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March 1, 2023

WASHINGTON POLICY STRATEGY

Potomac Perspective

The House of Representatives will consider legislation to overturn a Department of Labor (DOL) rule regarding Environmental, Social, and corporate Governance (ESG) investing. The resolution is likely to pass the House and could pass the Senate, but President Biden is expected to veto the legislation and the DOL rule is likely to remain in place.

Regarding the debt ceiling, it appears that budget options are limited. These fiscal constraints create political risk for Speaker McCarthy. This note explores how the lack of options for budget cuts could lead to a political standoff and create market volatility this summer.

ESG Vote – House Republicans are scheduled to vote on legislation that would block a DOL rule that permits fiduciaries to consider ESG factors when making retirement investment decisions. The legislation in being considered under the Congressional Review Act (CRA), a mechanism through which Congress can overturn regulatory actions by federal agencies. The significance of the CRA is that it allows the Senate to pass the legislation by a simple majority vote rather than by the typical 60-vote super-majority threshold.

The ESG-related bill is likely to pass the House and while the outcome in the Senate is unclear, the CRA procedure makes Senate passage more plausible than it would be under regular order. However, **even if the ESG bill passes both chambers of Congress, President Biden is expected to veto the resolution, and the chances of Congress overriding the president's veto are remote. The DOL rule is likely to remain in place for now**.

Debt Ceiling/Budget Options – A recent Congressional Budget Office (CBO) report estimated that Treasury will exhaust its extraordinary measures to manage the debt ceiling ("X-date") sometime between July and September. Thus, Congress and the Biden administration are still months away from concluding a debt ceiling agreement. However, **the parameters of a potential deal are emerging, and it is becoming increasingly likely that a debt ceiling deal will be limited in scope**.

Key congressional Republicans have already acknowledged that Social Security and Medicare are off the table. Those two programs, combined with interest payments on the national debt, account for approximately 71% of federal spending. Congressional Republicans also seem committed to current levels of defense spending despite a loud minority within the party that seem to want defense cuts. Defense accounts for another 14% of federal spending, which means that negotiations will focus on only 15% of federal spending.

Further underlining how difficult it will be to achieve large budget cuts, the Chairman of the House Budget Committee, Representative Jody Arrington (R-Texas) released a list of items to be considered during budget talks. Some of these cuts are one-time savings while others are spread over multiple years, which further illustrates the limited amount of spending each party will be fighting over.

Chairman Arrington's list includes:

- Recapture unobligated COVID money ($100 billion)
- Reinstating work requirements in welfare programs ("tens of billions")
- Reduce fraud in the Child Tax Credit (CTC) and SNAP (Food Stamp) Program ($70 billion).
- Capping Obamacare subsidies at 400% of poverty and recovering overpayments ($65 billion).

- Cancel some EPA programs from the Inflation Reduction Act ($27 billion for the EPA with no specific programmatic purpose and $60 billion for "environmental justice" programs).
- End President Biden's student loan initiatives – ($25 billion from ending loan repayment moratorium and $379 billion from prohibiting debt cancellation).
- Rescind $3 billion for new USPS electric vehicles, $1 billion for "clean" garbage trucks, $3.4 billion for "regional greenways" and "tree planting," and $5.6 billion for low emissions buses.
- End approximately $281 billion in improper payments recently identified in a Government Accountability Office (GAO) report.
- "Stop Woke Waste" – Eliminate a series of programs, all of which appear to cost less than $5 million and some less than $1 million, which in a $6 trillion-plus budget are mere rounding errors.

Although it appears the differences between Democrats and Republicans will be narrow, passing a debt ceiling bill through Congress will not be a slam dunk. Democrats are likely to dig in to protect their favorite programs. At the same time, some Republicans could vote against any bill that they think fails to cut spending enough. The situation puts House Speaker Kevin McCarthy (R-California) in a tenuous position. Speaker McCarthy has a narrow majority (currently five votes) and a group within his party that might oppose any debt ceiling bill. This, in turn, could force McCarthy to make concessions with Democrats which could undercut McCarthy's standing among conservative Republicans. Disgruntled conservative Republicans could force a vote on McCarthy's speakership and while most Republicans would vote for McCarthy again, it is unclear if there would be enough Democrats to save him.

Most House Republicans seem open to voting for a modest debt ceiling deal, but without a unanimous vote by Republicans, it could be difficult for McCarthy to reach a deal with the White House and Democrats, which is why financial markets could be volatile this summer as the X-date approaches. Investors could start to discount a negative outcome on debt ceiling negotiations when the X-date becomes more certain (rather than the current estimate of a three-month window) and if headlines start to suggest that Congress might fail to raise the debt ceiling in a timely manner.

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