Peter G. Peterson Fiscal Summit 2017: The Tax Reform Opportunity

May 23, 2017

Interview with Rep. Kevin Brady, R-TX

INTERVIEWER: Richard Rubin, WSJ

Even in a highly polarized Congress, there is broad support for reforming the U.S. tax code. Tax reform done right would promote economic growth, reduce complexity, increase transparency and fairness, and improve the nation’s fiscal outlook. Yet getting major tax reform across a goal line has always been elusive.

At the [**2017 Fiscal Summit**](http://www.pgpf.org/what-we-are-doing/fiscal-summit), Wall Street Journal tax policy reporter **Richard Rubin** led a conversation with **Chairman of the House Ways and Means Committee Kevin Brady** (R-TX) on goals for tax reform legislation, the specific proposals under discussion, and how to overcome deeply entrenched interests across the economy.

Rubin followed this installment with an interview with [**House Democratic Whip Steny Hoyer**](http://www.pgpf.org/multimedia/the-tax-reform-opportunity-steny-hoyer) (D-MD).

\* \* \*BEGIN INTERVIEW\* \* \*

RICHARD RUBIN, WSJ: And then next up we'll have-- Kevin Brady, who's the House Ways and Means Committee Chairman. He's a Republican from Texas.

REP KEVIN BRADY, R-TX: Hey, Richard.

RUBIN: Hey, Mr. Chairman, how are you?

BRADY: Good to see you. I'm fine. Thank you. (APPLAUSE) Yeah, hold your applause. (APPLAUSE)

RUBIN: Well, good. Well, thanks for comin' over. You were--

BRADY: Sure.

RUBIN: --you had a hearing this morning-- border adjustment, which we-- the Whip talked a little bit about-- which is a big piece of your-- House Republican Tax Plan. But that's obviously been getting shot at from-- (LAUGH) every which way. Where does that stand now? And-- and how do you sort of go from this moment to try and keep that alive, and advance it?

BRADY: So just take a step back. One, thank you-- and the peed-- Peterson-- Foundation for this. I-- I'm convinced-- because of the great work you do on the budget, healthcare, taxes, incredibly helpful. I think spending cuts get us halfway back to a balance budget. I think to finish the job, and actually start paying down national debt, you have to have much stronger growth.

And you have to be real aggressive, and bold-- to get that. So I think-- this-- this-- conference today is incredibly timely from that standpoint. I'm proud about-- I'm proud of the hearing we held today about competitiveness, and border adjustability. I invited-- Brian Cornell, the CEO of Target, to come.

Because I thought it was important not just in Washington, but across the country, for people to be able to hear those-- his views on border adjustability, and potential impact, and as importantly how do we address that. What we heard today-- it was a follow on to what we heard last week in the first hearing, which was from business people, you know, "Go bold. Go permanent. And go now."

You know, in 2017 act on tax reform. Today it was more about so what does it take-- to compete and win globally what's it take to stop this exodus of US companies, and headquarters, and research overseas? And so one of the things that I think was clear to me is that border adjustability in conjunction with lower rates, and no longer taxing worldwide, can vault us into the top lead pack of pro growth tax codes. But the transition, and design really does matter.

You know, I think the fairer concerns have been about what does this do to impact consumer prices? What would it do to my tax-- cost if I import a lot of product, and services? Well, that's-- those are fair concerns. And I'm confident that we can bring forward the designs, and the transition very deliberate, very generous, including and incorporating some of those-- issues in a way-- that we not just address it in the short term, but the long term, actually reestablish our country as among the best places on the planet for that next new manufacturing job, research facility, or headquarters. We've got a lot of work to do, no doubt.

RUBIN: So how-- how far along are you on that? We're not almost-- a full year since the--

BRADY: Blueprint?

RUBIN: --you, and-- yeah, you and the Speaker laid out this blueprint. How far along are you in drafting? And-- and how ready are you to take advantage of what you call-- everyday a once in a generation opportunity to do this?

BRADY: Yeah. So-- we've come quite-- a ways since we introduced the blueprint in June. And we're ready to bring those solutions forward in our discussions with the Trump-- White House, and the Senate as well. You know, we've been fortunate in the Ways and Means Committee. We've worked five years for this moment-- of tax reform.

When we laid out the blueprint we made a simple statement, "This isn't our tax code. Belongs to the American people." You oughta have a say in how you're taxed. And so since then, especially since the election, Richard, we've really seen just a tsunami of input, you know, from stakeholders, especially in the business industry-- on issues like border adjustability.

I think we've continued to gain a great deal of insight, and knowledge on how best to take the next step. And I think the responsibility is on us as how-- House Republicans to bring those solutions-- to the discussion. So we're ready. The other part of this is what's the alternative? So we know today that our tax code favors foreign products over US products. And we know it drives US companies and jobs overseas.

Our proposal is equal taxation. So no matter who you are, and where your products are produced, and services, if it's consumed in the US it's tax equal at a low business rate of 20%. But a level playing field period. If someone's got a better solution, bring it. We eliminate ever tax incentive to move jobs overseas. If someone's got a better solution, bring it. I think at the end of the day o-- everyone has to be open to how we solve those two major problems. I'm-- I'm actually confident as we've worked this process it can be done.

RUBIN: And where are you in your discussions with the Senate, and-- and-- and the White House? I don't know if you heard Mr. Hoyer, who was talking about how he's sitting back, and watching, and seeing Republicans not agreeing on where they are on-- on tax reform. What-- what are-- you've been in those discussions. How close are you? You've got the House-- you know, the White House talkin' about 15%, and the Senate kinda come up-- coming up with it's own ideas. Where are you? And-- and how do you pull all that together?

BRADY: So we start from a very solid foundation. You and I have talked about probably 80% agreement with the Trump administration, and their key tax principles. I actually think-- it's-- it's a little better than that. So we have a great foundation to start with. We've got some areas that we need to narrow the differences on two thoughts.

One-- we're focused on delivering it this year. And the timetable, the White House, and Senate, that we are working off-- does exactly that, tax reform before-- the end of 2017. I think that's critical to the economy, and the signal to businesses, you know, that they can have confidence it will get-- this will get done. Secondly, tax reform's a process.

If you expect that process to be smooth, and beautiful, it's not. It is tremendously hard work. It is the-- for any country the challenge of a lifetime. And so you're going to see this process of-- of what's acceptable, what's not, who's supportive, and who's not, alternatives versus the plans that are out there. I think it's all healthy.

RUBIN: As you're putting in those transition rules, those, you know, cost money in the near term to the government-- or, you know, don't let you cut as deeply basically-- do you think that there's-- you have openness to going to 23%, 25% as that corporate rate-- as opposed to the-- the 20% you've targeted as way to kind of split the difference between where we--

BRADY: Yeah. So I hope we don't have to. You know, I'm-- I'm hopeful we can stay at that 20% rate for corporations, and 25% or lower for every other business. Together that's a 43% cut in tax rates, makes-- more importantly makes them more competitive both here, and abroad. So I think that-- that competition really drives us, I think should keep us at the table till we can get there.

But I think there's something equally important to the design of this. And it's the permanence of it-- which I think-- ought to be front and center in our goal. I th-- I look at history, and I'm convinced we get the greatest growth for the greatest number of years when tax reform is bold-- when it's-- balanced within the budget, accounting on economic growth, and when it's permanent, when it's built to last.

That-- because we're not looking at just a short term stimulus. We want businesses to change their activities to bring those manufacturing rees-- research facilities back to the US. They're not gonna do that on the two, or five, even a ten year temporary tax plan. They want that certainty.

Because these-- these are 30 year decisions, 40 years decisions-- going forward. So-- we're gonna continue to make the case that permanence matters, that we can go bold. We can balance it within the budget over ten years, and-- and longer frankly. And we can do it in a way that businesses have the certainty of permanence.

RUBIN: So-- as you're looking at trying to make that balance, the-- you're relying somewhat on what we call dynamic scoring, or revenue from growth-- as you've worked with the models that the Congressional Joint Committee on Taxation has, d-- do you think this-- that the tax plan can get you to the 3% growth that the White House is out there talking about today? And, like, what-- what actual growth levels, sustained GDP growth, is possible?

BRADY: So couple thoughts. Larry Lindsey testified today at the hearing, you know, that he foresees the House blueprint creating greater than 3% growth over the next three years, and then settling down to about 2.5%, or-- or more-- for the-- for the longer future-- which is-- a better outcome even than the Reagan reforms, which I think are sort of the gold standard-- to date.

I think-- as Secretary Mnuchin has said, it's really a combination-- 3% growth-- is achievable through a combination of the right tax policy, the right trade policy, and s-- and balanced regulations. I think you put those three together, and-- and you can hit that goal, and sustain it for the long term.

RUBIN: And-- and, well, you're-- when you're doing these estimates you'll be constrained by the official joint tax scoring? You're not gonna go to some outside other scoring model out-- out here?

BRADY: So we-- we use those outside scoring models to look at different provisions even overall to estimate where the growth is, you know, what the distribution is, what the-- mainly for us, what's the impact on wages, and middleclass families. We really sort of laser focus there as well. But at the end of the day the score keeper is joint tax.

We too have worked years, because of my predecessors, Paul Ryan, and Dave Camp, have made a concerted effort to get joint tax, you know, the resources, the staffing, the models to be able to bring us those estimates. They've used those on a number of provisions before. Now this is a bigger challenge. But I can tell you just the insight we're getting-- from them-- is hugely helpful.

It really-- if-- if you're us, and we're focused on two goals, a tax code built for growth, jobs, wages, and the economy, and leapfrog to the-- among the lead pack, best places on the planet-- to do business, joint tax's-- feedback to us has been incredibly helpful.

RUBIN: You mentioned distribution, and middleclass wage growth. The-- you know, some of the scores of-- the blueprint, at least in it's initial form, showed almost all of the benefit going to the top 1% both, you know, from a state tax repeal, from rate cuts, from the past (UNINTEL) rate cuts. How are-- what-- what are you distributional goals? And-- and how do you-- how should the tax burden be divided?

BRADY: Yeah. And so, you know, I'm convinced that-- if we flatten these brackets out, lower the rates at every level, protect more of those first dollars, and really encourage-- families who save, and invest, and if we move away from a corporate income tax to this cash flow-- system far more simpler, that passes down to the middleclass as well.

And so, you know, my goal is to drive as much middleclass tax relief as we can, lower taxes at every level. And the tax foundation estimates-- estimates the blueprint raises middleclass family of four wages by-- after tax wages by $5,000. We're gonna continue to work to try to do-- as much as we can there.

RICHARD RUBIN: As you've gone through this past year of turning that blueprint into more of a legislative product, what are-- what are some things that you've learned? What are the things that have surprised you as you've gotten deeper into either hearing feedback from some of those business groups, or from constituents, or from your colleagues in the house?

BRADY: You know-- how smooth and easy it's been. (LAUGH) No, it's nowhere like that. (LAUGHTER) I'm always pleased that so many of my lawmakers, friends, Republicans, and Democrats, know it's time to do tax reform. They know the status quo is not working for the US. We're just not competitive.

Our companies can't stay here. We're losing this job-- these jobs. So I'm-- I'm always pleasantly pleased with how there's bipartisan interest I think in tax reform. Are there different approaches, as Steny Hoyer talked about? Sure. But that we can work through. Secondly, I've been-- very pleased with President Trump's commitment on tax reform, and giving us good leaders in-- in-- Treasury Secretary Mnuchin, and Director Cohn to work through these-- issues as well.

And then again because we've had in the House side so long to be able to work toward this, we really are having the kind of conversations-- as we work toward a unified plan, that we ought to be having. Not that they're settled yet. There's a lot more work to do clearly, Richard. But-- the quality of the discussions I think are right on target.

RUBIN: In your mind what are the biggest outstanding questions that you need to resolve before there is this unified House-Senate-White House plan?

BRADY: So again the good news, you know, on the individual side, moving that simpler postcard style system for most Americans-- I think there's g-- agreement there, you know, restructuring the IRS, really making a taxpayers' served area is key. Lowering the rates dramatically for every type of business-- we agree with as well.

You know, we have some differences on the rates. We'll work through that. I think-- maybe this best pro-growth position, full and unlimited expensing, is something we think drives fully half of the economic growth from our blueprint. But that's a big change, because we swap it with interest-- deductibility.

I think that's gonna be a critical element we need to work through, especially the transition that includes-- you know, grandfathering existing debt, and a recognition of different types of industry going forward-- such as real estate for example. Those areas, and border adjustability, or more importantly how do you level the playing field, and eliminate those tax incentives to-- that drive companies overseas. Those'll be some of the areas we're gonna-- we have to focus on.

RUBIN: Good. Well, that's-- that's what we've got time for. Stay tuned over the next-- four, to six, to eight months I guess?

BRADY: Yes, sir.

RUBIN: All right. Thank you.

BRADY: Thank you very much. (APPLAUSE) Appreciate it. (APPLAUSE) Thanks, Richard.

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