THE BROOKINGS INSTITUTION

# DEFICIT REDUCTION AND THE NEW CONGRESSIONAL COMMITTEE: A PRIMER

Washington, D.C.
Wednesday, August 17, 2011

PARTICIPANTS:

**Introduction:**

RON HASKINS
Senior Fellow, Economic Studies

**Panelists:**

HENRY J. AARON
Senior Fellow, Economic Studies

SARAH A. BINDER
Senior Fellow, Governance Studies

BILL FRENZEL
Guest Scholar, Economic Studies

WILLIAM G. GALE
Senior Fellow, Economic Studies

* * * * *

P R O C E E D I N G S

MR. HASKINS: Welcome to Brookings. My name is Ron Haskins. I'm a Senior Fellow here. I've been in Washington for, I think, 25 years. I served in the Legislative Branch and in the Executive Branch and now at the think tank. And all this experience led me to think that there's nothing new that I could possibly see in Washington. And I have to confess -- in the last year I have been surprised on several occasions, not least in the past month or so -- and in fact that's what we're here to talk about -- the biggest surprise at least to me for a long time, is this committee and the way we dealt with our debt ceiling in this most recent iteration.

So, here's how we're going to proceed. First I'm going to give a brief description of the agreement, which I'm going to leave a lot out, because it would take a long time to do the whole thing. It is full of asterisks and semi-colons and all kinds of stuff that makes it difficult, so I'm just going to -- I specialize in simplicity, and that's what you're going to get.

Then after I describe the deal, we're going to turn to Sarah Binder, who's a Senior Fellow here at Brookings. She's an expert on Congress and on legislative politics, and she is going to talk about the history of super committees. It's sad to think that there actually have been previous committees like this one. It seems that whenever Congress cannot make a decision or force itself to do the right thing, they appoint a committee or a commission or so forth, and Sarah's going to describe that plus talk a little bit about this particular committee and how it's going to operate.

Then I'm going to turn to Bill Gale, who's a great expert on taxes, runs the tax policy center here along with folks at the Urban Institute. He also is the author of several versions of the deficit and 10-year projections with all kinds of interesting baselines. In fact, Bill can produce baselines faster than Congress can pass legislation. I think he had this thing out about, maybe, a minute and a half after they reached agreement. Bill comes up with a baseline. I thought that was pretty interesting. And, shockingly, he is going to talk about baselines, and it turns out they are a very, very big deal and completely unresolved as far as I can tell.

Then we're going to turn to Henry Aaron, and true to character Henry is going to say that we have it all wrong, the President has it wrong, that Congress has it wrong, we're doing totally the wrong thing; and he's going to tell us what we should be doing instead.

And then, finally, we're going to turn to my good friend Bill Frenzel. For those of you who are under age 60, you probably might not be as familiar with Bill Frenzel as some of us over age 60 are. Bill was in Congress for 20 years with the Ways and Means Committee. He was also the ranking member of the Budget Committee for several terms. Bill knows as much about the budget as anybody that I've encountered in Washington. He's now a guest scholar here at Brookings. And Bill's going to talk about what I think he can talk about better than almost anybody in town and that is the politics of the budget deal.

So, with that let me just say a few things to keep in mind, simple, about the agreement. I think it's helpful to think about the agreement. It has three distinct parts. First of all, it raises the debt ceiling, which was the point of the whole thing in the history of the country. Mostly that's all these agreements did was raise the debt ceiling.

But this time we did two other things. Second, we reduced the deficit, a crucial part of the deal and by far the most complicated. And then, third, we agreed to have a vote in both the House and the Senate on a balanced budget amendment to the Constitution. So, that will take place in the fall.

So, the first part of the deal is raising the debt ceiling, and that's done approximately $900 billion first, and then there will be a subsequent step, which will be between 1.2 and 1.5 billion. The point is that whatever it turns out to be precisely, it will get us through the 2012 election, which was one of the main goals of the administration all along. So, the President got at least that goal.

Then the second and by far the most complicated part is reducing the deficit, and that also comes in two stages. The first one is that there's an immediate agreement to approximately 900 billion over 10 years. There are lots of numbers floating around. You can look at different baselines -- maybe Bill will talk about this -- and you can look at budget authority or outlays, but the budget authority is 935 billion. But, as I say, there are other baselines and so forth. So, that's the first one, and it includes interest.

This is a great, important point about the budget. The more we cut, the more we save beyond just the cuts in programs because interest is getting to be such a huge part of our budget deficit we're headed toward -- 10 years from now perhaps -- Bill knows a lot about this -- we could be paying a trillion dollars just in interest costs. So, interest is a big, important part of the savings. And this is achieved by putting caps on discretionary spending, so this first step is caps on discretionary spending, both defense and non-defense. There's a firewall between security and non-security, but that only lasts for two years -- 2012 and 2013 -- so there could be lots of interesting things that happen after 2013 and how these cuts in appropriations are actually made.

And then there's a part that everybody's talking about and the reason we're here, and that is this new device that the leaders came up with, and that is that super committee, so-called, the Joint Select Committee -- if it has the word "Joint" you know it must be really important -- and that will result one way or another, if we actually live up to the agreement, between 1.2 and $1.5 trillion in additional cutting over 10 years. So, the committee is 12 members -- 6 Republicans, 6 Democrats, 6 House, 6 Senate -- appointed by the leaders, the respective Republican/Democrat leaders in the House and the Senate.

A crucial point that Bill will talk about -- they apparently can choose whatever baseline they want. That turns out to be a very important issue. They can make changes -- any changes in spending or taxes. There was some dispute about that, but the text of the agreement makes it clear that they could raise taxes. They could cut whatever they want to, including Medicare and Medicaid. So, they have more or less carte blanche to do whatever they want to do. And it's a majority vote that decides in the committee, not like the President's deficit panel. Seven out of twelve votes wins. So, if you get a majority you can pass whatever you want to. They have to report their decisions by November 23rd, and Congress must vote by December 23rd. They must vote without amendment, and it cannot be filibustered in the Senate. So, these are about the best rules you could possibly have to pass something through the Congress of the United States. So, in that respect, it looks like it could be, you know, a good deal.

Now, if they don't reach and agreement or if the Congress votes it down, then there's an automatic -- we use the fancy word "sequestration," which is a holdover from grammar in the Holland days back in the 1980s, and there the additional cuts would be $1.2 trillion, both discretionary and in entitlement. There are some complex rules about what cannot be cut. For example, in Medicare it can only be cut -- only the payments to providers. I guess they felt we had such a strong record of delivering whenever we decided to cut provider payments that we would do it again. And there's a 2 percent limit even in that part of Medicare cuts. So, there are -- and there are a bunch of low-income programs -- SSI and food stamps, Medicaid, other programs -- that are protected from the sequestration completely.

So, there's a brief overview of the deal, and now we're going to turn to a history of these kinds of special committees and a few words about the process of this Committee. Sara Binder.

MS. BINDER: Great. Thank you, Ron, and thanks for including me.

I thought I would start us off with three points about congressional commissions in general, about this particular Joint Committee, and then just a little bit about the implications of the membership of the Joint Committee.

So, the first point -- specially appointed congressional commissions typically fail. And I'd like us to understand a little bit about why these committees tend not to work.

Second, the super committee in fact differs quite a bit from the previous incarnations of these congressional commissions or committees. I think it's important to understand why it differs and why those differences might actually be consequential.

And, third, I think the membership of the committee has a number of implications for what's likely or not likely to happen this fall, so I'd like to spend a little bit of time thinking about how the leaders made their selections and what we can infer from the makeup.

So, let's take each of these. First, why do committees typically fail? What's different this time around, and what can we learn so far from what we know about the panel?

So, first, why prone to fail? It's not unusual, as Ron said, for Congress to kick the can down the road when it is unable to solve tough problems. There are plenty of examples, right? There's a Medicare Commission, 1993; an Entitlements Commissions, 1997; of course the Simpson-Bowles Commission in 2010. None of these commissions succeeded in producing a plan that would be forwarded to the House and Senate to consider.

Even when we do see episodes of success, sometimes we point to the 1983 Greenspan Social Security Commission, but when you look under the hood there, it turns out that agreement was reached by people outside the committee, right? -- by the work of Tip O'Neill, the Speaker with President Reagan.

When commissions are successful, such as the Military Base Closing Commission, it turns out that the mandate is very, very, very narrow. And we can come back to the reasons why that defense commission might have succeeded.

So, why don't these solutions of kicking the can down the road -- why don't these commissions tend to work? I like to think of both political reasons, institutional reasons, and then a little bit about the context in which these commissions are created.

First, it's typically that deadlock over major issues of the day. It's that deadlock that encourages Congress to kick the can down the road in the first place, mostly to avoid blame for failing to reach a decision. So, not surprisingly then committees and commissions tend to inherit the stalemate that created them in the first place. In today's context when we think we think the politics that lead to stalemate, we really have in mind a sort of intense increase in partisan polarization, both increasing policy differences between the parties, as well as sort of simple partisan team play that gives the parties sort of these strategic reasons to disagree with one another. Parties see the problems differently. They see solutions differently. And even when they can agree on solutions, sometimes they still have this incentive to disagree just because it's the other party.

So, political incentives for legislators create these commissions in the first place and then, not surprisingly, these commissions find it hard to overcome the politics that created them at the beginning.

Second, I think there's a set of institutional reasons why these commissions tend not to work. They are typically -- not always, but they're typically created by Executive Order, not like a joint committee, which has a statutory basis -- that is, it's written into law. And typically when presidents set up these commissions through Executive Orders, they are, as Ron suggested, given a super majority requirement in order to officially report. Their provisions are rarely if ever protected procedurally. That is, they're subject to filibusters; they're subject to party control of the agenda on the House floor; and in fact the most successful commission is the one that is really the exception that proves the rule. So, the Defense Base Closing Commission had a statutory basis. It was protected procedurally from being amended on the floor. And in fact the decisions of the Commission went into effect unless Congress and the President voted to disapprove or to reject the recommendations.

Now, commissions created by Executive Order can't have this legislative authority. And so right off the bat, most of these commissions are hampered by the way in which they are created.

Finally, just in terms of contextual reason why things tend not to succeed here, these episodes are rarely created -- commissions are rarely created in periods of crisis, and even if there was crisis, typically crisis might be necessary to get an agreement but it's rarely sufficient to compel the parties to sit down.

Okay, so how is this super committee different than what we've seen historically? It differs primarily in terms of these institutional factors that I've mentioned. First, it has a statutory basis. As Ron said, it only has a majority vote to report, no amendments on the floor, no filibusters from the right, no filibusters from the left, and the House Rules Committee can't hold a bill off of the floor. And of course there are triggers written into the law as well. So, granted, Congress has once again kicked the can down the road, but they've rigged it so that the can explodes if they fail to reach an agreement.

Now, why is that important? That trigger here -- it affects the consequences of failing to agree. And typically the consequences of stalemate make some parties welcome the stalemate, because they may benefit electorally from refusing to agree. This time the cost of stalemate is much higher -- or at least we think it is much higher. We think it may compel the Committee at least not to deadlock.

Having said that, with all these procedural advantages, the political factors that lead to defeat and failure are essential still in place.

So, finally, what are the implications of the makeup of this particular committee? Two observations here. First, this committee, not surprisingly, inherits the polarization that we see in the House and Senate. If you lined up the House and Senate members on the ideological line from left to right, we'd really see a cluster on the left and a cluster on the right but really nobody in the center. The closest you get is Max Baucus, a Democrat from Montana, but even then he's really alone to the extent that he's a cenrist. And that of course makes their charge hard if the charge is to build a bipartisan coalition.

Second, I think it's important to keep in mind here that party leaders left very little to chance in selecting their contingents. All four party contingents -- House and Senate, Democrat and Republican -- offered essentially third-tier party leaders -- Clyburn, Becerra, Kyl, Murray. They offered the Tax Committee chairs, Camp and Baucus; Budget Committee Membership, Van Holland. You may wonder where is Paul Ryan. We'll come back to him in a moment. And of course from the Democrat side representation of key Democratic fashions -- Latinos, Blacks, women, and -- essentially the defense constituencies.

Why is this important? This committee will operate in continual consultation with party leaders and essentially informal vetoes from top party leaders. The deal is immensely important to a party's reputation and their electoral brand name. This is not a rogue committee, right? This is not Simpson-Bowles, which we've sort of thrown off to the side. This is not a homegrown Gang of Six effort, the parties are deeply -- have deep stakes in the outcome of this committee, in its suggestions, which means that the committees -- if there's going to be resolution here, the key question is, right, do the parties see compromise in their electoral interest in 2012.

Finally, keep in mind what Paul Ryan said, I think it was yesterday, and this after he apparently refused three times to be on the committee, he said, “We should not have a system where 12 politicians cut some agreement in the back room that restructures the whole design of the Federal Government in three months time. This is a decision,” he said, “that should be brought to the American people.” In other words, these are issues for the campaign trail, not for the joint committee.

So, if you add all that up, where does it leave us? I suspect, just like TARP, just like the April budget agreement, just like the August deficit deal; this will likely be another last minute deal. Don’t put the turkey in the oven too early for Thanksgiving. Second, if there’s a deal, it will likely be leadership endorsed; it will probably look like the other deals, basically the ends against the middle -- the far left, the far right defecting. And finally, of course, the committee does not operate in a vacuum. There are many other deadlines this fall and over the next year and it’s possible, of course, that Congress could rewrite the law potentially to take the sting out of the triggers.

So, the committee here is not the last bite or the only bite at the apple.

MR. HASKINS: So, I’d like to correct one thing you said. I would recommend to the audience that they buy their Christmas presents early.

Bill Gale?

MR. GALE: All right, thank you. Talking about baselines can be a little on the tedious side, so let me try to justify it with two points. First of all, the committee needs to cut $1.5 trillion or the automatic sequesters kick in. In contrast, the debate about the baseline is a $4.5 trillion question, so it’s actually much larger than the cuts that the committee has to make. So, essentially they have a $4.5 trillion question to begin with and then after that they have a $1.5 trillion question. So, if you can win the baseline argument, you may be willing to say, who cares about the $1.5 trillion when you’ve already got your $4.5 trillion.

The other thing is, I want to give a very simple example of what I'm going to talk about that's the tedious part, and that is a baseline issue is basically if you need to cut $1.5 trillion, the question is, compared to what, and if you compare it to a baseline where the government has no revenue and spends 50 percent of GDP, it's easy to come up with $1.5 trillion, but you have to have a baseline to compare it to. And as Ron mentioned, the budget deal has all sorts of asterisks and semicolons, but it left this $4.5 trillion question completely undefined, and so there's no guidance in the budget deal in the legislation about what baseline people actually use.

So, in terms of an example, think about this the following way: suppose you've been eating badly the last, let's say, 10 years, and you've been gaining a lot of weight and you want to lose weight and you want to lose 15 pounds. Well, we won't go with 1.5 trillion points. You want to lose 15 pounds. The question is, compared to what? Now, the way we'd usually think about it is, well, compared to where I am right now I want to lose 15 pounds. There's another way to think about it, though, which is to say, well, I've been eating badly for 10 years. If I continue to eat badly the next ten years I'm going to gain 45 more pounds, so I'm going to lose 15 pounds relative to that increase of 45 pounds that I'm going to do over the next decade.

Now, nobody that's serious about losing weight builds in a 45-pound weight increase and then says I'm going to lose 15 pounds relative to that. But using one of the baselines would be the equivalent of increasing the deficit by $4.5 trillion and then saying, I'm going to cut it by $1.5 trillion. Okay? So, that's essentially what's at stake here and that ends the non-tedious portion of the talk.

So, the standard baseline is what's called current law, it's not actually, literally current law, but it's close enough for most purposes. It assumes that all tax cuts that are supposed to expire actually do expire except a few, which we'll just leave aside, it assumes the alternative minimum tax is going to grow rapidly over time, sort of take over the tax system, it assumes that Congress is going to make the Medicare cuts that it is supposed to by law, but as Ron hinted at earlier, never does, and it assumes other things about military spending, direct -- discretionary spending is held constant after adjusting for inflation.

So, the current law baseline is basically the answer to the question, what would happen if Congress literally did nothing the next ten years, passed no legislation, they just re-appropriated the same amount of discretionary spending each year. Now, that's not a very realistic baseline to use if you want to see where we're headed, okay, but it is a really good baseline to use if you want Congress to have to recognize the costs of any changes to tax laws or spending items that it enacts. It's the equivalent of saying, here's my weight now, I want to lose 15 pounds relative to my weight now that means relative to the current law baseline. If Congress does anything, it needs to start where it is and cut relative to the current laws. It's the -- using the current law baseline would be the equivalent of saying, when you find yourself in a hole, the first thing you do is stop digging. Okay?

There is an alternative baseline that has been used a lot and I feel some responsibility for this. As Ron mentioned, I've been putting out alternative baselines for a long time. Alan Auerbach and I have been doing this for over a decade now, even back when the government was in surplus in 2001, the current policy baseline, which is basically the answer to the question, what happens if Congress acts in the next ten years the way it has in the past, sort of a business as usual baseline -- has shown large and increasing deficits over time.

So, the current policy baseline assumes that the tax cuts get extended, it assumes that we don't let the AMT, the Alternative Minimum Tax, take over the whole system, it assumes we don't spend as much in Iraq and Afghanistan over the next 10 years as we do now, that we phase that down, it assumes that Congress is incapable of making these Medicare cuts that for the last 10 years it has shown it is incapable of making.

So, it's kind of a business as usual baseline. It's a really good measure if you want to see what path we're on if we don't change our ways. It's the 45 pounds gaining over the next decade if we continue to eat badly, okay, so for -- Alan and my point over the last decade has been, we're headed in this bad way and here's the evidence, here's the current policy baseline.

You don't want to use that as a baseline, though, if you're cutting -- if you're trying to reduce the budget deficit. Once you reduce the budget deficit, or once you want to reduce the budget deficit, that's the equivalent of saying, hey, I need to go on a diet, right, and I'm not going to build in 45 pounds of $4.5 trillion of increased weight or increased budget deficits before I start cutting the deficit.

So, the current policy baseline has always been a good guide to where we're headed if we don't fix things, but it's not an excuse to not fix things and all the committees, Bowles-Simpson included, the Obama Administration, the Congress, they always want to use the current policy baseline because it builds in all these nice things -- the extension in the Bush tax cuts, get rid of the AMT -- but it's not a serious deficit -- it's not a serious approach to solving the budget deficit because it says basically, well, we're going to cut taxes first by $4.5 trillion then we're going to start balancing the budget. Okay, well, why don't you just not cut taxes by $4.5 trillion, would be the obvious rejoinder to that.

Okay, so, again, we're talking about amounts in the two different baselines that are three times as large as the actual $1.5 trillion that Congress has to cut and just to make it more complicated, it turns out that the Republicans this time around want to use the current law baseline even though that that means the Bush tax cuts have to be paid for if they're extended, and the Democrats want to use the current policy baseline, even though that's sort of giving away the financing of the Bush tax cuts.

We can talk about the politics of that if you want, but let me just sum up with three bottom lines to think about, about the budget deal and the baseline. One is the baseline is where the action is. If you can get the $4.5 trillion change there, then you can care a lot less about the $1.5 trillion and the supposed cuts. Second is, they should use current law as the baseline. And third is none of this means they can or can't reach an agreement. That will depend entirely on the issues that Sarah mentioned but it's important to keep your eye on the numbers when people talk about including tax increases in the deal, if they're talking about doing it from the current policy baseline, that actually involves less revenue than sticking with the current law baseline and having no taxes in the deal.

So, it gets very complicated, it gets very Orwellian, it gets very tedious, but keep the weight loss example in the back of your mind, that's probably the simplest way to think about it. Thanks.

MR. HASKINS: Okay, so you can all wake up now. Henry, what did we do wrong?

MR. AARON: Bill used a weight loss story, I'm going to use a medical story to start my comments, not one for which I can claim originality, but I think it is apt. You're a physician, you encounter a patient lying -- or a person lying on the street in the process of bleeding out, hemorrhaging all over the place. When you bend over you tell this person to stop smoking and eat better so that they will have a better chance for a long and healthy life.

The reason I'm using this example is that I think it is symptomatic of a kind of policy derangement represented by the debate now going on in this city over budget policy.

I'd like to start with half a dozen facts, I believe they are facts, and ask you where you think they lead you. The fact one is, obviously, the nation is in the midst of the deepest and most protracted recession we have experienced in the last 70 years. Fact two: increasingly economic forecasters agree that there's no realistic prospect for significant economic expansion any time in the near future. And that leads me to fact three, which is, this bad news is occurring in the face of not quite, but almost, all out effort by the monetary authorities to be supportive of economic expansion. Fact four is that over the past couple of years, fiscal policy, nationally, and that includes not just federal fiscal policy but also state and local fiscal policy, has become significantly more contractionary, that is, working against economic expansion during that period of time.

The Center on Budget and Policy Priorities has produced a nice chart reproduced by Ezra Klein available in a handout outside the room showing that 37 of the 50 states in the United States, including all the large states but one, have seen reductions in spending compared to levels that prevailed in 2008 before the onset of the recession. The one exception: Texas. But Texas will join this group shortly because they have budget cuts coming that are going to make them a contractionary fiscal force as well.

Fact five is that half of the unemployed -- nearly half of the unemployed and a slightly growing faction, have been out of work for six months or more and that proportion also is at 70-year highs.

And fact six is that Standard & Poors notwithstanding, there is little or no indication in financial markets that investors are seriously concerned that the United States will default on its debt. In witness of, I quote the current yield on tax-indexed bonds with a maturity of seven years; the yield on those bonds is negative. People are actually paying to invest in them rather than requiring a positive rate of return.

Now, I say all of this along with the fact that we do in fact face an extremely serious long-term fiscal problem that Bill and Alan Auerbach and many others have been pointing out for many, many years. But right now we face an immediate problem of great seriousness and that is a dangerously slack economy. For us to be focusing now on dealing with the longer-term problem through measures that promise to aggravate the near-term problem is in my opinion truly weird and I think it's important, even as we consider how this committee is going to function, how the budget process is going to play out that we not forget the weirdness of the priorities that are expressed in that policy. I think in this circumstance, it would be truly perverse for Congress not to agree to what I anticipate will be President Obama's recommendation to extend unemployment insurance benefits yet again and to extend the payroll tax holiday that was enacted earlier this year yet again, as well.

In my view, the current policy right now would be a combination of short-term stimulus including investments in public works that we can finance at historically low interest rates together with longer-term deficit reductions enacted now, but to take effect only when the recovery is well-established and unemployment has fallen to certain target levels.

That happens to be exactly the policy that most of us here at Brookings have been urging for a long period of time, it is the policy that Christine Lagarde yesterday embraced in the *Financial Times*. She said, and I quote, "What is needed is a dual focus on medium-term consolidation and short-term support for growth and jobs." That view is identical to the positions taken by reputable economists with such widely varying political positions as Paul Krugman and Martin Feldstein. For purely fiscal reasons, therefore, I think one should view with deep concern the task that is laid before the Super Committee to cut up to $1.5 trillion dollars from federal deficits over the next decade in addition to the $935 billion agreed to in August.

But there's additionally an equally important reason, I think, for concern. If the committee does not agree to cut at least $1.2 trillion through explicit measures, then some or all of $1.2 trillion will be cut through an automatic sequester, and those applied cuts would reduce both discretionary spending and national defense spending to levels that would threaten basic economic interests in the nation.

I have a couple of handouts attached to the one that I mentioned earlier that are available outside that graphically show the magnitude of the cuts that would occur.

I'm going to conclude with one assertion about tax policy, which I'm sure Bill will come back to, and I think he would agree to. I think the best possible outcome for the debate over whether to extend the Bush tax cuts would be deadlock so that they all expire, and at that point, we could begin to talk about how to curb tax expenditures, loopholes, call them what you will, and use the revenue generated from them to lower rates by some amount.

Finally, I just have one brief comment on possible outcomes based on what Sarah described. I think a very likely outcome is that the Super Committee will agree to some modest specific cuts, but not to as much as $1.2 trillion necessary to avoid sequestration. If that occurs, then there would be automatic cuts evenly divided between defense and non-defense. They might well be so large and so unacceptable that, in the end, the agreement that was just reached in August might be one to which Congress returns and reconsiders.

MR. HASKINS: Bill Frenzel?

MR. FRENZEL: Thank you very much, Ron. As advertised, I have sinned. I'm a recovering congressman. (Laughter) And I have been going straight for two decades though. I lay that before the court in hopes for mercy.

I'd like to begin by suggesting that this budget area is one arena in which the political parties have always tried -- not always in the Senate, but mostly always tried to establish differences between each other. And, so, it's not unusual to find the parties at loggerheads over a budget question.

There have been glorious times in the past in various summits and under Reagan and Bush and a wonderful time under President Clinton when we actually had some surpluses, times of compromise between the parties. But in recent history, both parties have been pretty vigorous spenders, and now we have the parties locked in this vigorous struggle over what is going to be cut, if anything. The republicans have been trapping with Obama and the democrats on a continuing resolution for 2011. We'll have another scrap on 2012 after Labor Day.

We're talking today about the debt ceiling deal and the budget and the Special Committee that's been put together. In the meantime, the democrats are fighting back and haven't passed any budgets, and Obama has put forth a framework, but without any meat on it. The problem is that the economy is down, deficits persist, debt ratio is climbing, and while the parties have been arguing over domestic discretionary spending essentially, the Super Committee isn't going to change that situation very much. The republicans have painted themselves into their little corner, no tax increases, and the democrats have painted themselves into their little corner of defending Social Security and Medicare as written, although they seem to be the main drivers of our long-term debt problem.

The polarization of the parties and of the voters accelerates. The resulting stalemate causes the can to be kicked down the road and that overused metaphor. The parties obviously prefer to wait until after the election so that they have another year to pander to their core constituency. And they're not interested in immediate solution, and that's politicians on both parties. So, they have created Budget Control Act of August 1, which Ron described to you as being byzantine in nature in which Sarah described some of the predecessor committees working, as well.

As far as the constitution of that committee politically, I don't think it makes any difference. So, one of the panelists suggested that they're going to represent the leadership, and that's my judgment, too. Nobody on that committee is going to write a profile encouraged by stepping out and voting with the wrong team. They're all going to stick together. That means they're going to play around again extensively with domestic discretionary adding this time some defense spending, but those players may as well be John and Nancy and Harry and Mitch because that's the way they're going to vote. Its target of a $1.5 trillion won't stabilize the debt depending on which -- Bill will tell you which baseline to use. But it will continue to increase. They'll wait for an election. The election is likely to bring us a continuation of divided government and further political stalemate while they jockey and until the next election. In the meantime, our economic condition continues to worsen.

In my judgment, the right kind of solution is that the Super Committee or the Congress itself has to negotiate something like the Bowles-Simpson or Rivlin-Domenici plan with forcing triggers to stabilize the debt in a dozen years and reduce it thereafter. I think our economy needs the certainty, and if, as Henry suggested, you need to backload that a bit, that's all right with me. The democrats are going to have to sacrifice some entitlements, they're going to have to stand for the stabilization of Social Security and some cuts in Medicare that they really, really don't want to happen. In the meantime, the republicans are going to have to sacrifice some tax reform and throw some additional revenue in, as well. At the moment, neither party seems willing to make such concessions and as a result, I believe that the Super Committee will achieve its $1.5 trillion goal. As somebody said, the trigger mechanism is a little frightening, I think, to both parties, but it will achieve it in the old ways on domestic discretionary and tinkering with a few entitlements that are least harmful to the rest of the world. So, my political prediction is business as usual. We will have spent at the end of the year almost the whole year arguing about 15 percent of the United States' budget and we will be prepared to spend another year next year doing the same thing. Thank you.

MR. HASKINS: All right, now we're going to turn the rest of our time together on answering some questions, and then I'll give people in the audience an opportunity to ask questions.

Here's the first obvious question: Can anybody on the panel imagine any circumstances under which republicans would relent on taxes and democrat on changes in Medicare? Henry Aaron is going to tell us how. (Laughter)

MR. AARON: Financial catastrophe.

MR. HASKINS: Yes, I agree. I think it takes a crisis. American government has usually been pretty good in a crisis and pretty lousy at all other times. (Laughter) And, so, perhaps that would do it.

MR. GALE: Ron, to channel our colleague Alice Rivlin here, who is by nature extremely optimistic and who said that her scenario, roughly speaking, is that the new ingredient here is the public revulsion about what happened the last few weeks or what didn't happen the last few weeks, public concern about downgrading, about the crisis and financial markets, about the weakening of the economy and that that could then be the spark that causes a bigger agreement to take place.

And just to add to that, the most optimistic scenario, and don't ask me to assess the likelihood of this because it's not large, but it's that A, there's a bargain, and B, it involves not only $3.5 trillion, $4 trillion like they were talking about a few months ago, but also the stimulus measures that Henry mentioned, and if they're aiming for $3.5 trillion, $4 trillion on this grand bargain, they have a lot of room to provide stimulus now and still get in the $1.5 trillion ceiling. I don't know how likely it is to happen, and I'm not the right person to assess the political likelihood of it, but conceptually, one could see how that could work.

MR. HASKINS: Unfortunately, Sarah is. I was looking forward to her answer to this question.

You said in your comments, you mentioned a line that almost everybody does, which is partisanship really dominates in Washington. And from your perspective as an expert on Congress and knowing a lot about the history of Congress, is this really unusual historically? Has there been a time when the partisanship was so high? And is there a chance that it could be reduced enough to read some kind of reasonable agreement?

MS. BINDER: No, no, yes, no. (Laughter) This is not historically abnormal. I mean, if we looked historically, say late 1800s, very high levels of polarization eventually coming out of the Civil War, high, high dips in the mid-20th Century, low in the 40s and 50s, we get conservative democrats, we have liberal and moderate republicans, right, that breeds this political center. Political center starts to disappear by the time we get back to today.

So, historically, we look a lot, with all due respect, to the great inventions of the 21st Century. We look an awful lot like the late 19th Century. So, polarization is not new, and what we learned from that, it takes a while to dissipate and it takes a while to reproduce a political center. And that's not likely to happen in the short-term.

So, what else are you left with? The type of external shock that Henry pointed to and Bill pointed to of financial crisis like we saw on the tarp episode, right, the 600 point drop in the Dow focuses the mind even if not members of Congress. So either external shock matters for a lot; short of that it's very hard to see, right, why the parties would want to give up their key issue that defines them, defines their differences, before an election. Now the scary part to me is, of course, when this all fell, you know, in early -- through 2011. We're pretty far away from an election. So it may be that even coming into an odd year that these electoral incentives still keep the parties trying to burnish -- they want to burnish their brand names. I think it matters in an election.

MR. HASKINS: Bill's dying to say something.

MR. GALE: Yeah, I just want to add one thing. We keep talking about how a crisis might trigger them to get serious about fiscal policy. But imagine if we went back to like 2007 and we said suppose the housing market totally collapsed, and the stock market totally collapsed, and the fed let out all the stops, and interest rates went to zero, and still the economy collapsed, and we had the worst downturn since the 1930s, and Europe was going to hell at the same time, and there was a worldwide fiscal crisis, you know, kind of emerging. Wouldn't that be enough to get Congress to be serious about this? All right. And if you had said that in 2007, I think we all would have said oh yes, of course, that would have been, you know -- that's a ridiculous question; half of that would have been enough. And yet here we are, and they're still bickering about this stuff in the way that they are. So I think it points to what Sarah was saying. These are really strong issues that are embedded in the politics and it's going to be hard to get movement.

MR. AARON: I think it's worth -- I want to come back and say that I think these answers confirm the derangement of the current debate. What you have up here I think is general agreement crossing the party lines just among the panel, that what is needed is short-term stimulus and long-term deficit reduction. And yet the political process is unable in the face of maybe things not quite as bad as they were two or three years ago, but still pretty lousy, is still unable to strike that deal.

MR. HASKINS: By the way, audience, if you haven't figured this out, the politics on this panel is represented by the order of seating. Sarah has guest of honor in the middle, and friends and I are over here on the right and those other two guys on the left.

Okay, so let's say they get a deal. They have to get a deal, right? I mean, they could change the law and all of that, but they're going -- let's say they get 1.2. I think that's somewhat plausible. So that brings the 2.1 maybe half way, a third of the way, to where most people think we need to go, and it still would not stabilize the debt as a percentage of GDP. So then what happens? What's next?

MR. AARON: Next comes an election.

MR. HASKINS: Yeah, but then after the election we still have the problem that I just laid out. So what does Congress do then? All of a sudden they're all, you know, buddies, and they're going to cut a deal?

MR. GALE: No, what's different though is that if you go back even to a year ago, people were talking -- people would say "well, I don't like your deficit plan. I like the way things are now better" in terms of they don't want cuts, they don't want tax increases. What has changed, kind of the big thing that's positive that has changed, is people are now talking about "your deficit plan" versus "my deficit plan." All right? And hopefully, you know, in 2008 the two candidates ran on who had the bigger tax cut. Okay? And that was a ridiculous debate to be having at the time and some of us said so, but the political system wasn't ready to have that conversation. I think in 2012 the election is going to be to a large extent about how to fix this. And, therefore, whoever gets elected will be able to claim they have a mandate on how to fix this. Now maybe we have divided government and they have to come together and be adults and compromise, and that's another set of issues, but the really good thing, the thing that's different is that it seems likely to me at least as a non-expert political scientist that the upcoming election is going to be about these issues so that whoever wins actually could do something about them after the election.

MR. HASKINS: So the American people in poll after poll after poll who say "don't tax you, don't tax me, tax that guy behind the tree, don't cut my benefit" suddenly they're going to get gumption. They're going to tell a candidate "here's what you should do to solve the deficit?" Bill, it's not possible.

MR. GALE: Okay.

MR. FRENZEL: I have the same feeling that Ron does. I have never noticed that campaigns are a place where the candidates promise pain and suffering and sacrifice, and I suspect that the '12 election will be similar to the other ones, and the candidates will try to talk about other things. There is the possibility, as Bill suggests, that the electorate will want to hear about the deficit reduction plans. I hope and pray that that takes place, but I wouldn't bet the rent money on it.

MR. GALE: Well, if you're right, Bill, that the 2012 election is about, you know, tax cuts and more spending, then Ron, you're right, that nothing's going to happen after the 2012 election.

MR. HASKINS: I hate to be right about that, though. Okay, so here's an interesting question. As far as I can tell, this vote on debt ceiling -- after all everything we're talking about here was on the debt ceiling, which in the past there have been some games here and there, but nothing like what we just saw. What is the effect of this episode on future debt ceiling votes? We're probably going to have a debt ceiling vote after the presidential election within a few months. And then, you know, often after that are we going to go through this every single time that there will be an attempt to really do something important substantively about the deficit on debt ceiling votes?

MR. AARON: There's a widespread perception, right or wrong I don't know, that President Obama was convinced that if the debt ceiling were not increased, the situation would be utterly catastrophic. And as President, he could not in countenance allow that to happen during his watch and that he would do whatever was necessary in order to avoid it. Now if that interpretation is correct and if the next President -- whether or not, it's correct -- but if the next person who faces this choice has the same view that is attributed to President Obama, then the party that is willing to allow the debt ceiling to expire has essentially complete power over the agenda. That is one interpretation of how this whole process played out, and it is for that reason that I think it's very important for whoever is sitting in the White House should this occur again to take one of two hard-line positions. One is extreme and improbable given our tradition, which is there should be no debt ceiling. Congress in effect votes the debt when it votes taxes and expenditures -- full stop we're done with it. That would be the right outcome mind you, but if that is not to be the outcome, if we're to retain a debt ceiling, then it is vitally important that the next time this happens the President is willing to stand up to those who ask for concessions that he or she regards as unacceptable.

MR. HASKINS: Which is to say the President has to be willing to go off that cliff, hand in hand with those dastardly Republicans, right?

MR. AARON: You said it. I didn't.

MR. FRENZEL: Well, for one brief shining moment there was a time in the House of Representatives when the budget vote was also a vote on the debt ceiling, and there was not a separate vote. And those were very peaceful, wonderful years.

I think, however, because people who have very strong feelings have seen what a powerful vehicle the debt ceiling is that we're going to see it subjected to many more of these kinds of things. I remember we got Gramm-Rudman on the debt ceiling, and so we're probably going to see more and more of this in the future before it slows down. And maybe when Sarah takes us into another cycle of kinder and gentler times in the Congress, we'll get over it. But in the meantime, I subscribe to Henry's theory that or the one that he described that default is not a great thing for the Republicans. It should be avoided at all costs.

MS. BINDER: I was just going to add, and I don't want to equate the breaching of the debt ceiling with the shutdown of the FAA, but I will. We did see what happens when you take something hostage and Congress goes on vacation. And I think part of the returning and putting a fix on that for another month was in part the sort of public bit of scorn that Congress could actually throw these people out of work and then go off. So I think it may at the outer limits temper --

MR. HASKINS: Some of the people in the audience might have missed that. This is an interesting point and I hadn't thought of this. Say that -- you're talking about the FAA thing, right?

MS. BINDER: Right. This is a general question of what happens when you take either agencies or debt ceilings or the federal budget hostage in order to leverage your influence over the final policy outcome.

MR. HASKINS: Right.

MS. BINDER: And for the FAA deal here, which has had many, many temporary reauthorizations -- the last one expired in the middle of July and essentially Congress went out of town after the deficit deal and said there are some regional and partisan issues that got wound up in it and they said look, we're not going to pass a temporary reauthorization to keep the FAA workers and all the construction projects and so forth in office.

MR. HASKINS: I think there's another lesson here. See if you agree with this. This is essentially a fight between Mica and somebody on the Finance Committee --

SPEAKER: Rockefeller.

MR. HASKINS: Rockefeller, yes, thank you. And they couldn't reach agreement and so as Congress often does, you know -- I've seen various estimates, but it's a hundred and some thousand that are going to lose their jobs who are mainly construction workers who work on airport stuff -- and so who cares about that? Well, it turned out with the recession and everything a lot of people did care, and there was a lot of pressure, letters and all kinds of stuff on Congress, and even out of session, they figured out -- I still don't know exactly how they did it -- but they reversed themselves when they were out of session so they reached an agreement because of public pressure. And that's what we don't have in this situation is the public saying do a certain thing except don't cut my benefit. Right?

MS. BINDER: Fair enough, but I think it's not going to temper these parties to take things hostage, but it may temper them -- the desire to jump off the bridge.

MR. HASKINS: I'd like to reach agreement on something because scholars almost never agree on stuff. So we have a nice political diversity up here. Before you said what you said, I was going to say Bill Frenzel, you may be a recovering politician, but I notice from time to time you still have a lot of political instinct. Can you imagine that the power that this weapon, a vote on the debt ceiling, revealed in this episode? That this is like having a huge bazooka that the politicians are just going to leave lying on the table the next time around and the time after that and so on? I mean, this is going to be a permanent feature of our political system. Does anybody disagree with that?

MR. FRENZEL: Not a bazooka. It's a nuclear bomb.

MR. HASKINS: Okay, nuclear. Does anybody disagree?

MR. GALE: No, I agree with that, Ron, but remember that's going to be true for both sides.

MR. HASKINS: Yeah.

MR. GALE: You know, the discussion about whether the President could simply raise the debt limit by fiat because of the -- was it the 14th Amendment? That'll play out more the notion that there are things that the Treasury can do to extend the debt limit, and you can be certain they're going to be more aggressive in planning those options and operationalizing them if they need to.

Yeah, I agree. It's totally changed it, but it doesn't -- it's not definitive about what will actually happen.

MR. HASKINS: You made it even worse, though. You pointed out that both Democrats and Republicans could use this weapon.

MR. FRENZEL: Well, think of the delicious irony of the Republicans finally electing a President and then having the Democrats put Lynden Johnson's CETA Bill on the debt ceiling.

MR. HASKINS: All right, audience, it's your turn. Raise your hand. I'll call on you. Someone will come up and give you a microphone. Tell us your name and then ask your question. And the whole thing should require less than a minute.

MR. NICHOLSON: Jonathan Nicholson with BNA, Bureau of National Affairs. Two really quick questions, kind of technical and procedural, probably for Ms. Binder for the most part. One, don't they have to find a staff director for the super committee? And how much does -- how much will the ease of that signify how well this committee's going to get along? And B, there's an aspect of this bill where the debt ceiling can be conditioned upon the archives of the United States sending forward to the state's ratification of a balanced budget amendment. I was wondering if anyone had any Constitutional concerns with that in the way there was with the balanced budget, commensurate with the line-item veto from the 1990s, which was executive and legislative powers being intertwined.

MR. HASKINS: Way too specific. Sarah can answer the second one I think.

MS. BINDER: I was going to go for the first. I was just -- well, you pointed to the issue here. A Democratic and a Republican chair and co-chair have to come up with an agreement here. I suspect there's just too many eyes on the committee to let this become a stumbling block. I assume it's well underway. I don't know quite what's going on with it there, but I assume that's -- it will be interesting to see what they can -- some neutral bottle they can bottle, they can come up with, but we'll see.

I'm not sure I quite followed on the balanced budget question.

MR. NICHOLSON: Just that one of the ways the debt ceiling can be increased is if the Archivist of the United States sends to the states for ratification a passed Balanced Budget Amendment which would seem to be a Legislative-Executive Branch kind of intertwining along the lines of what was at issue with the line item veto.

MS. BINDER: I think we need a constitutional procedural expert. I suspected they followed the precedent on how constitutional amendments get sent to the states, but it's not something I've looked into.

MR. HASKINS: Yes? Up here in the front?

MR. HOPKINS: My name is Douglas Hopkins. Could someone illuminate for me why people think that caps and triggers will have any impact upon the budget operation if as has been pointed out here the Medicare cuts for 10 years have got along with caps and triggers and had no effect whatsoever?

MR. HASKINS: The most cynical among us should answer this question. Henry?

MR. AARON: I would defer to Bill Frenzel.

MR. FRENZEL: I'm going to say I don't know if any effective caps and triggers that have been applied to Medicare and it is true that once Congress votes a cap or any financial provision, it cannot -- in congresses who might wake up some morning and say that was a really stupid idea and they'll pass another law saying notwithstanding any existing provision of law, we're going to do X, Y and Z, so they can be got around. However, and I suppose the doc fix (?) is a good example, but I think in this case the promises are getting a little harder to get around and particularly with respect to this super committee. I believe that it will not be possible for it to avoid finding at least 1.2 trillion from one of Bill Gale's baselines or another and submitting it to the Congress. I do not think that the Congress will dare renege on its promise to itself, but I may be underestimating Congress.

MR. HASKINS: Let me add one thing to that and see what the panel thinks of this. In addition to that, there are people in the House and some in the Senate that are extremely serious about the deal that was cut and don't want to see it changed and they would object; they would fight. I can imagine the Republican Caucus going through the same kind of stuff that just happened because they're driven by Tea Party kind of Republicans and people are really serious about the deficit. I think that's a new element. Do you agree?

MR. AARON: I was going to answer the question from the floor.

MR. HASKINS: It is. I'm disagreeing with him.

MR. AARON: My response to the question from the floor is that the purpose of caps is to avoid making the detailed programmatic decisions that need to be faced is one is realistically to confront the various problems we have. You can vote or caps, it appears you have done something, and whether or not they are allowed to take effect in the future, you can go to the next election having telling the electorate that you did something hard and fast.

I find myself more cynical to my surprise when than Bill Frenzel. I think the prospects of getting a full 1.2 trillion agreed to by the super committee are not good. There is going to be I believe a smaller list of cuts of some kind that will be agreed to and that when one gets to trying to do the full menu, the committee will hang up and split on partisan lines. So we might end up with 300 or 400 billion in cuts, let us say, which if voted on and approved would then precipitate a sequester for 1.2 trillion minus the amount of the agreed cuts, and at that point the sequester then plays out over a period of years. In my opening remarks I made the comment to which I'm returning now that I think it's quite likely that a Congress that cannot bind future Congresses might well as suggested by the limit on fees for physicians under Medicare find that come 2015 or whatever the year might be, the prospect of these cuts was just too unattractive and they decide then to reverse the decision. There would be no procedural limit. It could be filibustered, a president could veto, so we don't know how all of that would play out. But it seems to me that complete failure of the committee may not be probable, but I think complete success in reaching its targets is equally improbable.

MR. HASKINS: Bill, were you going to add something to this?

MR. GALE: I wanted to add that I think that's a really interesting question about why if Medicare caps don't work do we think that discretionary spending caps might work? I'm not arguing that we should think that they will work perfectly. I think of all these caps as sort of sand in the gears, some being more uncomfortable and awkward to change than others. The Medicare cuts that never happened, let me give you a political economic or campaign contribution story about why the Medicare cuts might not happen, but the caps might work and this is hypothetical. The Medicare cuts, every years there are these sustainable growth rates that are supposed to be implemented and every year they get overridden by Congress, there is a very direct lobbying effort enacted every year by the doctors who get paid under Medicare to make sure that the SGR thing gets overridden. With a discretionary spending cap, there's no particular group that has to suffer, so there's a much more diffuse lobbying effort to get those caps raised. The argument might be that we needs more, we, lobbying group X, needs more of the existing cap, but we're not asking you to raise the cap. So you can think of the very specific group at one end of the spectrum, the Medicare cuts that would be least likely to happen, but caps would be kind of in the middle as a kind of middle thing likely to happen. What would be most likely to happen is an aggregate spending cap coupled with the notion that if spending went higher, it had to be financed by tax increases and that would be what I would think of the strongest cap, the most sand in the gears, not that it's airtight because they could vote for tax increases and raise spending, but it would make it more difficult to change. So I would give you a little bit more likelihood that the discretionary spending caps would work than the Medicare caps would work, but I agree that all of them are kind of iffy.

MR. AARON: Before you go, two factual things. First of all, there is one lobbying group and that's called the Defense Department. They are going to be out there and I think they will be a formidable force.

MR. HASKINS: They'd better improve their effectiveness pretty quickly here because they are taking it in the chin right now.

MR. AARON: They certainly are. The second point is that the doc fix rules have been in effect now for about a decade. They were allowed to work early on when the adjustments were very small. It was when they got really, really big that the set of effects that Bill --

MR. FRENZEL: I have a better example in the Budget Enforcement Act of 1990. Caps were enacted for both domestic discretionary and defense and those caps were followed for about 5 years and they laid a lot of groundwork for some of the good years that we enjoyed under the -- they weren't the whole show of course, under the Clinton administration. So in previous years on discretionary spending, caps have worked just fine. I think Medicare would be harder and we'll just have to see what comes out. I don't this committee, however, the super committee, is going to fuss much with Medicare.

MR. HASKINS: They have lots of restrictions. They can't do much.

MR. WOLFENSBERG: Don Wolfensberg with the Wilson Center. On the one hand, Congress has been decried for tying debt reduction to the debt limit. On the other hand, what I'm hearing from the panel is it's probably a good thing that we are starting to have this conversation for the first time, that if there weren't this linkage we probably wouldn't have it. But let me pose a counterfactual. President Obama originally said send me a clean debt limit bill. Let's say he had prevailed. What do you think S&P would have come down on that, A-?

MR. GALE: The real question is what difference does it make that S&P downgraded? S&P was upset I think as much about the political process.

MR. HASKINS: I don't know if that's Don's point, but that's got to be right. They actually went so far as to mention in their written version of the thing the ugliness of the politics involved and if you'd had a clean debt ceiling you wouldn't have had all that ugliness. I think we might have passed for another 6 months, 6 years. Who knows? Let's go over to this side, right here – right in the middle.

SPEAKER: [inaudible]-- student at Dartmouth College. I was wondering do you think that we could ever go back to the pay as you go approach from the 1990s or do you think that's not even possible?

MR. HASKINS: Say it again.

SPEAKER: Pay go from the 1990s. Do you think that's ever possible?

MR. GALE: I would guess when we get the eventual grand bargain that's going to --

MR. FRENZEL: I think pay go would be part of a grand bargain just as the discretionary caps are. It's been one of the few budget gimmickries that have worked for us and, yes, they'd probably try to work it in some way.

MS. BINDER: I guess I'll differ on that. Republicans brought back their own version of pay go this year in the House -- cut go. In other words, you couldn't raise taxes for new spending, you had to cut spending. You couldn't do it through new revenues. So my hunch is in the short-term pay go is quaint. It was fun while it lasted and I think Bill is exactly right. In part the caps worked in the 1990s, A, because we had pay go and it was enforced by supermajority rules in the Senate, but also caps worked because the Cold War was winding down to a little less pressure on defense spending and they're raising revenues in 1993 and the economy was booming by the mid-1990s. So I think it's important to keep in mind we want to evaluate these procedural choices and budget choices that Congress makes, that their success in part depends on the political context, but as well as the economic context of what's going on around it and whether or not to ever see those economic conditions replicated for these set of caps seems pretty --

MR. HASKINS: I think the fact is and everybody on the panel I think would agree with this, pay go did work somewhat for a while. It had a good reputation. It's easy to think that Congress would use it again. But if Congress wants to change something and they're unsatisfied in the scenarios that people have raised here, they're going to do it anyway. They'll overcome anything.

MS. MADEROS: Amy Maderos from the Delegation of the European Union. It seems to me that there are at least a couple of balls that are bouncing around in the court and if you could help us make sense of all of them it would be good. I have in mind for instance the upcoming decision about the FY 2012 budget that begins on October 1. Then we have of course the looming decision about the expiration of the Bush tax cuts at the end of 2012 as will as the expiration which you mentioned I think in passing this year the extension of the unemployment benefits and the cut in the payroll tax for employees. Could you comment on how you think all of those things will play into the work and the debate of the committee and how those issues might develop?

MR. HASKINS: Let's do two of them. Someone talk about what you would expect in the budget process for 2012.

MR. FRENZEL: I think you're going to see about you saw for 2011, a hog wrestle. We've passed one appropriation in the House and none in the Senate, so obviously we're going to have a continuing resolution and that's going to be coming out of the House certainly at a very level. There will be a big war with the Senate. But it's going to be a pretty well stripped down CR and probably handled again just before the vote on the super committee's bill and we'll probably be voting on that CR for 2012 into next year as well, but no different than we've handled 2011.

MR. HASKINS: And the Bush tax cuts? Bill Gale?

MR. GALE: The issue is whether they get handled inside the debt deal or outside the debt deal, and not to beat a dead horse, but that depends in part on the baseline.

MR. HASKINS: If that horse is dead, you killed it, Bill.

MR. GALE: One of the shortcomings of the deal is it only described what Congress had to do on that one vote, so the Joint Select -- can propose 1.5 trillion in cuts from whatever baseline they decide and Congress can vote those things up or down and say they passed them. Nothing is stopping Congress from coming back the next day and reinstating that 1.5 trillion in deficit increasing measures. So there's no cap on universal behavior. It just says on Tuesday you have to cut the deficit by $1.5 trillion and on Monday, Wednesday, Thursday and Friday you can do whatever you want. So I would guess that if there's a grand bargain that the committee comes up with, it will include something about what to do with the Bush tax cuts. If there's not, then the committee won't do anything with them and will just leave it to be decided after the debt deal.

MR. HASKINS: One more question. All the way in the back.

MR. KANE: Ledge Kane with Gannett. Speaking of binding future Congresses, looming in the background is the Balanced Budget Amendment. My question is three parts. One is do you think it will pass? This is for anybody on the panel. What iteration might it be that's most likely to pass? There's one that requires a supermajority to raise taxes. And thirdly, will the debate over spending cuts that the super committee is going to have to go through have an effect on whether a Balanced Budget Amendment will pass? Thank you.

MR. HASKINS: I believe that if I have figured out that if you answer the first question with a no, the other two are irrelevant.

SPEAKER: I'll say no. I don't think it has any chance of passing.

MR. FRENZEL: What does it take to pass a constitutional amendment?

MS. BINDER: I don't think we're anywhere near the supermajorities needed particularly in the House let alone the Senate to get a Balanced Budget Amendment passed. Democrats have pretty much politically decided that it's off the table just as Republicans have pretty much politically staked their party brand name on it. But I don't see that bridge being crossed.

MR. FRENZEL: It doesn't look like it's going to work.

MR. HASKINS: And even if it did, there are still lots of hurdles beyond that.

MR. FRENZEL: It takes a long time.

MR. HASKINS: Thank you very much, audience. Let me tell you before you leave that we are going to have other events in this series where we deal with the budget and the issues, probably a specific event somewhere in the near future on health issues and Medicare. So keep tuned, and we hope to see you again. Thank you for coming.

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2012