This Week: The House passed legislation to protect 740,000 acres of wilderness in Colorado and voted on a resolution to remove the deadline for the ratification of the Equal Rights Amendment (see below). The Senate approved a resolution updating the 1973 War Powers Act, which generally reaffirmed the role of Congress in declaring war.

Next Week: Both the House and Senate will be out of session and return to Washington the following week.

Financial Services Issues
Diversity in Focus. At the beginning of 2019, House Financial Services Committee Chairwoman Maxine Waters (D-CA) signaled that diversity and inclusion (D&I) would be a major priority by creating a new subcommittee to focus on this issue. The committee last year sent a request for information to a wide range of banks that culminated in a report and hearing this week on the D&I practices of the banking industry. The report highlighted the need for greater diversity, particularly at senior levels, while noting the efforts of banks in promoting greater D&I. The committee is likely to follow up with analyses of the asset management and insurance industries and perhaps even sectors outside of financial services. It also will consider legislation to require banks to report diversity data with relevant regulators, mandate public companies to report the gender and racial composition of their boards and senior management and require public companies to consider a diverse company when contracting for asset management services. While these proposals are unlikely to become law this year, racial and gender equality has been a salient issue in the Democratic primary, and the financial industry and broader business community can expect a spotlight on D&I for years to come.

Other Issues in Play
Trump Budget for 2021 and Deficit Reduction. President Trump sent his 2021 budget proposal to Congress this week. This budget primarily covers discretionary spending, which is roughly 30% of all federal government spending this year. The other 70% covers mandatory federal programs like Social Security, Medicare, Medicaid and food stamps where funding generally is determined automatically by formula. The $4.8 trillion budget request reflects the President’s priorities by providing a slight increase for defense and veterans spending while reducing spending for foreign aid and most domestic programs. The proposal has limited significance because Congress ultimately will determine funding levels when it passes its own government funding bills later this year. The proposed budget’s dead-on-arrival status won’t stop the President from publicly citing the areas where he has proposed increased spending and Democrats from criticizing him for those areas where he has proposed reduced spending. A few other notable budget-related issues are discussed below.

– Deficit Reduction. The proposal projects that the combination of $4.4 trillion of spending cuts and higher economic growth will allow for the elimination of the budget deficit in 15 years. That’s ambitious but not very realistic in today’s political and economic environment. Congress will never approve those levels of spending cuts, and the nod of respect to deficit reduction is more symbolic than substantive. Indeed, Congress rejected the President’s request last year to cut each department’s spending by 5%. Deficit reduction continues to be low on the priority list of lawmakers from both parties. Particularly in an election year, lawmakers will be unable to agree on the unpopular combination of spending cuts and tax hikes that would be needed to implement meaningful deficit reduction. While the public seems to view deficit reduction as a higher priority than policymakers do, it is not demanding action and, depending on the election results, it may be years before deficit reduction is a big issue again in Washington.
Watch 2025 or 2026. Getting Washington to act on deficit reduction may require a crisis of some kind. There are two milestones ahead that we see as potential catalysts for deficit reduction. First, the individual tax rate cuts championed by President Trump and passed by Congress in 2017 expire in 2025. Most Democrats and Republicans will be interested in at least extending rate cuts for middle-class taxpayers. Those tax cuts will cost money, and there may be an opportunity then for more tax reforms and spending cuts that can be used to pay for them. Second, Medicare is projected to face a funding shortfall in 2026. Congress will need to make reforms to the program or raise Medicare taxes to allow full benefits to be paid. Voters will demand that Congress provide a fix since most have paid into Medicare and want their full benefits. This may be an opportunity to make broader Medicare reforms and reforms to other mandatory programs. We believe Washington will continue to put deficit reduction on hold until there is some mechanism that generates public pressure and forces action.

A Financial State of the Union Address? There is a bipartisan measure in both the House and Senate that would require the Comptroller General to annually address Congress on the financial state of the country. While the update would not be as well watched as the annual State of the Union address (nearly 16 million viewers last week), it may increase public awareness of the nation’s debt ($23 trillion and counting) and annual deficit (projected to top $1 trillion this year). This bipartisan measure has a solid base of support but not enough yet to move forward. It’s a small item but it at least shows that some lawmakers have an interest in making details of the deficit and debt more transparent.

Equal Rights Amendment. The House this week passed a measure that would remove the time limit for ratifying the Equal Rights Amendment (ERA) as the 28th amendment to the Constitution. The ERA would provide a constitutional guarantee of equality under the law on the basis of gender. The ERA originally was introduced in 1923 but wasn’t passed by Congress until 1972. There then was a seven year time period for ratification by the required three-fourths of the states (38) that Congress extended for several years to 1982. By 1982, only 35 states had ratified the amendment (three short of the needed 38) and five of those had actually enacted legislation rescinding their ratification of the amendment. Over the past few years, three states (Nevada in 2017, Illinois in 2018 and Virginia last month) passed the amendment. The measure approved by the House this week would remove the 1982 deadline and thereby validate the ratification by the last three states. The House bill is unlikely to be taken up in the Senate. Moreover, the courts ultimately will need to decide whether Congress has the authority to remove such a deadline and what the status is of the five states that passed bills to rescind their ratification. Nonetheless, the effort here by House Democrats makes for good politics in an election year, particularly given that women outnumber men as registered voters.

The State of Washington, DC? A House committee this week passed a bill to make Washington, DC (officially to be renamed “Washington, Douglass Commonwealth”) the 51st state of the United States. As a new state, Washington would get two US senators and a House member. The existing Washington, DC would be split into two territories, with most of the city becoming the new state. A small parcel of land that houses the Capitol, White House, National Mall, and most monuments and federal buildings would remain as the “District of Columbia.” The full House will likely pass the bill this year on a party-line vote (as it did in committee). That will be the bill’s high-water mark, however, as the Senate will not act on it. The bill is primarily viewed through a partisan lens because it essentially would add two Democratic senators to the upper chamber. Democrats like it, while Republicans don’t. Given that dynamic, this effort will remain stalled for the foreseeable future.

The Final Word

The Importance of Iowa and New Hampshire? With the Iowa Caucuses and the New Hampshire primary election complete, there continues to be debate about how important these elections are and whether there should be such an emphasis on these two early states in the presidential primary. These two elections have determined the allocation of less than 2% of the total delegates and have not established any clear front runner. Indeed, Michael Bloomberg decided to entirely ignore the first four primaries and instead focus on the delegate-rich states voting on Super Tuesday. This is an unorthodox strategy given that history underscores the importance of Iowa and New Hampshire. Only once in the past ten Democratic presidential primaries has a candidate who lost both Iowa and New Hampshire won the nomination. That was in 1992 when Arkansas Governor Bill Clinton did not compete in Iowa and finished second in New Hampshire behind former Massachusetts Senator Paul Tsongas. On the Republican side, no candidate who did not win at least one of those two states has emerged to become the party nominee over the past ten presidential primaries. The 2020 Democratic primary could be the exception to the rule, but historical precedent is not on the side of those who fail to win in Iowa and/or New Hampshire.
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