



Treasury's agenda for Steven Mnuchin is already set

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Every president, and by extension the Cabinet, inherits a number of problems.

President Obama's first Treasury secretary, Timothy Geithner, certainly arrived to an overflowing desk. Steven Mnuchin, if confirmed to be Donald Trump's Treasury secretary, will also enter the agency with a full agenda. These are just a few of the most serious issues awaiting him.

Financial reform

While Geithner did spend a considerable amount of his tenure both working to see the Dodd-Frank Act passed and guiding its initial implementation, Republicans, along with much of the general public, feel that the Wall Street reform law has been a combination of inadequate, misguided and destructive.

Mnuchin has already expressed a desire to reform Dodd-Frank. Doing so is urgently needed if we want to both grow our economy and increase the stability of our financial system. These two goals can be at odds, but are not necessarily.

For instance, we can have both safer and less costly mortgage lending, as the considerable litigation and regulatory uncertainty from Dodd-Frank has restricted marginal borrowers to Federal Housing Administration (FHA) loans, paradoxically leaving the taxpayer at greater risk.

A theme of financial reform, as somewhat expressed in Congressman Jeb Hensarling's (R-Texas) Financial Choice Act, will be stronger but simpler.

Financial stability

Dodd-Frank shifted a considerable amount of financial policy making away from the independent regulators and back to Treasury, primarily through the Financial Stability Oversight Council, chaired by the Treasury secretary, who also maintains a veto over systemic designations.

While the designation process is currently being litigated by MetLife, in all likelihood, the next Treasury secretary will likely take a pause, at least for six months, to evaluate that process. Such a pause would likely also apply to the two largest financial companies not yet designated, Fannie Mae and Freddie Mac.

Mortgage finance reform

There is perhaps no bigger unresolved issue from the financial crisis than Fannie Mae and Freddie Mac. These two have been trapped in the limbo of government conservatorship for over eight years. By contrast, the longest bank conservatorship was 18 months.

The current situation is neither sustainable nor what Congress intended, and having worked on that legislation, I can say it's worked nowhere near as intended. With essentially no capital, the taxpayer stands directly behind these entities, exposed to trillions of dollars of risk.

While the twins do have an independent regulator, the terms of their assistance have been dictated by Treasury, leaving their fates squarely in the lap of the next Treasury secretary.

Fiscal imbalance

Despite apparent calmness in the Treasury market, our federal government has made more promises than it can keep. Our long-term fiscal imbalances, driven primarily by Medicare, will eventually wreak havoc on the federal budget.

Previous administrations have managed to kick that can down the road. The Trump administration may not have that luxury. Even if it did, addressing these imbalances only becomes harder the longer we wait.

Currency wars

Mnuchin will inherit the responsibility of monitoring the manipulation of foreign currencies. Many see China as the prime example of such. Previous Treasury secretaries have managed to dance around the issue, essentially affirming concerns without outright declaring China a currency manipulator.

Given the importance of trade and jobs to Trump's victory, that dance will get much more difficult. China's primary avenue for lowering the renminbi relative to the dollar has been to buy large amounts of Treasuries, making it hard to see how one can label China a currency manipulator without also increasing the cost of Treasury borrowings.

Terror and drug finance

Despite the occasional claims of bank deregulation during the George W. Bush years, the post-9/11 era has seen a massive expansion of regulation and surveillance related to the potential financing of both terror and illegal drug activities.

This work is largely carried out by the Treasury Department. Financial sanctions, such as those currently used against Russian President Vladimir Putin, are also carried out by Treasury. Sanctions against Iran will continue to occupy any Treasury secretary's attention.

There have been increasing concerns in recent years that not only have such sanctions been ineffective, but that they've had potentially harmful effects. This can be seen particularly in the area of remittances, which are important sources of income for many poor families in emerging economies.

Nominations

Treasury secretaries tend to play an outsized role in the choice of nominations for economic policy positions, including the Federal Reserve. While Mnuchin will not have a "veto," he will have considerable influence on whether Janet Yellen gets another term as chair of the Federal Reserve Board. He would also have some influence as to her replacement and other Fed nominees.

Tax reform

Lastly, and perhaps most importantly for many Republicans, will be tax reform. Deep in the heart of many Republicans is to revisit President Reagan's great achievements in the 1981 and 1986 tax bills.

The goal will be lower rates with fewer deductions. As every one of those deductions has a constituency, reaching the goal of tax simplification will take considerable personal and political skills on the part of Mnuchin. Fortunately for him, he has a more than willing partner with Congressman Kevin Brady (R-SD), who chairs the House Ways and Means Committee.

Some have seen Mnuchin as an unorthodox choice for Treasury, especially given his ties to Hollywood. Fortunately or unfortunately for him, the unfinished business awaiting him will contain considerable drama, a lot of tears, maybe even some laughter, and that's to say nothing of having to deal with Washington's Hollywood-sized egos.

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