

EconoFact Chats: Moving Away from the Economics of Grievance

Michael R. Strain, American Enterprise Institute

Published on 24th March 2024

Michael Klein

I'm Michael Klein, executive editor of EconoFact, a non-partisan, web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein

Political parties have their broad approaches to economics. Traditionally, the Republican party favored enhancing economic opportunity. This was manifested in preferences for low taxes, limited regulation, and policies that reflected the view captured by the saying that “a rising tide lifts all boats.” But today’s Republican party is dominated by former President Trump and his allies, and many of their policies are at odds with traditional conservative economic priorities. To discuss this, I am pleased to welcome back to EconoFact Chats Michael Strain of the American Enterprise Institute, AEI. AEI is self-described as dedicated to ‘defending human dignity, expanding human potential, and building a freer and safer world by advancing ideas rooted in our belief in democracy, free enterprise, American strength, global leadership, solidarity with those at the periphery of our society, and a pluralistic entrepreneurial culture.’ While Michael doesn't represent the views of all of AEI, he is a center-right economist, and I wanted to talk to him today about the path that the Republican Party has taken. Mike is the Director of Economic Policy Studies and the Arthur F. Burns Scholar in Political Economy at AEI. He oversees the Institute’s work in economic policy, financial markets, international trade and finance, tax and budget policy, welfare economics, health care policy, and related areas. I’m also pleased to say that Michael is on the Board of Advisors of EconoFact. He recently published an essay in National Review entitled ‘Forget the Economics of Grievance.’ Mike, welcome back to EconoFact Chats.

Michael Strain

Thank you for having me. It's great to be back.

Michael Klein

Mike, AEI is a very well-known think tank. It's to the left of the Brookings Institution, but only in the sense that if you're facing both of them while standing on Massachusetts Avenue in Washington, AEI is to the left of Brookings.

Michael Strain

Yes, stage right.

Michael Klein

Okay, stage right and politically right. On policy matters, AEI is to the right of Brookings. So you're described as center-right on economic issues. What's a broad background view that's consistent with that stance?

Michael Strain

So I should just quickly say that, like a university, AEI doesn't have institutional views on policy issues. Our scholars are free to disagree with each other, and often do. When I think about the center-right economic policy agenda, I think about lower marginal tax rates. I think about reform of the nation's [inaudible] programs, Medicare and Social Security. I think about at least a rhetorical adherence to the principle of fiscal responsibility. I think about an openness to immigration as driven by the needs of the business community. I think about championing free trade and globalization, both because of their economic importance, and as a way to strengthen American global leadership. So the typical things you think of.

Michael Klein

So Mike, would you say that these views align, broadly, with what might be called the traditional Republican view of economic policy?

Michael Strain

Yes, I think so. I do. I mean, I think if you're a free market guy, if you're on the center-right, when it comes to economic issues, if you are generally disposed toward market solutions, and care about economic opportunity, care about personal responsibility, I don't think either political party has a monopoly on that. I think there are some aspects of that that the Democrats do better than the Republicans, some aspects of that that the Republicans do better than the Democrats. But these days, nobody seems to be doing it that well.

Michael Klein

So many commentators now see a deviation of the current Republican party from the time before Trump became a candidate in 2016. There have been a lot of changes in the stated policy of the party and its candidates. Perhaps most strikingly is the policy on immigration, although there were, of course, nativist anti-immigrant voices before, for example, with Pat Buchanan in the 1990s. What is your center-right view on immigration? Does this align with the more traditional Republican stance, and what's changed now in the Republican party's view on immigration?

Michael Strain

So, you know, my own view is that we should have increased levels of immigration, and that we should welcome immigrants and that we should be giving out more green cards. I would be in favor of tilting the balance of the kind of composition of immigrants away from family reunification, and toward more of a skills-based approach. But I don't see any reason why we can't do both. And, you know, I'm of the view that immigrants are a really positive cultural force in America, and in American social and cultural life. And, you know, also that for economic reasons, we need to increase our immigration rates. I think as you say, the Republican party has, you know, gone quite a distance away from that view in the last eight years or so.

Michael Klein

Another really big change is the view on trade policy, especially on tariffs and restrictive trade. Can you describe the free market view, how closely that aligns with your, let's call it a center-right view, and how the Republican party has or has not changed its stance on that?

Michael Strain

Yeah, so I'm, you know, I'm a free trader and, you know, it's not much more complicated for me than that. I do think that there's some complexity. I mean, I think given the increasingly adversarial relationship between the United States and China, it certainly makes sense to think about national security vulnerabilities with respect to, you know, the production of certain, you know, chips in Taiwan or things of that nature. But I think we should think about those sorts of things as very much the exception. Imagine everybody in America had to take a pill every morning or they would suffer some sort of severe adverse health outcome. We wouldn't want that pill made in Taiwan, and we wouldn't want that pill made in Beijing, and we wouldn't want that pill made in Tehran, you know, even if those locations offered significant economic efficiency or productivity benefits. And so I think I'm not an absolute free trader, but I'm disposed toward [trade]. We should be making a list of products that we really don't want to be kind of freely traded in global markets. And it should be a short list. It should be well enumerated. The items on the list should have a very clear rationale. And other than that, I think we should be in favor of free trade. You know, that, I think used to pretty much define the view of the Republican Party. And the party, I think, has come a long distance from that. I think President Trump cares very much about domestic manufacturing and wants to use tariffs in order to prop up domestic manufacturing. I think President Trump is also, you know, basically a mercantilist. I think he thinks that, you know, in a very kind of simplistic way, that imports are bad, and that making things here is good. And I think you see that reflected in his approach to trade, and he's taken the party with him.

Michael Klein

In one of our very first EconoFact memos that I co-authored with Menzie Chinn, we talked about this idea of a trade deficit drag that was being put forward by Wilbur Ross and Michael Navarro in the campaign, that by national income accounting identity, because the trade account enters as a negative, if there's a deficit, that means that it hurts GDP. And we showed in that both through theory and by looking at evidence that that certainly wasn't the case.

Michael Strain

Yeah, it's a shame how that formula is written, because if we subtracted 'M' from 'C' and left 'X' as positive, I wonder if we wouldn't think about this differently.

Michael Klein

Okay, so I know what 'X', 'M', and 'C' mean, but we're going to let our listeners look up in their Principles of Economics book. Or write to you, Mike, at AEI, to explain that.

Mike, in your piece, 'Forget the Economics of Grievance,' you discuss how import restrictions hurt not only consumers, but also workers and industries that use imported intermediate goods. We have one of our most popular EconoFact pieces' by Lydia Cox and Kadee Russ, showing that for every job in the United States that manufactures steel, there are 80 jobs that use steel. So it's making more or less the same point as you. Can you speak to that a little bit?

Michael Strain

Yeah, absolutely. And actually, I was reading that memo earlier today, coincidentally, for something I'm working on over the weekend. I think if you think about a tariff regime. What happens if we impose a tariff regime on imports from a certain nation? That protects domestic producers from having to compete with those imports. And that should kind of strengthen the domestic producers. And that's the channel that people focus on. But there are two other really important channels as well. One is that a lot of the imported goods in the United States are used as intermediate inputs into the production of other goods. And so to take the steel example that you mentioned, if we put tariffs on steel imports, that could help support employment among domestic steel producers. But, according to the EconoFact memo, there are 80 jobs in 'steel-using' sectors for every one job in a steel-producing sector. And so you're raising costs at the firms that those 80 workers work at, for every one steel producer. And that puts those steel using companies at a disadvantage. And then a third channel is retaliation. When the United States imposes a protectionist tariff regime against a particular nation or group of nations, they're not just going to sit on their hands, they're going to retaliate. And globalization means that the United States imports and exports, and retaliatory tariffs hurt our exporters. And so you've got those three effects. You've got protection for domestic producers from imports. You've got raising the costs of intermediate goods to production for domestic producers. And you've got retaliation. And my reading of the evidence is that effects two and three outweigh effect number one. And I think that's what the evidence showed with President Trump's China tariffs. That those tariffs actually reduced manufacturing employment because of the two effects I mentioned. There was retaliation by China that hurt our exporters. And it raised the price of intermediate inputs.

Michael Klein

Mike, let's talk a bit about 'the economics of grievance,' which is in the title of your National Review essay. You said, 'forget the economics of grievance.' You don't mean don't remember it. You mean we should move away from it. And, of course, grievance is related to both trade and immigration. How did you come to use the word grievance in the title of your article? And why do you think this concept of economic grievance resonates with so many people and finally, is the grievance correctly directed?

Michael Strain

Yeah, those are great questions. You know, I use a term in that article called 'grievance-onomics,' which I think characterizes a lot of what we're seeing from both political parties. I think grievance is one of the defining characteristics of politics over the last eight years, you know, if not longer. I don't think it characterized President Obama's approach to politics, or to economic policy. But I think it certainly characterizes the approach of more populist figures in the Democratic Party – Bernie Sanders, Elizabeth Warren, I think President Biden to some extent. And certainly, I think it has, you know, completely captured President Trump. And, you know, it's this notion that first of all, there's a lot of pessimism about current economic outcomes, you know, the working class is doing poorly, workers are doing bad, the middle class can't get ahead. And then it is moving from that pessimistic diagnosis to the argument that that is the fault of 'X'. It's the fault of immigrants, if you ask President Trump, it's the fault of China, if you ask President Trump, it's the fault of the rich, if you ask Elizabeth Warren, it's the fault of billionaires and Wall Street, and big corporations, if you ask Bernie Sanders. And that diagnosis of the

problem, you know, admits policies. And so if you think the problem is immigrants, you want to build the wall. If you think the problem is China, you want to decouple the United States and Chinese economies and not trade with China. If you think the problem is billionaires, you know, then you come to the conclusion that we should impose punitive taxes on billionaires. If you think the problem is big business, then you want to, you know, have a neo-brandeisian approach to antitrust policy, and break up big firms just because they're big. And I think the root, or at least a root of the policies that we've been debating in the public square over the past eight years or so, really is this sense of grievance.

Michael Klein

So I guess I would disagree with you about, you know, billionaires paying more taxes as just a grievance. And we could have a discussion offline about that.

Michael Strain

Sounds good.

Michael Klein

And I would also, you know, sort of emphasize your points about sometimes scapegoats are found, whether or not it's accurate. And certainly that's been going on. And certainly that's a very long way from Ronald Reagan's sunny optimism that made him so popular on the right. What do you think has changed?

Michael Strain

Well, I think it's an excellent question. I think it's a subject of active debate. You know, my own view is that the origins of all of this are in the 2008 financial crisis. And there's actually been some research on this by economists. There's a really excellent paper that looked at the last 100 or 150 years, looked at I think it was 40 or so advanced economies, and looked at what happens to populist politics following financial crises. And by studying the seats in parliaments of advanced economies, they show that financial crisis happens, populism surges as measured by the seats held in the legislature by populist politicians. And then after about 10 years, it goes back to normal. And they find that this doesn't happen with severe recessions. It doesn't happen with mild recessions. That really it's a financial crisis driven effect. And the reason for that is because a financial crisis reaches into the pockets of, you know, a large share of the population of a given country. If you think about a recession, even a severe recession, caused by a monetary policy mistake, or caused by a commodity price shock or something like that, you know, that's a traumatic event for the people who lose their jobs. But it's very different than a financial crisis where the value of millions of homes changes, the value of millions of retirement portfolios changes, and the balance sheets of households, you know, are really shaken up by it.

And so I think the United States kind of fit this historical pattern. And after the financial crisis, we saw the rise of the Tea Party on the political right. We saw the rise of Occupy Wall Street on the political left. We saw Bernie Sanders do extremely well in the Democratic Party's primary in 2016. We saw Donald Trump win the Republican Party's primary in 2016. And, you know, a feature of populism is fear of the others, xenophobia, you know, wanting to wall off the country, isolationism, a lot of what we have been, a lot of what we have been seeing. And, I think the United States was also kind of fitting the historical pattern of coming out of it. 2018, 2019, you

know, it kind of looked like we were maybe moving past some of this. The Democrats, you know, Bernie Sanders was doing well in the Democratic primary in 2020. And then the other candidates dropped out, President Biden consolidated and was able to win the nomination. So the populist candidate lost. Then in the general election, the populist candidate lost. But of course, we also had a pandemic. And pandemics are also extremely disruptive to politics and to society as a whole. And so that's kind of where I locate the origins of a lot of this. But it's, you know, it's complicated.

Michael Klein

Yeah, I guess, you know, we could think also about the Great Depression. And there is a rise of populism in the New Deal and so on. There's also, at that time a rise of, for example, anti-Semitism with Father Coughlin and blaming minority groups and so on. So, you know, in some ways, I see those parallels. And we also had, as written by Anne Case and Angus Deaton, the deaths of despair, so indicating how deep the despair is. And despair gives way to grievance, I suppose. Mike, the last thing I'd like to talk to you about is economic growth. You know, there are different views of economic growth. Economists think it's good. I quoted that saying, 'a rising tide lifts all boats,' which had been sort of a right-wing Republican saying. But even the Federal Reserve shifted to that before the pandemic, saying that they might take a softer stance on inflation because they recognize that a strong economy helps bring up people who had traditionally been underserved or not done as well. But there are people on the right now who are questioning economic growth as a policy goal. For example, you cite Oren Cass. Could you speak to that a little bit?

Michael Strain

Yeah, it's been one of the more surprising developments. I think it's very related to this sense of grievance, and very related to the populism that we've been discussing. 'Growth for whom?' is not something that you're used to hearing on the political right. I would characterize it as a political effort to downplay the importance of economic growth in order to create political space for the kinds of populist, nationalist policies that have become so popular. Tariff regimes, immigration restrictions, other sorts of protectionist measures. One of many objections you would make to these is, but wait, these will slow the rate of economic growth. If you take that off the table as a policy goal, if you argue that the political right has been too concerned about that for too long, then that makes it easier to push forward some of those nationalist policies.

Michael Klein

Finally, Mike, the American Enterprise Institute is a very influential right-leaning think tank, but as we've been discussing, it seems like the traditional right party in the United States, the Republican Party, has moved very far away from what you as a center-right economist would advocate. Do you see any movement of the pendulum swinging back, or do you think that the way the Republican Party is going, it's going to be at that point for a while with a more status policy on some things – against immigration, more intervention and free trade, or are things starting to shift, or do you think they will maybe after an election if Trump loses the election?

Michael Strain

I think we have a presidential system for good and for bad. We're locked into these four-year cycles, and President Trump has been the leader of the party since 2016. Been nominated three

times in a row. He's setting the terms of the agenda. I think if he wins, or if he loses, he's going to be term-limited. He's going to be a lame duck on day one, and really regardless of the election outcome, I think there's going to be a very vigorous effort to figure out what is a center-right policy agenda post-Trump. That's going to be, again, a very vigorous discussion. My view is that President Trump as a political force is really responsible for quite a bit of the party's policy evolution. When he is off the stage, a lot of the policies that are associated with him and that were part of his administration will leave the stage with him. I think it was telling, for example, that in December, when Nippon Steel announced that it had successfully negotiated a deal with U.S. Steel to acquire U.S. Steel, there were only three Republicans who wrote a letter to the Treasury Secretary asking her to block that sale on national security grounds. I think if President Trump were president, it would have been more like 30 or 40. I think that's an indication of the shallowness of support for a lot of what President Trump has been advocating.

The two areas where I think we'll see some stickiness. One is China, and I think that that really doesn't have all that much to do with President Trump specifically. I think President Obama was harder on China than President Bush. President Bush was harder on China than President Clinton. I think if Secretary Hillary Clinton had won in 2016, she would have been harder on China than President Obama, and I think it's notable that President Biden has kept in place President Trump's China policies. The second area where I think there'll be some stickiness is immigration. I think that is partly due to the success of the first Trump administration in embedding roots for that policy program on the political right. In part, I think it's due to the lawlessness at the southern border that we've seen in the last few years in terms of the number of undocumented immigrants who are crossing the border. That has catalyzed this issue. When President Trump ran in 2016, talking about a crisis on the southern border, that was fictional. There was not a crisis on the southern border at that time. But in 2024, when he runs, and he talks about the crisis on the southern border, there really is one, and I think that will give this issue some legs that extend beyond President Trump's time in office.

Michael Klein

Mike, thanks very much for discussing this with me today. I'm glad to have your perspective, and I appreciate the time that you've taken to speak with me.

Michael Strain

Yes, thanks so much for having me on. It's always great to be on, and I'm such a big fan of the podcast and also, of course, of the memos. They're invaluable, so thank you.

Michael Klein

Thank you.

Michael Klein

This has been EconoFact Chats. To learn more about EconoFact and to see the work on our site, you can log into www.econofact.org. EconoFact is a publication of the Fletcher School at Tufts University. Thanks for listening.