Macroeconomic Policy and the 2024 Presidential Election

Greg Gilpin
Montana State University
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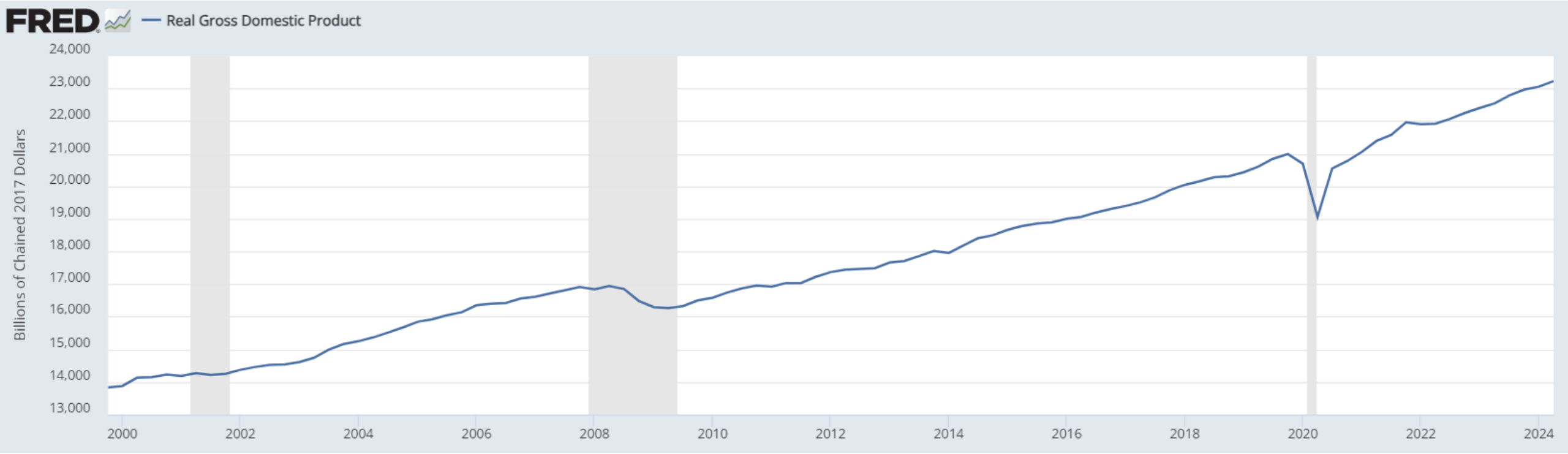
Main Measures of the Macroeconomy

There are three main measures of the macroeconomy:

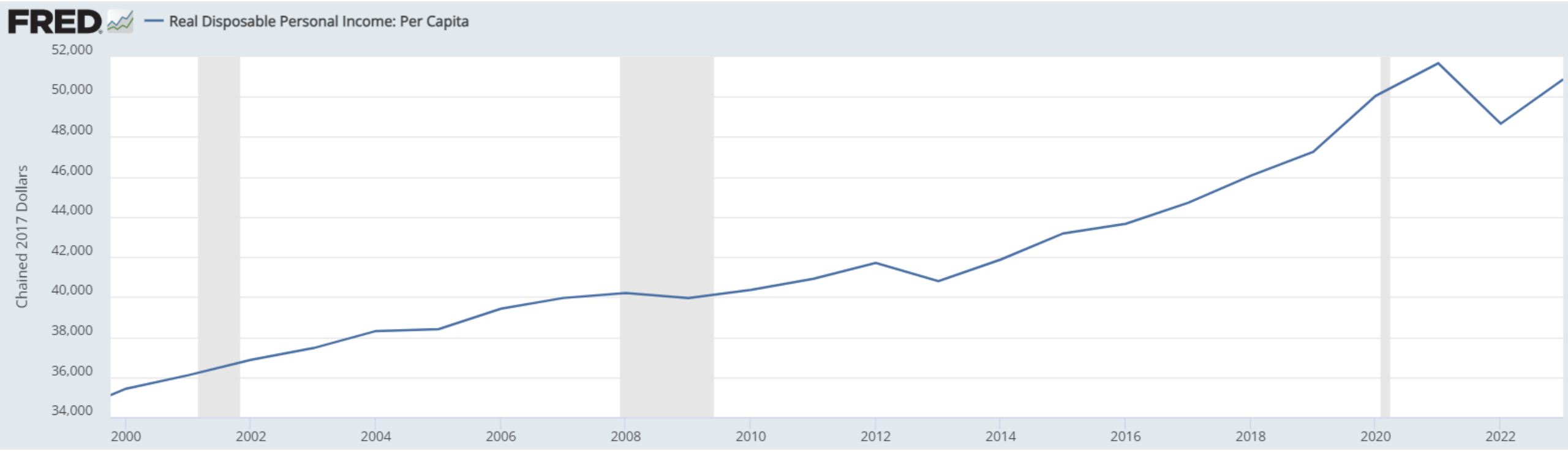
1. **Gross Domestic Product (GDP): Measures output.**
2. **Unemployment Rate: Measures labor utilization.**
3. **Inflation Rate: Measures changes in aggregate prices.**

US GDP is $29 Trillion, Continues to Grow!



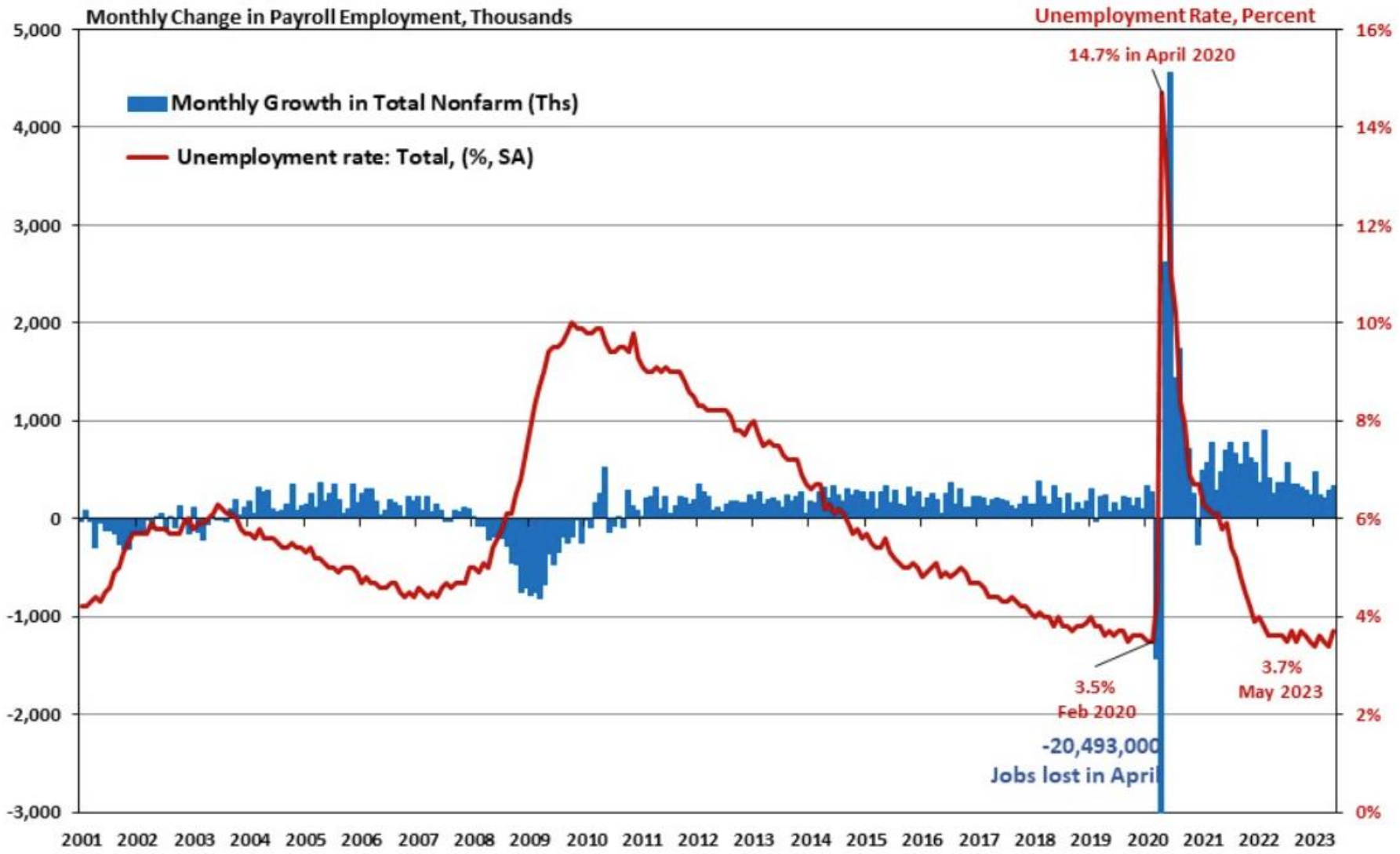
- **$76,329.58 in production value per person!**

Disposable Personal Income per Capita



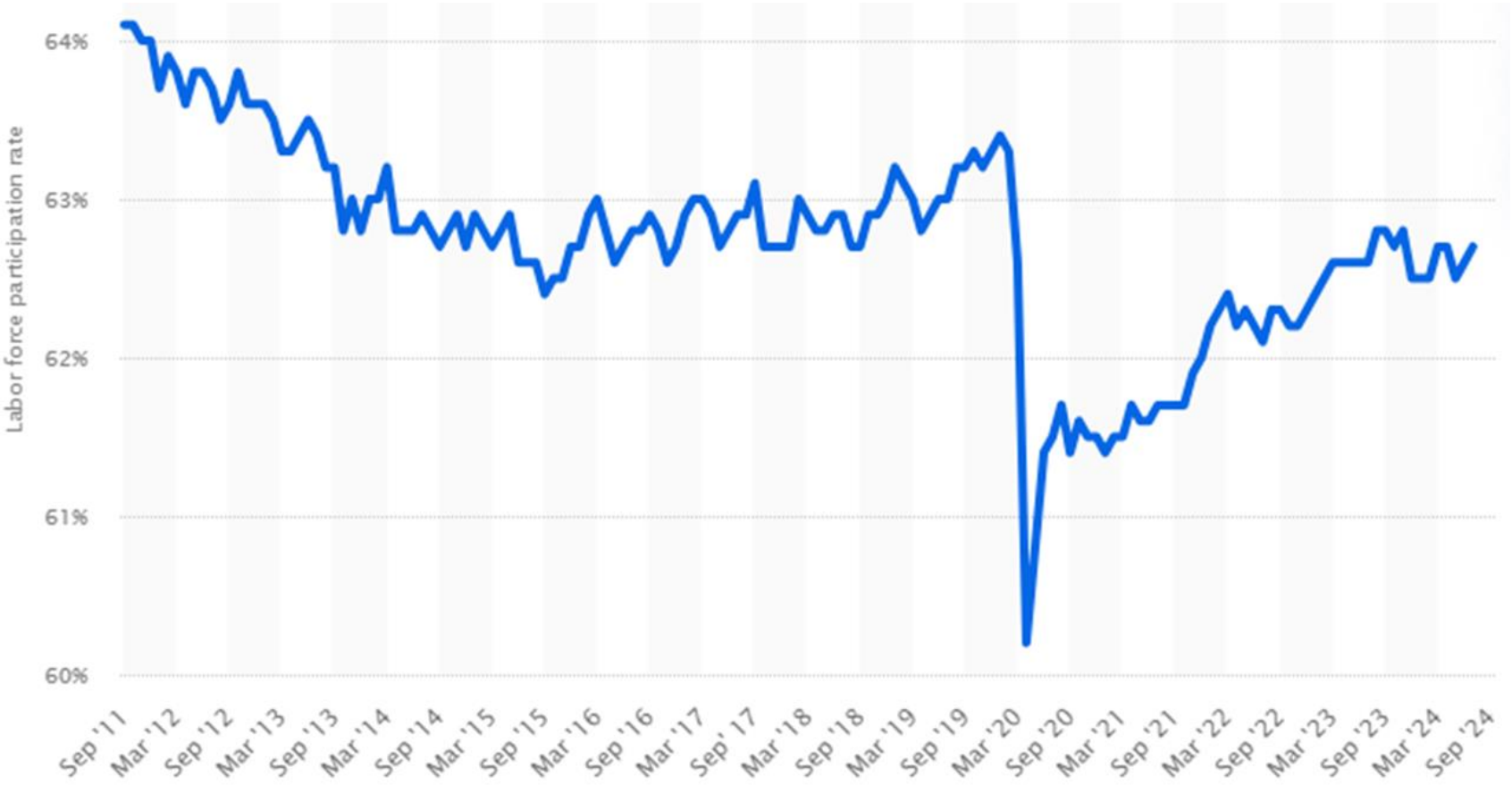
Avg. American had $50,069 in disposable per. inc. in 2023.

Unemployment Rate and Jobs Added/Lost



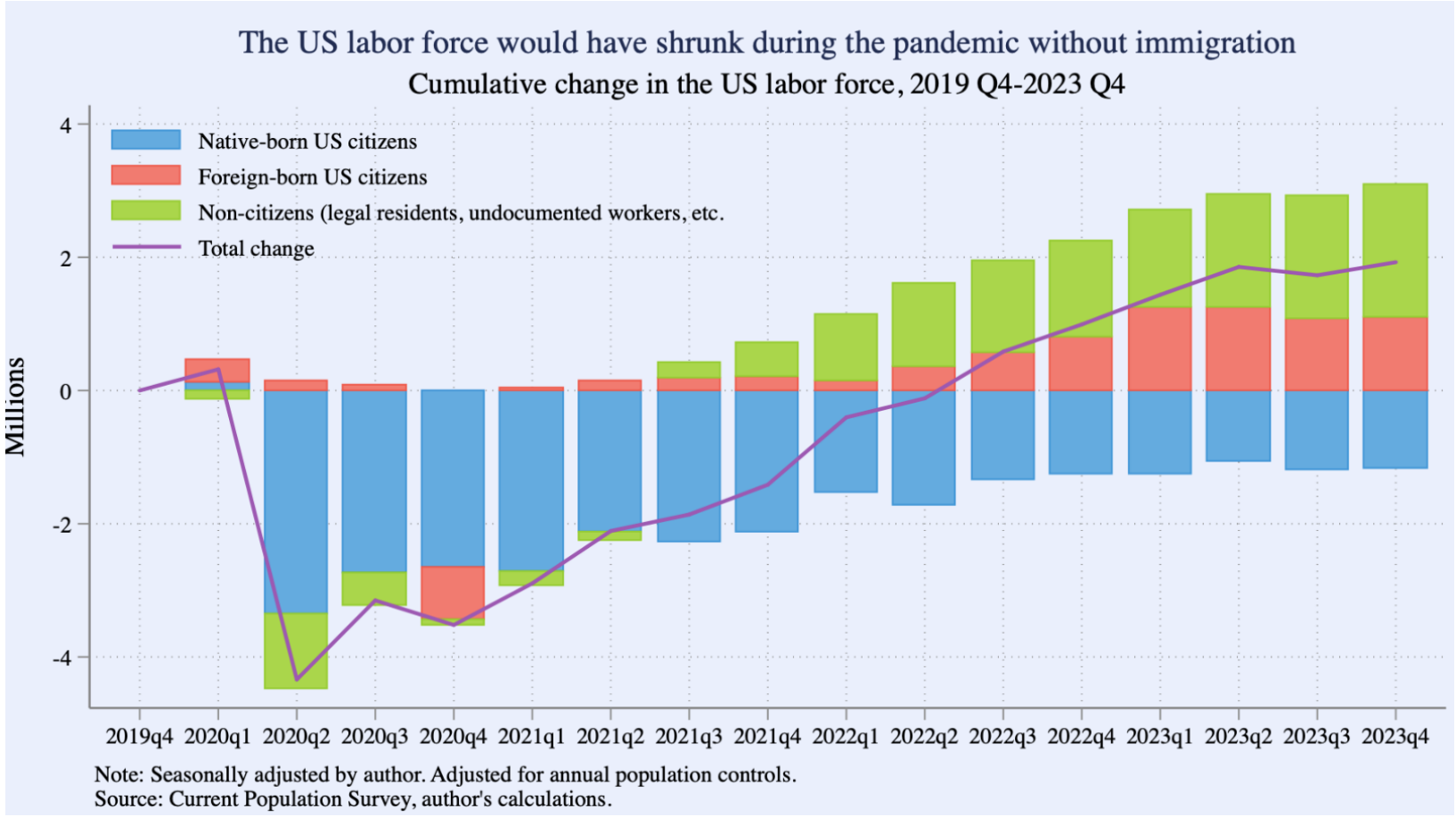
Source: Bureau of Labor Statistics.

Adult Labor Force Participation Rate



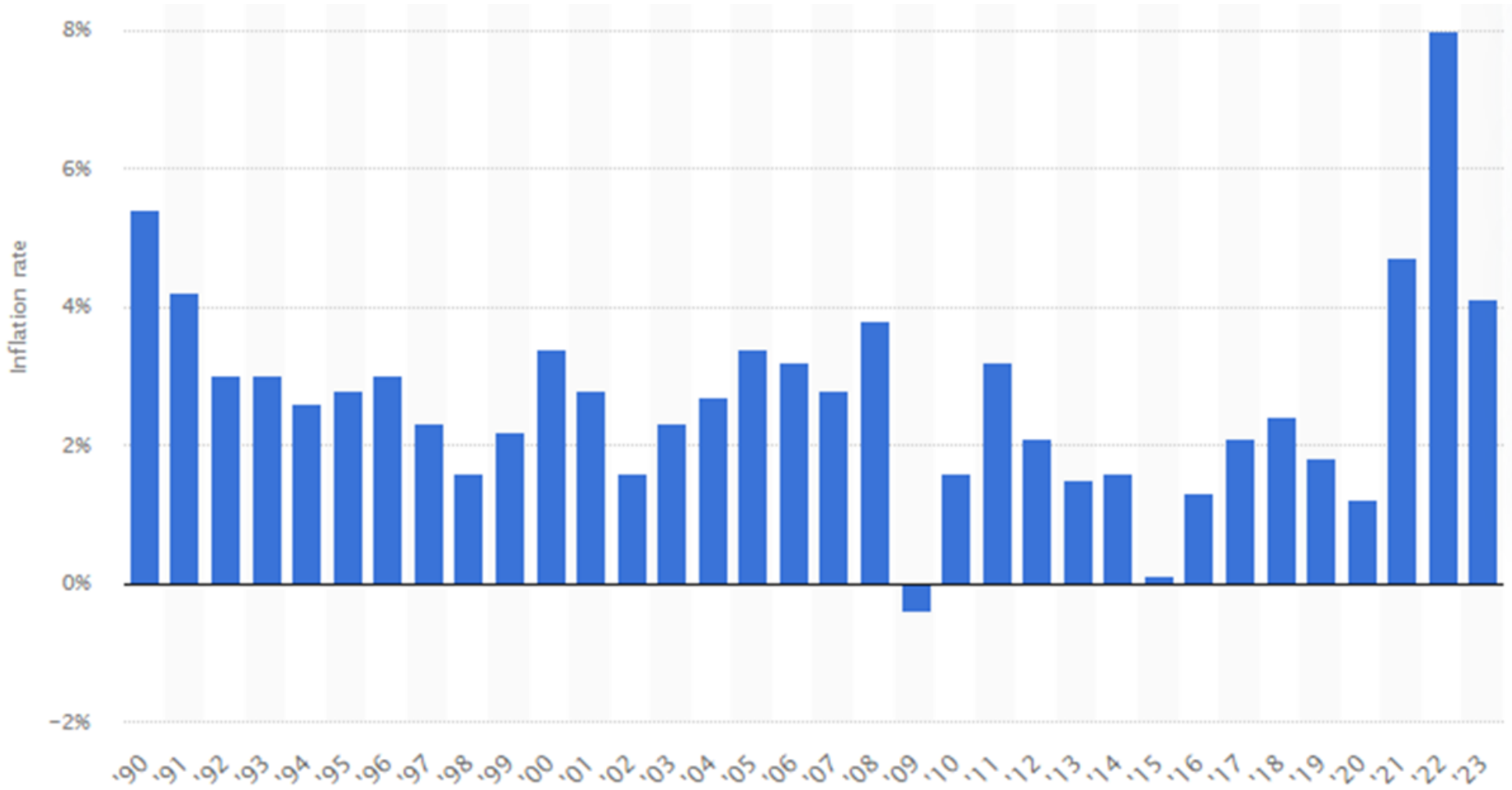
- Over 63% of adults were actively engaged in LF before COVID-19.
- Currently, 62.6% of adults engaged.
- Some ‘boomers’ exited the labor market and haven’t returned.

Jobs Added Since 2020 by Immigration Status



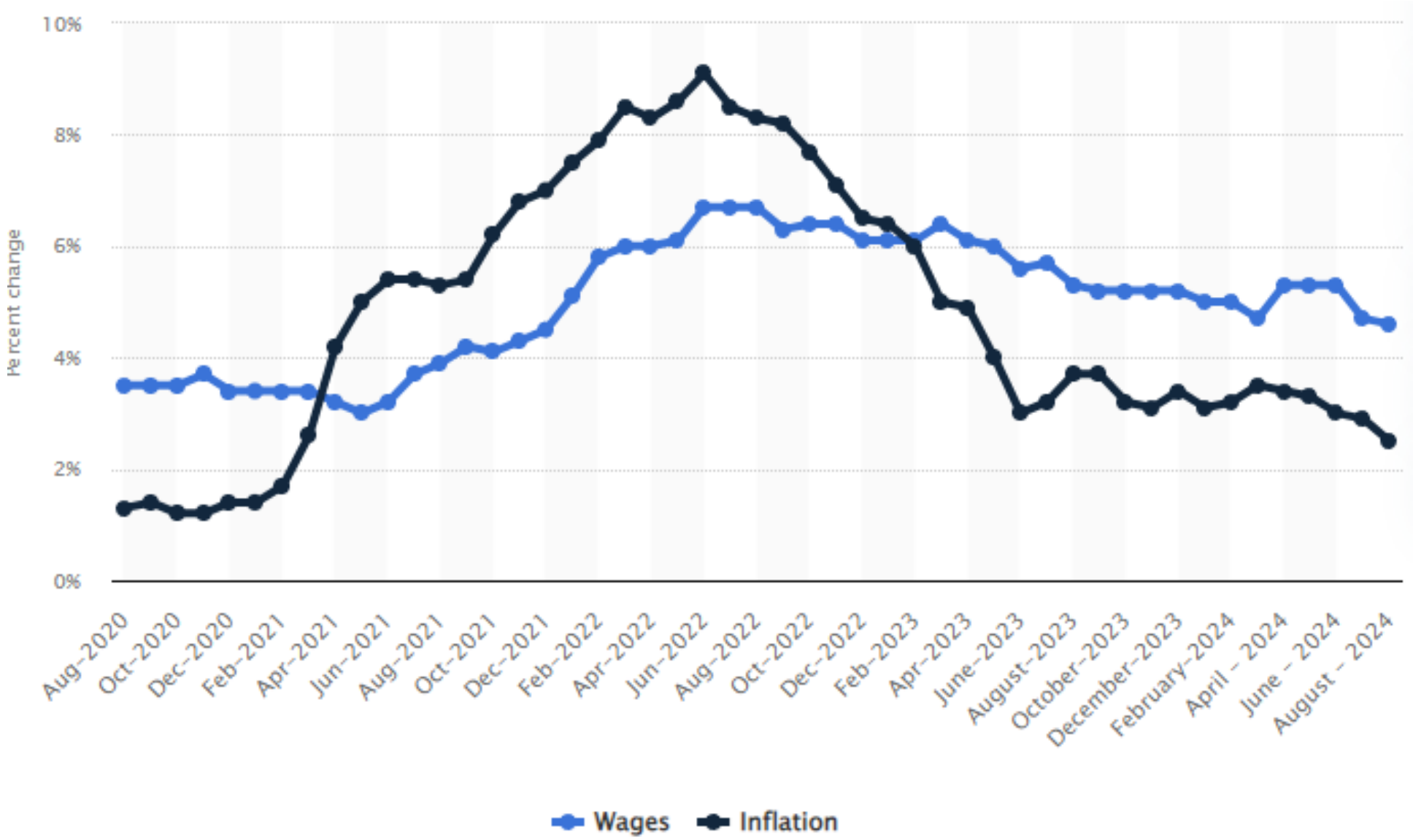
- 2.2 million migrant workers hired.
- 1 million foreign-born US citizens hired.
- 0.97 million US-born workers hired.
- 2.17 million US-born workers left the LF.
- **Net jobs**: 2 million.
- **Foreign-born labor accounts for 1/5th of GDP growth.**

Inflation Has Decreased to 2.4%

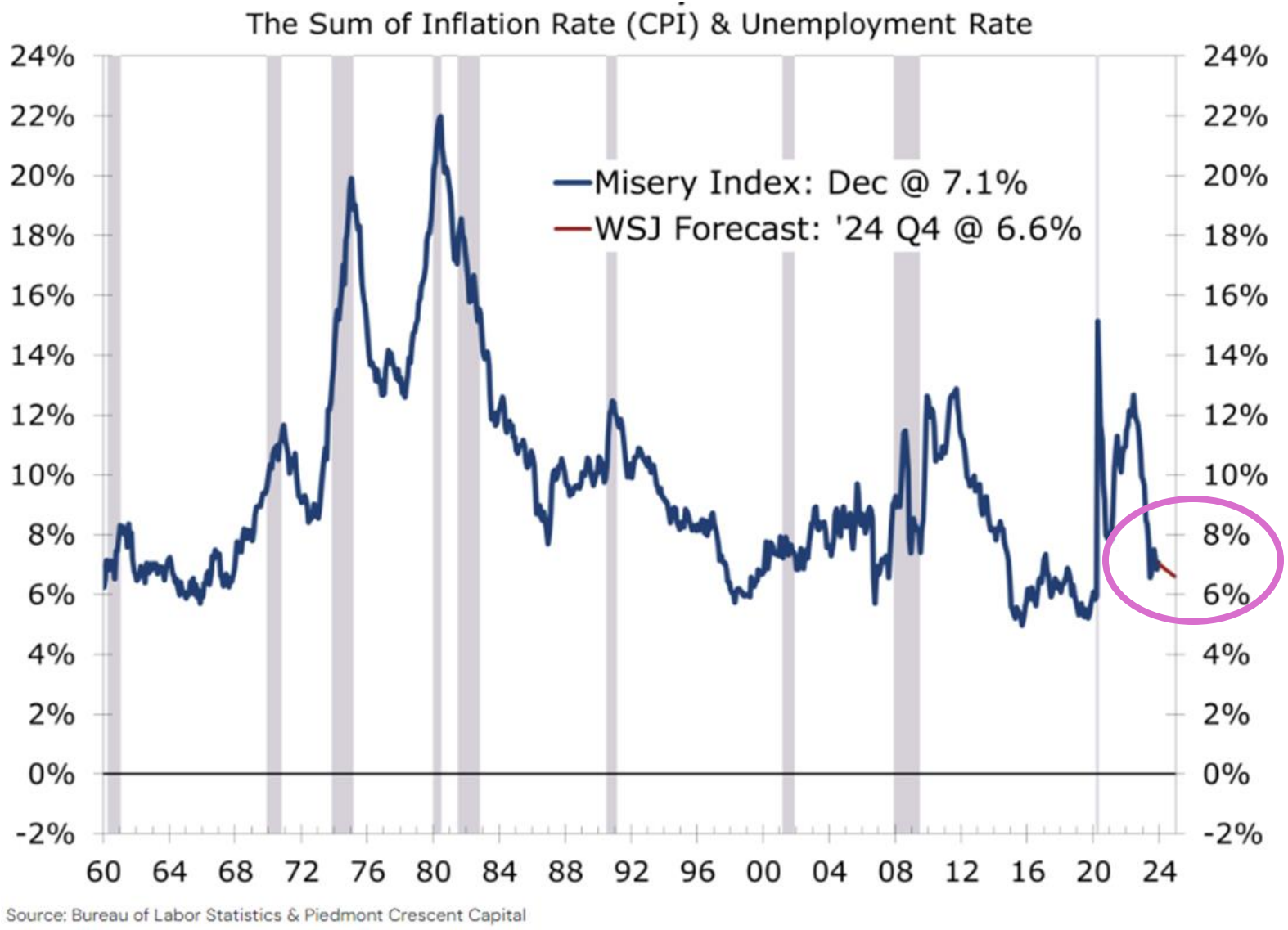


Inflation is not inevitable; it is the outcome of monetary and fiscal policy.

Wages Keep Pace with Lagged Inflation



Misery Is Down!



Source: Bureau of Labor Statistics & Piedmont Crescent Capital

What Is Macroeconomic Policy?

<u>Macroeconomic policy is government action</u> that influences the economy's performance.

Fiscal Policy conducted by Congress and the President:

- Decisions on government spending.
- Decisions on taxation.

Monetary Policy conducted by the independent Central Bank:

- Mandated to control inflation and maintain employment.
- Decisions on the money supply.
- Influencing interest rates through buying/selling gov’t debt.

Expansionary Policy

Increase gov’t spending
Decrease taxes
Lower interest rates

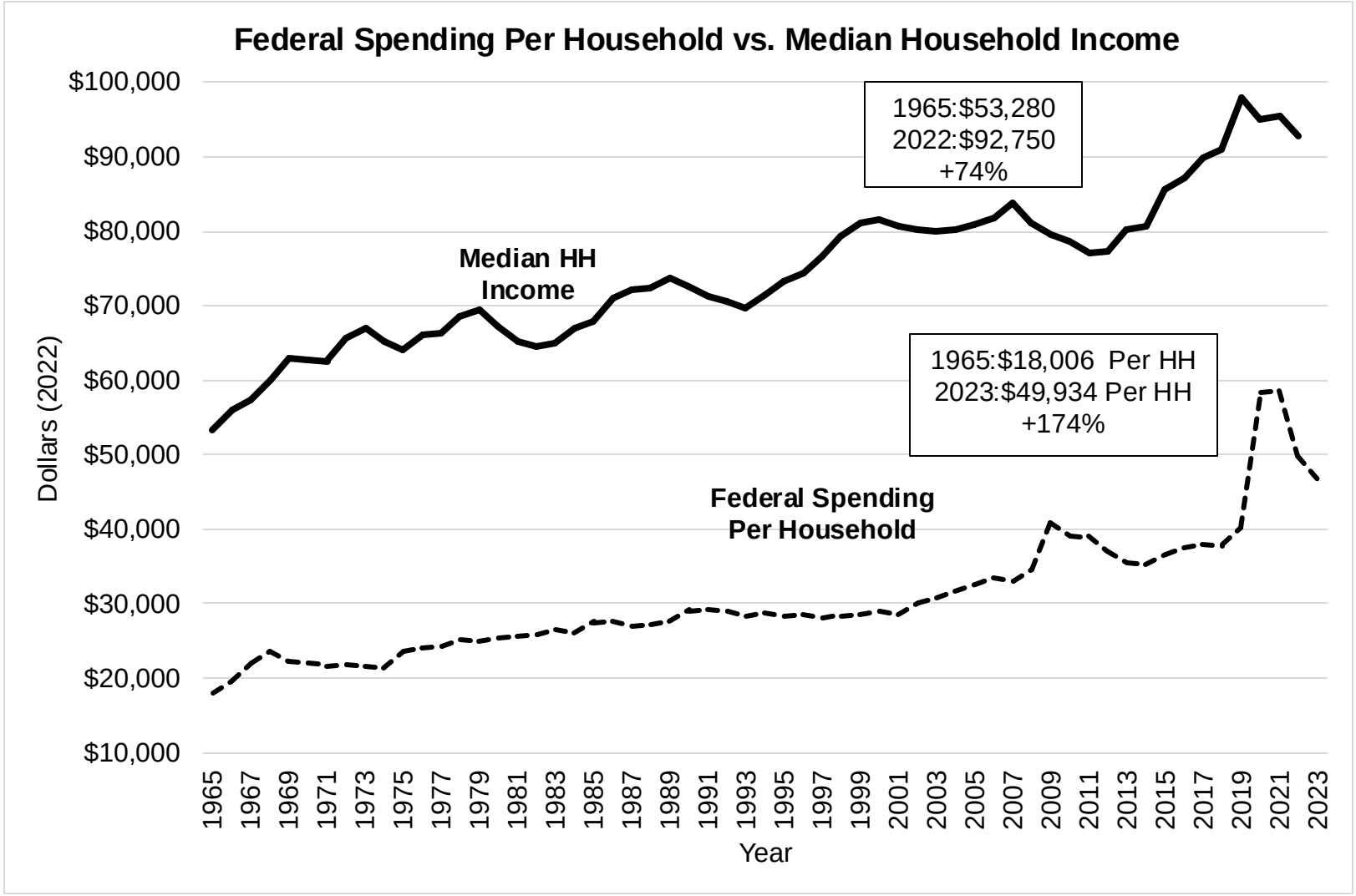
Increase in Investment

Economic Growth

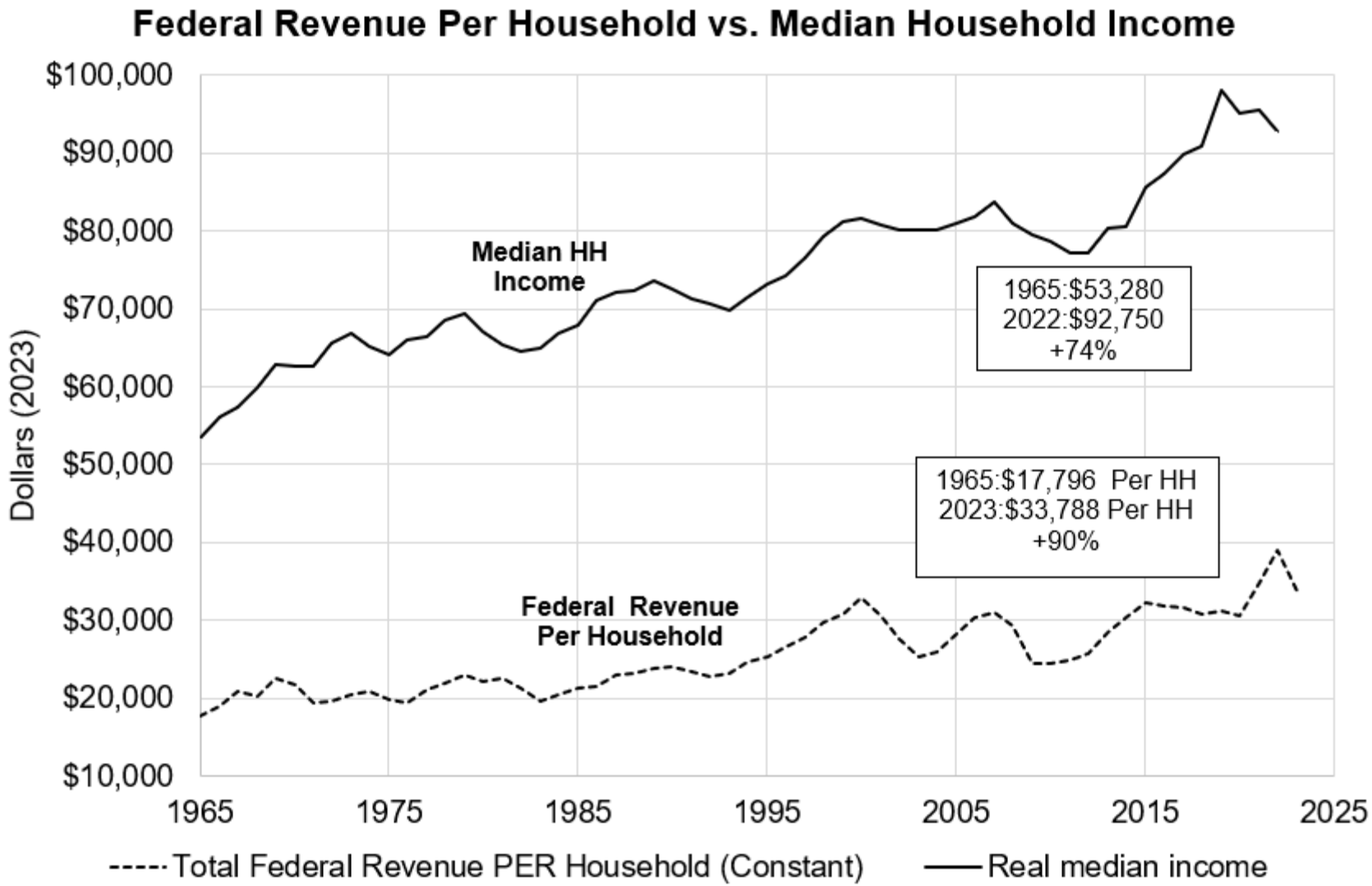
Decrease in Unemployment

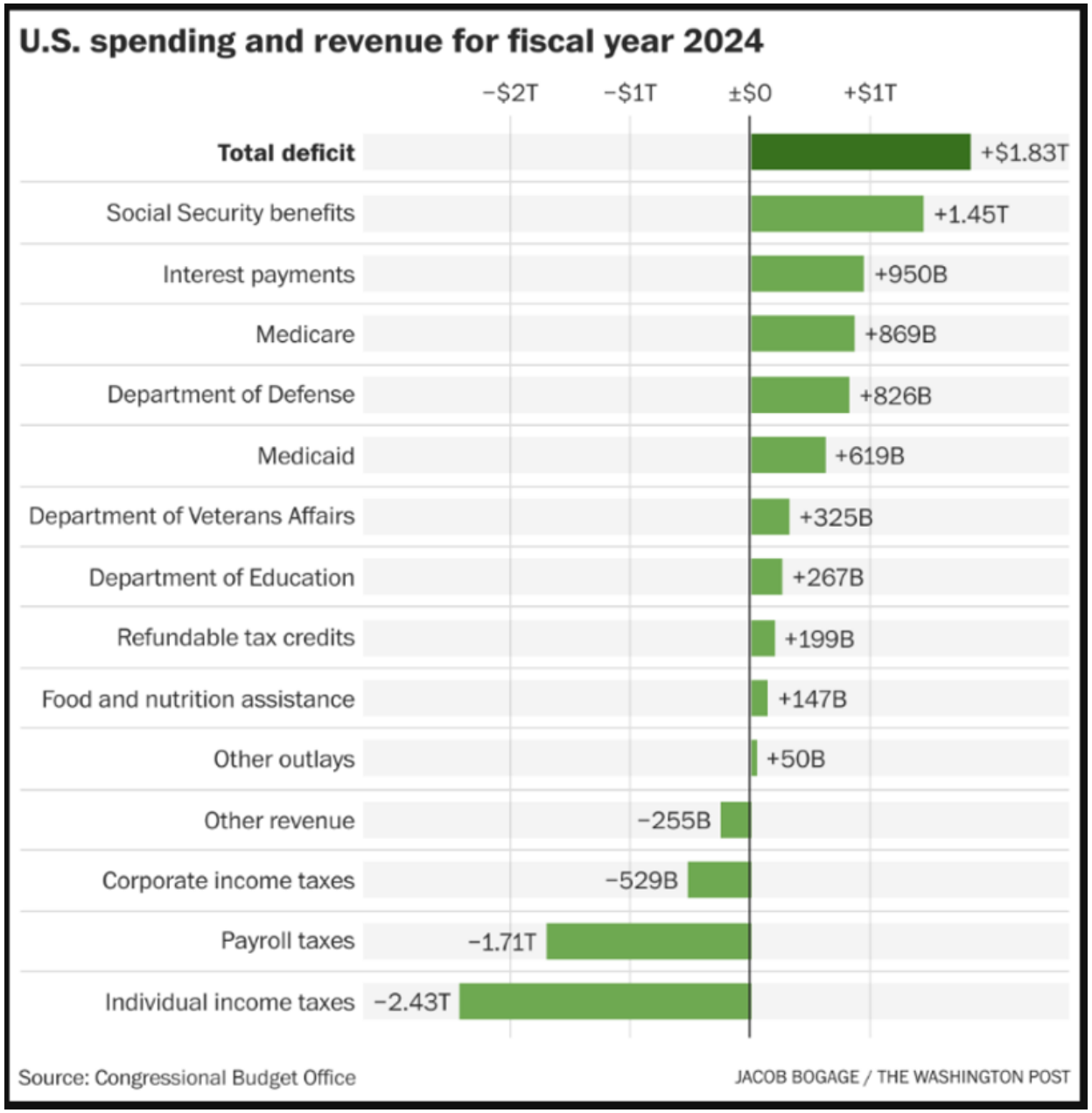
WallStreetMojo

Federal Spending



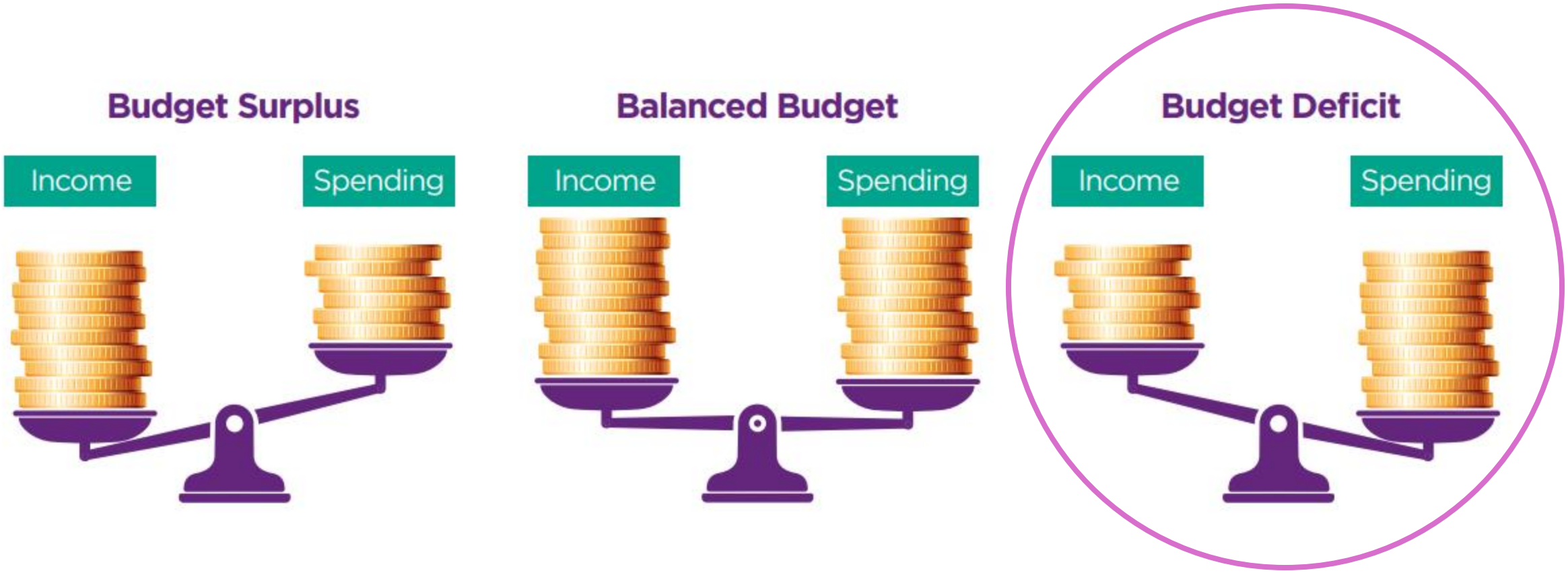
Federal Taxation



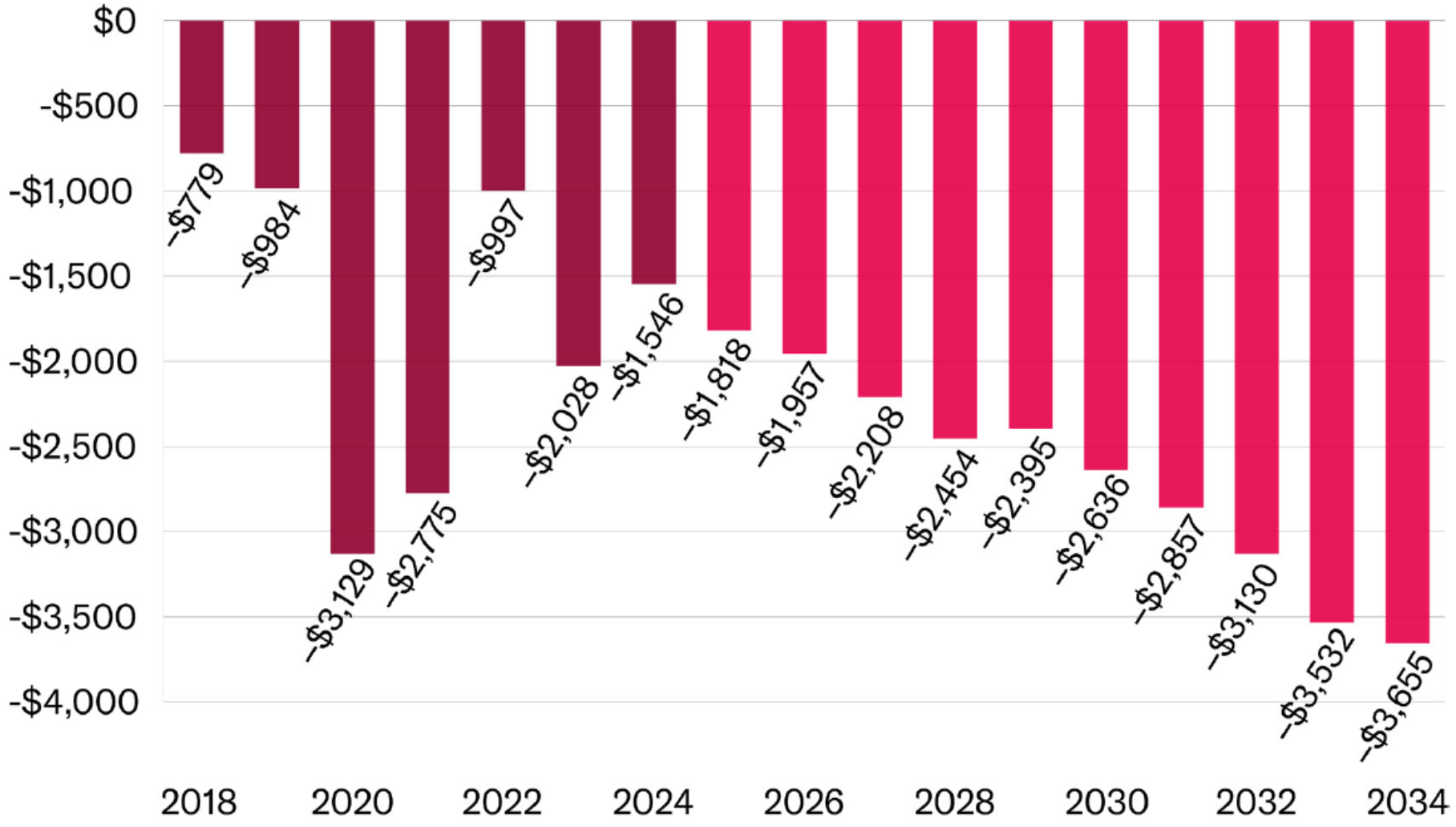


- **Spending > Revenue by $1.8T.**
  - An annual ‘deficit’.
  - 6.2% of GDP.
  - $1.39 spending for every $1.
- **Mandatory Spending**
  - Social Security, Unemp Comp, SSI, and SNAP
  - Medicare
  - Medicaid
- **Discretionary Spending**.
  - Departments
  - All else
- **Interest**

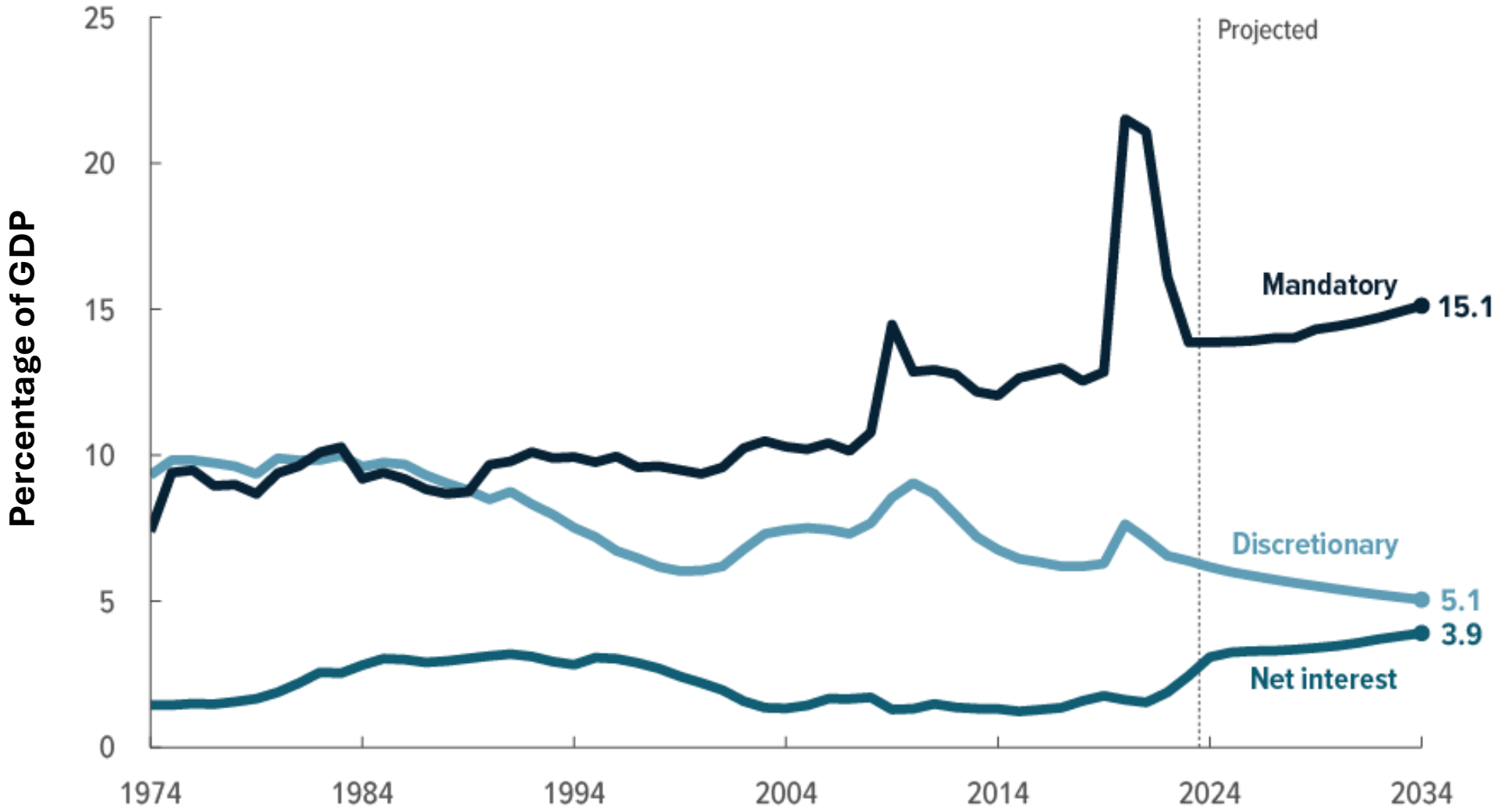
Budget Outcomes



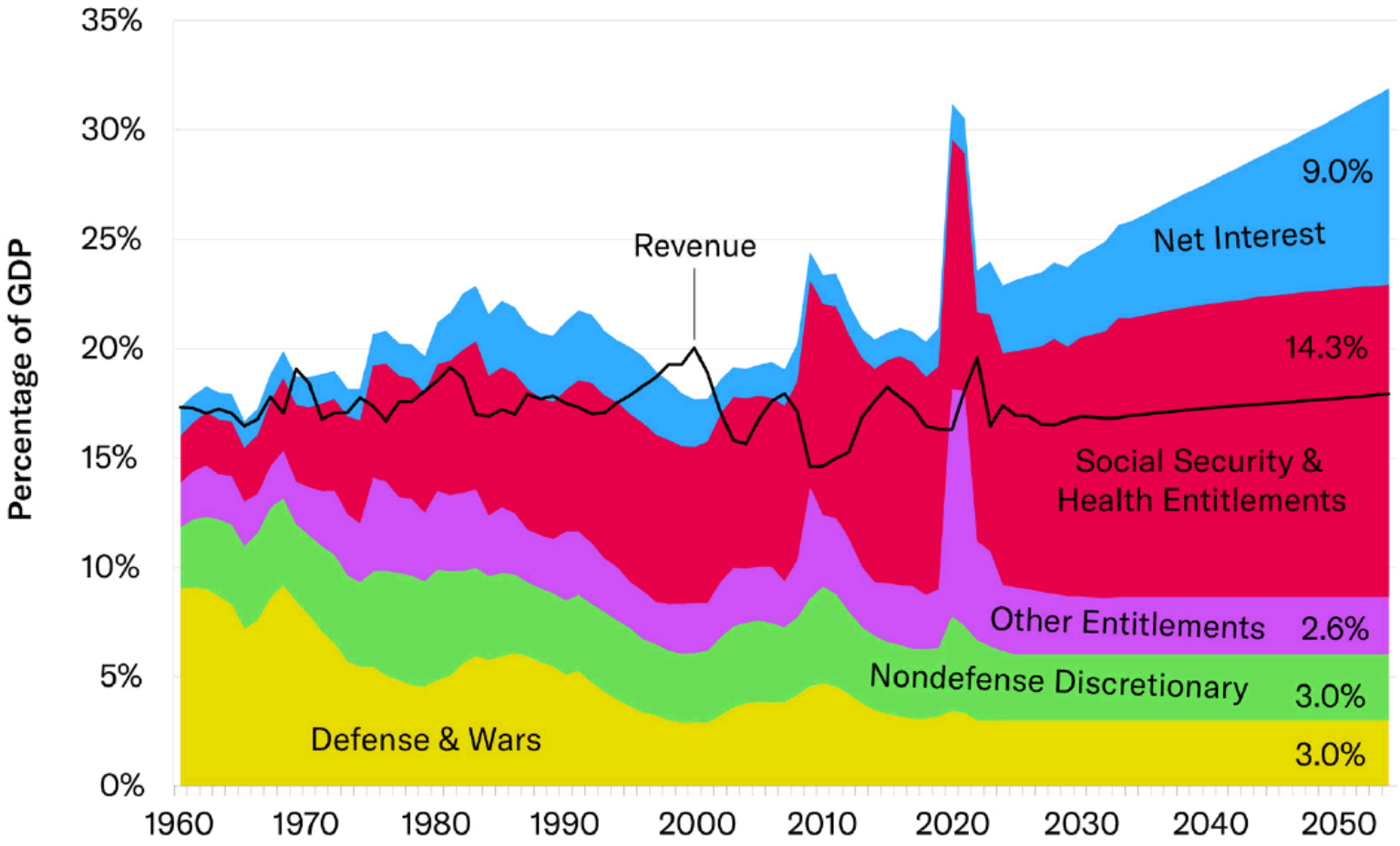
Government Deficits Continue to Grow



Budget Outlook I



Budget Outlook II

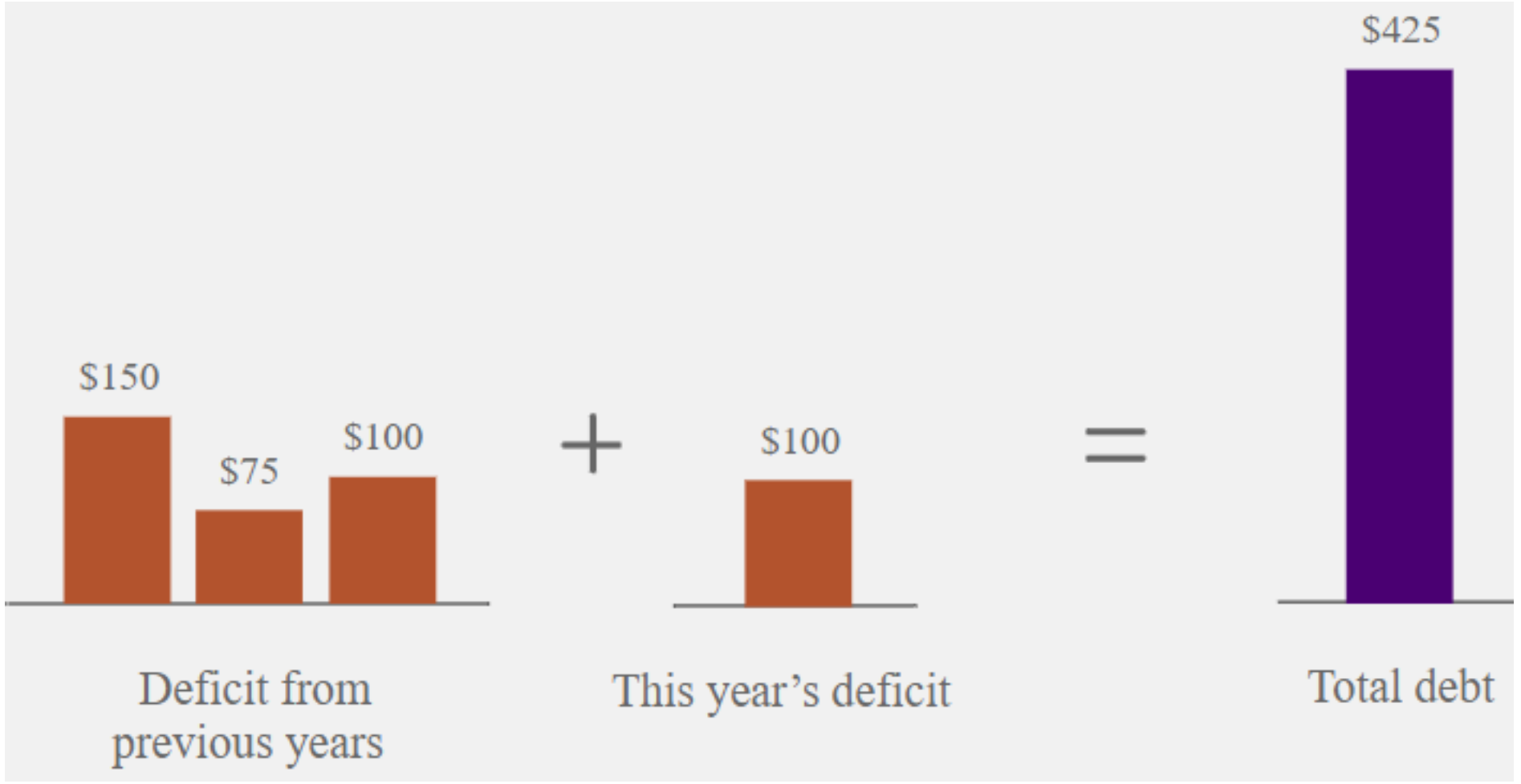


Mandatory spending and interest payments are projected to increase as a share of the federal budget:

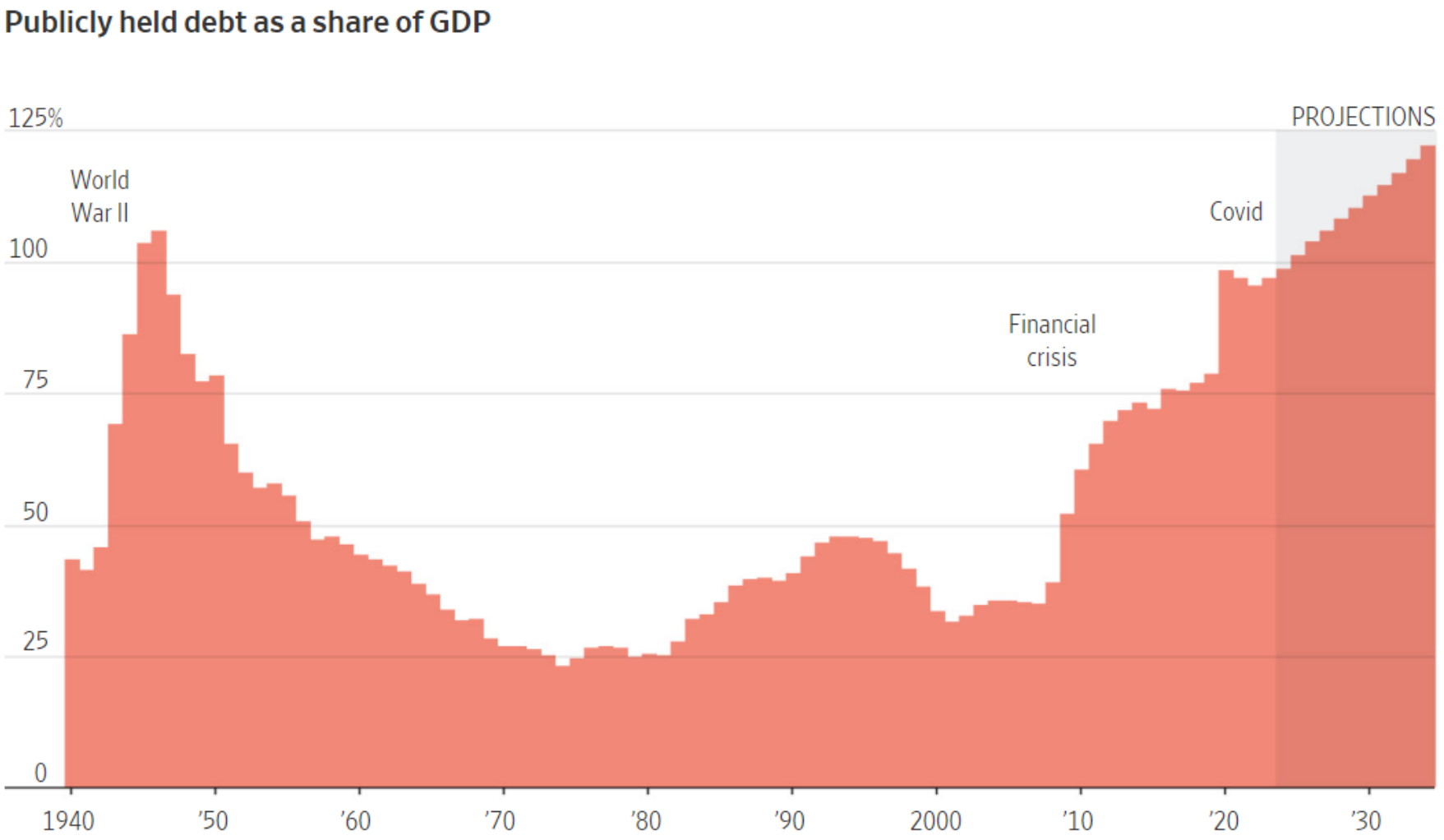
- Currently: 74%.
- 2034: 78%.
- 2044: 100%.

At 100%, <u>indefinite deficits</u> to finance ANY discretionary spending.

Accumulation of Deficits = Debt



Debt-to-GDP Continues to Grow



- $35.7T
- >100% of GDP.
- $105,879/person.
- Projected to be $50T by 2030.

Interest Rates Are Elevated!

Average 30-year fixed mortgage interest rate

Currently 6.3%

Interest rates remain elevated due to inflation above target.

What Can the Next President Do?

Monetary policy: control the money supply.

Expected Outcomes

- Reduce inflation to 2% per year.
- Reduce interest rates.
- Lower interest rates will:
  - Reduce debt payments.
  - Encourage households to borrow to buy houses, vehicles, vacations, etc.
  - Encourage businesses to borrow to buy new physical capital.

Fiscal Policy: Harris

Policies that <u>decrease</u> future deficits.

1. ↑ Quadruple buybacks tax
2. ↓ Prescription drug spending.
3. ↓ Other proposals
4. ↑ International corporate taxes
5. ↑ Capital gains and taxes on very wealthy
6. ↑ Top earners/investors
7. ↑ Corporate tax rate increase

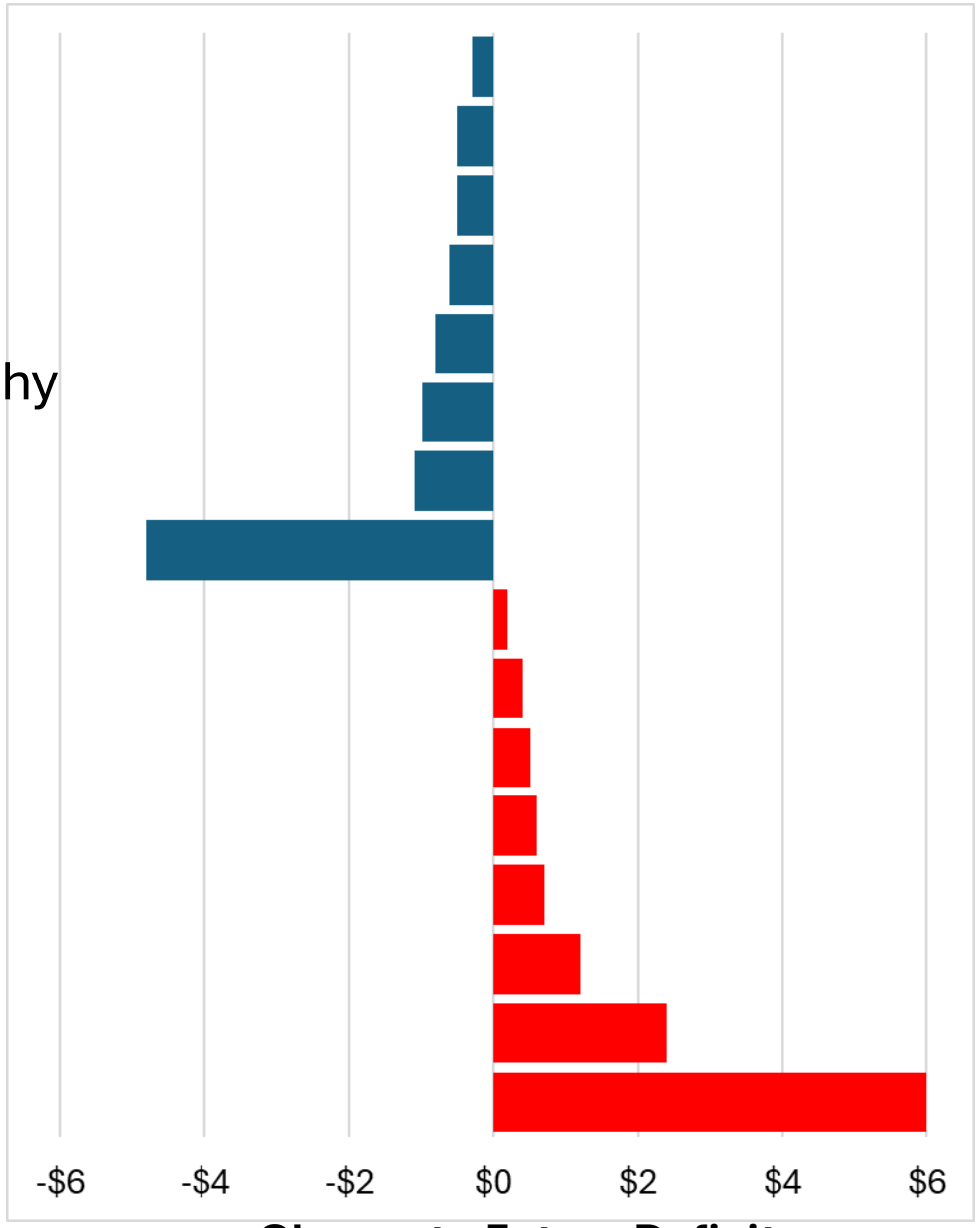
Total Decrease: -$4.4T

Policies that <u>increase</u> future deficits.

1. ↑ Housing assistance
2. ↑ Paid leave
3. ↑ ACA premium credits
4. ↑ Childcare and pre-K credits
5. ↑ Other proposals
6. ↑ Child tax credit expansion
7. Extend expiring tax cuts

Total Increase: $6T

Total Change to Future Deficits: $1.6T



Change to Future Deficits (in Trillions)

Fiscal Policy: Trump

Policies that <u>decrease</u> future deficits.

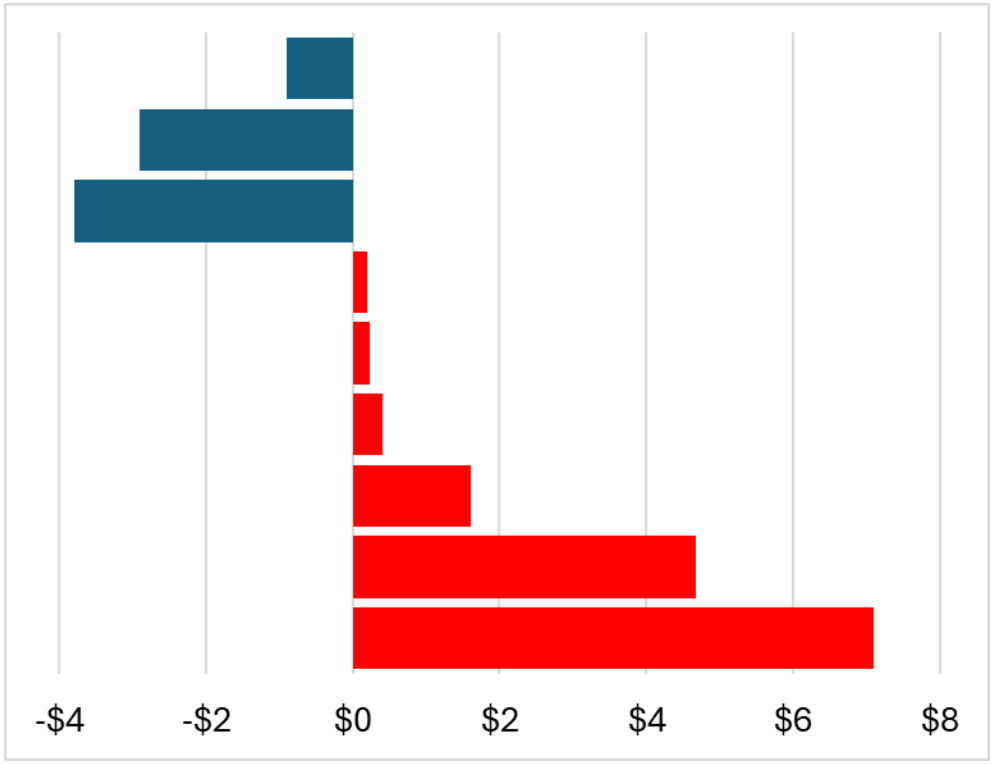
1. ↓ Clean energy subsidies
2. ↑ Tariffs

Total Decrease: -$3.8

Policies that <u>increase</u> future deficits.

1. ↓ Corporate rate for some
2. ↓ Tax on tips
3. ↓ Tax on overtime pay
4. ↓ Tax on Social Security benefits
5. Extend expiring tax cuts

Total Increase: $7



Change to Future Deficits (in Trillions)

Total Change to Future Deficits: $3.1T

Harris and Trump on Fiscal Policy

Expected Outcomes

- ↑ Employment and output growth (Trump > Harris).
- ↑ Disposable income (Trump > Harris)
- ↑ Inflation (Trump > Harris)
- ↑ Investment (↑ Trump, ↓ Harris)
- ↑ Shortages on price-capped goods and services (Only Harris).
- ↑ Gov't debt (Trump > Harris)

Trump's fiscal policy stimulates the economy more than Harris' but at twice the cost to future deficits.

Everything but the 2017 Tax Cut

Suppose both let the 2017 tax cut expire and keep all other proposed fiscal policies.

<u>Expected Outcomes</u>

↔ Employment and output growth (Trump > Harris).

↑ Disposable income (Trump < Harris)

↑ Inflation (Trump > Harris).

↑ Investment (Trump > Harris)

↔ Gov't debt (Harris: +$0T and Trump: -$1T).

Trump's plan will be *more* punitive on the economy than Harris' but at a lower cost to future deficits.

Harris and Trump Tariffs on Chinese Goods

Harris: *Maintain* current levels enacted by Trump and Biden.

Trump: *Increase* current levels.

Expected Outcomes

- ↓ Employment (Harris: -142K, Trump: -684K).
- ↓ Output growth (Harris: -0.2%, Trump: -0.8%).
- ↑ Inflation (Harris: +0.1%, Trump: +0.75%).
- ↓ Gov't debt (Harris: -$0.08T Trump: -$4.3T).

Harris' tariff policy is *less* punitive on the economy than Trump's.

Harris on Illegal Immigration

Proposals: Maintain restrictions and increase processing funding.

Path to citizenship.

Expected Outcomes

↔ Employment and ↑ Output growth.

↓ Disposable income and ↓ Inflation.

↑ Gov't spending on assistance for low-skilled immigrant families.

↓ ↑ Gov't debt.

Distributions of benefits and unknown change to future deficits.

Trump on Illegal Immigration

Proposals: Deport illegal immigrants.

Reinstate 'Wait in Mexico'.

Expected Outcomes

↓ Employment and ↓ Output growth.

↑ Disposal income and ↑ Inflation.

↓ Gov't spending on assistance for low-skilled immigrant families.

↓ ↑ Gov't debt.

Distributions of benefits and unknown change to future deficits.

Harris' immigration policy is *less* punitive on the economy than Trump's.

Questions and Discussions