



# Congress Will Go Out With a Whimper, But the Next Could Come In With a Roar

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- A government shutdown is highly unlikely this year, and most need-to-pass bills will likely pass either before the election or during the “lame duck” session of Congress.
- Should Republicans take the Senate, we should expect heightened policy uncertainty around issues such as the debt ceiling increase in 2015.

Next week, Congress returns from its five-week summer recess for a handful of legislative days to address several “must pass” issues, including a bill to avoid a government shutdown, before hitting the campaign trail for the Nov. 4 midterm elections. With memories of last fall’s government shutdown still fresh for many, investors may wonder what to expect in the remaining days from this Congress.

So what can they expect? We anticipate a relatively benign end to this Congress: A government shutdown is highly unlikely, and the majority of need-to-pass bills will likely pass either before the election or during the “lame duck” session of Congress (the period after the election and before the start of the next Congress). Although we may see a flurry of activity on must-pass bills, we should not expect to see any breakthroughs on more substantial issues in the remaining days: There will be no large, last-minute budget deal or final push for the once-high priorities of tax or immigration reform. However, while this Congress will likely go out with a whimper, the next Congress could come in with a roar – especially if Republicans control both the House and the Senate; in that case, investors should expect a more volatile fight over the debt ceiling, which needs to be raised in spring 2015.

## No drama expected for Congress this fall ...

- **A government shutdown is highly unlikely.** Since Congress once again failed to pass the requisite appropriations bills this year, it will have to pass yet another short-term funding bill or “continuing resolution” to keep the government operating. Last year, the government funding bill became ensnared in Congressional Republicans’ efforts to repeal the Affordable Care Act, which precipitated a 17-day government shutdown. This year, however, lawmakers are loath to make any missteps so close to the midterm elections and are on track to pass a government funding bill shortly after they return next week at spending levels that are largely flat to last year. Ideally for investors (and many others), the funding bill would take a government shutdown off the table for a year, but more realistically, it will be a shorter-term bill that funds the government for a few months, only to be revisited again in short order.
- **The Export-Import Bank reauthorization is likely.** The once sleepy agency, which provides financing to foreign companies that buy U.S. goods, has come under increasing scrutiny over the past few years, which has led some lawmakers to call for its shuttering. While the renewal of the agency, which is needed by the end of September, looked in doubt just a month ago, it now looks like lawmakers will ultimately choose the most expedient path given the proximity to the midterm elections and reauthorize the agency, at least for a few months, while pledging to make needed reforms later on.
- **The corporate tax breaks known as “tax extenders” will likely pass, too.** A slew of corporate tax breaks that range from wind credits to tax cuts for movie producers to incentives for research and development have been waiting to be renewed for the past several months. While there was some hope that comprehensive corporate tax reform would be addressed during this Congress, avoiding the need for the renewal of the tax extenders, any hope for such reform has since dwindled. Congress is now likely to pass a package that extends the tax provisions for two years or so, though probably not until after the election in the lame duck session of Congress.

## ... but beware 2015

Congressional volatility is likely to pick up next year, especially if Republicans hold their majority in the House and pick up the six (or more) seats they need to win a simple majority in the Senate. While Republicans would be limited in their ability to push through anything overly partisan without a filibuster-proof (60-vote) Senate majority, they could use a relatively arcane legislative tactic called reconciliation to pass legislation, which requires only 51 votes for passage (but can be used just once per year). Congressional Republicans used this tactic to pass the tax cuts in the early 2000s, and Congressional

Democrats used it to pass the Affordable Care Act in 2009. Don't be surprised if Republicans decide to use this approach to seek concessions on a variety of provisions – including modifications to Dodd-Frank and the Affordable Care Act and approval of the Keystone pipeline – in exchange for an increase in the debt ceiling, which needs to be addressed by spring 2015. President Obama would still have the ability to veto a reconciliation bill, of course, but if it were linked to a debt ceiling increase, he may have less flexibility to do so.

Regardless, should Republicans take the Senate in November and decide to use the reconciliation approach on a debt ceiling increase in the spring, we should expect a return of volatility and heightened policy uncertainty from Washington.

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