

Stimulus expectations tempered even with Democrats' likely Senate wins

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Democratic control of the Senate may mean more economic stimulus. But do not expect the floodgates to open.

The thinnest of margins for Democrats in the upper chamber of Congress would mean the free-spending instincts of the liberal wing of the party would be constrained by moderates who will probably vote for legislation to increase the size of stimulus checks to U.S. residents but may stop short of signing off on the full multitrillion-dollar HEROES Act passed by Democrats in the House of Representatives in May 2020.

Democratic candidate Raphael Warnock won his runoff election over Sen. Kelly Loeffler in Georgia on Jan. 5, and Jon Ossoff was widely expected to soon be declared winner in his runoff against Sen. David Perdue, meaning a 50-50 split in the Senate with Kamala Harris, the future vice president, to cast tiebreaking votes. When the new senators are seated, Democrats will control the Senate, enabling them to bring a vote on \$2,000 stimulus checks and other relief measures that outgoing Majority Leader Mitch McConnell, R-Ky., had prevented.

"Has the likelihood [of more relief] gone up? Of course," Michael Pugliese, an economist for Wells Fargo Securities, said in an interview. "But it will probably be a lot more significantly scaled back from what the Biden campaign has put out."



President-elect Joe Biden said earlier this week that Democrats' sought after one-time \$2,000 relief checks for individuals earning less than \$75,000 per year would "go out the door" had the Republican candidates won the Georgia races. Republicans stifled efforts to raise the second round of relief checks to \$2,000 that even President Donald Trump surprisingly threw his support behind, eventually settling on \$600 checks that were sent out in recent days.

Shortly after the Jan. 5 election, Sen. Chuck Schumer, the New York Democrat in line to be Senate majority leader, said, "One of the first things that I want to do ... is deliver the \$2,000 checks to the American families."

Biden also said in November that he would pass the multitrillion-dollar Democrat-proposed HEROES Act "right away" after entering office. Still, Democrats would likely need to clear the Senate's 60-vote cloture threshold, meaning at least 10 Republicans would have to come on board. Pugliese sees the next package as closer to \$900 billion, similar to the compromise bill passed in December.



Raphael Warnock, top, defeated Sen. Kelly Loeffler in the Jan. 5 runoff Senate election in Georgia, while Jon Ossoff led Sen. David Perdue with few votes remaining.

Sources: Warnock and Ossoff campaigns

"somewhat nervous" about the increased likelihood of a rise in corporate taxes and tighter regulations on sectors like health care, technology and financial services, he added.

But perhaps more important than one-time relief checks will be the extension of long-term unemployment benefits programs, said Rajeev Dhawan, an economist at Georgia State University. The victories in his state make it more likely that the extension of these benefits — which nearly lapsed in December and could have caused devastating economic effects — will be done in steps. This could become even more pressing should the U.S. have an official or unofficial lockdown similar to what has been implemented in the United Kingdom, France, and Germany. This could very well lead to further job losses at restaurants, hotels and the discretionary sector.

It is more likely now for another bill to be passed under the Biden administration, said Chris Varaves, co-head of U.S. economics at IHS Markit. He said this would provide "a modest shot in the arm" to the recovery, specifically adding a boost in the first half of the year when partial lockdowns and new cases may deter spending.

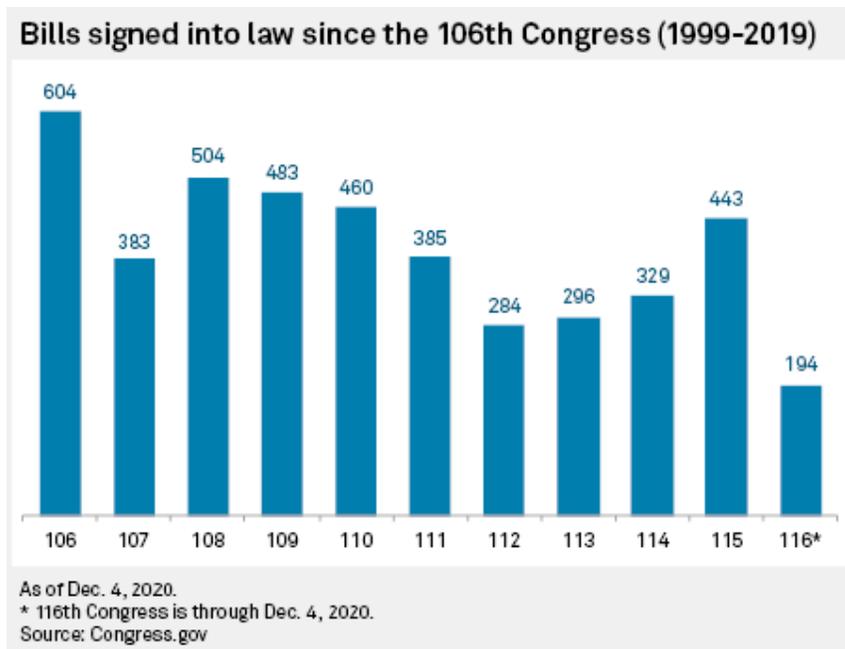
Congress in late December passed a \$900 billion COVID-19 relief package, one that included \$150 billion for one-time \$600 checks for those earning under \$75,000 annually, as well as \$115 billion in extended emergency unemployment benefits for 11 weeks., including a \$300-per-week expanded unemployment benefit for that span. Economists saw that package, far smaller than March's \$2.2 trillion CARES Act — but still the second-largest stimulus package ever passed by the U.S. government — as a temporary lifeline to protect against a more severe downturn. It does not spell a quick return to the pre-pandemic economy, which means more pressure on Democrats to propose further relief plans. And with Sen. Minority Leader Chuck Schumer, D-N.Y., now elevated to a Senate majority post, he can bring Democrat proposals to the floor for a vote that McConnell, now set to become minority leader, would have denied.

"On balance, the outcome of the Georgia elections means a swifter and more aggressive spending package in 2021 that can help propel the recovery more rapidly than would have been likely had the Republicans had retained their majority in the Senate," said James Knightley, chief international economist for ING Economics.

But challenges remain.

Filibusters are likely to stifle more ambitious spending plans, as well as intraparty squabbles among a Democratic Party that can little afford any defectors on legislation .

"This means that some of the more ambitious proposals could yet be diluted even with a Democrat House and Senate majority," Knightley said. Financial markets are likely to be



Extending unemployment benefits for three months at a time rather than a blanket extension would be preferable to maintain economic stability, Dhawan said.

"It is not a stimulus situation when there is no demand for product. Instead, you need to take care of the problem," said Dhawan, who said he was struck on his return flight from India the previous day of the global severity of the pandemic. "People have been way too fixated on the politics without looking at the biological event that has caused the economic issues. You need to stanch the bleeding and take care of the patient rather than have the patient go run a race."

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