

POLITICAL PULSE

Bully For Him

Friday, January 17, 2014

Donald Luskin

The pro-growth policy outlook has only improved with Christie's artful crisis management.

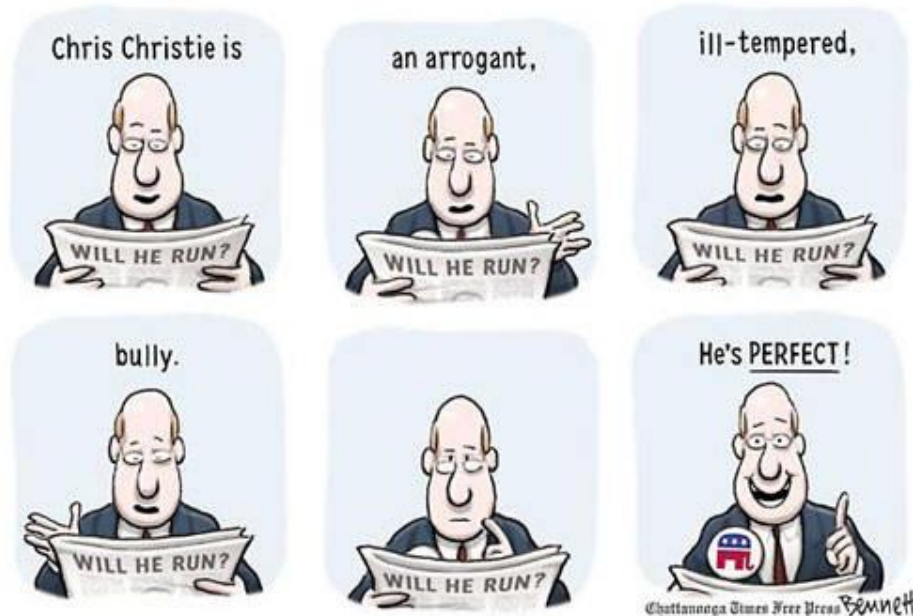
The political environment in the New Year is setting up as a double-win in 2014 that supports our increasingly optimistic outlook for the economy and the markets (see "[A Major Upgrade to our Strategic Outlook](#)" September 12, 2013, and "[Regime Change for Equities](#)" November 26, 2013). New Jersey Governor Chris Christie's scandal makes 2016 more interesting.

- Our out-of-consensus view that October's government shutdown and default scare would set the stage for 2014 gains in the Senate and the House has come true, with [generic congressional polls having flipped since October to favor the GOP](#). We have argued that mid-term elections are inherently protest elections, and the GOPs histrionics were well aimed at fomenting protest (see "[On the Shutdown and Debt Limit Deal](#)" October 17, 2013).
- *GOP congressional gains, we believe, will reduce the risk and incidence of anti-growth policy, and increase the chances of pro-growth policy such as deregulation of domestic energy production.*

Update to strategic view

US MACRO: The US political environment continues to evolve to support our thesis that an improving pro-growth policy outlook, particularly in energy, will support a growth acceleration and continued strong equity performance. We now think GOP control of the Senate is in reach for 2014, with a few seats gained in the House. Chris Christie's scandal anointed him as a person of national significance. He has turned the "bully" charge on its head, earning the sympathy of voters according to polls. He seized this opportunity to display the political skills required for a credible presidential candidate in 2016. This gives confidence that a turn toward pro-growth policy in 2014 can be long-lived.

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- But so long as brinksmanship such as October's shutdown and default scare was required to advance the GOP's chances, the potential for pro-growth policy gains had to be paid for with risky behavior. That behavior could, *in extremis*, lead to the potentially systemic event of a US Treasury default. A high price indeed.
- Since the shutdown, the botched launch and broken promises of the Affordable Care Act -- and the *hubris* of the Democratic Senate having exercised the "nuclear option" on appointments -- have given the GOP plenty of fuel for a strong protest vote in 2014 without courting financial contagion in the process.
- So now we have seen the [budget deal](#) brokered by Representative Paul Ryan (R-WI) and Senator Patty Murray (D-WA) mature into [the first appropriations bill](#) passed by congress under "regular order" for years.
- *There was no threat of a government shutdown. And we don't expect much of a default threat when the debt ceiling needs to be negotiated in late February or early March. Thanks to ObamaCare, the GOP doesn't need the theater of brinksmanship to get out the vote in 2014. The new "brand promise" of the GOP is to be the party that can govern without mis-steps like ObamaCare.*
- *Thus, a double win for the economy and the markets -- a likely pro-growth shift in the US congress, with no systemic risk arising from shutdowns or default scares.*
- Our earlier view that the GOP could make strong gains in the Senate, perhaps as much as tying it up at 50-50, has grown into a belief that the GOP could earn a one-seat majority this year.
- There are eleven competitive Senate races, with nine currently occupied by Democrats. Seven of those are in states that voted for Romney in 2012, and of those, in three states the incumbent is retiring (please see the chart below). Even when the power of incumbency can be brought to bear, the burden of running in a red state with an unpopular Democrat in the White House is a terrible

**Contact
TrendMacro**

On the web at trendmacro.com

Follow us on Twitter at twitter.com/TweetMacro

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

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

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

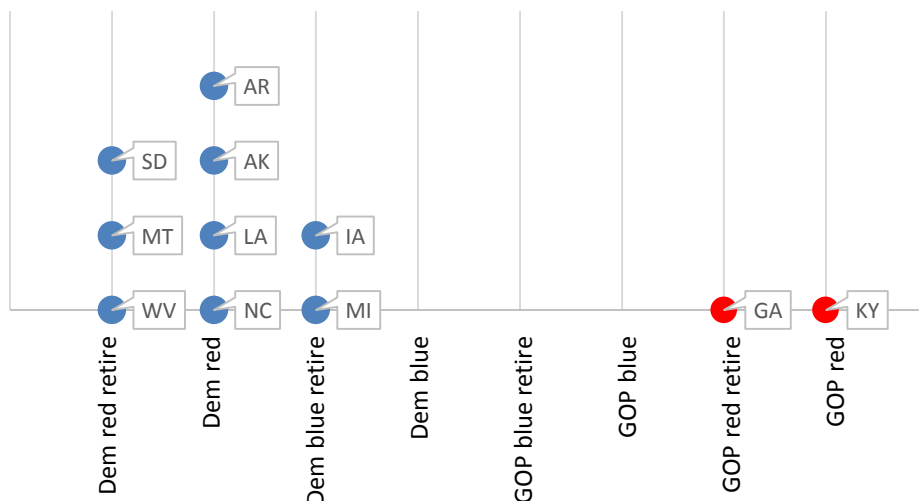
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**Recommended
Reading**

[Chris Christie Is an Amateur](#)
Daniel Henninger
Wall Street Journal
January 16, 2014

[\[Reading home\]](#)

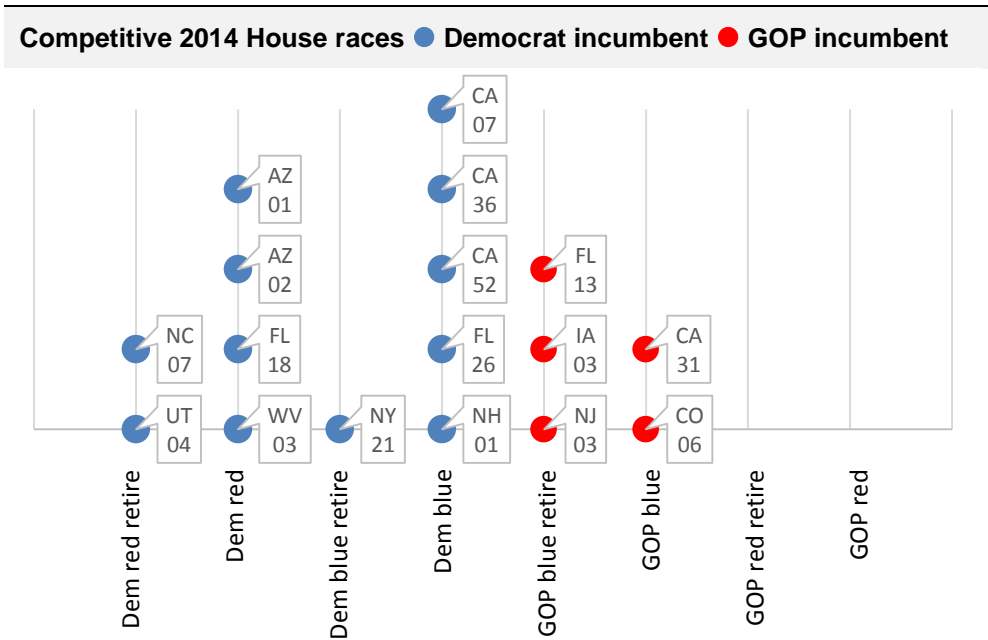
Competitive 2014 Senate races ● Democrat incumbent ● GOP incumbent



Source: Cook Political Report, TrendMacro calculations

challenge. For example, this week North Carolina incumbent Kay Hagan, [behind in the polls against the GOP field](#), conspicuously [absented herself](#) from a speech by visiting President Obama.

- On the other hand, the GOP faces no competitive Senate races in blue states.
- As to the House, we have never doubted that the GOP would hold its majority. Districts are so gerrymandered that significant change in either direction is difficult. But now we expect a gain of at least several seats for the GOP. There are seventeen competitive elections, with Democrats at risk in twelve of them (please see the chart below). Of those, six are in red districts, and of those the incumbent is retiring in two. The problem for the GOP is that it is facing similar challenges in five blue districts.



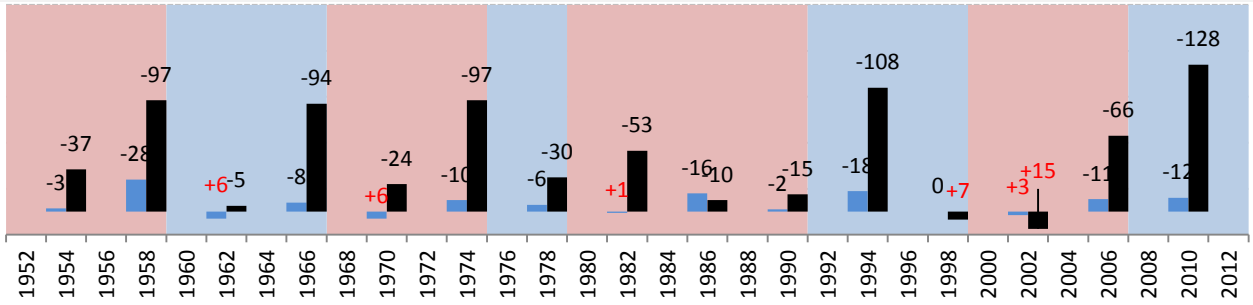
Source: Cook Political Report, TrendMacro calculations

Obviously, the outlook for the general election in 2016 is less clear. But the strong laws of US political history give us a starting point.

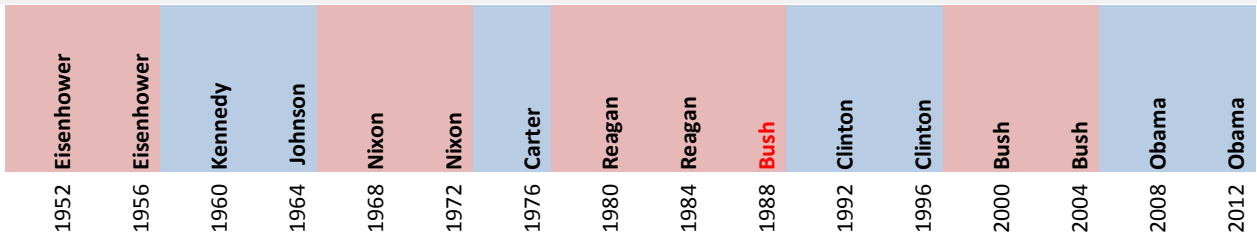
- 2014 is shaping up as vindication of the historical pattern that in mid-terms the party that controls the White House loses seats in congress (please see the first chart on the following page).
- An even stronger historical law is that neither party can control the White House for more than two terms (please see the second chart on the following page).
- *So all else equal, the GOP wins in 2016 if it can produce a credible candidate from an eclectic field. Which brings us to Chris Christie.*

We have been telling clients for a long time that New Jersey Governor Christie would be the GOP presidential candidate in 2016, long before his landslide re-election last November (see ["On the Elections in New Jersey, Virginia and Alabama"](#) November 6, 2013).

Mid-terms go against president's party Relative loss: Senate ■ House President: ■ GOP ■ Dem



Presidency changes party every two terms ■ GOP ■ Dem

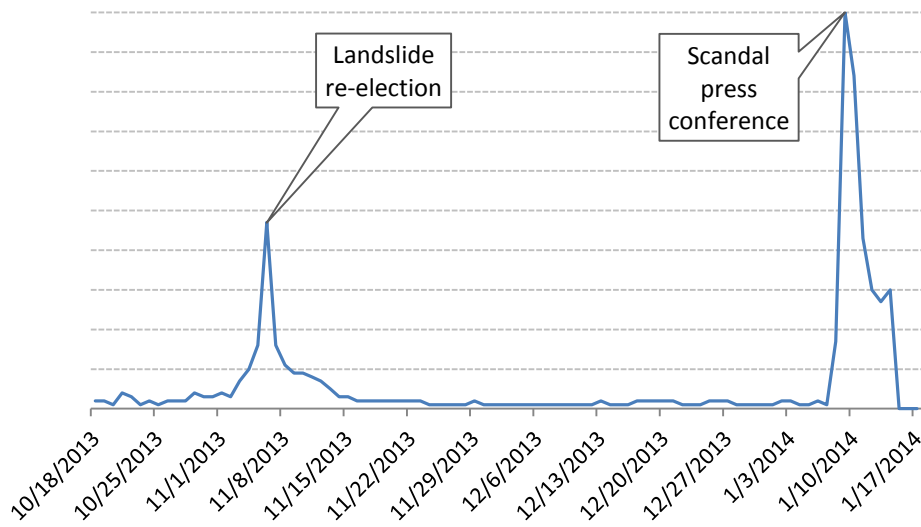


Source: Cook Political Report, TrendMacro

- The bridge closure scandal in which Christie is embroiled doesn't change our mind. It strengthens our view.
- The fact that the scandal has driven more media attention than his re-election (please see the chart below) shows that the re-election set him up as a unique figure worthy of subsequent national focus. *Indeed: his landslide re-election proved that a charismatic Republican can attract votes from minorities and women, and put*

Google search volume for term "Chris Christie"

Normalized zero to 100



Source: Google Trends, TrendMacro calculations

blue states in play.

- The dominant national media narrative on Christie has always been that he is a "bully," and the present scandal plays right into that.
- Yet he used his press conference last week to turn that narrative on its head -- apologizing and taking responsibility. It was an extraordinary Clinton-class performance, and the payoff was [a poll showing a drop in public perceptions of Christie as a bully](#), versus what had been believed before the scandal.
- Arguably it is the media and Christie's Democratic opposition in New Jersey [who look like bullies now](#). The dynamic is similar to the sympathy generated for Bill Clinton in his impeachment when, though guilty on the face of it, he won the war of public opinion by portraying himself as a victim of over-reach by the GOP.
- So we see Christie coming out of this as a winner on multiple levels. The scope of the media frenzy anointed him as an important person of national standing. Portraying him as a bully may have helped solidify his *bona fides* among skeptical conservatives. At the same time, his skillful response turned the tables and has earned him some degree of sympathy. And the opportunity to put that skillfulness on display establishes him as a serious player capable of navigating the challenges of a national election.
- *Christie's performance gives us confidence that the long-term pattern of alternating White House control can be fulfilled in 2016. This, in turn, gives us confidence that the move toward pro-growth policy we expect in the 2014 mid-term can be long-lived.*

As always when we write a report about politics, we feel we must be very clear about our motives and our purpose. We are not motivated by personal preference for one party or another, or one candidate or another. And our purpose is not to analyze politics for its own sake, as though it were intrinsically interesting. *Our motive and or purpose is to understand the evolving environment for policies that will affect economic growth and market performance. We continue to believe that the political environment is now working in tandem with a new-found global financial stability to re-ignite virtuous cycles of growth and returns to capital that have not been seen for more than a dozen years.*

Bottom line

The US political environment continues to evolve to support our thesis that an improving pro-growth policy outlook, particularly in energy, will support a growth acceleration and continued strong equity performance. We now think GOP control of the Senate is in reach for 2014, with a few seats gained in the House. Chris Christie's scandal anointed him as a person of national significance. He has turned the "bully" charge on its head, earning the sympathy of voters according to polls. He seized this opportunity to display the political skills required for a credible presidential candidate in 2016. This gives confidence that a turn toward pro-growth policy in 2014 can be long-lived. ▶