



March 11, 2022

WHAT YOU NEED TO KNOW ABOUT

The Midterms and Economic Policy

PRO POINTS

- **Republicans only need to flip a handful of seats, to take control of the U.S. House of Representatives in November, meaning Democrats will have to hold their ground across the board or switch enough seats from red to blue to keep the lower chamber.** Meanwhile, both parties will battle it out for control of the evenly split Senate and particularly for now-Democratic seats in Arizona, Georgia, and Nevada, as well as the Pennsylvania seat held by Republican Sen. Pat Toomey, who is retiring.
- **If Republicans successfully take either the House or the Senate, the odds of significant economic legislation plummet.** However, some sort of bipartisan legislation might be achievable around cryptocurrencies, as lawmakers look to provide more regulatory clarity for the burgeoning industry.
- **Meanwhile, Republican committee chairs are also likely to conduct additional oversight of agencies run by President Joe Biden's appointees — including Consumer Financial Protection Bureau Director Rohit Chopra, Securities and Exchange Commission Chair Gary Gensler and acting FDIC Chair Martin Gruenberg — which will cut back on the amount of time and space they have to put out new regulations.**

HOW WE GOT HERE

BUILD BACK BETTER

Biden's \$1.7 trillion legislation has stalled in the Senate after leadership had difficulty wooing moderate Democrats Joe Manchin (W.Va.) and Kyrsten Sinema (Ariz.). Manchin has said there's still a package that could win his support, but he has a strong focus on wanting to avoid further stoking inflation, which is running at its hottest level in four decades. The senator wants to use tax reform and prescription drug savings to lower the deficit and enact some new climate and social programs.

What that tax reform looks like would also depend on Sinema, who has called for surtaxes and corporate minimum taxes and pushed back against raising individual and corporate tax rates.

But if that doesn't come together this year, it might die altogether, with significant odds that Republicans will take at least one of the chambers.

CRYPTOCURRENCIES

Digital assets have skyrocketed in popularity in just a few short years, raising a slew of policy issues from anti-money laundering efforts to investor protection to preserving the role of the U.S. dollar. The sector is young enough that the politics around it don't divide neatly down political lines yet, with Democrats in particular split over whether crypto poses more benefits than risks.

An area where legislation might be possible, especially if Republicans take control of Congress, could be a framework for regulating so-called stablecoins, which are tokens whose value is tied to an underlying asset, usually the dollar. The Treasury Department and other financial regulators have called on Congress to require such stablecoins to be issued by banks, but Republican bills would more likely allow a broader scope of firms to be involved.

Rep. Patrick McHenry (R-N.C.), who could take over the Financial Services Committee if his party flips the House, said stablecoins shouldn't be defined in law by how they're used. "We should define in law the way that they can safely exist, and then let innovation drive their use," he told POLITICO earlier this month. "And their use will have to adhere to existing laws."





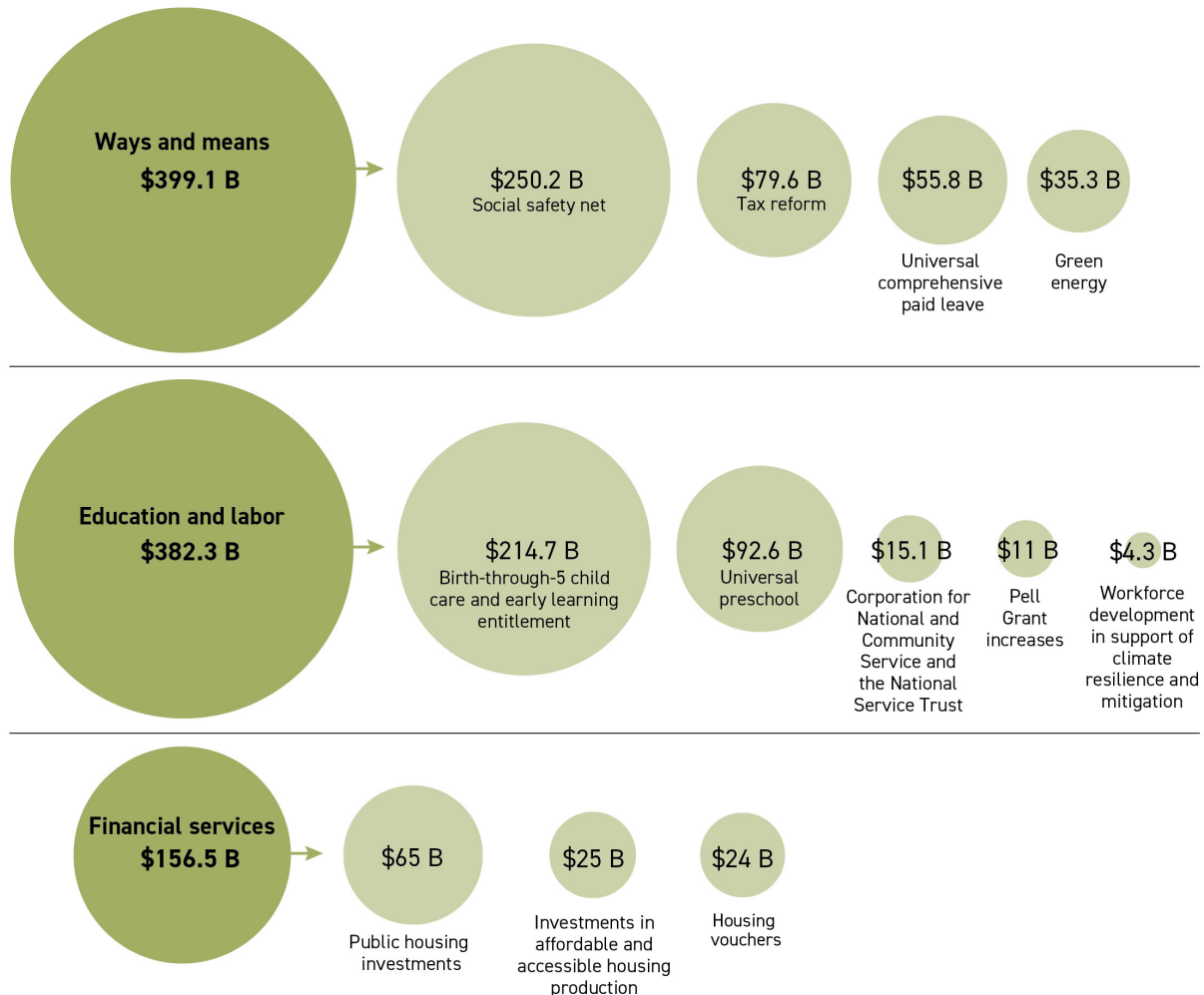
Economic components of the Build Back Better Act

The Congressional Budget Office tallied up costs for the Build Back Better Act and estimated Congress would allow \$1.34 trillion to be spent in the first four years, known as the budget authority. Here are some pieces of the bill that could have a significant effect on the economy that will likely fall by the wayside if they're not enacted this year.

Four-year budget authority by bill title

● Total budget authority by title

● Highlights from each title



Note: Some of the highlights do not add up to the total budget authority because of offsetting collections that are not shown.

Sources: Congressional Budget Office, POLITICO Pro Bill Analysis

TAX POLICY

Also hanging in the balance if Republicans take control in the midterm election is an international agreement on a 15 percent minimum tax that would apply to companies with cross-border operations, a pact that Biden touted during his State of the Union address March 1.

But his high-profile backing notwithstanding, the deal isn't on the most solid footing, with not enough support in Congress a lingering problem. Legislation to align the U.S. with other countries on the minimum tax regime remains stalled.

And in the meantime, American-headquartered multinational companies recently identified a problem with a backstop built into the minimum tax structure that could put them and U.S. tax revenue at a



disadvantage to other countries involved in the agreement, which Treasury Secretary Janet Yellen helped broker last year.

But the worry – which arises from a proposal to ensure that all companies are paying at least 15 percent in taxes, sometimes referred to as a top-up tax – came to light months after Yellen said the U.S. would join.

Republicans have voiced concern that the top-up tax would allow other nations to tax American companies in a way that devalues long-standing breaks, including the widely used credit for research and development expenses, not to mention give away a slice of the U.S. tax base to other countries. But the issue has yet to get settled. The minimum tax is supposed to start worldwide next year.

INVESTIGATIONS & OVERSIGHT

With congressional control also comes the power to direct oversight of the executive branch, including independent regulatory agencies. Financial regulators have been gearing up to play a bigger role in telling banks and other firms how they should be thinking about their exposure to climate change and the risks in lending to companies and regions most affected by it. This focus in particular has outraged Republicans and would likely receive considerable attention under GOP-run committees.

The Federal Reserve also might not get a Senate-confirmed vice chair of supervision, the most important bank regulatory job in government. Republicans on the Senate Banking Committee have been holding up the nomination of Sarah Bloom Raskin, who they dislike because she has urged the central bank to take climate change into account in its oversight of banks. If her nomination doesn't clear this year, that could leave a massive hole at the Fed, which has been without a top regulatory official since October.

CFPB Director Chopra has become a particular target for the wrath of Republican lawmakers. His agency has been under fire from Toomey for allegedly replacing senior career employees at the Consumer Financial Protection Bureau with “hand-picked loyalists.” He has trained heat on some of the largest U.S. firms, such as Big Tech, who he says are taking more control of the U.S. dollar and global flow of payments.

The consumer bureau chief also played a leading role in an effort by Democrats on the FDIC board, which he sits on, to sideline its Republican chair, Jelena McWilliams, who resigned shortly after the episode. All of that will likely mean more fireworks between him and any Republican-controlled chamber.

POWER PLAYERS

- ✿ **Patrick McHenry:** The North Carolina Republican would be in line to lead the House Financial Services Committee next year if Republicans take the House. He's put innovation at the top of his priority list and is working to build consensus on legislation on stablecoins. He'd also wield the gavel for investigations into agencies controlled by Biden appointees.
- ✿ **Sam Bankman-Fried:** The 30-year-old billionaire who founded cryptocurrency exchange FTX in 2019 has donated millions to pro-crypto candidates for Congress and has testified before Congress multiple times.
- ✿ **Itai Grinberg:** Treasury's deputy assistant secretary for multilateral tax matters, an alum of George W. Bush's administration, has been in close contact with lawmakers on the global minimum tax deal.