

FISCAL 2019 SUMMIT

BUILDING AMERICA'S FUTURE

PRESENTED BY THE PETER G. PETERSON FOUNDATION

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

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Interview with Rep Kevin Brady

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 **Rep. Kevin Brady** was conducted by **Heather Long**, economics correspondent for *The Washington Post*, as part of the 2019 Fiscal Summit.

HEATHER LONG: Just a reminder that you can send questions in. We are reading them from the audience. Hi--

KEVIN BRADY: How you doing here. Good to see you--

HEATHER LONG: I'm doing good. Good to see you--

KEVIN BRADY: Thanks.

HEATHER LONG: We're excited to welcome to the stage Representative Kevin Brady of Texas. (APPLAUSE)

KEVIN BRADY: Thank you.

HEATHER LONG: Very well known as the ranking member of the House Ways and Means Committee, a key author of the Tax Cut and Jobs Act, often MVP of the congressional baseball game.

KEVIN BRADY: Well, which tells you more about the other players than it does about me.

HEATHER LONG: And my favorite that I just learned about you is you were actually the subject of a Jeopardy question not too long ago, a Double Jeopardy question, a Daily Double, in fact.

KEVIN BRADY: And I think they got it.

HEATHER LONG:

And my favorite that I just learned about you is you were actually the subject of a Jeopardy question not too long ago, a Double Jeopardy question, a Daily Double, in fact.

KEVIN BRADY:

And I think they got it.

HEATHER LONG:

Yeah, it was great. So you're famous. You're Jeopardy famous. But anyway, we're excited to have you here. We got a lot to talk about. Let's start with tariffs. As you kind of called correctly last week, the U.S. and Mexico were able to negotiate and to avoid these tariffs taking effect this week. But it was obviously a close call. It got everybody pretty nervous.

KEVIN BRADY:

Yeah, it was in everyone's interest to find a solution here. And we can do both. We can have strong border security with Mexico. We can have strong trade relationships with Mexico. Texas, where we're at, we sort of pay the price both directions. And so we spent a lot of time, encouraged everyone to find that solution. And as we do with China and the U.S. as well, tariffs are taxes. They have similar economic impacts.

The president uses them to leverage these negotiations and bring people to the table. And I think with China, you know, the goal's right: fundamentally alter that trading relationship with China. That doesn't happen overnight. But I'm hopeful, just seeing how far they got, you know, in those other discussions. I'm still hopeful they can close that out in a smart way.

HEATHER LONG:

And sooner rather than later?

KEVIN BRADY:

Yeah, that's the hope. Yeah, but I think you got to stay at the table.

HEATHER LONG:

I'm glad you brought up, you know, that tariffs are taxes. And you're one of the foremost experts in DC on taxes. Now, the estimates kind of range. But the current family, based on the tariffs that are already in place, is facing, you know, \$500 to \$800 of added expense a year, give or take. How concerned are you that that's starting to wipe out the benefits of the tax program that you worked so hard for?

KEVIN BRADY:

Well one, I'm always encouraged you asked that question. Not you, but generally, because we have presidential candidates today on the trail saying there were no middle class cuts or impact the economy. We know there is. And so I think it's important one, again, because tariffs do have that impact on buyers, on sellers, on the economy and investment. In countries, I think obviously, our goal ought to always be, with tariffs, lower is better. Zero is best. That ought to be to our goal: zero tariffs, zero subsidies, zero quotas. That ought to be our trade policy in all these negotiations.

That's what we're encouraging the president to get to. And, you know, I'm convinced, as we began the year, that we could well see another 3% growth year. The fundamentals are that strong. Trade uncertainty has had an impact. But it works the other way as well. You have the ability to lift that trade uncertainty. And I think we've got an opportunity to do that this year--

HEATHER LONG:

Well, that's the point Kevin Hassett at the White House keeps making to me. You know, but you still kind of dodged a little bit this notion that the tariffs in place are eating away at that impact on certainly lower middle class and middle class families.

KEVIN BRADY:

Yeah, again, I think that--

HEATHER LONG:

Do you remind the president of that?

KEVIN BRADY:

We have a lot of discussions, obviously, on the trade and tariff issue. But to his credit, he listens pretty carefully. And we have these discussions a lot. You know, he's really concerned about the economy in a big way. He does want this fair trading relationship. I think it's important to get there. So we're hopeful, again, that these are short term pain that ultimately will lead to greater economic growth in the long term.

HEATHER LONG:

And then finally, as the congressman from Texas, you know, you mentioned immigration's obviously key on your mind. And many folks in your state are seeing this firsthand. But how do you feel about those two issues being woven together, tariffs and immigration? You know, some are saying, "Look, they need to be separate issues. We need to debate them in separate channels." Obviously, the president felt they needed to come together--

KEVIN BRADY:

Yeah, you know, our relationships with our closest allies are always complex. Coming from a state where I have never seen the crisis we've seen on the border today, I mean, never even close to what we're seeing. And it just seems to be ignored by Congress. I know the president's frustrated by that. Nonetheless, at the end of the day, they found a way to make improvements. I think the relationship is stronger as a result of it.

But I think, too, that lifting the steel and aluminum tariffs with Mexico and Canada, have given us a lot of momentum on the new U.S.-Mexico-Canada agreement, which I will tell you, I think approving that this year is crucial. And I think economically, it'll help lift some of that uncertainty as well.

HEATHER LONG:

Yeah, well, let's shift a little bit to taxes, and your Tax Cut and Jobs Act. We're obviously sitting here at the fiscal summit. And a lot of people care deeply about the outlook for the nation. You've acknowledged that the Tax Cut and Jobs Act doesn't fully pay for itself. You know, what percent do you think is paid for?

KEVIN BRADY:

Yeah, it's so hard to know. We will know in year eight, nine, or ten what revenues it brought in to the government over time. So it's way too early to tell. What I always watch is the payroll taxes, you know, because that means people are going back to work. That's had a marked increase in the federal government since we've had the new tax code in place.

KEVIN BRADY:

One of the other questions is not just does the tax cuts pay for themselves, but do they pay off? Are they a good investment? The signs are early. But they're very encouraging in job growth, in wage growth, in investment. For the first time, we have more foreign investment coming into the U.S. than going out. Manufacturing, we were losing 20,000 jobs a year in 2016. We've gained 450,000. So we're creating a sucking sound back toward the U.S. I would tell you--

HEATHER LONG:

Oh, well, that's one of the areas the tariffs are biting with this year--

KEVIN BRADY:

Exactly, but this is investment. And we're seeing R&D triple. My point is this: I don't think anything could have been worse for the deficit than to stick with the old economy and stick with the tax code that was so outdated. It was actually pushing jobs investment away from the U.S.

HEATHER LONG:

Obviously, you know these folks well over at the Congressional Budget Office. And they put out their estimate that often gets cited that it's a \$1.5 trillion cost. And if you add in the interest expense, it brings it to almost two trillion for the tax bill. You know, if CBO says about a fifth of the cost of the bill is pay for through stronger growth in the economy, are you--

KEVIN BRADY:

There's going to be a hundred estimates. Again, we're a year and a half--

HEATHER LONG:

But are you more optimistic than that?

KEVIN BRADY:

You know, I am. But again, I think it's smart to let that play out. What I do know is do we really want to go back to the old economy and to the old tax code? I mean, the truth of the matter is, we were telling companies, "For heaven's sakes, don't invest in the U.S. Invest somewhere else. And if you make a profit, for heaven's sakes, don't bring it back to the U.S. We'll punish you to do that."

The reforms, I think, in the tax reform area is something I think will even pay off more over time. I still think the best is yet to come. This was not a short term redesign of the tax code at all. Because with the fiscal summit, what I always appreciate about Michael Peterson, is that he continues to focus on we just can't keep spending. You know, you've got to eat your vegetables. You got to think about these issues. The difference between 2% growth as a country and 3% growth is about \$40 trillion in additional federal revenue over the first few decades. Growth really does matter.

HEATHER LONG:

Uh-huh (AFFIRM). Now, you've also called for additional tax cuts for the middle class. And how would you like to see those paid for?

KEVIN BRADY:

Yeah, so I think making the family and the small business tax cuts a permanent makes sense for a certainty standpoint. It creates another million and a half jobs. I think that's extremely important. There's some business elements in the Tax Cuts and Jobs Act that need to be made permanent as well. So I think that's crucially important.

HEATHER LONG:

But you haven't said how you'd pay for it.

KEVIN BRADY:

Well, let's put it in perspective. So making the tax cuts for families permanent, if the spending over the next two decades is a two story building, the amount that we're asking in the permanent is about the size of a bottle of water. So we are asking for a very small investment over two decades to make those tax cuts permanent for families and small businesses. I think that adds in economic growth as well.

HEATHER LONG:

Okay, okay. And lastly, I want to ask you, on the tax side, there were some tax extenders that expired at the end of last year. And there's always a debate. Should they be brought back or not? Where do you stand on that?

KEVIN BRADY:

So, yeah, no extenders without reforms. Look, temporary tax policy is normally not good tax policy. We have a new tax code. Many of those provisions, frankly, have been superseded by the Tax Cuts and Jobs Act. Others, Heather, I think deserve to be made permanent. So we did work with Senator Grassley and the biodiesel phase out. On the short lines, we made those permanent, but with the cut and that credit. And so my thinking is that we are simply not going to do business as usual, extend those again. Exactly the wrong thing to do.

HEATHER LONG:

Now, we were just speaking with Budget Chair Yarmuth about where things stand with the budget negotiations. Obviously, Congress needs to do some action by the end of September. Should Congress raise the automatic spending cap? Should we, you know, keep raising spending here--

KEVIN BRADY:

So our first priority, our goal, should be no on this--

HEATHER LONG:

Now? Wow.

KEVIN BRADY:

I mean, it should be, or at least to stay as close to it as possible. I worry that--

HEATHER LONG:

Even though that would be, you know, 125 billion reduction?

KEVIN BRADY:

Look, I think we've got to try to get as close as we can on this. I'm not in those negotiations, by the way. I worry, you know, that these budget caps and the debt ceiling will be an opportunity for our Democrat friends, you know, to shut the government down and disrupt the economy. I worry about that. So I'm encouraging that they're in these budget cap discussions right now. I hope they find a solution.

HEATHER LONG:

And one of the things that Cherry Arm(?) has said would be a red line for Democrats is they want non-defense spending to be raised as much as defense. So anything that would be done on defense, as you know, they would want that similar percent for non-defense. How do you see it? Is that likely to play out?

KEVIN BRADY:

Well, look, I think they've got their priorities in this. Obviously, rebuilding the military, as Republicans did for the first time in 15 years, is awfully important to us. And so we've got to watch those things play out.

HEATHER LONG:

And another one I wanted to ask you. I mean, you've spent a lot of time looking at the budget over the years. And at the moment, we're at a debt the GDP ratio, give or take, around 75%, you know, which is certainly a lot higher than it has been for many, many years certainly when you started in the late '90s in Congress. And your mind, is there kind of a point where you think this gets really alarming? Like, is it 80% or 90%? Is there kind of a number that you think this is really getting to a scary point--

KEVIN BRADY:

Yeah, great question. I don't know what the answer is. But I think it's sooner than we think it is, whatever that number is. Look, if Washington were a manufacturing plant, it would manufacture spending. That's what we're designed to do. If we wanted to manufacture savings efficiency, we got to retool the plant. We got to think fresh about how we do things.

One of the areas that I've worked on for many years is called the Map Act. And it basically replaces the Budget Control Act with what I think are smarter budget caps with guard rails around spending, draws whoever's in the White House into this from the very get go. And rather than focus on, I think, artificial measurements, uses the spending Congress controls, so both discretionary and mandatory. So there's no sacred cows.

Secondly, it relates it to potential GDP. So we know the economy goes up and down. Congress tends to spend a lot more when times are good. And then they can't control the cuts when times are bad. So potential GDP smoothes it out, makes it harder, really, for Congress to sort of game budget caps. So I'd like to have a conversation about is there a smarter way for us to gradually lower? And that's what the Map Act does, gradually lowers that spending to GDP over a decade or more. We think in a responsible way. We'd love to have a conversation with their Democrat, Chairman Yarmuth, and others, serious members, about how we can find a smarter way to do this.

HEATHER LONG:

Now, you're part of a group that's proposed, in part of doing that, some pretty big cuts to Medicare. And that seems to be in the House GOP plan that came out last year.

KEVIN BRADY:

So two thoughts. One, we know what's driving the debt for the future: population. You know, that's a good thing. And healthcare spending. And so you can't ignore it. On Medicaid, just starting with that, I think having a conversation along the lines of what the House passed two years ago on Medicaid, where we save that program by making some changes, sending the money not to where the states have the highest taxes, but sending the Medicaid money where the people are at, making that Medicaid dollar look like the people.

So we know nursing home spending is more than having that baby, you know, for indigent mom. So make it look like the people. Give the states more control. And then put it on a very modest budget, just for very common sense sort of light touches. That saves \$800 billion in the first decade. And on Medicare, again, I think like Social Security, both parties are going to have to sit down together and find out how we save Medicare and Social Security for the long term. No one party, frankly, can do this.

HEATHER LONG:

Yeah, and I guess lastly, you know, the next question comes around my newsroom a lot. So I'll put it to you. You know, can Republicans still claim to be the party that cares about the debt?

KEVIN BRADY:

Yeah, I think the answer is yes, mainly because if you look what we did, the Affordable Care Act adds another trillion and a half to the deficit over the next decade. We work hard to replace that and make some of those Medicaid reforms that can save that program for the long term. We certainly are stopping, or trying to stop, some ideas that will bankrupt America.

You know, the paid medical family leave is close to a trillion dollars of a new entitlement. The Green New Deal, 30 some trillion. Or Medicare For All, 30 some trillion. Green New Deal maybe as much as 90. And so part of entitlement reform is stopping. Don't make it worse. So yeah, I think we are.

HEATHER LONG:

But even though in the last two years, obviously, they passed the tax cuts (there was a cost associated to those) and increased spending. So there's been--

KEVIN BRADY:

Yeah, and I think that's the key--

HEATHER LONG:

--pretty substantial increase and both defense and non-defense.

KEVIN BRADY:

Yeah, and we made that decision on defense spending. No question about it. But I will tell you, at the end of the day, Washington does not have a revenue problem. We have a severe spending problem. And we've got to tackle that side. And I think we have to, together with our Democrat colleagues, got to get serious. And I will tell you, you know, you can look at the debt and deficit and get pretty disheartened pretty fast.

I actually think I haven't seen a problem yet, Medicaid, Social Security, or Medicare, that we can't solve. I mean, there are good solutions. A lot of thought leaders, including the Peterson Institute and others you will hear today, that are giving us some of the roadmaps for this. And if we can think innovatively, you know, about how we approach things on the biggest entitlements, I'm actually optimistic that we can do this.

HEATHER LONG:

So you're optimistic we can take action that would save, say, Social Security before that trust funds begins to--

KEVIN BRADY:

Well, we have to.

HEATHER LONG:

--sixteen years, I think, is the latest estimate--

KEVIN BRADY:

Yeah, and I think, Heather, that you made this point earlier. But for us to save Social Security now, we will have to have reforms twice as substantial as '83 reform, so twice the substantial reforms today. Every year we delay that action, they're even more substantial. So sooner rather than later, and together, will be the only way we get it done.

- HEATHER LONG:** Well, thank you so much, Representative Brady. It's always good to see you.
- KEVIN BRADY:** Thanks.
- HEATHER LONG:** And thanks for ending on a more optimistic note.
- KEVIN BRADY:** Thank you very much.

* * *END OF TRANSCRIPT* * *