

MACROCOSM

How Will Biden Govern?

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He was nominated and elected as a centrist. The GOP Senate will be sure he stays that way.

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.

Time is running out for President Donald J. Trump to [“release the Kraken”](#) and reverse the apparent results of the election. *With every passing day it gets less likely* he can come up with something sufficiently salient, and then push it through the courts before Electoral College votes are cast on December 14 (see [“Was there fraud in the 2020 election? Zoom meeting with election expert John Fund”](#) November 10, 2020). *So it's time to start laying out a general framework for thinking about how Bidenomics is going to affect the economy and the markets.*

Will Biden govern from the center? Yes, but... *Joseph R. Biden's mandate from the Democratic voters who made him the candidate in a crowded primary field is to be a centrist and conventional politician.* Those voters rejected more “progressive” candidates such as Bernie Sanders and Elizabeth Warren, and “outsiders” such as Michael Bloomberg and Tom Steyer.

Biden's mandate from the presidential election is similar, given the complete absence of anything resembling a “blue wave.” (see [“Our Hot Take on the Election”](#) November 4, 2020). Biden's win appears to be the surgical excision by the electorate of Trump as a single individual, which did not generalize to anywhere else. The GOP lost only one Senate seat, while the historical record would have suggested 1.4 (assuming both GOP seats in Georgia are retained in the January run-offs – more on this momentarily). The GOP is on track to *gain* 10 to 12 seats in the House, while the historical record suggests a *loss* of 7. The GOP retained control in all its state legislatures and added New Hampshire. “Progressive” ballot initiatives went down to defeat in liberal strongholds like California and Illinois. *Biden's mandate from the electorate, therefore, is nothing more than to not be Donald Trump – indeed, that was his own principal brand-promise in the campaign.*

Such a mandate limits what Biden can do without triggering a backlash that will cost the Democrats the House of Representatives in 2022. This is all the more real considering that, in the wake of the 2020 census and the decennial reapportionment of congressional seats, GOP-dominated states

Update to strategic view

US ELECTION MODEL, US MACRO, US FED, OIL: Trump is running out of time to effectively contest the election. The GOP is likely to retain Senate control, coming into Georgia's two run-offs with comfortable margins. Biden was both nominated and elected as a centrist, and especially with a GOP Senate, that's how he will have to govern. The leaders of Biden's coronavirus task force have renounced lockdowns. There may be a relief bill, not a stimulus bill. Biden is unlikely to get an infrastructure bill past the GOP Senate if Trump couldn't. High-profile “progressives” like Warren or Sanders wouldn't be confirmable as cabinet officers. Brainard, Ferguson or Yellen are credible Treasury picks. Harris will likely be sidelined to administrative and ceremonial roles. Biden is likely to reappoint Powell. He won't ban fracking. The worst policy risk is re-entry into the Iran nuclear deal, which would flood an already glutted oil market.

[\[Strategy dashboard\]](#)

will likely pick up five new districts (a flip of 10), and at the same time have strong control over the redistricting process that gerrymanders voters into favorable configurations. *Democrats are going to struggle to keep the House even if Biden stays in his lane – but he has a strong incentive to do so.*

So far Biden's picks, such as chief of staff Ron Klain, are very much establishment figures, consistent with the centrist mandate. *That said, his administration will necessarily be populated by Democrats drawn from a party that has strongly moved to the Left* (see [“Biden: Be Careful What You Wish For”](#) March 5, 2020).

Will the GOP really keep Senate control? *As long as it does, the interplay between Biden and Majority Leader Mitch McConnell will be the most critical guardrail keeping Biden in the center. Most important, the corporate and individual tax increases Biden campaigned on cannot be implemented without legislation requiring acquiescence of the Senate. The sunset of lower individual tax rates does not occur under current law until after the 2024 election.*

- There are two Senate races in Georgia that will go to run-offs on January 5. *The GOP will retain Senate control even if it loses one race, but it loses control if it loses both races. We expect the GOP will win both – but it will be a very nasty and very expensive pair of campaigns.*
- *For the GOP candidates to lose, their rivals would have to do better than they did in the November 3 election. We see no reason why they would, with opposition to Trump no longer a get-out-the-vote narrative for Democrats.*
 - Appointed GOP incumbent Kelly Loeffler, standing in a special election, received 25.9% of the vote on November 3. Her main Democratic opponent Raphael Warnock received 32.9%. But it was a crowded field, and in aggregate, the GOP candidates with 49.4% outpolled the Democratic candidates at 48.4%. Giving the Libertarian candidate's votes to Loeffler and the Green candidate's votes to Warnock, and distributing independent candidate's votes equally, Loeffler wins 50.7% to 49.3% (Loeffler still wins, but narrowly, if all independent votes go to Warnock).
 - GOP incumbent David Perdue, standing in a regular every-six-years election, received 49.7% to Democrat Jon Ossoff's 48%. The only other candidate was a Libertarian, and giving all his votes to Perdue gives the GOP the win, 52.0% to 48.0%.

Will Biden impose national lockdowns against Covid-19? *In the near term, this is the single most important question for the economy and the markets. Biden will inherit a nearly-completed V-shaped economic recovery, and a policy error on lockdowns could throw it all away.*

Who knows under exactly which law Biden would impose a national lockdown – but over the years there have been so many statutes enacted

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giving the president this or that emergency power, we have no doubt he would come up with one if he wanted to. But *we doubt he will want to*, especially considering that when he has to make the decision, after he is inaugurated in late January, [vaccines will already be in use to some extent](#), with widespread application just weeks or a short number of months away.

- To be sure, [Biden's coronavirus task force](#) includes some dangerous ideologues. [Dr. Ezekiel Emanuel](#), brother of Obama White House chief of staff Rahm, is the author of [a controversial article](#) arguing that people over 75 years of age should forego medical treatment to make resources available to the young, and [he has advocated](#) distributing US Covid-19 vaccines globally out of "fairness." [Dr. Michael Osterholm has faulted](#) the March-April lockdowns for not being "as comprehensive and strict as possible." Just after his appointment to the task force, [he advocated](#) a 4- to 6-week hard lockdown to "revive the economy." Now [the tweet documenting that](#) has been deleted, and he has clarified that this view was never discussed with Biden or the task force.

- In happy contrast, [Dr. Vivek Murthy, one of the task force's three co-chairs, said](#) that such an approach is not on the table. He said,

"If we just lock down the entire country without targeting our efforts, then we are going to exacerbate the 'pandemic fatigue' people are feeling, you're going to hurt jobs and the economy, you're going to shut down schools and hurt the education of our children... so we've got to approach this with the precision of a scalpel rather than the force of an ax."

- Bravo.

Will there be a "stimulus" bill? *At this point we're not convinced it's really necessary*, and when it comes to large-scale government interventions, if it isn't really necessary it probably shouldn't be done because there are always unintended consequences.

- To be sure, the election is behind us, so the Democratic House has less motive to fear handing Trump a victory. *But our take is that both parties are focused on single must-have features which, in both cases, are unacceptable to the other party. Specifically, the GOP wants a safe harbor against Covid-related tort litigation, and the Democrats want bail-out money for indebted Democratic cities and states. In the absence of an economic emergency, our bet is that both parties would rather execute their hostages than exchange them.*
- Treasury Secretary Steven Mnuchin and House Speaker Nancy Pelosi are [continuing to negotiate](#). Maybe a targeted relief-oriented package can be agreed – but we doubt anything that we'd think of as "stimulus" is going to happen.

Will there be an infrastructure bill? Why would there be? The GOP Senate had no interest when Republican Trump was president. We see no

reason why that would change when Democrat Biden is.

Will Biden appoint “progressives” to cabinet posts? Despite pressures that will keep Biden generally in the center lane, he also must keep the Left wing of his party reasonably satisfied. One way to do that would be to appoint some of its leading lights to cabinet positions. [The media is already running with “short lists”](#) of such people without even claims of evidence that they are actually under consideration.

- There are two reports that seem credible to us. [Elizabeth Warren is reportedly lobbying](#) to be nominated Treasury secretary. [Bernie Sanders has overtly expressed interest](#) in being Secretary of Labor.
- As to Treasury, [Biden said Thursday](#) he has already picked his nominee, “someone who I think is, will be accepted by all elements of the Democratic Party, from the progressive to the moderate coalitions.”
- *[Fair enough, but any nominee will also have to be acceptable to Republicans, because they all must be approved by the Senate. As long as the GOP is in control there, we consider it virtually impossible that lightning-rods like Warren or Sanders could get through.](#)* Remember, Warren, before she was a senator, was not even able to be confirmed by the Senate to head the brand-new Consumer Financial Protection Bureau, her own brainchild. Federal Reserve governor Lael Brainard, former Fed governor Roger Ferguson or former Fed Chair Janet Yellen could probably get through, and none of them would imply strong policy risks for growth.
- *[Also, Warren and Sanders are sitting senators, and having them take cabinet positions would require that they be replaced by their respective governors, both of whom are Republicans.](#)* [Vermont Governor Phil Scott said](#) he would appoint an independent who would caucus with the Democrats, just like Sanders. Massachusetts Governor Charlie Baker has been silent. Reportedly, to avoid any risk of damaging the Democrats’ tenuous positions in either chamber of Congress, [Biden is considering a blanket ban](#) on nominating any of them.
- *[Be that as it may, however radical a cabinet member may be, his or her scope of action is limited by instructions from the boss – Biden. If Biden needs to stay in the center lane, his appointments pretty much do too.](#)* Just ask Robert Reich, Labor secretary under Bill Clinton, who was so hamstrung [he wrote a memoir](#) called “Locked in the Cabinet.”

What role for Harris? As Veep nominee, Kamala Harris checked identity-politics boxes for Biden. But that made her a lightning rod (see [“On Harris for Veep”](#) August 11, 2020), so he kept her nearly invisible in the campaign. She didn’t give a single press conference, and in our judgment her few national appearances were not effective (see [“On the Dems’ Virtual Convention”](#) August 21, 2020). If Biden had disagreed with that, he would have used her more.

- Our take is that *she is not the liberal ideologue* the Trump campaign tried to portray her as. Rather, *she is a machine politician* without any strong agenda, except for the agenda common to all politicians, which is to be in power. *Biden will likely find some task forces or blue ribbon committees for her to chair, but little of substance.*

Will Biden re-appoint Powell? There's something of a bi-partisan tradition of re-appointing Fed chairs – Clinton did with Alan Greenspan, and Barack Obama did with Ben Bernanke, but Trump did not with Janet Yellen (it's not clear she wanted it). We think Jerome Powell has a good shot – though it won't be until 2022 – if for no other reason than that he and Trump have had a rancorous rivalry, with Trump going so far as to say it was a mistake to have nominated him.

- Besides, Powell, more than any other Fed chair, has publicly positioned the Fed as an institution that serves all the people, with full cognizance of the impact its policies have on underprivileged communities. It was under Powell that the Fed undertook the “Fed Listens” program, designed to reach out to those communities (see [“The Fed Pretends to Listen”](#) January 29, 2020). And it was under Powell that the Fed effectively abandoned its age-old Phillips Curve philosophy in favor of letting the economy “run hot” at very low levels of unemployment (see [“Powell at Jackson Hole, and the Inflation Makeup Strategy”](#) August 27, 2020).
- And once again, *Biden has to nominate someone who can get through a GOP-controlled Senate. Powell can do that. Lawrence Summers could not.*

Will Biden ban fracking? No, though he has considerable regulatory powers that, without the cooperation of the GOP Senate, would allow him to slow it down and make it more costly. He will surely make some moves in that direction, just as Obama did, but short of outright ban, in order to satisfy the environment-focused Democrats, whose abstract ambitions are shared by more than the hard-Left of the party.

- *The greatest risk to the energy industry is the possibility that Biden would try to re-enter the US in the Iran nuclear deal.*
- It didn't take Senate approval to put in place initially (there was a complex dance of non-disapproval instead), so it conceivably wouldn't now. The deal is an iconic accomplishment of the Obama administration, which Republicans took great relish in dismantling under Trump (see [“Iran Deal: More Fire, More Fury, Pure Trump”](#) May 9, 2018). *We can imagine that Biden would be equally delighted to put it back together.*
- The effect would be to lift sanctions that prevent other nations from doing business with Iran, which would result in Iran's returning to the crude oil export market. *This would flood an already glutted global oil market with an additional 1.5 million barrels per day, making the recovery of the energy industry from the lockdown*

demand shock even more difficult than it already is (see [“If It’s a V-Shaped Recovery, What About Oil Prices?”](#) September 24, 2020).

- The brake on this is that Democrats share one objective with the oil industry – they want prices to be higher. The Democrats want that because, at the margin, it mobilizes market forces to move away from fossil fuels and into alternatives. It’s difficult to handicap which priority will take precedence, but this remains perhaps the most consequential policy risk under President Biden.

How will Biden handle China and trade? We will address this very important issue in a follow-up report.

Bottom line

Trump is running out of time to effectively contest the election. The GOP is likely to retain Senate control, coming into Georgia’s two run-offs with comfortable margins. Biden was both nominated and elected as a centrist, and especially with a GOP Senate, that’s how he will have to govern. The leaders of Biden’s coronavirus task force have renounced lockdowns. There may be a relief bill, not a stimulus bill. Biden is unlikely to get an infrastructure bill past the GOP Senate if Trump couldn’t. High-profile “progressives” like Warren or Sanders wouldn’t be confirmable as cabinet officers. Brainard, Ferguson or Yellen are credible Treasury picks. Harris will likely be sidelined to administrative and ceremonial roles. Biden is likely to reappoint Powell. He won’t ban fracking. The worst policy risk is re-entry into the Iran nuclear deal, which would flood an already glutted oil market. ▶