

From “Change” to Gridlock?

The US Midterm Elections 2010

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The decisive Republican victory in the election to the House of Representatives ended a brief period of “unified government” in the United States – the rare situation in which one party controls both the US Congress and the White House. While the new balance of power might result in political gridlock, it could also rouse Republicans from their legislative obstructionism. As the majority party, they now bear the responsibility to generate constructive solutions. However, since the next presidential election campaign is expected to start in late 2011, this window of opportunity might not be open for long.

It is not unusual for the party of the sitting president to be punished by voters in midterm elections. Every two years, all 435 seats in the House of Representatives and approximately one third of the 100 seats in the Senate come up for election. Only once in the last 76 years has the president’s party avoided losing seats in the vote held between two presidential elections. However, the losses of 2010 have been unusually severe. The Republicans gained at least six seats in the Senate (and the promise of Alaska senator-elect Lisa Murkowski to caucus with them). Moreover, in the House of Representatives at least 63 seats went from the Democratic to the Republican Party, which now holds the majority in this chamber (two electoral districts are still undecided). Even in 1994, in the first midterms after President Bill Clinton took office, the Democratic defeat was not as

dramatic with 54 seats lost in the House of Representatives. Contrary to Clinton, however, President Obama was able to keep the Senate marginally under the control of his Party, with a slim 53-seat majority.

The Swing of the Political Pendulum

The political pendulum has thus swung back to the right, and it continues to gain momentum. Congressional majorities are now elected for increasingly shorter terms. While the midterm elections of 1994 ended a 40-year Democratic reign in the House of Representatives, this time around it took the Republicans only four years to win back the majority. The increasing volatility of Congress will also become apparent when more than one hundred freshmen join the ranks of the House of Representatives in January 2011. Sixteen freshmen will enter

the Senate, raising the number of senators serving their first term to 40 (out of 100). While incumbents used to have major advantages in elections, challengers now have much better chances of being elected. Even long-standing, distinguished members of Congress are no longer safe from electoral defeat. After more than three decades in the House of Representatives, Ike Skelton of Missouri, chair of the Armed Services Committee, lost his seat – as did Senator Russ Feingold of Wisconsin.

Mobilizing Voters

In 2008, Barack Obama successfully mobilized Democratic voters with his promise of “change” and thus helped his party make significant gains in the Congressional elections. In 2010, by contrast, Republicans outperformed Democrats in motivating their supporters to participate in the election. 42% of all voters identified themselves as conservative – the highest rate since the Reagan era. Many voting blocs that two years ago had contributed to the Obama victory now supported the Republican Party by a majority. This was especially true for independents, who are not clearly aligned with any political party. While in 2008 Democrats held an 18-point advantage among independents, this time around the Republicans led by 15 points. Moreover, a majority of women, the largest of all voting blocs, backed the Republicans – for the first time since regular surveys were started in 1982. The Republicans also received the majority of votes cast by the middle class and college graduates.

Most significantly, the “Grand Old Party” (GOP) benefited from older voters, who did not only vote for the Party by a majority, but who also increased their overall share of the total vote. Many older voters are skeptical about Obama’s health care reform, as they already benefit from privileged access to health care through the Medicare program. At the same time, turnout among young voters – two thirds of whom voted for Obama in 2008 – dropped significantly.

Two years ago, the share of voters under 30 years old was 18%, whereas in this election young voters accounted for only 11% of the vote. Ethnic minorities like African-Americans, Hispanics, and Asian-Americans continued to support the Democrats in strong numbers, but their turnout also stayed below the levels of 2008.

Unlike in the elections to the House of Representatives, the GOP victory in the Senate elections was limited to some regions. The Senate Democrats lost seats in the battleground states of the Midwest in particular. They prevailed in the Democratic strongholds along the East Coast and in New England, in the western states of California, Oregon, Colorado, and Nevada, as well as in the southern state of West Virginia.

The results demonstrate that Obama did not manage to sell his political reforms to the public. The Republicans won with a promise to “change course” thereby replacing Obama’s message of “change.” Yet, even Democratic candidates who had distanced themselves from controversial projects of the Obama administration were voted out of office. In particular, the fiscally conservative “Blue Dog Democrats,” who occupy the political center and align themselves with the GOP on certain issues, suffered heavy losses. In the last Congress their caucus comprised 53 members – more than half will not return to Washington.

An Expensive Election Campaign

At almost \$4 billion in total campaign spending, the Congressional elections of 2010 were the most expensive midterm elections ever – in 2006, campaign spending totaled \$3.1 billion. The Democrats were ahead in terms of “traditional” fundraising, which is coordinated by a party committee and limits donations to a relatively modest amount. Republican candidates, nonetheless, raised more money overall for their election campaigns.

Two years ago, the Obama campaign received small donations in unheard-of

numbers by effectively employing modern fundraising tools like online campaigning. This time, the Republicans were particularly savvy at adapting to an altered campaign landscape. In the landmark decision “Citizens United vs. Federal Election Commission”, the United States Supreme Court ruled in January 2010 that the right to free speech also covered corporate funding of independent political broadcasts. While in 2008, the business community supported Obama and the Democratic Party, companies from the health, finance, and real estate sectors now backed the Republicans. These companies are concerned that the health care and financial sector reforms as well as the proposed climate legislation will burden them with additional costs. The largest share of corporate campaign spending went to GOP-leaning interest groups. Unlike political parties, organizations such as these may accept donations in unlimited amounts and do not have to reveal the names of their donors, on one condition – the group may neither make political activities its main purpose, nor explicitly recommend a voting decision in its advertising or broadcasts. This way Karl Rove, Republican campaign strategist and former adviser to President George W. Bush, alone raised \$70 million through his organizations “American Crossroads” and “Crossroads GPS.”

The Influence of the Tea Party

While segments of the Obama coalition of 2008 stayed home during these elections, the newly emerged Tea Party Movement clearly helped mobilize the Republican base. The Tea Party rejected the bank bailout, the stimulus package and the health care reform bill as inappropriate government interventions in the market. The movement’s emergence reinvigorated and reinforced the traditional Republican voting bloc of white, male, affluent and Christian-conservative Americans.

Even so, the immediate success of the

Tea Party has been moderate. It is true that in the primary elections a relatively large number of Tea Party supporters beat incumbents or candidates favored by the Republican leadership. In the Senate elections, however, only about half of all Tea Party candidates actually won a seat, among them Marco Rubio (Florida) and Rand Paul (Kentucky). Moreover, several radically conservative representatives of the movement were unable to prevail over their Democratic rivals because their positions scared away independent voters in particular. Senate majority leader Harry Reid, for example, managed to beat Sharron Angle despite his poor approval ratings. Angle wanted to abolish a host of government institutions, including the Department of Education and Social Security – and thus she was considered by many constituents to be simply unacceptable. In the end, the Tea Party candidates actually helped the Democrats defend their majority in the senate.

Voter Discontent

More than anything else, the Republican victory was a protest vote against the current policies of the Obama administration. Polls show that two thirds of all voters used the elections to express their discontent with Obama’s political “balance sheet.” The major concern of voters was clearly the economy, particularly with regard to the labor market. According to polls conducted by the CNN/Opinion Research Corporation, in August 2009, 44% of US citizens felt that Obama’s policies had improved the economic conditions in the country – in October 2010, this rate dropped to 36%.

The recession is officially over in the United States with the economy registering positive growth in the last three quarters (3.7%, 1.7% and 2.0% respectively), according to the Bureau of Economic Analysis. Yet, in order to stabilize the labor market, the growth rate would have to reach 3.5% per year. For the month of September, the US Bureau of Labor Statistics measured an unemployment rate of 9.6%; however, the

unofficial unemployment rate, which includes people who are not working full-time but would like to and people who are no longer registered as looking for work, could be higher than 16%. The rising number of long-term unemployed causes particular concern. More than 40% of all unemployed have currently been out of work for longer than six months. One of the reasons is the decline in residential mobility in America. As a result of the ongoing tensions in the real estate market, many Americans refrain from moving to US states with stronger growth rates because they would be forced to sell their homes for less than the value of their mortgages. In light of these circumstances, the OECD estimates that it could take years before the unemployment rate sinks back to its pre-crisis level.

Against this background, Obama's repeated rhetorical attempts to demonstrate that his policies saved the US from an even more severe recession were of little avail. The term "stimulus" has turned into the taboo word of the year. Although the Council of Economic Advisors estimates that the \$797 billion *American Recovery and Reinvestment Act* of 2009 has created or secured up to 3.4 million jobs, this bill along with other stimulus measures like the *Hiring Incentives to Restore Employment Act* and the *Small Business Jobs and Credit Act* is highly controversial among Americans. According to an October 2010 survey conducted by ABC News/Washington Post, as many as 86% of Americans consider the stimulus money to have been largely wasted. In addition to concerns about high unemployment levels Americans are also greatly disturbed by the rise in the budget deficit. When the fiscal year ended in September 2010 the budget deficit stood at 8.9% of GDP. According to a survey conducted by the CNN/Opinion Research Corporation 52% of US citizens believed that Obama was handling the budget well in March 2009, while only 36% were of the same opinion in October 2010.

Cooperation or Gridlock?

As a result of the election, the conservative wing of the Democratic Party has diminished, while the Republicans have collectively moved to the right with the Tea Party representatives joining the Party's ranks. The next Congress will thus be even more polarized – the Brookings Institution already labeled the current Congress the most polarized ever. Now the overriding question is whether these conditions will produce political gridlock. The US Congress's ability to pass legislation will primarily depend on the actions of the new members and the Tea Party representatives.

The Tea Party members face a dilemma. If they decide to stay true to their radical policy goals, it will soon be revealed that these goals are not feasible. If, however, the Tea Partiers move away from their principled positions in order to make compromise possible, their credibility will suffer. Both scenarios could have a negative impact on their chances for reelection. In any case, the Republican leadership is afraid that the Tea Party representatives could endanger the high level of party discipline witnessed over the past few years and, therefore, they are placing the newcomers under considerable pressure.

Even if the Republican Party successfully integrates the Tea Party, the GOP's willingness to cooperate and hence the prospects for bipartisanship remain uncertain – given the experience of the past two years. Senate minority leader Mitch McConnell already announced that his top priority is now to deny President Obama a second term. By virtue of its oversight function, Congress may obstruct the work of the Obama administration through subpoenas and investigations, for example. Republicans will continue to have the filibuster at their disposal by which they may block bills introduced by the majority party. Conversely, the Senate Democrats will thwart certain Republican legislative projects, such as the proposal to repeal measures of the health care reform bill. President Obama can also at any time use his veto power as a

last resort. Against this background, full political gridlock between both parties is not unlikely.

There are factors, however, which point towards cooperation. Since bills have to pass both chambers, the new balance of power will force the parties to strive for bipartisanship early on. On the one hand, the Democrats will no longer be able to push through bills against the will of the Republicans. This situation could dampen the expectations of the Democratic Party's left wing and open more room to maneuver for the Democratic leadership, thus improving the prospects for compromise. On the other hand, the Republicans will have to govern and hence to deliver: a blockade is an easy strategy for a minority party to pursue, but a majority party will be expected to find political solutions. If the Republicans want to keep their majority in 2012, they will need legislative victories to tout during the campaign. The new balance of power could thus actually force the two parties to cooperate. By voting for a divided government, the American people also cast a vote for cooperation.

Economic Rejuvenation

The reinvigoration of the economy tops the political agenda, but the Obama administration's options are limited. On the one hand, high unemployment and weak economic growth continue to require expansive fiscal policies. On the other hand, neither Congress nor the population at large will broadly support further stimulus measures. In early September 2010, Obama introduced the *Transportation Funding Bill*, which would entail investments of \$50 billion into the development of public infrastructure – the construction and expansion of roads, airports, and railroads. Another idea is to extend tax credits for corporate research and development. Finally, Obama would like to keep the tax cuts for the middle class, which were introduced by George W. Bush at the beginning of the decade and which are set to expire in early 2011.

Arguing that higher taxes and deficits strangle private business, Republicans, by contrast believe public spending destroys jobs and hinders economic growth and thus they reject any measures of this kind. In their “Pledge to America” agenda, Republicans call for an end to what they label the Keynesian experiment. They want government spending to be reduced to pre-crisis levels and view tax cuts (including tax cuts for wealthy Americans) as the appropriate means to increase domestic demand and stimulate the economy.

The Republicans' negative attitude will likely prevent new direct stimulus programs in the next Congress. However, a compromise appears to be emerging. The Democrats may agree to extend the high-income tax cuts passed under the Bush administration – which Obama has been rejecting so far. In exchange, the Republicans may vote for an extension of unemployment benefits in the year 2011. Fiscal policy would subsequently stay mildly expansive, while tending to increasingly turn restrictive with the phasing out of the current stimulus packages.

All in all, the consolidation of the budget will receive significantly more attention in the next two years. One major element of Obama's plan is the “pay-as-you-go principle”: new spending programs must be compensated by raising revenues or lowering spending elsewhere. Most Republicans, however, vehemently reject tax increases of any kind. They are, therefore, likely to welcome the recent recommendations by Obama's bipartisan debt commission, which does not even stop short of cuts in Social Security and Medicare. Instead of tax increases, Republicans want to strictly cap government spending. In their “Contract from America”, Tea Party representatives even argue for making a balanced budget a constitutional requirement. Tax increases should only be passed by a two-thirds majority in Congress.

Whether Obama will succeed in balancing the budget will depend on his ability to reach the necessary compromises with

Republicans as well as his progress towards reinvigorating the economy. Bill Clinton managed to consolidate the budget under a similar distribution of power in Congress, but he was able to profit from one decisive factor, namely the economy was in great shape and thus generated sufficient tax revenues.

Energy and Climate

Energy and climate policy is likely to become one of the most difficult issue areas for the Obama administration. While the House of Representatives passed the *American Clean Energy and Security Act* by a narrow majority in 2009, the Senate Democrats failed to assemble a filibuster-proof majority of 60 votes. Republicans generally reject the creation of a cap and trade system, which they regard as the equivalent of an energy tax. Instead they want to exploit domestic energy sources in order to become less dependent on foreign energy. However, even among Democrats, there are many who oppose an ambitious climate bill. Most opponents come from the Manufacturing Belt (an area which contains many manufacturing industrial enterprises), the South and coal-mining regions.

The new Congress will certainly debate bills of limited scope, aiming, for example, to enhance energy efficiency and to promote renewable energy. Nevertheless, another attempt to pass an ambitious climate bill is highly unlikely, given the balance of power in Congress. Instead Obama is likely to focus on executive orders and federal subsidy programs. The US Environmental Protection Agency (EPA), for instance, recently announced its intention to set new fuel economy (CAFE) standards for the period from 2017 to 2025. This strategy to bypass Congress by setting new norms for greenhouse gas emissions through the EPA is increasingly encountering opposition in Congress. Already in early 2010, Senator Lisa Murkowski introduced a resolution to legally prohibit the regulation of greenhouse gas emissions under the Clean Air

Act. Notwithstanding the Congressional majorities, Obama may stop such proposals through his veto power. If he overreaches, however, Congress may withhold funding from the EPA. In any case, the President will be able to move forward through subsidy programs. Currently, the administration is supporting, for example, the development of smart grids and research on nuclear energy.

Foreign and Security Policy

The Republican majority in the House of Representatives will have less of an impact on foreign policy than on domestic policy. While the wars in Iraq and Afghanistan still dominated the midterm elections of 2006, they were of hardly any relevance in this year's election campaign. As such, US citizens were not calling for a change in foreign policy when they were casting their votes. Nevertheless, in the run up to the next presidential election the Republicans will try to present themselves as hardliners on foreign and security affairs while declaring Obama's approach of engaging even unfriendly regimes a failure.

Less than 10% of all voters said the war in Afghanistan was their primary concern in this election. Even so, the debate over the controversial mission will return as the deadline to reduce troop levels approaches. Both the future chairman of the Armed Services Committee of the House of Representatives, Howard P. McKeon, and the ranking Republican member of the Senate Armed Services Committee, John McCain, are criticizing Obama's decision to begin withdrawing troops on July 31, 2011. While many Democrats argue for a rapid troop withdrawal, Republicans want to postpone the deadline. However, given the low public support for the mission in Afghanistan, the Republicans might do well to leave the responsibility for the Afghanistan approach with Obama. Regardless, the ultimate decision regarding the use of troops rests with the President as Commander in Chief. The withdrawal from Iraq, planned for late

2011, is less controversial since it was codified in a bilateral agreement with the Iraqi government signed under the Bush administration.

From January onwards, US policy toward the United Nations (UN) will be determined by the dynamics between a UN-friendly administration and a Congress generally skeptical of the UN. Representative Ileana Ros-Lehtinen, future chair of the House Foreign Relations Committee, is a strong critic of the United Nations, which could pose a serious obstacle to the appropriation of UN membership fees by Congress.

With regard to states perceived as rivals or threats, the Republicans call for a tougher approach. They contend Obama's cooperative approach has generated but little outcome and call for increased economic and military pressure instead. The Republicans apply this perspective not only to "trouble-makers" like Iran, Syria, North Korea, and Venezuela, but also to potential partners like China or Russia. Finally, they reject Obama's rather cautious attempts at rapprochement with Cuba.

From a European point of view, Washington's policy toward Russia is of particular interest. Obama's efforts to reset the US-Russian relationship have generated a new positive dynamic, most visible through the New START treaty and the debate over a new Euro-Atlantic security concept (including the integration of Russia into the planned missile defense system). The fragile progress that was consolidated at the NATO-Russia summit on November 20, 2010 could be threatened, however, if conservative hardliners call for more resolute dealings with Russia and for amendments to New START. A deterioration of US-Russian relations would affect several important European policy projects including the cautious rapprochement between Russia and Poland, the reinvigoration of non-proliferation and disarmament policy and efforts to integrate Russia into solving the conflict with Iran over nuclear capabilities through the UN Security Council.

Prospects for ratifying New START have remained largely unchanged. Under the existing balance of power Obama already needed Republican support in order to amass the two-thirds majority required to ratify international treaties. The fact that now 14 instead of 8 Republicans will have to vote for the treaty is less decisive than the position the Republican opinion-leader, John Kyl, will take. His decision again will depend on Obama's ability to make concessions on other issues, such as the modernization of the US nuclear arsenal.

Trade Policy

The field of trade policy offers the most room for compromise. While Obama virtually neglected this policy area in his first year in office, the announcement of his National Export Strategy in early 2010 reinvigorated trade policy. Obama aims to double US exports by 2015 in order to strengthen the domestic economy, create jobs and reduce the budget deficit. In support of these goals, the president seeks to expand the opportunities for federal funding of exports – which would affect in particular the export loans and insurances by the Export-Import Bank. The Obama administration also wants to increase the international promotion of US products. Furthermore, the president wants to intensify his efforts at convincing other states to comply with trade regulation and to open their markets to US goods. He has also become less critical of free trade agreements. Negotiations over a transpacific partnership (TPP) have commenced and, moreover, the free trade agreement with South Korea (KORUS-FTA), which was signed in 2007 already, will finally be put up for a vote in Congress. The administration also plans to make another attempt at passing the pending treaties with Panama and Columbia.

Many Republicans welcome these developments. The future speaker of the House of Representatives, John Boehner, has repeatedly called for a ratification of the

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three free trade agreements. Nevertheless, it will not be easy in either chamber of Congress to assemble the necessary majorities to pass these agreements, which were signed by President Bush under the (then still valid) Trade Promotion Authority (according to which Congress must accept or reject the bills without the privilege of adding any amendments). Although Democrats are not protectionist per se, they tend to be critical of free trade and they support linking the opening of markets to labor and environmental standards. Due to the high unemployment in the US, some Republicans also oppose free trade agreements.

In the past few months, numerous bills revealed the protectionist sentiment in Congress – none of which have been passed so far. In September, for instance, the Senate voted against the anti-outsourcing bill *Creating American Jobs and Ending Offshoring Act* which was proposed by Democratic Senators Richard Durbin and Charles Schumer as a tool to punish firms that move jobs abroad. Many members of Congress are particularly alarmed by the trade deficit with China. In September, the House of Representatives passed the *China Currency Bill* by a large and bipartisan majority. According to the bill, the U.S. may impose protective tariffs on Chinese goods if it becomes evident that the undervaluation of the Chinese currency has the same effect as export subsidies. However, the Senate is seen as unlikely to vote in favor of the bill.

field does not offer many opportunities for members of Congress to distinguish themselves. Likewise, US Afghanistan policy, which is of high importance to Europe, is only marginally affected by the outcome of the election.

A different picture is presented by relations with Russia and in areas like climate and trade policy which offer Congress direct channels to exert influence. Obama's cooperative approach to dealings with Russia is increasingly met with resistance in US domestic politics. Europe would be wise to help sustain the recently emerged positive dynamics in order to counter critical voices in Congress. Furthermore Europeans will have to give up hope for a new comprehensive climate bill in the near future; all they can expect is a step-by-step policy. In the field of trade policy, however, the Republican election victory opens a window of opportunity to advance the global free trade regime. Yet, the issue of macroeconomic imbalance will remain controversial. As long as the US continues to struggle with a rising trade deficit, it will call upon surplus countries including Germany to pursue domestic economic efforts aimed at boosting domestic consumption and imports.

Outlook: Cooperation with the United States

The change in US foreign policy, which Obama initiated two years ago, has been widely applauded in Europe. But many elements of the new approach, which were hailed by the Europeans, have been met with less enthusiasm in Congress. Even so, this sentiment has a decidedly minor effect on transatlantic current affairs, which are predominantly handled by ministerial institutions. The interest of the US public in transatlantic relations is low and thus, the