

THE BROOKINGS INSTITUTION

CAMPAIGN 2012:
TWELVE CHALLENGES FACING THE NEXT PRESIDENT

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P R O C E E D I N G S

MR. DUBERSTEIN: Good morning. Good morning. I'm Ken Duberstein, a member of the Brookings Board of Trustees. And I'm delighted to welcome you to today's Campaign 2012 kickoff event.

Five years ago, I was on this very stage as co-chairman of Opportunity '08, a Brookings project that provided information, insights, and ideas during the 2008 presidential campaign. In fact, I've been honored to share this stage on a number of occasions with various luminaries who have gone on to great heights.

It seems everyone I appear with at Brookings winds up with a major role in the Obama Administration. Tom Donilon, Leon Panetta, John Podesta come immediately to mind. So, let me begin with a public service announcement. Anyone -- anyone wanting a job in the Obama Administration, I am your lucky star. Come on up, okay?

Now, 2012 is far different from our discussions in 2008, and the campaign itself is far different as well. As we all know, the country is mired in a prolonged economic slump, an even if we've seen a few blades of winter grass, we certainly have not yet seen any robins on the lawn.

The right track and wrong track numbers remain overwhelmingly on the wrong track. Unemployment has been over eight percent for 35 consecutive months, and it was over nine percent for 28 consecutive months. GDP growth remains tepid at best. We're not creating enough jobs to reduce the unemployment rate significantly. Consumer confidence remains near historic lows, and housing starts remain in the proverbial ditch.

On the Democratic side, as we all know, we have an incumbent president running unopposed. But no -- again, but no elected president in the past half

century has entered his reelection year under water in approval until now. Let me point that out. That's Eisenhower, Nixon, Carter, Reagan, George Herbert Walker Bush, Bill Clinton, George W. Bush. Obama is, at best, according to virtually all polls, in the mid-40s.

On the Republican side, we have as of this minute five candidates. At 11:00, the press is reporting that Rick Perry is going to drop out. But as of this moment, we have five Republican candidates who have somehow made it through 16 debates without ever remembering Ronald Reagan's 11th commandment, "Thou shalt not speak ill of another Republican."

The debates, to many, have become or resemble a made for TV reality show. Some have wondered even, with tongue in cheek, whether a democratic Super PAC or the DNC itself has sponsored all these Republican debates.

If Mitt Romney is the nominee -- and, by the way, if have not heard the news, it is a report this morning that Iowa is now saying that Rick Santorum prevailed in Iowa by 34 votes. But if Mitt Romney is the nominee, he will surely have had a baptism under fire, but it may not have given him a rising tide that will lift his boat.

The Republicans remain splintered, and to many keen observers, with seemingly less energy and enthusiasm to date behind Mitt Romney than they do for defeating Barak Obama.

So, in the words of that wonderful Secretary of State Don Rumsfeld, here are some of the knowns and the unknowns as of January 19th. What will the unemployment rate be as reported on the first Friday of October? Will it be a firm downward trajectory, or will it be bounding all around? Will Mitt Romney, assuming he's the nominee, be able to shape the Republican Party, or will the Party shape Mitt Romney? Will the Super PACs totally dominate the campaign, and will money

fundamentally decide the election? Will President Obama run an uplifting campaign of hope and change, or will he, as Ruth Marcus recently wrote in the *Washington Post*, just run on fear and loathing? Will national security take center stage, a la Iran, the Middle East, the European debt crisis, or North Korea, or, God forbid, terrorism? Or will this truly be "It's the economy, stupid" election, which I think is likely jobs, jobs, jobs.

Will the Congress really be the do nothing target Obama is trying to paint, or will public opinion force President Obama and the Congress into governing, which, after all, as my old boss, President Reagan, used to say, is, in fact, the best politics? Will social issues, and Occupy Wall Street, and religion play any significant role in the general election campaign? Will this be a size, scope, and role of government election, or will it be a referendum on the incumbent?

We will find out in 292 days, which is 292 lifetimes, the answer to many of these questions. But no matter who is elected, that person has to govern. He has to bring people together. The job of president is not simply to build consensus in Washington. It is build consensus in America, and then Washington will follow.

Let's hope that the campaign will elevate both sides so come next January 20th, a president and Congress can work together to find common ground. As we all know, the stakes are enormous. Kicking the can down the field is not acceptable. We face huge challenges.

So, over the course of this Campaign 2012 project, Brookings will offer background and ideas on the top 12 challenges facing our country. These include the economy, the Arab awakening, health care, energy, and today's topic, the budget deficit.

Our Project Director is Ben Wittes, a Senior Fellow in the Governance Studies Program. Ben is an expert on terrorism and law, as well as being a reformed journalist. Let me turn the program over to Ben to tell you a little bit more about the

project, and then let my good friend John Harris of POLITICO start our discussion. Ben, thank you very much.

(Applause.)

MR. WITTES: I'm not sure I've ever been called a reformed journalist before, but thanks for that wonderful set up and introduction.

So, as none of you are here to listen to me, I'm going to be very brief. But I did want to talk -- just briefly explain a little bit about how the project -- the larger project of which today's event is the kickoff event is going to work and how it was conceptualized over the past -- and how it is sort of a continuation of and a little different from what we did four years ago.

So, as Mr. Duberstein made clear, this is a sort of a continuation of what Brookings did four years ago in the Opportunity '08 program. And the basic idea now as then was to, you know, discuss policy ideas for the next Administration situated in the context of the current campaign.

You know, we at Brookings, we don't -- we're not going to spend a lot of time talking about Bain Capital and whether it was, you know, job creating or job killing. We're not going to -- we are going to spend a lot of time talking about, you know, job creation policy. We're not going to spend a lot of time, as the campaigns sometimes do, you know, talking about whether Sharia is a threat to the United States. We are going to spend a lot of time talking about, you know, U.S. policy in the Muslim world.

You're not going to hear at these events a lot of discussion of, you know, Newt Gingrich's or Herman Cain's, you know, marital infidelities, or alleged. You're going to hear a lot of talk about, you know, what the next president should or should not do on a variety of issues that we deem in our judgments to be important.

The central issues that we're trying to identify, the central concerns that

we're trying to identify are, you know, really what should policy look like in the areas that we're concerned about? What are the critical issues that the candidates are talking about? What are the right answers to them? And what are the right answers to the issues that the candidates aren't talking about? You know, there's a tendency always to let the candidates set the terms of the debate, but sometimes there are just hugely important issues that, you know, go by the wayside in campaigns that are much more important in the course of governing than they are in the course of campaigns.

So, part of what we feel our role is is to remind people that there are these other issues that aren't actually the subject of much campaign debate, but do occupy or will occupy a lot of attention necessarily in the next Administration.

What are the real decision points of issues in which candidates will issue very sweeping statements, but which the actual room for policymaking may be very narrow and very incremental? There are a lot of those issues, you know. We're going to sweep everything off the table, and then you get into office, and actually it's really more of a question of rearranging the silverware in certain respects.

And all of this is sort of bound together by the question of what should the next Administration do. And so, what we tried to do was identify -- and this is the area really where this year's project is a little different from Opportunity '08, which we identified 12 issues which we think are, if not necessarily the critical issues, but certainly critical issues for the next Administration to think about.

Some are big issues, like today's, for example, will be big issues in the campaign itself, and some will not. Some of them are issues that we think are important and should be a bigger part of the debate than they're actually likely to be.

For each of these issues, we identified one Brookings scholar, who had done work in that area, sometimes a pair, but in this case one who had done important

work in that area. And we asked that person to write a main paper kind of discussing the issuing question, the record of the last -- the current Administration on that, the critique that the opposition party is making of that record, and situating that entire discussion in terms of the question, what should the next Administration in the next four year, whether it's a reelected Obama Administration, or a Santorum Administration, or a Gingrich Administration, or a Romney Administration. What should it do? What's the sort of right answer for the next Administration?

And for each of these papers, we then asked two other Brookings scholars with either differing perspectives or sometimes a lot of agreement, but just differing areas of expertise, who could bring sort of new discussions -- you know, new information to the discussion. We asked them to write a shorter response paper.

And for each of these sets of three papers, we're going to hold an event, this being the first, to discuss the issue, the role the issue is going to play in the campaign or not play in the campaign, and to discuss the realistic policy options that the next Administration has in this area. So, that's the sort of overview of the project.

Now, to kick this off, today's event really features a really terrific panel, which has put together three really wonderful papers that I think situate the deficit discussion in a wonderful light, and really bring out a lot of nuance in it. I commend all three papers to you all. And to moderate the discussion, John Harris, who's the Editor-in-Chief of the POLITICO, and one of the just keenest political observers around, and who, on a personal note, was an old colleague of mine at the *Washington Post*, where we are, I guess, I'm a reformed journalist; he is merely a reformed *Postie*.

And so, our advice to the next Administration comes from Ron Haskins, who's the Co-Director of the Budgeting and National Priorities Project here at Brookings. And we'll get responses today from sort of areas of agreement and disagreement, and

simply related discussions of related areas of policy from Ron's Co-Director, Isabel Sawhill, and from Bill Gale, who's the Co-Director of the Brookings and Urban Institute Tax Policy Center.

So, with that, I'm going to get off the stage and invite the panel to take it.

MR. HARRIS: Great. Well, good morning, and thank you all. Ben, I have to say I don't consider you a reformed journalist. I consider you a current journalism who's just doing -- bringing your work to a new setting. But thanks for the introduction.

I should say I was interested in your roster of all the worthy topics that the series will be covering, and all the unworthy topics that you won't be covering. I take the opportunity to give a plug. For those of you who are interested in all those unworthy topics, it's www.politico.com. We'll be all over the things that Ben has decided are unworthy of Brookings.

Anyway, POLITICO's delighted to, and I'm delighted to, collaborate in this indeed very worthy series and very interesting one. And I appreciate that. And I'm glad to be back in this building where I was at one time many years ago, a fellow, and with whom -- an institution that I've got so many long-time associations and very warm associations.

I think we can all agree that democracy is just simply too messy. It no longer works. What we really need in this country is a dictator who could impose the right solution. And my candidate to be dictator is Ron Haskins. If you were --

MS. SAWHILL: Good choice.

MR. HARRIS: If you were dictator, how would we solve this, what many people regard as an insoluble problem of the deficit, and particularly the deficit in the context of our current very weak economy? What would we do?

And in answering that, I'd like you to also answer the question;

everybody agrees that this issue is hard. But what do they mean when they say it's hard? Is it simply politically hard, or if this country were to solve its long-term structural problems, would it actually be really hard? In other words, how much actual suffering, how much pain really needs to take place, or is this just basically a politically hard problem that, if rational minds, such as your own, could impose a rational solution, everybody would be just fine with some discomfort, but not apocalyptic discomfort.

MR. HASKINS: Well, I'm not dictator yet, and I've heard that John is a tough moderator, so I'm fully expecting to be cut off any moment. So, let me start with a summary. A pox on both their Houses, including the White House. Both parties have been horrible in this debate. There have been occasional bright spots and openings, I'll mention just a minute. But generally, we're really in a bad place on what I think is the nation's most serious problem. This truly threatens the future of the country.

And the especially frustrating part about it for me is that everybody knows what the solution is. We're going to raise taxes. We're going to cut spending. And we're going to make some procedural reforms to try to lock in as much as possible with the kind of Congress that we have, the solution that we arrive at so that they have to meet it. And I don't think there are any other choices. There's lot of variability between those three things, but that's the answer. It's hard to get there, but we have to do it.

Now, probably the most controversial part of this is increasing taxes. I have lots of former Republican colleagues who have talked to me about this issue in the most delightful possible ways.

So, let me lay out -- I'm at Brookings, and I believe in logic, and reason, and evidence, and so let me say here's why we have to increase taxes.

First of all, every big deal almost in the history of Washington has been a compromise. Both sides have to give something. Otherwise, a democratic government

doesn't work. So, you start off with the broadest possible argument.

The second thing is we have 10 to 11,000 baby boomers, like me, retiring every day. Virtually all of them are going to get Social Security and Medicare. We cannot run the government on the same number -- amount of revenue that we had in the past. Now, we can cut. We can't keep going the way we're going. We will have to cut spending for sure. But to think that you can do what Romney has done and said, well, 20 percent is the limit, or some Republicans say 18 percent is the limit, 18 percent of GDP, that's not going to work. We need additional revenues.

Third, Republicans have had plenty of chances to cut spending, and they not only didn't cut spending, we fought two wars that have cost us on the order of \$3 trillion so far. And we increased Medicare, just what we need, more benefits for the elderly. What a wise thing that was. And that cost us \$50 billion and increasing. So, it's kind of hard to think that the Republican Party is going to slash spending when the record would indicate otherwise.

Another point is, a Republican almost philosophy has been, starve the beast. You know, they can't control Democrat spending. They never say their own spending, but that should count, too. So, they're going to starve the beast. They're going to cut taxes. And when we don't have revenue, we won't spend it. Well, that has been an utter, complete, absolute fiasco because what they taught politicians and the public, I'm afraid, is you can have all kinds of benefits and not pay for them. Big condition of the country to believe we can get all kinds of stuff and we don't have to pay for it.

And finally, we live in a democracy. Poll after poll show the public expects progress on this issue. They expect compromise. And many polls say even a majority would favor tax increases in a balanced package. They say they want a balanced package. So, this is the case for why taxes have to increase.

Now, there also have to spending cuts, to be sure, and the Democratic Party has taken an equally unreasonable position -- or many Democrats have -- that we're not going to cut either Social Security or Medicare. We are going to cut Medicare for sure and probably Social Security. But Medicare has got to be cut.

We're now spending 5.6 percent of our GDP on Medicare, on all health benefits, and Medicare is the biggest one, but Medicaid and so forth. By 2040, we'll spend 11 percent, more than twice as much. And by 2080, we'll be spending almost 20 percent of our GDP. So, any trend that can't continue won't. We have to reform these programs, and so the Democrats are also equally at fault.

And then, I come to the President, who has a big problem in this area, too, I believe. First of all, every annual budget is an opportunity that only man in the country gets or one person in the country to lay out a vision. Secondly, Bowles-Simpson presented a great opportunity. A majority of people supported Bowles-Simpson, which roughly followed the outline that I gave. And more recently, the Ryan-Wyden proposal, bipartisan, was a huge opening to advance serious Medicare reform, and the President immediately the same day turned it down and said that this does not help Medicare.

Now, why are the parties having trouble? Very simple. In both cases, what they have to agree to lies at the very heart of what their party stands for. Republicans believe in small government, and they believe in low taxes. And they have to fall backwards on that, and they have been losing this battle anyway. Democrats believe in protecting the programs that they have established, especially Social Security and Medicare, which are clearly great achievements. But they have to compromise on those. Now, that's why it's hard. That's the answer to the question, it's hard.

The one good thing about the situation is you are going to have a clear choice in the election if the parties are serious about what they're saying. Republicans

are going to cut the hell out of spending, and they're not going to increase anybody's taxes. And the President is going to cut some spending; it's not exactly clear what. But he is definitely going to increase the taxes of millionaires and billionaires, which will get us about a fourth of the way that we need to go.

Thank you.

MR. HARRIS: Thank you. That was very brief. It wasn't attempted once to cut you off.

There's so much that you said that it's so self-evidently sensible that I don't want to spend a lot of time agreeing on what's sensible. But I'd like to ask our other two panelists if they heard anything there that they didn't agree with, or that they think just reflects a misplaced emphasis. Isabel, we're going to start with you.

MS. SAWHILL: I basically agreed with it, and I would simply put a little different emphasis or extend what Ron has said in two areas.

First of all, I think that as Ken Duberstein said, this election is all about jobs, jobs, jobs. And I think it's fine to reduce deficits and debt. We very much need to do that. We need bipartisan compromise. We need everything that Ron just outlined. So, I totally agree with that. But I would simply add and put three exclamation marks with it that we cannot do that in a way that harms this recovery.

I think we're all into a mode of thinking about recoveries is that they're short because most recessions in the past have lasted for a couple of years, and you think, oh, in six months or a year the economy will be back to normal. All of the evidence that I see suggest that this recovery is going to be very long and very sluggish. It could be five years, even under reasonably optimistic assumptions, before we're back to anything that you might call --

MR. HARRIS: Five more years?

MS. SAWHILL: Five --

MR. HARRIS: -- or five years?

MS. SAWHILL: Five more years.

MR. HARRIS: So, we're basically looking at an eight-year recession.

MS. SAWHILL: We're looking at a --

MR. HARRIS: Eight years sluggish.

MS. SAWHILL: We're looking at a Japanese type situation. Now, you know, we don't know. Maybe I'm wrong. I hope I am. But the point is that in the process of getting our fiscal house in order, we must not undermine the strength of the recovery.

What does that mean? That means that we should have policies, including reform of Social Security, including reform of Medicare, including reform of the tax system in a way that raises more revenue, but that doesn't kick in right away.

Second thing I would emphasize that Ron did mention is the need for shared sacrifice. You asked a minute ago, John, is this going to be painful? I would say it's going to be very painful. What we need to do is way beyond what anybody imagines. You talk to the public. I've been around the country and talked about this in many different cities with the public, and they think all you need to do is to get a hold of fraud, waste, and abuse, cut a few bureaucrats in Washington, freeze salaries, get rid of fraud in some of our programs, and that will take care of the problem. It's not true. Seventy percent of all revenues right now go for just three programs, Social Security, Medicare, and Medicaid.

So, we need shared sacrifice, and that means that most revenues and spending need to be on the table, as Ron emphasized. But I would then -- he's been somewhat critical of the President, and I thought it was interesting when Ken Duberstein said, is this going to be a referendum on Obama, or is this going to be a debate about the

role of government and about how we share the pain that we need to have in our future. And I think it has to be and will be in part about the degree of inequality we have in our society now.

The Occupy Wall Street has put this issue on the table. The top one percent now gets 20 percent of all income in our economy; that's more than double what it was 30 years ago. And yet when you look at Obama's likely competitors for the presidency -- let's say -- let's take Mitt Romney because he's going to be the likely opponent, what is he proposing? He is proposing deep tax cuts that would increase the deficit, something like \$2 trillion over the next decade. Furthermore, the top one percent would get 57 percent of the benefits from those further tax cuts that he's proposing. That data comes from the group that Bill Gale presides over, the Tax Policy Center.

And how is he reconciling that with the idea of a smaller government in which deficits don't continue to balloon? He's reconciling it by saying, oh, well, we will have a balanced budget amendment to the Constitution, and we will reduce spending to 20 percent of GDP, but he doesn't tell you how. And we will do all of that immediately.

So, in my view, the President does deserve some criticism for not, for example, supporting Bowles-Simpson. But when you ask compared to what and you look at what Romney is proposing and what the Republican Party in general is proposing, what Obama is proposing is both fairer, calls for shared sacrifice, and is much more likely to keep the recovery going. So, that's my two cents on it.

MR. HARRIS: Bill, do you want to weigh in here?

MR. GALE: Sure, thanks. The danger of writing a 1,000-word paper and then going third is that Isabel and Ron have collectively said almost everything that that I wrote. So let me make a few comments. I want to offer, not a disagreement but a friendly amendment to what Ron said. Ron described the republicans as a party of

small government and low taxes and the democrats as a party of big government and high taxes. I would amend that to say both parties are parties of big government and low taxes. The republicans emphasize the low taxes, but when they were in power, they spent, spent, spent. The democrats emphasized the high spending. You know, they proudly stand behind Social Security and Medicare but they haven't stepped to the plate to offer the tax revenues that would pay for that.

So I think the underlying -- I would love it if the parties had a kind of orderly rationale civilized debate about low taxes/small government versus high taxes/big government or really medium taxes/medium-sized government, but neither party is having that debate. They both are big government and low taxes and that's how we end up in the situation that we are in.

As to whether it's going to be painful or not, yes, it is going to be painful. The numbers here are huge. The fiscal gaps we face in the country are on the order of six or seven percent of output. That means spending needs to go down and taxes need to go up by a combined six or seven percent of output. That about a trillion dollars a year in today's economy.

So for example, the stimulus package, which was enormous by historical standards, was about \$800 billion and it was crafted over a couple of years and it was giving money away to people. It was raising spending and lowering taxes. What we need to do is -- \$1 trillion per year, taking money from people, either cutting spending or raising taxes. So that's the order of the problem. There's no way we can get from here to there without imposing serious sacrifice on people and that's where the shared sacrifice comes in, because if you only do spending cuts, for example, you can't get at the top one or the top five percent of the population because they simply don't get that much in Medicare or Social Security and definitely not in Medicaid. So if you want shared

sacrifice, you need to have tax increases as part of the package because, again, it's the only way to get at high income households.

The other thing you need is to expand the tax debate beyond simply the income tax, which is where it's focused so far. And this is a peculiarity American thing. Every other industrialized country has a value-added tax. Many countries have substantial energy taxes and gas taxes that are on the order of five to 10 times the size of the tax in the U.S. Some countries have carbon taxes. This is where the solution is going to lie on the tax side.

You can generate a little more revenue out of the income tax through reducing tax expenditures, et cetera, but we're going to need to consider other tax instruments. And the value-added tax in particular is where the money. It raises in many countries more money than the income tax and eventually we're going to have to look at that. And we need, for energy reasons as well as fiscal policy reasons, to tax the consumption of non-renewable energy. So let me stop there.

MR. HARRIS: I should say, we're going to talk up here and get a discussion going at the top of this, but the idea is that we get a robust conversation going with the whole room. So please be thinking of questions and I will at the appropriate time be recognizing people for those. I've got a question that I really would like to hear everybody on briefly. There are two views of the deficit problem and the politics that frame the deficit problem. One is that this debate is fundamentally distorted by cynicism. And what I mean by that is that everybody knows what to do. Everybody knows they should do it. But the political incentives that exist in Washington toward polarization, toward taking the easy political shot when somebody proposes something difficult, distort the debate and make progress impossible, and that under this scenario, if everybody would cut the BS, head out to Andrews Air Force Base for a week or whatever it takes to

get it done, as George H. W. Bush did in 1990, that we could come up with a rationale solution by basically penetrating through the cynicism.

There is another view that says this problem is difficult not for cynical reasons but for principle reasons. That is, republicans and democrats have fundamentally different views about the role of government, what size it should be and how it should be funded. This is not a cynical disagreement but a principled one. And what's needed is not a trip to Andrews Air Force Base but an election where you have it out and the country decides who's right and who's wrong and the winner can govern around those premises. So I would like you guys to discuss this. Is this problem an authentic disagreement that a democracy should have or is it a symptom of political dysfunction that basically is Washington is a petri dish for that virus.

MR. HASKINS: Well it's both. There is a certain part of cynicism but this is a really serious difference between the parties and in the country. The problem is that it's been obscured by the fact, and I think we're talking about human nature here, that people think that they can have something for nothing. This is American, the home of the free, the land of the brave. You know, we don't have to pay for everything. We'll let foreigners -- the Chinese can pay for our Medicare and so forth, and it's worked just fine. I've been up on this stage on several occasions in the last year and had people who's IQ is far superior to mine and know a lot about government say, "That's going to take care -- don't worry. You focus way too much on the deficit." Paul Krugman would be an example.

So I think there is a very substantive difference between the parties here, but here I think is the most fundamental problem. The most fundamental problem is that American people are undisciplined. This is a fault of the American people. They should not elect folks who tell them you can have something for nothing. That's the base of the

problem. But the other problem is that the parties really have to overcome what they stand for the most. I mean, think; republicans for 20 years now, even more, have stood for low taxes. And, indeed, they signed pieces of paper that say, "We'll never increase the tax." And then Ronald Reagan increased taxes over 20 times. So there's hypocrisy also on both sides. Democrats are the same way about Social Security and Medicare.

So what we need are politicians. If we could have election like you just suggested, good. Well, we're having an election right now. Well what's going to happen? I'll bet you a nickel -- no, I'll bet you penny. The biggest chance for change is that republicans could take the senate. They'll probably hold the house and Obama will retain the presidency. So we'll still have divided government and we're not going to have, you know, all republicans or all democrats sit down and sing Kumbaya and everything's going to be fine; no. We're going to have to fight it out as we always have, but we need to have elected officials who are committed to the truth and to the future of the country, and some of them are going to lose the next reelection as a result of it. That's what happened in 1990. Democrats paid a serious price and so did George Bush because he lost the presidency. A lot of people think that's the reason. And Clinton and democrats paid a big price in 1993 as well. They were courageous. That's supposed to be one of the reasons we elect people.

Some people lose office when we impose this solution on a country, and that will have long-term impacts on republic party because of the foolish position they've adopted about no new taxes.

MR. HARRIS: Bel, what do you think? We heard Ron say kind of shame on the President and shame on the other political actors in Washington for not embracing Bowles Simpson. But, I mean, there would be an argument from both sides, "To hell with Bowles Simpson. I'm a democrat and I don't want to cut entitlements." I think that's why

governments in business. If you're a republic, to hell with Bowles Simpson. I'm opposed to tax increases. What do you not get about that. I'm not going to embrace Bowles Simpson.

MS. SAWHILL: Well, I think that we have to remember also though that Bowles Simpson had on it elected members from both houses of congress and both parties.

MALE SPEAKER: But they didn't vote for it though.

MS. SAWHILL: And a majority of that commission did vote, vote to reduce spending, reform entitlements and raise revenues in the context of tax reform. So we know that elected officials -- it is a kind of an Andrews Air Force Base, Bowles Simpson.

MALE SPEAKER: Right.

MS. SAWHILL: And for some reason, the way the Statue was written -- or the arrangements that setup the Commission, it was required that they come up with this super majority vote instead of just a simple majority. So I would say it's possible to find agreement amongst a group of elected officials, including some independent experts. And so an Andrews Air Force Base type arrangement shows that people do know what to do, can find some compromise. But I believe that there are two problems. One Ron already alluded to, and that is the public is in denial.

If you look at the public opinion polling, the public is overwhelmingly against any kind of tax increase, except for those at the top. A majority of the public, actually quite a large majority is in favor of increasing taxes on the wealthy. And, by the way, there's a way to do that that doesn't increase rates. All it does it reduces the amount of deductions that people at the top get. So it would actually improve the efficiency as well as the fairness of the tax system.

But the public doesn't in general like tax increases but they also don't want their benefits cut. They are overwhelmingly in favor of keeping current Medicare and Social Security benefits like they are. Now there just isn't enough money in the rest of the budget to accomplish the goal here, and so that's why I say the public is in denial.

Now, what is the most important job of a leader like a president? I think it's to educate the public. It's to lead. Educate comes from the Latin root meaning to lead. We live in a representative democracy, not a popular democracy. And we elect people to then help us get to where we need to go. And so now I'm getting way into philosophy here and talking too much about it.

But I think that the tragedy of the way our political debate is going right now is it's too much about, you know, Romney's tax return or somebody's other peccadilloes and not enough about educating the public about what we need to do.

MR. HARRIS: Bill, this has been a downbeat panel.

MR. GALE: It depends on what you're comparing it to. It's all a baseline issue.

MR. HARRIS: And Ron hinted on something that I have heard as one kind of scenario, which is -- let's face it, we're not going to have a big clarifying election because nobody's really going to put the --

MS. SAWHILL: No, we're not.

MR. HARRIS: -- the fundamental issues on the table. Probably what we'll get is some version of divided government. And under this scenario of divided government, it's the republicans in the senate who, come 2013, say like, "Look, this issue has got to get resolved."

The House republicans are too radicalized, but the Senate republicans are going to say, "Well, time to solve this issue somehow --" and create the sort of political

atmosphere where that could happen. Do you buy that or can you envision other scenarios where, come 2013, there is a convergence of incentives that force the political system to act in ways that it hasn't to date acted?

MR. GALE: All right. So on these various political issues; first of all, is it a cynical disagreement or a principle disagreement? I think, like Ron said, it's both. There are elements of both. One way that I like to think about that question is, suppose we had a parliamentary democracy instead of this two Houses and White House and stuff. I mean, the Founding Fathers designed the system so that it would be hard to do big things fast, right? And they were extremely successful, especially in this regard. All right?

In a parliamentary democracy, one party would be in charge. If there was an issue, they would have to offer a solution to it and it would get implemented. And the public might not like it, they might vote that party out, the other party comes in and changes it; fine, but somebody is actually responsible in a parliamentary democracy.

In our system, everybody can pass the buck. And so you get these -- I think it encourages some proposals that can only be described as mindboggling. Gingrich's tax plan, for example, would extend the Bush tax cuts and cut taxes by \$900 billion a year as of 2015. I mean, that's \$10 trillion over the decade. That's not a tax increase, obviously, that's a tax cut. And so that would just dig the whole even deeper. But he can go out and say that knowing that that's never going to happen. But if he were elected he would have to compromise.

And if you look around the world, parliamentary democracies tend to be in better shape on these long-term fiscal issues than we are. It used to be the case that the only countries rated AAA were parliament democracies. I am not sure how the -- I know S&P downgraded people last week. I'm not sure how that stat holds. But

generally, I think that that's an issue, the fact that nobody is actually responsible. And therefore, like Bel said, we have to ask somebody to take leadership. In a parliamentary democracy, again, there is someone who is de facto the leader, and so I think that's an issue.

The Senate republicans in 2013, I don't know. You know. This is one of those things where you can go back in time and say, "Well, you know, you did this --", "Yeah, but you did this before me --", "Yeah, but you did this before me --" and so on.

Where I draw that line is the no new taxes pledge, as Ron mentioned. Something like 80, 90 percent of the republicans congress have signed it. Right? And this isn't a statement that they hoped there are no new taxes. This is a signed written pledge that they won't raise tax rates. They won't removed deductions unless the money goes toward cutting tax rates.

I don't see how you get around that politically. Either they have to, in mass, violate it or we're stuck in a political stalemate where the republicans say, "We won't raise taxes" and the democrats say, "Why should we cut --"

MR. HARRIS: Well why not tax reform? Most people think it's a good idea anyway.

MS. SAWHILL: The pledge does not allow tax reform unless, as Bill said, any revenues that come from it are used to reduce tax rates.

MR. GALE: Right.

MS. SAWHILL: None of the new revenue can go to reduce the deficit.

MR. GALE: Right. So our tax reform is basically a bait and switch strategy. The republicans have to say something about taxes. They don't want to say -- well, many of them do. But many of them are willing to say, "It's all a spending issue. All we need to do is cut spending." But then if they say, "Well, what about taxes?" "Well,

we'd like to reform the tax system." They don't want to raise revenues. And then no new taxes prohibits them from doing that.

MR. HARRIS: Press on this. It's not like we're talking about inventing cold fusion or an antigravity machine or something like that. In 1997, Newt Gingrich and Bill Clinton cut a deal. When Bill Clinton left office we were running surpluses. Like this should be doable, right?

MALE SPEAKER: Yeah. Absolutely. Yeah.

MS. SAWHILL: It should be doable but it's not, as long as the republic party is controlled by a group of people for whom the principle of no new revenues is the overriding objective and priority.

MR. HARRIS: So the key is that we get enlightened reasonable, calm republicans to take control like Newt Gingrich. Right?

MS. SAWHILL: Yeah. But Newt is not where he was in the 1990s. The point is, I think, that the Republican Party has moved pretty far to the right.

MR. HASKINS: But again, I would assert the point about leadership. I can recall very distinctly after republicans closed the government twice in '96 and '97 and Clinton was completely womping republicans -- something fierce, and all of these very brave freshmen started scratching our heads a little bit and saying, "Geez, Washington might not be like we thought."

So Newt waddles on down to the White House and cuts a deal with the president and brings it back to the republic caucus and the House and says, "This is it. This is not the best deal but it's the best deal we can get. And if you don't take it, get yourself another speaker." And they took it. And we opened the government and everybody lived happily ever after and we balanced the budget. That's leadership. That's the kind of thing that we have to have.

I think Bel's statement to put this on the door of the republic party is just grossly unfair. Democrats are equally intransigent about Social Security and Medicare, especially Medicare. So I just -- both parties -- both of them, they're both making mistakes and the public needs to hold both parties accountable.

But let me answer your question about -- this will take one minute. There is some room for optimism here. I could imagine a situation that will occur after the election where the Bush tax cuts come up and the democrats say to the republicans, and the President is with them and they sit down and look across the aisle and they smile at them nicely and tell them how sweet they are. And then they say, "Okay, guess what? If you don't pass something that includes new taxes, we're going to make sure it doesn't pass. I'll veto it and the Senate won't pass it." And then they need to sit there for an hour or a day or a month or whatever it takes, including closing the government and explain to the public, "We've got to do this. We've got to solve this problem. We're willing to give on our side." So, I mean, something like that could happen. It's imaginable.

MR. HARRIS: I'm going to go to questions in just a second but I want to ask one question before we do. And I think, Ron, this was best to you, and you guys weigh in if you want to. When we're talking about the kind of ideal solution that you envision, is this just a smaller, tighter, more economical Federal Government with people paying more for it or are we going to sort of fundamentally restructure government in the process of doing this, and in important ways, rewrite the basic compact between citizenry and government that now exist?

MR. HASKINS: Right.

MR. HARRIS: Do you understand the questions?

MR. HASKINS: Okay. And I'm a republican and I actually got Alice Rivlin -- she and I wrote a paper in one of our Brookings volumes way back six, seven

years ago when we were warning the country this is a big problem, and we cut the hell out of government. We cut all kinds of stuff. So you could do that. Unfortunately, even if you did that and did it more than you probably could pass through to congress, it still would not solve the long-term deficit problem. The only solution to the long-term deficit problem is more taxes and less healthcare. Those two have to be a part of it and there's no way around it. So we're not really going to cut government but we're going to control its growth and we're going to get government out of some of the things it's doing now that it shouldn't be doing. And we'll have a big argument about that but I don't think we're going to have a smaller government.

MR. GALE: This is an interesting question and it relates back to the '97 thing you mentioned as well as the 2010 Bush tax cuts. The '97 agreement was tiny and it was in a robust economy that was headed north. And basically they took money out of expected future surpluses and ended up essentially giving tax cuts back to people. So it was an agreement but it was not like either '90 or '93, which were agreements that actually reduced spending. What we have to do now is much bigger than that. It's in an economy that's much worse. It's in a political atmosphere that's much more tainted and it's with the baby-boomers actually retiring rather than being 15 years away from the baby-boomers actually retiring. So let's put it this way --

MALE SPEAKER: Other than that, things are looking pretty good.

MR. GALE: If '97 is the best we can muster, that's not going to be anywhere near enough for now. On the 2010 tax cuts, every economist had this clever idea all through the decade that the expiration of the 2010 tax cuts would force congress to really think about fundamental tax reform and it would be a forcing point and they would really -- at the end of 2010 they would have done all this work and they would come up with a fundamentally new system. Instead, basically nothing happened until

about August of that year, and then they just had the debate about whether extending it for 95 percent of the population or for 100 percent of the population.

Ron's scenario about Obama saying, "We're not going to let these Bush tax cuts be extended unless you X, Y, Z --" I know it's totally unrealistic because Obama went on record in 2008 in the campaign as favoring extension of 95 percent of them. So I thought that was a mistake then. I continue to think it's a mistake, but that's where he is. So it's totally not a believable threat for him to do that.

MS. SAWHILL: Can I say something about healthcare? I know you want to go to the audience but --

MR. GALE: Yeah, sure.

MS. SAWHILL: I mean, Ron is exactly right and he says it so succinctly when he says, "We need to do two things fundamentally; raise revenues and cut healthcare spending." On the healthcare issue, I would argue that on Medicare reform, it is true that there are many democrats, in particular, the liberal wing of the party who are very much opposed to that, to any tampering with Medicare as we know it. But there are other democrats who have actually been open to fundamental Medicare reform.

The President has been kind of back and forth on this. He has not been good just recently, as Ron suggested. But last summer, he showed some willingness, and so have many other moderate democrats, to doing the fundamental reforms of Medicare that are needed. But it's understandable to me why the Democratic Party isn't going to make major concessions on Medicare if republicans remain in concrete on revenues.

MR. HARRIS: Right. I mean, that's basically what Obama has apparently concluded.

MS. SAWHILL: Right.

MR. HARRIS: Like why be reasonable? They're not. So I'm not going to either.

MS. SAWHILL: Exactly.

MR. HARRIS: All right. We've got audience -- I think that gentleman over there has had the hand up the longest but we'll get a bunch of these. And in particular, if people would be succinct with their question and ideally direct it to one of the panel members rather than an open-ended question.

MS. SAWHILL: And maybe tell us who they are.

MR. HARRIS: And Bel has asked also, and I think it's a good idea if you could just tell us who you are.

MR. MASSEUSE: Don Masseur, Community Action Partnership. My question is for Bel. You raised the notion of the income disparity in the beginning and we've talked about shared-series sacrifice. How do those two problems jive in the solution? How do we address the wealth income disparity while looking at the need to cut in really significantly reduced expenses?

MS. SAWHILL: Bill Gale gave one answer to that which is, if all of the sacrifices on the spending side of the equation, then also by definition, it's not going to be shared-sacrifice because there's no way to get to people at the top where all of the income has been concentrating recently unless you raise revenues, and specifically, raise revenues on them. And the republican candidates are not only not asking for any increase in taxes on that group, they are proposing big revenue decreases, tax cuts for these wealthy individuals in the form of dividends, capital gains and state taxes and some other stuff.

So obviously, the first thing you need to do is not make matters worse. I think the other thing you need to do is not put the whole burden on what we call domestic

discretionary programs in the budget, which is where all of the action has been so far.

When we had the deal in raising the debt ceiling last summer and agreed to cut roughly a trillion dollars, that most of that is in this small slice of the budget where programs for low-income families tend to be concentrated and where education and infrastructure and other things that could help us grow more rapidly in the future are concentrated.

So if you have as a priority or as a principle that we need more shared sacrifice, there are ways to get things under control in terms of the deficit but in a way that's much fairer than what we're talking about right now.

MR. SCARLESS: Hello. I'm Basil Scarless. I've recently been involved with the State Department dealing with international economic issues. And what surprises me always is the Medicare reform debate is always so politicized. Is there any hope that they'll be improved political prospects for reducing Medicare costs through introduction of some sort of reform that is closer to what Canada or what northern Europe has?

MR. HARRIS: Who wants to take a crack at that?

MR. HASKINS: Okay. We just did an event here a couple of weeks ago on premium support, and I do think that this is going to be part of the answer. I was distressed to see this morning that the CBO has now released a report that the various top-down reforms that were a part of ObamaCare have not yet had an impact on spending all of them and have not been implemented. They hadn't been fully tried. But the top-down reforms are not doing too well, so we need something quite different and premium support is a possibility. Now, the thing about premium support --

MR. HARRIS: Can you give the shorthand description of that?

MR. HASKINS: Okay. Yeah. I'm going to do it right now. So the basic

idea is that you control spending by giving people an amount of money and they buy their own healthcare. Now this would require exchanges, something republicans have not seemed to realize yet, but there has to be a market. You create a market. Medicare could be part of the market. But you have a capped amount of money that people get. They go in the market. They buy whatever they want to but that's the amount of money they get. And then the crucial issue is how much does it increase each year. Because in the past, healthcare cost have increased way more than inflation. And the first Ryan plan on premium support would've been totally inadequate and increase at the rate of inflation, I think it was. You need a bigger rate of increase in that. It needs to bear some relationship to what's going on in the market. So Alice Rivlin and others would do GDP growth plus one percent.

So there are ways to do that. If we had something like premium support, we could actually have a budget, and we could control the way that we spend. But now someone's going to have to pick up the difference if it doesn't work and change the market -- if the price -- the average increase of healthcare does not come down, then someone's going to have to eat it.

And the way you do that and be fair -- to go back to Bel's point -- is that you have a graduated systems, means tested, and people who have more money, they pay the full cost or maybe even a little more, and people down at the bottom pay less than the full cost of care because they get a bigger subsidy than the rest of the people.

But the whole point is you control it because you give a certain amount of money each year rather than an open-ended go get whatever you want.

MR. HARRIS: Yes, sir.

MR. POLLACK: Yes, I'm Jonathan Pollack from Brookings.

Left unspoken in this discussion -- very, very interesting discussion -- is

the question of national defense expenditure, which includes, of course, I might add, a growing portion of the DoD budget is, in fact, military entitlements.

And if one looks at those portions of the federal budget that are -- where you have discretionary income, this is clearly a very, very big one, how do any of you -- granted, there have been agreements. Obama has promised us a consequence of the deal to reduce defense expenditure by approximately \$450 or \$500 billion over a 10-year period. But in a lot of ways, that's just a drop in the bucket. I mean, we're asking questions about how the United States allocates monies here and for what roles, missions.

Would anyone want to comment on how that factors into this debate, or ought to?

MS. SAWHILL: Well, I'll just start by saying something that I'm sure you already know, Jonathan, and that -- but maybe the others don't, which is that a part of the failure of the so-called supercommittee is that we're now supposed to have a sequester that will fall very heavily on defense spending, starting in 2013.

So the big \$64 question all through this year is going to be whether or not Congress undoes -- gets rid of this sequester because Republicans in particular, but some Democrats as well, really, really, are worried about such deep cuts in defense spending.

I would say that is, again, just a manifestation of the fact that as long as the conversation is about cut spending, keep it to 20% of GDP, have a balanced budget amendment -- those kinds of rhetorical I'm a deficit hawk, and we can cut spending, but never get specific and never say what they're going to cut -- you have a huge problem.

Now the thing about the sequester is, it is quite specific with respect to defense. And suddenly, the Republicans -- and Ron talked about this earlier -- say, "Oh

well, we didn't mean we wanted to cut that." So again, it comes up in the context of shared sacrifice and a bigger debate about what role we want to play in the world.

MR. HASKINS: Let me make two quick points.

First of all, what we've already achieved -- we haven't even mentioned this -- it's not inconsiderable. \$900 billion that's already being put in place and \$1.2 trillion in the sequester -- that's over \$2 trillion. It doesn't quite meet the magnitude you're talking about. We've got to do a lot more. But that is not a bad down payment. So we've got to keep it. We've got to keep it.

And now the big problem is defense because everybody is suddenly looking -- and I can see that. I've seen that happen in this town before. Lots and lots of pressure, even from -- some cases -- surprising places -- Panetta -- saying this is too much. We're going to be in danger and so forth -- which is fine. The President says he will veto anything that doesn't reach the \$1.2 trillion. I hope he actually does it because then, Republicans are going to be faced with the issue of okay, if we're really not going to do any revenues, where else are we going to cut? Because we've got to make up for whatever we're going to save in defense.

And for Democrats, they've got to say okay -- some of them definitely are going along with the --

MALE VOICE: Let's give us a sense of the timing. When was that going to happen, if the --

MR. HASKINS: Well, the cuts start in 2013. So the President would have to be vigilant all year long. You have to make sure that when October 1 comes, that those are in place or something equivalent. Equivalent's fine, as long as the Congress -- I mean, I think the President should clarify that, and he should start taking this to the American people right now so that --

MALE VOICE: But are we facing a sort of pivot point date of any kind, where you'll find out whether Obama's serious about the veto or not?

MR. HASKINS: If it doesn't happen between now and October 1, it will go in place. Now you really won't know how it's going to happen until you see the actual appropriation bills for 2013. That's where you'll really see what's actually going to happen. Even though it is specified a lot in the agreement, as Bel says, there's still flexibility in there, and what defense accounts get cut and all that kind of thing.

And on that point -- wait -- hold on.

MALE VOICE: Go ahead.

MR. HASKINS: Very quickly -- there are two things in defense that we really should do something about. Ironically, one of them is health -- because people -- defense, they pay almost the whole thing. And people who get healthcare have to pay a significant part of that. We've learned that, and they don't in defense so they got to do something about that. I realize there are counterarguments.

And also, retirement is a complete outrage. We're in this situation -- we live in a democracy. We don't have thousands and millions of young kids who want to go over to Afghanistan and have somebody shoot at them. So we have to have a defense that attracts people, and one of the biggest attractions is retirement, but it's an outrage.

So I was in the Marine Corps. If I had stayed in longer -- I could get out when I was 38 years old, and they would give me retirement for the rest of my life. We can't have that. We got to change that, and that's part of how we're going to be able to absorb some of these blows in the defense budget, if we can get realistic about things like that.

Yes, ma'am?

MS. FRIEDMAN: Thank you for this panel. My question ultimately will

be to Ron Haskins. I'm Richelle Friedman with the Coalition on Human Needs.

And I'm very concerned about some of the rhetoric that has started, like Romney talking about opportunity versus wealth for society, Gingrich talking about the President as a SNAP president, the food stamp president.

Food stamps is a program that's wonderful. It's working as it should, counter-cyclically. We see a lot of low income programs. They're discretionary so not everyone who's eligible gets them. With LIHEAP, it's 20 percent, and now that program has been cut by 20 percent. The program that you had a lot to do with, Mr. Haskins, TANF, that block grant has not been increased. It's still at \$16 billion, which is what it was in 1996.

So I'm very, very concerned about what's happening with the lower end of our population. And unfortunately, as Bel has pointed out, we've started to do those discretionary cuts. And I just wonder how you -- because again, I'm asking you, I guess, to start because you've had a history of working on these things like TANF. A much smaller percentage of people eligible for TANF now receive it.

Do you share my concern, first of all, about the rhetoric that's starting to bubble up that's very anti, I would say, people that, through no fault of their own, are in poverty?

MR. HASKINS: Rhetoric on a 10 point scale works me up at about two. Republicans always talk like that. Romney says, for example, he's going to have a Medicare block grant, and it's going to save \$700 billion over 10 years.

MS. FRIEDMAN: Medicaid.

MR. HASKINS: Huh?

MS. FRIEDMAN: You said Medicare. You meant Medicaid.

MR. HASKINS: Medicaid. I'm sorry -- Medicaid. Not going to happen.

The governors won't let it happen. Even the Republican governors won't let it happen.

So I would pay less attention to rhetoric than what Congress has actually done so far. There was protection in across-the-board cuts for almost all of the low income programs. We had the same kind of protections in Gramm-Rudman-Hollings.

So I think -- I mean, you're right to be concerned, but I think so far, I certainly wouldn't be despondent. I think in the end, we will have a solution that will cut some low income programs, but it will disproportionately cut programs for other people, I think, and increase revenues, which will take pressure off low income programs.

You're right to be concerned, but I don't think it's going to be a disaster.

MR. HARRIS: Bill, can I ask you -- the reference to governors prompted a question that was on my list in any event.

Are there -- given how sort of downbeat we are about the rational workings of Washington, are there examples at the state level -- governors and state legislatures who really offer a model for Washington solving its structural problems?

MR. GALE: That's an interesting question. The states, by and large, are not in great fiscal condition, and of course, one way to "solve" the federal budget problem is by divesting responsibilities onto the states. I think everyone realizes that's not a real solution, but there are some possibilities for -- there are some ways that the state situation can make the federal situation worse.

One is the state -- the two issues mainly facing the states are pensions and healthcare. And in both cases, they've made commitments that are not sustainable. It'll be interesting to see, I think, whether the federal government has any role to play in those.

You could see a reallocation of Medicaid, like Ron was talking about. It seems less likely that there would be a reallocation of pension responsibilities, but those

are the two big moving parts of the state level, and neither is good news for the federal government.

MALE VOICE: Yes, sir.

MR. BELSTERLINMR. GALE: My name is Joe Belsterling and this question is directed for Mr. Gale.

You mentioned briefly that we need to reform more than just the income tax. What are your opinions on other taxes such as the capital gains or the AMT -- alternative minimum tax -- and things like that? And what other areas can we pursue with the tax system?

MR. GALE: Sure. Thank you.

What I would like to see in the tax, in the income tax, which includes capital gains and AMT and dividends and other stuff, is a broad base where that is reducing, curtailing tax expenditures, itemized deductions, exclusions, et cetera, using some of the revenue to reduce the rate structure and using most of the revenues for deficit reduction.

There are various exchanges that could be made. For example, if you got rid of the AMT or moved the features of the AMT into the regular tax, then you would probably need the higher rate than if you kept the AMT.

But the general direction of income tax reform, I think, is pretty straightforward -- broaden the base, use much of that revenue for deficit reduction, use some of it for rates.

Then beyond that, we get these fantastical programs in 999 or everyone's got some fancy new tax system. We don't need to go out and create some new tax system that's never been used anywhere in the world. We have perfectly reasonable, functional examples from other countries, including the VAT -- the value-

added tax -- which is essentially a national consumption tax, which could raise significant amounts of revenues.

And on the energy side, either a carbon tax or if it takes too long to implement that, just jack up the gas tax, which would have all sorts of good environmental qualities as well as revenue qualities. I mean, our gas tax is a tenth of what it is in some European countries, and if you raise the gas tax a quarter a year for 10 years, you'd end up with something like two percent of GDP in added revenues.

MR. HARRIS: Bel, all these great ideas that Bill has for raising taxes -- but wouldn't these hit the -- and for that matter, all the great ideas that Ron has for cutting spending -- wouldn't these hit the brakes pretty hard on an economy that's already in trouble?

MS. SAWHILL: Yes, they shouldn't be done right away, although as Bill has argued, and I and others have argued as well, if you introduced a value-added tax, let's say, in 2013, and phased it in gradually, but enacted it so people knew it was coming, and that the rate only increased slowly as the economy recovered, it would have wonderful effects because it would say to people, if you buy something now, you won't have to pay this national sales tax that we call a VAT, but if you buy it later, you're going to have to pay this tax.

So it would help the recovery. It would help the deficit, and it would increase economic growth potentially because it would be on consumption and not on savings.

Some people also believe it would help our trade balance, but that's controversial.

MR. HARRIS: I think we've got one back there. We've got two. Let's go further back and then come forward.

MR. CHECCO: Thank you. My name is Larry Checco -- Checco Communications -- and I've heard the term shared sacrifice bandied about quite a bit this morning.

I hate to say it, but I think it's a lot of hooley. We don't put a value on it. I think a great portion of the 99 percent have already made a great sacrifice, and I don't think the one percent has shared at all. And so when we come to this kind of notion of shared sacrifice for the entire country, it's not an equal sacrifice for all. There are a lot of people who have already lost their homes, lost their healthcare, lost their jobs and have sacrificed more than their share.

Two, I would like to posit an analogy in that by saying if you believe as I believe -- that the money to the economy is like blood to the body, and when blood doesn't circulate to the entire body, we start having to lop off fingers and toes, which give us our work and our balance -- we're seeing a time here in America where we're not getting that distribution of wealth. Forget about redistribution -- just distribution of wealth. And over time, if we don't change this paradigm, we're going to end up a basket case -- because when money doesn't circulate to the entire economy, everybody loses, including the wealthy. And America won't be the same country it is today 10, 15 years from now if we don't do something.

Thank you. Sorry it wasn't a question.

MS. SAWHILL: Can I say something about that?

MR. HARRIS: Please.

MS. SAWHILL: I agree with the thrust of your statement, and I just want to point out, on your blood circulating through the body metaphor, that one of the things that is being discussed here at Brookings more and more now is the fact that if most of the income that we've had in recent years has been going to the wealthy and if the

wealthy save most of their income as opposed to consuming very much of it -- they consume a much lower proportion. They can afford to save a lot more, and they do -- then that does begin to affect the flow of money in the system because it's not being spent.

And if you have the middle class and working class and below all in deep trouble and unable to spend, and you have the top of the income distribution not spending very much because they can afford to spend very much, you do begin to have an economic problem as a result, or so goes the argument.

We saw that in the late 1920s, by the way, that that happened.

MR. HASKINS: I want to point out two things about this question.

First of all, the very best evidence, I believe, shows that the entire distribution of income has moved up. The stuff you read in the "New York Times" that's based on income tax returns -- it's just not accurate. It's misleading.

The entire distribution has moved up. Some of that has flown down -- gone down to the bottom.

Now to be sure, more than in the past has gone to the top. I don't like that either. So what do you want to do -- pass a law that limits people's income? I mean, there are issues here about how you actually do it.

The rich pay a huge percentage of the income tax. We have one of the most progressive income taxes in the world. I'd even be willing to increase it a little bit more, but Bel, I'm surprised you didn't bring this up. Our research shows -- and we just did it again for 2009, right in the middle of the recession -- if you follow three really complicated rules -- graduate from high school, get a job, get married before you have children -- your chances of being in poverty are two percent. If you violate all three rules, it's 70 percent.

America still works. A kid from the bottom 20 percent that goes to college quadruples the chance of making it all the way to the top and cuts by half the chance on the bottom.

So the constant message that America is unfair and the 99 percent -- it's not helping anybody. There's a lot that already -- and finally, finally, government programs.

In the 1980s, government programs -- I'm talking now about a specific group most likely to be poor -- unmarried mothers -- never married mothers, okay? Their -- life and the stated nature for them -- 50 percent of them are in poverty. After government programs, 40 percent of them are in poverty. So even then, government programs are having impact.

In 2006, after welfare reform and the work rates among those mothers was much higher than had been in the past, 40 percent of them are in poverty right at the beginning, and government programs then took it down to 25 percent.

This is the key -- individual effort and wise government programs that support people who work. If we did that, we would get a lot further than we get now. We would still have problems with recessions, and it's not foolproof and so forth, but don't leave the personal responsibility part out, and don't leave out the part that government programs are already doing a lot to cure the problem that you're concerned about.

MR. HARRIS: We've got a few more questions up, and we've got some people that have been very patient. We're not going to get everybody, but I would like to come forward quickly and get to you, ma'am, after this gentleman.

MR. STEVENSON: Thank you for taking my question. My name is Andrew Stevenson. I'm an attorney still looking for work, like many of my cohort.

This is actually sort of following along the question about taxes,

specifically the value-added tax.

So what I'm wondering is why is there so much opposition from the Republican presidential candidates to a value-added tax? We saw that a lot in the debates -- especially considering its superior economic efficiency to the income tax.

And on the Democratic side, the regressivity issues can be handled completely, and then there's a lot of environmental benefit to reducing consumption and internalizing externalities.

And then sort of what do you think is an ideal rate for implementing the value-added tax in the United States?

MS. SAWHILL: Can I just tell the Larry Summers thing and then turn it back to you, Bill?

MR. GALE: Okay.

MS. SAWHILL: I've always gotten a kick out of the fact that Larry Summers once asked a question similar to yours -- said Republicans don't like a value-added tax because it's a revenue machine, a money machine. Democrats don't like it because it is regressive. We will get a value-added tax when Republicans understands it's regressive and Democrats understand it's a money machine.

MR. GALE: Yeah. So as to why the Republican candidates don't want a value-added tax -- I mean, they're looking at tax cuts, not tax increases. It's just not even on their agenda to talk about legislative increases in revenues.

In terms of the rate -- rates around the world vary from the 10 to 25 percent. Part of it depends on how much revenue you want to raise. Part of it depends on how much you're willing to include in the VAT.

I would like to see an extremely broad base in the VAT, with very few, if any, exemptions. I would like to compensate for the regressivity of it with either what are

called demo grants or grants -- credits through the tax system.

But if you did that, you could exempt -- say you had a 10 percent value-added tax. You could exempt all consumption up to the poverty line from the tax and still raise three, four percent in GDP and revenue. And that's a lot of money that could be phased in.

I'm not so worried about -- I want to echo something Bel said earlier about debt. It's not so important that we install all these taxes completely now. It makes much bigger difference that what the system looks like five years from now or 10 years from now. So if you want to phase in a carbon tax or phase in a VAT or phase in a gas tax, I'm fine with that. That works fine. It's the ultimate structure of the system that will make the difference.

MR. HARRIS: Yes, ma'am?

MS. WEBB: Thank you. I'm Jeanne Webb at Voice of Vietnamese Americans.

I'd like to bring in a few points that I haven't heard you talk about -- that we're not in a closed domestic market now. We've been dealing with global markets and for the last 10 years with the WTO, and we exchange. It seems like a lot around deficit has to do with the international programs, including two wars and also the losing of markets -- international markets -- because of the problems of currency differences, and also the fact that we're losing a lot of jobs -- I think millions of jobs. Was it, like, seven million of jobs being lost outside to China and India and those countries because of low labor costs out there?

So I think we're addressing maybe not exact problems. I've seen that, for the last two years, President Obama has stopped two wars. We've brought home many troops. We've cut costs in that.

If you can give me a cost of one day in the war -- is up to \$100 million or so, one day of spending. So I think we cut cost there. We brought troops home so we cut costs there, and I would like to hear more about our extending market to Asia-Pacific. I think the recent FDAs and the TPPs, expecting to bring in a lot of jobs and market, and more importantly, we'll bring jobs here to the U.S. -- so I'd like to hear more of that.

The second point I'd like to talk about is the Baby Boomers -- the Social Security and Medicare, Medicaid that the country will have to give you as entitlement. And the well-to-do, the rich people in the country -- I'm not sure they're only one percent, but the Baby Boomers now not working anymore and not paying into the revenue but getting Social Security -- is there any solution to that?

MR. HARRIS: Right. That's a lot there. So we're going to have to --

MS. WEBB: And the last point, just --

MR. HARRIS: No, no, no. Two's enough.

MS. WEBB: This is very important point.

MR. HARRIS: Very quick.

MS. WEBB: This is very important point.

All the candidates for president for the GOP -- I only heard one thing they want to do. They want to take down Obama. I didn't hear them want to do anything good for the people. So was there a question of racism in there?

Thank you.

MR. HARRIS: All right. There's too much there to just easily parse. I'm going to take that question because it is so open, and it has a lot of genuinely serious ideas. And we are almost out of time, and here's how we're going to wrap this up.

If we could address some of the issues in her questions -- and I also would observe that a lot of what I've heard today is the candidates in both sides are

evading the issues, not being honest with the voters. The voters, what's more, are co-conspirators in this because they don't really want honest debate.

With respect, you guys are a drag. You are really dull. This is really a pessimistic panel, and I want to finish this up answering her questions and also answering mine, which is give me one reason to be optimistic.

And we'll just go right down. Go ahead, Bill.

MR. GALE: Okay. So the globalization issue is important, and it's linked to the income distribution issue that we've talked about. When we say there are wage competition that's affecting the compensation levels in the U.S. -- so yeah, those are first order issues.

The other place where it weighs in heavily with respect to the budget issue is on capital taxation and corporate taxation in particular. And I fully agree those things should be included.

For Social Security and Medicare -- yes, there are solutions. Social Security, there are very well-defined solutions. There's a whole range. Medicare -- we can solve it on paper. Like Ron said, we can have a premium support system where we just don't raise the amount. That doesn't really solve the bigger problem, which is how does a society provide healthcare -- because individuals are the residual risk-absorbers in that world, and there would be added costs that CBO has done a report on that we can talk about.

But Medicare, I think we're going to get to the solution in stages. We're going to do something, learn about it, do something, learn about it, do something, learn about it -- whereas Social Security, we could fix it right now.

One reason to be optimistic is that if you look over the broad history of the country, whether it's civil rights or -- I don't know -- women's suffrage issues or the

Civil War -- there's this famous Winston Churchill quote about you can always count on Americans to do the right thing after they've tried everything else.

And I don't know. We have a very vibrant economy. Say what you want about the Republican debates and the quality of the discussion -- there is a lot of discussion, there's a lot of ideas being thrown around. Maybe many of them are delusional, but this is how stuff gets started, and I think as a country -- I mentioned our political system tries to slow things down, but somehow historically, we've been able to overcome that.

MR. HASKINS: I think you're too late to make a profound point about wars. We're getting out of both wars. And Obama set deadlines, and I think he showed with Iraq he's pretty serious. His base is certainly insisting on it, and he appears to be doing it.

And in any case, we are going to really play havoc on a defense budget. We've talked about that up here already. Defense is on the defensive. There's no question about it.

Secondly, I think the comment about Republicans is uncalled for. In fact, it's part of rhetoric. Republicans have laid a lot of good ideas on the tables. Ryan's budget very nicely clarifies things. It had the first good example of premium support -- not the first, but the first that a major politician had put out -- and it's led to lots of interesting discussions. So I reject the point about Republicans.

The reason to be optimistic is A, we live in a democracy and B, we have the world's most creative and productive economy.

MR. HARRIS: Bel, you're going to get the last word on this panel. We're just a couple minutes over, which is --

MR. HASKINS: She always plans it that way.

MS. SAWHILL: I am going to try to both answer your question and her questions -- or one of her questions, which is I think both parties are interested in investing in two things -- education and infrastructure. I think they both support those two goals.

Now we haven't gotten to where we need to be in terms of the specifics, but I think that there's room for common ground there, and there has been bipartisan support for education reform in the past, for infrastructure investments. I think we can get there again. There are these ideas about an infrastructure bank which make a lot to sense to me. That would involve the private sector. So we could have a longer conversation about that.

Second reason I'm optimistic is because all of you are here today. It shows you're interested. You're informed. You are participating in the public debate, and we appreciate that, and we will continue to try to get these issues on the table through the campaign 2012 effort, and I'm sure you'll all want to read Politico as well.

MR. HARRIS: All right. Bel, thank you very much. It looks like Ben has snuck out, but I wanted to thank him again. This was a great session. You guys have another 11 of these, I guess. By that time, you're going to have all the problems licked. So that's reason enough to be optimistic.

Thank you.

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