

WEEKLY HORIZON

September 7-10, 2021

This Week's Driving Events

- **It's Crunch Time for the Democratic Agenda:** The House Ways and Means Committee will begin its markup of reconciliation legislation this week as it gets set to put forward the offsets for a potentially \$3.5 trillion spending bill. But fully paying for legislation in Washington does not actually require fully paying for it. Where the final offset and spending numbers land depends on the political will among the entire Democratic caucus and the two-track process between the respective reconciliation and bipartisan infrastructure packages.
- **The \$28.7 Trillion Elephant in the Room:** While the short-term fight over government funding and the debt ceiling will be full of political theatrics, a longer-term solution may involve an agreement that increases defense spending in return for a further suspension of the debt ceiling.
- **Democrats Embrace Popularity of Drug Pricing Reforms:** Democrats in both chambers and the White House seem to be doubling down on supporting allowing Medicare to directly negotiate drug prices, although the two most important details of which drugs are included and what is the baseline for the Medicare price remain as yet unanswered. The markups scheduled for the coming weeks in the House, particularly in the Ways and Means and Energy and Commerce Committees, will help to shed some light on how these issues are likely to be resolved.

TAXES, RECONCILIATION, AND INFRASTRUCTURE OUTLOOK: Several House committees will hold markups this week for their relevant portions of the Build Back Better reconciliation agenda. This includes the House Ways and Means Committee, which holds jurisdiction over revenue measures. As the budget resolution [laid out](#), the Ways and Means Committee must decrease the deficit by at least \$1 billion. As the revenue-writing committees in the House and Senate are looking to [spend \\$1.8 trillion](#), Democrats will have to raise a minimum of \$1.801 trillion. This would combine with the approximately \$1.7 trillion of deficit spending allocated to the other committees for a topline goal of \$3.5 trillion in spending.

We view the \$1.801 trillion target as eminently doable for Democrats. Before last week, President Biden and congressional Democrats put forth a menu of potential offsets totaling over \$4 trillion. [Our latest offset estimates](#) have **Democrats meeting the reconciliation minimum, even with paring back or nixing several of the tax proposals.** Senate Finance Committee Chair Ron Wyden (D-OR) [last week reportedly circulated](#) a list of potential tax offsets, many of which were not part of President Biden's agenda. Some notable proposals included a carbon tax, a [20-cent fee](#) on the sale of "virgin" plastics, and an excise tax on certain corporate buybacks. As Politico reported, "Senate Democrats are still in the early stages of deciding how to raise taxes and haven't even settled on how much revenue they need." Wyden is the Elizabeth Warren of tax policy -- he has a plan for it even if he doesn't have a plan for how to pass it. We are therefore taking many of these new reported tax policies with a grain of salt. **The more important figure to watch is Ways and Means Committee Chair Richard Neal (D-MA).** He's less willing to introduce progressive tax policies unless he believes they have the support of the vast majority of the Democratic caucus.

As Politico noted, it's still unclear how much scorable revenue Democrats need to offset spending. Over the weekend, White House Chief of Staff Ron Klain was emphatic that a \$3.5 trillion bill would be completely offset. "This package adds nothing to the debt, nothing to the debt. It is fully paid for by raising taxes on wealthy people," Klain said. **While Democrats have a menu of \$3.5 trillion in scorable offsets, it's unrealistic to expect they will get anywhere near that amount. With the right finesse and budget creativity, they could get in the \$2-2.5 trillion range, but that would leave them at least \$1 trillion short.** If they are relying on just scorable offsets, then the topline number would have to come down by at least \$1 trillion.

But Democrats have other options. They can go down the path of notional or non-scorable offsets. When the political will is there for the spending ends, the offset means are malleable. There are two areas to watch here. **First is the tried and true method of dismissing the official scorekeepers of the Congressional Budget Office (CBO) and Joint Committee on Taxation (JCT).** The Senate centrists [who crafted](#) the bipartisan Infrastructure Investment and Jobs Act (IIJA) [dismissed](#) the CBO score estimating it was just half offset, noting "their rules" have "limited" what can be included in a "formal score." Republicans [called](#) the CBO scores "fake news" when they were doing reconciliation back in 2017. Even so-called deficit hawks like then-Senator Bob Corker (R-TN) [cited](#) "other rational scores" besides the CBO for the Tax Cuts and Jobs Act (TCJA) that provided the pretense to support the legislation. Democrats today have some alternate scores at their own disposal. First is for increased IRS funding and reporting requirements to close the tax gap. The CBO last week [estimated](#) that an \$80 billion increase in IRS funding would raise \$200 billion in new revenue. That's well below the Treasury's [estimate](#) which combined with other IRS provisions was projected to raise over \$700 billion. But there are other scores out there. Five former

Treasury secretaries from Democratic and Republican administrations [this summer lauded](#) Biden's IRS proposals. They noted the \$700 billion estimate as "modest," citing an estimate that the proposals could raise as much as \$1.6 trillion. One of the op-ed authors included the economist progressives love to hate, Larry Summers. Even this inflation hawk has his [own study](#), showing proposals to close the tax gap would raise about \$1.2 trillion.

The other alternate score is saying the spending will spur economic growth, which in effect, will raise future revenue. This is the "[tax cuts pay for themselves](#)" playbook Republicans deployed four years ago. The Senate centrists also used it for infrastructure. Some independent estimates of the reconciliation agenda point to an actual decline in economic growth. But there are some favorable estimates out there. That includes from [Moody's Mark Zandi](#), the Democrats' favorite "[Republican economist](#)."

Beyond challenging the scorekeepers, Democrats can argue that some of the spending doesn't need to be offset. Democrats did this with the \$1.9 trillion American Rescue Plan (ARP) earlier this year, noting that it was emergency spending to combat the health and economic consequences of the pandemic. While the emergency of Covid-19 isn't the focus of Build Back Better, the "climate crisis" is. Reps. Stephanie Murphy (D-FL) and Henry Cuellar (D-TX), two House moderates who were a part of the House Mod Squad that forced Speaker Nancy Pelosi (D-CA) to set a (sort of) firm date of September 27th for a vote on the IIJA, are demanding reconciliation be fully paid for but [made an exception](#) for spending to fight climate change. Numerous committees are planning to spend money on provisions related to the climate crisis, with a total that could be well north of [half a trillion dollars](#).

These notional offsets can cover the gap between the reconciliation minimum and the topline spending figure. If the political will is there, we continue to view a ~\$3 trillion topline as likely. While the political will is there among 80+ percent of the Democratic caucus, they need near 100 percent support with their razor-thin margins. Enter figures like Senator Joe Manchin (D-WV). He penned an [op-ed last week](#) calling for a significant cut in the \$3.5 trillion topline spending.

But even Manchin is malleable if he's properly involved. He [excoriated](#) the \$1.5 trillion cost in his final opposition to the TCJA. Yet Manchin [also said](#) he was "an easy pickup" if Republicans involved him in the process and [made](#) "only a few changes." He was heavily involved in the IIJA and [defended its notional offsets](#). He voted for the ARP after [getting a final say](#) on the unemployment provisions.

However, the challenge for Democratic leadership is that they are on a tight schedule for trying to pass both a reconciliation package and the IIJA, leaving less time for deliberations and input. The committees are looking to mark up their relevant legislation by next Wednesday. Pelosi promised a vote on the Senate-passed IIJA by September 27th in order to get the votes of a handful of House

centrists who were withholding support for the budget resolution. This would de-link the two-track process that Pelosi publicly proclaimed that there would not be an IIJA vote until the Senate passed a reconciliation bill, something of a mutually assured destruction (MAD) strategy between centrists and progressives. It's possible House Democrats could vote on reconciliation by the end of the month, but we view that as unlikely. House centrists are also demanding that reconciliation legislation be "pre-conferenced" between the House and the Senate so they don't have to take a vote on something that Manchin or the Senate parliamentarian would end up nixing anyways. Getting that Senate input will take time and we expect that to bleed into at least October.

But MAD isn't officially dead as progressives could conceivably still vote against the IIJA if there is insufficient progress made on reconciliation. Rep. Pramila Jayapal (D-WA), chair of the 96-member Congressional Progressive Caucus (CPC), in a [statement late last month](#) reiterated that the IIJA and reconciliation "are integrally tied together, and we will only vote for the infrastructure bill after passing the reconciliation bill." It's unclear how many members of the CPC Jayapal is speaking for, but it could very well be more than enough to offset the handful of Republicans who would vote for the IIJA. If the votes aren't there, Pelosi will have to work with moderates to draft a new rule on a floor vote for the IIJA, lest see one of Biden's top legislative agenda items get voted down.

Despite the high intra-party tensions, we continue to view a win-win outcome between progressives and centrists as our base case. We expect the IIJA and a ~\$3 trillion reconciliation bill to pass. That has always been our base case but we are moving up the timeline for both from the end of the year to somewhere between the start of October and end of November.

HOW MORE SPENDING COULD SOLVE THE DEBT CEILING FIGHT: With members of Congress starting to return to DC this week, Democrats will be looking to focus primarily on the efforts to pass their \$3.5 budget reconciliation package and the bipartisan infrastructure bill. **While these are important legislative priorities for the majority, the most pressing item that they will have to tangle with this month is negotiating a government spending and debt-ceiling agreement.** The September 30th deadline for these issues is very real compared with the September 27th deadline that House Speaker Nancy Pelosi (D-CA) has set for a vote on the bipartisan infrastructure bill. Additionally, missing the September 30th deadline has the much greater real-world implications of a government shutdown and the X-Date on the debt limit projected to be not far behind.

Our base case is that to continue government funding, there will need to be a continuing resolution (CR), which in itself is not controversial. **Where we expect there to be a problem in this process is that Democrats are going to look to attach a short-term extension of the debt ceiling to the CR, with its length likely tied to that of the CR. While no decision has been made on the length**

yet, Punchbowl News reported yesterday that the options being floated are until Thanksgiving or possibly even deeper into December. What may also be included in the package is emergency appropriations to help with recovery from Hurricane Ida and wildfires in the West. The inclusion of these funds will be, in part, an effort to attract Republican support for the package as was the case in 2017 when the inclusion of emergency funds for recovery from Hurricanes Harvey and Irma were included with the CR that year.

Part of the reason that raising the debt ceiling has become so fraught is Democrats' insistence on doing so through regular order rather than using budget reconciliation. While budget reconciliation would impose certain restrictions, such as having to name a specific dollar amount to increase the debt limit rather than just the length of time to suspend it, Democrats would be able to pass the measure with a simple majority in both chambers. Republicans, led by Senate Minority Leader Mitch McConnell (R-KY), have been less than willing participants, underscored by [a letter](#) recently issued from 46 of the 50 Senate Republicans vowing to not vote to increase the debt ceiling regardless of the vehicle to which it was attached. This has put the two parties into a high-stakes game of chicken with 10 Republican votes necessary to pass the measure outside of reconciliation. So while Democrats may feel that they could have up to four votes of support, whether they get the other six will ultimately depend on whether McConnell sees an opportunity to have his cake and eat it too by letting enough Republicans support the measure.

We expect that the coming weeks will be full of political theatrics over this issue, but ultimately the one to watch will be McConnell. There is a non-zero possibility that he does not blink and forces Democrats to use reconciliation to increase the debt ceiling following a short shutdown. **While this could lead to several uncomfortable votes for rank-and-file members of the Democratic majority and another vote-a-rama in the Senate, we are confident that this would happen prior to a debt default. In this case, we would expect that the continuing resolution still be passed, though there could be a temporary shutdown if the debt ceiling issue isn't resolved before October 1st.** A shutdown will lead to its own blame game between the parties over who is responsible, but that will be mostly noise as no politician has ever really paid the political price for a shutdown by losing re-election.

While the passage of a CR and a punt on the debt ceiling would resolve the spending and debt issues temporarily, it is effectively kicking these problems down the road to later in the winter. **To reach a long-term solution on the debt ceiling, we see a possible path forward as ironically and counter-intuitively being based on more, not less, spending.** In the past, striking deals to increase military funding has often built enough Republican support for debt limit action. Rep. Mike Rogers (R-AL), the top Republican on the House Armed Services Committee, acknowledged this as well [saying](#), "Whenever they're talking about adding defense money, everything's negotiable."

Given this, we believe there is an opportunity for Democrats to look to Republican defense hawks to support an annual appropriations and debt limit increase package that makes a trade off between more defense spending in exchange for more domestic spending and a debt limit increase. Democrats have already [shown some willingness](#) to support the desired defense spending increase when the House Armed Services Committee passed an amendment to increase the Pentagon's budget request by \$24 billion in a 42-17 vote that saw 14 Democrats joining the Republicans of the committee. Politically though, it's probably not possible to cut such a grand deal until after the infrastructure and reconciliation packages are resolved, so we would not expect such a resolution to occur until December at the earliest. This means that at least one CR will be required in the interim, though more could be necessary depending on the length of the initial CR passed.

DEMOCRATS NEGOTIATE OVER DRUG PRICING DEBATE: Democrats in both the House and Senate recently have increasingly embraced the long-time progressive goal of allowing Medicare to negotiate prescription drug prices and using those hundreds of billions of dollars in savings to shore up the Affordable Care Act (ACA), expand health insurance in non-Medicaid expansion states, add new investments in home and community-based care, and expand Medicare benefits to include dental, hearing, and vision coverage.

For example, five Democratic senators, who also have among the most competitive reelection campaigns in 2022, Senators Michael Bennet (D-CO), Catherine Cortez Masto (D-NV), Mark Kelly (D-AZ), Raphael Warnock (D-GA), and Maggie Hassan (D-NH), all have come out strongly in support of Medicare drug price negotiations. In the House, a group of embattled centrists, Speaker Nancy Pelosi's (D-CA) so-called "majority makers," [wrote to her urging that drug pricing remain as aggressive as possible](#) and how they believe it is key for their chances of reelection.

Democratic leadership is very aware of the dynamic that the most vocal supporters are often from competitive districts and that some of the largest critics of drug reforms are from safe blue districts. We expect that Democratic leaders will call their bluff and that they do not believe that any members in either chamber will vote against a package crammed full of Democratic priorities to protect pharma, although they could successfully wrangle substantial concessions in return for their vote.

In addition to moderates in both chambers pushing for reform, a [litany of advocacy groups](#) are working with AARP and other pro-reform organizations to continually remind members of Congress about [how well direct drug pricing negotiations poll with voters](#) and the other benefits, which are just as popular with Democratic voters, would have to be forfeited if substantial Medicare drug savings is not in a final reconciliation package.

The White House has also doubled down on its support for reforms, with President Biden speaking several times on the topic over the summer and he is highly likely to do so again this fall, particularly as the White House looks to turn the page past the withdrawal debacle from Afghanistan. Politico reported remarks from an unnamed senior Democratic staffer who said that Biden's strong showing of support for Medicare negotiations was particularly helpful because at-risk Democrats are also the most tied to his performance and popularity, especially in the House, and such a strong endorsement of a politically popular policy gives them some breathing room. Biden has clearly staked so much political capital on this issue because, like Pelosi, he thinks it could be a substantial part of his legislative legacy.

In terms of specifics, some outlets are reporting that Senate Finance Committee Chair Ron Wyden's (D-OR) version of the bill is "nearly complete" and that he is shopping its contents around to other Senate Democrats to get buy-in. If Wyden is drafting a totally separate product from the House, it must be ready ASAP before the **House Ways and Means and Energy and Commerce Committees hold their respective markups on healthcare topics, tentatively scheduled for September 9th and 10th and September 14th and 15th for Ways and Means and the 13th and 14th for Energy and Commerce.**

While PhRMA and other advocacy groups are ostensibly still fighting to stave off the inclusion of direct Medicare negotiations, those astutely following the issue in DC believe that ship has likely sailed at this point and now it is merely a rearguard battle of trying to limit the number of drugs included in any negotiation and the type of formula used to determine Medicare's prices.

While we believe the market consensus continues to overly discount the risks of any substantial reforms, that many lobbyists engaged on this issue have shifted gears to damage control should speak volumes that there will likely be some eventual market acceptance of the reduction in Medicare payments as part of pharmaceutical manufacturers' revenue in the wake of the reconciliation package eventually passing.

Congress

The House and Senate are not in session this week, but House committees will continue to hold hearings and markups.

White House

Today, President Biden will receive his daily intelligence briefing at 8:30 a.m. At 9:50 a.m., the president will depart the White House en route to Hillsborough Township, NJ where he is scheduled to arrive at 11:40 a.m. At 12:50 p.m., Biden will receive a briefing from local leaders on the impacts of Hurricane Ida before touring a neighborhood affected by Idea in Manville, NJ at 2:50 p.m. At 3:10 p.m., the president will travel to Queens, NY where he is

scheduled to arrive at 3:35 p.m. At 4:00 p.m., he will tour a neighborhood in Queens and deliver remarks on his administration's response to Hurricane Ida before leaving to return to the White House at 5:40 p.m.

Macroeconomic

On Wednesday at 12:00 p.m., the National Press Foundation will hold a virtual discussion titled "Financing Rural America," focusing on "micro-lending and other innovative financing projects aimed at reducing entrenched poverty and inequality." [More information here.](#)

On Wednesday at 1:00 p.m., the Brookings Institution will hold a virtual discussion titled "Renewing US Rural Prosperity: Federal Policy in the Biden Administration." [More information here.](#) Expected participants include:

- Tom Vilsack, secretary, Department of Agriculture

On Thursday, the House Small Business Committee will hold a markup of the committee print to comply with the reconciliation directive included in section 2002 of the Concurrent Resolution on the Budget for FY2022.

On Thursday and Friday, the House Ways and Means Committee will begin a markup of the committee print to comply with the reconciliation directive included in section 2002 of the Concurrent Resolution on the Budget for FY2022.

On Thursday at 1:00 p.m., Federal Reserve Board Governor Michelle Bowman will deliver remarks at the American Bankers Association Fall Government Relations Council meeting.

Agriculture

On Friday at 12:00 p.m., the House Agriculture Committee will hold a markup of a legislative proposal to comply with the reconciliation directive included in section 2002 of the Concurrent Resolution on the Budget for FY2022.

Cybersecurity

On Wednesday at 8:00 a.m., the Bethesda Chapter of the Armed Forces Communications and Electronics Association will hold a virtual discussion titled "Modernizing National Cyber

Defenses.” [More information here.](#)

On Thursday at 10:30 a.m., the Ronald Reagan Presidential Foundation and Institute will hold a virtual discussion titled “Digital Defense and Deterrence: America’s Cybersecurity Posture.” [More information here.](#) Expected participants include:

- Chris Inglis, national cyber director, White House

Defense

On Thursday at 2:30 p.m., the National Press Club Newsmaker Program will hold a news conference on “the mission of the Department of Homeland Security in an ever-changing national security environment.” [More information here.](#) Expected participants include:

- Alejandro Mayorkas, secretary, Department of Homeland Security

On Friday, the House Homeland Security Committee will hold a markup of the committee print to comply with the reconciliation directive included in section 2002 of the Concurrent Resolution on the Budget for FY2022.

Education

On Thursday, the House Education and Labor Committee will hold a markup of the committee print to comply with the reconciliation directive included in section 2002 of the Concurrent Resolution on the Budget for FY2022.

Energy, Environment, and Natural Resources

On Wednesday at 8:00 a.m., the Atlantic Council will hold a virtual discussion titled “Article 6 at COP26: Negotiating the Future of International Climate Collaboration.” [More information here.](#)

On Thursday at 9:00 a.m., the United States Energy Association will hold its virtual third annual Advanced Energy Technology Forum. [More information here.](#)

On Thursday at 10:00 a.m., the Alliance to Save Energy will hold a virtual discussion titled “The Main Street Efficiency Act.” [More information here.](#) Expected participants include:

- Rep. Peter Welch (D-VT)

On Friday at 9:00 a.m., the Center for Strategic and International Studies will hold a virtual discussion titled “Energize US-India: Opportunities to Further Clean Energy Ties.” [More information here.](#)

Financial Services

On Thursday at 10:00 a.m., the Securities and Exchange Commission will hold a meeting by teleconference of the Investor Advisory Committee. [More information here.](#)

On Thursday at 10:30 a.m., the Cato Institute will hold its virtual 2021 Summit on Financial Regulation titled “Fair Shares: Retail Investors and the Future of Equities Markets.” [More information here.](#) Expected participants include:

- Elad Roisman, commissioner, Securities and Exchange Commission

Geopolitical

Today at 11:00 a.m., the Atlantic Council will hold a virtual discussion titled “Zelensky Finally Got His White House Visit - Now What?” [More information here.](#)

On Wednesday at 9:00 a.m., the US-China Economic and Security Review Commission will hold a hearing by teleconference titled “US-China Relations in 2021: Emerging Risks.”

On Wednesday at 9:00 a.m., the Center for Strategic and International Studies will hold a virtual discussion titled “Supply Chain Review: Opportunities for US-Korea Cooperation.” [More information here.](#) Expected participants include:

- Don Graves, deputy secretary, Department of Commerce

On Wednesday at 9:00 a.m., the Center for Strategic and International Studies will hold a virtual discussion titled “The US-Philippines Mutual Defense Treaty at 70.” [More information here.](#)

On Wednesday at 2:00 p.m., the Center for Strategic and International Studies will hold a virtual discussion titled “What Lies Ahead for the US-ROK Alliance?” [More information here.](#) Expected participants include:

- Rep. Young Kim (R-CA)
- Rep. Ami Bera (D-CA)

Healthcare

Today at 1:00 p.m., the R Street Institute will hold a virtual discussion titled “Securing the Pharmaceutical Supply Chain.” [More information here.](#)

On Wednesday at 12:00 p.m., the Cato Institute will hold a virtual discussion titled “Telehealth’s Moment: How States Are Leading the Way.” [More information here.](#)

On Thursday at 11:00 a.m., the House Energy and Commerce Committee Subcommittee on Health will hold a hearing titled “The Future of Biomedicine: Translating Biomedical Research into Personalized Health Care.”

Housing

On Friday at 12:00 p.m., the House Financial Services Committee will hold a hearing titled “Protecting Renters During the Pandemic: Reviewing Reforms to Expedite Emergency Rental Assistance.”

Tech-Media-Telecom

On Wednesday at 3:00 p.m., the Federalist Society for Law and Public Policy Studies will hold a virtual discussion titled “Eyes to The Sky: Privacy, Property, Innovation, and Commerce in The Age Of The Drone.” [More information here.](#)

On Thursday at 10:00 a.m., the House Science, Space, and Technology Committee will hold a markup of the committee print to comply with the reconciliation directive included in section 2002 of the Concurrent Resolution on the Budget for FY2022.

On Thursday at 11:00 a.m., the Information Technology and Innovation Foundation will hold a virtual discussion titled “Packaging Postal Reform for the E-Commerce Era.” [More information here.](#)

On Thursday at 12:00 p.m., the George Washington University Elliott School of International Affairs will hold a virtual discussion titled “Data Governance Across Borders.” [More information here.](#)

On Thursday at 12:00 p.m., NextGov, Defense One, and Route Fifty will hold a virtual discussion titled “5G Futures: Communications and Modernization.” [More information here.](#)

Trade

On Thursday at 2:00 p.m., the Business Council for International Understanding will hold a virtual discussion on the Biden-Harris Administration’s priority trade agenda. Expected participants include:

- Katherine Tai, US Trade Representative

On Friday at 9:00 a.m., the Washington International Trade Association and the George Washington University Institute for International Economic Policy will hold the first day of the virtual 2021 Intensive Trade Seminar. [More information here.](#)

On Friday at 11:00 a.m., the Cato Institute will hold a virtual forum titled “Benefits and Prospects of Free Trade in Environmental Goods.” [More information here.](#) Expected participants include:

- Rep. Suzan DelBene (D-WA)



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