Peterson Institute for International Economics

2026 midterm election debrief

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[00:04:43.29] - Anjali V. Bhatt

Good afternoon, everyone. We're going to get started now. If everyone could take your seats, please. We're going to get started. Thank you. Okay. Well, good afternoon, everyone. Welcome to the Peterson Institute for International Economics. I'm Anjali Bhatt. I'm the communications director and a research fellow here at PIE. So we're about a week and a half out from an historic midterm election here in the US. There are a few races that have not been called yet, But as of today, or at least this morning, the Associated Press has Democrats holding 255 seats in the House of Representatives and Republicans holding 168 seats. With Mississippi's Senate race that was just called yesterday, Democrats now hold 55 seats in the Senate and Republicans hold 44. These are remarkable majorities in both chambers, but well below the two-thirds threshold that would mean a presidential veto-proof majority. So the new Congress will start its session on January 3rd, 2027, meaning a Congress with a Democratic majority will face Republican President Donald Trump in his last 2 years of office. There are many, many different ways to interpret these election results and what the new Congress could mean for the US and for the international economic policy world, as well as what we can learn from voters.

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Today, 3 of our PIA experts will provide a briefing from 3 different angles. So first, PIA President Adam Posen will give an updated forecast for US macroeconomic policy and US-China relations, and the implications for inflation, growth, productivity, and the dollar. Then Anthony M. Solomon Senior Fellow Mary Lovely will examine the role of tariffs and trade wars on voter sentiment and the implications for the new Congress. And then Senior Fellow Colin Hendricks will discuss the geopolitical stakes of the midterms, including whether the new Congress will check or extend the executive's use of economic levers in the name of national security, from tariffs and sanctions to also critical minerals and industrial policy. After that, I will moderate a discussion between our 3 speakers, and then we'll take questions from the audience here. So with that, I'll hand it over to Adam.

[00:06:51.42] - Adam S. Posen

Thank you, Anjali. Thank you, everyone who's come or is tuning in today. It was historic. It is, of course, obvious to all, but needs to be said that we had a peaceful election, fair, and in essentially every district in every state, whoever lost from whichever party conceded and didn't try to contest things in non-acceptable ways. This is good. This is good for the economy. This is good for other people's faith in the stability of the US. But so if we accept that that's the case, and it should never have been in question, but of course it was, then comes what else happens. And so the first thing I wanna say is even though I and colleagues here at Peterson have been beating the drum for a while now, it was 2 years ago I published in Foreign Affairs Online about how Trumponomics would be a supply shock to the US economy because of the uncertainty around rule of law. This unfortunately doesn't take that away. It reduces it. It makes people more hopeful that you can get a credible commitment out of the US, but any rational actor, whether a business person, a portfolio investor, a foreign official, has to say, well, the system allowed Trump to do this, the Trump administration to do this.

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And so we need more reassurance over time that the system won't allow such unconstitutional or destructive behaviors again. So This is great, we're not out of the woods. Along with my colleagues, Cullen and Mary, as Angélique set out, we're trying to hit the main topics. So with that opening in mind, let me now talk about the macro side in US-China relations, which I think are actually much more connected for the next couple years than everybody fully appreciates. The first thing though is to remember that this is actually, you have to think in terms of a 2-stage forecast. What is going to happen over the next 6 to 24 months, but also what the election now and the likely outcomes do to set things up for the 2028 election, and more importantly from the Peterson Institute perspective, what's going to be the economic and policy situation come 2029. And so I'm going to try to make all my remarks this sort of 2-stage discussion. So first point, macroeconomically, the Fed has gotten it wrong repeatedly, as I and others, you know, have argued, and they are finally playing catch-up. This election does very little to affect that.

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Essentially, as Cullen can discuss, even if we get a rapid resolution of some sort around in the Straits of Hormuz, that will not lead to an immediate fall in energy prices. But more importantly, from a macroeconomic forecasting point of view, the inflation we have now is very broad and it is across an incredible range of sectors. And it goes to the argument that I've made, that Karen Dynan to some degree has made, that Peter Orszag, our board member, and I have made together, that the issue isn't the energy shock. It's that the Fed was behind the curve. Inflation expectations were unanchored. The labor market was much tighter and much more robust than people realized. The state of Fed policy was much looser than people realized. And that has all

been borne out in the data over the last year since Karen and I started saying that roughly a year ago. And so what that meant was we couldn't foresee the Iran War, but we could foresee that whatever shock came along was going to be more inflationary, have higher inflationary impact and more persistent inflationary impact. whenever it came, whatever the shock was. Plus, as I've argued, and as again the data is borne out, that the tariffs and anti-migration policies take time to have their full impact on the economy because people have to make up their decisions.

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They have to make irreversible decisions in some cases. They have to assess the political situation. So ultimately, the impact of this election outcome on inflation, on growth, and on consumption is likely to not be very large in the next year, year and a half. The main thing will be at the margin, the Fed probably has a little bit more space to hike aggressively as they should. But I think as the members of the FOMC have been making clear, they didn't really have a choice about that at this point anyway. But similarly, turning to fiscal policy, as all of you recognize, it is very unlikely that you're going to get any significant change in fiscal policy because even if the Democrats are within shouting distance, a few Republican senators of passing bills with 60 votes or can do a resolution, excuse me, what's it called, reconciliation bill for the budget at 51 votes, they don't have a veto-proof majority. Now, it is conceivable that you could get some sort of deal between the Trump administration and the Democrats on fiscal policy, but if it is, it would be a very short-term deal. It is much more likely that the Democrats will put forward bills to to restore various parts of the healthcare, SNAP, various social benefits, and proposals to change the tax code, reverse some of the excess cuts of the one big beautiful bill.

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And anything that involves reversal of the tax cuts by Trump will be rejected or vetoed. So the fiscal path we're on is likely to erode slightly worse. Meaning that deficits will slightly expand, partly because the, as has been documented by others like Yale Budget Lab, the collection of revenues of the last couple years has gone down as expected because you have less enforcement, because the tax code has become more favorable to short-term investment, because the climate for hiding money has gone more, has gone better. And that's likely to continue. And the one thing that is likely to be passed by Congress in conjunction with Trump would be a joint spending bill to rebuild American munitions and weapons stockpiles that have been expended in Ukraine and the Middle East. And that's not enormous, but that is probably worth another few tenths, say 0.3% of GDP additional budget erosion. Colin can talk more and with more expertise about the likelihood of such a deal, but the point is that is not going to be a

transformative measure. But then again, looking for the longer term, what happens in 2028, 2030? As our colleagues at the Peterson Foundation have pointed out, as Karen Dynan and David Wilcox and Maury Obstfeld and others in this organization have pointed out, the US is finally in the fiscal situation that we've been worrying about.

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It's not just that we're above 100% debt-to-GDP ratio. That is not a magic number, although that doesn't help. It's that we have such large deficits when until 6 months ago, we were not in a war, we were not in a plague, We are in close to full employment or arguably full employment, and there's nothing taking them down. I'm going to sound an optimistic note though, as I, and in a different way, Alan Auerbach, the public finance economist at Berkeley, has argued, the US has a history in recent decades of every 10 years or so having a sort of bipartisan moment, whether a presidential commission or a bipartisan congressional commission, which puts the fiscal policy back on track, not permanently solves the problems, but generally after 8 to 12 years of going awry, you get sort of more onto a balanced path. And we were due for another one of those in roughly 2005, 2006. Didn't happen. And then we had the crisis and then we had COVID and then we've had everything else. I actually think because of the rising interest share of the budget and the rising interest rates and responsiveness of interest rates to economic conditions on the US debt, that is why we're now in trouble and that actually will begin to bite.

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And so I am hopeful that there will be some kind of bipartisan effort in the 2029 to 2030 period and with the Social Security deadline in the background. US-China and then productivity growth in 2 and a half minutes. I think people are waking up to this, but essentially the Chinese officials, Chinese senior leadership really did feel strongly that the rhetoric with the Trump-Xi summits around stability and mutual respect was actually an accomplishment. And they felt that this was like with Nixon in the past, that this was a pragmatic live and let live that Trump was able to deliver and wanted to deliver. And just speaking personally, of all of Trump's foreign policy choices, this is the one I most strongly— and economic policy choices, this is the one I most strongly support. China is not going to cease to exist. The problem is, as my colleague Mary Lovely and others who've testified repeatedly before Congress know, is that the one one thing Democrats and Republicans in the current Congress agree on is that they are scared of China, they hate China, they want a more conflictual approach to China. So in the near term, not helped by the news breaking over the last week in the semiconductor sector, we should expect very aggressive bills coming out of Congress, particularly under the chairmanship of Ro Khanna at the China Commission.

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at various of the other committees with some Republican support because this will allow certain Republicans to distinguish themselves from Trump without going into things that he might veto. And so it may be human rights bills like the Uyghur issues that Mark Noland and Cullen Hendricks have written about. It may be further export controls, further investment controls in both directions. I don't know what form it's going to take, But we should expect very anti-China legislation over the next year or 2. Again, looking out 2 years, 3 years, 4 years ahead, I'm much more optimistic. And I'm not trying to just arbitrarily say, I'll say something bad, I'll say something good. I genuinely am more optimistic because one reality from the election, even though Trump had set himself up to be attacked for being soft on China, It never came up. There were essentially no campaign ads run anywhere in the country. I think it— I would say zero, but I can't confirm zero. But a search will show you there's essentially zero candidates, Senate or House, who ran on Trump is soft on China, Trump is selling out to China, we got to be tougher on China.

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And the polling data supports this. It never became a top 10 issue. for anybody, any voters anywhere, not even in Ohio, not even in various districts that supposedly care. And so ultimately, and this is not the first time that on national security you have a bipartisan consensus in Washington that is a Beltway blob bubble that does not have public support and is unnaturally, mistakenly aggressive. And as in the past, you can't support that if the American people don't want it, particularly if we're coming out of an unpopular war. So I am much more hopeful that if China can bide its time and ignore or not over-respond to the provocations likely to come out of the Congress over the next 2 years, the next administration will get us onto a better path. So that leads to the final point. As I've written about and many others have written about, China holds the cards in a lot of ways right now, and I think is using them in an abusive fashion that is gonna backfire on China ultimately. But nonetheless, leaving that aside, I do think that we are in for a slowing of the adoption and spread of US AI technology in coming couple of years, partly because China will interfere with developments and inputs, partly because the Democratic victories throughout states, and particularly in governorships and state attorney generals, not just at Congress, particularly with respect to data centers, mean that there will be more regulation and more pauses in evaluating and less breakneck speed.

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I think the national security side, which our colleagues Martin Turekempa and Chad Bown are writing about, and Mary is also writing about, on the export controls will matter. This is not all a bad thing. As with many other politically controversial, highly scary, disruptive technologies, it

sometimes is good to have regulation. That in the end, it will be good. if there is a politically sustainable, more safety-conscious, more economically viable framework for taking AI forward. But we are likely to have a slowdown in the progress of AI over the next couple years on the important side for productivity, which is not what they do in R&D, but how well it gets the infrastructure built, how widely it's diffused, how well received it is politically, how much backlash there is. And I think this is probably healthy for the long term. So it's good news, mostly good news. Let's enjoy it. Thank you.

[00:23:08.41] - Mary E. Lovely

Hi, good afternoon. Not having Adam's advantage of having briefed like 1,000 people in the last couple of days, I'm going to use my slides. Tariffs and the midterms. I think what everybody wants to know is, has anything changed? Unfortunately, I do not have a crystal ball, but I think that the election does give us a few clues as to where we're going. So what have we learned and where are we going? That's the main topic I want to talk about. First, tariffs have become firmly tied to affordability issues. And this is something new. I think that in the past there was a disconnect between tariffs and what people saw as their own pocketbook issues. That disconnect was so large that the president was able to come in and put in a large tariffs and claim that foreigners would pay them all. A large segment of the population believed that that was true. I like to think that PIE did some good in this direction, but I think I'll show you some numbers that suggest that mission accomplished. Voters' views on tariffs generally do follow party lines, so the president's approach to tariffs do matter, but support for tariffs has fallen even among Republicans over time.

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Voters support targeting tariffs though, so this is not an anti-tariff revolution, if they support US jobs or if they feel that they're defensive tariffs, that is counteracting unfair trade practices. But they don't like them if they result in higher prices. And that of course is an irony which I will come back to. So I'm going to end with a little bit of speculation about the types of tariff reforms that we might be able to get. realistically, or at least some movements toward it, perhaps as Adam said, setting up the next president. But a lot will be left for 2029 and beyond, particularly how we use trade policy proactively to support economic security while relieving, at the same time, relieving some of the burden that American households and businesses are feeling today. So first, I thought it would be sort of interesting. For me, there was always a received wisdom on tariffs and voters. And early in my career, I became very good friends with a political scientist. And I'm still very good friends with political scientists. Collins Swan. But I was told, Mary, everybody wants to talk to the economists, but trade policy does not move elections.

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They want to talk to the macro guys, not you guys. So trade policy does not move elections, received wisdom. Second, some voters see tariffs as good for the US economy, particularly if it's in their sector. So autoworkers may see auto tariffs as good, steelworkers may see. But for other people, tariffs are not really a particularly salient issue. It's OK, go ahead, but they're not really affecting me. The third received wisdom, I think, is that most voters are willing to tolerate tariffs because of the job gains. In other words, that tariffs, for the people who are not really interested, they're also able to tolerate it if they think it's going to help their fellow man. Or woman. And then I think the 4th received wisdom is that Americans' positive views of tariffs actually was seeded within a context of an orderly international trade system. That they, you know, you couldn't ask them what about Section 301 or 338. That wasn't where they were. There was this sense that there was an order out there born of the Bretton Woods, born after World War II, and that tariffs fit into some orderly process. and wasn't a disruptive force for the economy or for their lives.

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So how did these received wisdoms fare in the midterm? And I think the first one that died was trade policy does not move elections. I mean, it's mostly true. This was not about trade policy, but the cost of living does move elections. We've seen this time and again. And tariffs were effectively tied to the cost of living. Here's just the AP voter survey showing that the cost of living was number one both for Democrats. This is by age, but you can also do it by party affiliation. How is it tied? Well, there were numerous formal studies from the academic community, from multilateral organizations, from think tanks supporting this link between tariffs and the prices that American businesses and American households paid. This is a very recent one that came out from the Federal Reserve Bank of New York where they estimate what's the effect on the CPI. So going directly to the thing people care about, which is the inflation rate, and arguing that in fact the inflation rate would have been negative except for tariffs. Now this is controversial. People have questioned the study, but it's done by very prominent researchers in the field.

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So you can't just dismiss it. And this came out right before the election. Media reports, of course, tied tariffs to the cost of living. I picked 3 here. One is from the Wall Street Journal, from Fox News, and lastly from the New York Times to show you that it was really across the spectrum. And of course, we had numerous people from PIE speaking to the media about this link. So when Americans are asked, whether they're concerned about affordability and whether trade raises the price of goods and services. This is a strange question, but it's the closest one I could find. You find that people think that it raises it a lot or raises it somewhat. So that's the

dark brown and the tan. So they see trade as having an impact on the prices of the things they buy every day. And I think this is something that is going to last beyond the election. So tariffs are important for elections because they're important to the cost of living. How did the second received wisdom, which was some voters see tariffs as good for the economy, for others tariffs are not a salient issue? I think that we saw that that wasn't true this time.

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As they lived through tariffs as purchasers of goods and services, most voters began to see them in a more negative light. Even as partisan differences remain. Here you have on the leftmost bars the total and then the breakdown by Republicans and Democrats. Here you see that over time, Republicans themselves are becoming less favorable toward tariffs. We have voters who are not directly defected by auto tariffs in their sector, seeing them as negative working through The prices. A received wisdom was tariffs affect a lot of people very little, so it was a collective action problem. Together we'd be better without them, but we can't organize. Whereas for a few small groups, they're highly salient and therefore worth the price of organization. That may be changing. The third received wisdom was that voters are willing to tolerate tariff costs to themselves because of job gains for others. I think this has also been put to a test. I think that voters have said it depends on the cost to me of these jobs. Now, of course, going back 30 years, when I was first teaching, we used to say, well, what's the cost of protection? Well, PIE was issued little monograph after monograph, cost of protection with Europe, with Asia.

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So we've been talking about this for a long time and wondering, who cares about the sugar tariff or sugar quotas, right? Well, it's a lot of money if you care about it, but it affects all of us just a tiny little bit. Well, it turns out that it does when you ask people if they support tariffs to boost US manufacturing jobs. Their support decays rather rapidly when you put a price tag on that. So the price tag now is, I think, more obvious than it was before. And of course, it became increasingly difficult for the administration to claim that there were the manufacturing jobs that people now increasingly saw that they were paying for. We've had a bump up since '26, but you can see that the manufacturing employment is still well below— is now well below where it was prior to the 2020 pandemic. Just one note of irony within all of these polls that I've been looking at is that education is still very much needed. I don't think that think tanks like Peterson should go out of business anytime soon. Why? I think because most polling suggests Americans are more likely today to understand that tariffs raise prices for US consumers.

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But I think for many of them, there remains substantial confusion about how protection works through prices to increase domestic activity. Now I think that this is a nonpartisan confusion, but if we just look at the responses here for Republicans, you know, they're more likely to say that tariffs don't raise prices, but they're also more likely to say that it's going to create manufacturing jobs. And those 2 things can't be true. The domestic price has to rise for us to move up that supply curve. for us to get those jobs. Protection means a higher domestic price. So you can't have both. And we see this, I just picked this one slide from Gallup because it was a large poll and it was nationally representative. But you can see it in a lot of the polls that are out there. So we still have a lot of work to do. The last received wisdom was that Americans' positive views of tariffs relates to their use within an orderly international trade system. And I don't think, you know, people are not asked about this directly, right? But when we ask people about what do they see as fair trade, most people say all countries being bound by the same rules.

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So they believe that there is some sense in which trade can be fair, and they understand how you define that. Mostly. Now, I think this is just something that I've put together where the question framing really matters here. When you say, do you support tariffs to stop unfair practices, you will get a lot of people saying yes. Prevent China from cheating? Yes. Protect national security? Mostly yes. These national security and combating unfair trade, using it as a defensive shield, I think gather wide support. You get much less support when you say broad tariffs on all imports, or if you mention costs, you find people moving away from that bench. Support for the use of tariffs is highest when the question refers to defensive uses and the cost is low. Support is lowest when it's an aggressive use of tariffs that are actually costly to their pocketbooks. I think those are the 4 received wisdoms, and I think we have learned something from the election in terms of how people have now— how people's views have evolved now that they've experienced broad-based tariffs and what the effect would be for them as individuals. We haven't talked about something very important that Adam raised, which is uncertainty.

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and something I'm going to bring in, which is corruption. I think we know people were repelled by corruption. And here's just a span— Fox News poll published in October, 60% of registered voters were extremely concerned about government corruption. Same thing from Washington Post, ABC News, 2/3 of respondents were outraged by corruption. A Gallup poll, poll from Reuters. So you go across the spectrum on the polls, and corrupt people feel repelled by corruption. I think that there's some inkling that tariffs do afford the executive an unusual amount of latitude to make deals. These deals are now increasingly seen as a way for the administration to engage in self-dealing. This is an issue which we thought might be a sleeper

issue, but in fact, surprisingly rose to the top of the list of things that voters were concerned about. There's just one more thing against the type of trade policy we had where it's really extracurricular. It's not guided by US legislation. Lastly, I'll leave you with this. Experience has shifted voters' views of tariffs. Shockingly, the amount of voters who say they disapprove of tariffs has increased. The question changed after March 2025, but the question that was asked most recently is, do you approve or disapprove of the use of tariffs.

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I'm sorry, I got a little cut off there. But I think that's a dramatic change for us and one that we have to deal with. Will this evolution of voters' views result in legislative action? So far in listening to folks inside the Washington bubble, I've been disappointed. I think people are talking about tiny little baby steps. Pundits in the space cite the removal of some tariffs, the 338s on Canada, as the most likely first step to tariff reform. To me, that's really an obvious thing to do and not very bold, not the kind of bold election results that we saw. Many people will note that there's a lot of interest in Congress to claw back their authority over trade policy through reform of the process, reform of the use of 301, 232. These are very difficult things to do, but they're There is a lot of interest, I think, in Congress. Will they be able to get anywhere? That's a big question because reforming these laws are difficult. One reason why they're difficult is because Congress has used them over time to force the executive to be more aggressive, and now they want to roll them back.

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What about the next president? Would we want him or her to be more aggressive or less aggressive? This is a complicated process. I think there's little ability for them to tackle the biggest and hardest issue, which we hear in this town, which is the tariffs on China. And that is partly because of China's use of the critical minerals choke point. And it's really led to a stalemate right now. Stability is another word for it. So I guess I'll leave you with the question, will a Democratic Congress be able or willing to address voter dissatisfaction with broad-based tariffs while maintaining tariffs and really improving on the use as a tool for protection and for industrial policy? Thank you.

[00:38:28.45] - Cullen S. Hendrix

Okay, there are my slides. Good afternoon, everyone. I'm going to be focusing on geopolitics and economic statecraft. I will not be making any specific calls on how the Hormuz crisis resolves. or what this means for Ukraine. I've found that discretion is the better part of valor. What I would like to do is talk about some of the levers that Congress has, both in terms of

institutional levers and levers by which they can affect public opinion to either constrain, extend, or continue with some modifications the administration's approach. The last 2 years, I think, and it has been alluded to several times, have been a very sobering lesson in just how much power has been delegated to the office of the president by the US Congress, and how many of the perceived constraints on executive behavior were actually soft tissue, so what I would call norms and beliefs about the appropriate use of executive power, rather than actual skeleton. And so I think that there's going to be an attempt to make some of this soft tissue into a little bit more of a skeletal structure. All right, so exit polling and models kind of tell the same story.

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Real income changes and presidential approval alone actually got the seat share in the House of Representatives almost exactly right. And so my sense is that to the extent that this election was a referendum on anything, it was a referendum on Trump, but more specifically in terms of issues, it was a referendum on this declining real purchasing power, which tariffs obviously speak to, the Iran War, which also speaks to consumer prices, and then just the general concept of presidential overreach. It was not, however, obviously a referendum on industrial policy or increasing state ownership and control over the economy. Tariffs did register with voters, as Mary pointed out, but they registered largely operating through their effects on prices. But also, I think, and this speaks to the concerns about corruption, the way in which the tariffs were implemented, which is unilaterally, transactionally, and with strong perceptions of corruption or self-dealing, the term that Mary used. So I think Congress is going to use the power of the purse to constrain, or at least try to, tariff powers and war-making authority. It will extend the tools of economic warfare, but reduce executive discretion over their implementation, and it will largely continue a turn towards industrial policy, albeit, I think, with more oversight and conflict of interest guardrails.

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Okay. Let's start talking about some of these constraints. I think the first fight is going to be about the Iran war, though the president has all but acknowledged that the shooting war is winding down. The economic war isn't. The blockade is now being extended to overland routes, and Iran has claimed that no nuclear material will be leaving its borders. So whether the shooting is actually over, I think, is still in some doubt. Even so, the December 11th stopgap resolution needs some Democratic Senate votes. So the purse lever, from a legislative perspective, is essentially operative now. It won't just be coming online in January, though it seems as if Senate leadership is more likely to block kind of, I think, new war money than it is to risk some sort of shutdown occurring. I do expect that there will be a war powers resolution early in the new Congress, and I expect a veto for the reasons that Adam outlined earlier. The

real constraints will come through appropriations and through the National Defense Authorization Act process on reconciliation, frankly, so that you can get it down to the thresholds that the Democrats can control. If the war is in fact winding down, I think that that's how Congress will try to bake in that it will stay wound down.

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And this isn't just an energy story. Hormuz is a fertilizer story. It's a sulfuric acid story. Without getting too in the weeds there, those affect food prices on one side and critical mineral processing on the other. Constraining the war provides some supply chain relief, and that's, I think, a big part of the reason why it polled the way it did, because the link between Hormuz and oil in particular just made that cost inflation argument legible at the pump. On tariffs, I agree. I think that there's going to be an attempt to remove the tariffs on Canada and then address the stickier issue of delegated powers. There are 3 bills currently before Congress, the attempt to repeal Section 338, which is that Smoot-Hawley provision that I guess had never been used until this summer. Those are already on file. Those are going to get vetoed as well. But those vetoes matter kind of in and of themselves. They force the president onto the record on votes a Republican Congress would have probably never have allowed. And this is a well-known kind of strategy that political scientists talk about in terms of veto bargaining and the blame game.

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The majority sends a bill that it knows will be vetoed, and that's not really about bargaining. It's about being able to force the president to take an unpopular position. With presidential approval as low as it has been recently, that's, I think, a game that Congress is well-positioned to win. The purse works here too. You could even envision gambits like a rider barring Customs specifically from collecting Section 338 duties. That would certainly force the issue. In Section 232, the tariff authority that's explicitly justified on national security grounds, I think, will be a harder nut to crack, but I think that there's really only so long that you can make statements like folding in trumpets and tubas under the Section 232 tariffs, implying that brass instruments, imported brass instruments, are a national security threat. There's only so far you can go with that, I think, with a straight face. And then finally, don't discount the role of hearings and investigations. Sunshine and shaming. Oversight changes behavior even when it does not change laws. Wells Fargo's CEO resigned within a month of their Senate grilling, and Boeing's was gone 2 months after his 737 MAX testimony. Elsewhere, I think Congress will affirm and extend delegated authorities while narrowing the president's latitude in how they're implemented.

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I think the clearest case here would be sanctions. In September, Congress passed the Graham Russia and Iran Sanctions Act, and then the president signed it, and within a month had waived nearly all of it, sanctions and tariffs alike, a week after cutting the diesel deal with Moscow to bring down oil fuel prices that the Iran War had pushed up. He also waived the provision requiring sanctions to stay in place. So on Russia, I think the Democrats are more hawkish than the administration, and they have Republican defense hawks for company. I expect stronger sanctions written into law rather than executive orders, with waivers that I think are narrow or temporary or subject to some sort of congressional review. There's precedent for this, the Countering America's Adversaries Through Sanctions Act, back in 2017, when Congress didn't trust this same president to keep pressure on Moscow. And I think the same goes for Iran. The Graham Act also extended Iran sanctions through 2031. Congress may attempt to constrain the shooting war, but I don't think it's going to constrain the economic one. It just wants it conducted more in accordance with its perceptions of what is reasonable delegated authority and executive discretion.

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I think executive— excuse me, export controls are going to follow the same logic. There are bipartisan bills that would give Congress an arms sale type review of advanced AI chip exports and require verifying where those chips actually end up. I think there's a subtle irony here insofar as that, that system of controls would look almost exactly like the system that China has built for rare earth elements and related technologies. It's rules-based, codified, and hard for any single individual official to waive. The common thread here in terms of extensions is that it's not a repudiation of the toolkit of economic statecraft, it's a repudiation of broad executive discretion. Congress is not going to try to disarm the president so much as limit the president's ability to use sanctions as an explicit poker chip. Finally, I want to talk a little bit about industrial policy and state ownership, where I think the devils or the angels, depending on your perspective, are in the details. Let's start with what will not change. I think the pending NDAA extends the Defense Production Act to 2031, and there's a bipartisan vote to fund the industry, and that will be a bipartisan attempt to fund that industrial policy toolkit.

[00:47:04.11]

The administration has done roughly 30, I think, equity or equity-like deals worth billions of dollars from Intel to MP Materials to a run on quantum computing firms. I don't expect a Democratic Congress to unwind them. If anything, I think that the ownership footprint may grow, and NDAA negotiators are deciding right now whether or not to kind of write that equity authority into a durable law. What I think will change will be the rules of engagement with the private sector. Right now, these different equity stakes sit across at least 4 agencies under different

authorities. I would expect increased disclosure requirements, conflict of interest rules, and hard questions about what happens when some of these equity stakes go bad. And that will get much, much, much, much more important if these equity stakes in the hyperscalers actually materialize. I don't have a take on that. In critical minerals, I think that price floors and offtake agreements are where this is going to matter most. There are 2 kinds of bankable investments that the United States could ostensibly make in these supply chains. One locks in high returns behind a tariff wall, which I think would be the worst outcome from a social choice or societal perspective.

[00:48:17.18]

The other would take enough risk out of the situation that a modest utility-like return, I think, becomes financeable. Congress is going to be choosing between those, whether I think it realizes it or not right now. I think that's also the case with, and Mark may have better insight into this than I do, these inward investment commitments from places like Japan, Korea, and the Gulf. Congress is going to want to have some sort of say in where that money goes, as that's been Congress's modus operandi since time immemorial. Some of you may have read a piece that I wrote a little while back that says you're already getting socialism under the Trump 2.0 administration. I expect it to continue. Congress is sort of split 3 ways on this. One would be continued movements in this direction, that would be sort of your Sanders camp. There are some private sector-focused Republican voices who want all of this divested. I don't think that's going to happen. What I think is going to happen is that there'll be this increased supervision. The new Congress is going to want checks and balances, and as Adam alluded to, so will markets.

[00:49:20.37]

So to recap, the election was not a verdict on economic statecraft. It was a verdict on how it has been run. So expect Congress to do 3 things. Constrain where voters felt the most pain. So that would be on war and tariffs, or at least attempt to. Extend the tools that are aimed at adversaries, sanctions and export controls, particularly with respect to China, as Adam alluded to, and make it harder to wave those rules away. And then finally, a continued turn towards industrial policy and state ownership, but under sort of written codified rules rather than ad hoc deals. Thank you. Thank you.

[00:50:14.32] - Anjali V. Bhatt

Okay. Well, we covered a lot of ground there. There's plenty, plenty for us to talk about here. I'm going to start pretty broad actually, and, and just sort of ask you guys a broader question about

the new, the new Congress and the agenda setting for the, these new policymakers when, when they take office. In, in agenda setting for this new Congress, what should they focus on the most? In your opinion, what is where they can have the most impact? Sort of like, is there low-hanging fruit or something immediate that you can say for them to focus on as soon as they take their seats?

[00:50:53.59] - Mary E. Lovely

I can go on the sphere. I mean, I think we've outlined what we think they will focus on first. There's certainly low-hanging fruit where the US population is not that keen on us attacking our neighbors. So I think that they can at least, even if it's going to be vetoed, they can make a statement about that. And that's easy to do. The Congress has, despite the fact that we heard a lot about Democratic Socialists, the new Congress encompasses a lot of, has essentially moved to the right. The Republican Party has been squeezed on the right. And so we're going to look for things that are kind of right up the center, I think, to come early on. that make statements that they've heard people in the election. And whether or not they become law, they will be making a statement.

[00:51:43.04] - Cullen S. Hendrix

Yeah, I mean, I think that the number one target, at least in the foreign policy realm, is going to be trying to address the situation in the Strait of Hormuz. Now, the problem with that is that the levers that they have are relatively crude because they operate through sort of specific funding that's available for those kind of operations. But the defense budget is in some senses fungible. So their direct ability to sort of force that to a conclusion in the short to medium term, I think, is not likely to materialize. It just kind of doesn't exist. But I think that this is something that even, I think, the president is starting to come around to, is that there is no endgame to this that looks particularly positive at this point. And so I think the question then becomes, how do the Democrats message around a responsible winding down? And then what becomes the status quo moving forward in terms of transit in the Strait of Hormuz. And I'm just going to say that may not end up looking like what the global shipping industry or the United States would want it to look like. I'll stop there.

[00:52:43.35] - Adam S. Posen

I would emphasize 2 things, Anjali. First, I think that on the affordability agenda, as it's called, I think the single biggest things, of course, are healthcare and housing. Both of those are frustrated by the fact that a lot of the issues are at the state and local government level. But there's a very clear agenda of things you can do to increase the supply of housing, to increase

the efficiency of healthcare. You don't need to go all the way to Medicare for All. You can go Medicare for All kids plus more opt-ins and restoring some of Obamacare, for example. So I think that is a great place to start, and that's a place where you could possibly get some Republican senators to agree with you. The second place is in the same spirit as Mary was saying about Canada and Mexico. I think, and President Trump actually said this after the election, that maybe one of the places they could work is in immigration reform. I think in the same spirit as Mary documented with the polls, it's not quite as clear, but it's pretty clear people have realized that this approach to immigration is not reform.

[00:54:06.14]

It's not effective and it's barbaric. And so I think we've had repeated close calls of bipartisan bills to do immigration reform, and I think this would be a good opportunity to start Pursuing

[00:54:23.25] - Anjali V. Bhatt

that. Okay. This is for you, Adam, but you, you know, you guys can answer it too. So we, we talked a lot about uncertainty and how, especially since 2020, well, 2025, I guess, into now, the uncertainty is really what has affected a lot of investment decisions, a lot of our, how our allies approach us, how they work with us. Mm-hmm. How much does this election take away that uncertainty? Does it, Does it matter as much when a lot of the uncertainty came from Trump and the executive, and he could still be as erratic as he has been? How much uncertainty is still there, and how much has been taken away?

[00:55:06.28] - Adam S. Posen

It's a really good question, Anjali. I guess there's multiple elements. The uncertainty over arbitrary Foreign policy decisions, notwithstanding Colin's valid points about funding the military, like with respect to Taiwan or North Korea or Israel or Venezuela, doesn't go away. The uncertainty in the business world around arbitrary implementation of what tariffs remain, of regulatory regimes, of investment decisions, again, as Mark Noland and Greg O'Clair and others here are working on. That still remains. I think, though, the more important point, which I tried to raise before, and let's see if we can make it resonate, is even if Trump's gone, the fact that the presidency had such executive power and such little effective resistance from Congress in such— not carte blanche, there was some pushback, but so much latitude from the Supreme Court and the federal courts has to make everybody worried. There are parts of the left wing of the Democratic Party who are saying pretty explicitly, oh good, we're glad that the president got all that executive power because that means when we're in, we can do it do, and we can do it in the other direction, and that's not good. So I think if we end up with a country that has very little

institutional change or very little accountability for those who engaged in excessive abuse of power, I think people, business people, foreign officials, average people are just not going to fully snap back.

[00:57:14.53]

Having the election go as it did, and I don't mean, again, I don't mean the fact that the Democrats won, the fact that there was peace and concessions is great. But as a foreign friend of mine was saying to me last night, that should have been taken for granted. So I do think it's a ways to go yet.

[00:57:37.03] - Mary E. Lovely

I would second that. I think that what we've seen when we've been talking to foreign officials and others is that the project of de-risking from the US will continue, that we'll continue to see countries look for fruitful partnerships in various forms, whether in trade agreements or plurilaterals over much more narrow topics, and basically look for dependencies not only with China and for other countries, but the United States as well. That will continue. That's a long-term lesson that they got out of this experience.

[00:58:14.35] - Cullen S. Hendrix

I mean, I think that these developments in this election, folks, Texas is now a blue state. I mean, this is monumental in terms of, I think, the incentives, especially on the right. I mean, the political science literature on this is relatively straightforward, that a lot of the polarization has been driven by a rightward drift among more conservative representatives. And for about the last 15 years, the only flank that you would get attacked on and be worried about a primary challenge as a GOP member would be on your right flank. I think that now that this has put Texas in play in a much more sustained kind of way, I do think that it is going to have somewhat of a moderating tendency insofar as pulling leadership back in the direction of saying, all right, we are actually going to have to run more moderate candidates if we want to be successful here. That will just have a— that moves you back towards, I think, a bipartisan consensus. We may not agree with all the elements of that bipartisan consensus, that will emerge around foreign— that is emergent in foreign policy. But it's at least a useful signal of stability for adversaries and allies alike.

[00:59:24.26] - Adam S. Posen

Yeah, I'll take the under on that in terms of adversaries and allies, just because the US did under Biden as well, but particularly under Trump, violate or ignore international treaties,

international commitments, longstanding alliances. So as you and Mary have both said, you have to diversify. You can't count on it. And that's a change. That's a fundamental change.

[00:59:54.52] - Anjali V. Bhatt

We'll open it up to questions real briefly. If anyone has a question, there's a mic there in the back. And then we also have a roaming mic. But before we get to that, Mary, this is maybe a dumb question, but what does process reform mean when it comes to tariffs?

[01:00:11.52] - Mary E. Lovely

Yeah, it's really reducing the discretion of the executive in levying tariffs. So a good example might be for Section 301, which is the law that allows the US to try to open up foreign markets. And it's the authority that President Trump has used most recently for the forced labor cases, which named 60 countries as those who allowed forced labor in or were failing to enforce anti-forced labor rules in their imports, not directly in their domestic markets. And also the excess capacity case, which has been finished but for which we do not know what the remedies will be. These are longstanding— this authority has been around a long time. It gained a lot of prominence when we felt that Japan was a threat to our industrial base. But some of the things that could be done are forcing— well, putting in the legislation that the reviews of the studies that underlie the use of this authority would be moved from the US Trade Representative, which is part of the Executive Office of the President, to the quasi-independent International Trade Commission. So force it to have more of a less political, at least on paper, review. There are these types of things.

[01:01:38.17]

I think there's a big appetite to do that. That is not to constrain the president, but to put some checks and balances in the process. I would have to say though that all of the new representatives that were elected recently have to run in 2 years. If you talk to voters and say, well, I did hear you on tariffs, we're moving this from the USTR to the ITC, it is just not going to resonate. So while I think it's a very important thing to do and there's a big appetite to do it, we have to see some bigger moves. They're going to be running again, and we're going to have major presidential elections. So they have to have something more than that to offer.

[01:02:18.24] - Anjali V. Bhatt

Any questions from the audience? Anyone? Anyone? Yeah, let's go right over here. Yeah, if you could go to the mic, please.

[01:02:31.18] - Audience

Thank you very much. Federico Steinberg from CSIS and Georgetown. My question is about financial regulation, banking, consumer protection. Can we expect something on that front?

[01:02:42.52] - Adam S. Posen

Yes. So the dilemma facing all the new or reelected— let's put it this way, the new chairs who may have been reelected, who are probably reelected because they're senior enough to be chairs, is this broader one of how much time do you spend on accountability, meaning hearings and investigations, versus affordability, which is legislation. Senator Warren, who will be the new chair, presumably— I think it's a done deal— of the Senate Banking Committee, has a very, very long list of things she says she wants the committee to do. as is her prerogative. I think it's much too long a list and it's many too many things. I think one thing which she could do uniquely is make the case that the destruction of the Consumer Finance— Protection

[01:03:39.27] - Anjali V. Bhatt

Bureau.

[01:03:39.43] - Adam S. Posen

Protection Bureau. I always get the third letter wrong. Thank you. Protection Bureau, which she basically came up with and created in the first place, taking that away was bad. We should reauthorize that and focus her investigations on the places where financial stability was eroded and oversight were eroded. And if she focuses, she could do a lot of good. But I think the temptation, not just to her, but I follow like you do that set of issues, is for these chairs to say, oh my God, I want to subpoena the following 120 people and I want to propose the following 4 bills in the first 2 weeks and I want to do this. Focus. And I think it's clear that that would be, to me, along with reestablishing the independence of bank supervisors that have been heavily politicized under the Trump administration and the quality of their support, those would be the 2 first priority things I would do if I were advising Senator.

[01:04:51.08] - Anjali V. Bhatt

OK, we are at 2 o'clock, and that means we are done. And I don't want to keep us too much over, so we're going to wrap it up there. But we have a lot to watch in the next 2 years to 4 years and beyond, and we'll keep doing that. Thanks to our panelists and to all of you.

[01:05:07.34] - Adam S. Posen

Thank you. Thank you.

[01:05:09.59] - Anjali V. Bhatt

Thank you.