



Manchin and the reconciliation bill

You have all seen the news articles by now. The short version: Pelosi encouraged House Democrats to pass a bill that Manchin said all along he would not agree to. One article referred to Pelosi “frog-marching House Democrats to the pot”. Perhaps the White House thought that they would be able to change Manchin’s mind; in any case, it didn’t work. Manchin made an offer to the White House recently with his own \$1.8 trillion bill, which the White House rejected. Instead, the White House attacked Manchin publicly yesterday with language usually reserved for people in the opposing party, which they might have deemed appropriate since Manchin made his final reservations known while being interviewed on Fox News. The fallout:

- It is still possible that the reconciliation bill gets resurrected. **Progressives in the House and Senate may have to choose between Manchin’s version of the bill or walking away with nothing.** Manchin’s version of the bill has not been disclosed but would still presumably include pre-K, a few hundred billion for climate change, Medicaid expansion, housing subsidies, higher education benefits and workforce training, and changes to Medicare drug price caps and price setting. The big exclusions: paid leave, Medicare expansion, fully refundable child tax credits with no work requirement and some other items.
- Even for the items that Manchin would include, he appears to want them scored from a budget perspective as if they are permanent rather than temporary. He reportedly considers temporary spending programs that phase out as budget gimmicks given the likelihood that such programs may be made permanent at some point, in which case they would have a larger impact on the budget deficit. Specifically: as passed by the House, the cost of the child tax credit, pre-K, health insurance subsidies and home & community based care would be \$770 bn. But if made permanent, their costs would rise to \$3.0 trillion
- Manchin also mentioned the need for changes in the way that climate spending is allocated, the importance of grid reliability, and mentioned California and Texas as examples of where the renewable transition is happening too fast for local energy markets to adapt to. He might also have been thinking about the situation in Europe right now (see first chart). Falling investment in thermal energy, unreliable supplies of Russian natural gas, a cold winter in Russia and Europe, lower than expected wind speeds, emergency repairs of French nuclear plants and rising CO₂ permit prices have resulted in sky-rocketing electricity prices across Europe
- Manchin also mentioned inflation concerns; headline CPI may rise further in the next few months before falling again, making passage of a large bill more difficult
- In case no bill is resurrected, Goldman Sachs economists announced today that they would cut their US GDP growth forecasts by around 0.5% for 2022 given the front-loaded nature of the reconciliation bill spending
- If no bill is passed, renewable energy stocks could be negatively affected, and it could be a moderate positive for biotech and pharma since the reconciliation bill included provisions to cap drug prices and allow Medicare to begin negotiating drug prices in 2025 for 10 older drugs with no generic competition; by 2030 this would rise to 100 drugs. While the corporate tax provisions in the bill would not be implemented, the TJCA would still be in force and would require companies in 2022 to start amortizing R&D and software development costs over 5 years, expenses which are now fully deductible in year 1. Congress may somehow prevent this from happening, but it could take time in a no-bill scenario. One more thing on taxes: if the reconciliation bill is not passed or is seriously altered, it is not clear how other countries would react regarding negotiations to establish a global minimum tax regime and their agreement to temporarily suspend digital service taxes on US tech firms, and the decision by the US to temporarily suspend imposition of tariffs in response.
- The reconciliation (build back better) bill relied heavily on upfront spending offset by net tax increases and spending cuts in later years to be deemed deficit-neutral. The fourth chart shows the reconciliation bill relative to the size of the infrastructure bill.



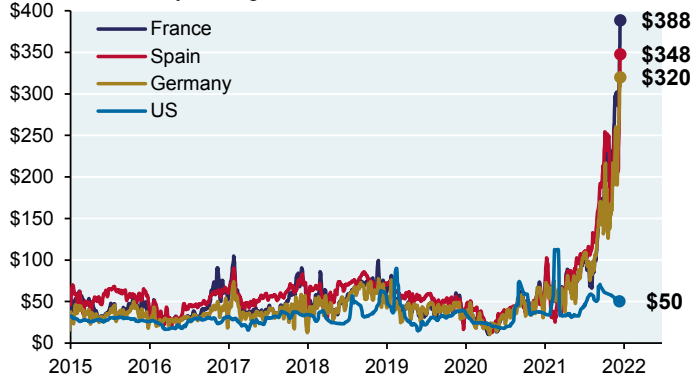
- Some government relations people on Wall Street believe that Manchin is not operating alone and has implicit support from other members. I'm not so sure. While Sinema has made her objections to corporate tax increases known, that's about it. Senators Hassan, Kelly and Masto also reportedly have some reservations about the House version of the bill, but as far as I can tell have not said much publicly indicating that they would not vote for it as it is written. The bigger picture politically: if Democrats had won 52-54 seats in 2020 as they were projected to, Manchin's objections could be ignored. And if Republicans had been able to hold onto one or both Senate seats in the Georgia runoff as they were expected to, there would be no reconciliation bill to begin with.
- Manchin is one of the last remaining conservative Southern Democratic Senators. The Southern Democratic Leadership Council was formed in 1985 in the wake of Mondale's loss, and rose to prominence during the Clinton era. As shown in the second chart, non-conformists in the Senate in both parties collapsed by the year 2000, and the Southern Democratic Leadership Council was disbanded in 2011 as the party became more progressive. The third chart shows where Manchin and Sinema exist within a spatial polarization chart of the 116th Congress based on congressional voting histories.

Have a good holiday and get your booster shot. The last chart shows the substantial increase in vaccine efficacy from a booster shot against both Delta and Omicron variants. Boosters increase the concentration of neutralizing antibodies and also appear to create antibodies targeting more parts of the virus than the first two shots. Even if the booster shot does not prevent respiratory infection from Omicron, there are preliminary signs that it may prevent more serious pulmonary and neurological damage which puts people in the hospital. See our web portal Section 5 for more on the Omicron variant.



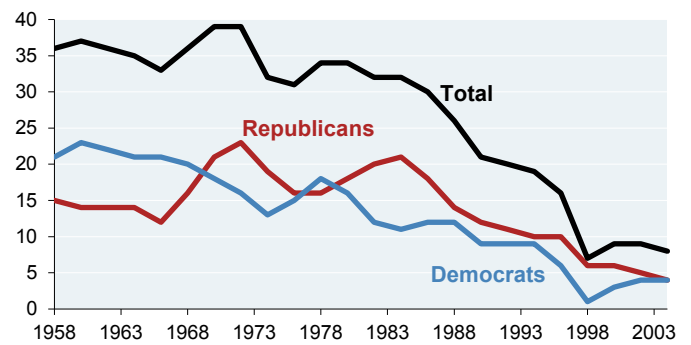
US vs Europe: Day ahead electricity prices

US\$ / MWh, 7 day average



Source: Bloomberg, December 19, 2021.

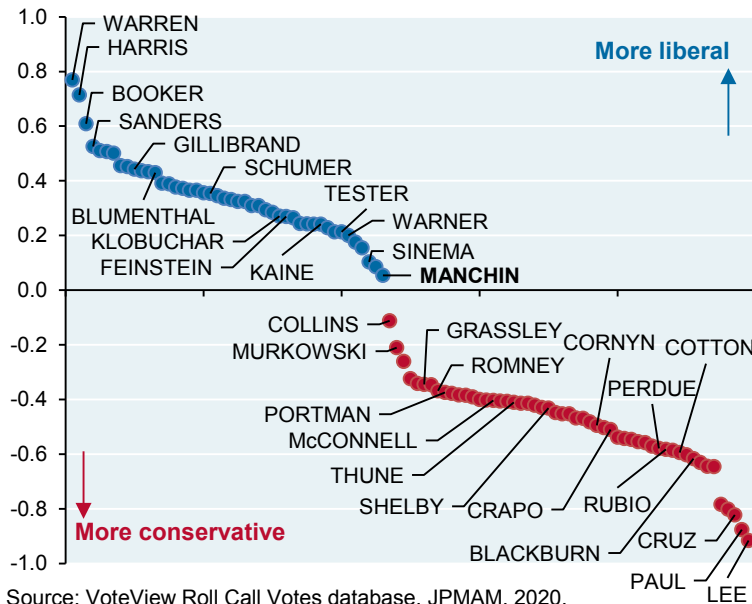
Party non-conformists in the Senate (Senators who vote against their own party)



Source: *The Creation of an Endangered Species: Party Nonconformists of the U.S. Senate*, Richard Fleisher and Jon R. Bond, 2005.

2019-2020 Senate polarization scores (116th Congress)

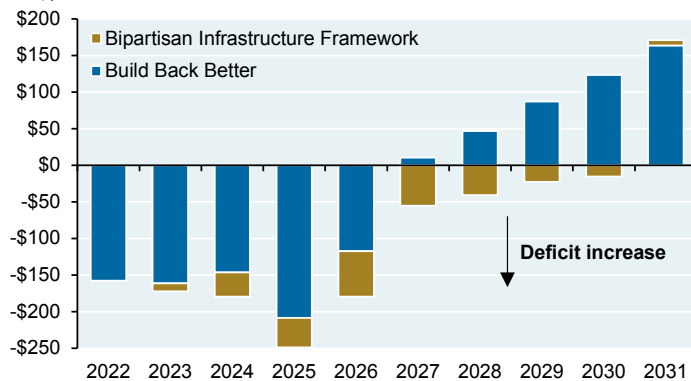
Voteview Liberal-Conservative scores, derived from Congr. voting histories



Source: VoteView Roll Call Votes database, JPMAM, 2020.

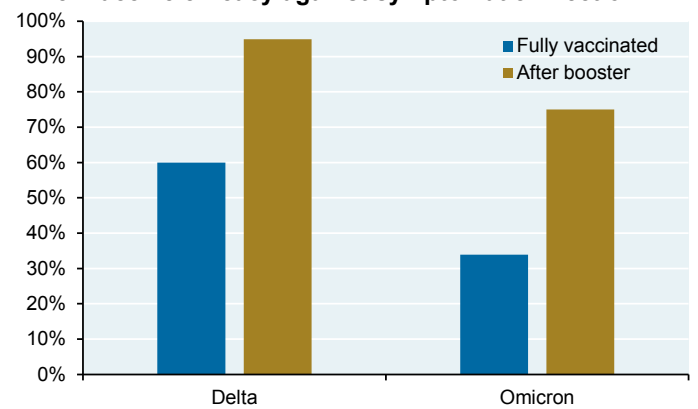
Deficit impact of Build Back Better and infrastructure bills

US\$, billions



Source: CBO, MS, December 20, 2021.

Pfizer vaccine efficacy against symptomatic infection



Source: Eric Topol (Scripps Institute), December 14, 2021.

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