THIRD WAY

BLOG *Published November 9, 2022 • 3 minute read*

Three Risks that Congress Needs to Watch Out For

Zach Moller

Director of the Economic Program

@EconWonk

The post-election return of Congress is slated to be anything but lame. Amid a large to-do list and a tight Congressional calendar, there are three economic risks that policymakers must confront. Ignoring or fumbling any of the three could upend not only the US economy but global well-being.

First, Congress must avoid new supply chain slowdowns that will increase inflation. That means avoiding rail and port worker strikes that would grind the movement of goods to a halt.

On September 15, the Biden Administration helped broker a deal between the rail workers' unions and the railroads. However, all parties haven't ratified the agreement. As a result, starting in early December, a shutdown could occur and severely disrupt America's rail transport system. With already high and stubborn inflation, further trouble in the ability to move goods across the country could tighten supply chains in ways we saw earlier in the pandemic. The impact should not be underestimated. With railroads carrying 30% of America's freight, a disruption could restrict availability and increase costs for gasoline, energy, consumer goods, and food. And unfortunately, it's not just American railroads that are at risk. [1]

Further supply chain issues are possible at America's ports. The ports and port workers' unions have also been negotiating a new contract. The nation's ports are an essential part of global supply chains and receive the imported goods for most Americans. Any port slowdowns or shutdowns would hurt the movement of goods, driving up costs at a time when we're trying to do the exact opposite. [2]

While the supply chain crisis from earlier in the pandemic is mostly resolved, a one-two punch to America's supply chains right before the holiday season bodes poorly for the economy. Policymakers should use their influence to mitigate these risks and have agreements come together in short order. For example, it is within Congressional authority to force through the Presidential-negotiated rail agreement, as Secretary of Labor Walsh has indicated. [3]

Second, Congress must fund the government. Right now, government funding runs out on December 16. Without government appropriations or another continuing resolution, the government would shut down. A shutdown would affect thousands of jobs, stop critical government work, and negatively impact the economy.

As Congress works toward a deal on government funding, there will be the typical push to attach other items. As policymakers of both parties see it as one of the last legislative trains leaving the station, there will undoubtedly be efforts to address permitting reform, defense reauthorization, retirement policy, and tax extenders, among others. Congress should "clear the decks" as much as possible and move important legislation—but don't forget about offsetting policies. Expensive add-ons to a year-end deal could undermine the deficit reduction passed this year in the Inflation Reduction Act and limit its inflation-fighting power.

Finally, policymakers must defuse the impending debt limit bomb that will tank the economy. While the debt limit technically doesn't need to get raised until next year, Republicans are already preparing to hold the economy hostage. It is imperative for Democrats to deal with this issue in the lame duck so the US and global economy do not have to face default in 2023.

Congress raised the debt limit in December 2021 to $31.4 trillion. [4] But it wasn't easy. Senate Republicans agreed to a process that let the debt limit increase without any of them providing votes for passage. Increased partisanship will only amplify the dangers of holding the economy hostage. Republican leaders are vocally calling for economic chaos because they would do anything to tank the Biden economy. [5] Democrats should use any process available to them in the lame-duck Congress to prevent catastrophe.

If bipartisan cooperation in raising, suspending, or eliminating the debt limit is impossible, then Democrats with a majority in the House and Senate have one last tool available. They can use the budget reconciliation process, like how they passed the Inflation Reduction Act, to increase the debt limit. This process to get around the Senate filibuster would take time, but the economic risks of default mean action must be taken. [6]

ENDNOTES

1. Isidore, Chris and Yurkevich, Vanessa. "Here's how the freight rail strike could affect you." *CNN Business*, CNN, 14 Sep. 2022, https://www.cnn.com/2022/09/14/economy/railroad-strike-economic-impact. Accessed 9 Nov. 2022.

   Schulz, Bailey and Garrison, Joey. "What is the railroad strike of 2022? Why rail workers are striking and what it means for you." *USA TODAY MONEY*, USA TODAY, 13 Oct. 2022, https://www.usatoday.com/story/money/2022/10/11/rail-strike-2022-railroad-workers-update/10465309002/. Accessed 9 Nov. 2022.

2. LaRocco, Lori Ann. "Tensions rise in West Coast port labor battles, with unions and management trading accusations." *CNBC*, 28 Sep. 2022, https://www.cnbc.com/2022/09/28/west-coast-port-labor-battle-tensions-rise-between-unions-management.html. Accessed 9 Nov. 2022.

3. @RebeccaARainey. "Labor @SecMartyWalsh tells @BloombergTV that if rail unions and freight companies can't get to an agreement "Congress will have to take action." "If the unions don't ratify," Walsh said. "Congress is the last stop that would have to take action."." *Twitter*, 4 Nov. 2022, https://twitter.com/RebeccaARainey/status/1588528619194048514. Accessed 9 Nov. 2022.

   Black, Thomas. "Congress Won't Let a Rail Dispute Cripple the US." *Washington Post*, 14 Sep. 2022, https://www.washingtonpost.com/business/congress-wont-let-a-rail-dispute-cripple-the-us/2022/09/14/9491604a-3425-11ed-a0d6-415299bfebd5_story.html. Accessed 9 Nov. 2022.

4. Austin, D. Andrew. "The Debt Limit in 2021." *The Congressional Research Service*, 27 Dec. 2021 https://crsreports.congress.gov/product/pdf/IN/IN11702. Accessed 9 Nov. 2022.

5. Cochrane, Emily and Tankersley, Jim. "Debt Limit Showdown Looms as White House Braces for a Divided Washington." *The New York Times*, 3 Nov. 2022. https://www.nytimes.com/2022/11/03/business/biden-debt-limit-shutdown.html. Accessed 9 Nov. 2022.

6. Moller, Zach and McSwiggan, Curran. "The Dominoes of Default in 2021." *Third Way*, 8 Dec. 2021. https://www.thirdway.org/report/the-dominoes-of-default-in-2021. Accessed 9 Nov. 2022.