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THIS WEEK IN WASHINGTON

Week of July 31, 2017



This Week in Washington

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

July went out like a lion, especially for Republican Senators, health care lobbyists, and anyone who watches congressional activity. [Steve Gordon](#) covers the news and the noise last week in Washington – including important information on tax reform – in *Heard on the Hill*. [Larry Smith](#) updates on trade and NAFTA, and [Dana Marston](#) takes a look at recent GDP growth, the tax reform baseline, and the commercial space race.

Here’s our August schedule. The Senate is planning to adjourn next week, so we’ll report in and button down the first 7½ months of the year in next week’s *This Week*. Then we’ll rest a little, and start planning for the fall.

Thanks as always for your comments and suggestions.

Heard on the Hill

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

News and Noise

It was by any definition quite a week. Even the well seasoned among us can’t recall a more eventful week. It had twists and turns – almost at every turn – and equal amounts of high suspense, low drama, and even more a little high jinks.

The News – the Ups and Downs of Health Care Reform
Senator McCain came back from Arizona and gave Leader McConnell the margin of victory on the motion to proceed to healthcare reform. Senator McCain’s 15-minute speech

ICYMI: Arizona Issues in the News

[Report finds immigrants are key to Arizona’s economy](#)

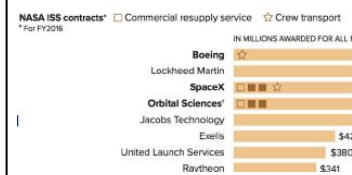
[With GOP health-care efforts in tatters, 3 Arizona lawmakers want a bipartisan fix](#)

[Arizona to use new-system to check big rigs entering state](#)

[Governor Ducey in D.C. for meetings on health care](#)

The Commercial Space Race

Click on the image below for a look at the world of commercial spaceflight.



It’s All About the Tax Reform



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clearly indicated that the current proposal for repeal and replace was not good for Arizona. He had the full attention of his colleagues – and his country.

The Senate Republican Caucus was working under reconciliation rules that require a simple majority on budget matters. The Repeal and Replace plan was defeated by the Republican Caucus, and so was the Repeal and Delay plan. Senator McConnell’s last attempt was a slimmed down bill, which was designed to be a tennis ball that the Senate could hit over the net to a Senate-House Conference Committee, which would then rewrite the bill. The skinny bill had the underlying premise that it would never become law – but it was a tennis ball too far for Senators Collins, Murkowski, and Senator McCain with his now famous thumb down signal.

[Read more.](#)

Trade/NAFTA Update

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

Steel on Ice

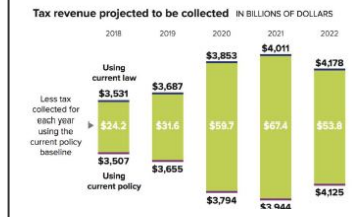
Oh, what just a few days mean in the world of trade politics. Last week we were telling you that Secretary Ross would be submitting his recommendations to the President on whether quotas or tariffs should be imposed on imported steel. The Section 232 review under the Trade Expansion Act conducted by the Department of Commerce was being done on the basis that U.S. national security was threatened by imported steel since foreign competition was hurting the domestic steel industry.

Based on what the President had said in the past, a decision was expected by the end of June. Most observers were expecting a decision that would be good news to the U.S. steel industry. Late last week the President put the brakes on the process and indicated that no final decision would be forthcoming anytime soon. The decision was delayed due to objections by U.S. trading partners, some domestic steel users, and some dissention among President Trump’s aides. The steelworkers are very disappointed in the delay.

In an interview with the Wall Street Journal, the President alluded to the delay when he said, “we’re waiting till we get everything finished up between health care and taxes and maybe even infrastructure.” Given to what happened to health care last week in the Senate, it could be that a decision on steel imports might be on ice for a long time to come.

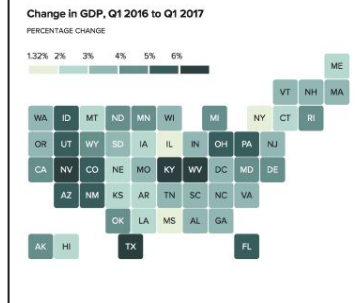
[Read more.](#)

Click the image below for an in-depth look at how much tax policy will increase or decrease revenue over a 10-year period.



First Quarter GDP Grows In 43 States, D.C.

Click the image below for a look at the 43 states that saw growth in their GDP.



Real GDP Increased in the Second Quarter

Click the image below for a look at the growth in GDP in the second quarter.



On the Calendar This Week (All Times ET)

COMMITTEE HEARINGS AND MARKUPS

Tuesday

10 a.m.
 Senate Environment subcommittee [hearing](#) on the EPA’s Superfund program, which cleans up pollution.

10 a.m.
 Senate Finance [hearing](#) on affordable housing.



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Department of Health and Human Services nominees: **Lance Robertson** to be assistant secretary for aging, **Brett Giroir** to be assistant secretary for health, **Robert Kadlec** to be assistant secretary for preparedness and response, **Elinore McCance-Katz** to be assistant secretary for mental health and substance use and **Jerome Adams** to be surgeon general of the Public Health Service.

Wednesday

10 a.m.
Senate Energy subcommittee hearing on water security and drought preparedness.

10 a.m.
Senate Environment and Public Works hearing on the FBI's headquarters consolidation project.

Thursday

9:30 a.m.
House Agriculture field listening session on the farm bill. Morgan, Minn.

10 a.m.
Senate Finance confirmation hearing on **Gilbert Kaplan** to be under secretary of Commerce for international trade and **Matthew Bassett** to be assistant Health And Human Services secretary.

Saturday

9 a.m.
House Agriculture field listening session on the farm bill. Modesto, Calif.

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The dejection within the Republican Senate caucus was palpable. Senator Lamar Alexander, Chairman of the Health, Education, Labor, and Pensions Committee said that he thinks Congress should separate the components of health care and write legislation for each area. President Trump first said Republicans should wait until Obamacare crashes, and then clean up the mess. Then he tweeted that maybe the Administration should withhold subsidy payments to the insurance companies, and later tweeted that Republicans can't quit on solving health care reform.

Leader McConnell wants to turn to tax reform. He knows there's a need to fix the exchanges and stabilize the markets – but he has to find a way to get to Plan B without healthcare reform eating into available time this year. Outlook: There's clearly a health care problem, and there are plans and ideas from Senators Graham, Cassidy, and others. But there's no momentum and there's a fear of losing focus. I think the general view right now is “there's no education in getting a second kick from the mule.”

News on CHIP

The Children's Health Insurance Program (CHIP) provides low-cost health care coverage to children in families that earn too much money to qualify for Medicaid, and is run as a state program. This program needs to be reauthorized by September 30th. It is bound to be contentious – but it's bound to pass, but expect amendments to be offered.

News on Stabilizing the Insurance Markets

Tennessee Senator Lamar Alexander is going to offer a bill in September to offer short-term stabilization support to the insurance markets.

News on Taxes

There's no question that Republicans need a win – and they are pinning their hopes on tax reform. Top tax negotiators - Speaker Ryan, Majority Leader McConnell, Treasury Secretary Mnuchin, National Economic Council Director Cohn, Senate Finance Chairman Orrin Hatch, and House Ways and Means Chairman Kevin Brady – the “Big Six” - released their joint statement on tax reform. The two noteworthy items in it were that they would not work toward a consumption tax, and the border adjustment tax – the Speaker's pet project - was just not doable at this time.

IMPORTANT: Total Spectrum Partner Jim Miller has been with Director Cohn and his NEC staff, as well as members of the tax writing committees and their committee staff over the past several weeks. There appears to be agreement on 80% of the package, and Jim thinks that the following is the current thinking on the tax plan:

- A top corporate tax rate in the mid 20s.
- A separate rate for pass throughs, also in the mid 20s.
- Retain the corporate interest deduction.
- Move away from expensing but shorten some depreciation periods -- 20 years for real estate, for example.
- Make as many of these changes permanent as possible – which means the bill must be revenue neutral – while making others temporary to comply with budgetary rules.
- Prime targets for revenue offset are the elimination of the state and local tax deduction and an annual minimum tax on foreign earnings. One offset, taxing carried Interest at ordinary rates, is a definite.

The goal will be to put out the plan from the White House, the Senate, and the House shortly after

U.S. Frozen Beef Hit Hard with Japanese Tariff

U.S. beef producers took it on the chin when Japan drastically raised its tariffs on U.S. frozen beef from 38.5% to 50%. The tariff increase could be triggered if beef imports into Japan increased in a previous quarter by more than 17%. The U.S. beef exports exceeded that figure so the tariff increased accordingly. What makes this extremely difficult for U.S. beef producers is the fact that their Australian competitors enjoy a lower tariff of 27.2% due to a 2015 bilateral agreement Australia and Japan signed back in 2015.

NAFTA Talks About to Begin

There is a fair amount of angst leading up to the start of the NAFTA talks, slated to convene August 16th in Washington. The entire freshmen class of House Republicans sent a letter to the Ambassador Robert Lighthizer with a warning not to seek changes to the agreement that could bring an end to the trade pact. This warning was given even though President Trump, once again, raised the possibility that he would withdraw from the pact if the revised agreement is not to his liking.

Thirty-two House Republicans signed a letter that said while they realized that the agreement needed updating, they also were “keenly aware of the potential for damage to U.S. farmers, businesses, manufacturers, service providers and workers if long-standing agreements are suddenly vacated. Canada and Mexico are our largest export markets, and our \$3.5 billion in daily trade with these two countries supports \$14 million American jobs.” Given that both the House and the Senate must approve whatever agreement Ambassador Lighthizer achieves with Mexico and Canada, his job is not easy - especially with the President's threat of withdrawing from the agreement altogether.

The Chapter 19 dispute resolution mechanism continues to draw more attention given that the U.S. has said it should be dropped.

Mexico's Congress is now on record urging its negotiating team to stand firm on the issue. By way of background, Chapter 19 has hindered the U.S. from pursuing anti-dumping and anti-subsidy cases against Canadian and Mexican corporations, so the differences of opinion are well founded on the part of all of the current signatories.

U.S. organized labor is also making its feelings known regarding the upcoming talks. The AFL-CIO's Executive Council has put its members on notice to be prepared to “mobilize with the same level of intensity as our campaign to defeat the TPP.” Despite the warning, it also trying to put forth positive messages about protecting jobs, wages, and



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set the table for tax reform. It will be supported by ads sponsored by members of the Business Roundtable, the Koch Brothers' political organization, and others. The President has committed to using the bully pulpit and to campaign for the tax bill, and Republican leadership is ready to pass the budget in September that will make tax reform possible.

News on Defense Authorization

The Senate Armed Services committee version of the FY 2018 National Defense Authorization Act will increase mandatory spending by \$621 million, according to the Congressional Budget Office. Al Jackson will be reviewing defense appropriations in next week's edition of *This Week*.

News on August Recess

The House of Representatives adjourned for the August recess last Friday, but the members were told by the Speaker to stay close in case the Senate passed a health care bill.

The Senate Majority Leader was convinced by Senator Perdue of Georgia to take back the first two weeks of the planned August recess to work on health care reform, nominations, and take a first shot at raising the debt ceiling. We're now in the first week of August. The debt ceiling will be kicked into September – and must be passed by September 29th according to the Treasury Secretary. We all know that this must-pass legislation will pass, and we know that some Republicans will not vote for it and some Democrats will. It's just not time yet. Nominations will be completed by agreement with the Minority Leader. There will be a number of committee hearings, and the Senate will adjourn at the end of next week.

News on Noise

Noise from the White House hit a fever pitch last week with key personnel changes. Reince Priebus, the White House Chief of Staff, resigned after a blistering attack both from the President and from Anthony Scaramucci, who was appointed by the President to be the new Communications Director.

The new White House Chief of Staff, retired General John Kelly, hit the floor running on Monday by firing Anthony Scaramucci, who had been in the communications director position for less than 12 days. Mr. Scaramucci came into Washington with an off-key and off-color message that HE was going to clean house in the White House. And so it (and he) goes.

U.S. – China Relations

The escalating situation with North Korea's missile capabilities is causing the Trump Administration to take a look at an array of economic options to punish China for its inability or unwillingness to curb the nuclear aspirations of its next door neighbor. This review has taken on a new sense of urgency given that North Korea has successfully tested an intercontinental ballistic missile (ICBM) that appears to have the capability of reaching certain areas of the continental United States.

This is a rapidly developing situation. It's hard to know the extent of any economic options the Administration might decide to take, but the ramifications could be serious in terms of U.S.-China relations.

Administration officials met over the weekend to explore options and those discussions are continuing.