

POLITICAL PULSE

Our Hot Take on the Election

Wednesday, November 4, 2020

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No blue wave. Trump declares war. Worst policy risks off the table if GOP holds the Senate.

Trigger warning: we are going to have to talk about politics. Please join us in setting personal preferences aside and using best efforts to objectively assess the dynamics and the possible outcome of the 2020 elections, and their impact on markets and the economy.

Unfortunately, so far, this is all just what we expected (see [“Video: Zoom pre-election briefing”](#) November 2, 2020).

- President Donald J. Trump appeared to be ahead at first based on rapid counting of election-day voting.
- Then as the night wore on, it became clear that it could all go the other way once the record number of mail-in ballots are counted over several days in the battleground states.
- Recriminations and litigation ensue.

So we wait. But there is one thing we already know: at the highest level of thinking about what the results mean for the productive capacity of the economy, this is no “blue wave” nor a “lurch to the Left.”

- Even if Joseph R. Biden is elected president and Kamala Harris vice president – and even if their agenda consists of initiatives thought just a few years ago to be impossibly “progressive” – the most anti-growth policy outcomes are likely off the table, because it seems that the GOP will retain control of the Senate, as we expected.
- If that holds, then whatever else, at least markets don’t have to worry about Biden and a Democratic Senate raising the corporate tax rate by 33%, taxing dividends and capital gains as ordinary income, or un-capping the Social Security tax. We could go on.
- As of this writing, the GOP can afford a net loss of one more seat beyond the net loss of one already booked. Counts are ongoing for four GOP incumbents in Georgia (2), Maine, and North Carolina, and for a GOP challenger in Michigan, where in all cases they lead as of this writing. If John James wins in Michigan, the GOP could preserve control even if it loses two of the incumbents.
- If it turns out the GOP does lose control, then the policy outlook would become darker, especially if Trump doesn’t end up getting re-elected. That’s the big risk here.

Update to strategic view

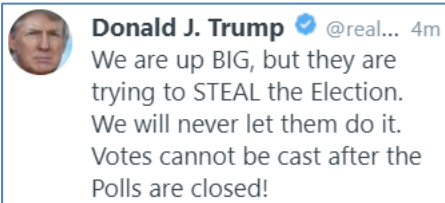
US ELECTION MODEL, US MACRO: No blue wave, no lurch to the left. A relief, if not a surprise. By not carrying Florida, Biden failed to become the prohibitive favorite on election night. The GOP will likely retain Senate control, which takes the worst-case policy risks off the table including corporate and individual tax hikes. Trump has declared war, claiming that victory is being stolen from him, and invoking the Supreme Court to prevent a fraudulent process. The war-zone states are Georgia, Michigan, North Carolina, Pennsylvania and Wisconsin. As of this writing Trump leads in all but Michigan and Wisconsin, where he trails very narrowly. Trump can afford to lose any one, but not any two. If election results in these states are sufficiently delayed, we expect widespread protests that could hold back completing a V-shaped economic recovery.

[\[Strategy dashboard\]](#)

Reactions last night, and now this morning, confirm our thesis that Mr.

Market has been expecting Trump to win – or at least the GOP to hold the Senate. So we think we are seeing more relief than surprise since it first emerged that Biden wasn't going to walk away with it on election night. We had said that Biden needed to win Florida, *plus* one of North Carolina or Arizona, to become the prohibitive favorite (see [“What to Watch on Election Night and Beyond”](#) October 27, 2020) – and when Florida fell to Trump, that became impossible.

But we think markets have been naïve about the potential for acrimonious, divisive and prolonged election litigation (see [“Forget the Debates, Hack the Election”](#) October 9, 2020). *That is precisely where we are headed.*



It started with a tweet, as usual. Then Trump made a late-night statement at the White House all but declaring victory – “frankly, we did win this election” – alleging “a major fraud on our nation,” and saying he would to go to the Supreme Court because “we want all voting to stop.”

- That last phrase was a most unfortunate choice of words. Trump's enemies in the press will repeat it endlessly in the coming weeks while the election is being litigated, to portray Trump as waging what the *New York Times* already called several weeks ago [“The Attack on Voting.”](#) Obviously, Trump meant he wanted the voting to stop *when the polling-places closed*. In his very next sentence he clarified, “We don't want them to find more votes at four in the morning and add them to the list.” But that will be edited out of the media renderings, just as Trump's strong condemnation of white supremacists [has always been edited out](#) of his statement about “fine people on both sides.”
- What is Trump's evidence of “major fraud”? He said, “We were winning everything, and then it was just all called off.” He's not wrong, but it could be nothing more than what we said to expect, that when the in-person votes were counted, the process would slow to a crawl when mail-in ballots started to be opened, validated one by one, and then counted. But Trump seems to be suggesting that somehow the whole process was halted on purpose just when – indeed, *because* – it seemed that he was winning.
- *It's very aggressive for Trump to be putting out this narrative on election night – it's a declaration of war, seemingly on a hair trigger. But it was a smart play in a battle of persuasion where there is an advantage to making the first move.* You can be sure Al Gore wishes he had been quicker and more aggressive in framing his case in the “hanging chad” recounts in Florida in 2000. Instead, Gore let George W. Bush declare victory at the outset and go into their very public six-week dispute as the presumptive winner.
- *It appears that there will be as many as five war-zone states: Georgia, Michigan, North Carolina, Pennsylvania and Wisconsin.* With Biden having picked up 12 Electoral College votes by flipping Arizona and Nebraska's second district (Trump won them in 2016), Trump can only afford to lose 25 more. That means *Trump can still*

win if he loses any one of the four war-zone states, but no combination of two of them (a surprise win in Nevada would enable him to survive some pairs, not others).

- As of this writing, Trump is ahead in three of them, and very narrowly behind in Wisconsin and Michigan. But there are many mail-in ballots to be counted.
- This will be a war fought by Republicans and Democrats alike. For both parties, the objective will be to manipulate the process of excluding or including mail-in ballots depending on which is in the interest of the respective party – much as the parties did with the “butterfly ballots” in 2000 recounts.
- Trump has two asymmetrical advantages. First, he is highly likely to stumble upon evidence of fraud – because mail-in balloting uniquely lends itself to fraud (see [“Video: Zoom meeting with election fraud expert John Fund”](#) September 3, 2020). This will validate him. Because the voting process in three of the four war-zone states is controlled by Democrats, that will help him win the persuasion war with the public and the Supreme Court.
- Second, if Trump thinks he is going to lose in the Electoral College, his objective would be to strategically delay so that one or more of the war-zone states miss the December 14 deadline to convene electors for the Electoral College (see [“Video: Zoom meeting with Constitutional scholar John Yoo”](#) September 25, 2020). That could deprive either candidate of the necessary 270 votes to earn a majority, thus throwing the election to the House of Representatives under the 12th Amendment, where the preponderance of GOP-controlled state delegations would give Trump the advantage (see [“Video: What you're not hearing about how a blue wave could re-elect Trump”](#) September 25, 2020).
- Remember, with Amy Coney Barrett cementing a conservative majority on the Supreme Court, with three justices appointed by Trump, Trump probably has something of a “friendly ref” on the field as this game plays out. We have to think a court full of “originalists” would not be as squeamish about the Constitutionally contemplated selection of the president in the House – it’s already happened twice in American history – as the high court was in 2000 when the controversial [Bush v. Gore](#) decision avoided that outcome.
- We expect unrest – protests and riots – as the war-zone states get litigated and the Supreme Court hands down controversial rulings. Businesses nationwide are already [braced for protests and rioting](#), and Democrat-affiliated organizations have already created [the communications infrastructure to coordinate them](#).
- As we talk to clients about this, there is a widespread sense that weeks of unrest would be unfortunate but not economically significant. Maybe, but we remind you that we are only half-way up the right-hand side of a V-shaped recovery, and we’re getting into the diminishing-returns range where marginal improvement takes increasing effort. This is far from the ideal time to put any frictions in the way of opening up the economy after the Covid-19 lockdowns, by giving any firms or consumers a reason not to aggressively participate in the economy. The last thing we need

now is for weeks of political chaos to turn into a tipping point that triggers a double-dip recession.

Bottom line

No blue wave, no lurch to the left. A relief, if not a surprise. By not carrying Florida, Biden failed to become the prohibitive favorite on election night. The GOP will likely retain Senate control, which takes the worst-case policy risks off the table including corporate and individual tax hikes. Trump has declared war, claiming that victory is being stolen from him, and invoking the Supreme Court to prevent a fraudulent process. The war-zone states are Georgia, Michigan, North Carolina, Pennsylvania and Wisconsin. As of this writing Trump leads in all but Michigan and Wisconsin, where he trails very narrowly. Trump can afford to lose any one, but not any two. If election results in these states are sufficiently delayed, we expect widespread protests that could hold back completing a V-shaped economic recovery.