

Los Angeles Times

Trump says he saved American jobs, but he hasn't shown how he can turn the victory into policy

Noah Bierman and Jim Puzzanghera

November 30, 2016

President-elect Donald Trump's newly announced agreement to save more than 1,000 jobs in Indiana gave him the kind of trophy he covets: a tangible victory that matches his campaign promise to serve as deal maker in chief.

But its long-term value will depend on what Trump gave up to keep those factory jobs from going to Mexico and whether he is able to craft a successful fiscal policy that has a broader impact on the economy.

“This is an unquestionably positive development for the workers who otherwise would have lost these good jobs,” said Jared Bernstein, a senior fellow at the Center for Budget and Policy Priorities and former economic advisor to Vice President Joe Biden.

“But to try to pick off jobs firm by firm with tax breaks and regulatory goodies, it won't work,” he said. “That's just not sustainable.”

Throughout his campaign, Trump railed relentlessly against Carrier Corp.'s decision to ship 1,400 manufacturing jobs to Mexico, using it as an example of all that was wrong with the U.S. economy and all that he would set right when he took office. He threatened to impose 35% tariffs and renegotiate trade deals with Mexico to stop Carrier and other companies from outsourcing jobs.

Trump began speaking directly with Carrier's parent company, United Technologies Corp., after he won election, securing a brief announcement late Tuesday from both Carrier and Trump that most of the jobs would no longer be shipped abroad.

But details of what Trump and Vice President-elect Mike Pence may have given up, or the threats they may have lodged, remained elusive. Trump's team and Carrier deferred such explanations until a formal announcement in Indianapolis on Thursday.

Steve Mnuchin, Trump's newly announced pick to be Treasury secretary, called the deal a “terrific opportunity” for the incoming administration and said it came about because Trump and Pence were willing to listen to businesses.

"The president-elect and the vice president[-elect] picked up the phone and called the CEO of the United Technologies and told them we want to keep jobs here," he told reporters at Trump Tower in New York on his way to meet with Trump on Wednesday.

Yet the victory was largely symbolic. On an average day this year, the American workforce added six times as many jobs.

Not only are the jobs saved a trifle for a U.S. economy adding an average of 181,000 jobs a month this year, but they are a tiny percentage of the 197,000 employees of United Technologies.

Carrier said Wednesday that "incentives offered by the state were an important consideration" in keeping its gas furnace production in Indianapolis, as was "the incoming administration's promises of a better business climate." The company added that it still believes "in the benefits of free trade" and that businesses need broader solutions to keep the country competitive.

The show of strength might send a signal of resolve to other companies considering offshoring, and it buys Trump time to craft a policy to match his top campaign promise. In a similar vein, Trump offered sketchy details Wednesday about his latest efforts to wall off his businesses from the appearance of conflict of interest that have dogged him since he won the election and continued to meet with business partners.

"Legal documents are being crafted which take me completely out of business operations. The presidency is a far more important task!" he tweeted.

Trump promised to provide new details on his plans during a Dec. 15 news conference, but offered few answers to how he would prevent a conflict, given that his children plan to retain full control. Trump and his aides did not say whether he would relinquish ownership.

The Carrier deal's merits will depend heavily on specifics as well. Trump's staff said Wednesday that Pence, who remains governor of Indiana and has a history of offering economic incentives to private industry, was heavily involved in negotiations with Carrier, which makes heating and cooling equipment. Pence's office declined to answer questions.

As the incoming president, Trump has some significant leverage with United Technologies, which is a major defense contractor. In 2015, the company had \$5.6 billion in sales to the federal government, 10% of its total sales, according to United Technologies' annual report.

That federal business might have been a factor in Carrier's decision to keep jobs in the U.S., said John Eade, director of portfolio strategy at investment research firm Argus Research.

"My guess is that the new administration offered some carrots – potential for lower taxes, a potential change in trade policies, etc. – as well as a stick: less certainty on U.S. government contracts, which are significant for several of United Technologies' other businesses," he said.

"Plus, I am sure Carrier wants to move out of the national spotlight on this issue," Eade said.

Vermont Sen. Bernie Sanders, whose left-wing populism tapped some of the same issues as Trump's anti-globalist message during the Democratic presidential primary, said over the weekend that Trump needed "to make it clear to the CEO of United Technologies that if his firm

wants to receive another defense contract from the taxpayers of this country, it must not move these plants to Mexico.”

The Carrier deal could prompt other companies to try the same tactic, predicted Dan Ikenson, director of the Center for Trade Policy Studies at the libertarian Cato Institute think tank.

“It creates a short-term political victory for the president-elect, but it opens up a Pandora's box in the sense that other companies are going to want the same sort of handout,” he said. “It’s better to have an overall policy that companies can bank on.”

Indiana state Sen. Tim Lanane, who leads the Democratic minority in the chamber, said Pence had yet to reveal details of the deal. But most breaks he has offered in the past, including tax incentives and credits, would not need legislative approval. He noted that Pence was unsuccessful in persuading Carrier to stay when it initially announced plans to move, in February. Lanane said the state had a spotty record in ensuring that companies stick to their promises after receiving subsidies.

“Does there come a point where you just can’t do that every time?” Lanane said.

Pence and his Economic Development Corporation approved \$24 million in tax breaks for 10 companies that sent work abroad, failing in several cases to recover money from companies that laid off employees in the state, the Indianapolis Star reported during the campaign.

Trump has said his broader plan to stop manufacturing jobs from leaving the U.S. is to lower the corporate tax rate and renegotiate trade deals to reduce the incentives.

Trump’s staff also highlighted the president-elect’s personal involvement, saying it was a sign of things to come as he works to keep jobs from fleeing. The style is unlikely to work on a larger scale, given the volume of companies that could opt to move manufacturing jobs. It may even provide an incentive for other companies to lodge similar threats in hopes of winning government give-backs.

But it could also prove a political asset that may help Trump move some of his economic policies through a GOP-controlled Congress that remains skeptical of his anti-globalist trade policy.

Bernstein said the Carrier deal also highlighted the different backgrounds and approaches of Trump and President Obama, a former university professor who has gathered business leaders and academics at the White House in the past to address such weighty economic issues.

Trump is “much more comfortable calling up a CEO and admonishing him than he is sitting around a table with a bunch of policy wonks talking about the best way to change the incentive structure,” Bernstein said. “But if you’re going to solve the economics of this, you’ve got to get at the incentive structure. You can’t simply be handing out goodies to every single company that’s planning to relocate.”