Wealth management insights from Stifel's CIO Office

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Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com

WASHINGTON POLICY STRATEGY

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Congress is tying up some loose ends as it prepares to pass a temporary spending bill that will keep the government open into December. Among the unresolved issues are energy permitting reform and the level of additional funding for Ukraine. A government shutdown is highly unlikely.

When Congress returns after the election, it will consider several "must pass" bills that will attract interest from an array of interest groups looking to pass their priority items. Among these items is Senator Richard Durbin (D-Illinois)'s payments legislation. Odds of the Durbin bill passing are low, but a hearing last week sounded a warning for financials.

CONTINUING RESOLUTION AND ENERGY PERMITTING

Congress will probably pass a Continuing Resolution (CR) by the end of the week that will keep the government open into December. Chances of a government shutdown are low as neither party wants to be blamed for a shutdown just six weeks before the midterm elections. It is possible that there might be a technical shutdown if Congress waits until the weekend to pass the CR, but no one would notice any disruptions in that scenario. The biggest unresolved issue is energy permitting reform that was agreed to by Senate Majority Leader Chuck Schumer (D-New York) and Senator Joe Manchin (D-West Virginia) in the prior negotiations to pass the Inflation Reduction Act (IRA).

Sen. Manchin signaled optimism for his proposal during media appearances over the weekend, but his optimism might belie reality. Progressives continue to oppose the permitting reform despite the fact that it would benefit clean energy projects as well as carbon projects. Many Senate Republicans still feel burned by Senator Manchin's deal on the IRA and are inclined to oppose the permitting proposal even though it includes some permitting reforms that the GOP supports. Chances of getting 60 votes to pass the CR with the permitting reform proposal are probably under 50/50. If the CR fails to attract the 60 votes, then expect the Manchin proposal to be dropped and the CR to proceed without permitting reform.

DURBIN PAYMENTS BILL AND THE RISK OF WOKE CAPITALISM

When Congress returns to Washington after the midterm elections, Senator Durbin could look to attach his recent payments bill to "must pass" legislation. The Durbin bill would mandate that a minimum number of competitive networks be available for routing credit card payments. Odds of the Durbin bill passing remain low (not zero, but low). However, events last week show where there could be some risk for the financial sector.

Recently, credit card companies announced that they would adopt a new code to categorize sales at gun shops. Although the actual purchase would not be identified or detailed, the new code raised alarm bells with Republican lawmakers. They see this move as another sign of "woke capitalism," where large corporations are using their market power to influence social policy.

The financial services industry (including the credit card companies, banks, and credit unions) have done a reasonably good job of lobbying against the Durbin bill. Unlike in 2010 when the industry was caught by surprise and lost a vote on the original Durbin amendment which regulated debit interchange fees, the industry has been fully engaged this time.

The engagement by financial firms on Capitol Hill and the desire of rank-and-file lawmakers to avoid voting on legislation that splits private sector industries should help the industry block the Durbin bill. However, there is some risk of Republican frustration with moves by big businesses (like the credit card companies) into social policy and this could increase the number of Republicans who might vote for the Durbin bill if it comes up for a vote.

Pushback by Republicans against perceived woke capitalism could be a recurring theme if Republicans prevail in the midterm elections. The debate over the Durbin payments bill demonstrates what kind of policy risk this represents in the coming years.

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