Flash Economics

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What would be the consequences of a shift in power from Republicans to Democrats in the United States?

Judging by the decisions taken by the new Mayor of New York City (Zohran Mamdani), the tax proposal in California and the Democratic Party's official platform, the Democrats coming to power in the United States would probably entail:

- higher taxes on companies and on individuals with very high incomes and wealth;
- universal health insurance coverage;
- higher minimum wages;
- investment in infrastructure;
- continued policies to reshore industry to the United States;
- stronger competition policy;
- increased housing assistance and rent control;
- reinstatement of subsidies for the energy transition.

A Democratic return to power would therefore lead, in particular, to:

- a heavier tax burden on the wealthiest households in return for improved social protection and higher public investment;
- a slowdown in the shift of income from employees to companies;
- a decline in companies' profit margins;
- no significant improvement in trade relations between the United States and its trading partners.

Overall, these developments would be negative for corporate profits, and hence for stock market indices, but positive for consumption and Americans' health, and would help to reduce inequality.

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What economic policy measures would the Democrats take if they returned to power?

A Democratic return to power would most likely benefit the party's left wing, which is close to the Democratic Socialists of America (DSA). The broad outlines of the economic policy it would seek to implement are known:

- **higher taxation** of companies and of households with very high incomes or wealth;
- **universal health insurance coverage** (26.7 million people, or 7.9% of the population, were uninsured throughout 2025, according to the US Census Bureau);
- **a higher minimum wage** (the federal minimum wage is particularly low, at USD 7.25 an hour; some 30 states have higher minimum wages, reaching USD 17.13 an hour in Washington State in 2026);
- **investment in infrastructure** (public transport, dams, roads, schools and bridges are in a poor state of repair; the American Society of Civil Engineers puts the investment gap to be closed by 2033 at USD 3.7 trillion);
- continuation of the policy of **industrial reshoring**, where no significant departure from the Trump administration's approach should be expected;
- stronger **competition policy** (antitrust) to halt the rise in companies' profit margins (**Chart 1**) resulting from monopoly or oligopoly power;
- housing assistance and **rent control**, following the very sharp rise in rents (**Chart 2**);
- reinstatement of the **energy transition subsidies** introduced in 2022 by the Inflation Reduction Act under President Joe Biden and subsequently largely rolled back under the Trump administration (although many states continue to provide such support).

Chart 1
United States: Business sector profit margin*
(Q1 2010 = 100)

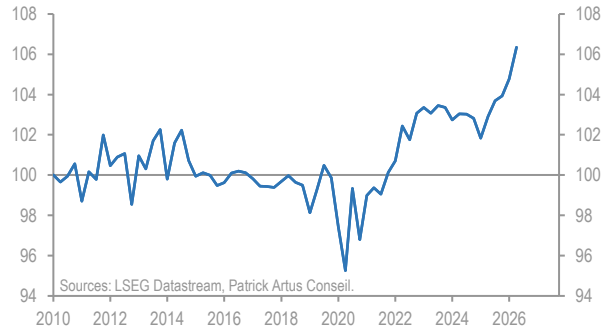


Chart 2
United States: CPI – rent of primary residence (Y/Y, %)



* Ratio of the value-added deflator to unit labour costs, business sector as defined by the Bureau of Labor Statistics (BLS).

What would be the macroeconomic effects of this policy change?

1. A heavier tax burden in return for improved social protection and higher public investment

If the Democrats are in power, the tax burden will therefore increase (**Chart 3**), financing higher health spending (**Chart 4**), investment in infrastructure and in the energy transition, and housing assistance.

Chart 3
Tax and social contributions (as % of GDP)

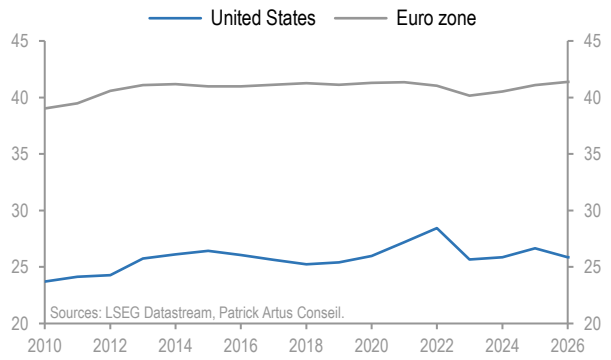
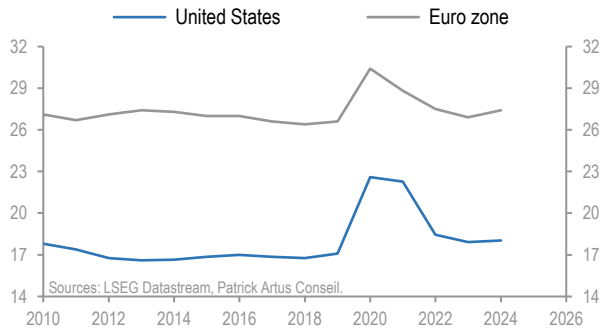


Chart 4
Public expenditure on health and social protection (as % of GDP)

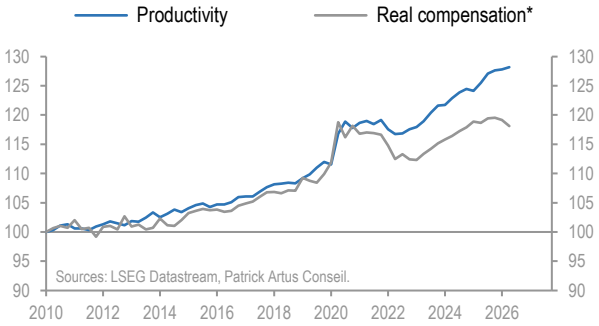


The US social model would therefore move closer to Europe's.

2. A slowdown in the shift of income away from employees

The slowdown in the shift of income away from employees would be achieved through wage increases, stronger competition rules and higher taxes on companies (**Chart 5**).

Chart 5
United States: productivity and real compensation per hour, business sector (Q1 2010 = 100)



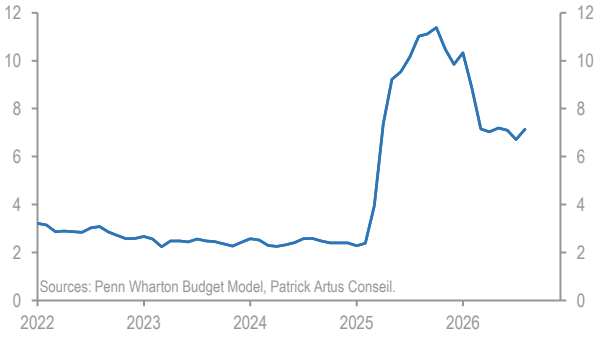
* Real hourly compensation, calculated using the GDP deflator.

This would **reduce companies' profit margins** (see **Chart 1** above).

3. No significant change in trade relations between the United States and other countries

As there is a broad bipartisan consensus in the United States on the objective of reshoring industry, tariff protection would probably be reduced only marginally (**Chart 6**) in the event of a Democratic victory.

Chart 6
United States: average effective tariff rate (%)



Conclusion: what would be the overall effects of a shift in power from Republicans to Democrats?

A shift in power to the Democrats (who would probably be democratic socialists) would therefore lead to:

- **a decline in corporate profitability and, consequently, in stock market indices** (**Chart 7**);
- **support for household consumption** (**Chart 8**);
- **an improvement in the health of the population**, thanks to broader health insurance coverage;
- **a reduction in inequality** (**Charts 9A and 9B**).

Chart 7
Stock market indices (1 January 2010 = 100)

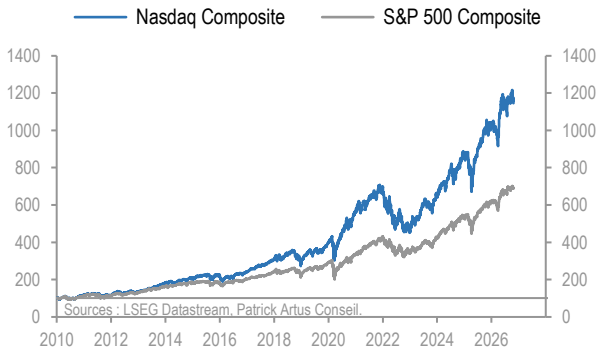
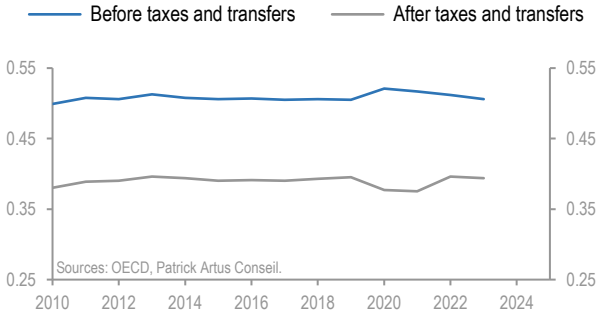


Chart 8
United States: real household consumption (% of real GDP)

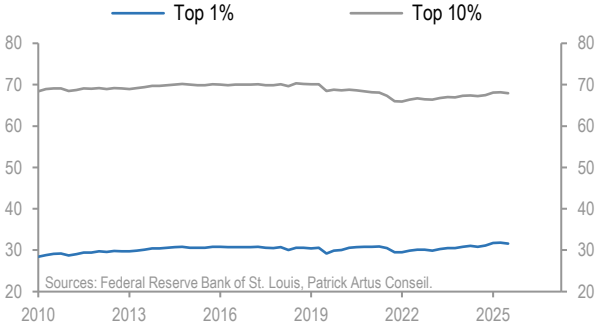


Chart 9A
United States: Gini coefficients* of income inequality before and after taxes and transfers



* Gini coefficient: 0 = perfect equality; 1 = maximum inequality.

Chart 9B
United States: Share of household wealth held by the wealthiest households (as % of the total)



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