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BLUE SWEEP? DEMOCRATS AHEAD IN THE US SENATE RUN-OFFS

Berenberg Macro View

The Democrats may have won the run-off elections for the two Senate seats in Georgia. Although the counting continues and the result seems to be too close to call, electionbettingodds.com puts the probability that the two Democratic candidates will prevail at 94.4%. According to US media, the votes that still need to be counted are mostly in districts that lean towards the Democrats.

If the apparent result is confirmed, both Democrats and Republicans would have 50 seats in the Senate. After taking office on 20 January, Vice President Kamala Harris could thus cast the tie-breaking votes in favour of the Democrats. With a slim majority in the House of Representatives, the Democrats would thus control both chambers of the US congress. Such a result would come as a modest surprise. Until a last-minute rise in support for the two Democratic candidates, which had pointed to a very close race, the Republicans had been favoured to win at least one of the two seats in Georgia. The controversial behaviour of outgoing US President Donald Trump, who unsuccessfully tried to pressure Republican officials in Georgia to void the certified result of the Georgia vote on 3 November for Joe Biden as new president, may have benefitted the Democrats.

WHAT IF?

If the Democrats win the two run-offs in Georgia, the result would make it much easier for incoming President Joe Biden to

- get Senate approval for his key appointments
- shape the agenda in the Senate
- implement parts of his legislative agenda
- scale up the short-term US fiscal stimulus with more generous checks for individuals with low incomes
- ease the fiscal strains on the state level
- pass a major infrastructure investment programme later this year

While change is in the air for the US, changes in US legislation may not be very radical. With a 50:50 distribution of seats in the Senate if the Democrats indeed prevail in Georgia, any legislation that does not garner some bipartisan support would have to be backed by the most moderate Democrats in the Senate to become law. Not all Democrats are in favour of what are called “very progressive” policies in the US. For example, Joe Manchin, the Democratic senator from West Virginia, considers himself moderate-conservative and may not support any legislation that he sees as too extreme such as Medicare for all. The small Democratic majority in the House, which had been reduced by the 3 November election to just 222 versus 212 seats, points in the same direction.

Since the presidential election on 3 November, Biden has lived up to his moderate reputation in his speeches and, more importantly, his picks for key positions. Although a “blue sweep” with a Democratic win in Georgia result may revive a discussion about US tax hikes to come, we consider it unlikely that the new Treasury Secretary Janet Yellen would pursue policies that could



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stifle the US economic recovery. Given her dovish leaning, her focus will likely be on more stimulus instead. Biden's the first priorities seem to be to get the pandemic under the control, ramp up the production and distribution of vaccines and support the economy. Beyond the legislative agenda, key changes in the US will also come through regulation and the shift to a calmer foreign and trade policy.

For a discussion of the fiscal outlook, see Mickey Levy's [U.S. Bipartisan Congressional Fiscal Legislation to Support Economy](#).



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