



## THE REAL DEAL ALL OUR EYES ON U.S. POLITICS

Divided government returns to Washington as Democrats take control of the U.S. House of Representatives. The partial shutdown of the U.S. government continues, complicating a fragile global economy and a vulnerable domestic one. There were several trade policy developments with EU Trade Commissioner Cecilia Malmström in Washington for talks and a team of American trade negotiators in China. President Trump said U.S. troops would withdraw from Syria, declaring victory over ISIS—prompting several high-level resignations.

### WELCOME TO THE 116th CONGRESS

On January 3, 2019, the 116<sup>th</sup> Congress officially opened; it is [historic for its racial, gender and religious diversity](#). Nancy Pelosi, elected to serve as Speaker of the House, took control of the chamber and Democrats enjoy a 235 to 199 majority. Pelosi is the first female Speaker and, having previously served as Speaker from 2007-2011, the first to serve non-consecutive terms since Sam Rayburn. Republicans still control the United States Senate with 54 seats.

The first order of business is to end the partial government shutdown that began on December 22, negotiations are ongoing (see next section). The first piece of legislation introduced in the House, [H.R. 1](#), was a wide-ranging ethics package—central to the legislation is a requirement that presidents and presidential candidates release their tax returns. The package features dozens of proposals, grouped broadly into three categories: limiting the influence of money in politics, making it easier to vote, and tougher ethics rules for policymakers. Additional items that the new Democratic majority will prioritize is [gun legislation](#), [lowering drug costs](#), and [undoing certain provisions of the 2017 tax law](#). Additionally, the House approved a [rules package](#) to govern member conduct, the terms of legislative debate, and create [two new bipartisan select committees](#), one to address the climate crisis and another to modernize Congress.

Democrats also have an aggressive oversight agenda and now have the power to investigate the Trump administration. They will investigate everything from deregulation of the financial-services industry and the family-separation policy at the U.S.-Mexico border to the ongoing probe into Russian meddling in the 2016 presidential election and business dealings of the Trump Organization and the president's family. Democratic leaders must strike a delicate balance—needing to effectively use their newfound power, avoid the appearance of partisanship, and be responsive to a political base of voters who want to impeach Trump immediately ([over three-quarters](#)).

### U.S. GOVERNMENT SHUTDOWN

The partial federal government shutdown is now the longest in U.S. history. Approximately 800,000 workers and nine federal departments are directly affected, which is the result of an impasse between President Trump and congressional Democrats over funding of a wall on the southern border. Significantly, Trump issued his first Oval Office address to the nation, a forum used sparingly and

historically reserved for matters of national or international significance, to discuss the shutdown and border security.

On January 3, the first legislation [passed](#) by the House was two separate measures to fund the government—one providing funding through the end of the fiscal year for most closed federal departments and another to fund the Department of Homeland Security through February 8. This spending bill was the same measure that passed the Senate [unanimously](#) in December, yet Senate Majority Leader Mitch McConnell (R-KY) has refused to bring the matter up for a vote. The House continues to vote on government funding, and McConnell does not intend to bring up those measures since Trump has said he will not sign anything that doesn't specifically include funds for his border wall. Negotiations have grown increasingly contentious and Trump has threatened to declare a national emergency to build the wall. The significance of such a move is difficult to overstate and raises a number of [legal and constitutional issues](#); moreover, declaring a national emergency would not necessarily lead to the reopening of the government *or* the construction of the wall.

Beyond the direct impacts of furloughed federal workers and closed federal departments and agencies, reduced services for the public and delays in payments are highly disruptive. The federal government incurs other direct budgetary costs during the shutdown and history shows that closing the government actually costs more than keeping it open. A [report](#) looking into the impact and costs of the 16-day federal government shutdown in 2013 found that the shutdown costs were approximately \$2-6 billion in lost economic output and the compensation costs (pay and benefits) for workers effected by that shutdown was \$2.5 billion.

There are also consequences for the broader economy and the shutdown could result in a [major economic disruption](#). One implication, due to the partial closure of the Securities and Exchange Commission, is that the [IPO market has been frozen](#), forcing companies that were seeking to list shares this month to delay action. Many other sectors will be directly or indirectly impacted and major banks and economists are downgrading their estimates for economic growth.

## COMPLICATED ECONOMIC OUTLOOK

While U.S. economic data continues to show strength, there are some worrying vulnerabilities led by softness in business investment, manufacturing, housing, too-low inflation and rising debt. Still, the U.S. added over [300,000 jobs](#) in December and wages [rose 3.2% year-on-year](#), the fastest pace since 2009. However, there was some less positive data with third-quarter GDP [revised downward](#) to 3.4% and fourth-quarter growth expected to be less than 3%, with even less in 2019. There is also increasing wariness from the Federal Reserve with the expectation that the Fed pauses its monetary tightening following four rate hikes in 2018. In the short- to mid-term, institutions and analysts, like [former Treasury Secretary Larry Summers](#), are beginning to see the [possibility of a U.S. recession rising](#). Beyond the immediate risks to the economy, [Fed chair Jerome Powell says](#) that the growing amount of U.S. debt—now nearly \$22 trillion with a budget deficit of over \$1 trillion—is an increasing, long-term concern. An additional complication from the shutdown is that economic data produced by the Commerce Department's Census Bureau and Bureau of Economic Analysis, as well as data from other economic agencies, are not being released, making it more difficult to read the economy at this critical moment.

## U.S.-EU TRADE TALKS CONTINUE

Commissioner Malmström and Trade Representative Lighthizer met in Washington in January to discuss bilateral trade issues. The talks follow Lighthizer's [notification to Congress](#) of his intention to initiate formal trade negotiations with Brussels, which could commence in the coming weeks. However, there is no agreement on the scope of negotiations. Malmström has stated that industrial goods including autos, but not agricultural products, are open for negotiation. Senate Finance Committee Chairman Chuck Grassley (R-IA) said agriculture would need to be part of any agreement, forecasting complications in getting Congressional approval.

## CHINA TRADE TALKS

U.S. and Chinese negotiators [met in Beijing](#) in January to discuss the ongoing trade war, these were the first face-to-face meetings since Trump and Chinese President Xi Jinping [agreed](#), on December 1, to suspend imposing additional tariffs for 90 days. The meetings in Beijing were considered crucial in terms of laying the groundwork for higher-level negotiations in advance of the March 2 deadline. American complaints center on China's theft of intellectual property and the trade deficit. The parties also discussed China's pledge to buy a "substantial amount" of agricultural, manufacturing, energy and other products from the U.S., to rebalance the bilateral trade deficit. Vice Premier Liu He, China's top economic official, is expected to travel to Washington in the coming weeks for a new round of negotiations. The [trade war](#), which started in the spring of 2018, has led to the imposition of over \$350 billion in tariffs on Chinese and American goods.

## SYRIA ANNOUNCEMENT

On December 19, Trump [announced](#) his intention to withdraw American troops from Syria, declaring victory over ISIS, in a move that was a [surprise to his advisors](#). The announcement sparked fears that the withdrawal would reverse the gains made against ISIS and put the Syrian Kurd partner force at risk. Opposing the policy, Defense Secretary James Mattis, a retired Marine General, resigned stating "you have a right to have a secretary of defense whose views are better aligned with yours," in a widely circulated [resignation letter](#). Ambassador Brett McGurk, Special Presidential Envoy for the Global Coalition to Defeat ISIS, also resigned in protest stating, "The recent decision by the president came as a shock and was a complete reversal of policy...It left our coalition partners confused and our fighting partners bewildered." There is bipartisan concern in Congress and there are [efforts on Capitol Hill](#) to slow the withdrawal.

## PERSONNEL MOVES

*Defense Department* – Secretary **James Mattis** resigned, Deputy Secretary **Patrick Shanahan** is now Acting Secretary. Chief of Staff, **Rear Admiral Kevin Sweeney**, resigned.

*Interior Department* – Secretary **Ryan Zinke** resigned, Deputy Secretary **David Bernhardt** is Acting.

*State Department* – **Ambassador Brett McGurk** resigned, **Ambassador James Jeffrey**, current Special Representative for Syria, will take over McGurk's ISIS coalition role.

*Treasury Department* – **Justin Muzinich** was confirmed as Deputy Secretary.

*White House* – **John Kelly** resigned as Chief of Staff, OMB Director **Mick Mulvaney** is Acting.

*World Bank* – President **Jim Yong Kim** resigned. **Kristalina Georgieva**, current World Bank CEO, will serve as interim President.