

Waterstreet's Economic Forum: First Trust

The Election, Politics, and the Economy

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A summary of Bob Stein's thoughts on the economy:

[1:40] Deep inversion of the yield curve is likely to remain inverted, Bob sees some possibility of economic problems

Less than 50% probability of recession. Instead of a recession we may have a year to a year and a half slow growth.

[3:13] 6.3% deficit of GDP was larger than Reagan's in the 1980s. Reagan's unemployment was over 10%, but last year's unemployment rate was 3.6%.

Late this year, early next year, the results of tightening will come to roost.

Bob's *personal* numbers on his election predictions and their impacts:

These numbers will change in the days leading up to the election.

[7:00] As of October, 3, Vice President Harris is ahead by 2% in polling average, although Trump was behind in 2016 and ended up winning. Trump's advantages: 1. He'll do better in the actual vote than the polls. 2. He'll do better in the electoral college than the popular vote. Worth around 3 percentage points in the actual election.

Trump has a 60% chance of winning according to Bob.

Senate: there's not one Republican Senator who has to defend in a Republican state.

3 Democratic seats that have to be defended in Republican states.

Probably a Republican to win Ohio.

[10:30] Republicans have a fighting chance in Michigan, Wisconsin, Maryland.

Democrats would have to run the table in every battleground state to take the Senate.

10% chance of Democratic sweep

[11:29] 45% chance of Republican sweep.

All of these percentages are subject to change.

Bob's government policy opinion:

1. [12:10] If Republicans sweep, they will extend/deepen tax cuts. Corporate tax rates could be cut to 18%. In addition, minor tax relief for campaign contributions. Raise

- tariffs, reduce green energy subsidy, reform energy. Not enough votes to make changes to Social Security and Medicare. Can make changes to Medicaid-will have the votes.
2. If Trump wins, the Republicans will almost certainly control the Senate.
 3. [14:00] Republicans will have to compromise, but tax cuts will largely remain. 39.6% top rate on regular income tax. State and local tax deduction (SALT) goes from \$10,000 to \$20-\$25,000 instead. Trump would raise tariffs.
 4. [17:15] If Harris wins, she'll face a GOP Senate. Likely will extend tax cuts. Obama did this except for the top tax bracket. GOP will pressure Harris to keep tax cuts for almost everyone just like in 2012.
 5. [19:00] Little to no deficit reduction in the years ahead if Harris is elected. Bond market should be worried about this. No reforms to Medicare, Social Security, ObamaCare, etc. Spending increases, and tax cuts continue.
 6. [19:44] Even in a Democratic sweep scenario, there's a 50-50 Senate split, and there's two swing Democratic senators who wouldn't vote for tax increases. Estate tax rates would stay the same. Corporate rate would go back to 28%. There's an outside possibility of a carbon tax on the corporate side only. Democrats will have more wiggle room to impose a carbon tax.

Q&A:

[27:20] How do debt levels come down in the long term? How does govt. balance the budget?

-We're not going to see a balanced budget again in our lifetimes. Debt is only going higher. We don't need to bring the debt down or balance the budget to make levels sustainable. As long as the economy grows over time, 4% nominal growth allows debt to grow 4%. Need to bring the annual deficit down to more reasonable levels. Can sustain deficits that are smaller, not the deficit of 2023.

[31:00] Social Security: What are the solutions?

-Democrats will win on this issue. Right before trust goes bust, they'll wait to do a general revenue transfer or raise payroll taxes on future workers. OR lawmakers will face a 25% cut in all benefits. Those lawmakers' days will be numbered. Social Security needs regular order or 60 votes to pass. Republicans won't get those numbers. Republicans will probably win on Medicare and Medicaid. **Even if trust fund goes bust, you still get 75% of promised benefits.

[36:40] Tariffs: Right v. Left opinions:

-Trump: we need higher tariff barriers against imports. Likely to see higher tariffs in a Trump administration.

-Harris: Super wealthy is core constituency of Democratic party so their pro free-trade. Democrats are likely to remain more of a free-trading party.

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