

TRENDMACRO LIVE!

On the Elections in New Jersey, Virginia and Alabama

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Donald Luskin

We told you -- post-shutdown, the GOP can hold the House and make gains in the Senate.

Elections in New Jersey, Virginia and Alabama yesterday strongly support our out-of-consensus view that October's government shutdown and debt limit crisis would help, not hurt, the GOP's chances in the 2014 mid-terms, and would set the stage for a national move toward more pro-growth economic policy, especially in energy regulation (see ["On the Shutdown and Debt Limit Deal"](#) October 17, 2013).

- New Jersey Governor Chris Christie, whom we have regarded to be the *de facto* GOP presidential nominee in 2016, won re-election by what even the [New York Times had to admit](#) was a "crushing margin" of 60.5% to 30.8%.
- Christie's brand of Republicanism is working: in 2009 Christie had beaten opponent Jon Corzine with only a 48% plurality.
- His win yesterday overturns the dominant narrative that the GOP is not nationally competitive within modern electoral demographics. Again, even the *Times*: "In a state where Democrats outnumber Republicans by over 700,000, Mr. Christie won a majority of the votes of women and Hispanics and made impressive inroads among younger voters and blacks -- groups that Republicans nationally have struggled to attract."
- This puts New Jersey in play in 2016 for the GOP.
- In Virginia, Democrat Terry McAuliffe beat Republican Ken Cuccinelli by a narrow 3% margin, and with only a 48% plurality.
- This overturns the dominant narrative that Virginia, especially impacted by October's government shutdown, would punish conservatives. Libertarian candidate Robert Sarvis won 6% of the vote, which combined with Cuccinelli's 45% gives conservatives a winning margin over McAuliffe equal to McAuliffe's winning margin over Cuccinelli.
- And McAuliffe's winning margin was no greater than that [predicted in polls](#) two weeks before the shutdown. This an embarrassment to President Obama, Vice President Biden, and the Clintons -- all of whom actively endorsed McAuliffe -- and to the mainstream Washington media that crowed last week about McAuliffe's ["double-digit lead"](#) and Cuccinelli's ["stench of doom."](#)
- In Alabama's deeply conservative First District, mainstream Republican Bradley Byrne beat Tea Party challenger Dean Young in a GOP primary, thanks to strong backing by the national

Update to strategic view

US MACRO: Yesterday's elections completely overturn the dominant narrative that the shutdown and debt limit crisis destroyed the GOP brand, and pitched the GOP into the death-grip of the Tea Party. This should be a great comfort for the markets and the economy, as it takes off the table the risk that the GOP could lose the House in 2014, returning the US to one-party rule. Further, it advances hopes for pro-growth policy progress, especially in energy regulation. Christie's huge win shows Republicans can be attractive to today's electoral demographic, and puts New Jersey in play for 2016. McAuliffe's narrow win -- losing to the combined votes of the GOP and Libertarian candidates even after heavy support from Obama, Biden and the Clintons -- show that even in shutdown-scarred Virginia voters are not abandoning conservative ideals. The GOP run-off in Alabama's First District shows that establishment conservatives can beat back primary challenges by politically inept Tea Party candidates.

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Republican establishment. Byrne will now go on to face a Democrat in the district's December special election to fill the seat of retiring Republican Jo Bonner, and will surely win.

- This overturns the dominant media narrative that powerful establishment Republicans such as Senate Minority Leader Mitch McConnell (R-KY) will be handily beaten in primaries by Tea Party upstarts -- who will then be unable to win general elections versus Democrats.
- It was absurd on the face of it to presume that a Tea Party candidate who beat McConnell would automatically lose in 2014 in Kentucky, the state that sent Rand Paul to the Senate just two years ago. But now it seems almost as absurd to presume that McConnell can't win his primary.

We apologize if it seems that this report is only a political analysis, and a partisan one at that. But we trust our clients understand that such an analysis, for us, is integral to our view on the economy and the markets.

- Whether or not you personally care about politics at all, and no matter which party or candidates you personally like or dislike, political outcomes are enormously consequential for the economy and the markets.
- Whatever you may think about their overall agenda, we believe with deep conviction that if the GOP were to lose the House of Representatives in 2014 -- returning us to the same one-party rule that saddled the economy with Obamacare and Dodd-Frank -- US growth would be imperiled. We are positive that such an outcome is off the table, despite the mainstream media talk after the shutdown (again, see "[On the Shutdown and Debt Limit Deal](#)").
- Having that risk off the table is an important part of our view that the world has become a far less risky place, following six years of global financial and political contagion (see "[A Major Upgrade to our Strategic Outlook](#)" September 12, 2013).
- We expect more than just that the GOP will hold the House in 2014. We believe it will make gains in the Senate, as well, with ten now-Democratic seats deemed competitive races, seven of them in states that voted for Romney in 2008. And in mid-terms the party that doesn't control the White House almost always makes gains in the Senate (once again, see "[On the Shutdown and Debt Limit Deal](#)").
- And any move toward more GOP control of economic policy opens the doors to reform of energy regulation, loosening the chains on unconventional extraction technologies that hold the potential to collapse global energy prices and solve the decade-long energy crisis that has persistently slowed growth (again, see "[A Major Upgrade to our Strategic Outlook](#)").

Bottom line

Yesterday's elections completely overturn the dominant narrative that the shutdown and debt limit crisis destroyed the GOP brand, and pitched the

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Donald Luskin
Chicago IL
312 273 6766
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Lorcan Roche Kelly
Sixmilebridge Ireland
617 600 6969
lorcan@trendmacro.com

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