



ALLIANZ RESEARCH

# U.S. ELECTIONS-WE HAVE A WINNER: DEBT

**29 September 2020**

- 04 Four different scenarios for the outcome of the U.S. elections
- 06 Economic platforms: How big should the federal government be?
- 09 Impact on growth in the short run
- 10 Impact on deficits and debt
- 11 Impact on external relations
- 12 Impact on long-term growth potential

# EXECUTIVE SUMMARY



Alexis Garatti, Head of Economic Research  
+33 (0) 1 84 1142 32  
[alexis.garatti@eulerhermes.com](mailto:alexis.garatti@eulerhermes.com)



Peter Lefkin, Senior Vice President of Government and  
External Affairs, Allianz of America Corporation  
[peter.lefkin@allianz.com](mailto:peter.lefkin@allianz.com)



Dan North, Senior Economist for North America  
[dan.north@eulerhermes.com](mailto:dan.north@eulerhermes.com)



Anita Poulou, Research Assistant  
[anita.poulou@eulerhermes.com](mailto:anita.poulou@eulerhermes.com)

- **The U.S. elections will spark a period of high uncertainty and market volatility until the end of the year.** It could take one to two months after 03 November to finalize the results due to the record high use of mail-in ballots amid the Covid-19 pandemic. With the outcome likely to be contested by the two camps, a judiciary battle of one or two months is also possible, and market volatility could significantly increase during this time. We identify four possible election outcomes, with our central scenario being a narrow contested victory of Joe Biden, with the Senate still in the hands of the Republicans (40% probability).
- **Choosing between the two candidates will mainly mean choosing between a bigger or smaller federal government.** Joe Biden's economic platform aims at being more redistributive, with a likely net rise of USD3.7trn in taxes over the decade, mostly affecting the highest income earners. It is also demand-side oriented: A Biden win could see public spending rise by USD6.4trn at the horizon of 2030. In contrast, the incumbent U.S. president offers supply-side oriented propositions, including USD3trn of net spending cuts at the horizon of 2030, coupled with USD1.4trn of tax cuts, causing a USD1.1trn net cut in overall government receipts.
- **What will this mean for short-term growth?** As Biden's platform also emphasizes improvements in infrastructure, which is usually associated with the highest multipliers that real activity can benefit from, his victory could result in an extra 1pp of real economic growth in 2021. This supplementary boost should increase until 2024, reaching at least 1.5pp, 2.3pp and 2.2pp of real growth contribution in 2022, 2023 and 2024, respectively. A Trump victory would sustain real economic growth by 0.9pp in 2021, 0.7pp in 2022 and 0.3pp in 2023 as a result of the recovery infrastructure package in the short to medium term. After that, the negative impact of the long-term spending cuts would offset the positive impacts of tax cuts.
- **Over the long-term, public debt will be the real winner of this election.** It should reach 159% of GDP at the horizon of 2030 (compared with 137% expected in 2020), a trajectory which is common to the two candidates despite radically different economic orientations (public debt at 151% of GDP at the horizon of 2030 in the case of a Trump win).
- **In this context, we expect the U.S. economy's growth potential to be structurally impaired.** Between 2021 and 2030, it could reach +1.4% with a Biden victory, and +1.25% in the case of a Trump victory.
- **In our view, political choices in terms of reshoring or redistribution will not create a new regime of very high inflation.** We expect a slight overshoot of the 2% target between end -2022 and the beginning of 2023, and a stabilization close to 2% thereafter.



Photo by Dan Dennis on Unsplash

# 159% of GDP

U.S. public debt by 2030

# FOUR DIFFERENT SCENARIOS FOR THE OUTCOME OF THE U.S. ELECTIONS

The 2020 Presidential elections are likely to intensify uncertainty in the U.S. COVID-19 has compelled some states to use more “mail-in” ballots which the President has strongly opposed, citing the possibility of fraud. Conceivably, it could take one to two months after the 03 November election to count those ballots, and there is a small possibility that Trump could contest the results, putting the outcome of the election in the hands of Congress or the Supreme Court.

Tangible signals of nervousness are already visible in different segments of the market, as the price to get protected against adverse moves of volatility in November has significantly increased. Over the last few weeks, companies have rushed to issue debt in anticipation of much more challenging and tighter conditions during and after the elections. Market volatility is likely to significantly increase from November until the end of the year because of these elections.

According to public polls, Joe Biden now benefits from 50.7% of vote intentions, while President Trump currently stands at 42.6%. However, bet polls suggest that the race could be much tighter. We have identified four different scenarios, with impacts summarized in Figure 1.

**Scenario 1.** Narrow contested victory for Joe Biden (40% probability), with the Senate still in the hands of Republicans. In this scenario, Biden wins but there is a non-negligible chance that President Trump could contest the election, with either Congress or the Supreme Court eventually validating the results. Over the medium-term, because of Republicans still controlling the Senate, Biden has to wait until the second half of 2021 before seeing an effective execution of his economic platform (starting with infrastructure projects) and has to compromise on the most liberal aspects.

**Scenario 2.** Narrow contested victory for President Trump (30% probability), with the Senate still in the hands of Republicans. Democrats ask for precise recounting. President Trump has also to wait until the second half of 2021 before we see a materialization of a large wave of new tax cuts, while infrastructure projects could receive a swifter approval of the Congress because of their bipartisan aspect.

**Scenario 3.** Large victory for Joe Biden (20% probability), with a clear majority in the Congress for Democrats. In this case, the new U.S. President can implement his economic platform quickly with more liberal orientations. The multiplier impacts are much stronger and quicker. In the beginning of 2021, more leftist or liberal orientations could trigger a significant correction of the equity market, requiring a strong intervention of the Fed in order to tame volatility. This instability would last only during Q1 2021 as the perspective of a new investment cycle would reassure the market later.

**Scenario 4.** Large victory for President Trump (10% probability), with no clear majority in the Congress. The House remains in the hands of Democrats. President Trump manages to implement tax cuts albeit with delays (second half of 2021). His foreign policy is more assertive, in particular targeting China, with negative impacts on global equity markets. De-globalization would accelerate at a global level.

**Figure 1:** Four different scenarios for the U.S. elections

Scenario	Biden large victory	Biden narrow victory	Trump narrow victory	Trump large victory
Probability	20%	40%	30%	10%
Scenario description	<ul style="list-style-type: none"> <li>President Trump cannot make any fraud claims.</li> <li>Democrat majority in congress, in the house as well as in the senate.</li> <li>Rapid voting of a USD 2.7 trillion package (net) over the ten coming years.</li> </ul>	<ul style="list-style-type: none"> <li>Non-negligible chance that Trump contests the election.</li> <li>Possibility that the Supreme Court has to validate the results, perhaps taking as much as two months.</li> <li>No clear majority in the Congress. The house keeps a Democrat majority and the senate keeps a Republican majority.</li> <li>Negotiation blockade on the budget in the Congress maintains a possibility of shutdown until Q2 2021.</li> </ul>	<ul style="list-style-type: none"> <li>No clear majority in the Congress. The house keeps a Democrat majority and the senate keeps a Republican majority.</li> <li>Non-negligible chance that Biden contests the election, possibility that the Supreme Court takes as much as two months to validate the election.</li> </ul>	<ul style="list-style-type: none"> <li>Joe Biden cannot make any fraud claims.</li> <li>Whole congress turns Republican.</li> </ul>
Economic impact	<ul style="list-style-type: none"> <li>New investment cycle with big infrastructure projects and redistributive policies.</li> <li>Decline of unemployment rate at 5.5% by the end of 2022 (8.4% today).</li> <li>US GDP growth at -5.3% y/y in 2020, +4% y/y in 2021 and 3.5% in 2022.</li> </ul>	<ul style="list-style-type: none"> <li>Less ambitious program. Consensus on Infrastructure projects but lower re-distribution in favor of households, not fulfilling of the promise of increasing corporate tax rate from 21% to 28% (halfway).</li> <li>US GDP growth comes at -5.3% in 2020; +3.7% in 2021 and +3.2% in 2022.</li> </ul>	<ul style="list-style-type: none"> <li>Supply-side policy, extended tax cuts for individuals, smaller size Infrastructure projects. Uncertainty on external policy, perspective of harsher tone on China and re-shoring weighs on the investment cycle despite tax cut announcements.</li> <li>Bold moves on the external side (technology cold war, tariffs, and sanctions on US companies located abroad) penalizes growth (-5.3% in 2020; +1.7% in 2021 and +1.2% in 2022).</li> </ul>	<ul style="list-style-type: none"> <li>Tax cuts, new protectionist measures, bipartisan adoption of infrastructure program, but less extensive than Biden because of a less ambitious green plan, early implementation of other spending cuts.</li> <li>US GDP growth comes at -5.3% in 2020, 2,7% in 2021, 1,8% in 2022.</li> </ul>
FED response	<ul style="list-style-type: none"> <li>FED balance sheet levels off as early as Q1 2021 after a steady increase since Q4 2020.</li> <li>First rate hike as early as Q3 2022.</li> </ul>	<ul style="list-style-type: none"> <li>FED balance sheet increases until end-Q2 2021 (to alleviate significant amount of uncertainty) then levels off.</li> <li>First rate hike from Q3 2023 only.</li> </ul>	<ul style="list-style-type: none"> <li>FED balance sheet increase until end Q3 2021, then levels off. Political uncertainty is as high as in the short Biden victory scenario.</li> </ul>	<ul style="list-style-type: none"> <li>FED balance sheet levels off as early as Q2 2021 after a steady increase since Q4 2020.</li> <li>First rate hike as early as Q4 2023.</li> </ul>
USD	<ul style="list-style-type: none"> <li>The dollar is set to depreciate versus the EUR by up to 2,5% within the next 12 months;</li> <li>Then re-appreciates by 4-6% one year later.</li> </ul>	<ul style="list-style-type: none"> <li>The dollar is set to depreciate versus the EUR by up to 5% (~1.25) within the next 12 months;</li> <li>Then re-appreciates by 2-3% one year later.</li> </ul>	<ul style="list-style-type: none"> <li>The dollar is set to depreciate versus the EUR by up to 7,5% within the next 12 months;</li> <li>Then re-appreciates by 2-3% one year later.</li> </ul>	<ul style="list-style-type: none"> <li>The dollar is set to depreciate versus the EUR by up to 10% within the next 12 months;</li> <li>Then re-appreciates by 4-6% one year later.</li> </ul>
10 year treasury yield	<ul style="list-style-type: none"> <li>1,25% at the end 2020; 1,8% at the end of 2021.</li> </ul>	<ul style="list-style-type: none"> <li>1% at the end 2020; 1.4% at the end of 2021.</li> </ul>	<ul style="list-style-type: none"> <li>1% at the end 2020; 1.4% at the end of 2021.</li> </ul>	<ul style="list-style-type: none"> <li>1,15% at the end 2020; 1.6% at the end of 2021.</li> </ul>

Sources: Euler Hermes, Allianz Research

# ECONOMIC PLATFORMS: HOW BIG SHOULD THE FEDERAL GOVERNMENT BE?

Unsurprisingly, Biden and Trump have radically different ideas for the scope of federal government involvement in the U.S. economy and both plan (see **appendix 1** for a detailed comparison) on doing much more than simply paying lip service to their respective political parties' paradigms in 2020 itself. Indeed, choosing between Biden and Trump on 03 November will also, if not mainly, mean choosing between a bigger or smaller federal government.

## Joe Biden's economic platform aims at being more redistributive

Biden's Vision for the United States almost has a 1930s New Deal-ish tone, with massive spending plans that go by the trillion and a strong emphasis on improving the country's infrastructure first.

### Infrastructure projects at the core of a green revolution

The **Biden Plan to Invest in Middle Class Competitiveness** will have the U.S. federal government disburse no less than USD1.3trn to invest in addi-

tional and improved infrastructure: 23% of this will be dedicated to housing, as part of the USD640bn **Housing Plan**, 1.5% to investing in rural broadband, 7.7% to school infrastructure, 2.3% in small business funding and 0.8% in transit projects that serve high-poverty areas. The Biden **Plan for a Clean Energy Revolution and Environmental Justice** accounts for the lion's share of the entire economic platform, bringing about USD2trn in additional investment over the course of four years. This spending colossus should entail USD300bn dedicated to R&D, through the Biden **Plan for Investment in Research & Development and Breakthrough Technologies**, as well as USD400bn mobilized in favor of a purchase program through the Biden "Buy American" Plan.

### Defending Obamacare

The Biden platform will likely incorporate policies similar to those proposed or enacted during the Obama administration, and even expand upon them by trying to reduce the age of eligibility for receiving Medicare to 60, creating a public option for health insurance, expanding the Medicaid program and

trying to rein in pharmaceutical costs as well as "surprise billing", which hits patients who go to a medial provider outside of their insurance companies' network. The third behemoth spending plan will therefore – unsurprisingly – deal with health. For one thing, the Biden **Plan for Mobilizing American Talent and Heart to Create a 21st Century Caregiving and Education Workforce** will allocate no less than USD775bn to funding child and elder care. Additionally, the Biden **Plan to Protect and Build on Obamacare** will inject USD750bn into strengthening the previous U.S. president's famous reform. Finally, the Biden **Plan to End the Opioid Crisis** will disburse USD125bn with the goal of ending the on-going opioid epidemic.

To finish, Biden has also mentioned wanting to strongly tackle the highly debated student loan problem in the U.S., although in this case giving a clearly defined cost might not be a piece of cake. Indeed, estimates suggest the problem could amount to as much as USD2.9trn, far above Biden's usual communication, putting forward a cost of USD750bn.

**Figure 2:** Main features of Biden's economic plan

BIDEN		
<b>SPENDING, USDbn (+6435.85)</b>		CBO multipliers
+970	Infrastructure (not elsewhere)	0.850
+2000	Climate change	0.850
+750	Student loans	0.825
+1650	Health	0.775
+128.2	Schools	0.793
+23.6	Defense	0.850
+240.5	Public-private investment	0.725
+640	Housing plan	0.850
+33.55	Other spending increases	0.725
<b>REVENUE, USDbn (+3686)</b>		CBO multipliers
+3746	Tax increases	-0.400
-60	Increase tax incentives	-0.600

Sources: Diverse media, Euler Hermes, Allianz Research

**Figure 3:** Global trade growth, in volume terms and value (% , y/y)

TRUMP		
<b>SPENDING, USDbn (-2965)</b>		CBO multipliers
+1275	Infrastructure	0.850
-125	Higher education	0.725
-280	Reform welfare programs & increase parental leave	0.825
-1550	Discretionary, non-defense	0.850
-400	Discretionary, defense	0.850
-1630	Health	0.725
-255	Other spending cuts	0.848
<b>REVENUE, USDbn (-1085)</b>		CBO multipliers
-1370	Tax decrease	-0.225
+285	Reduce tax incentives & raise fees	-0.634

Sources: Diverse media, Euler Hermes, Allianz Research

### A return to the pre-Trump era in terms of taxes

The Biden presidency would also cause major shake-ups in federal receipts, mostly channeled through substantial tax increases. In 2017, President Donald Trump's **Tax Cuts and Jobs Act** ended the bracket system organizing corporate income tax, leading to a 14pp drop in the marginal rate (which became the only rate applicable) down to 21%. It also cut by half the minimum tax on global income originating from intangible assets such as patents and trademarks, as well as copyrights (known as GILTI); repealed the corporate alternative minimum tax and rearranged the graduated personal income tax system, notably by decreasing the marginal tax rate by 2.6pp down to 37%, among other changes. Joe Biden's Tax Plan would reverse much of this by:

- increasing the now unique corporate income tax rate by 7pp to 28%,
- re-introducing a 15% minimum book tax on corporations whose income goes beyond USD100mn,
- limiting itemized deductions,
- repealing Trump's reform on the taxation of GILTI,
- taxing capital gains at ordinary income tax rates instead of the current 23.8% rate for those earning over USD1mn
- and subjecting incomes above USD400,000 to the 12.4% Social Security payroll tax.

Biden would also eliminate the carried interest tax preferences for partners of private equity and hedge funds, and is likely to raise the maximum applicable deduction above USD10,000 for state and local taxes affecting individuals. The beneficiaries of this last measure are likely to be residents in high taxed states such as New York, California and New Jersey, which by tradition vote Democratic, and are still resentful of what they perceive as a Republican partisan effort to hurt them in the 2017 Tax Reform bill. In total, the Biden Tax Vision may raise around USD4trn depending on the dynamic effects caused by the numerous stimuli packages mentioned by the former Vice President if elected.

Also on a Biden agenda will be efforts to expand retirement savings, particularly among people with lower incomes. The current system, which relies upon 401K and other qualified employer sponsored plans, provides a deduction for those who save. Critics argue that that this provides more benefits to the wealthy, as they pay taxes at the high effective rate of 37% and thus get a bigger deduction than lower paid workers. Believing that tax incentives should be used to broaden the number of people who have retirement plans and increase their savings rates, the Biden proposal would replace deductions with tax credits to equalize the benefits.

Finally, Biden favors establishing a government-sponsored retirement account option that would make it easier for small employers to establish a retirement program for their employees. It would directly compete against private fund managers

### President Trump's economic platform is more about supply-side policies

Although the Republican party has not published an official political platform for the 2020 presidential election, instead stating it would continue to abide by the ideas pushed forward over the course of Trump's current term, we do have some visibility on the debt and budget paths if Trump were reelected.

In February 2020, the White House released its budget projections over the course of the current decade. We pair this document with the latest announcements regarding the so-called CARES Act – Coronavirus Aid, Relief, and Economic Security Act – implemented amid the Covid-19 pandemic.



### Large spending cuts envisaged

In its budget vision, the Trump administration plans on faithfully complying by the Republican party's motto, which emphasizes the idea of a smaller government, by enacting major spending cuts amounting to almost USD3trn in total. To begin with, if chosen to pursue a second term, President Trump will further slim the budget dedicated to health. For one thing, costs associated with Medicare and Medicaid could drop by USD785bn; then, Trump's Vision for Health Reform could materialize through an USD845bn spending cut. Moreover, discretionary spending might drop USD1.95 trn over 10 years, including USD400bn on the defense side. A series of welfare programs could lose USD220bn in funding; federal em-

ployees may have to live without various perks, the cost of which amounts to USD90bn; the postal service might be reformed to need USD95bn less than currently, farm subsidies may decrease by USD50bn, and education could lose no less than USD170bn, among other cuts.

The Trump administration does intend to pass a USD1trn recovery infrastructure plan in the short term, added to an initially planned USD275bn infrastructure package mainly aimed at improving the highway network. Finally, USD45bn will be disbursed in favor of scholarships and USD20bn towards financing parental leaves, among other minor increases.

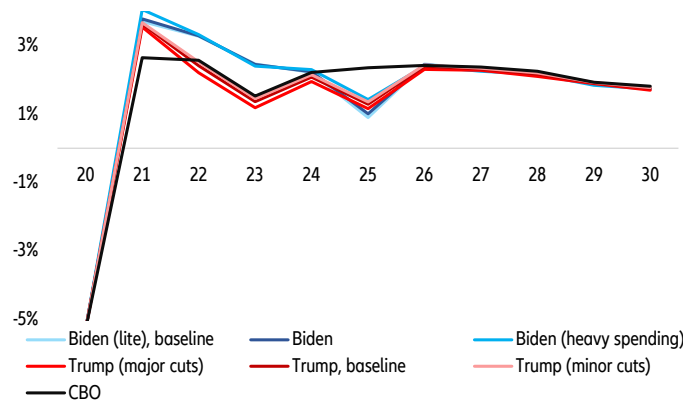
### Fiscal revenues to be boosted by unleashed growth on the back of persistently low taxes

In the receipt department, the Trump Vision is reinforced with an extension of the currently enforced tax overhaul on individuals beyond 2025. Depending on dynamic effects impacting GDP growth, this measure could decrease revenue by around USD1.4trn. Finally, under the form of additional fees and premia, combined with slimmed tax incentives, the Trump administration aims at raising around USD260bn in supplementary receipts. Consequently, overall revenue may suffer a net loss close to USD1.1tr.



# IMPACT ON GROWTH IN THE SHORT RUN

**Figure 4: U.S. GDP growth in different scenarios**



Sources: Euler Hermes, Allianz Research, OMB, PWBM, White House, CBO

Based on the various shaded areas underlined in both candidates' political platforms, we envisage no less than six forecast possibilities, each one putting forward its singular debt, GDP and deficit trajectories. Under "Trump (minor cuts)", President Trump could only implement a quarter of his planned spending cuts by 2030, under "Trump, baseline" half of them and under "Trump (major cuts)", all cuts would be conducted successfully over the course of the decade. Similarly, based on the variations in the effective cost associated with the Biden Student Debt Plan, we have chosen to study three Biden paths for the debt, GDP and deficit trajectories. "Biden (lite), baseline" implies a \$750bn plan, "Biden" suggests a cost of \$1,220bn, while "Biden (heavy spending)" points to \$2,920bn.

A Biden presidency could see U.S. fiscal policy producing positive results by reactivating a new investment cycle

from H2 2021. The more redistributive economic platform should support growth by +1pp, albeit to a lower extent compared with 2020 (+1.7pp impact on growth of the USD2.2trn CARES Act), as direct cash payments to households in particular had quicker and higher multiplier impacts. However, if Biden wins, the likely division within the Congress could result in delayed execution, resulting in less than USD500bn being spent in the first year of the new Presidency.

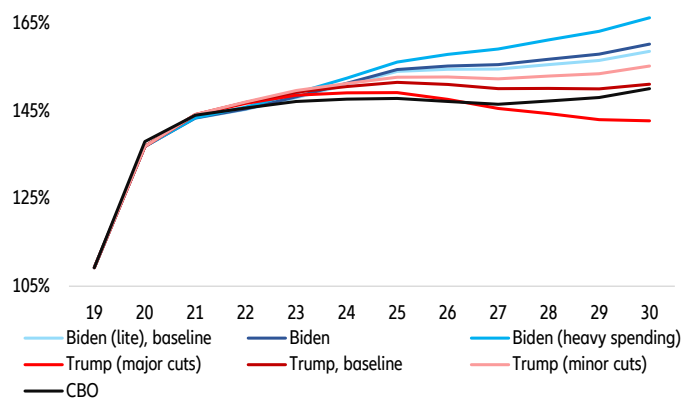
If elected, Biden's plans could likely cause the U.S. federal public deficit to jump between 1.1pp (to 5.7% of GDP) and 1.9pp (to 6.5% of GDP) between 2019 and 2030, depending on the true cost of his plan to fix the student debt problem. However, in compensation, GDP will receive a boost over the course of the decade. Indeed, the majority of Biden's extra spending tackles the need for additional or improved

infrastructure, which is the type that is usually associated with the highest multipliers that real activity can benefit from. Our forecast points to an extra 1pp of real economic growth in 2021 due to a stimulus package of around USD320bn. This supplementary boost should increase until 2024 – that is, over the course of Biden's first, if not unique, term – reaching at least 1.5pp, 2.3pp and 2.2pp of contribution in 2022, 2023 and 2024, respectively. After that, should Biden be reelected, the effectiveness' of the stimulus program should slowly fade. All in all, we estimate at \$2.7 trillion the net size of a new stimulus affecting the U.S. economy under a Biden presidency, spread over a 10-year timeframe.

The four trajectories of growth presented below correspond to the different options achievable by Biden or Trump based on the multipliers presented in Figures 2 and 3.

# IMPACT ON DEFICITS AND DEBT

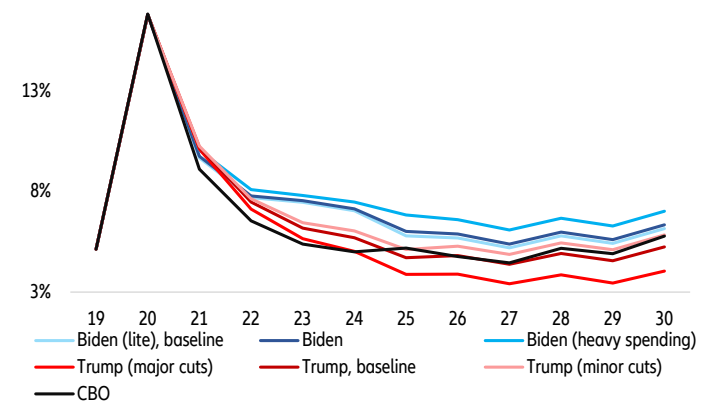
**Figure 5: U.S. public debt, % of GDP**



Sources: Euler Hermes, Allianz Research, OMB, PWBM, White House, CBO

Covid-19 has already caused U.S. public debt to swell further to 137pp of GDP, from 109pp in 2019. So the election will be about picking between high or alarmingly high when it comes to debt. Under Biden, public debt would consistently grow at an average pace of +2.2pp each year between 2021 and 2030, eventually standing at 159pp. In case the cost of the Biden Student Debt plan ends up reaching levels far above \$750bn, the debt could stand at 160pp to 166pp by 2030. Should Trump start a second term, and if his intended policies are to be continued all the way through the entire decade, U.S. public debt would keep on increasing at an average yearly pace of +2.5pp between 2021 and 2025, before consistently decreasing -1.3pp annually (on average), eventually reaching 142pp. If President Trump's spending cut measures were only partially enforced, which is more likely to happen, U.S. public debt would stand at between 151pp and 155pp in 2030.

**Figure 6: U.S. public deficit, % of GDP**



Sources: Euler Hermes, Allianz Research, OMB, PWBM, White House, CBO

Indeed, there is substantial doubt the Trump administration will manage to enact all desired spending cuts, considering the potential impact on economic growth this might entail, which will only partially be compensated by the concomitant tax decrease. As a matter of fact, all adjustments considered, the federal budget might save no less than USD1.9trn over the course of 10 years, bringing the deficit down 1pp to 3.6% of GDP in 2030 from 4.6% in 2019, which, said differently, also amounts to falling 6.1pp from the post-Covid 19 crisis level of 9.6% in 2021. Nevertheless, our estimate for the public deficit stands far above the White House's, which, in February, clearly underestimated the negative impact of the tax overhaul extension beyond 2025 on government receipts, notably due to unrealistic assumptions regarding GDP growth. Consistently around 5% year-on-year in nominal terms from 2021 to

2030, too strong a GDP growth artificially inflates tax receipts and dramatically distorts the base effect when calculating the public deficit in GDP percentage points. Consequently, the Office of Management and Budget – the POTUS' main expert council on the matter – forecasted that deficit would decrease to 0.7% of GDP in 2030, no less than 2.8pp below our prevision. And that's in the case Trump manages to carry on with the spending cuts as he plans! For that matter, we envisage two other "Trump-scenarii", in which only 50%, or even 25%, of all spending cuts would be enforced. In such cases, the public deficit would gain 0.2pp or 0.8pp reaching 4.8% or 5.4% of GDP – which stands 0.1pp above the CBO baseline, at 5.3pp – between 2019 and 2030.

# IMPACT ON EXTERNAL RELATIONS

The U.S. “Cold Peace” conflict with China will likely remain throughout the 2020s and the Biden mandate of reining in China will not be that much different than Trump’s. However, what can be expected to change is that Biden will seek to reaffirm relations with traditional U.S. allies that were fractured by President Trump, bringing them into a broader coalition of countries that together would work to ensure that China adheres to international rules. Tariffs would be used strategically but not viscerally. Biden would be anxious to have China address climate change and also to apply pressure on

North Korea to rein in militarism and provocations. Both countries remain intertwined economically, but expect continued Congressional efforts to restrict Chinese investments in the U.S.. Under Biden, the U.S. would also seek to reaffirm the NATO and EU relationships and assure Europe that the Atlantic Alliance remains very important. The U.S. could continue efforts already undertaken by the Obama and Trump administrations to get NATO members to increase their defense budgets, and also to secure their cooperation in combatting cybersecurity, terrorism and other risks to the international order.

A second Trump Administration would probably not be all that different than a first one. The President would continue to promote de-regulation, urge the Federal Reserve to pursue a more accommodative monetary policy and deprioritize climate change issues. President Trump has shown disfavor for international institutions and we expect this would continue.



Photo by Dan Dennison Unsplash

# IMPACT ON LONG-TERM GROWTH POTENTIAL

To compare the impact of the two economic platforms on the long-term growth, we first estimate the U.S. economy's long-term growth in function of four different variables, i.e. productivity growth (over one year), growth of the active population (yearly), the share of imports as a percentage of GDP and the size of public debt as a percentage of GDP. We assume that these four variables will take different trajectories under a Democrat or Republican administration. Our estimate reveals that the growth potential is positively explained by the growth of productivity (coefficient  $C(1) = 0.07$ ), the growth of the active population (coefficient  $C(2) = 0.26$ ) and the share of imports as a percentage of GDP (coefficient  $C(3) = 0.36$ , meaning that re-shoring activities are bad for the growth potential). However it is negatively determined by the size of public debt (coefficient  $C(4) = -0.03$ ).

Separately, we create a dummy variable "dummy 1", using 1 for a Democrat administration and 0 for a Republican one. Inversely we create a dummy variable "dummy 2", using 0 for a Democrat administration and 1 for a Republican one. Explaining the growth of productivity and the active population between 1971 until today with the two

dummy variables and a trend we obtain the following results:

- Historically, Democrat administrations have a lower performance in terms of productivity growth (-0.6 pp below trend) versus Republicans (0.4 pp above trend)
- Historically, Republican administrations have a lower performance in terms of growth of the active population (-0.3 pp below trend) compared with Democrats (+0.4 pp above trend)

A Biden administration would make immigration reform a priority, and try to provide some degree of protections to people who came to the U.S. illegally but who have been here for many years and have jobs and family, DACA recipients. Along with the priority given to education and health, this would play a positive role in the growth of the active population. In contrast, with a continuation of the Republican administration, supply-side policies would be more beneficial to productivity, while stricter conditions on immigration and lower spending in health and education could lead to lower growth of the active population. Taking into account the following assumptions:

- Below / above trend growth of productivity in the case of a Democrat / Republican administration
- Above / below trend growth of the active population in the case of a Democrat / Republican administration
- Public debt reaching 160% of GDP at the horizon of 2030 in the case of a Democrat victory and 150% of GDP in the Republican case
- The share of imports as a percentage of GDP returning to a pre-Trump era level (14.3% of GDP at the horizon of 2030 versus 13.6% in Q2 2020) in the case of a Democrat victory and a further decline to 13.3% at the horizon of 2030 in the case of a Republican victory

We eventually obtain an average potential of growth of +1.4% between 2021 and 2030 in the case of a Democrat win and +1.25% in the case of a Republican win.



### Would a Biden victory be destabilizing for inflation?

From a Democratic party perspective, the Covid-19 pandemic has further revealed the fact that income and social inequality are more pervasive than previously thought and for the sake of national unity require redressal. The Biden platform is not designed to displace the private marketplace, but instead to infuse it with greater responsibilities including assistance in promoting diversity in the workplace, and adhering to ESG guidelines. Expect also an increase in the federal minimum wage. In order to estimate the impact on inflation of the economic platform of a more redistributive economic policy, similar to the one proposed by Biden, we build equations using variables allowing us to factor in long-term political orientations such as:

Unit labor costs, which currently have a higher probability to mirror a more redistributive fiscal policy should Biden win the election

Oil prices, which can be seen as energy cost, the latter possibly exposed to upward pressure because of a rapid transition to greener energy

The share of imports in the economy, in order to factor in any trend favorable to reshoring, which is favored by the two candidates

The monetization of debt measured by the free-float, which is a trend observable across developed countries and required for the planned accumulation of debt by the two candidates

The output gap or growth deviation from trend in order to factor in long-lasting macroeconomic shocks

All coefficients have a conventional sign: an acceleration of unit labor costs triggers an acceleration of CPI inflation. Any long-term policy of reshoring is likely to generate higher inflation as well. Debt monetization nurtures inflation over the medium-term. We have identified three regimes of inflation in function of the assumptions that we take on all the exogenous variables of our models. Debt monetization and reshoring,

even in the central case, have the potential to bring inflation above the 2% target, albeit only in a temporary manner in our central scenario. This scenario is clearly conceivable as evidenced by the recent decision of the Fed to replace its 2% objective with an average approach of it.

## APPENDIX 1 Details of economic plans of candidates

OUTLAYS	TRUMP <sup>1</sup>	BIDEN <sup>2</sup>
Infrastructure (not elsewhere)	<b>+\$1,275bn</b> <ul style="list-style-type: none"> <li>+275: enact highway and other infrastructure spending</li> <li>+1,000<sup>3</sup>: infrastructure plan to boost the economic recovery</li> </ul>	<b>+\$870bn</b> <ul style="list-style-type: none"> <li>+850: The Biden Plan to Invest in Middle Class Competitive (not allocated elsewhere)</li> <li>+20: Investment in rural broadband infrastructure, part of the Biden Plan to Invest in Middle Class Competitiveness</li> </ul>
Climate change (not elsewhere)		<b>+\$1,970bn</b> <ul style="list-style-type: none"> <li>+1,270: The Biden Plan for a Clean Energy Revolution and Environmental Justice (not allocated elsewhere)</li> <li>+300: The Biden Plan for Investment in Research &amp; Development and Breakthrough Technologies, part of the Biden Plan for Energy Revolution and Environmental Justice - \$30bn is due to the Small Business Opportunity Fund</li> <li>+400: The Biden "Buy American" Plan, part of the Biden Plan for a Clean Energy Revolution and Environmental Justice</li> </ul>
Education	<b>-\$125bn</b> <ul style="list-style-type: none"> <li>-170: reform higher education loans and spending</li> <li>+45: establish Education Freedom Scholarship</li> </ul>	<b>+\$978.2bn</b> <ul style="list-style-type: none"> <li>+100: investment in schools' infrastructure, part of the Biden Plan to Invest in Middle Class Competitiveness</li> <li>+50: investment in workforce training, including community business partnerships and apprenticeships</li> <li>+8: invest in community college facilities and technology</li> <li>+70: invest in Historically black colleges and universities and minority-serving institutions</li> <li>+750: student loan forgiveness program</li> <li>+0.2: grant directed towards minority universities and colleges</li> </ul>
Welfare programs	<b>-\$280bn</b> <ul style="list-style-type: none"> <li>-35: reform disability programs and reduce Social Security improper payments</li> <li>-220: reform Welfare Programs</li> <li>-45: promote return-to-work for workers with disabilities</li> <li>+20: provide paid parental leave</li> </ul>	
Defense	<b>-\$400bn</b> <ul style="list-style-type: none"> <li>-400: freeze defense spending after 2025 and reduce OCO spending</li> </ul>	<b>+\$23.6bn</b> <ul style="list-style-type: none"> <li>+23.6: increase funding for up-armored Mine-Resistant Am Protected vehicles</li> </ul>
Healthcare	<b>-\$1,630bn</b> <ul style="list-style-type: none"> <li>-785: reduce Medicare and Medicaid Costs</li> <li>-845: support the President's Vision for Health Reform (placeholder)</li> </ul>	<b>+\$1,650bn</b> <ul style="list-style-type: none"> <li>+775: The Biden Plan for Mobilizing American Talent and Creating a 21st Century Caregiving and Education Workforce</li> <li>+125: The Biden Plan to End the Opioid Crisis</li> <li>+750: The Biden Plan to Protect and Build on Obamacare</li> </ul>
Public-private investment & Subsidies to businesses	<b>-\$50bn</b> <ul style="list-style-type: none"> <li>-50: Reduce farm subsidies</li> </ul>	<b>+\$270.5bn</b> <ul style="list-style-type: none"> <li>+120: public-private investment to minority entrepreneurs (originally \$150bn, \$30bn is dedicated to the Small Business Opportunity Fund, included in the \$300bn R&amp;D investment and part of the Biden Plan to Invest in Middle Class Competitiveness)</li> <li>+60: establish a True Small Business Fund</li> <li>+30: double down on the State Small Business Credit Initiative of the Biden Plan to Invest in Middle Class Competitiveness</li> <li>+60: increase Community Development Financial Institution (CDFI) funding</li> <li>+0.5: establish a military spouse entrepreneurship pilot program</li> </ul>
Housing		<b>+\$640bn</b> <ul style="list-style-type: none"> <li>+530: The Biden Housing Plan, \$300bn of which is part of the Biden Plan to Invest in Middle Class Competitiveness</li> <li>+100: establish an Affordable Housing Fund, part of the Biden Housing Plan</li> <li>+10: transit projects that serve high-poverty areas, part of the Biden Housing Plan and The Biden Plan to Invest in Middle Class Competitiveness</li> </ul>

OUTLAYS	TRUMP <sup>1</sup>	BIDEN <sup>2</sup>
Others	<b>-\$1,755bn</b> <ul style="list-style-type: none"> <li>▪ -35: enact other savings</li> <li>▪ -90: modify federal employee health and retirement benefits</li> <li>▪ -95: reform the Postal Service</li> <li>▪ +15: increase other spending</li> <li>▪ -1,180: assuming further non-defense discretionary savings through “two-penny plan”</li> <li>▪ -370: enact specific non-defense discretionary reductions</li> </ul>	<b>+\$33.55bn</b> <ul style="list-style-type: none"> <li>▪ +5: support community organizations</li> <li>▪ +0.05: ensure advocates for every victim of violence</li> <li>▪ +0.2: create regional sexual assault investigative training academies</li> <li>▪ +1: increase funding for the Sexual Assault Kit Initiative (SAKI)</li> <li>▪ +0.3: drive research focused on the needs of disabled veterans</li> <li>▪ +20: incentive towards justice reform</li> <li>▪ +0.95: tackle urban gun violence</li> <li>▪ +1: juvenile justice reform</li> <li>▪ +0.3: reinvigorate the COPS program</li> <li>▪ +0.75: support reforms in Central America</li> <li>▪ +4: address factors driving migration from Central America</li> </ul>
TOTAL	<b>-\$2,965bn</b>	<b>+\$6,435.85bn</b>

RECEIPTS	TRUMP <sup>1</sup>	BIDEN <sup>2</sup>
Tax receipts, including tax incentives	<b>-\$1,215bn</b> <ul style="list-style-type: none"> <li>▪ -1,370<sup>4</sup>: extend tax overhaul for individuals</li> <li>▪ +80: reduce the “tax gap”</li> <li>▪ +75: require Social Security number for most tax credits</li> </ul>	<b>+\$3,686bn</b> <ul style="list-style-type: none"> <li>▪ +3,746<sup>5</sup>: Tax receipt increase (personal income tax, corporate income tax increase and other measures), without dynamic scoring</li> <li>▪ -10: tax incentives for the construction of more affordable housing</li> <li>▪ -50: establish a renter’s tax credit to help more low-income households</li> </ul>
Fees, premia & Others	<b>+\$130bn</b> <ul style="list-style-type: none"> <li>▪ +60: raise PBGC, GSE, and Other Premia</li> <li>▪ +45: increase various user fees and sell government assets</li> <li>▪ +25: raise other revenue</li> </ul>	
TOTAL	<b>-\$1,085bn</b>	<b>+3,686bn</b>

<sup>1</sup> White House 2021 Budget proposal, Office for Management Budget

[https://www.whitehouse.gov/wp-content/uploads/2020/02/budget\\_fy21.pdf](https://www.whitehouse.gov/wp-content/uploads/2020/02/budget_fy21.pdf)

<sup>2</sup> <https://joebiden.com/joes-vision/>

<sup>3</sup> In March 2020, Trump tweeted about a \$2tn Big and Bold infrastructure plan. In practice, the Trump administration has been working on passing a \$1tn infrastructure plan since June 2020.

<sup>4</sup> Office for Management Budget estimate

<sup>5</sup> Non-dynamic estimate taken from Penn Wharton Budget Model, “The Updated Biden Tax Plan: Budgetary, Distributional, and Economic Effects”, John Ricco, Alexander Arnon and Xiaoyue Sun produced this analysis under the direction of Efraim Berkovich, Richard Prisinzano and Kent Smetters.

<https://budgetmodel.wharton.upenn.edu/issues/2020/3/10/the-biden-tax-plan-updated>

# OUR TEAM

## Chief Economist of Allianz and Euler Hermes



Ludovic Subran  
Chief Economist  
ludovic.subran@allianz.com

## Head of Economic Research, Euler Hermes



Alexis Garatti  
alexis.garatti@eulerhermes.com

## Head of Capital Markets Research



Eric Barthalon  
eric.barthalon@allianz.com

## Head of Insurance, Wealth and Trend Research



Arne Holzhausen  
arne.holzhausen@allianz.com

## Macroeconomic Research



Ana Boata  
Head of Macroeconomic  
Research  
ana.boata@eulerhermes.com



Katharina Utermöhl  
Senior Economist for Europe  
katharina.uterhoehl@allianz.com



Selin Ozyurt  
Senior Economist for France  
and Africa  
selin.ozyurt@eulerhermes.com



Françoise Huang  
Senior Economist for APAC  
francoise.huang@eulerhermes.com



Manfred Stamer  
Senior Economist for Middle East  
and Emerging Europe  
manfred.stamer@eulerhermes.com



Georges Dib  
Economist for Latin America, Spain,  
Portugal and Trade  
georges.dib@eulerhermes.com



Dan North  
Senior Economist for North  
America  
dan.north@eulerhermes.com

## Capital Markets Research



Jordi Basco Carrera  
Fixed Income Strategist  
jordi.basco\_carrera@allianz.com



Michaela Grimm  
Senior Expert, Demographics  
michaela.grimm@allianz.com



Lina Manthey  
Equities Strategist  
lina.manthey@allianz.com



Markus Zimmer  
Senior Expert, ESG  
markus.zimmer@allianz.com



Patrick Krizan  
Senior Economist for Italy and  
Greece, Fixed Income  
patrick.krizan@allianz.com



Patricia Pelayo Romero  
Expert, Insurance  
patricia.pelayo-romero@allianz.com

## Sector Research



Maxime Lemerle  
Head of Sector Research  
maxime.lemerle@eulerhermes.com



Catharina Hillenbrand-Saponar  
Sector Advisor for Energy, Metals, Machinery and  
Equipment  
catharina.hillenbrand-saponar@eulerhermes.com



Marc Livinec  
Sector Advisor for Chemicals,  
Pharmaceuticals, Transportation,  
Agrifood and Transport Equipment  
marc.livinec@eulerhermes.com



Aurélien Duthoit  
Sector Advisor for Retail, Technology and Household  
Equipment  
aurelien.duthoit@eulerhermes.com



# RECENT PUBLICATIONS

24/09/2020	<a href="#">Living on with a Covid-19 hum</a>
23/09/2020	<a href="#">Allianz Global Wealth Report 2020</a>
18/09/2020	<a href="#">German "Wumms" vs. French "relance": Who does it better?</a>
18/09/2020	<a href="#">The big compression: the erosion of duration risk</a>
17/09/2020	<a href="#">Average inflation targeting: The U.S. Fed buys two years of respite</a>
11/09/2020	<a href="#">Back to school: when the tech bubble hisses</a>
10/09/2020	<a href="#">Quantitative easing in emerging markets: Playing with fire?</a>
09/09/2020	<a href="#">ECB: talking the talk, before walking the walk in December</a>
03/09/2020	<a href="#">European consumers still firmly in the woods</a>
03/09/2020	<a href="#">France, Germany, Italy: Good fiscal stimulus, bad trade deficits?</a>
03/09/2020	<a href="#">Allianz Pulse 2020: The political attitudes of the French, Germans and Italians: grim expectations</a>
15/07/2020	<a href="#">Covid-19: Contagion risks also apply to markets</a>
09/07/2020	<a href="#">Coping with Covid-19 in differing ways</a>
08/07/2020	<a href="#">Brexit: Trade tricks won't be enough</a>
03/07/2020	<a href="#">Chinese banks put to the test of RMB8tn of Covid-19 problematic loans</a>
01/07/2020	<a href="#">Allianz Global Insurance Report 2020: Skyfall</a>
30/06/2020	<a href="#">Money is power: Can a country's culture increase the risk of payment defaults?</a>
26/06/2020	<a href="#">When Main Street makes it to Wall Street</a>
19/06/2020	<a href="#">Construction companies in Europe: Size does matter</a>
17/06/2020	<a href="#">The risk of 9 million zombie jobs in Europe</a>
12/06/2020	<a href="#">Have policymakers created Pavlovian markets?</a>

Discover all our publications on our websites: [Allianz Research](#) and [Euler Hermes Economic Research](#)

Director of Publications: Ludovic Subran, Chief Economist  
Allianz and Euler Hermes  
Phone +33 1 84 11 35 64

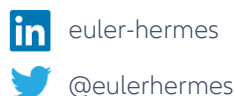
Allianz Research  
[https://www.allianz.com/en/economic\\_research](https://www.allianz.com/en/economic_research)

Königinstraße 28 | 80802 Munich |  
Germany  
allianz.research@allianz.com



Euler Hermes Economic Research  
<http://www.eulerhermes.com/economic-research>

1 Place des Saisons | 92048 Paris-La-Défense  
Cedex | France  
research@eulerhermes.com



## FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.

Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the EUR/USD exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

## NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.