

# 'A pox on both your houses'

The White House and Congress must come to terms on full immigration reform to avoid another shutdown.

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Dear President Trump, House Speaker Pelosi and Senate Minority Leader Schumer,

I spent this past week in Canada, visiting with clients in Vancouver, Toronto and Montreal. Their most-asked question was to describe exactly what's going on with our disgraceful government shutdown and the impact that it may have on the economy and the financial markets.

Mr. President, while you enacted a temporary thaw in negotiations today, agreeing to reopen the government for three weeks so employees can get paid after 35 days and crucial services can be staffed, we know that the new talks easily could remain in stalemate. As Kevin Hassett, chairman of your Council of Economic Advisors, has estimated, the shutdown likely cost us about 0.1% of GDP growth per week to the \$20 trillion economy. We at Federated have already factored in this shutdown in our current 1.7% estimate for first-quarter GDP growth. But we believe the Blue Chip consensus at 2.2% has not,

suggesting a downward revision may be coming. The equity markets, however, have largely ignored the shutdown, perhaps believing that it will be short-lived and economically painless.

As you and your opposition in Congress sit down again, I would like to suggest a framework for creating a longer-lasting solution to immigration policy.

We're very concerned, of course, about the political intransigence and lack of good will both sides are demonstrating on this issue, and it reflects our biggest worry since Congress was split last November. Will there be serious negotiating and compromise over the next two years to advance the American people's work on critical issues such as immigration, infrastructure, health care, trade and tax reform? Or have we set ourselves up for two years of dysfunction and gridlock, in which literally nothing gets done into the presidential election in 2020?

Rahm Emanuel, the current mayor of Chicago, was once famously quoted that we should "never let a good crisis go to waste." In the spirit of bipartisanship, then, how might we navigate this embarrassing impasse to a successful conclusion? My strategy, as I've discussed on CNBC, Bloomberg, Fox Business News and BNN Bloomberg recently, involves broadening the impasse to craft comprehensive immigration reform through old-fashioned political horse trading. This potentially solves a growing dilemma we've been unable to successfully resolve for the past quarter century under Presidents Clinton, Bush and Obama. So you collectively have an opportunity to do something really good here. Seize the moment, do not let this chance pass.

The U.S. needs safe, legal immigration to offset the sharp decline in our organic fertility rate over the past half century, as our rapidly-growing economy is now creating more new jobs than we have unemployed people to fill them. These

skilled and unskilled foreign workers also would pay taxes into our rapidly depleting Social Security Trust fund.

President Trump, you've asked for \$5.7 billion for enhanced border security. As part of that request, you plan to build a steel barrier along an estimated 234 miles of the 2,000 miles of our shared border with Mexico. As part of a comprehensive security solution, you're also envisioning the greater use of technology (such as drones and sensors), as well as hiring more Border Patrol agents and immigration judges and lawyers. As a model, we tried this approach in San Diego, successfully reducing illegal crossings by more than 90%. We also could create stronger economic incentives for individuals to cross legally.

Speaker Pelosi and Senator Schumer, you were both on record and solidly in favor of building this Mexican wall while Obama was in office, so what's different today? We'd really hate to think political gamesmanship had anything to do with your more recent change of heart. We need you to be statesmen and negotiate reasonable immigration requests of your own.

For example, you should demand an end to the shameful practice of family separations at the border. Spoiler alert, both liberals and conservatives find this practice abhorrent, and ripping immigrant families apart is not a successful negotiating tactic. Madame Speaker, this is a practice that you can legitimately describe as "immoral."

Next, feel free to demand citizenship for the "Dreamers." Undocumented immigrants brought along 800,000 of their children into the U.S. at a very young age, who were protected from deportation under a renewable two-year program called the Deferred Action for Childhood Arrivals (DACA) program, which Obama signed as an executive order in 2012, but which Trump subsequently rescinded. As part of this comprehensive immigration deal, Trump should sign the Development, Relief and Education for Alien Minors

(DREAM) Act, which was first proposed in 2001 and which would create legal status and a path to citizenship for these young immigrants. Most of these protected young immigrants are actively attending school or working, and the U.S. needs their skills and workforce participation.

Their parents are 11 million undocumented foreign-born residents living in the U.S, with most working and paying taxes. These immigrants are gainfully employed in very difficult jobs that most Americans don't want, such as agriculture, food-processing plants, hospitality (restaurants and hotels), child- and elder-care, housekeeping, landscaping and lawn maintenance, and construction. If these low-skilled jobs went unfilled, it would harm U.S. economic growth, so we need to negotiate protections for these people.

Finally, you should also insist upon an expansion of the H1B visa program. Because of a skills mismatch for many native-born Americans, we need well-educated foreigners with technical skills in science, engineering and information technology to fill our many open, high-skilled positions. Three-quarters of the candidates for masters and doctorates degrees in STEM (science, technology, engineering and math) majors at U.S. universities are foreigners, with 46% of them from India and China. Instead of deporting them after graduation, we should legally encourage them to stay, and contribute to the economy.

President Trump, you should insist on your desired "merit-based" lottery to replace the current "diversity" lottery system, which makes 50,000 visas available annually, to diversify the immigration pool by selecting applicants from countries with low numbers of immigrants. While diversity is important, your merit-based system rewards hard workers with desirable skills to boost our economy, regardless of their country of origin.

Given your concern about safety and security, Mr. President, you should also request a reasonable cap on chain migration, the visa program through which immigrants already living here can sponsor family members and bring them to the U.S. Many people have taken advantage of the system and brought very distant—and sometimes undesirable—relatives.

In my view, this represents the framework of a successful bipartisan immigration policy, which would also open the federal government and get everyone paid in full. With any luck, Madame Speaker, you'll be able to invite President Trump to deliver his annual State of the Union speech in the House of Representatives next Tuesday evening, as originally scheduled.

Good luck to us all, and may God bless the United States of America.

Sincerely yours,

Philip J. Orlando, CFA

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#### DISCLOSURES

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Gross Domestic Product (GDP) is a broad measure of the economy that measures the retail value of goods and services produced in a country.

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