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What Washington Has in Mind For Your Business

Presented by Robert Costa

It's so great to be here in Santa Monica. I really appreciate everyone coming out. I'm Bob Costa with "National Review."

"National Review" is a great magazine to work for. We have a lot of fun. Bill Buckley, who passed away in 2008, founded the magazine in 1955. Yes, it's conservative; yes, it's to the right. But we try to have some fun with politics. And our reporting's really been building on Capitol Hill. That's my job.

At the Washington Bureau, we have five reporters. We're hiring more. If you're an opinion journal, you have to be able to report objectively. That's what I try to tell our team, "Get the story straight. We cover the conservative movement. We cover the Republican Party, but let's tell the story as is." If Boehner's messing up we'll call him on it. If Obama's messing up, we'll do the same.

A few people have asked, "As a reporter and editor, how do you get your stories? Are you at receptions like this?" And the answer is no. There's an image in Washington that reporters get their stories by going to Georgetown cocktail parties. Well, that's not really how it is.

When we're having drinks and cheese here, I think about how I really get my stories, and I think about this place called Pete's Diner on Capitol Hill -- tiny, horrible food, horrible place. But every morning, at 6:00 a.m., there are a lot of black SUVs outside. And John Boehner, Speaker of the House, has breakfast at Pete's Diner every morning. And I go to Pete's Diner. When I moved to Washington in 2010 to work for "National Review" and help build their bureau, I started to go to Pete's Diner every day because that's really how you get the story in Washington. You can't just show up at the party after work. The politician's breakfast is the thing in Washington. And Boehner eats alone. So I said to myself, I've got to start going there, and I did.

When I first started sitting at Pete's Diner with Boehner, he wasn't really interested. He knew I was a reporter with "National Review." But eventually, I started talking football with him.

And so I still go to Pete's Diner almost all the time. It's the one thing I feel bad about saying in public. Now every lobbyist in town is going to be crowding out the same bar -- the breakfast bar.

But I thought of Pete's Diner tonight and Boehner specifically when I was thinking about this talk, because it's important to understand House Republicans and John Boehner, what the stakes are right now, and how the politics and personalities in Washington really do drive business decisions in Congress, drive business policy, and drive tax policy. It's probably not the best way for government to work, but if you understand the politics behind what's happening on policy, I think it will give you a better sense. And this is something I just learned, living in the marble halls of the Capitol, being there till 2:00 a.m. for the fiscal cliff: that personalities and the politics really matter.

John Boehner has a tough job. He's been Speaker since January of 2011, and he's struggled to get the right flank of the House Republican Congress on his side. In the summer of 2011, there was the thought of a grand bargain. And the President had Speaker Boehner over to the White House for hours. They would huddle at night. Boehner would have his merlot and cigarettes, and Obama always had a Nicorette, because Michelle does not let him smoke.

But these talks collapsed. Since 2011, any kind of real tax reform, any kind of fiscal fix seems impossible, because the right was so furious with Boehner for negotiating with the President that they went to Boehner at the end of 2012, and said, "If you negotiate one-on-one with the President again, you're finished. We'll kick you out of the speakership."

And some of you may remember, in January of this year, there was a Speaker election, and there was a lot of buzz in Washington that John Boehner could be in trouble. When the floor vote came for the speakership, Boehner lost a dozen Republicans. Not enough to lose the gavel, but it was a shock to Boehner.

So we have a sclerotic Congress right now. Boehner's afraid to do anything. And the rumor in Washington is that Boehner is probably going to retire in the next two years. But even with retirement on the horizon, Boehner's not really able to do anything at all.

We're dealing with a divided government. John Boehner controls the House, Democrats control the Senate, Democrats, of course, control the White House. What can really happen?

And you have to have something to ignite Congress, to get it moving again, because it really has been slow. You saw, for example, with the fiscal cliff, with sequestration, gun control -- nothing's really happening in Washington.

But that all changed recently, and I think this is a turning point we should all be paying attention to: the IRS. Whether or not you think it's a big scandal, this has changed the stakes in Washington, and it's changing how people in Washington are talking about tax reform specifically.

I'm going to talk about a few topics today, about the politics of the moment and what I'm hearing as a reporter, as someone who really is inside the right, knowing conservatives, but also tries to cover the news as factually as possible. Sometimes Democrats don't talk to "National Review," but I do my best. We're going to have questions at the end. I would love to have a conversation, to hear what you're thinking about politics and policy.

TAX REFORM

Let's start off with tax reform and in particular, the politics of tax reform. This is something the IRS issue is really changing because you see some motivation for Congress to really act, not only on the right but on the left.

On the left is Max Baucus, senior Senator from Montana, a top Democrat on the Senate Finance Committee. On the right is Dave Camp from Michigan, a Republican, chairman of the Ways and Means

Committee in the House. And these two gentlemen are the people who are trying to use the IRS scandal to get tax reform moving.

Dave Camp has recently had listening sessions in the House trying to talk to conservatives, get them on board to do something. Max Baucus just announced his retirement. He's not going to be running for the Senate in 2014, and so what a lot of people on K Street think is that if Baucus is retiring, maybe he's in a position to make a deal.

But it's complicated. What is tax reform going to look like? What are they really talking about when they're behind closed doors? That's what we ask as reporters. And every day in Congress, you have lobbyists asking the same questions. Here's what I'm hearing: Corporate tax reform, more than anything, is probably where there's an area of compromise.

2013 is complicated. A lot of Republicans are very hesitant about doing anything until 2015 because 2013 and 14 are ahead of the 2014 elections. The Republicans really want to win the Senate in 2014 to have some better leverage with Obama.

But in the meantime, before 2014, what can happen? Corporate tax reform. If you look at what Camp has been talking about, he wants to bring the corporate rate from 35 percent to 25 percent. Behind closed doors, Camp and other Republicans admit that the President has come out with his own plan and has said he's willing to have the corporate rate be 28 percent, so that's seen as an area of compromise.

But even the corporate tax reform debate is meeting a lot of resistance because, as many in the business community talk about, as much as you want to see the rate go down, who's really willing to give up their deduction? Who's really willing to give up their loophole? How are you going to get the revenue to fill that in? Because Republicans and Democrats both agree that it has to be revenue-neutral.

I talked to one of Camp's aides a couple of days ago, trying to figure out what's really going to happen on the tax reform front to help inform our talk today. He said, "Costa, look at the small deal." Camp and Baucus talk about comprehensive tax reform -- the big deal. That's not really possible right now because of Boehner's problems and the election looming. So what does a small deal look like? He said one thing they want to try to do is allow overseas repatriation, but cut some loopholes to try to pay for it.

Peter Roskim is someone I think we should pay attention to. He's from Illinois, and he's very close with Kevin McCarthy, who's from Bakersfield. Kevin McCarthy is the whip. He's number three in the House. Roskim is the deputy whip, and he's working with McCarthy to try to come up with an agreement among the right inside the House, working with Democrats to get corporate tax reform as an individual package. John Boehner, though, has been resistant to this. He wants to try to use tax reform as leverage with the debt limit.

Now, the debt limit is what caused the 2011 discussions, the grand bargain, to collapse. The Republicans look at the calendar, and say, "The debt limit's going to come up in the late summer and the fall. What can we attach to the debt limit to demand some concession in divided government?"

And so the corporate rate is really what they're going to work on. Orrin Hatch from Utah is very much a proponent of this.

As much as Republicans try to get tax reform done, there's still very strong resistance in the conference, in the Senate, and the House. You've heard about Ted Cruz, the new Texas senator, who's very conservative. Mike Lee from Utah, Rand Paul from Kentucky -- they don't want anything to do with revenue.

And while the politics of tax reform seem to be moving toward a comprehensive package, corporations are very, very resistant.

And Democrats themselves are wanting to find some kind of replacement for the revenue should we cut tax reform. There was a new GAO study in March that had 80 business taxes that were about replacing the corporate revenue, but I just don't see it happening this year. Maybe in 2014.

One of the relationships that is really interesting to watch is Camp versus Boehner. Boehner is, as I said, very sensitive to the right in the House. Baucus is a little more free now that he's retiring. Camp really wants this to be kind of a capstone to his career, but getting anything through is very tough.

And what's the President's role in all this? Let's say Camp and Baucus cut a deal. One thing that both parties worry about is, if you bring tax reform to the floor in 2013, where is Obama? Is he going to help Congress get this through?

Obama's had a rough run this year. Immigration reform is inching forward in the Senate and still facing a tough road in the House. The President tried to use his power for gun control. He had Pat Toomey from Pennsylvania, a conservative Republican, who went moderate on background checks. They tried to get something done. It didn't happen. Sequester was a failure for the President, who tried to make it a real issue to replace the cuts.

I interviewed Mitch McConnell the other day, the Republican leader in the Senate. I asked him about tax reform. I said, "I'm going to California, speaking to the business and legal community. They're interested in growth, interested in what you're doing." And he said, "Bob, as much as we can go into the details of policy, what's really limiting us is the President." You can shrug and say, "That's a partisan comment." Of course it is.

McConnell's been in Congress since the eighties. And he brought up the 1986 tax reform with Reagan and Tip O'Neill. He said that was a second-term tax reform for Reagan. In the second term, a president might be in position to push something forward like Reagan did in '86.

I challenged McConnell and other senators I talk to who argue that Obama is the problem: "Well, can't you be Obama's Tip O'Neill? Are you willing to work with the President on tax reform?"

And it just seems like both sides can't come together. They talk broadly about limiting the corporate rate. But even now, when I asked the aides the other day of both Democrats and Republicans on the Finance Committee and the Ways and Means Committee, "Can you name one deduction you could put

on the record that I could talk about?" they won't do it. Not one loophole. It's still all being negotiated with K Street.

So you're going to hear a lot of optimism about tax reform, but I'm pessimistic as a reporter. Dave Camp just came out with his own report about tax reform. It doesn't name one real deduction, doesn't talk about mortgage deductions, doesn't talk about any of the business deductions. Nothing's been specified. It's really a political issue. And I think that's important to remember because the politics of tax reform is really what they're selling more than tax reform itself.

There is plenty of talk about '86, but this is not 1986. The Congress now is not like it was in the days of Reagan and Tip O'Neill. It's changed very much.

Apple came to Congress the other day. They're following the tax code, they're following the law, yet they're vilified. Brought before Congress and vilified. This is the Congress that wrote the tax code, and Apple's just following that code and what the law is.

BUDGET WARS

There are some things you should be paying attention to as a business community concerning the budget. Because Obama knows that tax reform is quite probably not going to happen, he's going to try to use his budget, which he proposed for the first time this year, to implement change. Remember that Obama didn't propose a budget for a long time. He's finally put his ideas on the table, and behind the scenes, that is really driving discussion.

So let's talk a little bit about the budget wars. This is the more fascinating part of the economic financial discussion on Capitol Hill because for so long, it was just Paul Ryan proposing his own budget in the House, the President didn't really have a budget, and there was no discussion of any real merit. The House passed the Ryan budget earlier this year. The Senate passed its own version of the budget ahead of the President's budget, which is a little different. Chuck Schumer made his own difference. He does not like to attack the banks in the same way the president does.

One thing that's going to be happening later this summer is a Conference Committee. And this is when the House budget comes together with the Senate budget, and they try to come up with some kind of compromise. It will be important to watch the Conference Committee process closely to see what they're going to try to do.

As the budget process moves forward and members to the Conference Committee are appointed, one thing that really is a hot issue in Washington is carried interest.

Democrats consider carried interest to be a loophole. Obama resisted making it part of the fiscal cliff deal. If you read Obama's budget, he is no longer treating carried interest as a capital gain. The thought process for Obama and the White House appears to be that if you can get rid of carried interest as a capital gain it could be a real win for the president politically. And why does this matter? Because Obama has a lot of things in his budget. He has a big wish list for fiscal issues and economic issues.

And it matters because Boehner himself has said publicly he's open to getting rid of carried interest as a capital gain. Boehner very rarely says he's open to anything. And one reason Boehner is saying he's open to getting rid of carried interest as a capital gain is he wants to push it back at Schumer. It's a political game. The Democrats want to put it out there that the Republicans don't want to touch the rich. Then Boehner thinks to himself, "Well, we'll accept your deal on carried interest. We'll get some revenue from carried interest. We'll give in to that." Because Boehner and McConnell don't think the right's going to revolt if the terms of carried interest are changed in a budget deal. Carried interest just isn't something that the Heritage Foundation or the Tea Party are going to have a march on the street about.

In fact, the Republican Party, even in the House, is very populist in many ways, and so if Boehner makes a deal on carried interest, it's something in a divided government that could be part of a deal.

K Street, though, is very worried. Private equity lobbyists and venture capital lobbyists are very nervous about this because they know it's real.

If anyone is going to be an ally of private equity and venture capital, it's Chuck Schumer. I think he will do his utmost to prevent this from happening even if Boehner wants to have a deal on carried interest. Chuck Schumer kept carried interest out of the fiscal cliff. He can probably keep it out of the Budget Conference Committee later this summer, but it's something to have on your radar.

Carried interest is an issue at the top of the aides' agendas and the reporters' notebooks, but capping the 401(k)s is another key issue. In his budget, Obama wants to set a lifetime cap on contributions to 401(k)s at an average of about \$2.7 million. And he wants companies to have the burden of regulating the cap, of coming up with the paperwork and creating the plans for this changed system. Republicans may be resistant to this, but they're not putting up too much of a fight. And so at a Conference Committee later this summer, it's going to be very hush-hush and very quiet. But 401(k) caps are something to watch.

Another big financial issue that has a lot of businesses concerned is the online sales tax, because Republicans are turning on the big business community in many ways. The online sales tax passed 69 to 27 in the Senate.

It's the pressure from local businesses that's really motivating senators and congressmen to support the online sales tax.

Boehner has said he won't back an online sales tax. Other than that, the only real salvo for big business, something that can save the business community on the online sales tax, is Bob Goodlatte. I had interviewed him the other day for a piece about the online sales tax with "National Review."

Goodlatte's an interesting guy. He's from southern Virginia, and he's getting a lot of criticism right now for being the congressman who's trying to slow up the immigration debate. He does this through what's called the "slow motion sausage factory."

A bill comes over from the Senate, has a lot of momentum, meets Bob Goodlatte and seems to die as it goes through the committee process. And this is a very onerous process. You have to have hearings -- subcommittee hearings, full committee hearings -- and full committee votes. It takes a long time. And so right now the "New York Times" editorial page and others are slamming Goodlatte for slowing down the immigration debate. As an aside, my own view is that the Gang of Eight's bill on immigration is probably going to pass.

But Goodlatte's doing the same thing on the online sales tax. Very slow. And Goodlatte says, "I'm in no rush." The quote he gave me the other day on the online sales tax is: "The Senate can do whatever they want. We're going to very much take our time here in the House." And so as much as there's all this buzz on the 69 votes in the Senate (with a divided government that's a big deal), Bob Goodlatte can slow things to a crawl in the House.

When John Boehner heard about what Goodlatte was doing he came out with a public statement saying he's not going to back the online sales tax. So if you don't have Bob Goodlatte, the Judiciary Committee Chairman, or the Speaker of the House backing the online sales tax, it's probably not going to pass the House. And if it does pass the House, it's going to be part of some concession, a concession from the left with conservatives.

So these are the three things people are talking about right now on Capitol Hill:

--401(k) caps, probable, but it would have to be part of a larger deal;

--Carried interest, very possible. Boehner's supporting it; House leadership is supporting it;

--Online sales tax, if Boehner doesn't back it and the House Republicans don't back it, it doesn't stand much of a chance.

Looking back at tax reform and talking about the budget wars, it's really fascinating to watch the President, because the President has tried so hard to get some kind of public interest and national momentum behind the budget. But these issues aren't catching fire. They're on the back pages of "Politico" and "The Roll Call" and "The Hill." Not many people are talking about these issues, but they're very important to the business community. And K Street, as I said, is up in arms about all of these issues.

When we look at the Obama second term, we have to think about this President, who won by a resounding margin, and Mitt Romney, who had his own issues with private equity, using carried interest as a campaign issue. Obama feels that he should be getting a lot more revenue from Republicans. But that's just not how Washington works today.

One thing that has surprised me as a reporter is that the Republicans control one chamber, the House of Representatives, yet they seem to dictate the agenda. Harry Reid has a lot of power. The President is the President. But House Republicans have found a way to be an opposition party and to slow things down. They may not win battles now in a divided government, but they're always able to slow things down.

And while the President keeps talking about getting new revenue and new taxes, it's not really happening. Even the deal on the fiscal cliff was not great for the President. He got some taxes, but it wasn't what he was looking for. He never got his grand bargain with revenue.

And today, if you're the President and you're dealing with the House Republican conference, John Boehner won't talk to you. John Boehner has been told he will lose his job if he continues to talk to the President in one-on-one negotiations.

So there's no grand bargain, and the President says, "Okay. Can't get immigration done. That's slow. Can't get anything done on the budget. Everything I want on capping 401(k)s or taking it to the banks doesn't really happen." So where does he go? Where does he go in his second term?

LEGISLATIVE VS. REGULATORY ACTION

Obama is a big-picture guy. I go to White House press conferences all the time. He has a savvy staff around him (beyond the IRS). And the President's now starting to talk about regulatory policy. If he can't work with Congress, the second-term story is going to be about regulatory policy.

This is complicated for the President because, as much as he can assert himself more with the regulatory policy than he can through congressional activity, he puts himself at risk of alienating the business community with being too over the top. With regulatory policy, he can give away a lot of goodies. How can the president be strategic on regulatory policy, if he's not getting what he wants? How can he stick it to the big business community on taxes or the budget and talk tax reform? How can he get his agenda moving?

The President is under a lot of pressure - and a lot of the pressure is from the left. One thing we've seen this spring is the Green Movement. The left, on green issues, has been pushing the President hard for more EPA regulations. Later this year a new environmental study is coming out. And I hear from my White House sources the President's going to push some major new greenhouse gas standards.

The President took a lot of heat from the left because in 2009 and 2010, when the President and Democrats controlled the Congress, he went after health care. He got Obamacare passed, but he did not go after climate change. He did not really do much on green issues, so he's going to need to initiate more activity on that front.

A Republican member of Congress joked to me the other day that the seven words he hates more than anything to hear are when the President says, "Let me be clear. We must act." The President says this a lot, and he really wants to act on regulation. And Obamacare is the policy that is really going to consume our politics for the next year.

You can say that Republicans may be making a poor strategic decision. They ran opposed to Obamacare in 2010. They ran opposed to Obamacare in 2012. It didn't really work out. And again they think they're going to run on the regulations and implementation of Obamacare in 2014. Mitch McConnell has said it's going to be a keystone for Republicans taking over the Senate. As much as the President wants to push regulation, the Republicans want to use it against the President and Democrats.

In the Capitol, there's a huge red tape tower with all of Obamacare's regulations. And the Republicans want to really sell this to the public as something that's going to burden businesses, kill business, kill jobs.

But the President believes (backed by internal polling and his advisors) that Obamacare is not that big a problem. He's betting that the implementation is not going to sour people on the law. Even though Max Baucus, who I've discussed earlier, has called it a train wreck waiting to happen, the President's betting that the regulations for Obamacare are not going to really kill him in 2014.

The question now in the White House is: the President wants to act through regulations, but who's going to do it?

Cass Sunstein just left the White House. He was Obama's chief regulator for a long time. He was considered more of an academic type in the White House. He was not going over the top to really do too much with regulation.

The current team in the White House, after David Axelrod has left, after Cass Sunstein has left, is starting to look at the banks because the banks are doing too well, according to the White House. The banks are doing phenomenally under Dodd-Frank.

And so David Vitter and Sherrod Brown -- David Vitter, infamous senator from Louisiana, and Sherrod Brown, Democrat from Ohio -- have come up with the idea of more regulation of banks. This is something that's trying to animate the Senate right now. If you have a bank with \$400 billion of capital in assets, you need to hold more capital. And they want to start rallying against this "too big to fail" idea. Opponents of this have said, "It's boutique public policy to target the banks because they're doing fine. You're just limiting growth."

But Vitter and Brown are getting a lot of attention right now in Washington for trying to go at "too big to fail." My only problem with Vitter and Brown is that they aren't power players. They're not really dictating the agenda for either party in the Senate.

As much as Vitter and Brown are getting attention for going after the banks, again, we're in a sclerotic situation in Washington where I just don't see Vitter-Brown passing.

And this is the thing about Obama's Washington in the second term. A lot of things are talked about. Not much is happening. It's kind of tough to give an update from Capitol Hill because there's nothing tangible to report. There's a lot of rhetoric, a lot of bills that are being proposed. For now, keep an eye on how Obama's handling the banks, what's he going to do on regulation.

Energy is another key issue. The administration's very much opposed to fracking, at least to how it's regulated. Republicans are getting wary of the fracking regulations. They're worried that the President's not going to approve the Keystone XL Pipeline.

Republicans are going to run in 2014 on the idea of getting the country energy independent. So we'll see how this pans out.

THE FUTURE

Washington is really a tough town right now. For me, the image of John Boehner having breakfast sad and alone at Pete's Diner, is Washington. If you're a business leader here in Los Angeles, you've got to think, "How do I deal with this?" I think about this as a reporter every day.

As much as things are slow right now, you do see movement on a few key fronts. The Gang of Eight plan on immigration is really a success story if you're looking for a bipartisan compromise that actually has a chance.

As much as I talked about Bob Goodlatte trying to slow this down in the House, immigration reform in 2007 was killed by talk radio. Conservatives were very much against it. "National Review" is editorially against the Gang of Eight's immigration plan.

But immigration now has a chance. The blessing of Marco Rubio from Florida, is key to enabling immigration reform. The unions are very much opposed to immigration reform. But the business community has spent a lot of money on making sure the Gang of Eight's plan doesn't just fizzle as talk radio and conservative opponents attack it, and it looks like it's going to pass the Senate probably with 60 to 70 votes.

A lot of people in the business community do want immigration reform to happen. I know California has its own issues with the border. But it's going to pass the House. If it's going to get beyond the Bob Goodlatte obstruction, it needs someone besides Marco Rubio to support immigration reform.

Can a Ted Cruz, a Mike Lee, a Rand Paul, a Mitch McConnell (he's still vague on where he is on immigration reform), come out for immigration reform? It's something that remains to be seen.

There are some key races to watch here in 2013 to tell us a little bit about what the stakes will be in 2014 and also who's going to win in 2014 and 2016.

Right now, the Republican Party is very much in disarray. The one bright light for the party this year is a special election -- excuse me -- the gubernatorial election in New Jersey. Chris Christie's running against Barbara Buono. He's way ahead in the polls. Even though he went after the unions in 2010 and 2011 on pension reform, he's found a way to appeal to the voters: His work with Obama on Hurricane Sandy.

Chris Christie is going to win reelection in 2013. I think he's going to run for president in 2016. As a reporter, you're always looking for clues. Is he going to run? I had breakfast with Chris Christie the other day. Chris Christie is famous for having pancake breakfasts with eggs. He's a big man. He's only about this tall, but he's big. I had a chocolate croissant and coffee. His breakfast came. He had ordered before I sat down, and he had a tiny plate of berries. I thought, "This guy's running for president."

So Chris Christie is going to run. The right loves to say Christie can't win because he hugged the President after a storm. If you win reelection in a blue state like New Jersey, you're on the path for 2016.

And I think Christie is someone with more moderate views. He's someone who appeals to suburban voters. I grew up in the Philadelphia suburbs, starting out as a reporter for the Bucks County "Courier Times." In those types of suburban places they're looking for someone who's conservative on social issues, perhaps, but who doesn't lead with that, who talks about economic and fiscal issues.

So I think Christie's reelection is going to be a big story later this year. It's just not that fun to continue to talk about how much they're not getting done on Capitol Hill and how much is not going to happen.

All the talk among lobbyists and the business community about a budget happening and all these different deals could easily collapse, and the only thing Congress has to do is pass a continuing resolution to fund the government, and things go on as is. So don't expect much.

Another election this year is a little more complicated for Republicans. Actually, it's not that great for the Democrats, either. It's in Virginia. Ken Cuccinelli, conservative Attorney General, is running against Terry McAuliffe, former head of the Democratic Party.

Cuccinelli is very conservative. He's not going to do well in the northern Virginia suburbs. And he really is struggling because, at the recent convention in Richmond, an African-American preacher named E.W. Jackson, who calls himself the Herman Cain of Virginia politics, was named the candidate for Lieutenant Governor. This is devastating Cuccinelli's chances to have a very conservative ticket in a purple state like Virginia. So Cuccinelli has a big challenge ahead. It's probably not going to be a great story for Republicans, but he could still win.

McAuliffe's not very savvy himself. His claim to fame is that he's best friends with Bill Clinton. Beyond that, not much.

There is a special election right now in Massachusetts, and Republicans are a little worried about this because Gabriel Gomez is running against Ed Markey to fill John Kerry's seat, and that election's coming up this month. And Gomez is no Scott Brown.

I was up in Boston in 2010 when Scott Brown was running, and I was traveling around Boston with him. You could really feel that Obamacare was going ahead -- and I was walking through North Boston with Brown. Republicans were on the rise, and Brown was going to be the guy who tried to beat down Obamacare.

But Gomez is a very moderate Republican -- a veteran, running in Massachusetts. He's going to lose, almost undoubtedly, to Ed Markey. He's down 12 points in the opinion polls, so that's not really a great story for Republicans, either.

So Obama's looking at the map, and he sees Christie. He thinks Christie's kind of an outlier, such a big personality. He thinks Cuccinelli's probably going down in Virginia. Gomez is going down in Massachusetts. Republicans just lost in 2012. Republicans like McConnell still have this idea they can maybe win the Senate in 2014. But when you talk to White House people, they say that's a fiction, it's just not happening.

And so I think back to Boehner. When he was under fire in January, he went before the conference and said, "Look, I know you're very unhappy with me. You're very unhappy with the negotiations with the President that I'm doing on the fiscal cliff." And he started to pray.

Boehner's a very devout Catholic. Every time he goes to Pete's Diner, he goes to a Catholic church down the street for Mass at 7:00 a.m. And one day, in front of the entire Republican Congress, he gave the Serenity Prayer("God, grant me the wisdom to accept the things I cannot change.") He gave that whole prayer, and a lot of people were raising their eyebrows and saying, "What's he doing?"

This is Boehner right now. He really wants the serenity, and he had nothing else to say to his own Republican colleagues. Just, "I can't change anything with the President. I can't change anything with you."

I'm on with Kudlow. He's great, Larry Kudlow. I'm on three or four times a week with Kudlow. And every time I'm on TV with him he says, "Where's the growth message, Costa? " And it's not there.

And the Republican Party is mainly responsible. The Republican Party has been obsessed with fiscal policy for the last two or three years. Where's the pro-growth message? You don't hear it from Republicans.

The leader of the Republican Party from an ideological and philosophical perspective has been Paul Ryan, culminating with his nomination for the vice-presidency on the Republican ticket last year. The Republicans, and Ryan, are obsessed with debt, and if you're in Santa Monica or if you're in Yardley, Pennsylvania, where I grew up, and you ask people about the debt, it doesn't resonate.

The party has bet on the debt, and it hasn't talked about growth. And so when you talk about tax reform and talk about the budgeting wars, that's really all about the debt. And this is something the Republican Party is still struggling to get over.

Conservatives were elated when Paul Ryan was put on the presidential ticket. They thought, "This guy can articulate it. He's smart. He's young."

But the country doesn't really seem to care. To be sure, people are concerned about the debt. But from a polling perspective, a political perspective, it doesn't get people to the polls in the way that a pro-growth message does. Which takes us back to Kudlow and his question about a growth message.

The Republicans haven't found their footing. Boehner's eating alone. Senators are not making deals. This used to be a town of deals, and that's no longer the case. And unless Republicans take the Senate in 2014, I don't see much happening.

For example, just this past week, John McCain called Ted Cruz, the very conservative freshman senator from Texas a "wacko bird." It's a very John McCain-type phrase.

John McCain called Ted Cruz a wacko bird because Cruz does not want the budget conference that I've spoken about, this idea of the House bill coming together with the Senate bill in order to come up with a

compromise. Cruz wants to block that process from even happening. So we can talk all we want to about tax reform and taxes, but if you have people in the Senate blocking the process, good luck even finding a solution. And I say this as a conservative reporter.

Here's another John McCain story. The other day, I was waiting for a train. The Senate has a train system that runs between the Capitol and the Senate offices. And, you know, I'm 27, and I should probably be walking more. But I was taking the train. I was waiting for the train to come from the Capitol back to the Senate offices to interview a senator. And I get this punch to the shoulder. It was McCain. He said, "What the hell are you doing? You should be walking, not taking the train at your age." And then he started running to wherever he was going.

So there are some people like McCain who really have the energy. They're trying to get something done on the budget right now to get beyond this stalemate. But it's difficult. And until the next presidential election, things aren't going to be settled within the Republican Party.

Beyond Christie, you'll have a lot of other people running. I'm going to go to the Reagan Library tomorrow to hear Rand Paul. He's been making the rounds in Silicon Valley, going to Google's offices and Facebook. This is a Libertarian-type Republican from Kentucky. He's going to be running for President. Scott Walker, the Governor of Wisconsin, is going to run. Remember he battled the unions. Republicans are searching for someone who can articulate a message on growth, on being pro-business.

So to sum up, as you're planning ahead, be on the lookout for some kind of deal on tax reform. Beyond that, we're going to see Obama spend his second term trying to be a historic figure, a visionary figure, trying to get something done on environmental, regulatory, and banking issues. And remember that he's limited in what he can accomplish, too.

It's a very divided government. This is not 1986. We all need the serenity prayer.

Q&A FOLLOWING PRESENTATION

FIRST QUESTIONER:

First of all, thanks for coming out. We really appreciate your insight, and you're always welcome here. Maybe this time next year, we ought to do it again, see if they've made any progress in Congress.

MR. COSTA: We'll see. Good luck.

FIRST QUESTIONER: When Tim Cook was up in front of Congress getting raked over the coals about foreign cash not being repatriated, I heard McCain afterwards give him the once-over, saying that he should bring all this money in and maybe spend the money on jobs. What I didn't hear, though, was a Republican Congressional leader saying, "Wait a minute. This is not a bad guy. This is a good guy. He's making a lot of money. He's hiring a lot of people in the U.S. He's an innovator."

So I was surprised to hear McCain saying, "You really ought to bring all that money home. We should tax it." I'm thinking, "Wait a minute." But I didn't hear anybody else saying, "Now, wait a minute. These guys are good guys. They're following the rules. There shouldn't be a priority from the standpoint of Congressional support of business."

Am I right or wrong in that?

MR. COSTA: No. You're very right. McCain's a deal maker, but he comes out of that maverick, populist school of the Republican Party. A lot of conservatives on Capitol Hill, conservative senators, also wonder why McCain beats up business.

Apple's following the law. You did see Rand Paul come out and support Apple, but there were not a lot of voices out there, really. And it's odd because the Senate Finance Committee's writing the tax code.

Apple and all these businesses – all they're facing right now is hostility, not only from the left, from the administration on regulations and taxes, but from the right. And the businesses really got burned politically during the crisis. Mitt Romney tried saying, "Corporations are people, my friend," but that really has never caught on.

So talking about the people who are pro-business in the Senate, McCain is kind of a rabble-rouser on a lot of these issues, as much as he's experienced and trying to get deals done. But McConnell is very pro-business. McConnell has been supportive, Rand Paul, that flank of the party.

But you're right. There's no consensus about being pro-business within the Republican Party right now. They don't have a clear message. They talk about, "We need jobs, jobs, jobs, growth, but we're going to rail against Apple because we want to score political points." And so it causes confusion in the business community, causes confusion in Washington.

SECOND QUESTIONER:

So by his testimony Tim Cook highlighted the fact that the problem is the whole tax code. How about value-added taxes, which are prevalent all over the world. Is there any discussion about value-added in Washington?

MR. COSTA: There is. And it's often brought up with the idea of comprehensive tax reform. A lot of Republicans would like to move more towards value-added tax or to a fair sales tax. But the problem right now on tax reform is that both parties want to do corporate tax reform, and everything else is off the table.

As I said, they can't come up with one deduction they'll state publicly, left or right, on either issue. And even on corporate tax reform, maybe they'll get the rate down to 28 percent. But the President has said, "You may get the rate to 28 percent, but you're going to have to get a lot of revenue." And there's no way to find that revenue. The only way to get the revenue is to get rid of some deductions, and no one wants to get rid of their own deduction.

So a VAT's out there. It's at the think tanks. But there's not a lot of innovative thinking right now on taxes, and the value-added tax itself is not part of the discussion, for better or for worse.

THIRD QUESTIONER:

People always talk about energy independence as an issue, but not as a fact that's going to change the country, change the climate, change the world.

Energy is massively price elastic. If we get a lot of energy, energy prices crash, industry grows, jobs come back to the United States. It should be a government-sponsored concept like it is for every other country in the world. But it seems to be almost anti-government to be involved in energy. Has anyone done any work on how significant it would be if we weren't throwing a hundred dollars [a barrel] to the Middle East and then building a \$50 million missile to stop it from coming back?

MR. COSTA: In this setting tonight, we could have a logical conversation about this. But all I hear when I bring up energy or anything revolving around energy, especially from our own Congressional Republicans is, "Solyndra." There's no interest.

THIRD QUESTIONER : They connect Solyndra to alternative energy. The problem with alternative energy is, when you're drilling for oil, you put 5 million in the ground, and then you only produce it for a million, but now that million starts to be threatened because a Solyndra shows up, and the oil price crashes. So if you think Solyndra's going to be competitive at 100 [a barrel], oil's going to 40, and they're all going to file for bankruptcy.

MR. COSTA: What do you think of the politics of the Keystone Pipeline? The President continues to be hesitant to make a final decision on this. As an energy leader yourself, how do you see that? Do you think they're making too much of the issue?

THIRD QUESTIONER: What's happening is the environmentalists, who are a big part of Obama's war chest, made it an issue. I think that we're only talking about a hundred miles through part of Nebraska that they care about, and yet it's become a big issue on their part. And by the way, the biggest beneficiary of not having that pipeline is Warren Buffett because he puts it on the rail, and it goes around. Warren Buffett is a big ally of Obama. So it's more about politics than what's reality.

Right now you can build around that pipeline -- as a matter of fact, they are building around the pipeline. There's another pipeline that comes right down to the Cap Line, and you can just reverse that line and get it there. So it's only mildly relevant, but people like to talk about it.

MR. COSTA: I love coming out to California. People have innovative ideas on policy. You would never hear this in Washington. It's all the politics of Keystone pipeline, the politics of Solyndra. No one's really negotiating public policy in the public square on these issues. It's politics, pure politics.

FOURTH QUESTIONER:

Further to the discussion on energy: I find it kind of interesting that for the first time in the last 20 years, OPEC is truly starting to fight among themselves over the issue of how they're going to respond to the U.S. and Canadian shale oil, fracking, and what may be some energy action for the first time in quite some time.

You're speaking of Obama's final two years focusing on regulations. It seems to me that there's going to be a clash there.

MR. COSTA: A major clash. Obama's going to have a lot of decisions to make because he's getting so much pressure from the left to have new regulations, to be more green in his policies. But a lot of people within the Democratic Party also want to see some energy growth.

I think the President is an ideologue who always has to reconcile his ideology with his own political career and what he wants his second term to really be about. As all these new energy opportunities present themselves, the Republicans are trying to tempt the President into getting some kind of deal on energy, to have some new kind of energy policy that's pro expansion of energy independence.

But they think the president's resistant to this. This is why Republicans always bring up the Keystone pipeline. They think he's going to continue to resist. Taunt him with it, run on it in 2014. As much as that's happening, the President and the White House don't seem to be moving towards it, and Republicans don't have enough power to push it through.

FIFTH QUESTIONER:

Is there any discussion about using the IRS scandal as a hook to have a very targeted piece of legislation to move the administration of the Affordable Care Act (or Obamacare) to some other agency? Of course, that would inevitably mean creating a new governmental agency, but using that as a wedge issue to attack Obamacare?

MR. COSTA: Yes. Tom Price from Georgia, a Republican conservative, has come up with the idea of taking the IRS totally out of the implementation of Obamacare because the IRS, as we all know, gets a lot of power with Obamacare, with the Affordable Care Act, and Republicans now are trying to seize upon this as a political issue.

But earlier, I talked about Camp and Baucus --there's a real difference of opinion on tax reform and, especially with the IRS, of what the IRS scandal means. The IRS scandal is getting Congress moving. It's really changed the discussion. But there's still some hesitancy on a lot of fronts.

Some Republicans and Democrats think that the IRS scandal makes tax reform more possible. That's more of the Boehner and Baucus school, that the more people get frustrated with the IRS, the more they'll want to see reform.

But the other thought is that because tax reform has become so complicated and fragile, the IRS scandal acts as a political problem for the administration. The Republicans are going to go after Lois Lerner. They'll go after other top IRS bureaucrats. But the appetite for full IRS reform is not going to really be there, and the IRS scandal doesn't really lead to that.

But the IRS scandal is a fascinating thing to watch. I live and work every day in the Senate press gallery and the House press gallery. I've been there five years. And in five years of the Obama administration, I've never seen the press really hostile to the President until now. They have turned on him. It is almost visceral when you're in that press gallery. The people who I know are not sympathetic or friendly, but not overly critical in their coverage, are now just going at him day after day. It's like Watergate. Because the President's administration made a critical mistake in going after the press.

The press accepts a lot. But the administration started going after the AP and they started going after James Rosen at Fox News. The IRS story is not going to die. The IRS scandal is going to be part of the Obamacare discussion, it's going to be part of the 2014 discussion. And it makes for great copy. That's the thing. Obama's advisors keep brushing it off: "It's some bureaucrat in Cincinnati." But the press loves it. We're getting more clicks on our website than we have for months because of the IRS.

Every political magazine and opinion journal struggles after an election. People are obsessed with elections. Then the interest dies. Then we're covering stuff like John Boehner. So we love the IRS scandal, and it's going to be a cancer on the administration. I don't think it's going to touch Obama,

necessarily. But you have Neal Wolin at Treasury, who was informed of the investigation. And you have White House counsel who was informed and says she didn't tell the President – fine, perhaps. And Lois Lerner's not doing the President any favors by taking the Fifth. Two days ago we found out that Lois Lerner's signature was on a lot of search requests for conservative groups. Darrell Issa from California is not going to let this fade away.

The IRS is going to continue to be an issue, and I think Republicans know they have to be very careful here because they don't want to repeat 1998. Republicans pushed too hard on Lewinsky. They didn't do well in the '98 mid-terms. A lot of those '98 Republicans are still around. They're very concerned about being delicate on this.

Here's a strategic decision Boehner and McConnell just made. There's a push by some Republicans to get a special counsel to really look into the IRS issue. But Republicans have seized upon this issue so much that Boehner and McConnell don't want the IRS special counsel because, if they don't have a special counsel, that enables Congress to control the investigations. And that means this is political, and it's going to continue. Darryl Issa has subpoena power. They're going to keep bringing people in front of the House.

It's a bad story for the President. It hurts him on policy because, as much as it may lead to some tax reform, what I see happening and what I hear happening is that it's going to hurt Obamacare's implementation. If the Republicans can try to gut the IRS out of elements of the Affordable Care Act, it's a political win. And it just festers.

What I hear from my friends at the AP and the "New York Times," "Newsweek," and elsewhere, is that their editors are telling them, "This is a story. You have to pursue it." So it's going to be an issue with Obamacare for sure.

SIXTH QUESTIONER:

I actually have two questions. One, with respect to repatriation of foreign earnings: how much do you think the companies are just waiting for another tax holiday like the one the government provided 20 years ago, 15 years ago, et cetera? Has the government effectively created a problem?

MR. COSTA: Of course the government's created the problem.

SIXTH QUESTIONER: The second question is -- I was in a huge conference room with Eric Cantor and Harry Reid.

MR. COSTA: Oh, really. Together? They don't like each other.

SIXTH QUESTIONER: They went back and forth with respect to their ideals, which I guess really doesn't happen very much. And to hear these guys communicate was so depressing. It was a standoff between

Harry Reid, who never saw a dollar he didn't want to spend, and Eric Cantor saying, "We're never going to spend a dollar." And it gets back to your issue about growth. Harry Reid had ideas. You might like them, you might not like them. Eric Cantor, for the most part, only said, "Well, I don't like those ideas," but never had any ideas himself.

So what's your thought? Are we ever going to get to a point where there are moderates coming back who can actually get anything accomplished?

MR. COSTA: It's a great question. Bob Dole is getting up there in age. I just saw him at the Capitol recently. He was on the Sunday shows, and he said the Republicans should put a sign over the door saying, "Closed for repairs." He said he couldn't get elected today, Reagan couldn't get elected today.

Getting back to Cantor and Reid: you know they were big enemies in 2011 during the debt limit fight. They continue to be very unhappy with each other. Reid has been personally critical of Cantor, and Cantor is not thin-skinned when it comes to that. I profiled Cantor for "National Review" magazine, and he is not close with Reid. And the personal relationships matter.

But the politics also matter in the sense that Cantor is technically in line to be the next Speaker of the House. John Boehner is probably going to retire in 2014 or 2015, go back to Ohio, or maybe get a job in Washington like most of them.

And Cantor is really worried about the rise of others. Kevin McCarthy from California. Paul Ryan, fresh off the campaign trail, ascendant in the house, chairman of the Budget Committee. Camp's term is limited after 2014, and once he leaves, Ryan's going to be the next Ways and Means Committee chairman. Maybe Ryan wants to be Speaker. That's the buzz in Washington.

And when you talk about moderates in both parties, it's difficult, but they're there. For instance, Joe Manchin from West Virginia, Pat Toomey from Pennsylvania on gun control, two moderates who come together in many ways. But they don't run the conversation. Reid does not get more Democrats elected by being moderate.

Nancy Pelosi is still the leader of the House for the Democrats, the minority leader. Why is Nancy Pelosi the leader of the House? When the Democrats took the House, she became Speaker in January of '07. Speaker for a couple terms. But in 2010, all the moderate Democrats lost, and so Nancy Pelosi remains the minority leader because the liberals are really controlling the conversation.

As I said, Boehner is dictated to by the right. Boehner, more than anyone, is a deal maker. Boehner came out of the Newt Gingrich school and was part of that Republican revolution in '94. He became chairman of the Education Committee around 2000, 2001. Boehner wanted a moderate grand bargain. Boehner wanted to give revenue, 800 billion dollars in revenue, as part of a fiscal deal. But at the end of the day, Republicans won't give on revenue, and Democrats don't want to cut spending. So the lines are drawn in the sand.

And I'm like you. I try to be optimistic as an American, as a reporter. I'm interested in covering the deals and covering something happening and something that's a great story. But it is really divided right now, and it's moving so slowly because everyone's angling for 2014, 2016.

Rand Paul and Ted Cruz, whether you love them or you don't like them, are already running for president, and this is changing the dynamics of the Senate. If McConnell wants to get something done, he has to look to Ted Cruz and Rand Paul.

McConnell's running for reelection right now in Kentucky. The party in Kentucky is changed. Rand Paul is his fellow senator from Kentucky. McConnell can't be out there on a limb making a deal with the President, or doing something with Harry Reid because, if he does that, he'll get primaried in Kentucky.

And if you don't believe that primaries dictate a lot of this stuff, you're not paying attention. Fear of the primaries dictates Washington more than anything. It's not the lobbyists, necessarily, all the time. It's not the money. It's the fear of losing that power.

SEVENTH QUESTIONER:

If you fast forward another year or two, where would you predict that Eric Holder would be?

MR. COSTA: Gone.

SEVENTH QUESTIONER: Hillary Clinton and Joe Biden -- where is Joe Biden right now?

MR. COSTA: I just ran into Biden the other day. Father Hesburgh of Notre Dame was being honored at the Capitol -- 96-years- old -- and Biden showed up. He gave a great speech.

Biden's a pro. He makes a lot of mistakes, a lot of gaffes. But this guy's been in the Senate since the seventies, and is now Vice President. He is a great speaker. He gave a better speech than the President at the convention in Charlotte. Biden wants to run for President. He may even run for President if Hillary runs.

Eric Holder, though, is very close to the President. Eric Holder is in hot water right now because, not that he committed perjury, but (Audience laughter)

A MALE VOICE: Exactly. He committed perjury.

MR. COSTA: The thing you always learn about Obama when you read about him, when you talk to people who know him, is this guy is cold. And that's not a bad thing. But he's cold. He doesn't have many personal friends. He's not personally warm. He's not Bill Clinton. He's not touching people's shoulders. He's an amazing political talent, but he cuts people off.

There are many stories in David Remnick's book about Obama, Jonathan Alter's book about Obama, about how his people leave. So I'm very surprised in that sense that Eric Holder is still around.

Eric Holder hurts the administration. He's bumbled around at Justice. He's making mistakes. He's contacting judges to get a search of James Rosen, and James Rosen's parents, at Fox News. Democrats are unhappy with him, Charley Rangel is unhappy with him. It's the full spectrum, yet he's still in power.

And I think Obama's eventually going to cut him off. The only reason he's not been cut off or been asked to resign is because he's personally very close to the President. I don't think he can hang on that much longer.

So Biden wants to run. I think Hillary wants to run as well. But every Democrat I talk to in Washington says it's still 50-50 -- her health, her age. She has the ambition. Her husband has the ambition for another run. I think it's going to be hard for her to resist. But does she really have the energy, the commitment?

Another person to bear in mind is Andrew Cuomo from New York. He really wants to run. But Cuomo was given the Housing and Urban Development job by Clinton in the late nineties, so he's not going to run against her if she runs.

Other names: Martin O'Malley from Maryland, very much a tax-and-spend liberal, but a guy who has some pop culture savvy. Plays bass in a rock band, good-looking, smart, very left, but he has appeal. And his name is Martin O'Malley, kind of an old-school pol name.

And then Amy Klobuchar from Minnesota -- if Hilary doesn't run, watch her. No one knows her yet, but she's been meeting with people in Iowa, meeting with people in New Hampshire. Very dynamic female senator and more moderate in her temperament. She could be a player in 2016. She wants to be a player nationally.

But the real question is Hillary. Even though Biden really wants to run, I don't think he'll challenge Hillary. And should he challenge her, it would be difficult for him to beat her.

EIGHTH QUESTIONER:

We keep hearing about gridlock. It's depressing to realize that we're an eighth of the way between presidential elections, and elections are already causing gridlock. I mean, have we gotten to the point where it's going to take one party having the House and Senate, 61 Senators, and the White House for anything to ever get done? Is this a permanent state of affairs?

MR. COSTA: When did something really get done in Washington most recently? The President wins in '08. In 2009, 2010, he has the Senate, has the House, gets Obamacare, gets a lot of things through. And ever since Republicans took over the House in 2010, neither side has been able to function with divided

government. Harry Reid does not have a great relationship with the President. Cantor and Reid don't get along. Obama's relationship with Congressional Democrats is difficult.

And he's an historic politician, historic leader, two-term president, the first African-American president. But when you talk to Democrats -- and they've been public about this -- he does not have relationships with Congressional Democrats in the House or the Senate. He recently went on a dinner tour. The President was at the Jefferson Hotel in Washington trying to get Democrats engaged. But he doesn't have that personal touch. So that's part of the problem.

He was able to get a lot of things through when he was new in office, but he's really been a lame duck for a few years. That doesn't mean he should be ignored. There's regulatory policy, and he could still influence the budget.

So I agree with you, we're at an impasse right now. The presidential nature of politics is really over-dominating things. Everything is 2016 calculus, 2014 calculus, very little 2013 summer calculus. But on the bright side, the fact that people are angling to run in 2016 could lead to some developing leadership. For instance, Rand Paul is saying some positive things about the Gang of Eight's plan on immigration. He's running. Rubio, a Tea Party star, is taking a political risk on immigration. Rand Paul sees that. He's more towards Rubio on immigration. So, if someone who has 2016 on their mind starts to make a move, it could lead to some policy changes.

NINTH QUESTIONER:

Do you hear anything on the inside related to Bernanke's Fed policy, where that's going?

MR. COSTA: Well, who's going to be the next Fed chairman? That's the open question right now in Washington.

In terms of monetary policy, I don't really have much insight beyond that. As a reporter, I'm looking at who's going to fill his chair. And is Obama going to appoint an academic? Is he going to appoint someone who's willing to touch interest rates? That's the question people are asking the White House right now when I'm in the briefing room. They're asking if someone is really willing to do something on increasing interest rates.

Thank you, everyone. I'll be here awhile longer if you'd like to talk one-on-one.
