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Post-Midterms: What to Expect

"Pretend I'm on the ballot." In the weeks leading up to the 6 November 2018 midterm elections, US President Donald Trump was on the move. Speaking at rallies in Florida, Mississippi, West Virginia, Georgia and numerous other states, he told throngs of roaring supporters to vote for the Republican candidate – for Senate, Representative, Governor or State Government – as though they were voting for him. "At stake in this Election is whether we continue the extraordinary prosperity we have achieved – or whether we let the Radical Democrat Mob take a giant wrecking ball to our Country and our Economy!" Trump tweeted as he rolled across the country.

In the run up to the midterms, three-quarters of registered voters surveyed by the Pew Research Center said that the economy was a "very important" factor in determining their vote. This figure rose to 85% among Republicans. As the economy weighed heavily on voters minds, the Labor Department released its jobs report for October, just days before Americans went to the polls. The monthly report announced that employers added 250,000 jobs in October, slightly higher than the 210,000 monthly average for this year. Unemployment held steady at 3.7% and an estimated 711,000 people joined the labor force. The manufacturing sector, which Trump has made a focal point of his 2016 campaign and his time in office, added 32,000 jobs. Economists however warn that this trend is only temporary as the effects of the new steel and aluminum tariffs have not yet borne out across a number of sectors.

The economy has not typically played a significant role in midterm elections. Still, his fellow Republicans would have liked to see Trump spend more time touting what his party sees as his achievements such as the renegotiation of the deal formerly known as NAFTA, his tax cuts and continued job growth. Instead, he opted to focus on demonizing a caravan of immigrants fleeing poverty and crime in Central America and other explosive issues intended to motivate his political base.

Post-electoral analysis shows that this may have worked to an extent. The Republicans not only kept the Senate but picked up three new seats due in part to Trump's endorsements. But the larger suburban areas such as Houston, Minneapolis and Denver awarded numerous victories to new and incumbent Democratic Representatives giving the Democrats control of the House for the first time in eight years.

What does this mean for Trump's legislative agenda for the remainder of his term? With his eyes on 2020, how will he advance his policies without the support of a Republican House of Representatives? What topics will dominate the second half of Trump's term in office and how will he respond?

The week this issue went to print, the American automobile manufacturer GM announced the closure of five plants in the US and Canada and the layoff of almost 15,000 workers. Although there were numerous factors contributing to the decision and despite the fact that GM has downplayed the connection to the new steel and aluminum tariffs imposed by the administration, it is estimated that the tariffs have cost GM one billion dollars over the last year.

Trump took to twitter immediately after the announcement to lambast the automotive company, threaten them and deny that the tariffs have done anything but bolster the economy. He also claimed to be looking into imposing import penalties on all foreign automobiles. While this rhetoric may please his base, the economic reality of his tariff policies may just be coming to light.

Jiffer Bourguignon, ZBW – Leibniz Information Centre for Economics, Hamburg, Germany.

With a Democratic majority in the House, Trump will look to these issues, the ones that rile up his supporters, more than ever before. He may attempt to make last year's tax cuts permanent, which will be difficult without the support of the House. Those tax cuts continue the economic upturn and were introduced while the US economy was already in good shape. A procyclical fiscal policy like this is a dangerous gamble: Once the economy overheats, the next crisis may hit the US twice as hard.

Trump will also be tempted to push through new trade regulations as the President generally has the authority to act without congressional approval. The US will likely continue to impose harsh tariffs on China as it enjoys support from voters across the political spectrum. In his mind, trade is a zero sum game and trade deficits are genuinely bad; but most economists strongly disagree with this view. All evidence points to the fact that free trade leaves everyone better off – not only economies with an export surplus.

Of course, one of the characteristics Trump prides himself on the most is his ability to make a deal. After a year of negotiations, the US Mexico Canada Agreement (USMCA) was created to replace the North American Free Trade Agreement (NAFTA). To become law, it must be approved by both houses of Congress and signed by all three countries. At the time of writing, it appears unlikely that the deadline will be met due to concerns about enforcement of environmental and labor clauses, among other issues. As NAFTA will remain in effect until the new agreement passes, the newly Democratic House may be tempted to delay or vote against it in order to deny Trump the appearance of victory that he would surely splash all over twitter and the upcoming campaign trail. Alternatively, they may support the USMCA in exchange for concessions. Whatever hand the Democrats decide to play, they are at a disadvantage: if they agree, they deliver Trump a tacit victory; if they disagree, Trump will blame them for the holdup which could create problems in their home districts or states. The result of either course of action will be a heightened degree of uncertainty in North America trade for the next few months.

Despite the Democrats urge to work against Trump's agenda, there are several issues where there does appear to be some common ground. Paid family leave, pharmaceutical prices, infrastructure (excluding the border wall with Mexico) and minimum wage could offer parties from opposite sides of the aisle an opportunity to reach out and collaborate. Securing the support of the Senate may prove difficult, however.

But before consensus might be reached, the swelling federal budget deficit may be taken into consideration. The US Treasury Department has reported that the deficit is set to hit 779 billion dollars (3.89% of GDP) in fiscal year 2018, driven in large part by a sharp decline in corporate tax revenues after the Trump tax cuts took effect. At this rate, the deficit will top 1 trillion dollars (4.9% of GDP) next year according to forecasts from the Trump Administration and outside analysts. The Administration has blamed the rising deficit on military and domestic expenditures – not the 1.5 trillion dollar tax cut.

While one can always speculate about what is to come, Trump has proven prone to whims, about-face maneuvers and impulsive twitter rants. And while the rest of the world often seems taken aback and uncertain as to how to respond his positions, Trump's supporters love every tweet, every insult and every counterpoint to the political status quo. Trump's efforts to please his base will be the best indicator of his policy agenda in these next two years leading up to the 2020 election.