



Congress Faces Legislative Deadlines And Initiative Launches

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Well, this is a rough start to a new month. It will be a wild September on Capitol Hill as Congress faces a massive number of legislative deadlines and initiative launches.

There's must-pass legislation, like raising the debt ceiling and a bill to fund the government and some long-gestating projects like the Republican plan to overhaul the tax code and a bipartisan effort to stabilize the individual health-insurance exchanges.

Throw in unexpected issues like funding for the Hurricane Harvey recovery effort, plus re-writing immigration policy with DACA rescinded, plus trying to avoid nuclear winter with North Korea and you might want to keep your seat belt buckled for the remainder of September.

A week after Hurricane Harvey made landfall, devastating Texas with torrential flooding, meteorologists are now intently focused on Hurricane Irma's dangerous growth and projected path. The storm formed off the coast of western Africa last week and almost immediately started barreling toward the Caribbean Sea.

It has now metastasized into a Category 5 hurricane with winds up to 185 mph and possible storm surge of 11 feet. It is expected to hit or possibly just graze the US Virgin Islands and Puerto Rico tomorrow. It might hit southern Florida by Sunday, or it might skirt to the south of mainland Florida and move into the Gulf of Mexico.

Insurance stocks were the biggest decliners in the S&P 500 Index, with Barclays (LON:[BARC](#)) estimating insured losses in a worst-case scenario at \$130 billion. Shares in Carnival (LON:[CCL](#)), Royal Caribbean Cruises and Norwegian Cruise Line Holdings tumbled as Irma aimed at the South Florida hub for cruise-line operators. Orange juice futures for November jumped over 6% today. Category 5 is the top of the scale.

As of this morning, [FEMA's Disaster Relief Fund](#), which pays for the agency's disaster response and recovery activity, had just \$1 billion on hand. And of that, just \$541 million was "immediately available" for response and recovery efforts related to Hurricane Harvey.

Republicans are planning to attach a provision to raise the debt ceiling to their initial Hurricane Harvey relief package, a move that could limit resistance to the effort to increase caps on government borrowing.

The \$7.85 billion aid package to help re-fill FEMA's coffers is scheduled to be taken up by the House tomorrow and will likely have a debt ceiling increase added when it makes it to the Senate. If the combined bill passes the Senate, it would then be sent back to the House for consideration.

The move is favored by the Republican leadership as a way to gain broader support for the debt ceiling increase, which must be raised by the end of the month to avoid an economic disaster. A bigger question is whether other stuff will be added to the debt ceiling increase. The more that is tacked on, the greater the chance of failure.

By the end of September, Congress must pass a bill to keep the government funded, or it risks a shutdown of nonessential functions. It must also raise the debt ceiling by early October to prevent breaching it and to avoid a default.

The bond market continues to reflect fears that the US government may soon run out of funding. A \$20 billion auction on Tuesday for Treasury bills that expire in four weeks, just after the deadline for a bill to fund the government, drew the highest yield since the 2008 financial crisis.

This indicates that bond traders want a premium in return for expecting the government to repay them just as it may be running out of funding. For some perspective, the high yield, at 1.30%, was higher than when the government shut down in 2013.

Deferred Action for Childhood Arrivals or DACA, will end in 6 months. Attorney General Jeff Sessions announced the end of the program this morning, leaving almost 900,000 Dreamers in legal limbo.

No new DACA applications will be accepted after Tuesday. People already enrolled in DACA will continue to be protected until their permits expire, and those whose permits expire before March 5, 2018 can apply to renew for as long as two years.

Renewal applications must be received by October 5 of this year. People whose permits expire after March 5 cannot renew them. Sessions gave no details on how the program would be wound down, but a press release from the Department of Homeland Security, first reported by the news website Axios, said the program would be phased out over six months.

DHS did not rule out that anyone with expired DACA would then be subject to deportation. There will be no formal guidance that former DACA recipients are not eligible for deportation, and ICE officers in the field who encounter them will be making a case-by-case judgment as to whether to arrest that individual and process them for deportation.

The president's statement makes it sound like Dreamers are often violent members of society who, even when they're not committing crimes, are busy stealing native-born Americans' jobs and draining scarce government resources.

The facts, however, paint a different picture. According to an analysis by the Cato Institute, the typical Dreamer is young and employed at a job that earns about \$17 per hour, 95% are either employed or in school, and they pay taxes but they are not eligible for federal welfare.

More than 70 percent of them are pursuing (or have attained) a bachelor's degree. Dreamers over the age of 25 are more than twice as likely to start a new business than the national average. Cato estimates that ending DACA could cost nearly \$280 billion in lost tax revenue over the next decade.

Business leaders and lawmakers from both parties have warned the president that ending the program would have economic and social consequences. Some Republicans, including House Speaker Paul Ryan of Wisconsin, said while they don't agree with the executive action that began the policy five years ago, it should be up to Congress to come up with a more permanent solution.

The delayed repeal effectively kicks the issue to Congress for a resolution. There are a few legislative possibilities, including two bills introduced by Republican senators. The Dream Act of 2017 would codify parts of the DACA program, and the Bridge Act would extend those same protections for three years to give lawmakers more time to work out a more permanent solution.

So, now the question is whether Congress can get the job done. They still must deal with legislation to fund the government, raise the nation's borrowing authority and increase disaster relief for victims of Hurricane Harvey and possibly Irma.

Now add in immigration reform and if they try to tack DACA onto spending or debt ceiling legislation, or if they try to add building the wall onto immigration reform, it will be like throwing a monkey wrench in the sprocket.

What about tax reform legislation? Yea, not this month.

And remember, over the weekend North Korea exploded a test nuclear bomb. South Korea's Asia Business Daily reported that North Korea had moved what looked like an intercontinental ballistic missile toward its west coast, possibly in preparation for a launch.

There are no good options for dealing with North Korea. The administration had threatened fire and fury, but no fire or fury, just a speech to by Nickie Haley before the UN. The administration wants China to impose economic muscle on North Korea, even threatening to retaliate against Chinese steel dumping and intellectual-property infringements, and vowing an implausible trade war with the U.S.'s largest trading partner.

Even less rationally, the administration has dropped hints it's about to scrap a free-trade agreement with ally South Korea. The two main proposals put forward so far are tougher international sanctions, an idea promoted by the U.S., and the so-called "freeze for freeze," favored by China, in which the U.S. freezes military exercises with South Korea in exchange for the North freezing its missile and nuclear tests.

Meanwhile, there are ongoing talks to renegotiate Nafta, so Mexican President Enrique Peña Nieto was in China to pursue his country's Plan B. Rumblings of a free-trade deal between the two nations have grown since President Trump took office this year, but they've mostly been seen as political posturing.

But with Trump threatening regularly to dump the deal, even taking time last Sunday, during Hurricane Harvey, to say he "may have to terminate" NAFTA, the possibility of Mexico opening up to China seems ever more real. Trump's stated goal to end NAFTA is to raise tariffs and incentivize U.S. companies to stop outsourcing jobs.

Whether that will work is a separate matter, but what he has done is to push Mexico, which counts the U.S. as its largest trading partner by far, into pursuing other options.

The Dow Jones Industrial Average lost 234 points, with the bulk of that downturn driven by declines in shares of Goldman Sachs (NYSE:GS) and United Technologies (NYSE:UTX). United Tech's stock lost about 5.7%, after the industrial conglomerate said it had reached a deal to buy airplane-parts maker Rockwell Collins (NYSE:COL) for \$23 billion. The acquisition would be the largest in aerospace history.

The Commerce Department reports factory goods orders tumbled 3.3 percent with a slump in demand for transportation equipment. That was the biggest drop since August 2014 and followed a 3.2 percent surge in June.

Two weeks ago, Federal Reserve Governor Jerome Powell said low inflation allowed the Fed to be patient on a hike. Today, Fed Governor Lael Brainard said the U.S. central bank should go so far as to make clear it is comfortable pushing prices modestly above the Fed's 2 percent target. The Fed's preferred gauge stands at 1.4 percent.