

## Congressional Leaders: Budget and Tax Policy to Meet America's Priorities

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Interview with Rep John Yarmuth

Interviewer: Heather Long

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In back-to-back interviews, two of the nation's most prominent and consequential voices on budget and tax policy will discuss their approach and ideas for shaping America's fiscal future. As we approach \$1 trillion annual deficits, Chairman Yarmuth and Ranking Member Brady will share views on policy proposals that reflect America's priorities while putting our nation on a more sustainable fiscal path, better positioned to meet our most pressing challenges.

This interview with **Chairman John Yarmuth** was conducted by **Heather Long**, economics correspondent for *The Washington Post*, as part of the 2019 Fiscal Summit.

- ANNOUNCER:** Ladies and gentleman, please welcome chairman of the U.S. Committee on the Budget, Representative John Yarmuth and economics correspondent for the *Washington Post*, Heather Long.
- HEATHER LONG:** Good morning, we're excited to be here John Yarmuth who represents Kentucky, the Louisville area. He is of course chair of the House budget committee. He can tell the difference bourbon and Jack Daniel's very well, I've learned. And since we're here the museum let me just say that he's also been a big champion of the media. And that you personally started the Louisville Eccentric Observer in the early 1990s.
- JOHN YARMUTH:** I did.
- HEATHER LONG:** And he recently made a big donation to save the University of Louisville newspaper, the student newspaper. Thank you very much on behalf of folks in the media. But perhaps his biggest claim to fame is that Stephen Colbert, the late night host, once compared him to Bruce Wayne, to Batman. So we'll see if you can live up to that on the budget issues.
- JOHN YARMUTH:** I'll do my best.
- HEATHER LONG:** So right now the country, we need a new budget. It's going to expire in September. If we don't do anything, there's going to be some pretty substantial budget cuts, automatic budget cuts that would go into place as you well know. Do you support raising those spending caps?

**JOHN YARMUTH:**

I think we have to. First of all, we still have an awful lot of investment opportunities and necessities that we've neglected over the last decade or so. And if we don't raise the budget caps, we'll see \$125 billion cut in spending, about half of that from defense and half of that from nondefense spending.

So we can argue about what appropriate levels of defense spending are. I would have loved to have seen less defense spending than we actually put in our numbers. But there's no question that on the nondefense side, which also, by the way, contains a lot of spending that's national security related because Homeland Security's part of that. FBI is part of that.

The FDA is part of that. The FAA is part of that. And we have needs in all of those areas. So to cut those by essentially 10% which the Budget Control Act of 2011 would require, I think would be devastating for a lot of very important priorities.

**HEATHER LONG:**

Now we're obviously here at the fiscal summit. So I have to ask. You authored the Investing for the People Act of 2019, which proposes increases in both military and nondefense spending as you were just outlining. How will we pay for that extra spending?

**JOHN YARMUTH:**

Well, there are a lot of ways to pay for it. We didn't get to that part of the equation. But certainly we cut taxes in 2017 by a significant amount. And the implications of those tax cuts have turned out to be far different than they were promised by the Republicans who promoted them. My friend Kevin Brady's going to be up here next.

And he can try to defend that. But there are an awful lot of room just in those tax cuts to help pay for the increased spending. We actually raised spending. We raised it over current levels \$17 billion on the defense and \$34 billion on the nondefense side. So \$51 billion total. And there's plenty of room in those tax cuts to recapture some of that revenue to pay for those increases.

**HEATHER LONG:**

I'm glad you brought up the tax cuts because some independent analyses of your proposal to increase the spending have pointed out that if we do what you're proposing, if you spread that out over ten years, we keep those new baseline spending levels that you're advocating for, that costs about as much as the GOP tax bill does.

**JOHN YARMUTH:**

Interesting coincidence.

**HEATHER LONG:**

So you really think that the key to paying for what you're asking for in more spending is to just repeal the tax cuts? Is that what I'm hearing from you?

**JOHN YARMUTH:** Well, again, I think there's plenty of room on the defense side to reduce spending. I don't know whether this congress is up to making structural changes in mandatory spending programs. Clearly there would be room. There's plenty of money being spent on Medicare, Medicaid, and Social Security. But I don't think anyone on either side of the aisle is ready to tackle that right now.

There are some other tax expenditures that still exist after the tax cut that we could probably go after. We could raise the carried interest rate. We could a wealth tax as Elizabeth Warren is proposing. There are a lot of ways to generate income without I think really hurting the economy at all.

**HEATHER LONG:** Tell us, how are the negotiations going with the Senate and the White House to get the deal here?

**JOHN YARMUTH:** Not very well. And I will tell you that, you know, I have now lived-- this is my seventh term. I have now lived in every possible permutation of partisan control. And regardless of what that was before Trump it was whatever the issue was, it was basically a two-sided negotiation. Now it's a three-sided negotiation. And one of the sides is, to be as gentle as I can be, unpredictable. And so I don't think there would be any problem at all getting Senate and House agreement on spending levels. We actually did it in a very responsible way that nobody was ecstatic but nobody was angry.

**HEATHER LONG:** You mean with the (UNINTEL) from--

**JOHN YARMUTH:** --back in--

**HEATHER LONG:** --2018?

**JOHN YARMUTH:** Back in-- yeah, for 2018 and 2019. We did that and I think we were on track to do that again. I talked to Mitch. Mitch definitely wanted a two year spending deal. They understand that the deal that we made a year and a half ago would be a good starting point for negotiations. And so I think we're fine. Mick Mulvaney who I don't know if we'll hear from him at some point. But Mick's-- Mick has his own attitude about what it should be. He wants to keep defense spending at a very high level and slash nondefense spending which is a nonstarter in the House anyway.

So and the president has his own ideas. So again, today a group of Republican Senators are going to the White House to talk about the spending caps. And that's I think typical of the negotiations that there are no Democrats there. They seem to forget that we now control the House of Representatives.

**HEATHER LONG:** So what's the red line for Democrats that there has to be some--

- JOHN YARMUTH:** I think the red line for Democrats in all these budget negotiations is that defense and nondefense be treated equally. We call it parity. Different people define parity in a different ways. I define it as that whatever we do to defense, we do to nondefense. So if we raise defense a certain amount, we need to raise nondefense. If we're going to cut, they both need to be cut.
- HEATHER LONG:** So, like, similar percentages increase?
- JOHN YARMUTH:** Exactly.
- HEATHER LONG:** And do you think what's the likelihood any of this gets agreed upon before the August recess?
- JOHN YARMUTH:** I would say one out of three chances.
- HEATHER LONG:** That doesn't sound very optimistic.
- JOHN YARMUTH:** Yeah, I have not talked to Mick about this but I know that he has told people that he wants to go as close to the September 30th deadline as he can because he thinks that enhances their bargaining position. But again, I think Mitch McConnell's up for reelection in my state next year. And I don't think that he wants to have any threat of a shutdown this year because it would clearly be the Republicans, they would be blamed for it. So I think probably that's what they will tell the President this afternoon.
- HEATHER LONG:** Speaking of that September 30th deadline, that's also around the time the government could potentially run out of money. This notion if we don't we raise our debt ceiling we wouldn't actually be able to pay all of our bills. A very frightening state. We're going to hear from some Wall Street people later who will reiterate that. Do you think the debt ceiling should just be eliminated? Is there a better way to do this?
- JOHN YARMUTH:** Absolutely. I mean, we've raised the debt ceiling 80 something times since it was created. We're the only country in the world other than Denmark that has anything like that. All it does is create an opportunity for gridlock and creates another cliff that we look over the edge of. It's used for political leverage more than it is for any sound fiscal policy. And again, we've ignored it essentially. So we might as well get rid of it.
- HEATHER LONG:** Uh-huh (AFFIRM). Is there something else that you would like to see? I mean, we do have a \$22 trillion debt. Obviously people in this room are very concerned about what that means for the future.
- JOHN YARMUTH:** Last year, I was part of the joint select committee on budget and appropriations process. And it was a back bicameral bipartisan group. And we went for all year to try and figure out if there were ways structurally to enforce spending discipline or budget discipline. And at the end of that time nothing in that area actually even got enough votes to be considered on the floor. So it was you had to get 10 out of 16 votes to bring anything to the floor. And none of that did. So I'm not sure there is a mechanism. It's always about political courage. It's not about process.

**HEATHER LONG:**

I want to switch a little bit to the longer term budget outlook. Today you're holding a hearing on climate change and that's impact on the budget. Under your leadership the committee on the budget has also looked at proposals for single payer health care and Medicare for all more commonly known. You have said that Medicare for all, it's not if but when some sort of single payer will come into play. As you well know, the estimates for that are pretty large. The independent estimates are anywhere from \$25 trillion to \$35 trillion over the next ten years that the government would have to take on in additional costs. And we'd have to figure out how to pay for. How can we pay for that?

**JOHN YARMUTH:**

Well, I mean, to a certain extent we are paying for it now. It's just that we have a lot of different people paying for it. And this is one of the things that we have to be careful about when we talk about Medicare for all because for instance Pramila Jayapal's proposal which is probably the most notable of the ones in the house would basically would say every bit of money that's being spent on health care anywhere, anyhow now becomes a federal responsibility.

And there's actually no transfer of any other spending to provide revenue to accompany it. So it essentially would be the biggest bail out of corporate America ever because we would be taking every bit of money that corporate America, not just corporate America, all employers are paying and shift that to the tax payer.

So you'd have to demand something of the employers in order to do that. The hearing we held was basically trying to identify all of the issues that you'd have to resolve in structuring or constructing a single payer system. And there are a lot of choices that you can make. And among those is how do you get the revenue? But I don't think that anybody-- I think that Pramila actually understands that you can't do that as well. Bernie, in his revised proposal this year, actually has a 7.5% tax on payroll.

**HEATHER LONG:**

So you think there has to be some tax increase?

**JOHN YARMUTH:**

Oh, absolutely. No, there's no question about it. And when I say that I don't think it's a matter of if but when, I doubt if it's actually going to come because congress decides it's a good idea. I think it's going to come because corporate America is going to say we can't do this anymore. We're competing in a global economy. Nobody else has to do this. We're competing with them and we need a new system. I've had a number of CEOs, Fortune 500 companies say that. Unfortunately they won't say it publicly yet. But I think that's going to change.

**HEATHER LONG:**

And while we're having kind of real talk here, you know, as you mentioned earlier, one of the key drivers of the pretty scary looking budget picture for this country are Medicare and to a lesser extent social security. Is it inevitable that those programs will have to be altered?

**JOHN YARMUTH:**

I think so. A few years ago when Tim Geithner was Secretary of the Treasury and he came before the budget committee, we were in the minority. Paul Ryan was then chairman. And Paul has all these charts going out 70 years and showing deficits in spending on all these mandatory spending programs. And when I got to question the Secretary, I said, "You know, how reliable do you think those estimates are, going out to 2075 and so forth?"

And Geithner said, "I don't think projections past five years are reliable." And I think that the world is going to change so dramatically in a very short period of time that I'm not sure you could even make reliable predictions about where Social Security's going to be, where health care's going to be. If we cure cancer, Alzheimer's and diabetes which we could very well, you've essentially eliminated the financing probably of Medicare. What you'd have is created a lot more retirement issues. But that's the point. The other day the chief--

**HEATHER LONG:**

Well, let me just press you on that. I'm the economics correspondent. And I'm with you. 2075 we're not predicting very well. But, you know, the latest Social Security trustees report says that-- I know, I hate to use the term we're going to run out of money, you know what I mean. But we won't have full 100% payments in 16 years. Now that's a lot closer. Even people in this room who are say 60 could be impacted if in 16 to 20 years we're not able to send people the full amount that they were expecting.

**JOHN YARMUTH:**

Exactly.

**HEATHER LONG:**

That seems a lot closer.

**JOHN YARMUTH:**

It definitely is. But again, you don't know what's going to happen in other phases of the economy that could make that either worse or inconsequential. I mean, you may be able to fund it through other means if you can find resources otherwise. The chief technology officer for Microsoft was in my community the other day. And she said that over the next ten years we will experience 250 years of change in this country.

That is frightening. But, you know, it's one of these things that I'm obsessed about because I say how do we make-- you know, congress moves at its optimum efficiency at ten miles an hour. And the world's moving at 100. How do we make policy that can accommodate that? And I'm focused on artificial intelligence. And we're going to have a hearing at some point in the future on artificial intelligence and what that's going to mean for the budge because it's going to have probably the biggest impact of anything ever in our history. And so--

- HEATHER LONG:** Well, I think we have time for just one last question. And I want to run this by you. In your party, there's been a number of folks who are talking about this modern monetary theory. And basically, you know, it's a bit detailed. But to get into it, it's this notion that the federal debt doesn't matter though as long as we're the country and the reserve currency and we're the country that everybody wants to buy our debt then let's just run it up. Who cares? We can fund this. Can you clarify? Do deficits matter?
- JOHN YARMUTH:** Well, sure, they do. It's a question of how much they matter. And what's interesting about that, and we're going to have a hearing, by the way, on do deficits matter. So you can come and testify if you want. The thing about modern monetary theory is that it all makes sense until it doesn't. And if it turns out to be wrong then congress will fix it. Well, I wouldn't rely on that. And that's what scares me about buying into that theory at all. But what we also have seen is that all the rules that we have kind of lived by, or the assumptions about how the economy works over the last 50 or 60 years don't seem to be applying now. Where under normal circumstances with huge debt you would expect to see higher interest rates and so forth, blah, blah, blah. And none of that is panning out. So maybe the model is changing in such a way that deficits don't matter as much. The other part of the big if of what you mentioned is that's if we remain the world's--
- HEATHER LONG:** Right, right, reserved currency.
- JOHN YARMUTH:** Reserved currency. And that's not a guarantee. As my old friend David Obey said not too long ago-- we were talking and he said, "You know, democracy doesn't guarantee a happy ending." And that's kind of where we are, I think, at this juncture.
- HEATHER LONG:** Well, on that depressing note, thank you so much for your time--
- JOHN YARMUTH:** Thanks very much--
- HEATHER LONG:** --Congressman Yarmuth.
- JOHN YARMUTH:** --appreciate it, thank you all. Thanks.

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