

THE BROOKINGS INSTITUTION

OPPORTUNITY 08

KEY DOMESTIC ISSUES FACING PRESIDENTIAL
CANDIDATES IN NEW HAMPSHIRE PRIMARY

Manchester, New Hampshire

Wednesday, September 26, 2007

**PANEL ONE
POLITICAL ANALYSIS**

Moderator:

THE HONORABLE WARREN B. RUDMAN
Founding Co-Chairman
Concord Coalition and Former Senator (NH)

Panelists:

DR. SHEP MELNICK
Thomas P. O'Neill, Jr. Professor of American Politics Boston College

TOM DONILON
Assistant Secretary of State for Public Affairs
Chief of Staff to U.S. Secretary of State Warren Christopher

KEN DUBERSTEIN
Chief of Staff to President Ronald Reagan

JENNIFER DONAHUE
Senior advisor at the New Hampshire Institute of Politics
Saint Anselm College

**PANEL TWO
THE BUDGET AND HEALTH CARE:
SOLUTIONS FOR OUR NEXT PRESIDENT**

Moderator:

THE HONORABLE WARREN B. RUDMAN
Founding Co-Chairman
Concord Coalition and Former Senator (NH)

Panelists:

MARK MCCLELLAN
Director, Engelberg Center for Health Care Reform
The Brookings Institution and
Former Health Care Policy Advisor to President George W. Bush

HENRY J. AARON
Senior Fellow
The Brookings Institution and
Former Health Care Advisor to President Carter

ROBERT L. BIXBY
Executive Director
Concord Coalition

ISABEL V. SAWHILL
Co-Director, Center on Children and Families
The Brookings Institution and
Former Budget Advisor to President Clinton

JENNIFER LUCAS
Assistant Professor of Politics
Saint Anselm College

P R O C E E D I N G S

MR. MANUEL: Good morning, everyone. Welcome. My name is Paul Manuel and I am the Executive Director here at the New Hampshire Institute of Politics at Saint Anselm College. On behalf of the faculty here and the staff and students, I am very happy to welcome to you to this morning's event. The New Hampshire Institute of Politics mission is to educate, engage, and empower citizens of all ages to actively participate in the civic and political life of their communities and thereby strengthening democracy. The Institute is nonpartisan. It does not endorse political issues or candidates.

It is my pleasure this morning to introduce to you Strobe Talbott, President of the Brookings Institution, in Washington, D.C. Mr. Talbott is a former U.S. diplomat and Deputy Secretary of State. He was President Clinton's top adviser for relations with the former Soviet Union. In 2002, Mr. Talbott assumed the presidency of the Brookings Institution after a career in journalism, government, and academia. We are very honored to welcome Strobe Talbott and the Brookings Institution to Saint Anselm College this morning. Thank you.

MR. TALBOTT: Thanks, Paul, and I can say on behalf of my friends and colleagues from Brookings that we reciprocate the sentiment and we are honored to be here. We appreciate very much not just the hospitality of the New Hampshire Institute of Politics and of Saint Anselm College, we appreciate very much your willingness to join us in co-sponsoring this Opportunity 08 event.

I am accompanied here today by a number of colleagues from Brookings, some of whom you will be hearing from very shortly. I want to single out one in particular. He is a native son of New Hampshire, a former United States Senator, and I am proud to say, a Brookings Trustee, and I am referring of course to Warren Rudman. He has been instrumental in putting this program together, and as you are about to see, he will be instrumental in making this event informative and useful to you as citizens and voters.

Brookings has been around for a little more than 90 years, but we have never done anything quite like Opportunity 08 before, that is, undertake a project that gets a Washington-based think tank truly out into the country. I am tempted to say out into the real world, including here in the tropical part of New England as it seems today.

When we undertook this project, our intention was not only to get Brookings folks out and around the country, but also to partner with regional institutions and leaders in order to help the American electorate focus on issues that under debate among the candidates. I think we picked the right election to undertake this innovation, since the 2008 campaign is already shaping up to be one of the most suspenseful, fascinating, and consequential in a very long time. In fact, this race is unusual in a very specific way as well. It is the first time in 80 years, since 1928, that there is not an incumbent President or Vice President seeking the nomination in the primaries in either party, and it is the first time in

56 years, since 1952, that there will not be an incumbent President or Vice President on the ticket on either side.

That is not just a bit of political history trivia. I think it actually has some very real and positive meaning. It means that the candidates as a group in both parties are likely to be somewhat less concerned with defending existing records and more open to fresh ideas for the future. Fresh ideas generated on the basis of facts and of nonpartisan deliberation are what we specialize in at the Brookings Institution, and I think they are what the polls indicate the voters want as well. That is what they want to hear about, think about, and have in mind when they go to the polls in the primaries like the one that you in New Hampshire are going to be having in 118 days, and also when they go to the polls in the general election 404 days from today.

Before Senator Rudman opens the first panel, it is my pleasure to introduce Shep Melnick. Shep as I think everybody here knows served with great distinction in the New Hampshire House of Representatives before going to his current position at Boston College where he is the Thomas P. O'Neill Professor of American Politics, and also in the spirit that all politics and all teaching of politics is local, he has retained an affiliation here in Manchester as a Senior Research Fellow at the New Hampshire Institute of Politics. Shep will give us an overview of the current presidential race, and I am happy now to turn the microphone over to him. Shep?

MR. MELNICK: Thank you very much. Today's event as Strobe points out brings together two much different worlds. The first is a world of rigorous, hard-headed policy analysis that has always been exemplified by the Brookings Institution. And the second is the world of presidential campaigning, and as everyone here realizes, the height, the epitome of presidential campaigning and the best part of presidential campaigning takes place here in New Hampshire.

Over the years I have had the opportunity to have a foot in both of these worlds. As a lifelong resident of New Hampshire and a confirmed political junky, I have managed to take part, usually a very minor part, in every presidential primary since 1968. Over those 40 years I have managed to support the grand total of one person who eventually became president, and I had the great political acumen to be one of the few people in the country ever to vote for Birch Bayh for president. There were I think about 300 of us in the system. So you clearly cannot rely on me to predict the outcome of the primary. Most of my time I spend in teaching and writing about public policy. As a matter of fact, my first job out of grad school was at the Brookings Institution.

Going back and forth between these two worlds, I am often amazed at how different they are. I am reminded of this every time I try to teach about the budget to undergraduates. Nothing has been more central to domestic policy and congressional politics over the last 30 years than trying to deal with the budget deficit, but no subject I can tell you is more likely to put undergraduates to

sleep. Start talking about mandatory and discretionary spending, reconciliation, pay-go, trust funds, CBO estimates, and their eyes glaze over. And I'm sorry to say this, Senator, but when you get to sequestration under Gramm-Rudman, they are completely gone.

(Laughter)

MR. MELNICK: The same goes for trying to talk seriously about Social Security. I found the way I can get the students to think seriously about these tradeoffs is to force them to read several of Henry Aaron's articles and then require them to write a five-page paper saying how they would deal with the long-term balance of Social Security, but I do not think it would be constitutional to require this of all voters.

Most political candidates are happy to encourage this attitude toward the budget and Social Security because it means they will not be forced to make the unpleasant choices necessary to do anything substantial about health care or Social Security or the deficit. Thus we arrive at what we might all the don't ask, don't tell compromise that underlies most primary campaigns: don't ask us the hard questions and we won't tell you how hard the answers must be.

In preparing for this talk I thought I would look through the websites of the major candidates to see what they had to say about these issues. Almost all the Republicans have proposals on what they called fiscal responsibility but nothing on health care. Almost all the Democrats have pretty

detailed health care proposals but almost nothing about deficit reduction. Republican plans for deficit reduction focused exclusively on discretionary spending without saying anything about entitlements or taxes. No one seriously thinks that we can balance the budget through cuts in discretionary spending alone. There just isn't that much pork, waste, fraud, and abuse in the budget, and I think everybody knows that. Similarly, the Democrats have not been particularly forthcoming about health care costs. This Sunday the Editorial Page of "The New York Times" praised the Democratic candidates' health care plans which is not particularly surprising, but they also noted that none of the candidates "provide a plausible solution to the problem that has driven health care reform to the fore as a political issue, the inexorably rising cost that drives up insurance rates and forces employers to cut back on coverage. All the Democratic plans," "The Times" wrote, "acknowledge the need to retain costs, but most of the remedies they offer are not likely to do very much." I suspect we will hear a lot more about this in the panels to come.

There is no doubt that the Democrats' health care plans are a serious attempt to respond to a very deep and broad concern about health care costs and availability in this country. This summer my son was a college intern for one of the presidential campaigns and he spent many weeks going door to door and canvassing. What surprised him more than anything else was how many of the voters he talked to listed health care as the most important issue to them.

He had thought it was going to be the lack, but of course he has never lacked health care. Numerous polls indicate the salience of this issue to voters.

Of course, everyone wants to increase access, reduce costs, and preserve consumer choice in health care. The problem is that no one knows how to do all of these things at the same time, and most of us citizens have difficulty trying to evaluate the type of mix we will get from any of the plans that have been put forth.

Adding to the problem of evaluating these complex proposals is a very peculiar that we hold elections in this country. We spend over 3 years in debates within the parties, and then we have about 3 months of debates between the parties. No country in the world runs its elections this way. I think we often forget how bizarre this really is. As most of you know, over the past few decades we have experienced intense partisan polarization. If you want to know more about this, you can read the two books that Brookings has out on political polarization. But as you know, the parties have become internally more homogeneous, but much farther apart from one another. Senator Rudman will remember the day when there were actually liberals in the Republican Part in New Hampshire. Many of them were friends of his, Walter Peterson, Malcolm and Susan McLane, Dave Nixon and many more. But they have all left the party.

Before 1976, the New Hampshire Democratic gubernatorial nominee was almost always a so-called Hillsborough County candidate who was

always to the right of the Republican, but that doesn't happen anymore. In New Hampshire, just as everywhere else, we have sorted ourselves out ideologically. So the irony is that the primary season goes on longer and longer, but we have less and less variation and variety among the fields of candidates that are talking to each other. So we end up with more and more debates among people who largely agree with each other.

To make matters worse, the candidate of each party is pulled toward its base with Democrats promising wider benefits and Republicans pledging their support for tax cuts. But as well know, whoever gets elected president is going to have to reach across the aisle especially in the Senate in order to pass any health care plan, any deficit reduction agreement, or any deal to fix Social Security. In other words, the way we campaign makes governing so much harder.

In this environment and endless debates among people who generally agree with one another, it is not surprising that most people in New Hampshire and most other places focus more on the character of the candidate than on their policies. Who can really tell the difference between Obama and Clinton's health care plans? If you are sophisticated enough to be able to do so, you probably also realize that these plans will be changed so much as they work their way through Congress that they will not look like they do now. So we tell ourselves what really counts is whether this person is warm or tough, principled

or pragmatic, experienced or an agent of change, a maverick or a steady hand on the trigger.

When you think of important events in New Hampshire primaries in the past, what are some of the things that come to mind? For some of the students, none of these things will come to mind, but I will just mention a few interesting events of the past. Perhaps it was Ed Muskie parking his flat-bed truck outside the "Union Leader" to confront William Loeb for another one of his bullying editorials. Or maybe it was a little-known Georgia governor introducing himself to people and promising he would never lie to us. Or Ronald Reagan defending the right of other candidates to speak at a Nashua debate and manfully asserting, "I paid for this microphone, Mr. Green." His name was Breen, but we will forgive that. Or maybe it was John McCain dazzling the reporters and drawing big crowds with his Straight Talk Express. Whatever it was, I bet it was not a debate, and I bet it was not a candidate's speech laying out a tax plan or a health care plan. Most people think that they can learn much more about candidates by peering into their soul rather than peeking into their policy book. For most people though, unfortunately this means peeking into their private life and private character rather than looking at their public actions and public pronouncements. Like I say, this particularly apparent in that silly YouTube debate which was just another step in the trivialization of the American nomination process.

But I do not want to be too cynical. After all, we have all of these people who have come out on a beautiful day to hear people talk about tax policy and health care, and this is not unusual in New Hampshire. This summer I was in this very auditorium and heard Hillary Clinton give a very serious speech about a topic that even she conceded was boring, which was reform of the federal bureaucracy. This was a speech that only a political scientist could love, but it still received a very warm response by quite a large audience. So in New Hampshire we might have more willingness to listen to more than sound bites than in some parts of the country.

Let me close with this thought. Franklin Roosevelt was famous for saying that one of the jobs of the President is to, as he said, "take the nation to school," not just to respond to public opinion, but to teach Americans about the hard choices they face. That should be one of the purposes of presidential elections too, to take the nation to school and to teach them about the challenges and the difficulties they face. So I think that we are very much indebted to Brookings and to the other people on this panel for helping us engage in that task, and I am sure they are really going to have their hands full.

Now it is my pleasure to introduce a man who I would say without doubt is one of the most impressive and effective men ever to represent New Hampshire in the United States Senate. Warren Rudman I am also proud to say was a graduate of Boston College Law School. One of his most important

accomplishments was to create the modern Office of the Attorney General in this state. In the process, he brought into politics a few people you might have heard about, David Souter, Tom Rath, and our Federal District Court Judge in New Hampshire, Paul Barbadoro. In the Senate he was known as a fiercely independent Senator who earned the trust of both parties, and was given important tasks such as being Vice Chair of the Iran-Contra Committee. He is best known obviously for the Gramm-Rudman-Hollings Bill, a very serious, long-term effort to try to reduce the deficit.

Since leaving the Senate in 1992, he has had an equally impressive record, co-founding the Concord Coalition, Chairman of the Foreign Intelligence Advisory Board, appointed by President Clinton, co-chair of the Committee on National Security which saw the dangers of terrorism before 9/11. He is in short the type of statesman that is unfortunately in very short supply these days.

Senator Rudman?

(Applause)

SENATOR RUDMAN: Thank you, Shep. I don't think I will ever be introduced anywhere in my life without reference to Gramm-Rudman, and the curious thing was, by 1987 outside of New Hampshire, everybody thought my first name was Gramm.

We've got a wonderful panel here and not a huge amount of time, so I'm going to keep my remarks fairly brief. I agree that discussing budgets and

deficits is kind of boring, but if we cannot get young people in this country to understand that the light at the end of the tunnel is an oncoming train and that the character and quality of your lives if we continue along the path we're going will be nothing like your parents and your grandparents, then we will have failed miserably. That's one of the reasons Brookings is doing this tour, this is one of the reasons that the Concord Coalition continues for years to try to bring this message to college campuses, because I am convinced unless young voters in this country rise up and demand action that your fate will be what you deserve because of your neglect. So that is why I am delighted we are doing this on this wonderful campus, and I am delighted that Saint Anselm and Brookings have decided to collaborate on this.

I think that Shep's history and Strobe's comments about presidential elections were fascinating, I don't intend to replicate them, but I want to make just one other observation which has always struck me having been involved in the New Hampshire Primary since a bit before you, Shep, since actually the first time that I got involved was about the time I left for the Korean War and Eisenhower was campaigning up here and was then elected. That is that in rare instances, very rare instances, the issues that are discussed during a campaign are the issues that the president who is elected faces as a crisis of their presidency. Certainly George Bush never in his wildest imagination could have foreseen 9/11. Richard Nixon had no idea that it would be his character and

Watergate that would be the centrality of his election. Franklin D. Roosevelt, although understanding the threats in the world when he became president in the early 1930s, could not have dreamt that he would have to lead a coalition of the free world to defeat tyranny. And as you go back through history, it is rare indeed that a president is elected and faces issues that they even discussed during the campaign. This year will be different.

There is no question in my mind that the central issue of this campaign will be the war in Iraq because the fact is that by the time these primaries start and by the time the election takes place in November of next year, we will still have substantial troops deployed in Iraq and that will be the major issue.

Let me say as important as that is, and it will have an effect on this country short- and long-term, far more important for the health of this country, in my view the number-one issue facing this country absolutely without question is the fiscal situation facing America which most America's don't understand. Let me just give you a few quick numbers and then introduce the panel because I thought you'd like to hear them even though I will take Shep's admonition that you may all doze off, so I will try to keep it fairly brief.

If you look at the federal budget as a percentage of 100, you would find that entitlements, Social Security, Medicare, Medicaid and many other things, are 53 percent of that budget; interest is 9 percent; and defense is 20

percent. That leaves 18 percent of the entire federal budget which is so-called discretionary spending, but it everything most Americans think of as their government. It's the State Department, the Commerce Department, the Agriculture Department, the Justice Department, the FBI, the FAA, the FCC, NASA, all your student loan programs, all of these things are in that 18 percent, and that 18 percent is collapsing and it will get down probably under 10 percent within the decade. That's the first thing.

The second thing, with all due respect to what we've seen as somehow maybe lessening deficits, the numbers are absolutely striking. The Congressional Budget Office estimates that between 2007 and 2012, we will accumulate an additional \$697 billion of debt. However, the problem with that number is that they are required by law to assume current law, and the sooner that certain things will happen which most of us don't think will happen such as total repeal of the tax decreases of several years ago. So the Concord Coalition which I have a slight prejudice toward obviously has a different number. Our number is that the increase in deficits over that 4-year period or 5-year period will be \$1.9 trillion, adding an enormous amount of money in interest. People say is that interest really a real number? I say, I'll tell you what, if you don't think it is, if you've a little extra money, go down and buy a government bond and go back whenever it's due and collect it and you'll find that interest is real. And the other thing about interest is that a lot of it is now paid to foreign holders of U.S. debt.

There was a time where that money recirculated within the U.S. economy because U.S. citizens and U.S. companies and banks were buying government securities. Today large portions of those are being purchased overseas so the interest that we are paying does more for their economies than it does to ours. So I think this is the critical issue facing us and one that we will talk about in the time we have this morning.

I will give you brief resumes on the first panel because if I gave you their full resumes, then we wouldn't have any time for the panel. Jennifer Donahue is a Senior Adviser at the New Hampshire Institute of Politics here at Saint Anselm. She was a political reporter and producer for 14 years covering the 2000 presidential race for CSPAN and has been an on-air analyst for MSNBC. Mark McClellan to whom I'm very indebted for being on this panel as well as the following panel has a fascinating background. He is a Brookings Senior Fellow and Director of the Engelberg Center for Health Care Reform. He holds the Leonard Schaffer Director's Chair in Health Policy Studies. He is the former Commissioner of the Centers for Medicare and Medicaid Services, and former Commissioner of the Food and Drug Administration. He also served as a member of the President's Council of Economic Advisers, and Senior Director for Health Care Policy at the White House from 2001 to 2002. Tom Donilon who I have known for years has been a senior adviser to Democratic presidents and presidential candidates for a number of years. He served as Assistant Secretary of

State for Public Affairs, Chief of Staff to the United States Secretary of State Warren Christopher during the Clinton administration, and he is currently a partner at the international law firm of O'Melveny & Myers with offices in Washington.

We are going to start out by I am going to ask each of our panelists, and I am going to start with you, Jennifer, just to comment on some of your views on these issues as they relate to this year's presidential election. And I will simply close by saying that I found it fascinating how I think it was you, Shep, who talked about what the two parties are talking about, the fact is that neither party will talk in real terms about the real solutions to the deficit because what they would have to say is deemed to be politically unacceptable, and that is a sorry state of affairs in my view. Jennifer?

MS. DONAHUE: Thank you, Senator Rudman, and thank you for your service to New Hampshire and for bringing attention to these issues over many, many, many years. And thank you also to Brookings and to Opportunity 08, and for creating Opportunity 08, which is now for us an opportunity to examine issues that would otherwise probably come up in this kind of depth over the course of the campaign. And also a special thanks to Joanne Donalin who really worked very hard to put this together, and my colleagues at the institute, and to our students and our audience and the community who comes and supports our events.

I am going to talk briefly about my take covering campaigns on the issues of health care and the budget. These gentlemen have more policy focus and I have probably a more journalistic focus, so I will give you my take and then we'll do some back and forth which should be fun.

SENATOR RUDMAN: I think we'll try in the interests of time to limit each of these opening remarks from 10 to maybe 3 or 4 minutes because we need time for questions and discussion.

MS. DONAHUE: So I'm going to speak really fast. Health care is important to our society. The main issue here is health care is a hot issue on the Democratic side, it's not so hot on the Republican side, as you pointed out, Shep, when you looked at the websites. I think what's really happening right now is that candidates are listening to voters, the Democrats are sort of forced to come out with health care plans by virtue of the fact that Hillary Clinton came out with one in 1993 that failed and has to prove that she can come out with one that's more passable now. That has forced all these other candidates to come out with plans and to compete over whose plan would be more viable and better and to attract voters to their plan. Then on the Republican side, I think the health care plans are mostly private-sector solutions that run the gamut from portable health savings accounts to tax incentives for companies that do a better job insuring or small businesses, particularly in the State of New Hampshire where as you know we are not a corporate economy, we are a small-business economy, and there are very

many self-employed people in New Hampshire who buy their own health insurance or choose not to or find other solutions like companies that provide only catastrophic insurance and they pay for the lesser expenses out of pocket.

I think it is very interesting what's going on with SCHIP in Washington right now and I think if you look at what's happening it tells you where the debate over health care is.

SENATOR RUDMAN: That is the program, that acronym, which was originally designed for poor kids to make sure they have health insurance.

MS. DONAHUE: Exactly, and it expires on Sunday, so Congress is debating it, the President's promise to veto it if it passes, and it's a good look at what's happening because it's the President saying this goes too far because the State Children's Health Insurance Program was created in 1997 to help lower-income people and now they're trying to move it up a little so that people who are above the poverty level but below middle class can get their children covered. He's saying it's a step toward federally mandated health care.

So the question for us today in my view is, is there a will toward federally mandated health care? Is there a will to put that in that little 18 percent during a time where in the past 5 years we have seen entitlement programs grow from 1,390 to 1,700, and that is during a Republican administration?

We are also seeing the possibility of entering a recession which is where the budget fits into all this I think. If you look at where we're going

economically, you look at the recent job loss numbers of 4,000, you look at wage stagnation, you look at the fact that the Bush tax cuts are starting to expire or lessen, and you look at the overall economic picture and the price of oil which is \$81 a barrel and is the most effective indicator of presidential elections that we have, you see a really cloudy picture. So I think what we're really talking about today, and I am then going to pass it on to my colleagues, is do Americans need health care to be a right, do they consider it a moral responsibility to protect those who have less in the incident that a health care crisis would wipe out their family finances or not. How big should the safety net go? Is there an appetite for another entitlement or not? And on the other side of the coin in the midst of a war, in the midst of a possible recession, can you get the public to focus on the deficit, have we lost an opportunity with the surplus turning into a deficit in the past 10 years to get people to pay attention, and where does that leave us. With that I turn it over to my colleagues.

SENATOR RUDMAN: Mark?

MR. MCCLELLAN: Thank you, Senator. It's a real pleasure to be here. I want to thank Saint Anselm for hosting, and also thank all the people at Brookings who have been involved with Opportunity 08. As the Senator said, this really is bringing some depth to the campaign discussion. But I especially want to thank all of you because we can get up here and talk about these things, it's really how you all vote, how you interact with the candidates, what you bring

to the campaign, that is going to determine how much we're able to bring these kinds of issues and these questions into the political debate over the coming months and in New Hampshire in the coming year and throughout the country.

The health care issue is a huge one for the campaigns as you have already heard. On surveys overall for the U.S. population, it is probably the top domestic policy concern, health care costs, anxiety about keeping coverage, about doing something about the uninsured which people increasingly view as potentially including themselves.

At the same time as it's a big issue, Senator Rudman said Iraq is taking a lot of oxygen and a lot of the energy out of the time that candidates are spending out talking about priority issues in front of the national media and so forth and so that has kept there from being I think as much discussion around this issue and around the key features of it as might be ideal. There are some big philosophical differences obviously between the two parties, not so much within each party right now, and those are coming out, and with this children's health insurance debate that is happening now, I think we will probably have some more opportunities to discuss that a little bit later on in the panel.

The candidates themselves in approaching these issues are definitely in full primary mode, and that is playing to their respective bases and what their bases want to hear about their health care reform plans. So on the Democratic side where this is perhaps even the very top issue, it is certainly right

up there with Iraq, all of the candidates have come out with fairly extensive and detailed proposals. Interestingly, you all may remember Michael Moore's "Sicko" that came out back in June that was really a call for a more universal socialized medicine approach to health care in this country, the Democratic candidates have not endorsed that, in fact they have gone out of their way to say we are not for socialized medicine and they have been going out of their way to include elements in all their plans about choice and about not taking away coverage that you have now. So there is I think a kind of split in the Democratic base just like there is on Iraq about how the health care issue should be supported and the candidates are definitely with an eye toward the general election where they don't think such a big push for government-controlled socialized medicine is going to be the winning approach and they've been talking about choice and so forth instead. There certainly are some elements in the plans about whacking the drug companies for excess profits and whacking the insurance companies, but it's not a socialized medicine kind of approach.

On the Republican side, this is not as big of a primary issue, not because Republican primary voters aren't concerned about health care costs, they are also concerned about the issue though from the standpoint of too much government control. So a lot of the Republicans have been running against what they believe that a Democratic administration would do in terms of expanding entitlements and expanding health care spending, and as a result taking away

control and the ability of people to get access to the care that they want, and rationing and limitations on care and things like that are a big part of the primary debate on the Republican side.

A couple of the candidates have come out with at least frameworks for a proposal. Mayor Giuliani and Governor Romney have both issued their health care reform plans where they are not at all afraid to come out and say we are for free-market health care, we want the government out of the way and not telling people what kind of treatments they can get, not limiting access to coverage, so there seems to be much less of a dichotomy within the Republican primary voters around how to approach the health care issue than there is on the Democratic side.

Senator Rudman is exactly right that you are not hearing much discussion on either side about the issues of entitlement reform. The Republicans have talked about it in general ways mainly in terms of saying if you elect a Democrat for president, you are going to get a big expansion of government health care programs and as you heard from Senator Rudman, we are already in terrible shape fiscally and so things would get much, much worse if we went in that direction, but that is really the extent of the debate about entitlement reform on the Republican right now.

I think one other common feature in the plans that both parties' candidates are proposing is an emphasis on incrementalism, and that might seem

surprising. You hear the polls talk about everything thinks that this is a huge issue and if you ask most people straight out they will say, yes, we think the health care system needs major reforms. But all of the candidates have gone out of their way to say they don't want to take away the coverage that you have now if you like it, and this has been an underlying theme in many of the surveys, that while people are very unhappy with the system overall, they are pleased with their own doctor and in most cases their own experience with the health professionals that they trust, it's when you get out into the broader health care system and the complexities and the overall spending and so forth that they view is beyond the control of their providers that people's concerns get much higher, so that is why you are seeing incremental proposals. Senator Clinton unlike her 1993 plan is not talking about putting everyone in these big purchasing groups, rather, setting up special programs for people who don't have coverage now. On the Republican side, new tax breaks to provide more free-market, low-cost access to care for people who don't have coverage through their employer or aren't in Medicaid already or aren't in Medicare already, but not fundamentally changing those other kinds of programs.

That makes it very difficult to address the core, deep, fundamental questions that are really at the heart of the problems that we need to solve to get to a more sustainable, affordable, high-quality health care system. Those include questions like how do we reduce health care costs without compromising access

to valuable treatments and all the medical innovation that's coming along. If you look at health care in this country, and we'll talk more about this I think on the second panel, there is a huge amount of spending that is not clearly going to help people getting better health, it's going to complications that ought to be prevented, it's going to deal with declines in the health of our country, our obesity rates doubled and that's leading to health care costs that are perhaps 20 percent higher today than they would have been if we had been able to keep our obesity levels where they were in 1990, there are lots in variations in how health problems are treated. Here in New Hampshire at Dartmouth you have the world's leading authorities on looking at variations in medical practices that add a lot to costs and don't improve outcomes. None of those kinds of issues about how we get a handle on reducing health care costs while still providing high-quality are being addressed in a whole lot of detail. And similarly, as you heard from the other panelists, entitlements again are not being addressed in much detail at all even though if you look at the spending now, and Senator Rudman gave you the numbers on how big these entitlement programs are in the federal budget, I would add into that the biggest tax expenditure in our country which is for the tax break for employer-subsidized health insurance which is far larger than the mortgage deduction and so forth, it is probably close to \$230 billion in tax expenditures, that's money the government is not collecting because it's all tax free, so if you add that in, we are putting a huge amount of money into subsidies for health care

that to a significant degree goes to the middle class, not to low-income individuals who really need help, not to people with very, very high health care costs, and that is where the real long-term fiscal problem lies and that is not being addressed in a whole lot of detail at all.

So there may be some opportunities to actually get through the primaries and to build some common ground to implement reforms and my hope that this kind of discussion can help get these issues front and center for that debate following the primaries.

SENATOR RUDMAN: Thank you, Mark. Tom?

MR. DONILON: Just quickly so we can get to some questions. I wanted to make three or four observations about the election which may turn this into an election that is very different than the election that you described, Shep, and let me give you my points on that.

Number one, and also makes me more optimistic about the opportunity for fundamental change at least in the health care area than the panelists have mentioned to this point, there is a tremendous change dynamic at work in this election and you see it in a variety of the data. You see it in the fundamental piece of data the pollsters look at which is the right direction/wrong direction measure that has been used for many decades trying to determine whether or not whether the body politic is happy with the direction of the country, and today that is at historic lows in terms of people who think that the country is

on the right track as opposed to the wrong direction. Indeed, it's a place that you saw, and again Senator Rudman will remember these references, maybe everybody in the audience won't or the students won't, but this is reminiscent of where we were in the summer of --

SENATOR RUDMAN: He's telling you how old I am.

MR. DONILON: Yes, and myself, in the summer of 1974 when you had a big change after Watergate and a huge change in the Congress, and in 1979 which brought on the Reagan Revolution. We are really at levels of discontent in this country at these levels right now. It is reflected in the job approval ratings for the President. It is reflected in the very high disapproval around performance on the most important issue facing the country, when you ask people what's the most important issue facing the country as Senator Rudman said, they all say the war in Iraq followed closely, not closely, about half about health care, there 70 percent of the American people disagree with the direction that the administration is taking. And I think if you see it in the energy in the Democratic versus Republican side of the aisle. Again, not to be overly partisan here, but I think the facts are if you look at the data, Democratic voters are much more satisfied when you ask that question about the field, there is a low level of dissatisfaction, less angst, less looking for a new person, than there is on the Republican side. Very happy. Seventy percent of Democrats when asked are you happy with the field say, yes, generally we are happy with the choices that we

have, and that is not the case on the Republican side, and you see it in things like money raising and in terms of enthusiasm of the Democrats. So point one is there really is a very strong change dynamic brewing in the country which is not surprising. We have had an exhausting two wars; we've had a lot of partisan battles back and forth over issues. President Bush had a very aggressive presidency in a variety of areas I think Mark would agree. So you've got a real serious change dynamic.

The second goes to Shep's point and why this may be different. We could very well have very early nominees on both sides. We might not. Senator, I had the pleasure in 1984 of going to Manchester High School to have the press conference after my candidate Walter Mondale got knocked off by Gary Hart here, so I certainly know the surprises firsthand that can happen in a primary. But the dynamic here, the frontloading dynamic, really is such that a great percentage of the delegates are going to be chosen by February 5 and I think the winners of Iowa and New Hampshire will have a tremendous momentum and, indeed, I think the frontloading, and this has become a common observation, has actually made Iowa and New Hampshire much more important in the process than even they had been in the past.

What does that mean? That means you could have two nominees of the parties in February or early March engaged in a lengthy, serious debate over fundamentals through November. You could have the longest general

election campaign in American history which would be a very different dynamic than we have seen as Shep has described.

The third observation is that the Iraq war really is the fundamental background to this election. The 2004 election was the first election really since the Vietnam era where national security issues were the fundamental issue in the campaign. I looked back at this question and found "New York Times" surveys. In 1996, 6 percent of the people thought that national security issues were a key issue. In 2000 it was 10 percent. Of course, this is to back up against when Senator Rudman and Senator Hart and others were trying to raise their hands about some of these national security issues, but it wasn't front and center in these campaigns. Barely discussed, really.

SENATOR RUDMAN: Not at all.

MR. DONILON: In 2004, 61 percent. And indeed, I think most folks now who have looked at the election believe that the reason John Kerry lost the election was there was a deficit he had versus President Bush in the national security area. So Iraq will be a big backdrop to this election.

So there will be a struggle to bring domestic issues front and center because as Senator Rudman said, the war in Iraq is not going to be a static event. It is going to be ongoing here. There are going to be ups and downs to this war, and indeed, this war probably will be the major thing that the next president faces.

We will have 100,000 troops on the ground most likely at the end of 2008 and the next president will be engaged in having to manage that.

Having said that, in the last 60 or 90 days I have become convinced that domestic issues are going to come in a stronger way into the campaign than I thought and it has to do I think with the weakening of the economy. We don't know where this is leading at this point. You've seen some of the numbers in the last 24 hours that have come out even with weakening housing sales, weakening home prices; you had bellwethers like Target Company dropped its forecast for the coming year. That is a big deal because that's an indication that the consumer economy is weakening. And I think on the health care side you've had a lot of things come together here which will cause the debate to happen. You've had the employer health care system really fray, you've had increased costs, you've got the economic imperatives in the globalized economy to decrease these costs, and I think as Mark said because the proposals on the table now are not radical proposals, they are incremental in some respects, you have had insurance companies and other big players embracing these proposals I think because they see economic opportunity, frankly, in some of these things.

So I think that you'll have Iraq as a backdrop, I think the weakening economy will cause economic issues to come to the fore more than they otherwise would, and I think the new president has an opportunity to move

health care forward in the first half of 2009 if he or she does the following things. Don't let Iraq swallow up the entire debate. Bring these issues forward. Get a mandate. Structure your government in a way that allows you to move on its key domestic priorities as well as manage the wars in Iraq and Afghanistan. And move early. And I think under those circumstances you would have an opportunity to have real fundamental change.

SENATOR RUDMAN: Thank you, Tom. Paul, let me simply ask you, I know you have a schedule here, we are running a little late and I would suggest that those students who find their classes more interesting than this ought to get up and go to their 10:30 class. I think if they get up to leave we'll understand that, and any new students who come in ought to just -- I would like to extend this for an extra 5 or 10 minutes to give the audience a chance to participate because these are fascinating things. I know some of the students have to leave and we understand that, and others we hope will arrive. Let me ask a question and address it I guess to the whole panel, but first I think I will address it to you, Mark. One of the things that strikes me is I think the number is that 230 million Americans have health care coverage either through private coverage or through Medicare. My sense is that on both sides of this debate, the campaigns are extremely concerned that any of their proposals could be seen as upending that coverage. Could you talk about that?

MR. MANUEL: Yes, I think that's exactly right. As you know, 240 million Americans do have coverage of one kind or another.

SENATOR RUDMAN: 235 to 240 million.

MR. MANUEL: Right, and most of those are through either employer coverage or a government plan like Medicare or Medicaid and most of those people do not want to see and are very nervous about fundamental changes in the kind of coverage they have now. They want to hear candidates talking about how to shore up those programs, how to make them better, but they are not really interested in fundamental change in their own coverage.

The people who are really struggling are those who aren't lucky enough to have coverage through their job and that is mostly people who are working so they are not very low-income Americans, they are people who may be 200, 300, or 400 percent of the poverty line and they look at the nongroup market and the health insurance policies either are not securely available or very expensive.

SENATOR RUDMAN: I think one of the philosophical issues that people ought to address is something that I heard. I kind of started the idea of town meetings in this state back when I was in the Senate, and rather than come up here and do some speeches at Rotary Clubs and the Lions which I did, what I tried to do is have a town meeting in various parts of the state. One of the things I heard over and over again was the following, how is it right that I work very hard,

I have a job, my wife works, we don't make a lot of money, we can't health care, but this guy I know down the road with his wife and five kids, they don't work, they're on welfare, and they get wonderful coverage through Medicaid. How do you deal with that argument, Tom? How do you deal with that?

MR. DONILON: A comprehensive approach, right?

SENATOR RUDMAN: That's what I want to hear.

MR. DONILON: I think Mark is right, one of the central elements of the plans represent is reassurance, reassurance to those folks who have coverage that they're happy with and it's affordable and is provided either through the government or through their employer, but the audience that is being addressed here is --

SENATOR RUDMAN: A lot of hard-working Americans who can't afford health care.

MR. DONILON: Yes, right. That's exactly right, and who find increasingly high premiums -- either unavailable or very, very expensive, and that is exactly the audience here to which a number of the plans have been addressed.

SENATOR RUDMAN: And isn't that also really what is central to this issue of whether or not the President is going to allow this bill to become law, the so-called CHIP bill, because what the Democrats are saying and some Republicans including Senator Grassley of Iowa yesterday is that we were covering poor kids, but you can have a lot more than you used to have and still be

poor in this country and we want to cover those kids as well, the President says, no, you're going to turn it into entitlement program. Is that what's going on, Mark?

MR. MCCLELLAN: This is a good example of not being able to find a compromise that's broad enough to encompass the politics that people are dealing with in the Democratic and the Republican primaries. The Children's Health Insurance Program has universal support for low-income kids, and low-income is under 200 percent of poverty or thereabouts, and most of the spending in all the bills that are being considered right now including the one that just passed the House with far less than a veto-proof margin would have put money into the low-income group. It's dealing with this higher-income range above 200 percent, families earning \$30,000 or \$40,000 or so, that we have this fundamental philosophical debate between the two parties about the best way to do it. On the Republican side, I think the fiscal concern is that if you expand the same kind of program up to a higher-income level where the federal government and states since this is a partnered program is paying 90 percent of the costs of health care, that just doesn't seem like a long-term viable model to either get coverage to everyone because it would be too expensive in terms of taxes or in terms of personal choice and control. But I think it's really a fiscal issue.

SENATOR RUDMAN: If you look at a young couple with a couple of children who are earning even in this state where the cost of living is

not like it is where we are all working in D.C., but \$30,000 or \$40,000 a year, and you ask them to buy private health insurance --

MR. MCCLELLAN: And that's why I think there's a missed opportunity here, because if you look at proposals that Republicans do support for people in this income range who don't have coverage through their jobs, they want to do it through tax credits, but they are willing, there is broad Republican support, for having the government pay a significant portion of their costs, not 90 percent, but 40 or 50 percent.

SENATOR RUDMAN: They will have to, Mark, because a tax credit to someone earning \$35,000 a year with a wife and two children, they're not paying many taxes so they can't get much credit.

MR. MCCLELLAN: And there are proposals for refundable credit. Really it's a missed opportunity though to get a compromise where the government would pay a significant part, not 90 percent, but more than nothing, more than people are receiving now.

SENATOR RUDMAN: We're going to take questions. Let me go to Jennifer, and then back to Mark, and to Tom, for this question. It's now February 2009, we have a new president. Will we have some form of universal health care protecting those who have programs that they now are happy with?

MS. DONAHUE: I don't think we will by February 2009.

SENATOR RUDMAN: You don't?

MS. DONAHUE: I don't.

SENATOR RUDMAN: Will we see it happen in the first Congress of the new presidency? That's my question.

MS. DONAHUE: I don't believe we will. I think that the philosophies are so far apart right now that there would have to be, just to mix it up, either a third-party candidate or some kind of idea that's totally different from these two approaches to really gain traction.

SENATOR RUDMAN: Mark?

MR. MCCLELLAN: I think there will be a lot of time and effort devoted in the next Congress in trying to do something about providing affordable care for everyone. It's going to be hard to get to an agreement, but I'm not completely convinced that we can't, and we will come back to this on the second panel.

SENATOR RUDMAN: Tom?

MR. DONILON: It depends on the election. If you had a Democratic president and a Democratically controlled Congress, the mandate to that president would be to make his or her central number one first issue health care, I think you would get it done in 2009.

MR. MCCLELLAN: Although it is challenging if it's Hillary Clinton given the history for her.

MR. DONILON: I think there has been one of the great policy rollouts in presidential campaign history in the last 2 weeks.

SENATOR RUDMAN: I would only comment, and I speak as a Republican from this state, unless things change radically, I would be very surprised if we did not have a Democratic president elected, I think Republicans will suffer further losses in the House and the Senate, and if that happens you could have a governable majority by a majority party president, and then I think it will happen but there will be enough people within the Democratic Party and the Republican Party to keep it from going where a lot of people don't want it to go. If anybody's got a question, I'm going to let you ask it and then we are going to have to move on to the next panel. So if you have any questions, yes, sir?

QUESTION: Just a question. An L.A. hospital, it was in the news a few months ago, a woman went into -- the emergency room and nobody took care of her.

SENATOR RUDMAN: Correct.

QUESTION: That was what type of a hospital? Was that a government-controlled hospital?

SENATOR RUDMAN: No, it was a private hospital.

SPEAKER: L.A. has had a problem with King/Drew Hospital which is a public hospital run by the county which is now being shut down because of some fundamental problems in quality care, and people can go to the

emergency room but with understaffing and with quality problems, they were not able to meet the standards for continuing as an operating institution.

MS. DONAHUE: May I just add to that?

SENATOR RUDMAN: Go ahead.

MS. DONAHUE: One thing worth noting I think is that we do have one government-run model to look at and that people should pay attention to and that's the veteran's hospitals. While they got some bad press over Water Reed, obviously if you talk to doctors who are on rotation right now serving veteran's hospitals because other doctors are overseas in Iraq, these are mostly reservists, they will tell you that the way that technology has been used to computerize the system in VA hospitals and the appropriate limits that have been set on care and yet the careful attention they give to the patients is actually a pretty effective model. I think that Hillary Clinton, for example, would be wise to make that point and take it away from the Republicans.

SENATOR RUDMAN: There's a lady here. Do you have a question?

QUESTION: Are you going to allow comments?

SENATOR RUDMAN: We don't have enough time for comments right now. Maybe at the end of this whole program we'll have a few minutes. A question over here?

QUESTION: You've been talking about all the expenses and the budget and all this other stuff, I got out of the Army in 1970 from Vietnam, jobs were all over the place in manufacturing in this country, there was health insurance, there were retirement plans, everything was hunky dory until globalism came in and jobs started leaving the states. Why don't we go back to the constitutional basis of the government and not have the federal government providing everything for everybody?

SENATOR RUDMAN: That would take an hour and a half to answer. I will take that in the nature of a comment and not a question. Does somebody have a question on this precise issue that we're talking about? Yes, ma'am.

QUESTION: If somebody could comment or include the impact of the Bush tax cuts and the war on the faltering economy.

SENATOR RUDMAN: I can answer that for you. Obviously, any reduction in revenue and increase in expenditure will increase the deficit, and that's exactly what's happened. As a matter of fact, the spending on the war in Iraq at this time and projected is equal in terms of percentage of the GDP the Korean War and getting up into some of the World War II years as well. So it is an enormous cost and it's adding to the deficit because we are not paying for it. The American people are not asked to make any sacrifice. Those of us who are old enough to have been around during World War II know the sacrifices that

everybody had to make, and I mean everyone. The entire country sacrificed. But then of course the country was behind the war because of the nature of the war, and that is not true today.

SPEAKER: And the costs are not over for the Iraq war. As Senator Rudman alluded to, the United States is fully engaged in Iraq at least through 2008 and into 2009 at the same rate of spending we have today. There are also going to be tremendous investment costs after this war. We have expended a tremendous amount in terms of materiel and equipment and things like that and it's going to be a big -- and it's going to cost some people between \$50 billion and \$100 billion more, and then we have big health care costs coming.

SENATOR RUDMAN: The National Guard equipment is going to all need replacing.

I am going to thank the panel very much. I wish we had more time. We don't. We've gone about 10 minutes over, but the transition happened. We are going to take about a 5-minute break and we'll move on to the second panel and Mark can stay in place or get up and stretch his legs. Thank you, Tom, thank you, Jennifer.

MS. DONAHUE: Thank you.

(Recess)

SENATOR RUDMAN: Thank you all. We understand that some of you have to leave while the program is going on, and we understand that. We will not

be offended when you get up and leave when you have to make your next class, although you might tell your professor that this was far more interesting than his or her class was and just stay here and be a little late.

I'm delighted to introduce the second panel. Starting to the left, Jennifer Lucas is an Assistant Professor of Politics at Saint Anselm. Her research interests include congressional politics and women in politics, and we are delighted to have her join our panel.

Isabel Sawhill is a friend of mine of many years. We've worked together on things. She is a former Budget Advisor to President Clinton and Director of the Budgeting for National Priorities Projects at Brookings and a host of other things that she has done.

Mark McClellan, you've already met.

Bob Bixby, I have a long association with, and he works for the Concord Coalition. He is our Executive Director after serving as the organization's Policy Director and National Field Director and other capacities going back to 1992 when Paul Tsongas, Peter Peterson and I started the Coalition. Bob, we are glad to have you here.

Henry Aaron has been a Senior Fellow at Brookings since 1968. He is an expert on health care costs, financing, health care rationing -- not a nice word. He served as an Assistant Secretary in the Department of Health, Education and Welfare in the Carter Administration.

In this panel, we are going to focus very closely on the issues that we started to explore during our initial panel. I'm going to start out by giving each of the members four or five minutes to express some views on the current debate, and then we'll have some panel discussion. We'll wind up with some questions and comments from the audience.

And so, Henry, I am going to start with you.

MR. AARON: Thank you very much, Senator, and thanks to all of you for coming out today and to Saint Anselm for hosting this.

I'd like to start with the fiscal problems that you, I think, very correctly emphasized are confronting us in the future and put that up against what seems to me to be the campaign rhetoric from both parties that seem consistent with that. Mainly, candidates from both parties are still talking about more tax cuts. The Republicans are perhaps oversimplifying, fundamentally proposing cutting further taxes on capital income. Democrats would cut income taxes on families of moderate sizes.

But candidates from neither party are telling the voters what I think is the true fact, and that is that the era of tax cuts must end. It's easy to understand, of course, why they wouldn't want to be telling the voters this message. It's not popular, but the simple and inescapable fact is that public expenditures are slated to claim a growing share of national income, and the tax system doesn't really accommodate that.

Why is spending going up? Contrary to what many say, the problem is not principally the retirement of the Baby Boom. Yes, social security is going to cost a bit more of national income, but over the next 50, 75 years, not a whole lot more, a couple percent of GDP. On the other side, other pension payments of the federal government, namely for public employees, are actually going to claim a smaller share of national income in the future than they do today because the size of the federal workforce relative to the population is actually going down and has been for quite a while. So pension costs in combination are really not a very serious part of this projected fiscal problem.

What is the reason for the fiscal problem that Senator Rudman, I think, has so correctly emphasized? Well, the only reason -- the only reason -- is that public spending for health care of all stripes is projected to go up a lot over the next few decades.

Again, you're entitled to ask the question of why, and once again the answer primarily is not the fact that the fact that the Baby Boomers are retiring. Yes, that does push up health care spending, but the lion's share of this very large projected increase in health care spending arises from the fact that per capita health care spending has been going up and is projected to continue going up much faster than income.

The reason for that, overwhelmingly, is a combination of two factors. First of all and much the more important of the two factors is that scientists are very

imaginative and they are coming up with a lot of wonderful new things for physicians and hospitals to do for us. They're enormously beneficial. Several studies have estimated that the value of the improvements in longevity that we've enjoyed over the past three or four decades in combination from health care and from other sources are worth as much as all of the economic growth we've had over that period.

I mean we're talking about a first order change in what it means to live a normal human life resulting from the improvements in medical care. For that reason, we have to pray with all our might that scientists continue in the future to be just as imaginative in the next decade as they were in previous ones because it holds out enormous promise for transforming everybody's life, but it doesn't come cheap.

They come with a very high price tag, and we're going to have to pay that price tag. Some people argue that we can avoid it by eliminating waste, fraud and abuse. You can name your own villain. Insurance companies, drug companies, excessive administrative overhead, you name it. The fact of the matter is there is some waste and there is some fraud and there is some abuse, but as Mark McClellan commented earlier, yes, it can save some money, but it's not going to offset even in a significant way the impact of what science is going to produce for all of us in the years ahead.

So the bottom line on all of this is that taxes are going to have to go up.

We're going to have to look at the financing of the whole health care system as a single entity. This is not just a public problem. It's a public and private health care financing problem, the redesign of which is going to require that we recognize that we have a system as a whole. This is the area where I think we're going to have to pay attention in the years ahead.

Now, I would like to go back and just very briefly comment on a couple of points that were made in the first session.

Shep Melnick emphasized that health care is the salient issues. Mark, I think, gave the right response on that. Health care is the salient issue, but why? It's the salient issue because all of us or most of us like our doctors. We like the health care we have received and we don't want to lose it.

That means something very, very important, I think. Real debate about health care reform begins the day a sitting President proposes a concrete bill that enables each and every one of us to answer the questions: How would it affect me? What's it going to do to my taxes? What's it going to do to my access to health care?

So I think what we're doing now is having a very nice discussion about the philosophy of health care reform, but the real debate begins sometime early in 2009 when President, you fill in the name, presents a proposal for health care reform.

I'm less optimistic than Tom Donilon is that we're going to see a

transformation resulting from a piece of legislation enacted in 2009 or 2010. Let me say why. Been there, not done that repeatedly in the past. For 75 years on roughly 15-year intervals, Presidents have considered whether or how or have actually proposed some form of health care reform. The consistent record every time is that the Congress has been unreceptive to those changes.

Why? It's a very simple calculation, I believe. We are not talking about pouring enormous increases in health care spending into the system. If that is the case and if we're changing the system in a fundamental way, we're engaged in something called zero-sum politics. Some people gain; some people lose. Losers are sure they are going to lose. Many people who are not going to lose fear it, and they come out in very great force. Those who think they might gain, they don't really trust the federal government or Congress, so it is not something that it is confidently relied upon.

This is the kind of result that affected President Clinton, President Ford, President Carter, President Truman and led President Franklin Roosevelt not to propose health insurance reform as part of the Social Security Act because he was afraid the whole bill would go down in flames if he included it.

One final factoid which you can take away: When we're talking about reforming the U.S. health care industry, we are talking about reforming an entity that spends each year a dollar amount equal to the entire gross domestic product of France and Spain combined. That's big, and the economic interests involved

are bound to be large. It's dangerous out there, as they used to say at the start of famous TV police procedural because the economic interests are large and powerful.

SENATOR RUDMAN: Thank you, Henry. You always have a fascinating take on things.

We're going to go to Mark next because we're going to talk about health, and then we're going to have Bob Bixby and Belle talk about the budget and have Jennifer comment on the electorate here in New Hampshire.

So, Mark, would you like to pick up?

MR. MCCLELLAN: Well, thanks. It's good to be back again.

I want to talk about two questions that you all will have an opportunity to ask the candidates that can help get us to a more substantive debate about exactly the kinds of issues that Henry and the rest of us have been discussing.

The first question is how is your plan, how is your approach to health care going to change the way that health care works?

Candidates are actually going to give you an opportunity to do this, and I will tell you why. The reason is that all of them, as expected, particularly on the Democratic side, have to come up with a proposal that gets to universal coverage or, if you're Republican, at least it gets to affordable access to health care for everyone in the Country.

The problem is there is no money available really to pay for that. We are

spending enough money on our health care system now. We are spending more than we need to get the quality results that Henry was talking about, and it is going to be very hard to come up with the additional money to put more people into affordable care in that system or to reduce the health insurance costs of people who already have coverage and are worried about losing it or worrying about the increases in those costs.

If you look at the Clinton plan, for example, just like many of the other Democratic plans, they talk about expansion of coverage to all Americans through this incremental approach that we discussed earlier, giving coverage to people who don't have it now through some combination of public and private programs.

Now, Hillary Clinton's estimate of the cost of her plans is around \$10 billion a year. John Edwards is in the same ballpark. It won't be that cheap unless there are some changes in the way that care is delivered.

Not only that, the Democrats tend to propose paying for these plans with what? With rolling back the tax cuts for the wealthy. But, as we've already talked about, those tax cuts under current law are scheduled to expire, and taxes are hard to raise. The political battle is going to be how many of those tax cuts are actually extended, not can we go further, can we even further than the expiring tax cuts and pay for those.

SENATOR RUDMAN: Judging from the campaign reports of the Democrats, I think they have as many rich friends as the Republicans do.

MR. MCCLELLAN: Right, and on the Republican side, the free market approach, as you have been hearing about in the campaign, which plays very well to the Republican base and I have to say I agree with the importance of choice and personal control in health care, especially as we are getting into more of a personalized era of health care, but it's very hard to see how that's going to lead to the hundreds of billions of dollars in additional money you would need to give everyone access to more affordable care.

So that leads to what all of the health care plans in this election are including. This is, I think, a change from previous elections. They all say, well, obviously, we've got to do something about the way care is delivered. We can't just afford to put tons more money into our health care system now, and so they have proposals for improving prevention, improving quality of care, expanding access to health information technology to get more coordinated care in place, but they aren't very well fleshed out.

The nice opportunity here for the election is that these are issues that are new on the national debate, I think, at least to a greater extent than whether we should have government-controlled health care or private competitive health care. So you've got an opportunity to have a real debate, discussion, education about what it would take to actually get to more prevention, to get to better quality of care, more coordinated care, to get to addressing the frustrations that so many Americans have of not being able to keep track of their doctors and their records

and tests getting duplicated and services being provided where you don't really know why you're getting them. There are some real opportunities to save money there, but it's not going to be easy.

On prevention, there is a lot of talk about how, as I mentioned earlier, that if we had held the line on obesity, for example, at 1990 levels, our health care costs per person might be about 20 percent lower than they are today. That's what some of the comparisons of cost for people with and without obesity would tell you. But getting Americans to change the way that they act, getting an actual increase in prevention is not easy even though these kinds of things, what you do and how you behave, how you manage your risk factors for health have a much bigger impact on your health than all this valuable health care spending that we've been talking about.

In terms of delivering care, quality of care, most of the spending in this country goes to chronic diseases, about 75 percent of all spending in the United States, and the performance of our health care system both on the public side and the private side, Medicare and private insurance, is not very good. Seniors only get proven effective treatments for their chronic diseases about 50 percent of the time. It's not because these treatments aren't covered. It is because our health care system, especially in Medicare, is very fragmented. It's a fee for services. It doesn't do a very good job of getting people well integrated, low cost care.

There is also overuse of treatments. The researchers up at Dartmouth have

shown that health care vary by 50 or 100 percent or more around the country with no clear relationship to the health of patients. We don't have a real focus on paying for what we want in health care: better quality, lower cost. There are some proposals out there. There are some approaches that could make progress on this, and we need to bring those much more front and center in the campaign.

So that is one question.

The second question is given that even if we make our health care system work better, we are still going to be facing these fiscal imperatives down the road. What are we going to do to address that?

This is really just to tee up for Bob and Belle because they are going to talk much more about the fiscal issues, but just to help bring that a little bit from a health care perspective, our health care system spends over two trillion dollars a year. That's the combined GDP of those other countries. Most of that is actually government spending now, and that's going to get bigger if these current trends continue. Close to \$400 billion is for Medicare. Close to \$300 billion is for Medicaid and the children's health insurance program which we're having a debate about expanding right now. Something that people forget is that another 250 billion or close to it is for tax expenditures for employer-provided health insurance.

Now if you look at where that money goes, if I were to grab one of you on the street or maybe after this session -- maybe I'll try this and see what happens --

and ask: Where should the government be concentrating its spending on health care?

You would probably say, well, first it should be for people with limited means because they can't afford it on their own and they should. Just because you're poor doesn't mean you shouldn't have access to modern medicine. Second, it should probably be for people who have really high health care costs, chronic diseases, serious problems that make it harder for them to pay for care on their own. That probably isn't sustainable just to tell the insurance companies to cover these people without giving them a way to pay for their higher expected costs.

Well, that's not where the money that the government is actually spending goes. The Medicare subsidies, which are very important in helping making health care affordable for seniors, tend to be concentrated or are almost as large for people at middle and higher income levels as they are at the lower income level. So now we've got this situation where working families, making thirty, forty thousand dollars a year, are paying payroll taxes that go to pay for the health care of wealthier seniors. Is that the way that our financing ought to work?

On the employer tax deduction, there is as much money in that deduction, over \$50 billion a year, that goes to families with incomes over \$100,000 as goes to all the families with incomes under \$50,000 even though there are a lot more of those with the more limited means. That is the fastest growing government tax

expenditure by far. It's about three times as large as the home mortgage deductions, just to put things in perspective. Health care is huge.

We'll get to this fiscal question in a minute. These are tough issues because you are talking about changing the way that government subsidizes health care for some very politically sensitive groups, namely the middle class, but it's going to be hard to address this entitlement problem and our long-term fiscal problem unless we start taking on that question.

SENATOR RUDMAN: Thank you, Mark, fascinating. Interesting Washington speak, you referred to \$120 billion as cheap, I believe. Up here in New Hampshire, that's not cheap.

MR. MCCLELLAN: It's all health care.

SENATOR RUDMAN: Bob Bixby and then Belle Sawhill on the budget side of this and then Jennifer, and then we're going to have some questions from all of you.

MR. BIXBY: Well, sitting between two of the nation's foremost health care experts, I'm happy to talk about the federal budget, and I'll leave it to them to parse some of the more detailed questions about health care costs in general and what we can do to control them.

I want to put things in the budgetary context, and they both alluded to it. It's really huge. The long-term fiscal outlook is alternatively described as daunting, unsustainable or a holy mess, and I would subscribe to all three of

those.

The importance of this particular presidential campaign on this issue is framed by when you think about what's going to happen in the next presidential term. In 2008, before the first votes are cast here or in Iowa, unless they move Iowa back into December, in January of 2008, that's when the first of the Baby Boom generation will begin to qualify for social security, early retirement at age 62.

Then, in 2010, all of the tax cuts that have been enacted over the past six years are scheduled to expire. So a fundamental decision is going to have to be made about what happens with those, and that point has been alluded to as well.

2011, the Baby Boomers qualify for Medicare.

Looming all over this is something that hasn't been mentioned, and I'm not going to talk about it too much because people's eyes would really glaze, but there's this thing called the alternative minimum tax out there which is a growing burden, and it's not adjusted for inflation. So more and more people are paying for it, and the government has been adjusting it on a year by year basis. But in order to make some sort of fix, it could cost a lot of revenues.

There is quite a toxic mix of fiscal issues alone. Forget about long-term issues. Just some of these short-term issues and key markers will take place in the next presidential term. So a lot of big decisions are going to have to be made.

Fundamentally right now, our nation is on the verge of this demographic

transformation to an older society. It's not just the Boomers' retirement. It's that people are living longer, and we're doing so against the backdrop of rapidly rising health care costs -- has been alluded to -- and rapidly falling national savings. That's a very lethal, dangerous combination for the fiscal future of the economy.

Let me give you three budgetary facts to put it in context where we are headed. Social Security, Medicare and Medicaid are the three big federal government entitlement programs. Right now, they comprise 42 percent of the federal budget. Now, remember the Baby Boomers haven't begun to retire yet. So they are a big part of the budget already.

Over the next 25 years, the number of people in the population aged 65 and over is going to go from about 12 percent today to about 20 percent. That will put pressure on both of those programs that are already 42 percent of the budget. It will also have some economic effects as well with people leaving the workforce, but let's just stick with the budget issue for that.

As Henry pointed out, demographics alone are not the biggest problem here. The biggest problem is rising health care costs. Health care costs have been rising faster than the economy, historically, for the past 40 years.

If you look at the next 40 years and say, well, what if health care costs continue to grow at the same rate relative to the economy and incomes as it has for the past 40 years. Well, if that were to happen, two programs alone, Medicare and Medicaid, would consume as much of our nation's resources as the entire

federal budget does today.

Well, that's probably not going to happen. It would force either drastic cutbacks in other programs or drastic increases in taxes to pay for it.

However, that does lead to a question. If we have this situation facing us, what are we going to do? Fundamentally, we have only two choices which are to cut back on the promised spending or find some way to control it, get more efficiency out of the health care system, or raise taxes. I mean that's basically all you can do.

I accompany Belle Sawhill around the country with folks from the Heritage Foundation and the Controller General, David Walker, on something we call a Fiscal Wakeup Tour. What we're trying to do is point out some of the issues that are coming up today, but we also are trying to point out that the numbers just don't add up. Whether you're a Democrat, Republican, conservative, liberal, anywhere in between, this ultimately is unsustainable. It's a matter of arithmetic, not a matter of ideology.

The thing that people need to remember in evaluating what the candidates are saying about this is that I think we would probably all agree that the current fiscal policy is unsustainable and that addressing it is not something we can do by cutting back on waste, fraud and abuse. That's something we should do, but the system is much too out of whack to worry about fixing it by eliminating the Bridge to Nowhere in Alaska or something like that, and it's not sufficiently small

that we can grow our way out of it. This isn't something that's caused by a cyclical problem in the economy or even the war in Iraq. These are long-term dynamics that are not going to be easily cured.

For that reason, it does require a bipartisan approach, and that means that all options need to be on the table for consideration. Both sides are going to have to agree to at least listen to the ideas of the other side and come into negotiations without any preconditions.

So, if somebody tells you we can do this all on the tax side or all on the spending side, well, they've got a very high burden of proof, I think, to show that that can be done.

Finally, I think that it's very important for the American people to be involved in this discussion. That's why we've been going around. That's why it's good that Opportunity 08 is up here doing this because really it involves very, very important programs to people's lives. Medicare, Social Security, Medicaid, and taxes are very important to people. That's really what we have to figure out, how you can control spending, taxes and debt at a level that is sustainable and doesn't do harm to the economy and it continues to fund these programs at a level sufficient to do what they are designed to do.

Final point, when you look at all of the projected deficits and debt on auto pilot and you think about the future that that leaves to the people in this audience, the younger people, it really becomes a moral issue as well as a fiscal and

economic issue. I don't think it's responsible for my generation, the Baby Boom generation, to leave to the younger generation coming behind a system that's unsustainable.

It's like building a house for somebody, knowing darn well that it has structural flaws and is going to fall down, and saying: Welcome! Have a party. I'm outta here. Goodbye!

We wouldn't do that, and yet that's what we're doing with our fiscal future and that's why we always emphasize that it's a moral issue as well as a fiscal and economic issue.

SENATOR RUDMAN: Thank you, Bob.

(Applause)

SENATOR RUDMAN: I believe it was Herb Stein, who was the shaman of the Council of Economic Advisors for President Ford, who said, rather wittily, that if an economic policy is unsustainable, it will probably stop. Think about that.

Belle.

MS. SAWHILL: At this point in the proceedings, I'm having the sensation of everything has been said, but not everyone has said it. So I'll take a crack at further reinforcing what's already been said and adding a few new dimensions.

I think what Shep said on the first panel about the fact that deficits make people go to sleep is exactly right. I think many people, ordinary voters and

citizens do not understand why we're so worried about these deficits as far as the eye can see. They don't quite understand what it's going to mean for their lives.

So let me begin with this. This is what I call or what some people have called attention deficit disorder amongst our public, and it's a real problem. It is, as Bob said, why we're doing this Fiscal Wakeup Tour around the country and why Brookings is doing a lot on this as part of our Opportunity 08 project.

I think there are political, moral and economic reasons why we should be concerned about this tremendous accumulation of debt that's in our future.

Bob has already talked about the moral question. It's basically putting a lot of what we've done recently -- the war, the tax cuts, the Medicare prescription drug bill -- all on the national credit card and sending the bill to our children and grandchildren. So that's the moral issue.

The political issue, I think, is that this is a symbol of a government that's not working. A government that can't balance its budget is, by definition, a government that's not being responsible and doesn't deserve the trust of the public. I think we believe our leaders need to step up to that challenge for that reason alone to restore confidence in government.

Let me turn to the economic reasons. I think, there, deficits matter for a number of reasons. First and most importantly, in my view, we are borrowing to a fare thee well from foreigners, and I'm not just talking about any foreigners. I'm talking about countries like China and the oil-exporting countries and other

places whose interests are not always consonant with our own. By becoming enormously indebted to them, we risk not only our economic future but also the freedom to have an unconstrained national security policy and to negotiate with them in a freer way in the future.

But, economically, right now the government is spending more than it's taking in, in taxes. It's borrowing virtually all of the difference from abroad. That means that eventually those foreigners are going to have to be paid back, and they're going to have to be paid interest, dividends, et cetera, on the money they've lent to us. That means that your future standard of living is going to be less because a chunk of our economy, of our GDP is going to have to be earmarked to pay these foreigners back. So that's one of the economic problems.

The other is that as we accumulate this debt with each year's additional deficit, we owe more interest on the debt. Right now, we're spending \$227 billion just on interest on the national debt. That's about \$1,000 for every household of taxes that are being earmarked just to pay interest. Now that's a wasteful expense.

Back in the late 1990s, we were talking about eliminating the national debt because we were running surpluses in the annual budget that would enable us to potentially pay that debt down and therefore not have to pay taxes to cover that expense.

Finally, I think the deficit and the debt are really limiting the extent to

which we can confront the problems we face as a nation. After all, the strength of a nation depends not just on its fiscal policy and whether it's providing the kind of health care that everybody has been talking about up here but also whether it's making investments in education and transportation and communication technologies and research and other things that will keep us strong and competitive as a country. To have the freedom to make those investments, we need again to get our fiscal house in order.

I'd like to say just a word about the tax question and Social Security question.

On the tax question, just to pick up on Henry, he says the era of low taxes and tax cuts is over despite the fact that current candidates seem to be going down this road again. I think we are all saying if you're hearing that, you better stop and say we don't want that, but that's hard to do, we realize.

On the tax front, Bob already mentioned the alternative minimum tax which is a parallel tax system which is capturing and affecting many, many more middle class families. So that's got to be dealt with. It's going to be very tough and very expensive.

In addition, we have, as Mark suggested, a lot of things in the --

MR. AARON: I mention raising taxes and look what happens.

MR. BIXBY: The alternative minimum tax isn't that boring.

MS. SAWHILL: We understand you have to go. Thank you for being

here.

Mark brought up the fact that as a result of the fact that people don't pay taxes on the benefits their employers pay for their health care, that that's costing us a great deal of money. It's the largest revenue loser in the budget, but there are many others. If you took all those special preferences, deductions, credits, et cetera, that's about eight or nine hundred billion dollars a year we are spending on that.

So we can reform the tax system, make it simpler, broaden the tax base, bring more of these special exemptions into the base, keep rates low. We don't have to actually raise rates to bring in a lot of revenue. In the paper, in our 08 paper that we are presenting here today, we talk about how to raise a huge amount of revenue without doing anything to tax rates.

The other thing that could be done is to add a new tax to the system. Many people are interested in a value-added tax. Other countries have them. It could be earmarked to pay for health care in the future.

Also, I think it's time to talk about taxes on energy because we have a problem with energy independence. We have a problem with global warming. A tax on energy could both raise revenue to stem the red ink and help produce some other objectives that the country has right now.

On Social Security, again I don't have time to say very much, but I would point out that, as Bob emphasized, we are all living longer and we need to

understand that people retiring as early as they do now may not be a viable strategy for the future. I think it's quite amazing that if you look at the Social Security system, almost three-quarters of the people who become eligible for Social Security take the benefits at age 62 or at a lower age than the normal retirement age. We need to move in the other direction. We need to be encouraging people to work longer, and we could do that.

Secondly, Social Security was always meant to be one leg of a three-legged stool. The other two were to be your employer pension and your own savings. There are ways that we could be encouraging people to save more for their own retirement. Retirement is not a catastrophic event. It happens to all of us who live to that age. Believe me, I'm there; I know that.

But the way to do that may be to not just exhort people to save more but to create mechanisms, maybe private accounts outside of Social Security, on top of Social Security, where people are either asked or required to park their money so that they will have enough money to help them with a healthy retirement when the time comes. Social Security should be there as a base, but it can't be the whole solution.

I will leave it there for now. I think that one of the questions earlier was: Are we going to have a problem with the economy going forward? Tom Donilon said maybe the economy is weakening now. One of the questions was about globalization. I think it could be weakening now. Nobody can totally forecast

this, but getting these problems in order will help to secure the economic future.

The wolf may not be at the door. We may not have an economic crisis as a result of this, but the termites are in the woodwork. We are going to have a weaker nation and a less strong house if we don't get these problems under control.

So, thanks, Warren.

SENATOR RUDMAN: Thank you, Belle.

I would just comment before calling on Jennifer that one of the interesting discussions I've had with economists and national security experts is the amount of U.S. debt held by the Chinese Government is absolutely enormous. They hold enormous dollar amounts and a lot of debt.

The question becomes if they decided for their reasons either to stop buying our debt or start to dump those dollars in large amounts, what they could do to this country economically would be just incredible and hard to measure. A lot of people say that won't happen; that's not in their own interest. But you can't look into the future far enough to know what those interests would be in terms of certain kinds of crises. So there are a lot of national security reasons that this debt that we are now selling around the world could come back to haunt us.

Jennifer.

MS. LUCAS: Thank you, Senator Rudman. I'm truly humbled to be on the stage with all of you.

I wanted to just make a couple of quick comments. I guess my role here is a little bit to sum up, which is pretty difficult to do, but a couple of comments about the general future of health care and then a few comments about New Hampshire voters. Hopefully, you all will either agree with me or disagree with me. Either way, I think it will be interesting.

First of all, these are just things that have come up as we've been talking. In terms of whether we might have a health care plan at some time in the future with the new President, there are a couple of things that we haven't mentioned specifically.

One is this issue which Mark brought up about wanting to target certain groups or income classes and the problem of universal programs versus targeted programs. Senator Rudman, maybe you could talk about this as well. Congress tends to like universal programs as opposed to targeting specific groups often times. So that seems to me if those are the places where we need health care to be targeted, that's going to be difficult regardless of who is President.

I think one hopeful thing is in the 2006 elections and I would imagine as well in the 2008 elections that we're likely to see some more moderate Democrats in Congress, and they seem to be the people who disappeared during the 1990s. But if we have more moderates, they may be able to grease the wheels a little bit for a new health care plan and be able to be the people who negotiate with both sides of the aisle. In that way, there may be some hope at the end of the tunnel.

In terms of New Hampshire, I guess New Hampshire voters was my assigned topic. I think there are a number of things that New Hampshire voters are very similar to national voters. Certainly, health care is a priority for New Hampshire voters just as it is for national voters although other issues tend to dominate at this point. Iraq is still the key issue and has been mentioned by a number of different people.

The problem of voting in terms of health care as a very difficult and complex issue is something that all voters are going to have to deal with throughout this election, but particularly New Hampshire voters, that having to be able to figure out what the difference between the different health care programs are. I hope this panel today, the two panels have helped to get at some of those differences and help New Hampshire voters to make informed decisions about that.

There are a couple of things, I think, that are great about having the primary in New Hampshire so early because I do think that New Hampshire voters have become much more adept in some ways at getting at these issues. There are certain things about New Hampshire, I think, that can influence the way the presidential candidates perceive some of these issues. First, one thing that we've all mentioned at some point but it hasn't been stated completely is this libertarian streak in New Hampshire, and Senator Rudman may be partly an example of this.

I think we've talked a lot about deficits putting people to sleep. I think in

New Hampshire it's one place where people may get a little drowsy, but they're not completely asleep. This is certainly, I think, an issue that New Hampshire voters care about, and so I see New Hampshire as being a positive part of this process in that New Hampshire voters tend to weigh the issues of cost and benefits of health care programs to a great extent. I think that this libertarian view may sort of play a big role in the health care debate especially as it happens early in the primary states.

I think someone like Senator Clinton, as soon as she released her plan, one of the major things that she started talking about was small businesses and how there wouldn't be penalties for small businesses not taking part in her health care plan. So I think all of these sorts of issues are playing into the calculations of the presidential candidates already.

Second is, of course, the nature of retail politics here. I think on behalf of the panel I'll say we all hope that as New Hampshire voters, that all of us take the time to ask these hard questions of the presidential candidates. New Hampshire is one of the few places where candidates really have to be able to defend their plans. If you're a presidential candidate, you really have to be able to say, I know what effects my plan is going to have; I know how much it's going to cost. Those types of things are things that I think are unique to New Hampshire, and so I'll put in a plug for all of you asking those difficult questions of the candidates.

Just to sum up a little about how health care, I think, is going to play out in

the presidential election. I think in many ways because it's difficult and because many of the plans that have been put out already are sort of similar in that they're very centrist and incremental, it's really not the same health care debate we were having in 1993. I think often times the candidates are going to use their positions to reinforce their persona as their message that they're trying to put out there strategically.

For example, I've heard Senator Edwards talking quite a bit about how he's not going to negotiate with insurance companies and is going to really force through his universal health care plan, even trying to withhold salaries from members of Congress and things like that in order to make this happen, sort of going on his man of the people kind of progressive message.

Similarly, I think the Obama campaign, although they haven't quite honed their message to the extent that they should have, can use their health care plan as this message of change and reinforce that message.

I think that Senator Clinton's campaign is also using her health care plan as opposed to her 1993 plan as reinforcing her new moderate message, this much centrist message that she is not the progressive that many people make her out to be and that she has a wide appeal, that she's not going to polarize the electorate, which I think is a major weakness among Democrats if that message gets out for her or if Democrats start to believe that, that she may lose out.

Then on the Republican side, I think it's actually interesting that Governor

Romney has been here in New Hampshire because he has really been linked with the Massachusetts plan. I think it will be interesting to see how the Massachusetts plan is perceived in New Hampshire because I'm sure many people across the border or who live near the border know people in Massachusetts, how that's taken in. Is it really a market-based plan or is it perceived as the employer mandate, big government type of plan?

I think part of Romney's appeal in New Hampshire may be linked in some ways to his perceived successes or failures in Massachusetts.

I think other Republican candidates, because they haven't been talking about health care as much, it's hard to talk specifically about how they would talk about health care.

But I do think McCain, especially, can reinforce his more moderate message, although I'm not sure how much that would help him in New Hampshire. To some extent, I think it would, but it certainly hasn't been the strategy that he's been using so far. To reinforce, to talk a little bit about the things that he's done as a Senator on the issue of health care, he has co-sponsored and sponsored quite a few bills on health care over the last 10 years or so that he has worked with Democrats and other Republicans on those issues. I think if he talked a little more about this issue that may influence his strategy as well.

So I'll end there and be happy to take questions or comments.

SENATOR RUDMAN: Thank you very much, Jennifer.

Before we go to questions, I want to pose a hypothetical to the panel which really isn't so hypothetical, and it comes to me because of another activity I'm involved in that is very much involved in health care. Let me just give you a hypothetical which was really kind of suggested to me by Henry Aaron's excellent discussion about the genesis of the increasing cost of health care. On the supposition we all would like to live as long as we can, we're just not sure we can afford it, so here's the hypothetical:

It's now 2010 or 2015, if you wish, and a group of scientists have come up with two inventions. The first will defeat coronary artery disease as we know it and can replace your heart and your major arteries in a procedure that will cost \$400,000 among the equipment, the hospital care and the doctor's bill.

Across the coast in another part of the country, a group of equally brilliant scientists have come up with a cure for most forms of cancer which costs \$200,000 per patient to administer.

Now, coronary artery disease and cancer are the two leading killers in America today.

Number one, is that the time to impose rationing based on age or is that the time to raise taxes on everyone to pay for this since everybody wants it? I don't know anybody who would say, well, I don't want it. Of course, they would say they want it.

What is the solution to that hypothetical which may not be so hypothetical

as you look into the future with the incredible technology that people are working on all over the country?

Henry, I'll start with you.

MR. AARON: Well, let me start with the hypothetical part of it. With respect, it is not only hypothetical; it's not going to happen.

SENATOR RUDMAN: Henry, take my hypothetical.

MR. AARON: I can't. I actually can't do that, and the reason is that the biology of cancer is just so complicated that as we find answers, they're going to come very gradually and over an extended period of time.

I believe Mark is the physician on the panel.

SENATOR RUDMAN: Then take my hard example.

MR. AARON: Okay, I'll take the hard example. In that situation, I think what you see is a sudden discovery that we are going to have to ration. I think we find ways that limit the availability of care. I don't know exactly what form it takes.

I think it's unlikely to be analogous to what happened when we first had renal dialysis for kidney disease where there was something. I forget the exact name. I think they were called death committees because they determined who had access to the procedure, and Congress folded and funded treatment under Medicare.

This is a different story. The budget impact would be much greater.

Somebody would point out very quickly that this is a great discovery but you realize it's only adding, on the average, maybe a year or two to life expectancy overall because if heart disease doesn't get you, something else will and does. But the budgetary implications, I think, both private and public, would be very severe and would force a major reconsideration of financial arrangements.

SENATOR RUDMAN: Mark, a comment on that hypothetical, either both halves or one if you prefer?

MR. MCCLELLAN: Hypothetically, if these great cures came along all of a sudden for very broad parts of the U.S. population and they cost a lot of money, there would be some kind of rationing or limits on who got it. I don't think it would be explicitly by government. It may be by --

SENATOR RUDMAN: It might be just for those procedures.

MR. MCCLELLAN: Yes, and it could extend over to, well, we'll spend money on this and take away money for other things on health care. It may come from people's choices and who is able to pay.

I think, though, just to pick up on Henry's point, the more realistic way it is likely to unfold is the way it's unfolded up until now which is there are cures that come along. Each of them is incremental in the sense that they may make a big difference in the lives of certain patients, but they don't affect most other people. But, over time, we've seen tremendous progress in all kinds of diseases. I think we're just scratching the surface of the potential.

I think stem cells, biotechnology, genomics, nanotechnology, none of those have had a real impact on health care yet, and they are going to save lives.

SENATOR RUDMAN: Obviously, I raised the hypothetical not because it's necessarily in the near future but because it is symbolic of what Henry referred to and the escalating cost of health care. All of these incremental changes are expensive, and we have seen enormous changes in hospitals' and doctors' costs and medical devices' costs because of the fact that people have come up with these brilliant ideas.

My sense is that this is accelerating in terms of the rate of discovery because of the way technology generally is moving.

MR. MCCLELLAN: I hope so.

SENATOR RUDMAN: So I just thought it was worth having a discussion. I don't know if anyone who is going to say, well, you know, I've lived long enough; give it to somebody else. I haven't quite seen that level of altruism and generosity in my life yet.

MR. MCCLELLAN: But the hard question that we don't ever want to answer in health care is how much is a life worth.

SENATOR RUDMAN: Exactly.

MR. MCCLELLAN: How much are we really willing to pay to live a year longer? It's a good question, and there are good reasons why we're avoiding it.

What do you really want, an iPod or another year of life and more time with

your family and people you care about? But, at some point, we're going to have to make those more explicit decisions.

SENATOR RUDMAN: Thank you.

Anybody else on the panel want to comment on that before I turn it to the audience for questions? Anybody have any other comments?

Okay. We have microphones available here, and the gentleman over here has a question.

QUESTIONER: He doesn't have a question. He's just the microphone guy.

My question is my understanding is we spend more per person on health care than other industrialized countries, but we're not at the top of outcomes compared to other industrialized countries. I was wondering if you could comment on what they're doing differently from what we're doing and if any of that has to do with rationing of health care for older citizens of their countries.

SENATOR RUDMAN: All right, we'll let Mark take the first crack at that.

MR. MCCLELLAN: I know Henry has done a lot of work on this too. A lot of the statistics that you see, I mean we do spend more on health care, 16 percent of GDP. Switzerland is closest behind, around 10, heading up toward 11 percent, and others are below that. We don't do as well on overall population statistics like life expectancy and infant mortality rates and things like that.

The thing is, though, most of those population health statistics are

determined by things other than health care. They are determined by your behavior, your choices, education, income inequality, environmental factors, and a lot of things that don't directly relate to health care.

If you look more closely at the areas where health care can make a difference like what happens after you've been diagnosed with breast cancer, how likely are you to be diagnosed early, what are your survival rates at five years, the United States actually does quite well. It's reflective of the fact that a lot of people, when they get sick with something where especially intensive medical intervention is going to make a difference, they want to come here. They don't want to go to the U.K. or other places. But those kinds of treatments are not the main things that determine population health.

If we look at survival rates for seniors, given that you've reached age 65 or 70, what's your life expectancy beyond that, quality of life, the U.S. does pretty well in some of those kinds of statistics where medical care may make a bigger difference.

This also brings back the point I was making earlier. I think we do have a lot going for our health care system now, especially when people get very sick. Where we don't do very well is in some of the basics, the bread and butter of health care. Most of the money that we spend goes for relatively routine care and complications of about five or six chronic diseases: heart disease, lung and breathing problems, cancer, diabetes, kidney disease. Really, there are not very

many.

We don't get the right treatment for the right patient at the right time. We don't have much or enough of a prevention orientation in our health care system. Some of the other more routine and some of the more universal systems can implement some guidelines or standard practices, and we could do a bit better in some of those basic aspects of health care.

I guess the final point, getting back to Senator Rudman's comment, is that you're not only worried about what health care does today. You're talking a lot about the future from a fiscal standpoint. The real value in health care is what's coming down the road. We want to keep encouraging this kind of innovation that over the last 50 years has added 8 years on average or contributed 8 years to peoples' lives, and the potential for the future is even greater. I think an emphasis on not only how we are doing now but how we can best support innovation in health care to live longer and better lives is also very important.

SENATOR RUDMAN: Henry, would you like to comment on this?

MR. AARON: Just three points: First, I don't know whether people here are aware of it, but Mark deserves a lot of congratulations for his service as the head of the Centers for Medicare and Medicaid Services in helping mobilize Medicare to improve our knowledge of what works and what doesn't in the area of health care. This, is, I think, continuing. It's a major, major advance. He probably did more than all the other previous directors of those programs did,

combined.

Second, just to be specific, the United States spends twice as much per capita as the average of the next 10 richest countries. There is a lot of fiscal elbow room for us to do better than we do.

I don't remember what my third point was, so I'm going to stop.

SENATOR RUDMAN: You're getting older.

All right, I think that the lady here has a question or a comment.

QUESTIONER: Thank you very much, Senator Rudman.

I really appreciate everything you have to say. It has meant a lot to me. But I wonder if you'd like to think about another aspect.

I'm a retired school nurse of 27 years, so I've been in the trenches, and I've watched kids' health. I've heard you talk a little bit about prevention and wellness promotion, but when I received my nursing education at Cornell University, New York Hospital School of Nursing back in 1947, it was basically illness-oriented and it's been for a long time. It was all problems. We didn't talk about prevention and wellness promotion.

So when I was school nurse, this is what I did myself, and I really believe very strongly in it. As you're talking and as we're talking about the cost of health care, we all know that a lot of the chronic illnesses can be prevented.

What are you going to do in relation to school health programs?

I think of health education. I think of physical education. I also am a state

rep, and I did put something in and got it passed about daily physical activity. We couldn't require it, not in the State of New Hampshire, but at least the program has been developed. But, in California, some of the schools out there do have daily activity.

I'm wondering if you'd include this in your look at health care as you're going around it because I really appreciate your coming to New Hampshire. It's wonderful.

SENATOR RUDMAN: Thank you for your question. Thank you very much.

Who would like to answer that? Mark, do you want to take that?

MR. MCCLELLAN: I can speak a little bit about it. I think you're exactly right. Unfortunately, education for health professions hasn't changed that much in the last 60 years. You look a lot younger than that.

QUESTIONER: (Inaudible.)

MR. MCCLELLAN: It's prevention, right?

I'm an economist by training. One of the first rules of economics, for the students who are here, is you get what you pay for. In health care, a lot of our health care system is organized around paying for what you get when you go to the hospital, when you have a complication, when you get more intensive treatments. We haven't really been orienting a lot of our health care system towards paying for what we really want which is staying well at the lowest

possible cost.

The things that can really help with that, as we were just talking about a minute ago, in many cases, aren't traditional health care. You mentioned programs like regular physical activity for children and ingraining that in their culture and their approach to life. That can be very important.

Some of the best evidence on programs that have the best long-term impact on a person's health is not health care spending. It's things like early education programs. Unfortunately, as we're spending more and more of our federal dollars especially on the Medicare and Medicaid entitlements, what's happened over the last 20, 30 years is that spending on everything else, including a lot of these other types of programs that are so-called discretionary, have gotten squeezed down.

My hope is that as this gets to be a more front and center issue. That is exactly the right kind of question to ask of the candidates this year in their campaigns. You all are talking about putting us on prevention; what's the evidence behind your proposals actually leading to better prevention?

This is a new thing. This is new in the 2008 campaign. Hopefully, this will get more front and center.

There are a lot of new kinds of health care programs that are web-based -- Revolution Health, Steve Case's new thing; Microsoft is about to come out with a big program -- that are all around a person's health focus and keeping people healthy. I think this is a sign that we may be headed for new kinds of health care

because our traditional health care system hasn't really been delivering what we want which is how to be healthy at the lowest cost, which means doing things that in many cases aren't traditional health care and what our health professionals are trained to do.

MR. AARON: Can I just add one point to that?

SENATOR RUDMAN: Yes, go ahead.

MR. AARON: I agree with everything that was said, but the argument has got to be that it will achieve better health, not that it's going to reduce spending. The reason for that is these interventions cost something. They aren't always effective. They frequently trigger the need for medical care that is costly in cases where it would not have previously been identified.

The almost, I think, universal finding today -- things could change in the future -- is that preventive care is good for your health but not necessarily for your pocketbook. I think there's a risk in selling preventive health that we have this imperative always to argue it really will save you money, and that is not the strong point of this. It's the road, I think, very possibly to disappointment.

As I say, it might change in the future, but today everybody who has studied the cost implications of preventive health has come to the conclusion, small beer, one way or the other, but it's good for your health.

MR. BIXBY: I just wanted to add to build on Henry's point.

In the context of the presidential candidates and their health care plans, it's

very easy to promise new benefits or to improve the health care system and then people come around to saying, well, now how are we going to pay for this. So the pay for is very easy to say wellness. We'll have prevention programs or we're going to collect better data and use it more efficiently. Well, those are things that we should do, but translating that into how it's going to pay for an expansion or something is difficult.

For example, if we collect better data, which we should do, one of the uses for it may be to facilitate rationing in some form. When I say rationing, I'm thinking about a more efficient use of our current system because we pay so much more per capita than other countries. So I mean you need to ask the next question too.

MS. SAWHILL: I just wanted to point out that although prevention costs money, on the other hand there is this evidence that there's a tremendously strong correlation between education and health care outcomes. I don't think we understand all the reasons for that very strong relationship, but it may not be totally something we can affect. Say, we invest more in education, we'll get a healthier population, but I think we probably would.

I think investing in education has many other benefits. I think sometimes we are too much in the mode in this country of believing that if we just put dollars into health care per se, that that's the best way to spend the dollar that you need to improve health care down the road. It may be that there is an indirect approach or

strategy here that could be far more cost-effective.

So I'll just put that out as a possible provocative point and also reinforce, I think, something that you said earlier, Senator, which is the growth of the federally-financed entitlement programs, especially Medicare, is squeezing out the investments we're making in education, in children, in lower income families of a younger age.

QUESTIONER: (Inaudible.)

SENATOR RUDMAN: I'm sorry, ma'am, but we're going to have to spread it around here a bit. We're running out of time. I'm going to have time for really probably only one more question. I believe that Michael O'Hanlon is going to wind this up for Brookings.

Sir, you had a question. You've been standing there quite a while.

QUESTIONER: Yes, I do. Would someone comment on Mr. Forbes' flat tax of I think he mentioned 18 percent after an exclusion of twenty or thirty thousand dollars on everything and abandoning all these other taxes?

The percentage is not important to me right now. It's something for the economists and the tax experts to discuss. I'd like to hear a comment on that.

SENATOR RUDMAN: That's a very involved subject. I'm going to let Belle answer. I will tell you I've looked at it in depth and have decided that it can't work no matter how you cast it.

You go ahead.

MS. SAWHILL: I have also concluded that it can't work. You said the percentage doesn't matter, but in fact, if you think about it, it does. Most people who have looked at this say realistically if you had a flat tax, we'd be talking about rates that are way, way above 18 percent, now maybe 30 percent. It would not be something where people would get on board because a whole lot of people would lose and particularly those who pay lower rates now obviously would lose.

The reason I think it's so appealing politically is because it does something that I think we are all for which is it simplifies the tax system, but we shouldn't be misled by the siren song of you can have a simpler system and lower rates which it implies.

SENATOR RUDMAN: I'll give Henry one minute.

MR. AARON: Simpler as long as you say to everybody: Well, you did have a mortgage interest deduction but you're not going to have it anymore. You did have a deduction for charitable contributions but, un-huh, every dollar you give to charity will come out of after-tax income not before-tax income.

Health insurance has to become taxable, state and local taxes. That's where Belle's tax rate comes in.

If, as is more than likely, you come along and you say, oh, well, we can't tolerate the collapse in home prices that would occur if you took away deductions for mortgage interest and property tax. Yes, you can have that. Well, then you've got to kick the rate up.

SENATOR RUDMAN: And charitable deductions.

MR. AARON: Yes, I was just using that as an illustration. One after another, you give ground to these genuinely legitimate claims that people have. You don't want to kill the gifts to charities. You don't want to destroy the home values.

So you make these concessions. Up go the rates and, with high tax rates, you get economic inefficiency, distortions in decisions.

So the argument, the chief argument that Mr. Forbes put forward, which is a very appealing one, evaporates as political and economic reality sets in.

SENATOR RUDMAN: The other problem, you started to ask people in the country about it back when it first came out. You said: Now, listen. We're going to simplify this system, but understand something. You're making \$50,000 a year. You'll pay 18 percent. This fellow over here is making \$800,000 a year, and he'll pay or she'll pay 18 percent.

People will say, wait a minute. I think they ought to pay something more than I do because most people in this country, even some conservatives, believe that the system of graduated taxes is not all that bad.

On that comment, I'm going to ask -- is it Michael O'Hanlon who is going to wind this up. Where is he?

There he is.

MR. O'HANLON: I think you might have one minute if you want to take

his last question.

SENATOR RUDMAN: All right.

QUESTIONER: Thomas Paine wrote that politicians that could breathe life into a piece of paper would undermine gold and silver as having good and proper value. Here we are today with the deficit and interest to pay on that debt at tremendous growth rates. The growth rate of those is the real problem.

He also said that politicians who would offer freebies to get votes are undermining free elections. When you have an audience that you can build on, that you're promising something to get a vote, you are in fact undermining the system of a republic having free elections. You are in fact distorting the system.

What he added was that if people want to do immoral things and give things away in order to get a promise or whatever from somebody, that's fine. But if politicians go down that route, promoting immoral acts in order to get votes, and we know that that's a great part of the whole debate, politicians trying to get votes, those politicians acting in that immoral way become detestable examples of humanity.

SENATOR RUDMAN: Well, we understand your point. I don't think probably too many people disagree with you on that.

I'm going to ask Michael O'Hanlon to come up and end up the conference.

MR. O'HANLON: Thank you, Senator.

We want to thank all of you. On behalf of Brookings, I want to thank

Jennifer Donahue, Jennifer Lucas, Shep Melnick, Dr. Manuel, especially Senator Rudman, and thanks for an excellent discussion.

I guess the one thing that struck me as a non- health care expert was the opportunity to just listen in as one of the people directing this Brookings project. Maybe it's appropriate in New Hampshire, but I heard a lot of people on the stage and in the audience saying, how can we help too, which is a nice change in the tenor of the debate.

It's not all Hillary Clinton or Mitt Romney, what can you give me, but what can I do to get in better shape or eat better or maybe give up a little bit of my tax deduction for health care or maybe even think about the terrible challenge of rationing in one form or another, but a very rich discussion that was not only what the politicians are going to be asked to do for us but how we're going to try to contribute.

That was a very nice takeaway for me. So coming up here to New Hampshire was an especially appropriate place to hear that, and I want to thank you for that message.

So, on behalf of everyone at Brookings and Saint Anselm College, thanks for coming and we hope to continue the conversation some other way.

(Applause)

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