

## Cozen Currents: Where Does MAGA Go From Here?

### The Cozen Lens

- The MAGA movement is more than just former President Trump, though he still holds great sway. MAGA faces its first major governing test beyond the Trump administration after the election of Speaker Mike Johnson (R-LA), the first so-called MAGA speaker, last week.
- President Biden and Federal Reserve Board Chair Jerome Powell had identical incentives a year ago, but now Powell's primary goal of preserving the credibility of the Fed is beginning to clash with Biden's primary goal of being re-elected.
- The US-China relationship is at its best point since President Biden was elected and could improve further with a potential meeting between Biden and Chinese President Xi Jinping next month in San Francisco.

### What Does MAGA Mean in 2023?

**What is MAGA?** The Make America Great Again (MAGA) movement and former President Trump may appear to be one and the same, but they are distinct.

- MAGA can trace its origins to before Trump's political career. The modern roots of the movement lie in the Tea Party, the dominant insurgent force within the Republican Party in the 2010s. The surge of Tea Party enthusiasm helped Republicans flip the House in 2010 and shifted the GOP's trajectory rightward. Former Governor and 2008 vice presidential nominee Sarah Palin's (R-AK) early endorsement of Trump before the Iowa caucuses in 2016 was a passing of the torch.
- MAGA is more of a movement than a single person. Though Trump popularized the current use of the phrase, his competitors in the race for the 2024 GOP presidential nomination, including Governor Ron DeSantis (R-FL) and entrepreneur Vivek Ramaswamy, seek to harness the power of the MAGA grassroots. Their path to the nomination relies on being MAGA without Trump. The former president undoubtedly has a cult of personality, which is a key component of the MAGA movement, but it's not exclusive to him.
- MAGA is more focused on grievances than governing. The movement is anti-establishment, anti-elite, and anti-immigration, but it's overall light on policy specifics. MAGA generally promotes fiscal austerity in the sense of being anti-government, but as a populist, Trump notably shied away from traditional GOP orthodoxies on entitlement reform.

**MAGA Goes Mainstream.** Once on the fringes of the GOP, MAGA has become a primary driving force within the party.

- Last week, the House Republican conference unanimously elected Rep. Mike Johnson (R-LA) as speaker. Johnson is the first MAGA speaker to lead the chamber. A close ally of Trump, Johnson participated in Trump's impeachment legal defense and led an effort to challenge the 2020 presidential election results. He is also a hard-right social conservative.
- With Johnson's victory, the center of gravity in the Republican Party has shifted decisively in favor of MAGA over the traditional GOP establishment. Rep. Matt Gaetz (R-FL), who led the ousting of former Speaker Kevin McCarthy (R-CA), took a victory lap and declared on Steve Bannon's podcast, "If you don't think that moving from Kevin McCarthy to MAGA Mike Johnson shows the ascendance of this movement and where the power of the Republican Party truly lies, then you're not paying attention."
- After years as a rebellion against GOP leadership, MAGA has now moved into leadership itself. It remains to be seen, however, how the movement aims to stay true to its principles while exercising governing power.



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**What's Next for MAGA?** MAGA has won the speakership but risks being the dog that caught the car.

- MAGA works more effectively as an opposition movement than as a governing principle. As president, Trump was never overly focused on policy during his time in the White House. He cared deeply about a few issues, such as the trade deficit, but left many policy areas to be driven by others in his administration and Congress. What do adherents of MAGA do now that they can set the agenda in the only chamber of Congress controlled by Republicans?
- Though Johnson is a voice for the MAGA movement he also sits on the House Armed Services Committee and represents a district that includes Barksdale Air Force Base and Fort Johnson. Last cycle, PACs belonging to defense contractors Northrop Grumman and L3Harris Technologies counted among the top 20 donors to Johnson's campaign. He voted earlier this year for the debt limit deal championed by McCarthy, but he voted against the clean continuing resolution that was the ostensible proximate cause of his downfall. As speaker, Johnson will have to contend with the demands of House Freedom Caucus fiscal hawks to cut federal spending on the one hand and the demands of defense hawks for a robust Pentagon budget. In the opposition, it's not necessary to make tough calls between the two. Now, though, Johnson will be responsible for making tradeoffs in spending decisions.
- Johnson becomes speaker at a time of divided government. Democrats hold the Senate and the White House. With power shared between the parties in Washington, DC, MAGA won't be able to dictate policy, but as a movement, MAGA disdains compromise. To get anything done, Johnson and other MAGA leaders will have to bargain with the other side of the aisle, as well as with their own.

#### **The Political Implications of the Fed's "Higher for Longer" Policy**

**Intersecting Goals.** When inflation peaked above nine percent, everybody was on the same page — get it down at any cost.

- 9.1 percent – that was the year-over-year inflation rate in June of 2022, the highest recorded since November 1981. This rate was on the rise and with a recession then expected on the horizon, many became worried about the possible resurgence of stagflation.
- The response across the government was all hands-on deck. President Biden signed the Inflation Reduction Act and made an unprecedented release from the Strategic Petroleum Reserve to decrease gasoline prices. The Federal Reserve raised rates eleven times from 0.0-0.25 percent to 5.25-5.50 percent in just 16 months. Meanwhile, private forces worked to wring out supply chains.
- Inflation rose quickly but also fell much faster than expected. The 12-month inflation rate is currently 3.7 percent while damage to the broader economy has remained surprisingly low. Unemployment is only 3.8 percent while the economy grew at an eye-raising 4.9 percent annual rate in the third quarter.

**Finishing the Job.** Federal Reserve Chair Jay Powell's number-one priority is maintaining the credibility of the central bank, and that means getting inflation all the way down to its two percent target.

- Powell, a Georgetown Prep and Georgetown Law alumnus, is fundamentally a creature of Washington, DC and an avid institutionalist. He understands the perception of the Fed as a nonpartisan institution that holds the public's trust is just as important as its direct powers to raise and lower interest rates.
- Supreme Court Chief Justice John Roberts is both a model and a cautionary tale for Powell. The two's primary jobs are to create consensus among members with vastly different views on politically charged issues. Powell also does not want to be remembered as the leader that led a supposedly independent institution from widespread respectability to public disrepute, although unlike the Court, the two main factions on the Federal Open Market Committee (FOMC) are almost perfectly balanced.
- Much has been said about the sacred two-percent inflation target. The Fed changed its goals in 2020 from hitting two percent exactly to maintaining a long-term moving average at that figure. As criticized and arbitrary as it is, the body has backed themselves into a corner, as changing the goalposts now would seriously undermine confidence. While the FOMC will

likely tacitly accept a rate slightly higher than two percent, they've made it clear that rates will stay "higher for longer" until inflation is significantly lower than the current ~4 percent, even if it means higher unemployment and slowing the economy.

**We're Done Here.** With Election Day just a year away, Biden is much more worried about a possible recession than bringing down inflation the rest of the way from four to two percent.

- "It's the economy, stupid" held true three decades ago and likely still holds now. The economy is voters' most important issue and by a wide margin. It's no shock that Biden's net approval ratings hit their absolute lows when inflation and gas prices were at their highest. Whether fair or not, when things aren't going well, the buck stops with the person sitting behind the Resolute desk in the Oval Office.
- The economy has been resilient, but headwinds are picking up. Higher interest rates have pushed 30-year mortgages quickly to eight percent. The price at the pump is elevated again with the potential for a Middle Eastern conflict and with the Strategic Petroleum Reserve already running low. Credit card debt is at an all-time high and student loan payments have restarted. The longer rates remain high, the more they'll take their toll, and only one president has won reelection with a recession in the two years ahead of Election Day since 1900.
- As much as Biden wishes Powell would lower rates faster, there's not much he can do about it. Unlike former President Trump, it's against his brand as a return to normalcy and as an institutionalist at heart to publicly disparage the Fed chair's decisions or seek to remove him.

**Have the US and China Found a Floor?**

**The Diplomatic Dance.** The Biden administration's diplomatic efforts with China are paying dividends as the relationship appears to be at its strongest point since President Biden came into office.

- The two superpowers are moving toward an in-person meeting between Chinese President Xi Jinping and Biden next month in San Francisco after a successful visit by Chinese Foreign Minister Wang Yi to DC late last week. This would be Xi's first visit to the US since 2017 and the culmination of the White House's months of shuttle diplomacy. Thaws have even started to show in the defense relationship since former Chinese Defense Minister Li Shangfu disappeared. Both sides are indicating that they want to establish a floor in their relationship despite continuing geopolitical tensions, not only around China's relationship to Taiwan and its presence in the South China Sea, but also its continuing collaboration with Russia and Iran despite their respective provocations in Ukraine and the Middle East.
- The focus will now be turning this rapprochement into tangible positive outcomes, and already the first working group meetings have started. While reversing the efforts at de-risking, or strategic decoupling, may not be realistic, especially given Congress' insistence on more hawkish policies. Finding areas of mutual interest, such as clean energy, can lower the tensions further between the US and China.

**Expanded Export Controls.** The Commerce Department's announcement of increased chip restrictions earlier this month is a sign that the Biden administration wants to be able to walk and chew gum at the same time in the US-China relationship.

- The new rules changes, which build on last October's initial controls, tweak the metrics used to determine if a chip can be sold to a customer in China. Part of the goal is to "preempt future workarounds." US lawmakers have remained particularly concerned over recent advances to China firm Huawei's new smartphone chip, which may have used previously controlled technology. Under the revised regulations, semis designed to go up to but not cross the previous line are likely now covered. Commerce Secretary Gina Raimondo has indicated that industry should expect updated rules to be reviewed and issued annually.
- The avenue of retaliation that Beijing has seemingly chosen is to institute new export controls on three types of graphite starting December 1st. This is the second limit on critical minerals that China has imposed this year, following restrictions on the sale of gallium and germanium in response to new Dutch semiconductor export controls. Expect the Chinese to use critical minerals as a pawn in any future export control escalations.

- While the Biden administration has not indicated where it may look for future restrictions, some China hawks in Congress have called for the White House to address RISC-V technology. The lawmakers argue that China uses the open-source software to advance its domestic semiconductor companies. The calls are limited to these hawks for the time being, but they could be the canaries in the coal mine, portending what could be the next target for US export controls on China.
- Outside of the traditional export control regime, Congress is continuing to wrestle with how best to address outbound capital flows emanating from the US into China. A Biden executive order in August banned US investments into certain sectors, namely advanced semiconductors, quantum computing, and artificial intelligence. Congress may elect to take the mandate even further as part of its annual defense authorization.

**Domestic Aid Continuing.** The other half of the Biden administration's semiconductor strategy is supporting the development of the domestic industry through subsidies from the CHIPS program.

- The first awards, focused on leading-edge generation facilities, are likely to be announced in the coming weeks. These applications were the first accepted for review by the Commerce Department, and are the entities expected to receive most of the funding. Awards for other applicants, such as equipment manufacturers and material suppliers, will likely not be released until 2024, and all leading-edge winners may not be in the first set of announcements.
  - In total, the Commerce department has received more than 530 statements of interest for CHIPS program support, indicating the widespread industry interest in grabbing a piece of the proverbial pie. With such a heavy level of industry support, the Commerce Department is calling on private capital to help fill the gaps and incentivize companies to build domestically.
  - A notice of funding opportunity for the \$11 billion appropriated for semiconductor R&D is also expected to be announced by the Commerce Department later this year. Awards are expected to be highly competitive.
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