



Potomac Perspective

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Brian Gardner, Chief Washington Policy Strategist

202.756.7764 | bgardner@stifel.com

Summary

With Congress out of session this week, Washington will be relatively quiet so we take this opportunity to look at a potential paradigm shift that could have long-term implications – the relationship between the Republican Party and business. Major League Baseball's decision to move the 2021 All-Star game out of Atlanta as a protest against Georgia's new election law drew sharp responses from Republicans around the country and is the latest sign that the relationship between the GOP and big business has been permanently damaged. We look at the reasons for the change in the relationship and what it could mean.

Historically, the Republican Party has been seen as a supporter of business interests. However, more recently, the GOP's relationship with the business community has frayed especially between the more populist parts of the GOP and business, especially Big Business. While the GOP has been evolving, many traditional conservatives remained supportive of larger business, but the reaction to last week's announcement by Major League Baseball (MLB) decision to move its All-Star game from Atlanta in response to Georgia's new election law was notable because it drew a sharp rebuke from Republicans of all stripes. Even non-Trump supporters within the GOP, who have been reluctant to engage in boycotts and protests of businesses, criticized MLB's decision and warned of retaliation. This incident revealed an emerging consensus within the GOP – that large businesses do not represent the interests of the Republican base and that these businesses are capitulating to threats from the Left. In the eyes on many Republicans, if Corporate America is going to be bullied by the Left then the Right will adopt the same tactics with threats of boycotts and Republican lawmakers will no longer align themselves with the political interests of big business.

One can debate the merits and flaws of the Georgia election law as well as MLB's response. That is not our goal here. Instead, we look at how the relationship between the GOP and business interests have changed and what it could mean for businesses from a policy perspective.

Background

For the past 100 years, the Republican Party has positioned itself as the pro-business party. President Calvin Coolidge said that "the business of America is business". This sentiment has endured through the Eisenhower and Reagan administrations and even into President Donald Trump's administration, but the relationship has been fraying. Why? We think a significant reason is the change in the Republican coalition.

The GOP has historically been America's conservative party, but the conservative coalition has changed. Conservatism is made up of various factions (economic conservatives, libertarians, defense hawks, and social conservatives to name a few) that did not always agree on issues but were united by their opposition to Communism and fear of the Soviet Union. When the Eastern Bloc and the Soviet Union collapsed in the late 1980's and early 1990's, the glue that kept together the GOP's conservative coalition began to crack. Initially, the splits were minor. Then in the 21st century, events further deepened divisions among conservatives



and began to reshape the party. The expansion of surveillance in response to the 9-11 attacks alienated libertarians. Defense hawks' credibility was damaged in the wake of the War in Iraq and the credibility of fiscal conservatives was damaged as the U.S. grew massive budget deficits during George W. Bush's administration. Things really started to splinter in 2008 when many congressional Republicans voted against the Troubled Asset Relief Program which was seen as a sop to Wall Street banks but silent on the needs of average Americans who suffered economically during the financial crisis. Republicans who voted for the TARP saw that vote used against them in primaries even several years after the vote. This has left Republicans reconsidering the party's views on America's role in the world, trade and support of the business sector.

While all of this has been going on, corporate activism has been on the rise. Progressive groups have targeted companies that have taken political stands that the Left opposed, or were silent after political and social events, or advertised on media outlets where TV or radio hosts said something the Left considered outrageous. Conservatives have historically been reluctant to organize against businesses in the way the Left organizes but there has been an increase in the perception among conservatives that some large companies were employing a double standard – the outrageous behavior and statements by the Left were not addressed in the same way as infractions committed by the Right. This has led many Republicans to conclude that the Right can no longer fight with one hand tied behind its back and it must respond to Corporate America with the same responses used by the Left (i.e. threats of boycotts and protests) and that congressional Republicans should no longer take the political risk of supporting the interests of Big Business since it carries the risk of alienating Republican voters.

What caught our eye in the wake of the MLB announcement was the broad response from across the GOP and conservative landscape. Even Republicans and conservatives who had opposed President Trump criticized MLB's decision and seemed open to rethinking the GOP's relationship with Corporate America. It is too early to know how this will all play out especially since conservatives have not yet shown themselves to be effective at organizing boycotts, but something about this feels different to us and it bears watching for large businesses and investors.

What it Could Mean

The reshaping of the Republican Party could leave Big Business in a precarious position. As Republicans increasingly view large businesses with suspicion, the business community will have a tougher time finding allies in Washington. Democrats are unlikely to fill the void created by the GOP shift as progressives push that party further left, so some corporations could find themselves unable to push their political agenda or fend off policy proposals which they view as against their interests. Of course, the shift away from the old GOP establishment to a new populist party will not be a straight line. There will be times when parochial interests outweigh the inclination to lean into populism. Also, the GOP's emerging relationship with the business sector is likely to be most contentious when a policy issue is focused on the largest and most dominant players in the economy or a specific sector. On occasion, Big Business might be able to protect itself by aligning itself with the interests of smaller players which is why the GOP is unlikely to back an increase in corporate taxes – such a move would hurt the party's allies among medium and small businesses.

Antitrust policy, an issue about we have previously written, is an area where some sectors could feel the impact of a shift within the Republican Party. Republicans have generally been wary about aggressively using antitrust law because the party believed in market forces and the ability of the private sector to deliver benefits for consumers. Republican orthodoxy on antitrust is changing and there is a growing bipartisan consensus about the need to revise antitrust laws (although the two parties disagree about the methods and the reasons for changing the rules). As Republican voters increasingly distrust Corporate America (if not view it with disdain), look for the GOP to avoid fights in Congress that could allow itself to be view as the defender of Big Business. Given



Democrats' shift leftward, several sectors could find themselves with few allies as Congress considers revisions to antitrust laws. Sectors that could be impacted include technology and social media, health care, pharma, and financials (mostly large Wall Street firms).

Views among Republicans on *trade policy* have also dramatically shifted. The GOP has historically been a pro-free trade party that believed that on balance the benefits of free trade agreements outweighed the negative impacts. That view has been rapidly shifting and given Democrats' reluctance to support free trade deals, we do not expect to see many new agreements in the future. This could impact negotiations for a trade agreement with the United Kingdom and resuscitation of the Trans-Pacific Partnership is unlikely. Also, we expect future Republican presidents will be more willing to impose tariffs than were their pre-Trump predecessors.

The GOP's views on illegal *immigration* have been well documented, but what has been less well understood is the party's shift on legal immigration. Over the past few years Republicans have become increasingly skeptical of legal immigration so we expect over time Republicans will become less supportive of increasing the number of available H-1B visas which could impact the tech sector.

The late conservative columnist, Robert Novak, wrote that "God put the Republican Party on earth to cut *taxes*." Support for lower taxes has been the GOP's calling card for generations and the party is likely to remain a low tax party but even the party's views on taxes are evolving. Republicans will likely oppose efforts to raise corporate tax rates but mostly because an increase in corporate tax rates would impact medium and small businesses as well as larger firms. Regarding taxes on individuals, Republicans will continue to support low income taxes on middle and working class voters, but we expect the party will expend a lot less energy in the future to lower taxes on individuals who are seen as wealthy. The party is likely to remain pro-entrepreneur so Republicans will probably continue to support lower capital gains taxes, but this is an area to watch for future evolution to see if Republicans start to question different tax rates for capital and labor.

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