

U.S. Policy Flash

President Obama Outlines His Next, Difficult, 4 Years

- **SOTU emphasizes Obama's resolve to bolster the middle class**
- **Notions such as minimum wage and free trade re-enter Washington's lexicon**
- **With the fiscal debate in immediate focus, all other issues will have to sit idle**

President Barack Obama delivered his State of the Union address on Tuesday evening, sharing his outlook and strategy for his next four years in office. Of course, he could not avoid touching upon the most pressing issue, the ongoing fiscal debacle in Congress, and as the sequester nears implementation, Obama called for a bipartisan approach to tax and entitlement reform. He urged both Democrats and Republicans to follow his lead and thwart the coming sequester with a more commanding tone than his prior speeches.

Nevertheless, the sequestration was only one of a handful of topics that got attention throughout the speech. The next topic of economic conversation was the notion of an increase in the minimum wage to \$9/hr from the current \$7.25/hr and also to peg minimum wage to inflation so that it will rise as prices do. Two sides of the coin here are affected: employees are benefiting from an indexed wage already rising significantly from the 2009 increase but pressure is put on small businesses, already dealing with healthcare reform, to raise their cost of employees. During stronger economic times this might have won favor but with the new healthcare system weighing down more on small and middle sized businesses' balance sheets, an increase in the cost of employment might put an overwhelming burden on struggling businesses and hamper job creation. While the overall effects of higher minimum wage are still to be determined, the chance that this portion of the objectives for his second term comes into fruition any time soon are relatively low given the political circumstances.

A reform both parties applauded was the call for a simplified tax code that would stop benefiting those who moved operations abroad and start benefiting the small and medium sized businesses that employed within the nation coupled with reducing tax loopholes. While it's no secret that the current tax code is one of the most complicated in the developed world, tackling the problem will have to come in steps rather than a complete overhaul as its complexity begets even more complicated reform. However, the message was clear: the tax code must be reformed and incentives to hire domestically and manufacture within our borders is in the nation's best interest and on the agenda for the President's term.

Across the Atlantic, a massive sigh of relief swept the EU as the President announced talks of a free trade agreement with one of the U.S.'s largest trade partners. While the notion of a NAFTA-style agreement with the EU is by no means a new concept, the difficulty in arranging such an agreement is immense and might still take further evaluation before talks begin. Still, such an agreement would be a massive step in uniting almost half of the world's GDP and about a third of total global trade flows, posing gratuitous benefits for all those involved.

Overall it seems as though the President's plate is quite full. Not only are the proposed ideas at the forefront of his political agenda once the fiscal debate is over, but he stated, with confidence, that none of what he proposed would cost taxpayers a dime. While his first four years gave him an idea of the difficulties a partisan government can bequeath upon a willing president, his stance on the reforms proposed has not faltered. While the sequester and further budget talks are his top priority, the aforementioned goals would follow directly after a solution of the fiscal cliff debacle. Although they might seem optimistic, facets like the EU-U.S. trade talks have already been in the works and the tax code reform has been under heated debate already. This might be more change than he had anticipated when his campaign slogan first saw light but with his resume bolstered by reforms such as universal healthcare, President Obama might still be able to hang on to the change in his pocket.

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