



Washington Policy Research

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ALL EYES ON GEORGIA

Tomorrow Georgia voters will head to the polls to decide which party will control the US Senate. Republicans need to win just one of the two Senate races to maintain the Senate majority and have been favored since Election Day (though recent betting odds and polling data show the gap narrowing significantly). Given the impact of historic early voter turnout, the unique nature of special runoff elections, and recent polling issues, we see a razor thin margin (no better than a coin flip) and a challenging race to handicap; In a way, we are all guessing at this point.

Though the November election ended the idea of the Blue Wave (i.e. Democrats win 53-55 Senate seats, eliminate filibuster, and get nearly all of their proposed stimulus spending, tax increases, climate initiatives, and health care agendas passed), Democrats can still achieve some policy objectives under a 50-50 Senate. This is especially true given the political capital of having a new president and budget reconciliation, which allows for tax and spending items to pass with a simple majority. Republicans in 2001 had a 50-50 Senate and a razor-thin majority in the House when George W. Bush was first elected. Yet, the Republicans were able to pass a \$1.3 trillion tax cut, No Child Left Behind, and a big boost to the Defense budget. It would be foolish to think Democrats won't be able to secure some policy accomplishments under a 50-50 Senate.

With that in mind, we've outlined some potential policy outcomes under both Republican and Democratic Senates in the table to the right. We'll have our eyes on the elections tomorrow. Be sure to reach out to your Baird Advisor if you have any additional questions that relate to your own portfolio and plan.

The January 5 run-off election in Georgia will determine which party controls the Senate. **Here's how the result could affect policy.**

	Republican Senate	Democrat Senate
Taxes	No increases; potential extension of 100% expensing, R&D tax credit, and interest deductibility at end of 2022	Higher top-income rate; corp. rate ~25% for 2022; higher taxes on foreign profits, capital gains and dividends; state & local deduction reinstated
Fiscal Spending	Limited and largely dependent on the success of the vaccine. Debt ceiling needs to be raised in July.	Potential for \$1.5 trillion on climate, infrastructure, states, education, and health care. Possible direct payments of \$2000
Financial Regulation	Likely slowdown and moderation of regulatory appointments such as the Fed, Treasury, CFTC and SEC	Dems will have an easier time making appointments for key slots, that could effect requirements for bank stress tests
Infra-structure	Highway and other infrastructure are an area where we could see cross-aisle compromise	Infrastructure spending deal likely, and will be larger than if Republicans keep the Senate
Energy & Climate	Unlikely to see higher taxes for fossil fuel companies or significant climate spending	Potential for a large boost for climate spending: Solar, wind, electric vehicles, power-charging stations, and biofuels
Health Care	No major changes to the ACA; possible drug-pricing could mean one-time hit to earnings; effort to on-shore PPE	Expansion of the ACA. Possible expansion of Medicaid to residents in states that declined to expand Medicaid. More aggressive drug pricing restrictions. On-shoring of PPE. NIH spending increases.
Tech / Antitrust	No major antitrust law changes. Efforts to pass privacy and Section 230 reforms. Regulators will matter more than Congress here.	No major antitrust law changes. More progress on passing privacy legislation and possibly some Section 230 reforms. Congress will allocate more money for DOJ / FTC to more aggressively press cases.
Defense	Spending likely to be roughly flat in the next year or two	Spending is likely to be flat or down over the next two years.

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