

President Trump's Impact on Government Contractors

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Government Contracts Issue Update

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It's been a whirlwind first few weeks in office for President Trump. From taking initial steps to dismantle the Affordable Care Act, to restricting immigration from seven predominantly Muslim countries, President Trump has moved swiftly to implement several of his key campaign pledges. Despite heavy criticism of many of these initial actions, President Trump clearly is not afraid to disrupt the status quo.

President Trump has not spared government contractors from this initial flurry of activity. Within hours of his inauguration, Trump ordered the Environmental Protection Agency (EPA) to temporarily suspend all contract and grant awards. Predicting what Trump may do next has proven to be a fool's errand. But based on his campaign promises and initial actions since taking office, here are a few areas where we expect President Trump to impact government contractors:

- **Pressure contractors to lower costs on major programs.**

Although presidents traditionally have not weighed in on individual government contracts or programs, President Trump clearly is no traditionalist. Even before taking office, Trump tweeted his displeasure with the costs of several major programs and threatened to cancel orders and/or use alternative sources. These initial attacks were successful, according to Trump, who recently claimed that Lockheed Martin has agreed to cut \$600 million from its next lot of F-35 Joint Strike Fighter planes. It is clear that Trump, who sees

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himself as the ultimate dealmaker, is not afraid to use the bully pulpit to pressure contractors to cut costs. If Trump sets his sights on contractors on other major programs, they too may need to be prepared to strike a "deal" with Trump to cut costs or otherwise demonstrate how they are saving U.S. taxpayer dollars.

- **Rescind executive orders and regulations.** Trump has pledged to overturn "unconstitutional" and "burdensome" executive orders and regulations issued by the Obama administration, several of which were targeted at government contractors. These include executive orders and regulations governing paid sick leave, minimum wage and disclosure of labor law violations. Although it was widely predicted that President Trump would swiftly rescind many of President Obama's executive orders in a single action as soon as he took office, he has not done so yet. He has, however, issued an executive order requiring that for every one new regulation, two must be revoked. Thus, it appears likely that many regulations issued under the Obama administration will yet be undone as new regulations are issued going forward. This would be universally welcomed by government contractors.
- **Increase defense spending.** Notwithstanding his attempts to cut costs on specific programs, it still seems a safe bet that overall defense spending will rise under President Trump. Trump has announced his intent to work with Congress to repeal federal sequester caps on defense spending without balancing increased defense spending with any offsets in non-defense spending. Trump may have difficulty finding support in Congress, however; historically, Republicans have been unwilling to pass budget-busting bills without offsets. Trump's planned increase in defense spending will support a larger Army and Navy and an increased focus on cybersecurity. Trump's plan involves building a 350-ship Navy, increasing the Air Force's active fighter inventory to 1,200, growing the Marine Corps from 27 to 36 battalions, and growing the Army from 490,000 soldiers to 540,000.
- **Impose a federal hiring freeze.** In his first week in office, President Trump instituted a federal hiring freeze and instructed the Office of Personnel and Management (OPM) to recommend a long-term plan to reduce the size of the federal workforce. In the short-term, the hiring freeze will mean increased opportunities for service contractors. In the long-run, Trump's plan to reduce the federal workforce could lead to increased reliance on the private sector, particularly for commercial functions, and a removal of constraints on public-private competition.
- **Invest in infrastructure.** Trump has pledged to invest \$1 trillion over 10 years on a variety of infrastructure projects. Trump has announced that he will develop a legislative package in his first 100 days that will focus on infrastructure investments, such as transportation, clean water, electricity grid upgrades, telecommunications, security infrastructure, and domestic infrastructure. Trump is also expected to use his executive authority to advance infrastructure goals by eliminating regulations and streamlining the administrative appeal process for infrastructure development. While there is bipartisan support for infrastructure investment—Senate Democrats recently unveiled their own \$1 trillion infrastructure plan—there will likely be disagreement over how to pay for an infrastructure plan. A large infrastructure program would undeniably be a boon for government contractors, particularly those in the construction industry

- **Enhance border security.** Just days after taking office, President Trump followed through on his signature campaign promise by issuing an executive order calling for the construction of a wall along the U.S.-Mexico border. The executive order is scant on key details about the wall, such as how the construction will be funded, but it allows the Department of Homeland Security (DHS) to start planning for the project. Trump has also called for increasing the U.S. Customs and Border Protection (CBP) budget to enhance border security. One of his immigration-related executive orders calls for the hiring of 5,000 new border agents and 10,000 new immigration officials. Since CBP is currently struggling to fill its existing border patrol positions, and in light of the federal hiring freeze, at least in the short term it seems CBP will have no choice but to increase its reliance on contractors for border security.
- **Change trade rules.** Trump's rejection of U.S. trade deals could make it harder for foreign companies to bid on U.S. government work. Trump has already signed an executive order ending the United States' involvement in the Trans-Pacific Partnership (TPP), and has promised to take steps to begin renegotiating the North American Free Trade Agreement (NAFTA). This could have a significant impact: in FY2016, \$13.6 billion of a total \$441.2 billion in obligations were to foreign companies. Trump's "America first" policy could also lead to enhanced requirements on the use of American-made products, equipment, and raw materials.

If anything is certain at this point, it is that President Trump will be unpredictable and unafraid to challenge the conventional notions of how government should work. Government contractors should pay close attention to the actions of his administration, even in areas that do not directly implicate government contracting, to ensure that their interests are protected and that they can take advantage of procurement opportunities under the Trump administration.