What's Left of the Left
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What's Left of the Left: Democrats and Social Democrats in Challenging Times.
Europe versus America

In recent decades the American Democratic Party, like center-left parties everywhere, has confronted the challenge posed by economic globalization. But the Democrats’ response to growing international market integration has differed from that of most European social democratic parties.

European parties—especially in the Nordic countries, characterized by small, open economies—have long recognized that trade liberalization raises aggregate national welfare by fostering exports, lower prices, and increased productivity and growth. But these parties have also recognized that moves toward greater economic openness could be blocked by those suffering job and income losses related to globalization—especially less skilled workers in manufacturing industries that compete with imports, and more recently blue- and white-collar workers of all skill levels in industries engaged in off-shore outsourcing, as well as other workers partly competing in the same labor markets. Thus since the 1930s and 1940s social democratic parties, again particularly in the Nordic countries, have built successful coalitions in support of open markets by arranging deals whereby globalization’s “winners”—firms and more skilled workers in export-oriented and multinational sectors—agree to compensate the “losers” with extensive unemployment benefits, retraining, healthcare, pensions, and other welfare policies (Hays, Ehrlich, and Peinhardt 2005; Cameron and Kim 2006).

Moreover, since the early 1990s many of these same parties, grappling with the economic supply-side problems of the previous two decades, especially productivity shortfalls, have also backed greatly increased public investment in education, training, and technological research. These policies have increased overall economic productivity, thereby improving competitiveness,
preserving jobs, and raising wages, while also creating well-paying new jobs in government and dynamic new industries. At the same time improved productivity has boosted tax revenues, helping to pay for public programs whose rising costs have at times eroded their popular support (Boix 1998; Benner 2003; Bernard and Boucher 2007; Becker 2007; Aiginger 2008). All of this has again aided these parties in maintaining support for economic openness and broadening their coalitions among different sectors of the workforce.

Consequently, despite recent challenges from the nationalist and protectionist far right (Swank and Betz 2003; Burgoon 2009), by simultaneously pursuing open markets and compensatory social spending and public investment strategies, European social democratic parties—albeit more in the Nordic countries than on the continent (Einhorn and Logue 2010)—have successfully fostered growth, employment, social equality, and inclusion.

The American Democratic Party has taken a different path. Historically the party of free trade, in the 1960s the party became much more equivocal in its support for that doctrine. Pressured by labor constituents battered by imports, many Democrats embraced protectionism and opposed further trade liberalization efforts. With a leap in the trade deficit, especially with Japan, and the political salience of trade during the presidencies of Ronald Reagan and his successor, George H. W. Bush, Democratic members of Congress and presidential candidates pushed bills first to curb imports and then to pry open closed markets, particularly Japan’s. During his first term in office Bill Clinton also pressed Japan to open its markets.

Since the early 1990s, however, the United States has renewed its drive for further trade—and investment—liberalization. Recent years have seen the approval of the North American Free Trade Agreement, a new General Agreement on Tariffs and Trade (GATT) treaty, permanent normal trade relations with China, and the Central American Free Trade Agreement, along with other bilateral deals. But whereas in Europe, as noted above, social democratic parties have been key supporters of trade liberalization, in the United States Democratic backing for liberalization has been much less reliable. In the American system of separated powers, movement toward freer trade has been due to the efforts of pro-trade presidents of both parties, allied with congressional Republicans and a substantial number of Senate Democrats, but only a minority, sometimes a small one, of House Democrats. For various reasons, above all pressure from the still powerful labor movement and wide public anxiety about globalization, the majority of House Democrats have opposed, sometimes overwhelmingly, almost all of these trade liberalization initiatives. During the 1990s their opposition led to the defeat of two important procedural measures, if not actual agreements.
More recently the entrance of the “BRIC” nations—Brazil, Russia, India, and China—onto the world economic stage has further heightened labor and public concern over globalization and trade. At the same time the ranks of congressional Democratic critics of free trade were expanded when the party regained control of the House and Senate in the midterm elections of 2006. The result was the blocking and delaying of new trade liberalization proposals in Congress, while the Democrats’ presidential nominee and eventual victor in 2008, Barack Obama, also tilted, at least temporarily, against new free trade agreements and called for a more aggressive approach to China.

One reason for the Democrats’ push for tougher trade policy and opposition to trade liberalization in recent decades has been their inability to win, or credibly promise, a substantial increase in compensatory social spending and public investment. That sort of increased spending might have reduced labor and popular objections to expanded trade as it has in much of Europe. Until recently, spending on the Trade Adjustment Assistance (TAA) program, intended to help workers dislocated by trade, had actually declined since 1980. Once a leader in publicly funded education, infrastructure, and technological research, after the 1960s the United States slipped in all three areas. With American industrial competitiveness eroding, in the early 1980s and again in the early 1990s the Democrats embraced first industrial policy and then increased public investment, along with certain compensatory social policies. But Democratic leaders soon backed off from these ideas, partly because of concerns fueled by the news media about budget deficits, and withering Republican and business criticism that the Democrats were advocating more “big government” and “tax-and-spend liberalism.”

Again in the wake of the emergence of the BRICs and the Democrats’ election victories in 2006, congressional Democrats renewed their efforts to increase TAA and public investment, while Obama backed similar policies during his campaign. But the scale of these proposals was again limited by deficit worries and Democratic fears of being politically tarred with the brush of fiscal irresponsibility. That is, until the global economic crisis struck in the fall of 2008.

That crisis for a time loosened constraints on government economic intervention. With Obama’s victory and the expansion of the Democrats’ congressional majorities in 2008, Obama and his congressional allies enacted a major economic stimulus package and a year later a historic healthcare reform bill that should eventually ease the dislocations caused by globalization and help build a more productive, competitive economy. In the short term, however, the economy remained weak while public skepticism toward the growth of government increased, leading to big Republican gains in the congressional elec-
tions of 2010. Had Obama and his party been able to produce policies that over time proved successful and thus popular, it is possible that opposition to trade liberalization from labor and the public at large might at some point have declined, allowing the Democrats’ approach to globalization to draw closer to that of their European colleagues. But these prospects have now dimmed.

In this chapter, after presenting a very brief framework for understanding the determinants of party economic policy stances, I will explain the evolution of Democratic positions on trade, compensatory spending, and competitiveness policy, with a focus on the years since 1980.6

**Parties and Economic Policymaking in the White House and Congress**

As both the nation and his party’s main economic policy actor, a newly elected president, assisted by his advisers, often tries to develop a new political-economic strategy and a corresponding policy program. Both strategy and program will be influenced by (1) the president’s personal beliefs, including his normative values and his cognitive understanding of the causal dynamics of the economy; (2) the preferences of core party constituents, activists, and donors; swing voters; and powerful economic interests, especially business and labor; and (3) the anticipation of what Congress will accept (Spiliotes 2002; Dolan, Frendreis, and Tatalovich 2008). The president’s program is almost never enacted without controversy and conflict. Members of the president’s party in Congress usually benefit politically from his achievements and thus will be generally predisposed to back his proposals. But opposition party members have little interest in the president’s success and will usually fight to change or replace them. Beyond this, congressional party members’ positions on floor votes will also be determined by their own normative and cognitive beliefs, the preferences of their own core partisan and swing constituents, majority party members’ desire to fashion an electorally valuable collective party record and minority party members’ concern to prevent them from doing so, congressional party leaders’ strategies and pressure, interest group lobbying and campaign contributions, presidential bargaining and persuasion, and the overall climate of interparty relations (Bond and Fleisher eds. 2000; Smith 2007; Lee 2009; Thurber ed. 2009).

Various cultural, political, and economic structures also influence the interests and preferences of contending political actors, constrain and enable their behavior, and condition the outcomes of their policy battles. Among these factors are (1) the nation’s anti-statist political culture; (2) our distinctive electoral system and fragmented state institutions;7 (3) configurations of institutional authority, including partisan control of the presidency and
the partisan and ideological balance within both houses of Congress; (4) domestic and international socioeconomic structures; and (5) international “regimes” and geopolitical relations.

Parties and Trade Policy from Roosevelt to Reagan

The Great Depression of the 1930s destroyed the old Republican political order and its dominant coalition of northern industry and labor. The successor Democratic or New Deal order and its underlying coalition—including unionized labor, urban ethnics, southerners, African Americans, middle-class liberals, and liberal business interests—emerged from the turmoil of the Depression and the Second World War. The new order rested on an economic base of “Fordist” mass production and consumption. It was institutionally stabilized by a new system of collective bargaining, new financial market regulations, a large military establishment, and a limited welfare state, constrained in part by America’s individualist and anti-statist political culture. Democratic presidents employed a “Keynesian” political-economic strategy that relied on countercyclical fiscal and monetary policy to prevent another collapse of effective demand.

The New Deal era also saw the beginning of the dismantling of the prevailing system of tariff protection, which had sharply divided Republicans and Democrats since the mid-nineteenth century. This system was erected and maintained mainly by the GOP, with the support of northern industries that competed with imports. It was mostly opposed by the low-tariff Democrats and their backers among southern agricultural export interests. In 1930 the Republicans, still dominant, responded to the onset of the Depression by enacting, in the face of united Democratic opposition, the Smoot-Hawley Tariff Act, which dramatically raised tariffs and may well have deepened the crisis.

In 1932 Franklin Roosevelt and the Democrats took unified control of government. Two years later, this time in the face of strong Republican opposition, they passed the Reciprocal Trade Agreements Act, which delegated to the president the authority to negotiate reciprocal, bilateral tariff reductions. After the Second World War, spurred in part by the beginning of the cold war, the Democratic administration of President Harry Truman took the lead in founding the GATT, under whose auspices tariffs were further reduced through several rounds of international negotiations.

The Democrats recognized that maintaining both economic openness and their own political support would require the protection of vulnerable domestic interests from trade-related economic distress. Thus was born the American version of the “compromise of embedded liberalism” (Ruggie 1982;
Ruggie ed. 2008; Hays 2009). In exchange for their support for openness, American companies and workers were cushioned against, or compensated for, exposure to foreign competition. Various devices were used to curb imports; hence trade would be “liberal” or “freer,” rather than unqualifiedly “free.” Certain limited social welfare and other spending policies were also employed, including TAA, passed in 1962, which provided unemployment benefits, relocation, retraining, and other assistance to help workers move into new jobs (Kapstein 1998).

Also important to the maintenance of the liberal postwar trading order was the eventual decline of partisanship surrounding the making of trade policy. This decline was due in part to the imperatives of the cold war, the influence of the GATT regime, and the operation of the embedded liberal compromise. But also important were the frequently cited “lessons” of Smoot-Hawley, sustained postwar prosperity, the still relatively closed nature of the United States economy, and the expansion of pro-trade export and multinational business interests. Thanks to all these factors, the political salience and divisiveness of trade issues gradually faded, and a bipartisan consensus in favor of liberal trade emerged by about 1960.

In the early 1960s, however, America’s Fordist mass-production industries came under pressure from firms in Western Europe and Japan, whose economies had recovered from the devastation of the Second World War. These problems were soon compounded by a “crisis of Keynesianism,” as the Democrats’ postwar political-economic strategy of demand management now contributed to new supply-side cost and productivity problems that fueled inflation and cut into corporate profits and competitiveness. By 1971 the United States was running a trade deficit in manufactured goods for the first time since 1888.

Protectionist pressures, which had begun to gather in the 1950s, now intensified, while the organized labor movement, having obtained almost no aid through the TAA program, added its own demands for relief from imports. Partisan divisions over new trade liberalization measures also reemerged, at least in Congress, in the early 1970s, although the parties’ historic positions were now reversed.

As noted above, before the 1930s the Democratic Party had been rooted mainly in the South, dependent on exports and hence pro-trade. But after the New Deal realignment of the 1930s the Democrats became more dependent on the votes, volunteers, and money of the increasingly protectionist labor movement in the Northeast and Midwest. Meanwhile the Republicans became more closely allied with exported-oriented and multinational business interests that backed liberal trade.
Throughout the 1970s the dual crisis of Fordism and Keynesianism deepened, manifesting itself as “stagflation,” a painful combination of high unemployment and high inflation that hastened a long, disruptive transition to “post-Fordism” involving several shifts: from mass production for mass markets to flexibly specialized production for niche markets; from basic manufacturing industries to new high-technology sectors; from a manufacturing-based industrial society to a service-oriented, postindustrial, or knowledge-based society; from a production-dominated international economy to a “financialized” global economy; and from a “Keynesian welfare state” focused on demand to a more supply-oriented “competition state” emphasizing cost cutting and productivity growth (Amin 1995; Castells 2000; Jessop 2002; Cerny 2000; Coriat, Petit, and Schmeder eds. 2006; Zysman and Newman eds. 2006).

Politically the crisis disrupted the New Deal coalition. Many white working-class voters, already alienated by the Democrats’ identification with the social movements of the 1960s, now also turned away from the party for its failure to deliver continued prosperity. The transition to post-Fordism and post-industrialism simultaneously shrank this same blue-collar industrial working class while expanding the ranks of professionals, managers, and routine white-collar workers (Teixeira, this volume). Accordingly, leaders of both parties sought new political-economic strategies intended to facilitate, cushion, or in some cases slow the transition to post-Fordism, revive the economy, defend their core constituencies, and attract new constituencies (Blyth 2002; Collins 2000).

In 1980 Ronald Reagan, a staunch Republican proponent of “neoliberalism” or “market fundamentalism” and limited government, was elected president, inaugurating a new conservative political order. Reagan’s victory was due mainly to voters’ anger at Jimmy Carter’s apparent mismanagement of the economy but also to a rightward shift in the public mood toward government (Stimson 2004). Reagan’s conservative “supply-side” political-economic strategy included big corporate and personal tax cuts, reduced social spending, deregulation, restrictive monetary policy, and a commitment to liberal trade. Politically the strategy was intended to win the support of core middle-class Republicans; new middle- and working-class swing voters, including blue-collar “Reagan Democrats”; and big and small business interests, all of whom were weary of inflation and taxes (Blumenthal 1986, 55–86, 197–203). Soon after Reagan took office, though, the Federal Reserve’s tight money policy drove interest rates and the value of the dollar up and the economy into what became the worst downturn since the Great Depression, while the United States budget and trade deficits ballooned.
Democrats Turn to Tougher Trade Policy and Competitiveness Initiatives

In response the Democrats intensified their search for a new political-economic strategy of their own. Their advocacy of demand stimulus policies was largely ruled out by the intellectual discrediting of Keynesianism, the more conservative public view of government, and the Democrats’ embrace of fiscal discipline to score political points against “Reaganomics.” Thus the Democrats instead launched what would become a decade-long attempt to make tougher trade policy a winning electoral issue for their party. The trade deficit with Japan was rising explosively, so the Democrats focused on curbing Japanese imports and then opening Japanese markets.

With imports battering the country’s Fordist mass-production industries during his first term, Reagan, rather than strengthening the embedded liberal compromise, instead abandoned it. He only sparingly used the nation’s trade remedy laws to stem the import tide. And along with cutting other welfare spending, he actually slashed TAA funding despite Democratic opposition. As a consequence many Democratic legislators from industrial states backed legislation and administrative action to curb imports—of cars, steel, and textiles—in the hopes of defending their embattled labor supporters, regaining lost working-class support, and perhaps even winning some support from business interests concerned about imports.

In the end, trade played little role in the presidential election of 1984. Nevertheless, at the beginning of Reagan’s second term the Democrats sensed continued Republican vulnerability on the issue, now even among export interests. They thereupon turned toward efforts to break into closed foreign markets, again especially Japanese markets, through the tactic of “aggressive reciprocity.” A long legislative process driven by Democrats culminated in the enactment of the Omnibus Trade and Competitiveness Act of 1988. The heart of the bill was the “Super 301” provision that threatened retaliation against unfair foreign traders who refused to open their markets to United States goods (Schwab 1994). The trade issue was again of little importance in the presidential race in 1988, but the Democrats kept the pressure on anyway. Four years later, in the middle of the next presidential contest, the House of Representatives, controlled by Democrats, passed another bill that would have reauthorized the expiring Super 301 law and imposed a cap on sales in the United States of Japanese cars, but the Senate failed to produce its own version of the bill.

Trade policy was not the Democrats’ only foreign economic policy focus during the 1980s. Throughout the decade many Democrats, looking for an alternative to protectionism, supported different versions of a relatively low-
cost supply-side or “competitiveness” strategy of their own, intended to both reverse the nation’s apparent economic decline and revive Democratic political prospects (Hughes 2007). In the early 1980s, recalling both the short-lived planning experiments of the Depression and the Second World War and the apparent successes of the Japanese “statist” model of development, “old” liberals of the Rust Belt, backed by labor, called for an “industrial policy” to provide aid mainly to declining mass-production or “sunset” industries. At the same time, middle-class “neoliberals” from the suburbs and the Sun Belt,12 facing the erosion of the Democrats’ traditional blue-collar, working-class base, urged help for new, post-Fordist, high-technology or “sunrise” industries. Their hope was to expand their support among the growing ranks of post-industrial professionals and other white-collar workers, as well as among politically unaligned high-technology business interests (Graham 1992).

After several years of intense debate, by mid-1984 the Democrats had retreated from their advocacy of industrial policy for a number of reasons, including economic and administrative objections from Republicans, business, mainstream economists, and the news media. More fundamentally, the Democrats became convinced that industrial policy was bad politics. First, divisions between traditional liberals and neoliberals threatened to split the party. Second, the mass political appeal of industrial policy was undermined by its technical character and by the uncertain and long-term nature of its likely benefits. Third, the economic recovery of 1983–84 reduced the perceived political urgency of government action. Finally and most important, Democrats worried that intensified attacks on the concept by Republicans and other elites would further resonate with the public’s long-standing anti-statist cultural sensibilities, branding the Democrats as the party of big government.

Although industrial policy had been driven from the political agenda by mid-1984, productivity growth and economic performance during the rest of the decade remained relatively lackluster, while after falling for several years, the United States trade deficit, especially with Japan, headed back up again. Concern for the apparent decline of American industry, now including high-technology firms, therefore also remained alive. Consequently, policy experts aligned with the Democrats developed new proposals for what was now termed expanded “public investment”—in education and training, infrastructure, and dynamic new technologies. Some proposals of this kind were included in the Trade Act of 1988 (which Democrats sponsored), were advanced by the Democratic presidential candidate Michael Dukakis that same
The Clinton Years:  
From Promoting Public Investment to Battling over Free Trade

*Clinton’s Public Investment Program and Its Demise*

The Democratic presidential nominee in 1992 was Governor Bill Clinton of Arkansas. A self-proclaimed “New Democrat,” Clinton had led the Democratic Leadership Council (DLC), a moderate group formed shortly after Ronald Reagan’s reelection in 1984 to break the grip of labor and other “special interests” on the Democratic Party and pull it back to the political center. Making a new political-economic strategy central to his campaign, Clinton sought to facilitate the transition to a more internationally competitive post-Fordist economic order. But he also hoped to cushion the impact of this transition and to spread its benefits by reviving, albeit in more limited form, a version of the embedded liberal compromise.

Accordingly, in a plan released in June 1992, Clinton, like other New Democrats, embraced freer trade. But again influenced by public policy experiments during the Depression and the Second World War and by Japanese and European technology and labor market policies, he also called for increased public investment in physical and human capital. Technology and manufacturing plans followed in September. This strategy was to be complemented by the establishment of a comprehensive new national health insurance system. At the same time, Clinton’s plan called for halving the burgeoning federal budget deficit within four years.

Clinton’s plan was therefore actually a hybrid of statist, social democratic, and neoliberal elements intended to appeal simultaneously to core Democratic constituencies, including labor and African-Americans; swing voters, including blue-collar “Reagan Democrats,” middle-class suburbanites, and the socially diverse, deficit-conscious supporters of the independent presidential candidate Ross Perot; and various industrial and financial interests.

Yet by the time Clinton had become president and submitted his first economic plan to Congress in February 1993, his original public investment proposals had been cut in half in favor of a greater stress on deficit reduction. This shift of emphasis was due in part to the influence of the Federal Reserve chairman, Alan Greenspan, and Clinton’s own economic advisors, who convinced him that the financial markets, averse to deficits and inflation, had to be further conciliated to bring down interest rates. Also important was Clin-
ton's perceived need to secure reelection support from the backers of Perot, who had won a stunning 19% of the vote in the presidential race. In Congress Clinton's plan faced severe criticism from Republicans and business who saw it as a return to big government and “tax-and-spend liberalism.” When these attacks appeared to resonate with voters’ anti-statist cultural values, Democrats facing reelection, especially southern conservatives, voted to cut Clinton's investment program by half again to make room for still more deficit reduction. A year later Clinton's healthcare plan was similarly torpedoed by intense Republican and business opposition, which transformed initial public enthusiasm for the plan into opposition and again prompted leading congressional Democrats to back away from offering their own support.

After the Republicans captured control of Congress in the midterm elections of 1994, their opposition limited Clinton's subsequent public investment and social spending initiatives. But Clinton and his Democratic colleagues themselves continued to retreat from these ideas throughout the rest of his presidency. This was due to the subsequent economic recovery, which was attributed by the White House to the president's shift toward fiscal restraint; the election debacle, which was accurately perceived as being in part a reaction to Clinton's alleged tax-and-spend proclivities; and Clinton's reelection and modest Democratic congressional gains in 1996, which appeared to confirm for him and his party the political wisdom of his economic policy course adjustments.

The Intra-Democratic Struggle over Trade Liberalization

With the demise of his public investment strategy by the summer of 1993, Clinton turned to a two-pronged strategy of “export-led growth” to help revive the sluggish economy and improve his reelection chances. First, the White House escalated efforts begun by Reagan and Bush under Democratic pressure to open Japan's markets, concluding limited agreements with Tokyo in both 1993 and 1995. Second and more important, Clinton pursued a number of bilateral, regional, and multilateral free-trade agreements. By the early 1990s growing international economic integration had expanded the ranks of export-oriented and multinational firms, while interests threatened by imports had either been driven out of business or been forced to adjust to more competitive market conditions by technologically modernizing and moving production offshore. Together with the waning of Japanese economic strength, these changes produced a lasting reorientation of the objectives of American trade policy away from import limits and aggressive reciprocity and toward trade and investment liberalization.
Most presidents are free traders, because of their national electoral constituencies and their foreign policy responsibilities. But Clinton’s concerted efforts to negotiate and win approval of these new trade deals were also consistent with his personal belief in open trade, and intended to win him the support of internationally oriented business interests and voters who were expected to benefit from export-related job growth. Conversely, Clinton was willing to risk provoking opposition from organized labor, many of whose members, absent any significant expansion of paltry existing compensation programs, were likely to be harmed by further trade liberalization.

The fate of Clinton’s substantive and procedural free-trade initiatives was mixed. Congressional approval of the North American Free Trade Agreement (NAFTA) in the fall of 1993 was followed a year later by ratification of the “Uruguay Round” GATT treaty, which among other things established the new World Trade Organization (WTO). In both 1997 and 1998, however, trade liberalization ground to a halt, when the House of Representatives blocked legislation to extend Clinton’s “fast-track” trade negotiating authority. Fast-track authority facilitates the negotiation of free-trade agreements by awarding them quick up-or-down votes in Congress without amendments that can unhinge the entire process. Clinton had hoped to use this renewed authority to strike new free-trade deals with Latin American and Asian nations. But two years later, in 2000, Congress approved legislation granting “permanent normal trade relations” status to the People’s Republic of China.

This seesawing set of outcomes was decided mainly in the House, since Senate support for free trade was less problematic. The variable and often very close House votes were determined principally by the shifting positions of House Democrats. By contrast, two-thirds to three-quarters of House Republicans consistently supported these measures, in large part because they represented mostly export-oriented and white-collar districts and were dependent on internationally oriented business donors.

During the Clinton years a deep split over trade opened in the Democratic Party, including within Congress. On one side were liberal, blue-collar, and labor-backed urban “old” Democrats from the Northeast and Midwest. The majority opposed free trade, not least because the demise of Clinton’s public investment and healthcare plans left their working-class constituents heavily exposed to the dislocating pressures of the world economy. On the other side were moderate and conservative white-collar, business-supported, suburban “new” Democrats from the South and West, often aligned with the centrist DLC. Most supported free trade. The fluctuation in House Democratic voting on trade issues during these years can to a degree be explained by election-induced shifts in the relative strength of these two Democratic factions.
Other considerations were also important, including the varying intensity of the lobbying campaigns mounted by pro-trade business interests and by labor and other opponents of free trade, shifts in the relative dependence of House Democrats on business and labor campaign contributions, the cohesiveness of the House Democratic leadership, and the effectiveness of the bargaining activities of Bill Clinton and other White House officials.

Trade Liberalization Advances: NAFTA and GATT

In November 1993 the first of Clinton’s trade and investment liberalization deals, NAFTA, was ratified, thanks to a split in the House Democratic Caucus. Hoping to appeal to both old and new Democratic constituencies, Clinton had endorsed NAFTA during his presidential campaign while also pledging to negotiate labor and environmental side agreements to allay the fears of unions and environmental groups of a “race to the bottom” by United States corporations looking to take advantage of Mexico’s cheap labor and poorly enforced environmental laws.

Criticizing the agreements negotiated by the Clinton administration as too weak, organized labor and its allies waged an intense campaign against NAFTA, eventually leading 60% of House Democrats to oppose it. The other 40% of House Democrats had a number of reasons for voting in favor. First, a bloc of moderate and conservative, disproportionately southern Democrats backed the deal, encouraged by the DLC. Second, internationally oriented business interests organized a strong pro-NAFTA lobbying campaign, focused mainly on undecided Democrats. Third, the Democrats’ dependence on business campaign contributions had increased since the early 1980s. Fourth, there was a deep split in the House Democratic leadership, reflecting rank-and-file differences. Finally, Clinton undertook furious efforts to persuade Congress and the public, which included both appeals to party loyalty and promises of selective import curbs and a new trade adjustment assistance program.

In the following year the Uruguay Round GATT treaty was ratified by the House with considerably greater ease, as fully 65% of the Democratic caucus supported the accord. The key here was that labor expressed only token opposition to the deal, the effects of which seemed likely to be diffuse rather than focused on specific income groups; this made labor less concerned about the Uruguay Round than it had been about NAFTA, which the unions feared would produce a devastating flight of capital to Mexico (Baldwin and Magee 2000, 29, 42).
Trade Liberalization Stalled: The Fast-Track Battles

Three years later, in November 1997, the process of trade liberalization stalled when Clinton was forced to withdraw the “clean” fast-track proposal he had introduced (it contained no significant labor and environmental provisions). Principally dooming the proposal was the opposition of about 80% of House Democrats (Shoch 2000; Conley 1999; Schnietz and Nieman 1999; Bardwell 2000).

This pronounced shift in Democratic behavior had several causes. First, a substantial number of pro-trade Democrats retired or were defeated in the congressional elections of 1994 and 1996, while the latter year saw the election of a number of liberal and moderate Democrats from mostly northern districts where opposition to free trade was stronger. Second, the business campaign for fast-track authority was poorly organized and unenergetic, largely because fast-track was a procedural measure lacking concrete benefits, unlike the NAFTA accord, which contained many. Third, despite its secular decline labor waged a more intense and effective campaign against fast-track than it had done against NAFTA. In conjunction with the unions’ success in turning out and influencing the labor vote in the congressional elections of 1996, this led most Democrats to oppose Clinton’s bill in the hope of benefiting from a similar labor effort in the midterm elections in 1998 (Francia 2005). Fourth, after the elections in 1994 there was a shift of business campaign contributions from the Democrats to the now majority Republicans, as well as an increase in labor donations to Democratic candidates. This left the party, including even New Democrats, more dependent on labor money. Fifth, the House Democratic leadership undertook a more unified campaign against fast-track. Finally, Clinton’s lobbying efforts were less concerted and effective than they had been on NAFTA. His “inside-the-beltway” strategy of promising concessions failed to sway Democrats alienated by his failure to deliver on retraining and other promises made during the NAFTA fight.

Hoping to mend relations with House Democrats, Clinton decided to hold off on sending another fast-track proposal to Congress until after the midterm congressional elections in November 1998. Instead, it was the Republican House speaker, Newt Gingrich, who in late June announced a fall vote on a new “clean” fast-track proposal. Gingrich hoped to use the bill in the elections against Democratic fast-track opponents from districts with concentrations of export-dependent agricultural interests (Shoch 2000; Biglaiser, Jackson, and Peake 2004).

In late September the House decisively defeated the GOP bill, as 86% of the chamber’s Democrats voted against it. Democratic opposition to the bill
was heightened by splits among businesses over the timing of the vote and
the bill’s poor prospects. Second, the unions waged another strong campaign
against the bill. This again led both liberal and moderate Democrats to op-
pose it in the hope of securing grassroots activism and campaign contribu-
tions from unions in the upcoming elections. Third, Bill Clinton and many
New Democrats refused to support the bill, which they saw as an obvious GOP
attempt to embarrass and divide their party before the elections.

Trade Liberalization Resumed: PNTR with China

The final free-trade battle of the Clinton years was over permanent normal
trade relations (PNTR) with China. PNTR status would have allowed Congress
to abandon its annual vote on whether to grant “most favored nation” status
to China, a cold war practice intended to pressure Beijing to improve human
rights. Administration officials believed that awarding PNTR status to China
was necessary if eager American firms were to receive the various market-
opening and investment concessions that Beijing had made in an agreement
struck with the United States in late 1999 to facilitate China’s entry into the
WTO. After yet another furious battle, the PNTR bill was approved by the
House in May 2000. The key to the measure’s passage was support from 35%
of Democrats, up from the 20% and 14% of party members who had backed
the fast-track bills in 1997 and 1998 (Hasnat and Callahan 2002).

This new turnaround in Democratic behavior was partly due to the vic-
tory in 1998 of a number of young, pro-business, pro-trade moderate Demo-
crats from affluent suburban districts, mainly in the Northeast. Organized
labor, fearing the offshoring of United States production to China, had waged
another strong campaign against PNTR. But that effort was weakened by
support for the deal by some union locals representing workers in trade-
dependent industries, and by fears that defeat of the measure would jeopar-
dize the prospects in the forthcoming elections of the Democratic presiden-
tial nominee, Al Gore, or the Democrats’ hopes of recapturing control of the
House. A third reason was that business interests saw vast market and in-
vestment opportunities in the China deal and undertook a massive lobbying
campaign on behalf of PNTR in Washington and at the grassroots, as they had
not done when the procedural fast-track bill was being considered in 1997.
Fourth, the 1999–2000 election cycle saw a new if limited shift of business
campaign contributions back to the Democrats. Many corporate leaders, en-
couraged by various New Democratic groups, recognized in the wake of the
fast-track defeat in 1997 that in dramatically shifting their support to the Re-
publicans after the midterms in 1994 they had lost influence with the Demo-
crats, who had become more financially beholden to, and therefore more supportive of, organized labor. Fifth, that same election cycle saw the emergence of the internationally oriented high-technology sector as a major contributor to Democratic candidates, especially pro-trade New Democrats. Sixth, a new split opened among House Democratic leaders, some of whom, although opposed to PNTR, refrained from actively organizing against it to avoid offending existing and potential business donors. Finally, there were the reenergized lobbying efforts of Bill Clinton, who hoped that approval of PNTR would help to secure his legacy as a champion of free trade and lighten the stain of the House’s vote to impeach him in 1998.

The Democrats and Trade Liberalization during the Bush Years

The dramatic presidential race of 2000 saw the election of George W. Bush, a Republican who pushed to complete the neoliberal “Reagan Revolution” with big new tax cuts. The process of trade liberalization also continued during Bush’s presidency, but only after bruising fights, again mainly in the House. In the summer of 2002, after a series of extraordinarily close and partisan House votes, Congress gave Bush fast-track authority—now renamed “trade promotion authority” (TPA)—to help him negotiate a new international trade agreement under the auspices of the WTO and a Free Trade Agreement of the Americas. Finally, after another bitter, close, and partisan fight in the House, Congress approved the Central America Free Trade Agreement (CAFTA) in the summer of 2005.18

Whereas the positions of House Democrats on the several major trade liberalization measures of the Clinton years were quite variable, Democratic opposition to both TPA and CAFTA rose substantially. This was in part because the Democrats were no longer confronting a fellow Democratic president whose political fortunes they to a degree shared, but rather a staunchly conservative Republican one. But other factors discussed below were important too.

Bush’s victories on both issues were thus due not to shifts in Democratic behavior but rather to increased GOP support for trade liberalization. Strong business lobbying and pressure from House Republican leaders and the White House played a role in this. Particularly important was the inclination of Republicans who might have opposed the trade liberalization proposals of a Democratic president to instead back TPA and CAFTA as the initiatives of a Republican president whose fate they in part shared.
The Trade Promotion Authority Battle

Despite the victory of PNTR, as George W. Bush took office in early 2001 pro-trade business leaders and policy experts remained concerned that presidential fast-track authority to facilitate the negotiation of new free-trade agreements had still not been renewed. Thereupon, in early October 2001 a trade promotion authority proposal sponsored by the GOP was introduced in the House. In the hope of winning at least some support from moderate New Democrats, the measure gave greater prominence to labor and environmental standards than previous bills had done. But to avoid GOP opposition, the bill was largely silent on enforcement mechanisms, which angered labor and environmental activists.

In early December, after a bitter fight, the bill passed by an excruciatingly close margin of 215–214 (Biglaiser, Jackson, and Peake 2004; Destler 2005, 290–98; Forgette 2004, 163–65). Six months later the House approved a motion to send the TPA bill to conference with the Senate—again, almost incredibly, by the margin of a single vote: 216–215. In a successful move to win more New Democratic support for the measure, a provision originated by Senate Democrats was added to expand the TAA program and provide a new healthcare tax credit and a wage insurance program for displaced workers. A month later the House narrowly passed a compromise conference bill by yet another extremely close vote, 215–212.

These were all not only close votes but also exceptionally partisan ones; the most partisan, in fact, of any congressional trade votes taken since the Second World War. Democratic opposition to TPA rose to 90% on the vote in December 2001 (up from 65% on PNTR), to 95% on the vote in June 2002 to send the House version of the bill to conference, and to 88% on the final conference bill. This would have been enough to defeat the measures had not Republican support for TPA on the three votes climbed to 89%, 93%, and 88%.

Opposition to TPA was strong among Democrats of all ideological orientations—including most moderate, usually pro-trade New Democrats—for a number of reasons. First, there was the perception that public anxiety over globalization was growing just as the economy was falling into recession. Second, a strong campaign was waged against the bill by environmental activists and especially organized labor, which was unimpressed by the limited TAA, healthcare, and wage insurance provisions included in the measure. Labor’s influence within the party had grown because of the unions’ massive mobilization for Al Gore and other Democratic candidates in 2000 and the substantial union effort planned for the midterm elections of 2002, when low turnout was forecast. The decision by the AFL-CIO to endorse up to seventy-five
moderate Republican candidates in those races also made it harder for the Democrats to take labor’s support for granted. Third, there was the beginning of yet another shift of business campaign contributions back to the Republicans after Bush’s victory and the GOP’s success in retaining control of the House, which again left Democrats more dependent on labor money. Fourth, the collapse of the “dot-coms” and troubles throughout the high-technology sector hurt the New Democrats’ fundraising, still further increasing their reliance on labor money. Fifth, because of a secular geographical and ideological realignment of the parties’ electoral coalitions, the growing polarization of party activists, a combatively conservative Republican congressional leadership, and a divisive president playing to his base rather than to swing voters, the level of partisanship in Washington was extremely high, while both old and new Democrats were angry in particular at the way Bush and congressional Republicans tried to ram the TPA bill through the House. Finally, House Democratic leaders made determined efforts to rally their members against the TPA bill, which contrasted with their much more passive role in the PNTR fight.

The strong Democratic opposition to TPA would have been sufficient to sink the bill had it received a level of support from Republicans comparable to their support for free-trade measures of the previous decade. But for the reasons mentioned above, GOP support for TPA rose to new heights, making this the key to the bill’s victory.

**The Central America Free Trade Agreement**

Buoyed by his narrow TPA victory, over the next several years George W. Bush used his new authority to negotiate and obtain the ratification of several uncontentious bilateral trade agreements. In the summer of 2004, however, his administration also struck a much more contentious deal: the Central America Free Trade Agreement. Central America was not a big market for United States goods. But the White House and business interests saw the approval of CAFTA as a stepping stone to the successful conclusion of the “Doha Round” of international trade negotiations, begun in Qatar in late 2001, and the negotiation of a Free Trade Agreement of the Americas.

As usual, the House battle over CAFTA in the spring and summer of 2005 was a bitter one, culminating in another nail-biting, highly partisan victory for the White House by a vote of 217–215. Democratic opposition to CAFTA reached 93%, which again would have sunk the pact had not 88% of Republicans supported it.

The unified Democratic opposition to CAFTA, which included most New
Democrats, again had multiple sources. First were the still growing fears that economic globalization was eroding the jobs and wages of United States workers, while there was also more specific disappointment with the results of NAFTA and of PNTR with China. Second, there was additional dismay that Bush had not delivered on training and education provisions of the TPA bill enacted in 2002. Third, labor undertook yet another energetic mobilization effort against the deal. Fourth, New Democrats, already inflamed by Republican hard-line conservatism and authoritarianism, were further angered by how they were treated during the CAFTA fight. House GOP leaders excluded the New Democrats from discussions of the CAFTA implementing legislation, goaded them to oppose a bill with weak labor and environmental provisions, and pressured corporate donors, including high-technology interests, to abandon their already diminished support for Democratic candidates. Fifth, a resulting further decline in business contributions left Democrats of all ideological stripes still more reliant on labor money. Finally, opposition to CAFTA was strong among House Democratic leaders.

As with TPA and for similar reasons, the key to CAFTA’s passage in the face of strong Democratic opposition was the almost equally strong Republican backing for the deal.

Democratic Resurgence:
Trade, Compensatory Spending, and Competitiveness Policy

Despite CAFTA’s approval, during the past six years popular concern over globalization has continued to mount, in part because of the emergence of four major new economic challengers, the “BRIC” nations—Brazil, Russia, and especially India and China—on the global economic stage. Organized labor, still a key Democratic constituency despite its long-term decline, remains resolutely opposed to new trade and investment liberalization measures. And the wider public is increasingly convinced that globalization, including expanded trade and now the offshore outsourcing of both blue- and white-collar jobs, has contributed to slow employment growth, stagnant wages, and eroding healthcare and retirement benefits.

The Democrats benefited from these sentiments in the congressional midterm elections of 2006. The party regained control of both houses of Congress for the first time since 1994, thanks in part to the victory of a significant number of “populist,” labor-backed critics of free trade. During the next two years congressional Democrats refused to renew Bush’s trade negotiating authority and blocked approval of a number of bilateral free-trade agreements, including, most controversially, one with Colombia (Destler 2007).
The Democrats’ presidential nominee and eventual victor in 2008, Senator Barack Obama, was at heart a free trader. But during his campaign—and especially just before crucial primaries in heavily working-class Ohio and Pennsylvania—Obama called for a halt to the negotiation of new trade agreements without strong labor and environmental standards. He also pledged to revisit NAFTA. Finally, Obama also promised to get tough with China for unfairly subsidizing its exporters with cash, loans, and an undervalued currency. After his victory, however, freed from immediate election pressures, Obama softened his position on NAFTA and China, in the latter case for fear of provoking a sell-off of United States government debt held by the Chinese. He also hoped to win quick congressional approval of stalled trade agreements with Panama, Colombia, and South Korea and to finish negotiations on a global trade deal by the end of 2010 (Ashbee and Waddan 2010).

But with the victory of still more populist Democrats to Congress in the same election, and especially with the economy only slowly recovering from the worst recession since the 1930s, congressional Democrats continued their hardened approach to trade policy. Supported by labor and some manufacturers, in their big economic stimulus bill in early 2009 the Democrats included a controversial, albeit watered-down, “Buy American” provision. Later, strong congressional opposition, especially from House Democrats, led the White House to temporarily back off from its drive for new trade deals and to pledge instead to focus on more aggressively enforcing existing trade and labor rights rules, in the hope that doing so would eventually weaken opposition to further trade liberalization.21

In the late spring of 2010, however, along with an ambitious plan to spur job growth by doubling exports, Obama renewed his promise to push ahead on stalled and new free-trade agreements, including a new Trans Pacific Partnership.22 A deal was subsequently reached in early November with South Korea that reduced barriers to United States auto and food exports to the country. The following April an “action plan” to improve labor rights in Colombia was negotiated to facilitate completion of the stalled free trade pact with the nation. Most of the labor movement, however, continues to oppose these agreements, which are still felt to lack sufficiently strong workplace and environmental standards. As a consequence, most congressional Democrats also remain opposed to these deals. Instead, about half of House Democrats are backing legislation that would require a wide-ranging review of NAFTA and other trade pacts and boost the role of Congress in negotiations over future deals. And in early October 2010 House Democrats, joined by many Republicans, passed a bill that would impose tariffs on imports from China should Beijing continue to manipulate the value of its currency. It is possible,
though, that sufficient support for pending and future free trade agreements will eventually be found from Republicans and pro-trade Democrats to secure their approval.

With respect to compensatory spending, in November 2007 House Democrats passed a bill to expand and extend TAA benefits, but Senate Republicans blocked it. Democratic leaders suggested that approval of this measure and related unemployment, training, and other legislation was necessary before new trade deals with Colombia and other nations could be voted on. Obama likewise supported such compensatory policies during the presidential race. Both he and congressional Democrats also called for a major revamping of the United States healthcare system to expand access and lower costs.

Meanwhile, after fading away during Bill Clinton’s second term and George W. Bush’s first, the issues of competitiveness and public investment have recently returned to the United States political agenda with the rise of the BRICS. Building on the House Democrats’ Innovation Agenda from 2006, in August 2007 Congress passed and George Bush signed the America Competes Act. The bill called for increased spending on various federal energy, science, technology, and research programs. Congressional Democrats also introduced legislation to modernize the nation’s aging infrastructure. During his presidential campaign Obama had similarly promised to increase public investment in education and training, infrastructure, renewable energy sources, and technological research.

Then in the fall of 2008 came the dramatic worsening of the developing crisis of “financialized capitalism,” the product of stagnant wages and rising consumer debt, an influx of foreign capital and loose monetary policy by the Federal Reserve, risky mortgage lending and derivatives trading, and lax financial regulation (Rajan 2010). Contributing to the demise of the Republican order and renewed Democratic control of the White House and Congress, the severe crisis also relaxed various constraints on greater government activism. Most important, as Obama took office in January 2009 the American public, traditionally hesitant about the economic role of government, now backed a big economic stimulus package that included substantial new spending, even if it was expected to lead to bigger budget deficits.

In addition, faced with collapsing consumer demand, frozen credit markets, growing unemployment, and the threat of deflation, as well as the seeming impotence of monetary expansion and lower interest rates to bring about recovery, usually deficit-wary economists, including veterans of Clinton’s administration who were advising Obama, rediscovered the merits of Keynesian fiscal policy. Mainstream economists typically worry that big deficits will lead to inflation, a sell-off of government securities, a sagging dollar, the
“crowding out” of private borrowing, and rising interest rates. But with economic resources lying idle, interest rates near zero, and domestic and foreign investors, including Chinese and other central bankers, nevertheless rushing to buy “safe” debt issued by the U.S. Treasury, most economists at least temporarily put aside their deficit fears and backed the major fiscal stimulus package and its big spending increases.

Accordingly, in mid-February Obama and Congress enacted a hefty $787 billion bill, the American Recovery and Reinvestment Act, with broad support from business, labor, and the public. Most of the bill consisted of personal tax relief and unemployment, healthcare, and other direct aid to individuals and fiscally strapped states. But there was also almost $270 billion in new public investment and about $30 billion in tax incentives intended to encourage both short- and long-term growth. Although the package was less than some liberals had hoped for, it was more than Clinton had been able to win in his entire eight years in office. The bill provided for tax credits and new and increased spending to promote infrastructure (roads, bridges, and mass transit), “green” investments (renewable energy sources, a new electric grid, and conservation), computerized medical records, rural broadband networks, scientific and technological research, education and training, and Trade Adjustment Assistance.

Shorn in recent decades of most of their conservative southern wing, Democrats overwhelmingly supported the bill. Conversely, with the purge of moderate Republicans in the two previous elections, the legislation drew near unanimous GOP opposition, as party leaders again conjured well-worn images of pork, waste, deficits, big government, and even socialism. Nevertheless, the stimulus measure narrowly passed in a form that looked very much like Obama’s original proposal.

In late February Obama presented his budget proposal for fiscal 2010, which included hundreds of billions of dollars in additional spending on new energy projects (some of which were included in the climate and clean-energy bill passed by the House in June), high-speed rail, increased grants for college students, and most controversially a major healthcare expansion and reform plan. After another fierce battle, a final $3.4 billion budget resolution (or outline) passed both houses of Congress in late April without a single Republican vote. The administration also provided tens of billions of dollars in loans and other assistance to bail out the beleaguered United States auto industry, even assuming a 60% ownership stake in General Motors, which had filed for bankruptcy. Later in the summer Obama also proposed important new programs to improve the quality of K–12 and community college education. Bills backed by the president to establish a National Infrastructure Bank
were introduced in both houses of Congress. Finally and most important, in
the face of continued Republican intransigence and a public now increasingly
concerned about the growth of big government, in March 2010 Obama and
his congressional Democratic allies passed a historic ten-year healthcare re-
form bill with a cost of $940 billion (Howard, this volume).29

Obama and the Democrats’ initiatives to date have been mainly designed
to save and create jobs and reduce economic insecurity. But these measures
should also help the country adjust to the challenges of globalization—by
cushioning its impact on workers and communities, improving the competi-
tiveness of existing industries, and fostering globally competitive new ones.

Conclusion: Toward a Revived Embedded Liberal Compromise?

In the past few years a number of prominent American policy intellectuals,
including the former director of Obama’s National Economic Council, Law-
rence Summers, and even some business interests have called for reviving and
strengthening the embedded liberal compromise (Shoch 2008; Schatz 2008).
They propose a mildly social democratic approach to globalization that would
combine open markets with substantial increases in compensatory social
spending and public investment (Scheve and Slaughter 2007; Kuttner 2008a;
Kuttner 2008b; Summers 2008; see also Pontusson 2005a and especially Hays
2009). This approach would involve learning from Europe, particularly from
the Nordic countries, and a consequent degree of “hybridization” of Ameri-
can and European “social models” or “varieties of capitalism.”30

Although not mainly intended as such a hybrid approach to globalization,
Obama’s economic and social program, even more than Clinton’s ill-fated ini-
tiatives, embodies key elements of it, and the future of this approach depends
in part on the success and popularity of Obama’s overall program. What if
Obama’s and the Democrats’ policies had contributed to a strong recovery
and the beginning of a new era of growth while mitigating economic insecurity,
including the trade-related dislocations experienced by workers in un-
competitive sectors? In addition to Obama’s reelection and continued Demo-
cratic congressional dominance, this outcome might also have reduced labor
and public opposition to further trade liberalization (Schatz 2008). That in
turn might have encouraged Obama to conclude new trade deals contain-
ing strong labor and environmental standards, which congressional Democ-
rats, together with pro-trade Republicans, might then have approved. In
other words, we might have seen the emergence of a new embedded liberal
compromise and a narrowing of the differences between the approaches to
globalization taken by the Democratic Party and its European counterparts.
It does now appear that the “Great Recession” has bottomed out and that a recovery has begun, including in the labor market, thanks to an expansionary monetary policy but also to the stimulus bill, whose beneficial effects have not been widely recognized. It also appears, though, that absent another significant but politically unlikely stimulus package or a strong demand for exports, the recovery is likely to be a protracted and relatively “jobless” one—a “lost decade” like that endured by Japan is possible—because of the retrenchment of consumer spending, continued wage stagnation, employers’ restructuring of their workforce, state and local government spending cuts, the tapering off of stimulus spending, and a reduction in bank lending and business investment in the face of weak effective demand. In addition, sustained, often deceptive Republican attacks on the stimulus program, government bailouts, and the healthcare bill, together with the perceived failure of these measures to strengthen the economy, have contributed during the past year to mounting public apprehension over the growth of government spending, deficits, and intrusiveness.

The struggling economy and negative sentiment toward their healthcare and other reform efforts cost the Democrats six Senate seats and control of the House of Representatives in the midterm elections in 2010. With the Republicans pressing for deep cuts in government spending, Obama’s and the Democrats’ programmatic achievements are now likely to be eroded rather than expanded. Even if Obama is reelected in 2012, the Republicans are likely to keep control of the House and even to regain control of the Senate, since 23 of the 33 seats to be contested are currently held by Democrats. This will doom any significant new Democratic compensatory and public investment spending initiatives, which in turn means that labor, popular, and Democratic opposition to trade liberalization will remain strong. Hopes for a revived, Democratic-led embedded liberal compromise will unfortunately go unfulfilled.

Notes

1. The commitment of these parties to trade liberalization has been further secured by the delegation of trade policymaking authority by member states first to the European Economic Community and later to the European Union (Katzenstein 1985; Hanson 1998; Young and Peterson 2006).

2. Here I am straddling Stolper-Samuelson and Ricardo-Viner, or “specific factors” models of individual trade policy preferences. The former theories, assuming that production factors are fully mobile across industries, argue that scarce factors (in advanced countries, unskilled labor) will support protection, while abundant factors (capital and skilled labor) will support free trade. The latter theories, assuming
that production factors are completely immobile, maintain instead that capital and labor in import-competing industries will support protection, while capital and labor in export-oriented and multinational sectors will support free trade. For recent empirical studies of public opinion on trade issues based on these two theories see Scheve and Slaughter 2006 and Hays, Ehrlich, and Peinhardt 2005. If instead, as others have argued (cf. Blonigen 2008), factor mobility varies over time and across countries, and production factors in the contemporary United States are partially mobile, then worker trade policy preferences may be influenced in the way I suggest. For additional recent discussion see Mansfield and Mutz 2009 and Jeong 2009.

3. It should be noted that a number of welfare state activities, especially “human capital” policies like education and training, have “productive” as well as “protective” functions. Thus, contra Esping-Andersen’s well-known view (1990) that in “de-commodifying” labor, politics work “against” markets, politics can also work “with” or “for” markets. See Room 2002; Andersen 2007; Hudson and Kuhner 2008; and Obinger, Starke, Moser, Bogedan, Obinger-Gindulis, and Leibfried 2010.

4. To briefly situate this discussion within current debates among comparative and international political economists, proponents of the “compensation” hypothesis see greater or increasing economic openness leading to a larger public sector, as winners compensate losers and often expand public investment to preserve open markets. Supporters of the contrasting “efficiency” hypothesis argue that globalization forces governments to cut spending and taxes in order to maintain national economic competitiveness and prevent capital flight. “Skeptics” find no causal link between globalization and the size of government, emphasizing instead the importance of domestic factors. For recent reviews of, and empirical evidence for, the competing positions see Busemeyer 2009, Potrafke 2009, Haupt 2010, Jensen 2010, and Walter 2010.

I would argue, following Carles Boix (2006), that the influence of globalization on government policy is contingently mediated by electoral politics, as parties struggle to construct winning political coalitions by deploying competing political-economic strategies. These strategies can include protectionism and opposition to further trade liberalization as an alternative to compensation and public investment or to fiscal conservatism.

5. Most of the free-trade deals of the past fifteen years have actually been intended more to open foreign countries to United States investors than to exporters. In this chapter I mostly use the shorter term “trade liberalization” for economy.

6. For a book-length version of much of the material contained in this chapter through Bill Clinton’s presidency see Shoch 2001.

7. Including (1) winner-take-call, single-member district, two-stage, staggered, and separated presidential and congressional elections, and (2) the separation of powers, the presidential veto, bicameralism, the congressional party and committee systems, the Senate filibuster, federalism, and policy feedback effects.

8. Including prevailing macroeconomic conditions; the level of economic development; demographic, class, sectoral, and skill structures; the balance of social forces; the level of economic openness; the international division of labor; and the dependence of the state on globally mobile capital.
9. Critics of “American exceptionalism” argue that if socially oriented tax expenditures (Howard 2007a; Howard, in this volume) and employer-provided but government-subsidized and regulated social benefits (Hacker 2002) are counted along with direct government spending, the United States welfare state is actually comparable in size to the welfare states of Europe. This kind of concept “stretching” makes it unclear why anything the government does that affects social welfare should not be considered part of the welfare state (Hacker 2005).

10. On this “Lockean liberalism” and its policy consequences see Kingdon 1999 and Lockhart 2003. Scholars of American political development have demonstrated that there are actually “multiple traditions” or elements within this country’s political culture. But as James Morone (2005) argues, in the narrower economic sphere the liberal element is generally dominant.

In singling out the importance of political culture and mass public opinion in restraining the size of the American welfare state, I am reacting to analyses that neglect these influences in favor of other limiting factors like the weakness of organized labor or the strength of business, racial divisions and the power of southern Democrats in Congress, this country’s fragmented state and majoritarian electoral institutions, the economy’s dependence on general rather than specific skills, etc. (see also Zelizer 2003 and Schickler and Caughey 2010). For three recent comparative studies of the impact of public opinion on the welfare state see Mehtrens 2004, Brooks and Manza 2007, and Kang and Powell 2010.


12. This label for moderate Democrats in the early 1980s should not be confused with the more general term used above to designate a form of contemporary conservatism: “neoliberalism.”


14. The Senate is generally more supportive of free trade than the House is, for a number of reasons. First, most senators represent fairly large, heterogeneous constituencies, including consumers and internationally oriented interests, that counterbalance the views of domestically oriented interests opposed to free trade. Second, the Senate overrepresents more agricultural, less unionized, and therefore more pro-trade parts of the country. Third, senators have long terms, giving ideological free traders considerable leeway to resist pressure from protectionist interests. Finally, senators have broad foreign policy responsibilities that incline them to try to avoid trade conflicts with other nations. On the first two of these points see Wirz 1998.

15. Labor unions donate almost all their campaign money to Democrats in the hopes of influencing which party controls the House. Conversely, some particularly ideological business interests give almost exclusively to Republican candidates. But most businesses are pragmatic, seeking instead to influence legislative decision making, which leads them to support incumbents of both parties. These same business interests contribute additional money to candidates from the party in control of the House, or expected to win control of the House, as well as to candidates of either party who either
share or may be induced to share their positions on important issues. Consequently, to some degree business support for House candidates shifts with changes in (1) control of the chamber, either actual or anticipated, (2) party policy stances, and (3) the inclination of business donors to try to induce such changes in party positions (Fellowes and Wolf 2004; Stratman 2005).

16. The agreement was actually negotiated by George H. W. Bush’s administration. For four excellent analyses of the politics of negotiating and approving NAFTA see Grayson 1995; Mayer 1998; Cameron and Tomlin 2000; and MacArthur 2000.

17. For a lengthy list of mostly quantitative analyses of the House vote see Shoch 2001, 344–45.

18. For a much more detailed analysis of the TPA and CAFTA fights see Shoch 2006.

19. Throughout the history of the program, organized labor has provided only weak support for TAA, choosing instead to focus on blocking trade agreements. From hard experience, labor knows that politicians, having secured the approval of free-trade deals, have often reneged on promises to deliver adjustment aid, which in any case is often ineffective and does little to save union jobs (Kapstein 1998; Burgoon and Hiscox 2000; Burgoon and Hiscox 2008; Davidson, Matusz, and Nelson 2007).

20. The CAFTA countries included the United States, El Salvador, Guatemala, Honduras, Costa Rica, Nicaragua, and the Dominican Republic.

21. Toward this end, and to preserve labor support for his healthcare reform effort, in September 2009 Obama announced a 35% tariff on Chinese tire imports and later imposed duties on Chinese steel pipe imports.

22. In which the United States would be joined by Australia, Brunei, Chile, New Zealand, Peru, Singapore, and Vietnam.

23. For the well-known argument that Americans are “ideologically conservative” but “operationally liberal,” i.e., that they oppose government in the abstract but support the maintenance or expansion of most specific government programs, see Cantril and Cantril 1999. For a review of recent public opinion data on Americans’ views of government taxing and spending see Shoch 2008.

24. For evidence of considerable public support for economic stimulus legislation see PollingReport.com 2009. Some polls did show that the public had concerns about overspending—concerns that would increase during the battle over healthcare reform—and preferred tax cuts to spending increases to boost the economy.

25. TAA benefits, previously reserved for manufacturing workers displaced by trade, were both increased and extended to service-sector workers whose jobs were lost to foreign imports or moved offshore.

26. House Democrats had wanted a bigger bill containing more spending and smaller tax cuts, but they were forced to make concessions in conference to a handful of moderate Senate Republicans and Democrats whose support was necessary to reach the sixty votes required to waive a budget point of order.

27. Later in the year Congress appropriated the funds for many of these initiatives.

28. Of course Obama, continuing efforts begun by George W. Bush, has also spent hundreds of billions of dollars to rescue the nation’s banking system.
29. The bill also shored up the Pell Grant student loan program and allocated $2 billion for worker training programs at the nation's community colleges.

30. Adherents of the Varieties of Capitalism theory (Hall and Soskice 2001) see little likelihood of convergence or hybridization between what they call “liberal market economies” (LMEs) like the United States and the “coordinated market economies” (CMEs) of Europe, because of the presence within both types of economies of reinforcing “institutional complementarities” that prevent such change. I would suggest that more hybridization of different models is possible than this overly structuralist theory allows (Crouch 2005; Becker 2009; Campbell and Pedersen 2007). The structural and institutional complexes characteristic of the two (or more) varieties of capitalism are typically only loosely integrated and constraining. Consequently, a number of domestic political factors—including public opinion, the relative strength and influence of business and labor, party competition and conflict, and policymakers’ ideas—can combine in various ways to produce a range of economically viable policies, including some borrowed from other capitalist models. Consistent with this view, Jonas Pontusson (2005a; and chapter in this volume) argues that LMEs can adopt quasi-Nordic social democratic policies—for example expanded education, healthcare, and other social welfare spending—even in the absence of social democratic institutions. But although LMEs can adopt certain social democratic policies, domestic political factors may instead prevent this. Thus Pontusson argues as well that without stronger unions, it will be very hard to move American economic and social policies in a social democratic direction. I will suggest below that additional domestic political influences are also likely to block the further growth of social and public investment spending in this country.