



## Turning points and Trumpism: the 2018 US midterm elections

### Oxford Analytica Conference Call summary

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What's next after last week's US midterm elections? We still do not know the final tally as recounts continue, notably for Senate seats in Florida and the run-off ordered in Mississippi for November 27. Ten House seats and a couple of governor races remain undeclared. But we do know the outcome. As we forecasted, the Democrats retook the House of Representatives and the Republicans increased their majority in the Senate, leaving the Congress looking much like the country as a whole -- evenly divided, deeply split, and bitterly partisan.

We shall not dwell on the results, but look forward to the changes that they herald and the landscape for what promises to be a long and bruising campaign in the run-up to the presidential election in 2020 when President Donald Trump stands for re-election.

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### What does the outcome of the midterms tell us about the next two years in Washington?

This is a significant step for the Democrats -- of the seats declared, they have 227 in the House, while the Republicans have 198. The huge turnout is important to note, as it was the highest for a midterm since 1970, with 49.2% of eligible voters turning up to vote; 115 million votes were cast compared with 103 million in the 2014 midterms.

In the House seats, Republicans lost a substantial proportion of pro-Trump voters, notably educated white women in suburbs and people who switched from Barack Obama, the outgoing president, to vote for Trump in 2016. The Republicans still retain 55% of white voters, indicating that this partisan division is very much a racial division. In the 250 counties with white majorities, 235 voted Republican and only 14 Democrat. The Democrats dominated in urban areas while the Republicans took the rural areas.

In terms of governing, it will be difficult to get much done for two years as there is limited basis for bipartisanship. Nancy Pelosi, likely House Speaker, Mitch McConnell, the Republican leader in the Senate, and President Trump in the White House are unlikely to be able to work well together and this will have serious implications for domestic policy. There are likely to be potential shutdowns of federal government, and the likelihood of further tax cuts and of the US-Mexico border wall being fully funded and built are minimal. Some infrastructure cooperation is possible, but Trump wants private-sector involvement, which Democrats will oppose, preferring publicly supplied funding.

It will be difficult for Democrats to claim policy credit when they only control the House. They will, however, put a hold on two major Trump initiatives: -- the further deregulation of Wall Street and the dismantling of the Affordable Care Act ('Obamacare'). Yet they will not be able to reverse these initiatives without support in the Senate. In terms of the trade war, while they do not openly support it, they are likely to remain mute on criticising it. The major gain for them will be in terms of the investigation and oversight powers that come with being the majority party in control of one of the Congress chambers' committees.

Trump will probably use executive action on immigration issues and replace cabinet members. It is difficult to foresee actual governing down to 2020; greater incidence of partisan cleavages and disagreements is more likely.

Economic trends have had mixed effects on the midterms. Republicans lost in districts with low unemployment, ones that had gained manufacturing jobs, and where tax cuts were large, and also lost massively in white high education suburbs. Change in voting behaviour has been profound among white, educated, Republican women, who may have been responding with their

votes to the fallout from the divisive nomination battle in the Senate to confirm Brett Kavanaugh as a Supreme Court justice before the midterms.

Trade policy will be combative as it will be White House-driven. The Federal Reserve will be tested by Trump but will retain its autonomy. Lower unemployment and strong growth in consumer spending will likely continue over December 2018-19.

Economic challenges are, however, looming, with 20% prime-age men not working, and only 30% adults expecting their children to do better than they are. Middle-class incomes are stagnant, with households in the middle of the income distribution having shown very little growth in the past few decades and only those at the top having done well -- 90% of the children born in 1940 had higher incomes than their parents, but this is true of only 50% of those born in the 1980s -- this represents a significant new division in the United States, mirrored in most advanced economies. Though new jobs are being created, they are in marginalised parts of the labour force. Hence, while the economic outlook is positive at the moment, it could be challenging in two years. It is also difficult to see the Democrats agreeing to a bipartisan urban infrastructural programme that will benefit a Republican White House, if infrastructure investments were seen as a way to prime US economic growth in the absence of further tax cuts.

### **What do the midterms change, if anything, in terms of foreign policy?**

There are three main things to note. Firstly, with regard to the role Congress may have in attempts to influence foreign policy, it will be in many respects business as usual over the next two years. If the Democrats had won the Senate, their ability to check foreign policy would have been enhanced. Democratic policy will involve increased and far-reaching oversight through hearings in the House, more so than was possible in the last two years as the minority party, particularly to do with restrictions on appointments and treaties and attempts to bring about a greater impact on sanctions and trade policy. The House Democrats will do this through various committees such as the House's intelligence committee, whose proposed new chair Adam Schiff has declared he will be trying to check the power of a president he sees as acting in an old-style imperial presidency fashion. The House committees on foreign affairs, armed services and homeland security will also be instrumental for Democrats' investigations of the Republicans and the Trump administration.

Since the House holds the United States' 'purse strings', with the constitutional power as the chamber that initiates spending bills, many aspects of the military budget, foreign aid and foreign trade will be under greater focus. Climate change, on which the Democrats tend to have a stronger position than the current administration, will be focused upon. The Democrats have already identified 85 topics to target, many of which relate to foreign policy. The House Oversight Committee is also set to issue 64 subpoena requests that were earlier rejected by the Republicans, and deal with releasing documents including on White House security clearances, and Special Counsel Robert Mueller's investigation of alleged improper Russian links to the Trump presidential campaign in 2016. In particular, the Democrats will bring about pressure to update or replace the authorisation for the use of military force that was passed by Congress in 2001 and has since been used to justify US intervention in Afghanistan, Iraq, the 'war on terror' and the use of drones. This is likely to find support in the Senate.

Secondly, the reception of the midterms by leaders abroad will be important. Foreign leaders will use these to gauge Trump's relative strength domestically. Over this weekend, we have already seen France's President Emmanuel Macron taking a strong position on the issues Trump tends to be interested in and resisting his leadership in world affairs.

Thirdly, we must look at how Trump himself approaches foreign policy as he begins to think of his re-election campaign for the 2020 presidential elections. He is likely to pursue an expanded focus, particularly if he is frustrated at home in legislation and policy successes and looks for wins abroad. These could include concrete agreements with North Korea, further pressure on China with trade tariffs, and a further increase in rhetorical pressure on NATO members to give greater financial support and take greater responsibility for their own defence. He may insert himself into discussions on the resolution of crises across the world - including in the aftermath of the Syrian civil war and the Israel-Palestine issue. Trump's advisors John Bolton and Mike Pompeo, like him, focused on Iran, a focus that will continue.

### **How does the outcome of the midterms change what we know about the United States and how is it likely to affect social policy?**

We must look at what the midterms tell us about groups in society that are more generally conservative. The Democrat Party is the only party that has African-American candidates and more Congresswomen. Gender in particular is an important lens -- we saw the largest gender gap in the last few elections, with 23% more women than men voting Democrat. White women have emerged as the key swing electoral vote: 49% voted Democrat, and 49% Republican, representing a shift from the 12% more white women who had voted Republican in 2016. White women with a college degree are 20% more likely to vote Democrat.

The urban-rural spread indicates that suburbs are the key battleground, with 75% Democratic victories being in suburban areas. In terms of age, the 18-29 bracket voted 35% more for Democrats than Republicans, which more than doubles the age gap in 2016. The Democrats also did very well in the Midwest, which is where Trump had major success in 2016. The Democrat Party represents in general a shift towards a more female, younger, higher African-American and Asian-American composition, and away from the analytically unhelpful category of 'white male American', which is too all-encompassing.

Further down, state-by-state initiatives on the ballot reveal a mixed picture. Not all were progressive -- in some states, environmental initiatives were voted down where they were expected to pass, such as anti-fracking initiatives in Colorado and a carbon emissions policy in Washington. There were some progressive measures that were voted in, such as in Florida, where former convicted felons were given the right to vote.

Polarisation over the electoral process itself came to the fore, with voter suppression and gerrymandering being top issues. Access to voting is a major issue in the Democrat legislative agenda.

We should also note gubernatorial elections, where seven Democrats won governorships. In three of these states, Houses had passed renewable energy bills which were vetoed by governors, and in another three, Medicare faced the same fate. More Democratic governors signals an increase in social provision and progressive policy in areas around the environment and healthcare.

Amidst all the noise in the elections and on social media, healthcare was far and away the largest electoral issue. Half of the Democratic advertisements were healthcare-based, helping the Democrats make gains.

### **Are these changes to voting patterns permanent and who does Trump get back in 2020 if he is to win the re-election?**

It is hard to say that the top level of voting behavior represents fundamental change, i.e., white women may not have permanently moved away from Trump. There are deeper divisions that we must focus on -- urban-rural, black-white, minority-majority -- and the embeddedness of these divisions. The Senate remains more Republican because they tend to do well in smaller and rural states which nonetheless are constitutionally entitled to two senators each, whereas House elections express change more immediately. Aggregate-level surveys can hence be misleading -- for instance, Senator Ted Cruz won in Texas by just over 200,000 votes out of 8 million cast, but he trailed behind Beto O'Rourke by almost 200,000 in three of the five counties that were metropolitan areas.

The midterm outcome is not surprising in that a swing-back is common two years into a new presidential term -- former President Obama experienced this -- the Democrats' win in 2018 cannot automatically be extrapolated into a loss for Trump in 2020. The next election is not a referendum but a presidential election, and will likely see a tough debate between two candidates -- and Trump's skill lies in one-on-one races.

What would be worrying for Trump advisors is the Midwest. White women in suburbs and religious voters are key. Religion is an important fault line in US politics. but religious enthusiasm does not necessarily translate into voting behavior. Trump seems aware that religious voters and white women are important blocs, if his final rallies were anything to go by.

The racial element to religion must also be noted. Some African-American Christians may be evangelicals by any objective definition, but do not identify so because of the automatic association with Republicanism. They have also historically been kept out of the evangelical movement because of segregation. Social justice issues may outweigh religious issues for them. Evidence indicates that Hispanic and African-American evangelicals vote with Hispanic and African-American voters as opposed to with white evangelicals. More generally, there is talk among some evangelical groups about whether to stay with Trump at all or not.

**With courts moving in a conservative direction that will outlast the Trump presidency, do you foresee any Supreme Court vacancies opening up or will the matter dissipate?**

Trump will likely have the opportunity to nominate at least one more Supreme Court justice given the age profile and health of current justices. He has retained the majority in the Senate, and would need just 51 votes to get his nominee through. He will probably make more jurisprudentially conservative appointments -- he likes justices who are members of the Federalist Society and who believe in constitutionalism.

Several upcoming cases will be crucial as they deal with administrative law, election law, immigration, regulation of the financial sector, healthcare and civil rights. Trump has also established a very strong base at the federal judicial level and federal appeals courts, where justices are likely to be around for at least 25-30 years.

**What does the landscape look like with regard to China, the most important bilateral relationship, over the next two years?**

The rhetoric against China will be amped up, as indicated by a blistering speech by Vice President Mike Pence recently and the positions of Bolton and Pompeo on China. Issues over security and cyber interference in these elections will come up. Concerted effort will be made to contain Chinese ambitions in Asia and more globally. Anti-Chinese sentiment has been strong in Congress, so this is not likely to change with the Democrats taking the House.

With greater Democratic oversight, hearings will attempt to unpack what Trump's China policy is actually achieving, what the impact of tariffs are and what the impact on the US economy is. More anti-tariff voices, especially among economists, will be heard.

Another aspect that will receive attention will be human rights in China, particularly with recent reports of political and cultural re-education camps established (which China denies). The Democrats are likely to bring pressure on the administration to detail the potential endpoint of their China policy and its negative impacts.

Despite agricultural tariffs, Trump has done well in the rural Midwest. This is possibly due to the fact that his core supporters are willing to put up with these tariffs as they see them as necessary to Trump's longer-term strategy. Most small to medium-sized companies do not export much anyway, and are now attempting to resource the little they import from US-based companies. The rhetoric that China is unfair and that an aggressive approach is required has real resonance. The same approach was adopted with the NAFTA renegotiations, which are now cited as a success even though there was ultimately little substantive change in the US-Mexico-Canada Agreement.

Dark clouds loom on the economic horizon -- and will become larger if the issue of federal debt becomes politically salient. The expected increase in interest rates could have an impact on price of debt and yield curves. Despite the 15-20% increase in turnout, economic issues were not salient in the midterms, indicating that voters came out on other issues. For now, with the economy growing at 4%, and unemployment at record lows since before the crash and low even among minority groups, there is not much to worry the average voter.

There are however three main economic worries -- lack of real increase in household wealth, the size of the non-participating workforce not included in unemployment measures and the types of jobs being created, since millions of jobs are not paying full wages. Job creation was at 260,000 the week before the elections, so while on the face of it, the economy is strong, we must focus on underlying factors for the real picture.

**How long will Trump's base remain loyal to him, or do tribal bonds to him overcome any concerns about the economy, such as his delivery on promises about returning jobs and sustaining the economy?**

There is long-term loyalty to the Republican Party, but Trump is a new phenomenon. As it stands, the amount of loyalty to him has been striking. His rhetoric at rallies has drawn great cheers and support, particularly with respect to China. His supporters are not interested in unpacking the minutiae of foreign policy or its implications -- they see a leader standing tall, acting tough and talking up the United States against global adversaries who they are convinced have been taking advantage of their country for a long time.

Where people access their news is also important. The polarisation is due in part to the differences in what people actually hear on social media based on whether they support Trump.

#### **Is an infrastructure compromise between both parties possible?**

A different president would have focused on building a bipartisan partnership on this, but Trump's vision is a private sector scheme funded by external investors and some internal ones, since federal and state funds cannot cover all of the costs. Ideologically, however, Democrats would be sceptical of such a scheme.

There are possibilities for the basis of an agreement. The Trump administration could make concessions by responding to oversight hearings, investigations, change immigration policies and foreign policy. However, it is unlikely that any of this will happen given that how critical Trump has been of Democrats since before his election.

Perhaps an exogenous shock such as a catastrophe could force the issue, but the minority party will not be able to claim credit for something advocated by the majority party. The pressing need for infrastructural development in Democrat-controlled urban areas will not be supported by Trump. The partisan division will persist, as will the urban-rural divide.

#### **What about pharma, the opioid crisis and healthcare over the next two years?**

The Trump administration and the president have spoken often about bringing down the prices of drugs, but success has been comparatively limited so far. The Right-to-Try legislation was rhetorically presented as a challenge to major pharmaceutical companies but is actually a more complicated issue.

This has also been a top issue for Democrats for a long time, and they have called consistently for action on drug pricing, importing cheaper drugs, and speedier approval for cheaper generic drugs. Trump has talked about increasing transparency on drug prices, so this is one of the areas in which they could find common ground in theory.

In practice, it is hard to tell if any bipartisan action will come through. If the Democrats continue investigations into him, his foreign policies and his business dealings, Trump will likely take bipartisanship off the table.

#### **Transatlantic relations are worse in 2018 than they were in 2016 -- are there prospects of improvements or will the slide continue?**

Judging by the last few days, much improvement is unlikely. Trump has been contemptuous to European leaders with one or two exceptions, with mutual disrespect common since he is not much liked in most Western European capitals. This is not surprising considering their differences on substantive issues.

Trump has criticised defence spending cleavages in NATO and has berated US allies for not living up to their responsibilities or adhering to promises on defence spending. There have been major differences over Iran, as European leaders believe in the Iran nuclear deal being the best way to turn Iran's government away from a nuclear programme, and have been seeking resistance to the sanctions regime, while Trump has a much tougher approach.

On the Russia front, it is slightly more complex. There are stronger feelings in Europe that Russia is a threat and needs to be stood up to, and this is reflected in some parts of the Trump administration but not in Trump himself, given his affinity for Russia's President Vladimir Putin.

The difficult transatlantic relationship is set to continue, not unlike under former Republican President George W Bush, who did not get along with European allies other than the United Kingdom. However, with the UK government preoccupied at present with Brexit, the US-UK alliance may be put on a relative 'back burner' for now.

French President Macron appears to be the only European leader who knows how to play off Trump and ingratiate himself to the extent that he is given a platform, from where he proceeds to criticise Trump's positions. Macron seems to want to project himself as a transatlantic voice, and may bring leadership to issues Trump is averse to, including climate change.

**Will Trump win re-election in 2020 and if so, which Democrat will he face?**

- If the economy stays strong, Trump would be hard to beat. A likely Democrat candidate will be one who reflects the way the party is moving -- towards younger, women and minority voters. Senator Kamala Harris ticks all those boxes, and as prosecutor, appeals to the left and the right of the party on social issues.
- It is difficult to unseat a sitting president, and the last time that happened was when the economy was suffering and the president took the blame for it (1992). A re-election for Trump is the most likely scenario since he shows no signs of losing significant support. With the Democrats controlling the House to 2021, Trump will likely blame anything that does or does not happen or go successfully on them. Given the likelihood that it will be hard to de-seat Trump, it is probable that younger up-and-coming Democrats will hold their fire until the 2024 election, when Trump will have to leave office due to legally enshrined presidential term limits.
- Trump will win in 2020 because the electoral system is biased towards the incumbent. His opponent could be Eric Garcetti, the mayor of Los Angeles. Former Vice-President Joe Biden may seek the appointment. It is also too early to write off Beto O'Rourke because of his loss in the midterms race for Cruz's Senate seat in Texas.

**Question unanswered during the call****What does Democratic control of the House mean for US stance on multilateralism and world trade?**

President Donald Trump is often seen as an enemy of multilateralism, but his actions to date suggest that he is more a reformer – he wants to reformat the world order, which includes international and multilateral bodies and trade, along pro-US lines.

Broadly, the Republican Party has backed him, though some Republicans (including two senators who retire this coming January) have tried to introduce legislation to limit Trump's ability to put trade tariffs in place under national security auspices.

Given that the Republicans hold the White House and Senate, and the foreign policy role that the US constitution gives the US president, the Democrats' majority control of the House of Representatives from January 2019-21 is unlikely to see Trump fundamentally change any of his assumptions about foreign policy – the White House and Republican-held Senate are also highly unlikely to give any foreign or trade policy initiative to the Democrats unless absolutely unavoidable.

That said, the Democrats via the House majority will have powers of influence. They can – and will – use House committees to probe the administration's foreign and trade policies. Democrats in the House can also hold up passing Republican-desired legislation unless and until Republicans grant concessions.

Democrats are not of one mind on trade and foreign policy. They would like to rein in Trump's often rhetorically combative approach, but equally will support measures to increase US domestic employment and industry. Similarly, while some Democrats are very sceptical of Trump's use of trade tariffs, other Democrats are more in favour of trade protectionism. Still others see promotion of free trade, such as through free trade deals and initiatives that come with environmental and labour and human rights reform requirements attached, as a means to spur reforms in US trade partners while expanding US trade.

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