

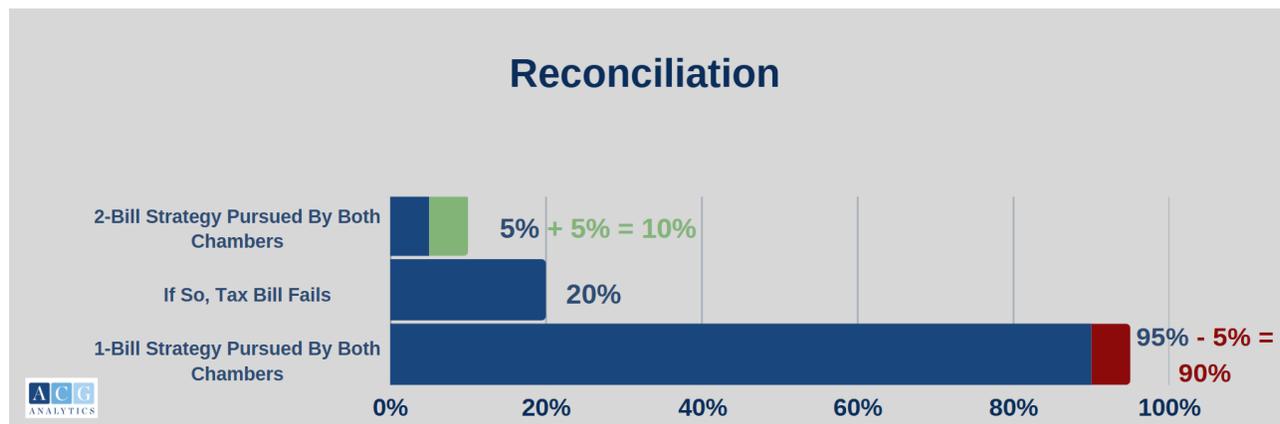


May 29, 2025

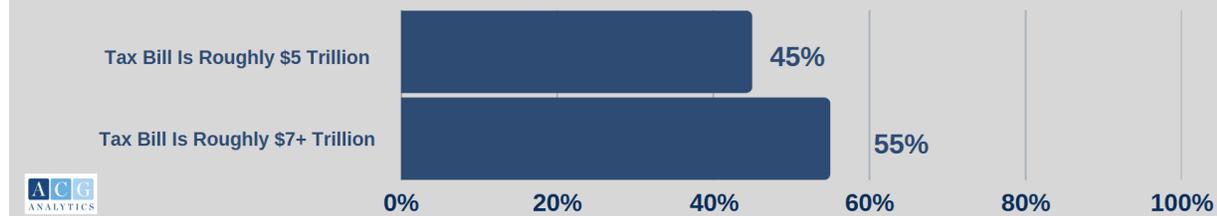
Policy Percentages®

Reconciliation, Debt Limit, Timeline, HHS Budget Cuts, Tariffs

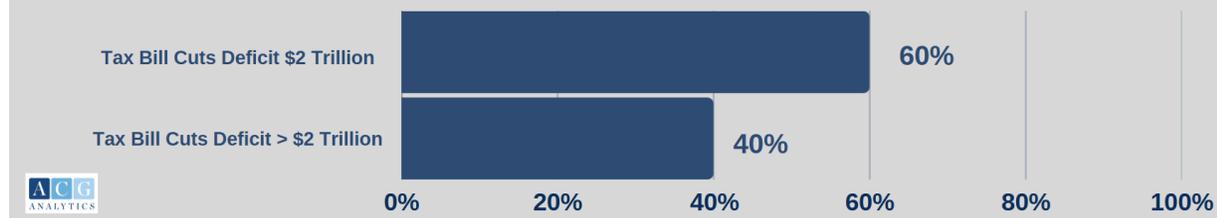
Welcome to ACG Analytics' Policy Percentages weekly forecast. In this edition, we will discuss our outlook on key policy issues in U.S. domestic policy and other macro areas. Please note that these are our estimates on the date published, are re-evaluated regularly and subject to change. For more information, please feel free to reply to this email or reach out to us at research@acg-analytics.com.



Reconciliation



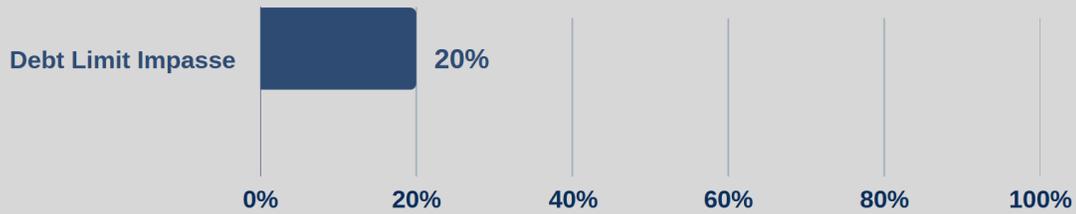
Reconciliation



- **Several Senators are threatening to hold up the tax Reconciliation bill over deficit spending and may have the votes to derail the legislation, as ACG Analytics wrote [yesterday](#). Some, led by Sen. Ron Johnson (R-WI), are advocating a return to the pre-pandemic spending baseline as a means for accomplishing the deficit reduction they believe is requisite.**
 - ACG Analytics has written previously about changing the spending baseline to pre-Pandemic levels, a move that would find roughly \$2 trillion in cuts every year for 10 years—more than enough to find the requisite savings under either a “*current law*” or “*current policy*” budgetary score to meet the House’s more parsimonious budgetary rules, forestall cuts to Medicaid, and allow the President to meet his campaign promises on tax cuts.
 - **In recent weeks**, Sen. Ron Johnson (R-WI) said that he will vote against Reconciliation unless the baseline is changed: “*There are enough senators here that are insisting on returning to a reasonable pre-pandemic level of spending, which we’re not even coming close to in terms of what the House is working on. That will go nowhere here in the Senate. The Administration has to understand that.*” If Johnson were to vote no, with Sen. Rand Paul (R-KY) opposed because of raising the debt ceiling, then the legislation could only face 2 more defections in the Senate without failing.

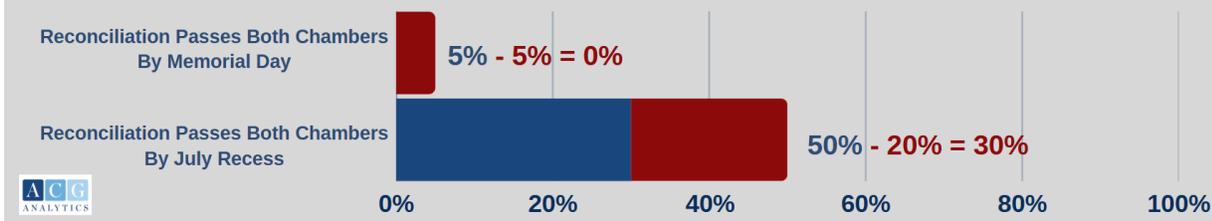
- Johnson, who has raised the spending baseline issue for months, said that he is speaking out clearly to put his colleagues on fair notice about his intent to vote against the Reconciliation bill unless changes are made to the spending baseline.
- **Johnson and several other Senators have also floated the idea of returning to the Senate’s 2-bill strategy believing that several tax and revenue portions of the legislation will require more time in the Senate than the self-imposed informal July 4th deadline being driven in large part by the need to raise the debt ceiling. Senate Majority Leader John Thune (R-SD), an original proponent of the 2-bill strategy, has all but ruled this out. Even so, the chances of the Senate reverting to a 2-bill strategy increase marginally the closer Congress gets to July 4th. That the idea is yet even under discussion increases the risk marginally.**
- **Medicaid cuts continue to remain contentious in both chambers and there are enough votes in the Senate to stop major cuts as opposed to other reforms designed to curtail program growth. This is also true of efforts to pare back green energy tax incentives or to make changes to nutrition assistance food programs.**
- **This dynamic—paring back the revenue offsets in the House bill while also attempting to make tax cuts permanent—is the fundamental problem at issue in the Senate. To square that proverbial circle, the Senate will have to find its own spending offsets and thus far, few have been forthcoming.**
- **Of course, the Senate has been in recess since passage of the House version of the legislation and returns Monday, but it is nonetheless difficult to understand why the Senate has not been more proactive in identifying offsets for months.**
- **There may be little in the way of a public process in the Senate. Senators are divided over whether to hold hearings and markups to consider various proposals with many fearing it will force them to take difficult votes that Democrats would be certain to offer. There is also the chance that the legislation could get stuck in committee—particularly the critical Senate Finance Committee which has jurisdiction over the tax and Medicaid portions of the legislation.**
- **The House compromise on raising the state & local tax (SALT) deduction limit could be tweaked in the Senate where it has no natural constituency among Republicans, but Senators are cognizant that leaving the hard-fought compromise is likely necessary to ensure passage in the House of whatever the Senate produces.**

Debt Limit



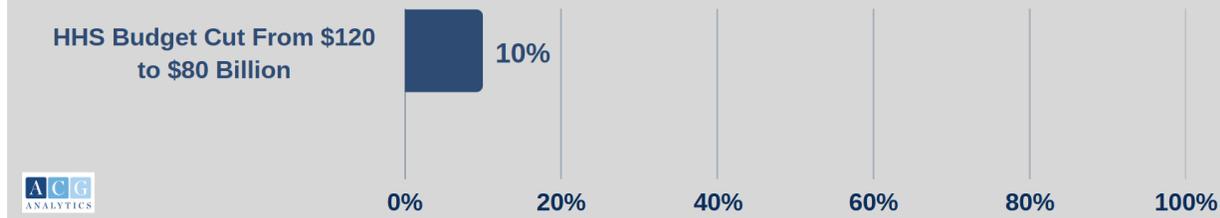
- Although there are a myriad of potential means to raise the debt ceiling in a bipartisan way, House Republicans are clinging to their plan to do so via Reconciliation.
- *What if Reconciliation cannot pass the House and Senate in time before the debt limit is reached?* **The debt ceiling increase might have to be removed from the Reconciliation package which would potentially create several procedural headaches and potentially difficult negotiations with Democrats given that there are several House Republicans unlikely to vote to increase the debt limit outside of Reconciliation. Further, raising the debt ceiling through normal channels would require 60 votes in the Senate. Senate Minority Leader Schumer (D-NY) has undergone months of criticism from his left flank for his last spending negotiations with Republicans which Progressives viewed as capitulation.**
 - In March, the Congressional Budget Office (CBO) [released its forecast for when the debt limit will be reached](#), writing that it “estimates that if the debt limit remains unchanged, the government’s ability to borrow using established ‘extraordinary measures’ will probably be exhausted in August or September 2025.”
 - **Treasury Secretary Bessent, however, is warning that mid-August is a more likely timeline. Because the House and Senate hope to take their traditional August recess, lawmakers have set July 4th—however unlikely—as their goal for final passage of a Reconciliation bill raising the debt ceiling.**
- Months ago, ACG Analytics and several lawmakers floated pairing a debt limit increase with disaster relief, daring the sizeable Democratic delegation from California to vote against aid. The Trump Administration, however, has not floated a disaster aid relief plan, preferring instead to reform the program at some later date. Because Republicans are likely to wait for a cue from the Administration, this potential compromise looks very much doubtful.

Timeline



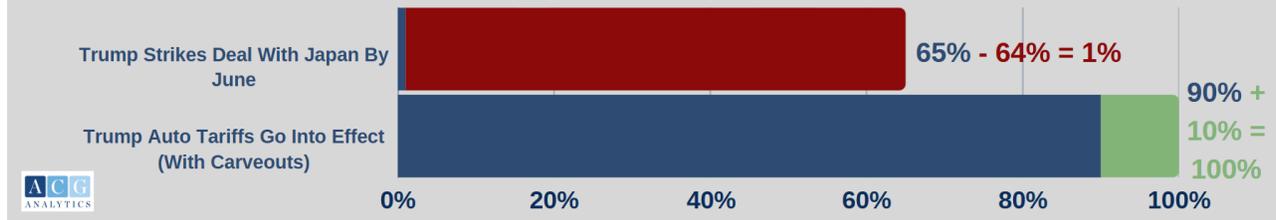
- The House may have met its Memorial Day goal—just barely and by 1 vote—but the Senate, almost always the rate-limiting factor, is the limiting step now (at least until it returns a proposal to the House).
- The revenue problems on the Senate side are large and difficult. Above, ACG Analytics wrote about warring Senate camps who want to increase offsets or even reduce the national debt substantially and those who are pledging to pare back the House cuts to Medicaid, food assistance, and green energy incentives. There is even resistance to using spectrum auctions as a spending offset. Every program, it might be said, has its own constituency even on the Republican side.
- This idea of warring camps, while true on some level, is also deceptive. There are Senators in both camps: those who want to spend more and save more. Savings proposals, as we have said, are not as forthcoming or vetted as they should be at this stage if passage in both chambers is expected within roughly a month's time.
- Arguably, the White House has not been as engaged as it could be in finding offsets either. DOGE cuts, some coming in the form of a paltry roughly \$9 billion rescission package which is expected to be released next week, are tied to the regular appropriations package, not the Reconciliation bill. Further, the President continues to vacillate in revenue proposals like closing the carried interest loophole or raising the top marginal rate which divide Republicans and will only slow down deliberations over the legislation.
- The only reason to hold out some hope for meeting the self-imposed deadline—or something close to it, perhaps the end of July—is the looming need to increase the debt ceiling.

Domestic Policy



- The Trump Administration is provisionally proposing to cut the budget for the Department of Health & Human Services (HHS) by a 1/3rd from roughly \$120 to \$80 billion a year. HHS' workforce is already down by roughly 1/4.
 - While the proposed cuts would come from across the agency, funding for the National Institutes of Health (NIH) would bear a large portion of those cuts, with the NIH budget decreasing by about 40% from roughly \$47 billion to \$27 billion. NIH would also be restructured with the number of discrete institutes falling from 27 to 8.
 - Head Start funding would be eliminated, while the budget for the Centers for Disease Control (CDC) would be reduced by roughly 45% from \$9.2 billion to \$5.2 billion a year. Many rural programs would also suffer.
- **Simply put, in the regular appropriations process, this idea will never find the requisite support among Democrats to reach 60 votes in the Senate and is opposed by Senate Appropriations Chair Susan Collins (R-ME). This of course assumes that it could even pass the House.**
 - Democrats will not support cuts of this magnitude and it is unclear that many Republicans would either. An old DC adage about the President's budget submission to Congress is "*The President proposes; the Congress disposes.*" Cuts to rural programs will be very difficult for many Republicans to countenance.
- The Administration may find limited support in consolidating NIH institutes for greater efficiency, but that too will be difficult politically.

Tariffs



Yesterday, the Trump Administration suffered a setback in court regarding its authority to impose reciprocal tariffs, 10% minimum tariffs, and tariffs on China, Canada, and Mexico. As ACG Analytics studies the Administration's response over the coming day, our note on the likelihood of the Trump Administration circumventing this adverse ruling—whatever the disposition of the courts—may be found [here](#).

Japan

- **Several weeks ago**, Commerce Secretary Howard Lutnick made 4 broad trade claims:
 - 1) the United States is close to inking a framework for a free trade deal with India;
 - 2) the United States is close to a trade deal with South Korea which already enjoys a free trade agreement with the United States;
 - 3) the United States has engaged in substantial trade discussion with Japan; and
 - 4) the United States has already concluded tariff negotiations with a 4th country he declined to name pending domestic approval in that country. **That country was likely the United Kingdom where a U.S.-U.K. free trade agreement was announced 3 weeks ago.**
- ACG Analytics [released](#) a larger note about tariff development including a growing Republican rebellion in Congress, which, while not likely amounting to Congress overriding the President, puts increased pressure on the Administration to conclude tariff negotiations.
- U.S.-Japan trade talks have continued. An agreement in principle may include:
 - Off-take agreement for Alaska LNG;
 - Defense spending commitments/purchases;
 - Lifting of non-tariff barriers to U.S. automobiles;
 - Commitments related to the Alaska pipeline;
 - U.S. Steel investment.

- We do not expect the United States to reduce tariffs on Japan below the baseline 10%, but there could be a separate sectoral agreement which reduces tariffs on autos below the stated 25%.
- In regards to Japan, there could be further commitments announced at the G7 meeting in Canada in mid-June.
- Japan faces a potential 24% “*reciprocal*” tariff, a 10% base tariff, and a 25% tariff on autos, auto parts, steel, and aluminum. Auto production accounts for almost 3% of Japan’s GDP and the U.S. is Japan’s largest export market, accounting for roughly 1/3rd of auto exports. While reciprocal tariffs have been paused, the 10% base tariff and the levy on autos, steel, and aluminum have not.

Canada/Mexico

- **Although Trump has yet to strike a deal with Canada and Mexico, the delays in the imposition of many of his threatened tariffs has been a win for both countries.**
- The Trump Administration has repeatedly emphasized the importance of reviewing the USMCA to enact changes addressing Chinese transshipment and tariff circumvention. We believe that the 3 countries are likely to agree to bring forward the USMCA review into 2025 and extend the tariff delay for USMCA compliant products until negotiations are concluded.
 - This would allow President Trump to use the threat of such tariffs as leverage in negotiations, while also signaling to the world and financial markets that he is interested in strengthening North America as a trading bloc.
- Now that Canada’s election has concluded, and Liberal candidate Mark Carney has won, there is more space for the United States and Canada to discuss de-escalation. Once the Trump team has announced several smaller agreements and deals with Japan/India/South Korea, we believe they will turn to Canada and Mexico and the USMCA.
- Mexico continues to manage Trump well, with high-level officials frequently visiting Washington for talks. Further, President Sheinbaum’s actions at the border and with respect to domestic security/drug interdiction have been largely successful. At present, we believe that the Trump Administration is likely to look favorably upon Canada and Mexico.

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