Alert
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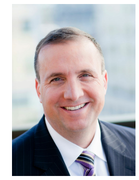
Cozen Currents: Political Costs Add Up on Both Sides



Howard Schweitzer

CEO, Cozen O'Connor Public Strategies

hschweitzer@cozen.com
Phone: (202) 912-4855
Fax: (202) 640-5932

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The Cozen Lens

- The disarray in the House GOP conference has political benefits for Democrats, at least in the short term, but it could also have a significant impact on FY24 discretionary spending, which could result in collateral political damage for the White House and incumbent congressional Democrats as next year's elections draw near.
- President Biden has made "Bidenomics" a central focus of his re-election strategy, but looming economic threats could turn this into an election-losing decision.
- The price at the pump and mortgage rates are the best indicators of how voters feel about the economy, and both are currently relatively high, with the potential for gas prices to climb even higher given the geopolitical situation. The problem for President Biden is that he has limited options, if any, to lower either.

Who Pays Politically for the House GOP Being in Disarray?

Political Optics. Former House Speaker Kevin McCarthy's (R-CA) fall from power yields political dividends for Democrats, at least in the short term.

- Despite speculation that Democrats might bail McCarthy out, they voted en masse with eight GOP defectors to oust the former speaker. Today's partisan political environment makes a deal similar to a parliamentary coalition government impossible.
- The chaos in the House GOP conference provides fodder for Democratic 2024 campaigns criticizing "extremist MAGA Republicans." McCarthy's loss and the ensuing fight over the speakership make the GOP look incapable of governing effectively, setting up a strong contrast with Democrats. They can seek to paint all House Republicans, from leadership to the MAGA wing, with the same broad brush.
- Democrats can also leverage the battle over the speakership in fighting back against the impeachment inquiry into President Biden. The president's supporters can argue that this process results from a broken House beholden to the far right and seek to discredit any effort at impeaching Biden as petty. The result could be a backlash, as seen with the impeachment of President Clinton.

House GOP Political Dynamics. With McCarthy gone, the new speaker will still face challenges in uniting the conference and preventing a government shutdown.

- The key factor determining how McCarthy's successor manages the divided GOP House majority is the threshold to trigger a motion to vacate, the vote on whether to remove the speaker. McCarthy agreed to lower this threshold to one, allowing any member to call a referendum on his speakership, which Rep. Matt Gaetz (R-FL) did last week. Continuing under this rule ensures instability, but any changes could be difficult. Raising the threshold will depend on how badly a candidate wants the gavel and the degree to which McCarthy's opponents were motivated primarily by personal animus against him or broader ideological reasons. It's unclear if the eight Republicans who voted to remove McCarthy would be willing to give up that power when they've already used it. A higher threshold would give the new speaker greater latitude.
- The biggest near-term challenge facing the new speaker will be keeping the government open. The current continuing resolution (CR) expires November 17th, only about five weeks after the speaker election is scheduled to begin tomorrow. The previous CR set a precedent for another: it passed the "Hastert Rule," meaning that a majority of Republicans voted for it. On the other hand, a new speaker, potentially farther right than McCarthy, could see it as a

cautionary tale.

- The future of Ukraine funding is also up in the air, as is a potential aid package for Israel as the country wages war against Hamas. Despite bipartisan majorities of lawmakers in both chambers supportive of Ukraine aid, it's unpopular among the right wing of the GOP. Rep. Jim Jordan (R-OH), a top contender for speaker, opposes it. A failure to get Ukraine aid through the House could complicate efforts to keep the government open, with both Democrats and GOP defense hawks pushing for it to be included in the next CR if not addressed sooner.

A No-Win Game. In the long run, McCarthy's removal and the fight over the speakership are a no-win game for both parties. The question is, who loses more?

- While Democrats got a favorable political outcome in the short term, the successful motion to vacate also raises the risk of a government shutdown on November 17th, Ukraine funding not passing, and sequester cuts coming into effect later next year. Democrats have shown a lower pain threshold than Republicans in congressional brinkmanship. They are not as willing to go over a cliff regarding a shutdown or a debt default as some Republicans have been.
- A farther right speaker would be less likely to compromise with Democrats, raising the chance of a mid-November shutdown and across-the-board one percent cuts to FY23 funding levels. Under the debt limit law, these cuts will automatically take effect if Congress has not passed full-year FY24 appropriations by April 30th. While a more mainstream GOP leader like McCarthy would have sought to avoid this sequester (which would impact defense and non-defense spending), a more conservative speaker might be more interested in seeing it happen. In fact, Rep. Jim Jordan (R-OH), the speaker candidate with former President Trump's endorsement, has said that even any future CRs should start imposing the one percent across-the-board cuts from FY23 spending levels instead of waiting for April 30th.
- There's also a risk that House GOP dysfunction creates collateral political damage for Democrats. A government shutdown or sequester cuts could reflect poorly on all incumbents, hurting the White House and congressional Democrats. Republicans won't shoulder all the blame based on recent polling in light of the partisan environment.

What is "Bidenonomics" and What Impact Will It Have on the General Election?

"Bidenomics" Defined. What Bidenomics means depends on who you ask, but increasingly, it is being associated with the economy as a whole rather than specific policies trumpeted by President Biden.

- The economy is one of President Biden's weakest points in his re-election campaign, but with his emphasis on Bidenomics, he has chosen to run toward the issue rather than away from it. Biden has done this by focusing on the major legislative victories won during the first half of his term.
- This strategy is not without danger as the closer Biden is associated with the economy, the more politically hazardous economic risks become. The coming months could be especially tough for the president with several looming challenges, ranging from the autoworkers' ongoing strike to a credit squeeze, that could collectively trigger at least a regional recession if not a national one.

Up a Creek Without a Paddle. Part of the problem for Biden is that he has few good opportunities to mitigate these coming risks through policy levers, leaving him vulnerable.

- Biden has made clear his support for the striking autoworkers with his visit to the picket line in the critical swing state of Michigan last month, but negotiations between the union and automakers have made little progress. The president is in a difficult position to get involved with talks as he will want to support the workers, but an extended strike risks economic pain that could stretch beyond the auto industry. Even if there is no national damage, the potential for local consequences will hold the White House's attention with their importance in Biden's re-election.
- The resumption of student loan payments is expected to be a drag on consumer spending that has yet to slow down. The Biden administration has enacted policies intended to soften the economic shocks from this restart. Given the importance of this issue to his base, Biden will have to manage it carefully for the next several months and will face pressure to do more if

there are signs of households starting to struggle.

- While Biden and Federal Reserve Chairman Jerome Powell had an unspoken collaboration to fight inflation in the wake of the pandemic, the impact of the Fed's rate hikes may have not been fully realized yet. If the economy does begin to slow, it is doubtful that Biden would use his bully pulpit to attack Powell and pressure him to lower rates as former President Trump did, although progressives in Congress are less likely to hold back. To preserve the Fed's non-partisan image, Powell will likely not jump to cut rates at the first sign of economic trouble. Instead, he will likely wait for a consensus to emerge to ensure that any move is not viewed as politically motivated.

Industrial Policy Flops With Electorate. The Infrastructure Investment and Jobs Act, Inflation Reduction Act, and CHIPS and Science Act are Biden's biggest legislative achievements, but he is not getting credit from voters for them.

- The lack of recognition is due to a variety of reasons, including the difficulty for the White House to communicate to voters what is in these far-reaching bills and the lack of tangible benefits provided to date. The programs are designed to help the US in the long run and will not alleviate the immediate economic risks to voters.
- Part of the difficulty for Biden with these programs is the federal rulemaking process' length and the impact this has on implementation. While the Biden administration has been working on this since the bills passed, this is not clearly visible to the public, a fact reflected in a poll released in August that found that over 70 percent of respondents felt they had only heard a little or nothing about the Inflation Reduction Act since it was passed. This process is necessary but hampers the White House's ability to translate these legislative accomplishments into electoral wins.

High Gas Prices and Mortgage Rates Threaten Biden

Top Consumer Indicators Flashing Red. Gas prices and mortgage rates are top proxies for voters to judge how the economy is doing. Both are relatively high in recent historical terms.

- It's well known that people's feelings about the economy are often disconnected from true macroeconomic performance. Anecdotal evidence from one's personal spending weighs heavily on consumer perceptions. People are continually made aware of the price of gasoline every time they fill up the tank. Mortgage rates aren't outwardly displayed on the street like gas prices but bear heavily on people's largest single expense — housing.
- We are once again approaching the era of eight percent mortgages. Thirty-year fixed mortgage rates rose to 7.9 percent in October, levels that haven't been seen since 2000. Last August, the rate was five percent; the year before — below three percent. For reference, a $500k 30-year mortgage is $1,972 monthly at 2.8 percent. At today's 7.9 percent, it's $3,488 a month.
- Gas prices are following the same general trajectory. The price per gallon fell to below two dollars in 2020 amid Covid. Prices then spiked and broke five dollars per gallon last summer before falling but are ticking up once again. The Fed tends to discount non-core inflation when determining monetary policy moves, but voters don't have the same luxury in their daily lives.Gas hasn't been this expensive since 2012, and the potential for a broad conflict in the Middle East may drive gas prices even higher.

Much Ado About Nothing (to Do). The factors driving up mortgages and gas are separate, and each are mostly beyond the federal government's control. Voters tend to assign blame to whoever's in the White House, leaving President Biden facing the heat with no good options.

- When inflation began spiking in 2021, Biden and Federal Reserve Chairman Jerome Powell were on the same page — slowing it immediately. Now that higher interest rates are beginning to act as a drag on the rest of the economy, their interests are not as aligned as they once were. Powell's overriding priority is preserving the credibility of the Fed and establishing price stability. His goal has been to take inflation from nine percent and bring it all the way down to two percent, even if it means keeping rates, including mortgage rates, high for an extended period. Biden was also willing to do what it takes to address nine percent inflation but is less willing to make the tradeoff to slow the economy and keep rates high to finish off the problem when inflation is (mostly) under control and the 2024 elections are approaching.

- The price of gas is determined by dynamics beyond America's shores. Costs are primarily determined by global demand and supply. Saudi Arabia and Russia have enacted voluntary production cuts which have acted to push global prices higher. When Biden faced a rapid gas price spike last year, he ordered an unprecedented release (180 million barrels) from the Strategic Petroleum Reserve (SPR). Besides the Treasury's estimate that this decreased gasoline prices by 40 cents, it also signaled Biden was taking action. Now, though, he faces a dearth of even symbolic actions. Biden will be hesitant to tap the currently heavily depleted SPR again and leave the country more vulnerable to energy shocks and emergencies.