Economics International Inc

Research Note 24-1

Long Term Fiscal Consequences of Harris versus Trump

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Summary

The Committee for a Responsible Fiscal Policy has placed central estimates of the impact of fiscal proposals in the US presidential campaign at a 10-year increase in debt by $7.5 trillion for Donald Trump and $3.5 trillion for Kamala Harris. This note extends these estimates to 2054, and finds that an already dangerous debt trajectory would be made worse by both plans, especially by the proposals of Mr. Trump. Debt is already on a path rising from 99 percent of GDP in 2024 to 173 percent by 2054. By then the debt ratio would reach an expected 196 percent of GDP under the Harris proposals and 223 percent of GDP under the Trump proposals.

The CRFB Estimates for 2024-2035

In early October, 2024, the Committee for a Responsible Federal Budget released estimates of the prospective effect of tax and spending plans announced by US presidential candidates Kamala Harris and Donald Trump (CRFB, 2024a).[2] The central estimates for total increases in fiscal deficits over 10 years resulting from the candidates' plans are $7.5 trillion for Trump and $3.5 trillion for Harris. In comparison, fiscal totals for 2025-34 in the Congressional Budget Office baseline amount to $62.8 trillion for revenue, $72 trillion for non-interest (primary) spending, and $20.5 trillion for net interest payments (CBO, 2024b, p. 19).

The largest fiscal cost in both plans is from full or partial extension of the 2017 Tax Cuts and Jobs Act which expires at end-2025. The central 10-year estimates of fiscal cost of TCJA extension are $5.4 trillion (Trump, full extension), or $3.0 trillion (Harris, limited to households with annual income below $400,000). The largest other fiscal costs in the Trump plan are $2.0 trillion for exempting overtime income from taxes, and $1.3 trillion from ending taxation of social security income. The largest other fiscal costs in the Harris plan are $1.4 trillion for

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[2] For a summary description, see Andrew Duehren and Alan Rappeport, "Trump Program Called Likelier to Balloon Debt," *New York Times*, October 8, 2024.

expanding the child tax credit and the earned income tax credit, and $700 billion for expanding access to pre-K and child care. Increased revenue in the Trump plan would include $2.7 trillion from higher tariffs and $700 billion from reversing energy and environment policies and expanding production. Increased revenue in the Harris plan would include about $900 billion each from higher corporate taxes, higher capital income taxes, and higher medicare taxes.

The CRFB considers the range of uncertainty to be large, such that the total fiscal cost of the Trump plan over 10 years could be as high as $15 trillion or as low as $1.5 trillion, and the Harris plan could have fiscal costs as high as $8 trillion or as low as zero. This note considers the longer-term fiscal impact of the plans by adding the consequences for the period 2035 through 2054 to the 10-year estimates provided by CRFB. First, however, it is necessary to adjust the March 2024 long-term budget projection of the CBO (2024a) to take account of the significant changes in the CBO's latest 10-year budget estimates in June (CBO, 2024b).

Adjusting the CBO Long-Term Baseline Projections

The most recent long-term budget projections by the CBO were in March (CBO, 2024a). They showed the ratio of debt held by the public to GDP rising from 99 percent of GDP in 2024 to 116 percent in 2034 and a remarkable 166 percent by 2054. However, by June the CBO's 10-year projections had boosted the 2034 debt ratio to 122 percent of GDP. The increase was mainly attributable to an increase in defense spending for Ukraine, Israel, and countries in the Indo-Pacific region (CBO 2024b, p.1).

The estimates here adjust the long-term CBO projections for the substantial increase in the updated 2034 baseline debt. This adjustment is done by, first, replacing all of the March estimates for 2024-2034 by their values in the June report. For 2035, GDP becomes the March estimate slightly reduced by the same proportion by which 2034 GDP in the June report differs from the March estimate (-0.6 percent). Debt in each successive year then becomes debt at the end of the previous year plus the fiscal deficit in the year in question. The deficit is the primary deficit (revenue less non-interest spending) plus the interest deficit. Net interest payments are calculated by applying the implied interest rate in the March estimates to debt at the end of the prior year.[3]

The primary deficit in 2035-54 is assumed to be unchanged from the baseline in the March long-term projections.[4] Interest payments in the adjusted long-term baseline rise from 3.1 percent of GDP in 2024 to 4.1 percent in 2034, 5.2 percent in 2044, and 6.6 percent of GDP by 2054. Driven by higher interest payments from both rising debt and an increase in the interest rate already present in the original baseline, the total fiscal deficit rises from 6.7 percent of GDP in 2024 and 6.4 percent in 2034 to 7.6 percent by 2044 and 8.8 percent of GDP

[3] The implied interest rate is the ratio of net interest payments in year *t* to debt at the end of year *t-1*. This rate eases from 3.4 percent in 2025 to 3.3 percent in 2026-2028 but then gradually increases to 4.0 percent by 2054.
[4] The primary deficit peaks in 2033 at 3.1 percent of GDP, but eases to a plateau of about 2.3 percent of GDP in 2036-2054.

by 2054. By 2054 federal debt held by the public rises from the 166 percent of GDP projected in the March long-term baseline to 173 percent of GDP in the adjusted baseline.

Adding the Incremental Harris or Trump Deficits

The CRFB's 10-year fiscal impact estimates can be extended to a 30-year horizon by assuming that the primary spending and revenue effects of the first 10-year period remain constant in real value during the two subsequent decades. This calculation can be done by applying the CBO long-term baseline for the consumer price index over the full period.[5] Phasing the annual real shocks evenly over the next three decades, their nominal annual amounts rise from about $600 billion in 2026 to $1.1 trillion by 2054 for Trump, or correspondingly from about $275 billion to about $500 billion for Harris. The high path for each year is twice the central path amount for Trump, and 2.3 times the central amount for Harris. The low path for the primary fiscal shock each year is one-fifth the central path for Trump, and zero for Harris.

An "expected" probability-weighted path for the primary fiscal shocks can be obtained by assigning probabilities to the central, high, and low paths. The calculations here set the probability at 50 percent for the central case, and 25 percent each for the high shock and low shock cases. Figure 1 shows the resulting long-term projections of the ratio of federal debt held by the public to GDP. Chart A shows high, central, and low paths for Trump, alongside the adjusted CBO baseline. Chart B shows the high and central paths for Harris, and the CBO baseline (which is the same as the low path for Harris).

By 2054, in contrast to the US debt ratio of 173 percent of GDP reached in the adjusted CBO baseline, in the most extreme case (Trump high) the debt ratio reaches 267 percent of GDP. In the probability-weighted summary projections (chart C), the 2054 debt ratio reaches 196 percent in the expected Harris path, and 223 percent of GDP in the expected Trump path.[6]

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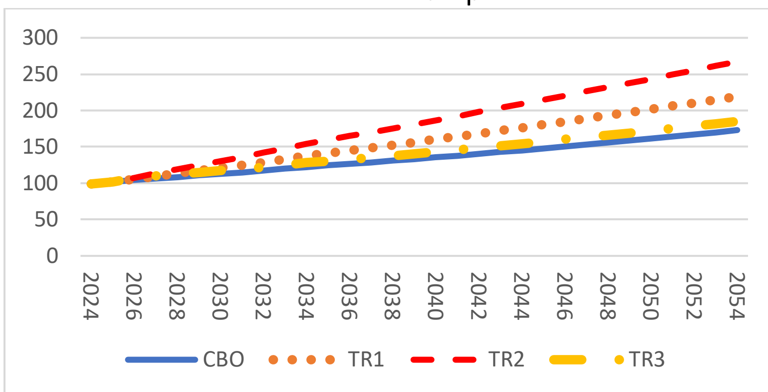
[5] The central estimates of net primary spending and revenue effects are shocks of $6.5 trillion in the first decade for Trump and $3.0 trillion for Harris. The CBO baseline consumer price index rises by approximately 2.25 percent annually over next 30 years, placing the primary shocks at $8.2 trillion (Trump) and $3.8 trillion (Harris) for 2035-2044 and $9.1 trillion (Trump) and $4.2 trillion (Harris) for 2045-2054. The allocation by individual year is obtained by making the annual shock constant in real terms.

[6] Subsequent to the preparation of the projection model developed here, the CRFB issued an extended version of its analysis that included charts reporting estimates through 2055 (CRFB, 2024b, pp. 45-46). These "illustrative" long-term projections took the central estimates of policy changes by category for 2026-2035 and assumed that they persisted as the same percentages of GDP over the subsequent 20 years (Marc Goldwein, by communication, October 25, 2024). These "illustrative" extrapolations placed the 2055 debt ratios at 189 percent of GDP in the current law baseline, 210 percent for the Harris plan and 250 percent for the Trump plan (p. 45). Alternative projections adding the effect of induced higher interest rates and lower growth raised the debt ratios to 240 percent by 2055 for Harris and to 250 percent already by 2049 for Trump, with subsequent years for Trump off the chart (p. 46). Note further that when the "constant percent of GDP" approach to estimating the 2035-54 primary deficit shocks is applied, rather than the "constant real value" approach used in the estimates here, the effect is to raise the estimated Trump-central debt ratio in 2054 from 219 percent of GDP (figure 1.A) to 231 percent, somewhat below the CFRB (2024b, p. 45) estimate (245 percent).

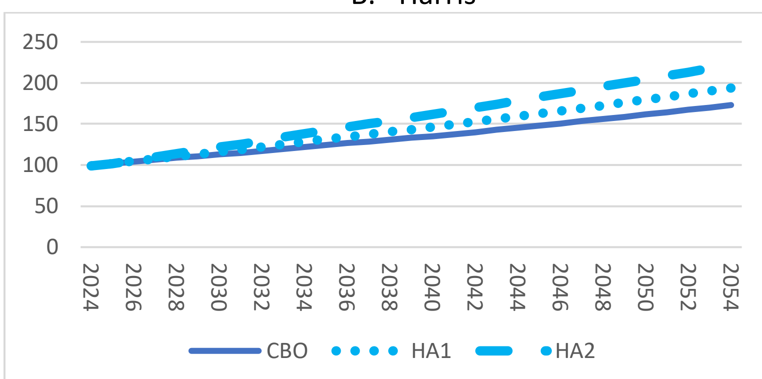
Figure 1

Alternative Long-Term Estimates of Debt as Percent of GDP:
Adjusted CBO Baseline and Trump, Harris Plans

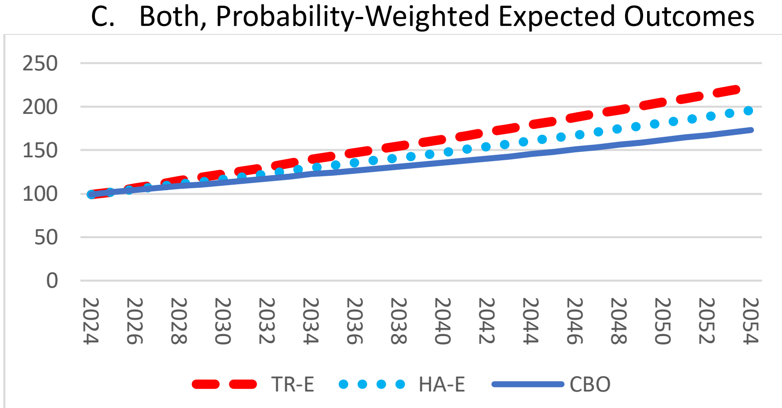
A. Trump



B. Harris



C. Both, Probability-Weighted Expected Outcomes



Source: author's calculations based on CBO (2024a, b) and CRFB (2024)
TR: Trump HA:Harris 1: central 2: high 3: low

Policy Implications

The projections here strongly suggest that even without the tax cuts and spending increases proposed by presidential candidates Harris and Trump, US federal debt is on an unsustainable path.[7] The highest historical US debt ratio was 106 percent of GDP, reached in 1946 after the high expenses of World War II (PGPF, 2024, p.2). The debt problem even without additional fiscal largesse has been the elephant in the room ignored by both candidates as they have competed in offering new tax breaks and spending initiatives.[8] Based on the long-term extension of the CRFB 10-year estimates and in the probability-weighted summary, *by 2054 the Harris plan would add another 23 percent of GDP to the debt path and the Trump plan would add another 50 percent of GDP.*

The calculations here do not take account of changes in the baseline paths of real GDP growth, inflation, and interest rates that could result from induced macroeconomic responses to key elements in the candidates' economic proposals. In particular, higher ratios of debt to GDP than in the adjusted CBO baseline would likely boost interest rates further rather than leaving them unchanged as in the calculations here. Moreover, induced macroeconomic effects could curb growth rather than stimulating it through lower tax rates (as typically assumed in the "low" deficit-impact variants).[9]

Whoever wins the election will need to turn her or his attention sooner rather than later to the need to reduce future spending commitments and increase future revenue prospects by enough to sharply curb the steep rise in the longer-term path of the US public debt burden.

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[7] Auerbach and Gale (2024, p.10) reach the same conclusion. They calculate that under a "current policy" baseline rather than the "current law" approach used by the CBO, making the provisions of the Tax Cuts and Jobs Act permanent would boost the 2054 debt ratio to 211 percent of GDP (p. 6).

[8] Thus: "… [B]oth candidates' tax and spending plans would make the problem worse. Each firmly opposes Social Security and Medicare benefit reductions [but] … 78 percent of the projected increase in total government spending from 2024 to 2034 will come from rising spending on Social Security, Medicare, and interest payments on the debt …" Michael Strain, "Harris and Trump are equally silent on the expanding US Debt," *Financial Times,* October 18, 2024.

[9] McKibbin, Hogan, and Noland (2024) apply an international general equilibrium model to estimate the consequences of the Trump proposals. They find negative growth effects for the US economy, as high tariffs cause an inflationary shock that induces the Federal Reserve to boost interest rates, higher-cost imported intermediate inputs into US manufacturing cause output losses, and expulsion of undocumented immigrants reduces labor supply. They estimate that by the 2030s US output would be 1.5 to 6.5 percent lower than in their baseline (p. 44). Lower growth and higher interest rates would cause the paths of debt relative to GDP to be even higher than in the estimates here.

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