American Economic Policy After the Midterm Elections

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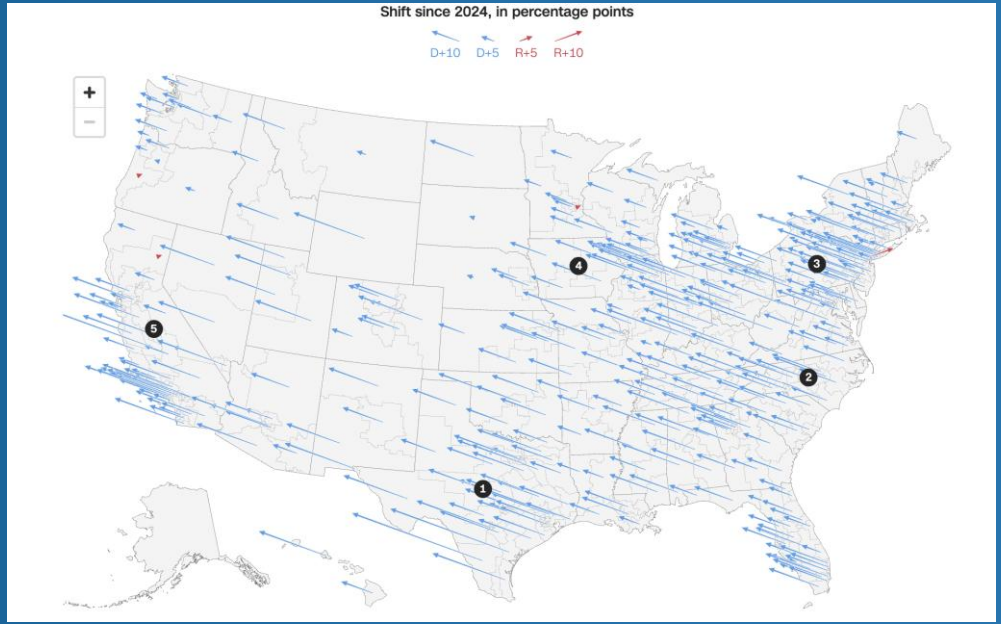
What happened?

- Largest swing left since 1948
- Largest margin in House in over 30 years

Key Issues

- Affordability
- War in Iran
- Trump
- Corruption

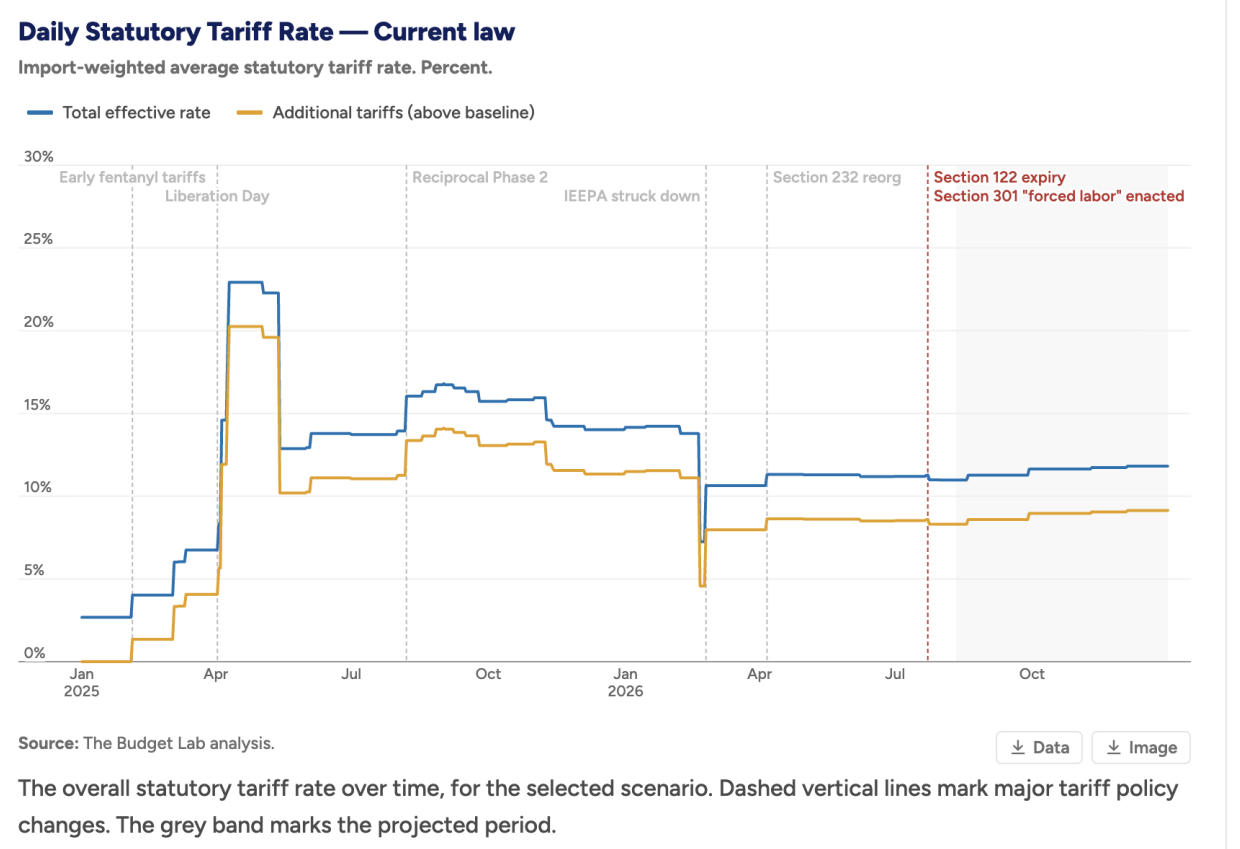


Source: https://www.cnn.com/2026/11/03/politics/house-districts-midterms-trump-vis

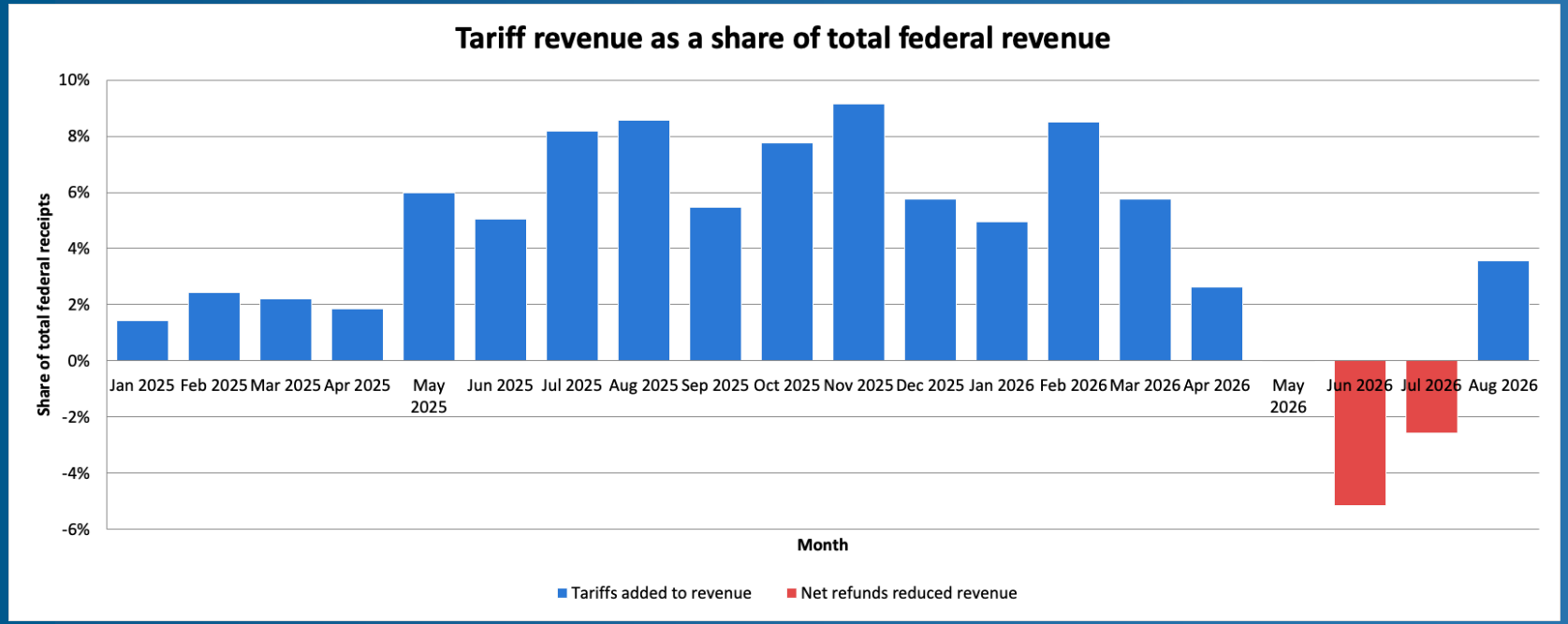
Implications

- Tariffs
- Fiscal Deficits, Tax Policy, Spending
- Climate
- US Economy
- Foreign Relations

US Tariff Rates

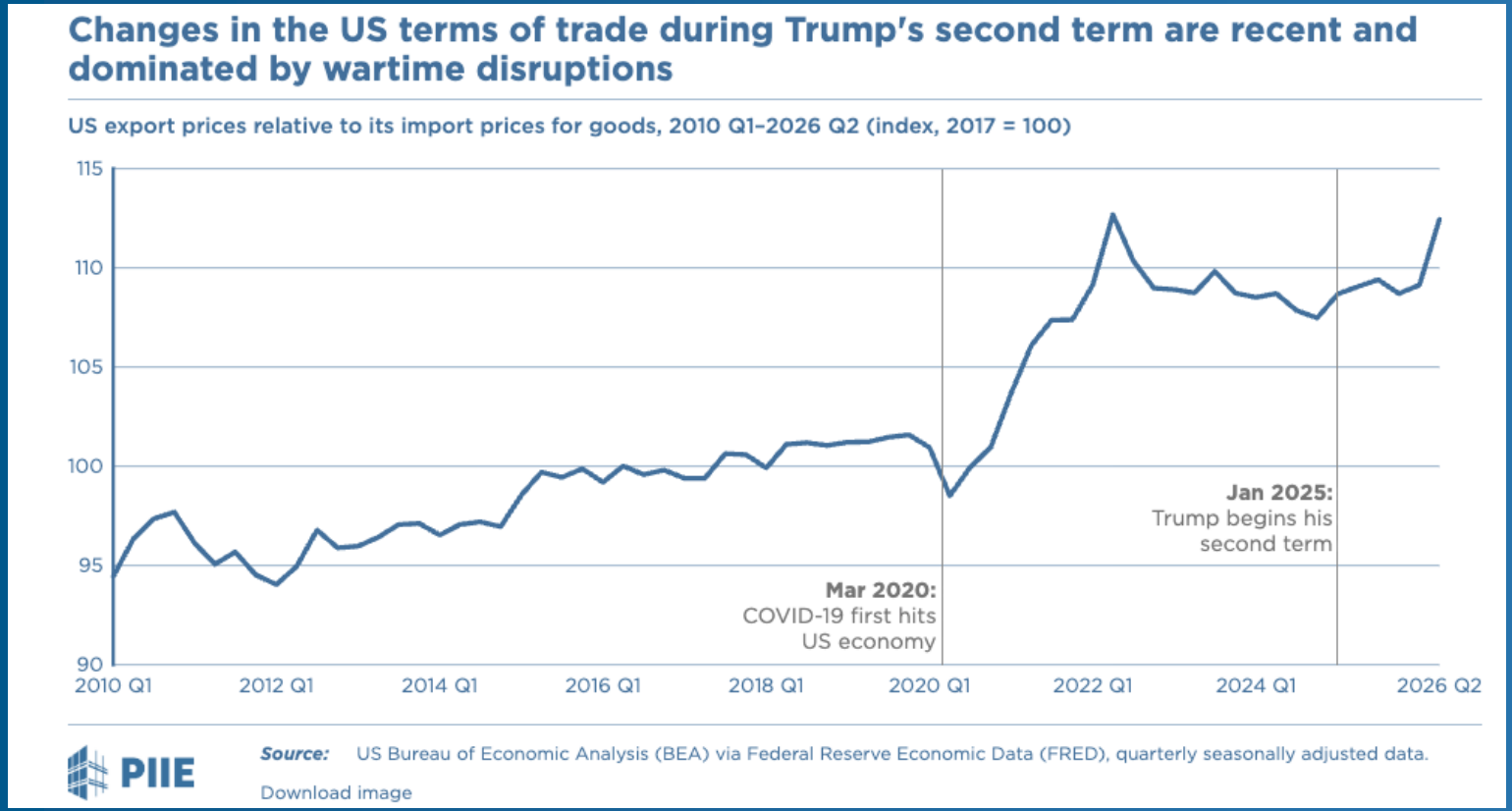


Source: Budget Lab; https://budgetlab.yale.edu/research/state-us-tariffs



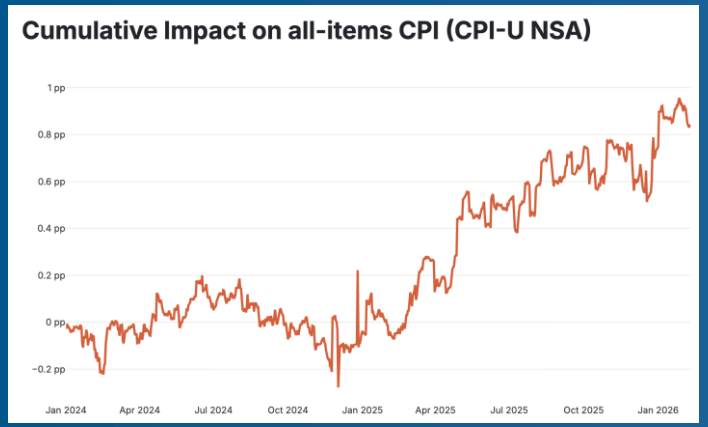
Source: US Treasury MTS Data

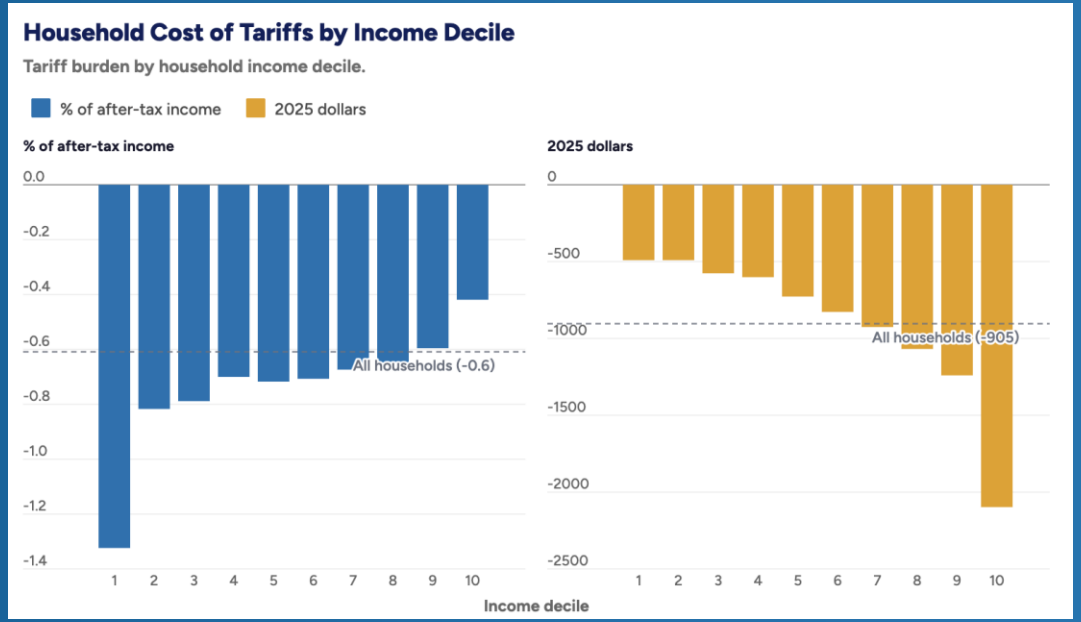
Terms of Trade



Source: Clausing and Obstfeld 2026, https://www.piie.com/blogs/realtime-economics/2026/optimal-tariffs-are-far-optimal-part-1

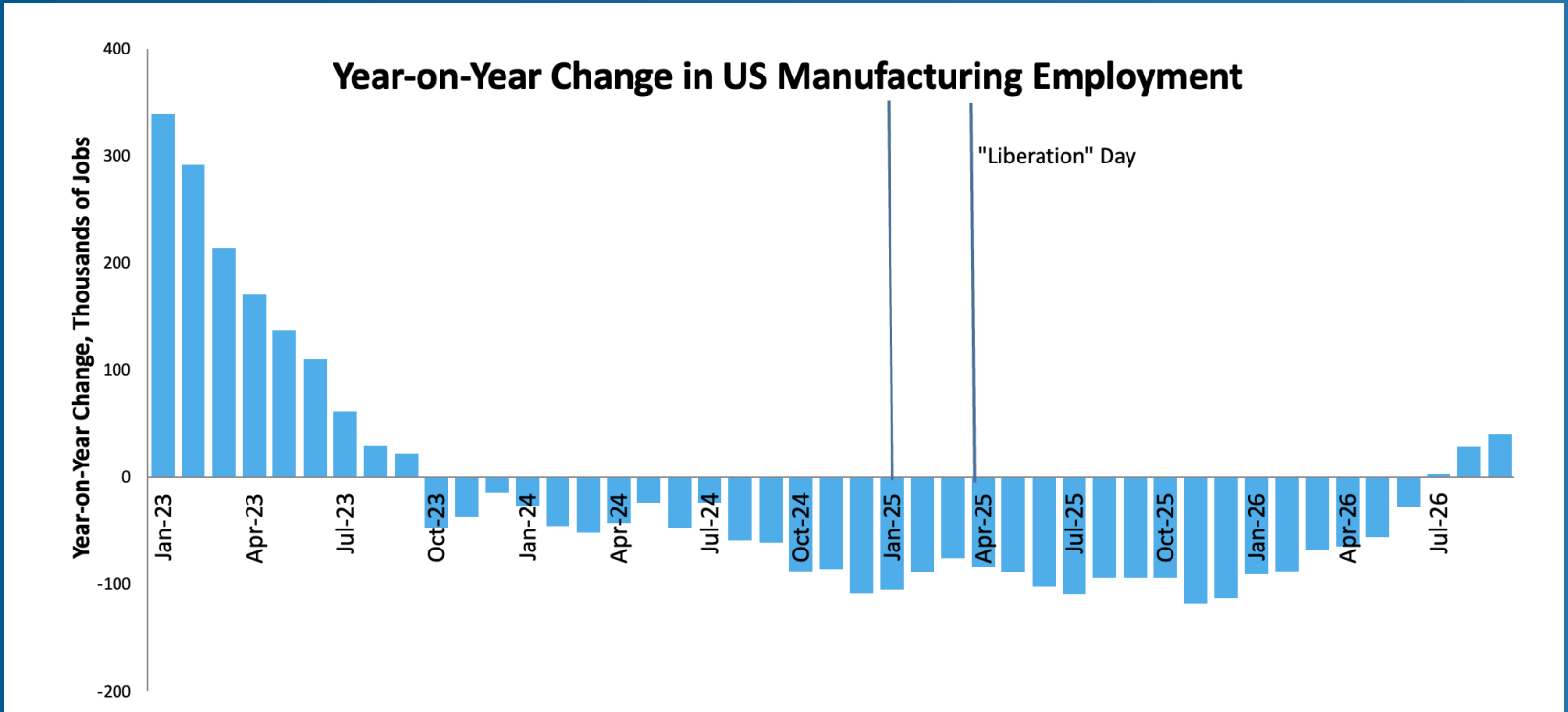
US Price Pressures





Source: Tariff Tracker, https://www.pricinglab.org/tariff-tracker/; Budget Lab

Manufacturing Jobs?



Source: Bureau of Labor Statistics

Do tariffs help with international imbalances?



Implications for Rest of World

- Destruction of gains from trade =>

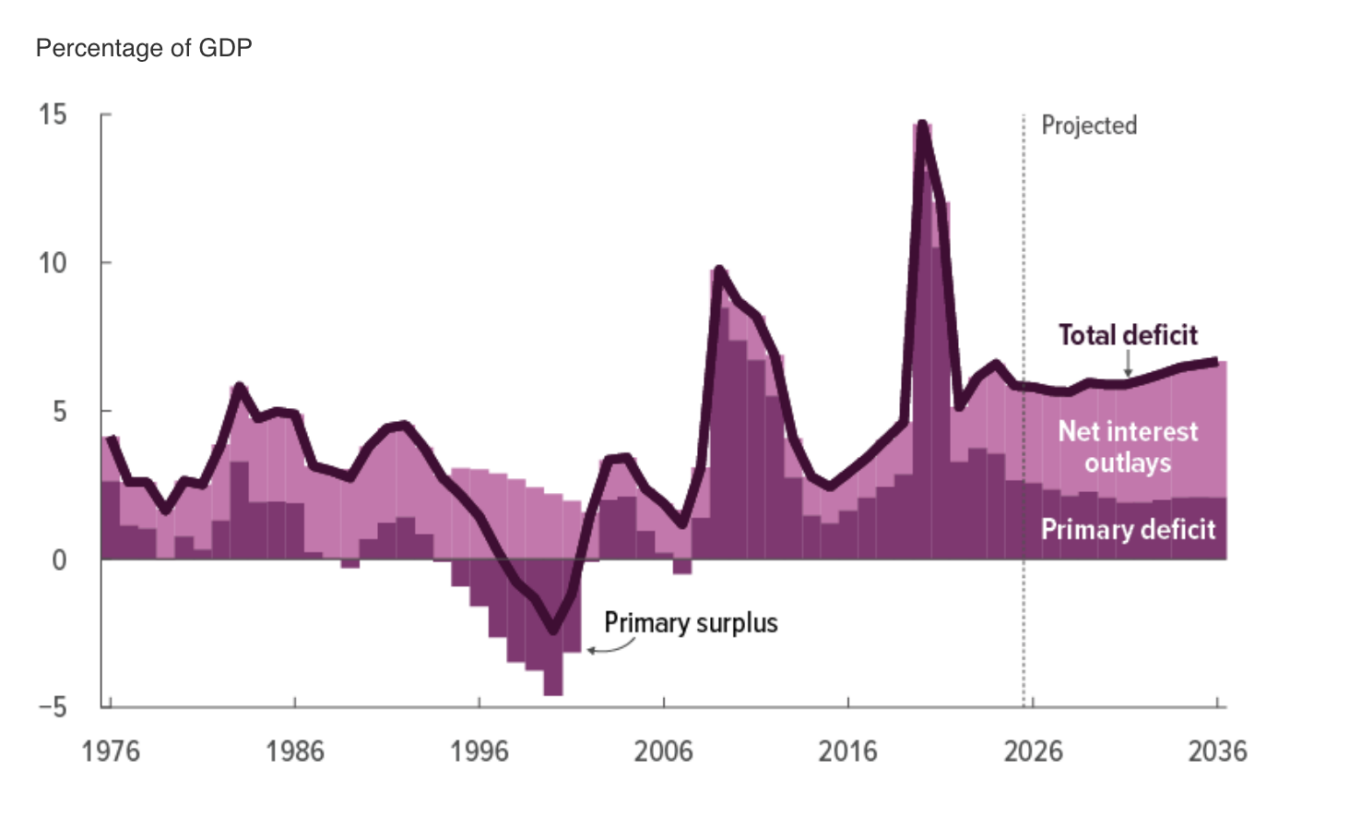
  US consumers bear the biggest burden, but exporters to the United States also lose

- Trade diversification
- Some liberalization, some modest contagion
- Implications of “agreements” when tariff authorities are often under legal challenge
- How many cards does the Trump Administration hold? Fewer now.

What comes next?

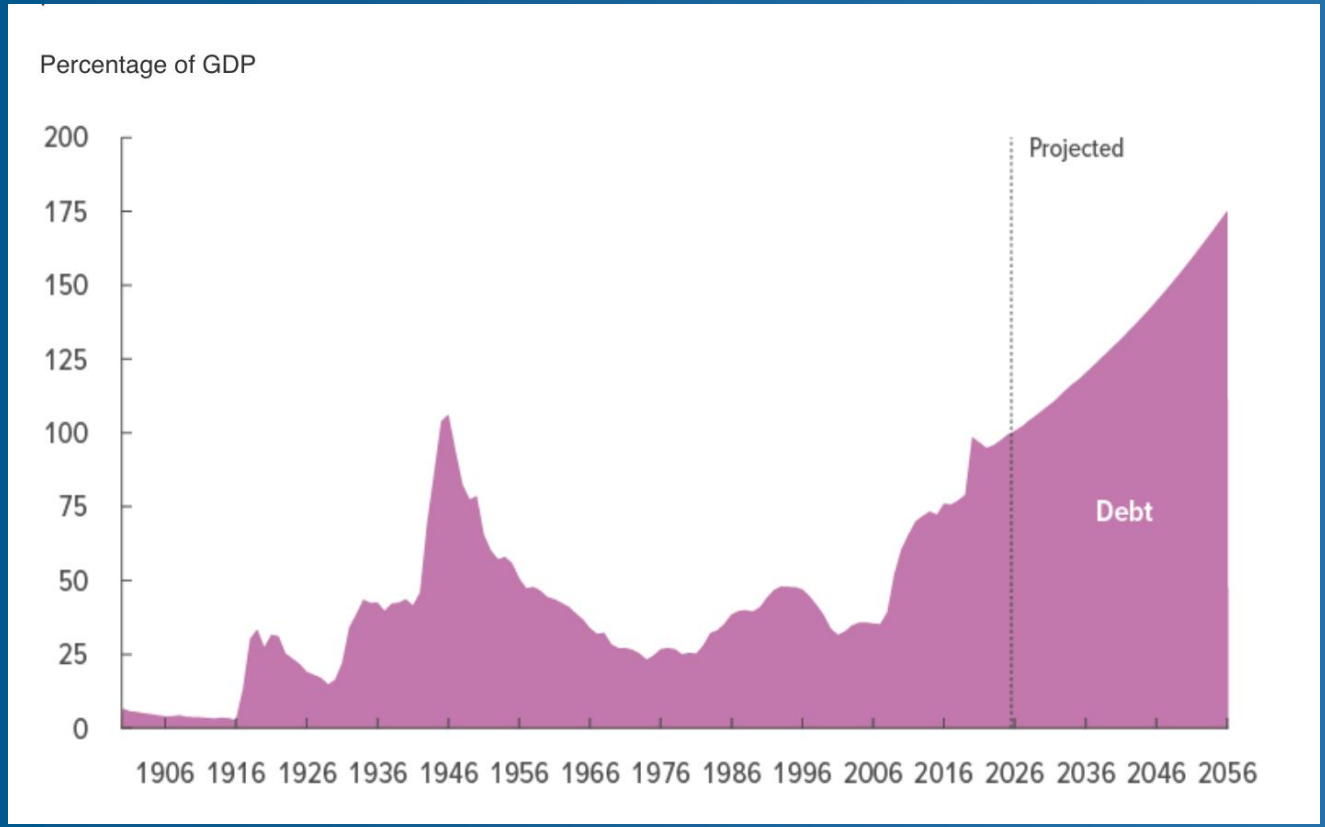
- Tariffs are deeply unpopular, particularly on friends and partners
- This may be the easiest way to address affordability.
- Will Congress act?
  - Senate Finance Committee Bill suggests broad rethink of authorities
  - If they do act, how broadly?
  - Will it be vetoed?
  - Will that process affect court decisions?
- Do court decisions continue to go against the President?
- Will this all be scrapped in 2029 or merely take a different form?

US Deficit Forecast



Source: Congressional Budget Office

US Debt Forecast

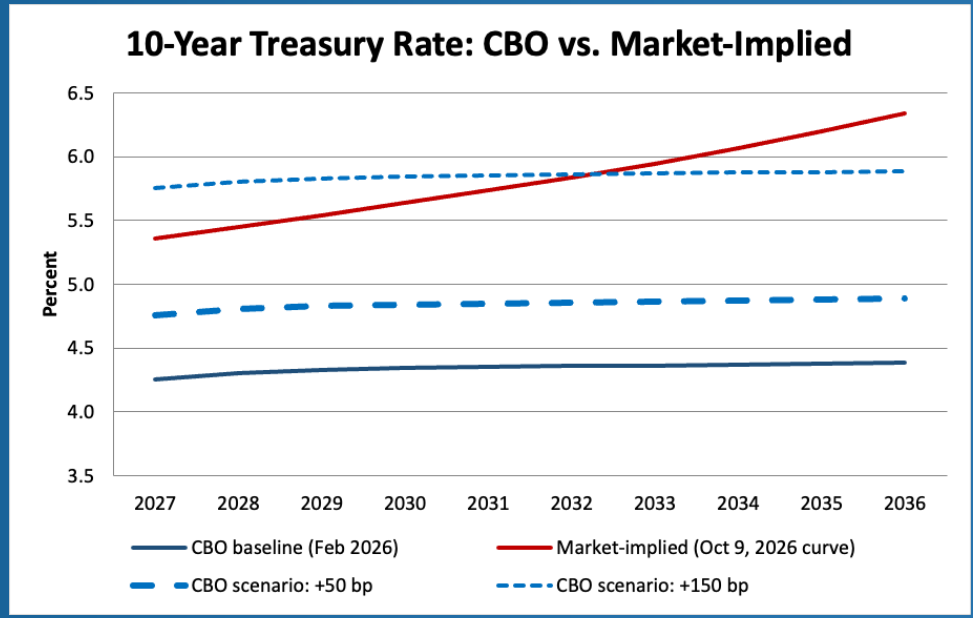


Source: Congressional Budget Office

US Fiscal Uncertainties

- Rising interest rates

  (higher than CBO forecast)
- Role of AI
  - Effects on growth
  - Effects on labor share
  - Effects on social safety net
- Political dysfunction
- Macroeconomic risks
- Geopolitical risks

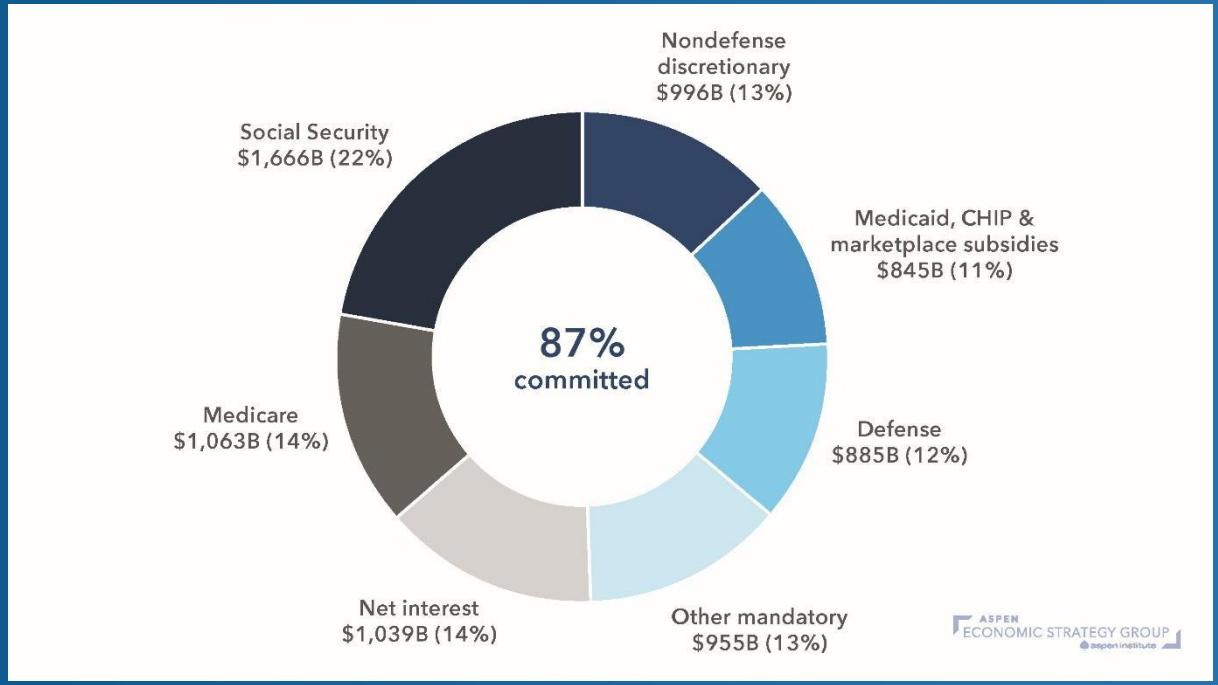


Source: Congressional Budget Office; author's calculations

What comes next?

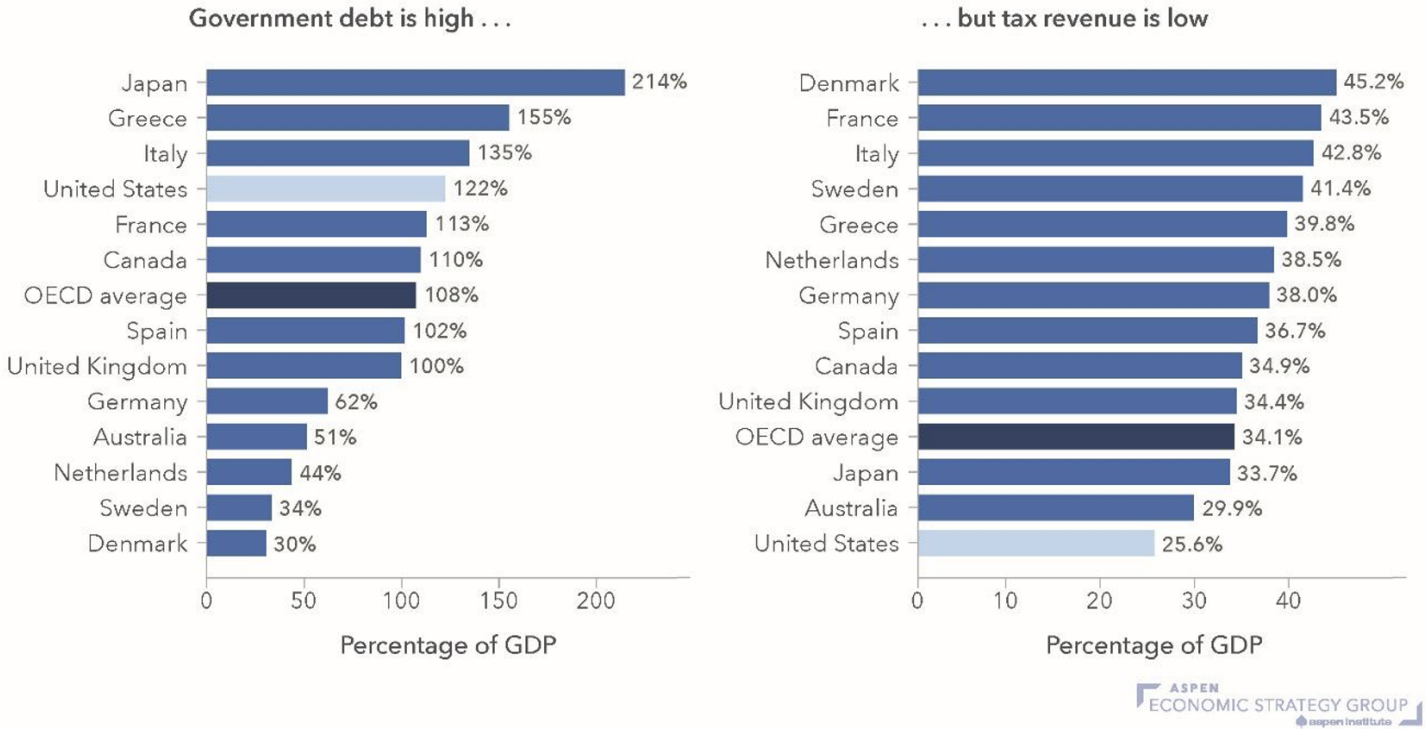
- Consequences:
  - Higher US interest rates
  - Higher world interest rates => global crowding out (and role of AI here too)
  - Pressure on international imbalances
- What next in 2027? Will Congress address? Probably not.
- What next in 2029?
- Possible forcing events:
  - Household interest rate sensitivity
  - Bond vigilantes
  - Trust fund depletion in early 2030s

Cut Spending?



Source: Congressional Budget Office 2026b; FY 2026.

Figure 2: The United States has high government debt but collects little tax revenue



Source: IMF 2026 (debt); OECD Revenue Statistics 2025 (tax revenue). General government measures; includes subnational governments. Data are for 2024 where available; 2023 otherwise.

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$15 Trillion on the Table in 2029: Ordinary Taxes to Meet an Extraordinary Fiscal Moment

KIMBERLY CLAUSING , NATASHA SARIN

Table 5: Revenue effects of five buckets of tax ideas (summary)

Proposal	2030 Revenue ($B)	2030 (% GDP)	2030-39 Revenue ($B)	2030-39 (% GDP)
I. Corporate & International Tax Reform	340	1.08%	4,000	0.90%
II. IRS Investment	73	0.23%	1,300	0.29%
III. Pigouvian (“Sin”) Taxes	130	0.41%	1,600	0.36%
IV. Tax System Parameters	380	1.21%	6,000	1.35%
V. Reforming Capital Income Taxation	110	0.35%	2,100	0.47%
GRAND TOTAL	1,000	3.17%	14,600	3.29%

Climate Policy in 2029

- Failure of IRA Approach (Biden 2022)
  - Expensive => less affordable now
  - Poorly targeted => need more cost-effectiveness
  - Much of it swiftly repealed => need durability
- What next in 2027? Will Congress address? Probably not.
- What next in 2029? Possible spurs to action:
  - Real climate costs; public health tie-ins
  - Fiscal motives
  - Affordability agenda; can you leave households better off?

US Economic Outlook

- Role of Key Institutions
  - Courts
  - Federal Reserve
  - Congress
- Role of AI
  - How large are the growth benefits?
  - How big are the financial risks? The existential risks?
  - How big is the disruption?
  - How does the regulatory environment change?

Foreign Policy and Foreign Relations

Electoral rejection of Trumpism and realignment in both parties =>

- Evolution of tariffs and trade “deals”
- Evolution of war in Iran
- Congressional support for long-term partners and allies
- Bipartisan view on China