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ECONOMIC TALKING POINTS

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COMMENTARY: 2021: It's Time For Some Viral Optimism

I'm going to violate a long-standing rule of mine. That rule is never to begin writing anything with a cliché --- and the phrase "pivotal moment" easily falls into that category. We've heard those two words uttered too many times the last several years. It hardly gets the pulse moving anymore. And yet, I'm going to make an exception this one time because that phrase is appropriate given what is underway.

We are now at a pivotal moment in US and world economic history. Virtually every country on the planet has been struggling to emerge from this devastating pandemic. In fact, 95% of the world's 195 countries were in recession this year and there is nothing more dangerous than a synchronous world recession. If every country is economically inert, it will be hard to find one that can act as a locomotive to lift up others.

Historically the US served as the vanguard of a global recovery cycle. I'm happy to say it now appears the US may take on that role again in 2021. Let me give you three reasons why the country seems to be on a positive glide path.

First, we have a new President entering the White House starting January 20th and that alone dramatically changes the economic backdrop. Whether you supported President Trump or not, it is hard to ignore how the last four years were marked by hyper-partisanship, political trench warfare and policy uncertainty. Trump sought to disengage the US from international institutions and pursue a trade war with China that has yet to yield any benefits.

With President Biden at the helm, the political climate changes overnight. As a seasoned politician, he knows well that more can be accomplished in a bi-

partisanship manner. Business leaders and investors can expect fewer surprises in terms of domestic policies. And foreign governments see Biden as a seasoned leader who will re-engage the US with the international community. So, at the very least, we're off to a calmer, more promising start.

The second factor supporting growth is the willingness of the Federal Reserve to keep short-term interest rates near zero for at least the next several years. Record low borrowing costs will encourage more business investments and reduce the burden households and companies face in servicing their debt.

Finally, the development and distribution of several new vaccines to combat Covid-19 next year will also help get the economy back on its feet.

All good news to be sure. But I would be remiss if I didn't also admit there are some downside risks we must keep in mind.

The two biggest are the lack of another meaningful emergency stimulus package --- and the possibility that many Americans may not rush to be vaccinated because of concerns over the vaccine's safety.

Let me drill down a bit on the stimulus package. It is absolutely essential that Congress pass such a bill and get the funds quickly into the hands of state officials, ailing businesses and cash-strapped households. The urgency should be self-evident. We are in a race against time. The longer it takes to distribute those emergency funds, the greater the economic damage. More companies will fail, leaving more people out of work and more families facing bankruptcy.

The size and timing of this stimulus program could depend on the outcome of the January 5th Georgia run-off on who sits in the Senate. That race will determine which party controls the upper house in Congress. If the GOP retains a Senate majority, we'll likely see a smaller stimulus (\$500 billion to \$700 billion) and I expect it will take longer to get to the President's desk.

If the Democrats get effective control, the dollar figure will be much larger (closer to \$2 trillion) and likely pass in the first quarter of 2021. According to our projections, the smaller package sets the stage for the economy to grow about 2.5% in 2021. The larger package allows for more robust growth with the GDP expanding by more than 4% next year. (Absent any package, the prospect of recession is 75%.)

But even those positive growth rates will be difficult to achieve if Americans choose to avoid taking the vaccine for fear it was not fully vetted in test trials. Such delays in getting vaccinated will allow the virus to linger and thus push back the economic recovery.

I perfectly understand the concerns people have getting the vaccine. Each of us has to consult our doctors on what is best. I am not qualified to say much more.

And I certainly sympathize with those who argue the trillions of dollars in pandemic deficit spending will only saddle our children and grandchildren with a crippling

national debt. Look, there may well be a day of reckoning for all that massive borrowing in the long run. But there won't be a long run if we can't get past the short run. This is an emergency unlike anything seen in more than century.

There is reason to be optimistic, however. With a new Administration in Washington, a promising vaccine to vanquish this virus and some financial support coming from Congress, we will soon be able to turn the corner and finally get back to a normal business cycle by late next year. So, yes, we are indeed at a pivotal moment in history.

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