

Intelligence MEMOS



From: Glen Hodgson
To: US Election Watchers
Date: September 9, 2024
Re: **THE U.S. ELECTION, CAMPAIGN PROMISES AND THE CANADIAN ECONOMY**

Canada has a huge stake in the outcome of the coming US election. Would a Trump or Harris administration have a larger impact on the Canadian economy and pose a greater threat to Canadian economic interests?

Trade policy is undoubtedly at the top of the list of concerns. The North American economy is deeply integrated: Manufacturing, financial markets, energy, and business operations are among the interwoven sectors. Maintaining open access to the US market, as well as being able to rely on predictable US trade policy, are both of fundamental interest to Canadian businesses, workers and policymakers. Protectionism and the threat of tariffs to protect American industry and jobs are on the table from both campaigns, although to differing degrees.

Trump's proposed tariff on US imports of 10 to 20 percent (which Harris now calls the "Trump tax") would be extreme and self-abusive, but it must also be taken seriously as a threat. At his core, Trump is a dealmaker. If he should return to the White House, he would look for something in return if Canada is to avoid such a punitive tariff (such as, for example, a credible commitment to meet the NATO defence spending goal of at least 2 percent of GDP sooner than currently contemplated).

Canada will need to work hard, regardless of the outcome of the election, to ensure the CUSMA trade agreement remains fair. As always, the frequent brushfires in the massive bilateral trade relationship will also need to be contained and extinguished to the extent possible.

On monetary policy, Harris seems to understand the importance of maintaining Fed independence and the desirability of low and stable inflation. She is now identifying populist action that would make necessities such as housing and pharmaceuticals more affordable. For his part, Trump has signalled a desire to meddle in the setting of interest rates, as autocrats have done in other countries. Managing monetary policy is hard enough for a central bank guided by experts at arms-length from the government. Its politicization in the United States would create a pro-inflationary bias where the Fed is quick to cut rates and slow to increase them. This is ultimately not in the interest of the American public – or of Canadians.

On fiscal policy, neither candidate seems to appreciate the long-term risks and damage from sustained large fiscal deficits and the ongoing run-up in US public debt. This includes the obvious cost of debt service within the national budget, and the damage of crowding out private investment as well as squeezing future funding capacity for programs such as Social Security (US\$1.4 trillion last year), Medicare (\$950 billion) and Medicaid (\$810 billion). There are going to be spillover effects if the US public debt burden continues to mount, including risks to the greenback as the dominant reserve currency. Canada should be taking action to preserve its own fiscal freedom and convince capital markets that we aren't headed down the same path.

In terms of tax policy, Trump's corporate tax cut in 2018 has already contributed to the dampening of business investment in Canada, since the business tax environment in the US has become more attractive. Harris's suggestion that she would cut middle class taxes and raise the corporate income tax rate to pay for it could work to Canada's competitive advantage, but there are many miles to travel before that idea ever becomes a reality.

On energy and climate policy, Harris has been circumspect, reversing her earlier opposition to fracking, but seems committed to the low-carbon transition and maintaining the subsidy-based approach to advancing the energy transition framed in the Inflation Reduction Act. I [assessed](#) how Canada could best meet the competitive threat of the IRA in a C.D. Howe Institute paper last year, and the federal government has begun to react. Trump has repeatedly said "drill baby drill" with plans to immediately promote domestic oil supply, but his approach to climate policy is likely to be murkier; so-called red (or Republican) states apparently receive or expect to receive many of the IRA's fiscal transfers, so he may be reluctant or unable to repeal the legislation.

Both campaign policy agendas would pose risks to the Canadian economy, with Trump's plans likely the riskier, in part because they are less predictable. Either way, it seems Canada will have to guard against further interventionism by any incoming administration and remain watchful to ensure its interests are not sideswiped in the process.

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