

THIS WEEK IN WASHINGTON

Week of February 13, 2017



Thanks for your continued positive response to *This Week in Washington*.

Issue Three highlights last week’s resoundingly successful Arizona Chamber fly-in. Thanks to all who made the trip and to those who made the agenda so successful.

Our lead article features financial deregulation, a key part of the Administration’s agenda. The article was written by Total Spectrum Senior Partner John McKechnie, who has spent over 30 years as a lobbyist in the financial sector.

Glenn Hamer recaps last week’s fly-in agenda, Larry Smith updates NAFTA and Trade, Dana Marston provides the latest on the Cabinet’s confirmation process and a calendar of this week’s events, and “Heard on the Hill” returns to again separate the noise from the news.

As always, we appreciate your thoughts, feedback, and suggestions for future editions.

Recapping a Successful D.C. Fly-In

By Glenn Hamer, President and C.E.O., Arizona Chamber of Commerce and Industry

The Arizona Chamber D.C. fly-in, which was attended by over 20 board members, gave us insights that we will rely on to best position Arizona for the new political order.

We met with our two senators, John McCain and Jeff Flake, and Representatives Franks, Gosar, Schweikert, McSally, Biggs, O’Halloran, and Sinema. We also were greeted by Colorado Sen. Cory Gardner and veteran Ways and Means Committee member Rep. Erik Paulson (R-MN).

ICYMI: Arizona Issues in the News

[Sen. Jeff Flake: Break up the 9th Circuit](#)

[Arizona’s effort to boost trade with Mexico faces hurdle under Trump administration](#)

[WalletHub: Arizona would see big impact in potential US-Mexico trade war](#)

[Ducey offers ideas about health care](#)

[Trump undertakes most ambitious regulatory rollback since Reagan](#)

Cabinet Update

Click the image below for a complete update on President Trump’s cabinet nominees, including their confirmation status and hearing dates.

process, including the Heritage Foundation, the American Enterprise Institute and the Woodrow Wilson Center's Mexico Institute.

The meetings centered on the path forward on healthcare, trade, water and regulatory reform. We also had a track on a core Arizona manufacturing industry, aerospace and defense, with an excellent overview of the key defense issues by MacKenzie Phillips of AEI.

[Read more about some key takeaways from the trip.](#)

Heard on the Hill, Week of Feb. 13

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

The Trump Administration is 25 days old today. Its first assignment was to produce a series of executive orders that fulfilled an array of campaign promises, and the early pace of activity in Washington was exhausting. All new administrations make early mistakes, and the Trump Administration has made its share. The same can be said about internal confusion and intrigue.

That's the noise of Washington. The news in Washington is that Cabinet designees are getting confirmed, and the Administration has been doing a significant amount of outreach to members of the business community. Senate and House Republicans know they have an unrivaled opportunity to make significant progress on their legislative agenda, although there are significant differences on how to proceed and the road to travel. Senate and House Democrats are trying to figure out how they respond, where to be cooperative, and when to object.

Any list of key legislative items always starts out with health care (Obamacare-Medicaid expansion), tax reform, and trade. Additional significant legislative items include budget, defense, infrastructure, immigration, and regulations (Environmental Protection Agency, Labor, and financial). We'll keep focused on them for you. [Read more.](#)

NAFTA and Trade: Update

By [Larry Smith](#), Partner, President and Founder, Legislative Strategies Inc.

Mexico. Government officials have begun consultations with Mexico's private sector in anticipation of bilateral talks with the U.S. on outstanding trade issues. The consultation period will last 90 days and will involve discussions with domestic industry leaders in farming, manufacturing, textiles, petroleum, and other sectors. Secretary of State Tillerson is scheduled to make a trip to Mexico on February 15th. The hope is that his visit will serve to improve ties between Mexico and the U.S. President Trump has indicated that Wilbur Ross, the Secretary of Commerce-designate, will take the lead for the U.S. in negotiations with Mexico on a new trade agreement. [Read more.](#)

Regulatory Relief for the Financial Industry Still Cloudy Despite Broad Republican Support

By [John McKechnie](#), Senior Partner, Total Spectrum



On the Calendar This Week (All Times ET)

Monday

10:30 a.m.
[AEI event on school finance](#)

12 p.m.
[House and Senate convene](#)

7 p.m.
[Senate vote on Steve Mnuchin's Treasury Secretary nomination](#)

Tuesday

[No events scheduled](#)

Wednesday

9 a.m.
[Heritage event on conservatism and populism](#)

11 a.m.
[Sir John Jenkins at CAP event on Muslim Brotherhood](#)

Thursday

10 a.m.
[Confirmation hearing for Andrew Puzder, secretary of Labor nominee](#)

10 a.m.
[Confirmation hearing for Seema Verma, Administrator of the Centers for Medicare and Medicaid Services nominee](#)

Friday

[No events scheduled](#)

back, if not fully repeal, the Dodd-Frank Act. The controversial 2010 law, passed in response to the mortgage-market meltdown of 2008-09, has long been criticized by Republican lawmakers as overly burdensome and a drag on economic growth, and now there is an opportunity to take action.

President Trump fired the first shot with his February 3 Executive Order directing federal financial regulators to come up with a list of Dodd-Frank regulations that could be eliminated by Presidential order, rather than congressional action. Nine federal agencies have 120 days to produce these recommendations, and industry observers expect the Administration to be aggressive and proactive on this project.

Meanwhile, House Financial Services Chairman Jeb Hensarling (R-TX) is rumored to be finalizing his Dodd-Frank reform legislation. The 2017 version Financial CHOICE Act is likely to be very similar to his 2016 measure. It faces strident opposition from House Democrats, but is expected to at least pass the House sometime in the second half of the year. [Read more.](#)

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D.C. Fly-In, continued.

Obamacare replacement

There is a lot of uncertainty over what will ultimately replace Obamacare. You've heard the magic words of repeal and replace. Now the term repair is creeping into the discussion.

Our delegation understands the gravity of getting this transition right. My guess is that you will see a process that allows for a more careful consideration of alternatives than what may have been expected right after the elections.

An expert in this area, Katie Mahoney of the US Chamber, gave our group an insider's peek into the debate, solidifying the US Chamber's

Heard on the Hill, continued.

Mood in the Senate: Contentious. Pace: Slow.

There are a number of key Administrative positions that still are unfilled, including Agriculture, Commerce, Energy, Environmental Protection Agency, Housing and Urban Development, Interior, Labor, Small Business, Office of Management and Budget, Director of National Intelligence, and the US Trade Representative. Andrew Puzder, President Trump's Labor Secretary-designate, will begin the confirmation process this week. A letter from about 100 associations and chambers of commerce - including the Arizona Chamber of Commerce and Industry - was sent to members of the U.S. Senate yesterday in support of Puzder's confirmation. He is strongly supported by Senate Republican Majority Leader McConnell.

Regulatory reform

The greatest area of immediate positive action is in the area of regulatory reform. The past administration went way over the top. Start with the EPA regulations on the [Clean Power Plan](#), the [navigable waters definition change](#) under the Clean Water Act, or the impossible-to-meet [ozone rule](#).

On the employment front, the Department of Labor's very expensive [overtime rules](#) have all employers on edge. The efforts to permit [quickie union organizing elections](#) did not help, nor did the soapboxing for a higher national minimum wage.

The Dodd-Frank regulations, including the new bureaucracy of the Consumer Financial Protection Bureau, have created all sorts of problems in the lending area. There were rules by SEC regulating retirement accounts. And the US Department of Education's gainful employment rules have created angst and disruption in the for-profit education sector.

There is much that can and will be done through the executive branch to roll back the previous administration's stunning overreach.

Congressional legislation is also very important to insure against future abuses. The two big laws pending are the REINS Act, and the first substantive reform to the Administrative Procedures Act since the 1940s. We were fortunate to have one of the top regulatory experts in the country, William Kovacs of the U.S. Chamber, visit with us.

Tax reform

When it comes to tax reform, I feel comfortable to report that a major tax reform will occur this year. What we will almost certainly see is a dramatically reduced top rack rate for our corporate taxes.

The US having the dubious distinction of being home to the highest corporate tax rate in the country is harming our competitiveness. Something significant is also likely in terms of reducing the tax liability for small businesses that file under the individual income tax code; there will be some sort of simplification. But major battles will burn for a while on some of the popular deductions and the thorny issue of border adjustability.

Trade and our relationship with Mexico

On trade, we are lucky that we have the two most pro-free trade senators in Sen. McCain and Sen. Flake. Both understand and have the ability to help as NAFTA undergoes its first serious scrutiny in 23 years. Both are fine with updating the agreement but are forceful in their view – correctly – that the agreement has

(MN), a member of the House Ways and Means Committee, spoke to the participants of the fly-in last Wednesday. The Ways and Means Committee has jurisdiction over trade policy, healthcare, and is the chief tax writing committee of the House. Congressman Paulsen described at breakfast early progress on tax, trade, and healthcare. Congressman Paulsen has agreed to a full interview, which you can look forward to reading in next week's edition of *This Week in Washington*.

The Administration. The President told a group of airline executives that he would unveil his own tax overhaul plan within the next few weeks. A number of legislators have come out to oppose the proposed Border Adjustment Tax. In a *Washington Times* [op/ed](#), Senator Perdue of Georgia called the BAT "regressive, hammers consumers, shuts down economic growth, and is proven to grow the federal government." Gary Cohn, former President of Goldman Sachs, is the Director of National Economic Council. He fills a key policy position on growth, jobs, and business – and is pushing ahead with the Administration's own policy plans for tax reform, healthcare, infrastructure, and financial deregulation.

Trade. A number of major entities – including Pfizer, Fed Ex, Whirlpool, and the International Dairy Foods Association – reaffirmed last week their strong support for NAFTA.

Immigration/"The Wall". Republican congressional leaders have sketched out plans for a barrier on the Mexican border anticipated to cost \$10-\$12 billion, while a Department of Homeland Security leak to Reuters indicated that their estimate of the cost is closer to \$21 billion. The official Administration plan will be part of the Pentagon budget.

Healthcare. "Repeal and Replace" is, in some quarters, cautiously giving way to ideas to fix and reform health care. One of the advocates for this approach is Senator Lamar Alexander, who serves as Chairman of the Senate Health, Education, Labor, and Pension Committee. He wants a safe alternative and recently said that, "what I'm trying to do is make sure we think carefully Governing is complicated."

Underreported news.

President Trump spends many evenings calling friends, colleagues, and members of Congress.

Technology is winning. A Microsoft study found that since 2000, our attention span has been cut by 25% - to shorter than a goldfish.

NAFTA, continued.

I also had the opportunity to visit with the North American head of ProMexico, Mexico's foreign investment promotion arm, to discuss the importance of trade. ProMexico established an office in Phoenix about one year ago, showing the importance of the Arizona market.

Need proof that Arizona's and Mexico's economies are intertwined? Lucid Motors recently cited the integrated supply chain of Arizona and Sonora as a reason for choosing Pinal County as the home of its next investment. Our proximity to Mexico increases our competitiveness, it doesn't dampen it.

It's incumbent upon all of us who value and appreciate the importance of the Arizona-Mexico relationship to get the word out about how fortunate we are to share a border with Mexico. So many countries around the world would gladly trade their border relationships for ours.

This important conversation about trade took place in Washington throughout the week, as we carried the message to our congressional delegation that we ought to look to modernize and strengthen our relationship with Mexico, such as via an updated North American Free Trade Agreement; not disengage from our friend and neighbor. This was a message that clearly resonated.

I also was invited to meet with Ken Smith in the Embassy of Mexico to discuss trade. Again, the leadership of our senators in trade was recognized and appreciated.

We also had excellent presentations on the US-Mexico relationship from the Mexico Center at the Woodrow Wilson Center. Duncan Wood, the Center's director, gave us a detailed review of the relationship with Mexico and insights on where NAFTA negotiations may go.

The former U.S. ambassador to Mexico, Anthony Wayne, also addressed our group. Ambassador Wayne's tenure opened up new avenues of collaboration, including in the education, research, cultural and security spaces.

Arizona's own Leah Campos, now a senior adviser on issues related to North America for the House Foreign Affairs Committee, provided a congressional perspective on trade.

The bottom line: many of our friends in Congress understand the importance of trade with Mexico and are committed to defending it.

nomination as the U.S. Trade Representative might be in trouble. There is talk that he might need to receive a waiver from Congress before his nomination can be considered by the Senate. The waiver would be needed because of his prior representation of a foreign entity when he was in private law practice. The Senate Finance Committee has not made a final decision on the waiver issue and to date, the White House has not formally requested that Lighthizer be given the waiver.

Proposed Border Adjustment Tax. The idea of a U.S. border adjustment tax is drawing opposition from both Mexico and Canada. Both countries have indicated they will respond appropriately if the U.S. tries to impose new tariffs. The border adjustment tax idea is running into stiff opposition in the Senate. Senate Majority Whip John Cornyn (R-TX) warns House leaders that the Senate will not "rubber stamp" the proposal.

Canada. Canadian Prime Minister Trudeau is scheduled to visit Washington this week for his first meeting with President Trump. Prior to the PM's visit, Canada's Foreign Minister and Finance Minister were both in Washington for meetings at the State Department, the White House and Capitol Hill in an effort to gauge political sentiment in Washington in terms of U.S./Canadian relations and the possible trade issues that might be discussed when the PM meets with the President. Canadians are trying to downplay the current situation and are suggesting that reopening NATFA is not a big deal. Since 1994, it has been reopened 11 times!

Asia-Pacific Rim. The White House has begun to reach out to those countries who were signatories to the Trans-Pacific Partnership (TPP) to explore the possibility of bilateral agreements with the U.S. Peter Navarro, head of the White House Trade Council, has been making the inquiries.

Exemption for banks that hold 10% leverage capital under Basel (the international regulatory body that imposes capital standards for financial institutions), replace Orderly Liquidation Authority with a bankruptcy-focused approach to ending "*too big to fail*."

Repeal of the Volcker Rule, the regulation that limits how banks can invest depositor funds.

Revamp the Consumer Financial Protection Bureau (CFPB), giving the President authority to fire the Director at will. CFPB will be brought under congressional budget oversight, and will be transformed into an enforcement agency similar to the Federal Trade Commission.

Repeal of the Durbin Amendment that caps debit interchange fees. The retail community is mounting a furious bid to have this language removed from Chairman Hensarling's draft, but sources on the Committee say it is likely to remain, at least in the initial version.

The path in the Senate will be more complicated. It will be worth watching how ambitious Senate Republicans will be in crafting their own Dodd-Frank reform bill and how many moderate Democrats will be persuadable to support reform. Eight votes are needed from Democrats and sweeteners could be added to entice Democratic votes, such as the re-institution of Glass-Steagall rules (that create firewalls between banking and commercial activities, repealed by Gramm-Leach-Bliley in 1999) in some form or fashion.

Many observers on both sides of the Hill see the Budget Reconciliation bills as the best avenue for financial institutions to gain some form of regulatory relief. Reconciliation is a procedural move in Congress where legislation is not subject to Senate filibuster. However, Reconciliation can only relate to tax, budget and spending matters, and the Republicans are limited in scope as to the Dodd-Frank reforms they could put into such a bill.

Another possibility for greater regulatory relief lies, not with Congress, but with Presidential appointments. Reform could occur by appointing more free-market oriented regulators to key positions such as the Office of the Comptroller of the Currency, Chairman of Federal Deposit Insurance Corporation (FDIC), and of course the Chairman of the Federal Reserve. These three, plus several posts in lower-profile agencies, are likely to see Trump-appointed replacements between now and Spring 2018.

Bottom line: an easing of Dodd-Frank regulations, done in a way that maintains strong safety and soundness rules of the road while eliminating costly, duplicative and unnecessary burdens, could make credit more

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