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# WASHINGTON POLICY STRATEGY Potomac Perspective

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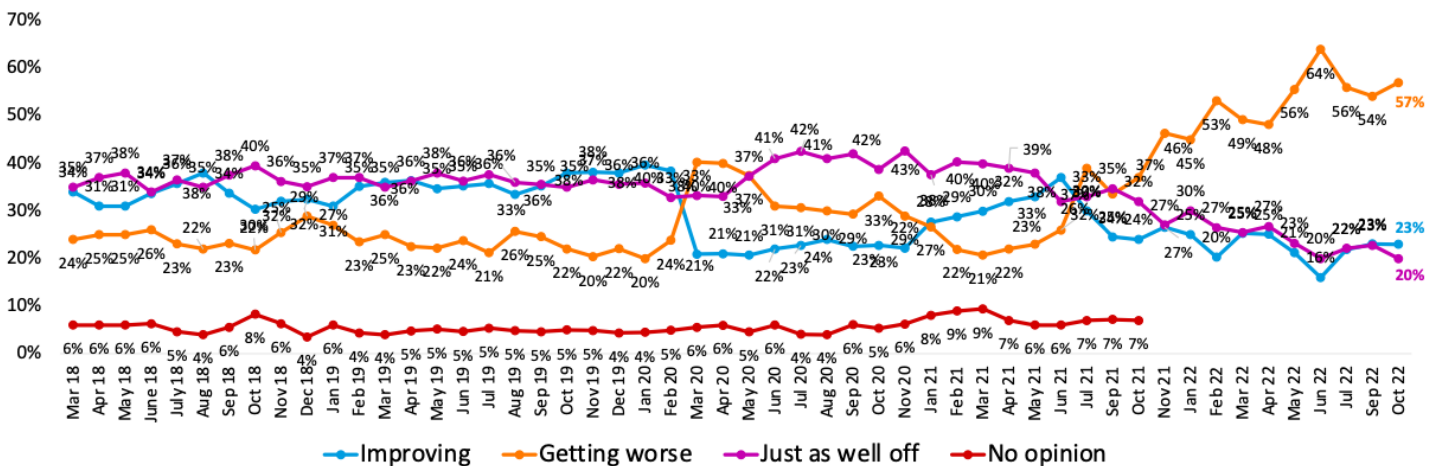
Republican prospects continue to improve. Within the past two weeks, numerous polls have indicated movement in the GOP's direction as voters prioritize issues that play to Republican strengths and deemphasize issues that could benefit Democrats. Chances of a Republican sweep have improved, which could impact the agenda for a lame duck session of Congress.

## THE NATIONAL TREND AND WHAT IT MEANS FOR HOUSE RACES

Republican momentum has been building over the past few weeks after a summer during which Democratic prospects had improved. A recent Harvard/Harris poll shows why. First, voters are anxious about their financial situation.

Would you say that your personal financial situation is improving or getting worse?

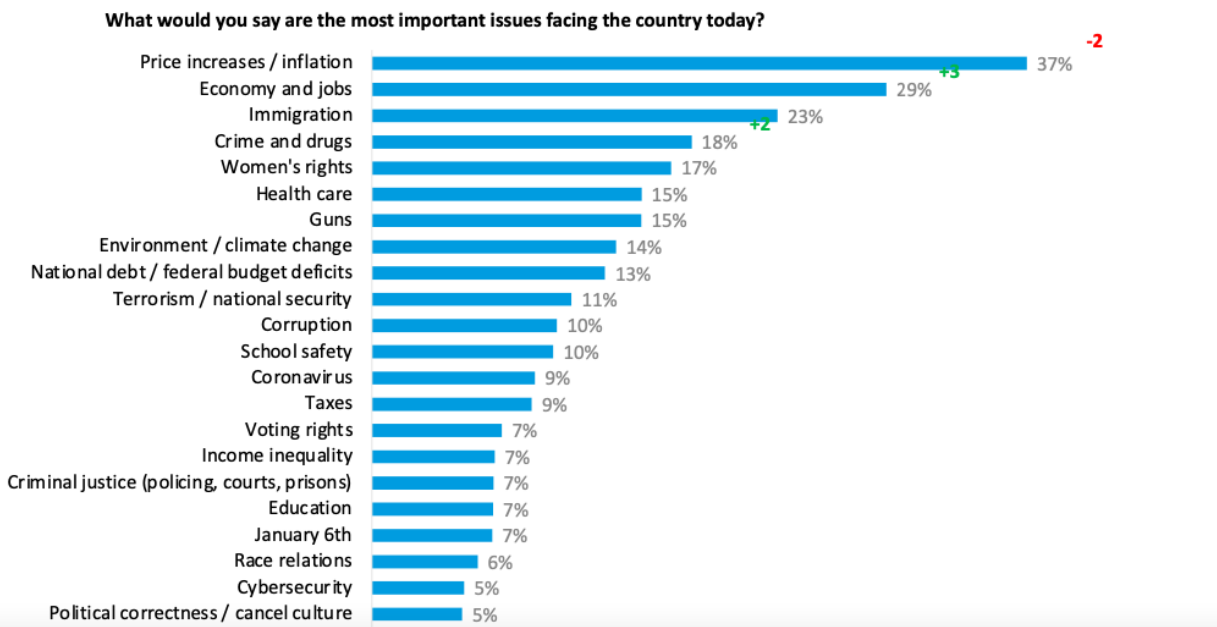
"No opinion" removed as response option in November 2021



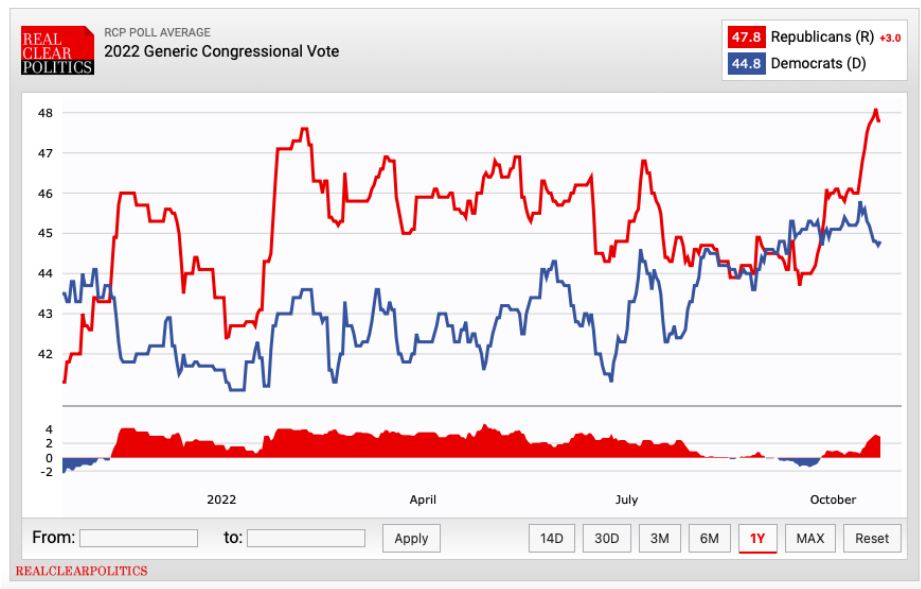
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Also, voters prioritize inflation, the economy, crime, and border security (Republican strengths) over social issues (abortion) and healthcare (Democratic strengths) according to the Harvard/Harris poll:

## INFLATION, THE ECONOMY, AND IMMIGRATION DOMINATE AS TOP ISSUES FACING THE COUNTRY



The above charts suggest a friendly political environment for Republicans, and in recent weeks, the GOP has regained its lead in the generic congressional poll. According to the Real Clear Politics (RCP) average, there has been a 4.3 point swing toward Republicans in the past month.



The RCP poll average and the Harvard Harris poll (which reflect similar findings in polling from NBC) suggests the rebuilding of a Red Wave. In wave elections, weak candidates from the winning party tend to be swept into office despite their flaws. Previous estimates of GOP gains of between 15 and 25 House seats might be too conservative, and larger gains are increasingly possible (see below for implications).

### SENATE RACES

Polling in some key Senate races reflect the national trend as well. According to the Real Clear Politics average, Republican candidates

in Arizona, Georgia, North Carolina, Ohio, and Pennsylvania have all gained ground recently. North Carolina and Ohio look increasingly likely to be Republican holds, while Democratic prospects to hold Arizona and Georgia have diminished. Democratic candidates still lead in both states but their slim lead, plus the national direction, raise questions about whether

Democrats can maintain their leads in Arizona and Georgia. The story is similar in Pennsylvania, which is Democrats' best (maybe only) chance to flip a GOP seat. Democrat John Fetterman's lead is just over one point – roughly one-third of what the lead was three weeks ago, so the pathway for Democrats to hold serve in the Senate are diminishing.

Worth noting is that some of these states have governor's races that could also impact the Senate races. In Georgia and Ohio, Republican gubernatorial candidates have sizable leads that could help the Republican senatorial candidate, while in Pennsylvania, the Democratic candidate for governor could be providing tailwinds for Fetterman.

### **POSSIBLE SENATE SURPRISES**

The Senate races mentioned above have been among the most closely watched races throughout the campaign. However, there are a handful of other races that bear watching and could produce some surprises. Among the seats Democrats are defending, Democrats lead in Colorado, Connecticut, and Washington and are favored to win all three, but a Republican wave could produce surprises in these states if the wave gathers more strength. A recent poll in Connecticut showed a surprisingly close race. In races being defended by Republicans, similar to Connecticut, a recent poll showed a surprising tight race for the incumbent Charles Grassley. In Alaska, Senator Lisa Murkowski (R) is facing challenges from a Democrat and a candidate backed by former President Donald Trump. Alaska uses ranked choice voting (RCV) in which voters rank their preferences, and if the first-place finisher fails to win a majority of votes, the last place candidate is eliminated and the votes for that candidate's second preference are awarded accordingly. This happens until a candidate receives a majority. RCV makes elections less predictable so while Senator Murkowski is favored to win, her victory is not a foregone conclusion.

### **SENATE SCENARIOS – WAITING UNTIL DECEMBER?**

For much of the campaign, possible scenarios for the outcome of the Senate had ranged from a Democratic gain of one seat to a Republican gain of two. Recent polling suggests that it is unlikely Democrats will gain seats. Their best-case scenario appears to be maintaining their current 50-50 majority with the Vice President casting a tie-breaking vote. Chances of a Republican takeover have improved, and a two-seat gain is reasonable, and a three-seat gain is not out of the question.

It is worth noting that it is also possible that the outcome of the Senate is not known immediately. In Alaska, between counting mail-in ballots (which can take time) and RCV, the winner might not be known for several weeks. Also, Georgia requires a runoff if the first-place candidate fails to win a majority.

### **MARKET AND POLICY IMPLICATIONS**

The main market takeaway from a Republican victory would be gridlock regardless of whether the GOP sweeps or not. Flipping the Senate in addition to the House would not materially change the policy implications because by winning the House, Republicans would lock in the ability to block President Joe Biden's legislative agenda. Winning the Senate would not materially change policy implications, since Republicans are unlikely to have close to the 60 votes needed to pass legislation in the Senate or overcome likely presidential vetoes (requiring two-thirds vote). While a Republican Senate could block President Biden's personnel nominations, the Trump administration provided a good roadmap in how to appoint "acting" agency heads and bypass the Senate. The bigger impact would be on the judiciary as Republicans would be able to block the administration's judicial nominees. This is an important fact but one whose impact is felt over the longer term given the pace at which litigation proceeds.

A Republican win in the Senate could have implications for the lame duck session. In this scenario, Democrats would lose the ability to confirm judicial nominations in 2023, so it is likely that Senate Majority Leader Chuck Schumer (D-New York) would prioritize confirming as many Biden judicial nominations as possible during the lame duck session. That could crowd

out legislation including a tax extenders bill, which could be the vehicle to delay changes in the business interest deduction and suspend changes in research and development deduction. Supporters of the Secure Act 2.0 have also been eyeing a vote on the bill during the lame duck session, but chances of a vote on the bill could decline if the Senate flips due to a reordering of Democratic priorities before they lose power in January.

Republicans would probably like to clear the decks of items like the tax extenders bill, Secure 2.0, as well as an omnibus spending bill to cover the rest of fiscal year 2023 and an increase in the debt ceiling. If Democrats lose the Senate, the party might not be inclined to help Republicans tee up their 2023 agenda while sidelining judicial confirmations.

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