



MEMORANDUM

To: Interested Parties
From: The Franklin Partnership
Date: November 7, 2018 – (As of 2:00 AM Eastern)
RE: 2018 Midterm Election Update

As the “fear” election of 2018 comes to a conclusion, both House Democrats (fear of taking away health care) and President Trump (fear of immigration) appear to feel vindicated that their respective strategies took control of the House for Democrats and expanded power in the Senate for Republicans. Many expect this to serve as only a preview into the escalation of “fear” politics expected in 2020, particularly if President Trump increases the focus on foreign policy as many expect. The below is an initial preview of how the election outcomes impact the current state of Washington, policy issues, and the next two years heading towards the 2020 presidential campaign.

Top Five Takeaways:

1. Senate Republicans won in states where Trump won in 2016
2. House Democrats won in suburbs where Clinton won in 2016
3. Turnout among women voters made the difference and spoke volumes about the future
4. Democrats’ national message still does not resonate in many current and future toss-up states
5. President Trump is emboldened and viewing the outcome as a victory

“This is the most important election of our lifetime,” is the phrase uttered too often every two years. While we have no doubt many will reuse that claim twenty-four months from now on November 3, 2020, we will likely look back at these 2018 midterms as the most consequential since the Republican takeover in 1994. In 2006, Democrats retook the House, doing so against an unpopular GOP President, however, those elections took place during the second and final term for President George W. Bush, whereas in 1994, Republicans claimed power over the U.S. House of Representatives for the first time in forty years during President Bill Clinton’s first term. These 2018 midterms bring about not only a first term change but clearly sets the stage for the coming White House contest like no previous midterm in modern history.

GOP voter enthusiasm surged late but still could not compete with the energy among women, the Green Wave of funding from supporters of Democratic candidates, and anger over many of the President’s policies. According to initial exit polls 49% of white women voted for Democrats this year, while only 435 supported Clinton in 2016. Well over 100 women will service in Congress next year, by far more than at any point in history.

Overall, the House and Senate final tallies brought a handful of surprises this year and while most national media focused on control of Congress, we strongly believe the country will feel the impact of this election most in the Governors mansions. As clearly demonstrated during the 2000 Bush v. Gore results, those in control of the state capitals hold great influence over the voting process in presidential elections and will during the upcoming congressional redistricting of U.S. House seats following the 2020 census.

Six Winners and Losers

Three Winners

President Trump's 2020 Get out the Base Strategy – Despite losing the House, President Trump is still a winner because 1) he can still push his judicial and other nominees through the Senate; and 2) House Democrats may overplay their hand and turn off voters who do not support an impeachment/investigation approach. President Trump understood earlier than most in Washington that he was “on the ballot” in 2018 and more importantly, recognizes that virtually all Republican voters are Trump supporters but not all Trump voters support Republicans. This meant he had to put himself on the ballot to drive out as many of those base voters as possible to help him hold the Senate in states Trump mostly won in 2016.

Former (Future?) Speaker Nancy Pelosi – No sitting Speaker in past half century has won the House, lost it, then won it back and reclaimed the Speaker's gavel. While Democrats have yet to hold their leadership elections to determine who will become Speaker in January 2019, Pelosi remains a fundraising force and considered by many as the most powerful Speaker of the U.S. House since Sam Rayburn's reign in the 1940's and 1950's. In addition, the reelection of two sitting House Republicans under indictment will help the culture of corruption narrative Democrats intend to press. If she is reelected as Speaker, which remains uncertain, many in Washington suspect she may agree to a two year term and retire, allowing for the next generation of Democrats to move up.

Majority Leader Mitch McConnell – McConnell continues to keep his head down, play the long game, and ignore the “noise” in a way few national political leaders can in the social media era. While a strategy not fraught with risk, his singular focus on moving judicial nominations using only a simple majority to will cement his Republican political legacy and has already begun to change the courts. However, few expect much interest or action on serious legislation, which still needs sixty votes to move. Regardless, McConnell just added possibly four seats to his majority in a tough national environment for Republicans.

Three “Non-Winners...”

President Trump 2020 Toss-up State Strategy – Yes, he is a winner in the short term and will likely benefit from Democratic missteps that aide his own reelection, but losing the Governors' mansions Republicans did will significantly impact how state governments run local elections. As previously mentioned, having the Governor of your own party running Presidential swing state can influence who can vote, where, and when. Democrats held Pennsylvania and Minnesota while losing key pickup opportunities in Florida and Iowa but did flip Michigan and Wisconsin, both critical to Trump 2020.

Future House Republicans – Similar to the challenges President Trump will face during his 2020 reelection due to additional Democratic Governors controlling toss-up states, Republicans in those states may lose Congressional seats due to redistricting, which takes place every ten years. Starting in 2020, officials, judges, or voters in virtually every state will redraw the boundary lines for over 400 of the 435 seats in the U.S. House of Representatives up for election in 2022. Just as the 2010 Tea Party GOP wave showed us, controlling Governors' mansions and state legislatures in the two years before redistricting takes effect can determine which party runs the House for the next decade.

Texas Senate Candidate Beto O'Rourke/National Democrats – While not as significant for the control of Congress, the Texas Senate race between incumbent GOP winner Sen. Ted Cruz and now outgoing U.S. Rep. Beto O'Rourke is indicative of the temptations some Democrats face when a race becomes “nationalized.” Many in Washington, especially Republicans, believe O'Rourke could have defeated Cruz had he run a more local campaign focused on Texas issues. Instead, he chose a national strategy fueled by early media hype and massive campaign contributions used for ads reinforcing a broader progressive Democratic message, rather than one that resonates among voters of both parties. There is no question the Beto movement helped propel Democrats to victory in cities and suburbs around Dallas and the state, but that only further reinforces the challenge of a message that resonates closer to urban centers but not to voters in rural Texas and more remote parts of the country. Many analysts will also claim Democrats made inroads back into the Rust Belt such as in Pennsylvania and Illinois but will ignore that many of the gains made are in the suburbs and exurbs of major cities in those Midwestern regions.

The Surprises, The Sleepers, and the Key Races

“The pollsters were wrong!” remains the common refrain among observers of the 2016 election that focused only on national popular vote polls (they were right) and state polls predicting turnouts (they were wrong). This time around, our surprises were less a result of the “experts” getting it wrong and possibly the ability of President Trump to control the media narrative at will and GOP House incumbents overmatched by a surge in Democratic enthusiasm, fundraising, and mobilization of women voters.

The Surprises

By far the biggest surprise of the night in the U.S. House thus far remains the Congressional District including Oklahoma City and to its Southeast, which flipped from Republican to Democrat after going for Trump over Clinton by 13.5% in 2016. Though the Republican incumbent failed to fundraise adequately late in the race, he won the previous election by 20 points and no Democrat has held this seat since the 1970’s. A victory by a Democratic woman candidate in this urban and suburban seat in a red state should send a warning signal to Republicans in House districts across much of the country. Similar to the Oklahoma City race, long time GOP Congressman and former Chair of the Republican’s House campaign arm Pete Sessions from the Dallas suburbs lost his seat after more than twenty years in Congress.

The Sleepers

Most tend to ignore GOP statewide efforts in the Northeast despite the two most popular Governors in the country being Republicans from Massachusetts and Maryland. While more rebelling against the current political party in charge, Connecticut voters elected a Republican as their next Governor while Kansans finally and formally issued a rebuke of a previous GOP administration by delivering a nearly five point victory to a Democrat against a candidate strongly backed by President Trump. While the parties continue to nationalize races, it is important to remember that moderate candidates who speak to local issues such as education, transportation, and safety can still succeed despite the noise.

Key Races

The most important race of the night in the context of 2020 is the victory by close Trump ally, Congressman Ron DeSantis as the next Florida Governor. Few see a pathway to the President’s reelection without the Sunshine State and having a DeSantis in control as ballots are counted could help down the road. Conversely, flipping Michigan towards Democrats and possibly Wisconsin (too close to call as of this writing) create a challenge after Trump victories in both those states by a combined 33,452 votes.

Impact of 2018 Midterms on Policy

Investigations and Impeachment

Should Pelosi regain the Speaker’s gavel, we caution to not underestimate her ability to control the liberal wing of the Democratic caucus in her effort to position the party to gain seats in 2020, and more importantly, not brand the eventual presidential nominee as too liberal to win critical toss-up states. The liberal fundraising and growing progressive base will no doubt call for impeachment and other hearings into the Trump administration, but we expect, if she is Speaker, that House Democrats do allow hearings into Trump Organization tax returns and business dealings to appease the base, but not pursue formal impeachment proceedings. During her previous term as Speaker, Pelosi effectively took control of the House Committees and ran most day to day operations out of the Speaker’s office.

Infrastructure

The President remains publicly committed to a large infrastructure bill, which some Democrats have often claimed to support, though at times to drive a wedge between the President and House GOP leaders who quietly opposed a massive measure that would increase the deficit. Historically, House members support roads, bridges, airports, and water projects as leaders of both parties typically guarantee at least once significant project per Congressional District, which can go a long way politically. However, Senators must pick winners and losers state wide, which can place them in difficult political positions. In addition, no fewer than six Democratic Senators will likely run for President in 2020, none of whom will want to hand the current administration a victory on infrastructure which will resonate with voters of both parties.

Immigration

Regardless of one's perspective, immigration remains a wedge issue on which both sides generate excitement (and campaign contributions) from their base. Democrats will likely press for a Dreamers solution fairly quickly in the first quarter of the year, especially as voter registration drives pick up pace in preparation for the 2020 campaign. Much of the future of any immigration or border actions likely depends on whether the President forces a government shutdown on December 7, 2018 over border wall funding when a quarter of federal government agencies' funding expires.

Health Care

Democrats made health care a central theme of this election, using it to pick up a number of competitive House seats. Several Republicans also sought to separate their opposition to Obamacare from their support for coverage of preexisting conditions. Politically, Republicans will defend their positions by casting all Democrats as supporting government takeover of health care, but Democrats also see this as a winning issue and will likely seek to further put House Republicans on the defensive early in 2019. The President will also move forward on drug pricing but typically supportive Democrats may again hesitate to help hand him a victory on a key issue.

Taxes

Democrats in control of the House have two major pressure points with a Republican White House – bills to fund the federal government and the threat of rolling back tax cuts (increasing taxes). The next Congress will not successfully repeal the 21% C-Corporation rate, nor will it likely fully revoke the Section 199A pass-through deduction. House Democrats will quickly move to place Republicans and the White House at odds by supporting a large infrastructure measure only if the government partially “pays for” the funding through repealing tax cuts in the law signed by President Trump in December 2017. Democrats could seek to narrow the scope of Qualified Business Income subject to the lower pass-through tax rate as some believe the recent regulatory interpretations incorrectly cover some in the financial and other service industries. Congress must also consider a number of expiring/expired tax provisions prior to the end of 2020, including several of interest to Democratic constituencies related to renewable energy and family leave employer credits. Additional targets include changing the treatment, taxable levels, and rates of capital gains, carried interest, the estate tax, among others. In exchange for a robust infrastructure package, many are examining whether President Trump will trade away more “Wall Street friendly” and less populist messaging tax provisions such as capital gains and carried interest.

Trade

On the mind of many is how House control by Democrats will impact the recently negotiated NAFTA 2.0. Under the current trade laws, Congress may only vote up or down a negotiated free trade agreement, in a process that does not allow for amendments or direct changes to the agreement itself. The Congress, does however, have to pass an “implementing bill,” which can include additional provisions requiring the U.S. government to take certain steps to achieve additional goals. Few question that House Democrats will call for stronger environmental and labor provisions, particularly those they feel are enforceable on Mexico. Traditionally, Democrats, backed by unions, support tariffs on imported goods but many felt hesitant to publicly show support for President Trump's policies, including on trade. Few expect Democrats in the House to take up significant bipartisan legislation to address the impact of tariffs on U.S. businesses and consumers. House and Senate Democrats will likely continue their investigatory role into how the administration chose winners and losers in the tariff and exclusion processes.

Trump's Transition to Foreign Policy and 2020

Even with a number of 2018 election results still pending, President Trump departs Washington this week for ceremonial visits and meetings with leaders overseas in what many expect a 2020 pivot to focus on national security and foreign policy. The concentration on trade agreements, overseas threats, and strengthening defense will increase as the White House believes these, along with immigration, places Democrats on the defensive. Conflicts with China, North Korea, and even traditional trading partners will remain a central focus of the President as he seeks to show his strength on national security against potential challengers, particularly more liberal Senate Democrats.