Note: The following is a redacted version of the original report published October 21, 2024 [32 pgs].

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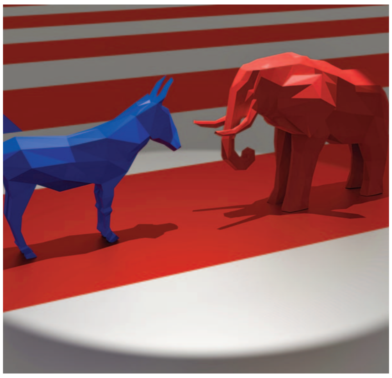
TOP of MIND

POST-ELECTION ECONOMIC POLICIES



With all eyes on the fast-approaching US election amid a close race between two candidates with vastly different worldviews, what the election could portend for economic policy—and the macro and market implications—is Top of Mind. Kevin Hassett, CEA Chairman under former President Trump, and Jared Bernstein, current CEA Chairman, share their views on a range of economic policies on the table, from tariffs to taxes to (de)regulation and beyond, while GS GIR's Alec Phillips offers his own perspective on potential policy shifts in these areas. GS GIR economists and market strategists then deep dive into the two areas most in focus this election season—trade and tax policy—finding that despite the stark differences in proposed economic policies, asset impacts would most likely be modest in a central case that avoids major policy tail risks, which could leave GS economists' friendly macro outlook as the bigger driver of markets. But they still see value in owning protection around the election, as with any macro risk event.

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I would prioritize the two big pieces of unfinished business… affordable housing and childcare, which… I consider to be pretty existential market failures.

- Jared Bernstein

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WHAT'S INSIDE

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The Goldman Sachs Group, Inc.

Macro news and views

We provide a brief snapshot on the most important economies for the global markets

US

Latest GS proprietary datapoints/major changes in views

- We lowered our 12m US recession odds by 5pp to the historical unconditional average of 15% following the much stronger-than-expected September US employment report.

Datapoints/trends we're focused on

- Fed policy; we expect the Fed to deliver consecutive 25bp rate cuts to a terminal rate range of 3.25-3.5% by Jun 2025.
- Job growth; we estimate an underlying job growth trend of 196k, higher than our 150-180k breakeven rate estimate.
- Core PCE inflation, which should return to target next year.
- Productivity growth, which we expect to be ~1.7% over the next few years before increasing due to AI later this decade.

Japan

Latest GS proprietary datapoints/major changes in views

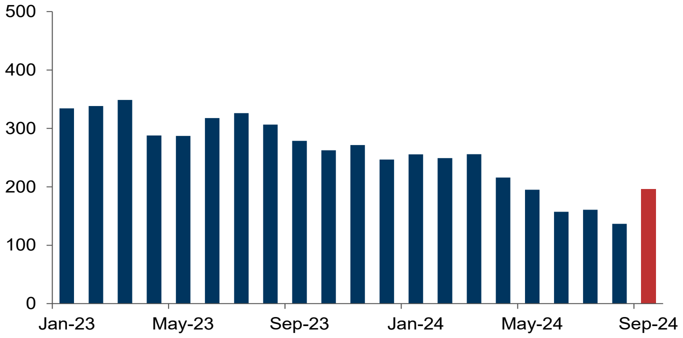
- No major changes in views.

Datapoints/trends we're focused on

- BoJ policy; we expect the next BoJ rate hike in Jan 2025, though a Dec 2024 hike is possible if economic, wage, and price indicators continue to move in line with BoJ forecasts.
- Politics; we don't expect big near-term changes in economic policy—including tax, fiscal, and monetary policy—under newly-elected PM Ishiba and his Cabinet, whose approval rating has risen but remains lower than recent new PMs.
- Consumption; while services consumption fell over the summer, we expect an ongoing virtuous cycle between income and spending amid an improving income backdrop.

A rebound in US job growth

Underlying trend job growth based on payrolls and household survey*, thousands per month

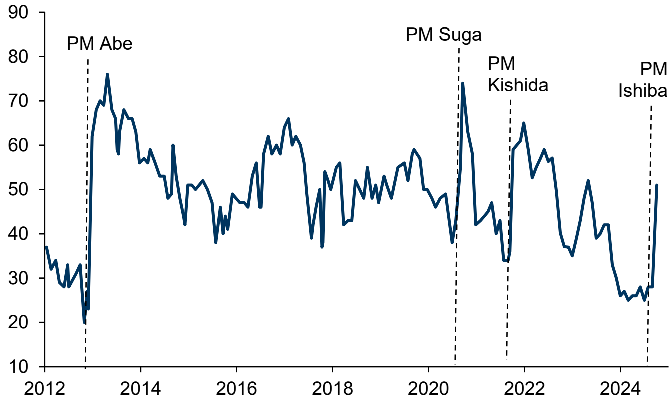


*0.75*3-month average payroll growth + 0.25*9-month average household employment growth. Adjusted for undercounting of immigration.*

Source: Goldman Sachs GIR.

Japan: Cabinet approval rating rises

Cabinet approval rating, %



Source: Nikkei, Goldman Sachs GIR.

Europe

Latest GS proprietary datapoints/major changes in views

- No major changes in views.

Datapoints/trends we're focused on

- ECB policy; we expect the ECB to continue delivering consecutive 25bp rate cuts to a terminal rate of 2% by Jun 2025, but weaker data could spark faster and deeper cuts.
- BoE policy; we expect the BoE to deliver sequential 25bp rate cuts from Nov onward to terminal rate of 2.75% in Nov 2025.
- Euro area growth; while activity data has continued to weaken, we expect a modest pickup in growth next year to 1.1% yoy as the saving rate declines from very high levels.
- EMU4 fiscal consolidation, which we expect to continue.

Emerging Markets (EM)

Latest GS proprietary datapoints/major changes in views

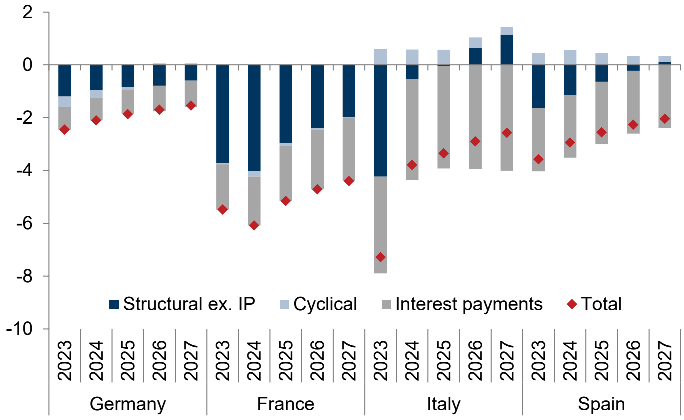
- We recently raised our 2024/2025 China real GDP growth forecasts to 4.9/4.7% (from 4.7/4.3%) on the back of more forceful and coordinated stimulus measures, though we maintain our cautious outlook on China's longer-term growth given deteriorating demographics, a multi-year debt deleveraging trend, and global supply chain de-risking.

Datapoints/trends we're focused on

- EM monetary policy; we expect a further broadening of the EM rate cutting cycle over the next 12 months.
- India growth; we expect below-consensus growth of 6.4% next year amid a credit slowdown and tighter fiscal policy.

EMU4: faster fiscal consolidation ahead

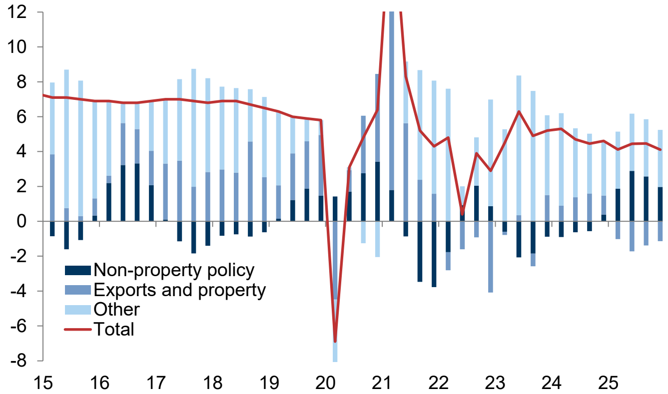
Fiscal balance forecasts, % of GDP



Source: Haver Analytics, Goldman Sachs GIR.

China: greater policy offset to export/property drag

Contribution to China real GDP growth, % chg, yoy



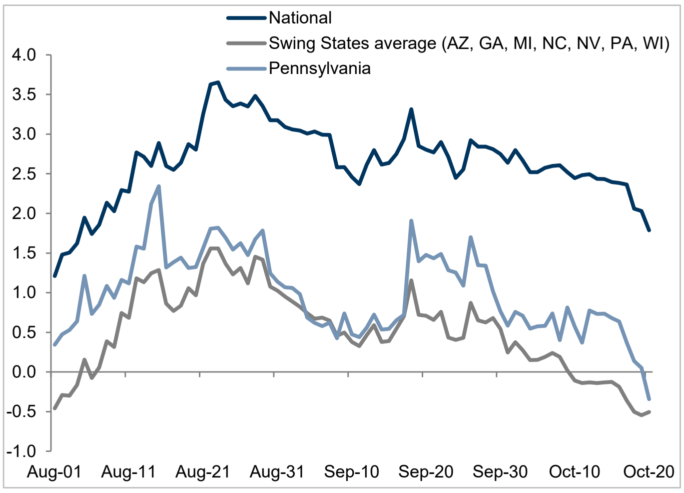
Note: 1Q15-2Q24 based on actual data and 3Q24-4Q25 based on GS estimates.
Source: Haver Analytics, CEIC, Wind, Goldman Sachs GIR.

Post-election economic policies

All eyes are on the fast-approaching US election given the closeness of the presidential race and the very different worldviews and proposed policy agendas between former President Trump and Vice President Harris. With voters most focused on the economy heading into the polls, what the election outcome could portend for economic policy—and the economic and market implications—is Top of Mind.

A close presidential race

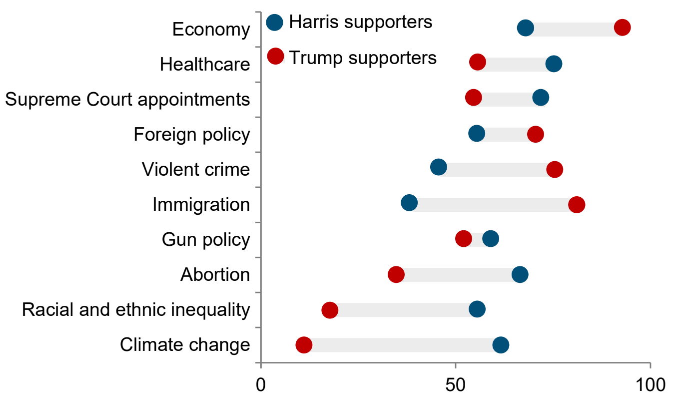
Polling average margins, Democrat minus Republican, pp



Source: FiveThirtyEight, compiled by Goldman Sachs GIR.

It's (still) the economy

% of registered voters who say each is very important to their vote in 2024 election



Note: Survey of US adults conducted from Aug. 26 – Sept. 2, 2024.
Source: Pew Research Center, compiled by Goldman Sachs GIR.

We first explore proposed economic policies (see pgs. 8-9 for details) and their potential implications for the US economy by speaking with economists from each party: Kevin Hassett, former Chairman of the Council of Economic Advisers under President Trump, and Jared Bernstein, current Chairman of the Council of Economic Advisers. They offer their view on a range of economic policies on the table—from tariffs to taxes to (de)regulation and beyond—painting starkly different policy approaches in some key areas, but similarities in others.

Alec Phillips, GS Chief US Political Economist, then offers his own perspectives on potential policy shifts in key economic areas, including fiscal, trade, immigration, and regulatory policy. But we dive deepest into the two areas where differences in approach—and the economic implications—could be the sharpest: **trade and tax policy**.

On **trade**, GS senior global economist Joseph Briggs takes an in-depth look at the economic implications of tariffs (see pg. 13 for an explainer on the channels through which tariffs affect inflation and growth). He estimates that targeted tariffs on China would have small global inflation impacts but more meaningful global growth impacts, which Briggs argues could open the door for policy divergence between the Fed and other DM central banks, with more expansive tariffs likely to amplify these effects. GS senior China economists Hui Shan and Lisheng Wang and GS Chief European Economist Jari Stehn then explore the impacts of potential tariffs on China and Europe, respectively. And GS senior FX strategists Michael Cahill and Isabella Rosenberg assess the implications of potential protectionist policies for the US Dollar as well as the viability of a Weaker Dollar policy.

And on **taxes**, GS senior US equity strategist Ben Snider assesses the potential impact of a shift in corporate tax policies on US corporate earnings. His findings suggest that the election outcome could be a catalyst for shifts in the relative performance of high vs. low tax stocks—though history suggests that policymakers will likely need to take concrete legislative steps before stocks meaningfully price corporate tax reform—as well as rotations within the equity market driven by potential shifts in tax, trade, and regulatory policies (see pgs. 22-23 for GS equity analysts' take on potential policy shifts to watch in key sectors).

What about the broader asset implications of potential policy shifts? Despite the sharp differences in proposed economic policies, GS senior market strategists Dominic Wilson and Vickie Chang find only modest asset impacts in a central case in which the major tail risks with respect to trade/fiscal policy and tax/regulation shifts are avoided. If they are, Wilson and Chang believe that GS economists' friendly macro outlook could remain the bigger driver of markets, though they still see value in owning protection around the election, as with any risk event. And for a complete rundown of GS market strategists' views on policies to watch out for by asset, see pgs. 18-20.

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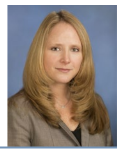


Interview with Kevin Hassett

Kevin Hassett served as Chair of the Council of Economic Advisers during the Trump Administration (2017-2019). He is the Brent R. Nicklas Distinguished Fellow in Economics at the Hoover Institution. Below, he discusses his views on a range of economic policies and their implications for the US economy.

The views stated herein are those of the interviewee and do not necessarily reflect those of Goldman Sachs.

Allison Nathan: How would you characterize the economic landscape that the next US president will inherit?

Kevin Hassett: The economy is somewhat befuddling right now. In August, labor market data seemed to be signaling the start of a recession as indicated by the triggering of the Sahm rule, which justified the Fed's 50bp rate cut in September. But the improvement in the unemployment rate since the summer peak has been one of the sharper improvements in recent history. That improvement, combined with a hotter-than-expected September CPI report, is probably quite troubling for the Fed in the wake of its large cut. So, the turnaround in the data is puzzling, and whether the next administration inherits an economy that has momentum or one that is headed into recession is an open question. That said, it's clear that middle-class families have been hammered by inflation and feel worse off as a result, as reflected in negative sentiment data.

Allison Nathan: A wide range of economic policy proposals are on the table. What are your views on these policies?

Expanding tariffs on China

Kevin Hassett: Expanding tariffs on China should be a policy priority for the next administration. The extent to which China is engaging in corporate espionage and stealing intellectual property (IP) from innovative companies in the US and beyond to develop domestic competitors—which I gained substantial insight into during my time at the White House—is truly stunning. This behavior lies way outside the bounds that any other country engages in. So, China deserves any harsh trade policy a country decides to inflict on it and should probably be kicked out of the WTO.

And these unfair trade practices extend well beyond IP theft. Chinese investment in the overproduction of geopolitically important products/materials, like steel, presents a clear threat. It's widely accepted that the Allies won WWII because of US productive capacity, especially in steel, which is crucial to the production of military transportation and hardware. China's huge overcapacity of steel visibly puts it on a war footing. And the dumping of that steel around the world to close down steel industries elsewhere is especially troubling. The US allowing its steel production to disappear while China develops enough capacity for an all-out war would be a serious defense policy error.

Universal tariffs

Kevin Hassett: Most countries charge the US a higher tariff on the goods we export to them—on average, around 6.5%—than we do on the goods they export to us—on average, around 3%. So, the first trade policy proposal in the Republican National Committee's platform is a Reciprocal Tariff Act, whereby the US would impose the same tariff rates on our trading partners as they do on us. Whether the US would go up to 6.5% or our trading partners would come down to 3% is an interesting question, but India, for example, has an average bound tariff rate of around 50%. So, I strongly support reciprocal tariffs, which could improve fairness within our trading relationships.

When it comes to a universal tariff, the question is then how it would coexist with reciprocal tariffs; perhaps the universal tariff would serve as the minimum tariff within that system, but that would need to be worked out, and Congress would need to be involved. While the president can enact some trade policies that address specific national security or anti-dumping concerns without congressional approval, a broader reciprocal trade act or universal tariff would require legislation.

Raising versus lowering corporate tax rates

Kevin Hassett: When assessing tax policies, it is critical to consider not only the tax rate, but also the size of the tax base. The decline in the corporate tax rate from 35% to 21% during the Trump Administration came alongside policies like interest deduction that broadened the base so that the Joint Committee on Taxation's score for the program was around $300bn over 10 years—almost revenue neutral. And the decline in the tax rate substantially reduced the cost of capital, which increased capital spending; studies show that US capital spending rose 10-20% after the passage of the Tax Cuts and Jobs Act (TCJA). This, in turn, led to increases in the marginal product of labor and wages, which further boosted tax revenues via income tax. All told, revenue to GDP during the Trump Administration was above historic norms even with the tax cuts. So, the idea that the US was on the wrong side of the Laffer curve that posits a bell-shaped relationship between tax rates and tax revenues at the prior 35% rate was proven correct ex post by the data.

While I haven't fully studied the revenue impacts of a decline in the corporate tax rate to a proposed 15%, my guess is that we're around the peak of the Laffer curve today, so I doubt that further declines in the tax rate would achieve comparable dynamic effects on the corporate side as they did post the TCJA. But the further decline in the cost of capital could still likely generate a positive revenue effect via higher wages, etc.

On the flip side, the proposed increase in the corporate tax rate by 7pp to 28% would not only be the largest increase in the developed world in the last 50 years, but also apply to today's much larger tax base. So, a rise to 28% would leave us far beyond where we were on the Laffer curve at a 35% rate. Such a damaging tax would certainly be recessionary.

Extending the 2017 tax cuts set to expire next year

Kevin Hassett: The TCJA should be extended given the almost neutral revenue impact of these policies versus the resulting boon to spending and wages. While reining in the deficit will be a necessity for the next administration given the size of the debt and deficit relative to GDP, the issue hasn't been revenue to GDP but rather spending to GDP, which is running around 4% of GDP higher than normal. And attention must be paid to the small business provisions that are also set to expire. The 199A deduction allows small businesses to exempt 20% of their income from tax, which effectively lowers their marginal rate. Around 26mn US small businesses claim that deduction. This proposed tax hike on tens of millions of small businesses, on top of the largest corporate tax hike in the recent history of the developed world, is truly troubling.

Global minimum tax on companies' foreign income

Kevin Hassett: The US should not sign on to a global minimum tax on foreign income. Global tax competition will happen regardless of whether the US signs on to such a tax, which is basically an attempt to mail US corporate tax revenues to foreign governments. It is well known that a consumption tax is the optimal tax. And international tax competition has motivated countries to move their revenue bases toward consumption taxes over time, so toward the optimal tax. Some anti-corporation observers call that a race to the bottom, but it's a race to the top in that it is a race to the optimal tax. Stepping in and disadvantaging US companies by ending a tax competition that is greatly increasing the efficiency of the global tax system would be extremely imprudent.

Taxing capital gains on unrealized income

Kevin Hassett: Taxing on accrual is essentially just a wealth tax, which is exceptionally inefficient and has a profoundly negatively effect on long-run equilibrium consumption growth. Such taxes may seem small, but are actually quite large. If wealth is taxed at, say, 3%, people think, "well, it's only 3%". But if the risk-free interest rate is 3%, then that amounts to a 100% tax on capital income. And a 100% tax on capital income basically kills growth because that income fuels consumption. So, wealth tax proposals are a dangerous idea for the economy.

Expanding child and earned-income tax credits

Kevin Hassett: Families with children generally tend to have lower elasticity of consumption—they can't easily shift away from purchasing milk, diapers, etc.—so they are certainly being hit hardest by inflation. Child tax credits are a sound policy in terms of attempting to address this hardship and equalize opportunity. But the optimal size of child and similar tax credits is unclear, and is more of a political question than an economic one.

Federal bans on price gouging

Kevin Hassett: The federal government should not engage in setting prices. Price-setting would provide too much power to the government, which could use such power to coerce companies into charging prices that are politically expedient. Such policies would be a big step in the direction of central planning, and our research shows that when the government starts to set prices, production declines substantially.

Down payment assistance for first time homebuyers

Kevin Hassett: Stimulating homebuying for those in the bottom half of the income distribution is sensible. Academic literature widely finds that homeownership reduces wealth inequality, makes people more responsible citizens, and imposes many positive externalities on the economy and communities. Yet, owning a home is unreachable for many people today given the significant rise in home prices and interest rates in recent years. So, providing some relief here is a solid idea, though the optimal policy mix to do so is unclear.

Tighter versus looser energy sector regulation

Kevin Hassett: The US energy sector is heavily regulated, and relaxing some of these regulations would be beneficial. The Trump Administration made some tangible gains to this end, by, for example, expanding and facilitating the movement of US natural gas production, which also reduced CO2 emissions. Substantial low-hanging fruit remains that could further reduce the US' dependency on imported natural gas and other energy sources, such as relaxing the Jones Act, which prevents the shipment of LNG from one US port to another because no US-flagged vessel can do so. So, much can be done.

Tighter versus looser financial sector regulation

Kevin Hassett: While not "financial sector regulation" per se, the FTC's intense scrutiny of mergers and acquisitions that—along with cyclical factors—basically brought these transactions to a standstill in recent years should be relaxed, and quickly. These transactions are a vital part of an efficient economy, and so the intention should be to undertake a regular Herfindahl index type of review rather than to stop them in their tracks.

In terms of financial sector regulation, the SEC and CFTC's befuddling war on crypto has been one of the great financial regulatory failures in US history. The role that both agencies have assumed in determining what constitutes a security, how they can be traded based on that determination, and their attempt to create the regulations through enforcement, is chilling and a clear abuse of financial regulatory authority. Now that these agencies have engaged in such behavior, the concerning question is, "who's next?"

Coordination between the President and the Fed

Kevin Hassett: The academic literature is clear that an independent central bank is important and, on average, leads to superior economic outcomes, though the effects are not awe-inspiring. And the Arthur Burns experience is a vivid example of what can go wrong when the White House coordinates with the Fed. So, suspicions of such coordination/partisanship should be taken seriously, and the next administration should choose a neutral Fed leadership.

Weaker Dollar policy

Kevin Hassett: The strong Dollar has long been an important advantage for the US because of seigniorage. As long as the US economy remains strong, so will the Dollar, no matter what.

Allison Nathan: Which of these should be prioritized?

Kevin Hassett: Extending the TCJA and relaxing scrutiny/regulation in the areas we've discussed should be the priorities, and could be enacted quite quickly; at least on the Republican side, the House reconciliation team is preparing to have legislative language day one. So, the reconciliation package—the big train to leave the station next year—would start to be visible as soon as November should Trump win the election.

Interview with Jared Bernstein

Jared Bernstein is Chair of the Council of Economic Advisers in the Biden Administration. Below, he shares his views on a wide range of proposed economic policies and their implications for the economy.

The views stated herein are those of the interviewee and do not necessarily reflect those of Goldman Sachs.

Allison Nathan: How would you characterize the economic landscape that the next US President will inherit?

Jared Bernstein: In terms of the macroeconomy, the next US president will likely inherit a solid expansion where inflation has come down to close to the Fed's 2% target without sacrificing much economic growth. Unemployment has risen but remains low. The average pace of job gains over the past three months at 186k is at the north end of most labor economists' estimates of breakeven levels, and, importantly, real wages and incomes continue to rise. However, amid this solid macroeconomic backdrop, people remember what the things they regularly consume used to cost before the pandemic-related surge in inflation and many are uncomfortable with the higher price levels they face today. Unfinished business also remains in addressing market failures in affordable housing and childcare, and the next administration will have to watch out for several known banana peels, including extreme weather events, trade and geopolitical challenges, and the unknown challenges that will inevitably occur.

Allison Nathan: A wide range of economic policy proposals are on the table that could shape the years ahead. What are your views on these policies?

Expanding tariffs on China and/or beyond

Jared Bernstein: It's important to distinguish between *targeted* tariffs and *sweeping* tariffs. Targeted tariffs can be a useful tool to protect against unfair trade practices, such as subsidizing overcapacity to gain market share, which remains important in dealing with places like China. But sweeping tariffs that go beyond helping targeted sectors will severely hit US consumers—because they're effectively a large national sales tax—as well as domestic producers that face higher prices for the imported intermediate goods required in their production processes. And while sweeping tariffs can raise substantial revenue from US importers and consumers, they do so inefficiently because they invite retaliation and impact exchange rates, which could undermine any revenue flows. So, the way I think about it is this: we're happy to import disinflation, but we don't want to import deindustrialization. We must embrace the benefits of robust trade flows but stand up to trading partners who engage in unfair practices that could hollow out key US sectors. Targeted tariffs can be quite helpful to that end, while sweeping tariffs can be quite disruptive and destructive.

> "Sweeping tariffs that go beyond helping targeted sectors will severely hit US consumers."

Raising versus lowering corporate tax rates

Jared Bernstein: Lower corporate tax rates would be desirable if revenues weren't an issue. But they are an issue. Continued robust demand for US government debt, as reflected in healthy bid-to-cover ratios at US Treasury auctions, suggests that the US fiscal situation doesn't pose an imminent threat. The US is able to fund and service its debt without breaking much of a sweat. But we must get on a more sustainable fiscal path before a forcing event changes that. And while research suggests that lower tax rates have some positive investment and growth effects, these effects tend to be economically small relative to the large amount of much-needed revenue that is lost. I can't tell you how many times I've sat with folks from the business community who say that we need to get on a more sustainable fiscal path *and* cut corporate taxes, but the two don't usually go well together. Washington has occasionally engaged in a conversation about a tax system with a much broader base that could allow for much lower tax rates, but these discussions haven't gotten very far because everybody wants an exemption. So, in the world we live in, we need a corporate tax rate that enables growth and profitability while raising more revenue. A 28% corporate tax rate seems to strike the right balance between the two, with corporations proving to be highly successful at rates even above 28% in the past. So, raising the corporate tax rate to 28% would be a useful shift.

> "In the world we live in, we need a corporate tax rate that enables growth and profitability while raising more revenue."

Global minimum tax on companies' foreign income

Jared Bernstein: The proposed global minimum tax of 15% is an essential piece of tax policy cooperation that Congress should sign. It's the most effective way to push back on the tax avoidance that has plagued the coffers of almost any country with a multinational company. The 15% rate is manageable for multinationals but works to reduce the transfer pricing, tax shopping, earnings stripping, and other highly inefficient but bottom line-enhancing tax avoidance measures that multinationals employ. The agreement includes a mechanism whereby if a country fails to join it, other countries could claim revenues from that country's multinationals that would otherwise flow to the multinational's home country. So, Congress has strong incentives to sign onto the agreement.

Extending the 2017 tax cuts set to expire next year

Jared Bernstein: Full extension would be harmful to our fiscal outlook. Extending the tax cuts for households with adjusted gross income (AGI) below $400k/year while allowing them to expire for households earning more than that is a more fiscally sustainable plan that injects more fairness into the tax code while raising much-needed revenues.

Taxing capital gains on unrealized income

Jared Bernstein: Here again, taxing capital gains on unrealized income for the highest earners would generate revenue and inject more fairness into the tax system. The Biden Administration has proposed a prepayment tax against future realizations for taxpayers with AGI above $100mn. That's only a few thousand US households but goes a long way in increasing fairness in the tax code because many of these households, especially if their wealth is incorporated, pay effective tax rates in the single digits. While some folks argue that unrealized income is not income and therefore should not be taxed, these assets are routinely used as collateral for income-generating investments. So, there is a strong case for taxing them. The Treasury has explained how doing so would be relatively straightforward for publicly-traded assets and manageable even for non-traded assets.

Expanding child and earned-income tax credits

Jared Bernstein: Expanding these tax credits would be incredibly beneficial to the economy. Such measures helped reduce child poverty by more than half from around 13% in 2019 to around 5% in 2021 then back to 12% when the credit expired. That kind of intervention has been shown to pay for itself many times over, because children who get a better economic start have a much higher chance of reaching their potential and contributing to the economy in ways they wouldn't have otherwise. So, those types of programs have a big bang for their bucks.

Federal bans on price gouging

Jared Bernstein: The federal government should have some authority, as many states already have, to block price gouging, particularly during disasters. Nobody should be selling bottles of water at exorbitant prices after a hurricane. That said, it is important to point out that no one is talking about broad price controls, which can be particularly problematic when supply is already constrained.

Down payment assistance for first time homebuyers

Jared Bernstein: Such assistance could be helpful, but the sequencing is important. To make housing more affordable—again, one of the largest pieces of unfinished business of the Biden Administration—we first need to increase the supply of affordable housing. Affordable housing suffers from a pervasive market failure in that the rents developers can expect to receive do not provide an adequate rate of return to undertake the project. So, we need a system that incentivizes developers to build affordable housing. Policies such as the Low-Income Housing Tax Credit (LIHTC) are already having success, providing $13.5bn toward the building of hundreds of thousands of affordable rental units last year. An expansion of these credits, as well as other proposals like a neighborhood home tax credit that would directly support building and renovating affordable homes, opening up federal properties for housing construction, and removing obstacles to construction like exclusionary zoning would all be helpful toward continuing to address the affordable housing market failure.

And once affordable housing becomes available, down payment assistance can play a useful role in getting lower-income households on the first rung of the ladder of homeownership, which is a proven generational wealth enhancer. But providing down payment assistance before the stock of affordable housing increases risks pushing up house prices, which would be counterproductive. So, again, the sequencing is important.

Tighter versus looser energy sector regulation

Jared Bernstein: It's underappreciated that the current suite of Biden-Harris energy policies have created the conditions for record-high US production of both traditional and renewable energy sources. I've heard people say that the current administration has killed the production of fossil fuels, yet the data scream otherwise. At the same time, renewable electricity has also seen record-breaking growth, which is essential to making progress toward our climate goals. We have a good balance today, and energy policies should strive to sustain that.

Tighter versus looser financial sector regulation

Jared Bernstein: I would leave financial sector regulation to the regulators and to the Federal Reserve. But the lack of contagion that many people initially feared during last year's regional banking crisis was a reflection of the resiliency of the US financial system. That owes in part to the post-Global Financial Crisis Dodd-Frank regulations that aren't perfect but have apparently dampened the old and depressingly reliable Minsky boom-bust cycle. The health of bank—as well as household and company—balance sheets is a key reason why the macroeconomic backdrop is so solid today.

Coordination between the Executive Office and the Fed

Jared Bernstein: The Fed doesn't need input from the executive branch, and history is replete with examples of bad outcomes when central banks are not able to operate independently.

Weaker Dollar policy

Jared Bernstein: Dollar policy should remain the sole purview of the Treasury Secretary. And almost every Treasury Secretary has opposed engaging in any type of currency intervention. That's not to say that currency values always and everywhere must be shaped by market outcomes; central bank actions already play a meaningful role in influencing relative currency values. But the strength of the Dollar reflects the relative strength of our economy, and that's not something that should be fooled around with for any sort of Dollar policy.

Allison Nathan: If you were President, which of these policies would you prioritize?

Jared Bernstein: I would prioritize the two big pieces of unfinished business I've already mentioned, affordable housing and childcare, which, again, I consider to be pretty existential market failures. We've talked about housing, but no one should forget that access to an affordable, quality childcare subsidy would generate very positive spillovers, especially in terms of parents' labor market participation, not to mention their disposable incomes.

Where they stand on key issues

An overview of the US presidential candidates' top priorities as detailed by their campaign/party platforms and speeches

	Harris	Trump
Personal Tax	• Extend the 2017 tax cuts for households making under \$400,000 a year • Expand child tax credit, including providing up to \$3,600 per child tax credit for middle class families and up to \$6,000 for low- and middle-income families with children in their first year of life • Expand the Earned Income Tax Credit to cover individuals and couples in lower-income jobs who aren't raising a child in their home to cut their taxes by up to \$1,500 • Establish a billionaire minimum tax including taxing unrealized gains • Set long-term capital gains tax rate for those earning a million dollars a year or more at 28% • Eliminate taxes on tips for service and hospitality workers	• Extend the 2017 tax cuts that are set to expire at the end of 2025 indefinitely (including preserving the lower tax rates, larger standard deduction, bigger child tax credit, higher estate tax exemption, and a tax break for closely held businesses) • End income taxes on Social Security benefits • Eliminate taxes on tips for millions of restaurant and hospitality workers • Eliminate tax on overtime • Make interest paid on auto loans tax deductible • Eliminate US taxation of Americans living abroad • Fully restore state and local tax deductibility
Corporate Tax	• Raise the corporate tax rate to 28% from 21% • Raise corporate alternative minimum tax from 15% to 21% • Quadruple the tax on stock buybacks • Raise taxes on US companies' foreign income	• Lower corporate tax rate to 15% from 21% for domestic manufacturers • Repeal the green incentives in the Inflation Reduction Act (IRA)
Trade	• Support American leadership in semiconductors, clean energy, and AI • Not tolerate unfair trade practices from China or any competitor • Employ targeted and strategic tariffs to support American workers*	• Impose reciprocal tariffs on US imports equal to the rates trading partners impose on US exports • 10% to 20% universal baseline tariff on all imports • 60% tariff on all imports from China and revoke Permanent Normal Trade Relations (PNTR) for China • Impose tariffs on certain autos from Mexico and possibly from other trading partners
Inflation	• Advance a federal ban on food and grocery price gouging • Invest in building resilient food supply chains • Revitalize competition in food and grocery prices, including cracking down on mergers and acquisitions	• Lower housing costs by cutting regulation and opening parts of federal lands for new home construction • Lift hurdles to oil and gas development and power plant construction, as well as expand LNG exports/distribution, to boost energy supplies and help contain energy prices
Labor	• Sign pro-union legislation, including the PRO Act and the Public Service Freedom to Negotiate Act • Raise the minimum wage, end sub-minimum wages for tipped workers and people with disabilities, and establish paid family and medical leave	• Bring manufacturing jobs back to the US; ban companies that outsource jobs from doing business with the government • Raise wages for American workers
Immigration	• Allocate more money for immigration enforcement • Revive bipartisan border security deal that would give the president the authority to stop processing asylum seekers if crossings rise too high while expanding legal immigration, allocating 50,000 new immigrant visas annually for five years	• Reduce immigration • Strengthen Immigration and Customs Enforcement (ICE) • Increase penalties for illegal entry and overstaying visas • Deport unauthorized immigrants currently in the US

Healthcare	• Expand and strengthen the Affordable Care Act • Make permanent the Biden-Harris tax credit enhancements • Extend the $35 cap on insulin and $2,000 cap on out-of-pocket spending for seniors to all Americans • Accelerate the speed of Medicare negotiations over prescription drugs • Require private insurers to cap out-of-pocket pharmaceutical costs for enrollees above $2,000/year • Increase competition and transparency in the healthcare industry • Cancel certain medical debt	• Bring down prescription drug costs and healthcare costs overall • Increase transparency, promote choice and competition, and expand access to new affordable healthcare and prescription drug options • Protect Medicare, and ensure seniors receive the care they need without excessive costs
Energy & the environment	• Invest in clean energy sources	• Repeal the IRA subsidies for green technologies • Lift hurdles to oil and gas development as well as power plant construction • Expand LNG exports • Reverse restrictions on greenhouse gas emissions
Housing	• Provide first-time homebuyers with up to $25,000 to help with their down payments, with more generous support for first-generation homeowners • Enact Low-Income Housing Tax Credit to support the building of affordable rental housing	• Open limited portions of federal lands to allow for new home construction • Promote homeownership through tax incentives and support for first-time buyers
Federal Reserve	• Support Fed independence	• Allow input from the president on Fed policy
NATO/Security	• Maintain US aid to Ukraine • Advocate for a two-state solution in Israel-Gaza war	• Ensure other NATO members meet the requirement to spend at least 2% of GDP on defense • End US aid to Ukraine; end the war in Ukraine through a negotiated settlement with Russia • Get the conflict in the Middle East "settled"

Note: Intended to provide an overview of the candidates' top priorities as detailed by their campaigns rather than an exhaustive list of all policies.
**Based on statement by a spokesperson for the Harris-Walz campaign.*
Source: Harris-Walz and Trump-Vance campaign website, campaign documents (see here and here for more detail), NY Times, WSJ, various news sources, compiled by Goldman Sachs GIR.

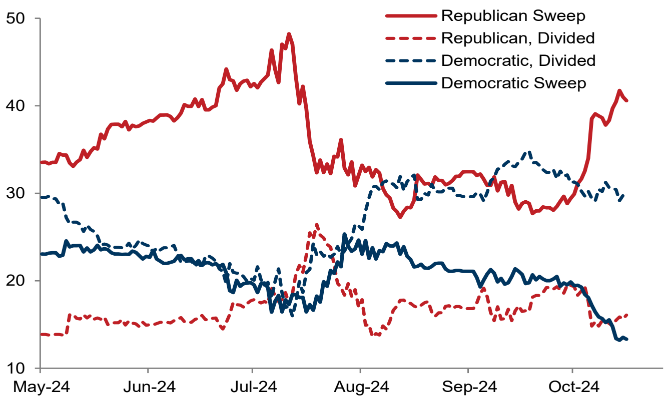
Policy after the US election

Alec Phillips discusses potential post-election policy shifts under various election outcomes

With two weeks to go until the US election, prediction markets show a lean toward former President Trump (62%) over Vice President Harris (38%) and a very slight lean in the House to a Democratic majority (51%), but a clearer tilt toward a Republican majority in the Senate (81%). In light of the congressional outlook, prediction markets see a Republican sweep under Trump and a divided government under Harris as the most likely election outcomes. That said, all four of the main scenarios—a split or sweep under Harris or Trump—are plausible, as the outcome hinges on a few races where the margins are close.

Prediction markets two weeks out from the election

Prediction market-implied probability of election outcome, %



Note: Normalized to sum to Democratic vs. Republican presidential odds.
Source: Polymarket, PredictIt, Goldman Sachs GIR.

Fiscal policy depends on Congress

For fiscal policy, control of Congress matters just as much as control of the White House. Under divided government, the need for bipartisan support would focus legislative efforts on the 2017 tax cuts expiring at the end of 2025 rather than the candidates' broader sets of policies. Republicans argue for full extension of the expiring tax cuts while Democrats oppose extending the lower marginal rates and other provisions for high incomes (around a quarter of the expiring tax cut, or 0.3% of GDP). However, Democrats seek extension of the enhanced health insurance subsidies that also expire at the end of 2025, as well as an expanded fully refundable child tax credit and greater state and local tax deductibility. Upper income tax cuts are more likely to expire in a divided government scenario, but Democrats might opt to extend all of the expiring tax cuts if Republicans agree to include some of their priorities. The economic outlook when Congress is considering a fiscal package will also play a role. A full extension of the tax cuts would become more likely as economic concerns increase, while some fiscal restraint looks more likely under divided government in the benign economic scenario we expect.

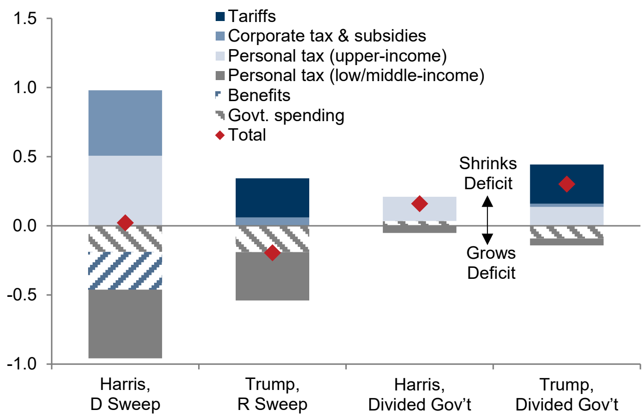
One-party control could lead to more substantial policy changes, though Congress is unlikely to pass either candidate's proposals entirely. Under a Democratic sweep, tax rates would likely rise on corporate and upper-income individual income, but by less than proposed in most cases (e.g., a 25% corporate rate as opposed to the 28% that Harris supports). We are also skeptical that Congress would pass a tax on unrealized gains, although we would expect an increase in the long-term capital gains tax rate. On paper, Harris's proposals would reduce the deficit by around 0.5% of GDP compared with current policy, but this overstates the likely fiscal impact, as Congress would likely decline to enact some policies and scale back others. As such, we expect a Democratic sweep to result in a tax increase sufficient to cover new spending but with little extra revenue to put toward deficit reduction, particularly over the next couple of years.

Tax and spending policies would likely change less under a Republican sweep than a Democratic sweep, as Republicans are not seeking major changes to the 2017 tax cuts nor are they proposing raising corporate or personal taxes. That said, over the last several weeks Trump has proposed new tax cuts worth around 1% of GDP. It seems likely that a fiscal package under a Republican sweep would include some of these items—reducing taxation of tips and overtime pay are most likely—but we would expect Congress to limit the cost of these changes to a few tenths of a percent of GDP.

Under either a Democratic or Republican sweep, we would expect spending to increase more than in divided government scenarios, though the composition would differ, with Democrats likely to boost non-defense spending and benefit programs, while defense spending would likely rise more under a Republican sweep.

Spending would likely increase more in either a Democratic or Republican sweep than in divided government scenarios

Hypothetical deficit effects by scenario (2025-2029 average), % of GDP



Source: Goldman Sachs GIR.

One-party control would also lead to sooner and longer-lasting fiscal policy changes than would be the case under divided government. In a sweep, the majority would use the "budget reconciliation" process to pass fiscal changes in two steps. The process would likely start in 1Q25 with a budget resolution that includes instructions to pass a fiscal package of a certain dollar amount over the next ten years. Those instructions would allow fiscal legislation to pass with only a simple majority (i.e., w/out bipartisan support), and we would expect passage by 3Q25.

By contrast, in a divided government scenario, a bill extending tax cuts would likely not pass until December 2025, as a bipartisan deal seems unlikely before the deadline forces compromise. The duration of fiscal policies would also differ. Under divided government, a deal to extend most or all of the expiring tax cuts might last as little as two years. A Democratic