

## From Ballots to Budgets: Washington's Crossroads

Campaigning, the federal budget, and the debt ceiling remain top-of-mind.

The upended race for control of the White House and Congress is on track to be one of the closest and most contentious in our lifetime. Post-Labor Day polls have been conducted, consumed, and analyzed and, by all accounts, we're remarkably close to where we sat before a summer of surprises. Despite this, there are still a few exceptions of note.

### Lay of the Land

The threat of third-party spoilers has largely diminished, but the remaining contenders could still be a hindrance to the two main candidates. And, in an election in which margins are expected to be the closest in history, every last vote will be vital.

Enthusiasm for the Democratic ticket has surpassed the June juncture when President Joe Biden was still in the race and, for the time being, has inched passed the Republican ticket. In addition, the money grab currently favors Vice President Kamala Harris and the Democrats with former President Donald Trump and the Republicans playing catch-up.

Given that nearly every election in recent history has introduced a measure of volatility to the markets, we expect much of the same this year and we can't rule out the possibility of an October surprise. While politics impacts policy, economics trumps politics.

As the presidential race has come into sharper focus over the last few weeks, we've seen Harris and Trump begin to hone in on several top-of-mind issues. Both candidates are staking their ground on economic, social, and foreign policy and both camps have found common ground on a number of topics—though neither will rush to admit it. September's debate gave us more information on the direction the candidates want to take the country. We think Trump has a high floor and low ceiling, and his base is locked in. Harris, on the other hand, has a low floor and high ceiling with more room to grow—or not—with voters.

Americans are finally gaining some insight into where the candidates stand, and the debate served to sway any remaining undecided voters in either direction. To that extent, we have to give an edge to Harris given early polling results.

While the coming weeks will be dominated by the fight for control of Congress and the White House, we can't overlook the significance of the courts and the highest court of the land—the Supreme Court. The next president will likely have dozens of federal court appointments and one to two additional picks on the Supreme Court, impacting countless economic and social issues for years to come.

### Congress Remains Up for Grabs

The shifting dynamics of the presidential race have had significant down-ballot effects, creating both a unique and complex landscape for the battle over control of Congress. The Senate majority is very much in play, with the key battlegrounds situated in traditionally red states such as Ohio and Montana. Meanwhile, the fight for the House of Representatives is largely centered around blue bastions such as California and New York.

In the narrowly divided House, Democrats have managed to improve their standing



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### Key Points

- In an election in which margins are expected to be the closest in history, every vote will be significant in the race for the White House, as well as in the House and Senate races.
- As Congress struggles to resolve the federal budget ahead of the October recess, fiscal issues could have major implications as the nation's debt and deficit loom large.
- While neither presidential candidate has outlined a plan to address US budgetary challenges, both have begun staking their ground on economic, social, and foreign policy.

on the generic Congressional ballot, which simply asks voters which party they would prefer to see in charge of Congress. With fewer than 30 out of 435 House seats truly in the toss-up category, the battle can go either way, underscoring the fiercely competitive nature of the contest.

On the other hand, the Senate map seems to be leaning Republican—even if the Democrats ultimately have a strong showing overall. Currently, the Senate is evenly split 50-50, with Harris casting the tie-breaking vote. But the Democrats are facing the daunting prospect of losing a seat held by the retiring Sen. Joe Manchin (I-WV), a formerly conservative Democrat who left the party this spring.

This means that Republicans will only need to flip one additional seat to gain the coveted Senate gavel, and they're eyeing two prime targets: the seats held by Sens. Jon Tester (D-MT) and Sherrod Brown (D-OH). Both Tester and Brown hail from states that have twice voted decisively for Trump and are expected to do so again. The outcome of these Senate races, combined with the battle for the House, will have profound implications for legislative agendas, regulatory rule, and the balance of power in Washington.

## Fiscal Hurdles

Over the past decade, passage of the federal budget has become more time-consuming and difficult for Congress. As one of their main (and annual) responsibilities, Congress has increasingly been unable to ignore the obstacles posed by politics, ideology, and constant campaigning.

As of mid-September, Congress hasn't yet been able to pass a defense budget for fiscal year (FY) 2025, nor completed action on several other appropriation bills. Over the summer, both the House and Senate created their own versions of the budget, but the two will be difficult to reconcile. The budget passed along party lines by the House in June includes a number of political and policy issues and is unlikely to be signed into law by Biden.

Consequently, the convergence of a contentious election and Congress's inability to conduct the appropriations process properly has placed the nation on the path to a budgetary train wreck.

As Congress approaches the October recess (September 27-November 13), members will likely want to move beyond the budget issue quickly, so that they can fully devote their time to campaigning.

## Extension or Shutdown?

Congress could pass a continuing resolution (a stop-gap spending bill used to avoid a government shutdown) that would effectively punt the issue to a lame-duck Congress immediately after the election or to the newly elected one in January 2025.

The last time Congress passed all its spending bills on time was over 20 years ago. Rather than following the orderly appropriations process, as outlined in the 1974 Congressional Budget Act, the two chambers have resorted to massive omnibus bills, temporary measures, and continuing resolutions that require departments to continue spending at the previous year's limits. Last year, the FY2024 budget was not finalized until March 23—five months after the onset of the fiscal year on October 1.

The length of a continuing resolution is being affected by the impending election: Democrats are happy with a three-month extension while Republicans are looking at six months. Its outcome will determine whether this Congress and Biden are set to tackle the morass, or if it will be passed on to the next cohort. Both parties believe there are incentives to either seek a budget resolution during the November session or support a continuing resolution that's resolved

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in the new year.

But, amid all this, there's a slight possibility of a government shutdown prior to the election. Trump has urged House Republicans to not accept any spending deal ahead of the election unless it includes the SAVE Act, which would require proof of citizenship to register to vote in federal elections. House Speaker Mike Johnson (R-LA) is set to outline his plans for an extension, which would act as a stopgap until March 2025, but it would also include this non-citizen voting language. Democrats are in staunch opposition of the legislation as they argue that US laws already ensure that non-citizens can't vote and that Johnson's proposal is merely red meat for supporters during an election year. While Democrats are unified in their opposition, the bill would likely be dead-on-arrival in the Senate.

With little time left, the Republican policy proposal could set up a political fight that few want to have. Moderate Republicans are reportedly uneasy, and some Republicans in toss-up districts worry it could cost them in an election year and undermine their efforts to maintain control of the House. The public has typically blamed Republicans for government shutdowns in the past, and it's likely they would again if this occurred ahead of the November election.

## Debt Ceiling

There's also the issue of the debt ceiling, which was suspended until January 2, 2025. If Congress agrees to a six-month continuing resolution, then the new Congress will have to deal with both the FY2025 budget and the deficit almost immediately after it convenes. The national debt has exceeded \$35 trillion—roughly the value of the Chinese, German, Japanese, Indian, and British economies combined. This year, the US government will pay close to \$1 trillion in interest on that debt.

Ironically, the Senate unanimously approved a resolution in March 2024 that described the debt as “a threat to the national security of the United States” and argued future budget deficits are “unsustainable, irresponsible, and dangerous.” Few on Capitol Hill, however, are talking about ways to address it, and another debt-ceiling fight could prove calamitous.

## Autumn Ultimatum?

As we enter the final weeks of the election campaign season, it seems likely that the nation's fiscal policy, FY2025 federal budget, and deficit could emerge as campaign issues, but neither party has truly addressed them in their respective platforms.

While a government shutdown would appear to be a major misstep politically for House members, it can't be ruled out. Furthermore, depending on how the election turns out and the nature of the political environment in the aftermath, the possibility that the US could default on its debt can't be ignored. Both parties seem interested in discussing tax reductions, tax credits, and additional government spending, but they haven't proposed any solutions for the growing debt, deficit, or looming budget deadlines.

While neither candidate has described an economic vision that would address these issues, they may soon have to. At a certain point, the American people may be confronting the consequences of Congress's failure to act and demand results. It remains to be seen whether both parties can avoid the nation's budgetary and fiscal policies from becoming a political football.

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**Talk to your financial professional to help make sure your portfolio is prepared for whatever happens in Washington, D.C.**

## About the Author:

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