

# October 11, 2023 SitRep: A Shutdown the Second Time Around

What does the War in Ukraine have to do with the turmoil in the House of Representatives and the ouster of Kevin McCarthy as Speaker of the House? A lot, actually. To be clear, the coup d'état against Speaker McCarthy had been brewing since the time he was elected speaker last January. There was always a conservative faction that did not want McCarthy as speaker. This faction included some members of the House Freedom Caucus and some other Republican members. Prominent members who either opposed McCarthy last January or who voted to remove him from office last week include Andy Biggs, Lauren Boebert, Matt Gaetz, Chip Roy, and Ken Buck. The conservatives forced the speaker election in January through 15 ballots before finally settling on McCarthy. In order to get the votes he needed, McCarthy had to agree to a set of promises to the Republican caucus as a whole and the conservatives in particular.

These promises included more budget discipline, especially the return to what is called "regular order" on budget matters. This means that each appropriation bill has to be voted on separately and not lumped into a single so-called omnibus bill. This would allow members to vote in favor of defense appropriations and against the budget for the Department of Education, if they so choose. Even appropriations for a single department (Defense, Energy, Education, etc. etc.) have thousands of individual line items, but at least breaking them down at the department level gave members some leverage to support certain programs and oppose others. Above all, McCarthy's opponents wanted an end to the hated Continuing Resolution (CR).

A CR is a bill that keeps the government operating at existing levels beyond the date of a government shutdown while Congress continues fighting over specific appropriations.

Members felt that this was an abdication of responsibility and a show of incompetence. They want to complete the individual bills and vote on them by the normal deadline, which is midnight on September 30<sup>th</sup> each year (that's when the government's fiscal year ends). McCarthy gave those promises (and others) and the conservatives came around and voted him in as speaker. This fragile and highly contested structure came crashing down last week. In the first place, the individual appropriations were not completed by September 30<sup>th</sup>. Beyond that, there was not even an omnibus appropriation. Instead, the House passed a CR that funded the government for 45 days until November 17. The Senate agreed and the president signed it. That was the last straw for the Republican rebels. Not only was regular order ignored, but the CR was objectionable on its face and a violation of McCarthy's promises from January.

## The Plot Thickens

A CR can be "clean" (meaning it has no changes to existing spending levels or other extraneous amendments) or it can include some changes. The Senate and White House both wanted additional spending for Ukraine. Many members of the House objected to the Ukraine spending. Marjorie Taylor Greene was one member who supported McCarthy on the January vote for Speaker but voted against the

CR as a vote of conscience in opposition to the war. McCarthy then cut a side deal with the White House and House Democrats. He said if they allowed a clean CR to go ahead, he would quickly bring a separate Ukraine spending bill to the floor. The White House and Senate agreed. But no one told the House Republicans. When they found out, they felt lied to and ignored. McCarthy's decision to make a deal with Democrats behind the backs of his own party members was the final nail in his coffin. To be clear, a separate spending bill on Ukraine will be introduced in the near future. It will likely pass the Senate and the House either as a separate bill or part of a larger defense budget and be signed by the president. It's simply the case that majorities of both parties in both houses of Congress are among the warmongers who support spending U.S. taxpayer money in Ukraine even as U.S. borders collapse and crime runs rampant in the streets of major cities. That was going to happen whether McCarthy kept the Speaker's seat or not.

## The Ukrainian Myth

What's new is that the Ukrainian spending issue is now completely politicized. Until now, the American people have been propagandized about the need to support Ukraine. We were told that we had to support the Ukrainians in their war with Russia because the Ukrainians were fighting for democracy and liberty. If Americans did not stand up for those values, which were endlessly repeated, we would soon find Russians invading the beaches of New Jersey (at least that's the Lindsey Graham version).

Everything about that narrative is a lie. Ukraine is not a democracy; they have already cancelled elections in 2024 and many political opponents of President Zelensky have been put in jail (by the way, Russian elections are going ahead as scheduled next year. Who's the real democracy?). Zelensky has shut down Christian churches, arrested Christian clergy, and banned any kind of instruction in the Russian language (over 40% of Ukrainians speak Russian as their first language). The other part of the narrative is that Russia is an aggressor and must be stopped before Russians march through Poland and the Baltic States. The truth is that the U.S. warmongers including George W. Bush, Joe Biden, Victoria Nuland, Jake Sullivan, and Anthony Blinken had been provoking war with Russia for 14 years before Russia finally moved to assist the Russian-speaking population in the Donbas.

As bad as that background is, the dominant reality is even worse. Ukraine has been run since 1991 by neo-Nazi Banderistas, followers of the World War II Nazi leader Stepan Bandera. The current Ukrainian leadership empower the neo-Nazis who wear regalia and insignia that imitate the Waffen SS Galicia Division of World War II who killed Jews with their bare hands and transported many others to the death camps. The Canadian Parliament recently offered a standing ovation to Yaroslav Hunka, a 98-year-old Nazi collaborator from Ukraine who committed unspeakable atrocities against Jews. It has been critical to U.S. policymakers to hide the neo-Nazi connection and to maintain the myth that the Ukrainians were fighting for freedom. A majority of Americans still believe the myth (repeated endlessly with false reporting by the New York Times, Washington Post, and NBC News). A majority of the Congress still support the corrupt oligarchs in Kiev. But the façade is breaking. More and more Republicans are beginning to stand up against spending for Ukraine, and to insist that any new spending be used at home to fight our problems with illegal immigrants, fentanyl,

and crime. The pro-Ukrainian side has become desperate and violent. Presidential candidate Vivek Ramaswamy has been outspoken in his opposition to more aid for Ukraine. At a campaign stop in Iowa, protestors who support the regime in Ukraine swore at Ramaswamy, then jumped into a car, rammed one of the Ramaswamy campaign vehicles and sped off. This is the kind of behavior one should expect from neo-Nazis. If Ramaswamy maintains his opposition to war and death in Ukraine, he should expect more such attacks. The election for a new Speaker will come soon, perhaps as early as today. The leading candidates on the Republican side are Jim Jordan and Steve Scalise, but others may jump in the race before the final vote.

## **What Investors Need to Know in the Days and Weeks Ahead**

***Whoever wins is not bound by McCarthy's side deal with the White House.*** Deals of that type are not usually written down and are personal to the people making the deal. Once a new speaker is elected, he will have a clean slate when it comes to Ukraine. It's still likely that aid for Ukraine will pass as described above, but the timing and other conditions attached to that approval may make it much more onerous for Ukraine.

***The anti-Ukraine spending group is still a minority, but it is growing.*** This is a nightmare for the White House. Biden had hoped to keep Americans united on more spending for Ukraine and to keep the issue out of the presidential campaign. Both hopes have gone up in smoke. A majority of Americans may soon oppose more spending, and this will definitely be an issue in the 2024 presidential campaign.

***Finally, a shut-down of the government on November 17 seems likely.*** The new speaker will not be elected until October 11 at the earliest. Congress only works 3 or 4 days per week at best. That leaves very few "legislative days" before November 17. The rebels who rejected McCarthy will still insist on separate appropriations and no new CR. That takes time. The Congress avoided a trainwreck on September 30, but they will not be so lucky on November 17. U.S. credit may be downgraded by the ratings agencies as a result of the dysfunction. However the budget debate turns out with or without another CR or a shutdown, the dissension inside the Republican caucus will not be resolved soon. Stock markets cannot stand uncertainty. Unfortunately, we'll be getting uncertainty by the truckload. **It's time for you as an investor to lighten up on equity exposure and increase your allocation to cash.** The next edition of *Situation Report* will be available in two weeks. In the meantime, please look for new trade recommendations and close-out alerts. These are distributed opportunistically when entry and exit points look best based on our analysis and predictive analytics.

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