Peter G. Peterson Fiscal Summit 2017: U.S. Treasury Secretary Steven T. Mnuchin

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Interview with Secretary Steven T. Mnuchin

INTERVIEWER: John Harwood, CNBC

The White House recently released a blueprint outlining President Trump’s tax reform plan. In this one-on-one conversation, Treasury Secretary Mnuchin discussed the goals and principles underlying that plan, addressed key details such as target rates for corporations and individuals, how tax expenditures would be treated, and the effect on economic growth and the nation’s fiscal condition.

This interview with **U.S. Treasury Secretary Steven T. Mnuchin** was conducted by CNBC's **John Harwood** as part of the [**2017 Fiscal Summit**](https://www.pgpf.org/what-we-are-doing/fiscal-summit).

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

ANNOUNCER: and gentlemen, please welcome back Michael Peterson. (APPLAUSE)

MICHAEL PETERSON: Thank you. America faces a new and uncertain landscape, (SIREN) both economically and politically. On the economic side, we've fully recovered from the Great Recession and we're approaching full employment. But major questions persist. What is a realistic economic growth projection?

How do we achieve widely shared opportunity? How do we meet the challenges of globalism? Free trade and automation are good for the overall economy, they increase efficiency, productivity and incomes, but how do we transition to a more automized-- automated and globalized world economy in a way that's fair to our citizens?

On the political side we had a very turbulent electant (PH) seasons and we've moved from divided government to one party government, and we have a crowed and ambitious legislative agenda. Significant reforms are on the table with major implications for every aspect of am-- am-- American life, including health care, taxes, infrastructure and trade.

And all of these impa-- issues are impacted by one challenge, our unsustainable national debt. Our fiscal condition remains as important and serious as ever. The financial crisis pushed our debt to a new high, 75 percent of GDP. That's the highest since just after World War II. The annual deficits have come down since the recession but they will begin rising in o-- again over the next ten years. In just six years we'll be back to trillion dollar deficits.

President Obama added seven trillion to our national debt. Unfortunately, President Trump is set to-- add the exact same amount, seven trillion. But this time it's different. The last seven trillion was primarily caused by an unusual event, the Great Recession. Unfortunately, over the next eight years we are in a new period of recurring and permanent increases in deficits. This next seven trillion is our structural deficit at work with a growing mismatch between spending and revenues.

Growth and spending over the long term is driven entirely by two things: entitlements and compounding interest. Entitlement growth is simple function of the large baby boomers beginning r-- b-- large group of baby boom-- boomers beginning to retire, increasing longevity, so people are living longer, and a very inefficient health care system in this country. So today 10,000 Americans will turn 65, and every day for the next 14 years.

These costs, plus compounding interest, grow much faster than revenue. And right now we're at the beginning of this wave and we need to address it before it's too late. And the national debt is the one-- issue that impacts all the others. On the economy, our debt threatens growth because it takes away capital from private and public investment. Frankly, there is no rational economic policy that does not include stabilizing the debt.

On the federal budget our growing debt is a huge threat to every aspect of the budget. In just over ten years interest costs will become the third largest federal program. In just two years we'll spend more on interest than we do on our kids. And the major reform proposals will impact and are impacted by the national debt. On health care, how we reform the ACA will have significant fiscal implications. The current law includes significant revenues, Medicare savings and costs for subsidies and Medicaid expansion.

CBO Score, the House bill, will be coming out tomorrow. (UNINTEL PHRASE) see that. Putting aside the ACA, however, health care is the key fiscal issue. Seventy percent of the spending growth of our major entitlement programs is for health care. So a solution to our rising health care costs is essentially to solving our debt problem.

Tax reform clearly has direct fiscal implications. Reform can quickly make our outlook far better or far worse. Key bipartisan goals for the tax code are to make it more pro-growth, more simple and more fair. And in terms of the effect on revenue, some argue that we need a tax cut to stimulate growth. The problem is when it's not paid for. If it's not paid for it increases the deficit. And if it increases the deficit we'll have more debt and interest costs. And if we have more debt we'll actually have slower growth.

So in the end, tax cuts that are not paid for can actually be anti-growth over the long term. On infrastructure there's broad agreement that we need to address our infrastructure. But how we will find the reforce-- resources to pay for it now and in the future if we continue to allow our debt to grow? How can we borrow more for infrastructure when we're already borrowing so much for the rest of our budget.

And lastly, on trade and competitiveness, how can we meet the challenges and opportunities presented by globalization if the national debts harms our economic growth and our leadership role in the world? The president's budget proposal is coming out today. This budget lays the groundwork for a much-needed debate about our fiscal path. The end result includes ambitious deficit reduction, reaching a balanced budget within ten years and lowering the debt as a share of the economy.

The administration deserves credit for putting forth policy options to significantly improve our nation's unsustainable fiscal outlook. But there are also issues to discuss. Is the optimistic economic growth projection of three percent reasonable and attainable? If not, the fiscal outcomes could be far worse. On the spending side, Social Security and Medicare are the primary drivers of our growing debt, yet they are left untouched in this budget.

This leaves them vulnerable-- to insolvency and also means more significant reductions to means-tested and other discretionary programs. Further, a successful fiscal plan much achieve bipartisan support in order to be politically durable over the long term. The president and Congress should work together and across party lines to find common ground in order to achieve lasting policy solutions for the long-term health of the nation.

And this is why the Peterson Foundation exists and why we're here today. Fiscal policy, essential to all the issues that are on the table and to our future as a nation. Today's summit will convene leading voices and ideas from across the political spectrum, as you've seen, to discuss the legislative agenda, its connection to our growing nation debt, and solutions to put us on a better fiscal path. It's time to transcend the uncertainty and focus on building a strong economy with a stable fiscal foundation.

America's rising debt must be a central part of the 2017 policy discussion, because addressing it is essential for us to meet the most pressing challenges of a changing economy. We're very honored to have Steven Mnuchin with us today. He's a key figure in the administration and a critical part of President Trump's economic and fiscal policy team. Secretary Mnuchin was sworn in as the 77th Secretary of the Treasury in February of this year.

Prior to his confirmation he served as senior economic advisor to Candidate Trump crafting his economic positions. He has significant experience in finance and the private sector. His hands-on experience across industries gives him a direct understanding of the American economy that adds a valuable perspective in this critical role. He deserves credit for taking on tax reform as an early priority for the administration, an area long overdue and critical to economic growth. We're very pleased to hear his thoughts today on a range of fiscal and economic issues. He will be interviewed by John Harwood, editor at large of CNBC. Please welcome Secretary Steven Mnuchin. (APPLAUSE)

JOHN HARWOOD, CNBC: Go.

 (OVERTALK)

PETERSON: Thanks, John.

HARWOOD: Good morning. So you're still a little bit new to this Washington game. Does it feel fun?

SEC. STEVEN MNUCHIN: I-- it doesn't feel new anymore. But thank you.

HARWOOD: Is it fun?

MNUCHIN: It is fun.

HARWOOD: Okay good. We'll let's have some fun. Let me start with a variant of something that Nick Mulvaney's told a group of us at the White House yesterday when he was briefing on the budget. He said that the test that they applied in the budget was: can I justify to a teacher in Kenosha, Wisconsin spending money on programs-- with their tax money?

And that was the justification for why-- he-- explained deep cuts in Medicaid, which-- go to poor pe-- d-- Medicaid benefits poor people, and old people in nursing homes-- food stamps and many other programs benning-- benefiting the vulnerable. So my question for you is: how do you justify to that teacher in Kenosha giving large tax cuts to wealthy people by-- through the administration's plan to eliminate the estate tax, to-- cut the capital gains rate for high income tax payers, and to cut the top rate?

MNUCHIN: Well first of all, let me just say on-- on the budget that's coming out-- I think the president made some very difficult decisions. And the overriding issue is-- he feels that we need to make a significant investment in our military, and that's a priority-- in the budgets. And you see that. I think also-- it is important that we get to a balanced budget within the ten year period of time, as-- as you've outlined. Now on-- on the tax side-- the president's agenda is all about creating economic growth.

And what I would say to that teacher or anybody else, we have had subpar economic growth for the last eight years. And we fundamentally believe that the economy can get back to more normalized levels of sustained economic growth, which is-- getting to three percent GDP. And that's not this year or next year, it-- it-- it phases in over a period of time. And the president's agenda is to create economic policies to create that growth, which is around tax reform, is around regulatory relief, and is around renegotiating our trade deals to have fair and balanced trade. So-- our-- our tax plan is about economic growth. On the personal side-- we are cutting the top tax rate in return for eliminating almost all deductions.

HARWOOD: Right. But let me just-- I gave you the results of the distributional table. Tax Foundation, a conservative group, last year, after the president, during the campaign, revised his tax plan. And they say that the-- people in the 40 to 60 percent-- income bracket-- would gain 1.3 percent in after-tax income from the president's plan.

People in the 60 to 80 percent bracket would gain 1.9 percent from the president's plan. People in the 99 to a hundredth tax bracket would gain anywhere from ten to 16 percent of their income. So both in absolute dollars and in percentage terms, much higher increase at the top. Why is that necessary, given the tradeoffs required in the budget?

MNUCHIN: Well-- let me just comment that you're-- I think you're looking at the campaign plan, you're not looking at our current plan. I was actually with the head of the Tax Foundation yesterday and they haven't scored the plan yet because they don't have all the details. And--

HARWOOD: Well right. But the-- the-- plan--

MNUCHIN: Well what we've said--

HARWOOD: --the outline you guys have-- put out so far resembles reasonably well the 2016--

MNUCHIN: Not-- not-- not-- not-- not really. I mean, the Tax Foundation and others-- and I've said this, when we come out with all the details of the plan, we're working very closely with the House and Senate, and when we come out with the details of the plan it will be scored and the distributions will be reviewed.

And-- the president's priority is about creating a middle-income tax cut. Now two things I would just comment on. You know, you mentioned the estate tax and you mentioned capital gains tax. I mean, the capital gains tax is being eliminated as part of the health care reform. So that's-- that's not really part of-- of taxes--

HARWOOD: Doesn't have to be.

MNUCHIN: It-- it doesn't have to be, but I think most people feel that the tax on capital gains is perhaps the most inefficient tax. Capital gains are what increase investment in this country.

HARWOOD: The-- let me just-- press on this one more time. When-- when you look at Medicaid, $800 billion cuts over ten years-- that benefits vulnerable people, whether they're poor, whether they're old in nursing homes, h-- why would you-- tell those people that a tax plan that-- has such substantial benefits for people at the top is fair?

MNUCHIN: Well again, you know, as I've said and I've talked about this repeatedly, we'll look at the distribution when it comes out. The president's objective is to create a middle-income tax cut, is not to create tax cuts on the high end. And-- and we'll look at those numbers. A-- again, this-- this is about economic growth. You know what, I would just comment on the business side.

There-- there are many economic reports that show more than 70 percent of the business tax is passed on to workers. So another big part of our priority is to create a competitive business tax system. We have one of the highest tax rates in the world. We tax on world income. We have this concept of deferral. It's not a surprise there's trillions of dollars left offshore. And making business taxes competitive will benefit American workers, which is also a big priority of ours.

HARWOOD: Now you said on my network-- after the president was elected that there would be no tax cut for people-- no absolutely tax cut for people at the top because the elimination of deductions would offset the-- rate reductions. Now your campaign plan had a cap on deductions but did not achieve that goal. It had a big tax cut for people at the top. Are you pledging now that when you-- we do the distribution analysis of the administration tax plan that there will be zero benefit for, say, the top ten percent or top one percent of tax payers and a-- much larger benefit for middle-income tax payers?

MNUCHIN: Well-- let me just comment that-- that comment that I made on CNBC ha-- has now become so infamous that it's been named the Mnuchin Rule. During my congressional (UNINTEL)--

HARWOOD: We coined it.

MNUCHIN: And-- you know, I-- I-- I-- I said I felt I was in great company with the Buffet Rule and the Volcker Rule now that there is a Mnuchin Rule. So-- what we're doing now is working closely with the House and the Senate. Our objective is to come out with a unified plan that the House and the Senate will support and that can be signed by the president.

So what I've said repeatedly is, the president's objective is to create a middle-income tax cut. We're gonna be working closely-- but again, th-- that's our intent. I-- I can't pledge with the results will be, since the results are gonna be a combined effort of the administration and the House and the Senate. But the--

HARWOOD: But your intent would then be--

MNUCHIN: But-- but the pre--

HARWOOD: --a middle-income tax cut and a zero tax cut for people at the top.

MNUCHIN: Again, what I'd said is the president's priority has been not cutting taxes for the high end, his priority is about creating a middle-income tax cut. So we'll see where it comes out. Different people have different views, but that's the president's objective.

HARWOOD: Let me ask you about the budget and how it reflects-- taxes. You said that you thought (THROAT CLEARING) the administration tax reform plan would result in a $2 trillion-- boost to-- revenue as a result of economic growth, the dynamism of the--

MNUCHIN: Correct.

HARWOOD: --tax cut. Larry Summers, who sat in your chair, wrote-- a piece in the *Washington Post* today where he said that the administration budget has committed the most egregious accounting error-- he has seen in 40 years, which is this: that the administration assumes that $2 trillion revenue boost that you talked about but does not reflect at all the cost of the tax cut itself, which has been estimated by the Committee for Responsible Federal Budget in a median range of about $5.5 trillion. He said that-- you are double counting the effects of the-- tax cuts in ways that he would flunk a freshman economic student for.

MNUCHIN: Well-- let-- let me first comment that I can assure you that when we come out with the details of the tax plan we are not gonna propose something that costs anything like four or $5 trillion. We wouldn't do that and-- I've said that repeatedly. And people who have estimated that-- in my mind are just, you know, not responsible because they don't know the details.

Now-- as it relates to-- the president's budget-- and again, let me just state that, as you know, the-- the budget process, the president proposes a budget, there will be many changes to this budget made by Congress. Congress controls the-- the purse strings. We felt it was premature to put in any changes to the budget-- as a result of taxes, since we're not far enough along to estimate what that impact will be.

So the-- the budget was built on what is the administration's-- economic plans and-- and-- and economic numbers, which we've-- we've talked about, which are getting to three percent growth. So-- I think Larry-- I think in all fairness to him, the-- the-- the issue is more of this is a preliminary document that will be refined as we go through a process with Congress determining how money is spent, and as we go through the process of-- working with the House and the Senate on-- on taxes.

And u-- ultimately the numbers will be completely transparent. It'll be scored by-- the Joint Tax group. It'll be scored by outside groups. It will be scored by the Treasury Department. We have over a hundred people working on this. And there'll be a completely transparent process.

HARWOOD: Now let's talk about economic growth. You have said that growth is your objective and your budget projects that you get on a sustainable basis to three percent growth after that.

MNUCHIN: That's correct.

HARWOOD: Mainstream economists that I have seen have-- settled on their growth estimates of in the range of two percent, a little above, little below. Where do you see that growth coming from in light of this fact? Economic growth is a product of labor and productivity. The administration is proposing, through its immigration policies to actually reduce the supply of labor. Where does the pro-- productivity increase come from that create-- gets you to three percent that your-- economic colleagues think is unrealistic?

MNUCHIN: Well-- let me just first comment-- on the immigration policy. The president is focused on stopping illegal immigration.

HARWOOD: Although he's working with congressional Republicans. Tom Cotton, for example, has been consulting with the administration's economic team on reducing legal immigration.

MNUCHIN: I-- I understand. But the primary focus is on illegal immigration. Now-- two things I would comment. The published unemployment rate, as you know, is very low. R-- roughly around four and a half percent. A good component of that is people that have left the workforce because they can no longer find jobs so they stop looking at jobs. So, you know, we think that if you look at the-- the real unemployment rate, it's somewhere between the four and a half percent level and the eight and nine percent level.

So one component of this is making sure that we create jobs for people who want jobs and will come back into the workforce. And the other component, as you said, is-- is productivity and capital investment. And a big part of our economic plan is about boosting capital investment in this country.

HARWOOD: Let's talk a little bit about the path for tax reform. The initial-- plan from Republicans in Congress was to have health reform on the president's desk by Easter, have tax reform on his desk by August. You have said that, for obvious reasons, that that's a very optimistic timeline on tax reform. Mitch McConnell, the Senate Republican leader, has said his aim is to pass tax reform in this Congress. Does that mean it is your expectation that if tax reform takes place it is more likely to be in 2018 than 2017?

MNUCHIN: Well I-- I would hope that we get this done this year. It is-- it is critical to our plan for economic growth. And I can assure you, you know-- we are working very closely with the House and the Senate to get that done. And-- I think I had said on your show earlier in the year that-- we were gonna try to do that by August. I think it's pretty clear now that we're not gonna get that done by August.

HARWOOD: You notice, by the way, that all significant things that the Treasury Secretary says he says on CNBC. I just have to point (LAUGHTER) that out.

MNUCHIN: I-- I-- I can't acknowledge that comment because that would be promoting your show, which I'm not allowed to do.

HARWOOD: Fair enough. I'll-- I'll handle that.

MNUCHIN: I just-- just wanna be clear on that.

HARWOOD: Okay--

MNUCHIN: But our-- our-- our objective is to get it done this year and-- I'm still hopeful that that's the case. It's--

HARWOOD: Yeah.

MNUCHIN: --our-- our number one priority.

HARWOOD: Now you know it's very difficult for a couple reasons. First-- you cannot move-- if-- if you're gonna do the tax plan that Republicans have envisioned through the reconciliation process, you have to first finish health care reform, which is very much not done, then you've gotta pass a new budget, some variant of what you've proposed and what Republicans want, create a new reconciliation process and then move on tax reform.

All that's very difficult. Senate Republicans are still entertaining the idea of working with Democrats, which would imply a much different tax plan if you need Democratic cooperation. What do you think are the chances that we end up with, as a-- something that can attract board support-- a much more limited tax program that does not include some of the-- cuts in the top rate, state tax, capital gains and instead focuses on international tax reform, for example, to bring money back that is parked overseas?

MNUCHIN: Well I-- I-- I think it is critical that we do comprehensive tax reform. It's been 30 years since we've had a major change. I think the personal s-- tax system is way too complicated. In our plan 95 percent of Americans won't need to itemize and will be able to do their taxes on a large postcard.

This will save an enormous amount of money and government resources at the IRS. We're moving towards a large part of the population doing electronic filing. And this is about creating efficiency for the American taxpayer, and simplifying the system, and creating a middle-income tax cut.

So the changing the personal side is a big priority of ours. And same on the business side, this isn't just about, you know-- bringing back-- one-time overseas profits, this is about changing the system so that American workers have a fair chance in competing and American companies can be successful.

HARWOOD: I had-- an interview recently with Josh Bolten, former White House chief of staff, former budget director-- now the president and CEO of the Business Roundtable. And he said, perhaps for obvious reasons, since he's at the Business Rountable, that the critical element of tax reform is not the personal side. Nice-- there l-- people-- some people might like to get a tax cut, but the growth comes from the business side. Is that true?

MNUCHIN: Well i-- i-- again, I would say it's all true. So yes, we need to fix the business side. That is what's pro-growth. But we want to create a middle-income tax cut to boost the economy and we wanna simplify taxes for American people. And-- and of course this isn't easy, it hasn't been done in 30 years.

So we can listen to all the reasons why it can't get done-- but we're not gonna-- we're not gonna follow that. And-- I hope this can be done on a bipartisan basis. The types of things that we're doing are pro-growth and are pro-the American worker. And I-- I hope that there are Democrats that are on board with that plan.

HARWOOD: The president talks much more about deep tax cuts than he does about tax reform. So I think there's concern amongst some in Congress that the least common denominator is going to end up just cutting rates and not doing tax reform. You don't like the border adjustment tax. There's resistance to eliminating the deductibility of interest, for example. What other conceivable ways would you have of broadening the base to finance a drop in the corporate rate?

MNUCHIN: Oh there's-- there's l-- there's lots of ways. I mean-- again, we have-- as I said, we got a huge team in Treasury that's working on this. And this is about broadening the base. There are a lotta companies that pay no taxes. There are a lotta companies that pay a lot less than the 35 percent tax. And-- and this is about broadening the base--

HARWOOD: But is there anything you could point to that says, "We are going to press hard to close this loophole in particular?"

 (OVERTALK)

HARWOOD: --to-- or to tax-- something that we're not now taxing?

MNUCHIN: Well there-- there are-- there are a lotta things that we can do. And I would just say--

 (OVERTALK)

HARWOOD: --you'd point to?

MNUCHIN: I-- I wanna be careful in-- until we have a plan in releasing the whole plan not to pick one thing. Since one of the things I think is important is that whatever we do we create a level playing field. One of the problems with the border adjusted tax is that it doesn't create a level playing field. It has very dif--ferent impacts on different companies.

It has the potential to pass on significant cost to the consumer. It has the potential of moving the currencies. We wanna make sure that we create a level playing field. And on the personal side, I think you've seen this, you know, one of the biggest deductions that rich people take are state and local taxes.

And-- w-- we've said we think we should get the federal government out of the job of subsidizing the states on taxes. And th-- that raises a significant amount of money. I mean-- you know, for the two places that I've lived, which is California and New York-- that-- that's not creating a tax cut for the top end--

HARWOOD: But it wouldn't offset-- it wouldn't offset the benefit of lower rate, ending estate, lower capital gains taxes for people at the top. It w-- just would--

 (OVERTALK)

MNUCHIN: --again-- I think you have to look at-- we're looking at the-- capital gains as part of health care and health care reform. It was put on because of health care, it's getting taken off because of health care. That is not part of the tax plan. And as it relates to the estate tax--

HARWOOD: But if you left it in place, your plan would be more fiscally responsible.

MNUCHIN: A-- again, I think our plan will be fiscally responsible. And, you know, just as you see, the health care is paying for itself. We'll see the tax plan when it comes out. Now look, the estate tax-- also called the death tax-- the reality is, a lotta rich people use a lot of estate planning and don't pay it. This hurts a lotta farmers. It hurts a lotta people who have businesses that they wanna pass on. And--

HARWOOD: But if you look at the actual incidents of the state tax--

MNUCHIN: It-- it--

HARWOOD: --it-- falls very heavily to a pretty small number of wealthy families.

MNUCHIN: It-- it-- it-- it does. Okay. And I would just say, you know, there-- there's a lotta people who feel that the estate tax-- death tax, is a tax on top of when people have already paid taxes. And-- as you said-- it-- it's-- it's impact-- for those people it impacts, it does have a imp-- a big impact. And, you know, many people have to sell their family business, many people have to sell their family farm. But again, you know, there-- there are people-- that-- this is something where people come down on both sides of it. Okay--

HARWOOD: Okay. Very last question. The president m-- Michael Peterson mentioned in his opening remarks that the president has pledged not to touch social-- main Social Security and Medicare. And he said that to the people who he said had been getting a raw deal and he was gonna protect them. He also said he was not going to touch Medicaid during the campaign.

The-- Medicaid cuts that you've proposed in this budget, and that were proposed in the American Health Care Act, go much beyond what would be required to roll back the expansion of Medicaid that was in the Affordable Care Act. So my question is: why did the president break that promise not to touch Medicaid, separate from the ACA expansion, and does that mean, perhaps to the gratification of people in this room, that he is also likely to break his promise on Social Security and Medicare?

MNUCHIN: I think the president has no intention on changing Social Security. And-- you know, I will tell you, as-- as-- as a trustee of the Social Security trust fund-- this is something that Congress may look at. Okay? But the president does not want to change entitlements.

HARWOOD: But-- if he doesn't wanna change entitlements, why did he go along with the Medicaid reductions?

MNUCHIN: It-- again, I think the-- the Medicaid reductions and what's gone on, what the president is trying to do is control health care costs. I think as-- as you heard in the introduction, health care costs are one of the largest challenges. We have a system that was broken and we're trying to fix that system. And that-- that's-- that's what the-- the health care plan is all about.

HARWOOD: Right. But he-- he did say in the campaign he wasn't going to touch that health care program, Medicaid, and Medicare as well.

MNUCHIN: It-- i-- again, you know-- I'm not gonna comment on the-- the health care. The health care is going through the system. I-- again, the tax plan is all about creating jobs and growth.

HARWOOD: Secretary Mnuchin, thanks so much for joining us--

MNUCHIN: Thank you. (APPLAUSE)

\* \* \*END INTERVIEW\* \* \*