



DOLLAR & SENSE: THE BROOKINGS TRADE PODCAST

“The midterm election’s impact on foreign policy and economic issues”

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Guest:

WILLIAM GALSTON
Ezra K. Zilkha Chair and Senior Fellow, Governance Studies
The Brookings Institution

Host:

DAVID DOLLAR
Senior Fellow, Foreign Policy, Global Economy and Development, and the John L.
Thornton China Center
The Brookings Institution

Episode Summary:

David Dollar speaks with Brookings Senior Fellow Bill Galston about how the 2022 midterm election results could impact foreign policy and global economic issues, and possibly complicate policymaking for the Biden administration. Plus, what the results may mean for the 2024 presidential election.

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DOLLAR: Hi, I'm David Dollar, host of the Brookings Trade podcast Dollar and Sense. Today, we're going to talk about the midterm elections, and my guest is Bill Galston, senior fellow in Governance Studies at Brookings. It seems likely that the Republicans will have a narrow majority in the House, though the Democrats may hold on to the Senate. But this divided government will complicate policymaking for the Biden administration. So, we're going to talk about some key foreign policy and international economic issues and how they're likely to be affected by the midterm results.

But before we begin, I want to tell you about another new podcast from Brookings called Reimagine Rural, hosted by my colleague Tony Pipa, who visits rural towns across America to hear how they're experiencing positive change. Here's more.

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TONY PIPA: The differences between rural and urban places are often seen as the root of the ideological divide in America. But differences among our metro and small-town communities are informed by decades of divergence in prosperity, not necessarily by politics.

I'm Tony Pipa, a scholar in the Center for Sustainable Development at the Brookings Institution and host of the new podcast Reimagine Rural. I'm also a product of rural America, so in this podcast I'm going back to my roots to explore how rural communities are adapting to the 21st century.

Join me on this journey to visit rural towns across America to hear how they're experiencing positive change and learn more about how public investment in rural people and places can lead to sustained prosperity across the United States.

Subscribe to the podcast today and learn more at [Brookings dot edu slash Reimagine Rural Podcasts](https://brookings.edu/reimagine-rural).

DOLLAR: Okay, Bill, let's get into the midterm elections. Let's start with your overall impression of the midterm results. And were there any big surprises for you?

GALSTON: Well, I think everybody was surprised to some extent by the results. I know I was, although just a week ago I published a blog post for Brookings showing that the ceiling on Republican gains was substantially lower than a lot of people thought it was. But even so, I didn't imagine that the race would be this close for the House and that Republican gains would be as modest as they were.

And I think the single most important fact that emerged from the election was that the Democrats were not wrong to campaign on the abortion issue, despite the arguments of many in the party that the focus should have been turned more towards economic issues. In the national exit polls, 31% of the respondents named inflation as the most important factor determining their vote. But almost as many, 27%, said that abortion was the most important factor. And of those, most of them were Democrats and independents who were very disturbed about the Supreme Court's decision to overturn *Roe v. Wade*.

And it's also pretty clear, I think, from other sources that the Democrats were not wrong to emphasize the issue of democracy, honest counting of the vote, et cetera—that also had an impact.

So all in all—and I should add further that crime really fizzled as an issue. Even in states like Wisconsin, where you might have thought it would have a huge impact, crime was a distant third or fourth in the list of people's concerns. And so, it was it was a playing field that was more favorable for Democrats than a lot of pre-election pundits had believed.

DOLLAR: So, if I could bring up some specific issues to just listening to you. You know, it does seem that people vote on a few particular issues, typically domestic ones that are very important to them. But then elections have consequences. And so, we're going to get all kinds of spillover effects from this divided government, assuming that that's what we end up with. So, let me let me take up a few issues.

It seems to me the first one that's going to come up quickly is the U.S. debt ceiling. And I'll just remind our listeners that our debt is the result of previous decisions by Congress on tax and spending. But we have a unique system where there has to be a separate vote to authorize the debt, which is essentially the result of the tax and spending decisions. And it does seem that the House Republicans might try to use this as leverage to get some changes from the Biden administration. So, how do you see the debt ceiling issue?

GALSTON: I see it the way your question sets it up, namely from the Republican standpoint, as a substantial point of leverage with the administration to try to change the fiscal trajectory of the country. Republicans have pretty much said that they're not going to give the president what he wants unless he agrees to significant spending cuts. The president has said that although he's willing to work with Republicans, he will not agree to the kinds of spending cuts they're demanding. The last time this confrontation really occurred, we had a lengthy shutdown of the government, and many people believe that the chances of a government shutdown are as high as they have been in several years.

And government shutdowns do not enhance the global reputation of the United States. That's pretty clear from the previous episodes. Shutdowns lead to serious doubts abroad about the ability of the United States to govern itself within normal international guardrails. Hardly anybody outside the United States and indeed relatively few people inside the United States understand why there should be a separate debt ceiling vote when the deficit and therefore the debt are the simple arithmetic function of decisions already made.

But I do think that, in the end, Republicans will distinguish between decisions that have already been made and decisions that they would like the president to endorse in the future. They're not going to try to undo what's already been done, but they will certainly try, for example, to limit the impact of the Inflation Reduction Act on future spending. And you could go down a long list of items where they want cuts, including quite possibly aid to Ukraine, which feeds into another issue that you're probably interested in.

DOLLAR: Before we get to Ukraine, I would just add that the dollar obviously plays a very special role in the world economy. So, if we start tinkering, creating uncertainty about whether the U.S. is going to pay its debts, that's going to have an international effect. And this should be a particularly bad moment since we still have a lot of fragility resulting from

COVID and we've got geostrategic tensions. In my view, this is a very bad moment to be to be playing around with this and risking what could become a global financial crisis.

GALSTON: Well, there's never a good time to have a debt ceiling crisis in the United States from the international standpoint. That said, and you may disagree with this, I think that the overall standing of the dollar relative to other currencies in the world is determined by long-term fundamental factors rather than unpleasant short term occurrences like the temporary suspension of U.S. government activities. As long as interest rates in the United States are as high as they are, and as long as the deficit remains as large as it is, that will create demand for the dollar in order to purchase U.S. debt obligations, which is bad news for other currencies and bad news for American exporters.

DOLLAR: Yeah, no, I agree that the role of the dollar is tied to a whole set of fundamentals in the United States, which are really deep institutional, long-term issues. But, if we end up with brinksmanship over the debt ceiling and some nervousness about whether the U.S. is going to be paying all its debts on time, that chips away a little bit at the foundation. But we shouldn't exaggerate. There's no obvious substitute for the dollar. So, in some ways, which is good position.

GALSTON: Which is why I think previous debt ceiling crises, roughly a decade ago, had relatively little impact, I would say, on the long term global standing of the dollar as the world's reserve currency.

DOLLAR: Right. But there are some estimates that that essentially added to long term interest rates for the United States for a considerable amount of time. So there is a cost, but it ends up being pretty minor as a share of our GDP.

Now, you brought up the issue of Ukraine. Do the two parties have a different approach? In particular, the group that's going to be probably taking the leadership in the House, are they behind the support to Ukraine to the same extent as the Biden administration, or is this actually likely to become a point of contention? Are we likely to be pressuring Ukraine to negotiate? This is another one of the really hot button issues in the global economy.

GALSTON: Well, my fear is—and this is based on my reading of public opinion surveys—that support for additional aid to Ukraine among rank and file Republicans has been declining pretty significantly in recent months. And it's also the case that if the Republicans have a much narrower than expected margin in the House of Representatives, that will empower factions in the Republican Party who are particularly skeptical of long term aid to Ukraine to use to try to influence the Speaker of the House, whoever that turns out to be.

As we've seen in the past decade, Republican speakers who run afoul of the forces in their caucus that represent the hardest hard line in the Republican base don't last very long. And they always have a hard time organizing their caucus and keeping it together. I'm quite sure that Kevin McCarthy, who still appears to be the most likely choice for speaker, wanted the larger majority that he expected to diminish the influence of, say, the Freedom Caucus over his decisions and the particular line that he wants the Republican Caucus to take. He will be more beholden to them now.

And my worst fear is that the Freedom Caucus will push an America First agenda hard. And somewhat down the list of fears but still very much there is that the hard liners in the

Republican Caucus will demand continued conditions for the continuation of aid to Ukraine that the administration will have a very hard time accepting.

DOLLAR: China might be a little bit more friendly territory in this regard because both the Trump administration and the Biden administration have imposed some pretty harsh economic measures against China in the form of import tariffs, export restrictions, investment restrictions. So, is China policy an area where the two parties might be able to cooperate? Are we likely to see additional tough economic measures against China? We're likely to see a shift in the U.S. policy toward China, which has been fairly harsh over the last few years.

GALSTON: It is an area of wide bipartisan agreement, and I don't expect any sharp changes in China policy. And look, the Biden administration in the past six months has been very tough on China in a number of economic and diplomatic areas. One can hope that the forthcoming meeting between President Biden and Xi Jinping would at least help to stabilize the relationship. But there's no guarantee that that will be the outcome of that meeting. And I could easily imagine the reverse. I think it's very significant that the two sides haven't agreed to a joint readout of the results of the conversations. And that suggests to me that they are expecting what the State Department delicately calls a frank and free exchange of views.

So, I don't think I don't think the Republicans are going to be pushing the Biden administration in directions that it doesn't already want to go, roughly speaking. There may be disagreements around the edges, but if you look at the kinds of export controls that have been instituted in recent months, it's a pretty daunting list.

DOLLAR: Yeah. It's hard to be optimistic about this upcoming meeting between President Biden and President Xi. Normally, there'd be a lot of preparation before a summit meeting like that, and you would know kind of what the outcomes were likely to be. And the two presidents would reach final agreements and make announcements. But there hasn't been that kind of preparation. So, this is a different kind of meeting. It could be beneficial just to get the two talking. I think this is actually the first time they'll be meeting face to face since Biden became president. So, two years they haven't seen each other. A lot of that has to do with COVID, but I think it was probably convenient for both sides that there was no good excuse to meet face to face. So, there is there's certainly some risk of disappointment that that not too much will be achieved and each side will be essentially reading their talking points.

GALSTON: I think that's right. I'm not sure I'd use the word disappointment because expectations for this meeting are so low. Indeed, if they came out with agreement on much of anything of significance, that would be news on the upside. I can't quite figure out what the news on the downside would be, except maybe President Xi comes out of the meeting and denounces the president for refusing to retract some of his comments on what the United States would do if it determined that Taiwan were militarily threatened. So, that would be a serious development if that, in fact, occurred.

DOLLAR: Right. And I think the Chinese will go into the meeting with very low expectations. So, you're not likely to get an outcome like that.

Let's talk a little bit about climate change. I think this has been one of President Biden's big accomplishments. I think it's unfortunate that the main bill is called the Inflation Reduction Act because it's not going to have much to do with inflation reduction. It's really a climate bill, but it's got a lot of impressive aspects to it. And it's been a good basis for him to go to the

COP 27 meeting and present the United States as being back in the forefront of the fight against global climate change. Can a Republican House undo a significant amount of that? Or is that all pretty much veto proof? What's likely to happen to climate policy as a result of divided government?

GALSTON: Well, they certainly cannot repeal the underlying legislation. What they can do is try to chip away at the appropriations that are authorized under the terms of the bill. And that's why I think climate and the debt ceiling controversy are connected. Because if I were asked to name one of the principal target areas for Republicans on the budget, it would be appropriations pursuant to legislation dealing with climate change. Because this is one of the gaping chasms between the two political parties. Democrats care intensely about it. Some Republicans, the moderates, don't care as intensely. And the right wingers don't believe it.

So, I would say the two issues that we've just discussed, China and climate change, represent on a continuum of agreement/disagreement the two poles of the debate between the parties. Substantial consensus on China. No consensus whatsoever on climate change, either the fact or the response.

DOLLAR: That seems very realistic, but also quite sobering since we really have made quite a bit of progress in the last couple of years.

GALSTON: I don't think that the president is going to give a lot of ground. And I think that because he and the people around him are likely to decide that the terms that the Republicans have established in debate are ones that they cannot defend politically in the long term.

Let me give you an analogy from the administration in which I served. After the Republicans won 53 seats in 1994 and took over the House of Representatives, led by Newt Gingrich, they came roaring in. And by the spring, it became clear that they were going to demand large budget cuts. And the White House seized on that and drew a line and said repeatedly to the American people, we have a big disagreement between the two parties and they want to cut Medicare, Medicaid, education, and the environment. That was the mantra. And the administration banged away on that month after month.

Eventually, a government shutdown occurred. But it became clear to the Republican leadership after a week or two that they simply couldn't hold the line that they had helped the president draw.

And I think it's quite possible that history could repeat itself. And if the president and senior administration spokespeople and cabinet officers or officers and what have you had the kind of message discipline that the Clintonians had in 1995, I think they will be able to convince the American people that an attack on the most serious effort to address climate change that the U.S. government has ever committed to is just not in the national interest. It's not in their interest. And that the Republicans are wrong to try to make major cuts in that area. I think they can win that argument. And I'd be surprised if the administration came to a different conclusion or agreed to significant cuts in the programs that are specifically targeted towards fighting climate change.

DOLLAR: There's been a lot of commentary, of course, in the days since the people voted, as we wait to get final results, and divided government is often associated with gridlock, lack of progress. One interesting argument I've read is that there might be a foundation for a grand

compromise on immigration that would involve hardening the border. So, enhancing border security, allowing more legal immigration into the U.S., and a path for Dreamers to achieve U.S. citizenship. And the logic of this kind of argumentation is that having been elected, all of these different officials want to accomplish something. They don't want to just have gridlock be the outcome of their Congress. And that this might be an area ripe for compromise. Does that seem plausible to you or is that just wishful thinking?

GALSTON: I'll put this one in the wishful thinking category, because the basis for compromise now is the same that it always has been. I've been deeply involved in this issue for more than a decade now, and it's been clear to every serious analyst that there is a grand bargain along the lines that you just sketched that a majority of the American people would accept if it were proffered.

But let me let me take you back almost a decade to 2013, when the Gang of Eight in the Senate came up with what I consider to have been a very, very balanced and forward looking reform bill. It passed the Senate with the support of all 54 Democrats plus 14 Republicans. And it came over to the House and the Speaker of the House refused to bring it to the floor for a vote. Why? Because the majority of his own caucus opposed it. And he thought he would lose his job if he went against them. So, he didn't.

And I can tell you based on survey research that Republican sentiment has hardened since then against immigration reform. They will surely demand that hardening the border would come first as a freestanding piece of legislation before they'll consider anything else. The Democrats will never agree to that approach. And as a crass political calculation, I'm sure the Republican leadership will reach the conclusion that this is a much better weapon for attacking the administration, much more advantageous to them politically—since it is an area where the administration has not performed well, has not been able to achieve a consensus within its own ranks—it's much better politically in the short term to use it as a weapon than as a basis for a long term compromise in the national interest. And I wish I could tell you that opinion had moved in the other direction over the past decade. But I can't. And so I just don't see it happening.

The only way it's going to happen is if a president candidate campaigns on this issue much harder than any presidential candidate has done in quite some time. Says, in effect, I have three top issues and they're all long term festering problems that we simply have to resolve in order to move forward as a country, and comprehensive immigration reform is one of them, and wins a handsome victory on the basis of that. And then as one of the first orders of business, puts this sort of legislation before the House and the Senate.

That is a necessary condition. Would that be a sufficient condition? I don't know. But I do know that it's a necessary condition. There is a reason why President Biden and the Democratic majorities in the House and the Senate have not moved forward on this issue. They haven't even tried. By the way, that was that was pretty much the case in the first two years of the Obama administration as well, if memory serves.

So, you really need to establish it as a national priority, have that priority ratified by the American people, laid down during the campaign the basic parameters of the compromise and say, looking straight into the television camera, if I'm elected president, I will put a bill along the lines that I have just sketched before the Congress of the United States as one of my first orders of business because economically, diplomatically, in every way, what we're doing

now isn't working, isn't serving us as a country, and is giving us a black eye in the eyes of the world. Hasn't happened.

DOLLAR: Last question for you, Bill. You have a nice blog post about how the midterm elections have some effect on the 2024 presidential election in the sense of there's some winners, there's some losers. So, can you just recap for us briefly what's the implication for the next presidential election of what we saw in the midterms?

GALSTON: Well, it changed the balance of discussion within the two major political parties. The Republican Party: it can be summarized very simply. Ron DeSantis was the big winner and Donald Trump was the big loser. I think it has increased the odds that Governor DeSantis, governor of Florida, will challenge former President Trump for the Republican nomination. If he does, it will be a titanic battle. I can't venture to predict who will win, but Donald Trump has to understand that as a result of both what happened in Florida and also what happened to so many of his hand-picked candidates in especially Senate races around the country, that he has emerged with a diminished standing within his own party.

So, within the Democratic Party, I think the much better than expected outcomes outcome for Democrats: First of all, the traditional Democratic circular firing squad will not form up. Instead, the Republicans are going to get a chance to experience the effects of this famous post-election Democratic habit. And in particular, I think it will greatly diminish the chances that people within the Democratic Party will apply any serious pressure on President Biden to stand down.

A lot of people I think if the results had been bad, would have been prepared to go to him and say, look, Mr. President, you served the country honorably for four decades. You rendered a magnificent service in defeating Donald Trump in 2020 and perhaps no one else could have. But we don't think that you can go forward and lead the party as it needs to be led into another great battle with Donald Trump or some other right-wing Republican. That message is not going to be delivered now. And we can have we can have a long discussion as to whether the party should rally behind a man who's going to be, I believe, 82 years old when he's sworn in, if he wins the next election.

But I think that's beside the point now. The ball is now in Mr. Biden's court. If he decides to run for reelection, I do not think that he will be seriously challenged within the Democratic Party. That's a big deal.

There's a there's another point that I want to make, and that is that senators have been very important presidential contenders in both political parties. But I think now that the emphasis is shifting to governors, both within both within the Republican Party and the Democratic Party. I mean, you have in the Republican Party, you have strong showings from people like Governor DeSantis of Florida, Governor Kemp of Georgia, Governor Abbott of Texas. In the Democratic Party you have a remarkable victory by Michigan Governor Gretchen Whitmer. You have a strong victory by Governor-elect Doug Shapiro of Pennsylvania. And Wes Moore was just elected the first black governor of Maryland, and he is considered by many political observers to be the second coming of Barack Obama. So, he'll be worth watching.

And I think it's entirely likely that if Mr. Biden were to decide to stand down, the next nominee of the Democratic Party would be a governor rather than a senator. And if it's not Donald Trump in the Republican Party, it will certainly be Governor DeSantis. So, that's that

is an interesting shift. And it's interesting because I have long believed that the best preparation for the presidency is to serve as the governor of a large, diverse, and complicated state. And now we've reached a point where many strong political figures in both political parties will be in that position in this presidential cycle, 2024, and also the next 2028.

DOLLAR: I'm David Dollar, and I've been talking to my colleague Bill Galston about the midterm elections. Elections have consequences. And we run through a number of important international issues, economic issues that are likely to be affected. When people pull the lever in the ballot box they may not be thinking of all these different issues, but the results are going to affect all of these different things we talked about, including lining up for the 2024 presidential election. So, thank you, Bill, for sharing your insights.

GALSTON: My pleasure, David.

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DOLLAR: Thank you all for listening. We release new episodes of Dollar and Sense every other week. So, if you haven't already, follow us wherever you get your podcasts and stay tuned.

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Until next time, I'm David Dollar and this has been Dollar and Sense.