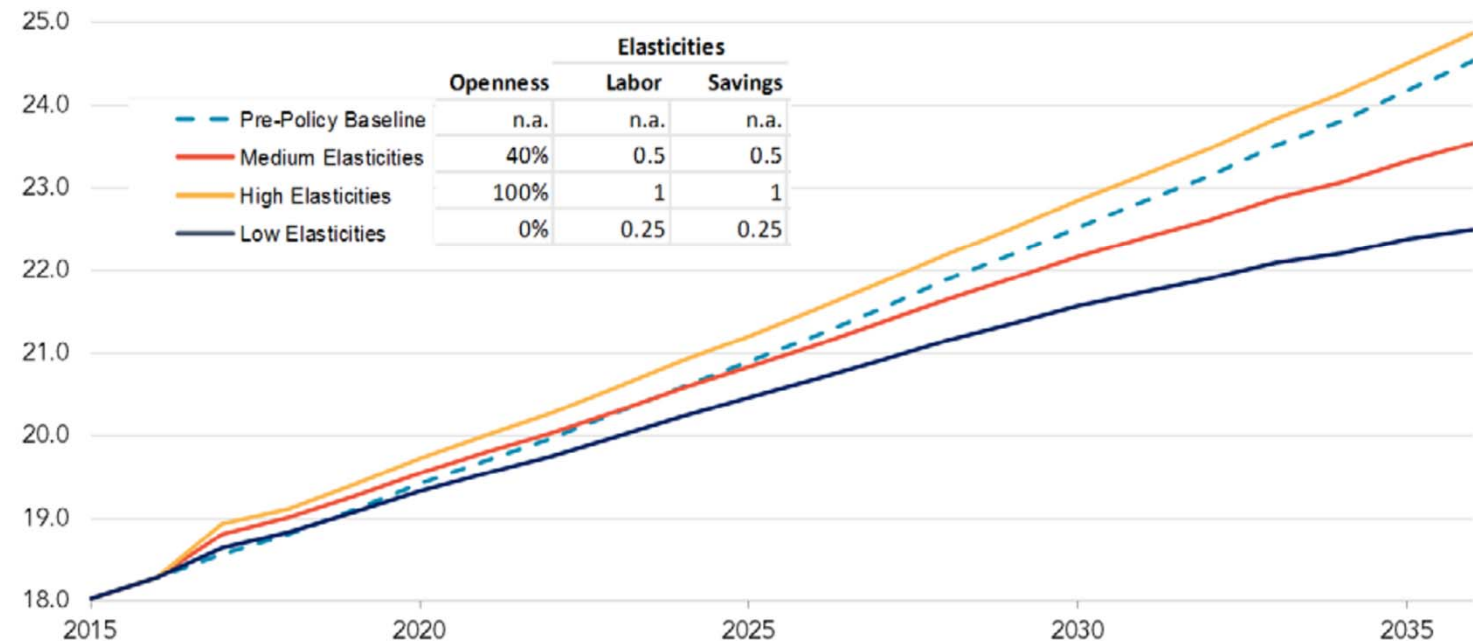
Trump Tax Plan (omits spending)

FIGURE 2

GDP under Revised Trump Plan
Before and after macro response



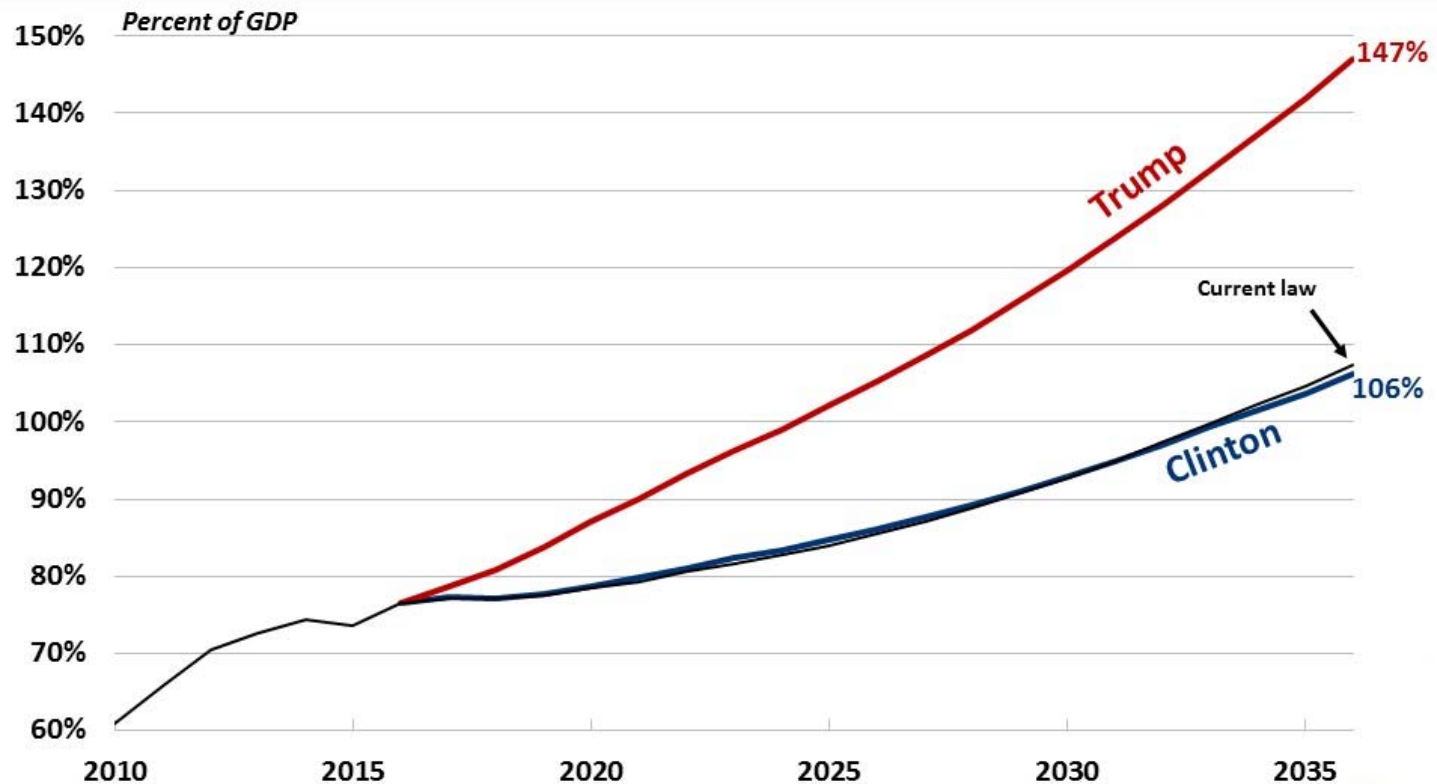
Trillions of 2015 dollars



Source: Penn Wharton Budget Model (PWBM) overlapping generations model, based on Urban-Brookings Tax Policy Center (TPC) simulations.

Differential Impact of Plans

Long-Term Debt Held by the Public Under Candidates' Policies



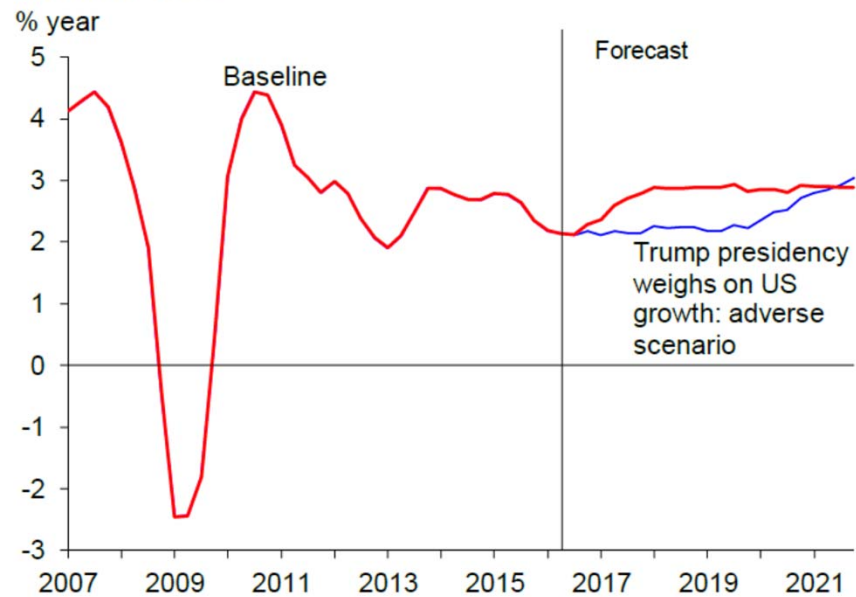
Source: CRFB calculations.

October 26, 2016

Trade War (Trump – adverse)

Chart 4.1: World GDP

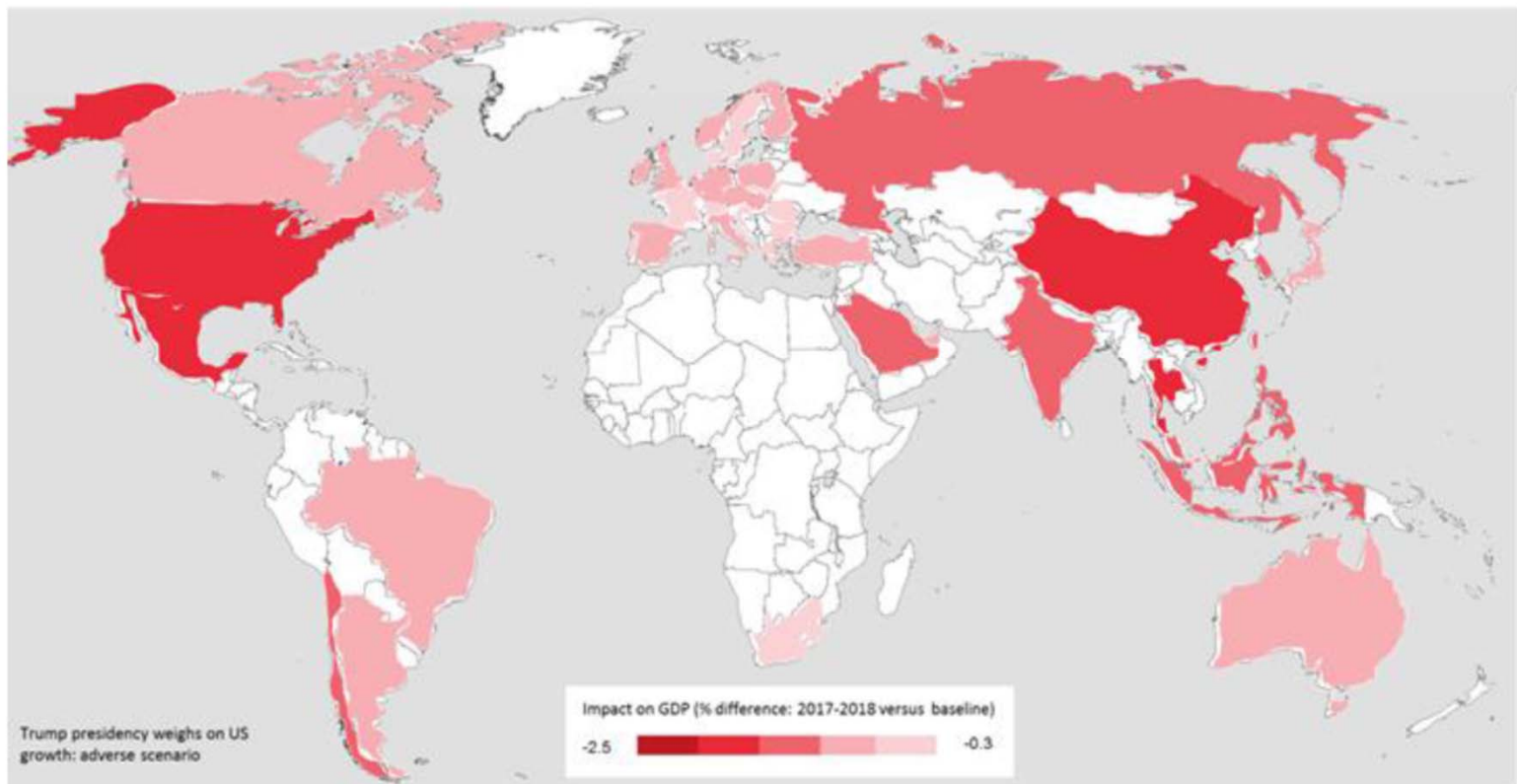
World: GDP



Source : Oxford Economics/Haver Analytics

Trade War (Trump –adverse)

Figure 4.A: Cross-country GDP impact of 'Trump presidency weighs on US growth' adverse scenario



Oxford Economics, *Global scenarios service: Q3 2016*.