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Trump-Carrier Agreement Leapfrogs Policy Fixes, Sets Worrying Precedent

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Donald Trump scored a victory with Carrier this week, but the President-elect's Whack-a-Mole approach to corporate America may not be sustainable or wise once he's in the White House.

Trump and Vice President-elect Mike Pence traveled to the Carrier's Indianapolis factory on Thursday to celebrate an agreement for the company to keep 1,000 jobs in Indiana. The deal marks at least a partial win for Trump, who on the campaign trail promised to prevent the heating and air conditioning systems maker from relocating its manufacturing operations to Mexico.

Trump spokesman Jason Miller in a press call on Thursday said the deal with Carrier, which is owned by United Technologies (UTX), represents Trump and Pence "making good on their promise to go to bat for American workers."

The 1,000 jobs Indiana is saving compare with about 150 million jobs in America, including about 12 million to 13 million in manufacturing.

"This is a good thing, but it doesn't substitute for real policy," said Dean Baker, macroeconomist and cofounder of left-leaning policy think tank the Center for Economic and Policy Research.

Trump often targeted specific companies on the campaign trail for perceived misdeeds. He called for a boycott on Starbucks (SBUX) over its holiday cups and floated the idea of boycotting Apple (AAPL) over its manufacturing practices. He also attacked Macy's (M), Oreos maker Nabisco, owned by Mondelez (MDLZ), and Ford (F).

Since his election, Trump has continued the habit. He said in a meeting with the New York Times he told Apple CEO Tim Cook he wants the tech giant to build a plant in the United States.

Not only is the approach not quantitatively significant, but perhaps importantly, it sets a bad precedent.

"If it becomes common for Trump to engage in these kinds of deals or stunts, companies will see an incentive in engaging the president this way," said Watson.

Carrier sparked outrage in February when a video was posted on YouTube depicting workers being delivered the news the Indianapolis plant would be closing, resulting in the loss of 1,400 jobs. Federal officials told the Associated Press the deal with Trump means 800 union workers' jobs will be spared, suggesting hundreds of jobs will still be lost.

There is no word on what will happen to an additional 700 jobs to be lost as the result of the closing of a second factory, United Technologies Electronic Controls, in nearby Huntington. A company spokeswoman did not return request for comment on the matter.

"If this Carrier deal is a sign of things to come, honestly, it's kind of benign. It's not really going to have much impact on the U.S. economy," said Bill Watson, trade policy analyst at the Washington, D.C.-based libertarian think tank the Cato Institute.

White House press secretary Josh Earnest said as much in a press briefing on Wednesday, acknowledging the announcement as "good news" but noting it's a drop in the bucket. "If he does that 804 more times, then he will have matched the standard established by President Obama -- at least when it comes to manufacturing jobs," he said.

Economist and New York Times columnist Paul Krugman pointed out on Twitter that if Trump did a "Carrier-style deal" every week for the next year, he could bring back 4% of the manufacturing jobs lost since 2000. In a separate tweet, he said Trump would need to complete one Carrier-sized deal a week for 30 years to save as many jobs as the auto bailout.

There are a number of elements in Trump's policy proposals that could fuel job growth and inspire more companies to invest and remain in the United States. The President-elect has promised major tax cuts for corporations, repatriation incentives, regulatory rollbacks and infrastructure investments.

"I think those are more useful things for the president-elect to do than the company-by-company, Carrier approach, which comes with a lot of downside," said Doug Holtz-Eakin, economist and president of center-right policy institute the American Action Forum.

According to the Wall Street Journal, Indiana officials have agreed to give United Technologies \$7 million tax breaks over 10 years to encourage it to keep Carrier jobs stateside. Carrier received state incentives as well.

Carrier had estimated it would save \$65 million a year with the move, indicating it has more to gain than the immediate monetary impact.

"They see a lot of public relations benefits to that, and they also want to send a message to people that we're all going to work together on behalf of the American middle class," said Trump

transition team member Anthony Scaramucci while speaking to reporters at Trump Tower on Wednesday.

John Mutz, an Indiana Economic Development Corp. board member, told the IndyStar that the Carrier decision had much to do with United Technologies' desire to stay in the Trump administration's good graces. The company receives numerous government contracts, especially on defense. United Technologies owns Pratt & Whitney, which makes fighter jet engines, and has an aerospace systems unit that makes parts for commercial and military aircraft.

"Carrier came out of this deal with an excellent lobbying opportunity, they were able to do something nice for President-elect Trump, they were able to get some subsidies. It's not necessarily a bad business situation for Carrier," said Watson.

Vermont Senator Bernie Sanders, who had encouraged Trump to use defense contracts as leverage in negotiations, criticized Trump in a Washington Post op-ed. "In essence, United Technologies took Trump hostage and won," he wrote.

While the deal may be good for Indiana workers, United Technologies and Carrier, it could ultimately be unwise for America and for Trump.

"There is a real risk. We don't want the policy to be that we beat up on whatever company happens to catch Donald Trump's eye," said Baker.

"If I was in the White House, the thing I'd worry the most about is Trump now has some interest in the success of a specific operation in Indiana. From a purely political point of view, you don't want the president taking ownership of anything that he can't control the outcome of," said Holtz-Eakin.