

POLITICAL PULSE

A House Divided Takes on Infrastructure Alone

Tuesday, September 28, 2021

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Infrastructure will be voted in the House Thursday. If it passes, tax hikes are doomed.

The game-theoretics for congressional negotiation of the Bipartisan Infrastructure Act (BIA) and the Build Back Better Act (BBBA – the reconciliation bill) are playing out very much as expected (see [“Tax Hikes: The House Has Many Manchins”](#) September 8, 2021). As we said from the very beginning, we continue to expect that when all is said and done, there will be no tax hikes on corporations or individuals (see [“On the Coming Corporate Tax Hikes”](#) March 31, 2021).

- House Speaker Nancy Pelosi (D-CA21) has had to keep her word to moderate House Democrats to bring a vote on the BIA – [it will come on Thursday](#), and because the House will vote on the [exact same language that the Senate already passed](#), it will be ready to



become law as soon as President Joseph R. Biden, Jr. signs it.

- Thursday's BIA vote will be well ahead of any possible future vote on BBBA – the \$3.5 trillion reconciliation budget bill has proven, as we expected, to be too vast and complicated to be readied in time.

- Our base case is that once BIA is passed, House moderates will have gotten what they wanted – the opportunity to deliver a ye vote on a bill wildly popular in the swing districts that will determine their fates in the 2022 mid-terms. After that, they have no motive to vote ye – indeed, every survival motive to vote nay – on the unpopular BBBA. Once BIA lives, BBBA dies.

- This is why House progressives have been so insistent that the two bills be voted as a single package – it's a last-ditch strategy to get moderates to vote ye on BBBA,

Update to strategic view

US MACRO, US BONDS:

The Bipartisan Infrastructure Act will be voted in the House on Thursday. Progressive Dems say they are committed to vote against it, but it would still pass if as many as 7 did, given 4 committed GOP votes. Pelosi doesn't bring losing votes, so she must be confident it will pass, though she was forced into this. Financed with debt, not taxes, it is moderately stimulative and may explain the present Treasury yield back-up. Passage dooms the \$3.5T reconciliation budget bill because Dem moderates will have already been able to vote ye on the popular BIA, and would have no motive to vote for an unpopular bill. The tax hikes in reconciliation have already shrunk to \$2T from Biden's initial proposal for \$4T. Dissident Dem Senate moderates want to shrink the \$3.5T spending part to a maximum of \$1.5T, so the tax hikes will likely shrink further. It will be a lengthy acrimonious process, leaving a shrunken remnant that nobody supports, while Biden's approval is now the lowest of any modern president, including Trump.

operating on the apparent assumption that the moderates are so hungry for a small hamburger that they will consume a large quantity of rat-poison to get it.

- The progressives continue to threaten to vote against BIA when it comes up first, and unpaired. Pelosi seems to be betting that's a hollow threat because, after all, the progressives want *both* – so a threat to boycott BIA is a self-destructive threat against something they themselves value (again, see [“Tax Hikes: The House Has Many Manchins”](#)).
- There are four declared Republican yea votes for BIA -- Upton (R-MI6), Reed (R-NY23), Fitzpatrick (R-PA1) and Young (R-AKAL). So BIA would still pass with as many as 7 progressive Dems voting nay. If it turns out Dem votes alone are sufficient, more Republicans would vote yea – but if the life and death of the bill hangs on GOP crossovers, 4 are all we can count on for sure.
- By bringing the vote Thursday, Pelosi would appear to believe that she can corral her large progressive wing to sufficiently stay in line for passage of BIA – it is her style not to bring losing votes to the floor in the first place. But we can't rule out that she's been forced into losing this one by her promise to Dem moderates to bring this vote this week – her choice is, perhaps, to endure a rare losing vote for the sake of not permanently alienating her most fragile caucus members (that is, those who come from competitive districts where every House vote will be scrutinized).
- So it's not a bad bet, though far from a sure thing, that BIA will pass Thursday. It's arguably mildly stimulative – it's \$550 billion in incremental federal spending over a decade. It's substantially all debt-financed (which is to say, *not* tax-financed). Perhaps the back-up in the 10-year yield the last several days reflects the market taking on board the somewhat higher issuance-path that passage of BIA implies (see [“Are Stocks and Bonds Actually Agreeing with Each Other?”](#) July 26, 2021).
- Assuming BIA is passed, again, our base case is that BBBA is

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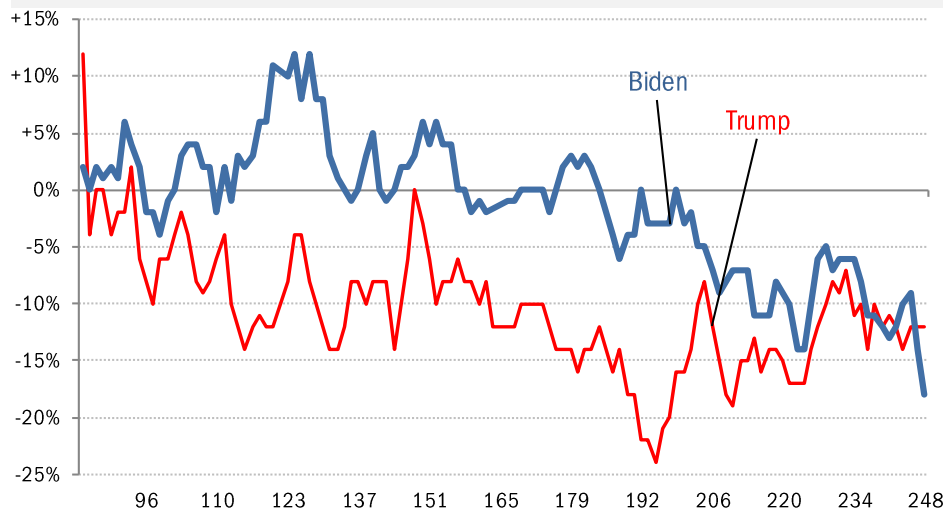
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Net approval (approval minus disapproval) on comparable day in first year



Source: Rasmussen, TrendMacro calculations

doomed – it just doesn't have the votes, at least not in anything like its current form (see [“Video: What you're not hearing about the bipartisan infrastructure bill and the budget reconciliation bill”](#) August 16, 2021).

- To get it into any kind of shape that might get passed, Democrats are going to continue to have to negotiate against themselves. Already the \$4 trillion in tax hikes on corporations and individuals, set by Biden when he announced the [American Jobs Plan](#) in March and the [American Families Plan](#) in April (which together comprise the combination of the BIA and the BBBA) has been whittled down to \$2 trillion (see [“Video: What you're not hearing about the coming tax hikes”](#) September 17, 2021).
- In the Senate, Joseph Manchin (D-WV) Kyrsten Sinema (D-AZ) and Jon Tester (D-MT) have said they can't support a bill calling for more than a maximum of \$1.5 trillion in spending. When funding the government with a continuing resolution and raising or suspending the debt ceiling get processed by Congress, and it can turn its attention seriously to BBBA, its spending is destined to be shrunken considerably from its \$3.5 trillion present size to fit into the [Procrustean Bed](#) of the three Senate dissidents – so it's a pretty safe bet that the tax part will get further shrunken too.
- By the time that acrimonious process of internecine warfare is complete, it's not obvious that there will be sufficient energy to push through a shrunken remnant that satisfies nobody. *That would be no different if BIA doesn't pass Thursday, and ends up getting paired with BBBA in several months.*
- Meanwhile, Biden's approval and net approval (approval minus disapproval) have fallen to the lowest in his presidency, indeed the lowest of any modern president on this day in the first year, indeed lower even than Trump (please see the chart on the previous page). What would be the motive of moderate Dems in swing districts to vote for a bill that is distasteful to their purple voters, for a president who has disappointed them?
- So when Biden said on Friday of the BBBA “it's going to cost nothing” – yes, [he really said that](#); it's not just Republican fake news – we think he'll turn out to be right.

Bottom line

The Bipartisan Infrastructure Act will be voted in the House on Thursday. Progressive Dems say they are committed to vote against it, but it would still pass if as many as 7 did, given 4 committed GOP votes. Pelosi doesn't bring losing votes, so she must be confident it will pass, though she was forced into this. Financed with debt, not taxes, it is moderately stimulative and may explain the present Treasury yield back-up. Passage dooms the \$3.5T reconciliation budget bill because Dem moderates will have already been able to vote yea on the popular BIA, and would have no motive to vote for an unpopular bill. The tax hikes in reconciliation have already shrunken to \$2T from Biden's initial proposal for \$4T. Dissident Dem Senate moderates want to shrink the \$3.5T spending part to a maximum of \$1.5T, so the tax hikes will likely shrink further. It will be a lengthy acrimonious process, leaving a shrunken remnant that nobody supports,

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