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THE 2004 CAMPAIGN:

ASSESSING THE MERITS AND COSTS OF THE

CANDIDATES' DOMESTIC AGENDAS

INTRODUCTION AND PANEL ONE: THE CAMPAIGN AGENDAS

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MILLER REPORTING CO., INC.
735 8th STREET, S.E.
WASHINGTON, D.C. 20003-2802
(202) 546-6666

INTRODUCTION:

Strobe Talbott
President, Brookings Institution

PANEL ONE: THE CAMPAIGN AGENDAS

Moderator:
Albert R. Hunt
Executive Washington Editor, *Wall Street Journal*

Tom Loveless
Director, Brown Center on Education Policy, The Brookings Institution

Isabel V. Sawhill
Vice President and Director, Economic Studies, The Brookings Institution

Kenneth Thorpe
Professor and Chair, Health Policy and Management, Emory University

Jack Meyer
President, Economic and Social Research Institute

Leonard Burman
Senior Fellow, Urban Institute Co-Director, Tax Policy Center

Bruce Bartlett
Senior Fellow, National Center for Policy Analysis

Question and Answer Session

THIS IS AN UNCORRECTED TRANSCRIPT.

P R O C E E D I N G S

MR. TALBOTT: Good morning, everybody. I'm Strobe Talbott and I want to just say a quick word of welcome to all of you coming out to participate in this forum on the major domestic issues figuring in the presidential campaign this year.

At this stage in the process, it's natural enough that most of the journalists and the political analysts are concentrating on the horse race, which is to say on the candidates' standing in the polls and their personal styles, their campaign strategies, the main themes in their stump speeches, and that kind of thing. Today's discussion is going to focus very much on the substantive issues facing the nation, the issues that are going to matter the most over the long term to the citizens of this country.

Those of us here in the room today who are associated with Brookings like to think of this event as a classic Brookings activity very much in the spirit of the motto of the institution, which is up here on the wall above the panelists. It's our mission to try to help develop sound public policies through independent, nonpartisan analysis and research, to promote better public understanding of the most important issues on the national agenda, and to set an example, in the way we go about our business, of a high level of civil, political, and public discourse, particularly in a season when that commodity is in fairly short supply.

We're going to be concentrating today on the following issues: education, health care, taxes, and the budget. We've assembled an excellent group of experts to assess the two major candidates' positions. We're also very pleased that there would be with us today representatives of both the Bush and Kerry campaigns to offer their perspectives and to respond to observations and questions from all of you.

This event today is going to be followed by others in the months to come. In the fall, my colleague Tom Mann and his team from our Governance Studies Program will be examining the political process, which is to say questions such as the role of swing voters, the shaping of political perceptions, and the evolution of party organizations. We will, of course, also during the course of the remainder of this year, delve deeper into the issues themselves as the candidates refine their positions.

Now I'm going to turn the proceedings over to a very good friend and colleague, Al Hunt, who is going to be moderating today's event.

PANEL I: THE CAMPAIGN AGENDAS

MR. HUNT: Strobe, thank you so much. It's always a delight to be at this prestigious place. I must tell you a story quickly. I gave the speech about 20 years ago to the Brookings annual meeting of trustees, and I pointed out that when I first arrived in Washington I was assigned to cover the Treasury. And I had come down on the plane the night before with Paul Samuelson's basic text in my lap--I knew so little about economics. It was tougher back then, Bruce. You had to read demand as well as supply.

But I had to cover my first Treasury refunding three days later. And I went to it, and I called the Dow Jones Ticker, the newspaper, and the interest rate was something like 4.37852. And I got 4.37825. I got five out of six; I thought that was pretty good.

The next morning, I was called by the then-assistant secretary of the treasury to his office, a man named Paul Volcker, who asked me if I had any idea how much money I had lost people by that careless mistake. And I said no. And then he looked at me and said, Do you know what a refunding is? And I said, Well, I'm working on that. And he said, You've got a long way to go, and I'm going to try to teach you but it's not going to be easy.

So I told that story that night. And I said, So I was incredibly lucky to have a teacher like Paul Volcker to learn economics. And afterwards, Paul came up and said, Al, that story you told about how I taught you economics? I said, Yes, sir. He said, I've read your stuff. Please don't tell it again.

[Laughter.]

MR. HUNT: So Strobe, I won't embarrass you today.

What this is all about this morning is an enduring reality and strength of American politics, but one frequently short-changed, I'm afraid, by the 24/7 media of today, namely, that ideas matter and they have consequences. We chop down a lot of trees and experience considerable hyperventilation talking about what effect "Fahrenheit 9/11" or "The Passion of the Christ" will have on the election, or Ronald Reagan's death or Bill Clinton's memoirs. And the answer is they will have virtually none.

But what we're going to talk about this morning will have an impact. The war in Iraq, the sense of whether that family in southern Ohio thinks their economic well-being is improving or is eroding, and the broad cultural issues, and the sense that voters get of these two men running for president. And I would argue that part of the sense they get is what ideas are advanced and how they advance those ideas, the sense of what a Kerry or a sense of what a second Bush presidency would be all about. I think it would be very hard for anyone to argue that those ideas enunciated in 1980 didn't matter when Ronald Reagan was elected, or Bill Clinton's ideas in 1992, or, for that matter, George W. Bush's in 2000.

We're lucky we have a superb bipartisan collection of experts. Each needs no introduction, so therefore I'm only give them about a 10-second introduction. If anybody wants to know anything more, I think you have it in your packets. Everyone has agreed to a seven-minute time limit. We have the enforcer sitting there in the front row. And then afterwards, we'll have time for some questions and answers and participation from you all.

Very briefly, our panelists today are Tom Loveless, a senior fellow and director of the Brown Center on Education Policy at Brookings; Ken Thorpe, who is the Robert W. Woodruff professor and chair of the Department of Health Policy at Emory. Ken, I have to tell you I'm envious because I married someone named Woodruff, and it was only after we were married I found out that she was not one of the Atlanta Woodruffs. So I'm really envious of someone who has a link to those Atlanta Woodruffs.

Jack Meyer, who's president of the Economic and Social Research Institute, which studies ways to improve the cost-effectiveness of social programs; Len Burman, the co-director of the Tax Policy Center and senior fellow at the Urban Institute--I think also a visiting professor at Georgetown; Bruce Bartlett, an architect of supply side economics, former aide to Jack Kemp and Ronald Reagan and now, of all things, a newspaper columnist; and finally, the legendary Belle Sawhill, who is a senior fellow and vice president for economic studies at Brookings and, with Ron Haskins, the creator of this important forum.

So, Tom, I think we start with you, if I remember my schedule right.

MR. LOVELESS: Thank you, Al.

I'm not an economist, so I'm not going to give you an economic analysis of the two campaign proposals that are before us. I study schools and I study education policy. So what I am going to do is the following three things: First of all, I'm going to talk about the proposals that are currently on the table from both the Bush and Kerry campaigns. I'm going to comment on the educational research that exists on these proposals; in other words, would they actually have dramatic effects in terms of improving schools? I can give you the punch line to that right now: We don't know very much about the effects of most of the proposals that have been put forth. And then finally, I'll comment about the politics as I see them playing out this fall in terms of education policy.

Let me add, too, that if you're interested in some cost estimates of the various proposals, there's an excellent working paper out front that you can pick up by Steve Robblee, Simone Berkowitz, and Belle Sawhill. Be sure to pick that up if you want to see more precise estimates than I'm going to give you now.

Let me turn to the proposals. First of all, in terms of the Kerry campaign, the centerpiece of Kerry's proposals in education, first of all, is an educational trust fund that he would set up.

Let me just step back for one second and say that in this campaign you really have two different world views of how government can improve education. On the one hand--and this typifies Democratic and Republican differences on education. On the one hand, you have the Democrats saying that we need more resources in order to improve education, in order to really get the job done and have kids learn more. And on the other hand, the Republican Party, for the most part, believes in more accountability in order to improve schools. Now, that doesn't mean the Democrats don't believe in accountability--they do. But they emphasize resources. And the Republicans believe in more resources--the Bush administration spent a lot more money over the last four years on education. But accountability still is the area in which they emphasize improvement.

So the Kerry trust fund is supposed to be $200 billion over 10 years. This would be an entitlement to the states, so it would be removed from future political debate. It would fund various aspects of educational reform. The largest would be full funding of special education. Most estimates put that as costing somewhere around $100 billion over the next several years. And by "full funding," I mean to bring the federal share of special education funding up to 40 percent. Currently it's about half that, and states and local school districts pick up the rest of the bill on special education. When IDEA was passed in the '70s, it was set as a goal that the federal government would assume 40 percent of the costs. And it never did that. It's never even come close. Currently, it's about 18 percent.

So, to raise the federal allotment, federal responsibility for IDEA and the funding of special ed, up to 40 percent would cost a lot of money. This would come out of the $200 billion trust fund.

The second main plank of the trust fund is a teacher quality--it's a package, actually, of teacher quality provisions. Kerry calls it "A great teacher for every child." That's the name of the program. It involves such things as raising teacher pay--now, it's not going to raise teacher pay very much, okay. We have about 3 million teachers, public school teachers, in the U.S. and they make about $40,000 to $45,000 each. So Kerry's promise of $30 billion over 10 years, that's $3 billion a year. This would raise every teacher's salary by less than 3 percent, somewhere around 2.7 percent.

However, what Kerry's proposed is targeting these increases in teacher pay into a couple of areas. We have hard-to-staff schools, predominantly inner-city schools but also some poor rural schools, so perhaps targeting teacher pay to those areas would help. We also have some subjects that are tough to staff with high-quality teachers, math and science teachers in particular. Right around 50 percent of the teachers who teach mathematics in the middle grades are not certified in mathematics; they don't have a degree in mathematics. So this is a definite problem. However, whether or not $30 billion spent over 10 years is going to affect it, the fact is the answer is probably no.

Let's turn to the Bush campaign. I think the Bush administration really is hanging their hat on No Child Left Behind. This was a key domestic legislation in the Bush administration, their message is going to be in the campaign to stay the course, they're very proud of No Child Left Behind. It's an extremely ambitious program that mandates that all children in the U.S., 100 percent, will get up to a proficient level of achievement in both math and reading by the year 2014. So we have 10 more years left in No Child Left Behind.

Now, No Child Left Behind, when it was first passed two years ago, was extremely popular with the voters. It still is popular, but not as popular. And I think it's important to step back and take a look at why that may be.

The problem is the sanctions that are built into No Child Left Behind are just beginning to kick in. So all of the penalties that fall upon schools that do not make what's called adequate yearly progress, their kids' test scores are not rising at a rapid enough rate, those are now beginning to kick in.

In August, in just a couple of months, we're going to get now the third year of test scores of schools under No Child Left Behind. And some of the sanctions can be quite severe. If a school doesn't meet AYP for two consecutive years--this is the most famous of the provisions--students are allowed to choose, they're allowed public school choice. They can go to another school in their district that has room for them. If a school fails for three consecutive years--and this August we're going to get a list of lots of schools that have failed for three consecutive years--parents are provided supplemental services. They are provided--some of the Title 1 money that goes to schools will be diverted to families so that they can hire teachers and tutors for their children. Then after years four and five of consecutive failure, that's when the most drastic things happen. That's when schools can actually be shut down and reconstituted as charter schools.

So the complaints now that have begun to arise over No Child Left Behind are tied directly to the fact that the sanctions have begun to kick in.

The second point about No Child Left Behind--and this will work, I believe--and I'm going to segue now to looking at the politics this fall--this will work to the Democrats' advantage. The second part is the Democrats have been complaining there's just enough money in No Child Left Behind, and a lot of teachers feel this way as well. If you want us to teach kids better than we're doing now, you need to provide us with some resources in order to do that. I think this now is getting some traction with the voters. And the reason is, with state and local budgets under the constraints they've felt because of the economy over the last two years, there have been a number of cutbacks, and these are just beginning to fall upon schools. So complaints about needing more money can get traction with the voters.

There are two things working, however, against the Democrats this fall. One is education will not be a big issue. It's not going to be a big issue like it was in 2000. And there are a couple of reasons. The first reason is we don't have a governor running for president. Governors run school systems; United States senators do not.

And so when you have a challenger who is a governor--it was George Bush who made education an issue in the last campaign--when you have a governor running for president, you are more likely to see education as an issue.

And then finally, the thing that works against the Democrats is all George Bush really wants to do with education is hold serve. Traditionally, education is a very strong policy area for Democrats to win votes. I think that Bush feels that if he can just continue to push No Child Left Behind and do it as the centerpiece of his domestic agenda, that he can neutralize the Democrats on the issue and make it a winning issue for him.

Thanks a lot.

[Applause.]

MR. THORPE: Good morning. I'm Ken Thorpe. I'm going to talk about the health care plans of the two campaigns. I'll do it in three sections: Talk a little bit about the big picture, some about the specifics--obviously, given the time, I can't go into much detail, but detail's available outside if you'd like to see it--and a little bit about the impact.

Let me start with a setup, and it's a nice segue from the education piece. My reading of these two proposals is that health care on the domestic side is likely to be the biggest area of policy difference between these two campaigns, both in terms of the impact the proposals would have, the structure of the proposals, and the financing of the proposals. So this is not going to be an area, I don't think, where one can nuance the differences. These are very fundamentally different programs, plans, and approaches to dealing with health care.

The setup, I think, is a pretty simple question that's going to be debated. Both campaigns would extend most of the tax cuts through 2010. Senator Kerry has said that he would continue to provide tax cuts for everybody who is in the 98 percent of Americans who are currently getting them, as well as tax cuts extended to that population. The issue is for the upper 2 percent of tax filing units, which is about $860 billion over the next 10 years--and I'll let Len explain that particular calculation.

But the issue is, where does that $860 billion go? Does it go to provide tax cuts for that top 2 percent, or is it used to fund an education and health care proposal, as Senator Kerry has proposed? That, really, is sort of the big-picture piece of this. That's obviously not a nuance issue; it has a fundamental policy choice that these two campaigns are making.

Let's start with the specifics on the Kerry campaign. Senator Kerry's proposal, just the big picture here, would provide coverage to about 27 million currently uninsured. That would cover about 95 percent of the population. President Bush's proposal would provide coverage to around two and a half, and then declining over time to about two million individuals, providing coverage to about 85 percent of the population 10 years out.

How do they do it? Well, Kerry's proposal builds on the current system. It's not recreating the wheel, as we tried to do 10 years ago. It's really building on the current structure of Medicaid, the CHIP program. I think recognizing the fact that two-thirds of the uninsured live in families under 200 percent of the poverty, he provides a very simplified way of enrolling low-income and moderate-income adults and children in the Medicaid and CHIP. That's Part 1.

Part 2 is that he proposes a reform of the small group market--the area where there's really the biggest complications and difficulties in our health insurance system today for people trying to get group-based policies--by creating a pool modeled after the Federal Employees Health Benefits program. He allows employers under 50 and certain other individuals, people between jobs and the near-elderly, to buy into this pool with some federal assistance. Those are the big pieces of the coverage side.

On the cost-containment side, he also has something quite innovative and certainly quite--has raised a lot of discussion, where he provides a federal stop-loss pool for qualifying employers to join. In so doing, those employers would receive an average of about a 10 percent reduction in the cost of their health insurance. I can't go into the details of how this works in any amount of detail, given the time, but there's certainly discussion of it outside in one of the papers.

So there is a big focus on cost containment both in the federal sector as well as the private sector, much of the private sector reduction in cost through the stop-loss pool, but he has a variety of other mechanisms in the proposal as well.

What are the results? I've mentioned already on the Kerry side-- Let's take a step back. Let me go back to the Bush proposals.

He has three proposals, in essence. One is a refundable tax credit. He would provide single individuals up to $1,000 to buy health insurance if you earn $15,000 or less, that phases out at $30,000, and for families he provides up to a $3,000 credit--$30,000, phasing out at $60,000. That's really the centerpiece in terms of the program that gets the most coverage for him. He also is promoting association health plans, again a different form of pooling of risk that's trying to get small businesses to buy into group-based products. And thirdly, he allows individuals to deduct the costs of a qualified high-deductible health care plan. So those are the three main parts of his health care proposals.

In terms of the cost of these, in the Kerry proposals, a big proposal, and it has an associated larger federal price tag. It's about $653 billion over the next 10 years. As I mentioned, it covers about 27 million people. The Bush proposal is obviously much more modest, in large part because his proposal would pass all the tax cuts through to that top 2 percent of tax filing units. But his proposal costs about $90 billion over the next 10 years and covers about 2 million people.

What about the savings? The Kerry plan has a lot of things going on in it. At the federal level, he has a series of proposals that would reduce federal spending by about $300 billion over the next 10 years. He also, as I mentioned, with the stop-loss plan, would reduce private health insurance spending by about $300 billion over the next 10 years as well. There are certainly savings to state and local governments involved in this. The first three years of the proposal, he's said that he would provide state and local governments an additional $15 billion of funding over and above the fully federalized cost of extending coverage to those uninsured populations.

Just to make clear on the Medicaid and CHIP expansions that I talked about, which is a key component of the Kerry plan: In essence, the new costs associated with enrolling those adults and kids is 100 percent federal. So there's not the issue of worrying about the states ending up putting up money to enroll these populations. While he's using the current Medicaid and CHIP programs, the funding for it is essentially 100 percent federal dollars.

On the Bush side, just very briefly, much of what he talks about in terms of cost containment is on his medical malpractice reform proposals. And I think that the potential impact on premiums there--and again, I'm just using the CBO estimates of this--are likely to be pretty modest. The CBO has estimated that malpractice reforms along the lines that President Bush has proposed would reduce the cost of health insurance by about one-half of 1 percent. Certainly that's a very debatable number, but that's what CBO came up with in their estimate.

So with that, as I'm getting the stop sign, I will stop and await discussion and your questions. Thank you.

[Applause.]

MR. MEYER: I'm Jack Meyer. I'd like to thank Bill and my other colleagues at Brookings, and Al, for including me in this session. I'd like to outline the goals of each plan and some challenges for each plan and how those challenges might be addressed.

Let me start with Senator Kerry's health care reform plan. I think he has very solid goals. He builds on the current system, and yet offers comprehensive reform. This is good. It's an ambitious but realistic set of goals, and I like this. The overall problem or challenge I see is that Senator Kerry and his advisors may not have always selected the best means to get to good ends.

Let me give you an example. The first goal is a very good, recognizing that large numbers, really millions of people, particularly adults, who are very low-income do not qualify for public programs. Indeed, some people that are dirt poor with hardly any income because they have no kids, Senator Kerry's plan recognizes this and would bring them into coverage.

I think, frankly, that his swap, in which the federal government takes over the Medicaid kids entirely and the states are asked to take over the children's program and take it to 300 percent of poverty and bring in all the parents of the kids who are eligible for public programs, is very complicated and is going to set off some concerns in the states. Some states will already hit that or be very close; others will be miles behind and have great distance to travel.

I think, instead, the Kerry people may want to look at states like Maine, with its new Derigo Program, that accomplishes a similar goal without having an entire federalization of Medicaid kids and, really, a termination of the federal-state matching that's worked fairly well with all its problems over the years. They may want to also look at Minnesota and Rhode Island, that have done an excellent job within the current system of reducing the number of uninsured.

A second goal has to do with the reinsurance program. Senator Kerry's plan really is about spreading risk more fairly, and I think they should stick to that theme. I think it's much more about that than lowering cost--although it could lower cost some. Really, it deals with the fact that one firm might have five workers and one ill and has an enormous premium, another has five workers and a much lower premium. And his reinsurance plan would spread that out more fairly.

Will it lower premium cost by 10 percent? I'm very dubious. I'm not questioning Ken's model--and Ken is the best of anybody I know at doing this and is very objective. I'm wondering whether we can really capture in reality the savings. If you think what it would take for that 1/2 percent of people that account for 20 percent of spending to get a 10 percent reduction in premium, how far we'd have to lower their spending, I just am very dubious.

And I'm not making a criticism. I would sell this more on fairness, and I would consider some private-public partnerships. I think Senator Kerry's reinsurance plan jumps to an expensive federal solution for something that might be solved partly through the private sector. We have other forms of insurance, whether it's reinsurance, property and casualty, other areas, where we don't have a federalization of this, where insurers pay a premium to lay off some of the risk of a flood or a hurricane, as the case may be. I think we should consider doing that. We probably would need community rating; experience rating could cause problems.

Another way to do it would be to limit the reinsurance to very small firms, where there really is a market failure. Because otherwise, there'll be a legitimate concern criticism that there's kind of a government takeover here, a buyout of large companies who might be able to handle this on their own. And certainly people will say that that $50,000 threshold for reinsurance, the private sector's not going to lobby to raise it--they're going to lobby to lower it--and the federal role would grow.

I say this because this might be a way of saving some of that $257 billion of the 950 or so gross costs before the offsets in the Kerry plan. And whoever is elected, the big challenge is going to be getting the deficit down. So if we could take one part of the plan and reduce the federal costs, there would be more money available for the other.

Now let me turn to-- I also want to say that he does a good job of coupling a subsidy with a place to take it, opening up this congressional plan. Six percent of income as a trigger may be too high, the take-up rate may be too low at that rate we they might have to lower it, but that's a detail.

Bottom line for Senator Kerry: Be flexible regarding means to the end. Don't get locked into a complex design. Set goals and broad parameters. Lay out options. Be open to variations.

President Bush's plan. His first goal, helping low-income workers in small firms, I think the tax credit is too small. A thousand dollars for individuals, which hasn't been updated over the Bush term, isn't going to get you very much unless maybe you're a young, healthy worker. This needs to be scaled up. The administration might want to consider what it's doing in TAA, Trade Adjustment Assistance, a 65 percent of premium subsidy--even that may need to go up a little bit. There you may get a bit more take-up.

My concern about this plan is not only the credit is too low when you go to the non-group market, but the way the Bush plan is set up, workers are eligible even if they're insured, but they have to leave the group--they can't use their credit to buy employer-sponsored coverage. They go to the non-group market, guess what's going to happen? The younger, healthier, better risks are going to pull out of employer-sponsored coverage, driving up costs, going toward the non-group market, which frankly has very high loading charges, a lot of leakage, and a lot of problems.

So this could be solved by a bigger credit, more of a percentage credit, and a place to take that credit, including group options. And I think also the administration has put $70 billion now in its budget, but it doesn't have a financing source now in the budget. So it's sort of like you've got to find the money, folks, and then I'll do it. That's different than the administration's position before, as I understand it.

A couple of other goals that Ken didn't mention about the administration's plan. Insuring access to health care through building up the safety net--the president's budget seeks $218 million to do this, 1.6 million additional people. Good goal. Must provide the funding, not just authorize it. That's been a problem sometimes with the administration. And it's not just the number of community health centers, it's--I applaud increasing them--but helping the ones that are out there fix the roof, hire another doctor. There's a lot we can do other than just increase them. Maybe some compromises can be done there.

Another Bush goal, more regulatory flexibility for the states, the so-called HIFA waivers--Health Insurance Flexibility. According to the administration, some 175,000 people have been enrolled, eight states. Good in theory. So far only limited progress and some problems as premiums imposed on low-income people have caused some people to drop out of the program. See Oregon as an example.

Good quality initiatives for both candidates. I'm all for electronic medical records and tort reform. I think the savings from those are not really that great. They're great public health things to do. I think we really have to look at that hard.

So on balance, in closing, President Bush should scale up this set of plans. You need a bolder vision, bigger plan. Only now will it make a small, modest contribution.

My final remark is that we need a bipartisan solution here. We will never do this on a 51-49 basis. We will never do it if one side tries to shove their plan down the other side's throat. We must find some middle ground after the election. And I think the rhetoric during the election could help that. Build a plan with broad public support and buy-in from the medical community and the business community. And to finish on Strobe Talbott's opening line, we need a civil public discourse.

Thank you.

[Applause.]

MR. BURMAN: It's kind of disconcerting with the enforcer sitting right in front of me. I have the sense I'm already running out of time.

Seven minutes seems grossly inadequate to talk about the administration and Kerry's tax proposals, but I realize that that's 14 times as much time as most Americans will get. They'll get this in 30-second bits. And I think that's actually a big part of the problem.

It's interesting to start by contrasting this election's tax proposals with where we were four years ago. Four years ago, the government forecasters were predicting a 10-year surplus of $5.6 trillion dollars, and we were at peace. And both candidates for the presidency were promising tax cuts--Bush's bigger than Gore's--and both promised to never, ever touch the Social Security surplus.

So four years later, the 10-year forecast is for about $2 trillion in deficits, not counting the $2.4 trillion that we plan to borrow from Social Security, and we're at war. And both candidates for the presidency are promising tax cuts--Bush's bigger than Kerry's. And nobody ever talks about Social Security surplus.

In fact, including health spending, they both would add about $1.2 trillion to the deficit over the next 10 years, not counting some random budget proposals in the Bush budget.

To understand the proposals, I think you need to understand where we are right now. In 2001, there was a big tax cut that was passed, and it phased in very slowly, but after 2010 it expires. So 2011 is just like 2000 was. 2003 there was another tax cut. That sped up. A lot of these things we're phasing in, but only for a couple of years--some of them were sped up permanently--and ending up back down to this phase-in path through 2010, and then everything expires.

So what President Bush proposes to do mainly is to make the 2001 and 2003 tax cuts permanent, and to speed up the provisions that are phasing in slowly starting next year. He'd cut tax rates across the board. He'd end marriage penalties for the middle class. He'd repeal the estate and gift tax after 2009. He'd lower tax rates on dividends and capital gains. He'd provision net increases expensing for small businesses--that's the equipment that they can write off right away--would be made permanent. And higher contribution limits for pensions and IRAs, educational expenses deductions, various other little things. The total cost is about $1.2 trillion, and most of them the last four years. And the cost in the next 10 years is much, much higher.

His budget also has about $200 billion in additional tax cuts. There's a tax-free savings proposal that would basically eliminate from tax a large share of individual savings. He'd extend relief from the individual alternative minimum tax--which is a serious budget problem--but only for one year. Same thing Kerry would do. He'd provide new health insurance tax credits and allow a deduction for high-deductible health insurance. And he'd close some corporate tax shelters. On that, that's about $200 billion.

Senator Kerry proposes to scale back some of the tax cuts for high-income people, targeting people with incomes over $200,000. People with incomes above those levels would face higher capital gains tax rates, the rates that had been in place before 2001. Their rates would go back to the levels in 2001. And he'd also actually raise the exemption for the estate tax in 2005, but hold it constant at a $2 million level and make that permanent. So beyond 2010, there's actually an estate tax cut.

There's a number of additional middle-class tax cuts. There are education credits. In simplification, he'd combine the HOPE and the Lifetime Learning tax credits into a single, larger refundable tax credit. That would make it available to people with incomes too low to owe taxes. He'd provide health insurance tax subsidies for small businesses, those between jobs, early retirees. He just announced a proposal to increase the child care tax credit from $3,000 of expenses to $5,000 expenses, make a proportion of it refundable, and have a tax credit for stay-at-home parents with infants.

He'd actually increase taxes on some multinationals, the ones that are producing abroad for export. It's supposed to help protect domestic manufacturers. And he'd use the revenue that he raised from that to lower the corporate tax rate from 35 percent to about 33 percent. He'd close a bunch of corporate tax shelter loopholes. And there are random tax credits for energy efficiency, stimulating high technology, tax credits of employers of called-up reservists, and so on. There's a paper in your packet that provides some of the details.

Overall, if you look at Table 2 in the paper on the Kerry tax cut, it compares basically the two sets of core proposals. Relative to current law, the Kerry proposal would cut taxes by about $618 billion. And the largest components of that are the middle-class tax cuts, which both candidates agree on--it's almost $400 billion. And then, according to Ken, there's $177 billion in health insurance tax credits.

Relative to the extended baseline, which is what the president's proposing in his budget, he'd raise taxes by about $632 billion, virtually all of that on high-income people. All of that revenue that he's raising would be spent basically on the new health insurance spending that Ken talked about. And then there's an additional $200 billion in tax cuts in the Bush proposal.

So the two plans, in terms of their overall effect on the budget, are not that much different. I think what bothers me the most about the plans is what the two camps agree on. There's about $500 billion net of middle-class tax cuts. The House of Representatives just passed a variant of this, with an additional high-income tax cut tossed in, making the child credit available to high-income people. Another paper in your packet, an analysis of the House tax cuts, suggests that those two things together would cost over a trillion dollars if you included the cost of making the alternative minimum tax fix permanent, which is something that really has to be done.

So basically we're talking about a trillion dollars in additions to the deficit from the tax proposals that both camps agree on. And one could see proponents in the Senate saying why not pass the portion that both candidates agree on? And the answer, I think, is because we're running huge deficits with no end in sight.

[Applause.]

MR. BARTLETT: I'm Bruce Bartlett, and I want to focus primarily on Bush's tax policies. There's an article outside that I've written, that appears in the current issue of Commentary magazine, which goes through and discusses Bush's tax policies up until now.

And I don't really think that there's much to talk about in this regard as far as the campaign is concerned because, to my knowledge, President Bush has not put forward any new proposals other than just to say let's make everything I've already done that's expiring permanent. And he hasn't put forward any kind of vision for the future or any specific campaign-related tax proposals--although presumably he can in the future.

What I want to talk about primarily is what I think is going to happen if President Bush is reelected. And I would emphasize that I'm making a forecast here; I'm not advocating. I think that we've gotten into a fiscal situation that is going to demand some action sometime fairly soon. And I think the main trigger for this is what's probably going to happen at the Federal Reserve next week. It's why they expect that they're going to begin to raise interest rates. They're going to have to raise rates quite a bit eventually, although they'll probably do so gradually a quarter point at a time, every six weeks for some time to come. This could be a little bit like Chinese water torture. But I think it's going to set in motion certain forces that are going to lead unavoidably to some, I'll call it a crisis of some kind, at some point in the future.

The problem is, when you start from a ridiculously low-interest-rate situation, you start to raise it, you create a lot of problems in the financial sector because of the same basic forces that got us into the savings & loan problem. Banks tend to borrow short and lend long. And when they get their portfolios out of whack, it creates very, very severe problems.

And I'm very concerned--my expectation is that at some point in the future, perhaps over the next year, we're going to see something happen somewhere in the economy that's going to be a huge wake-up call, something on the order of magnitude of, say, the 1987 stock market crash. I don't think the problem's going to come in the stock market area, although it may have spillover effects there.

I'm concerned primarily that you've got things like Fannie Mae and Freddie Mac with such massively large portfolios--and we've had something of a housing bubble that creates--where even the tiniest little mistake in terms of how Fannie Mae has hedged itself to protect itself against the impact of rising rates, the tiniest little mistake, as Al Hunt was talking about earlier in the bond market, you get a little interest rate, a tenth of a percent or even a hundredth of a percent off, and it can create huge problems.

And so I'm worried about the housing sector and how something might happen in that area that could have repercussions throughout the rest of the economy.

I'm concerned about the Chinese situation. They clearly are in a bubble situation. There's a lot of people predicting some kind of adjustment there in the near future. This is important for us primarily because the Chinese have been huge buyers of U.S. Treasury debt, and if for some reason they should fall off and stop buying as much of that debt as they have, you could get an adjustment in the Treasury bond market fairly quickly that could create, again, spillover problems that could go into the stock market.

So my point is I don't know when or where or how this is going to happen, but I do think that at some point there's going to be a wake-up call. And the history, I think, shows that when these things happen, the first thing that all policy makers, or at least those in Congress, latch onto is we gotta have a budget deal, we gotta do something about the deficit. It doesn't matter whether there's a connection or not. This is what they always do because it's the only thing they can do. They can't very well tell the Fed what to do, they can't very well tell the Chinese to buy more bonds, they can't do anything about inflationary expectations. There's really nothing they can do other than say let's do something about the deficit.

So I think that this is what's going to happen. So the question is what will happen when that day comes. It seems to me, regardless of the makeup of Congress, you're likely to have to see--you're going to have to have a budget deal that is large enough to get the attention of the bond markets. So how big would that have to be? I think it would have to be at least 2 percent of GDP, and I think at least 1 percent of that, half, would have to be on the revenue side. So we're looking at something like a 1 percent of GDP increase. And I pick this number, not casually, but because that was the size of the TEFRA tax bill in 1982. The largest peace-time tax increase we've ever had was about 1 percent of GDP.

So how that will be managed and how it can be done is going to be a very difficult political problem. There's not--I don't think you can do too much with smoke and mirrors. I think there's going to have to be some real tax increases. I think they're going to be primarily on the business side. But I think the president's going to resist as strenuously as possible any increase in rates.

Now, you add to that the problems that Len talked about, especially in the area of the alternative minimum tax, and it makes this whole tax situation even more up in the air because you're probably going to have to raise taxes gross by well more than 1 percent of GDP in order to have a net tax cut of 1 percent in order to take care of things like the alternative minimum tax problem and some other things.

So what I'm getting at is I think if the fiscal situation is as bad as I think it is--and I'm sure Isabel will have more to say about this--the time may be coming that we have to start seriously thinking about things like a value added tax. We're the only major country on earth left that doesn't have one. The Australians were the last before us, and the Canadians and the Japanese, as we know, in the last few years have all adopted this tax. And I think there are a lot of--I have very deep concerns about this tax, mainly because of its virtues. It can raise a lot of money at relatively small economic cost, by which I mean the dead-weight cost of the tax.

And I just--I think, mainly because of the Medicare bill and some other things, we've gotten ourselves just into a fiscal mess that is--we're just in the calm before the storm. And I don't know when the storm is going to hit, but I know it's coming. I think it's going to hit fairly soon, perhaps within the next year. And that's all the time I have.

Thank you.

[Applause.]

MS. SAWHILL: Well, I think it should be obvious to everyone that spending more on education or health care and reducing taxes has got fiscal implications, and you've already heard about some of them. I want to step back and put all of this in the context of the overall fiscal situation facing the country, following up on what Bruce just said.

We've got deficits on the order of $500 billion a year right now. And although the fiscal situation is likely to improve somewhat over the next few years as the economy recovers, the longer-term picture is particularly dismal. And if we extend the tax cuts of 2001 and 2003 rather than letting them expire, that's going to add, in conjunction with some fix to the AMT--which is, as previous people have said, absolutely essential--that's going to add about $2 trillion to the national debt and produce deficits on the order of $700 to 800 billion a year by the end of the decade. All of that is laid out in a book that Alice Rivlin and I edited and many Brookings people contributed to.

Now, both presidential candidates have promised to halve the deficit in four years, but neither has a plan for what to do after four years, when the problem gets much, much worse. It gets much worse both because of the tax cuts and because the baby boomers start to retire in 2008.

The administration's budget released earlier this year does show a halving of the deficit by 2009, but many experts believe that that projection is based on somewhat unrealistic assumptions about the costs of war, about the need to fix the AMT, and some other issues. So I think any progress we make over the next four years will be due more to the recovery of the economy and dependent upon what that recovery looks like, than to specific policy measures that deal with deficits directly.

President Bush is calling for what is essentially close to a freeze on appropriated spending, in other words, discretionary spending, outside of homeland security and defense. Senator Kerry has called for spending caps in this same area of discretionary spending, although he would allow such spending to be adjusted for inflation and would exempt education, as you heard from Tom. But Kerry has proposed major increases in spending, not just on education but also, as several panelists earlier talked about, for health care--at least $200 billion for education and something like $700 billion for health care. And my guess is that both of those price tags are on the low side.

Kerry says he'll pay for these and his other domestic initiatives by rolling back tax cuts for the wealthy, closing corporate loopholes, and trimming some other spending. Depending on your assumptions, this may or may not produce enough revenue, relative to some more realistic baseline, to do the job. But let's give the senator the benefit of the doubt here and assume that's more or less a wash. It still doesn't contribute to deficit reduction. It only keeps things from getting a lot worse.

The Bush administration doesn't look any better. They would undoubtedly spend less on education and health care in particular, but they would extend all of the tax cuts, including those affecting the wealthy. They are proposing new and very expensive tax credits to promote saving. They have a miserable record to date on curbing spending. They have turned the surpluses they inherited into huge deficits. I think that the claim that this was necessitated by war and recession can't be substantiated if we analyze what's causing the flood of red ink over the entire decade. Primarily what's going on here is tax cuts and Medicare that is projected to add over $600 billion to the deficit over this period.

On Social Security, Bush has talked about some form of privatization. And although that may have some merit for other reasons, it would cost something like a trillion dollars over the next decade because we would have to use general revenues to fill in the hole left by the diversion of payroll taxes into private accounts.

So where does this leave us? Let me make three key points. First, the key to reigning in deficits is not discretionary spending. It's come combination of tax reforms and entitlement reforms that will, in the context of those reforms, bring spending and revenues back into balance over the longer term. It should not be surprising that no one wants to talk about these in the middle of an election year, but that is what is going to be badly needed once this election is over. My guess is that eventually Democrats are going to have to compromise on entitlement spending; Republicans on taxes. In the absence of such a compromise, there could be a fiscal meltdown. To use the metaphor from an article by Sebastian Mallaby in the Washington Post this week, the alligator may look sleepy and well-fed right now, but eventually he's going to bit. This is Bruce's "wake-up call," and I share his concerns.

So we should ask which candidate working with what kind of Congress is more likely to produce such a compromise, the kind of fundamental reform I've talked about. Is it a Democratic president working with a Republican Congress, or is it a Republican president working with a Republican Congress?

My second point: Extending the 2001 and 2003 tax cuts is not a fiscally responsible thing to do, as Len has emphasized. Yet Bush has made this his top priority, and Kerry has gone along with most of this agenda, exempting only tax cuts for the wealthy. So the question here is, is either candidate likely to back away from this commitment to extending tax cuts, and if so, which one. Those of us who served in the

Clinton administration remember well the painful necessity of backing away from the middle-class tax cut that Clinton had promised during his campaign.

Third point: Congressional budget rules matter. Both candidates are in favor of capping discretionary spending and paying for new initiatives. However, Kerry--at least rhetorically--and Democrats in the Congress favor applying PAYGO rules to both spending and taxes, while most Republicans, along with the president, want to apply them only to spending. The result has been a deadlock in the current Congress, which has been unable to pass a budget resolution this year. There are four brave Republicans in the Senate who are keeping their finger in the dike right now. Without their cooperation, it will be extremely difficult to extend the tax cuts. And since the tax cuts are the most important threat to fiscal sanity at the moment, those four senators are my current heroes.

Thank you.

[Applause.]

MR. HUNT: Well, that was a sobering conclusion. I'd like everybody just to quickly address, and then we'll turn to you all, the looming crisis that both Bruce and Belle spelled out with articulation, and give a sense of what effect you think that would have on the various proposals you talked about. Would that end, for instance, Ken, any hope for the Kerry health care plans?

MR. THORPE: No, I don't think so. I think that, as you just heard, both candidates are basically extending most of the tax cuts forward. Kerry would not do it for the wealthy. But certainly, if they both scale back or Kerry scaled back what he had done on the tax side, he would still have room basically, although perhaps not as much, to spend on health care. I think, as he's always said, he is willing to look at shuffling and re-scaling some of these priorities if he runs out of money and if it gets too expensive. I think the advantage of the approach he has is that it is easy to dial up or dial down spending on his programs, since we're using existing programs and doing it by a percent-of-poverty eligibility approach. So it's a manageable way, I think, to either move forward with it or scale it back. But certainly, he could go forward with it.

MR. HUNT: And Tom, not much effect on education?

MR. LOVELESS: Well, education--the federal government still is not a major player. You know, K-12 spending, states and localities provide 93 percent of spending, federal government only 7 percent. The federal government's responsibility for funding education actually peaked the last year of the Jimmy Carter administration. It's decreased since then. So the real key to funding schools is going to be how the economy does, because that's what state and local coffers depend on.

MR. HUNT: Bruce, how many of your supply side colleagues would share your analysis that some sort of tax increase is inevitable in the next five or 10 years?

MR. BARTLETT: Privately or publicly?

[Laughter.]

MR. BARTLETT: Publicly, none. But privately, I think, on the conservative side of the political spectrum, the Medicare drug bill was a real wake-up call. I mean, Republicans, conservatives can always rationalize tax cuts. But our side isn't supposed to create new entitlement programs. And I think the idea of adding several trillion dollars to the future spending path and getting extremely little reform in return, just to buy reelection, was extremely dismaying coming on top of the budgetary profligacy we've seen out of the Congress and the White House--zero vetoes so far in this administration. So I think that they're coming to the conclusion that what I'm talking about is inevitable, but they're afraid that-- [tape change.]

MR. BARTLETT: --rather than a prediction. And so far, I'm the only one who's willing to do that.

MR. HUNT: Len, pick up on that, but also tell us what's the cost to fix the alternative minimum tax, and how soon do we have to do it?

MR. BURMAN: We actually have to do it right away. The only reason there aren't 17 million people on the AMT right now is because there was a temporary increase in the threshold at which you're subject to the tax. The AMT is not indexed for inflation, and your children are considered tax shelters for purposes of the AT. So if you have lots of kids, you live in a high-tax state, you're on the AMT. I have four kids; this is very personal for me. I've been on the AMT for the last three years.

You know, one thing I was thinking about when Bruce was talking was that--thinking about the comparison between this administration and actually the whole campaign, and Ronald Reagan, who passed this huge tax cut in 1981. In 1982, he gave a speech in which he said that basically, if we don't cut back on our tax cuts, we're threatening our economic prosperity and only--and this is what he said--only stubbornness, partisanship, or selfishness would keep us from doing that. Well, after the 2001 tax cuts, and things looked just as bad--actually worse in a lot of ways, over the long run, than they did in 1981, we passed big tax cuts in 2002 and 2003. And somehow, the political environment is such that both candidates feel like they've got to propose another trillion dollars-plus in deficit spending, compared with the current-law baseline.

MR. HUNT: Jack, do you see any prospective entitlement reform, the other leg that Belle talked about as necessary to address the fiscal situation?

MR. MEYER: Oh, absolutely. I mean, the only way you're going to address the fiscal situation is totally overhauling and making major reforms in Social Security and Medicare, and Medicaid. We've ducked this so far, politicians in both parties. That can be done responsibly. Just to take one example in Medicare, one of the shames about the Medicare drug bill is that it was put in without major reforms in the Medicare system. The age of 65 we got from Bismarck. And that won't work for Medicare 10, 20, 30 years out. But you don't tell people today. We're going to have to say, you know, to 30-year-olds and 40-year-olds it might be 67 or 68--like we did in Social Security.

You're going to need the equivalent of the Greenspan Commission in '83, that saved Medicare. It can be done responsibly. There may be some tax adjustments, there may be some income-relating of the premiums--that was started in the Medicare bill. It can be done responsibly. When a proposal is put forth, you can't shoot it down. I think the problem we have is--I see this in health care, when somebody comes up with some Medicaid expansion, Oh, government is evil. When somebody comes up with a tax credit, Oh, tax credits are terrible. We're going to need to cobble together, just as Moynihan and Greenspan and Chafee and others did in the early '80s, some bipartisan consensus about the entitlement, whether it's Medicaid or Medicare or Social Security.

Because with the demographics the way they are, and the explosion in health care costs, it'll just blow up the budget.

MR. HUNT: I would certainly agree that 65 is looking younger and younger every year.

[Laughter.]

MR. HUNT: Belle, that Greenspan Commission, which really--you know, it was done after the '82 election, it was done outside the normal political process. Pat Moynihan, Lane Kirkland, others were on it. Is that what we need this time, to do some kind of independent commission? Can the White House and Congress address this in the normal political processes, or not?

MS. SAWHILL: I think we might need something like that. I don't know if it would work again. But I note that the Kerry campaign was talking about some kind of a commission to take on the corporate loophole issue, corporate welfare issue. And I think we probably need something, some kind of a summit, if not a commission, and definitely a bipartisan effort, as Jack has stressed, to get to where we need to be. And it's going to be extremely difficult, coming off of this election.

I think that I would invite Tom Mann or someone else who knows more about the politics of this than I do to address the question of whether, with divided government, you are more or less likely to get there. I mean, I don't think anybody thinks that Congress is going to be anything other than Republican.

MR. : The Senate's up in the air.

MS. SAWHILL: What?

MR. HUNT: The Senate's up for grabs.

MS. SAWHILL: The Senate--all right, all right. It certainly isn't going to be entirely Democrat. So the question is whether we're going to have unified government or divided government again, and what difference that will make for this effort, in my view.

MR. HUNT: You know, we started off by saying that ideas matter and the dialogue and debate in the campaign matters, and I guess it's a bit depressing to think that some of the really fundamental issues you're talking about here are not going to be joined at all this year, that instead of the normal political process, we're going to have to turn to some great gurus again to solve the problem.

But anyway, who has questions out there? We have about 15 minutes. So please, if you would just raise your hand. We have microphones.

I can't believe there's a Brookings crowd here and nobody's asking a question.

QUESTION: Hi, it's Julie Kosterlitz with National Journal. Just a question, I guess for Bruce and anybody else that wants to talk about it, about the politics of a value added tax in the supply side crowd and elsewhere, and whether supply-siders would favor that more than other approaches, or how you see that obstacle being surmounted by those who really would not like to see a tax increase of any kind.

MR. BARTLETT: Well, I'll give the same answer Larry Summers did some years ago. He said the reason we don't have a value added tax is because liberals view it as regressive and conservatives view it as a money machine. And he said we will have a value added tax when conservatives figure out that it's regressive and liberals figure out that it's a money machine.

[Laughter.]

MR. BARTLETT: One of the things that I've been thinking about in terms of a VAT--that maybe it's a primary virtue, at least for me--is just the difficulty and perhaps impossibility of cutting benefits for the elderly. And Larry Kotlikoff, among others, is the one who convinced me that if you can't cut benefits for the elderly, the only thing you can do is tax them. So a trick is how to do it in a way that, you know, you can get through. And one way, maybe the only way, is to tax their consumption.

Now, that's probably never going to be made explicit as the issue when the time comes. I think from the supply-side point of view, the VAT has a lot to recommend it because it's not a tax on capital. The problem is, as I've said, it's a money machine, and if it's an add-on tax to the existing tax system, you could have some problems there. But if it were put in in such a way as it was, say, a replacement for the corporate income tax, then, you know, I think it could be made palatable in that sort of way. And I think you'll get surprising support from the business community, because one of its virtues is its refundability at the border. And as we've been seeing in Congress in recent weeks, the whole international tax system is just hopeless screwed up. And it's going to get a lot worse when this legislation passes.

So I think there's a lot to recommend it. The problem is, I think, the main conservative concern is the money-machine argument. It has led to a big increase in the tax share of GDP in every country that's adopted it. And if somebody can figure out a way to cap the rate, maybe--but I don't know how you do that even in a constitutional way. That's the real sticking point.

MR. HUNT: The other problem, of course, was a man named Al Ullman, who was the chairman of the Committee on Ways and Means, embraced a value added tax, and then proceeded to lose not only the chairmanship, but his congressional seat. Now, maybe after 25 years, that no longer is [inaudible] those politicians.

Len, can you sign on to some kind of a value added tax?

MR. BURMAN: I basically would agree with what Bruce said. It probably doesn't make sense to have a value added tax with a rate that's too low, because you're setting up a whole new tax apparatus. There are some issues with eliminating the corporate income tax. You'd have to have some way to keep corporations from becoming this great tax shelter. But my view is that the longer we put off dealing with these problems we're creating with these entitlements and the aging of the baby boom, the more we're going to deserve to get socked with new taxes when we get old.

QUESTION: Are there any issues or proposals of significance regarding post-secondary education or funding for research to universities or otherwise? I know you discussed the K-12 portion, which is not a big federal issue. But on post-secondary education, is there anything coming from the candidates?

MR. LOVELESS: I have to tell you, you're asking the wrong person. I only study K-12. But there are some fairly modest proposals from the Kerry campaign dealing with post-secondary.

MS. SAWHILL: I would add that they're a little bit more than modest. I mean, there is a college opportunity tax credit that the campaign is talking about that would increase the amount of student aid available through tax credits very, very substantially and make those credits refundable so that they would reach people who don't have enough income tax liability to benefit from the existing HOPE tax credit. And would extend the eligibility for that from two years to four years.

MR. : It's about $50 billion every 10 years, according to our estimates.

MS. SAWHILL: Yeah, at least.

QUESTION: Bob Samuelson, Newsweek. This is for Ken Thorpe and Jack Meyer.

The proposals for health care are basically an attempt to extend health insurance coverage to a greater part of the population. What does the research show on the effects on health outcomes of doing that? In other words, what's the difference between people who are covered and not covered, first in utilization, but more importantly in actually how healthy they are?

MR. THORPE: That's an excellent question, because ultimately that's really the bottom line of what we're trying to do with this. -- utilization, we know that the uninsured use about 60 percent of the services that people with insurance use. And this is not just even on average; it's for people that have very, you know, complicated conditions, like cancer. We've done work looking at cancer patients. Uninsured cancer patients use about 55 percent of the services that people with insurance use. They're diagnosed later, they get less chemotherapy, they get fewer drugs, they are hospitalized less often, and they die earlier.

On the health status piece of it, it does make a substantial difference in terms of outcomes, in part for the reason that I talked about. We know getting people into the system earlier makes a difference, particularly if you have a dread disease. If you can start treatments earlier, that makes the difference. The uninsured tend to show up when they're sick, when they're feeling--you know, when their symptoms are such that they can't just continue to go on anymore. Unfortunately, at that point in time, it's oftentimes too late to really have any substantial interventions.

So bottom line is that there's about a 40 percent increase in utilization once you provide people with insurance, and it is concentrated in people who generally have existing chronic conditions. And in terms of the research on health outcomes, there's a lot of good work that the Kaiser Family Foundation and others have done to pull together this literature that shows pretty clearly that having health insurance makes a big difference in terms of ultimate health status and outcomes.

MR. MEYER: Well, I agree with that, and I think also Jack Hadley's work shows a 10 to 15 percent lower mortality rate among people that are insured. But I think the problem is--Ken is absolutely right, everything he said--the problem is we haven't made the sell, Bob. I mean, I don't think we've convinced people that the uninsured matter. There's a lot of mythology--well, they can go down to the hospital and get their care, what's all the fuss, the system's there for them. Well, it is if they fall down in the street. Emergency care is there. But I think the problem is that all the experts and the wonks have spent too much time talking to each other and not educating the public about the cost of uninsurance. The Robert Wood Johnson Foundation has tried to work on this through its Covering The Uninsured Week, and others as well.

We also haven't convinced people that these are working people like you and me. A lot of people think they're slackers, that they're welfare people. Most people on public assistance, hard as that may be, have Medicaid. So we haven't understood that it's a diverse population. The needs of young adults who fall off their parents' policy--they're basically healthy; their health wouldn't change too much--are very different than older workers or immigrants. And we need policy tools geared to those different groups.

So I think the problem with the uninsured is not that the experts haven't convinced each other. It's that they haven't made the sell to the American people that we need to spend money on this and that we can do this, we can help you without taking my coverage away. We've allowed them to be frightened into thinking that helping Ken hurts me, helping me hurts Ken. And that's why I emphasized in my remarks that we need a bipartisan solution to this that builds on the system and convinces people that we can help the elderly with their drugs, or this group, in a way that isn't going to throw the system overboard or get into everybody's medicine cabinet.

QUESTION: I'm Larry Seidman [ph] at the University of Delaware. I think that it would clarify things a lot if we talked in terms of percentages of GDP instead of billion-dollar numbers. It's very hard to follow billion-dollar numbers. In 2000, the federal government spent 19 percent and took in 20 in taxes of GDP. That's a surplus of 1 percent. Now taxes have been cut to 16 percent of GDP. It hasn't been that way for nearly half a century, that low. From 20 percent of GDP, we've cut it down to 16 percent of GDP. Spending has crept up 1 point, from 19 percent to 20 percent.

The Republicans have controlled the White House and Congress for those four years. Listening to Bruce Bartlett, you would think it's a natural disaster that somehow produced this fiscal crisis that we're in. It's not a natural disaster. There's somebody responsible for it. And unless we look at those percentages, concentrate on them, and then see we've got to remedy those percentages, we're not going to get anywhere.

So I think a key issue for the election is talk in terms of percentages of GDP and see what has really changed over these last four years.

MR. HUNT: Well, Belle, the study that you and Ron Haskins and others put together six months ago pointed out that 10 years out, that both if you're a liberal, it's going to require humongous tax increases to bring a budget in balance, and if you're a conservative, it's going to require tremendous elimination of [inaudible] programs.

MS. SAWHILL: That's exactly right. And your numbers are correct, and I'm glad you pointed them out. Historically, revenues as a proportion of GDP going back to about 1960--Len can check me on this--have been about 18, 18.5 percent. So we are definitely below the historical average, if you want to use that as some kind of a benchmark. And I think that, you know, the usual argument about all of this is that tax cuts have been used by Bruce's supply-side friends as a way to starve the beast. And what's been interesting about this period is that that theory doesn't seem to be working very well. You know, this is an era in which we have done both tax cuts and spending increases. It isn't working.

MR. HUNT: Time for one more question before we go to our second panel. Does anybody have a final question for this distinguished group?

Okay, I want to thank everybody. This has really been fascinating for me.

[Applause.]

[Recess.]