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The Kamala Harris Agenda

By Angelo Katsoras

Introduction

The Harris campaign has outlined several major policy proposals aimed at addressing key economic challenges, including housing affordability, tax relief for families, raising taxes on wealthier households, and healthcare costs. However, the ambitious agenda comes with significant fiscal implications, potentially adding to already high levels of deficit spending (a concern that applies also to Trump's platform).

Further complicating matters, many Democrats are advocating for keeping the 2025 expiration date on the federal deduction for state and local taxes, arguing that it unfairly penalizes many Democrat-led states despite the potential loss of much-needed federal revenue. Promising to raise taxes only on Americans making more than $400,000 would take even more revenue off the table.

This report examines these proposals and tax issues, their potential impact, and the ability of a Harris administration to fulfill its electoral platform.

Here are some of the key proposals put forward by the Harris campaign:

- Provide $25,000 in down payment assistance to first-time homebuyers over four years and double subsidies for housing construction to $40 billon.[1]
- Restore the expired child tax credit from 2021, which would increase the benefit to $3,000 for most children and $3,600 for those under age 6 (up from the current $2,000). A $6,000 tax credit for children in their first year of life would also be created.
- Extend the enhanced Affordable Care Act subsidies that reduce premiums paid by households buying health insurance, which expire at the end of 2025.[2]
- Eliminate medical debt for millions of Americans and remove taxes on tips. (The details on these measures are sparse.)
- Create a new federal agency to punish companies that unfairly raise food prices.
- Withhold key tax breaks from landlords who control properties with more than 50 units if they do not agree to limit rent increases to a maximum of 5%.

Additionally, the Harris campaign has recently distanced itself from several positions she held during her unsuccessful 2020 presidential bid, including proposals to ban fracking and implement a single-payer healthcare system.

Although the total cost of Harris' promises has not been calculated, the Committee for a Responsible Federal Budget has estimated that the proposals included in her "Agenda to Lower Costs for Americans," if approved in its entirety, would add $1.7 trillion to the spending column over the next decade. That figure could rise to $2 trillion if the housing policies, currently set to last only four years, were made permanent. (Proposed tax increases to at least partially pay for these proposals are discussed in the next section.)

Summary of the Fiscal Effects of the Harris Agenda to Lower Costs for American Families

Policy	Ten-Year Deficit Impact
Expand CTC to $3,000 or $3,600 for young children	$1.1 trillion*
Further expand CTC to $6,000 for newborns	$100 billion
Extend the ACA premium tax credit expansion	$400 billion
Expand the EITC for workers without child dependents	$150 billion
Provide a $25,000 first-time homebuyer credit for four years	$100 billion^
Enact additional affordable housing policies for four years	$100 billion'
Lower prescription drug costs	-$250 billion+
Total Impact of the Harris Agenda to Lower Costs for American Families	**$1.7 trillion**
Memo: Impact of Agenda if housing policies are made permanent	*$2.0 trillion*

Source: "The Kamala Harris Agenda to Lower Costs for American Families," Committee for a Responsible Federal Budget, August 16, 2024

[1] "Kamala Harris unveils populist policy agenda, with $6,000 credit for newborns," Washington Post, August 16, 2024
[2] "The Kamala Harris Agenda to Lower Costs for American Families," Committee for a Responsible Federal Budget, August 16, 2024

Certain proposals to raise taxes

The Harris campaign has endorsed most of the tax increases proposed in Biden's latest budget, which primarily target high-income households. Tax policy is an area of disagreement between Democrats and Republicans, who are more inclined to want to cut taxes.

- Raise the corporate tax rate from 21% to 28%, an increase that the Treasury Department estimates could raise $1.3 trillion in additional revenue over the next decade.
- Increase the top marginal income tax rate from 37% to 39.6%. In addition, the Medicare surtax on individuals earning over $400,000 would increase from 3.8% to 5%.
- A 28% tax on capital gains from the sale of assets held for more than one year for households earning $1 million or more per year. This rate is up from the current 20% (plus an additional 3.8% tax on higher earners), but lower than the 39.6% proposed by President Biden in his 2025 budget.
- Tax the unrealized capital gains of people with net worth exceeding $100 million who do not pay at least a 25% tax rate on their income. Capital gains currently are taxed only when realized after the assets have been sold.

It's important to recognize that passing the vast majority of these spending proposals and tax increases through a divided or GOP-controlled Congress would be virtually impossible. Even with Democrats in control of all branches of government, securing approval for controversial measures like the unrealized capital gains tax would still be difficult owing to intra-party disagreements and narrow voting margins.

The Harris campaign has said that no one making $400,000 a year or less would see a tax increase. This may be one of the few areas where Republicans and Democrats can find potential compromise on tax policy. A similar situation occurred in 2012 under President Obama, when Republicans and Democrats negotiated a deal that raised tax rates only on individuals earning more than $400,000 and couples earning more than $450,000. As a result, about 82% of the tax cuts of the prior Bush administration were made permanent.[3]

According to The Economist, if the Harris administration allowed the Trump tax cuts to remain in place for individuals earning up to $400,000, it could result in $2.5 trillion in lost revenue over the next decade. In comparison, the Congressional Budget Office estimates that making all of Trump's tax cuts permanent would result in a $4 trillion reduction in revenue over the same period.

The looming challenge of state and local tax deductions

Another key fiscal issue is the $10,000 limit on the federal tax deduction for state and local taxes imposed by Trump in 2017, which is set to expire in 2025. This cap is very unpopular in high-tax Democratic states like New York and California, which is why many Democratic lawmakers want to see it gone. As a California senator in 2019, Harris actually co-sponsored a bill to repeal the cap before the expiration date. However, allowing the full deduction would mostly benefit richer Americans and could result in a $1.2-trillion revenue shortfall over 10 years.[4] The Harris administration would be torn between pleasing key segments of its base and depriving the government of much-needed funds.

Climate/energy policy

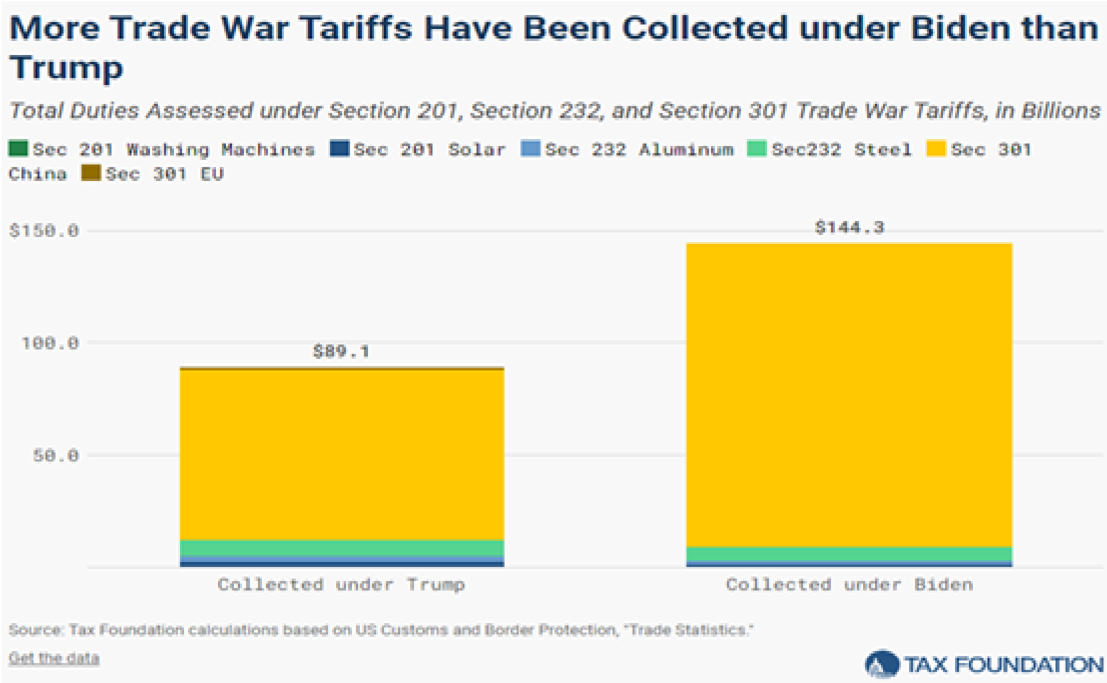
In 2019, as a senator from California, Harris sponsored the Green New Deal, which aimed to create a fully green energy grid by 2030. Today, the campaign says her focus is on continuing to implement the Inflation Reduction Act, which provides financial incentives for clean energy projects.

When it comes to oil policy, it is important to note that events can sometimes push an administration in an unintended direction, especially in the short term. For example, President Biden, who took office in 2021 promising to reduce oil production, had to adjust his stance after Russia invaded Ukraine in February 2022. In response to the crisis, he shifted gears and urged companies and allies to increase oil production.

Protectionism is a bipartisan trend

Harris is expected to maintain the protectionist trade stance of the Biden administration. Biden not only kept most of his predecessor's tariffs in place, but he also introduced new ones. In fact, tariff revenues have grown significantly under the Biden administration.

[3] "Can Democrats Stop the 'Tax Doom Loop'?," New York Times, September 3, 2024 & Center on Budget and Policy Priorities
[4] "SALT Cap Expiration Could Be Costly Mistake," Committee for a Responsible Federal Budget, August 28, 2024



It is important to note that Harris was critical of free trade deals before she became vice president. She was one of 10 U.S. senators to vote against the USMCA in 2020 when Trump introduced it as a replacement for NAFTA. "By failing to address climate change, the USMCA fails to meet the crises of this moment," said Harris at the time.[5]

Harris has also fully supported legislation that heavily subsidizes domestic production of electric vehicles, green energy, and infrastructure. The headline figures show $465 billion being spent on such projects, but the actual amount is much higher because most of the subsidies are in the form of virtually unlimited tax credits that incentive domestic production. *The Economist* has estimated that subsidies could total $100 billion a year over the next decade, roughly double the amount before the pandemic.

As a result, Canada has had to increase financial support for key sectors to remain competitive in attracting investment. In total, both the federal and provincial governments have already pledged over $50 billion in financial support for the electric vehicle industry alone.

China

China policy will remain hawkish regardless of the election outcome. This means that key sectors such as IT, green energy and advanced manufacturing will continue to decouple gradually.

In 2019, Trump banned the sale of high-end chips to Huawei and a few other key companies. In 2022, Biden expanded on this by imposing severe restrictions on the sale of advanced semiconductors to all Chinese companies. More recently, the Biden administration imposed higher tariffs on Chinese imports related to IT products, electric vehicles, steel, green energy, and medical products. The administration is expected to propose a ban on the most advanced self-driving software from China owing to the risk of cyberespionage.

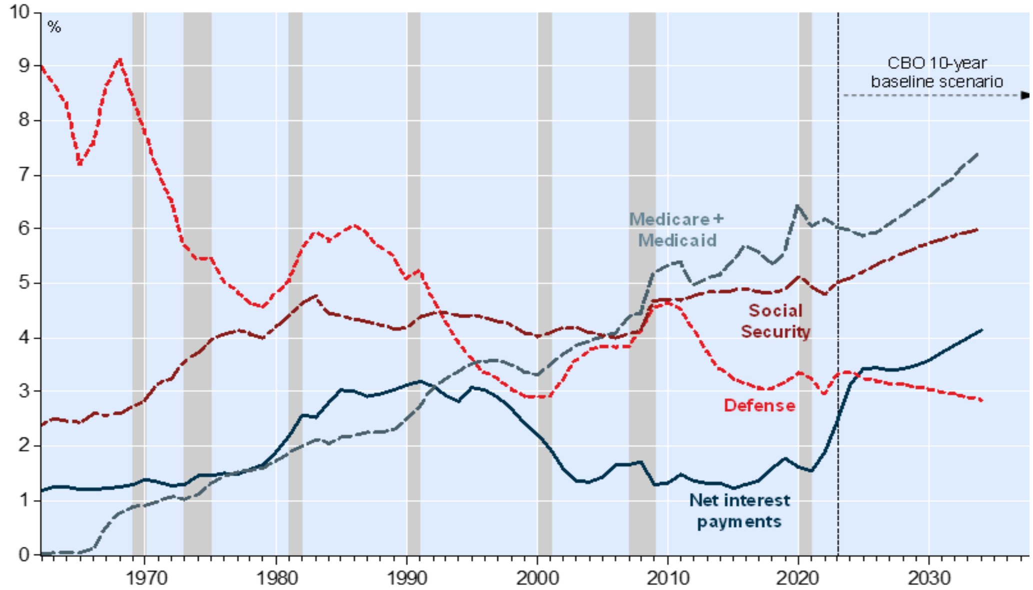
The growing debt problem

The United States can manage high debt levels more effectively than many other nations thanks to the dollar's reserve currency status, its deep financial markets, its lower operating/energy costs, and its relatively robust economy. However, it also faces significant constraints. According to the CBO, the federal debt held by the public as a percentage of GDP has risen from 35% in 2007 to 100% by 2024, approaching levels last seen at the end of World War II.

Higher interest rates are already proving a challenge. The Congressional Budget Office (CBO) has estimated that, in 2024, interest payments ($870 billion) will exceed national defence spending ($822 billion) for the first time on record since1940.[6]

[5] "Canadians should resist the temptation of idealizing Kamala Harris. She's just as protectionist as Biden," The Globe and Mail, July 24, 2024
[6] "Do We Spend More On Interest Than Defense?'" Committee for a Responsible Federal Budget, February 20, 2024

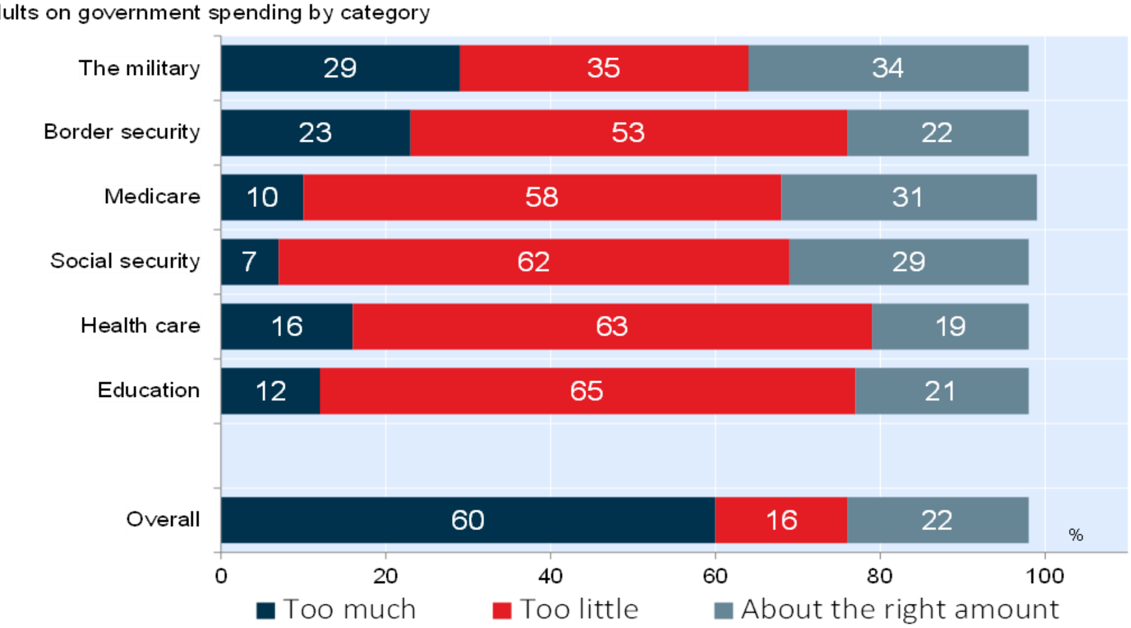
U.S.: Debt servicing set to overtake defense spending this year
Selected federal outlays expressed as a percentage of GDP



NBF Economics and Strategy (data via the Congressional Budget Office)

Both candidates oppose cutting entitlements such as pensions and health care and both have so far failed to address just how much higher debt levels could rise as a result of their campaign promises. This renders the debt challenge all the more daunting. This at least partly explained by polls that show that while Americans support reducing the debt in principle, there is significant opposition to cutting spending in major budget areas such as Social Security and Medicare.

A majority of respondents say federal spending is too high, but far fewer say the same when asked about specific areas
Opinion of U.S. adults on government spending by category



NBF Economics and Strategy (data via AP-NORC)

The next President will have to deal with the debt ceiling in January 2025

In almost every country, once spending plans are approved, the government can simply borrow what it requires. This is not the case in the United States. Congress sets a limit on how much the government can borrow, and when the limit is reached, lawmakers must raise or suspend the limit before the Treasury Department can issue more debt.

The United States will reach its borrowing limit on January 1, 2025, just a few days before the new Congress is sworn in on January 6. As it has done in the past, the Treasury Department will undoubtedly resort to accounting manoeuvres, such as suspending investments in certain government employee pension funds, to delay by a few weeks the point at which the country can no longer meet its financial obligations.

While the risk of a U.S. default is low, accepting additional financing without committing to debt reduction reforms could still be risky and lead to further credit downgrades. In 2023, Fitch downgraded the U.S. long-term credit rating, and Moody's changed its outlook to negative from stable, citing concerns about the U.S. fiscal outlook and the lack of political resolve to address the issue.

Game changer: control of all levers of government

If Harris is elected and gains control of both houses of Congress by an even slim margin, she would be in a very strong position to pass major pieces of legislation. This could be accomplished by resorting to reconciliation, a legislative process that allows spending and taxation bills to be approved by a simple majority (50 +1) in the Senate rather than by the usual supermajority (60 votes). It is important to note, however, that under this process, any change to fiscal policy cannot increase the federal deficit beyond a 10-year timeframe. This is why the 2017 tax cuts enacted by the Trump administration included provisions that expired after a certain period of time.

Presidents elected with control of all levels of government have historically had the most success enacting parts of their legislative agenda during their first two years in office. This is because the president's party often loses control of one or both houses after the midterm elections, typically making it more difficult to pass legislation.

The last two Democrats to occupy the Oval Office are cases in point. In the first two years of his first term, President Obama passed the American Recovery and Reinvestment Act, the Affordable Care Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act. President Biden passed the Infrastructure Investment and Jobs Act and the Inflation Reduction Act. Both lost control of Congress in the midterm elections and had to rely on executive orders, which allow presidents to implement certain regulations without congressional approval, to advance their agendas.

The challenge of governing by executive order

It is important to note, however, that implementing or reversing new executive orders can be a lengthy process. It often takes months or even years to review and respond to potential legal challenges. Typically, these are first heard in federal district courts. The more these cases are heard by Democrat-appointed judges, the better the odds that the executive orders will not be overturned.

The Ukraine war

While a Harris administration would reiterate Biden's line of supporting Ukraine and put less pressure on it to negotiate in the short term than Trump would have done, it is important to keep in mind that regardless of the outcome of the U.S. election, significant territorial expansion remains a challenge for Ukraine. This is due to Russia's deeply entrenched defenses, which include an extensive network of mines, trenches, and traps along the front line. Russia also has a significant advantage in the number of rockets and artillery shells it can launch.

Any settlement would likely result in a "frozen conflict" rather than a formal peace, with Russia likely retaining control over most of the occupied territories. This, in turn, would lead to demands from the West for further financial assistance to rebuild Ukraine and its economy, as well as increased military aid to protect against future attacks.

Conclusion

In sum, Kamala Harris's ambitious policy proposals have the potential to significantly impact various sectors of the economy, ranging from housing and tax policy to energy and trade.

Her chances of passing at least some of these proposals would be greatly improved with control of both houses of Congress. However, history suggests that she would likely only have a two-year window to advance her agenda before losing control of the Congress in the midterm elections. Her priorities are expected to be tax policy, housing costs, and child tax credits.

However, enacting major legislation without offsetting tax increases or spending cuts—as has been the case with Republican and Democratic administrations over the past two decades or so—would worsen an already difficult fiscal situation and potentially unsettle the Treasury market.

At the same time, an increase in corporate tax rates, seen by some as necessary to fund the administration's social agenda, could be a headwind for equity markets if perceived as excessive.

Finally, in the event of a divided government, investors should focus more on who sits atop key regulatory agencies than on bills that often have little chance of becoming law. This is because the heads of regulatory agencies can often implement changes without congressional approval. They can also choose not to strictly enforce existing regulations or laws.

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