

## U.S. Municipal Bond Market

## Lawmakers Shift to Compromise, Some Spending Jettisoned, Municipal Elements Remain if Only For Now

- Democrats are beginning to compromise on the Build Back Better agenda according to reports out of Washington, D.C.
- A \$1.9 trillion spending ceiling has been identified by President Biden, paring down the \$3.5 trillion progressive Democrats were seeking. Senator Manchin still does not agree with spending over \$1.5 trillion.
- Significant spending items have already been pared back or eliminated. As of now the municipal elements remain but every time lawmakers need to cut spending they are at risk.

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### A “Mindset of Political Compromise” Among Democrats May Finally Exist

In The Mindsets of Political Compromise, Amy Gutmann and Dennis Thompson argue that the “permanent campaign” mentality that is often necessary to be successful in U.S. politics is often a barrier to political compromise. The authors argue that a different political mindset is better suited to governing. Based on shifting political attitudes this week it is very possible the mindset better suited to political compromise and governing has finally taken hold. This has been a quick turnaround. Only about a week ago, Peggy Noonan wrote in Progressives Hold the Capital Captive that, “Democratic leaders are letting progressives push them around,” and Noonan correctly identified that progressive Democrats were “playing a different game.”

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### D.C. Democrats Pushing, Compromising, Governing

Democrats are now making a big push this week and are hoping to come to an agreement on President Joe Biden’s progressive Build Back Better agenda. Progressive Democrats in the House were holding out for \$3.5 trillion in spending on social and climate change related programs in Build Back Better. During Tuesday meetings a more realistic ceiling of \$1.9 trillion was named by Biden. Sen. Joe Manchin still says \$1.5 trillion is his spending cap. The Democrats need Manchin’s vote to get Build Back Better through the 50-50 Senate. Also awaiting a vote in the House is the \$1.2 trillion bipartisan infrastructure plan that passed the Senate in the beginning of August. House Democrats still want an agreement on Build Back Better before they vote on the bipartisan agreement.

Representatives are scheduled to be in Washington, D.C. the week before and just after Halloween. After the first week of November, lawmakers are only scheduled to be in Washington for three more weeks through the end of the year. Once the calendar turns to 2022, many are expecting lawmakers’ focus to turn to preparations for the mid-term elections, which are Tuesday, Nov. 8, 2022. This is likely one of the reasons urgency has set in this week.

## Programs Jettisoned

The reality for progressive Democrats has always been they are not likely to get the entire \$3.5 trillion they are seeking in the budget reconciliation package. Now, we are waiting to find out if the public finance friendly elements like tax-exempt advance refundings and the taxable, subsidized direct pay infrastructure program are also going to be casualties of the policymaking process. On the one hand there is an argument that it is not likely that the public finance friendly elements are as high of a priority for lawmakers, and they may also fall away if the total cost of the legislation falls by half. We also recently indicated that weakness in the White House is not a positive for municipal friendly elements. On the other hand, the public finance elements are important to some consequential lawmakers and there is a strong argument to be made that they are more closely tied to hard infrastructure than other social-related provisions in Build Back Better.

- So far, it appears that programs targeted for elimination or scaled back include:
- Two years of tuition-free community college
- The extension of the child tax credit is now only budgeted for one year instead of four
- Lawmakers are discussing limiting health care related spending to under \$250 billion
- Climate-related provisions are also being questioned, according to Bloomberg

Whether lawmakers are in fact able to come to a compromise by the end of this week and public finance friendly elements stay in Build Back Better remains to be seen. Every time lawmakers slash spending it is possible that items important to state and local governments and other public finance entities end up on the cutting room floor. But, at least 'The Mindset of Political Compromise' has seemingly taken hold and lawmakers have transitioned to a point where they are governing, finally.

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- [White House Scrambles to Revive its Approval Rating & Legislative Agenda, Municipal Friendly Elements Hang in the Balance](#), Oct. 15, 2021
- [Municipal Bond Friendly Elements Could Be Lost if Build Back Better Agenda is Pared Back](#), Sept. 30, 2021
- [The Road to Getting Infrastructure Done in 2021](#), Sept. 20, 2021

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