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WASHINGTON POLICY STRATEGY

Potomac Perspective

Congress returns to Washington this week to face yet another spending deadline. A partial government shutdown is possible, but we expect it would be short in duration and not market moving. The bigger issue is whether Congress will approve a spending bill that funds the government to fiscal year-end and averts sequestration cuts which could take effect in May. We are also looking at whether a foreign aid bill and a tax bill could eventually be added to a longer-term spending bill. Lastly, we take a quick look at a bank merger bill which might be on the table in 2025, but probably not before then.

SUPPLEMENTAL AND A LOOMING SHUTDOWN (AGAIN)

Congress returns to Washington this week to face the expiration of the current Continuing Resolution (CR). An extension of the CR would not only avert a shutdown, but it could also be a pathway for the foreign aid supplemental.

Parts of the government are set to shut down on March 1. The Departments of Agriculture, Energy, Housing and Urban Development, Transportation, and Veterans Affairs are subject to closure as of this date. The rest of the government would shut down on March 8 if a new spending bill is not passed. This Groundhog Day scenario has been repeating itself since September – where a shutdown looks likely, but Congress avoids it at the last minute. Congress only has a few days to pass another short-term CR. However, President Joe Biden is scheduled to deliver the State of the Union Address on March 7, and congressional Republicans might not want to have Mr. Biden give this speech during a shutdown or delay it because of one. Another short-term CR therefore seems likely, even though time is short. Congress might miss the March 1 deadline, and there could be a shutdown next weekend, but we expect a short-term CR will be passed late this week or early next week.

Longer-term, it remains unclear whether Congress will pass individual appropriations bills or a CR carrying through to fiscal year-end. A full-year CR would trigger sequestration cuts on April 30. Some conservative Republicans prefer this route, but Democrats and many other Republicans want to avoid those cuts. The conservatives might seek to remove Speaker Mike Johnson (R-Louisiana) if he agrees to a bipartisan spending bill(s) that covers the rest of the year, avoids sequestration, and does not achieve the policy riders conservatives want.

A full-year spending bill could also be a pathway for the foreign aid supplemental that recently passed the Senate. House Speaker Johnson also faces pressure from his right wing to block the foreign aid bill, and he could have a procedural problem if he tries to bring the legislation to the floor as a stand-alone bill. However, adding the foreign aid bill to a spending bill might avoid that problem. The strong Senate vote of 70-29 (including 22 Republicans), plus recent polling from Pew which showed that 74 percent of Americans think that the war in Ukraine is "somewhat" or "very" important to U.S. national interests, could give Speaker Johnson some room to maneuver. Former President Donald Trump's opposition to Ukraine funding will be a bigger factor in the House than it was in the Senate, but continued public support for Ukraine, even among Republicans, seems strong enough to provide a pathway to passing as part of a broader spending bill -- maybe not next week, but over the next few weeks. We are marginally more positive on the prospects for the foreign aid bill than we were a few weeks ago.

CORPORATE TAX BILL STATUS

Compared to the foreign aid bill, the script is flipped for the Tax Relief for American Families and Workers Act, which includes several temporary corporate tax breaks and was passed by the House several weeks ago. There appears to be bipartisan support in the Senate for the bill but the Senate Republican leadership have yet to sign off on the bill and are pushing for changes to the Child Tax Credit provisions. We continue to be moderately bullish about the tax bill's prospects and expect it will become law, but there is a risk the Senate could block the legislation.

BANK MERGER BILL

Recently, Representative Andy Barr (R-Kentucky) introduced the Bank Failure Prevention Act, which would require the Federal Reserve (Fed) to act on merger applications within 90 days. We have not yet seen the text of Representative Barr's legislation, but his office's press release cites only the Fed and not the other regulatory agencies. We therefore assume Mr. Barr's bill excludes the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC).

Given the current political situation, it is highly unlikely Mr. Barr's legislation will be enacted this year. Even if the bill passed the House, we think it would DOA in the Senate, where Banking Committee Chairman Sherrod Brown (D-Ohio) would block it. Going forward, if Republicans sweep the 2024 elections, the legislation would enjoy slightly better, but not overwhelming, odds of passing. The legislation would need 60 votes to pass the Senate and in order to reach 60, the bill would need Democratic support. However, the centrist Democrats who might support such legislation are a dying breed, and we are skeptical there will be enough Democratic support for the bill in 2025.

There is a policy concern if the Barr bill were to pass Congress – be careful what you ask for. Under the current system, bank merger applications face lengthy delays at the regulatory agencies. Deadlines are frequently pushed back as the regulators ask for more information from the acquirer, but in the end, the regulators typically approve a merger application. By putting a hard stop on the application process, the legislation might make it easier for regulators to reject a merger application quickly rather than taking a long time to approve it.

Click here for the OCC's notice of proposed rulemaking.

Click here for the OCC's overview of its NPR.

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