

TRENDMACRO LIVE!

On the GOP Virginia Sweep

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BBB is dead. We said Biden would govern from the middle. He didn't. Now he'll have to.

Republicans in Virginia swept elections for [governor](#), [lieutenant governor](#), [attorney general](#) and flipped the [House of Delegates](#). As of this writing, it's still too close to call whether a GOP challenger has won an upset in the race for governor in New Jersey.

- The Virginia GOP sweep, in a state that has been trending Democrat for over a decade, took place despite in-person campaigning by President [Joseph R. Biden, Jr.](#), Vice-President [Kamala Harris](#), former president [Barack Obama](#), and Dem voting rights activist [Stacy Abrams](#), and some good old-fashioned [dirty tricks](#).
- Regardless of how New Jersey turns out (even a narrow GOP loss would amount to an upset), *this reminds us of GOP gubernatorial wins in both New Jersey and Virginia in 2009, which prefigured sweeping gains in the Senate and House in the 2010 midterms.*
- Looking ahead to the 2022 midterms, in case it wasn't obvious before, the GOP is now very clearly on track to flip the House (which would make Nancy Pelosi only the second speaker in history to have lost that job twice).
- *That prospect is the final nail in the coffin for the Build Back Better Act – the reconciliation bill – and its sweeping tax hikes on firms and individuals. We've said since the beginning that it would not be enacted because it would be toxic to moderate Democratic congresspeople in swing districts facing highly competitive midterm elections* (see ["On the Coming Corporate Tax Hikes"](#) March 31, 2021). *That's been the governing dynamic all along, but now, after Virginia, it's locked in.*
- To be sure, the similarly sweeping Affordable Care Act was still passed in 2010 after the 2009 elections, and even after the Democrats lost their filibuster-proof Senate majority with the death of Edward Kennedy. But that's when the Democrats enjoyed a 79-seat governing margin in the House. Today it is only eight – so defections by just four Dems are enough to defeat BBB (and there are at least 17 endangered moderates).
- We don't want to indulge in too much mind-reading of the electorate here, but we feel comfortable going back to our immediate post-election analysis last year when we said that there was no "blue wave," despite overheated claims to that effect in the media (see ["No Blue Wave, But Now What?"](#) November 6, 2020).

Update to strategic view

US MACRO: The GOP sweep in Virginia, and a still-possible upset in New Jersey, recall their wins in those two states in 2009, prefiguring the GOP's flipping the House in the 2010 midterms. Obamacare was nevertheless enacted in 2010, but Democrats had vastly larger congressional majorities. This is the final nail in the coffin for the Build Back Better Act, making it certain that there are insufficient votes among moderate House Dems who now have to appreciate their re-election risk heading into competitive midterms next year. Biden was elected with razor-thin congressional majorities with only one mandate: to not be Trump. But he hasn't governed from the middle. This is a corrective, though it remains to be seen how he will respond. Heavily lagging in approval polls, Biden may seek an easy win: House approval of the bi-partisan infrastructure bill is his lowest-hanging fruit. It could happen quite quickly.

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That election was nothing but an apparent repudiation of a single person – Donald J. Trump – and was therefore not indicative of a lurch to the political left by the electorate. Indeed, we argued, the broad preferences of the electorate could be seen in the fact that the GOP flipped 12 seats in the House, on net, despite a Democrat winning at the top of the ticket; and the Senate ended up in a perfect tie.

- The bottom line for us was that Biden had no mandate for anything at all except to not be Donald Trump. Especially considering that he was the single most conservative among the possible Democratic candidates for president, we concluded he would have to govern from the middle (see [“How Will Biden Govern?”](#) November 20, 2020). But he didn't. As a first consequence, we think, he has become [the least approved-of president in the history of approval polling](#) (even worse than Trump, who set a high bar for such things).
- We see the results in Virginia as a corrective. It remains to be seen how Biden will respond. One optimistic historical precedent is how William J. Clinton moved to the right after the 1994 midterms, and forged a very productive pro-growth working relationship with new House Speaker Newt Gingrich.
- Our immediate guess on that is that Biden and the Democratic Congress will be hungry for a win, especially one that moves them a little to the right, toward bi-partisanship. What better, then, than immediately passing the bi-partisan infrastructure bill that has already cleared the Senate with 19 GOP votes (see [“Video: What you're not hearing about the incredible shrinking Build Back Better agenda”](#) October 28, 2021)?
- Progressives in the Democratic party have been blocking it – but in light of Virginia, it could now happen, and quickly. They were already caving Monday, in the wake of the strongest-ever opposition to BBB by Senator Joseph Manchin III (D-WV). We don't think the infrastructure bill itself has any particular economic or market consequences. But if it were to pass, then the progressives could no longer use it as a hostage to compel moderates to vote for BBB (see [“Tax Hikes: The House Has Many Manchins”](#) September 8, 2021). Then there would be no motive at all for moderate Dems to vote for BBB.
- We believe markets have generally assumed that BBB, and its earnings-killing corporate tax hikes, could not be enacted. So its death is not exactly news, except that it moves a potential Sword of Damocles even further away.

Bottom line

The GOP sweep in Virginia, and a still-possible upset in New Jersey, recall their wins in those two states in 2009, prefiguring the GOP's flipping the House in the 2010 midterms. Obamacare was nevertheless enacted in 2010, but Democrats had vastly larger congressional majorities. This is the final nail in the coffin for the Build Back Better Act, making it certain that there are insufficient votes among moderate House Dems who now have to appreciate their re-election risk heading into competitive midterms next

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