America in the Age of Disruption

What’s Next in Washington?
AMERICA IN THE AGE OF DISRUPTION

- Welcome to the Age of Disruption *(slides 3-6)*
- How’d We Get Here? *(slides 7-14)*
- How’s It Going for the Disruptor-in-Chief?
  - Winning *(slides 16-22)*
  - Losing *(slides 23-28)*
- What’s Next in Washington *(slides 29-39)*
Welcome to the Age of Disruption

Explaining the Rise of the Disruptors

Entrenched System
- Direct to Consumer
- Upended Establishment

Dissatisfied Public
- Promise of Better Service
- Incumbents Fight Back

Minimal Innovation
- Aggressive Insurgents
- Broken Rules & Norms
**It’s Not An Accident**

**U.S. Voters Not Satisfied... 5 of Last 6 Elections Sought Change**

Which candidate quality mattered most?

<table>
<thead>
<tr>
<th>Quality</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can bring change</td>
<td>39%</td>
</tr>
<tr>
<td>Right Experience</td>
<td>22%</td>
</tr>
<tr>
<td>Good judgment</td>
<td>20%</td>
</tr>
<tr>
<td>Cares about me</td>
<td>15%</td>
</tr>
</tbody>
</table>

Sources: Gallup; 2016 Exit Poll
It’s Not Unique to America

Change Elections Becoming the Global Norm

Sources: Various gathered by Annaliese Yukawa
Partisan Approval Gap Growing for Decades

Diff. Between Own Party & Other Party Job Approval After ~191 Days in Office

It’s Not New With Trump

Source: Gallup Presidential Approval Center closest to Day 191
HOW’D WE GET HERE?

7 Trends Driving Disruption
#1. Substantial Social Makeover

**Big Changes Over 2 Generations**

<table>
<thead>
<tr>
<th>1967</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>12% DIVERSE (NON-WHITE)</td>
<td>38%</td>
</tr>
<tr>
<td>4.9% FOREIGN-BORN</td>
<td>14%</td>
</tr>
<tr>
<td>75% WHITE NO COLLEGE</td>
<td>39%</td>
</tr>
<tr>
<td>22% 18-34 LIVING w/ PARENTS</td>
<td>32%</td>
</tr>
<tr>
<td>8.5% KIDS OUT OF WEDLOCK</td>
<td>40.3%</td>
</tr>
<tr>
<td>41% WOMEN IN THE WORKFORCE</td>
<td>57%</td>
</tr>
<tr>
<td>27% TOP 1% SHARE OF WEALTH</td>
<td>42%</td>
</tr>
</tbody>
</table>

Sources: Census, Pew, CDC ChildTrends, US Dept. of Labor, T. Pikety
How’d We Get Here?

#2. Accelerating Technological Change

Disrupting How We Work, Live, Play & Learn

HOW MUCH TIME IT TOOK TO REACH 100 MILLION USERS WORLDWIDE

<table>
<thead>
<tr>
<th>Technology</th>
<th>Year of Launch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone</td>
<td>1878</td>
</tr>
<tr>
<td>Mobile phone</td>
<td>1979</td>
</tr>
<tr>
<td>Internet</td>
<td>1990</td>
</tr>
<tr>
<td>iTunes</td>
<td>2003</td>
</tr>
<tr>
<td>Facebook</td>
<td>2004</td>
</tr>
<tr>
<td>Apple App Store</td>
<td>2008</td>
</tr>
<tr>
<td>WhatsApp</td>
<td>2009</td>
</tr>
<tr>
<td>Instagram</td>
<td>2010</td>
</tr>
<tr>
<td>Candy Crush</td>
<td>2012</td>
</tr>
</tbody>
</table>

U.S. Workers to Manufacture $1B Goods

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>387,923</td>
</tr>
<tr>
<td>2017</td>
<td>26,785</td>
</tr>
</tbody>
</table>

Sources: BCG; author’s calculation based on OECD & BLS data

SOURCE: Boston Consulting Group; ITU; Statista; BCG research; mobilephonehistory.co.uk; Scientific American; Internet Live Stats; iTunes; Fortune; OS X Daily; VentureBeat; Wired; Digital Quarterly; TechCrunch; AppMtr.com
#3. Weakened Anchor Institutions

Where Do We Belong?

<table>
<thead>
<tr>
<th></th>
<th>1967</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Married</strong></td>
<td>70%</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Religion &quot;Very Important&quot;</strong></td>
<td>68%</td>
<td>53%</td>
</tr>
<tr>
<td><strong>Union Member</strong></td>
<td>28%</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Trust Government to Do Right Thing</strong></td>
<td>65%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Sources: Pew, Gallup, Cornell U., Pew
#4. Loss of “Honest Brokers”

Media No Longer Trusted

Great Deal / Fair Amount of Trust in Media

Source: Gallup
#5. Leaders Over-Promised & Under-Delivered

...greeted as liberators...

I did not have...

Read My Lips...
How'd We Get Here?

#6. Politicians Deferred Hard Choices

## Entitlement Spending Crowding Out Future Investments

Federal Spending, as a Share of the Total Budget

<table>
<thead>
<tr>
<th>Year</th>
<th>MANDATORY</th>
<th>DEFENSE</th>
<th>NON-DEFENSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>15%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td></td>
<td>53%</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td></td>
<td>66%</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td>69%</td>
</tr>
<tr>
<td>2036</td>
<td></td>
<td></td>
<td>79%</td>
</tr>
</tbody>
</table>

Sources: PwC based on OMB & CBO

- **MANDATORY**: (Health, Social Security, Net Interest on Debt)
- **DEFENSE**: (e.g. Infrastructure, Education, R&D)
- **NON-DEFENSE**: (e.g. Infrastructure, Education, R&D)
#7. Parties Lost Primacy

Party Money Increasingly Less Critical

Political Party Spending

Outside Group Spending

Source: Center for Responsive Politics, 2017
HOW’S IT GOING?

For the Disruptor-in-Chief
96% of Trump voters would vote for him again vs. 85% for Hillary
WINNING: Base Support Remains Solid

Presidential Approval by Own Party, ~Day 191

Source: Gallup
WINNING: “True Believers” Still Enthusiastic

No Erosion in Support Among Trump Voters Who Voted FOR Trump

Trump Job Approval

- Voted FOR Trump: 95% in Feb-17, 95% in Jun-17
- Voted AGAINST Clinton: 87% in Feb-17, 81% in Jun-17

Who’s to blame for Trump problems?

<table>
<thead>
<tr>
<th></th>
<th>Washington Establishment</th>
<th>Inexperience / Incompetence</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOR TRUMP</td>
<td>93%</td>
<td>3%</td>
</tr>
<tr>
<td>AGAINST CLINTON</td>
<td>71%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: WSJ/NBC Feb & June polls per Public Opinion Strategies
WINNING: Deregulatory Agenda Moving Apace

Fewer New Big Regulations, Rapidly Undoing Obama Era Regs

Major regulations fall off a cliff

The Office of Information and Regulatory Affairs approved just 15 regulations between Inauguration Day and the end of May—by far the fewest in any comparable period year since recordkeeping began in 1994.

- Undoing ACA
- Exited Paris Climate Accord
- Ended Gun Exec. Order
- Reversing EPA Climate Regs
- Amending Labor Regs
- Reversing Telecom Regs
- Undoing Dodd-Frank Elements
- Amending Treasury Regs (385)

Source: WH/OIRA reported in D. Vinik, Politico 6/7/17
**WINNING: Markets Reflecting Optimism**

### Stock Markets Surging

- NYSE President Credits Trump Massive Market Gains

<table>
<thead>
<tr>
<th>Gains/Losses in S&amp;P500 thru July 7 of 1st year</th>
<th>Trump</th>
<th>Presidents 1953-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Since Election</td>
<td>13.4%</td>
<td>0.50%</td>
</tr>
<tr>
<td>Since Inauguration</td>
<td>6.8%</td>
<td>0.60%</td>
</tr>
</tbody>
</table>

### Unemployment Rate Falling

- It Doesn’t Get Much Better Than This
  - Unemployment rate 100 days after first presidential inauguration

### Consumers Confident

- U.S. Consumer Confidence Surges to a 16-Year High in March
  - Conference Board Consumer Confidence Index

### Small Businesses Optimistic

- NFIB Small Business Optimism Index

Sources: D. Naylor calculations of S&P, Bloomberg, Conference Board: NFIB
Trump Will Significantly Impact the Federal Judiciary

Gorsuch restored 5-4 conservative majority at the Supreme Court

Inherited Fed'l Court Vacancies

- **OBAMA**: 54
- **BUSH-43**: 84
- **TRUMP**: 107
- **CLINTON**: 111

Source: Barrett & Ingold, Bloomberg, July 10, 2017
WINNING: 4-for-4 in Special Elections

Notwithstanding Historic Spending Against

OVER FOUR SPECIAL ELECTIONS
Dem Candidates Raised: >$30.6M
Outside Supporters Spent: >$3.5M
DCCC Spent: >$6M

Sources: NYT (GA-6); US News (MT); Roll Call (SC-5); Open Secrets (S-4).
LOSING
LOSING: Not Expanding Support Beyond the Base

Where are Trump’s “Reagan Democrats”?

Presidential Job Approval ~Day 191

Other Party
Independents

Source: Gallup
LOSING: Historically Slow Staffing Government

Strategic Starvation or In-fighting & Incompetence?

Source: Partnership for Public Policy in Wash. Post as of 7/27/17
LOSING: Too Many Unfilled Positions

Over Half Cabinet Agencies Have Only 1 Confirmed Leader

AGRICULTURE

- Confirmed: 1
- Nominated: 2
- No Nominee Yet: 10

COMMERCE

- Confirmed: 1
- Nominated: 8
- No Nominee Yet: 12

DEFENSE

- Confirmed: 7
- Nominated: 19
- No Nominee Yet: 27

EDUCATION

- Confirmed: 1
- Nominated: 2
- No Nominee Yet: 12

ENERGY

- Confirmed: 4
- Nominated: 1
- No Nominee Yet: 17

HHS

- Confirmed: 3
- Nominated: 3
- No Nominee Yet: 11

HOMELAND

- Confirmed: 1
- Nominated: 4
- No Nominee Yet: 7

HUD

- Confirmed: 2
- Nominated: 4
- No Nominee Yet: 11

INTERIOR

- Confirmed: 3
- Nominated: 4
- No Nominee Yet: 16

JUSTICE

- Confirmed: 3
- Nominated: 9
- No Nominee Yet: 16

LABOR

- Confirmed: 1
- Nominated: 1
- No Nominee Yet: 12

STATE

- Confirmed: 10
- Nominated: 33
- No Nominee Yet: 87

TRANSPORTATION

- Confirmed: 2
- Nominated: 5
- No Nominee Yet: 11

TREASURY

- Confirmed: 3
- Nominated: 9
- No Nominee Yet: 16

VETERANS

- Confirmed: 1
- Nominated: 3
- No Nominee Yet: 7

Source: Partnership for Public Policy thru 7/27/17

EPA = 1 confirmed, 2 nominated, 11 not yet named
# LOSING: Insufficient Message Discipline

**Off-Message Tweeting Undermines Policy Pushes**

<table>
<thead>
<tr>
<th>INFRASTRUCTURE WEEK</th>
<th>WORKFORCE DEVELOPMENT WEEK</th>
<th>TECHNOLOGY WEEK</th>
<th>ENERGY WEEK</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 5-9</td>
<td>June 12-16</td>
<td>June 19-23</td>
<td>June 26-30</td>
</tr>
<tr>
<td>81% tweets off-message</td>
<td>94% tweets off-message</td>
<td>100% tweets off-message</td>
<td>92% tweets off-message</td>
</tr>
</tbody>
</table>

In any event we are EXTREME VETTING people coming into the U.S. in order to help keep our country safe. The courts are slow and politicall!

![Image of tweets](https://via.placeholder.com/150)

In June, 121 @RealDonaldTrump tweets were analyzed. Of these, 81% were off-message.

Sources: Off-Message % (P. Bump, Wash. Post); Policy % S. Savitsky (Axios)
LOSING: Midterm Wave Conditions Building for Dems?

**Low POTUS Approval**

<table>
<thead>
<tr>
<th>POTUS Approval</th>
<th>Seats Won / Lost</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>39%</td>
<td>+30</td>
<td>2006</td>
</tr>
<tr>
<td>45%</td>
<td>+53</td>
<td>2010</td>
</tr>
<tr>
<td>46%</td>
<td>+63</td>
<td>1994</td>
</tr>
<tr>
<td>63%</td>
<td>+8</td>
<td>1998</td>
</tr>
<tr>
<td>68%</td>
<td>+5</td>
<td>2002</td>
</tr>
</tbody>
</table>

40% job approval

Source: Nate Silver, *FiveThirtyEight*, 6/21/17

**Surge of New Candidates**

<table>
<thead>
<tr>
<th>‘09-‘15 avg. filing</th>
<th>179</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 filed to run</td>
<td>489</td>
</tr>
</tbody>
</table>

Source: Ben Kamisar, *The Hill*, 6/22/17

**Over-Performing in Specials**

<table>
<thead>
<tr>
<th>Seat</th>
<th>Nov. 2016 Margin</th>
<th>Special Margin</th>
<th>Dem Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>KS-4</td>
<td>R+24.6</td>
<td>R+6.8</td>
<td>D+17.8</td>
</tr>
<tr>
<td>MT</td>
<td>R+8.8</td>
<td>R+6.1</td>
<td>D+2.7</td>
</tr>
<tr>
<td>GA-6</td>
<td>R+16.2</td>
<td>R+3.7</td>
<td>D+12.5</td>
</tr>
<tr>
<td>SC-5</td>
<td>R+13.3</td>
<td>R+3.2</td>
<td>D+10.1</td>
</tr>
</tbody>
</table>

Source: WSJ/NBC poll via POS.

**Generic Ballot Promising**

<table>
<thead>
<tr>
<th>Republican Ballot Margin (Generic)</th>
<th>Predicted Republican Seat Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>+4</td>
<td>-9</td>
</tr>
<tr>
<td>+2</td>
<td>-12</td>
</tr>
<tr>
<td>0</td>
<td>-16</td>
</tr>
<tr>
<td>-2</td>
<td>-19</td>
</tr>
<tr>
<td>-4</td>
<td>-23</td>
</tr>
<tr>
<td>-6</td>
<td>-27</td>
</tr>
<tr>
<td>-8</td>
<td>-30</td>
</tr>
<tr>
<td>-10</td>
<td>-34</td>
</tr>
</tbody>
</table>

Sources: Alan Abromowitz, UVA Center for Politics, July 2017; RCP (generic)
WHAT’S NEXT?

Washington in 2H 2017
The Disruption Will Continue

We’re Only 13% Into Trump’s First Term

1267 Days Remaining

194
Trump Team Will Grow As More Leaders Are Confirmed

Pace of Nominations Is Accelerating

Data: Partnership for Public Service; Note: Count as of July 2, includes executive branch positions, judicial branch positions (like the Sentencing Commission), legislative branch positions (like the Architect of the Capitol), and ex officio or positions that require their own hearings and/or votes (like the IMF Governor, etc.)
Parties Will Battle for Issue Advantage

Neither Party Enjoying “Wave-Levels” Issue Lead Yet

Source: WSJ/NBC June poll per Public Opinion Strategies
### Congress Will Do What it MUST

#### Expiring Programs & Deadlines Drive Action

<table>
<thead>
<tr>
<th>Before August Recess</th>
<th>By September 30</th>
<th>Q4 2017</th>
<th>By Dec. 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 legislative days</td>
<td>17 legislative</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15 legislative days</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FDA User Fees</td>
<td></td>
<td>FISA §702 (surveillance)</td>
</tr>
<tr>
<td></td>
<td>Nat’l Defense Authorization</td>
<td></td>
<td>Medicare extenders</td>
</tr>
<tr>
<td></td>
<td>FY ‘18 Appropriations</td>
<td></td>
<td>Other tax extenders</td>
</tr>
<tr>
<td></td>
<td>Flood Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CHIP (children’s health insurance)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FAA Reauthorization</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Community Health Centers</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TANF (food stamps)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Coast Guard Reauthorization</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>AFG &amp; SAFER grant programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Raise debt ceiling</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

The table outlines the deadlines and programs that will likely drive action in the August recess, September, and Q4 2017. Programs such as FDA User Fees, Nat’l Defense Authorization, and FY ‘18 Appropriations are due before September 30, 2017. Programs like TANF (food stamps) and Medicare extenders are due by December 31, 2017.
“Big Ticket” Bills Remain Challenging

Health Care Reform

• Polling poorly & facing procedural risks in Senate.

• Can’t lose more than 2 GOP Senators:
  • Conservatives demand more flexibility & lower cost options... risking moderate votes.
  • Moderates want to lessen impact on elderly & poor... risking conservative votes.

• Expect shorter-term steps to shore up insurance markets if larger bill fails.

Tax Reform

• Procedural barriers significant:
  • Need 60 Sen. votes or new budget reconciliation
  • Need health reform to “pay for” 1st ~trillion in cuts

• Business opposition to deficit neutral reform (where cuts are offset by tax increases). Key questions are (1) will Dems in red states “play ball” with WH on cuts and (2) will GOP back cuts or raise deficit concerns.

• Expect tax cuts rather than paid-for permanent reforms by 1H18.

Funding 2018 & Debt Ceiling

• 60 votes needed unless legislative filibuster ended

• Significant political challenges:
  • Conservatives want cuts to non-defense spending
  • Dems object to increases in defense spending without corresponding increases in non-defense.
  • WH may see political value in show-down, perhaps over funding Border wall.

• Short-term (2 week) shutdown possible. Expect bipart. deal to raise debt ceiling & fund FY18 near FY17 levels once WH gets on board.

$1T Infrastructure Plan

• 60 votes required.

• Political dynamics:
  • Opportunity: Most likely pivot if White House wants to deal with Democrats (along with trade sanctions) AND Dems willing to give Trump win.
  • Challenges: How to pay for? When to advance given busy-ness with other issues.

• Expect little movement in 2017.
How Did the Clinton White House Bounce Back?

Bill Clinton’s 1st 6 Months

- Approval
- Disapproval

The Clinton Rebound

- Retooled White House Operations
- Successful Leadership Moment
- Pivoted to the Center on Policy
- Enjoyed Strong Bull Run (‘95: S&P up 32%)
- Leveraged Less Popular Foil

Source: Gallup
Three Possible Roads Forward for Trump Administration

How to Put Points on the Board & Broaden Support

**UNIFY THE GOP**

- Lower rates
- Broader base
- Simpler system

**PLAY TO POPULIST BASE**

- Drop out of TPP
- Renegotiate NAFTA
- Steel & Aluminum tariffs
- Stronger “Buy American”
- CFIUS reforms (esp. tech)

**DEAL WITH DEMOCRATS**

- Judges & Deregulation
- Immigration Enforcement
- Infrastructure Investment

Raise big $$ to protect House majority

- Anti-Washington reforms (end filibuster, Balanced Budget Amendment)

Core Challenge: Diversity of GOP opinion may exceed size of GOP majority.

Core Challenge: Restrictions on trade spook markets & undermine growth.

Core Challenge: Will #Resistance let Dems cooperate with the Administration?
The Litigious #Resistance Will Persist

Opponents Likely to Challenge Everything in Court

TOTAL LAWSUITS FILED

- George W. Bush: 7
- Bill Clinton: 15
- Barack Obama: 26
- Donald Trump: 134

2017 LAWSUITS AGAINST PRESIDENT TRUMP

- The Environment: 1
- Personal Injury: 1
- Regulations EO: 1
- Personal Property damage: 1
- Obama EO on Monuments: 4
- Ethics / Emoluments Clause: 4
- Other: 8
- Immigration / Sanctuary Orders: 8
- Civil Rights Prisoner Petitions: 26
- Muslim Ban: 30
- Prisoner Petitions: 30

War With the Media Will Continue

**Trump Team Sees As Positive**

**Useful Foil with Base Voters**

Impact of National News Media on U.S. (Republican voters)

- Positive: 85%
- Negative: 10%

**Inoculates from Hostile Coverage**

Whom Do You Trust More? (GOP)

- CNN: 9%
- New York Times: 89%

**Great for Media**

- FOX News
- CNN

Viewing thru 1st week in June as compared to same period last year

- +33%
- +19%

Q1 subscriptions

Sources: Pew (Impact of Media); Survey Monkey via Axios (CNN vs Trump); Pivotal Research in Variety 6/13/17.
Will These Guys Have Trump’s Back?

“Lyin Ted”

“Little Marco”

“Not a Hero” John

“Weak & Ineffective” Jeff

“Gym Rat” Ben

“Nut Job... Disgrace” Lindsey

“Truly Weird... Spoiled Brat” Rand
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