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THE 2026 MIDTERM FROM WASHINGTON: CONGRESS CHANGES HANDS, BUT AMERICA'S FISCAL RECKONING LOOMS

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The results of the 2026 midterm election have decided that President Donald Trump will govern in his final two years with a hostile Congress. Even though a lame duck, Trump still retains substantial Constitutional powers. Recall what President Barack Obama said when dealing with an obstinate Congress, he still had a pen (and a phone) to sign executive orders and to veto legislation. The Democratic gains are big at the federal level, but not great enough to give them a supermajority to override a presidential veto or end a Senate filibuster.

What happened on November 3rd?

The midterm results were a wipeout for the Republican Party, especially when considering Trump's remarkable come-back re-election in November 2024. Overall, the Republicans lost support from independent voters, and the gains Trump made in his 2024 re-election among Hispanic and black voters evaporated. Candidates Trump personally elevated fared no better than the rest of his party.

Republican losses run deep at the local level, too. Democrats won the gubernatorial races in Georgia, Iowa, Nevada, Ohio and Texas and, as of November 9, 2026, had secured governorships in at least 28 of the 50 states. Florida Governor Ron DeSantis called the results, "close to an extinction-level event for Republicans in many parts of the country,"

Republicans can take some solace from an historical perspective—swings in House and Senate seats are a bipartisan kind of thing. The historical perspective is that in 20 of the last 22 House midterm elections, going back to 1938, the president's party has lost seats in the House, often dramatically. Notably, President Obama's Democrats' lost 63 House seats in the 2010 midterm election. As of November 9, 2026, the Democrats had secured 253 seats in the House, with 18 races still uncalled. Regardless of their final tally, the Democrats will fall short of the two-thirds supermajority of 290 seats required by the Constitution to override a presidential veto or propose a constitutional amendment.

The Senate midterm historical record is somewhat less volatile. Since 1938 the president's party has lost Senate seats in 15 midterms, gained seats in 6, and broke even once. As of November 9, 2026, the Democrats and allied independents had secured 54 Senate seats, with races in Alaska and Mississippi still unresolved. Their total could rise to 56. This still falls short of the two-thirds (67) required by the Constitution to override a presidential veto and 60 to end a filibuster, unless the Senate changes its filibuster rules. While the midterm was especially bad for the Trump Republicans because they lost both houses, historically, this is not unheard of—Donald Trump joins Harry Truman, Dwight Eisenhower, William Clinton and George W. Bush in having had such an electoral setback.

Why were the Republicans routed in the midterms?

Three of Trump's signature initiatives taken in the first two years of his second term have boomeranged on the Republicans by producing widespread voter discontent—the April 2025 "Liberation Day" tariffs were unpopular to begin with, as were the February 2026 strikes on Iran. A tougher immigration policy was initially popular, but became unpopular with a majority of people polled when enforcement became too aggressive.

Nearly half of registered voters call the cost of living the single most important factor in their vote, roughly 80 percent believe the President's tariffs have raised it, and only about a quarter approve of his handling of inflation. The war with Iran has pushed up gasoline, diesel and heating costs. Democrats, from centrists to socialists, ran on a single word: affordability.

Growing Concerns over U.S. Fiscal Deficits and High Interest Rates

Voters turned to the Democrats in hopes of easing the cost-of-living squeeze, but inflation and high interest rates are unlikely to subside anytime soon, even after the election. Both Democrats and Republicans may seek to address affordability through domestic policy measures, such as subsidies and debt relief that put more cash in pockets. But such measures would worsen the parlous state of U.S. government finances. Under Trump, the federal deficit widened to an anomalous and risky 6.2% of GDP in FY2026, compared with an average of 3.8% in the past 50 years, at a time of full employment. The lack of fiscal restraint has pushed up inflation and interest rates.

Moreover, the Democratic Party's ascendant progressive wing makes spending restraint an unlikely priority. The small but growing Democratic Socialist Party of America (DSA) had its best federal election so far, with its two members increasing to seven or eight in the House. The victory of DSA candidate Melat Kiros over the 15-term mainstream liberal Democrat Diana DeGette in Denver's primary race, shows the rising power of the DSA in safe blue districts. The seemingly small gains by the DSA candidates will likely have outsized effects on the Democratic Party platform in the next two years, and beyond. This is even more so with Los Angeles also electing a DSA mayor on November 3, along with New York City last year.

The bottom line is that Congress can investigate and obstruct a president's agenda; it cannot readily lower prices. Against this backdrop, widening U.S. fiscal deficits and persistently high interest rates could fuel exchange-rate volatility and drive up financing costs in the U.S., placing additional financial pressure on Korean businesses.

What it means for Korea

South Korean and Asian security-related issues were not prominent in the midterm. However, keep in mind that on China, hawkishness is bipartisan and will likely remain so in the new Congress. Fortunately, the current ROK-U.S. Special Measures Agreement on troop-basing costs runs through the end of 2030, beyond the unfolding dynamics of the new election cycle.

Turning to economics, after the Supreme Court struck down the IEEPA tariffs in February, the White House has relied on various Section 232 national security tariffs and an unfair-trade Section 301 tariff in its trade policy with Korea. Korea cannot expect much more relief in the new Congress, as those trade laws were enacted by Congress and explicitly delegate authority to the executive branch.

An emerging risk to Korean exports is the hostility toward data centers that many American voters showed in the midterms. An NBC exit poll found that 56 percent of voters said AI and data centers were a "crucial or major factor" in their congressional vote. Voters in some forty jurisdictions nationwide passed bans or restrictions of some sort on data centers. And in newly blue Texas, Democrat Gina Hinojosa scored an upset victory in the governor's race after making a moratorium on new data centers, along with stricter rules on water and electricity use, a central part of her campaign.[1]

Korean companies are dominant suppliers of HBM and DRAM memory components as they are in server storage drives. They are major supplies of high-voltage transformers and switchgear. The demand for such components in data centers has contributed to the whopping $100 billion Korean bilateral trade surplus though October this year.

However, expert observers believe that public concern will not derail the AI revolution over the long run. The backlash we are seeing right now "may raise costs and slow data center construction timelines. Regulatory approaches will likely get tougher after the midterm with new federal rules, but no mandated pause or bans." [2] Businesses and investors have increasingly seen AI as highly valuable to enhance productivity and profitability.

America's Looming Fiscal Reckoning

The wheel of fortune has turned dramatically up for the Democratic Party and down for the Republican Party in the 2026 midterm elections. Yet, in the big picture, the midterm elections demonstrate that American representative government remains healthy, democracy is alive and well.

Setting aside from the post-midterm sell-off in AI-related shares in New York, Seoul and in Tokyo as well, last week, the big picture over the next two years and beyond is that the U.S.-Korea trade and investment relationship will remain robust if it is based on mutual strategic and commercial interests, no matter which party controls Congress and who is president of the U.S.

Largely absent from the 2026 midterms was the elephant in the room: a deteriorating federal fiscal position. Deficits remain stubbornly high, and federal debt held by the public now exceeds 100 percent of GDP, its highest level since the aftermath of World War II. Net interest payments on that debt now surpass defense spending. Yet neither voters nor candidates paid the issue much attention, to put it mildly.

Compounding the problem, the Social Security retirement trust fund is projected to be exhausted in late 2032, at which point current law would require an across-the-board benefit cut of roughly 22

[1] Faster Please Substack, "Just how important is the AI and data center backlash?" James Pethokoukis. November 4, 2026

[2] Faster Please Substack, "Just how important is the AI and data center backlash?" James Pethokoukis. November 4, 2026

percent. By the 2030 midterms, the dominant issue may no longer be affordability but austerity, as Republicans and Democrats alike confront hard, unavoidable choices about which programs to protect and which to cut in order to avert a national fiscal crisis. As the United States approaches a fiscal reckoning, the real strategic test for Korean businesses may be only just beginning.

* Editor's note: Election seat totals cited in this article are based on ABC News projections as of November 9, 2026, and may change as outstanding races are called.

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