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SHOULD THE DISADVANTAGED BE SPARED FROM THE BUDGET AXE?

A LOOK AT THE PRESIDENT'S BUDGET COMMISSION FINDINGS AND HOW THEY COULD IMPACT THE POOR

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P R O C E E D I N G S

MR. HASKINS: I somewhat run something here called the Center on Children and Families, and we're one of the sponsors of this event. Since 2004, Belle and Alice Rivlin and several others here at Brookings have been extremely worried about the deficit.

And we've done all the kind of stuff, mostly ineffective, that scholars do, write stuff and give speeches, and actually some things we did not even think of had some influence, at least we provoke people by recommending that Social Security and Medicare be on a budget and that Congress would have to take action if they didn't meet their budget targets. That produced lots of outcries. Some of the people that participated in the outcry are here today.

We also worked with other organizations and participated in a tour of the United States, and I think have now been to 60 cities or something like that giving talks about how serious the deficit is, trying to rile up the grassroots, and meeting with local editorial boards and so forth. So we've done a whole array of things, including things that scholars do not normally do, roughly speaking, trying to bring attention to how serious the deficit is and the consequences of not dealing with the deficit, and then proposing concrete solutions, which we've been doing since I think 2005, we laid out a number of plans for reducing deficit.

And now, of course, we have at least 12 fairly comprehensive deficit reduction plans on the table, so that is really a great achievement. And you can tell that the Congress has really paid careful attention to them, because they've only spent a trillion dollars so far this week, so they're right on board here.

Today's event is designed to do two things. First of all, the President's commission is probably the most important of the commissions because it's the President's, and also because of the people who run the commission, so we're going to focus especially on that one, but knowing the panelists as I do, they're free to talk about any of the 12, or, in fact, whatever they want to talk about that is a plan for use in the deficit.

And we're going to focus first on the adequacy of these plans, what is the correct balance between taxes and revenues, what should be off the table, that sort of thing. And then the second panel is going to focus specifically on whether there should be a protection for programs for the poor, and for low-income families, and for programs that promote opportunity, so education programs and other programs that are intended to promote opportunity.

Some of you may recall that back in the days of Graham Redmond Holly's estranged beast, there actually was a proposal by the Congress that passed, and everyone agreed to it, and the idea was that, roughly speaking, you had to meet budget targets or there were several penalties that Congress would have to pay.

And in that proposal, programs for the poor got almost complete protection, they got very substantial protection. So it's not unprecedented, and there's a great concern among people, especially at the Ford Foundation and at Casey's, we'll see you in a minute, that these programs might deserve some protection, so that's the second purpose of today's event.

The event is sponsored by, in addition to Brookings, Spotlight on Poverty and Opportunity and the Hudson Institute, with support from the Casey Foundation, so we want to thank all the co-sponsors and the people who help to pay the bill. And the event itself was planned primarily by Mike Laracy of Casey, by Jodie Levin-Epstein of the CLASP, Sam Gill of Freedman Consulting, and Amy Battjer of the Hatcher Group. Battjer is spelled with a J, but it rhymes with Hatcher, so you can always remember. You get all these great facts from me, it's free.

All right, here's our plan for the day. First of all, I'm going to make brief introductory remarks and introduce the presence of Casey and Ford, who then will speak. Then Bruce Reed, who I'm sure everybody knows, who is the executive director of the President's Commission, is going to talk to us for a few minutes about the President's Commission and what it recommended.

And then we're going to have a panel of experts and advocates who will reflect primarily on the recommendations of the provision from an adequacy budget perspective, with some attention to whether the poor should be protected. And then we'll have a second panel to focus specifically on whether there should be protections, and if so, what should those protections be like.

I'm going to moderate the first panel, and my good friend, Bill Schambra, who's here somewhere, there he is, will moderate the second panel. And during the course of that, we'll have lots of opportunity for discussion among the panelists and for questions from the audience.

So I have the privilege of introducing two eminent Americans, the presidents, respectively, of the Annie E. Casey and the Ford Foundation. Many of you probably know that Brookings is famous for brief introductions, and you have biographical material in your folders to tell you about these.

And I'm usually happy to continue in the brief introduction tradition at Brookings. But let me point out to you that Patrick McCarthy is not only the head of Casey, but he's my boss, because I work at Casey, at least part-time, so I think it behooves me to say something fascinating and generous about Patrick.

He's a little nervous right now, what's the guy going to say now? So here's what I decided to say about Patrick. Among his many qualifications and experience as one of the nation's great thinkers and doers to help protect kids who are abused and neglected, he also has a background as a therapist.

This qualification accounts for his ability to so effectively oversee my work and the work of Mike Laracy and the other staff at Casey, especially Mike Laracy, so Patrick, welcome. And then next, Luis Ubiñas, who's the president of the Ford Foundation, and whom I had the opportunity to meet for the first time this morning, is a striking background in business, and especially technology and communications. Here's my conclusion about his background, someone who gives away $500 million a year can communicate any way they want to. Patrick.

MR. McCARTHY: Well, good morning, everybody, and I think you'll be pleased to know that our primal scream approach to therapy with Ron is just going very, very well. I want to thank Ron for that truly generous introduction.

You know, we are -- the Casey Foundation is very, very pleased and proud to be associated with this event and really want to thank and acknowledge the leadership and the long partnership with the Ford Foundation that we've had over the years thanks to Luis and his whole staff, and to Ron and to Bill for moderating the panel.

Thanks very much to the Planning Committee, to the whole Brookings staff, and to all the participants here today, because I think we're going to be taking up one of the most serious issues that this country faces, not only how do we get a handle around the fiscal deficit at the federal, and I would argue also the state level, but how do we do it in a way that's smart, that's intelligent, that actually ends up leaving us in a stronger position. The three sponsors of today's event, the Brookings Budgeting for National Priorities Project, Spotlight on Poverty and Opportunity, and the Hudson Institute's Bradley Center for Philanthropy and Civil Renewal, all three of these organizations share a common theme, and that is, they look at issues in a way that expands the conversation, that tries to build a larger tent within which different ideas can come to bear, and in this day where cross aisle conversations can be not just heated, but in many respects nasty, that kind of cross ideological bipartisan conversation is exactly what we need and unfortunately very rare, so I think this is a particularly important conversation to have, precisely because it is cross ideological.

I want to give a special nod to Spotlight on Poverty and Opportunity. You know, this is the one place where you can find almost everything you want to know about poverty and opportunity, and again, a great partnership between Ford and Casey in sponsoring the spotlight.

So one thing that's become absolutely crystal clear is that this nation has to address the federal budget deficit, even in the long term, even as we continue to pay attention to stimulating the economy in the short term. If we are to delay making some tough choices about the federal deficit, there is no question that we will leave to our children and to our children's children a mess that will hinder our ability to grow, hinder our ability to be successful, and is downright immoral to leave to our children the resolution of problems as complicated as they will inherit if we don't act now.

At the same time, it would be also wrong to try to solve the budget deficit at the expense of the most vulnerable, the most low-income and disadvantaged kids and families in the country, those kids and families at that bottom third of the income distribution.

We know they're already struggling to just survive and to raise their kids in the toughest economic climate we've seen in a long time. It's not only wrong, though, it's also, from our point of view, fool hearty if we were to try to solve this deficit problem with policies that end up increasing poverty, decreasing opportunity, and decreasing the opportunity for mobility.

To cut back on smart investments in our children's future would hurt our productivity, our economic growth, our capacity to innovate, our global competitiveness. Now is precisely the right time to maintain smart investments in a two generation approach to reducing poverty and increasing opportunity.

We know that the deficit reduction strategies that we'll have to take up will cause pain for all of us. All of us need to share in the sacrifice in a way. It's important to say all of us have to have skin in this game.

I would argue, however, that the families that are below that 200 percent of the poverty line, in fact, don't have much skin left to put in the game. In fact, if you think about a family making $250,000 or more a year, if they were to experience a tax increase, that means $10,000 coming out of their pocket, the reality means that they will not be able to get that better sound system for their car, a navigation system, and maybe they'll have to settle for a regular suspension system on their Lexus, but the reality is that if you take $1,000 out of the EITC benefit for a family to make $25,000 a year, they risk having the utilities turned off and their kids not getting the diet they ought to have.

So let me just end by saying thank you for coming this morning to listen, to learn, to share points of view on how we can not just spare the axe, but perhaps take more of a scalpel approach as we think about our poorest population. I would argue that we should reframe the question not to, should the disadvantaged be spared the budget axe, but rather, what sacrifices would be fair, just, and smart to ask the poor and the near poor to make. Thanks very much.

MR. UBIÑAS: Good morning, everybody. Let me begin by thanking Brookings for hosting us and by thanking our co-sponsors, Spotlight on Poverty and Opportunity and the Hudson Institute. I'm also glad to open this event with Patrick, who has been a great partner to the Foundation for 15 years, well before taking on leadership of the Foundation.

Now, the conversation we're going to have today is important to Ford because explicit in our mission is the belief that all people have the opportunity to reach -- must have the opportunity to reach their full potential to contribute to society and to have a voice in the decisions that effect them, the opportunity, in other words, in making this great country of ours even stronger. In many ways, it's the guidepost of the Foundation.

And at Ford, we've worked for decades to promote this issue of economic fairness and opportunity, not through handouts and dependence on government, but through work, equitable work or effort is met with fairness. And three core initiatives right now define our work in this field today, and many of you are involved with us in this work.

First, and you should feel this, I hope, in the field, we vastly expanded our efforts to strengthen programs and policies which allow working families to stay in jobs even when they face personal hardship, policies such as paid sick leave and family leave, so that when a hard one job is at risk because a child breaks an arm or an elderly parent falls ill, that person doesn't lose the job.

Second, we're investing in efforts, and again, a dramatic increase in our efforts here. We're investing in efforts to help low-income working Americans build assets; build the assets they need to establish financial stability, to establish productive, independent economic lives.

Now, let me just say that the federal budget isn't silent on this issue. For those of us who are middle class or affluent, federal mortgage deductions, 401(k) tax deferrals, and a slew of other asset building assistance is central to our ability to establish financial security. Our work at Ford is focused on building similar incentives, similar incentives such as child savings accounts for low-income families who might not have the resources to buy a home or whose employers don't yet provide a 401(k).

Last, there are times when even the most hard working among us can't make ends meet, when even the most hard working among us are forced to rely on the social safety net, by the way, a social safety net that almost every American family has had a member saved by. This is not an issue of the poor, or the Hispanic, or the black, or the female, or the young, almost every American family has used this safety net.

On this issue, we're working with states to make this social assurance on employment and food stamps, for example, easier to receive and keep, so that when we do face -- when we do face hardship, we can stay on our feet long enough to fight our way back into the work force.

Let me just pause to say that this struggle to hold onto the vestiges of economic stability long enough to earn a job is the difference between getting back on your feet and falling out of society. Back in the early '80's, and it seems literally like an eternity ago to me, I was a reporter for the *Los Angeles Times* and I covered homelessness in San Diego. I spent night after night with people who had fallen through that social safety net. And what struck me wasn't how destitute those homeless men, women and children were, as poor as they were; that wasn't what struck me, what struck me was how desperate they were to get back into the working mainstream. They had fallen through the safety net and just couldn't get back up.

One of the many things that makes America great is our shared belief, a shared sense that there's a level below which we will simply not let our brothers and sisters, our neighbors and friends fall, a common belief in the proverb, there but for the grace of God go I.

So as we discuss the fiscal crisis we're in, and many of you are engaged in this conversation every day, as we participate in that discourse, we need to remember that as Americans, we have a dual responsibility. We need to ensure that we not leave our children, my children, and your children with a legacy of debt, just as Patrick just said, but we also need to ensure that our basic American values of fairness and equity are upheld. We need to ensure that the neediest among us do not bear the brunt of our past fiscal irresponsibility.

So I hope over the course of today, I hope that in this context, you'll listen to the people who are here today. They represent a broad range of views and that's a good thing. We need all views represented. But in the end, we have to remember that no matter how we think about the future, no matter how we think about the legacy of debt we leave to our children, we cannot solve that problem by violating the basic American value, that all of us deserve an opportunity to participate in the economic wellbeing and the prosperity and in the goodness of this country. Thanks.

MR. HASKINS: So now I have the great good fortune of introducing Bruce Reed, a long time friend and adversary. Bruce and I had a number of secret meetings back in the old days when we were doing welfare reform, and he worked in the Clinton Administration and I was with the Ways and Means Committee, and I quickly grew to respect him greatly, and as far as I can tell, he hasn't changed a bit over the years, he's totally reliably.

Completely unlike most people in Washington, you can count on everything he says, and I have yet to hear him exaggerate. So, Bruce, the microphone is yours, don't exaggerate.

MR. REED: Thanks, Ron. You've changed a lot since I knew you. I knew Ron when he was a conservative. I want to thank you for putting on this forum that puts the issue of equal opportunity front and center in this debate, as it should be in every debate we have. And a special thank you to Patrick and Luis for what they said, and to Brookings for all the help that they gave the President's Commission in laying the groundwork for what we did.

Ron and Belle Sawhill and a number of other people met regularly for many months providing all kinds of advice, and then it was all hands on deck for Brookings generally. Alice Rivlin was on the Commission, actually, she was on two Commissions, and a number of people at Brookings gave us all kinds of support.

Before I address the specific question on the table this morning, I want to say a few words about the overall plan that our Commission put forward and some of the lessons that it might offer for where we go with the opportunity to debate and others.

The first thing that is quite apparent to me is that the American people are more than ready for this debate, they're way ahead of Washington on this. Most commissions spend their time running around the country trying to get people exercised about a problem; we never left town because we realize that the real problem was here. The country is ready to act, it's not clear whether Washington is ready to act, and the reason for that, in part, is that Americans have spent the last two years sitting around their kitchen table running their own little debt commissions and trying to decide what they could learn to live without, what kinds of long-term hard choices they had to make, and they want Washington to do the same, they want them -- they're not quite sure about the magnitude of those choices, and they have very little confidence that Washington will get it right, but they want that debate to happen.

The second very heartening lesson is that it's not impossible to bridge the partisan divides in Washington. You know, in many ways this town is broken, but it is possible, if you go and listen to both sides and try to take the best ideas from both, that people can find common ground.

We were essentially a search party for divided government, and we found a lot more than we expected to, and I think that's an encouraging sign given the challenges that our country faces. And the exercise of the Commission was to spend six months together with equal numbers of Republicans and Democrats and stare at the same cold, hard facts, and people came away with reaching strikingly similar conclusions about the urgency of the problem and about many of the things that we need to do to solve it.

And for members of Congress, that was in many ways a unique experience. They don't get that many chances to speak honestly to one another across party lines. And I think many of them were shocked to discover just how much the status quo needs to be changed in a number of areas that hadn't been on the table before.

We had, you know, we had a number of sessions that were kind of true confessions for people. And Democrats complained about duplication of programs, Republicans acknowledged that there are many parts of the defense budget that haven't been scrutinized in many, many years, and everybody's jaw dropped when conservative defense analysts came in front of us and said that the Defense Department wasn't really sure how many contractors it had on this payroll, it was somewhere between one million and nine million.

And I think everybody on both sides of the aisle were horrified by the current state of the tax code. We spent a lot of time talking about spending of the tax code, about tax expenditures, and about how there's $1.1 trillion in tax expenditures on an annual basis on the individual side, and the government only brings in $1 trillion a year in personal income taxes, so there are more loopholes than money coming in, there's more holes than cheese, and I think that got under the skin of both Democrats and Republicans alike, because both sides have things they'd rather do with that kind of money.

The third I think encouraging lesson is that the more serious the problems we face, the easier it is for real leaders to get serious. And what we're up against is deadly serious, as Ron and Belle and others have pointed out on numerous occasions, we're looking at an increase in the debt of about seven trillion over the next nine years, it's going to take us all the way up to $20 trillion by 2020.

By 2020, we'll be in a position where we, if we don't change our ways, we will owe a trillion dollars a year in interest alone, most of that going to our competitor. So it's not a matter of whether we face up to this, we're going to have to, it's just a question of whether we get ahead of it or we don't.

As Ron said, it may take a while for things to change here in Washington. A couple weeks ago we declared that the era of deficit denial was over, well, it may be over, but Washington wants to have a big year end close-out sale before it leaves. But we shouldn't under estimate the magnitude of the challenges that we face here. We have to do a lot of things that we have not been able to do in the past. We have to find a way to bend curves that we're not quite certain how to bend, health care costs, other curves that we've never taken on before, like Social Security, and then we have to find a way around curves that can't bend.

We're growing older as a society; we are in the economic fight of our lives, so we're trying to fight many fronts at once. And to the point that we were talking about this morning, we have to ask Americans to make sacrifices to avert the next crisis at the same time that they're still reeling from the last one, and that's especially true for the poor and the near poor.

Life for them was tough before the great recession, it's much tougher now. So that's going to take more courage and more wisdom than the political system is used to. On the other hand, I think it is a -- it's a very important debate for a nation to have. So much of what we do is on auto pilot, so it's so rare that we have a chance as a country to go back to first principles and decide, is everything we're doing the smartest way to do it. And I think we were thrilled by the degree of bipartisan interest in having that conversation, and by the guts that senators like Dick Durbin and Kent Conrad and Tom Coburn and Mike Crapo showed in standing up to the conventional wisdom and forces on each side of the aisle.

Let me say a little bit about this particular challenge because it was a really important first principle in guiding us. For Erskine Bowles and for Alan Simpson, the co-chairs of the Debt Commission, taking care of the most disadvantaged, of the most vulnerable was at the very top of our list.

Erskine said it at the start of every meeting, he said it in every public appearance that we didn't want to harm the folks who had nothing to do with getting us into this crisis in the first place, and that the debate that we're trying to have isn't about sacrifice for its own sake, it's about finding a way to expand opportunity for everybody and expand access to the American dream.

So we worked very, very hard to spare the poor as best we could from the budget axe, as you put it. On Social Security, we actually put in measures that will reduce poverty. We added a special minimum benefit, 125 percent of poverty. We put in a bump in benefits for those in their 80's, because people are living longer now, they're outliving their retirement savings, and so we need to do a lot more for the very poor and the very old.

We also, at the same time, we proposed raising the retirement age very gradually. We proposed a hardship exemption for those who can't work. And we did our best to spare most means tested programs. And on the tax side, we put forward a tax reform plan that had enormous appeal to both Republicans and Democrats alike, that lowered rates, broadened the base, reduced the deficit, and was dramatically more progressive than current policy.

We were very careful to watch our distributional analyses, to make sure that they were better than the way things are now. And we actually reduced tax slightly for those in the bottom quintile. And most of the other debt reduction plans out there don't do that. Domenici-Rivlin relies heavily on a VAT, for example, there are arguments for that, but it falls heavily on the poor and near poor.

And I think any attempt to tackle this problem is going to have to involve shared sacrifice, and it's important to focus that on those who can afford it. So in Social Security, we asked more of those who can afford it; in tax reform, we focused on getting rid of tax expenditures, which are wildly regressive, most of the benefit goes to upper income. The 400 wealthiest Americans pay an effective tax rate of less than 17 percent, so a tax system that benefits those who can take advantage of deductions and loopholes is a bad deal for working people; it's a bad deal for the poor and near poor.

And then we tried to cut spending gradually, fairly, and significantly. You know, much of the real problem when Congress goes about cutting spending is if they start to take things off the table in ways that put more and more pressure on the most vulnerable programs.

So, for example, House Republicans have long advocated a deep cut in discretionary spending, but said let's let defense spending continue to grow. Our attitude, which we got bipartisan support for, was, it's fine to cut spending, but if we're going to do it, let's cut everything -- let's put everything on the table so that the burden doesn't fall entirely on a handful of programs, and let's also look for ways to not just cut, but make sensible decisions on long-term investments that will make us a stronger country over the long haul and promote economic growth. I would say just one last point, that from the standpoint of the poor, the near poor, the middle class, and the country, doing nothing is the cruelest thing that we could possible do. Any modest sacrifice that we don't make today is robbing opportunity from the next generation. We have to shepherd our resources now if we're going to be able to afford the kinds of programs that we want to have down the road.

Those of us who are concerned about fighting poverty need to lead the charge in making government more efficient, making every program work, because the efficiency is coming. There's going to be a relentless effort to make sure that every dime we spend is well spent and produces results. And so we shouldn't be up on the Hill advocating defending, you know, dozens and dozens of duplicative programs, we should be the ones who are saying, give us, you know, give us one program that works and I think that that's, again, a good debate for the country to have.

I think the other aspect of this is, we shouldn't assume that defending the status quo is a great thing. It's not as though the status quo in American life is a terrific bargain for the poor, the near poor, the middle class. There are all kinds of things that we could do better as a nation to make sure that the money we spend is better targeted, the taxes we raise are done in a more progressive and efficient way, that allows for more economic growth that will benefit everyone.

There's a lot of things about the way this town works that don't produce the best result for anybody. So it's a hard debate, and we should absolutely make sure that we protect those who need it the most, but we shouldn't be afraid of this debate.

This is an opportunity to reexamine fundamental aspects of the social safety net in a way that will make it stronger, that we are going to need, going forward into a very competitive, tough century when we're getting older, and we have more needs to meet.

So I think -- I've been encouraged by the reaction to our plan, we know it's a suicide mission, we're still standing a month later, and I think that tectonic plates on this issue are shifting, that a lot of the nonsense that the political system has been able to get away with is going to be harder and harder to do as time goes forward, and that gives us an opportunity to make gains on this issue that we never had a chance to make before. So thank you very much.

MR. HASKINS: So while the first panel is coming up, let me briefly introduce them. First of all, we have Dean Baker from the Center for Economic and Policy Research; Douglas Holtz-Eakin from the America Action Forum; Rudy Penner from The Urban Institute; and Belle Sawhill from Brookings; and we've asked Bruce to join the panel, as well.

Each of the folks who haven't spoken yet will have seven minutes to make an opening statement and reflect in any way they please on the President's plan or any of the other plans, or the general problem of how we're going to solve the deficit, or at least make good progress on the deficit. And we have also asked each of the panelists to make at least one comment about whether programs for the poor and opportunities should be protected. So let's begin with Dean Baker.

MR. BAKER: Okay. Well, I guess I'm going to be somewhat of an outlier here because I'm going to say that I don't think the deficit is a really big problem. I realize I'm an outlier with that, but let me just point out, had I been here three years ago, I would have been jumping up and down yelling about the huge housing bubble that's about to collapse and going to wreck the economy, and I also would have been an outlier then, too. I'll point out I was not invited here three years ago. Well, let me just say, you know, just starting with the basic question, should the poor, should the most disadvantaged be protected, to my mind, this is kind of like how could we think otherwise.

We're getting richer as a country, we're not getting poorer. I just -- out of curiosity, I was looking back, because of this panel, at the projections from 1995, that was before the productivity speed up, and at that time, we also had people running around concerned about the deficit and the end of the world and all that, and I just said suppose we did the good thing, because the Congressional Budget Office makes projections, suppose we did the right thing, balance the budget, what would things look like?

Well, just out of curiosity, I ran this through, and guess what, in 2010, per capita income in the United States, even with the great recession, is higher than what the Congressional Budget Office projected for 2020 if we had balanced the budget each and every year between 1995 and 2020; of course, we haven't done that.

My point is just, we're getting richer. This idea that, you know, 10, 20, 30 years out, our children are going to be living in poverty, there is no real story about that, so that, at the onset, I think is seriously misleading.

Now, will we protect the poor? I'm not terribly confident. And I recognize, you know, the Commission did a lot of good work, and I recognize their intentions, but there's some things that leave me just great grounds for concern, and I'll mention a couple things in particular.

First off, the cost of living adjustment for Social Security. This is treated as this trivial issue, that we're going to reduce the annual cost of living adjustment will change the indicator, we could talk about the accuracy of that in another question, but we're going to change the index of inflation that will lower the cost of living adjustment by about three-tenths of a percentage point a year.

Now, for someone who's getting benefits for 20 years, that's an average reduction over that period of roughly 3 percent. Is that a big deal? Well, we're led to believe it's not. Well, how much will the loss in income for the average person in the top 2 percent if Bush tax cuts expired? Well, it will be less than that. A lot of people down on Capitol Hill think that's a really big deal. So if it's a big deal that people in that top 2 percent might pay somewhat higher taxes, we should also think that change in the cost of living adjustment for Social Security benefits is a big deal.

The second cause of concern I would raise is simply the magic asterisk. How do we control health care costs? Well, as we know, and I'll come back to this in a second, the big issue going out in terms of the budget, of course, is health care costs. What does the Commission say? Well, we're going to get them below 1 percent; we're going to limit the rate of increase in health care costs. Well, how is that going to be done? No one really knows.

So we could certainly do that in ways in principle that won't hurt the most vulnerable. Are we confident that it's going to happen? I'd just say I'd be skeptical, I mean let's hope for the best, but I'd be skeptical.

One more thing in terms of, you know, be honest in how we talk about this, I've been kind of appalled that there's been an effort, at least I would say, to xenophobia in making the case about the deficit in talking about borrowing from China.

Whether we think borrowing from China is a good or bad thing, that's an issue about the trade deficit, not the budget deficit, okay. If we're running a $300 billion a year trade deficit with China, China is sitting there with $300 billion that they could use to buy any asset they like in the United States. If they want, they could buy shares of GM stock, they could buy bonds, they could buy U.S. Government bonds whether or not we're running a deficit.

We gave a balance budget. We've got trillions of dollars of debt out there. So we're good boys and girls, we run a balanced budget forever more, we've got a trillion dollars of debt out there, China, if it likes, could buy up $300 billion a year of government debt, even though we're running a balanced budget. So let's get China out of this debate. The things we could talk about with China has nothing to do with the deficit, okay.

Now, I'm saying the heretical thing that I don't consider the deficit a problem, let me just quickly take short term, midterm, long term. Short term, we're in the middle of the great recession, we have 9.8 percent unemployment. Suppose we found the Department of Waste, Fraud and Abuse cut the trillion-dollar appropriation, you know, what would happen, what would be the, you know, we'd now have, you know, a more or less balanced budget, well, we would have just cut a trillion dollars in demand from the economy. There is no mechanism you could talk about today that's going to transfer that into new demand in the private sector. Or I know the interest rate story; you can't tell that today, that will not work. There is no short-term deficit problem.

Okay, mid term, let's look out to 2020. I was looking at this, if you look at the CBO projections for the President's budget, we have a deficit of 5.6 percent of GDP, it's too big. Okay, suppose we say we have the same interest burden in 2020 as we did back in 2008, before the crisis, we would have a deficit of 3.3 percent GDP, arguably too big, but not the sort of thing you'd run around like the world is falling 10 years ahead of time.

Now, what's the difference there? Well, it's the interest burden on the debt. The Federal Reserve Board could buy and hold debt; we're actually doing that to some extent. The Federal Reserve Board refunded $77 billion to the government last year, almost 40 billion of net interest. Now, we may not do that, I know there's issues of inflation, I can explain how you can control that, but that's a policy decision, that's not a given. Now, the long term, we know we have deficits going through the roof, that's 100 percent health care. If our per person health care costs were the same as in Germany, Canada, pick your country, we'd be looking at huge budget surpluses, not huge deficits.

Now, I know it's not easy to control health care costs, but let's be honest with people, we have a health care problem. It manifests itself, in part, as a deficit problem, but first and foremost, it's a problem with health care costs. If we don't control health care costs, it doesn't matter what we do with our public sector health care programs, we're going to have an enormous nightmare on our hand down the road.

So let's be honest. I mean I often make this analogy, suppose we were projecting in 2029 that we'd have a nuclear war. Now, if we looked at the budget projects for 2030 and beyond, it would be horrible. Now, what person in their right mind would say, oh, my god, we have a huge, long-term budget problem? But that's, in effect, what we've done. I know it's not easy to fix health care, you've got powerful interest, the doctors, the pharmaceutical industry, the health insurance industry, we did not accomplish nearly as much as what needed to be done in the health care reform that was passed earlier this year, but that's not an excuse for going away and just dropping the issue. It's sort of like if the school yard bully is beating you up every day, you go and find the weakest kid in the class and you punch him, it doesn't make any sense.

We have to fix health care. If we had a realistic discussion here, we'd be focused on fixing health care costs. That, at the end of the day, is our long-term deficit problem, that's the problem that's going to face the country and determine whether our children face serious hardship or not. It's not a government that's out of control, it's health care costs are out of control. Thank you.

MR. HASKINS: Douglas Holtz-Eakin.

MR. HOLTZ-EAKIN: Well, thank you, Ron, and thank you to the sponsors and for the chance to be here today, I think, because I've been talking about budget issues for way too long and I'm really tired of hearing myself talk about it. It does seem like Groundhog Day. I said with great confidence in 2003, I remember it vividly, that the spending train was leaving the station and they were just going to have one last drink before the party was over, and here we are again. So take all forecasts with a grain of salt, and, you know, we'll see how the future plays out. But, you know, my job here is basically to completely disagree with everything you just heard and to congratulate Bruce and the Commission for vastly exceeding expectations.

I am among those cynics who had very, very low expectations for what would come out of the Commission, and I believe that it accomplished some enormously important things. Number one, it provided a real lesson to the size of the problem, and took I think conclusively off the table the fantasies that people have about fixing this with reduced foreign aid, improved administration, lower, you know, waste, fraud and abuse, all of the pet hobby horses.

I mean this is an enormous problem and it is a great threat to our nation. Literally, our prosperity and our freedoms are at stake, and so I think they're to be congratulated for that.

They identified that the problem is spending, that their proposals target more spending than taxes because that's where the problem is, and that's an unmistakably important lesson for everyone to understand. I think the other big lesson they really did make clear is that everything has to be on the table, and that, of course, produces the tension that we're going to talk about here today. There is no way to leave defense off the table, there's no way to leave the non-defense discretion off the table, the entitlement programs, all the mandatory spending has to be under consideration, and that juggling act I think is going to be central.

The next big lesson for me at least was the route to hire revenues is through tax reform, and that is one of the lessons that has come out of many of these commissions, but I think was illustrated most powerfully by Bowles- Simpson in their proposals, and that's something that I truly hope we get to see and see quickly in the U.S.

And then the last lesson really comes back to Dean's point, and that is that health care has to be taken on. And I thought that that was the negative lesson, the Commission are a bit too gentle on the health programs, although merely the contemplation of the Ryan-Rivlin Amendment I thought was an important step for reality, that we have to ultimately think about having budget constraints on health programs in the United States was a big step.

So my congratulations for what they accomplished.

Now, going forward, I think what has to happen is, you have to breath into this budgetary shell an animating vision about the future of America. It is one thing to make the numbers add up, it is another thing to say this is the principles by which we will make the numbers add up and support the things that we value in society, and that I think is the challenge that faces our leaders at this point.

For me, crucial among those animating visions has to be an emphasis on pursuit of faster growth in the United States. We, in making all these budgetary choices, should at every juncture err on the side of the one that produces faster growth.

We have millions and millions of Americans who are out of work, we have a threat to the prosperity of the next generations, we have a need for budgetary resources that will only come with an economy that's growing rapidly, and I think that the top principle should be the one that produces greater economic growth.

The second principle should be the one that produces the greatest economic mobility, restoring the capacity of people to move both up and down, as the case may be, through the income distribution in the United States. Those should be core principles by which we make these decisions. That produces real tensions, and I don't think we should kid ourselves about that. If you're going to err on the side of economic growth, that means when you look at budgetary items, whether they're tax expenditures or outlay programs, you are going to move away from the ones that favor consumption and toward those that favor investments, toward those that lead to greater prosperity in the future.

That is at odds with conventional politics, where handing out the goodies for more things now is par for the course. It is also a real threat to the poor and near poor, because if you are reducing programs oriented toward consumption, you are, in fact, putting those at risk.

And so, for me, we have the following dilemma, which is, it is a dangerous thing to create protected classes in budgetary times such as these. The poor and near poor could be a protected class. The very elderly would be a sensible protected class. College students might be a sensible protected class. Teachers, we love teachers, we'll make them a protected class. Small business men should be a protected class, sacred on the way. Farmers, the heart of America, they should be protected. Pretty soon we will have protected everybody, and the flip side to that is, you know, we cannot in any realistic fashion do this on the backs of the poor. So I leave you with no particular wisdom or insight, just the two nagging concerns that, number one, we will do this poorly and harm some people and not grow going in the future, or number two, that we just won't do it, we will decide that these various politically protected classes are so sacred that we will just continue to fiddle while the U.S. burns and that would be the greatest injustice of all, because the fairness question here is not so much among those sitting in this room or alive at the moment, the fairness question is between this generation and the ones that follow us, and we are doing them a great injustice at the moment and I think have an obligation to fix it.

MR. HASKINS: Thank you. Rudy Penner.

MR. PENNER: Well, when Ronald Reagan was Governor of California, he once said that my feet are in concrete against any tax increase. Then when he came to a press conference, he announced that he was accepting a tax increase. He said the sound you hear is concrete cracking. And I think that concrete is cracking all over Washington, but, unfortunately, it's not crumbling yet, and we have a long way to go before we can fix our fiscal problems. But one good thing that has happened is that the President's Fiscal Commission was successful beyond my wildest dreams, and it's been joined by an equally successful bipartisan Commission and a plectra of other commissions and committees have sprung up and offered a great variety of options for getting our fiscal house in order.

And everyone now believes that they have to have a budget plan, whether they're on the right, left or in the center. And even those who were earlier -- earlier argued that we did not have a problem now have to come forth with options, all except Dean from that requirement.

The task before the President's Commission looks so hopeless that few of us have any hope that anything good would come of it. And the final report didn't get the 14 of 18 votes that its rules required, but it did get 11, and that was a significant achievement.

And even more amazing, six of the supporting votes were from elected members, four of whom are very likely to run again. And even more surprising, as Bruce noted, the support reigns from Senator Coburn, who complained to be the most conservative member of the Senate, to Senator Durbin, whose liberal credentials are not in question. And I think that Bruce deserves enormous credit for how he helped the Commission come to this kind of result. But the great disappointment is that, so far, support from the President has been tepid, there was outright initial support from Speaker Pelosi, and not much enthusiasm can be found anywhere else in the country.

So I haven't changed my bottom line, it's probably going to take a fiscal crisis before we finally fix this problem. But as a result of the President's Commission and all the others, we now have this very rich menu of policy options to choose from when the crisis comes, if it -- as it inevitably must unless we act.

Well, what might these policy options do to the poor? I think that's the wrong way to look at it. The really important point here is that the whole intent of these various commissions and committees is to prevent the poor and the rich and everyone in between from suffering the severe pain that would be imposed if we sink into a Greek-like or Irish-like crisis.

It's not really clear whether a crisis of that sort hurts the poor or the rich more as unemployment soars and the value of assets held by the rich collapses, but at that point the main result is that everybody hurts a great deal. When fiscal consolidation comes, as it must as a result of a crisis, middle class and social insurance programs tend to be cut, and usually it's hard to avoid cuts in welfare, as well. In Greece, Ireland and in Britain's fiscal consolidation, it may be the civil servants actually who end up hurting the most. They don't do so well in the President's Commission either. It appears that they're pretty unpopular all over the world.

But I think it fair to say that there's a greater risk of program cuts for the poor if fiscal reforms occur in response to a fiscal crisis as opposed to fiscal consolidation occurring as a result of a more deliberative process.

And even if we don't have a crisis for a good long time, these huge deficits are going to absorb so much saving, they're going to slow our rate of economic growth, and again, all groups, including the poor, are likely to be worse off. It may not be all that productive to ask who's more worse off compared to where they might have been with more growth.

And I do think the various committees did take pains to protect the poor. Radical tax reforms were offered, but every one that I saw kept the EITC, they kept the child credit and other provisions for the poor. The Social Security reforms generally tried to be progressive, tax increases mainly took the form of base increases, so called progressive indexing was proposed by several groups, and the President's Commission took the added step of proposing a minimum benefit.

I'm not actually sure that playing with Social Security benefits is the most effective way of redistributing income, but the Social Security Administration thinks my wife is poor, but the Commission's heart was in the right place.

Again, I'll return to the main point. The intent of these groups is to help everybody by avoiding a crisis and enhancing our prospects for economic growth, and the poor have much to gain from that compared to the alternative.

MR. HASKINS: Belle Sawhill.

MS. SAWHILL: Well, like Rudy and Doug, I give the Commission high marks for having put forward a really bold and comprehensive plan and Bruce Reed had a huge amount to do with that, and so my hat is off to Bruce. I think the principles that the Commission followed were basically very sound principles. There was, you know, trying to get everything onto the table, the notion of shared sacrifice, to go back to Patrick's opening remarks, was there, and I think certainly there was also the principle of we must protect the truly needy, recognizing that there are some people who don't have enough skin to be in the game, so that was there as another principle.

Another thing that was there as a matter of principle that I think is very important and goes to something that Doug talked about is there was a commitment to not cut public investments, and a proposal to have a special committee that would look at that.

I would go even further and say we need a pot of money that is dedicated to public investments; I'm talking about education, research, infrastructure, those kinds of things. That pot of money should be given to an independent agency, much like the fed, that can then choose the kinds of investments around the country that have the greatest hope of achieving the vision that Doug laid out about growth and opportunity.

I think that another principle was let's not do any harm to this very fragile recovery, lessen the Commission's mandate to say anything about how to get out of the recession, but the other Commission, the Rivlin-Domenici Commission has put forward, or did put forward the idea of a payroll tax holiday, and now we have a so called tax deal which has some terribly ugly elements, as far as I'm concerned, but which as David Leonhardt from the *New York Times* pointed out, is a back door stimulus plan that's even bigger than the first stimulus plan that has been so broadly criticized by those on the right.

Specifically, the plan, the Bowles-Simpson plan, does contain some very draconian spending cuts, especially in a shorter term. I can't imagine them happening, and if they did, I would fear that they would really hurt low-income families.

It does include radical tax reform, which I think has helped to break open this stalemate here in Washington in a really significant way. As Rudy says, the concrete is at least cracking, if not crumbling on that front, and I'll be very surprised if we don't have tax reform over the next year or two, and we can only hope it looks like the vision that the Commission presented to the country, because these so called tax subsidies, the Commission calls them tax earmarks, which I think is a great label, because they are over a trillion dollars a year, unlike the normal earmarks, which are only about 16 billion a year. So 16 billion versus 1 trillion, it's a huge difference. And they are like earmarks: they are not only large, they're very unfair, they're very regressive, and they're very inefficient. They really interfere with what Doug said about economic growth and opportunity. So that was a wonderful part of this report and this conversation.

I thought the reforms to Social Security were very reasonable, they phase in enormously slowly, how can anybody worry about beginning to have a change in the retirement age 40 years from now. The benefits for the low-income were actually increased, and also for the old, as has already been pointed out, and there is a hardship exemption for those in manual jobs.

I hear a lot of people on the left complaining about the Social Security piece, and putting out data that says that the Social Security population or beneficiaries are very badly off. And it's true that the typical Social Security recipient doesn't have much income and doesn't get a lot of benefits, but if you look at the entire distribution, which I have done, on a Social Security recipient, it includes people like me.

And I will get more than a million dollars from the federal government during my retirement years. And do I need that? Well, you decide. You know, do I like it? You betcha, that's what I'd say if I were Sarah Palin, but I don't think I need it. And just to give you one statistic there, 20 percent in 2008, which is the last data we have, and it'll be much higher in the future, but 20 percent of elderly households in 2008 had incomes above $75,000 a year. And so this whole notion that they can't be asked to sacrifice even in a small way, and assuming that any change or reform of the Social Security system is carefully tailored to protect the more vulnerable, it seems to me ridiculous.

Nobody worries about the single mom who is getting child care assistance so she can work and whose child care assistance in the state of California whose budget problems are just a harbinger of what we're going to see at the federal level, is being denied her child care assistance and her ability to work and nobody is saying, oh my gosh, you know, she should be ahead of -- in the cue of that elderly person with an income above $75,000 a year. So I do think that we are still having a debate about all of that.

Health care, I think there was a kind of magic asterisk, I agree with Dean on that point, and I think that that's because nobody knows the solution yet, but I would agree with both Dean and Doug, I think, that the existing health care reform law that we just worked so hard to enact, although it did some good things, it does not have costs under control sufficiently yet. So we need to be talking about more radical reforms there or taking a second bite out of the apple. And I think the Domenici-Rivlin Group did take a bite out of that apple, which is quite controversial, talking about premium support or putting health care on a budget, and we can come back to that debate.

Okay, I'm out of time. Three quick points of what the agenda should be going forward. First, take the second bite out of the health care apple; second, figure out a way to fence all programs for the truly needy and programs that invest in the future; and third, think about an independent agency that can make those investments in the future in a sensible way. Thank you.

MR. HASKINS: Thank you. Well, we have definitely already cleared up one burning question I've had for a long time, and that is that Belle Sawhill is not Sarah Palin. Let's stick with health care for a minute. Everyone agrees it's the biggest, Belle said it's the big enchilada. What are we going to do about health care, Dean?

MR. BAKER: Well, obviously one of the things we could do, I think, first off, just the key point, I think the point is that we not focus on shifting costs. I mean we set up Medicare and Medicaid because seniors couldn't afford health care, low-income people couldn't afford health care. It doesn't make sense to say, okay, now we're going to cut the public side of it so, again, seniors won't be able to afford health care and low-income people won't be able to afford health care.

Our costs, we currently spend more than twice as much per person as what they do in the average other wealthy countries and it's projected to rise three and four times as much. Where do you start? Well, prescription drugs is one of my favorites. We're projected to spend 450 billion a year on prescription drugs by the end of the decade. If those weren't patent protected, we'd probably spend about a tenth as much.

We could devise more efficient ways to finance prescription drug research. A number of people, including Judge Stiglitz, have recommended that we have public funding where we basically buy up patents. I think we already spend 30 billion a year on financing biomedical research so that shouldn't be an alien concept. Another idea that, you know, I originally came up with this as a joke, but I think actually if we can't fix our health care system, why don't we give people vouchers, Medicare vouchers to a lot of them to buy into the health care systems in Germany and Canada, split the savings. You know, they're retired; a lot of people have friends, family members, they might be very happy to go there and put 10,000 a year in their pocket on top of that.

I mean if we can't figure out, we're too dumb to figure out how to do it ourselves, I don't mean dumb, follicle interest groups might prevent it, let people opt out. What's wrong with giving people a choice, as my friends on the right like to say?

MR. HASKINS: Other comments about health care? Doug.

MR. HOLTZ-EAKIN: Well, obviously there's no single magic bullet. This is a topic that's been studied and debated greatly, but from where I sit, it's, you know, the recently passed law makes enormous mistakes in that it sets up two large new entitlement programs that will grow at 8 percent a year as far as the eye can see, that is much faster than this economy will grow, it's much faster than revenue will grow in any circumstance, and this is at a time when we have demonstrable fiscal threat, so that strikes me as an important step in the wrong direction, and we ought to just be honest about that and take an approach that doesn't wildly throw money at that problem, but instead, those are the parts of the bill that had more bipartisan support, the delivery system reforms, and the hopes on cost control feature those, beef them up, and be a little realistic on the budgetary front.

MR. HASKINS: So you would repeal all or part of the (inaudible).

MR. HOLTZ-EAKIN: Oh, there's much with which I have deep substantive disagreement and would be happy to see go away.

MR. HASKINS: Other comments? Go ahead, Rudy, go ahead.

MR. PENNER: I don't see how we'll ever get health costs under control without some form of strict budget controls. We need a budget like they have in Britain and Canada. That implies rationing of some sort, and that's extremely controversial. The question is what sort? Do you turn the job over to the medical profession as they do in Canada and Britain pretty much, or do you have some sort of premium support system, or are you very strict in what you call effective medicine versus ineffective medicine, which I think basically is not a scientific, but rather a political kind of judgment.

I guess my bias is that in this country, probably the only acceptable means is some sort of premium support. That's going to be very complicated, it will cause inequities here and there, but, frankly, I don't see any other way of doing it. And if it works, it will make the system more efficient.

MR. HOLTZ-EAKIN: If I could just kind of quickly --

MR. HASKINS: Hold, Bruce.

MR. REED: Let me just say a little bit about what we did or what we propose to do. Our Commission started just as the health reform to date was ending, so it was a wonderful time to be doing bipartisan work. The most interesting thing was that both sides seemed equally exhausted by the date. So occasionally the co-chairs would say, everything is on the table, even the recently passed health care reform bill, and Republicans and Democrats alike would run screaming from the room saying, please, don't make us go through this again.

But over the course of numerous discussions with both sides, we did find some things that are still possible without -- we were unable to find consensus on what to do about the underlying health bill itself, but there are a number of things that -- steps that we could take that I think both sides would agree would be a step in the right direction.

First is, there are a lot of budget gimmicks associated with health care, and every year Congress does the doc fix, the physician payment scheme and refuses to pay for it, that's about $300 billion over the course of 10 years. You know, if we're holding ourselves on a host of other programs to the principle that we ought to pay for what we do, then we ought to do the same for doctors.

What we said was, we should propose a series of ways to pay for that that included actually paying doctors somewhat less, asking for some changes in medical malpractice that would mean that lawyers would take less, and finding some more ways to do cost sharing that would give individuals some skin in the game.

We proposed repealing or replacing the class act, which is this long-term care insurance program that was part of health reform that raises money in the short term, and it's woefully underfunded in the long haul. And then we did not propose a single long-term answer because we couldn't get consensus on it. We did agree with Rudy that we ought to put ourselves on a long-term budget and force ourselves to have that debate. We did propose one idea that seemed to have -- cause equal anxiety for both sides, which is, I agree with Belle and Rudy that we're going to have to face up to the question of whether to do premium support. No one knows whether that will actually work for the Medicare population or not.

We proposed a demonstration of premium support with the Federal

Employee Benefits Plan, which is pretty close to premium support as it is, and our view was that if you're going to do a demonstration like that, don't experiment with old people, the federal health population much healthier and younger, and we can see whether an idea like a fixed payment scheme actually works before we apply it to something as fundamental to the social safety net as Medicare.

MR. HOLTZ-EAKIN: Just quickly --

MS. SAWHILL: I haven't had a chance to comment on this question and he already has.

MR. HOLTZ-EAKIN: Okay, I'm sorry, go ahead.

MR. HASKINS: Okay, go ahead. You didn't have your hand up, except for colleagues.

MS. SAWHILL: Except for colleagues. I just want to say that I think it's really important to remember that what we really should care about is people's health and not just the amount of health care they get. And there are good studies, as most of you probably know, that show that there's an enormous amount of health care spending that does not translate into better health.

Other countries do it much better and much more cheaply than we do, they do put their systems on a budget. And then I think the way you try to avoid the kind of cost shifting that Dean and others worry about is to change the payment system to one that only pays for treatments and other activities in the system that have been demonstrated to improve people's health.

Now, is that easy to do? Absolutely not, it's extraordinarily difficult, but we shouldn't make the perfect -- let the perfect be the enemy of the great here. We desperately I think need to move in the direction of payment reform that rewards stuff that helps people's health, and if we did that in the public systems, because the private health care system usually adopts the payment systems that are -- that exist in the public sector, it could make a huge difference over time.

MR. HASKINS: Dean.

MR. BAKER: Just very quick, I was just going to say with Rudy's comment, I don't think we should really use the term rationing, because we're not strictly speaking -- talking about rationing, we're saying some things the government will pay for, others it won't. If I have money and want to go out and buy it, I wouldn't be able to do that. I don't anyone envisions a plan where people were prohibited from buy health care procedures that they choose to pay for out of their own pocket.

MR. HOLTZ-EAKIN: And I want to correct the record and just acknowledge that the final report did repeal the class act and I think that's a very important step, I mean it's literally upon the scheme and something we can't afford --

MS. SAWHILL: And the demonstration program is dead, too.

MR. HASKINS: Wait; let's not pass this class act because there could be people in the audience that don't know about this. This is the classic example of how lousy Congress is and the kind of junk they do that winds up really being a huge burden for the future.

MR. HOLTZ-EAKIN: Well, you should talk about it because you like it more than I do.

MR. HASKINS: Go ahead.

MR. HOLTZ-EAKIN: Class act is a long-term care insurance program structured as follows, make premium payments with are really payroll tax contributions for five years, at which point you qualify for benefits in the future. The 5 years during which the premiums are collected are the 5 years that count in the 10-year budget window, so you get $70 billion up front from class act contributions, none of the spending that is to follow counts toward the budget computations on the health care bill, so it's a budget gimmick of the most fundamental sort.

The second issue you have is that the premiums are supposed to be actuarially fair, but it is the historic record of any insurance program in the federal government where's there deposit insurance, or flood insurance, or pension benefit, that in the end, we don't charge actuarially fair premiums, we say, gee, that benefit is not very good, and we juice up the benefit, the premium stays low, pretty soon we've got an enormous budget mismatch, and it's going to be structured just like Social Security. So we'll find out about this problem later, and, oh, my god, have to do something unfair like scale it back. So it's a recipe for disaster in almost every dimension, and probably will be, you know, have bad adverse selection problems on top of it.

MR. HASKINS: And they did it because they wanted the money to offset costs in a bill that they were passing. I will say I was in -- worked in the House for 14 years or close to the Budget Committee on many occasions, and I can remember the first few times that I heard about this kind of gimmick and put money into next year, and I said we can't do that, they do it all the time. I don't understand why our system permits this. We'd be a lot better off if we really had budget rules and followed them. All right.

Everybody has brought up here the issue of taxes, and we're all, you know, wondering about what's going to happen with taxes. I recently had a chance to hear a debate between Paul Ryan and David Brooks, and David Brooks looked at Paul Ryan near the end of the debate and he said, you're going to blow a big opportunity here, we've got a chance to really do something on the deficit, and what the President's Commission put on the table is approximately 60 percent spending cuts and 40 percent tax increases, and you won't take it. If it were 70/30, you wouldn't take it. If it were 80/20, if it were 90/10, you wouldn't take it. Ryan did not say he would take 90/10. My question to the panel is, are Republicans ready for a serious, in whatever way that there will be more revenues than we currently get as a contribution toward reducing the deficit? Rudy.

MR. PENNER: Well, I'd put the point another way.

MR. HASKINS: I thought you might.

MR. PENNER: A necessary condition for them even considering it is to do it with lower marginal tax raise, and the only way you can do that is with the kind of fundamental tax reform that's appeared in a lot of these Committee recommendations. Whether they would do it even then, I can't say for sure.

But as I said in the beginning, I think the concrete is cracking. After all, Senator Coburn did vote for a plan that has the fairly significant --

MR. HASKINS: And so did Crapo.

MR. PENNER: So did Crapo, yes. So they voted for plans that had fairly significant tax increases. And I haven't looked to see if they signed Grover Norquist pledge at the same time, but that would be an interesting bit of research.

MR. HASKINS: Other comments?

MR. HOLTZ-EAKIN: So, you know, a couple of random comments. Not all Republicans are ready for that, and that's that, I think.

MR. HASKINS: What?

MR. HOLTZ-EAKIN: Not all Republicans are ready for tax increases, that's a fact, there's some that are going to just say no and that'll be it. The second is, I think Rudy's point about tax reform is right, that they'll do more revenue if they get better tax policy out of it. And the third is, whatever the numbers are, 90/10, 80/20, it is a necessary political pre-condition that the 80 or 90 or 70 or whatever the number is be real.

Many Republicans are thoroughly convinced that the game is going to be -- promise 80/20, take the 20 and never do the 80, and so the spending side is paramount, and it's paramount as a matter of the numbers, it's going to be paramount as a matter of the politics, and the economics are simple. If you spend the money, you have to pay for it one way or another. So we've got to take care of the spending problem, and that I think is going to be the litmus test, whether there's a serious effort on spending, and that would give you the route to tax reform. And as I said, we had this conversation a couple days ago. You do have to worry a lot I think about how you do the sequencing of these things, both from a political point of view, but also a policy point of view, because, for example, the top tax expenditure that you want to target is the exclusion from tax and poor response for health insurance.

If you were to repeal that or significantly valid that, many, many, many, perhaps all employees would end up in the publicly funded exchanges under the new health care law and the budget would explode, and so you've got to think about both sides at the same time.

MR. HASKINS: Dean, were you itching to say something here?

MR. BAKER: Yeah, well, a couple things. First off, just the explosion of spending, again, I just, you know, if we look at the numbers, if you go back to 1980 and you look at the projections of the President's budget for 2020, non-interest spending increases by a grand total of 1.3 percentage points of GDP, that doesn't look like an explosion to me. I might have different eyes, but, you know, but that doesn't look like an explosion. In terms of, you know, do we get anything, I think obviously the formula is, get rid of a lot of the loopholes for somewhat lower rates, and again, does that end up being a money raiser, I think for the Democrats it has to be at least somewhat or you're not going to get that.

The last point I'd just make, it's amazing to me that there seems to be no discussion at all in this town of some sort of financial speculation tax, because we are in this, at least in part, I know the Republicans and the Financial Crisis Commission excluded this possibility, but we're in the great recession at least in part because of Wall Street excesses.

There's a lot of money there, there's a lot of rents there. Even the International Monetary Fund, not an organization known to be hostile to bankers, has come out for having heavier taxes on the financial sector.

You could, by my calculations, raise as much as 150 billion a year. England raises the equivalent of 40 billion a year just taxing stock trades, doing nothing with derivatives, credit default swaps, et cetera. It's amazing to me that somehow that never gets discussed when we're pressing deficit reduction, it seems an obvious place to go, to my mind, almost free money.

MR. HASKINS: Yeah.

MR. HOLTZ-EAKIN: A tiny correction to the record. Regardless of what Dean may believe, the Financial Crisis Commission has not issued any final reports from either Democrats, Republicans or the Independents on the Commission, that will happen in January, at which point the conclusions will be public.

MR. HASKINS: Go ahead. Let's make these very brief because I want to get to the audience. Go ahead.

MR. REED: Thanks. On the question of the public taxes, first off, I think it's important to recognize that both Democrats and -- the jury is still out on both -- on whether both Democrats and Republicans will cut spending, as well, it's not just a question of whether Republicans will belly up to the (inaudible) on taxes.

I would say three things about what -- I think Republicans have three conditions, all of which are perfectly reasonable on this point. First, as Doug said, if we're going to cut -- if we're going to bring in more revenues, we have to cut spending, and we have to make sure that the spending cuts actually materialize, because that often hasn't happened in the past. Tax increases haven't happened much in the past either in recent years. But in any event, I think that's a perfectly fair point. I think they raise the point that this can't be a slippery slope, this can't be, well, let's raise taxes now and then let's raise taxes later.

A big turning point in our discussions was when we decided to cap revenues at 21 percent of GDP, which is controversial on the Democratic side of the aisle, but is actually an important condition to make sure that you're not just on a slippery slope, and when we ruled out doing that, because I think there are good arguments for consumption taxes, but the Republican's counter argument was, well, you can't have the current tax system plus the consumption tax on top of that.

And then I think the third point is this is all about tax reform. This couldn't -- we will never raise revenues in the absence of fixing the system we have. For Tom Coburn and Mike Crapo, actually the tax reform, elements of the President's plan are the most compelling part of it of all. Why? They view this as Ronald Reagan on steroids, that if you believe in -- that cutting tax rates will generate economic growth, then you should put your money where your mouth is, and that broadening the base, lowering the rates, will make the economy larger, stronger, bring in more revenues, and that with those additional revenues, you could bring rates down more, you could reduce the deficit more, but I think it is a -- as we've seen in the past couple of weeks, there's no better argument for tax reform than what we've seen in the past couple of weeks, where both sides are debating the future of the Bush tax cuts, which, frankly, neither side cares that much about anymore. Why should we have a debate at all? The top rate should be 35 or 39 when we could broaden the base and get appropriate and individual rates down into the 20s and have a stronger, more efficient economy in the bargain.

MS. SAWHILL: You wouldn't let me speak on this; may I just, please?

MR. HASKINS: Yes.

MS. SAWHILL: I feel so strongly about it.

MR. HASKINS: Did everybody out there have lunch? Go ahead.

MS. SAWHILL: Well, everybody has spoken but me, Ron. I think this is part of a larger political dynamic and I just want to put that on the table, because, you know, I agree with what Bruce is saying, and, you know we have some momentum around tax reform now, but the larger political dynamic here is that there are a lot of us who would like to see more bipartisanship. But you can't have unilateral bipartisanship. You can't have the President saying I'll do all of the compromising, or the Democrats in Congress saying we'll do all the compromising because Republicans are in concrete, as you said, in telling the story about Brooks and Ryan on taxes.

Now, as Doug points out, you know, maybe they aren't all in total concrete, and as Bruce says, maybe through tax reform they'll go along with something. And as he also says, and as Stewart always points out to me, if they could be assured that any revenue increases were temporary or were not going to lead to increases in spending, but were going to be dedicated to deficit reduction, there might be the makings of an agreement.

But the fact is that the 70/30 spending tax split in Bowles-Simpson is much more tilted toward spending than Domenici-Rivlin, who were able to accomplish quite a lot, much closer to 50/50, and so I think this is a political issue, not a policy issue.

MR. REED: Can I say one more thing? The fundamental question is, are both sides ready to govern. And one of the reasons I give Tom Coburn and Mike Crapo so much credit is that there was a lot in this package that they didn't like, and they've had to stand up to Grover Norquist and a lot of other interest in their party, but they said, look, this problem -- we can't afford to wait for another election, we can't afford to take the country off the cliff to wait until we get everything that we want.

You know, we have to do what Ronald Reagan did from time to time, we have to do what great leaders always do, which is find a principal compromise that does the right thing for the country, and without both revenues and spending cuts, you can't get a bipartisan agreement.

MR. HASKINS: All right. Audience, we have 30 seconds for questions from the audience. Ask brief, succinct questions, please. Start right back there in the middle on your right.

MS. THIESS: Hi, I'm Becky Thiess with the Economic Policy Institute. My question is for Dean Baker. We've heard a lot about the crisis that's coming, and I'm wondering if you can speak to why we may end up or may not end up looking like Greece or Ireland.

MR. BAKER: Well, thanks for the question. First, you know, you said the crisis coming, you know, it just reminds me, we should be thinking we are in a crisis now, because we are. I mean there are 25 million people unemployed, under employed or have given up work all together. If we had been sitting here, again, three years ago and I said, you know, the world was going to look like this, people would think I was nuts, you know, this is a pretty bad situation, and again, that's one of my concerns about the deficit focus, that it seems to be at the expense of the current crisis.

But in terms of the Greece, Portugal, Ireland analogy, it's a very simple point, we have our own currency. I mean there's other differences, you know, we're a large, diversified economy. The idea that, you know, investors are just going to run -- so I like to play games with people, I go work that through, okay.

So we're going to have China, which is screaming at us they can't raise the value of the their currency by 20 percent, they're going to let the dollar fall by 50 percent against the one, does that make sense?

Because we are such a large economy, with still a good industrial base, still considerable export capacity, we export over $1-1/2 trillion a year, we don't have to worry in the same way that Greece or Ireland does. But the last point is, because we make our own currency, it could never take exactly the same form, and that is an important point. I mean we might have a horror story, but it's not one of insolvency. At the end of the day, we can buy our own debt, that can raise an issue of inflation, but it's not going to raise the issue of the credit markets telling us X, Y, and Z, and we're going to have, you know, the IMF and China, whatever bad boys we envision, coming there and dictating to us.

I mean we may opt to do that, we may tell the fed, no, don't ever buy our debt, we'd rather be dictated to, but that would be a policy choice. We have the option to have the fed buy our own currency, which creates perhaps an inflation problem which we'd have to take seriously, but it's not the horror story that we see with Greece or Ireland.

MR. HASKINS: Next question, over here. Get the mic first, please.

MR. MATHIS: Don Mathis, Community Action. At a speech at EPR the other day, Larry Summers said his recommendation to the President would be a massive investment in infrastructure which would put people back to work. Do any of the plans we've been discussion permit such a massive investment in infrastructure?

MR. HASKINS: Good questions.

MR. REED: Well, it depends what you call massive. The President's Commission has something called a Cut and Invest Committee that is expressly for that purpose.

SPEAKER: I don't think that would put huge numbers. I mean I don't think it was intended that way, in fairness. I mean I don't think the intention was that that would be short-term stimulus, I may be misrepresenting.

MR. HASKINS: No, next question, in the back -- okay, there you go, thank you.

MR. KLUMPNER: Jim Klumpner, I'm a visiting lecturer at a couple universities. For those of you who think most of the heavy lifting has to be done on the spending side, would you please tell us about specific spending cuts totaling hundreds of billions of dollars? We get lots of general statements about spending this, spending that.

MR. HASKINS: We got the question, let's get the answer.

MR. REED: Go to our website, www.fiscalcommission.gov. We have a -- we proposed an illustrative list of $200 billion a year in spending cuts, evenly divided, defense and non-defense. It's a great list. No one agrees with everything on it, but that was -- one of our first principles was, Erskine Bowles said repeatedly he hates it when politicians go on TV and say they're going to cut spending, but won't say what they're going to cut. Take a look; we've got lots of tough medicine there.

MR. HASKINS: Any other additions?

MR. HOLTZ-EAKIN: And I think that's the right answer. And I want to echo a point that was made earlier, which is that when we talk a lot about Republicans and tax increases, both parties have spent a lot of money and shown an unwillingness to cut, so I think the real test is when we see that change.

MR. HASKINS: One last question from the audience, right here.

SPEAKER: I think it's easy to say that the public understands the severity of the crisis because it's often ranked into second or third most important problem that we have a rising deficit. And it's easy to say that Washington is dysfunctional because it doesn't get the message. But actually I think that if you're a democrat with a small D, you'd have to say that the politicians in Washington reflect the views of the public pretty well.

In the wake of these Commission reports, I had a looper poll result, they oppose doing almost everything. The only thing that they favor is raising taxes on people who have high wages and maybe raising income taxes on people who have high incomes, but they basically oppose virtually everything that these commissions recommended.

So I don't quite see, and please help me understand, why is it that Washington is dysfunctional because it doesn't get the message, and the public has the view that we should do something about this when, in fact, they oppose almost everything that could be done about it?

MR. HASKINS: Doug.

MR. HOLTZ-EAKIN: So I want to, first of all, agree with the basic premise, which is that politicians are responsive to what their constituents reward them with. And if they, you know, historically had been rewarded by increasing the deficit, that's what got them reelected, that's exactly the correct observation.

What's different now, and we've done some polling at the American Action Forum, we did it particularly in house districts that were close races, what policy issues move votes, and in ways that were historically unprecedented, concerns over spending and debt moved votes. People usually just talk about it, but they don't vote it. So that's a little glimmer, step number one, on whether people will now reward politicians for doing something differently than they did in the past, which is closing the deficit will get you reelected, not widening it.

And so I do think people are displaying different behavior on the ground than they have in the past, and the politics of this have to change, because we know we can't continue on the path we're on, and at some point something has to give, historic politics versus our financial future, and they're on a collision course. And I think we've seen some evidence that politics are starting to change, and I will be very interested to see if it sticks.

MR. PENNER: Can I -- I mean I think the real crying need here is leadership to sell painful policies, and we've seen it done in a great variety of countries. Now, admittedly, the leadership doesn't usually appear until there is some sort of crisis, but we have seen Canada, Australia, New Zealand, Sweden, all deal with --

MR. HASKINS: U.K. Aren't you going to add U.K.?

MR. PENNER: Yeah, deal with crisis, and the policy reaction involve not printing money, thank God, but actually raising taxes and cutting spending in a fairly rational way.

MR. HOLTZ-EAKIN: And I think it's important -- it matters a lot how you ask this question. If you ask the question, do you want the cuts for Social Security, the answer is going to be no. If you ask the question, do you believe it's important to control the growth of Social Security as part of avoiding and then characterize the alternative correctly, your children suffering, a decline in the standard of living relative to where you are, any way you place it as a realistic choice, they are much more favorable toward getting our fiscal house in order.

MR. HASKINS: Dean.

MR. BAKER: I think people do support cuts in defense spending and it manifests in the war in Afghanistan and Iraq, which are very unpopular. But in terms of the overall picture, I think people see an economy where the Wall Street people, to a large extent, got us here, are doing better than ever, and the idea that they're going to sacrifice in that context I don't think is very realistic, or at least that they'll be happy about sacrificing in that context.

MR. HASKINS: So please join me in thanking the panel. And now the second panel can come. And Bill Schambra, where are you, I hope you do a better job in controlling the panelists than your predecessor did.

MR. SCHAMBRA: I'm Bill Schambra and I'm director of Hudson Institute's Bradley Center on Philanthropy and Civic Renewal, and it's our honor to be a co-sponsor of today's event. And it's my honor to moderate the second half of this discussion today on the President's Budget Commission, and we'll focus more particularly on the potential impact on the poor, although there was quite a bit of conversation about that in the first panel as well.

As all of our distinguished panelists can tell you, for they have -- every one of them has been centrally involved in the nation's policy debates for the past three or four decades, the issue before us today is by no means new. Indeed, it was very much present at the dawn of the conservative area when the newly inaugurated President Ronald Reagan sought significant reductions in discretionary social programs. It's largely forgotten today given the savage reputation of the so-called Reagan-Bush cutbacks, but President Reagan insisted that the cuts that he was proposing were completely compatible with and, in fact, were essential for the preservation of a generous and compassionate safety net for the poor. Critics, of course, were not persuaded. The headline of one of Robert Pear's article in the *New York Times* from that period read "Benefits for Poor Face Deepest Cuts."

And so we return, once again, to a discussion of the tension between spending reductions, tax reform, and then adequate provision for the poor with a panel of seasoned veterans of those debates.

We'll hear first from Stuart Butler of the Heritage Foundation; next Robert Greenstein, founder and executive director of the Center for Budget and Policy Priorities. Then we'll hear from Bill Frenzel, a guest scholar here at Brookings in economic studies, who represented Minnesota's 3rd District for some 20 years in the House of Representatives. And finally, we'll hear from Robert Reischauer, currently the president of the Urban Institute, who served as the director of the Congressional Budget Office from 1989 to 1995.

So Stuart.

MR. BUTLER: Thank you. Should the poor be spared from the budget axe? A typical Ron Haskins title I would think in the text that it's graphic imagery. And I think at the simple level, the obvious answer is yes, that the poor are the most vulnerable. As Patrick McCarty said, "They have no skin in the game." No skin to contribute to the game for that matter.

If you look at insecurity and instability. If you look -- I was on a panel just a few days ago reviewing the latest work from Jacob Hacker looking at insecurity and the kind of shocks and devastating shocks that the poor encounter. We clearly don't want to chop away at them.

So in sort of a simple sense, the idea that saying that the poor should share in the same percentage cuts or chops that everybody else takes, the answer is that they shouldn't. They should be protected.

That said; let's remember a couple of things. One is if we do fail to deal with the long-term fiscal problem, and if Dean Baker is wrong and we do go the way of island or Greece or most recently Britain, and have a crisis of the dimension, it will be the poor and the more vulnerable who will be first in line to take whatever hit is meted out. I think it's also important to recognize, if we don't serve this long-term problems in ways that spur economic growth and sustain the economy, the poor will also be the ones who take the biggest hit. And so I think a conversation about revenues and tax policy, all of that, has to be seen in this context, not of an accounting measure but as a dynamic economic issue. So I think that's very important.

The critical point that I kind of want to underscore and which I think all the commissions actually do is that it isn't a question of saying who gets chopped or who gets fenced off from the chopping. It's a question of saying we must fundamentally reform the way we do things and restructure what we're doing, so that we can achieve the objective of dealing with a long-term situation in ways that do protect the poor in an effective manner, in line with our values, in line with our objectives. And I think that does require us to look at redesign as a critical and essential part of how we look at this, and I think the commission approach absolutely does that and gets this sort of front and center into the discussion.

We must certainly start and focus on looking at redesign for these budget purposes at the upper income level and for retirees rather than younger people first, and others have talked about this. If our aim is to get retirement security for people in American within our ability to afford that, we need to look fundamentally at our social insurance programs in this country. I think right now the difference between my friends who call themselves and myself is they're in favor of Warren Buffet getting regular Social Security checks and subsidized Medicare and I'm not. And they're the progressives. We've got to rethink what these social insurance programs are for, and I think that would lead to a very different design if we did that.

We've also got to look at areas like Health care that others have said, so I won't go into that. We've also got to think about our objective of not only dealing with the immediate needs of the poor, but assisting and making sure we have a society where the poor can move up the economic ladder. I and Belle and others at various institutes have taken part for a long time in a project from the Pew Foundation about economic mobility. What programs and approaches are effective in enabling people to escape poverty and to move up the economic ladder?

One of the most important publications in that series was one down by the Urban Institute Gene Sterley. And he said if you actually want to look at programs to help mobility, there are lots of programs that purport to do that in the federal government. There's just a couple problems with them. One of them is that if you actually look at many of them that have been examined, they don't succeed in doing that, look at the mortgage interest deduction to help people become homeowners and move up the economic ladder. There's almost no evidence that this actually helps people to move up the economic ladder. We don't have deductions in Canada and many other countries. And then the other thing is, in many cases, we don't even know if these programs are effective. So we have a lot of programs that we don't even know if they achieve the objective of helping the poor escape poverty.

So I think if we're talking about trying to deal with this problem, one of the first necessary steps is to actually look at these programs and see what works and what doesn't work. If we do that, I think it's suggested in a number of areas, if we're going to reach our objective as the commission laid out in terms of dealing with the program, we've got to reexamine fundamentally how we address certain areas that absolutely are critical to the poor.

Let me just name a few very quickly before -- in my two remaining minutes. One is education. My older daughter has now just started drawing a paycheck for the first time. She is a sixth grade teacher in an inner-city Philadelphia public school. She is in a disaster zone. She is desperately teach to enable kids to escape poverty through education. She is in a dysfunctional institution in a dysfunctional school district and a dysfunctional concept of education in our country.

So if we're going to look at dealing with the long-term problem, we have got to look at institutions like that that are absolutely fundamental to the poor.

When we look at the Welfare system, we made some important progress in 1996 that Ron Haskins and others were involved in to begin to try to create a Welfare system that looked like it was done on purpose, that didn't just give everybody incentives not to get back into the mainstream and so on. We've made some progress in going in that direction as part of a redesign and restructuring to deal with how do we help people escape poverty more effectively at less cost.

We've got to continue and expand our reforms of the Welfare system. We have to look at savings policy. If we're going to look at tax reform, and we're going to look at other strategies to enable the poor to be much less vulnerable to shocks in the future and to move up from the floor, we've got to look at various ways to promote savings in this country. We certainly know that a tax-only strategy is not real effective for people who don't pay tax.

And so other approaches, automatic involvement mechanisms that the President has proposed and others, we've got to look at in the context of dealing with this long-term budget area and yes, indeed, tax policy. I also favor looking at a structural reform of our tax system I think on both the spending and the tax side.

Reform and restructuring is the critical approach and element to getting this equation right, and when you look at tax reform, including some of the things that the commission proposed, I think there's got to be a lot of discussion in that area. A simple new value added tax or a sales tax is clearly going to hit the poor more than it is going to hit those in upper income levels.

So in all these areas I think the commission's basic theme of saying we've got to combine reaching objectives, our deficit objectives, with restructuring and reforming both the revenue side and the spending side is absolutely correct, and that does apply to the poor as well as to the rich.

Thank you.

MR. SCHAMBRA: Mr. Greenstein.

MR. GREENSTEIN: Thank you. In 1990 and in 1993, major deficit reduction plans were enacted, the first on a bipartisan basis under the first President Bush, the second under Clinton. Both plans reduced poverty at the same time that they reduced the deficit because they were carefully designed to do so. Both plans met the principles that the beginning of today's session Luis and Patrick laid out.

As you heard from Bruce Reed, Bowles and Simpson espoused a similar principle of at least protecting the disadvantaged, but one needs more than principles. One needs the appropriate design. When you look at the Bowles-Simpson plan, the conclusion I think it leads to is it would lead to significant increases in poverty and hardship over time. You have to get beyond a lot of the non-detailed analyses.

We've heard, in today's session in fact from two speakers so far, that the

Social Security part of the plan reduces poverty. It's probably more likely to increase poverty than reduce it. Here is why. The argument that it reduces poverty is that it has a minimum benefit that raises people at the bottom. What none of the prior speakers said, however, is that to qualify for the full minimum benefit you would need a 30-year earnings record. The data show that only 20 percent of people reaching retirement who have the low earnings over their whole lifetime would qualify for the full minimum benefit. They could have been years out of the workforce raising kids. They could have such low skills and education that they have difficulty being employed year after year. They could have faced racial discrimination in the labor market. A lot of these people would actually end up with Social Security benefit cuts because they didn't qualify for the minimum benefit.

Now I'm not one who thinks that you cannot touch benefits in Social Security. I don't support the pledges on that front, but the Bowles-Simpson plan takes two-thirds of its Social Security savings from the benefit cuts side over the first 75 years, four-fifths by the 75th year. And when you do that, you do hit people in trouble. Elderly widows at $15,000 or $20,000 a year under the plan would face both significant Social Security benefit reductions over time and increases in Medicare copayments at the same time that their Social Security benefits are going down.

The larger problem here -- Belle Sawhill said a little bit about this at the end -- the larger problem is the lack of balance. The plan is -- the overall Bowles-Simpson plan is two-thirds budget cuts, one-third revenues. Unlike Rivlin-Domenici, which is more 50/50, both in its Social Security component and in its overall component.

Turn to nondefense discretionary spending. There are a lot of important programs and services for low-income people there. Rivlin-Domenici by 2020 cuts that part of the budget about 15 percent. Bowles-Simpson about 22 percent. It's a 50 percent larger cut. I don't see how you possibly take more than a fifth out of total nondefense discretionary in the real political world and not hit a lot of low-income programs quite hard. We're not going to cut the FBI 22 percent. We're not going to cut NIH research 22 percent. Other things would have to be cut more, very likely including those programs for people at the bottom.

What I'm most concerned about, there are areas to be sure, tax expenditures stands out where the way Bowles-Simpson approached it really advanced the debate, but there are other areas where I think it set the debate back. I'm going to cover two.

Health care. Medicare and Medicaid are rising at rates that are unsustainable. We all agree with that, but for 30 years Medicare and Medicaid costs per beneficiary have risen at the same rate as private sector costs for beneficiary. Medicare and Medicaid pay less not more for beneficiary than private insurance does. They pay providers less, especially Medicaid, and they have lower administrative costs.

For this reason we appear to have a semi-consensus among policy experts for a number of years, espoused by people like Gil Linsky who worked for the first President Bush, David Walker, formerly of the Peterson Foundation, Peter Orzag, none of these people are thought of as flaming left wingers, all who at various points, like many other analysts said you cannot just constrain sharply Medicare and Medicaid growth in the absence of slowing health care costs growth system-wide. If you just try to hit them, you will end up with more of a two-tier health care system where lower income people on Medicaid and those lower income beneficiaries on Medicare who can't afford to go out and supplement the Medicare benefit package by buying supplementary insurance end up not sharing in advances in medicine or being denied important treatments.

I think when you look at this health care cost cap in Bowles-Simpson, which is unlike countries like some European countries, is a cap only on public sector health care costs and doesn't even adjust for the changing demographics where we'll have an older population, and older people have higher health care costs than younger people. It's hard to meet that constraint without pretty severe cuts in Medicaid and Medicare over time despite the rate of growth of private sector health care costs.

Finally, the plan calls for limiting expenditures and revenues both to 21 percent of GDP in future decades, arguing that was the historical average of early decades in the latter part of the last century. Well, in the earlier decades the population was younger. Health care costs were smaller than they are today. We hadn't had 9-11. We didn't spend money on Homeland Security. We didn't do Iraq and Afghanistan. We didn't have the costs for years to come of Veterans coming back from Iraq and Afghanistan, and we didn't have the kind of deficits we now have. So interest payments were lower.

If none of those things had occurred, if health care costs were the same as 30 years ago, if the age of the population 20 years from now was the same as it was 20 years ago, if 9-11 had never happened, yes, you could have expenditures at 21 percent of GDP. But you can't do it in coming decades without draconian changes.

Bob Reischauer, Rudy Penner were involved in a National Academy of Science panel on the deficit that reported earlier this year. It set forth four paths. Two which I think Rudy described on the Hill in testimony as more extreme. One did almost all of the hit on raising taxes. The other most of the hit on cutting spending, and then the two that were in the middle. And they outlined in the plan how draconian, either on the tax increase side or the budget cut side, the two more extreme paths were. Well, the extreme budget cut path was, guess what, 21 percent of GDP, and that's the level that's sort of laid out in Bowles-Simpson.

One last example, a lot of these plans call for tamping down the employer health exclusions and somewhat fewer employers would offer coverage and more people, say under health reform, would get subsidies to buy coverage in the exchange. There is an argument that this would be a better targeted, more efficient system. What it does is it reduces the role of government in tax expenditures and substitutes on a targeted basis subsidies for people who can't otherwise afford it to buy coverage in the exchange. But in so doing -- and it doesn't really lessen or increase the role of government; it moves it from tax expenditures to subsidies -- but it raises revenue as a share of GDP and it raises spending as a share of GDP, probably in a way that increases efficiency. Yet if you have a constraint that neither revenues nor spending can exceed 21 percent of GDP, once you've done that efficiency, you have to wop other programs to stay within 21 percent.

So the bottom line, I think, is you really have to design these programs, these budget reduction plans carefully. I think you can't go beyond 50/50 on revenues and spending. You can't have health care caps on public sector costs only without controlling system-wide cost growth, and you can't have artificial constraints like the 21 percent. Otherwise, despite your best principles, over time it will be inevitable that we put in changes that I think would significantly increase poverty and hardship.

MR. SCHAMBRA: Thank you.

Mr. Frenzel.

MR. FRENZEL: Thank you very much. It's been a long morning. We're kind of getting down to the bottom of the barrel, but cheer up, when Reischauer comes up we'll go back up to the top again.

There aren't a lot of first class pearls left to cast. So we're going to be traveling some ground that other speakers have been over, but that's okay because some of these points are worth making again and again.

In the first case, whether the country is on an unsustainable path, despite at least one speaker's rejection of that thought, I thought all of the commissions, and there have been many of them, and most budget analysts really believe that their studies corroborate the fact that there is a real problem. I happen to be in the class of those budget scolds who believe the problem is terrible and is more eminent than a lot of people believe, and to tell you the truth, I'm terrified about it.

Then to go to the question of what's going to happen with the budget axe. First there has to be a budget axe. As much as I would devotedly wish for a sharp blade aggressively wielded, history tells us that it will be dull, rusty, seldom used and poorly aimed, and I think the last weeks' performance on the tax bill and the continuing resolution show, again, that the policymakers, particularly under the dome, are not ready. Maybe the concrete is cracking as former panelists suggest, but there's still an awful lot of feet stuck in many layers of concrete. And so this may take time, and it may, as Panelist Penner suggested, take some kind of a crisis to get us there.

But if we get there, we look at both plans that have been spread before us, and I'll look mostly at the Bowles-Simpson, the President's commission, simply because that seems to have the most horsepower and generated the most talk. And if you look at the guiding principles of that report, one of them stands out. It says, "Protect the truly disadvantaged." And I think all of the panelists have agreed that they should be protected. However, there would be a lot of debate on what's truly and how they should be protected and whether they need to be protected under exactly the same systems that we have today.

I think if you look at all of the reports, they suggest the strengthening of the safety net, a concentration on necessities, and probably a little concentration on "truly" and what we really need.

Now once we decide that the poor should be spared, then we have to think a little bit about how, and for the policymakers, that's going to difficult because the advocates on the part of the poor are not always speaking with one vote. And if, indeed, we had an axe wielder, the disharmony would make his job very difficult. The axe man needs clear advice, and it looks to me like he probably won't get it.

There are a couple of other points here, and one is that if something like the commission's plan is seriously considered, the old ways of doing business are going to be severely tested, and we're going to have to think like Thomas Edison about better ways. Do the feds have to do everything? Can the states do some of it? Can the privates do some of it? Is there a better and a cheaper way to deliver services? And I think in the future, as we face the axe man, if we face the axe man, compassion is going to count a good deal less than outcomes, and the policymakers who are going to have to make the difficult choices are going to demand to know about outcomes.

Due to the limitations of time, I want to skip directly to taxes because we've had a lot of talk about this in the previous panel and a little bit on this one, and there is going to be a great debate on it. And I've heard the President's commission bill described as 70/30, two-thirds, one-third, and 60/40 this morning. My test-o-meter doesn't tell me exactly what it is. To me it looks a little tax heavy. I think the debate is going to be on a figure already discussed here, what's the percentage of GDP that we're going to spend on the running of the government and how much are we going to tax the people.

For me, the 21 percent figure is too high, but we'll have to see. I believe if we can come to some great cosmic agreement, the great compromise, some kind of tax component is likely. It seems to me unlikely that either the Democrats or the Republicans will completely subside no matter what future elections bring us. But at some point the negotiators are going to have to figure out what's a good deal and what isn't a good deal. As I say, I didn't put the slide rule to the commission's report, but had I been serving on the commission, I would have said, "Yeah. There's a lot of stuff in here I don't like." The health care stuff is pretty fuzzy. The tax reform is very strong. Social Security is pretty good. I got to vote for it. We're in real trouble, and sometimes the policymakers will come to that decision, and there will, undoubtedly, be some increased taxes in our future.

MR. SCHAMBRA: Good. Thank you very much.

Mr. Reischauer, bring us back to the top of the barrel, please.

MR. REISCHAUER: Okay. I gather from Bill's introduction that I'm the grounds at the bottom of the coffee cup.

I'm going to throw out five pretty basic points on this topic, but before I do so I want to just make two comments on the previous panel and their wisdom. Many on that panel heard the cracking of concrete. I admit that I'm hard of hearing, but even with my hearing aid in, I hear a different sound. I grew up in New England, and anybody who grows up in New England next to a lake knows that as ice forms, it gets crackly. It crackles more and more the harder the ice gets, and that's what I'm hearing is ice forming.

And I would predict that two years from now we will not be having a robust debate during the Presidential campaign about which major structural tax reform to enact, but rather we will hear both sides promising a continuation, if not an expansion, of the tax cuts that Congress is engaged in and acting right now.

My second comment on the first panel is related to Belle's revolution that she expects to receive over $1 million from the Social Security system, and assuming that she wasn't referring to Medicare as well --

MS. SAWHILL: I was.

MR. REISCHAUER: All right. You're going to ruin my joke. I was going to say that --

MS. SAWHILL: You can't joke at my expense.

MR. REISCHAUER: There are one of two -- okay, Sarah. There are one of two possibilities here. The first is that she has succeeded where Ponce de Leon failed, and she will live a long time, and the other is that we're going to have rampant inflation, in which case I'm going to go out and buy Tips right after this meeting is over.

The first observation I'd make on this topic is that at the rhetorical level, we should be heartened because both of these commission have -- both meaning the Rivlin-Domenici one and the Bowles-Simpson have placed a lot of emphasis on protecting the disadvantaged. As Bob has pointed out, in execution they both come up a bit short. I think that we can overlook that because there are building blocks there which can be changed and strengthened. But one important thing to point out is what was in neither of these commission's reports and that is repeal or major scaling back of the Affordable Care Act, and that is a huge change that, if kept in place, is going to work to the benefit of this segment of the population over the next decade or so.

As others have pointed out, there are components of the tax reform proposals and the Social Security, I say, which we can build on, and, particularly that's true with respect to the Rivlin-Domenici plan where, notwithstanding the fact that they are imposing a sales tax on the nation, they're trying to compensate for that with an earnings credit that is quite a generous and indexed and beefed up trial tax credit.

The second point I'd like to make has to do with discretionary spending caps, I think which all of us think might be in the offing in the not too distant future, and all of us are concerned that in the push and shove and arm wrestling that will take place as Congress tries to fit $1.4 trillion worth of aspirations into $1.2 trillion worth of appropriation bills that programs for the disadvantaged will come up short because of the lack of power and political clout of this group. My guess is there is very little that can be done about that, and so the right thing to do is to try and transform this into an opportunity to an extent that it can.

We have to admit that programs directed at vulnerable populations, disadvantaged, like other policy areas, there are some duplicate ones. There are some inefficient ones, ineffective, ones that are not particularly well targeted, and beginning to think how these programs can change the way they're operated so that when the total goes down, the impact doesn't go down proportionately. Think creatively about how we can use the Cut-and-Invest Committee if that's the right vehicle to consolidate, rationalize, improve administrative structures, and demand more accountability from those who are actually producing the services that come from these programs.

The third point I'd make is that not all reductions in programs that are directed at the disadvantage hurt he disadvantaged, you know, and too often the argument takes place, "Oh, Medicaid is being cut; that must be terrible." Well, you know, if we're cutting dish payment, upper payment level scams that states have been running, it's not the end of the world. If we're raising the drug rebate, it's not the end of the world also. You know, we've gone through this shameless example of this in the last year in which the republicans have treated the Medicare cuts in the Affordable Care Act as if they affected the beneficiaries when the beneficiaries were really seeing augmented services provided to them, and we shouldn't fall into that trap.

Fourth point is that there may be some areas where looked at over the long-run, policy changes that disproportionately negatively affect disadvantage populations in the short-run have positive offsets over the long-run, and here I'm thinking about things like soda taxes, higher alcohol and tobacco taxes, changes in post-secondary loan programs that have enticed youth to enroll in educational programs from which there is no real payback from.

And the final point is that if there is some large package, I think it would be almost impossible to shield the disadvantage from all of the collateral damage that would take place. I mean, here you think of things like if we raised gas taxes, if we increased the rates that power marketing authorities charge for electricity, it's going to have disproportion effects on lower income people. You can choose to, you know, get all exercised about that, throw sand in the wheels of any program that there might be to reduce the deficit, or you can look as the Domenici-Rivlin Commission has done at broader kinds of offsets like the earnings credit to do compensation across the board.

As several of the other speakers I think have said, I think the disadvantaged will be hurt disproportionately if we wait for a crisis to cause us, in a very haphazardous and rapid way, to respond to rising interest rates, or falling dollar value, or something like that. And they and we as a nation will be better off if we deal with this in a measured way not.

MR. SCHAMBRA: Thank you. Very good.

I have a general question for the panel and that is this. Several panelists have mentioned that the commissions, the various commissions have carved out a kind of an exception for the truly disadvantaged in one respect or another, but I have to say in the reaction to the various reports, the public reaction and the congressional reaction both, we haven't seen a lot of attention to this. In fact, I would say -- I may be wrong about this, but I dare say this forum is one of the very few national forums at this level of prominence to tackle the issue of the commission's reports and the disadvantaged.

Is that an accurate observation? Are Congress and the public ignoring the problems? Is this a long-term trend? Is this something we should be concerned about? Is it the result of the fact the current economic difficulty is so widespread that, you know, we're just temporarily ignoring that issue in our discussions? What's the story on that? Does anybody have any --?

MR. BUTLER: Well, I do think that one of the things that has happened in the last few years has been that there's been the creation in the public and political mind that the truly vulnerable and disadvantaged in America is middle class people.

MR. SCHAMBRA: Yeah.

MR. BUTLER: I mean, everything is sort of the embattled poor middle class, and I think we see this in the tone of the reaction to all this.

MR. SCHAMBRA: All right.

MR. GREENSTEIN: Well, despite my criticisms, I do think it was useful that Bowles-Simpson kept disposing as a first principle, even though I think their plan violates it seriously, that we should be seeking to protect the disadvantaged and that did emerge in the debate.

The thing I think we -- you referred to an exception. I don't really see much of an exception in the plan, and I think what we really need to distinguish between are programmatic specifics. It is true that, as Bruce Reed noted, that the plan does not identify lots of deep cuts in low-income programs, that's true, but where you have the sweeping caps, particularly if they're set too low on domestic discretionary programs, on the rate of growth of public sector health care costs, divorced from what happens to health care system-wide, then I don't think there is much appreciation. I don't think many of the commissioners understood it. I don't think policymakers or the media understand that those have potentially very serious consequences for low-income people.

I agreed with the points Bob Reischauer made at the end, but I do think there are some caveats that are needed. I certainly agree that we need to distinguish between hurting disadvantaged people and changing low-income programs. There are various reforms that could be in various low-income programs that don't increase poverty or hardship, but it's not as though there are massive amounts of money there.

MR. SCHAMBRA: No, no.

MR. GREENSTEIN: If you are cutting nondefense discretionary 22 percent instead of 15 percent, there is no way you're not going to have some real tough hits there.

In the area of Medicare and Medicaid, you know, as someone -- our center helped design a lot of the Medicare and Medicaid savings, reductions that are in the Affordable Care Act. There isn't a whole lot left. Bob mentioned a couple areas on drug rebates and state financing schemes, but a lot has already been done there. The amount of money left there is modest. It wouldn't be enough to totally slow Medicare cost growth to GDP plus 1.

So that's where I think the debate has fallen short. There is this gap between this nice lofty principle of protect the disadvantaged, and since policymakers, including the commission, never like to have to identify the specific program cuts, it's easier for them to have some kind of cap on growth that starts a few years out. And the next group of policymakers have to fill in the blanks. And when you set up those kinds of caps in too severe a fashion, that's where I think inevitably we're going to have hits, probably disproportionate hits, on the less powerful and people with lower incomes.

MR. FRENZEL: Well, I think the reason we're not seeing a lot of debate is pretty obvious. It goes back to Gary's question. The public admits we have a problem but believes we can solve it by cutting someone else's benefits. And Congress, of course, was delighted that the 14 votes were not achieved in the President's commission, and so the pressure was off of it. And it can now dance its traditional war dances prior to the Presidential election, and they probably look at any of this sort of work as a 2013 operation, if at all. And that's why I think these forums are useful; so that even though we sometimes wind up as wonks talking to wonk, at least we have a better idea of what the whole system is developing.

MR. SCHAMBRA: That's great.

MR. REISCHAUER: I just don't think any of this is real at this point. I mean, the commissions have issued reports, but nobody is really shooting with real bullets at this point; and maybe it will occur as part of the budget process next year. Maybe it will occur when the debt-ceiling debate begins and is resolved, and people than have to fulfill the promises that they've made. But at this point it's just not real.

MR. GREENSTEIN: Reischauer makes a great point that there is a distinction between what's really happening and policy on Capitol Hill and the commissions. And the tax cut, of course, Bruce Reed referred to the tax cut deal. But let me just give a little comparison, and I'm looking -- there's Ron. I'm looking at Ron here.

So Ron, of course, was an architect of the '96 Welfare law, and people like myself said you're moving the program, the basic Welfare assistance programs for poor mothers and kids to a block grant. What's going to happen in recessions? And the answer was we're going to take care of it. We're going to have a contingency fund so when need rises in recessions, it can get drawn on.

And from 1996 to the present, we've had a contingency fund. Well, at the end of this month the contingency fund is at zero. Legislation has just been passed that allows it to die. There will be zero contingency fund for the rest of this year. With a 9.8 percent unemployment rate, they couldn't get 60 votes in the Senate for something that would maintain. There are going to be significant cuts for the poorest mothers and kids in states across the country, and the argument is we can't afford it. We have a deficit.

Meanwhile, we're about to extend tax cuts that average $100,000 for millionaires, and we're about to pass an estate tax a regime that compares to extending the 2009 estate tax parameters is worth $1 million additional tax cut a piece for the top -- the estates 1/4 of 1 percent who die.

So this is kind of why I get so concerned about things like caps without specifics. The risk is that when the rubber meets the road and we do have to make the hard choices, that this is an illustration of where they go, and I think, you know -- in response to your earlier question, I do think we need more public focus on some of the specific detail tradeoffs. There could be others like the one I just made.

You know, we talked -- we had a whole thing on death panels. We actually now have our first death panels. The state of Arizona is denying liver transplants to people on Medicaid because they don't want to put enough money into Medicaid. The death panel turns out only to apply to people who are poor.

So these are the kinds of things that I think need to be part of the broader debate as we discuss how to reduce deficit.

MR. SCHAMBRA: So do we agree as a panel that when we descend from the level of abstract principle where we can say things like "sparing the truly disadvantaged," that as we descend to the level of actual operation, and I think you're making the case that when you do that, then politically it's much easier to target the programs of the poorest. Is that what's going to happen?

MR. BUTLER: Well, I think that's one interpretation of what can happen, and it's certainly a risk. But I think that, in response to what Bob said -- what both Bobs said, well, certainly Bob Greenstein -- now let's sort of look at this on sort of a larger strategic view. Bob Reischauer, as he said, was brought up in New England. I was brought up in old England, and maybe our ice is a little different in England, but I seem to remember you get a lot of noise at the spring as well as ice begins to break up and flowers tend to follow that. And I think it's important to kind of look at it in this way.

Had this commission got straight into the details of very specific things and had, you know, a 3,000-page report of all the details, do we really think that the focus on strategically what we should do and the impulse for change would have been more pronounced? I think to the contrary. Everybody would look at all of the things that affected them. I think the great merit of this commission, just like, you know, the breakup of the ice in the spring where I came from, is that it's begun to change the nature of the conversation that stressed the broad principles and the broad reforms that are necessary. And if that can take hold, and if we can do our best to make it take hold, then the context in which the details do, in fact, get developed will be much -- the context will be much more pronounced and people will buy into it, which will help lead to detailed changed more in line with what our broad principles should be. And I think that's the critical way to think about this.

And let me just sort of say in one moment, when we start thinking about the health here, I agree in one level with what Bob Greenstein said, that if you just look at caps in general and caps in health care on and don't deal with the way the system operates, this is not the way to think about it, but the reverse is also true. If you start thinking about only the details of what kind of structural change you want in a health system, including Medicaid, and don't start thinking about the pressure needed through a budget or through a cap to force people to make real decisions within those potential systems, they won't happen.

The history of health reform is lots of talk about delivery system changes and so forth, and yet some are very good and some are put into place. But the trajectory of costs keeps going up because until you put a ratchet down on that in combination with a serious conversation about the details of reform and restructuring, you've got to do both of those on both the spending side and the tax expenditure side in health care to get this right. So both are necessary, and the commission is focused on the broad -- sort of broad picture of caps and broad sign first.

MR. GREENSTEIN: Let me just somewhat disagree with Stuart here. Here is what I'm really afraid of. As other speakers have said, unlike say in Social Security where everybody knows the options to restore solvency -- they can't get agreement but you can made all your menus -- we don't really know the things that in the long-run we need to do precisely in health care to slow the rate of growth system-wide.

The single biggest advance forward for all it's worth is the Health Reform Act. It pushes pilots and demos, all sorts of things to try to find new ways to reform the delivery system. It pushes comparative effectiveness research. It has the Medicare panel that looks at this and recommends changes. It has some unheralded provisions that allow whoever is the administration to, by administrative action, administer various put into effect, various cost savings developments that will result from the pilots and the demos without having to go back to Congress and run the gamut of the health care lobby.

Do we know that this will significantly slow the rate of growth of health care costs? No. It's simply a platform in the most promising thing we have. Also unheralded, and contrary to what some speakers on the first panel said, the Health Reform Act also really puts some ratchets on, starting at about 2018, both on subsidies, which would only grow with TPI, not health care, and on the threshold for the excise tax on the high cost insurance plan.

Here is where I'm heading. I think we can guarantee. We're going to see a number of members of Congress say what we need to do on health care is just put on this expenditure cap that Bowles and Simpson proposed while repealing the Health Reform Act. The expenditure cap has nothing in it to try to get you to slowing the rate of growth of private sector health care costs. You have some of the same people who want to cap who want to repeal the specific savings, like the overpayments to Medicare Advantage, private insurance companies that MedPAC called for, for years, and didn't get enacted to a health reform.

So part of my fear is the use or the misuse of aspects of the Bowles-Simpson plan, and I want to be wrong on this, but I will be my bottom dollar we're going to hear a major push from various powerful people in Congress to put caps on Medicare and Medicaid in the name of slowing health care costs growth while in the same breath they try and repeal, either the entire Affordable Care Act or, at a minimum, the very provisions in Medicare in pilots, in demos, in comparative effectiveness research that are the things that give us the most promise to try to find ways to slow system-wide growth.

MR. SCHAMBRA: We have time for a couple of questions I believe. So let's go to the audience, and I remind you of the injunction to be brief, to ask a real question, to identify yourself.

Yes. In the back, right next to that.

MS. RAMSEY: Hi. My name is Kayla Ramsey. I was happy to hear education come up as we talk about addressing the disadvantaged. And so in light of the news coming out that we -- me being my generation and younger are at risk of being less educated than our parents and all the generations before us, can we afford to shield education from this hard deficit talk, or can we afford not to? I'd like to hear a little more about that?

MR. BUTLER: Well, I think my point was that the shielding -- you don't want to shield a system that is not working. I mean, look at the dropout rates. Look at the failure of people to graduate from college. It's a disaster, and to say, well, let's shield that and just keep it as is, is bad. To say let's just take 10 percent off the top of it is even worse. We've got to say, look, if we're going to meet our objective, it's got to be within structural reform, and that's really the point I was trying to make.

So I think this conversation of saying we should shield various things, that's what to me is wrong with part of this discussion. It isn't a question of shielding. It's a question of saying what is the objective that we're trying to achieve with these areas and for this population? Are we doing it effectively? If we are and it's really successful, then fine. We should probably invest in it. But if it's not, then don't shield it, redesign it. And that goes for, to me, the tax and revenue side as for the spending side.

MR. SCHAMBRA: Anyone else?

MR. REISCHAUER: I agree with Stuart's basic point, but you don't even want to preserve and shield those things that are working well if you decide they are not the priority that the government should, the federal government should be investing money in. I believe that education is, so you can breathe a sigh of relief. But the fact of the matter is that over the course of the next several decades, we're probably going to have to decide there are certain areas that the federal government should pull itself out of and leave to the private sector or the non-private sector, or even state and local governments even though they're in worse shape.

MR. GREENSTEIN: I think you also -- it's like everything else, you have to look at the specifics. Would one want to slash the basic Pell Grant for low-income students to afford college? No. Getting into an area I don't know well enough. I need to learn more about but I haven't yet, but some people argue that the way the student aid system works now with certain kinds of for-profit colleges results in excessive expenditures and that there are savings to be had there. When you wall off an entire area, then you can't look at things like that.

So in every area you want to really get into the details, the nuts and bolts, and see are there aspects. You know, many laudatory programs, in order to be enacted in the first place, their enactment came through a sausage-making process where certain kinds of subsidies that are more than unmeritorious were given to certain players in order to make something happen in the first place. Now we're into the mode we're into where we're on an unsustainable fiscal path. This is hard politically, but in many of the programs, including some low-income programs, one has to look at the mechanism to deliver the service or the benefit and see if built into it was something that was put there for political reasons but results in money being spent you don't need to spend. Prime example was the change last year to direct student loans, which saved a lot of money that we were wasting paying banks and others, where we were already protecting them from risk, and then we were giving them excessive billions of dollars of subsidies on top of that. Just because one believes strongly in student loans doesn't mean there wasn't money to be saved there.

So I think that's the kind of analysis one needs throughout the budget.

MR. SCHAMBRA: One more question. In the back here, yes.

MR. YONIYAMA: My name is Yoniyama from Mitsui Company, Japanese investment firm. My question is a follow-up question. I think U.S. strength is a growing population and growing production, and Mr. Obama's strategy to double the export is pretty good sense because the world is expanding faster than, at this moment, U.S.

So how to connect the growing power and your strengths, growing population? I think education is very important. Instead of looking at the growing population as a cost, how to energize and make competitive is very important.

In your discussion, could you emulate how you're going to connect your strengths of growing population and growing economy?

Thank you.

MR. SCHAMBRA: Yes. Who would like to take that up?

MR. REISCHAUER: I can't look down this way.

MR. SCHAMBRA: It's a big question with a big answer.

MR. REISCHAUER: You know, I couldn't agree more with you that if we don't strengthen and improve our education system, a growing population is, you know, not a particular advantage. I think that is one more or less bright spot in policy over the last number of years in that both in the Bush Administration -- and one can criticize certain aspects of No Child Left Behind -- and certainly in the Obama Administration there's been a lot of attention and policy change devoted to particularly improving the educational performance of the bottom component of the population. And one even sees at the higher education, the postsecondary level, some interest in measuring value added and looking at accountability.

So I think we're going through a transformation here. There's a growing realization that we are nowhere near the best in the world in lots of areas that we have looked ourselves in the mirror and said boy, don't we look good? We're now looking around the other side of the mirror, and I think that is healthy as well.

But changes of this sort take a very long time to product actual results. I'd just like to make one comment, given your working for Mitsubishi -- Mitsui. You said it's a great thing that the Obama Administration sees future growth as being export-led, and, of course, Germany does too and most of the rest of Europe; and Japan is not far behind. There is a question of who's importing if we're all exporting? And, you know, we need to turn to South Asia and China and make sure they're hearing the same message.

MR. FRENZEL: If we're going to improve productivity and improve our growth, it seems to me it's important to look to the tax reform objectives that were promoted in the President's commission report where there was an attempt to convert tax references into lower tax rates, particularly corporate rates, but also individual rates as well to promote more growth in our economy and in our society. I'm not sure our population is growing as fast as you might suggest. Perhaps comparably to Italy or Japan we look strong, but I think a change in the tax system and the prospect of tax reform in addition to more aggressive trade policies is our best hope for economic growth.

MR. BUTLER: I would just say I agree with that very much in terms of economic growth and the relevance of tax reform and marginal rates.

Let me also just say, to return very quickly to the educational point, I really do feel that in the United States, I mean, clearly we have some of the top universities and the most highly skilled people anywhere in the world, but we are moving steadily, I think to sort of almost like an educational cast system, you know, where there are certain people who are -- you know, and many of us have been a product of this -- who are able to kind of get a good basic education, a good secondary education, and move on to university and have the means to do so. And there are other people for whom that is impossible. They will never ever be able to do that because they are so failed by the basic education system, and even if we give them Pell Grants to go to universities, they will drop out because they don't have the underlying skills, the human capital, the social capital to be able to take advantage of those opportunities.

So I think, you know, when we're talking about a growing population and younger, you know, the future of younger people, I think getting to grips with this combination of thinking about education and those who are at the bottom of the income here, the disadvantaged, we have an opportunity in this whole debate over the future of the deficit and how programs should be structured and so on to really finally engage in what has to be this conversation about the role of education and the structure of our education system.

MR. GREENSTEIN: If I could follow up on --

MR. SCHAMBRA: Last comment.

MR. GREENSTEIN: -- on Bill's comment, I think probably the most interesting thing, looking over Bowles-Simpson and the Rivlin-Domenici plans alike, is the fact that both of them have the sweeping tax reforms, and I think most analysts across the political spectrum would agree that those kinds of reforms would give us a more efficient tax system and would probably help some. One doesn't want to overstate how much, but help some on competitiveness and so forth. Both of them also are tax reforms that, unlike the '86 act; bring in more revenue, which we need given the deficit problem.

Having said that, the interesting question is how many legs those kinds of reforms really have. When you get to the tax-writing committees and you move from the abstraction of greatly broadening the (inaudible) and closing lots of tax expenditures, to actually closing expenditure by expenditure, tax expenditures, each of which has a very powerful lobby.

This is one of the things in town that is truly bipartisan. The members of the tax-writing committees, republican and democrat alike, protect those various tax expenditures. They wrote them in, in the first place, and I think a lot of the corporate sector is united in wanting lower corporate rates. But if it's your particular corporate tax expenditure that's being closed, they're going to be up there trying to save it.

So a real test that may or may not come in the next couple of years -- Bob Reischauer was very skeptical -- is, you know, can we really make progress on a tax reform that broadens the base, lowers the rates, and produces more revenue to reduce deficits, or is it really business as usual when you have to actually end specific tax subsidies? I'm skeptical. I really want to have my skepticism proved wrong.

MR. FRENZEL: So you think those interests that defend the tax preferences are any less vigorous than those that defend farm subsidies of defense expenditures? It's the same problem.

MR. GREENSTEIN: What was the final item added to the tax cut bill after the deal was negotiated by Obama and McConnell, what was the final item added on the Hill, continue ethanol subsidies.

MR. BUTLER: But that's a human right.

MR. SCHAMBRA: On that inspiring note, let's thank our panelists for a terrific conversation. (Applause)

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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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