

From Total Chaos to Routine Chaos

Congress is feeling the pressure as geopolitical tensions and critical time-sensitive measures weigh on lawmakers.

Despite chaos and confusion reigning supreme on Capitol Hill for most of October, Congress is up and running again with a new Speaker of the House and yet another government-funding deadline approaching. Smooth sailing doesn't seem to be on the horizon, though, as DC will be racing the clock to confront a backlog of issues that amassed during the Speaker of House race—including emergency foreign aid—before they're able to address the expiring continuing resolution (CR) and continue the government's funding process.

Though Republicans were able to usher in newly minted Speaker of the House Mike Johnson (R-LA), the party's infighting amid the speakership race has likely not been lost on the public. Even more, there are signs that the Israel-Hamas war is starting to unravel the typically unified Democrats. All that's to say, the level of divisiveness and mistrust in Washington is higher than ever before with no signs of abating. This existing dysfunction—both intraparty and interparty, in both Chambers—remains, as Washington must now face a growing list of geopolitical tensions.

Foreign Assistance

In the small amount of time before the current CR expires, foreign assistance will be taking center stage as the Biden administration has requested a supplemental aid package totaling \$106 billion aimed at supporting defense in Ukraine, Israel, and Taiwan; humanitarian aid in Ukraine, Israel, and Gaza; as well some funding dedicated to southern US-border security. As a package of this size is unlikely to pass as is, the aid is being segmented to allow for, what the Biden administration hopes, will be a more streamlined passage in both the House and Senate. Even in the face of infighting and budget debates, we think large portions of the package will ultimately find passage in Congress.

Israel-Hamas war: The House passed a \$14.5 billion military-aid bill for Israel, but, in a departure from norms, Johnson required the emergency aid to be offset by rescinding roughly the same amount from the Internal Revenue Service's (IRS) enforcement division. While an aid package of this kind would typically enjoy bipartisan support, the bill was passed largely along party lines in the House and is likely to run into two sticking points. First, the Senate is unlikely to support the bill as Sen. Chuck Schumer (D-NY) and Sen. Minority Leader Mitch McConnell (R-KY) are both looking to tie Ukrainian aid into this bill. And second, the nonpartisan Congressional Budget Office found that the cuts to the IRS would actually add \$26.8 billion to the deficit due to lost tax revenue and enforcement. Given the severity of the burgeoning crisis in the Middle East, we think this funding will ultimately pass in the Senate (without the hard-right offsets), but the partisan nature of the bill could subject the much-needed aid to delays.

Russia-Ukraine war: While Schumer and McConnell have been steadfast in their support for Ukraine, and now Israel, several Senate Republicans are now insisting that any foreign-aid package must include major changes to the US-Mexican border security policies. Johnson has indicated that he has been considering further aid for Ukraine, but that assistance should be tied to border security as well as stipulations about how that money is spent. Ukrainian aid would most



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Key Points

- Division and dysfunction, both intraparty and interparty, are likely to continue through the end of the year.
- Foreign assistance coupled with federal budget and spending now take center stage with no clear path forward; other critical issues await action.
- With one year to the election, divided government is the likely outcome with significant perennial policy decisions on the line.

Taking Stock of Washington

likely be attached to border legislation in the form of H.R. 2—a border-crackdown bill would resume construction on the wall, tighten asylum standards, criminalize visa overstays, increase the number of Border Patrol agents, and more. House Republicans passed a version of H.R. 2 in May, but the bill went nowhere without support from the Democrat-led Senate. Republicans have made clear the border policy is going to be the linchpin to pass any of the Biden administration's \$106 billion in emergency foreign supplemental.

Funding Resolution or Continuing Resolution?

The government is currently functioning on a CR—a temporary funding measure used to keep the government running for a limited amount of time. With the current CR expiring on November 17 and the budget and appropriations process not yet completed, there's no question that another CR will be necessary to avoid shutdown. Instead, the length of the CR will be up for debate as Democrats wish to wrap up the appropriations process by early December and Republicans are looking toward a January-April 2024 extension to give appropriators more time.

Both the House and Senate are still on the hook for 12 appropriation bills each, and, as of this writing, the House has been able to pass seven, while the Senate has only completed three. House-passed appropriations bills will largely be along partisan lines and include significant cuts to federal agencies. The Senate, on the other hand, will likely hew to the higher numbers agreed upon during May's debt-ceiling deal with former Speaker Kevin McCarthy (R-CA).

If both chambers pass all 12 bills, the House and Senate will then establish a conference committee in which both chambers forge a compromise before sending the final version back to their respective bodies for passage and then to the president's desk.

Don't Forget the Leftovers

Once Congress and the White House resolve (or delay) government funding and foreign aid, a growing list of critical year-end legislative measures will still need to be addressed:

- **The National Defense Authorization Act** – Authorizes annual funding and sets the policy agenda for the Department of Defense
- **Pharmacy Benefits Managers (PBM) legislation and other healthcare extenders** – PBMs are third party companies that act as intermediaries between insurance providers and pharmaceutical manufacturers. The Pharmacy Benefit Manager Transparency Act of 2023 would encourage fair and transparent practices that benefit local pharmacies and consumers.
- **National Flood Insurance Program** – Provides insurance to help reduce the socio-economic impact of floods
- **Federal Aviation Administration reauthorization** – Regulates safety in the airline industry and the use of American airspace
- **Farm Bill** – Sets national policy and prices for everything from crops and food supply to biofuels and rural broadband
- **Year-End Tax Credit Negotiations** – Reintroduction of the research and development tax credits as well as the expansion of child tax credits

In late October, the Biden administration requested another \$56 billion emergency-supplemental spending package, including \$24 billion for natural disasters, \$16 billion for childcare assistance, \$6 billion for expiring low-income internet access, and \$2.2 billion earmarked for domestically enriched uranium. Each of these measures may find success individually, but in the event that they aren't passed, some may be extended or attached to a mammoth year-end bill.

Taking Stock of Washington

Looking Back and Looking Ahead

The 2022 midterms didn't shake out the way Republicans or most pollsters expected, and ramifications are still being felt today. Republicans were left with little to no room to maneuver as the predicted mid-range, double-digit Republican House majority fell short. Instead, the party has been operating with a slimmer majority than expected and contending with the House Freedom Caucus—an ultra-conservative faction of the Republic party. The resulting tension has been a major factor in the chaos seen in the House of Representatives this year and October's speakership race.

With just under a year until the 2024 elections, we expect to see more dysfunction in the coming months. Our early prediction is that a divided government could continue, but we think the Senate will flip Republican, while the House goes to Democrats once again. Control of the White House is likely to be a nailbiter and consequences for major policy issues hangs in the balance—namely federal spending levels and the 2025 expiration of the 2017 Tax Cut and Jobs Act.

Talk to your financial professional to help make sure your portfolio is prepared for whatever happens in Washington D.C.

About the Author:

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