

# THIS WEEK IN WASHINGTON

Week of February 20, 2017



We're sincerely grateful for the continued positive response to This Week in Washington.

Issue Four begins a two-part interview with Congressman Erik Paulsen (R-MN), a member of the House Ways and Means Committee. Congressman Paulsen participated in the 2016 and 2017 Arizona Chamber fly-ins, and agreed to discuss with [Steve Gordon](#) how he sees the upcoming debates over tax reform, healthcare, and trade. We also have included an overview article on defense spending written by [Al Jackson](#), a long time strategic consultant to Total Spectrum who has been involved in the defense and high technology community for almost 20 years.

[Dana Marston](#) provides the latest on the Cabinet's confirmation process. With Congress in recess this week, we'll provide a schedule update next week. Heard on the Hill returns to keep our focus on news, and not drama and noise.

As always, we appreciate your thoughts, feedback, and suggestions for future editions.

## Heard on the Hill, Week of Feb. 20

By [Steve Gordon](#), Managing Director, Total Spectrum

The Trump Administration is now one month old. President Trump's victory and a Republican Congress created the perception that progress could be made on a number of issues – but Job #1 for the administration is to create jobs and grow the economy.

*Administration.* Andrew Puzder was forced to withdraw his name as Secretary Designee of the Department of Labor because at least four and not more than twelve Republican

## ICYMI: Arizona Issues in the News

[Ducey, Flake: Why Arizona needs to move out of the 9th Circuit](#)

[Robb: Mexico. Don't Take Trump's bait](#)

[Trump Administration Considers Change in Calculating U.S. Trade Deficit](#)

[House GOP's Obamacare Blueprint Under Scrutiny](#)

[Amid Trump Controversies, Tax Overhaul's Uncertain Path](#)

## Cabinet Update

Click the image below for a complete update on President Trump's cabinet nominees, including their confirmation status and hearing dates.

domestic abuse, even though the statements had been recanted. Other Senators were concerned about a class action lawsuit filed in California last week that accused Mr. Puzder of running a wage-fixing scheme. Some of Mr. Puzder's friends are alleging that the Administration did not provide much if any cover and support for his candidacy because the White House was concerned about his level of support for anti-immigration programs. The Administration's new nominee is Alexander Acosta, who is dean of the Florida International University law school, chairman of U.S. Century Bank, and a former member of the National Labor Relations Board. [Read more.](#)



### On the Calendar This Week

No calendar this week due to Congressional recess.

## Democratic Plan for NAFTA Renegotiation

By [Larry Smith](#), Partner, President and Founder, Legislative Strategies Inc.

Democrats in the House of Representatives introduced a resolution last week calling on President Trump to begin renegotiations on NAFTA not later than June 1, 2017. The resolution -- led by Reps. Peter DeFazio (D-OR) and Rosa DeLauro (D-CT) -- laid out a series of policy positions, strongly supported by organized labor, which they hope would provide a framework for U.S. negotiations going forward with Canada and Mexico. [Read more.](#)

## Determining our Defense Needs for Fiscal Year 2018

By [Al Jackson](#), Principal, The Jackson Group

America's military has been underfunded for both maintenance and training as a result of budget cuts made through congressional sequestration. The Trump Administration will focus on prioritizing combat readiness by ensuring that military training and maintenance are both fully funded. The Fiscal Year 2018 budget proposal will likely include a significant funding increase for combat readiness. Judged by the two-conflict standard, the U.S. military, as it now stands, is too small. The priority in the upcoming budget will be to ensure that the military has sufficient forces to fight one war while maintaining the ability to deter other adversaries from harming U.S. interests elsewhere. Modernizing the military, including our missile defense, will be a focus in the 2018 fiscal year budget.

The focus of the Trump Administration, as it relates to national defense, is rooted in increasing combat readiness, growing the size of the military, and modernizing equipment. The President has promised swift expansion in U.S. military strength -- adding 90,000 soldiers to the Army; building a 350 ship Navy; and adding more fighter aircraft to the Air Force, specifically more F-15s and F-16s. The Navy can expect more F/A-18s, and an expansion of U.S. efforts in cyber-security can also be anticipated. [Read more.](#)

## Interview with Rep. Erik Paulsen (R -MN)

By [Steve Gordon](#), Managing Director, Total Spectrum

2017 Washington, D.C. fly-ins. We asked Congressman Paulsen to provide his thoughts on three major legislative issues -- tax reform, healthcare, and trade -- and he agreed. The first part of the interview follows, and the balance will be in next week's This Week in Washington.

Congressman Paulsen is in his 5th term representing Minnesota's third Congressional District. He is a member of the Ways and Means Committee, which has jurisdiction over health care, economic, and trade policy and is the chief tax writing committee in the House of Representatives. The Congressman is also a member of the Joint Economic Committee, which studies and performs research on matters relating to the U.S. economy, and advises Congress on how to best spur economic growth and create jobs. He serves as co-chair of the House Medical Technology Caucus and is a leader in advocating for the medical technology industry, and is also co-chair of the Transatlantic Trade and Investment Partnership Caucus, which promotes trade with Europe.

His legislative agenda includes tax reform for taxpayers and businesses, pro-growth initiatives, and believes that open markets are the key to a strong economy. [Read the interview here.](#)

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### Heard on the Hill, continued.

*Cabinet Nominees.* The U.S. Senate confirmed a number of nominees for Cabinet positions. However, the real work of any administration is done by under and deputy secretaries – of which there are 696 positions that require confirmation by the Senate. Only four positions have been filled to date.

*Tax Reform.* Speaker Paul Ryan and Ways and Means Chairman Brady are doing all they can to bolster and defend the proposed border adjustment tax, their plan to create the revenue the House of Representatives needs to make tax reform revenue neutral. Coalitions

### NAFTA, continued.

The resolution requests that that any new NAFTA Agreement include the following – as well as other provisions:

- \* Strong, binding, and enforceable labor and environmental standards;
- \* Obligate all signatories to adopt, maintain, implement, and enforce domestic laws that provide labor rights and protections under the International Labor Organization's Core Conventions;

Prosperity, a political grassroots organization supported by the Koch brothers, is beginning an extensive effort against the idea. Senate Majority Whip John Cornyn said the border proposal is on “life support.” Tax reform is a key part of the President’s plan to stimulate the economy, so expect the Administration to be fully involved -- and expect that tax reform will look dead a bunch of times... before it ultimately survives or dies.

*Health Care.* Dr. Tom Price, formerly a Congressman representing the 6th District of Georgia, is now the Secretary of Health and Human Services. He’ll be the point person on health care. House Leaders presented their blueprint last week to fellow Republican Congressmen on how to replace Obamacare, but the plan reportedly did not specify how to pay for it.

*Financial Regulations.* Federal Reserve Chair Janet Yellen called for regulatory relief for small banks in testimony last week before Congress.

**Underreported News**

*The battle of the budget.* High cost items -- infrastructure, health care, and others -- are being discussed, but few in Washington are discussing how to pay for them. Entitlement spending -- so called because a constituent gets the benefit if he or she is entitled -- is increasing as a percentage of government spending.

*Jared Kushner.* On behalf of the Administration, the President’s son-in-law is quietly serving as a primary point of contact for a number of other countries’ presidents and government officials.

*T&I.* Senator Jim Inhofe (R-OK) will have a lot to say about the President’s infrastructure program. Formerly Chairman of the Senate Environment and Public Works Committee, Senator Inhofe has been asked by the committee’s new chairman Senator John Barrasso (R-WY) to lead its Transportation and Infrastructure Subcommittee.

Quote to ponder this week:  
“Everything changes everything.”  
~ Earl Weaver, former coach of the Baltimore Orioles

**Rep. Erik Paulsen, continued.**

Congressman Paulsen brings real-world experience to Congress, having worked for a number of private sector companies, including as an analyst for Target Corporation. He also served in the Minnesota State Legislature for 14 years, including four years as the House

environmental agreements;

\* Requirement that the labor and environmental commitments be enforceable through an independent dispute settlement process and subject to the same sanctions as commercial provisions under NAFTA;

\* Ensure that market access is conditioned on labor and environmental commitments being enforced;

\* Allow for a tax on imported goods made under highly climate-polluting conditions;

\* Provide for regulations that govern and protect organized labor recruitment in each country;

\* Allow for binding rules to limit currency manipulation to gain an unfair advantage over U.S. exports;

\* Increase the auto rule of origin to require 90% of a product’s value is legitimately sourced from a country that is a party to the trade agreement;

\* Mandate new rules to limit transshipment and other loopholes;

\* Provide for new rules requiring that imported food to the U.S. must meet U.S. standards for safety, inspection and labeling.

This resolution has little chance of passage in the House because Republicans have control. What the Democrats and organized labor have done, however, is put forth a list of issues they want in any new NAFTA agreement – a checklist they will use to determine whether they will either support or oppose any agreement that the Trump Administration sends to the Congress.

**Determining our Defense, continued.**

The prevailing theme in Washington is that defense spending will not skyrocket to the level congressional defense hawks and industry would like because defense needs will have to compete with proposed tax cuts, healthcare reform, and border security. The Pentagon will have to prioritize the additional funding it receives, and given this likelihood, will likely not be able to afford to start many new projects -- especially higher risk projects that are years away from production.

Next-generation weapon systems that will face especially difficult fiscal roadblocks are the

mathematics from St. Olaf College.

Steve Gordon: Congressman, the top corporate rate currently is 35% -- the highest in the industrialized world. What is the target goal for the top rate under comprehensive tax reform? What is the target goal for individuals under comprehensive tax reform?

Erik Paulsen: House Republicans in our tax reform blueprint set a target top tax rate of 20 percent for corporations, 25 percent for small businesses and pass-through entities, and 33 percent for individuals. These significant reductions in tax rates, along with simplification, will encourage economic growth and job creation. Main Street small businesses need tax relief and simplification so they can invest more capital in their operations and employees. Families and individuals also need tax relief so they can keep more of their paycheck and create more opportunity.

Steve Gordon: Current estimates are that U.S. corporations have over \$2 trillion overseas that has not been repatriated and therefore not taxed. We have heard of a number of possible uses for this money, including for infrastructure. What are your thoughts as to the best use of this potential revenue?

Erik Paulsen: There are many possible uses for this money when it is repatriated, including infrastructure and health care-related costs, among others. However, I believe the most efficient use of this money would allow us to implement broader tax reform with lower rates and simplification. This will help ensure a stronger economy, a boost in paychecks, and more jobs.

Steve Gordon: Ways and Means Chairman Brady wants the tax bill to be revenue neutral. The House plan seems to generate potential revenue from the proposed Border Adjustment Tax. The Senate seems to be looking at tax expenditures (a reduction of deductions and credits). The President has said he will come out with his own plan in the next few weeks. When will the Ways and Means committee mark up its bill? Most experts say we have to get tax reform done this year, because next year is an election year. Is that doable?

Erik Paulsen: The aim is to pass tax reform in 2017. While there is currently no exact timetable, we are working hard on the Ways and Means Committee to sort out the details and make sure all stakeholders have a voice in helping shape what a final tax reform policy should look like. Since major tax reform only happens once in a generation, we should make sure that it is built for growth.

The unpredictability of the cost of those ambitious programs makes them vulnerable. The White House will continue to put pressure on industry to lower the cost of weapon systems, notably the F-35.

Congress is expected to receive from the administration in March a Department of Defense supplemental funding request which will be in the neighborhood of \$20 to \$40 billion. The Fiscal-Year 2017 budget resolution passed earlier by the House and Senate shores up defense spending to \$618 billion for Fiscal-Year 2018 --or \$70 billion over the Budget Control Act cap of \$549 billion.

Senator McCain's defense budget would be some \$430 billion over the topline in the Fiscal-Year 2017 Future Year Defense Program and \$176 billion over former Secretary Gates' budget of Fiscal-Year 2012, the last year before the imposition of the Budget Control Act's budget caps. Some analysts project an increase of about \$270 billion for defense spending over the next five years compared to Senator McCain's \$430 billion five-year funding plan. In Senator McCain's white paper, "Restoring American Power," he highlights the need for a sizable increase in defense spending, coupled with a detailed plan for how these spending increases will result in greater military capability. At \$640 billion in base budget spending in Fiscal-Year 2018, Senator McCain sees the defense budget growing to over \$740 billion in Fiscal-Year 2022.

Senator McCain's plan is a blueprint of specific investments over the next five years to build the military's capability and capacity. Overall, the Army would see the greatest investment, at \$101 billion over five years, trailed by the Navy (\$88 billion) and the Air Force (\$83 billion). Modernization, that is, Research, Development Test & Evaluation (RDT&E) and procurement funds, makes up more than half of McCain's proposed investments, at \$187 billion over the future years defense program.

Modernizing the military for "the new realities of deterring conflict and competing with great powers" is described as a core priority of Senator McCain's defense investment blueprint. Key capability upgrades include accelerating the procurement of the next small surface combatant, developing long-range fires for the Marines and the Army, upgrading air defense, adding active protective systems to current ground vehicles; and investing in the development of new capabilities, including autonomous and unmanned systems like the MQ-25, advanced munitions, electronic attack and countermeasures, and accelerating the development of a penetrating counter-air platform.



510,000 soldiers, focusing on heavier force structure, like Armored Brigade Combat Teams or a 12th Combat Aviation Brigade, and increased force presence in Europe.

The Navy fleet would have additional destroyers, Virginia-class attack submarines, amphibious ships, and more F/A-18s in the near term. The Air Force would see more than \$42 billion for new aircraft, including ramping up the F-35A production line starting in Fiscal Year 2019 and buying low-cost fighters and keeping the F-15 and F-16 fighters current to stave off shortfalls in fighter aircraft numbers. Buys of enabling equipment like tankers, cargo planes, and Intelligence, Surveillance & Reconnaissance (ISR) assets are also boosted to meet the needs of a bigger force.

Although the Trump Administration's defense budget top line for Fiscal years 2018 through Fiscal year 2022 remains unknown, Senator McCain's plan lays out a set of investments to increase both the capacity and capability of the US military. It reshapes the force to meet the threats of today and tomorrow. This plan also reflects many of Senator McCain's long-standing positions on defense—such as curtailing the Littoral Combat Ship in favor of the construction of a future frigate, foregoing investment in additional F-35Cs in favor of additional F/A-18s for the Navy, pursuing a high/low strategy of additional F-35As paired with low-cost fighters for the Air Force, and a Navy battle fleet that mixes traditional carriers and new, smaller, lower-cost carriers in lieu of big-deck amphibious ships.

Senator McCain's plan also calls for substantial increases for research and development, and for prototyping funds. Unmanned and autonomous systems, artificial intelligence, robotics, cyber, space, hypersonic munitions, directed energy, electronic warfare, and advanced materials are identified as priority areas. The plan also includes considerable funds for regional stability initiatives; in addition to increasing funding for the European Reassurance Initiative and supporting the Afghan government, it includes \$1.5 billion annually for a new Asia-Pacific Stability Initiative. This is an interesting approach considering President Trump's proclamations regarding other countries "carrying their own weight," when it comes to the US presence overseas.

It is not clear how Senator McCain's vision for our defense will align with President Trump's vision. This scale of defense investment will also require lifting or raising the Budget Control Act caps by about \$90 billion for Fiscal Year 2018, well above the average budget sequester relief of about \$18 billion. There are major debates coming this summer on regard

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straightforward bipartisan agreement to lift the caps is unlikely.

Representative Mac Thornberry (R-TX), Chairman, House Armed Services Committee, is aligned with the Trump administration regarding the need to increase defense spending well above the Obama's administration Fiscal Year 2018 proposal of \$584 billion. The House Armed Services Committee has been working to identify the major gaps in the previous administration's budget while fulfilling President Trump's promises to increase the number of troops in the military and begin building a 350 ship Navy. For example, an additional \$15 billion is needed to start rebuilding an active Army of 490,000 Soldiers; almost \$14 billion is needed to begin repairing US Navy ships, restoring its naval presence around the world, and recovering current readiness shortfalls; and nearly \$11 billion is needed to replace worn out equipment and begin making up for military training missed over the last four years. It will take nearly \$4 billion to restore dilapidated facilities. The cost associated with achieving these objectives according to Chairman Thornberry and the House Armed Services Committee is approximately \$640 billion.

The Trump Administration's budget is expected to reach Capitol Hill in May or June.