

THIS WEEK IN WASHINGTON

Week of May 29, 2017



This Week in Washington

Thanks for your continued interest in Washington, D.C. and This Week in Washington.

This is our abbreviated Memorial Day report. Steve Gordon talks about taxes, health care, the Trump budget, a new energy bill, the upcoming special election in Georgia, all things Russian, and the sounds of Washington over the Memorial Day holiday in this week's Heard on the Hill. Larry Smith updates us on Trade and NAFTA, and Dana Marston provides some info on GDP growth through the first quarter of 2017.

We'll be back with a full complement of reports in next week's This Week.

Thanks for your comments and suggestions. All are sincerely appreciated.

Heard on the Hill

By [Steve Gordon](#), Managing Director, Total Spectrum

Memorial Day in Washington, D.C.: A meaningful, and very quiet day.

It used to be said that the most dangerous place on the planet was between a member of Congress and National Airport when votes were over and a recess was ready to begin. National Airport is now called Ronald Reagan, but the Rush to Reagan hasn't changed.

Washington, D.C. during a recess period becomes a very quiet small town. Staff gets a chance to relax, as do members of the

ICYMI: Arizona Issues in the News

[Ducey names new Department of Economic Security director](#)

[Sen. John McCain visits Australia for security talks](#)

[University of Arizona adding more overseas sites](#)

Real GDP Growth Revised Up to 1.2% from 0.7%

Click the image below for an update on real GDP growth percent change.



May 26 2017

Real GDP Growth Revised Up 1

Data released May 26 by the Bureau of Economic, adjusted overall value of goods and services produ predicted. This is the second revision for first-quart sustained 3 percent annual growth by 2021. Economic contraction was also indicated in recent

On the Calendar This Week (All Times ET)

summer, and because everyone in town is absolutely exhausted after being on 'spin cycle' since January 20th.

Now you know what silence really sounds like. [Read more.](#)

Trade and NAFTA Update

By [Larry Smith](#), President Legislative Strategies Inc and Strategic Consultant to Total Spectrum

NAFTA, NAFTA, NAFTA!

With the confirmation of Robert Lighthizer as the U.S. Trade Representative and the immediate notification to Congress that the Trump Administration intends to renegotiate NAFTA, it seems like everyone has NAFTA on the brain. But more about that, later. First to TPP.

TPP

After the U.S. decided that it would withdraw from the Trans Pacific Partnership (TPP), the remaining eleven countries indicated they hoped to move forward with an agreement (TPP 2.0) without the U.S. They have set a goal to complete the deal by November 2017. The U.S. remains committed to striking bilateral trade agreements with the various members of the TPP, but Ambassador Lighthizer has admitted that to date none of the remaining TPP countries have indicated an interest in sitting down with the U.S. to begin those bilateral talks. Their focus is clearly completing TPP 2.0 before turning their attention as to what to do with any potential trade agreements with the U.S. [Read more.](#)

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Trade and NAFTA, continued.

NAFTA

Just in the last week, there has been a lot of talk and movement regarding NAFTA. Corporate entities that have benefited from NAFTA are becoming more outspoken about not wanting fixed that which isn't broken. The National Pork Producers Council issued a

Heard on the Hill, continued.

The President and the Trump Administration
Most people thought that appointing a Special Counselor to investigate the alleged connection between some people in the Trump Administration and Russia would give the President a chance to reset. Others thought that the President's trip overseas would add to the reset potential. But few expected that the

Mexico would have “devastating consequences for U.S. farmers” and would be “cataclysmic for the U.S. pork industry.” Their forceful statement got a quick response out of Ambassador Lighthizer who said that the strategy of the Trump Administration is to increase ag exports!

Rule of origin is an issue that will come up for discussion during the course of the negotiations. The U.S. and Mexico automaker associations are in agreement that NAFTA has been good for the auto industry and the interrelationship between auto makers in the U.S., Mexico, and Canada has never been stronger. Any disruption in the rules of origin as it relates to the auto industry could have serious repercussions. There are a lot of back channel discussions among all parties about this issue.

The high tech giants (IBM, Apple, and Microsoft to name just a few) are in agreement that the new NAFTA agreement needs to address digital trade, something that it currently does not do. Of course, digital trade didn't even exist 20 years ago when the agreement was signed, so this is clearly an adjustment very much needed. And if these trilateral talks can get the digital trade issue resolved, the agreement can then be used as a template elsewhere when the U.S. is seeking bilateral agreements.

Both Mexico and Canada have made it very clear that they want the revised, new and improved NAFTA agreement to be a three nation agreement -- and nothing less. There doesn't appear to be any light between those two countries on this issue and they may have succeeded in boxing in the U.S. on that point even before the talks begin. The concept for the U.S. to have a bilateral agreement with each country appears to be a nonstarter.

The US Trade Representative is scheduling public hearings on June 27th and 28th to receive comments on what folks want to see in a revised NAFTA agreement. Interested parties can request to testify or submit comments if you'd rather not make the trip to Washington. In either case, the deadline for requesting an opportunity to testify or to submit your comments is June 12th. If you have an interest in doing either, please go to www.Regulations.gov and search for Docket Number USTR-2017-0006.

Border Adjustment Tax (BAT)

We have touched on the BAT before and while it is really a tax issue, it has trade wrapped all around it, so a few short comments are warranted. Last week the House Ways and Means Committee held a hearing on the BAT, and it was clear from that hearing that some Republicans are not especially enthusiastic

President's son-in-law) Jared Kushner would be accused of setting up a back door channel of communications to the Russian government during the transition period. The FBI says Mr. Kushner is only a person of interest, but this news set another log on the media's fire.

It's been rumored for quite some time that the President was going to shake up the White House staff, and it started Tuesday morning with the announcement that his Communications Director has resigned. I'm told there will be more changes.

But the President needs to wall off the Russian investigation from the rest of work that needs to be done in the White House. There will be a communications unit created much like the Trump Campaign used leading up to the 2016 election-- with some of the same people. There will also be a legal team headed up by Mr. Mark Kasowitz, a prominent New York attorney Mr. Kasowitz is expected to bring in attorneys who know Washington.

Health Care

There is general agreement to three points about how the Senate is dealing with health care. 1) Republicans in the Senate don't like the House bill; 2) The Majority Leader is trying to find the proportions and ingredients of a recipe that will generate 50 votes for the bill -- and then have Vice President Pence (serving as the President of the Senate) break the tie-breaker 3) This is very hard work.

I attended a small breakfast several weeks ago with Senator Mitch McConnell, the Senate Majority Leader. Andy Ehrlich of Total Spectrum attended a briefing the same day with Senator John Cornyn, the Assistant Majority Leader. Health Care was not mentioned because they are working to fit a jigsaw puzzle together -- and its Senator McConnell's style not to say anything until they have something to say.

Senator Michael Enzi (R-WY) is the Chairman of the Senate Budget Committee. He also sits on the Health, Education, Labor and Pensions Committee in the Senate. Senator Enzi is working with Senator Lamar Alexander (R-TN), the Chairman of the Health, Education, Labor, and Pensions Committee, to write the skeleton of the Senate bill.

The deadline is almost assuredly the end of July. Republican Senators do not want to go back home during the August recess without progress on health care -- which for many was the defining issue of the Trump campaign.

Tax Reform (or tax reduction)

Congressman Kevin Brady (R-TX) is the Chairman of the Ways and Means Committee.

continue to be proponents for the tax. After the hearing, Chairman Brady did admit that he might be open to some adjustment/modification of the tax proposal. As currently structured, the BAT would generate over \$1 trillion annually, which is a lot of money to spread around when seeking to enact a major tax reform package.

The National Retail Federation along with other business groups have been mounting an aggressive campaign against BAT. They appear to be making some inroads, but it is far too early to declare victory. A Brady adjustment might be to lower the tax to something less than 20% rate. Few think that the Border Adjustment Tax will be received well in the Senate, but it's true that it's nearly the only source of revenue that they have found that would make a revenue neutral tax reform possible.

support the Border Adjustment Tax (BAT) as a way of making reform possible by making it revenue neutral. Chairman Brady also supports eliminating the net interest deduction and replacing it with a full and immediate write off of capital expenditures.

Chairman Brady made the following points to a small group of folks last week:

- BAT – he knows it's controversial, but he thinks it's the only way to make tax reform revenue neutral.
- Revenue Neutral - He kind of laughs at those who suggest a simple reduction in rates (tax reduction). He concedes there is nothing magic about 10 years – the law says only that it be no less than five years. He said – why not 20 years...why not 50 years. He thinks tax reform must not exacerbate the debt our children and grandchildren will have to pay.
- Temporary v. permanent – He He is all on the side of permanent, and so he believes are most businesses. Additional hearings - Yes, he'll have more.
- Time line for a bill - He wouldn't touch that with a ten-foot pole, but didn't disagree with Speaker Ryan's statement that there will be tax reform by the end of the year.
- One plan – it's his opinion that the House, Senate, and White House should all get behind one bill.
- They have made a slew of new hires at the Committee of late – and more are coming
- This is a once-in-a-generation opportunity.

Senior staffers on the Ways and Means Committee are talking quietly about the possibility of passing a minimalist bill if nothing else is possible. No change in the big three deductions (home mortgage interest, charitable, and state and local taxes)... close other preferences... and a one time, one year 10% corporate rate on overseas profits brought home to America (estimated at \$2 trillion). Those changes could allow the maximum corporate rate to drop to 27 or 28%, and allow a modest reduction in the individual rate. Additionally, if the current standard deduction was doubled, taking it to \$12,600 for individuals and \$25,200 for married couples, the middle tax would receive a significant benefit.

Energy Bill

Senator Lisa Murkowski, Chairman of the Senate Energy and Natural Resources Committee, wants to take the Energy Bill that stalled in conference between the Senate and the House in 2016 and update it for consideration late this year or in 2018.

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President Trump's budget is no exception.

Politics and Policy

Georgia's 6th Congressional district will have an election on June 20th to fill the seat of former Congressman – now Secretary of Health and Human Services - Dr. Tom Price. Early voting has now started between Democrat Jon Ossoff and Republican Karen Handel. Senator McCain carried the district by almost 19% in his 2008 Presidential campaign, and President Trump carried the district by less than 2%. Over \$30 million will be spent, making it the most expensive congressional race in history.

Special elections don't necessarily reflect the mood of the voters, and the outcome will not be a sure sign of how the 2018 elections will turn out. But the winners will say it is, and the losers will deny it – count on it.