THE BROOKINGS INSTITUTION

BURDEN OF DEBT:
A DISCUSSION WITH REPRESENTATIVE PAUL RYAN

A BUDGETING FOR NATIONAL PRIORITIES EVENT

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PARTICIPANTS:

Welcome & Introduction:

RON HASKINS, Moderator
Senior Fellow and Co-Director, Center on Children & Families
The Brookings Institution

Keynote Speaker:

THE HONORABLE PAUL RYAN (R-WI)
Ranking Member, Committee on the Budget
United States House of Representatives

Panelists:

STUART BUTLER
Vice President, Domestic & Economic Policy Studies
The Heritage Foundation

JONATHAN RAUCH
Guest Scholar, The Brookings Institution
Senior Writer and Columnist, *The National Journal*

AUSTIN SMYTHE
Staff Director to Representative Paul Ryan
United States House of Representatives

STEPHEN MOORE
Senior Economics Writer
The Wall Street Journal

DIANE LIM ROGERS
Chief Economist
The Concord Coalition

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P R O C E E D I N G S

MR. HASKINS: All right. Welcome. My name is Ron Haskins; I'm a senior fellow here at Brookings and along with Belle Sawhill I run a center here called the Center on Children and Families. And as part of the Center on Children and Families, in 2003, we started another organization called Budgeting for National Priorities. At that time, I don't think the deficit was quite as well understood or feared as it is now, and one of our goals was to do everything we could to bring attention to the deficit. We also formed something we called the Fiscal Seminar, a bipartisan group that had various distinguished budget people and people who understand politics in Washington. And we did lots of scholarly things, like write books and articles, so, you had dramatic impact, as all of you know. Sometimes when we're really feeling radical we wrote a letter to the President and told him what to do and he didn't do it, so we sent him another letter. So, very effective way to operate.

So, as you can tell, none of us vote and, therefore, we like to hang out with people who vote. Many of you may know that we previously invited House Majority Leader Steny Hoyer to come and give a talk about the deficit. And I was -- I think a lot of people were surprised by the passion that he showed toward doing something about the deficit. Although he did not necessarily have specific ideas about what to do, he indicated that they -- Democrats were open to ideas about the deficit.

So today we're sponsoring a talk by Paul Ryan, Republican Representative from Wisconsin's 1st District. He's a ranking Republican in the House Budget Committee. He's a member of President Obama's Deficit Commission. And what often gets left out is he's also a senior member of the Ways and Means Committee, and I believe that they have jurisdiction over taxes, Social Security, and part of Medicare. So between the budget and the Ways and Means Committee, it's possible that you may have some influence on what happens next year.

So, here's the most important truth about our federal government. And that is, no one denies that we're -- that we have a cancer-like deficit and that it's driving us rapidly toward a waterfall. But Congress is doing little -- many people say nothing -- about it.

So, we need at least two things to get a serious start towards solving the deficit. The first thing we need is a sense of urgency, and then we need a plan. So polls show that the sense of urgency is developing slowly -- slowly, but it is developing in the country. But Congress still has all its earmarks, we're operating without a budget, we're spending money that we're borrowing from various other wonderful countries like China, our longtime ally. But nobody is in the streets.

So our number one goal has to be to create a political situation in Congress which -- and make Congress feel compelled to remove our budget from its current status as worthy of a banana republic and gore everybody's ox in the process. Second, we need a vision. That's why Paul Ryan is here today, because he's rendered a great service to the nation by putting down a specific plan -- detailed plan with a lot of analysis behind it. It's been partially scored by the Congressional Budget Office. It's received a lot of attention -- not all of it flattering, you probably didn't notice that, but -- including from the Urban Brookings Tax Center, which has scored -- Tax Policy Center, which has scored the tax part of the plan. And the Center on Budget and Policy Priorities has also done a lot of work on the plan.

So, a number of people have tried to dismiss the plan, which is kind of curious because both Peter Orszag, the budget director, and the President of the United States have said that it was serious. So let's be serious about the plan today. Let's give Paul Ryan an opportunity to describe it before we decide what parts we like and we don't like. And, hence, he's here today to do that.

When he's through we will have a panel that I will introduce at the appropriate time to help us start this process of considering the plan in detail from as many sides as possible.

So, Congressman Ryan, thank you very much for coming. The mic is yours.

MR. RYAN: All right, thanks, Ron. I appreciate it. (Applause)

Oh, wow, okay. I was just going to say, are we going to use these little screens up here? I don't think that would be easy to do.

I'm going to give a PowerPoint presentation, if you couldn't tell already. And maybe the lights will come down here so you can see it.

Good morning and thank you for having me here. I feel like I've come a little bit out of my cocoon over at Heritage Foundation to come here to Brookings. That's the joke I always give when I come over to Brookings. I -- this is like my fourth or fifth time over here in just the last year, so I really appreciate the invitation. Ron, thanks so much, and Alice and those of you at Brookings, it's really, really a pleasure to be here.

What I want to do is walk through basically a PowerPoint which I walked my constituents through the last round of town hall meetings I did, and kind of explain where we're headed, what are our options, and what have I proposed as just my modest attempt to get this debate going, and what are the tradeoffs involved.

And so, let's think about, first, where are we now. Well, right now we're a jobless recovery. I wouldn't even necessarily call this a recovery. There's threats of double dip. We've lost 7.5 million jobs since the recession began, 2.7 million since stimulus, unemployment's at about 9.5 percent. Our deficit is $1.5 trillion. So, take a look at where our deficits are right now. I'm not necessarily saying this is the administration's fault and everybody's fault; they inherited a very difficult situation. But look at the size of the deficits we have here. They go down because of some things that happen automatically in the baseline and then they go right back up to around a trillion dollars. Problem is, when you stack up these kinds of deficits year over year over year, you really do have a huge, huge debt problem and that's before all of the entitlement explosion occurs.

And the thing that's so unique about the debt this time around is we're not owing it to ourselves. You know, my grandfather was a Navy man in World War II. He used to always tell me, you know, stories about back that time when my mother would go out and collect tires for the rubber sales and all of the things that happened. People bought war bonds and we floated debt to ourselves. That's not the case where we are right now.

Let's take a look at foreign holdings of our debt. Let's just go back to 1970. Foreign holdings of our debt were 5 percent. 1990, our debt was $2.4 trillion, foreign holdings were 19 percent. Take a look at foreign holdings right now: 47 percent of our debt is held by other countries; biggest one is China. This is not an -- I'm not trying to make a protectionist -- an isolationist statement. I'm simply trying to say that about half of your government is being cash-flowed by other countries who may not have your best interest in mind. You are doing damage to your sovereignty. You are doing damage to your ability to control your own destiny as a country, and it is an unsustainable path that we are on.

So that's where we are right now. Where are we headed? Well, we're going to have a tidal wave of debt in our path. And when I mentioned World War II, we have had large debt burdens before. We have had a history of having to borrow. But typically, we've had to borrow for certain things such as world wars. We've gone up with a big debt and then we've paid them right back off. And what happens is, the credit markets knowing that these things are temporary; give you enough breathing room to do the kind of borrowing.

So if you take a look at -- oh, this thing is -- oh, this thing is off. If you look at the little screens on the side you can take a look at where we were out -- this thing doesn't have a laser pointer. If you take a look at World War II, we went up to about 100 percent of GDP. Then we paid it down and then we went up for the Cold War. And then the peace dividend came back, we went back down a little bit.

And so we've generally had what most economists would call acceptable levels of debt. Sixty percent, you're getting into the tough area. You're not even allowed in the Maastricht Treaty. Ninety percent, if you look at the Rogoff study, you look at the Reinhart study, you're really starting to do damage to your economy at 90 percent of GDP. You're starting to slow it down, reduce jobs, reduce prosperity, and you're really putting your economy on a very, very difficult path.

Take a look at what CBO is telling us is the debt outlook in the future. I guess the reason this is difficult is because the scale is so tough. In 2081, our deficit -- our debt is going to be about 750 percent of Gross Domestic Product. These reflect the most recent CBO long-term budget outlook. This is where we are headed right now, based upon our objective fiscal authorities, if we do nothing.

This doesn't even, in my opinion, reflect the true consequences of the new health care law or other things that may or may not be occurring. This is where we're headed. It is completely unsustainable, it will crash our economy, and this is really sort of an irrefutable point.

What is driving all of this? Well, you can do a better job of stacking these charts, but it's basically entitlement spending. And when I throw entitlements, I'm talking about borrowing and the costs associated with borrowing. The interest on our debt alone in this budget window we are in goes from $200 billion to about a trillion dollars if we have low interest rates. If we have higher interest rates -- if our interest rates go back to where we were on average of the '80s, that's about 5.4 trillion more in just additional interest payments over the next 10 years.

And so, we know what's really driving this are the entitlement programs and the interest associated with the borrowing that occurs with that because of all of this debt. Now, I think CBO is most recently done some very effective analysis. The CMS actuary has done so as well, which is, it's a combination. The biggest driver of this thing -- of aging in America, of demographics, of boomers going to retire, of going from approximately 50 million retirees to approximately 80 million retirees. It's also a function of health care costs. One doesn't overwhelm the other; they're pretty much even if you take a look at the most recent analysis from CBO and others. The point I'm simply trying to make is we know why this debt is going up. We see this coming. And the question is, are we going to do something about it or not?

I remember October 2008 like it was yesterday, being -- serving in Congress and having the credit markets just crash, having the credit spreads seize up when Lehman Brothers went down and we "broke the buck." We had the Treasury Secretary and the Federal Reserve Chairman rush up to the Hill in a panic. And that was a financial crisis that kind of snuck up on us and caught us off guard, and that was a very ugly episode. And we had to cobble together quick response legislation, TARP, and do some other things since then. And it really took what was then a fledgling economy and turned it into a very difficult -- the deepest recession we've had in a couple of generations.

Well, that one got us by surprise. This one is the most predictable economic crisis you could have actually every charted. And this will make that kind of a crisis pale in comparison. And so, when you take a look at what is required to actually fix this problem, I ask the Congressional Budget Office, well, why don't we -- what if we just raise taxes? What if we just, you know, go through the income tax system and try to tax our way out of these fiscal problems to pay for this kind of a debt we're going to have, to pay for the explosion in entitlement obligations that are occurring?

Well, here are two things and I'll just read them off to you. The current low rate, the 10 percent bracket, by the time my 3 kids are my age -- I'm 40 years old and my children are 5, 7, and 8 years old -- by the time they're my age the lowest rate goes to 19 percent. The middle income tax rate for middle-income taxpayers goes to 47 percent; and the top rate, which is the one that most of the small businesses pay, goes to 66 percent. That's in the middle part of the century. By the end of the century the middle -- the lowest rate goes to 25 percent, the middle income tax rate goes to 66 percent, and the top rate goes to 88 percent.

Now, of course, you can't have a flourishing, growing, prosperous economy with tax rates like that. The point I'm simply trying to make with this is you really can't tax your way out of this problem. It is not possible, it is unsustainable, it will crash the economy, and it just doesn't add up at the end of the day in the first place. This is obviously a static analysis; it doesn't incorporate the fact that you would crash the economy well before that.

So the question is how does all of this end if we don't do something about it? Well, we have a good cautionary tale in front of us: Europe and Greece. Now, what I would argue is that this is the result of government spending that has hit Europe with a debt crisis. In particular, it was basically discovered that the Greeks were sort of cooking the books, disguising their numbers, and when it was truly revealed as to the depth of their debt problems, that's where this thing started really hitting. Then, we realized the other pigs -- Portugal, Italy, Greece, Spain -- had their own problems. They were massaging their numbers as well, and we went into a debt crisis.

The best column or description I saw was Robert Samuelson who basically said, "The Greek tragedy was the death spiral of the welfare state." And so where we are now is a situation where overseas they have to impose these deep, painful austerity plans: cutting benefits for existing recipients of their entitlements, cutting benefits for existing retirees and imposing economically painful, job-destroying tax increases on their economy at this time. That's because they waited until the end to fix their problem.

So, could that happen here in the United States? Well, this is the most recent study by the International Monetary Fund, and they do an apples-to-apples comparison by looking at gross debt. That's what the Reinhart and Rogoff study does as well. And the question is could America go down the path of the pigs, of Europe?

Well, take a look at where our debt is right here. Right now, our debt -- our gross debt -- is about 89 percent of our economy. We are actually higher than a few of these other countries. If you take a look at Spain, we're higher. If you take a look at Ireland, we're higher. If you take a look at Portugal, we're higher. And in five years, under the CBO long-term projection, we're going to be right up there with Greece and Italy.

And so it is folly to assume that this cannot happen to America. We have other privileges such as the world's reserve currency. We have other advantages, such as the deep resiliency of our economy. But we should not lull ourselves into a sense of complacency that this is not the fate that awaits us if we don't get our hand around this problem.

So, how do you avoid this fate? What do we do about it? And this is what I was talking about. And I really believe we are at sort of the proverbial fork in the road. And the question is not how things are going to change -- things are going to change. The question is do we do it with an eye toward prosperity? Or do we allow the political impasse to occur, to continue, and do we end up kicking the can down the road, which clearly results in austerity?

And so the choice before America right now is really a prosperity plan or an austerity plan. And so what do I mean when I say that? That's why I put out this roadmap for America's future.

Now, the roadmap for America's future was my attempt to basically do a couple of things. Number one, it became clear to me that we were just going to be continuing to hit each other as two political parties where if you step out with anything different, anything bold, anything remotely considered politically risky, the other party will shoot you in the next election and you'll lose, and nobody will follow and we come to an impasse. And that has been where our politics have been for a long time. So, I wanted to put a plan out there not necessarily to say that I've got it all figured out and I have all of these answers, I wanted to put a plan out there saying, here's how I would do it. Please come up with yours so we can get this debate going, so we can have more people coming up with their plans, so we can get down to the business of debating how best to fix this problem.

Unfortunately, you know, when I jumped in the pool and encouraged other people to jump in the pool, we haven't had many other folks swimming around. And that's from both sides of the aisle, I would say. So here is what this plan does.

In the macro sense, measuring against the CBO alternative scenario, which is really the best most accurate measurement of reality, we have to measure ourselves off of. This is a chart of government spending as percentage of GDP. Because of the factors I mentioned before -- the explosion of entitlements, interest on debt, all of those other things -- our government is growing at such a fast pace. By the time my 3 children are my age, we will go from having government which was taking about 20 cents out of every dollar in America, made in America, to spend on the federal government to 40 cents out of every dollar, and way on beyond that.

So if you take a look at the path we are on, the current policy -- an unsustainable sense where the government will take more and more and more resources out of the private economy, reducing prosperity, giving us our own version of a debt crisis -- and the roadmap does this according to CBO. And here's basically what it does. The way I look at this is, either we get ahead of this now, preempt a debt crisis, and put in place the building blocks for prosperity, or we kick the can down the road and do painful things that lead to austerity.

And what I mean when I say that is, in the roadmap if you act soon you don't have to affect current seniors. You don't have to change Medicare and Social Security for people who are 55 and above. So our proposals say, if you're 55 or above -- or if you're a person in or near retirement, we're not going to pull the rug out from under you. You've already organized and planned your lives around these programs, so rest assured that not only are we not going to take these things away or change them we're actually going to guarantee that those benefits will be payable.

But if you're like me and the X Generation and Y Generation and on down, if you're below 54 years of age, you already really kind of know that these programs can't sustain themselves. They simply can't be paid, they can't occur as we know them to be today. And so let's reform these programs and put them in a position so that they actually can be payable, so that they're solvent and sustainable, and so that they don't end up crashing our economy with a debt crisis.

How would I propose to do that? Well, let's think about sort of the consensus values we've achieved in this society. I'm talking about Republicans and Democrats, people right of center, people left of center. Do we believe that we ought to have a safety net in this country? Yes. Do we believe that we ought to have a safety net in this country that helps people that cannot help themselves, and that helps people who are temporarily down on their luck. Yes, we do. I think that's consensus. Okay, great.

So how do you do this? Do we believe that we ought to advance the mission of health and retirement security in America so that these are valuable missions, social insurance strategies created in the 20th century -- it's just the way they were created -- are going to bankrupt us in the 21st century. But the mission of these insurance strategies are something that most of us agree with. I come from Wisconsin; a lot of these ideas came from Wisconsin to begin with. And so, the answer is, yes, again.

And so let's come up with a system that fulfills the mission of health and retirement security for all Americans. Well, let's do it in a way that pays off our national debt that keeps our size of government low and limited so that we can maximize prosperity and economic opportunity. And so, let's also recognize that we're in a 21st century global economy. We need to have the kinds of economic policies -- particularly in the tax area -- that make us ultra competitive, that make our businesses want to keep locating themselves in America, that makes it easier and preferable for people to build things in America and export them overseas so that we can maintain very high standards of living. Because at the end of the day, this is all about whether or not we keep the American legacy intact, whether or not we fulfill the obligation that our folks gave to us, which is each generation tackles the challenges in front of itself so that the next generation is better off.

You know, my dad told me two things when I was a kid growing up: You're either part of the problem or part of the solution. He usually told me that when I was being part of the problem. And he also said, each generation in this country takes its challenges seriously, fixes the problems so the next generation is better off. Well, that's simply what I'm trying to do.

And so the roadmap is basically taking these important missions and changing them in a gradual, phased-in way so that they're fulfillable, sustainable, and so that they preserve the other key thing, restoring the American legacy of leaving the next generation better off. In a policy-wonkish description, it is a defined benefit safety with a defined contribution system on top. And so when you take a look at the health care stuff -- Medicare, Medicaid, and the health care system for the under 65 population in addition to that -- it is a system that says there's a finite amount of money that government can take from the economy and give to people. Let's figure out how to do that in a way that honors our values. More money for low income people, more money for people who are sick with chronic diseases, with preexisting conditions, and not as much money for wealthy people. That's the basic values I put into this plan.

So if you're low income, you've got double the assistance to go into an exchange in your state to buy comprehensive health insurance. If you have a preexisting condition, a chronic disease, you will have additional risk-adjusted subsidies so that you can get affordable health insurance. On Medicare it basically says, for the individuals who are 54 and below, when they turn a retirement age they will have a payment that will go to them -- just like I do as a congressman -- and they will get a book from the federal government, from Medicare, just like I do as a congressman from the Office of Personnel Management. And I'll have a list of private plans -- that's what I have right now. You'll have a list of Medicare-certified plans and you'll take your payment and apply it to the plan to meet your needs.

If you're low income, all of your out-of-pocket expenses will be covered. If you are sick, and getting sicker, you'll get more assistance to stabilize your rates. And if you're wealthy people -- if you're a wealthy person, you won't get as much of a payment because you're wealthy and you can afford more. That's basically what we propose to do, and carrying this out in the future makes these programs absolutely sustainable. That's just not my opinion, that's what CBO has certified, that's what the actuaries at HHS have certified. And so to me, take our values, move them forward. We know that we can't pay for everything for everybody, so where and who in society do we want to help the most, and who can afford to be helped less? Replicate that going forward and that brings us to the point where we can actually get this thing under control.

I won't go into the great, elaborate details of tax and Social Security other than to say, Social Security is the same story. If you're 55 and above, no change. If you're below 55, number 1 we're going to make some benefit changes that are going to protect those who are least among us, that protect -- that actually fix the safety net so that nobody lives under the poverty line, and we have a system that's sustainable. And if you want, as a younger person, to take a third of your payroll taxes and put it in a plan just like I have as a congressman -- a thrift savings plan, not a privatized account, but a plan managed and run by the Social Security Administration in safe index accounts, giving you the power and ability to harness the power of compound interest, to have a nest egg that's your property that you own and control to get you a better rate of return and better retirement benefits. And if you pass away it goes to your family, not back to the government -- that's your choice if you want to have it. If you want to stay in the traditional plan, you can.

On tax reform, I would simply say there are many different ways of doing this, of getting at the same objective. But the key ought to be this: Let's have a plan that gets our economy really competitive in the global economy. We don't merely want to survive globalization in the 21st century economy, we want to lead it. We want to shape it. We want to be on top of it, so that we can help spread prosperity as deeply and widely in this society as much as possible, so that the 21st century is one where the limits and boundaries of prosperity of the 20th century are shattered, and we bring more prosperity and economic growth to people who have not yet seen it. That is basically the ideas behind this.

I do not believe that these are ultra-conservative reforms. I think they're basically practical, common sense things. We embrace a progressive tax structure. I think that is something that is what many centrists believe in. We embrace a safety net, we help those who are least among us, and we do it in a way that's sustainable. And so at the end of the day, what this is really all about is whether or not we're fulfilling the American legacy.

And here's what we know. The red line down here is the CBO's measurement of the current policy trajectory. And this is what we call standard of livings or economic growth per capita. And what we know for the first time in our nation's history is we are without a doubt giving the next generation a lower standard of living. We are giving the young people in the society less opportunities. A lower chance at a better life. That we've never done before. And so, we know this is coming.

It's so funny, because when you see this red line that ends, it's simply because the computer basically crashes -- the model crashes, effectively, at CBO and this is year-old data. And a couple months ago -- or a month ago, they gave us numbers that in 2027 the CBO model can't measure the economy going forward because they can't conceive of the levels of debt that are going to happen and how the economy can accommodate that.

What I'm trying to say is we know the path we're on is a dangerous one. We know it's going to give us a lower standard of living. And what the roadmap does, and anything that's like the roadmap would do, is give us an ever-higher increase in standard of living for future generations, economic growth per person, because we preempted that crisis, get ahead of this, put in place plans for prosperity and economic vitality and competitiveness in the 21st century global economy, and get these entitlements under control gives us that path where we finally reconnect ourselves with the American legacy of leaving everybody better off.

My point in doing this is to do this. It is not too late for America to get itself back. It is not too late for us to see this coming, prevent it from happening, and make us all the better off. Why don't we do it on our terms now where we don't hurt people, where people who are already on these programs do not get affected? Let's do it now so that's the outcome.

If we keep engaging in political paralysis, if we keep running campaigns against each other and locking up the system, then we end up just simply kicking the can down the road and it's Greek-like austerity. It's cuts to people who are already living on these benefits. It is cuts to those who are least among us, and it's deep tax increases which will shut down our economy and reduce economic opportunity for people entering the workforce or people who have been laid off. That's really the choice, prosperity versus austerity. You act now, you'll make it off better. And that's the point what I'm trying to do is get this debate going.

And I appreciate the invitation from Brookings, and thank you very much. (Applause)

MR. HASKINS: Congressman, thank you very much. I've been in this town a long time --

MR. RYAN: You have.

MR. HASKINS: It's amazing -- you can tell. It's amazing to me that someone could put a plan down like yours, and to have so many people, I would say, respectfully consider it, in the media, on -- even people who strongly disagree with it. So, I think it's off to a good start, and I'm sure that before the next hour and 15 minutes is up we will have subjected it to even more consideration.

So let me start this way. I think there are two things that have been -- are the most criticized by the left in your plan, and I think you should respond to these. The first one is that you yourself made a very dazzling case about why the growth of the deficit is going to kill us. But even under your plan, according to the scoring of the --

MR. RYAN: Yeah, right --

MR. HASKINS: -- Tax Policy Center, it would grow to 175 percent GDP, which is well above the Reinhart number --

MR. RYAN: Our numbers show a little less than 100, but go ahead.

MR. HASKINS: Okay. And then the second thing is the tax reforms, especially, again, according to the Tax Policy Center --

MR. RYAN: Right.

MR. HASKINS: -- would be highly regressive and people at the top would get cuts, and middle class and even lower would get tax increases.

MR. RYAN: Right.

MR. HASKINS: Now, that's according to their model. What's your response?

MR. RYAN: Sure. No, it's a very legitimate debate. I'm glad you asked me that question.

A couple of things. On that debt-to-GDP ratio number you threw out, this hinges off that tax scoring. Here's -- here was our problem in writing this. Joint tax can't give you long-term estimates on these things. So, we went to OTA -- the Office of Tax Analysis at Treasury -- and said we want to do tax reform and target these revenue targets at this -- basically this percentage of GDP. Nineteen is where we are. So we used the best numbers we had available, which was the Office of Tax Analysis at Treasury, to hit these revenue targets.

At those revenue targets our debt does not exceed 100 percent of GDP. More to the point, which is you can absorb an increase in debt for a period of time if you have locked in plans that show that it's going to go back down. The credit markets will give you the breathing space if they know this is part of a plan to get through it. I call it the pig in the python. It's the boomers moving through the system. You're clearly going to have all of these people consuming these benefits that are going to move through the system, so debt and borrowing will increase at that point and then it goes back down as demographics change again.

Another point. Because I have what I think the left would call carve-out accounts -- personal retirement accounts -- that increases your borrowing in the meantime because of the transition that's involved. That is really another way of saying we're taking debt from the future, bringing it to the present, and paying it off on a discounted present value basis. And so that is debt that's going to occur; it just occurs earlier than later. And the reason I chose to do personal retirement accounts or carve-out accounts is because I want to make sure that Social Security is still a good deal for everybody. I want to make sure that the bonds that tie generations together in the Social Security system still hold, because my fear is -- let's just take a look at -- I'm 40. I'm going to get about a negative -- no, I'm going to get about a 1 percent rate of return on my payroll taxes if Social Security could pay me my benefit, which obviously it cannot. My children are going to get about a negative 1 percent rate of return on their payroll tax dollars if Social Security could pay them their benefit, which obviously it can't.

Eighty percent of Americans pay more in payroll taxes than they pay in income taxes. So it's not a good deal the younger you are. So I believe that we ought to make this a system that harnesses the power of compound interest, lets people really own this, make it a true property right, and give people the ability to grow it faster. That's a controversial idea; I'll be the first to acknowledge it. But that's why I did it, so that you can give people a system that they believe in, trust, rely on, enjoy, and respect and want to continue.

You can do this without personal accounts, and if you take the personal accounts out -- and, you know, Alice and I have had these conversations in the Commission about why, you know, I like them and why others don't. If you take the personal accounts out the debt goes down fairly dramatically in our plan.

Okay, on to the tax thing. I know this is a long answer, but it's -- I think Bill ran the numbers or people over here have done it. I do have some -- I would have made some different assumptions than they did, but let's just put it this way. The purpose of my plan -- revenue side -- was to hit revenue targets. It is an easily adjustable plan to hit those revenue targets. So, let's say Brookings is right and OTA is wrong, fine. We know we want revenue targets that hit us at a certain percentage of GDP, so when we're figuring out how to do this, hit those revenue targets. So this plan can be changed such that you can hit that 19 percent of GDP revenue target or whatever your revenue target is.

So I would just concede that they may be right, I may be wrong, or they may be wrong and I might be right. Either way, my goal was to get the revenue targets and replace the tax system that we have today with one that taxes income once at its source, is very broadly-based distributionally, yes. You affect the distribution tables, but I would argue income equalizing efforts often come at the expense of growing prosperity and jobs.

And so, do we have progressive tax structure in this? Yes, we have progressive tax structure. But in this 21st century global economy you've got to watch your tax rates because you will hurt economic growth. When we tax our employers and job creators more than our foreign competitors tax theirs, they get the jobs and we don't. So we've got to watch that. And so I think the best way to do it is broaden the tax base by plugging all these loopholes so you can lower those tax rates, so that you can maximize economic growth, have more simplicity and fairness in the tax code.

I think consumption-based tax reform is really the best way to go, with respect to international competitiveness, with respect to economic efficiency. There are many different ways of doing it. I more or less followed the Hall-Rabushka system with some different -- with some tweaks. I thought that was pretty much the right way to go. My friends that are for the fair tax, in the policy vacuum, that's works perfectly, but I worry you'll end up having two systems on top of each other, income and consumption on top of each other.

MR. HASKINS: Let me pull one thing out of your answer, just -- I think I heard this, but I want to be sure.

Rates are adjustable. If it turns out that the Brookings Tax Policy Center is correct -- Brookings urban -- you would be willing to entertain changes?

MR. RYAN: Yeah, this is --

MR. HASKINS: So you're open to changes to make it more --

MR. RYAN: Yeah, of course, this is not -- I didn't take --

MR. HASKINS: Okay, all right.

MR. RYAN: -- a slab of marble and etch it in stone. It's just --

MR. HASKINS: All right.

MR. RYAN: The whole point was to get the debate going here.

MR. HASKINS: Ross Douthat, who is a conservative editorial writer for the *New York Times* -- it's almost an oxymoron --

MR. RYAN: Oxymoron, yeah.

MR. HASKINS: But he's -- he says that your plan is a blueprint for the conservative welfare state. It voucherizes Medicare, controls the rate of increase and the voucher, it ends capital gains, radically reforms business taxes, levels the tax quota and diminishes the rates -- only two rates. And this is the view of a welfare -- of a conservative welfare state.

So, my question is where are the conservatives?

MR. RYAN: They're talking to their pollsters and their pollsters are saying, stay away from this. We're going to win an election.

Now having said that, I need to be fair -- more fair to my friends. Lots of conservatives are behind this in the think tank world and the non-elected world. But also we've got a lot of elected conservatives that are supporting this as well.

My hope was -- and maybe it was naïve. I put this thing out there in the Bush Administration, by the way. I put this thing out there, you know. I wrote it in 2007, and got the numbers finalized in 2008. My goal was to get other people to bring their ideas. That hasn't necessarily happened. I still am holding out hope that that will be the case eventually.

My mentor was Jack Kemp. That's who I worked for in the '90s, and Jack started with a few big ideas in the '70s, got pummeled for a number of years, and then they become conventional wisdom in the ’80s. I’m -- my hope is, because of this debt crisis that’s coming, we won’t have a but to look at these kinds of ideas. So, conservatives are there, but, again, it’s politics that is breaking this. And what I’m trying to do is break the politics of it.

MR. HASKINS: So one way to get the House to listen to you -- according to the pollsters a 50-50 chance that 6 months from now you are going to be the chairman of the Budget Committee. If you are chairman of the Budget Committee, will you insist that Republicans on the Budget Committee and the House leadership -- Republican leadership supports your plan and you’ll put it before the House and see who voted?

MR. RYAN: You can’t do that as a committee chairman. You have to make a consensus. The budget -- we don’t -- we didn’t do a budget this year, meaning Congress.

MR. HASKINS: Right.

MR. RYAN: Last year when Congress did do a budget, I brought an alternative budget resolution to the floor, which wasn’t the roadmap, but it had some similar ideas. It took $4.8 trillion of spending out of the baseline, it prevented tax increases, it brought the corporate rate down to 25 percent, and it took discretionary back to ’08 levels and froze it from there. It did Medicaid and Medicare reform -- not roadmap-like exactly, but it embraced the premium support concept which some of us talk about. And so, it was really a consensus budget. It wasn’t the roadmap.

When you’re one man writing one bill you can do whatever you want. If you’re a -- and that wasn’t me as the head of the Budget Committee writing it, that was just me exercising my franchise from the 1st District of Wisconsin. As chairman of the Budget Committee, if that is what I become, I have to go and reach consensus. So, I don't know what that consensus will look like, I really don't; what it will be and what we'll do.

But I do know one thing: The spending spree has got to stop. I think the multiplier data on these Keynesian effects has been fairly revealing. It's not working, and I would argue one of the best things we could do for growth now is lock in place spending controls and reforms that get this situation under control.

MR. HASKINS: Okay, audience, we only have time for a few questions. Alice. I picked Alice at random, by the way. (Laughter)

MR. RYAN: She's the first person I always go to as well. Yeah.

ALICE RIVLIN: Paul, as you know, we share this view about the coming catastrophe. That's why we're on this commission together. And we differ on some elements of your plan. But I think absolutely you've done a huge service in getting it out there.

But I -- this is perhaps a bit of a variant on Ron's first question. As I read the health care part of it I thought, gee, if this was written in 2007 he sort of previewed what the President was going to propose in the sense that it has the exchanges in it. You go further -- it has income-tested and risk-related vouchers. It's hard to see you saying the President's plan is socialism and totally out the window and should be repealed when you're sort of going in the same direction. And that may be unfair, but I just wanted your reaction to it.

MR. RYAN: I think it's unfair. (Laughter)

So, are there elements, principles, themes that are common? Yes, there are. But it's the architecture, the basic premise architecture of this, of our plan -- and I have a health care bill with Tom Coburn and Devin Nunes and Richard Burr which is reflected in this that does the same thing -- it's a different architecture. And the architecture of the law that has now passed is what I would call a very government-centric architecture. And the architecture of what we're trying to propose is a patient-centered architecture. Some of the same flavors: risk adjusting, premium support, vouchers more for lower income than higher income, yes.

I really believe, though, on health care tax exclusion is one of the key drivers of health inflation. I know that's a political issue, but you've got to take this tax exclusion and deal with it once and for all. The Cadillac plan attempts to do it, you know, in 2018, I think. That -- I would just voucher it to the individual. Give them the choice so that they can have this money to do with what they want.

I do believe in exchanges. Now, exchange is kind of a dirty word or, more importantly, exchange means many different things to many different people. And I believe in having a system that is not consolidated in Washington where you have three flavors of the same, you know, ice cream: bronze, silver, or gold. I believe in real competition, regulatory competition, interstate competition. Let exchanges be optional or voluntary, push your risk adjustment or your high risk pools through the exchanges at the state-based level, not at the federal level.

But more importantly, at the end of the day these health care costs and expenses are not going to go on as is. We all know that. I mean, it's -- we're lying to people to suggest that we're going to go where we are. And so the choice is this: Do you put in place a system where you put the screws and the apparatus in place for the government to tighten the screws and ratchet down prices, really, through rationing -- I know rationing is a dirty word -- which is, I think, this current architecture, or do you give the individuals more control through choice and competition, take market principles that, when applied elsewhere in the economy, have done really well -- transparency in price, quality, and economic incentive -- to act on those things, bring your values into the health care system? More for the poor, more for the sick, less for the wealthy, and give people the ability to bring market forces into the system?

What I would basically say, Alice, at the end of the day the difference between the current law -- I don't even know what we -- we call it PAPACA. That's -- we've got to come up with a new name for this health care law. And Obama Care is a little -- you know, that probably gets you pretty upset when we call it Obama Care. This new entitlement is basically a government-centered system where the nucleus of the system is the government and not the individual, not the patient.

I want to go to a system where the nucleus of it is the patient and the individual, where the providers compete against each other for our business. I don't think that that's the kind of system we're going to. We're going to a system where providers are competing for government's favoritism through iPATH, through Health Preventative Services Task Force, through comparative effectiveness data. And so the architecture is different; some of the values that we use are the same.

And I do believe this thing can be repealed and replaced simultaneously with a better system that will go more at the root cause of health inflation and help those who we really want to help in society and have a vibrant health care market where quality is optimized and your dollar is stretched farther.

People through this -- thrashing around in a very dangerous way. I would rather have a free market system where individuals are more in control, where they and their patients are driving the decisions because I believe you'll have more health care resources at better prices and higher quality than the system we're going to have if this thing stays in law.

MR. HASKINS: Okay. We have one minute, we promised to have the congressman --

MR. RYAN: I apologize; I won't give such a long answer. I'm sorry.

MR. HASKINS: Yeah, okay. Well, I was going to propose we'll take 1 minute now, 15 seconds for a question and 45 seconds for an answer.

MR. RYAN: Okay.

MR. HASKINS: Right here.

MR. RYAN: The young guy right there?

MR. HASKINS: Yeah, in the middle.

SPEAKER: Thank you for coming and thank you for being a Republican that's sharing ideas. As a fiscal conservative, I appreciate it.

My question is you've talked about a progressive tax structure a lot. Are you principally opposed to a flat tax structure --?

MR. RYAN: No, not at all --

SPEAKER: -- or do you feel that you're bowing to (inaudible)?

MR. RYAN: It was a concession I made to try and make this a centrist-seeming document, to try and say, let's try to come together. Let's let people like Brookings and Heritage -- I see two principals from there -- let's try and come together over a consensus.

I'm a big fan of a flat tax. But -- and actually, the flat tax is a progressive tax. Because of the exemptions and the rate, it's purely progressive. But I even went a step further and had a progressive rate structure, really as a concession to the center.

SPEAKER: Thank you.

MR. HASKINS: That was great, the question and the answer. Thank you very much.

MR. RYAN: All right, thanks, Ron.

MR. HASKINS: We're really grateful that you came.

MR. RYAN: Appreciate it.

MR. HASKINS: And hopefully we'll advance the cause here. We'll see. Yeah.

MR. RYAN: Thank you.

(Applause)

MR. HASKINS: Okay, now without a break or anything, the panel will come on up. All right. Thank everybody for not taking a break. I might have been tempted to take a break myself.

So now we want to have further questions about the Ryan plan, the roadmap, and a lot of these assumptions that were made and some of the slides and every aspect of the plan that we can fit into the next 45 minutes or an hour, so we've invited a distinguished panel, broad views, political views, so I think we have a lot of diversity on the panel so you're likely to hear anything from this panel.

Let me just -- you have biographical information in your material about members of the panel so let me just introduce them briefly. On my right, and I do mean on my right, Stuart Butler from Heritage, who is a part of our Fiscal Seminar and has made many contributions to it. And by the way, in the fiscal seminar we have worked out lots of agreements that started out without agreements, so maybe there's some hope.

Jonathan Rauch is, oh, right there. Jonathan is here at Brookings and also a well-known writer. I would call him a centrist.

Stephen Moore, I don't think Steve qualifies as a centrist. He's with *The Wall Street Journal*. I think Steve probably could take credit for electing a number of members of Congress and be very actively politically as well as analytically. Quite an interesting combination.

Bill Gale from Brookings. I skipped over -- he's next to last there on the end. Bill is one of the directors of the Tax Policy Center and a long-time tax analyst, I think widely regarded as one of the best tax analysts in Washington, if not the country, and writes frequently on budget issues and has done so about the President's budget very revealing I might say.

Next to Bill is Diane Rogers, who used to be the chief economist with the House Budget Committee and is now with the Concord Coalition. She's also an economist and has done a lot of analysis of spending and budget programs.

And then finally, Austin Smythe, who is the chief of staff for Congressman Ryan. We thought it was fair to have a representative that would take Congressman Ryan's point of view here and perhaps we would even have a question for him to clarify something.

So each panelist is going to make a five-minute opening statement and then I'm going to ask a couple of questions and then I'm going to turn it over to the audience to ask questions. We will begin with Stuart Butler.

MR. BUTLER: Thank you very much.

MR. HASKINS: Let me say one more thing first. See this guy right down here in this front row?

MR. BUTLER: Yeah, I know about him.

MR. HASKINS: That guy is so mean. You would not believe how mean he is. And he's going to be showing you flashcards and the last one is going to say stop. Then you have to stop.

MR. BUTLER: Okay. As you said, this is not the first time that Paul Ryan has been at Brookings. And I think it's fair to say that Brookings is a serious institution that welcomes serious proposals from serious lawmakers. It's unfortunate that there aren't a large number of other lawmakers with plans of the scale of Mr. Ryan's.

And it’s significant that he is one of the few that is doing this.

It’s also, I think, significant that actually that he’s here this week because I think this week enables us to juxtapose what we’ve just heard with a couple of other types of proposals that have been put forward. Just a couple of days ago a group of four members of Congress, called the Spending Cuts and Deficit Reduction Working Group offered an example of what I would call a class, a type of proposal to deal with what I might call the itty bitty plan approach where with a lot of fanfare you look at something and there’s really very little there. This group had a proposal which includes such dramatic and radical ideas as institution electronic paystubs for Treasury employees.

It also, of course, focuses on the next 10 years. And one of the things about these smaller plans that is very important is that they tend to focus very much on the short term, rather than looking at the long-term which is critical to dealing with the situation that we face.

We also had in town David Cameron from Britain, which I think, you know, really indicates, along with the Greeks, an example of the panic plan that when things really start to go wrong you have to put into place draconian changes if you’re going to have any chance of reaching the end result that you want. And it’s important to juxtapose this with what Ryan has just laid out which has really got three elements. Its first element is to say the only way of dealing with this long-term situation is to re-examine and re-discuss the social contract that we have in this country. The promises that we’ve made. That is essential. You can’t just trim here and there.

Secondly, he says let’s actually go outside of Washington and talk to people about this proposal. A significant part of his plan is that it isn’t just sort of hatched behind closed doors and tried to be sneaked through at the last minute. He puts it out in detail and goes out to talk about it. And that’s a very different philosophy of how to get change in this country than we have generally seen in the budget area looking at the long-term.

And thirdly, he sees it as a number of steps that have to be taken, including insulating certain people right now that are more vulnerable. Those are three core elements of what he proposes and you see it in the plan that he laid out. And I won't go into any detail on that, but it is very important when you look at this in terms of the political strategy involved in his proposal. He talks about fundamental changes in these programs, moving to a defined contribution system in Medicare. Changing the tax structure in order to promote growth which will lead to not only increased after tax incomes in America, but also more revenue to the federal government in America through growth. This is a very important element of the proposal. And also a more -- a restructuring of Social Security that strengthens the safety net and makes the system far more progressive and more like real insurance over the long-term.

So it has within it these structural changes, changing the basic design of our safety net and our social insurance programs. That is critical. And we welcome other people I think to come forward to do that.

It's also -- he looks at the long-term and breaks through the problem that we have in the current situation of the Congressional budget office's 10-year window. It's as though there's no world beyond the 10-year window. And we know it's not true, but the incentives for the Congress presume that that's the case and force everybody to work within it. We have to make changes in the budget process in order to enable plans like this and counterproposals to actually get the airings that they need.

Finally, I would say that as we know, Congressman Ryan was one of the stars in the health care summit that took place before the health care legislation went through. I think I would call on President Obama, not to have another health care summit, but have a beer summit with Mr. Ryan. I'm told that people from Wisconsin do drink beer and so I think that would be a good thing. And that should lead to a bipartisan equivalent of the fiscal wakeup tour that Alice and myself and Diane Rogers and others have taken part in where we actually go out to the country, much as Paul Ryan did, lay out a situation, lay out the alternatives and have a real national debate over what we should do in this area. That is -- what we see in the President's Commission is exactly the opposite of that. Keep all cards turned over, don't tell the people what's going on, and then try to sneak it through in a lame duck session. Congressman Ryan epitomizes the opposite way of dealing with the situation. It is the way I think we ought to go forward and it would be great to have other people from the left and the right and the center doing exactly what he's doing and maybe have a panel of them at Brookings next time.

MR. HASKINS: Okay, now, Jonathan, you want to use PowerPoint, right? Is it ready? Are you going to use --

MR. RAUCH: I think we've got handouts.

MR. HASKINS: Okay, good. So you have a handout in your packet like this.

MR. RAUCH: Did people get packets that look more or less like this?

MR. HASKINS: I'll tell you what let's do. Let's -- I think we've gave copies. This is what it looks -- oh, it doesn't look like this. It's on a black-and-white sheet of paper. They are combined. Now how many people have it? It should be in your materials. Okay.

MR. RAUCH: All right. I'm sorry if not everybody has a copy of these slides. I'll do my best to describe them which may take me to six minutes instead of five. I do have a question for Ron, which is with two former OMB directors in the front row, why am I up here and they down there? But these things are unfathomable to me.

MR. HASKINS: Because you're succinct.

MR. RAUCH: Well, we'll see about that.

For those of you who can find them, which I hope are most of you, there are some slides that look like this or smaller black-and-white versions of them in your packets. If you can't find them, please share. Next time we'll try to put slides on a screen. I apologize for that.

I'd like you to focus on slide number one, which I think provides some context for what Representative Ryan is saying. By the way, I endorse everything Stuart said about the admirable qualities of the honesty and importance of what Representative Ryan is trying to do. But what these slides are about to show you is that I think he and the Republicans are very wrong on one point, which is that you can do this with spending cuts alone. And in fact, I think that's what the Ryan plan actually shows.

The first chart is numbered one in the lower left hand -- right-hand corner shows the last 40 years of spending, taxes, and deficits combined with the next 10 using the Concord Coalition's plausible baseline projections which are I think more politically realistic than CBOs. And what they show is for 40 years you haven't had government out of control; you've had an almost thermostatic setting where spending has averaged about 20 to 21 percent of GDP, taxes a bit over 18 percent, deficits 2-1/2 percent of GDP. Fantastic stability over this period. This is a comfort zone that's very hard to move the American public from.

You have a major discontinuity when the market crashes and the baby boomers start to retire, and you have deficits going forward in the 24 to 25 percent range. Taxes even lower and these huge deficits. This discontinuity by the way, this dotted line is the Tea Party outbreak. This is a huge change in the public finances in America. It's a big break with the past and it's no wonder we're seeing political ramifications.

We'll skip chart 2. Charts 3 and 4 basically show what Paul Ryan already showed you. This is what happens to the public debt over the next 40 years. We could fight more than three World War IIs for what would happen to the public debt. It's just not viable. It's not going to happen. It's Greece. It's Japan. It's maybe even worse than those things.

So that brings us to Representative Ryan, chart number 5 in the corner here. I pulled these numbers off of his website. They're smoothed. I just used every five years because we, you know, the future is so vague. I don't like spurious specificity. What you see is the past here and a dotted line and the future out for the next 40 years under the Ryan plan. Now, his plan goes all the way out to 2080. I didn't do that because I'll be dead. I looked at 40 years out, which to me is plenty long enough because it's already way more uncertain than we can speak to with any confidence.

And what you see here is that under the Paul Ryan plan spending goes up, not down. It declines initially, but then it goes up to 24 percent of GDP before it starts going down again. In this timeframe all the way out to 2050, you don't get a balanced budget. In fact, you run consistent deficits in the range of three to five percent of GDP. There's a reason for that. Congressman Ryan assumes that taxes stay at about 19 percent of GDP, which is about the upper end of the traditional American comfort zone. He's saying let's not budge the public from its comfort zone on taxes. Let's try to do it all on the spending side.

Now, Congressman Ryan is by far the most aggressive spending cut proposal out there. And I do mean by far. No one comes as close. And what you just heard him say is that politicians in the Republican Party are running away from it. Indeed, you didn't hear many details on the plan today; perhaps that's because the details don't sell all that well politically, or perhaps it's because he didn't have much time.

Whatever it is, this is a very aggressive plan. The most aggressive plan out there cannot get us out of this large deficit window through at least 2050. There is a balanced budget out there if you believe his numbers, but it's in 2063. Many, if not most, of the people in this room will be dead out there. I maintain that this is not a sustainable course, although it's far better than the status quo.

What this tells me is that what we're looking at with the baby boom retiring, whether Republicans are in office or Democrats are in office is realistically -- there's only one way to get there, ladies and gentlemen. It's got to be a combination of spending cuts and tax increases because there is no other way to close this gap. If Paul Ryan can't do it, no one can do it.

Well, there's also an asymmetry I'd argue in Washington politics because it seems to me right now Democrats are willing to say spending cuts have to be part of the package, a big part of the package. Republicans are not willing to say that raising taxes somewhat above the 19 percent threshold is going to have to be part of the package. I think what we're looking at in practice is a new comfort zone with deficits in the 2 to 3 percent of GDP range, taxes in about the 21 -- 20 to 21 percent range, spending in the 23 to 24 percent range. I think in all honesty that's what we're going to have to talk to the American public about, but it's clearly got to be tax increases plus large spending cuts.

MR. HASKINS: We will put the -- Jonathan's charts in color on our website on the Center for Children and Family so people can have that if they want it.

Steve Moore.

MR. MOORE: Thank you, Ron. It's a great privilege to be here at Brookings. I'll try to make five quick points in five minutes.

First, I think it's important to understand that debt is not an inherent evil.

My friend Larry Kudlow says it very well. This country was built on debt and there's a lot of truth to that. It depends a lot on what you use the debt for. And I'd make the case that if we're to use the debt for things like we used debt for in the 1980s, to win the Cold War and reduce tax rates to grow the economy, it's a perfectly good reason to go into debt. To go into debt to build windmills and things like that is a pretty inefficient use of debt. And so we shouldn't just, you know, look at debt as an inherent evil. It depends on what you're buying for it.

Second of all, this is maybe the most important point that hasn't been mentioned at all. And Paul Ryan is a great friend, one of the great congressmen. The one thing that he doesn't stress enough is that growth is everything. Growth is everything. And so just as an example, if you look at the new long-term Congressional Budget Office projections through 2060, '70, '80, they use a 2.2 percent growth rate for the next 65, 70 years. How about if we put in that computer model a 3.5 percent growth rate. We can achieve a 3.5 percent growth rate very easily. We had a 3.5 percent growth rate in the '80s under Reagan and in the '90s under Clinton. There's no reason as we move towards a technological age that we shouldn't be able to grow at a 3.5 to 4 percent growth, especially if we increase immigration.

If we do that, let's just say that we put 3.5 percent -- in other words, our whole objective is to achieve a 3.5 percent growth rate, then we produce over the next 80 years -- hold onto your hats, folks -- a thousand trillion dollars more GDP over the next 75 years. A thousand trillion dollars more GDP. We will have the biggest surpluses. Even Congress couldn't spend all of that money. And so --

SPEAKER: (inaudible) (Laughter)

MR. RAUCH: And so that's the key. And I would make the alternative case that if we don't have that -- if we don't get close to a 3 to 3.5 percent growth rate, then it doesn't matter how much they try to cut spending, they're never going to do it.

And so that's what we -- this is an important point because, for example, Congress is talking about raising capital gains, dividend, and personal income tax rates next year. There is no doubt in my mind -- I'm a supply-sider -- that by doing that you're going to lower the long-term growth rate. And the impact of that on deficits over the next 75 years is much, much more destructive than the increased revenues that you're going to get. So we have to focus on growth. Anything that increases growth, lowers long-term deficits, anything that lowers deficits makes the deficit much worse.

Third, I'll challenge Jonathan on something. It's maybe good that I'm following you, Jonathan. There is no bipartisan consensus on tax increases. I think it's a pipedream of Washington that somehow we're going to have some big, you know, bipartisan agreement where Republicans are going to come to the table and they're going to -- they're going to agree to a tax increase. Jonathan, it is not going to happen.

You know, I started an organization called the Club for Growth where there was one litmus test. Any Republican who was going to vote for a tax increase is not a Republican. Right? I mean, if you're in favor of tax increases, you're a Democrat. If you're against tax increases, you're a Republican. And so, you know, I just think this is a total pipedream. I don't think right now in this -- even in this current Congress and the Republican Party is moving to the right as you can see as a result of sort of the Tea Party Movement, you couldn't get five Republicans right now to vote for a tax increase, even as part of a deficit reduction agreement.

So we're going to have to deal with this, A, through spending cuts and, B, through tax changes as Stuart said that raise revenues, but don't -- but do it by growing the economy. And I think that's what the left has to get focused on because you're not going to get Republicans to vote for it. You can get a tax increase if we continue, you know, if you have 60 Democrats in the Senate and you have 250 Democrats in the House and you have a Democratic president, the way they got the stimulus bill passed.

The next issue is a VAT. One of the things I'd like to suggest is that I know a lot of people think a VAT is the solution. I think the only way we could get a VAT in this country -- first of all, it can't be called a VAT because it's become such a dirty word. A VAT will only happen -- the deal is on a VAT, we have a VAT if we eliminate the corporate income tax and that is something that is so pro-growth. If we were to get rid of -- and one of the things the people on the left should consider about a VAT is a VAT is a GATT legal tariff. So it's a way to make, you know, U.S. goods cheaper and foreign goods more expensive so it reduces the trade deficit as well.

Last point is why don't we do 1986 all over again? I think one of the greatest triumphs we've seen in this town in the 25 years I've been here was the 1986 Tax Reform Act. If you want to raise more revenues it's pretty clear how to do that. Bring tax rates down and close all the loopholes. It's a miracle that we were able to achieve the '86 Act, you know, back in 1986 it had huge pro-growth ramifications. And where -- the thing that pains me so much are where are the Bill Bradleys and the Lloyd Bensons, and even the Dick Gephardts? Where are the Democrats for lower tax rates and a broader tax base? Because I think Jonathan that's the way you raise the revenues.

MR. HASKINS: Thank you. Bill.

MR. GALE: Thank you, Ron.

The quick answer to Steve's last question is that '86 did not raise revenues, but that there is a bill by Wyden and Gregg that's out there that aims -- we can debate whether successfully or unsuccessful -- to move back in the direction of '86. But I think almost all economists would like to see us move in the direction of a broader base and lower rates while at the same time addressing the revenue issues that Jonathan mentioned.

All right. Let me start my comments by invoking the great social philosopher Jerry Maguire. In that movie there is one very famous line, “Show me the money,” that everyone focuses on. There’s another line in that movie that I actually like better. You may remember the scene. Cuba Gooding is standing in the shower and Tom Cruise is sort of yelling at him and Cuba Gooding says, “You think we’re having an argument. I think we’re just beginning to talk.” All right. And I think both of those are applicable to Representative Ryan’s talk here today. Certainly, “show me the money” was a key focus, accepting the fact that there’s a long-term deficit. Proposing something to do about it not only fits the show me the money, but in particular, you know, we’re now beginning to talk.

And the reason this is important is that too much of Washington and too much of, frankly, the whole policy debate is about, well, I don’t like this negative change or I don’t like that negative change. You know, say somebody wants to raise the gas tax by a dollar to raise a percent of GDP. Someone says, well, I don’t want to raise the gas tax. Well, that’s fine. It is then incumbent upon that person to talk about a different way to raise that revenue. So if we can have the discussion, the debate about what are the alternative ways to close the gap, that’s a win at this stage rather than having the discussion be, well, I don’t want to touch the gas tax. I don’t want to touch the mortgage interest deduction. I don’t want to have a VAT. I don’t want to do this. That’s not a complete answer to the question.

So Representative Ryan I think gets great kudos for taking the challenge seriously and getting the debate going. What I want to do in my brief time is comment on his proposal. And while I’m not going to lay out an entirely new proposal, I will indicate the directions in which I would think that a good outcome on both politics and most importantly economics would be founded.

So let's start on the tax revenue side. As has been emphasized, CBO did not estimate the revenue side of this. They took a number from Representative Ryan; therefore, CBO has not said this plan will work. CBO has said the plan will work "under the revenue assumptions that Ryan gave them" and under another assumption that I'll talk about in a second. There's a multi-trillion-dollar entitlement built into -- sorry, there's a multi-trillion-dollar contingent liability built into the Ryan proposal that CBO scored a zero because of particular way that they do assumptions that I'll talk about in a second.

The tax structure -- let's be clear. This is -- the Ryan tax changes would not only make the system less progressive; they would make the system regressive. That is, the tax cuts for high-income households would be so large that the average tax paid -- the average tax rate paid by high-income households would be lower than the average tax rate paid by middle-income households. As a result, what Ryan is proposing is not only that low- and middle-income households bear the entire burden of fixing the fiscal gap, but on top of that they bear an additional burden of cutting taxes for very high-income taxpayers. I personally see no reason why either of those should be true. I see no reason why low- and middle-income households should bear 100 percent of the burden of fixing the existing gap, and I even see more no reason, if that makes any sense, why they should bear an additional burden of cutting taxes for high-income households.

On the spending side -- I'll get to Medicare in a second -- the first place to start is discretionary spending. There are huge cuts in discretionary spending, but they're not specified. Okay? This is the oldest trick in Washington. This is David Stockman's magic asterisk and before that. Okay. If you want to have proposals that cut spending you've got to say where you're going to cut them. So there's a freeze on discretionary spending, but there's no discussion about how that's going to happen.

On Social Security there are two features. One is benefit cuts. And we can debate the exact structure of benefit cuts, but I believe we're going to have benefit cuts and I don't think Ryan's proposals are so bad. I would modify them, but benefits cuts have to be on the table. We're going to have benefit cuts. The part of the Social Security proposal that's difficult is the privatization part. This would cost an enormous amount of money. That is, creating the private accounts, the nest eggs that Representative Ryan spoke so warmly about would make the deficit problem worse. Okay. He acknowledged that when he said that if you didn't do that, you'd free up a lot of money. But there are trillions of dollars on top of the existing fiscal gap. There are trillions of dollars focused on this privatization plan. And on top of that, Ryan's plan would guarantee a certain minimum rate of return on these accounts.

Now, Social Security, CBO scored that as a zero, zero cost, because they assume that in every year the stock market return is higher than the rate of inflation because they're just taking averages and forecasting them out. But one thing we know is that that's not going to happen. From '67 to '82, market return was zero in nominal returns. The last couple of years it's been highly negative in nominal terms. So we know there are going to be costs to that and Social Security has estimated that as another $3 trillion that's not in there.

All right. Lastly, I want to talk about health care. The discussion, the language is that Representative Ryan would reform Medicare. That's not quite right. He would end Medicare. All right? The defined benefit nature of Medicare would be gotten away with. What it would be replaced with would be a voucher that declines in health care value over time and in the long term would be worth about a quarter -- the 2080 number would be worth about a quarter of what the Medicare deal is right now.

So what I would like to see is a plan, a long-term plan that doesn't involve massive tax cuts for the rich; that involves, if anything, increasing the burden that high income households can pay. I think the Paris Hiltons and the Kim Kardashians can afford to pay more; they don't need to pay less. I would like to see benefit cuts in Social Security. I don't think privatization adds to the plan. And with Medicare and Medicaid, I think the cuts are draconian and I would much rather see us close the gap in ways that raise taxes, but help the economy. So I think they meet the Moore test of better economics, but, at the same time, they raise revenues.

And there are three ways to do that. One is to reduce and restructure income tax expenditures. A second is to impose energy taxes. Energy, the consumption of carbon creates enormous externalities that are potentially existential. And taxing energy is not only necessary, but would raise revenue. And the third is consumption taxes. As we need to transition from a consumption-oriented society to one that puts away more saving, we need to tax consumption more heavily as the European countries do.

So I think there are ways to contain spending and to raise taxes that, A, meet in the middle; B, are more conducive to economic growth than the options that Representative Ryan has put out. And I've outlined some of those here.

But I want to close with emphasis again that it's such a leap forward to have discussions about particular proposals that close the gap and compare them to other proposals that close the gap. So while I feel not so favorable about the specific details of Representative Ryan's roadmap, it's impossible to say enough about the fact that he and his staff put that roadmap out there in the first place.

Thank you.

MR. HASKINS: So Bill took an extra minute, but he proved to us that economists can be poets. When is the last time you heard about an existential externality? (Laughter)

Diane?

MS. ROGERS: Thanks, Ron.

I have four children and part of my motivation for working on fiscal responsibility and my blog, Economist Mom, is because of my kids. My oldest, Allie, is about to head off to Princeton, but that's another story in unsustainability. (Laughter) And I wanted -- but I wanted to, among various other things I'm going to give her advice on, one of the things I'm going to warn her about is the freshman 15, which in my case was 20. And back during my freshman year in the dorm I gained a lot of weight on the dorm food. You know, I left my mother's Asian cooking. Loved mashed potatoes and gravy and the all-you-could-eat ice cream bar. And, you know, went from being a cheerleader, high school cheerleader, to sitting at my desk and actually having to study to get good grades.

And so back then my roommate, fortunately, was an athlete at University of Michigan where I was attending college. And she put me on a diet and exercise program the morning that she -- that I woke her up jumping up and down in our dorm room because I couldn't fit into any of my jeans. So she put me on this diet and exercise program where I actually had to run up and down the stairwells of the dormitory every night, and I actually had to count calories for the first time in my life.

But the point was that I actually took off all the weight very quickly and I never had to count calories again because I had gotten into a lifestyle where I understood that what I put into my body had to be expended, you know, I had to burn it off with exercise. And it was a combination of diet and exercise that really works.

So there is an analogy here I'm getting to, and that is that my problem with the Ryan plan is that it relies entirely on the diet and I think the diet is too tough and it doesn't make sense. We shouldn't choose that, and we can't choose it because the fact is that we like eating our desserts and we don't want to deprive ourselves of the healthy foods either. And we're sort of committed to a meal plan that we've already paid for.

So for all those reasons I think that it's unrealistic to consider a plan that is so lopsided on relying on spending side only solutions. The fact is if you look at the Ryan plan he's unable to do much to slow the growth of the debt initially in the first couple of decades of his plan and that's because he has absolutely taken the stance that he's not going to raise revenues as a share of GDP.

There's a presumption in the Ryan plan that the right level of revenues is the historical average level of revenues as a share of our economy, and that's pretty ludicrous given that where we're going has nothing to do with where we've been. The right level of revenue should be the level of revenues that's sufficient to pay for the government programs that we deem worthwhile. And I think as Congressman Ryan is finding out, even his Republican colleagues think that there's a lot of worthwhile spending out there, more than 19 percent of GDP and revenues would pay for.

So for that reason I think that what Jonathan pointed out, actually his really nice chart, you can see in the graphic on Paul Ryan's budget plan that the taxes line is flat as a share of GDP and that's because that's the goal of the Ryan plan, to keep that level of revenues at that historical average. And you see that the gap between spending and revenues grows for the first couple of decades. It's an unrealistic -- no matter how well we can control spending and no matter how much we acknowledge that it's the health care spending that's driving the long-term challenge, it is unrealistic to expect that we can actually flat-line the spending line, let alone bring it down to meet the historical level of revenues.

So I think the right level of revenues as a share of GDP has to be higher. Now, acknowledging that, it doesn't mean that the way we raise revenues as a share of GDP is just to raise marginal tax rates. So often when you hear conservatives warn about why we can't rely on a revenue side approach it's because they assume that the way we'd raise the revenues is by raising marginal tax rates. But as you just heard Steve Moore talk about, as you just heard Bill talk about, there are so many ways of raising revenue that don't involve raising marginal tax rates. We should be broadening the tax base. And in fact, this is an area where I think there is going to be a lot of bipartisan consensus over the next few years as we grapple with what to do about the expiring Bush tax cuts.

And I think that one way that we can reconcile the need for more revenue as a share of our economy and the need to keep marginal tax rates low is to broaden the base and let that broadening of the base be used to raise revenue rather than to keep revenue at a neutral level.

Thanks.

MR. HASKINS: Austin Smythe.

MR. SMYTHE: There's no one more knowledgeable about the roadmap or more eloquent on the roadmap than Paul Ryan, but, unfortunately, he had to get back to his office. So I'm going to try to -- you've already heard his case for the plan. I'm going to try to respond to some of the comments that have been made.

First of all, from Jonathan, he says that our plan is unsustainable in terms of the long run. It doesn't work from a long run. Well, we can either look at this -- you know, CBO, as Stephen pointed out, assumes and they acknowledge their problems with doing this, they assume the economy grows at a steady two percent real GDP roughly under all of these scenarios. We did not change that. We took CBO's analysis. We think if you actually got entitlements under control, you reform the tax code, you would see stronger economic growth. But we didn't do that. We took CBO's analysis. And what did CBO conclude about our plan? They've got like a 40-page letter. They say our plan provides for a fiscal, sustainable path. So CBO says it works on that.

On the issue of spending only, you can't do it on spending only. We've heard that several times. Right now we've got three large open-ended entitlement programs. I think there's a consensus that it's creating a huge problem for us in the long run: Social Security, Medicare, and Medicaid. We just added a fourth in the form of health care reform that essentially has an open-ended entitlement with some constraints on it, but basically the government is taking the risk after certain premium levels and for a whole 30 million Americans in terms of the uninsured that would qualify for the program.

So we've now added a fourth entitlement program. And there's a littler one that didn't get a lot of attention called the Class Act, which is small, which was added to. But it's not near on the scale of the new health care entitlement. And we expanded Medicaid, which the states can't pay, can't afford. It's dragging down states now. Most states are struggling, but many of these states are not attacking the structural problem they have in Medicaid and we just expanded Medicaid. And again, there are other people who probably know health care better than I do, but I believe the expansions on Medicaid were done in such a fashion that the costs really don't hit the states until after the first decade. So we have enormous pressure on open-ended entitlement programs.

If you think that -- I think if you ask the average person in America should we raise taxes and send more money to the government, will that money go to deficit reduction? Will that money actually go towards savings, go towards addressing the problem? I would say the way that programs are currently structured, there's no way it goes to deficit reduction because these programs are exploding. It's just taxes or to chase higher spending.

The other is you have the United States Congress. So even if some way you got to that spending, if you send more money to Washington, I think generally people, from my standpoint for good reason, think it's going to get spent. So the problem is on the spending side. That's where we ought to be focused.

On Bill's point that there's no discipline on the discretionary side, when we developed the roadmap we did not attempt to develop a 10-year baseline, do nominal dollars and so forth. The whole purpose of it, or when Paul developed his plan, the whole purpose of it was to look at the long-term trends and to make changes on those long-term trends. As we were developing the roadmap we saw there was a large increase in discretionary spending under the Obama Administration. On the base for non-defense -- base non-defense discretionary spending has grown by 24 percent over 2 years. That excludes stimulus. If you add the stimulus money that was added, it's grown by 84 percent.

So we made an assumption we ought to just freeze it. You know, we could go through in terms of how you could get there, but I think it's a completely reasonable level in terms of what you can do with discretionary, particularly viewing the huge increase.

On the point about ending Medicare, I think that's just -- it's so unfortunate to say that that's what Paul's plan does for two reasons. The first reason is if you're worried about Medicare, it's going to end under current law. All of the assumptions and these projects assume Medicare continues to grow. If you have an economy that crashes in 2027, the government cannot finance Medicare at some point.

The program has $38 trillion in unfunded liabilities now. Eventually, if we don't solve these problems Medicare ends under current law because the program first goes bankrupt, the government goes bankrupt, and eventually the economy goes bankrupt.

So if you're worried about ending Medicare, you ought to be worried about what happens under current law. Paul reforms Medicare and phases in a new system. And if that's ending Medicare, then we can't reform anything in this town. Because if you're changing something fundamentally to meet a new mission and you're characterized as ending the program, you can't reform anything. You can't fix it because you're ending it. So I just think that's a very unfortunate way of describing what Paul's plan does on Medicare.

But having said all of that, everyone here gave him great credit so I want to be on a positive note. Paul always says we need to be on a positive note, for him putting forward the plan and having these meetings, talking about the problem, and recognizing that we need to do something on it is just critically important. So I really applaud this session and everyone who came to speak about it.

MR. HASKINS: Okay. I'm going to ask two sets of questions and then turn it over to the audience. The first one is on taxation, of course. I'm tempted to ask the panel to respond to Steve's statement that taxes will not be raised. That's it. But I'm going to resist that.

I'm going to ask instead more what Diane was suggesting. Are there ways that we could raise revenue that would not necessarily be called -- I think it has to be more than -- we've been through this in our fiscal seminar. It has to be more than just it doesn't raise the rates. It can't be like a new VAT on top of the rates that we now have. That probably wouldn't pass mustard. But could you, the old economic solution, economists' solution, broaden the base and you could lower the rate and raise more revenues? You could do it that way.

Is it conceivable that something like that could be worked out, that would raise more revenues so you would get what everybody left of center thinks is absolutely necessary and I think a lot of people right of center think that too, that you're not going to get a deal without increased revenues.

MR. GALE: Let me start on that. Two comments. One is first I was interested that Steve used the example of the '90s as a period of high economic growth. The top tax rate was raised from 28 percent before 1990 to 39.6 by the 1993 -- by the 1990 and the 1993 Act. So, if any -- and then growth in the '90s was strong. If anything, that shows that raising even the top income tax rate is not utterly anathema to economic growth.

In contrast, the growth in the '80s, the high growth rate there results from picking the starting date appropriately. We had a very steep set -- two recessions in the early '80s. We had a very strong bounce back from those because of monetary policy and interest rates. If you look at economic growth from peak to peak, from '79 to '89, it was not particularly exceptional in the 80s. The growth is from like '82 to '89 and that's because from '79 to '82 things were so bad and things bounced back. So the big macro tax history presented by the '80s and the '90s does not suggest that big income tax rate cuts accelerate growth and it does not suggest that big income tax rate increases hurt growth. So that's point one.

Point two, the distinction between broadening the base and raising the rates is a little artificial because broadening the base is in fact raising the effective tax rate. If you tax 80 percent of income at 20 percent and the other 20 not at all and that's a tax expenditure, then you change the tax rate on that other 20 percent up to 20 percent, you've raised the overall tax rate. Okay. Now, you've done it in an efficiency enhancing way because you've reduced the distortion between the taxed and the untaxed portion, but you have raised the effective tax rate.

Likewise, if you impose a tax on consumption, you have raised the effective tax rate on labor, but you've done it in a more efficient way than imposing the tax rate on income because you're now taxing the use of the labor income rather than the generation of it to begin with.

So I think there are lots of ways. There are four ways essentially -- well, there are tons of ways, but there are four standard ways to raise revenue: One is income tax rate increases; the second is broadening the income tax base; the third is energy taxes; the fourth is consumption taxes. Of those four I think raising the income tax rates outright is the worst option and that we should focus on the other three because the other three generate efficiency enhancing effects. That is they make the economy work better, whereas income tax rates typically make the economy worse.

MR. HASKINS: Bill, can I interrupt you because we're getting -- so other people can say something here? We'll come back to you.

MR. GALE: Okay.

MR. HASKINS: Yeah, go ahead. Stuart.

MR. BUTLER: I'd like to respond to it. And I think when you look at -- it's very seductive and I think as Jonathan pointed out, when you see spending up here and taxes here you just say, well, sort of almost as an accountant, surely we've got to kind of give a bit on both sides. It's a very kind of seductive argument.

But I think there were three things that we've got to think through and be prepared to discuss on it. One is, as Jonathan pointed out, Americans have been very, very consistent over a very long period of saying basically double tithing to the federal government is enough. That somewhere between 18 and 20 percent is about it. If we are -- if we are going to raise revenue in a significant way to deal with the deficit situation, the long-term debt, we must go and have a conversation with Americans to say we really need to move it up beyond what you've done, you've accepted for the last 20 years. And I think that debate should take place. I think that should be -- how much should people be willing to send to government? That's got to happen, whether you're on one side or the other.

The second point I'll make is that, as you said, there are certain kinds of revenues that people on the conservative side think differently about than other kinds of revenues, like new taxes and so on. Tax reform that stimulates growth will lead to more revenues to the federal government. Steve Moore, and there's nobody to the right of Steve Moore in America, has said that that's a form of revenue because it goes in line with an increase with after-tax income as well which is acceptable.

Another form of revenue which is acceptable are adjustments to premiums that people pay for federal programs that they may or may not need. That's why conservatives generally have argued and Republicans have always argued for some time that making adjustments in the premiums people pay for Medicare Part D or Medicare Part B and saying that Bill Gates should basically pay the full cost when he retires of his Medicare B and D is an acceptable form of revenue. That's a reduction in net subsidies and that's -- asset sales. Sell Nevada, you know, why not? Ronald Reagan once asked what would we get for Rhode Island. He got it wrong. He should have talked about Nevada or Alaska because it means a limited, defined period form of revenue to the government. That's less frightening to conservatives.

So that, yes, there are forms, but then there's a final, a third point that's got to be pointed out, and I think it was referred to earlier, that when you go and ask people what do they think will happen if you send revenue to Washington, they say without exception -- we took a fiscal wakeup tour to Berkeley and they said this -- if you send money to government it will be spent. And if you want Exhibit A of this, look at the health legislation. That health legislation had virtually every proposal to deal with entitlement reform of reducing Medicare and so on that we at Brookings and Heritage have sat around saying this can't possibly be done and so forth. It had all of that in order to do what? To fund or to partially fund a new entitlement, an expansion in health care entitlement for working people and the class act and so on over the long term and so on.

People who argue for revenue increases have got to answer this question. How do you assure people, how do you guarantee that revenue coming in is going to be used to deal with a long-term fiscal situation and will not be spent? The current budget process does not do that. It does not guarantee that. Until that is solved you will not get people accepting the idea of revenue coming in from the right of the spectrum.

MR. HASKINS: Okay. I'm going to urge other panelists to give shorter responses than the last two, because otherwise we're just not going to have a chance to answer any other questions. So, Jonathan, set the example.

MR. RAUCH: The answer to Stuart's question is you've got to do it as a package deal. There is no other way to do it. It's going to be a package and it's going to have some very large and difficult entitlement reforms. And the price for that, for getting Democrats and liberals onboard is going to be some tax increases.

Steve Moore says it's politically impossible. He may be right. If he's right then probably we were greased because I haven't seen Steve Moore's plan to get spending down to 20 percent of GDP.

MR. HASKINS: Very nicely done.

MR. MOORE: That was quick. Look, the reason -- I think marginal tax rates are so, so important. I mean, that's the supply side. There's a great book on this called *The End of Prosperity*. You can buy it for $29.95 at Crowns right down the street.

But no, look, the last 30 years is exactly that. The tax rates are everything. And when we brought -- the reason I used, you know, we use '82 or '83 as a starting point, Bill, is because that's when the Reagan tax cuts took place. They started at the end of 1982 and we had the biggest boom in the history of this country and we created over the next 25, $40 trillion of wealth. That's what we need to do.

And I hate to keep coming back to this, Ron, but it's so important. Growth, growth, growth, growth. If we don't have growth, all the rest of this stuff doesn't matter. And, you know, one last point. Bill said, you know, we could do some tax increases that don't hurt the economy. Yes, consumption taxes hurt the economy. They don't hurt the economy as much as raising marginal tax rates, but let's take the energy tax. I mean, my goodness. If we passed a cap-and-trade bill, all we're doing is moving manufacturing jobs out of the United States to other countries. How does that bill increase growth? We make it more expensive to produce things in the United States and relatively less expensive to produce things abroad. What we need is more capital investment coming into the United States through tax rates, not exporting capital through higher rates. So that's why I just think it's a pipedream to think we're going to have a big tax increase right now.

MR. HASKINS: Bill, quickly.

MR. GALE: I forget which of Steve's comments I was going -- I was supposed to respond to. Oh, how does an energy tax or a consumption tax improve growth? Well, the issue is, the reason we're concerned about deficits is that deficits are a huge drag on economic growth in the short term and the medium term -- in the medium term. And they could create financial crises in the medium term and the long term. So it's sort of in the line of like Austin's critique of my Medicare comment, and I accept the spirit of his critique. If we don't get the fiscal situation in order, we're not going to have growth. And letting the fiscal situation spawn is a more harmful situation than imposing I think a reasonable set of taxes.

MR. HASKINS: Okay. Let me -- oh, Diane, go ahead.

MS. ROGERS: So as Stuart mentioned that people believe that if you send the money to Washington that it'll get spent, the problem is even if you don't send the money to Washington it gets spent. (Laughter) I mean, and that's why we're -- that's why we have to figure out how to raise more revenue.

I don't believe -- I believe one way to do this is to, in terms of budget rules, is to have a pay-as-you-go rule that actually has more teeth and that doesn't exempt big things like extending most of the Bush tax cuts. What a pay-as-you-go rule like that would do is it would open up -- it would encourage fundamental tax reform because you could say you can do whatever you want with tax policy as long as it's revenue neutral relative to current law baseline. And I think that would be an important step.

MR. RAUCH: But there's a problem with that though because I don't know how many of you saw our editorial yesterday that we had, but it's an important one. I hope you all read it. I mean, the Joint Tax Committee said that the Bush investment tax cuts were going to have all of these negative effects on revenues. And what happened, we had a big, huge income in revenues after '83, especially in dividends and capital gains. So we're kind of hamstrung by this lunatic kind of static revenue scoring. I mean, Stuart and I -- this is what keeps us up at night is we don't have honest scoring about what these things are going to "cost" when we cut rates. And so it puts us in a box. We can't cut tax rates because Joint Tax Committee says that it's going to cost revenue.

MR. HASKINS: Okay, wait. I figured something out here. I figured something out. No matter how many times I let someone respond to someone else, we're playing ping pong here. So I'm going to ask a different question. This is going to be a big part of the debate. It's about growth. Is it an accurate statement that if we got the deficits under control and the markets believe that, that if we had a more rational tax code and that if we actually had real cuts in entitlement spending, if we did those three things which would reduce the deficit, it might not take it all the way to zero, but would reduce it, could we expect impacts on growth? Investment and growth? Would that actually happen? It probably won't be reflected in the scoring. I see your point here. But would it happen? That's the question. Go ahead, Bill.

MR. GALE: Okay. The evidence is very strong from papers written by Glen Hubbard and Eric Engen on the one hand; Peter Orszag and me on the other, and others as well, that there's an impact on interest rates. The evidence is equally strong. There's an impact on national saving. The IMF jut put out a cross country study that showed that there's a serious impact on growth rates of higher debt and deficits. And yeah, if solving the deficit problem or fixing deficits didn't help the economy there wouldn't be any reason to do it.

MR. MOORE: My own view is that it's the spending that causes the crowding out, not the deficit. So I don't lose sleep over deficits. I do lose sleep over government spending and, you know, when you increase government spending by five percent of GDP as we've done under the Obama Care Bill, yeah, that has severely negative effects on the economy because it crowds out investment. So I believe Milton Friedman had it right. I'd much rather have a big deficit with a lower level of government spending than a balanced budget at $4 trillion a year.

MR. HASKINS: Jon.

MR. RAUCH: Okay. So show me the money. How do we get spending to 20 percent of GDP in a politically viable way on Planet Earth? Where is the plan to do it? Paul Ryan doesn’t do that and he’s the meanest, toughest spending cutter out there. Under Paul Ryan’s plan, which is a good plan, a lot of it I agree with, for the next 25 years as a share of GDP after popping down initially down because of the recovery, spending goes up, not down, to 24 percent of GDP. It is great for conservatives to say let’s do it on the spending side. Show me the money.

MR. HASKINS: Also, show me the history. Republicans had total control of this town and not only didn’t they control spending, they profoundly contributed to new spending.

MR. GALE: Just on this issue of Paul’s plan, I’m going to go back to it again. CBO says our plan is sustainable. We can either use CBO’s number or not use them, but that’s what they told us in their analysis.

The other thing as Paul mentioned is he funds the personal accounts on Social Security in his plan. What that does is that’s recorded as an outlay. As he mentioned, it pulls -- it essentially pulls a debt obligation forward so it ends up having a higher effect on spending, so it pushes the spending up during the period Jonathan is talking about, artificially up. And then it has a decline in spending in the out years as a result of -- as Social Security retirement benefits are funded from the personal accounts and not through the traditional program.

The other thing is in terms of the effect on national savings, funding a personal account has no effect on personal -- on national savings because it’s not like other spending. This is not spending for consumption. A personal account, you have a higher deficit and higher private savings. Net national savings don’t change. So Paul’s plan does show higher spending, a little bit higher deficits, but both from a long-term outlook in terms of what's going on and the economic impact, it's not that high shown purely by the outlays in deficit and debt impact.

MR. HASKINS: Audience, now let's have brief questions, not comments. You came to hear the panel so let's have brief questions and let's get brief answers from the panel so we can have as many questions as possible. Right here on the aisle.

SPEAKER: Question for the three conservative panelists. Do tax cuts make debt and deficits better or worse?

SPEAKER: Say it again?

SPEAKER: Do tax cuts make debt and deficits better or worse?

MR. HASKINS: That's a model question by the way.

MR. MOORE: I'm not obsessed with deficits. I'm obsessed with growth. You know, that's what I keep saying. We've got to get the growth rate up. We've got to get the growth rate up to three percent or more. So, yeah, if we did the right thing on tax cuts. In fact, I'd be in favor of a tax cut right now. I'm the real outlier here because you all want to raise taxes. I think we should be cutting rates very substantially to be internationally competitive.

It depends on, you know, what kind of taxes you do. If you cut rates I think you have a very substantial impact on capital inflows in the United States which creates growth. One of the reasons we saw the big growth rate of the U.S. economy in the '80s and '90s is the U.S. just sucked in capital from the rest of the world because our tax rates were lower and our inflation rates were so much lower. That's what we need to do again. The kind of scary thing about the U.S. economy right now is we're now exporting capital. Americans are investing more money abroad than foreigners are investing here for the first time in 25 years. So that's the thing we've got to turn around.

MR. HASKINS: Next question. Right there behind you. Right behind you.

SPEAKER: As an environmentalist I think that this constant growth, growth, growth, especially in the richest country in the world, is ruining our planet. I don't think my children need to live at a higher standard of living than I live. And I don't think that the solution is to have other countries that are poorer than we are, especially the developing countries, invest more in us. I don't think the emphasis should be on continual growth. Why do you think growth is so important? Why don't you think environmentalist --

MR. RAUCH: You don't want a higher living standard. You may not want one, but most Americans -- I want my kids to have a higher living standard and growth is what leads to better environment. There's no question about it. You know, when you have more -- environmental protection is a superior good. The richer a country gets, the more money it spends on environmental protection. There is absolutely no question about it. It's the reason why our air and water is so much cleaner today than they were 100 years ago.

MR. GALE: But the point here is that living standards involve more than just material growth, or another way to put it, the economic growth is not an adequate concept for measuring quality of life. And we can think of lots of ways that can generate bigger GDP numbers that would not make most people better off that would not make most people happier. And so when you have a chance for a twofer, like an environmental tax that can improve the quality of the environment and at the same time help mitigate the fiscal problems and, therefore, help the economy through that channel, I think that's something that needs to be considered very seriously and needs to be part of our portfolio.

And let me just add, Steve, you said that we're all in favor of raising taxes right now and you're not. I don't think anyone is talking about raising taxes right now. I think there's an understanding that the economy is weak. We actually need to stimulate and the deficit issues are medium-term and long-term as Representative Ryan's plan has emphasized.

MR. HASKINS: Next question. Right here on the aisle.

SPEAKER: Hi. I have two questions. One with regard to your numbers analysis. Has anyone done any numbers with regards to the benefits that the government receives? Like many of the states are having difficulties meeting their pension. Is that something that's being considered? Number one.

And number two, in this equation is the Department of Labor -- because I know the Department of Labor is having an impact on growth with their new laws and regulation. I know it's a big impact on non-profit America. Is that coming into this conversation?

MR. HASKINS: You stumped the panel.

SPEAKER: If your question is on state and localities pensions?

SPEAKER: With the government as large as it is and you have many people that are retiring, you know, those pensions. In the past you go into the government not for the pay, but it's the benefits. Now it's the pay and the benefits and all those extras. I have no problem paying a consumer tax, a consumption tax, even increased tax, but I want to know that my dollar is going, you know, to program that's really going to benefit us and allow us to grow as a society as opposed to, you know, paying incredible pensions and so forth, especially when in nonprofit America many of us took a 10 percent pay cut because of the recession. A lot of us had to go forgo our 403s until we're able to be stabilized. What is the government going to do in that regard?

MR. SMYTHE: Well, I think in terms of there's a lot of analysis that's done in terms of --

MR. HASKINS: Turn your mic on.

MR. SMYTHE: I think it's on. I hope it's on.

SPEAKER: You might have to talk a little closer.

MR. SMYTHE: I think there's a lot of analysis in terms of the long-term outlook. There is an issue in terms of if you're getting sort of federal civil service programs and so forth and the pensions there, but the numbers we've all been looking at and the projections we're looking at. There are also other issues in terms of there's the Pension Benefit Guaranty Corporation which deals with the insurance of private companies. There's an issue there. They have very large unfunded liabilities. I don't know if we're getting strictly at the question that you have, but I think the kind of issues of the pension exposure that the federal government -- we need more analysis on that, but there is a great deal of analysis done on that question.

MR. HASKINS: Jonathan.

MR. RAUCH: Government worker pensions are becoming a flashpoint and I think they probably should. I think politically that's appropriate under a country that wants to share the pain and not insulate a particular class of people from a downturn. But that said these numbers are trivial in comparison with the overall problem. It'll have to be part of the package, but the dollars that you can get from covering -- from cutting government pensions are a fly spec.

MR. HASKINS: Next question. All the way inside here.

SPEAKER: Thank you. There's a proposal out there floating around. I think it's Senator McCain and Representative Flake where Americans can check off a box on their tax return saying that they want their money to go specifically toward debt reduction. And I would be curious to hear your thoughts on that, whether you think it would significant or at least symbolic or at all effective?

MR. MOORE: Since that's something I went to Flake and McCain about and talked them into it, it's a great idea I think. Basically what you would do is you allow people, Americans, you would empower every American at the bottom of their income tax form to dedicate 10 percent of their income tax receipts to lower -- to retiring the debt.

Now, you're wondering how does that work. Well, what you would do is let's say you add up all the amount and let's say it's just for sake of argument $100 billion. What you do is you have an automatic across the board like Gramm-Rudman. Remember under Gramm-Rudman we had the sequester where we just cut spending across the board. So you cut spending by $100 billion so that you've got, you know, an equal reduction in spending to offset the increase, the reduction in tax revenue. So I think it's a great way to retire the debt.

MR. BUTLER: Maybe I can just add to that. Whether or not that's a good idea, it basically attempts to set a rule in place to ensure that revenue is dedicated for that purpose. And that's the key thing to kind of pull out that. We don't have those rules in the current. Not only do we not have those rules, but as you were talking about, the pension systems and so forth. It's very different between what the government imposes on corporate America in terms of putting its retirement liabilities on the balance sheet so it can actually show stockholders. The federal government doesn't have to do this and, therefore, we have these huge liabilities and obligations in the federal government that don't show up in any meaningful way. And, therefore, members of Congress and the American people do not have to confront this and don't have to say how do I want -- what rules do I want to put into place to make sure this happens and that changes occur?

So these rule changes are critical. And there is no way you are going to get an agreement with both sides of the aisle unless it's enforceable, unless it's guaranteed, unless people know that people will in fact not renege on what they do. It's one of the reasons we put forward at Heritage the idea called a bank it first proposal for the savings, the supposed savings, in the health care bill and say, okay, all these savings are supposed to come from various things. Let's not start any of the entitlements until the money is actually achieved and certified as in the bank before you actually start spending it. The legislation doesn't do any of that.

So there are very simple things that make sense to ordinary Americans that we should be doing in the rules that we aren't doing.

MR. HASKINS: Bill.

MR. BUTLER: Until we do that we're not going to get an agreement.

MR. HASKINS: Bill.

MR. GALE: Yeah, money is fungible and it might make people feel good to check that, but it's not going to have any effect on anything.

MR. HASKINS: Last question. Right, okay, right in here.

SPEAKER: Hi. How you guys doing?

My problem is I think the crisis is a lot worse than any of you guys seem to think. Mr. LaRouche's forecast of the breakdown of the entire world economy by this September -- and you guys are talking about reducing the deficit -- and he said that actually what we need is to restore a Glass-Steagall standard for the world economy. If you're not for that, are you guys for reducing the world's population?

MR. HASKINS: Steve Moore. (Laughter)

MR. MOORE: Julian Simon was my mentor so, no, I'm in favor of more. The more the better.

MR. HASKINS: Bill. Your light's on Bill. It's your fault.

MR. GALE: Yeah, my own fault. I guess I disagree with the economic projection. And let me leave it at that. (Laughter)

MR. HASKINS: Okay. Please join me in thanking the panel. (Applause)

And thank all of you for coming. I hope we initiated a good discussion.

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

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