

THE BROOKINGS INSTITUTION

ADDRESSING THE NATION'S FISCAL CRISIS:
A CONVERSATION WITH SENATOR PATTY MURRAY (D-WA)

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P R O C E E D I N G S

MR. HASKINS: We're glad to have you here for this interesting event. You may know that we have had a project here since 2004 on the budget deficit. Unfortunately, none of us can vote or introduce bills, so we're always glad to have someone who actually can do both those things, not to mention Chairman of the Committee to come here and tell us about the deficit and what their plans are. So we're very pleased to be doing that.

Here's a brief overview of the event. I'm going to begin with a brief introduction of Senator Murray, then the Senator's going to give her talk, then I'm going to ask her a question, then the audience is going to have a chance to ask her one or if we're lucky, two questions. And then we're going to go to a distinguished panel that I'll introduce at the appropriate time and the audience will have much more time to ask questions of the panel. So let me first say, the talk today is going to be in part about the so-called, cliff or slope or whatever you want to call it, that there are a lot of things coming due by January 1st.

So just in case there might be one or two people out there who don't know exactly what it is, it includes the Bush tax cuts, it includes unemployment compensation extension, it includes the payroll tax holiday, it includes the \$1.2 trillion sequester, and a number of other items. Many of you are probably familiar with the expression in Washington that, I don't have a dog in this fight. There's nobody in Washington that doesn't have a dog in this fight, so this is really a big deal. And Senator Murray will tell you the rest. Senator Murray?

SENATOR MURRAY: Thank you very much. Well Ron, thank you so much for that introduction. I am so glad to be here today to discuss this issue with so many of you who have been working on this for a very long time. And I want to thank the Budgeting for National Priorities Project at Brookings for hosting us here today, as well as

the great members of the panel that you're going to be hearing from shortly, and all of you for taking time to be a part of this discussion. As all of you know, last August I was asked by Majority Leader Reid to co-chair the Joint Select Committee on Deficit Reduction or the supercommittee as it was commonly called.

This certainly wasn't the most sought after job in Congress as you may imagine. It was probably just a notch below the Chair of the DSCC, but I agreed to do it because I thought it represented a few important opportunities. The opportunity to avoid the pain of sequestration that would be triggered if no deal was made of course, to pass a responsible long-term deficit reduction plan with the simple majority guaranteed vote in the house, no ability for it to be filibustered in the Senate which is no small deal these days. And also after years of partisan rancor culminating in a truly ugly and absolutely unnecessary debt ceiling battle, the opportunity to finally show the American people their government wasn't broken and that we could come together when we needed to.

Well, as everyone in this room knows, the supercommittee was not successful and we couldn't come to a bipartisan deal. And the reasons for that, the lessons learned from those four-months of intense bipartisan talks are absolutely critical as we face those exact same issues heading into the end of the year and the so call, fiscal cliff because if we want a different outcome, if we want to come together around a balanced and bipartisan deficit reduction deal the American people expect and deserve, something is going to have to change.

So today, I want to talk about the vision, values, and priorities that drive my approach to tackling our budget challenges. And I'm going to contrast that with what I see as the short-sided and deeply flawed vision that has been dominating the Republican Party. I will run through how these contrasting visions played out in the specifics of the supercommittee negotiations and the recent budget debates, and then I will lay out how I see a path forward as we now head towards the end of this year. Now, my approach to

this issue starts with my own family. It starts with a story that probably isn't so different from stories told by families across the country.

I was born and raised in the small town of Bothell, Washington in a big loving family. My dad ran a 5 and 10 cent store on Main Street and everyone in our family helped out at the store. My family was certainly not rich, but we never felt deprived in any way. But when I turned 15, things started to change. My dad, who was a World War Two veteran, was diagnosed with multiple sclerosis. In a few short years, his illness got so bad he couldn't work anymore. My mom, who had stayed home to raise a family, had to take care of him, but she also needed a job so she could support our family.

She found some work but it didn't pay enough to support me and my six brothers and sisters and a husband with growing medical bills. Without warning, my family had fallen on hard times. But thankfully, we lived in a country where the government didn't just say, tough luck. My dad was a veteran, so he got some help from the VA for some of his medical care. For several months my family had to rely on food stamps. It wasn't much, but it put food on the table so we could get by. To get a better paying job, my mom needed some training.

Fortunately, at the time there was a federal program that helped her attend Lake Washington Vocational School where she got a two-year degree in accounting and eventually, a better job. And my brothers and sisters and I were all able to go to college through federal grants and student loans. Like millions of Americans, we got by with a little bit of luck, we pulled through with a lot of hard work, and while I'd like to say that we were strong enough to make it on our own, I don't think that's really true.

I know that the support we got from our government was the difference between seven kids who might not have graduated from high school or college, and the seven adults that we come to be; all college graduates, all working hard, all paying taxes, and all now giving back to our own communities. So this is the primary prism that I view

our nation's budget through and it's what guides me as I work in the Senate to impact the choices that we make. Not that government can or should solve every problem. Of course, it shouldn't and it can't.

But that we are a nation that has always come together to stand with families like mine, to invest in our people, in our communities, in our future, and to build the most robust middle-class the world has ever seen. That a budget is not just numbers on a page, that despite what you may think if you listened in to some of the debates that we've been having recently, the word budget is not just a synonym for deficit reduction, that it is not just about charts and graphs and trajectories we often hear about. Those are important too.

But that a budget tells a story of what kind of nation we are and the kind of nation we want to be. And that it is a statement of our values and our priorities and our vision, or at least that's what it ought to be. These ideas led to some very clear goals as I went into the supercommittee. First, I thought everything needed to be on the table when we started. This didn't mean members were supposed to check their values at the door, but it did mean we had the best chance of success if members didn't rule out any changes to entire swaths of the federal budget before we even began.

Second, I felt very strongly that any deal has to be balanced and include both spending cuts and new revenue. The middle-class and vulnerable Americans had already sacrificed so much. They lost their homes or the value of their home, they lost their jobs, they lost their life savings, and they should not be called on to continue bearing the burden of deficit reduction alone. Third, I wanted to make sure we didn't let the very real need to tackle our deficit and debt cause us to cut off the most critical investments in our families and our future or set aside the values and priorities that have made America great.

Fourth, I wanted to do a big deal; a grand bargain. I was willing to

consider a small deal to avoid the pain of sequestration, but I thought it should be a last resort. I wanted us to truly put our country on track to tackle the debt and deficit, not simply continue lurching from crisis to crisis and I was willing to make the tough compromises that were required to get there.

But unfortunately, while there are many Republicans who share those goals, who see the value of a government that works for the middle-class families, their party has been dominated by an extreme ideological strain that allows itself only to think in terms of cutting and shrinking and eliminating and never in terms of investing or growing or fairness. They have a vision for our country in which families like mine would not have gotten a hand up; we would have been left to fend for ourselves.

A vision best articulated by one of their ideological leaders, Grover Norquist, who said, I'm not in favor of abolishing the government, I just want to shrink it down to the size where we can drown it in the bathtub. Grover Norquist, by the way, was kind enough to wish me luck on the supercommittee by telling reporters that the lady from Washington doesn't do budgets. Well, he has elicited a pledge from almost every single Republican member of Congress to never under any circumstance raise taxes by even a penny, despite the fact that the wealthiest Americans are paying the lowest rates in generations. Despite the fact that the wealthiest Americans are today, paying the lowest rates in generations and the federal government is taking in the lowest level of revenue in decades.

Unfortunately, far too many Republicans have latched onto this deeply damaging ideology. They pay lip service to deficit reduction, but what they actually seem to be concerned about is cutting taxes for the rich and starving programs that help middle-class families and the most vulnerable Americans. If Republicans really thought the deficit was the most pressing issue, you wouldn't have seen their presidential nominees say he would reject a deal to cut \$10 in spending for every \$1 in tax increases.

You wouldn't have seen them do everything possible to protect the Bush tax cuts for the rich. You would have seen far more interest among their leaders in Congress in compromising with Democrats to get the grand bargain that everyone in this room understands we need. And you would not see their single-minded focus on slashing non-defense discretionary spending, which only makes up 16 percent of the federal budget, is already shrinking and provides critical support for our families and investments in our future. So it was with very different visions and priorities that the two sides came together in our supercommittee. I understood it would be difficult, but I knew Democrats were ready to compromise and open to the concessions a balanced and bipartisan deal would require and I was hopeful that the Republicans were as well.

The first day that the supercommittee met as a group, we went around the table and we each talked about what we wanted to accomplish. We shared some coffee and runny eggs and our hopes for the coming months. Democrats discussed our priorities and our willingness to put everything on the table to get a balanced deal. We discussed our desire to continue working to cut spending responsibly; we talked about our willingness to tackle entitlements and to make sure they were strengthened in a way that ensured they would be there for our children and our grandchildren.

We highlighted the need to responsibly reduce defense spending while making sure that our national security needs were addressed. We laid out our belief that in a fragile economy with millions of Americans out of work, it made sense to invest in the short-term while putting our nation on a path to long-term debt and deficit reduction. And of course, we talked about the need for a balanced approach that included revenue. Republicans opened in a very different way. One said that defense cuts were off the table and indicated that instead of trying to go big, the group should focus on doing just the opposite. He wanted us to go small.

Republicans pushed for us to focus on the so-called low hanging fruit

from prior negotiations before working on any of the tougher issues, meaning that they wanted to start by locking in and agreeing to all of the spending cuts that were identified as potentially working in a larger deal, but none of the revenue increases that would have actually made such a deal possible. This was a tactic that we had seen before, and of course we were not going to agree to an approach that would lead to an all cuts unbalanced deal.

So it wasn't a great start, but my hope was that this was just a negotiating position, not a hard line. We continued our bipartisan conversations, we traded offers and ideas, we had our staffs draft and analyze potential language. There were times when I thought we were very close. But looking back at the offers from the other side that represented the greatest attempts at compromise, it's clear that while we were close on the spending side, Republicans hadn't even left their corner when it came to revenue.

The biggest offer Democrats put forward was an attempt at a grand bargain. This proposal built on the \$1 trillion in cuts in the Budget Control Act with an additional \$1.3 trillion in cuts to spending and changes to entitlement programs, as well as \$1.3 trillion in new revenue. And it included a short-term investment in jobs to give our economy a much needed boost. To be honest, it was a painful offer. It included compromise on entitlements that personally, I wasn't absolutely comfortable with; it had deep concessions on the spending side. But I knew that the only way a deal was possible was if both sides were willing to accept some pain, and I was willing to do that for a balanced and fair deal.

But our balanced proposal stood in sharp contrast to the offer Republican would hang their hats on when it all ended; the Toomey Plan. This was their attempt at acting like they were putting revenue on the table and offering a compromise, while in fact, it was doing the exact opposite. The Toomey Plan was small. It included

about \$700 billion in spending cuts, which was less than what the Democrats had offered, around \$300 billion in new government fees, and \$300 billion in what they were calling, new revenue.

It's important to note that many of those numbers were fuzzy and it's unclear exactly how CB would have actually scored a lot of that. But I want to unpack that last number a bit because the Republicans were trying to do here is not unique to the Toomey Plan. We have seen this over and over in their budget proposals. The Toomey Plan would permanently cut the top tax rate for the wealthiest Americans from the 35 percent it is now and scheduled to increase to 39.6 on January 1st, down to 28 percent which would add trillions more to the deficit. It gets even worse.

The Toomey Plan claims this lost revenue would be offset by closing loopholes and ending deductions and further, there would be \$300 billion in extra revenue once this was all said and done. But while the plan is explicit about giving the rich the biggest tax cut since the Great Depression, it is painfully vague when it comes to where that revenue is going to be found to offset that. In fact, it ignored that part completely. It simply assumes Congress will be able to get that done through tax reform.

Well, there was some analysis done on a proposal that was similar to Toomey's, and what they found was that in order to pay for the tax cuts for the rich, we would've had to slash to the bone the personal, independent exemptions, almost all itemized deductions including the most popular ones we all know, home mortgages, charitable donations, state and local taxes, child tax credit, college tuition tax credit, almost every other tax credit. So to spell out the obvious, under the Toomey Plan the richest Americans would get a huge tax cut while the middle-class would lose the tax benefits that matter to them the most.

In an analysis of a similar plan, it was estimated that someone making over \$1 million a year would see an average tax cut of over \$31,700. In fact, anyone

making over 200,000 would get a tax cut. But for anyone making less than that, the middle-class, the poor, the cuts and rates didn't make up for the exemptions and deductions lost. For example, someone earning \$55,000 would see an average increase of almost \$1,000. So not only is it deeply unfair to ask the middle-class to foot the bill for another deficit busting tax cut for the rich, but the Toomey Plan would lock them in with no guarantee that the revenue would ever be found to pay for them.

There's nothing responsible about that in my book. In fact, I find it offensive. You know, I was actually reminded of the Toomey Plan when I saw the Ryan Budget this year. Ryan's budget cuts taxes for the rich even deeper than Toomey's; down to a top rate of 25 percent and uses the same parlor trick to raise revenue that Toomey does. Ryan however, needed the Congressional Budget Office to score his plan as a deficit reducer, not the deficit buster that it actually was, so he simply directed the CBO to score his plan, assuming it would raise 19 percent of GDP. Well, that's quite an assumption. Wish we could assume all of our problems away like that. Former Reagan advisor Bruce Bartlett, slammed Ryan's tax plan in a column in the *Fiscal Times*, writing "it offers only the sugar of rate reductions without telling us what the medicine of base broadening will be." And I should add Republican presidential nominee Mitt Romney's plan does something similar. It cuts rates for the rich while refusing to name what deductions would be closed to pay for it.

So the Toomey plan was a gimmick. It was a bait and switch. It was not a step in our direction. It was a leap towards the Tea Party and away from a deal. Democrats were willing to match the Republicans dollar for dollar on the spending side, and more.

We went even beyond the Toomey plan when it came to tackling entitlements. We had backing from our leadership and our party to make a big deal. We jumped right into the middle of the ring, but Republicans refused to move an inch in our

direction on revenue. They actually tried to use Deficit Reduction Committee to cut taxes for the rich even further. And they were so focused on how their extreme base would react that they simply could not summon the will to leave their partisan corner.

Why is this? Why is the modern Republican Party so opposed to allowing the rich to pay just a little bit more in taxes to help solve the debt and deficit problem of this country that they would prefer no deal at all? After all, it wasn't always this way. President Reagan raised taxes 11 times. President George H.W. Bush famously raised taxes to rein in the deficit. This really shouldn't be controversial. And outside today's Republican Party, it isn't because if you believe that the deficit and debt are major problems that need to be addressed, as Democrats do and as Republicans claim to, then you can't simply ignore revenues at a time when, at 15.4 percent of GDP, they are the lowest in 60 years. Poll after poll has shown the American people overwhelmingly want to reduce the deficit with a combination of cuts and revenue. Every single bipartisan group that has made progress in the area, from Simpson-Bowles to Domenici-Rivlin and others, were able to come together because their plans were balanced.

And let's be clear, we don't want to increase revenue for the sake of increasing revenue. Of course not. But as a nation we need to pay for the services and programs the American people want. We need to rein in the deficit and debt, and we need to do it in a responsible way.

Democrats understand this and Congressional Republicans should too because all of this is coming to a head once again. Unlike last year, the consequences of gridlock could start to be felt immediately. Millions of jobs could be lost through the automatic cuts, programs that families depend on would be slashed irresponsibly across the board, and middle class tax cuts would expire.

And once again, if Republicans won't work with us on a balanced

approach, we are not going to get a deal because I feel very strongly that we simply cannot allow middle class families and the most vulnerable Americans to bear this burden alone. It is just not fair.

So, if we can't get a good deal, a balanced deal that calls on the wealthy to pay their fair share, then I will absolutely continue this debate into 2013 rather than lock in a long-term deal this year that throws middle class families under the bus, and I think my party and the American people will support that.

I hope it doesn't come to that.

I think we have some good reasons to think a deal can happen before the end of this year. I know Democrats are willing to compromise; we just need a partner. Thankfully I'm seeing some encouraging signs from Republicans who are sick and tired of being boxed in by the most extreme elements of their base, who don't like being responsible for continued manufactured crises that hurt our economy and destroy our nation's faith in its government and who are concerned about the impact of sequestration.

In the privacy of backrooms and in small gangs, Republicans are far more willing to discuss the need for revenue, and there are some Republicans passionate about national defense and willing to make some tough choices on revenue to protect the Pentagon. In fact, some of the productive conversations that my Republican colleagues have been having have led Grover Norquist to decry their "impure thoughts" when it comes to taxes. Well, I hope these impure thoughts continue. If Norquist is mad, and I mean that in the angry sense of that word, then we must be on the right track because the only way that we can get a balanced and bipartisan deal is if responsible Republicans can persuade their leadership to stand up to the most extreme elements of their base and come to the table with real compromises.

I also think many Republicans are starting to realize something very

important. On January 1st if we have not gotten a deal, Grover Norquist and his pledge are no longer relevant to this conversation. A name, by the way, that I heard repeatedly by Republicans over and over in the Super Committee will no longer be a part of this debate. We will have a new fiscal and political reality.

If the Bush tax cuts expire, every proposal will be a tax cut proposal, and the pledge will no longer keep Republicans boxed in and unable to compromise. If middle class families start seeing some money coming out of their paychecks next year, are Republicans really going to stand up and fight for new tax cuts for the rich? Are they going to continue opposing the Democrat's middle class tax cut once the slate is wiped clean? I think they know that that would be an untenable position and I hope this pushes them to come to the table with real revenue now before being forced to the table if we don't get to a deal by the new year because, you know what, we really shouldn't wait. It's not good for the economy; it's not good for the markets, and most importantly, not good for our taxpayers and small businesses across America.

So, when it comes to the expiring Bush tax cuts, I agree with President Obama, let's extend them for the 98 percent of workers and 97 percent of small business owners, Democrats and Republicans agree should have their tax cuts and then have a real debate about the tax cuts for the wealthiest Americans that we disagree on.

You know, before August, we are going to have a vote to do that, exactly, in the Senate. Senate Republicans have indicated that they're going to make an effort to extend all of the Bush tax cuts including those for the rich. I challenge them to do something different, to be honest about what they really want and allow everyone to clearly state their position on this issue. I challenge them to offer an amendment to our middle class tax cut that would simply extend the tax cuts they're fighting for, the tax cuts for the rich, not a political amendment offered simply to give their members a way out of voting against a middle class tax cut, a real amendment. If they do this, all of the Bush

tax cuts would be up for a clean, honest extension vote and the American people would know where everyone stands.

Any Senator who supports extending tax cuts for the middle class can vote for our bill. Any Senator who supports extending tax cuts for the rich can vote for the Republican amendment. And any Senator who supports extending all the tax cuts can vote for both.

That would give everyone the opportunity to vote for exactly what they want and it would make sure that the political gimmicks don't get in the way of delivering results for the 98 percent of workers both sides agree should have their tax cuts extended.

If Republicans don't do this, if they continue playing political games with this vote and only offer an amendment to kill this bill, then they will have proven conclusively they don't care about certainty, they care about extending those tax cuts for the rich and they will use every bit of leverage they have to do it.

If we are really going to address these issues, we have to cut through the political smokescreens. It's time to put our cards on the table, offer real choices, and have a debate that is worthy of the Senate.

Holding the middle class tax cuts hostage may be a smart tactical move if the goal is to protect the rich. But it's not good policy, it's not good politics, and Democrats are going to keep reminding the American people why middle class tax cuts aren't being extended immediately, even though both sides say they want them to be.

You know, I've also heard the claim made that we need to extend all the tax cuts to give us time to reform the tax code. Well, we absolutely need to reform the tax code. It is badly broken and I'm certainly willing to discuss a fast track process for getting that done, but there's absolutely no reason, not one, that we need to extend the tax cuts for the rich as a precondition for reforming the tax code. And when we do get to

work on this, Republicans are going to have to accept that tax reform is not going to be a backdoor way for them to sneak through more tax cuts for the rich and it's going to have to raise revenue to help rein in the deficit and debt.

Now, in addition to the expiration of the Bush tax cuts, we also face a \$1.2 trillion in automatic spending cuts. As you all remember, sequestration was included in the Bipartisan Budget Control Act to give both sides an incentive to compromise, but Republicans weren't willing to offer any concessions to get to a deal.

And now they want to have their cake and eat it too. They want all the deficit reduction but without any of the bipartisan compromise of shared sacrifice. You know what, if Democrats were willing to accept a wildly imbalanced deficit reduction plan to avoid the automatic cuts, we would have done that back in the Super Committee. We didn't then, we will not now.

So, anyone who tells you sequestration is going to simply disappear because both sides want to avoid it is either fooling themselves or trying to fool you. It is going to have to be replaced and that replacement is going to have to be a balanced plan.

We are also not going to allow just the defense cuts to be replaced without addressing the domestic spending cuts that would be devastating to the middle class. None of the automatic cuts are good policy. They were packaged together in a bipartisan fashion to get both sides to the table and they will be replaced or not as a package.

Here in DC, the defense cuts get most of the attention, but across America all the automatic cuts would be deeply damaging to our families and our communities. That is exactly why I've been working across the aisle with Senator McCain on legislation calling for an analysis of the impact of sequestration across both defense and non-defense spending and I'm hopeful that that information will help us bring

the same spirit of bipartisanship to a balanced and bipartisan approach to replace those automatic cuts because once again, I will not agree to a deal that throws middle class families under the bus and forces them to bear this burden alone.

Unless Republicans end their commitment to protecting the rich above all else, our country is going to have to face the consequence of Republican intransigence.

This is about more than tackling about our debt and deficit, it is about our nation. We cannot ignore this great challenge. We need to rein in the debt, but it is not all that defines our budget. Our budget and our nation will be defined by the scientists who come out of our schools, by the businesses that we create, by our communities, our universities, our research, our development, our innovation, and we will be defined by the opportunities we afford to every one of our families and workers, by the fairness of our society, and how we treat the most vulnerable among us.

When I go back home to Washington State, my constituents don't come up and say they want the federal government to spend 18 percent of GDP or 20 percent or 25 percent -- they tell me they want a strong school system for their kids, they want them to go to college if they want to, they want good jobs in their communities, safe roads, they want their government to be there for them when they need support getting back on their feet. In other words, they want government to do what it did for my family, what it's done for millions of families for generations. They do want us to tackle our debt and deficit, they certainly don't want us to hand the bill to our kids.

But they want it done in a balanced and fair way that doesn't leave the middle class holding the bag alone. Those are the priorities that I will be pushing for when we vote on the tax cuts next week and in the weeks and months and years ahead. I believe that they reflect the American values that have carried our nation forward for generations and the vision that will continue our great nation's leadership into the 21st century and beyond.

I know that Democrats are ready to go to work. We want to make a deal; we are ready to compromise. I'm personally willing to talk to anyone from either party who wants to solve this problem and as soon as Republicans decide to work with us, I'm confident we can get to a balanced and bipartisan deal that the American people expect and deserve.

Thank you.

(Applause)

MR. HASKINS: So, Senator, thank you. I don't think anybody will accuse you of a lack of clarity in this presentation except on one point, perhaps, and that is on entitlements. You say Democrats are ready to deal. Can you give us any indication of the kind of deal Democrats have put on the table and what specific entitlements would be changed and how? And do you think a majority of Democrats would support it?

SENATOR MURRAY: Well, in fact, as I indicated, on the Super Committee, Democrats did put a package forward that did include changes to entitlements to assure that they were there beyond one generation. I have a granddaughter; I don't want just Medicare to be there for my daughter, I want it to be there for my granddaughter. I understand that and am willing to make decisions to make sure we have long-term security for Medicare and Medicaid and our entitlement programs.

But that is in the context of a balanced approach. The reason that those changes and suggestions were not accepted is for one reason alone and that's because the Republicans wouldn't put any revenue on the table to help meet that deal and compromise.

MR. HASKINS: Now we have time for one or two audience questions -- not statements, questions. Just make a clear question and short. Yes, over here.

SPEAKER: My question -- my basic question is, wouldn't it make the

negotiations a lot easier -- make it easier to get on with going big and the grand bargain if there were some more money to work with right now that could be generated without any increase in the national debt.

Now, in one minute flat, I can sharpen up that question to be as precise as I think it should be.

MR. HASKINS: Well, we don't want to take a minute with it. Just give us the essence of it.

SPEAKER: Is that all right?

MR. HASKINS: Not a minute, no. Give us the essence of it, you have an idea.

SPEAKER: Okay. The essence of it is, as many of us know, during the '30s there were many prominent economists who argued that to fight the Great Depression, we should reintroduce the Lincoln era Greenbacks. Greenbacks are a means of exchange, which do not increase the national debt at all.

It's a complicated subject, there's a lot of history, there have been many times and places in the history where our paper standard, fiat money, greenbacks have been used very successfully and with very limited inflation. In fact, in one case the least level of inflation ever in our country's history for a period of 52 years. There's a lot more I could say, but it was a major debate, a grand debate, if you will, of the '30s and my question is, shouldn't we be reopening that grand debate as well as pursuing the grand bargain?

MR. HASKINS: Good luck with that one.

SENATOR MURRAY: Well, fortunately we're at the Brookings Institute and you have a wonderful panel of experts who will come after me who can probably address that better than I, but I can tell you this, I sat on the Super Committee. Everyone wants a magic answer. Everyone wants a miracle to occur. Everyone wants to pull

something that looks good, sounds good, but in reality CBO doesn't score it as something that will reduce our debt and deficit.

We have to come forward with a plan that will reduce our debt and deficit. The Democrats on the committee did that, but where we didn't get any compromise was on revenue on the table.

MR. HASKINS: Right here, quickly.

SPEAKER: Thank you, Senator, good to see you again. My question is the issue of jobs and outsourcing. If you remember, when I lived in Seattle near you, it was during the Clinton Administration that there was a proposal that was passed for NAFTA and GATT that still continues where they're outsourcing jobs and it has not changed in both Houses, whether you're Democrats or Republicans, have endorsed this and continue with the outsourcing of jobs, which eliminates jobs in this country.

What do you think, or what position do you take, how will this change the economy? Will this create jobs in America if we delete or eliminate NAFTA and GATT? Because that is very important in terms of the loss of jobs for Americans here that are going overseas for lower salary and organization production.

SENATOR MURRAY: Well, we're not here today to debate trade policy, but I can tell you that every Democrat strongly believes that we should be making things here in this country and creating jobs and showing the world that we can be strong in the future, and that takes a lot more than trade agreements, it takes training and education for our workforce, it means making sure that people have the skills we need to manufacture and build here in this country, and I can tell you standing here, if all of our deficit and debt reduction comes out of that small portion of the budget, 16 percent, and eliminates education and training, we will not be able to manufacture and build things here in this country.

MR. HASKINS: Senator, thank you --

SENATOR MURRAY: I know we're out of time. I do just want to say this to you and to all your audience.

MR. HASKINS: Sure, go ahead.

SENATOR MURRAY: I believe that we can get a good deal. I believe it will take leadership; it will take compromise. There are good people working at this at every level and I am, again, willing to work with anyone who comes to the table and is willing to bring real revenue and a balanced approach to solve this really important generational challenge for our country.

MR. HASKINS: Senator, thank you very much. Appreciate you coming.
(Applause)

MR. HASKINS: Okay, audience, thank you very much for your patience. Now we get to the part where we ask questions that are directly pertinent to what the Senator just got through telling us, which I think was an extremely important statement. Our panel consists of three people from Brookings and one person who's not from Brookings. So let me just say down on the far right is Bill Frenzel, where he's used to occupying territory.

Next to him is Bill Gale, an expert in taxation and a Senior Fellow here at Brookings. Bob Greenstein, the Center on Budget and Policy Priorities, he masquerades as the Director, but he's the whole shot, and he's written frequently and very I think perceptively on this issue, and so it'll be interesting to hear what he has to say. And Alice Rivlin, who's been more involved in this debate than I think just about anybody from the perspective of generating her own plan to commenting on others plans and generally teaching all of us, including the people here at Brookings, about what we have to do to get a budget deal.

So this is a remarkable statement. I should tell the audience that several months ago, Xavier Basara for a Friday lunch, a quiet session with about 30 people, and

we had a very lively discussion because he proposed that Democrats should do exactly what Patty Murray just proposed. I think a lot of people in the room were incredulous at that point, but now we have it from a person who's on five committees in the Senate; she had a senatorial campaign committee, so now we have to count this as a serious proposal.

So the obvious first question to the panel is would this work if we did? Would it work and what would the result be if we actually went off the cliff, or slope as Bob prefers to call it, what would be the consequence of the economy, and for the budget debate, Bill Frenzel.

MR. FRENZEL: Well, I think part of her speech that impressed me the most was the ending, where she said she was optimistic and hoped for a deal. But the qualifier throughout the whole discussion was that it had to be a balanced deal, and as I interpret it, her definition of a balanced deal was half taxed and half spending. My own guess is that isn't going to pass muster in any kind of an arrangement.

Also, it seemed to me what she was calling a grand bargain, under that definition, it looked like it was going to be a little thin and it wasn't going to get us where we need to get. Simpson-Bowles, which is the standard and a relevant Domenici were in the five billion area. More or less, I think she looks -- sounds like she's about half way there. And so I think we need to escalate her aspirations a bit.

MR. HASKINS: Alice, do you want to say anything about this? You look like you were --

MS. RIVLIN: Yes. I actually think it's a very bold move on the part of the Senator. When you say will it work, it's the question of what "it" is. As a negotiating tactic, I think the threat to let the whole kit and caboodle expire at the end of the year is a brilliant negotiating tactic.

I hope it doesn't actually happen because I think if we did that, we would

take some risks with the economy. CBO, among others, has pointed out that going off the cliff would risk recession in the first half of next year. Don't know whether that's really right, whether it's too pessimistic or maybe too optimistic, but there are real risks here. On the other hand, as a negotiating tactic, it makes sense.

If you remember back when the negotiating tactic of the Republicans was, well, let's develop, let's let the debt ceiling rip, that was truly scary to those of us who thought that default was an unacceptable option. But going off the cliff is risky, but it has some advantages.

It would mean that the debt ceiling problem wasn't a problem, and that it would buy some time to think of a better answer, and probably not be totally catastrophic for the economy. I'm not for going off the cliff, but I think as a negotiating tactic, it makes a lot of sense.

MR. HASKINS: Bill Gale.

MR. GALE: Okay. So I don't think it's just a negotiating tactic. I don't think she's just playing poker, maybe she is, but there's more to it than that, and that is, 90 percent of the Republicans in Congress have signed a no new taxes pledge. If I had any criticism of her speech, it was that she was referring to extreme elements in the Republican Party that didn't want to raise taxes. Well, 90 percent is a pretty big, extreme group. It's not an extreme Republican idea to sign the no new taxes pledge; it's a mainstream Republican idea.

So the problem the democrats have is, if they want taxes to be any part of a budget deal, they have to not only negotiate with the Republicans, they have to get the Republicans to negotiate themselves so they can all hold hands and violate the no new taxes deal at the same time.

So one way to avoid that is simply to let the Bush tax cuts expire. There's two percent of GDP in revenue right there, and they can get that by doing

nothing. So it's a substantive issue as well as a strategic issue. And I wouldn't want to downplay the substantive part. You can get more revenue out of a deal if you just let the tax cuts expire than if you keep extending them.

In terms of the long term effects, the way I think of it is, if we let the tax cuts expire and we initiate the sequesters, we will be on a much better long term path than we are now in terms of budget aggregates. Now, nobody will like the structure of what we've done because we will have raised tax, tax rates instead of expanding the base, and we will have cut discretionary spending instead of addressing entitlements. But the fact that we're on a better path would give us more revenues, less spending, it would give us an opportunity to reach a budget deal, and it would, of course, give us the incentive to reach the budget deal because nobody likes that particular structure.

The short term concerns, Alice mentioned CBO said this could push us back into a recession that could be dealt with via an explicit short term stimulus package that did not involve the Bush tax cuts.

I had a piece online about this earlier this week, but I think this partisan debate about how much of the tax cuts do we extend or how much do we not extend is not getting us anywhere. There are many more interesting issues, believe it or not, than what share of the Bush tax cuts ought to be extended. And I think the right way to deal with this is to do something explicitly short term and temporary now, let the tax cuts expire, create the big framework, and deal with tax reform.

Lastly, I want to talk about the balance issue. I didn't hear Senator Murray saying anything about explicitly 50/50. Maybe I missed it. It's not my impression that 50/50 is a requirement for anybody, both because it's an arbitrary division, and because there are these huge items called tax expenditures which are really spending that happens to be embedded in the tax code. So things like the mortgage interest deduction, the charitable deduction, the deduction for state and local taxes, those could

just as easily be stretched to spending items.

And Donald Marron at the Urban Institute and the Tax Policy Center, and Eric Toder, have a piece that shows that the spending in tax expenditures is a good four percent of GDP. And so you could cut things, and conservatives could call them spending cuts, and liberals can call them tax increases if they want. So I don't think the ultimate, exact decomposition of a balance is that important. I think it's important that for this to be a sustainable deal, both sides have to be seen as getting something, as giving up something.

MR. HASKINS: Bob Greenstein.

MR. GREENSTEIN: Well, I very much agree with Bill. This really is much more of a negotiating tactic. And I can say that not just from Senator Murray's speech today. President Obama's statement last Monday, if he would veto a bill that extends the upper income tax cuts, and conversations I've had with people in the White House. And I think there's history here. The history is what's happened over the last year or two.

For months we had negotiations last spring and summer, and at the end of the day, we ended up with a budget control package that was 100 spending cuts and no revenues, upon the risk that if you didn't do that, the nation could default.

Over the last five or six weeks, in meetings I've had with various Democratic senators and senior staff to Democratic senators, I have posed the question to them, I have said when you go into negotiations in a lame duck do you believe that although you all talk about a balanced package, that Republicans enter the negotiations believing that when you get right up to January 1st, you, the Democrats, will reluctantly relent and agree to extend all of the tax cuts. And everyone who answered the question, not everyone did, but everyone who answered the question said, yes, that is what the Republicans believe. Now —

MR. HASKINS: And that's what they would do, right?

MR. GREENSTEIN: From the administration and the Democratic standpoint, we heard Speaker Boehner say, what, a month or two ago, every dollar we raise the debt limit has to be offset by at least a dollar in spending cuts, no revenues. The only budget that meets that is the Ryan budget.

So there is now I think a much clearer understanding than there was a year ago in Democratic ranks, of which Senator Murray is reflected, that if you don't somehow change the terms of the debate and show that you will not agree to anymore deals that are spending cuts only, that you will just continuously go farther and farther down that path. And with regard to the economy, I think the view, which I very much share, it's reflected in the paper Treadstone that the Center has done, and so what CBO really said was that if all the tax cuts expire and stay expired, the sequestration goes into effect and remains in effect, then over the course of the first half of 2013, we're likely to slide back into a recession.

My view is just as in 1995, when Clinton and Gingrich couldn't agree and the government shut down, the pressure on both sides was so great, there was a deal in three weeks. The pressure here will be even greater, I believe, given the state of the economy and concern in the markets.

I think if we don't have a deal by January 1st, we likely will have a deal by say the end of January. I wish it weren't the case, but that may be the only way to actually get a deal that includes revenue, and because it includes revenue, leads Democrats to go significantly farther than they otherwise would in areas like Medicare.

One last point, to the degree that Republicans really come to believe, and I don't think they do yet, that people like the President and Senator Murray are serious, that they really will go into January if necessary, if that is widely believed, then it increases our chances of getting it done without going into January.

MR. HASKINS: Absolutely. Let's just clarify one point here, a negotiating point that Alice implied, but no one has said it explicitly, and I want to see if you agree with this, if we went off the cliff and now we're in 1 January, the situation is that Republicans could agree to proposals that would produce additional revenues and they would truly be tax cuts because the tax rates have all gone up as of 1 January, correct?

And then going back to your statement, Bob, does that create a possibility that you really could get a deal that involves revenues, because Republicans then would truly be saying these are tax cuts and yet they're producing a trillion or whatever it happens to be?

MR. GREENSTEIN: I think that's a little too canned and cute. I view it a different way. As Senator Murray said, I think there are some Republicans who, behind the scenes, feel we need to have some revenues, we need a balanced package. It is very hard for them to get out in front on that in their party. A few have done it, but not very many.

If we actually go into January, the top rate has risen to 39.6 percent, there is volatility in the markets, financial markets, there's tremendous concern, the media is focused on this incessantly, the President has called bipartisan around the clock negotiations at the White House, in that context, I think it's somewhat easier for Republicans to move. It's not this cute little technical thing; well, it's no longer -- it's the larger atmosphere --

MR. HASKINS: It wouldn't be technical at that point, Bob.

MR. GREENSTEIN: But it's the larger atmosphere --

MR. HASKINS: Do you think Republicans would be able to cut a deal with tax increases more easily after January 1 if the Bush tax cuts disappear?

MR. FRENZEL: I really don't know, Ron. I look on this -- Alice says this is less worse than the Republicans threatening the debt ceiling, I think it's the same kind

of an adventure. This is the season when the parties are in conflict. They are throwing down their threats one to the other. I think it's a whole different game after the election. I think they ought to sit down and decide what they want to do. Maybe still a stalemated game. And I think what Bob has suggested is a possibility. There might be a kick the can down the road, there might be a fall off the cliff, followed by negotiation through save oneself but I don't think we know that.

I think what we do know is that the precious few days that -- in a lame duck session, and the problems are sufficiently complicated, that it is extremely hard to negotiate the full kind of bargain. So however it gets kicked over into 2013, a lot of the decisions are still going to be made in 2013, particularly with respect to tax reform, which will take the committees at least a year, I assume.

MR. HASKINS: So let me sort through that and just ask you a yes or no question. If --

MR. FRENZEL: Politicians don't know those questions.

MR. HASKINS: I know, but you're not a politician anymore, you're a scholar.

MR. FRENZEL: I've gone straight.

MR. HASKINS: Yeah, okay, good, so you'll answer. All right. So now we're January 1st again, and we went over the cliff, and now it's truly the case that if we could do things that would raise revenues and still be tax cuts, and to take Bob's scenario, meanwhile the whole country is going nuts, and the financial markets may be, and the media is covering it incessantly, with those two factors, is it more likely the Republicans would allow some deal that would be a trillion or some, you know, amount in tax increases?

MR. FRENZEL: Again, I don't know; if I had to guess, I'd say Bob is on the right track, and that is a possibility, but I really don't know. It seems to me that when

the Republic is in chaos and the economy is going in ruins, there will be heavy incentive for both sides to agree on something.

MR. HASKINS: Bill Gale.

MR. GALE: Yeah, I think your question is missing an important element of the discussion. There are two aspects of the tax debate right now, one is how much revenue to raise, the other is structural reform of the tax system, okay. If the Bush tax cuts expire, right, the revenue question is done, all right. We've just raised an enormous amount of money. That means, from the perspective of getting enough revenue to be part of at least a medium term budget deal, a four trillionish deal, we're done.

If Congress wants to continue to work on structural reform, that's great, I'd be all for that. But in terms of getting revenue into the deficit reduction package, simply letting the tax cuts expire does that.

And so in that sense, it would make reform I think significantly easier because then it would be about revenue neutral or tax cutting relative to the baseline rather than about raising taxes.

MR. HASKINS: Okay.

MR. FRENZEL: As you pointed out, that is a short term, because you've not ratcheted down in that scenario any of the cost drivers in the long term.

MR. GALE: Oh, that's right, sure. It's not the whole solution, no question.

MR. HASKINS: Alice.

MS. RIVLIN: I just want to speak up for the grand bargain, because whether going off the cliff is a negotiating tactic that results in a deal in December or a deal in January is not as important as recognizing that that's not what we want to do. We don't want to raise more revenue by raising rates when we have an opportunity to greatly improve the tax code and improve its pro growth nature and its progressivity at the same

time, and the sequester is not how we want to cut spending, mainly because it doesn't deal with the entitlement programs as your question to Senator Murray pointed out.

If we're going to solve this problem, we've got to have a grand bargain that does comprehensive tax reform that raises revenue and slows the growth of entitlements in the future. We can't get there unless we do that. So we need some kind of forcing mechanism, and here we've got one.

MR. HASKINS: Bob Greenstein.

MR. GREENSTEIN: Well, following up on what Alice just said, we're all saying we'd much rather this occur in November or December than January. But if we go into January, the increase in the top rate to 39.6 percent may be, we don't know that it will be, may be such a forcing mechanism. Yeah, Bill Frenzel said exactly right that a tax reform takes six months or a year if current law goes into effect on January 1 and the top rate goes to 39.6 percent. My hunch is that that significantly increases Republican interest in tax reform because they don't want a 39.6 percent top rate.

MS. RIVLIN: Really.

MR. GREENSTEIN: The Democratic position is then, we'll work with you to get a top rate significantly below 39.6 in return for enough tax expenditure closures that we get a net contribution of hopefully somewhere in the one point trillion range to deficit reduction, and if the Republicans go for that, they only go for that if, in return, Democrats agree to certain things in entitlements. And again, this is the optimistic scenario.

If it worked, then you don't have a process that takes six months or 10 months, whatever, and you have a time frame by which the committees are to produce legislation that says X entitlements raises Y in revenues, you package them together, and you have some kind of enforcement mechanism if they don't do it. But I do think that there's a somewhat better chance of actually getting there if the 39.6 percent actually takes effect.

One last point, which is, I do want to be clear that if we go into January, start down the slope I would say rather than over the cliff, there's no way that all of the Bush tax cuts stay expired until the whole tax reform deal is done. When they work out this so called framework agreement, they will make the bulk of the tax cuts, hopefully not the high income ones, retroactive to January 1st.

MR. HASKINS: Bill, you were dying to say something.

MR. GALE: I wasn't dying to say something, but --

MR. HASKINS: You can speak anyway.

MR. GALE: Thank you. I think there is an issue here that we should keep in mind, that we've had one major tax reform in 50 years. We've had one major health care reform, structural reform, in I would guess about the same amount of time. We cannot afford to let the perfect be the enemy to good.

We cannot wait for the perfect tax reform or the perfect health care reform before we deal with medium term budget deficits and long term budget deficits, and that means we may have to take a deal that gets us on the right path even if it doesn't get us the right structure, because once we're on the right path, we will have the opportunity incentive to get on the right structure and we'll have the money to deal with it. It means we have to deal with the deficit before we're going to ever resolve all the issues in health care certainly before we're going to resolve the issues in tax reform.

And I just want to be sure that people don't have the sense that if we don't solve the entire 75 year or 150 year deficit issue, then anything short of that is a failure, right. There's no public policy issue that we have solved 75 years out into the future, right, and it's I think the result of inflated expectations and inflated rhetoric to expect that we're going to solve this problem 75 years out or 100 years out in the future.

So I guess my message is, let's not let the perfect be the enemy of the good, and if we can get onto a good path, but not the perfect structure, let's take it and

then work from there to get to a better structure.

MR. HASKINS: Alice.

MS. RIVLIN: I agree with that, but let me be a little more optimistic about tax reform. This may be a moment where we drop the impediments of incrementalism in tax reform which is fatal, because then you're arguing about who's acts get scored. This might be a moment in which we blow up the whole tax code and start over and put in a more sensible set of provisions which would tax almost all income at the same rates, lower the rates, and reinstate only a few of the most necessary and important provisions, a child credit, and an earned income credit, and a credit, but not a deduction for home mortgage.

You could do that, and it is very attractive. And there are a lot of actual Republicans who think this way, and not all are in the Grover Norquist camp. If you read Tom Coburn's op-ed in, I think it's today's *Times*, he sounds a Republican note of hope here.

MR. HASKINS: And he was even more negative about Grover Norquist than Senator Murray, I believe; is that fair to say?

MS. RIVLIN: Yeah, he was.

MR. HASKINS: I realize we're mostly scholars here. We're negotiating with Frenzel, but he said he's going straight, so that implies he's not a full politician anymore. So let me ask you a political question. This is really a risky strategy by Democrats. It could blow up. It could really produce some big problems for them. Are any of you concerned about that?

MR. GREENSTEIN: It's less risky than risking national default like the Republicans did last summer.

MR. HASKINS: Bob, too late.

MR. FRENZEL: I think it is similar to that.

MR. HASKINS: You'll get a chance, just a minute. Bill, go ahead.

MR. FRENZEL: I think that was a high risk, maybe a worse risk, but this is a very high risk, too, high risk for the economy, plus it's high risk I think for the Democratic Party. They've got a lot of interest involved in that tax code. They've got AMT, they're going after their people, they'll lose their child -- they lose their 10 percent rate, they lose a hell of a lot of things they'd like to have, and they like growth in a tax system, too, just the way Republicans do. So, yeah, I think it's high risk, and I tend to look at it as a before the election kind of threat or challenge to the Republicans, and I think you get the same thing back from the Republicans. I think it's a whole new game after the Election Day.

MR. HASKINS: Bill Gale is not dying to say something, but he can anyway.

MR. GALE: I think it's a competing risk issue, not a high risk. The Democrats have seen the risk of going to the table and negotiating. What they got out of it in the debt deal was an all spending cut deal which wasn't even predominantly entitlement, it was discretionary. They're not happy with that strategy, with that outcome. They want the government to beef up its revenue structure in the long term. The only way to do that that I see is to let the tax cuts expire.

I can't believe that the Republicans -- again, 90 percent of whom have signed the no new taxes pledge -- I can't believe that they're going to defect en masse despite what Coburn wrote.

One risk is that we just never get enough revenue to deal with the long term fiscal issue, which would be incredibly damaging to the economy, and another risk is that we hurt the economy in the short term. And I think it sounds, to me, like what they're trying to do is say we're going to take the second risk, and the argument maybe that we could get some stimulus short term that's not related to the Bush tax cuts, and we're

going to try to move forward on the revenue aspect of the long term fiscal solution. That seems, to me, like a choice, balancing one risk against another. But no matter what you do right now, you're facing risk.

MR. HASKINS: Bob.

MR. GREENSTEIN: Look, you have to ask yourself the question, if we had defaulted last August and maybe three or four weeks later come up with a plan, would that have caused no more damage to the economy than if we had gone to January, come up with a plan in late January that's retroactive to January 1st? Every person I've asked that question to says it ain't remotely close, that once you default, you do permanent damage to the full faith and credit of the U.S. government.

The reason that going over the cliff causes damage to the economy is because of all the aggregate demand that pulls out of the weak economy. You don't pull that much aggregate demand out in the first few weeks. And as I've said, any deal will make most things retroactive to January 1st.

Yes, it would create uncertainty in the markets. I've asked a number of New York Wall Street types about this. What they generally tell me is, you would get volatility, interest rates might go up, who knows, 50 – 60 basis points temporarily, but if you then got the deal, that would fade away. And what's very striking is the paper put out by the Carlisle Group. You can't get much more establishment than the Carlisle Group. And they basically say, yeah, there's a risk of going into January, but the bigger risk to the economy is kicking the whole can down the road and not addressing the deficits at all.

On the tax reform issue, I think this is a challenge and a risk to both parties. Everybody talks a good game on tax expenditures. I mean Coburn's piece this morning, so he mentioned ethanol, and I forget the second, they were both really tiny, right?

MR. HASKINS: Yeah, we got about a dollar.

MR. GREENSTEIN: You know, it's very striking that all these plans, Ryan, Romney, Toomey, and others, cut tax rates and pay for it with tax expenditures. They have one thing in common, they only had one specific on tax expenditures, and that's to take capital gains and dividend rates off the table, which then makes it impossible to pay for the big tax cuts unless you end up doing a net increase on taxes in the middle.

So I think a big challenge for both parties, not just Republicans is, if you have some framework in which you're going to achieve X in increased revenue for deficit reduction, but you're going to lower the top rate, and you actually then get into the Finance and Ways and Means Committees and look at what you have to do to mortgage and charitable and health exclusion and the like, do they have the gumption to do it? I don't know. I'm worried about that, and frankly, it's why my recommendation is not to lock in up front what the maximum top rate would be, just lock in your revenue number and say the more you're willing to close tax expenditures, the more you lower the rate.

But I worry that a deal that locks in the maximum top rate and gives you a revenue number, that those two numbers conflict when the policymakers can trump the specific choices, 401K's, and I worry that if that occurs, the revenue number gives way and we don't actually get the deficit number.

MS. RIVLIN: You're right to worry, but let me say in defense of Senator Coburn, he signed Simpson-Bowles.

MR. GREENSTEIN: That's true.

MS. RIVLIN: Which had a full fledged tax reform that did all of the things you say.

MR. GREENSTEIN: But it was purely illustrative.

MS. RIVLIN: Well, it may be illustrative, but the point is, such plans do

exist and some Republicans are for them.

MR. GREENSTEIN: I don't think either party, I don't want to just single out the Republicans here, I don't think you could get a majority of either party on the Hill to vote for the illustrative tax reform plan in Bowles-Simpson. I think it's a terrific plan, I'm all for it, but I'd be amazed if —

MS. RIVLIN: Oh, I'd be amazed, too, but I'm just suggesting that we may be in a different environment with respect to taxes which is less incremental than it used to be.

MR. GREENSTEIN: I agree.

MR. GALE: The perfect example, though, of coming back to letting the tax cuts expire, letting the tax cuts expire would raise more revenue than Bowles-Simpson would generate.

MS. RIVLIN: But not in as good a way.

MR. GALE: No, it's got a structural issue, but if what you want to do is get —

MR. GREENSTEIN: All the Bush cuts — all the tax cuts, not just the high income.

MR. GALE: Yeah, I'm sorry. The current law baseline which lets all the tax cuts expire would raise more revenue than the Bowles-Simpson plan did. So my sense is, it would be easier to get to a Bowles-Simpson outcome, if that's what you wanted, by letting the tax cuts expire and then saying, gee, we've got a lot of money, and we don't like the structure, so let's reform, let's cut taxes overall and get down to Bowles-Simpson.

MR. HASKINS: That's going to be — Bob Greenstein said it was naïve.

MR. GREENSTEIN: Well, I don't think that policymakers are going to let all the tax cuts stay expired. But I think —

MR. GALE: But let me just finish the point. The point is that if you start from there, from the expired tax cuts, you have more revenue and you have a structure that a lot of people don't like, you have an incentive to make a change to Bowles-Simpson. If you make a change to Bowles-Simpson now, that would be scored as a revenue increase, and plus you'd be killing a lot of people's tax expenditures, so you'd face a double whammy. So I think the strategy here matters a lot.

MR. HASKINS: Bill.

MR. FRENZEL: I really hate to think we get driven to responsible tax reform by falling off the cliff. But maybe it's a –

MR. GALE: As opposed to we don't get driven to responsible tax reform by falling off the cliff? Compared to what?

MR. FRENZEL: Maybe it's the incentive that some of them need. I would like to think that the Congress could, and the President, could move jointly into tax reform.

MR. GALE: You're a former member of Congress, what does it mean to you that 90 percent of Republicans have signed the no new taxes pledge?

MR. FRENZEL: Well, I think they haven't got much guts.

MR. GALE: You think? So how do you get the tax reform from the current system then if — how do you get around that constraint --?

MR. FRENZEL: I don't know how many have signed it, but I understand, as Alice does, that there are a number who are willing to discuss putting revenues into any kind of a grand conclusion, and I'm with her. I think that eventually it is going to happen. But I hate to see us thrown off the cliff to have it happen. And I notice that a couple of people here mentioned that if we got thrown off the cliff and took — what did the CBO say, it costs us a percent and a half of GDP?

MR. HASKINS: Yeah, I think it's 1.4 or 1.3 percent.

MR. FRENZEL: Yeah.

MR. HASKINS: But in the second six months, it increases more than it increases in the first six months, so I mean that's --

MR. FRENZEL: Okay. So a pretty tough six months.

MR. HASKINS: Yeah.

MR. FRENZEL: And somebody said what's possible, we could have some stimulus programs. I can't imagine that if they couldn't agree on the cliff problems, that they would agree on the stimulus question. I think that's pretty much out of the question.

MR. HASKINS: Okay. Let's go to the audience now. Raise your hand, tell us your name, don't make a statement, ask a question so we can get more questions in. You're going to have to come up here. Go ahead.

MR. MITCHELL: Thanks very much. I'm Garrett Mitchell and I write the *Mitchell Report*, and I want to ask this group of economists, including Doctor Haskins, a political question, and that is, if we define best of all worlds as some sort of deal in December or the early part of January, followed by some substantive tax reform over the course of the next six to 12 months, what political configuration do you think creates the greatest likelihood that either or both of those could get done, status quo, meaning Obama is back in the White House and Republicans have the House and the Democrats have the Senate, Romney in the White House and status quo in the Congress, a Republican sweep, a Democratic sweep? Is there something to be said, and I would add to this that the reporting that I've been doing and seeing is that virtually all of the new recruits, Republican recruits running for Congress, are not signing the pledge, which I think is interesting. So anyway, I just wondered --

MR. HASKINS: It's a great question. So what do you think? Alice Rivlin.

MS. RIVLIN: I think sweeps are not in our interest at this moment that we must have a bipartisan deal, and the chances of getting one are greater either with the status quo or with some other configuration that gives both parties a say in the deal.

MR. HASKINS: Since you included me, I can answer very briefly, what she said. Go ahead.

MR. GREENSTEIN: Well, you know, I was thinking about a half hour ago that maybe we should clarify that, frankly, most of this discussion we've had is based on the assumption that, for example, there would not be a Republican sweep.

If there's a Republican sweep, I think you just get everything extended until the new Congress comes in and President Romney takes office, and then you have a budget resolution and a reconciliation, then in the reconciliation bill has deep spending cuts and deep tax cuts, and actually Romney might then be forced to actually move forward with his, in my view, deeply irresponsible rate cuts, which are also in the Ryan budget.

So I think the whole thing we're talking about really implies mixed government, and in a most likely scenario, something kind of like the current configuration. One other point, you mentioned something which we've all been saying, Bill Frenzel first said, that you can't do tax reform up front, you know, the process with tax reform. I just want to make the point that in some of the entitlement areas, particularly health care, Medicare, Medicaid, and Social Security, the same is true. The weakness of the Bowles-Simpson plan, in my view, is some of the specific Medicare, Social Security proposals have serious problems and that actually injure people in the lower part of the scale, which Bowles-Simpson didn't want to do, and they were kind of illustrative, thrown together at the end of the day.

For a variety of reasons, I think the optimal package is, at the same point, if you have X months to produce tax reform, on a parallel track, you do the entitlement changes. You have targets for them, too. Not only is that likely to get better

designed entitlement changes, but I think we should remember that what we really want is to nip the entitlement and the revenue pieces together, so the Republicans don't get the entitlement cuts unless the tax cuts pass, the Democrats don't get the tax increases passed, the Democrats don't get the revenue increases unless the entitlement changes pass, and (inaudible) them both at the same time.

MR. HASKINS: Do you want to add to this?

MR. FRENZEL: I'd like to say that I hate to find myself agreeing with Bob. I think it's going to tarnish my reputation. But I think he's dead right. I think that taxes and entitlements have got to walk hand-in-hand. They are the whole essence of the problem, Democrats defending entitlements, Republicans defending no tax increases. Whatever has to be done, they have to be done together.

With respect to the answer to the question, I'm with Alice and Ron. I believe that we're going to have a divided government. No way the Republicans can win everything plus 13 seats in the Senate, and that's the best way. We still have to have both parties. In this country, you can't do – you've never been able to do much unless you have both parties cooperating at least minimally.

MR. GALE: So I think it's a really interesting question, whether divided government or a unified government is more likely to reach the outcome, and the argument is favored divided government is basically, as been mentioned, that each side is going to have to do things that are odious to their own constituency, and they can, hence, blame the other side for those items.

But it's interesting to think about unified government and whether that would work. The attractive thing about unified government is, there's accountability, and somebody is responsible for this, and if the Republican sweep, the White House and the Congress, then they've got to do something about it. If you look at countries like, you know, that have parliamentary systems, they're generally more adept at dealing with

these issues than we are, precisely because there's, you know, somebody -- some party is in charge and they're responsible, and if they screw it up, they get voted out.

And so I don't know, I think mainly what it takes is, policy-makers want to act like adults and solve the problem, and I'm not sure whether that's bipartisan or --

MR. HASKINS: Next question. It's all the way on the end. Go back about four rows and all the way on the end.

MR. O'KEEFE: Ed O'Keefe, the Observatory Group. It's a question for Mr. Greenstein, but others can also answer it, too. What I'd like to hear your thoughts about is whether the Senate/Democratic leadership could keep all of their members in line say come December. Particularly I'm thinking of Senate/Democrats from red states who might be up for reelection in 2014 to essentially agree to allow the cliff to expire, then they'd have to go home and then tell their constituents, well, your taxes are going up, but don't worry, we'll fix this, and I'd like to hear the other end of that conversation from the constituents.

And in particular, with moderate Democrats from red leaning states, I know what Senator Murray said, but I'm wondering about the moderate Democrats in red leaning states who might be up for reelection in 2014, whether they would agree to that.

MR. GREENSTEIN: Well, I think there's two aspects. I mean first off, there's an issue for both parties, right. So, you know, the Republicans go home, and the question can be, why did you block -- this is the line Senator Murray said, why did you block the extension of the middle class tax cuts just so people at the top could have an average tax cut of whatever number of thousands of dollars a year. So there's a line -- you can see the script of what each party's line would be trying to blame the other.

Do I think there would be some Democrats who would be nervous about that? Yes. I'm not sure that the number doesn't go down after the election. I mean you have some people who may be nervous before November 6th more than they're nervous

after, either they won or they lost, but in either case, it's not as big a risk to them after November 6th as it is before November 6th.

In any event, I think the question would be – have a bigger relevance if the Democrats had the potential if they held onto every vote to actually passing their proposal, but, of course, they don't, because it'll take 60 votes. So I neither see the Democrats and the Senate able to get 60 votes, extending the middle class tax cuts without the upper income, nor do I see the Republicans able to get 60 votes for extending all of the tax cuts. So I don't think anything passes the Senate. The final point, of course, is that if so many Democrats got nervous that what the House passed then got 60 votes in the Senate, the President would veto it, as he said last Monday, and he'd clearly have one-third plus some margin in both Houses.

So I don't think that that factor actually interferes with this approach and this strategy, and what it underscores is basically, in the absence of a bipartisan deal, you can't pass anything in the Senate on this.

MR. HASKINS: One more question, right there.

MR. BLUE: Joe Blue. My understanding is that the fiscal cliff would not completely eliminate the deficit in 2013, and if it didn't, then we're going to hit the debt ceiling that year at some point, later on, but at some point, in which case it brings back the dynamics of Republicans negotiating over another extension, and we didn't really comment on that a whole lot. I was wondering your thoughts, and specifically whether or not the Democrats are prepared to watch the Republicans try to drive the country over that much bigger cliff.

MR. HASKINS: Bill, you're smiling the most, so you get to go first. Go ahead, please, after you.

MR. FRENZEL: I like your smile better than mine. I have no idea. I just felt that the Republicans who think it's a good idea to fuss with the debt ceiling will mature

a bit over the years and have learned something from their experiences in the past. That's not a good way to enforce any kind of economic or budget discipline. You're dealing with the full faith and credit of the United States. Nobody should want to see that even threatened.

MR. HASKINS: Bob.

MR. GREENSTEIN: Well, if and when there is an initial bipartisan framework deal, whether it be, as we all hope, but don't think is that likely, in December, whether it's in January, it's hard to believe that such a deal wouldn't have a modest term extension of the debt limit.

What I think is most likely is that we've all been talking about the fact that that first deal was a framework deal, and then you add tax reform and potentially entitlement changes that are to be produced by a date certain later in 2013, my guess is that the debt limit, as part of the first framework deal, is extended so it expires at about the same time you're supposed to pass the entitlement and tax changes, and then if Congress fails to make good on those, you're heading up to hit another debt limit.

If you actually make good on those and the legislation that raises revenue and reduces rejected entitlement spending is moving forward sometime later in 2013, presumably that legislation has another extension of the debt limit in it. But I think ultimately the debt limit gets tied into all of these other things and is not totally divorced from that.

MR. HASKINS: Bill Frenzel, if you don't want Bob Greenstein to have the last word, you'd better speak up right now.

MR. FRENZEL: Bob, their words have been pretty good today, way above average.

MR. HASKINS: Well, join me in thanking the members of the panel. I'm sure everyone in the audience will send a nice note to Senator Murray. Whatever else

might be said about this debate that I think now has been going on for about seven years;
we're having a lot of fun. Thank you.

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