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WASHINGTON POLICY STRATEGY

Potomac Perspective

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Hamas's attack on Israel has raised concerns of a regional escalation, which could send ripples through the global economy. Any escalation could complicate the Federal Reserve (Fed)'s decision on a path forward. The Middle East crisis also has implications for domestic politics in the U.S.

House Republicans must now consider an international crisis as they meet this week to nominate a candidate for Speaker of the House. Two Republicans have announced their candidacy. Party rules require a 2/3 vote to win the party's nomination. If neither of the two announced candidates garner the sufficient votes, the door could open to alternatives who have not announced their candidacy, including former Speaker Kevin McCarthy.

MIDDLE EAST CRISIS IMPLICATIONS

How the Middle East conflict impacts the U.S. economy depends on whether the conflict spreads. Any escalation that directly involves Iran could roil energy markets. The wild card in the situation is how Saudi Arabia responds. Relations between the U.S. and Saudi Arabia have been cool, but the Saudis have been working to improve relations with Israel and view Iran as a threat. The Saudis could act to stabilize energy markets and mitigate Iran's efforts to exploit the situation to its economic advantage. The Middle East crisis could also impact U.S. domestic policy and politics.

- **Possible Impact on U.S. politics: the Fed and the economy** – It is too soon to say what the impact on the U.S. economy will be, but it raises the chances of higher energy prices, especially if there is an escalation of hostilities (and depending on how the Saudis respond to the evolving situation). Increased energy prices could complicate the Federal Reserve's work to reduce inflation, as the persistence of high energy prices could feed through to core components and keep price levels higher than the Fed's target. However, a risk-off trade could have the effect of lowering bond yields and easing financial conditions (recent tighter financial conditions have been an ally of the Fed).
- **U.S. domestic politics (Congress)** – The House is hamstrung by the lack of a Speaker, and the situation in Israel could impact Congress and the Speaker's race in several ways:
 - **Increased pressure to select a Speaker ASAP** – If either Steve Scalise or Jim Jordan get close to 2/3 support on first ballot, pressure will build on the other to drop out and coalesce around the frontrunner. However, if neither candidate can win the GOP nomination quickly, House Republicans could pivot to other alternatives such as Patrick McHenry or even bring back Kevin McCarthy (long shot but not zero chance). More on the Speaker's contest below.
 - **Aid package for Israel: Ukraine, too?** The Biden administration is expected to request additional aid for Israel, which is likely to receive broad bipartisan support. The Senate and the Biden administration might propose combining aid for Israel with aid for Ukraine in order to smooth the way for Ukraine funding, the latter of which has met increasing House Republican opposition. This is the type of tactic that House Republicans rebel against, but combining aid for Israel with funding for Ukraine could put the House GOP in an awkward position.
 - **Possible government shutdown** – It is unlikely that Congress will be able to pass the necessary appropriation bills by November 17 when the Continuing Resolution expires. Chances of a shutdown had been rising, but a

shutdown during a time of international crisis might not be politically palatable for Republicans, even some of the more conservative members of the House GOP. The chances of a shutdown might be easing slightly.

- **U.S. domestic politics (presidential politics):**

- **GOP race** – The media coverage of the Middle East crisis freezes out coverage of the GOP primary, which makes it even tougher for challengers of Donald Trump to gain traction. Trump remains the clear frontrunner. It's getting late early for other candidates.
- **General election** – The Biden administration had been hoping for an Israeli/Saudi agreement going into the 2024 presidential campaign. At the same time, Hamas wanted to block such an agreement, which could have been one of the motivations for this weekend's attacks. Regardless of the motivations, the attacks on Israel could deprive President Biden of a possible political win. The Hamas/Iran connection also causes Biden problems in wake of the recent release of \$6 billion to Iran in the recent hostage release deal. That deal is being criticized for possibly facilitating Iranian support for Hamas. The attacks on Israel look like an intelligence failure for U.S. as well as Israel. Biden will look to highlight U.S. support for Israel, but on balance, the Biden administration will be playing defense regarding its Middle East policy. Lastly, Trump will continue to point to the Abraham Accords, and the absence of any Biden achievements for Middle East peace could damage his reelection campaign.

SPEAKER'S RACE

House Republicans plan to nominate a candidate for Speaker by midweek, with a full House vote possibly taking place later in the week. House Republicans require a candidate to win a two-thirds majority in order to secure the nomination. Although some House Republicans have proposed to change the party's rules to require 218 votes to secure the GOP nomination, that effort might fail. Once the Republican nomination has been secured, the entire House will vote for a new Speaker. A vote on the House floor could occur late this week. A candidate for Speaker must win a majority vote of the House (218 votes assuming all House Members are present and voting, but that number could dip if some Members are absent).

Currently, two Republicans have announced their candidacy for Speaker – House Majority Leader Steve Scalise (R-Louisiana) and House Judiciary Committee Chairman Jim Jordan (R-Ohio). Former Speaker Kevin McCarthy (R-California) has also signaled that he is open to winning back his old job. It is possible, if not likely, that a McCarthy supporter will nominate the former Speaker. Under this scenario, Republicans might fail to nominate a candidate on the first ballot, which opens the door to McCarthy or other alternatives if Republicans fail to nominate a candidate in subsequent ballots.

McCarthy maintains significant support among House Republicans, especially among centrists, and the Middle East crisis could lead more Republicans to support McCarthy's reinstatement. This is a longshot effort, but support for McCarthy should not be summarily dismissed, and an international crisis that has the potential to escalate might lead to a previously unexpected outcome (again).

If neither Scalise nor Jordan (or McCarthy) win enough support from House Republicans, the GOP might look to alternatives such as Speaker pro tempore and House Financial Services Committee Chairman Patrick McHenry.

In a two-man contest between Scalise and Jordan, each candidate has strengths and weakness. Scalise probably has stronger ties to GOP centrists, had experience in the GOP leadership, and has some success in raising money for Republican candidates. However, Scalise was recently diagnosed with multiple myeloma, which could lead some Republicans to question his ability to undertake a grueling job. He also has a cool relationship with McCarthy and McCarthy allies are reportedly working against Scalise.

Jordan has strong ties to conservatives and the party's base across the country. He is, however, a polarizing figure who makes centrists anxious. Also, he has never held a leadership position, and so is untested just when an international crisis might call

for an experienced hand. Lastly, he is an unproven fundraiser for the party, which could worry some Republicans going into a competitive election cycle.

It's setting up to be another busy week in Washington.

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