



## US elections – Trump is gaining ground

Shortly before the US election, Trump pulled ahead of Harris in the polls in several key states. We show how the chances of the two candidates stand and assess their updated election programs.

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### Trump gains ground in the swing states

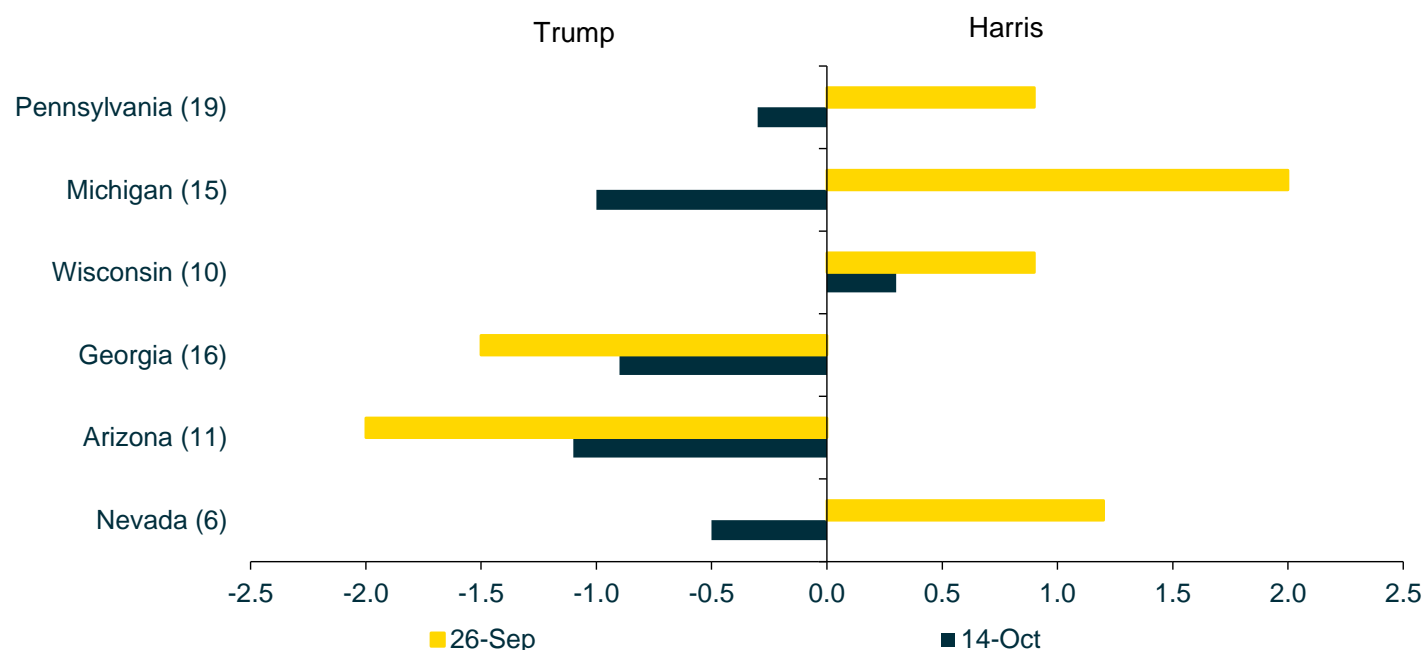
If we look only at the national polls, voting intentions have changed little in recent weeks. According to the analysis platform Realclearpolitics.com, Kamala Harris is just under two percentage points ahead of Donald Trump on average across the polls. This is only slightly less than last month. Nevertheless, the betting markets now give Trump a 57% chance of winning, after Harris was given a better chance in September (title chart).

This turnaround was likely triggered by the results of the latest polls in the swing states, which ultimately determine who will win a majority of the electoral college votes. While three weeks ago Harris was still ahead in four of these six states, she now only has a slight lead in Wisconsin (Chart 1). Harris will probably have to win all three states of the “rust belt”, i.e. Pennsylvania (19 electors), Michigan (15) and Wisconsin (10), to become president. Any defeats here would have to be offset by successes in the swing states of the south or southwest, i.e. Georgia (16), Arizona (11) and Nevada (6). However, this also means that she can only make up for the 34 votes she would lose in both Pennsylvania and Michigan if she also manages a sensation in a state that is actually considered safe to Trump.

Given the usual margins of error in the polls of plus or minus 3 percent, the race in the swing states is still extremely close. But Harris' position has recently deteriorated somewhat.

#### Chart 1 - Harris lost ground in the swing states

swing states, difference in voting intentions (average of various polls) for Harris and Trump, in percentage points. In brackets: number of electors in electoral college



Source: Realclearpolitics, Commerzbank Research

### Both want "Made in America"

If you look at the programs of the two candidates, there are definitely similarities. In economic terms, this applies above all to industrial policy, which both camps have discovered for themselves. There are certainly different priorities here, but all want to



promote “Made in America”, i.e. domestic industry. Protectionism, along with extensive subsidies, is the method of choice. National security considerations also play a role here – both parties have set their sights on China as a global political rival.

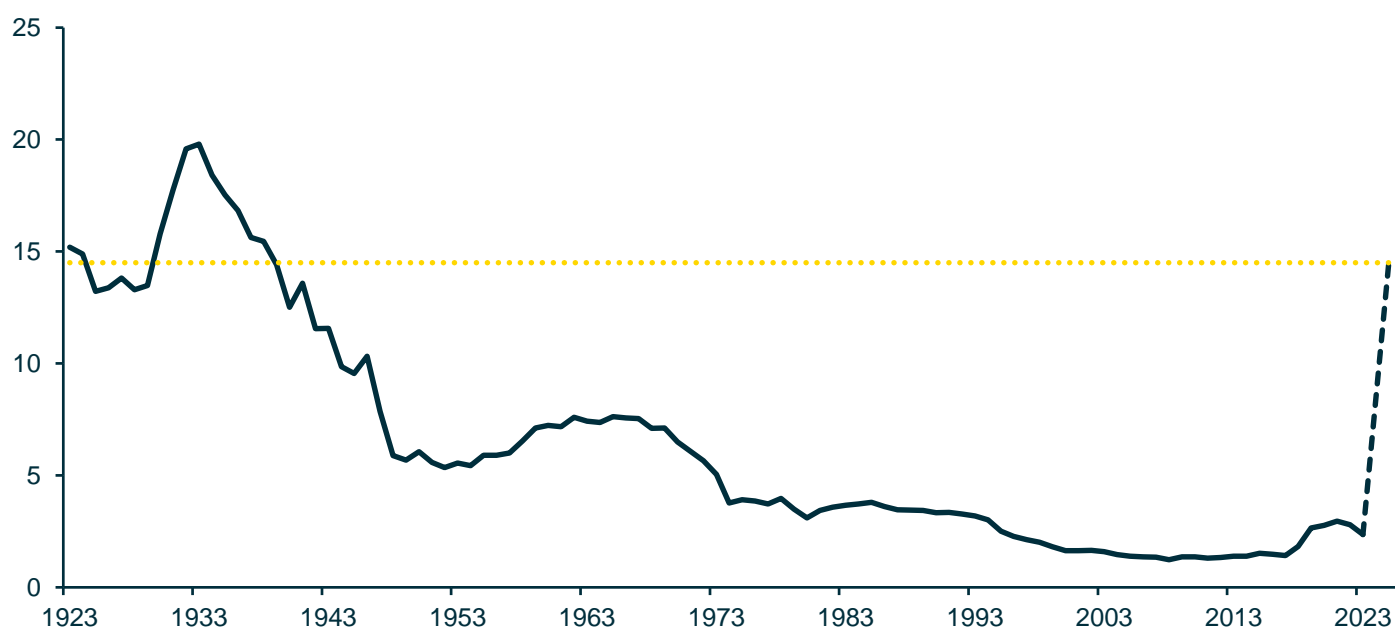
## Trump: massive tariffs ...

Overall, however, the differences between the candidates outweigh the similarities. Donald Trump, for example, apparently sees tariffs as an economic policy panacea. They are intended not only to protect American industry, but the hoped-for revenues should also finance a restructuring of the tax system away from direct income taxation. To some extent, Trump’s tariff proposals are certainly also part of a negotiating ploy with trade partners. For example, he has repeatedly brought tariffs of up to 1000% into play. However, we are basing our assessment on his original statements, according to which he is planning a general tariff rate of 60% for China (the average rate for China is now 10%) and 10% for all other imports.

It is not entirely clear whether he also wants to increase tariffs within the North American free trade area (the former NAFTA, now USMCA). Taking into account the usual elasticities (direct imports from China would fall more quickly than those from countries with lower tariffs), the average tariff would then probably rise to around 15%, a level last seen in the 1930s (Chart 2).

### Chart 2 - Trump proposes the highest tariff rates since the 1930s

Effective tariff rate (tariff revenue in % of total goods imports). Assumptions: 60% tariff rate on imports from China, 10% for all others



Source: USITC, Trump, Commerzbank Research

## ... tax cuts, ...

The hoped-for tariff revenues should also serve to finance the extension of the income tax cuts made in 2017 – i.e. during Trump’s first presidency – (which expire at the beginning of 2026) and the planned reduction in the corporate tax rate from 21% to 15% for companies “that make their product in America”. This would partially convert the tax system to a consumption tax (the tariffs), which would be significantly less efficient than a general VAT because it would only affect imported goods.

Estimates of the cost of the planned tax cuts vary widely due to the unclear plans and constant new proposals. The non-partisan Committee for a Responsible Federal Budget (CRFB) estimates that the tax cuts and spending increases over the next ten years (the usual planning horizon for US tax policy) would add up to a good \$10 trillion dollars, with a range of between 6.8 and 15.7 trillion dollars, which corresponds to 1.8% to 4.1% of gross domestic product over this period. If the planned revenue increases from tariffs amounting to 2.7 trillion dollars are included, and the promised spending increases are also taken into account, the additional deficit over the next ten years will amount to of \$7.5 trillion; this corresponds to an increase in the deficit ratio (deficit as a percentage of gross domestic product) of around 2 percentage points on average over the next ten years (table 1).



## **... and tight restrictions on immigration**

In addition to limiting illegal immigration (a bipartisan project), Trump wants to deport people who are already in the country without a valid residence permit. According to Pew Research estimates, this would affect around 11 million people, which is equivalent to 3% of the population.

## **Trump would create more inflation**

Trump's planned tax cuts would certainly boost the economy in the short term, although it should be noted that extending the 2017 income tax cut would only maintain the status quo and not provide any new impulse. In the medium to long term, implementing Trump's plans could even have a negative impact on the economy. Higher tariffs would restrict the international division of labor, and restrictions on immigration or even the deportation of illegal immigrants would exacerbate the labor shortages that already exist in many sectors.

The latter would cause wages and thus consumer prices to rise faster. Added to this would be the effects of the tariffs planned by Trump. Studies on the effects of the tariff increases from 2017 onwards, which mainly affected imports from China, conclude that the costs were passed on almost entirely to Americans. With imports accounting for an estimated 10% of private consumption (of which around 2 percentage points come from China), a 10% tariff on all imported goods could raise the price level by almost 1%, with the special 60% rate for Chinese imports likely adding another percentage point. In reality, prices might not rise quite as much as a result of the tariffs, as there would be a shift towards non-Chinese goods and companies would not pass on the full increase to the end consumer.

In particular, the inflationary impact of Trump's plans could lead to a conflict with the Fed in the medium term. The Fed will not easily tolerate higher inflation rates and is likely to respond with a tighter policy. Here, Trump could again try to influence the Fed in his favor. One opportunity for this would be the appointment of the next Chairman of the Board (Powell's term expires in May 2026, and it is not expected that President Trump would reappoint him).

## **Harris would be the more conventional choice**

As explained above, the 2017 reduction in income tax rates will automatically expire at the beginning of 2026 in the absence of new legislation. Kamala Harris would like to maintain the lower rates for incomes up to \$400,000. Unlike Trump, however, she wants tax rates for higher incomes to rise back to the old level. At the same time, her program has a stronger socio-political component. She plans additional relief for poorer families and promises higher child benefits. Unlike Trump, however, her proposals are to a larger extent counter-financed. The CRFB estimates that Harris would only increase the deficit by around 1% of GDP on average over the next ten years. However, it is doubtful whether her planned increase in the corporate tax rate from the current 21% to 28% can be pushed through Congress; to do so, she would need majorities in both chambers of Congress (which is unlikely, see below).

Another important difference is that Harris is not planning any general tariff increases on a large scale. Certainly, as in the current administration, further protectionist measures in trade with China are possible, but these are likely to focus on sensitive security goods. A full-blown trade war with the EU, which would be a likely consequence of Trump implementing his plans, is not to be expected under Harris. However, like other presidents, she will robustly enforce American interests in the area of foreign economic policy.

Finally, Harris has already publicly promised that she will not interfere in the Fed's monetary policy. The risk of a conflict between the Fed and the White House would be significantly lower here.

**Table 1 - Trump has more costly plans**

Budgetary costs of proposals of Harris and Trump for 2025-34 in \$bn and in % of GDP according to an analysis of the Center for the Responsible Federal Budget (central estimate). We use the CBO's GDP projection to calculate the GDP ratios.

	Harris		Trump	
	in \$bn	in % of GDP	in \$bn	in % of GDP
Tax cuts/spending increases	7250	1.9%	10200	2.7%
Revenue increases/spending cuts	4250	1.1%	3700	1.0%
Additional interest outlays	500	0.1%	1000	0.3%
<b>Total deficit impact</b>	<b>3500</b>	<b>0.9%</b>	<b>7500</b>	<b>2.0%</b>

Source: CRFB, Commerzbank Research

### Feasibility also depends on Congress, ...

The extent to which Trump and Harris can implement their plans also depends on the outcome of the congressional elections held at the same time as the presidential election. Although the president has considerable freedom in foreign policy and international trade (which is why Trump could significantly increase tariffs without the approval of Congress), any changes to taxes would require the approval of Congress.

In the Senate, one-third of whose members will be newly elected, the Democrats will probably lose their 51-49 majority. In the House of Representatives, which will be completely re-elected, the Republicans currently have a narrow majority. It is likely that the future president will "carry" some members of parliament in particularly contested constituencies, so that the new president can probably count on the support of this chamber. This applies to the Republicans in particular because of their slightly better starting position.

This means that President Trump would probably have narrow majorities in both chambers, whereas a President Harris would probably not. We therefore expect Trump to be more likely to push through his agenda than Harris. A Trump victory would therefore be bad news for the bond market. His plans are not only more aggressive in terms of their impact on the deficit and inflation, but also more likely to be implemented.

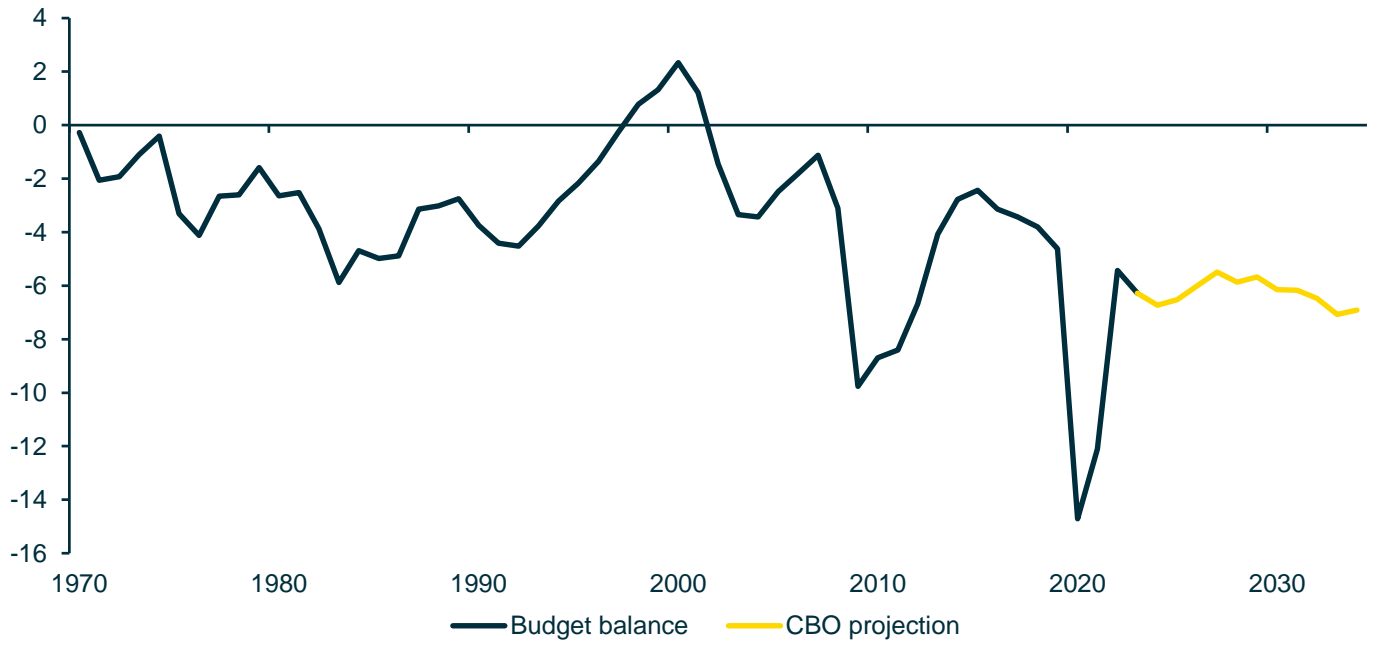
### ... while the beautiful plans meet ugly budget reality

All of these plans must be seen in the context of a federal budget that already suffers from chronically excessive deficits. In the fiscal year just ended, the federal budget deficit was 6.5% of GDP, an unusually high figure for an economy at full employment. Based on current legislation (and thus under the unrealistic assumption that all tax cuts will expire as planned at the beginning of 2026), the Congressional Budget Office (CBO) expects a deficit averaging 6.3% of GDP over the next 10 years (Chart 3). The candidates' plans would further increase the deficits and thus cause the debt and the interest payments on it to rise even faster. The latter already accounts for around 18% of revenues, a level that has only been reached once before – in the early 1990s. A fiscal policy that is too careless could therefore give US politics a "Liz Truss moment" in the medium term. A relatively moderate increase in planned deficits led to a strong reaction in the UK bond market in the fall of 2022, which quickly cost Truss her job as prime minister.



### Chart 3 - Deficits limit room for expensive plans

US federal government budget balance in % of GDP, fiscal years. As of 2024: CBO's baseline projection



Source: CBO, Commerzbank Research

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