

AFR WEEKEND

Donald Trump needs all his negotiation skills to free legislative logjam

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Donald Trump's embarrassing failure to coalesce the divided Republican Party on its fundamental promise to undo government meddling in healthcare has exposed his presidential challenge for the next four years.

The businessman turned politician faces a legislative logjam.

The unflinching so-called House Freedom Caucus, comprising the most conservative Republicans in Congress, could stymie Trump's plans for tax cuts, \$US1 trillion in infrastructure investment and renegotiating international trade agreements.

A government shutdown is even a live possibility after April 28, ironically Trump's 100th day in office. That's if hardline conservatives again revolt against extending government funding and Democrats do not ride to the rescue.

Trump must somehow assemble a governing majority in the Republican-controlled Congress to deliver on his promises to voters and financial markets.

Typical defiance

In typically defiant fashion, the President tweeted on Thursday: "The Freedom Caucus will hurt the entire Republican agenda if they don't get on the team, & fast. We must fight them, & Dems, in 2018!"

The New York real estate billionaire and political apprentice needs to transact with a multi-factional and complex Washington.

As the failure to dismantle "Obamacare" last week demonstrated, even when Republicans broadly agree on a policy direction they can disagree on how to achieve a goal.

The President is dealing with a "completely ungovernable House", says Chris Krueger, a political intelligence analyst in Washington at Cowen and Company.

"The House is currently being ruled by the problem children and passing a new budget to create a legislative vehicle to pass tax reform/tax relief is in question."

The deeply conservative – socially and fiscally – Freedom Caucus has the numbers to block Trump's agenda.

Formed in January 2015, the group has grown from nine members to between 30 and 40 loosely affiliated congressmen.

Its members are small-government ideologues ardently opposed to taxes and regulation. On healthcare, they argued Trump's unwinding of Obamacare did not go far enough, despite 24 million people being projected to lose their insurance coverage.

Frustrated by the inability of Republicans to stop or unwind then president Barack Obama's agenda on climate change, expanded healthcare coverage, higher taxes and regulation of the economy, the Freedom Caucus' goal is to be a "smaller, more cohesive, more agile and more active" group of Republicans.

The irony now is the presence of Republicans who block a Republican President, despite a clean sweep in the November election.

Hardline ideology

Freedom Caucus Members generally come from very conservative districts across mostly conservative states, meaning they suffer few consequences at the ballot box for taking hardline ideological positions.

The group's grassroots supporters are almost exclusively white, very conservative and often very religious Americans.

Led by small businessman and Christian Mark Meadows of North Carolina, other members include former wrestling champion Jim Jordan of Ohio, lawyer Raul Labrador of Idaho, dentist Brian Babin of Texas, economist Dave Bratt of Virginia and software company owner Rod Blum of Iowa.

In a silver lining, Trump's new budget director, Mick Mulvaney from South Carolina, was a member before joining the White House.

The Freedom Caucus opposes the party's congressional leaders – chiefly House speaker Paul Ryan – compromising on conservative principles or co-operating with Democrats.

David Boaz, executive vice-president of the libertarian Cato Institute think tank in Washington, says he considers the Freedom Caucus to generally be "principled conservatives" on issues such as supporting a strong military and opposing gay marriage.

"Just because they're principled, doesn't mean they aren't a giant pain in the arse for Paul Ryan," Boaz says.

During the election, the group often liked Trump's outsider status. But they remain sceptical of his conservative bona fides given his flip-flopping over the years on public-funded healthcare, abortion and gun rights.

Blame twist

In a twist, Republican voters mostly blamed the Congress, not Trump, for the healthcare failure, according to a Reuters/Ipsos opinion poll released on Wednesday.

The reputation of Ryan, the most senior Republican in Congress, was damaged by the abandonment of his healthcare bill.

Not only was the Freedom Caucus emboldened for future showdowns, the failure to repeal Obamacare robbed Republicans of about \$US1 trillion in budget space to help pay for big tax cuts for companies and individuals.

As Ryan admitted, the rebuff makes comprehensive tax reform more difficult, though far from impossible.

"We were a 10-year opposition party, where being against things was easy to do," Ryan said.

"Ultimately," he said, "this all kind of comes down to a choice. Are all of us willing to give a little to get something done?"

Yet old habits die hard.

Australia's ambassador to the US Joe Hockey noted in a speech in Sydney this week that 72 per cent of Republicans have never worked with a Republican president, having only experienced Democrat Obama.

While Hockey correctly identified that Congress – not Trump – would be blamed for the healthcare debacle among the President's voter base, "the goodwill and tolerance of your voter base can be patient for only so long".

In the 435-seat House, there are 237 Republicans, 193 Democrats and currently five vacancies.

Trump can afford to lose no more than 21 Republicans on legislative votes.

Democrats will almost always universally oppose Trump.

Reagan years

The hyper-partisan environment is very different to when president Ronald Reagan worked in a bipartisan manner with a group of 30 to 40 Democrats in the 1980s because Republicans didn't control the House.

Congressional Democrats this past week admonished Trump's belated and flimsy outreach to forge bipartisanship on healthcare and infrastructure, signalling the left-of-centre party will stonewall much like Republicans during the Obama presidency.

Even if Trump and House speaker Ryan manage to squeak legislation through the chamber, the more moderate Senate has even less margin for error.

Republicans control 52 of the 100 seats.

While some budget measures require a simple 50-vote majority (plus the Vice-President's tie-breaker vote), many pieces of legislation will need 60 votes to avoid a Democratic filibuster.

Claremont McKenna College professor of American Politics and former Republican staffer Jack Pitney says the healthcare fiasco shows that the Trump White House is "inept" at dealing with Congress.

"Wise presidents bargain with lawmakers in private. "They do not make public threats and they do not send underlings to issue ultimatums – which is what the Trump White House did."

Tax agenda

If there is one policy issue Republicans almost universally agree on, it is cutting taxes.

Trump's tax agenda, which has helped propel the US S&P 500 more than 10 per cent higher since the November 8 election, is very much on the same page as most Republicans.

The conservative party believes lower taxes boost economic growth by incentivising businesses to invest and workers to work, while starving the bloated government of revenue.

Yet as healthcare demonstrated, the final details matter at least as much as the high-level consensus.

Democrats oppose Trump's mooted big tax cuts, including his stated goal of slashing the corporate rate from 35 per cent to as low as 15 per cent.

Among Republicans, a rowdy fight looms over how tax cuts are funded. This showdown extends beyond the Freedom Caucus.

Many Republicans, including Ryan and Senate majority leader Mitch McConnell, have vowed tax reform should be revenue neutral.

Ryan has proposed a \$US1 trillion border adjustment tax (BAT) to help pay for tax cuts to as low as 20 per cent for the corporate rate.

The BAT would shift the US system towards taxing consumption (similar to Australia's GST) by taxing domestic sales, exempting exports and, controversially, barring a tax deduction for the cost of business imports.

Protectionism concern

Yet many Republicans in the Senate, backed by big importers such as retailers and oil refiners, oppose a BAT which they argue is akin to trade protectionism.

Ryan's healthcare failure makes it less likely Trump will be prepared to risk another intra-party showdown on the BAT, which is reportedly opposed by his two top economic advisers, ex-Goldman Sachs bankers Gary Cohn and Steven Mnuchin.

But without the revenue-raising BAT, Republicans will either have to make savage spending cuts, shut down popular tax breaks such as interest deductibility for mortgages or increase deficit spending.

Boaz says: "It seems cutting taxes is the easiest thing for Republicans to agree on.

"But there is a deficit issue and vested interests who will oppose getting rid of loopholes and resist lower rates for a broader base."

A populist Trump vowed during the campaign not to touch entitlement programs including social security and Medicare, which are popular with his ageing and working-class base.

This is anathema to the Freedom Caucus and Ryan alike.

Most Republicans, at least in theory, also oppose blowing out the budget deficit and federal net debt, which is already approaching a high 80 per cent of GDP.

However, their track record in the Reagan and George W. Bush administrations was to cut taxes and increase government debt.

Tax cuts remain likely, but the size, timing and details of the package are highly uncertain.

Infrastructure alliance

More broadly on Trump's infrastructure plan, the property developer has suggested he wants to work with "moderate" Democrats, in a tacit acknowledgement that small-government Republicans are unlikely to give widespread support to more government spending.

Yet Trump has spat in the faces of Democrats in his opening 10 weeks and any chance of goodwill seems lost. He called Democratic Senate minority leader Chuck Schumer a "clown",

announced the rollback of Obama's climate change rules, attempted to kill Obamacare and has channelled divisive rhetoric.

Democrats oppose Trump's proposed tax breaks for private firms to build private infrastructure, preferring public spending.

Trump's sinking popularity rating, of just 35 per cent, is another challenge.

An unpopular president makes it harder to woo marginal Democratic and Republican congressmen and senators on contentious legislation.

Trump is a pragmatist and non-ideologue. His willingness to do a deal with Democrats may be real. But step too far across the political aisle and his own party could again shoot him down in Congress.

"I could see Trump and [son-in-law] Jared Kushner on the hill with the moderate half of the Democrats to make a deal and then he's going to really tick off a lot of the Republican Party," Boaz says.

Ryan said on Thursday he opposed Trump working with Democrats on healthcare, saying it was "hardly a conservative thing" to do.

Evidently, Trump must thread the needle to leave his mark.