



November 11, 2022

WHAT YOU NEED TO KNOW ABOUT

# Economic Policy in the New Congress

## PRO POINTS

- **President Joe Biden is staring down two years of divided government and potential gridlock, with Republicans poised to take control of the House and the Senate looking like it will remain narrowly split.**
- **Sweeping economic legislation seems highly unlikely, and Democrats may struggle to confirm Biden nominees.**
- **Among the biggest questions: How and when lawmakers will decide to raise the debt limit, which is essential to avoid a default on the government's debt. Inflation and a looming recession hang over any prospect of future spending.**
- **There is a possibility that narrower bills could move on a bipartisan basis, in areas like digital assets and flood insurance.**

## ECONOMIC POLICY AREAS TO WATCH

### DEBT CEILING

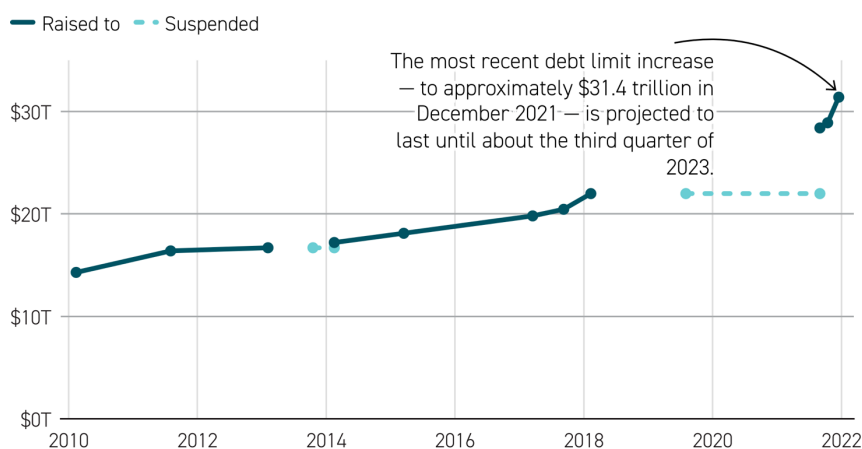
Estimates suggest Treasury will run out of room to borrow in the second or third quarter of 2023, setting up a threat to the creditworthiness of the U.S. government.

Practically speaking, the debt ceiling is a limit on the government's ability to pay off debt it has already incurred. Political standoffs over whether to willingly default on that debt are a continuous headache for financial markets; rates on Treasury securities influence the pricing of assets throughout the globe.

If Democratic lawmakers and Biden don't preemptively address the debt limit by the end of this year, the conflict will once again be center stage for the next Congress in 2023. House Republicans are already gearing up to use the debt limit to force Democrats to accept deep spending cuts, suggesting that the country will face yet another nail-biting showdown.

### Debt limit unchanged since year-end 2021 deal

Debt limit, trillions of dollars



Source: Congressional Research Service, House Budget Committee, Bipartisan Policy Center  
Taylor Miller Thomas / POLITICO

### CRYPTOCURRENCIES

After surging in popularity during the coronavirus pandemic, cryptocurrencies have faced a brutal year in which prices have plummeted and several high-profile digital asset outfits have imploded.



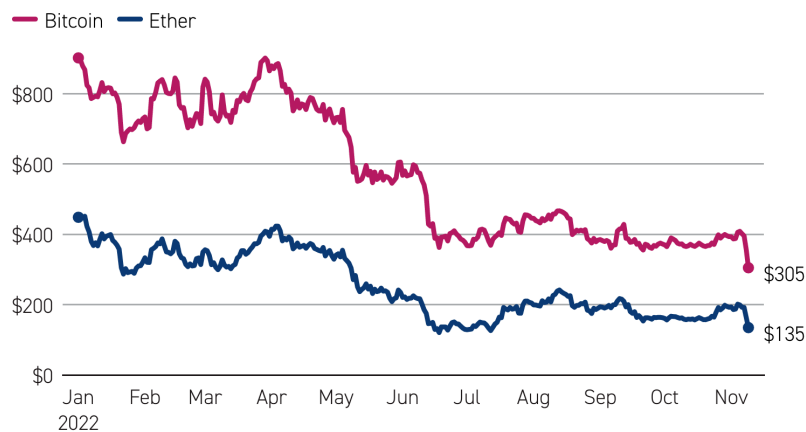
On Election Day, crypto wunderkind Sam Bankman-Fried announced he was seeking financing from a competitor to rescue his collapsing exchange, FTX, in a deal that ultimately fell apart. The development sent shockwaves through the industry and could upend the policy debate around digital assets.

The industry's troubles could heighten a desire by policymakers to draft clearer guardrails in this space. For now, the fledgling sector has friends on both sides of the aisle. Rep. Patrick McHenry (R-N.C.), who would take over the Financial Services Committee under a GOP majority, told POLITICO he would zero in on "very long-standing issues with securities law that need to be resolved in order for us to have a market structure, a means of exchange, and even basic definition of what is a digital asset."

But he also later pointed to the FTX blowup as underscoring "the necessity of congressional action."

## Top cryptocurrencies have plummeted during 2022

Market cap of cryptocurrencies, billions of dollars



Data through Nov. 9, 2022  
Source: CoinMarketCap  
Taylor Miller Thomas / POLITICO

## INVESTIGATIONS & OVERSIGHT

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. And the Securities and Exchange Commission has been drafting requirements for public companies to disclose more about their material exposure to climate change.

That's led to a surge of criticism from Republican lawmakers, who have also directed some of their anger at the industry itself, as major asset managers and banks move to support investing that furthers environmental or social goals. The top Republicans overseeing the finance industry in the House and the Senate — McHenry and Sen. Tim Scott (S.C.), respectively — are likely to turn up the heat on agencies and Wall Street.



The SEC and the Consumer Financial Protection Bureau will be at the top of the list for a McHenry-led committee when it comes to oversight.

If Democrats hold their slim majority in the Senate, that could also mean more scrutiny for the Federal Reserve, which has been aggressively ramping up interest rates in a bid to cool inflation. In recent weeks, Democratic lawmakers have become much more critical about the prospect of the Fed's moves causing job losses, an early sign that Fed Chair Jerome Powell could face some tough hearings early next year.

## RECESSION

The odds that the U.S. economy tips into recession next year are particularly elevated, given the onslaught of interest rate hikes from the Fed. In a typical recession, Congress would spend money to try to jumpstart the economy, but such policies would run counter to the Fed's efforts to curb price pressures — making a broad stimulus package exceedingly unlikely.

Lawmakers could pursue more targeted forms of relief for those most hurt by a downturn, such as enhanced unemployment benefits, but GOP lawmakers keen on reducing government spending might also balk at such measures.

The key question is whether inflation, which has shown signs of cooling, will come down more dramatically next year and whether there is a more serious jump in unemployment, which could clear the path for some support to struggling Americans.

## POWER PLAYERS

- **Brian Deese, head of the White House National Economic Council:** A key liaison between the White House and Congress, he will be a central player in deciding the direction of spending for the next couple of years, with the administration prioritizing deficit reduction in the face of inflation. He would also be a decider on whether and how to pursue economic relief in the event of a recession.
- **Kim Betz, chief counsel and policy director for House Financial Services Committee Republicans:** A top aide to Rep. Patrick McHenry (N.C.), she will be responsible for shepherding through the congressman's agenda for the panel, from oversight to crypto to flood insurance.
- **Janet Yellen, Treasury secretary:** The former Fed chair still commands considerable respect for her knowledge of the economy and markets, a credibility she will need to wield in a bid to once again raise, or suspend, the debt limit to prevent a default.