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UNITED STATED

Economic consequences of the mid-term election

Congressional elections in the United States do not garner the same public interest as elections for the president. But they are still important, as they decide the fate of all 435 representatives (elections every two years) and a third of the senators (elections every six years). Added to this are the myriad other regional and local elected offices. This election's results could have a greater impact on the economic outlook. Since 2010, the Obama White House has had to deal with a divided Congress, with Republicans holding the majority in the House and a Democratic Senate. The Senate is now controlled by Republicans.

The President's relationship with Congress was already complicated, as evidenced by the numerous politically-driven budget crises that have occurred since 2010 and that culminated in the government's shutdown in the fall of 2013. The situation now risks worsening; this could damage the economic outlook, which is currently buoyed by a sharp uptick in consumer and business confidence. In the very near term, the December 2013 agreement establishing budgetary peace until the end of fiscal 2015 should remain in place. However, the strength of this pact could be first tested next winter, as the cut-off date for when the legal federal debt ceiling comes back into play approaches, i.e. March 15, 2015. A new, higher ceiling or a period where the ceiling is suspended should be adopted, but it is not unforeseeable that the new Congress could seek new budget cuts. A repeat of the political crises of summer 2011 or worse, fall 2013, risk shattering consumer, business and investor confidence. This could also happen at the end of the current 2015 budget year, which started on October 1, 2014 and will conclude on September 30, 2015.

New arm wrestling of this nature would be even more of a paradox since the federal government's financial position has improved significantly. The 2014 fiscal year ended with a US$483B deficit. In 2012, the deficit was US$1,089B. Budget monitoring is still appropriate, but, in the short term, new waves of severe cuts combined with a climate of higher political uncertainty could endanger the economic recovery that is only just starting to be convincing.

It should be noted that the new Congress will not be able to force the White House to do its bidding. Barack Obama still has the veto, and the Republicans do not have a large enough majority to overturn that presidential prerogative. In addition, since Republicans do not have a supermajority in the Senate (60 seats), the Democrats could follow the Republican's playbook of the past few years and interfere with the Republican's agenda. In the same vein, it would be surprising that attempts at impeachment would really move forward despite the wishes of some in the Republican fringes. However, the Republican majority could more easily oppose certain economic policies that Obama wants to push through, such as increasing the minimum wage, extending certain unemployment benefits and new investments in infrastructure.

On a more positive note, the new Republican Senate should help the president make advances in free-trade agreements, particularly with the European Union and a group of Asian countries. Senate Democrats did not really support the president's efforts.

Implications: Unless there is a disavowal of the 2013 budget agreement, the new Republican Senate majority should not have much impact on short-term economic growth. However, it will still be difficult for Obama push through his own economic initiatives. We must hope that there will not be more politically-driven budget crises—which is very likely—because with all eyes on the 2016 presidential election, Republicans and Democrats will have to exercise caution.

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