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The US presidential candidates' race toward rising debt

At $1.83 trillion, the US public deficit is out of control. Donald Trump's proposed tax cuts and higher tariffs, along with Kamala Harris's welfare and debt relief plans, risk pushing the national debt to new heights.

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In his 1926 novel *The Sun Also Rises*, Ernest Hemingway imagined a dialogue between two alcoholic war veterans, where one asks the other how he went bankrupt. The answer became legendary: "Gradually, then suddenly." This phrase mirrors the current reality in the United States, as reflected in the plans of the two leading presidential candidates, Republican Donald Trump and Democrat Kamala Harris. The country's public deficit is out of control, reaching 6.3% of GDP for the fiscal year ending September 30, or $1.83 trillion (€1.66 trillion), according to the Congressional Budget Office. This deficit is double that of 2019, the last "normal" year of Trump's presidency.

The Biden administration is leaving behind a deteriorating fiscal situation, despite economic growth since the Covid-19 pandemic and near-full employment. The situation is about to get even worse. Trump's plan for more tax cuts would only speed up this trend, while Harris's plan for increased social spending doesn't solve the problem either. As Hemingway's words suggest, the crisis may come "suddenly" under Trump and "gradually" under Harris.

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Federal spending represents 23.3% of GDP, while revenues are limited to 17%. Closing the gap would theoretically require raising taxes by 37% or drastically cutting spending, which neither candidate is prepared to do. Trump is considering entrusting Elon Musk, CEO of Tesla and SpaceX, with the task of reviewing public spending. In a study published on Monday, October 7, the Independent Committee for a Responsible Federal Budget deplored that "neither major candidate running in the 2024 presidential election has put forward a plan to address this rising debt burden."

Their central scenario predicts that under Harris, the debt would rise by $3.5 trillion to 133% of GDP by 2035, while under Trump it would soar by $7.5 trillion, namely 142% of GDP, up from 100% today. Without any policy changes, the debt would reach 125%. "Federal Debt Is Soaring. **Here's Why Trump and Harris Aren't Talking About It," headlined the *Wall Street Journal* in a September 16 article, noting that "both candidates were part of administrations that produced growing deficits. Neither is likely to reverse that trend if elected."**

'If Trump wins, the threat of inflation will be greater'

Skepticism surrounds this alarmist view, as warnings about fiscal irresponsibility have been raised for years without triggering an actual crisis. In fact, the US has already experienced a period of financial laxity, such as in the 1960s, when heavy social and military spending led to capital flight, the abandonment of the dollar's convertibility to gold in 1971 and the subsequent collapse of the US dollar. The 2008 financial crisis was also a debt crisis, though primarily in the private sector, driven by excessive borrowing.

Yet, in the short term, bankruptcy seems unlikely, as the whole world still wants to invest in dollars. As former treasury secretary Larry Summers explained in the spring of 2023: "You have to put your money somewhere, and the dollar is a good place to put it. Europe's a museum, Japan's a nursing home, China's a jail, and Bitcoin's an experiment." On the other hand, a resurgence of inflation is very possible and could prevent the Federal Reserve from cutting rates by 1.5% by the end of 2025 (currently at 4.75%). "Under either a Harris or a Trump administration, fiscal policy is likely to be loose. And if Trump wins, the threat of inflation will be greater," warned Adam Posen, president of the Peterson Institute for International Economics, in the *Financial Times* in August.

The main culprit is fiscal policy, in particular Trump's agenda. "I don't think there's been a more inflationary presidential economic policy platform in my lifetime," said Larry Summers to Bloomberg Television in June. "What is President Trump advocating? He's advocating substantial increases in budget deficits through the continuation of tax cuts. He's advocating debasing the currency by calling for a lower value of the dollar. He's launching the most direct threat to central bank independence in historical memory. And so on the demand side, it's all inflation stuff."

Indeed, Trump has stated that he wants to have a say in setting monetary policy, which is currently the responsibility of the Fed. He plans to impose tariffs of 10% to 20% on all imported products (60% for China), which will drive up prices, especially as American companies, freed from external competition, will inevitably raise their own prices. He also intends to extend tax cuts, some of which expire at the beginning of 2025, notably the corporate tax rate, which would fall from 21% to 15%.

Harris confirms leftward shift under Biden

The *Wall Street Journal* is alarmed by Trump's populist additions, which it says will undo the gains of his own 2017 tax reform. Trump wants to undo the non-deductibility of state and local taxes from federal taxes (this benefits high-spending states like California and New York, which can raise taxes without their residents feeling the impact, since the tax is deductible). He also wants to exempt overtime and tips, which have been on the rise since the Covid-19 pandemic. "Soon, your plumber, accountant and child's tennis coach will want to be paid in tips," deplored the *Wall Street Journal*. Trump also wants to eliminate taxation of Social Security retirement benefits for all Americans.

Major uncertainties hang over Trump's intentions. We don't know what will happen to the energy transition subsidies introduced under Biden, which the Republican wants to partially scrap. It is also very difficult to accurately estimate the revenues that could be generated by the unprecedented tariffs he has the power to impose, at least by decree, and their impact on economic activity. "Experience shows and economists agree that tariffs lead to persistently higher prices for customers. But the near-term damage will be even greater if massive disruptions in supply chains create chaos for businesses that rely on imports," warned the Peterson Institute for International Economics, a Washington-based think tank that supports globalization.

Democratic candidate Harris' program seems more predictable. The Californian will continue the leftward shift resolutely undertaken under Biden, already initiated by former president Barack Obama's healthcare reform, signed into law in 2010. "Donald Trump fights for billionaires and large corporations. I will fight to give money back to working and middle-class Americans," promised the candidate. Her agenda includes tax increases for the wealthiest individuals and corporations to fund social measures for families, especially newborns, first-time homebuyers and entrepreneurs.

'America is on a fiscally unsustainable path'

"Under my economic plan, we will give a tax cut to 100 million more Americans," Harris promised in August while presenting her program and pledging not to tax households earning less than $400,000 a year. From a European perspective, this sounds like a kind of catch-up for a country that is gradually making health care a right and slowly expanding social protection, including promised reductions in drug prices and partial forgiveness of medical and student debt. "There will be no turning back" is one of Harris's slogans.
Specifically, the corporate tax rate would rise from 21% to 28%, without returning to the 35% rate under Obama. The top federal income tax rate would increase from 37% to 39.6%, while unrealized capital gains for households with wealth in excess of $100 million would be taxed.
Daniel Hemel, a tax policy expert at New York University, summed up Harris's dilemma in the *Washington Post* in August: "On the one hand, America is on a fiscally unsustainable path, and if we're going to embark on some of the more ambitious programs she'd like to pursue, we need more revenue. On the other hand, democracy is in peril, and that crisis feels – and is – more imminent than the fiscal crisis, and I think she's made the correct calculus that sacrificing on fiscal policy for a few hundred thousand middle-class voters in the battleground states is worth it."
All of these proposals will require congressional approval, with the exception of the expiration of Trump's tax reforms, which will end automatically. However, a return to the pre-2017 tax code would be highly unpopular. Citibank analysts, who don't like either Harris's tax hikes or Trump's deficit increases, concluded that they were hoping for a Congress split between the Senate and the House of Representatives. They argued that a divided Congress, regardless of which candidate wins, reduces most of the immediate risks to fair market values.
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Subscribers only Donald Trump pledges trade war against those not manufacturing in the US

To force the relocalization of industry, the Republican candidate is promising, if elected, higher tariffs on imports of certain products and tax cuts for companies setting up in the country. A strategy that would drive up prices for low and middle-income households.

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Inflation in the country fell back to 2.9% in July, its lowest level since March 2021. The figure helps the Democrats defend their record.