

The US Democratic presidential candidates: proposals and reactions

- In election years, like the current one, the economy and the financial markets tend to behave somewhat differently in the face of the spikes in uncertainty that the candidates' campaigns can generate.
- In the medium term, the candidates' proposals in the areas of fiscal, healthcare, anti-monopoly and foreign policy are those that could affect the performance of the economy and the markets.

The presidential race for the White House, which will be officially resolved on 3 November, has begun. Donald Trump will once again stand as the Republican Party candidate, while Joe Biden and Bernie Sanders are competing for the Democratic nomination.

The economy and the financial markets can behave somewhat differently in US election years. At certain times, uncertainty rises above normal levels and this can have a detrimental impact in both the economic and the financial sphere. However, as we shall see, even if uncertainty increases, its effects on economic activity and the markets are insignificant. This is especially the case in the present context in which the COVID-19 coronavirus health emergency has become one of the most unexpected and transcendent global risks. Nevertheless, the various candidates' proposals in the field of economic policy will end up being a major focus of attention. It is thus important to analyse them.

Reactions of the economy and the financial markets to the election year

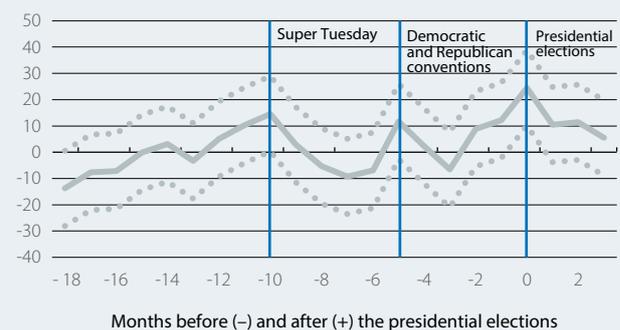
The US Economic Policy Uncertainty (EPU) index shows that there are three times during an election year when uncertainty rises above its usual level¹ around the so-called «Super Tuesday» (the day with the largest number of states in primary elections, which takes place in either February or in March, as has been the case in 2020), around the time of the Democratic Party and Republican Party conventions (in summer) and just before the elections themselves (in November). At these three times, uncertainty tends to increase between 12 and 25 points above the average value of the EPU index, as the chart illustrates. Various studies help us to interpret these figures. On the one hand, according to estimates by Baker, Bloom and Davis,² in terms of economic activity, this increase in uncertainty could lead to less job creation, equivalent to around 150,000 jobs over a period of six months (25,000 per month). On the other hand, according to estimates by the Federal

1. We use a corrected version of the EPU index in which we eliminate movements that may be due to the typical evolution of the business cycle. These movements are eliminated using a regression of the EPU index on the unemployment rate of three months prior. The index we use is the remainder of this regression. The correction is similar using other economic activity indicators such as the ISM's manufacturing index.

2. See Scott R. Baker, Nicholas Bloom and Steven J. Davis. «Measuring economic policy uncertainty». The quarterly journal of economics 131, nº 4 (2016): 1593-1636.

US: Economic Policy Uncertainty index* in an election year

Level (points)



Note: * Economic Policy Uncertainty index for the US, where we eliminate movements that are typical of the business cycle. See the note in the main text. We also plot the 90% confidence interval.

Source: CaixaBank Research, based on data from the Economic Policy Uncertainty index and the BLS.

Reserve Bank of Dallas for the S&P 500,³ in financial markets, this increase could reduce US stock prices by around 0.30%. A drop of this magnitude is insignificant if it is compared with the major stock market declines triggered by the coronavirus crisis.

What are the economic policy proposals of the Democratic candidates?

So far, tax proposals have been one of the main areas of focus for the Democratic candidates' campaigns. In fact, some of them could be implemented fairly quickly, since they do not require an absolute majority in Congress. Let us take a closer look. Both Joe Biden and Bernie Sanders advocate an increase in taxes following the sharp tax cuts introduced by the Trump administration at the end of 2017.⁴ However, there are marked differences in their approaches. With respect to corporations, Biden proposes raising the tax rate from the current 21% to 28%. In addition, he proposes a minimum rate of 15% for large companies reporting net income of at least 100 million dollars which, due to the substantial deductions they benefit from, pay practically no federal taxes. Sanders, meanwhile, is more assertive with regard to the rise in the corporate rate: he proposes returning it to 35%

3. See the article from the Federal Reserve Bank of Dallas of 19 November 2019 by Pavel Kapinos and Alex Musatov (*Economic Policy Uncertainty Emerges as Drag on Stock Market*).

4. With the Tax Cuts and Jobs Act of 2017.

Economic policy proposals of the Democratic presidential candidates

POLICIES	TAXES					HEALTHCARE		ANTI-MONOPOLY	INTERNATIONAL TRADE
	Companies		Individuals			Healthcare coverage	Medicine prices	Measures	Position
	Corporate tax rate (Reduction from 35% to 21% under Trump)	Other corporate rates	Personal income tax rate (Reduction from 39.6% to 37% under Trump)	Capital gains	Assets				
DEMOCRATIC CANDIDATES									
Joe Biden	28%	Minimum of 15% on net income (>100 million dollars)	39.6%	Taxation equal to that on income for capital gains over 1 million dollars	-	Increase public coverage	Allow Medicare to negotiate prices with pharmaceutical companies; possibility of importing medicines	-	More in favour of free trade
Bernie Sanders	35%	Elimination of numerous deductions; tax on financial transactions	Higher than 39.6% on incomes over 10 million dollars	Taxation equal to that on income for household capital gains over 250,000 dollars	Progressive rate for assets in excess of 32 million dollars (would start at 1%)	Medicare for all (universal healthcare plan)	Allow Medicare to negotiate prices with pharmaceutical companies; possibility of importing medicines; limit prices	Limit the dominant position of large corporations (e.g. banks)	Sceptical

Source: CaixaBank Research.

(the rate that applied prior to the Trump reform) and, in some cases, even raising it further. His proposals also include the elimination of many of these tax deductions which favour large corporations which avoid federal taxes and the introduction of a tax on financial transactions. In terms of taxes on individuals, Sanders is once again more aggressive in his approach and proposes bigger rate increases than his rival, as summarised in the table.

Healthcare is a second priority of the Democratic proposals. While Sanders defends a universal and public healthcare plan («Medicare⁵ for all»), Biden proposes an increase in public healthcare cover which is far from being universal. With regard to medicine prices, both candidates agree on the need for them to be more affordable and propose legislation to achieve lower prices by negotiating with pharmaceutical companies. But again, Sanders goes further and proposes directly imposing price limits. In the area of healthcare, most of the proposals require an absolute majority in Congress. Sanders' more radical approach is therefore less likely to be achievable. That said, it should be noted that the COVID-19 pandemic could generate greater consensus in Congress in favour of more far-reaching reforms of the healthcare system.

As for anti-monopoly policy, Sanders fervently advocates limiting the position of large corporations, such as big banks and tech giants. In some of his interventions, he even talks of the need to break up the big banks into smaller entities specialising in either retail or investment banking. Again, on this point, it is worth pointing out that

many of his proposals have little chance of success, as they require large majorities in the different chambers of Congress. Even so, it could mark a slight shift in the approach to competition measures, which could generate certain reactions in the financial markets.

Finally, foreign policy, and in particular the position on international trade, is a topic on which neither candidate has placed particular emphasis, despite having been one of the key points of the Trump administration's economic policy over the past two years. In this area, what seems certain is that the Democratic stance on free trade will not be all that different from that of the current president. Trump has marked a turning point in trade policy and while Biden is more in favour of free trade, he will not stand as a clear champion of this doctrine. This is particularly the case given that Trump's actions in the field of trade have not dented his popularity. Sanders, meanwhile, could prove even more combative than Trump when it comes to defending US workers from the threat posed by globalisation.

In short, we do not expect the US electoral race in 2020 to have a major economic-financial impact. However, the proposals of the Democratic presidential candidates could end up having a notable impact on the evolution of the US economy. This is particularly the case for Biden's proposals, as he is consolidating his lead over Sanders, who may not last until the Democratic National Convention. First, however, the elections on 3 November will decide whether the US presidency will remain in Trump's hands or will pass to the Democrats.

Clàudia Canals

5. Federal health insurance programme.