Election 2016
The unpopularity contest

A report by The Economist Intelligence Unit
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Report highlights

- The Economist Intelligence Unit expects Hillary Clinton to win the 2016 presidential election. The Democrats are likely to win back a majority in the Senate, but the Republicans will retain control of the House of Representatives. Policymaking in the next presidential term will remain sluggish and adversarial.

- Ms Clinton will benefit from the broad unpopularity of her opponent, Donald Trump. She will make successful attacks on his suspect temperament, bullying manner and mixed business record. She will receive very strong support from African-American, Hispanic and Asian-American voters. The stabilisation of the economy under the Democratic administration of Barack Obama will also be a supportive factor.

- Mr Trump’s plans for a huge wall on the southern border with Mexico and mass deportations of millions of undocumented workers are completely unrealistic. Ms Clinton will be successful in promoting clean energy and healthcare reforms, but will struggle to tighten gun control laws. Filling the vacancy on the Supreme Court will be the most consequential act by the new president.

- We expect Ms Clinton to serve for one term. The business cycle will turn in 2019, pushing the economy into recession. Voters will desert the Democrats, disappointed with its failure to maintain economic growth.

- The Republicans will win the 2020 presidential election, having made small concessions on immigration policy and toned down its nativist rhetoric. The party will field a better salesman than Mr Trump as its candidate, but its long-term success will depend on changing some of its policies, which appeal to a shrinking proportion of the electorate.

- A long-term realignment of the two parties is possible. We expect union influence to weaken in the Democratic Party, enabling a pivot towards policies supportive of free trade. The Republican Party, swayed by its voters, will increasingly adopt protectionist rhetoric and will grow more suspicious of globalisation. This could trigger the biggest shift in voters’ allegiance since the Democrats embraced the civil rights movement in the mid-20th century.
Election 2016: The unpopularity contest

The Economist Intelligence Unit expects a former first lady, senator for New York and secretary of state, Hillary Clinton, to win November’s presidential election against her opponent, Donald Trump, a celebrity billionaire. This election is very unusual. Ms Clinton and Mr Trump have unprecedented levels of name recognition—meaning that many voters have already decided who to vote for—and they are the two most unpopular candidates in recent history. Mr Trump’s affiliation to, and support from, his party is remarkably weak. These factors could combine to produce a straightforward win for Ms Clinton, or, if Mr Trump is able to redraw the political map, a much closer outcome.

The case for Clinton

Our forecast of a Clinton win is based on four main expectations. First, Mr Trump is disliked by much of the electorate. In the Republican primaries this was not an issue, as the large field meant that he did not have to gain a majority of the vote to win each of the contests. He was also only appealing to members of his own party or to those who identify with it. But in the presidential election he will have to expand his appeal to swing voters and Democrats. This will be a struggle. According to an Economist/YouGov opinion poll conducted on June 24th-27th, 66% of voters had an unfavourable view of Mr Trump. Among black and Hispanic voters this proportion rose to 88% and 80% respectively.

These numbers are particularly important for the second driver of our forecast: demographics. The US electorate is becoming more racially and ethnically diverse. Almost one in three eligible voters in 2016 will be Hispanic, black, Asian or another ethnic or racial minority, according to Pew. A majority of these people will vote for Ms Clinton, and for good reason. Mr Trump has described Mexican immigrants as rapists, called for a ban on Muslim immigrants and criticised a federal judge presiding over lawsuits against Trump University, claiming that his Mexican heritage created a conflict of interest. In order to win, Mr Trump would have to secure a far larger share of white voters than Republican candidates have done in past election cycles. As Stuart Stevens, a strategist for a former Republican nominee, Mitt Romney, has noted: “In 1980, Ronald Reagan won 56% of white voters and won a landslide victory of 44 states. In 2012, Mitt Romney won 59% of whites and lost with 24 states.”

Composition of the electorate (%)

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<thead>
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<th>Year</th>
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(a) Estimated.
Source: Pew Research Center.
Third, we expect Ms Clinton’s formidable campaign machine to exploit Mr Trump’s weaknesses ruthlessly. She will target his temperament, his bullying manner and his mixed business record. Mr Trump’s willingness to be outspoken—and, indeed, to cross the line of acceptability—means that Ms Clinton is able to use below-the-belt tactics without appearing to run a cheap campaign. Her Twitter feed has begun a volley of abuse towards Mr Trump, noting recently that he had “written a lot of books about business, but they all seem to end at Chapter 11”. Her lifelong experience of political campaigning gives her a formidable advantage over her opponent, a political novice; she will have more time to focus on strategy, as her well-oiled political machinery runs more smoothly than Mr Trump’s fledging operation.

Lastly, Ms Clinton ought to benefit from the smooth handling of the economy during the eight years of the Obama administration. The economy is in a markedly better place than when the Democrats returned to the White House. The unemployment rate has fallen below 5%, house prices are rising and wage growth is accelerating. Memories of the redundancies and foreclosures triggered by the global financial crisis are still vivid, and many voters will prefer continuity to change, given the economic progress made in recent years. In the Economist/YouGov survey the economy was ranked as the most important election issue, ahead of terrorism and social security.

Risks: security at home and in the bank

It would be wrong to rule out either candidate’s chances in a two-horse race. We put Mr Trump’s odds at around one in three. We see two main risks to our forecast of a Clinton victory, both of which would shift voters to the right and make Mr Trump a more appealing commander-in-chief. The first is a major domestic terrorist attack in the weeks prior to the election. Voters have shown a clear preference for hawkish candidates who prioritise national security following such events, and polling has shown that Mr Trump is more popular among voters who feel afraid. That said, the nature of the attack and Mr Trump’s response would determine the size of his bounce in the polls. A shooting at a gay nightclub in Florida in June failed to improve Mr Trump’s standing because of his response: he congratulated himself on being right about terrorism and called for tougher immigration restrictions, even though the perpetrator was a US citizen. Nevertheless, if the US suffers an attack from Islamic terrorists born outside America, Ms Clinton could find herself on the back foot.

The second major risk is economic: we think that Mr Trump has a better chance of winning if the US economy enters recession. Voters would place blame for the weak economy on the Democrats, as they hold the White House. We do not expect a downturn in the coming months, but there is a risk that an external shock could result in a recession and rising unemployment. The economy is certainly vulnerable: growth has been sluggish since the financial crisis. The strong dollar is hurting exports and low oil prices have reduced investment by energy companies. An external shock triggered by a hard landing in the Chinese economy or an escalation of political uncertainty in Europe following the “Brexit” vote could spread to the US. Throughout the current business cycle there have been periodic reminders of the fragility of the US recovery. Should the economy slow in the run-up to the election, voters will reconsider the merits of keeping the Democrats in the White House.
The electoral maths favours Clinton

Ms Clinton and Mr Trump will need to win 270 of the 538 electoral college votes to win the presidency. The number of those votes that are realistically in play is much smaller. Looking at polling, we estimate that Mr Trump can count on 21 states, with 170 electoral votes, while Ms Clinton has 20 (plus the District of Columbia), worth 253. The nine remaining states and their 115 votes will probably decide the election. The good news for Ms Clinton is that—provided her base is solid—she would need to win at most three of those states (or just Florida or Ohio) to win the presidency. Mr Trump would need to win at least seven of the nine.

Among the contested states, Florida is the biggest prize, with 29 electoral votes. The scene of the electoral meltdown in 2000, Mr Obama won the state by less than 1% of the vote in 2012. Mr Obama also took Colorado, Iowa, New Hampshire, Ohio and Virginia at the last election, but with margins of no more than 6%. Missouri and Arizona will be Democratic targets. The former has voted Republican since 2000, but Clinton and Trump are neck-and-neck in 2016. The latter is becoming more favourable for the Democrats because of the growing Hispanic population. Ohio remains the ultimate bellwether. Its voters have picked the president in every election since 1960.

Presidential election forecast

(no. of electoral college votes)

Source: The Economist Intelligence Unit.
Voter favourability, June 2016 (%)

**Donald Trump**

<table>
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**Hillary Clinton**

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<tr>
<td>51</td>
<td>45</td>
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<td>51</td>
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</table>

Source: The Economist/YouGov.
It is here that we sound a note of caution about the risk of this being an election like no other. There is a possibility that, because of Mr Trump’s loose affiliation to his party and his cherrypicking of traditional Republican policies, the map could look quite different. On the one hand, states that commonly vote for Republican candidates, diehard or moderate, could abandon the party altogether following Mr Trump’s nomination. Kansas, for example, has voted Republican in all but one election since 1936. However, Mr Trump lost the primary, and (admittedly low-grade) polling in the state has shown reasonable support for Ms Clinton. This would be the sort of result that indicates a potential landslide for the Democrats. On the other hand, Mr Trump could steal several Democrat states in the Rust Belt with his anti-trade message and promises of a renewal in American manufacturing. Pennsylvania is a state to watch for evidence of this trend. It has voted Democrat in the past six elections, but by narrowing margins. The share of the state’s labour force employed in manufacturing has fallen from almost 15% to less than 9% in the past 20 years; this state could be swayed by Mr Trump’s economic tubthumping.

The House will not fall
November 8th also sees elections for the entire House of Representatives and 34 of the 100 seats in the Senate. We expect the Republicans to maintain their grip on the House but to lose their majority in the Senate. Republicans hold 247 of the lower house seats, compared with 187 for the Democrats. The Democrats therefore need to win 31 seats to win back the chamber. We do not think this is likely, given the extent to which House districts are gerrymandered. The upper chamber is an easier target for Democrats. Of the seats up for election, 24 are held by Republicans and several of these are competitive. These include seats in the swing states of Ohio and New Hampshire. The Democrats need to win only four to take the chamber. The choice of Mr Trump as party nominee will prove problematic for Republican senators. Many will face the difficult balancing act of distancing themselves from Mr Trump without alienating his supporters. Boycotting the convention will be one tactic, as will referring to support for “the ticket” rather than for Mr Trump himself. But, as election day nears, we expect enough Republican senators to be boxed into a corner by the Trump nomination for the Democrats to retake the chamber.

A golden chance gone
Ordinarily, the Republican Party would have reason to feel confident about winning back the White House in November. The Democrats have put up a candidate who is widely disliked, tarnished by decades of living in the public eye and burdened by a reputation for policy flip-flopping. Yet the Republican Party neutralised these advantages at a stroke by picking a representative who is even more unpopular, with similar levels of recognition, and whose only consistent ideology is his nativist views on immigration. Although a Clinton landslide is possible, we believe that the electorate is too polarised for this to happen. Too many Republicans would not vote for a Democrat under any circumstances. Instead, we expect a comfortable Clinton win, after a race that will become increasingly ugly as November draws closer. Regardless of what the polls say, Mr Trump is unlikely to go quietly.
Not since 1972, when Richard Nixon ran against an anti-war campaigner, George McGovern, have Americans had such a clear choice on policy as when they vote for their next president. Even though the Democrats’ presumptive nominee, Hillary Clinton, sits towards the right of the party and her Republican opponent, Donald Trump, is an ideological magpie, their visions for the future of the US are starkly different.

Foremost among Mr Trump’s ideas are swingeing tax cuts for the wealthy and mass deportations of undocumented immigrants. His America is smaller, richer and more self-reliant. Ms Clinton is leading with higher government spending to improve rusting infrastructure and to make healthcare more affordable. She is a firm centrist: she wants a more equal nation that functions smoothly but without overspending. As an internationalist, Ms Clinton sees the US leading global efforts on climate change; Mr Trump looks inwards. He wants the US to be a paragon of wealth for others to attempt to emulate. In his vision, the US owns the nicest house on the block, with the most luxurious car in the driveway and neighbours who are green with envy.

Balancing the books, or not even trying

It is tax policy that enables what the candidates can hope to achieve. Or at least it should do, unless they employ some creative accounting, which is evident in Mr Trump’s plans. He is proposing four income-tax brackets of between 0% and 25%. Individuals earning less than US$25,000 and married couples with a combined income of less than US$50,000 would pay none at all. He wants to bring the corporate tax rate down from 35% to 15%. Mr Trump claims that his plan is revenue neutral; the Committee for a Responsible Federal Budget (CRFB) estimates that it would add a total of US$12trn to the national debt. In order to keep the fiscal deficit at current levels, GDP would have to grow by 10% or public spending would have to be cut by anything up to 80%. Patently, these numbers do not add up.

Ms Clinton wants a repeal of the “Cadillac tax”, a 40% levy due to come into effect in 2018 on high-cost health insurance plans offered by firms to their employees. She hopes to pay for this, and more, through new and higher taxes on millionaires. She also wishes to increase estate taxes. According to the CRFB, these plans would increase spending by only US$200m over a decade. But it also warns that she fails to address the trend of rising national debt.

On healthcare, Ms Clinton has vowed to protect and strengthen Obamacare and reduce out-of-pocket costs. She has proposed that health insurance plans include three visits a year to the doctor that do not count towards deductibles and a US$5,000 tax credit for families with high out-of-pocket expenses. Mr Trump sees healthcare very differently. He has promised to repeal Obamacare. In its place, he proposes tax-free healthcare savings accounts, which can be inherited without estate taxes, and tax deductible health insurance premiums. He also notes a US$11bn annual saving from no longer providing healthcare to undocumented immigrants.
No bricks in the wall

Deportation is the central plank of Mr Trump’s immigration plan, along with the construction of a wall along the US’s border with Mexico, which he hopes to persuade the Mexican government to pay for. He believes that punitive increases in the cost of business and diplomatic visas and fees at points of entry will eventually lead the Mexican administration to acquiesce. Finding and removing 11m undocumented immigrants would be the task of Immigration and Customs Enforcement, whose staff would be tripled. The wall and the deportation plan are bunkum; neither is a realistic policy. He also proposes tighter restrictions on the acceptance of refugees and a suspension of the issuance of green cards to force employers to hire American or unemployed immigrant workers.

On immigration, the difference between the two candidates is unmistakable. Ms Clinton would pursue Barack Obama’s executive action to allow some undocumented immigrants the right to remain in the US and obtain work permits. She also wants to create an avenue to citizenship and increase rates of naturalisation. A federal Office of Immigrant Affairs would manage integration policy.

Mr Trump’s conviction that American governments have allowed themselves to be exploited by other countries—which lies behind his determination to build his Mexican wall—extends to his views on trade. It is Mexico and China that would bear the brunt of his inflammatory trade policy. He has promised that his first action would be to label China a currency manipulator, a phrase that the current US administration has been at pains to avoid. To restore balance to the trade relationship, he proposes an increased military presence in the South China Sea, a flagrant demonstration of US military muscle. Despite the Republican Party’s historic support of free-trade deals, Mr Trump is highly suspicious; a trade deal only works if it enhances American prosperity and revives American manufacturing. His disdain for free trade is a remarkable position for the Republican flag-bearer.

His opponent’s position on trade is less straightforward. Trade is not among the 31 policy priorities listed on Ms Clinton’s campaign website. She has also made a high-profile disavowal of the Trans-Pacific Partnership (TPP), a 12-member “gold-standard” trade and investment deal that she helped to design. However, we believe that this statement should be taken cautiously. Free trade has never been a vote-winner in the US, especially for the union-linked Democrats. Mr Obama and Ms Clinton amped up their anti-trade talk during the presidential primaries in 2008, and Mr Obama reversed course once he entered the White House. It is feasible that Ms Clinton would seek ratification for the TPP as president, perhaps with some minor adjustments to avoid charges of hypocrisy, assuming that Mr Obama is unable to ratify it during the lame-duck session.

Room to manoeuvre

It is on social policy that Mr Trump is at his least coherent. His campaign website contains few positions beyond vigorous support for the second amendment. He wants to make gun permits apply nationwide rather than state by state. He describes concealed carry as “a right, not a privilege”. That said, he has occupied multiple positions on abortion—an extremely sensitive issue—and appears to have gradually hardened his stance to increase his appeal to religious voters. Most recently he described himself as “pro-life, with exceptions”, a comfortably ambiguous position. He has also been quiet on criminal justice reform, an area where there is a possibility of cross-party co-operation to
reduce the number of Americans in prison on low-level charges. Again, he has no set policy but has promised to be “tough on crime”, and has likened American inner cities to the “Wild West”.

By outlining few policies Mr Trump gives himself the option to surprise, but the identities of some of his advisers suggest that he is unlikely to champion many of the social policies that Ms Clinton proposes. These include ending racial profiling and reducing mandatory minimum sentences. She also favours making the work of law-enforcement officers more transparent through the publication of data on deaths in custody and instructing all police officers to wear body cameras. On guns, she will push for legislation to beef up background checks and reinstate a ban on assault weapons.

As president, Ms Clinton would quickly be bogged down in her plans for gun control by a divided Congress, but she might make progress on environmental policy using the executive authority conferred by the presidency. Mr Obama used such a lever to push through a clean power plan to impose new rules to cut carbon emissions from power plants—at least until it was “stayed” by the Supreme Court. Ms Clinton could use this authority to extend efficiency targets for vehicles and appliances. She has targeted a cut in US oil consumption of one-third and pledged to spend US$60bn promoting clean energy alternatives. Mr Trump’s official policy documents do not address the environment, but he has pledged to pull the US from the UN’s Paris agreement on emissions targets and approve the Keystone XL oil pipeline from Canada. He has claimed that global warming is a Chinese hoax designed to hobble US manufacturing. He could reverse the environmental progress made by the US in recent years.

Courting controversy

But more than collaborations with Congress or executive orders, the legacy of the next president may be shaped by his or her appointments to the Supreme Court. The Court has been without a ninth justice since the death of Antonin Scalia in February. Senate Republicans have blocked the appointment of Mr Obama’s nominee, Merrick Garland, in the hope that Mr Trump will win in November and choose a more conservative justice. The tension over Mr Scalia’s eventual replacement has been amplified by the fact that the balance of the Court will be determined by the identity of the new justice. The stakes could not be much higher. It is possible that the composition and rules governing the Court could be transformed in the next presidential term. If as we expect, the Democrats win back a Senate majority, they may reinterpret the rules to prevent the filibustering of nominations and instead allow them to pass with a simple majority.

Regardless of whether Mr Trump or Ms Clinton comes to power, neither of their policy agendas will resemble the legislation passed by the next administration. We expect the Republicans to retain control of the House but the Democrats to take back the Senate. This means another term where bipartisanship is rare and legislative gridlock is the order of the day. The candidates’ high unfavourability ratings mean that the next president will start from a position of weakness, making it difficult to pass key planks of their agenda. Mr Trump’s wall will never be built, even at America’s expense. Likewise, we view the chances of Ms Clinton’s plans on gun control as highly unlikely. That said, the next president will play a crucial role in steering the direction of policy in the US, and, as a liberated Mr Obama has discovered in the past year, executive authority can be a powerful tool.
Winning the White House in 2016: a poisoned chalice?

The 2016 elections may prove to be the high-water mark for the Democratic Party. The Economist Intelligence Unit thinks that, if elected, the party’s presumptive nominee, Hillary Clinton, is more likely to serve for one term than two. We forecast that the business cycle, which has been in expansionary territory since mid-2009, will come to an end in 2019. This will lead to a renewed rise in unemployment and dissatisfaction with government at exactly the same time as campaigning begins for the 2020 election. An economy in recession makes it much more likely that a Republican will return to the White House.

Forecasting recessions is a tricky business, and is more difficult the longer the time horizon. That said, historical precedent suggests that the current business cycle is already long in the tooth. Since 1945 the US has gone through 11 recessions, lasting an average of 11 months each. The expansions between these recessions have lasted for an average of five years each. Despite the frequency of recessions, forecasters consistently fail to predict them. In September 2008, shortly before the collapse of a US investment bank, Lehman Brothers, not one of the forecasting firms polled by Consensus Forecasts was expecting a recession in 2009.

US business cycle expansions
(no. of years, trough to peak)

Note: The NBER defines a recession as a significant decline in economic activity spread across the economy, lasting more than a few months, visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.
Some distance left to run
We expect the current business cycle to last for around three more years. The recession that ended in June 2009 was the worst since the 1930s Depression, both in length and severity. The recovery is seven years old, already two years longer than the average peacetime expansion, but there is still some distance left to run. There is still a little slack in the job market, inflation is low and wage growth is muted.

Nonetheless, the US is almost certainly closer to the next recession than to the previous one. We expect the economy to overheat in late 2018, when we forecast that the labour market will be close to full employment, consumer price inflation will accelerate above 2% and the Federal Reserve (Fed, the central bank) will have fallen behind the curve in tightening monetary policy. The last two recessions were caused by excessive levels of debt and investment, but we expect the next one to be a throwback to earlier recessions, with inflation-busting interest rates squeezing domestic demand, possibly compounded by an external shock.

Voter fatigue
An economic downturn would feed into voter concerns about Ms Clinton and the Democratic Party. The party will have occupied the White House for three successive terms, and voters will hanker for the change that a new generation of Republican politicians promises. Ms Clinton, who will be 73 at the 2020 election, will have been at the coalface of US politics for three decades, making her particularly vulnerable to this desire for a fresh face. Following the disunity of the 2016 presidential race, we expect Republicans to unite against Ms Clinton during her four years in office and her approval rating to sink.

Although our central forecast is that the business cycle will end in 2019, an external shock could bring it to a halt sooner. Unprecedented Fed policies have inflated asset prices, and a turn in investor sentiment could quickly spread to the real economy. The US economy could also be dragged under by a hard landing in China or an existential crisis in the EU following the UK’s vote to leave. If the US enters a recession in the first half of the next presidency and recovers swiftly, there is a chance that Ms Clinton could be credited with rescuing the economy by 2020, much as Barack Obama was rewarded by some voters for his response to the financial crisis. The risks to our forecast of a US recession in 2019 and Ms Clinton serving only one term are therefore high. But our base case is a cyclical economic downturn under Ms Clinton leading to her defeat in 2020, helping to hand the White House to a Republican. The Republican Party must endure the convulsions of Trump but can then begin again.
The Republican Party: what next after Trump?

The Republican Party will have a sobering morning on November 9th, waking up to its third consecutive presidential election defeat. Black, Hispanic and Asian-American voters will shun Donald Trump, bringing an ignominious end to his brief political career. The loss will plunge the party into one of the deepest periods of soul-searching since it was founded on an anti-slavery platform 160 years ago.

But all is not lost. The Republicans will probably keep a majority in the House of Representatives (the lower house). The party will continue to be strongly represented at local, state and gubernatorial levels across the country. And it has bounced back from adversity before. The party was widely viewed to be on life support after Barry Goldwater’s drubbing in the 1964 presidential election. Similarly, the Democrats were considered to be living on borrowed time when George McGovern was humiliated by Richard Nixon in 1972. In each case, however, the defeated party rediscovered its sense of purpose and won the presidency four years later. Careful rebuilding would put Republicans in a strong position to capture the White House in 2020.

**Favourability ratings of presidential nominees**

(% rated highly favourable)

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Note: 2016 nominees are presumptive; dates for all years except 2016 are final pre-election; no data for 1988, 1996 and 2000. Hillary Clinton & Donald Trump ratings dates, June 14-23 2016.
Source: Gallup.
Change the message or the messenger

In order to win back supporters, the Republican Party faces a clear choice. It could stick with its tried-and-tested policy platform and search for a better salesman. Or it could soften its approach to broaden its appeal. The first option would be easier, but provide only a temporary salve. It would not address the underlying problem: that the party’s policies appeal only to a shrinking portion of the US electorate. A better response would be to recognise that it is harder to win elections with just the support of a white voter base, and adopt policies that are more appealing to minority voters, who make up a growing share of the electorate.

Republicans will go through a period of naval gazing. But, just as in 2012, following Barack Obama’s straightforward win over Mitt Romney, there will be a key issue that would allow the party to become more inclusive: immigration. This was the conclusion of the autopsy held by the Republican National Committee after the 2012 election. Republicans had a chance to lead on immigration reform and reach out to Hispanic voters. Instead, during this campaign the issue has been hijacked by Mr Trump. He has exacerbated voters’ fears of migrants and inflamed the party’s relationship with Hispanics.

To reorient immigration policy to become a vote-winner across all demographic groups, the Republicans require a better diagnosis of the problem and a comprehensive policy solution. Studies show that anti-immigrant sentiment is linked to concerns about cultural identity, security and border control. The Republicans should put forward a realistic plan that reduces the number of undocumented migrants entering the country (addressing the concerns of white working-class voters), but also offer a future to undocumented workers who are already in the US (appealing to Hispanic voters), and introduce a better system for high-skilled immigrants (in line with requests from business leaders and Silicon Valley).

He who dares

The task of rebuilding the party immediately after the election will fall on the shoulders of Paul Ryan, the speaker of the House, and the party’s most senior legislator. He identified his priorities in a policy agenda rolled out in June 2016, dubbed “A Better Way”. The plan is designed to give Republicans a softer and more inclusive image. Its proposals include the traditional party prescription of lower taxes, reform of entitlement programmes and less regulation. One of its cornerstones is a new emphasis on reducing urban poverty. The message is clear: Mr Ryan thinks Republicans are selling the right goods—all that is needed is a rebranding and a new salesperson.

Mr Ryan’s plan has a glaring weakness. It fails to offer a cohesive approach to immigration. It is said that the definition of insanity is doing the same thing over and over again, but expecting different results. “A Better Way” is not insane, but it represents a demographic dead end. It is difficult to picture Mr Ryan convincing the party that it needs to embrace immigration reform. His problem is that if immigration reform were passed by the next Congress, Hillary Clinton, as president, would get most of the credit while Mr Ryan would face a backlash from House Republicans. This would damage his own presidential aspirations.

That opens the door for other Republican presidential hopefuls to lead the party on immigration, moving to the left of Mr Ryan and positioning themselves as the party’s future. Marco Rubio tried this,
but his reversal on the Gang of Eight immigration reform in 2013 left him open to criticisms on both sides, without the accolades that come with passing landmark legislation. His 2016 primary campaign was similarly underwhelming: plenty of hype, but little substance. It is not impossible that he could return to the Senate and repair his reputation, but he faces an uphill battle.

The Republican Party will face a crucial decision following the November 2016 presidential election. With Mr Trump banished to the political wilderness, it will have to decide whether to continue to pursue an ideology of low taxes, small government and social conservatism, or begin to soften its views on some policies, most notably immigration, with the goal of attracting new support. We believe the party is in a relatively fortunate position. Small concessions are all that will be required to return it to the White House in 2020, given our expectation that a recession in 2019 will damage voters’ perceptions of the Democrats’ economic management. But thereafter the Republican Party will have to rethink its policy platform if it wants to boost its appeal to an increasingly diverse America.

### Eligible voters by race

<table>
<thead>
<tr>
<th>Race</th>
<th>2012 ('000)</th>
<th>2016 ('000)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>152,862</td>
<td>156,084</td>
<td>2.1</td>
</tr>
<tr>
<td>Black</td>
<td>25,753</td>
<td>27,402</td>
<td>6.4</td>
</tr>
<tr>
<td>Hispanic</td>
<td>23,329</td>
<td>27,302</td>
<td>17.0</td>
</tr>
<tr>
<td>Asian</td>
<td>8,032</td>
<td>9,286</td>
<td>15.0</td>
</tr>
</tbody>
</table>

Source: Pew Research Center.
Trading places: a reordering of the two main political parties

The 2016 election might turn out to be the start of a broader realignment that reshapes the political landscape. Such realignments are rare, but they have lasting consequences. The Democrats moved to the left on civil rights in the middle of the 20th century, gaining minority voters but losing swathes of white supporters across the south. In response, the Republican Party became more socially conservative, winning the backing of religious voters but losing support in liberal cities.

Shifting attitudes towards free trade might trigger another change in party allegiance. The main Republican contenders in the 2016 party primaries adopted relatively protectionist positions. Marco Rubio and Ted Cruz toned down previously favourable views on the Trans-Pacific Partnership (TPP). Donald Trump—as he tends to—upstaged everyone by saying he would label China a currency manipulator, impose punitive tariffs on Mexico and China, and renegotiate the North American Free-Trade Agreement (NAFTA). Astonishingly, in 2016, the presumptive nominee of the party that protects the interests of business will run on a platform that denounces free trade.

This development reflects a split in the Republican Party. The business-friendly establishment favours free trade, but this view is increasingly at odds with the grassroots. According to a poll conducted by the Pew Research Center in March 2016, only 38% of Republicans agreed that free-trade agreements were good, while 53% believed they were bad. Moreover, Mr Trump’s harsh rhetoric on trade and China is also popular among white working-class Democrats, many of whom may vote for the Republican nominee in November as a result. This suggests added potential for a realignment of the party’s core voters.

Mr Trump’s campaign will attract more working-class white voters to the party. As they switch allegiance, they will put pressure on the party to adopt positions that are more sceptical of free trade. Republican politicians will replicate this approach in parts of the country that have suffered badly from the loss of manufacturing jobs, and the influence of big business will diminish.

In contrast, one of the principle goals of Barack Obama’s second term was to ratify the TPP deal, which is supported by business leaders but opposed by many of the party’s traditional donors. The ongoing reduction in organised labour’s influence over the Democratic Party will allow it to adopt an increasingly outward-facing, trade-friendly position, redrawing the traditional party lines. This fits with the increasingly trade-friendly party base: the same Pew Research study shows that a majority of Democratic voters (56% to 38%) believe free-trade agreements are good for the US.
A realignment of the two parties would take several electoral cycles and divide voters on new grounds. It would pit those in favour of the free flows of capital and labour against those who prefer barriers and protections, open versus closed, globalists versus nationalists. It seems unlikely now, but one day history could judge the 2016 election as a turning point, when the Republicans started to become the party of protectionism, and Democrats the party of free trade and big business, with Mr Trump as the catalyst.
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