

THE BROOKINGS INSTITUTION

Dollar and Sense

“Trade issues for the new Congress and the 2020 election”

December 10, 2018

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DOLLAR: Hi, I'm David Dollar, host of the Brookings Trade Podcast, Dollar and Sense. My guest today is Elaine Kamarck, senior fellow in Governance Studies at Brookings and a leading expert on American electoral politics. Our topic today is trade and the midterm elections. Really great to have you here Elaine.

KAMARCK: Thanks for inviting me.

DOLLAR: So my first question is going to be general. I see the conventional wisdom is that trade was important in the 2016 presidential election. Question is, was trade important in the 2018 midterm elections, which are completely different animals from the presidential election, so was trade important?

KAMARCK: Well trade itself in the general election was mentioned, it was there, it was the subtext, but I don't think it necessarily moved any votes. What was interesting in the 2018 elections were the primaries. And in the Primaries Project here at Brookings we did the second ever exit poll of congressional primary voters and we saw something pretty surprising. We saw a lot of Democrats saying that free trade basically created jobs. And even with Trump's pounding on trade and being somewhat of a protectionist, a lot of Republicans said the same thing.

So we had here almost a reversal in the two political parties. The Democrats who had always been the party that fought NAFTA and fought China MFN, you know with the Democratic Party is always the party of the labor movement, and they've always been very critical and very cynical about any trade agreement, frankly. Suddenly, Democratic primary voters—and I want to emphasize primary voters because they're a very important subset of all voters—suddenly, Democratic primary voters find themselves on the free trade side of things. Now why is that important? It's important because these days, members of Congress pay the most attention to their primary voters. Most members of Congress are in safe districts for one party or the other. Therefore, the only place they can get beat is in the primary. So it was surprising to us to find that there were so many Democratic primary

voters that were essentially free traders.

DOLLAR: Right, and for me as an economist, it makes sense that a lot of this trade is really benefiting anyone with advanced education in the United States, the college educated population. So if the story's right, that a lot of college educated whites moved to the Democratic Party in this last election, that group is really not going to benefit very much from protection.

KAMARCK: Well that's right. And it's an interesting change for the Democrats. Two things, in addition to the Democratic voters being urban and more well-educated, we also find that the number of the trade unionization in the private sector is pretty much at an all-time low. It looks like somewhere in the neighborhood, depending on who you cite, six to nine percent of the private sector is unionized. The vast majority of union members in the United States today do not work in steel mills or manufacturing, they work in the government. That's where the unions are strong, in the public sector, not the private sector. So that shows up in our research here in that the Democratic Party looks a lot less protectionist than it was even in the 1990s and certainly in the 1980s.

DOLLAR: Right. So does that create problems for some of the congressional leadership?

KAMARCK: Yeah.

DOLLAR: You know some of the leaders like Nancy Pelosi or Sherrod Brown in the Senate, you know they're pretty much associated with protectionist policies. On the Republican side, a lot of long term members of Congress are relatively free trade. But now they've got this white working class group moving into their camp. The polls suggest that they're relatively negative about free trade and you've got this college educated group on the Democratic side. So its interesting tension seems to me in both parties.

KAMARCK: Yeah. And in fact both parties are sort of in flux. I mean it's interesting that each party has its free traders and each party has its protectionists. And to me, what

was fascinating is that there are slightly more free traders in the primary base of the Democratic party than of the Republican Party, which is obviously a reflection of people following the cues that President Trump puts out about this. But frankly, there's always been this ambiguity about trade.

I can go back all the way to the 1997 trade fast track bill. And if you remember that bill, it was kind of prescient because in that bill, President Clinton and Speaker Gingrich thought that they could do a bipartisan deal. And in fact both parties kind of fell apart and the deal fell apart. They never did put fast track on the floor because they knew it would lose. Because neither party was really cohesive enough. I think President Clinton thought that Gingrich was going to deliver him a whole bunch of Republicans and Gingrich discovered that they were kind of lukewarm about this and there were some who weren't for this deal. And of course Clinton understood that he had a lot of protectionists in his party. And so he couldn't do it alone. He couldn't do it just with Democrats. So this has been something we've been living with since at least the 90s. And I think it's continuing and if anything getting stronger and therefore more complicated.

DOLLAR: Right. Something similar actually happened with the Trans-Pacific Partnership. As I see it, President Obama negotiated, you know, what most economists think was a very good deal involving a lot of Asian Pacific economies and it was really aimed at China in some sense. China is not a participant, but it was trying to set standards for trade and services, Intellectual Property Rights Protection, data all of the modern issues set standards that China could aspire to. And I think if there'd been a vote, there probably would have been a bipartisan group from the center that would have passed it, but it never came up for a vote. And President Trump withdrew from it and for the moment it looks relatively dead.

KAMARCK: Yeah, I mean that's another good example and we're bracketing here. That was what in 2015, 2016? So from '97 to 2015, we basically have the same

complicated set of dynamics where there are factions within each political party that are against trade deals. The floor of the 2016 Democratic convention periodically would break out into chants of stop TPP, so antipathy to it was alive and well among the Democrats at that convention.

DOLLAR: So let's talk about some of the concrete trade issues that might come up in the new Congress. The first of which is the NAFTA renegotiation. USTR Lighthizer, he thinks he's negotiated something that should get bipartisan support. It actually has some movement on labor protection, basically getting Mexico to change laws to make it easier to organize unions and labor activism. And then a provision to try to increase the share of automobiles produced in North America, the share that comes from facilities with at least sixteen dollars an hour in wages. So there's an effort to negotiate something that deals with a lot of other issues too. But certainly it tried to address some labor issues and USTR Lighthizer says he's optimistic that he can get this through Congress.

KAMARCK: Well he may be right, he may be right on this. This may be one of the points where the Democrats managed to work out something with the Trump White House. Two things on that. First of all, Democrats have very clearly in their sights for 2020 three critical states: Pennsylvania, Wisconsin, and Michigan. And they took governorships in all three states this time. And also they can win a presidential without Florida and without Ohio if they take those three states so they clearly are going to be very, very sensitive to these issues and where they play, and of course Michigan is the big one. That's the optimistic scenario. The pessimistic one is that the president himself is so unreliable as an ally, the members of Congress—Democrats and Republicans, Democrats publicly, Republicans privately—just tear out their hair at having to deal with him. So you never know where he stands one day to the next, where he's going to stand. And so the negotiation of anything complicated under this president, particularly if it has to be bipartisan which it now does, is questionable to me that it could get done.

DOLLAR: Right. President Trump has threatened to essentially pull out of the old NAFTA, he has the authority to withdraw from the old NAFTA with six months notification and so a tough strategy would be to pull out and leave it to Congress to approve this reform after sometime in the next six months. I think USTR has been pretty vocal about not wanting to go down that road because that's a dangerous strategy.

KAMARCK: It absolutely is, yeah. And it's interesting to see if he went that far how the Democrats would react. My guess is that they would react very negatively to that. And I don't know the full legal extent of their ability to stop it. But you could absolutely see them moving in opposition do it. Whereas in favor of what could be an improved NAFTA, I think could be entirely within the Democratic wheelhouse.

DOLLAR: Right, I mean if we did pull out of NAFTA without a replacement, that would be quite disruptive for the U.S. economy, it would be a dangerous strategy.

KAMARCK: Yeah absolutely and I would expect Democrats to oppose that.

DOLLAR: Let's talk about autos.

KAMARCK: Yeah.

DOLLAR: That's another area President Trump has got a national security review of the situation in the auto industry with production and imports and he certainly hinted at the possibility of pretty steep tariffs, 25 percent tariffs on autos and auto parts. This is an area where the industry is not in favor of this. You've got very integrated global supply chains. I think there are 15,000 parts and the typical car. And so you've got complicated global supply chains, our firms import a lot of parts from different places. Some of that's part of NAFTA. We actually import quite a bit of auto parts from China as well.

So if you put these 25 percent tariffs on... I saw one credible estimate that the price of a car would go up \$4,400 in the United States. So you're going to have more expensive cars, you're probably going to have a shrinkage in production. And then it's a global industry where most of the big players produce a combination of low-wage components in

some countries and then high-wage production in other locations. If you cut yourself off from that, there's a risk that we just price ourselves out of the global market. So I think autos is going to be interesting.

KAMARCK: Yeah and autos means Michigan, and Michigan is a quintessentially purple state. So anything that dramatic that the president did that had those kinds of implications would be disastrous in Michigan and it would ripple throughout the upper Midwest where so many of the suppliers are. You know again, we have a country that's very divided politically but political divisions have their roots economically. And we have two different economies, and to the extent that we still have a manufacturing economy, it does tend to be located in the upper Midwest and not surprisingly, that's where the presidential elections are won or lost.

And so President Trump in the car industry and with auto tariffs is really playing with fire. Now, one of the issues always with trade or with really any major economic upset is what is the time lag before it becomes felt by voters? I've written a lot about how in the 1980s, one of the best things the Reagan administration did was they took their pain early, and there's evidence that they knew what they were doing. In other words, they took their economic pain very early on. They did not have a good midterm election in '82. But by 1984, as you'll remember, the economy was absolutely humming along, it was morning in America, and he won a substantial landslide victory. You don't want to take your pain, right, even if you think it's the right thing to do, you did not want to take your pain when it will impact people in an election cycle. And I would say, it's even if President Trump thinks this was a good idea in the long term, it's pretty late in the game to be doing this.

DOLLAR: You know, I think that's a very important point. In some ways the administration's been clever in that they've talked a lot of protection, you know, tough rhetoric, but actually what's been implemented so far is pretty small. You know, steel and aluminum tariffs, but that's a tiny part of our economy. And then tariffs on two hundred

billion dollars of imports from China, but said 10 percent initially. So that's a very small distortion. Chinese currencies depreciated 10 percent while this is all happening, so that's pretty much a wash. So the administration is in a tough spot now where if they follow through, raise those tariffs to 25 percent on January 1, if they move toward auto, this is almost certainly going to be negative for the U.S. economy. And as you say, even if you think maybe in the long run this is somehow desirable, which I don't think by the way, but if you didn't think it was desirable in the long run, there's still this timing issue that it's almost certainly going to be bad for the U.S. economy over the next two years.

KAMARCK: You're exactly right. And I also go back to rural America. Okay? So Trump's strength has been in rural areas. I mean that's kind of overwhelmingly shown in many, many ways. Two things about that. First of all, Democrats gained strength in rural America in these midterm elections. Secondly, the impact of tariffs on agriculture has an uneven effect in politics. And the reason is that every state in the union gets two senators, right. And even if they're very, very small they get one member of Congress.

So rural areas are in essence, overrepresented in the United States Senate. And when you look at that and you say now wait a minute, Trump's strength is in rural areas and he's really playing with fire when it comes to trade and the impact on agriculture, particularly soybeans that we've seen. The other thing we know about this historically, is that all administrations that have moved down the free trade route have talked about doing something for workers, right, trade adjustment et cetera. Well you know what? Trade adjustment [has] been a big bust. I'm not an expert enough to know why, but I know that most experts do think it's a big bust and it certainly is a bust politically. People don't believe in it. They just don't believe that when they stop farming soybeans that somehow the government is going to come in and save them. It just doesn't work politically.

DOLLAR: So I think you're absolutely right that our experience with trade adjustment assistance is very poor and there are a number of reasons, but one is

illustrated nicely by this recent decision by General Motors to idle plants in Michigan and Ohio, and I think Maryland too. That's largely driven by demand as I read the situation. The small cars produced in those plants are just not in demand. Americans are shifting back to SUVs and gas guzzling trucks, you know, and to be fair to General Motors they're looking ahead to investing in electric vehicles and self-driving. So you've got a big shift in demand and to the extent they want to move into those new technologies, that's technological change.

It's very hard to separate those from trade. I'm sure people in those communities they look at this and they see General Motors is producing in Mexico, they're producing in China. So in their mind it's natural to link it to trade. But in this particular case, those idling plants, that's not related to trade. And so this traditional adjustment assistance is not going to help those people, so just putting a plug there—

KAMARCK: —It's interesting—

DOLLAR: —And what economists tend to prefer is basically adjustment assistance for anyone displaced, you know, which we have a little bit of that through unemployment insurance but we could do a lot more with retraining and mobility support. People have stopped moving around in this country.

KAMARCK: Oh, it's a whole another topic.

DOLLAR: Now, I want to get our Metro colleagues in here before long because they've written an interesting report on how to help lagging communities.

KAMARCK: Oh, I know. Absolutely.

DOLLAR: But we're getting a little bit away from politics so I want to come back and ask as soon as the midterms end, it looks like the presidential race has started. So can we talk a little bit about how you see trade impacting the 2020 presidential race in both parties?

KAMARCK: I think trade will be a very big issue in 2020, particularly if the president

moves ahead with some of the more dramatic moves that he's discussed, like 25 percent tariffs against Chinese goods. Frankly for that reason, but you never know with this guy, you never know what he's going to do. But for the reason of the impact my guess would be he's not going to do any of this stuff. I mean, it's such political dynamite that I can't imagine a president doing this two years before his reelection. I mean, it just makes no political sense whatsoever. And the other thing that I think we have to look at is the conflicts within each party.

So within the Democrats, I think you're going to have a lot of people, not just the Bernie Sanders of the world, but more centrist people than Bernie Sanders like Sherrod Brown of Ohio basically agreeing with the president about getting tough on China but they're going to have to do those, they're going to have to take into account the newly emerged and it is kind of new, suburban educated base of the Democratic Party which does not necessarily object to free trade at all. In fact, many of them benefit from it. And I think even within the labor union movement, this is more complicated because there are people in industries that in fact benefit from trade. If you're working for Boeing, yourself in a lot of airplanes overseas, you're not selling all your airplanes to United Airlines. You're selling all over the place. So I think that there's a lot of complications within each political party. And then there's the big swing states. Right? There's the big northern, Midwestern states which anybody has to win. And I think that those things make it wise for anybody running for president to step very, very carefully on trade.

DOLLAR: Right, so I looked at the website for some of the candidates both some of the, you know people who just won re-election like Amy Klobuchar, but also some of the new from the Democratic side. Angie Craig, Cindy Axne, I don't know if I'm saying that right from Minnesota and Iowa. Klobuchar from Minnesota as well, and others are not quite the same as Minnesota, Pennsylvania but those are upper Midwestern states.

KAMARCK: Yeah.

DOLLAR: And what you see on their websites is definitely some of the language about protecting jobs and looking for good trade agreements, whatever that means, but also more rhetoric in terms of increasing exports, helping small businesses export, awareness of the importance of our farm exports for our economy.

KAMARCK: Obviously they're very sensitive to the crosscurrents here. I mean, if you're in Iowa, you have manufacturing plants and you have a lot of farmers. And your farmers want to sell their soybeans and their corn abroad and your manufacturing plants want to keep their jobs here in the United States. I suspect that we may see a way out of this for the Democrats, not in the trade negotiations but in the tax bill. And Democrats, I think, are going to take a new look at the tax bill for sure, particularly some of the breaks for higher income people and perhaps breaks for corporations.

And one of the sweeteners that they could use is to adjust those tax expenditures that allow companies to move overseas. That will go a long way towards making those workers in some of those states feel better about the security of their jobs. Right now, basically, if you move a plant, you get the same advantages if you move it to India as you do if you move it to a neighboring state. And a lot of people are unhappy about that. I think the labor movement, I think the AFL-CIO, would really like to see some changes there. So what you might see is because trade hurts so many people but help so many others, you may see the concerns of manufacturing areas move from trade to tax policy.

DOLLAR: Last question is if President Trump sympathized with your view that he's probably not going to follow through fully on this protectionist agenda. But he's definitely doing some things. He's certainly going to be a voice for protectionism. If we get someone from the Democratic Party like Bernie Sanders or Elizabeth Warren who's relatively protectionist, is there a chance for some kind of independent candidate, a center right candidate, Bloomberg or Kasich running outside of the Republican party?

KAMARCK: No.

DOLLAR: Good, I like that.

KAMARCK: Running outside of either major political party is a surefire way to spend a lot of money and get nowhere, and end up even worse, being thought of by the political world as a spoiler. And so I think Bloomberg who started his career thinking that he would run as an independent has now said if he ran he'd run as a Democrat, and Sanders has already run as a Democrat. He's very ambivalent about being a Democrat. But I think he would end up running as a Democrat.

DOLLAR: Well, Elaine, thank you very much. Really fascinating discussion and so we'll have to see how all these politics play out in the next couple of years.

KAMARCK: Well, thanks for inviting me David.

DOLLAR: Thank you all for listening. We'll be releasing new episodes of Dollar and Sense every other week, so if you haven't already, make sure to subscribe on Apple Podcasts or wherever else you get your podcasts and stay tuned. In our next episode, we're going to look at trade and U.S. manufacturing, and my guest will be Brad Setser from the Council on Foreign Relations and a well-known economist writing about trade and manufacturing.

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And until next time, I'm David Dollar and this has been “Dollar and Sense.”