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DOMESTIC POLICY IN PRESIDENT BUSH'S SECOND TERM

PANEL THREE: FISCAL OUTLOOK

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PANEL THREE: FISCAL OUTLOOK

MS. MACGUINEAS: We just covered Social Security reform and tax reform. And those may have been the two easy topics on our overall panel today. We are now moving into the fiscal outlook, where we will first hear from Alice Rivlin, who is a Senior Fellow here at the Brookings Institution and well known for her many accomplishments in the field of the budget. And then we'll hear from Bill Niskanen who is the Chairman of the Cato Institute. So, thank you very much, and, Alice?

MS. RIVLIN: Thank you, Maya. Well, despite that rather discouraging introduction, I'm going to be optimistic, optimistic about the return in this second Bush term to fiscal responsibility, or as we like to call it here at Brookings fiscal sanity.

I think it's possible that in this term we will see a bipartisan budget deal that will involve both a tax increase, well disguised, and spending reduction. Now, why in the world am I that optimistic? Nothing has happened to make the budget deficit outlook better. It's about where it was a year ago. We have a current--we're running a current deficit of something more than $400 billion a year. And although both candidates said in the recent campaign, you remember the campaign, that they were going to cut the budget deficit in half in four years, neither, including the winner had, in my opinion, a credible plan to do that, which was why they didn't talk about it very much. If you look at the most recent Congressional Budget Office numbers, and you make the assumption that the President gets his extension of the tax cuts and that something is done to fix the Alternative Minimum Tax and the War in Iraq winds down but not all that quickly, you can easily see that cutting the deficit in half in four years is a very unlikely proposition. And it was the wrong promise anyway, because when the candidates, and they both did this, said that they would cut the budget deficit in half in four years, it kind of sounded like that was a down payment on getting it to balance in eight years or something like that; that it was on a glide path down. But what everyone in this audience knows is that that's not so, because even if you could cut it in half by 2008, after that, it gets rapidly worse because of the demographics and for all the reasons we have been talking about.

So, why be optimistic. The President ran on his record, and he won. And the House is more--and the Senate--are more Republican than they were before. And the record of this Administration is tax cuts and virtually no restraint on spending. A record of not having vetoed a single spending bill, and great commitments to the war in the Middle East and to homeland security, but also to domestic programs. There was the expensive farm bill, and there was the very expensive addition to Medicare.

So, one might say this is likely to go on for the next four years in which case the budget deficit would be unlikely to go down much, if at all.

But I think there are two factors that may change this whole picture, and maybe, as Bruce Bartlett suggested, quite dramatically. First, there is the market recognition that we are dependent on the kindness of strangers, especially Asian central banks, and that they may not go on buying our securities to finance our profligacy forever.

Second, there is the realization on the part of Republicans, especially in the Congress, that they don't want this to be the last Republican Administration in a generation, and if they want to win in 2008, continuing the record of the first term is not a viable strategy. Even if they had a plan to fix Social Security and Medicare, those plans are very slow to affect the budget deficit because of the bipartisan agreement, which I think nobody wants to break, that we're not going to hit current retirees and people about to retire. So, any reduction in benefits has a long-term effect.

So, there's the market effect, and the political effect. And I would agree with Bruce Bartlett that we are likely to see the market effect in the currency markets first. In fact, we already are seeing it. And if we were to see a rout in the currency markets, a rapid plummeting in the dollar, then all bets are off. We could have a bond market crunch, a stock market crash, or even if such cataclysm doesn't ensue, we will have a great many Wall Street and business leaders who have been very nervous about the fiscal stance of this Administration suddenly putting pressure on the Administration to move to a fiscally responsible, or as I like to say, more sane stance.

What does that mean? Well, on the--I think it must mean both a tax reduction from our tax increase from the point of view of if your baseline has the tax extensions in it, and it's hard if you've taken the cut tax pledge, as Bill Gale said, to do that on the income tax side. So, I think it very much strengthens the case for moving quickly to consider other alternatives--a new revenue source, perhaps a VAT. You have to do it very fast because tax reform is complicated and even setting up a structure like a value added tax would not give you revenues for several years, so you'd have to move very quickly.

And what does it mean on the spending side? Well, nothing good for any of the spending programs that most people like. It would mean very stringent caps on discretionary spending and cuts in other forms of mandatory spending as well.

I think from the point of view of budget process, it has to mean restoring something like the old rules of pay as you go for tax cuts and entitlement changes, which, after all, is only budget neutral--it doesn't help. It just keeps things from getting worse--and caps on discretionary spending, perhaps caps on all spending, under which you can then fight out the priorities which surely differ across the political spectrum. That situation worked well in the Clinton Administration, when we were committed to deficit reduction in a bipartisan sense, but Republicans and Democrats had very different ideas about what spending you cut. And the only way to handle it was to impose a cap, and fight it out under the cap, and very skillful use of the veto on the part of the President to tip things more in his direction, although he was dealing, of course, with an opposition candidate--Congress.

So, that's my optimism for today. I think we may get more focus almost immediately on the budget deficit, and a return to more responsible budget rules.

MS. MACGUINEAS: Thank you, Alice. And I'm trying to tell from the audience's face whether we are feeling more optimistic, and I think you have done it. I think everyone looks like that's great. We're on our way to fiscal responsibility. Bill, I turn it over to you.

MR. NISKANEN: Every crisis should be regarded as an opportunity for hard choices, to make hard choices.

The current federal budget deficit contributes to our unsustainable current account deficit, and the prospect for a continued decline in the foreign exchange value of the dollar. And there should be no doubt that we face a long-term fiscal crisis due to the demographic change.

But there's little evidence of, today, that a political consensus to make the necessary hard choices. During the recent campaign, President Bush made a commitment to reduce the deficit by half by fiscal year 2009, but without a clue about how to do that.

And the fiscal record of his first term is not encouraging. Bush had proposed and won the approval of most congressional Republicans for large increases in federal spending for agriculture, defense, education, energy, homeland security, Medicare, and transportation, and he did not veto a single spending bill.

As a consequence, real per capita spending during the Bush first term increased at the highest rate since that of the Johnson Administration. Recent congressional approval of the omnibus appropriation bill for discretionary domestic programs, with only a one percent increase, is somewhat encouraging, but spending for these programs is only 16 percent of total federal spending, and the bill still includes a substantial increase for the manned space program and $16 billion of earmarked spending, in other words, pork.

Let me suggest that we set a more demanding goal: to balance the cash flow budget without a tax increase by the year 2009, about the time the baby boomers begin to retire. The necessary political discipline to control federal spending must involve a sustained commitment to principle, however unrealistic that seems to be the case. Members of the Administration and Congress must increasingly ask why, why federal taxpayers should finance some program rather than only how or how much. The necessary discipline requires that members of Congress address the following questions in both the authorizing and the appropriations process: does the Constitution include explicit authority for the program or the activity? Is there any reason the Federal Government is better qualified to perform the activity than state and local governments or the private sector? And is the marginal benefit of the federal activity higher than the marginal costs to the economy of the necessary taxes to finance the activity?

My own estimate is that the marginal reduction of after tax income is now about $2.75 per additional dollar of tax revenue. So, this is a very demanding test.

A negative answer to any of these questions should be sufficient to reduce or to eliminate the activity, whether among those already approved or those proposed. Towards this goal, my Cato colleagues have proposed spending reductions of about $300 billion for domestic programs that do not meet one or more of these criteria. But I would broaden the base for potential spending reductions to include defense and the manned space program. There is a continued broad support to complete the U.S. military mission in Iraq, and for an effective defense against terrorism. The public, however, may not recognize that there is at least a hundred billion dollars in the defense budget that does not contribute to either goal. Such programs as the ballistic missile defense system that has not yet been tested, new nuclear submarines that cost more than $2 billion each, new fighter bombers that cost more than $250 million each, a new class of naval surface vessels and so forth.

These weapons systems might make sense if the U.S. faced a major potential adversary, but fortunately there is--that is not now the case or a near-term prospect.

U.S. defense spending is now about equal to the total by all other governments in the world with little obvious marginal benefit. Instead of making a down payment on the Bush proposal for a moon base and manned visit to Mars, Congress should also consider eliminating, eliminating the manned space program. The most important lessons that we have learned from this program to date are the difficulty of putting men or women in space, and how little they accomplish that is not better performed by satellites or robots.

Congress would be understandably reluctant to make domestic spending reductions of as much as $300 billion. For that reason, I suggest President Bush should propose a total of $400 billion of domestic, defense, and space program reductions, and challenge Congress to approve at least $300 billion in spending reductions to balance the budget without a tax increase by fiscal year 2009. Compared to the necessary political decisions to avoid the later fiscal explosion of expenditures with Social Security, Medicare, and Medicaid, the near-term reductions of defense and domestic discretionary programs to balance the budget by the year 2009 would be a piece of cake.

MS. MACGUINEAS: Thank you very much, Bill. A piece of cake.

[Laughter.]

I must say one of the things I'm always impressed about with Cato which specifies--that says we want to do a lot of this on the spending side, is that they specify the programs they're talking about reducing. We hear a lot about cutting spending, and people just kind of have a magic asterisk of what they would cut. And Cato comes up with a very useful list and identifies where the cuts should be.

Okay. I'm going to open it up to the audience, but the first thing I wanted to do is ask both Alice and Bill whether they wanted to ask each other a question, and then I was going to go ahead and ask the first question, take the moderator's prerogative, and then invite all of you.

Alice, do you have a question after thinking about more on the spending side?

MS. RIVLIN: No. Why don't we go ahead, and we'll come back to--

MS. MACGUINEAS: Okay. One of the issues--I'm going to generalize a little bit here, but I'm just going to suggest that a lot times Democrats are more likely to do most of this on the increasing taxes side. Republicans, libertarians are more likely to do it on the reducing spending side. And it seems to me like there's a real grand bargain here, and a short and a long term, because we face very different problems in the next 10 years and over the long term. And in the short term, over the 10 years, government taxes are far below where they have been historically. But in the long term, spending is on a trajectory to be far higher than it has been in the--historically as entitlements grow and push the budget numbers up.

Is there some kind of a trade that we could see about if we were to rely on increasing revenues more in the short term, but reducing spending in the long term, does that have some political viability or is that harder than other options?

MS. RIVLIN: I think that could be part of a deal. I would think of the grand bargain as accepting many of the spending cuts that Bill is for. I'm particularly enthusiastic about getting rid of the manned space program. I think we can learn much more about the universe much cheaper from unmanned vehicles than we can protect, even though we haven't done it very well, the lives of astronauts, which is extremely expensive. And I also agree about many of the weapon systems, especially missile defense and the Navy that Bill would cut, and also many of the things on his colleagues' lists that are corporate welfare and other kinds of unnecessary spending. But I think the grand bargain has to recognize that A, not all of those things will happen, and B, it would--that many of the things that Bill I think would like to cut I believe are positive--have positive effects on economic growth and wellbeing, especially of low-income people. And to put that all together, I think we need a tax increase, a shift to consumer taxation, and that we could design a value added tax as was suggested in the earlier session that co-opted the states and simplified taxation quite a lot, even have a value added tax collected by the federal government centrally and shared with the states.

MS. MACGUINEAS: So, Bill, same question to you, but putting that in the political reality. Is there some kind of a grand bargain as I talked about or a different kind of one that you see that might work?

MR. NISKANEN: My judgment is not to make a judgment about what is politically realistic, but to expand the range of things that are considered politically possible or potential, or politically preferable.

I doubt very much whether there are very many federal programs in any activity in which the marginal value is worth $2.75 per the last dollar spending. I think the whole of the Federal Government should be reduced in almost every dimension, and my case is to make the case for that outcome rather than make a judgment about where it ought to be done by taxes or by spending.

MS. MACGUINEAS: Okay. Thank you. I'd like to open it up to the audience for questions.

MR. NISKANEN: Maya, may I make one other point? There are a number of important potential Bush initiatives that we have not addressed, and will not address in this meeting. He will propose a major liability--a major reform of tort liability. The problem of that is that he has not quite figured out what that should constitute at the moment. He will also propose a major reform of immigration laws. The problem with that is that that's an issue that splits both parties, and given the new Hastert rule may never go anywhere. He also has four critical appointments to make in the next few years. The new Chairman of the Federal Reserve Board and probably three members of the Supreme Court. And those appointments can do more than almost anything else that he does in affecting the domestic program in a second term.

MS. MACGUINEAS: Well, I have no doubt that there will be questions, because there are many questions on the topic of the fiscal outlook. I will ask another one while you think of what questions you might want to hear.

We've talked a lot about the possibility of a financial market meltdown or something that pushes our hands rather than sort of policy makers taking the initiative to get out in front of these issues, and I think that obviously is the less desirable of the choices, but becoming more likely. I wonder if you could explain a little bit about what that might actually look like. What could happen to financial markets? Either one of you?

MR. NISKANEN: Well, I'm concerned about a current account crisis. If the Chinese or the Japanese or anybody else abroad decides they don't want as many dollar assets in their portfolio, we could have a significant further reduction in the foreign exchange value of the dollar. That's very likely to increase interest rates in the United States, and that might trigger an end to what seems like a housing bubble, at least on the east and the west coasts. So, we face a prospect of a tiered set of financial crises that might be provoked by official agencies, like the Central Bank of China or the Central Bank of Japan. And that is a special problem that we're going to have basically a new economic team in place within the next few months or a year, and it's very difficult for a new economic team to have good judgment about matters like this within days or months after taking office.

MS. RIVLIN: I would agree with most of that. We used to think that the crisis would come in the bond markets first, at least some people did. And a frequent question to people like me who were predicting large future budget deficits if something weren't done was well, why doesn't the bond market think that. They aren't reacting. But

I think now--I don't know the answer to that--maybe they're just shortsighted--but what is happening likely now is a reaction in the currency markets to this very large current account deficit, and it overlaps the budget, because what these central banks are buying is Treasury securities. That's how we're financing the budget deficit as well as the current account deficit. And I don't know that it matters very much what triggers a currency crisis. If people get the idea that the dollar is going down and going down fast, then anybody with any sense is going to bail out of dollar securities. And that isn't just foreigners. That's Americans as well. The--if you're sitting on a large pile of money right here, many of the financiers are moving gradually and quietly into euros or a yen or something else. They'll just move a lot faster.

MS. MACGUINEAS: Yes.

MR. ANTOS: Joe Antos, AEI. Bill Niskanen mentioned a number of important positions that could be filled in the next term that could have a huge impact on our fiscal situation. You didn't mention Alan Greenspan. And since we're talking about the dollar, the potential dollar meltdown, and I certainly get the sense that most of the people who've spoken today feel that it's right around the corner. What do you think Alan Greenspan is likely to do in the short term, and what can the Federal Reserve do over the long term, since this would be a problem that would not be resolved in a year or two?

MS. RIVLIN: Well, the obvious thing to do is raise interest rates. They're already doing that. They have signaled that they're going to do it gradually, but a crisis would certainly provoke a more rapid upward move. And that's about all they can do. There is no enthusiasm at the Federal Reserve so far as I know for trying to manipulate currency markets directly. It's I think viewed as a lost cause.

MR. NISKANEN: I think it's a mistake for monetary policy to respond to the change of any specific price, including exchange rates or whatever, or oil prices. I think that the monetary policy should be directed to trying to maintain a steady path of growth of nominal domestic demand, and if we have a big oil price increase or an exchange problem, I think that the Fed, by and large, should ignore that.

Now, that will be hard to do, because the Wall Street Journal, among other institutes, has been saying that the primary responsibility of the Fed is to maintain the exchange rate, which I think is a very bad mistake.

MS. RIVLIN: The Fed has never said that.

MR. NISKANEN: Pardon?

MS. RIVLIN: The Fed has never said that.

MR. NISKANEN: Yeah. No. No. No. That's right.

MS. MACGUINEAS: Belle?

MS. SAWHILL: I wonder if it isn't possible that the finance ministers from various countries would get together to, if there was a meltdown, and try to prevent the worst aspects of it. I'm thinking about the Plaza Accord back in 1985, when they did something like that under the leadership of the U.S. Treasury if I remember correctly. And, Bill, you may remember more about that than I do. I'd be interested in any comments either you or Alice might have about the possibility of that occurring. I think that could prevent this sort of crisis scenario we've heard about so much this morning, but I think it also could prevent the solutions that we're also looking for to be triggered by that kind of crisis.

MR. NISKANEN: Well, remember that the Plaza Accord and the Louvre Agreement was to get the dollar down. The dollar has appreciated about 70 percent from

1981 to February of 1985, and Jim Baker, soon upon taking the job as the Secretary of the Treasury, wanted to get the support of other countries to get the dollar down. Now, the problem is to keep the dollar from collapsing. It's a very different problem. And I think that what we would be asking of foreign governments is to--if we did that would be to ask them to continue to buy U.S. securities, and I think that's a much harder case to make.

MS. MACGUINEAS: In the back of the room?

MR. AARON: I wanted to ask about another possible source of financial crisis. Rather than looking at foreign central bankers, one might look at domestic U.S. asset holders. A tiny shift in their propensity to hold foreign denominated securities relative to dollar denominated securities could create pressure that might make it quite impossible for any entity to intervene. I wonder whether you're at all concerned about possible shifts in U.S. investor preferences, precipitating the very events that you've been discussing?

MS. RIVLIN: I am, and I thought I alluded to that, but clearly once the dollar is headed down, the continuation of the fall is clear, it will accelerate what I think is already happening, the movement of U.S. funds into foreign assets.

MS. MACGUINEAS: There's another question that's back of the room.

MR. SCIAMANNA: John Sciamanna with the Child Welfare League. You've all kind of touched on this, but what happens if we have another recession in the next four years. I mean, there's--it would seem there would be a lot of pressure on Congress to both increase spending and maybe cut taxes. So, what happens to the deficit, and are we facing a kind of a situation we had in the '80s and the '70s with both inflation, high unemployment?

MR. NISKANEN: I'm sorry. I didn't hear the question.

MS. RIVLIN: Well, I did. What--I think. What happens if we have a recession in the next several years? Haven't we given away the policy tools essentially? And I think that's right. An additional tax cut, as we had in 2001, to counteract a new recession would be much harder to argue for, because of the long-run consequences. One of the reasons that the Federal Reserve I think would like to get itself back into more neutral interest rate territory is simply that; that if their interest rate is as low as it's been recently, then they have no maneuver room if things go south. So, they'd like gradually to move back into an interest rate range, where, if they had to, they could lower as well as raise.

MS. MACGUINEAS: Yes.

MR. MITCHELL: Garry Mitchell from the Mitchell Report. Maya, I want to ask a question that arguably is beyond the scope of this particular panel or maybe even the morning. I want to do it anyway, which is that when we, since we're here to talk about domestic policy from this Administration, if we were talking about foreign policy, one of the questions that comes up consistently is who is really driving foreign policy in the Bush Administration? What is that policy based on? I want to ask it about domestic policy? Where's the center of gravity on domestic policy in the Bush Administration? Who is or who are the principal architects of domestic policy writ large?

Second, how would we characterize that approach to policy, and I'm not talking about the specifics of Social Security or tax reform et cetera, but a sort of a philosophical component of that.

And the third piece to which reference had been made but I'd love to have the panelists and or the people in the audience engage in some speculation. We know of at least two appointments--Treasury and Commerce that are coming up, and a couple in the wings. What's the speculation about who those appointments might be and how that relates to the first two parts of the question?

MS. MACGUINEAS: A good inside baseball question. Who would like to field that?

MS. RIVLIN: I won't bite on inside baseball, because this is a team I'm not inside. But on the first question, I think it has been hard to figure out from the outside who is driving domestic policy in the Bush Administration other than Karl Rove, and that may be why the papers are now speculating that there will be a new economic team. I would characterize the policy as speak loudly to the Republican base, with tax cuts and without rocking the boat by vetoing any spending bills that anybody was for. But I think that's not sustainable in a second term. And something--some new kind of policy has to evolve.

MS. MACGUINEAS: Bill, do you care to comment or speculate?

MR. NISKANEN: It is not clear to me that there's anybody in charge in domestic policy. I think a lot of the initiatives come from the President himself, but he's been more than a little diverted for about three years now by foreign policy.

The President, for example, has been committed to immigration reform since he was governor of Texas, and he came very close to making a deal with President Fox of Mexico the week before 9/11. So, this is something that is his own concern, and he will push it, except that both the Republicans and the Democrats are very strongly split on the matter. So, a lot of the direction of Bush domestic policy both during the first term and probably during the second will be from Bush except that he's got a lot on his plate, and it's not clear that there's anybody else who's at the tiller.

MS. MACGUINEAS: We had a question over here.

MR. WANG: Wilson Wang, Office of Senator Lieberman. Mr. Niskanen you talked about criteria for just federal spending. Does the Constitution allow for it? Can the Federal Government provide it better than local governments or the private market? And is there reasonable marginal benefit? How would this apply to health care expenditures and entitlements under Medicare and Medicaid? Would that mean single pair health system and getting rid of the inefficiencies of private insurance or would it mean getting rid of entitlements altogether?

MR. NISKANEN: The health programs have to be on the plate for potential cuts because they bulk very much larger than the sum of domestic discretionary spending. So, they have to be on the plate.

Now I think moving towards these health savings accounts is a very good positive first step, but it can't be the last step.

MS. MACGUINEAS: Is there a question back there.

MR. : It's become kind of politically correct in Washington to talk about budget process reform despite the history of recent years of Presidents and Congress routinely overriding budget process rules. Do you have any concerns, particularly Alice Rivlin, about what Rudy Penner says, which is maybe the process is not the problem but the problem is the problem; and that politicians would prefer to be distracted talking about budget process rather than doing the actual spending cuts or tax increases?

MS. RIVLIN: Well, two comments. First, I not only thoroughly agree with Rudy that the problem is the problem, not the process, but I think I said it first. We have teased each other about who said that first. But clearly, what you need is the political will and a bipartisan consensus, otherwise no process reform is going to work.

However, when we had a bipartisan consensus in the '90s on deficit reduction, and we did, not on how to do it, but we had a bipartisan consensus from 1990 through the end of the decade that we should reduce the deficit. Then the process reforms became very, very useful. And from inside the Clinton Administration I saw it every day. It wasn't that no one ever thought of Medicare prescription drugs or other entitlement increases or indeed tax cuts. Clinton, you may remember, ran on a middle-class tax cut. We couldn't afford it, and the rules said you couldn't do it unless you could pay for it. So, none of those things happened, and similarly with the discretionary caps. They did get raised a few times, but they had enormous impact on keeping down spending. And every time we wanted to increase something under the cap, we would sit there in what I called list meetings, making lists of the things that we could cut. They were dreadful meetings. Lists of the things that we could cut--shave a little here, shave a little there to try to pay for whatever it was we wanted to propose. So, the process reforms were enormously effective.

MS. MACGUINEAS: Bill, would have loved those meetings.

MS. RIVLIN: Oh. Yes. He would have had all kinds of ideas.

MR. NISKANEN: A discussion of budget process reform is the most effective soporific I can think of that you--other than what you can buy over the counter.

MS. RIVLIN: Except that it works.

MS. MACGUINEAS: I'm going to go ahead and ask a final question, which is something I've been noticing more and more in the budget discussions recently. There seems to be an agreement that we have a fiscal challenge or a fiscal problem, but I have noticed that there are different descriptions of that exact problem. And there are some who say it's deficits. Deficits matter, and we have to look at--put everything on the table to address those deficits. And then there are others who say it's spending that matters, and the problem is that we can't let spending grow too much, and that's what fiscal responsibility is. And I'm wondering in a debate that is really equally divided I think between those two camps, what the arguments are for each position and whether there's a way that we can still have the same objectives--of a shared objective to make some progress on this.

MR. NISKANEN: Well, I think Alice deserves the last word, so I'll make my own remarks. Both of these issues are important for different reasons. I think the primary problem with the deficit is that we're past--it's an involuntary, intergenerational transfer from the current generation to people who are maybe not born yet, at least future voters--from them to us--from them to us. So, I think the deficit is a fundamentally immoral fiscal act unless it provides substantial benefits to that next generation that is going to pay the bill.

I think that we have paid too much attention in the past to potential short-term economic effects of the deficit, which is very difficult to find actually. We are experiencing a short-term economic effect right now, but only I think because we've reached a near limit as to how much we can borrow abroad. But that is a rare circumstance. I think the deficit is a problem because it's an involuntary transfer from my children, my grandchildren to my generation without providing any significant benefits to them for how we spend the money.

The spending is the question of whether we have sized the government correctly in terms of what its constitutional responsibilities are. And I think not. I think that the government is hugely greater than what is consistent with the enumerated powers. Let me give you two numbers: shortly before I was born, the federal budget was 2.6 percent of GDP, most of which was for the military and the deferred costs of prior wars, like veterans benefits and interest payments. Right now, the federal budget is 20 percent of GDP, most of which is for programs and activities for which there is not an inkling of constitutional authority. Now, we've had an eight-fold increase then in the relative size of the Federal Government roughly in my lifetime without a single amendment to the Constitution that would authorize those different powers. That's where we are right now, and that makes the size of government and the composition of government an important but separable issue from the deficit issue.

MS. RIVLIN: I would agree with what Bill said about the deficit. I think there are negative economic effects if you go too far, and it certainly on balance reduces economic growth by raising interest rates, but not very much. The big problem with the deficit is that it is a taking from future generations to support our consumption, and I think, I agree with Bill, that that's immoral.

We differ on spending. I think the founding fathers were terrific guys, but they didn't foresee a lot of things that we need to spend money for. And much of what the Federal Government does, including Social Security, which keeps millions of people out of poverty, and Medicare, which pays bills of older--of seniors that didn't used to get paid. It creates a problem, but having better health care for older people is in itself a good thing. So, I would put more positive emphasis on spending, though we could get rid of a lot of things, and be willing to pay more taxes as long as we have a fairer and more efficient tax system than Bill would.

MS. MACGUINEAS: Wonderful. Well, thank you so much to our two panelists.

[Applause.]

And I'd like to invite the health care people to come up.

[Applause.]