



ANALYTICS INVESTMENT ADVISORS, LLC

## The Economic Implications of the 2010 Midterm Elections

Richard C. Hoyt

November 12, 2010

The mid-term elections on November 2<sup>nd</sup> resulted in a significant shift in legislative bodies across the United States. Before addressing the economic implications of this change, it is necessary to understand the origin and scope of the dissatisfaction expressed by the America electorate. The most decisive factors were:

- *A Faltering Economy.* In spite of \$891 billion in total stimulus spending (including the supplemental stimulus in August 2010), unemployment remains at 10%, and underemployment is close to 17%. Americans understand that regardless of the merits of the Keynesian and countercyclical fiscal policy, the stimulus package was poorly designed. Instead of creating a package that encouraged the economy in the short term while improving performance in the long run, the administration and Congress used the recession and the financial crisis to redistribute scarce resources to favored interest groups and increase the size and scope of government.

- *The Health Care Bill.* Most Americans understand that this compendium exploding bureaucracy, run-a-way costs, written in secret and unread by those who passed it was supercilious, to say the least. Recent polls indicate that 60% of Americans want this bill repealed.

- *The Federal Lawsuit against Arizona.* The majority of Americans believe citizens have the right to protect their life and property, and if the federal government cannot or will not do so, states should have the ability to intervene.

- *Impact of the Tea Party Movement.* Efforts by the Democrats to marginalize the Tea Party Movement only served to solidify their resolve to be heard.

- *The Ground Zero Mosque.* Americans demonstrated their common sense by separating the legality and the appropriateness of the proposed project.

- *The War on Terror.* A politically correct contingency operation against unnamed insurgents with a specific draw down date raises questions for many Americans whether this war should be pursued.

- *Czars and Nationalization.* Nationalization of banks, car and insurance companies, student loans and health care is, by definition, socialization. Unelected Czars, who answer only to the President, facilitate this agenda, bypassing Congress, thus rendering it and the American people unnecessary components of governance. This trend and potential outcome is worrisome to a significant number of Americans.

Against this background of discontent Republicans:

- gained 61 seats in the House of Representatives to gain majority control, 240 -189.
- gained 6 seats in the US Senate improving their minority status to 47 – 53;
- added 6 governorships increasing their advantage to 29, verses 19 for the Democrats;
- took control of at least 19 additional state legislative bodies for a total of 26 in which the party controls both houses, compared with 21 for Democrats; and,
- flipped control of legislative chambers in Alabama, North Carolina, New Hampshire, Maine, Wisconsin, and Minnesota; Alabama and North Carolina for the first time since 1876 and 1870, respectively. These states will consequently play a influential role in redrawing the boundaries in 314 congressional districts which will undoubtedly foster a favorable climate for major swing states such as Ohio, Pennsylvania, and Colorado for the 2012 GOP presidential contender.

Given the level of voter displeasure and the resulting enormous shift in political power, one has to believe that the next two years will provide the will and ability of our governments (federal, state and local) to make major policy changes which will have positive short and long term economic and investing consequences. These efforts need to include:

- a return to a more market oriented economy where price is the primary and most efficient allocator of scarce resources;
- an appreciation for and aggressive pursuit of equitable free trade where the law of comparative advantage will improve the living standard for all participants;
- cutting entitlements and discretionary spending to put America and its states on a long term sustainable path to financial solvency;
- stop the planned increase in the top marginal tax rate, capital gain tax, death tax, as well eliminating the ATM and preventing the expiration of the death tax;
- fighting against the increased regulatory costs of the EPA's anti-carbon crusade and recently passed financial regulatory reform; and,
- replacing the newly enacted health care law with a more market friendly and cost effective solution.

These are daunting objectives, but so are the consequences to our economy, individual freedom and standard of living if serious action is not taken soon. However, Americans, being currently appraised and appreciative of the somber implications of the financial threats facing our country, will continue to exert the necessary energy to ameliorate our democracy in a manner that is both equitable and efficient.