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WEEKLY HORIZON

November 30 - December 4, 2020

This Week's Driving Events

- **Democrats' Stymied Stimulus Strategy:** Democrats are in disarray when it comes to a unified strategy for Covid-19 stimulus legislation, with little hope for a deal coming together before President-elect Biden is inaugurated. But Biden's inauguration, as well as the vote for House speaker on January 3rd and the Georgia Senate runoff races on January 5th, will be important variables in the fluid stimulus dynamics.
- **Biden's Health Secretary Candidates Play to Different Strengths:** President-elect Biden's top two candidates for Health and Human Services secretary are reportedly Dr. Vivek Murthy and Governor Michelle Lujan Grisham (D-NM). Biden has a closer working relationship with the more progressive Murthy but Lujan Grisham offers more managerial experience and would be the more traditional pick.
- **Don't Count on Biden to Find a Quick Fix with Europe on Digital Services Tax:** Tensions between the US and Europe have been heating up over the past month, including on issues involving 5G national security, antitrust, and data flows. Now, after France announced its intent to resume its tax on US tech giants, the controversial issue of digital services taxation is yet again another source of transatlantic tensions.

STIMULUS PROSPECTS REST ON INTERNAL DEMOCRATIC DYNAMICS:

House Majority Leader Steny Hoyer (D-MD) has released a new House schedule. Notably, the goal is to have just about one more week in session. The chamber will convene on Wednesday evening, with votes through Friday. According to [Politico](#), lawmakers are being asked to stay in town over next weekend, with the goal of wrapping up legislative work as soon as December 7th. **That mainly means passing government funding legislation, which is set to run out on December 11th. That doesn't mean passing a Phase Four Covid-19 stimulus bill, which hasn't seen any negotiations among the principal negotiators since prior to the election.**

However, there is a path to attaching expiring CARES Act provisions to government funding legislation. This includes attaching an extension of the

Pandemic Unemployment Assistance (PUA), which provides unemployment insurance for gig workers, and Pandemic Emergency Unemployment Compensation (PEUC), which extends unemployment benefits for up to 13 weeks, both of which expire on December 26th.

For a broader stimulus bill to pass, either this year or likely next, the biggest dynamic to watch is not between Democrats and Republicans but rather internally within the Democratic Party. House Speaker Nancy Pelosi (D-CA) made a bet that holding firm for a deal above \$2 trillion would be a political winner and that President Trump would cave. **She was partially right.** Democrats won the White House, remain in control (albeit barely) of the House, and have a shot at winning the Senate come the Georgia Senate runoffs on January 5th. A majority of voters support a \$2 trillion stimulus bill. In the runup to the election, Trump also seemed willing to accept a deal greater than \$2 trillion. **But Pelosi was also partially wrong.** Congressional Republicans did not pay a political price for holding firm for a smaller, more targeted bill and Trump's interest in going big held no sway in convincing Senate Republicans to go big as well. The election dust is still settling, but one thing is clear, there was no major political realignment -- Trump was voted out of office but America's partisan divide held firm (and even increased with a decrease in ticket-splitting voters). **This leaves Pelosi and Democratic leadership without the governing mandate (for now at least depending on the Georgia runoffs) they were expecting after the election.**

In conjunction with the election results, the worsening of the public health and economic conditions due to Covid-19 are exposing further cracks in Pelosi's stimulus strategy. Several moderates and high-ranking Democrats are becoming more vocal about taking a smaller stimulus deal. Hoyer this month said, "I just hope that we can get agreement. It may not be everything that everybody wants but at least if we can get some significant relief to people. And then we're going to be here next year. If we need to do other things, we'll do other things." Hoyer doesn't have the closest relationship with Pelosi and has been parroting stimulus negotiating concerns from moderate Democrats for a while. His latest comments aren't going to sway Pelosi. But other Democrats are also beginning to speak up. Senator Debbie Stabenow (D-MI), the fourth-ranking Senate Democrat, this month said, "We need to act. ...And it's less about the overall number because even if there is a short-term package for the next few months, until we get into the new Biden administration, we have to act now." Senate Minority Whip Dick Durbin (D-IL) called for "something done that is significant, do what we can achieve now." Finally, Senator Chris Coons (D-DE), who is in close contact with President-elect Biden, downplayed the significance of the topline dollar number, saying, "To me it's less about exactly what dollar amount than it is what are the areas where we're providing some relief."

It's clear Biden is supportive of reaching a deal during lame duck, even if it's below the \$2.2 trillion Pelosi is pushing. But it's also clear the president-elect is not going to directly undercut Pelosi's negotiating position, at least before

he's sworn into office come January 20th. After the [New York Times reported](#) earlier last week that Biden advisors were worried about a double-dip recession and wanted Congress to push a "quick stimulus deal with Senate Republicans, even if it falls short of the larger package Democrats have been seeking," the Biden team quickly had to do some cleanup, with a Biden spokesman saying the report was "incorrect" that Biden was pushing Pelosi to pass a smaller bill. In all likelihood, the New York Times was correct in capturing the sentiment, but Biden did not want to be perceived as undercutting Pelosi, or rather, Pelosi did not want to be perceived as not having the full support of Biden. **But this dynamic could change come January 20th.** Unless the financial markets begin to crash, Senate Republicans will not feel any pressure to agree to anything close to the topline figure of \$2.2 trillion. They are currently at \$500 billion. Biden, who touted himself as the bipartisan dealmaker on the campaign trail, will want to be able to show his ability to come to some sort of compromise. **Right now, it's the moderates who are making the most noise about reaching some sort of deal. A question in the internal party dynamics is will the progressives make equal noise in opposition to making concessions to Republicans.**

This tightrope between progressives and moderates that Democratic leadership needs to walk is making it difficult for Pelosi to move from her pre-election negotiating position. Before Biden is sworn in, Pelosi has her own vote to be re-elected as speaker on January 3rd. When she was elected speaker on January 3rd, 2019, 15 Democrats voted for someone else. Of those 15, 10-11 were re-elected, all of whom are moderates. But Pelosi had a 17-vote cushion two years ago. This time, Democrats will have [their smallest House majority](#) since 1877, with Pelosi only having 4-5 votes to spare. There is no Democratic challenger to Pelosi, but that doesn't mean disgruntled Democrats couldn't vote for someone else in protest. **As such, she doesn't want to rock the boat in the near term. Pelosi agreeing to add expiring unemployment provisions to the spending bills will be broadly acceptable, but cutting a stimulus deal with Republicans that forgoes many progressive priorities could upset the left wing of her party even if it plays well with moderates.**

Then there are the two Georgia Senate runoffs on January 5th. If Democrats win both races, they will hold a 50-50 Senate majority with Vice President-elect Harris being the tie-breaking vote. **With no votes to spare in the Senate and only 4-5 votes to spare in the House, Democratic leadership will still try to do a stimulus bill via budget reconciliation, although the legislative and political constraints will be difficult.** Enough House Democrats voted against their own HEROES Act (both the \$3.4 and \$2.2 trillion versions) to block passage under a narrower majority. But we believe enough Democrats would be on board for some form of a +\$2 trillion bill. **But if Democrats lose one or both of the Georgia runoff races, they will stay in the minority in the Senate. This would require Democrats to negotiate in good faith with Senate Majority Leader Mitch McConnell (R-KY).** But there are enough progressives who hold the view that they will have just one bite at the apple when it comes to another Covid-19

deal with McConnell, so they should not give in easily to a "targeted" bill. This makes it difficult for Pelosi to move off of her negotiation position, at least before the Georgia runoffs.

BIDEN COULD GO AGAINST THE GRAIN WITH HHS PICK: President-elect Biden is [said to be](#) likely choosing between two candidates for the secretary of Health and Human Services (HHS) position, which is a key role both in implementing Biden's healthcare agenda and in responding to the Covid-19 pandemic. **The two candidates are one of the co-heads of Biden's Covid-19 task force, Dr. Vivek Murthy, and Governor Michelle Lujan Grisham (D-NM).** Biden's choice for the significant role will speak to what he values as he continues to assemble his Cabinet because of their conflicting strengths and weaknesses as well as in their relationships with Biden himself.

Biden and Murthy share a closer working relationship and Biden might be leaning towards Murthy for this reason. Murthy is a strong candidate with support from Obama administration alumni and has federal health experience from his time as surgeon general under President Obama. **A physician and Yale graduate, he is viewed as the more progressive of the two** and entered politics after founding and leading a physician advocacy group, Doctors for America, previously known as Doctors for Obama. Murthy was one of the first advisors to Biden during his campaign with respect to the ongoing pandemic, which has allowed him to develop a close working relationship with the president-elect. However, Murthy faced challenges in his confirmation process for surgeon general due to his views on contraception and gun safety as a matter of public health, meaning that even moderate Republicans could potentially consider him too extreme of a choice. Finally, Murthy does not have the managerial experience that Lujan Grisham has, so his selection would underscore the value that Biden is placing on pre-existing working relationships in his personnel choices.

Lujan Grisham's selection would be more traditional. Governors have bureaucratic experience overseeing state governments and have frequently been chosen to lead HHS. Lujan Grisham specifically has health policy experience, having served as New Mexico's secretary of Health from 2004 to 2007. She also served in the House, meaning she has first-hand Hill experience. Her Hispanic colleagues have been pushing for her nomination and 32 House members [co-wrote a letter](#) to Biden supporting her. **While not viewed to be as progressive as Murthy, Lujan Grisham is not viewed as a moderate either.**

Biden could also choose from the broader pool of candidates which is said to include Governor Gina Raimondo (D-RI), former Louisiana Health Secretary Rebekah Gee (D), and North Carolina Health Secretary Mandy Cohen (D). These options would allow Lujan Grisham to serve the rest of her term as governor as she was elected in 2018, and elevate Murthy to another health position in the federal government, such as a potential Covid-19 czar, that does not require Senate approval before potentially later in Biden's term ascending to HHS secretary.

DIGITAL TAX PRESSURE RETURNS: While Joe Biden's presidential victory has ushered in some fresh optimism that an international agreement could soon be reached on the issue of digital services taxation, France escalated the dispute last week after it announced that it would resume collecting a national digital tax beginning in mid-December. "Businesses subject to this tax," which include **Apple (AAPL)**, **Amazon (AMZN)**, **Google (GOOGL)**, and **Facebook (FB)**, "have received a tax notice for the 2020 down payment," the French finance ministry said last Wednesday.

The longstanding fight waged by France and other European countries to get US tech giants to pay what they believe is their fair share in taxes has been opposed by the Trump administration, not to mention lawmakers from both parties on Capitol Hill. "France's decision to collect a discriminatory digital services tax next month represents an escalation against American employers and leaves more US industries open to unfair foreign taxes," a spokesperson for Senator Ron Wyden (D-OR), the ranking member on the Senate Finance Committee, explained. Rep. Kevin Brady (R-TX), who serves as the ranking member on the House Ways and Means Committee, also expressed concerns about France's latest move and urged it to instead strike a compromise via negotiations at the Organization of Economic Cooperation and Development (OECD), which has been leading the talks over digital services taxation. "France needs to respect the OECD process instead of unilaterally imposing punitive taxes in a blatant revenue grab," Brady said.

Despite the hope of some that negotiations at the OECD would lead to a resolution on the issue before the end of the year, this has not been the case, partially because of delays brought by Covid-19. That's led to some dire predictions by the OECD, which said in October that absent an international agreement, unresolved tensions over the issue could trigger a trade war that could wipe out 1 percent of global GDP growth every year and "undermine tax certainty and investment." The Trump administration has also threatened to impose retaliatory measures targeting French luxury goods, including tariffs on \$1.3 billion of French goods, which are set to take effect in January.

Paris has signaled that with President-elect Biden entering the White House, there could be "a new start" between Washington and the European Union. "This new Biden administration, I really hope, [will] mean a new start in the relationship between Europe and the United States," French Finance Minister Bruno Le Maire said last Monday during a Bloomberg event, ahead of a first phone call with Biden's transition team. "One possibility of marking this new start," according to Le Maire, could involve securing a global tax deal after Biden is inaugurated on January 20th. However, other European officials, including Anna Diamantopoulou, one of the candidates to become the next OECD chief once current Secretary General Angel Gurria leaves office in May 2021, said before the November elections that at "the end of the day, maybe we cannot have the agreement we all want but we will find a way out." She added that a deal might be reached by the end of next year or in early

2022.

Despite Biden's promise to rebuild America's badly damaged relationships with key European allies and take a much less confrontational approach to trade talks, investors should not take this as a sign that the digital tax issue will disappear all of a sudden. On the contrary, we see the EU as preferring to work with Biden because we believe he will pursue actions through a multilateral approach that may be more forgiving, particularly when he is working with such close allies. **This would potentially make it easier not only for the EU, but also individual nations like France, to move forward with their own digital taxes. At the very least, there's a chance an OECD agreement gets delayed again past the middle of 2021 as the incoming Biden administration may not have the bandwidth to focus on this issue immediately, given more pressing concerns with respect to the handling of the pandemic and the economic recovery.**

House

Today and Tuesday, the House is not in session.

On Wednesday, the House will reconvene at 2:00 p.m. to consider noncontroversial measures.

On Thursday, the House will reconvene at 12:00 p.m. to consider noncontroversial measures.

On Friday, the House will reconvene at 9:00 a.m. It is expected to consider a bill that would decriminalize marijuana at the federal level.

Senate

Today, the Senate will reconvene at 3:00 p.m. At 5:00 p.m., the Senate will resume consideration of the nomination of Taylor B. McNeel to be a US district judge for the Southern District of Mississippi. At 5:30 p.m., the Senate will hold a procedural vote on McNeel's nomination.

White House

Today, President Trump will have lunch with Vice President Pence at 12:30 p.m.

Macroeconomic

On Tuesday at 2:00 p.m., the Brookings Institution's Center on Fiscal and Monetary Policy,

and the Peterson Institute for International Economics will hold a webcast titled “Fiscal Policy Advice for Joe Biden and Congress.” [More information here.](#) Expected participants include:

- Lawrence Summers, former secretary, Department of the Treasury
- Ben Bernanke, former chairman, Federal Reserve Board of Governors
- Jason Furman, former chairman, Council of Economic Advisers

Antitrust

On Tuesday at 11:00 a.m., the Brookings Institution will hold a webcast titled “The Future of Tech Antitrust in the Biden Administration.” [More information here.](#)

Banking

From Tuesday through Thursday, the Financial Times will hold its virtual Global Banking Summit. [More information here.](#)

Coronavirus and Coronavirus Relief Legislation

On Tuesday at 10:00 a.m., the Senate Banking, Housing, and Urban Affairs Committee will hold a hearing titled “The Quarterly CARES Act Report to Congress.” Expected participants include:

- Steven Mnuchin, secretary, Department of the Treasury
- Jerome Powell, chairman, Federal Reserve Board of Governors

On Wednesday at 10:00 a.m., the House Financial Services Committee will hold a hearing titled “Oversight of the Treasury Department’s and Federal Reserve’s Pandemic Response.” [More information here.](#) Expected participants include:

- Steven Mnuchin, secretary, Department of the Treasury
- Jerome Powell, chairman, Federal Reserve Board of Governors

Criminal Justice

On Wednesday at 9:00 a.m., the House Judiciary Committee Subcommittee on Crime, Terrorism, and Homeland Security will hold a hearing titled “Oversight of the Federal Bureau of Prisons and the US Marshals Service.”

Cybersecurity

On Wednesday at 2:30 p.m., the Senate Homeland Security and Governmental Affairs Committee Subcommittee on Federal Spending Oversight and Emergency Management will hold a hearing titled “State and Local Cybersecurity: Defending Our Communities from Cyber Threats amid COVID-19.”

Cryptocurrency

On Friday at 10:00 a.m., the Independent Community Bankers of America ThinkTECH Policy Summit will hold a virtual event titled “Community Banking and FinTech”. RSVP to Nicole Swann at 202-821-4458 or nicole.swann@icba.org for more information. Expected participants include:

- Michelle Bowman, governor, Federal Reserve Board of Governors

Defense

Today at 6:00 p.m., the Senate Foreign Relations Committee will hold a closed briefing titled “UAE Arms Sales.”

Energy, Environment, and Natural Resources

Today at 2:00 p.m., the Atlantic Council will hold a webinar titled “The Future of 45Q: Carbon Capture Policy in the Biden-Harris Administration,” focusing on tax legislation. [More information here.](#)

Geopolitical

Today at 3:00 p.m., the Hudson Institute will hold a virtual discussion titled “The Origin and Future of the China Challenge.” [More information here.](#) Expected participants include:

- Peter Berkowitz, policy planning director, State Department

On Tuesday at 9:00 a.m., the Carnegie Endowment for International Peace will hold a virtual discussion titled “US-China Relations Under Biden: A Lookahead.” [More information here.](#)

On Thursday at 9:00 a.m., the Center for Strategic and International Studies will hold a virtual debate titled “China Will Exploit the COVID-19 Pandemic to Shift the Geopolitical Balance of Power in its Favor.” [More information here.](#)

On Thursday at 2:00 p.m., the Brookings Institution will hold a webcast titled “The Future of US Alliances in the Indo-Pacific.” [More information here](#). Expected participants include:

- Senator Tammy Duckworth (D-IL)

On Friday at 9:00 a.m., the Center for Strategic and International Studies will hold a webcast on the top national security priorities for a new Biden administration. [More information here](#).

Healthcare

On Tuesday and Wednesday, the National Academy of Sciences, Engineering, and Medicine will hold a virtual workshop titled “Security of America’s Medical Product Supply Chain.” [More information here](#).

Political

On Wednesday at 9:30 a.m., the American Enterprise Institute for Public Policy Research will hold a webinar titled “The Republican Study Committee in the 117th Congress,” focusing on advancing conservative principles in a Democratic Congress. [More information here](#). Expected participants include:

- Rep. Mike Johnson (R-LA)
- Rep. Jim Banks (R-IN)

On Thursday at 10:00 a.m., the House Oversight and Reform Committee will hold a hearing titled “Ensuring the 2020 Census Count is Complete and Accurate.”

Tech-Media-Telecom

Today at 12:45 p.m., the Columbia Law School Chapter of the Federalist Society for Law and Public Policy Studies will hold a webinar with Federal Communications Commission Chairman Ajit Pai. [More information here](#).

On Tuesday and Wednesday, the Association of Public-Safety Communications Officials will hold its virtual Emerging Technology Forum. [More information here](#). Expected participants on Tuesday include:

- Jessica Rosenworcel, commissioner, Federal Communications Commission

On Tuesday at 10:00 a.m., the Federal Communications Commission will hold a meeting by teleconference of the Technological Advisory Council. [More information here](#).

On Wednesday at 10:00 a.m., the Senate Commerce, Science, and Transportation Committee will hold a markup to vote on the nomination of Nathan Simington to be a member of the Federal Communications Commission. [More information here.](#)

On Thursday at 11:00 a.m., the Woodrow Wilson Center's Science and Technology Innovation Program will hold a webcast titled "Assessing the Artificial Intelligence Agenda: Policy Opportunities and Challenges in the 117th Congress." [More information here.](#) Expected participants include:

- Senator Martin Heinrich (D-NM)
- Senator Rob Portman (R-OH)
- Rep. Pete Olson (R-TX)

Trade

Today at 2:00 p.m., the Atlantic Council will hold a webinar titled "The Future of US-Taiwan Economic Relations." [More information here.](#)

On Wednesday at 3:00 p.m., the Cato Institute will hold a virtual discussion titled "Trade Policy Priorities through the Eyes of Congressional Democrats." [More information here.](#) Expected participants include:

- Rep. Stephanie Murphy (D-FL)
- Rep. Henry Cuellar (D-TX)

Transportation

On Tuesday at 1:00 p.m., the Federal Aviation Administration will hold a meeting by teleconference of the Safety Oversight and Certification Advisory Committee.



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