

**SENATE RACE OUTCOMES DIRECT NATIONAL POLICY**

With five days to go until the nation votes, President Obama clings to a narrow lead in the Electoral College because he clings to a narrow lead in Ohio: It is probably the case that as Ohio goes, so goes the nation. If Obama wins with 54 percent of the Electoral College vote, he still will occupy 100 percent of the White House. A win of any size guarantees that ObamaCare will be implemented on time in 2014, because Obama will veto any effort to repeal it in a second term. An Obama win also foreshadows a showdown on the fiscal cliff with GOP House Speaker John Boehner.

Romney would reclaim the lead if tomorrow's unemployment report is sufficiently negative, but unless Romney's momentum builds in the Buckeye state, expect an Obama win. There are a few other much less likely electoral vote combinations that could offset the loss of Ohio, such as Wisconsin and Iowa, and give Mitt Romney the narrow win to become the 45<sup>th</sup> President. Romney's 2013 agenda – whether Washington repeals ObamaCare, takes us over the “fiscal cliff,” or overhauls the tax code – will depend on which party controls the U.S. Senate. Although the Senate has 100 members, Republicans would need only 50 seats to control the Senate if Romney wins. Under the Constitution, the Vice President votes to break Senate ties. After taking office on January 20, 2013, Vice President Paul Ryan would exercise this right if the Senate were divided 50-50 between Democrats and Republicans, giving the GOP control.

**If Romney Wins, Can the GOP Get Those Net Three Senate Pick Ups?**

Currently, Democrats outnumber Republicans, 53-47. If Romney wins, what are the chances of the GOP gaining three or more seats to seize control? As of today, there is a fifty percent chance the GOP gains three or more Senate seats *if Romney wins*. These events are closely correlated. If late-deciding swing voters put Romney over the top in Ohio and elsewhere, they also likely are plunking for GOP Senate candidates in the tightest Senate races.

Readers can develop their own estimates of the GOP netting three or more seats if Romney wins, by analyzing the most recent credible polls in the decisive races. CAN believes that Democrats are likely to snatch two GOP-held seats in Maine and Massachusetts and threaten in three others, Indiana, Nevada, and Arizona. Of these three, the Senate Campaign Committee worries most about Indiana, where Tea Party favorite Richard Murdock (R-IN) made his race much more difficult by claiming that God wants rape victims who get pregnant to give birth. We also believe that the GOP should take away four Democrat Senate seats in Nebraska, North Dakota, Montana, and Wisconsin. However, the GOP wins in Montana and Wisconsin are not sure things, as the following polls document, and the outcomes will be close. A Romney win would surely help the GOP Senate efforts there.



### **Likely GOP Takeover**

NE	Deb Fischer	49	Bob Kerry	46	Omaha World Herald
ND	Rick Berg	50	Heidi Heitkamp	45	Rasmussen
	Tommy				
WI	Thompson	48	Tammy Baldwin	47	Rasmussen
MT	Dennis Rehberg	48	Jon Tester	48	Rasmussen

### **Possible GOP Takeover**

VA	George Allen	48	Tim Kaine	49	Rasmussen
PA	Tom Smith	45	Bob Casey	46	Rasmussen
FL	Connie Mack	46	Bill Nelson	49	Rasmussen
MO	Robert Akin	43	Claire McCaskill	45	Mason-Dixon'
OH	Josh Mandel	47	Sherrod Brown	51	Cincinnati Enquirer
CT	Linda McMahon	43	Chris Murphy	49	Quinnipiac

### **Investment Implications of an Obama Win**

Without the swing votes provided by a Romney victory, Republicans are highly unlikely to win enough seats to shift Senate control in their favor. Separately, Republicans have a 90 percent chance of retaining control of the people's House after Tuesday regardless of who wins the White House. Although a re-elected Obama would have the support of a Senate majority in negotiations with Congress, his chief challenge would be finding common ground with a House leadership that favors very different fiscal policies. Serious discussion over how to avoid going over the fiscal cliff is unlikely, however, until John Boehner secures his own re-election as Speaker of the House in early January. Boehner risks legislative defeat from the GOP Conference if he cuts a grand compromise with Obama. He risks his Speakership if he cuts such a contentious deal before he is confirmed as Speaker in early January. Boehner's probable delay will make the markets nervous, since it may be spring before the largest tax hike in U.S. history is scaled back retroactively. The best the markets should hope for during the coming lame duck Congress that convenes for November and December sessions, if Obama wins a second term, is that Obama and Boehner agree to delay their showdown into next year and extend the Bush tax cuts until spring.

### **Investment Implications of "Romney Plus Three"**

With the presidency, the House, and the Senate all in Republican hands, the GOP would have the power to repeal almost all of ObamaCare if they are united. Since ObamaCare passed without a single Republican vote in 2010, repeal would be a likely result in 2013. Using the parliamentary process known as reconciliation, even a 51-50 GOP-led Senate could repeal ObamaCare, because reconciliation bills cannot be filibustered. A few nervous Senate Democrats might even support the effort. The GOP House has already voted for full repeal and Mitt Romney has campaigned on it. Therefore, Romney plus three = the end of ObamaCare.

"Romney plus three" also means the country would not slip into recession as the Congressional Budget Office projects by "going over the fiscal cliff." True, Barack Obama would remain president until January 20, 2013 and massive tax hikes and modest spending cuts

would take place on January 1, 2013. A sullen, lame duck Obama would be an uncooperative legislative partner for the incoming GOP-led Congress that took power on January 3, 2013. Therefore, the tax hikes and spending cuts would remain in effect until the new GOP-led Congress could send President Romney legislation that permitted much of the Bush tax cuts to continue, and softened automatic defense-heavy spending cuts.

“Romney plus three” also opens up the prospect of meaningful tax reform, with a bill likely to pass in 2014.

### **Romney Plus Zero, One, or Two**

If Romney wins but the GOP falls short in the Senate, then Harry Reid (D-NV) will remain Senate Majority Leader. Reid would be the face of the loyal opposition. President Romney and Speaker Boehner would have to bargain for his support to secure full or partial repeal of ObamaCare. Reid also would become a pivotal player in negotiations over the future of the Bush tax cuts in 2013. His assent also would be necessary for any overhaul of the tax code. Complicating these negotiations would be Reid’s unfounded claims that Romney “has not paid taxes in ten years.” Mitt Romney would indeed need “Romnesia” to forgive and forget Reid’s eager embrace of the job as a campaign attack dog. As a professional pol, President Romney would do this. Nevertheless, the country would again be subject to divided government with the contentious negotiations between President Obama and Speaker Boehner of 2011 replaced by the contentious negotiations of President Romney with Senate Majority Leader Reid.

Fortunately for all concerned, clarity over which political configuration will govern America in 2013 and 2014 should be known in just a few days.

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**For further analysis or information, contact Capitol Analysts Network, Inc. at:**

2230 Decatur Place, N.W.  
Washington, D.C. 20008  
Email: [capnet@xecu.net](mailto:capnet@xecu.net)

Phone: 202-223-4014  
Fax: 202-223-3380  
website: [www.capitolanalysts.com](http://www.capitolanalysts.com)

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