

CAMPAIGN-2015/11/18

THE BROOKINGS INSTITUTION

CAMPAIGN 2016: WILL PROMISES MADE BE KEPT?

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Introduction and Overview:

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The Role of Issues in a Presidential Campaign:

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Panel 1 - The Issues: Poverty and Economic Mobility:

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Panel 2 - The Issues: The Federal Budget Deficit:

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Panel 3 - Federal Health Care Policy:

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P R O C E E D I N G S

MR. HASKINS: So this is the last gasp of the Fiscal Seminar. We met for a decade. Our goal from the very beginning was to solve the nation's debt problem. And of course, now that we've done that we could disband the group. Actually, as you all know, the issue has not declined in importance, but declined in PR value and foundations don't pay for it like they used to. So, we went out of existence. And our original intent was to write a paper just about this issue, the debit issue and what the candidates should do about it in the 2016 election, but then we decided to expand and we wound up with eight issues, and we're here today to tell you about those issues. And there are copies of the report that you're welcome to have as well, and it's also online.

For sake of time, we selected only three of the eight issues that we're going to examine in detail today, so I'm going to just tell you a few words about each of the issues right now, not very much. These are the eight issues and the authors of the papers. The ones that we are not covering, first, it's Economic Growth, a paper that was written by Rudy Penner, a former head of CBO. And you start with a problem right off the bat, as Penner points out, which is that our historical growth rate since 1950 has been 3.3 percent, and CBO is projecting 2.1 percent. So then Rudy launches into the issues and the solutions that candidates should examine as part of the election and tell the public what they intend to do about growth. The two major factors that Rudy talks about are population growth and physical growth. We can't do much about population growth. We could admit a lot of new immigrants, but especially with the recent event, that seems pretty unlikely, so he would like to improve the quality, at least economic quality, by making more investments in education, and he also talks about ways to stimulate investment and physical capital. But it's interesting that in many ways all these issues come back to the debt and we don't have money to really make the investments that we should, or at least Congress, the way we have our budget set up with revenues and

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spending. We'll talk more about that later. There's not money lying around to make the investments we could.

The second paper is Taxes, by Bill Gale and Aaron Krupkin. Bill starts out, I think, in the right way by saying the idea of having general tax reform is quixotic, that we're not going to do that. I think the last 11, or maybe 100 chairmen of the Ways and Means Committee right away say that they're going to have a general overhaul of the tax code, and Kevin Brady, the new chairman, has already said that. I think he said it, if I'm not mistaken, in 48 hours of the time that he assumed the chairmanship, but there's reason to doubt that he'll actually be able to do it. So what they do instead, as you can see on the chart here, is they examine five specific issues that they feel the Congress actually could do something about if the president provided good leadership, and that each of those issues would improve our financial condition and improve the quality of our tax code.

There's also a wonderful paper by Brookings's brilliant expert on defense, Michael Hanlon. He reviews the goals of what national defense should be, and he adds several more that I think are even more interesting than the broad goals, and two of them are especially pertinent. One is to contain Iran, and the other, especially, he wrote this before the events in Paris, but a second goal of our defense policy should be to diminish the strength of terrorists, especially ISIS. And I think now there's broad agreement that we should do that. He also wants the candidates to specify what an adequate budget would be, and he goes into some detail on how you build the defense budget. He thinks the whole budget, including items that are in other departments other than Defense, especially Energy, should be about \$600 billion, and that's what it is. So he gets by analysis to what the current defense budget is, and he's quite happy with that, but he'd like the candidates to say what they would like to spend.

There's also a very interesting paper on the financial system. We started out we wanted to talk about the Federal Reserve, but then the more we thought about it, and especially David Wessel, who is the author of the paper thought about it, what we

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ought to do is just say the issue is we need to have financial stability. We cannot have another crisis like the one we had. It was a horrible crisis. We're still feeling the effects of it. And so he talks about how -- what we have to do to avoid another financial crisis, and a quite interesting analysis, I would consider it quite balanced. He tells the things --

Oh, look at this. Vin Weber, how are you?

SPEAKER: Welcome to Brookings.

MR. WEBER: Not great, but glad to be here.

MR. HASKINS: Vin has a bad back. This is the first time he's been out of the house since Friday. Yeah, so.

MR. WEBER: Only for you.

MR. HASKINS: Thank you. That's great. That's great. Belle, do you get it? It's great. Yeah.

Okay. So I was just describing the things that are in the book that we're not going to talk about today.

SPEAKER: You might want to advance the slide. We're on Defense.

MR. HASKINS: Oh, yeah. Sorry. Okay. Yeah.

So this financial chapter, I think you'll find it very interesting. There are some good things that are happening. The stress tests show that organizations are much more stable than they were in the past, the banks are. There's one provision in there that has not been tested yet that David seems to be pretty impressed with, and that is the regulators have the authority to shut down failing institutions. The goal there is both a psychological thing and an actual event. The psychological thing is that people will believe that if they don't have a good balance sheet, that they might get closed down. Now, they haven't done it yet. Who knows if they ever will? But there's still a lot of doubt that the government would do anything about big financial institutions. The bottom line here is that David would like to have the candidates specify what they intend to do to protect the country and how to draw the line between risk and security. I think it's a really interesting chapter.

The final chapter is about infrastructure by Bill Galston and Rob Fuentes, and Bill is here today but he's not going to talk about infrastructure except maybe in passing. We now have the 12th ranked infrastructure in the world. It's been down for many, many years. Bill says in the paper that it's really been 30 years of decline in investment in our public infrastructure, and that there are many estimates, but they seem to coalesce around we need to be spending about \$150 billion or more on our infrastructure and we are. The political system would not do that, so the presidential candidates should figure out some way not only to get the government to invest, but also to get private investment in the system as we've done somewhat with highways in recent years.

The bottom line of all this, at least for me, you draw your own conclusions, but it is really striking that on most of these issues, as a nation, we are not doing well. And people who think that America is in decline, if you read these eight papers, you would think, wow, here's data that shows the nation is in decline. There are a lot of things that we could do to improve our situation that we're not doing and the prospects seem dim as all the papers show.

Now, today's event. What we're going to do is we're going to reflect on the importance of campaign promises and governing. That's going to be the only session with Vin Weber. Thank you, Vin, for being able to make it. And Bill Galston. When they're through, I'm going to ask them a few questions and then give you a chance to ask them a question, and then we're going to focus on the three issues that we came here to discuss that have chapters in the volume.

The first one is "Increased Economic Mobility," by my colleague, Belle Sawhill, and the discussant will be Yuval Levin, who is the fellow in the Ethics and Public Policy Center, and editor of National Affairs.

Then we're going to turn to health care. Bob Reischauer just walked in, so we definitely can do that now. And Bob is a trustee of the Social Security and Medicare programs, the trust funds, and he wrote the paper with Alice Rivlin, who is a

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chair -- the Schaeffer Chair here in Health Policy Studies, and she's also the director of the Brookings Center for Health Policy. And the discussant will be Joe Antos. He has another meeting but he'll be here in time to give comments. He's the Herald Taylor Scholar in Health Care at AEI.

So that's the event. And we're going to start with Bill Galston.

Bill?

And Vin, you can remain in your seat if you would like to.

MR. GALSTON: Everybody here? I'm going to deal with two questions in 10 minutes. The first question is the role of issues in presidential campaigns, and the second question is whether candidates, if elected, keep their promises. So I just, without breathing too hard last night, I made a list of 11 different things that issues actually do in presidential campaigns, and it's probably not an exhaustive list. First of all, and perhaps the most fundamental, use issues to answer the public's questions. So this year, I guarantee you presidential candidates are going to be asked what they would do about terrorism, at home and abroad, and what they would do about slow economic growth that doesn't seem to touch the lives of very many people. Whatever other questions they answer during the campaign, they'll have to answer those, too.

Second, you use issues to demonstrate competence and fitness for office, to prove to the American people that you know what you're talking about. And a dramatic example of that came in September-October of 2008, when young Barack Obama persuaded the American people that he had a better handle on what to do about the financial crisis than John McCain did, and by many political observers, that was an important turning point in the campaign.

Third, you use issues to illustrate your character -- consistency, strength, standing up against pressure. There are multiple examples of that.

Fourth, you use issues to communicate priorities. By talking more about A than B, you show this is what I'm committed to doing. This is what I really care about.

Fifth, issues can be used to dramatize the fact that you have thought

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things through and you have a plan to deal with them. And in many presidential contests, including some that I have participated in, being what was then called the "Man with the Plan," is really important.

Sixth, you can use issues strategically, either to blur or dramatize contrasts. So look at, for example, the way Hillary Clinton this year has dealt with gun control, you know, which she's used to dramatize a contrast, as opposed to the Trans-Pacific Partnership, which she has used to blur what would otherwise have been an important contrast.

Seventh, you can use issues to demonstrate that you're in touch. I understand you. How you talk about an issue will either bring you closer to the people that you're trying to reach, or distance yourself from them because you're not using language and you're not expressing sentiments that mirror their own. And relatedly, you can use issues as a mode of identification. A very important proposition in presidential campaigns is to say convincingly, "I am one of you." Donald Trump is not a poor man. He's not a working class guy, but the way he talks about immigration, for example, has convinced a large number of white working class voters that he is one of them, if albeit on steroids.

You can also use -- one of the fundamental dividing lines in presidential campaigns is how you stand on the contrast between let us continue versus time for a change. That is always a fundamental question in presidential campaigns, and you can use issues to illustrate very clearly which side of that divide you are on. Ronald Reagan, in 1980, used the issues in order to drive home the message that not only was it time for a change, but he represented that change.

Tenth, you can use issues as benchmarks of success and failure. You can, to some extent, define your own criteria of whether, if you become president, you are successful or not. And Bill Clinton in the first two years, 1993-1994, defined success largely as getting health reform through, and he failed. In '95 and '96, he defined success, both in fiscal terms and in redeeming his pledge to end welfare as we now know

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it, his famous pledge. And the fact that that actually got done in 1996, turned out to be, I think, the critical element in ensuring his reelection success.

Which brings me to my eleventh and final role of issues in campaigns. They represent, and are usually explained by candidates as, a compact with the American people. They are promises to keep. And my reading of history is that when you don't keep your promises as an elected president, you are punished. Once again, going to the well where I have the most water, Bill Clinton's administration, he campaigned on the promise to be a "different kind of democrat." But that's not what happened in the first year of his presidency, and he took a hit for which his party suffered in 1994, but the fact that he turned a corner and became more like the president, you know, the responsible steward of the purse and the welfare reform in '95 and '96, led to an eight percentage point victory in 1996.

That brings me to my second question. Do candidates keep their promises? The answer is they try pretty darn hard to. And I can say this having been in and out of six presidential campaigns, that before candidates make a promise, there is always a discussion inside the campaign, "Do we really want to be held to this?" And if the answer is no, a lot of otherwise good ideas remain on the cutting room floor.

Let me conclude with an anecdote from my own career. The day I walked into the White house, on January 20, 1993, I tacked a big piece of paper on my wall. It contained about 140 items, and those 140 items represented all of the promises of any significance that Bill Clinton had made during the presidential campaign. And I looked at that piece of paper every morning. I wasn't the only one who did that or something very much like that, and I can tell you there was in reach constantly, "How are we doing?" Right? This is what we said we were going to do; how are we doing? And I don't think that that was unique to the Clinton administration. My reading of history is that it is what presidents and administrations do.

So the moral of this story is that candidates pay a lot of attention to the promises they make as they discuss the issues, and so should everybody who is in the

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position of having to vote for one or another candidate because you are voting for programs that the candidates will do their level best to carry out if they are elected.

Thank you.

(Applause)

MR. WEBER: Thank you.

MR. HASKINS: Vin Weber. Thank you very much.

MR. WEBER: Thank you very much. And as Ron pointed out, my apologies. I have really been suffering with a back problem the last few days. This is my first day out of the house in three or four days, and of course, it would have to be for Brookings. But my apologies for not standing. I hope you understand.

I do want to say even though I'm suffering with this back issue, I'm not taking painkillers, so if you see any particular lack of lucidity, that's just me. It's not the drugs. (Laughter)

But I am pleased to be here, always, with Belle and my good friend, Bill Galston. And Bill has touched on most of the things that I would say. My observations of the process of issue formation in the campaign is from a different perspective. He's actually been on the inside formulating policy from day-to-day. I've run for office, but I've also been on the outside. I was the policy chairman for Romney. Not in his last campaign but in his first campaign against John McCain in 2008. And I've sort of coordinated the outside efforts to help formulate policy. So, but we come to most of the same conclusions about this. I'll just make a few observations

First of all, I would say in talking to people about issues and policy and candidates, it's very easy to get a cynical response that candidates don't give a damn about issues, they don't give a damn about policy, they're only interested in getting elected. Obviously, if you run for office, you're interested in getting elected. But I would not underestimate the degree to which people who run for office get involved because they care about things. There are, of course, other motivations. If you want to run for office, you've got to be somewhat competitive. You've got to have a certain amount of

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ego. You have to like the political game. Some like it more than others. But everybody that I've ever been around in politics, and more true the higher they rise, certainly to the presidential level, have deep feelings about policy. Some of them, it's more of a macro feeling. I mean, Reagan had very deep feelings about communism and the size of government and things like that. Others are more wonkinsh. Bill Clinton was probably his own top staffer I would guess, Bill, because he really got into the details of policy.

MR. GALSTON: Absolutely. Yeah.

MR. WEBER: But they care about it. You don't stay in politics that long without really caring about the direction of the country and thinking that you can make an impact on behalf of some policies that you care about.

The way in which candidates and campaigns utilize issues is very much what Bill said, and a lot of what I am saying is going to be repetitive of what he just said. You start out in the campaign, of course, having to convince your base that you're okay. Every candidate that runs has to do that. And so the initial issues that come out of the campaign are almost always base-driving issues. You can see it in the republican nominating process now with some of the candidates getting a little over the top on the abortion issue, going too far. Marco Rubio basically saying no exceptions at all to a restriction on abortion. The debate on immigration. The last campaign really pushed all the Republicans far, far to the right, so far that they could not compete for Hispanic and Asian voters in the fall. They thought that was necessary to compete for the base. And you see it on the other side. I think you're seeing a little bit of that with Hillary Clinton now being pushed to the left by Bernie Sanders in this campaign. And whatever you think of the issues on Keystone Pipeline and some other -- and the Trans-Pacific Partnership and some other issues, where she might have taken a different position or reserved the right to take a position in the general election, but they are appealing to the base. They're making sure that they nail it down.

But then, people also use issues to broaden their appeal after they've nailed down the nomination, and you see that sometimes in broad ways of

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compassionate conservatism to broaden the appeal of George W. Bush, if you will, and specific appeals to specific constituencies. One of the clearest examples was in the 2000 campaign, George W. Bush went into steel country and promised restrictions on steel imports, something wholly at odds with Republican philosophy on trade. But he had a very specific goal. He wanted to carry West Virginia. And to the point that Bill made earlier, that would have been an issue stand that almost everybody in his party would have liked him to abandon. He didn't. He put restrictions on steel imports when he came in. He tried to keep his promise which he made to the voters of West Virginia which carried him the state of West Virginia, arguably. West Virginia now is fairly reliably Republican at the presidential level but it wasn't back in those days, and that promise was very specifically targeted to get a very specific constituency and pick up I guess its six electoral votes or whatever it is that West Virginia has. And you see issues used like that from time to time.

I want to talk a little bit about what I think is a problem in translating issues into policy and campaigns, and that's the role of consultants. My guess is what I'm about to say most people here will agree with. Bill has seen it up close. I'm going to recount an anecdote. When I first left Congress, one of the things I did was organized and headed an organization called Empower America with Jack Kemp and Bill Bennett and Jean Kirkpatrick. And I'm going to talk about Jean for a second because I had to recruit Jean into this organization. And I said to her, "Jean, we're going to have a political edge to this," and I thought of her as diplomat and academic and all those things. I said, "Are you comfortable being in an organization that has a political edge to it?" And she said, "Well, Vin, you need to know that my husband and I ran all the research efforts for the Humphrey for President Campaign in 1968," when they were professors at the University of Minnesota.

And by the way, another story, she, to her death, admired Hubert Humphrey and Ronald Reagan more than any two people in politics and refused to put a wedge between those two. That's an interesting story.

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But, so I said, "Oh, that's interesting. Who is your pollster?" And she gave me the Jean Fitzpatrick look and said, "Well, Vin, we would never have done it the way you do it now." I said, "What?" She said, "Well, we would get the best experts around, and we would sit down with Vice President Humphrey, and we talked about what was it he wanted to say? What did he want to say about civil rights? What did he want to say about economic policy? What did he want to say about the Vietnam War? And then we would go to a specific pollster and say, 'Okay, help us with the messaging on this.'" And she said, "My observation is now that you do it differently. You go to your consultants. They tell you what issues you need to emphasize, and then you try to fit it into what the candidate believes."

Now, she may have had a little -- she may have exaggerated that slightly given where she came from, which is academic and diplomacy, but she's not wrong in my view. My observation of politics is that the consultant role in campaigns has gotten more profound, and the policy role filters through a very narrow, if you will, filter on the consultant side, and I think that's a problem. I saw it as a problem in our last presidential campaign, and I think that it is a problem going forward, getting past the political class. And by the way, neither Bill nor I are naves about this. We want our candidates to win. I don't want my candidate to say things that are going to lose him the election, and I don't mind if he says a few things that are catering to voters to get elected. But it's a matter of degree. And the consultant class has made it much more difficult to penetrate with serious policy unless it resonates very strongly political and it lets bad policy get through if it resonates politically. So those are my observations on how campaigns develop.

I would say of the republican campaign right now, despite a lot of emphasis on the theatrics of Trump and the mystery of Carson and things like that, there are issues being talked about by different candidates, and some of them are addressing the excellent policies that you guys at Brookings have developed. When Bush announced, he formed his Rights to Rise PAC, his issue is social mobility, economic mobility. Now, you can argue about whether or not he has the right policies, but that is

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what he wants to talk about. He thinks that's the most important thing. Obviously being diverted, the other issues in the course of the campaign, but that's what he most wants to talk about.

Christie has tried to stake his comeback on talking seriously about entitlement reform, and he's pushing the other candidates to talk a little bit about it, too. All the republican candidates are talking about tax reform, many of them in ways simply designed to annoy Bob Reischauer, but they're talking about it. And there are serious tax reform proposals being put forward by -- well, some are serious. But tax reform is on the agenda. And finally, regulation. All of the candidates are bashing regulation, but some of them are putting forward serious proposals on how to minimize or deregulate or change the direction of regulation.

There are some things that are not being talked about, but I wanted to make the point, I think some things are. And it bubbles as Bill talked about when he said he had all these things on the wall of the promises that Clinton made. You need to pay close attention to what the candidates are saying now because some won't be repeated very often in the course of the campaign, but somebody is keeping track of all this stuff, and I agree with what Bill said. Most candidates care about policy. They want to do what they said they were going to do when they were elected. Politics sometimes gets in the way, often gets in the way, but that's their motivation.

MR. HASKINS: Okay, thank you, Vin. And thank you, Bill.

Let me start with this. The premise of our little exercise is that if you can lay out important issues -- we picked eight, and I think it's undeniable that all eight are important, and they may not be the most important but they are eight important issues -- and every one of the papers discusses, as we'll see in a few minutes, specific solutions. You have said, and you agree, that the candidates are going to lay out positions on issues and then they're going to try to actually implement those -- whatever their position was. So let me ask you this. Let's take four really important issues that everybody knows are important. Infrastructure. We need more investment in infrastructure. Bill's

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figure is \$150 billion. We have to do something about the debt sooner or later. We've done some but there's a lot left to do and we're going to have big trouble if we don't do it. Everybody feels we should reform the tax code, and most people talk about how they're going to reform the tax code. And then we have to do something -- I haven't heard many candidates talk about this, but we've got to reduce spending on Medicare at some point. You could add there we need more revenue. Democrats would emphasize that.

So on these issues, do you see what's happening in the campaign as creating a foundation to actually do something about it if they're elected, about these issues?

MR. GALSTON: Some of them.

MR. HASKINS: Name one.

MR. GALSTON: Well, just echoing Vin, you know, I think that on both sides of the aisle there has been serious, and in some cases specific, in some cases serious without being specific, in other cases specific without being serious. But there is some overlap in the Venn diagram, you know, on the issue of tax reform. And it's pretty clear the direction that Democrats want to take tax reform. I mean, there's been an attack on loopholes. There's been an attack on people at the top who, as Warren Buffet famously put it, are paying effective tax rates no higher than their secretaries. And on the republican side, there are I'd say two things going on. On the one hand, various iterations of supply side orthodoxy. Thank you, Empower America. And on the other hand -- on the other hand, some forays into hitherto forbidden territory, like Ted Cruz and the value-added tax that dare not speak its name. And so I do think yes, that in that very important area, the ground is being prepared. And I am, you know, I am not completely cynical about the possibility of comprehensive tax reform because we've all seen it happen.

MR. HASKINS: 1986.

MR. GALSTON: Yeah. We've all seen it done and undone, and I think there's a consensus that it needs to be done again. And I give the candidates credit for

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not backing away from that issue even though I think that many of the suggestions make no sense whatsoever.

MR. WEBER: I think that there is some reason to believe -- I tend to be optimistic about things. I think there is some reason to believe we could move forward on taxes, entitlement reform, which we describe as Medicare, and ultimately the debt because they're all kind of interrelated.

I do think we're going to do tax reform at some point. I mean, I just think we've been talking about it for a long time, and people think, well, we've been talking about it for so long we're just going to talk about it forever. No. When you talk about something for a long time, eventually you do it. It may take much longer than people want, whether it's civil rights or health care, but eventually we do it. We're going to do tax reform.

The question is, the context that you raised it seems to me, can we do a tax reform that does what the Republicans want while generating additional revenues? The Republicans want to put in some growth incentives. The world is not the same as it was when we had the supply side revolution and the top targeted rate, top marginal rate of 70 percent. And a lot of Republicans don't quite get that, and they're still acting as if the top marginal rate was 70 percent. So there have to be other levers of growth than simply marginal rate reduction.

However, Republicans look at the corporate tax side, and that's the main objective of corporate tax reform, is to enhance growth and competitiveness. So the question is can we put together a tax reform that does that that the Republicans want, while generating additional revenues, which is what the Democrats want, and which is what we need as part of a comprehensive program to reduce long-term debt, which is what you predicated this question on. I think that's possible. I don't think it's easy. I think it's possible. As I said, I'm glad Christie is talking about entitlement reform. I think the two have to come together. You do entitlement reform and tax reform that has the effect of increasing competitiveness and reducing the long-term debt. If you do those things,

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then you might have a chance to talk about infrastructure or the other thing you raised, because the problem we've had, as you well know the last few years, is we are very much, when it comes to fiscal policy in my view, like the old joke about the drunk that loses his wallet in the alley but insists on looking for it on Main Street because the light is better. Our problem is revenues and entitlements. It's not domestic discretionary spending. It's really not even military spending, but that's what we can cut. And so we've reduced domestic discretionary spending, infrastructure, and we've cut back on the military because the light is better, not because that's the problem. If we deal with the long-term problem -- entitlements, and taxes, and as we've discussed, there's some reason to believe that can happen, it will open the door to actually spending something more reasonably on the domestic priorities as well as the military, and we're seeing that a little bit with the undoing of sequestration already.

MR. HASKINS: Here's a thing that would be helpful to know for me at least, maybe others in the audience, there are candidates, some of them serious candidates, who make promises that are outrageous. Like several republican candidates have said we're going to have four percent economic growth.

MR. GALSTON: You're a piker. Trump says six.

MR. HASKINS: Oh, six. Even better. And we know that it's just -- it's not possible. And it seems like every election another one is -- I'm sorry you mentioned Trump. I wanted to save him for the next one which is --

MR. GALSTON: He is technically the front runner.

MR. HASKINS: Yeah, I know. But his proposal on immigration reform, that the government of Mexico is going to pay to build a big wall and that that's going to have a big impact on immigration, and that we're going to throw 11 million or 12 million people out of the country, breaking up families and all that. These are crazy. They're not going to happen.

Is an election an effective way to make it seem crazy and people learn that you just can't do things like that? Or can a guy like Trump get away with it?

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MR. GALSTON: Well, if you have faith in democracy, with a small "d," you have to believe ultimately in the wisdom of that very distinctive crowd known as the electorate; right? And you have to have faith that Americans understand how important the presidency is. You know, how much good a president can do and how much damage a president can do. And that one way or another, they will sort it out in a sensible way. That doesn't happen every time, but if it didn't happen in the majority of instances, democracy would not be a viable form of government, which it manifestly is.

So obviously, it's in one of its less viable periods right now, but you can't judge the viability of democracy simply by its performance at its worst any more than you can judge the value of autocratic governments by their performance at their best, which is what we've seen in places like China for a decade. And so we've been in a period where it's been a nadir for democracy and a peak for autocracy, but I think in the long run, the best on democracy is the best on the ability of the people to sort out crazy promises from reasonable ones.

MR. WEBER: I agree with all that. I am alarmed by Trump. And not necessarily because I disagree with him when he talks about those policies, but I think it was -- I don't know, there's a famous quote. I think it's Harold Macmillan said, "What could change the outcome of the election?" And he said, "Events, my dear boy. Events." The attacks in Paris were horrifying at every level, but they're also horrifying at the political level in this country. I really agree with Bill that our democracy should work and sort this out, but I look at Trump and his kind of appeal. If we have an attack in this country, or maybe if we have another economic event in this country, it's not impossible that he could get elected. I wish it were but it's not impossible. And what bothers me, you raised his economic program with a six percent growth rate. That doesn't bother me so much because that has got to go through Congress and that'll get sorted out, and again, it probably won't be exactly what you like but it'll not be what he put forward.

What bothers me about Trump are the things that he is saying that at least he could try to do without congressional action. He could, conceivably, try to deport

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11 million people without congressional action. Now, maybe he needs to get an appropriation for that, but he's got the enforcement power of the executive branch. He conceivably could find ways to tear up trade agreements with Mexico and China and everybody else using the executive authority of the president. The things that he wants -- he could conceivably send in the military to seize the oil fields in Mosul. None of these things are beyond the capacity, the possibility of a president to act without congressional authority. We'd have huge arguments about it and everything, but those are the things that scare me about Trump. And it's why in my party it does bother me that we're having all sorts of debates, other than people very directly taking him on on those issues. And I thought the last debate took a step in that direction with Kasich and Bush basically taking him on on this notion of deporting 11 million people, but we need a lot more discussion of that. Sending Mexico the bill for the wall, which Mary O'Grady in the Wall Street Journal correctly said is promising a trade war with Mexico if you actually understand what he's saying. We need a lot more specific discussion about that. You can't expect the voters to sort it out if the candidates don't air the issues.

MR. GALSTON: Could I drop a self-serving footnote here?

MR. HASKINS: Yeah.

MR. GALSTON: Yesterday, there was an event here at Brookings to release a survey which is a collaboration between Brookings and the Public Religion Research Institute. It is a fabulous survey that among other things, casts a very bright light on the great debate within the Republican Party. I actually think of it as a class war, because there are two pieces to the Republican Party that have different interests, different fundamental interests. The Republican Party having attracted the white working class into the tent as part of its intense base is now discovering that the white working class does not agree with the republican establishment on a whole bunch of economic questions, including immigration and trade and "crony capitalism." Example, the Ex-Im Bank. And so what's going on in the Republican Party now is a tectonic clash between these two great plates. And the fact that the establishment wing of the Republican Party

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has not rallied its intellectual forces more effectively to articulate the case for its economic program is quite stunning to me.

MR. WEBER: There's also a genuine division within the party over what the strategy ought to be going forward electorally. After the 2012 election, Reince Priebus, who I think is a very good chairman for our party, did what he called the postmortem, which identified, I think very sensibly, the challenges the Republican Party faces in terms of attracting minority votes and immigrant votes, young people, women, and other issues like technology. But it was predicated on the presumption that in a country that is becoming less white, if you will, you've got to appeal to nonwhite voters. Okay? And that is so obvious to me that I would have thought the only argument would be, how do we do it? It's not the only argument. If you listen to some of the Republicans again, the consultant class advising some of these other candidates, there is a counterstrategy which says, "We're not going to succeed in doing that. What we're going to do is increase white turnout and our percentage of the white vote, and that's how Republicans will win." That's lunacy in my mind. And even if it worked for one election, it's like being invited to the last dance on the Titanic. But it's not just an offhand thought. There are people that are seriously arguing that within the party and it has huge policy implications as you point out.

MR. GALSTON: We heard it yesterday.

MR. HASKINS: Okay, audience. Raise your hand. Someone will come around with a mike. Yeah, let's go right here on the aisle. And tell us your name and ask a question rather than make a long comment, please

MR. CASTIFF: Sergey Castiff, financial analyst in Moscow, Russia.

I don't follow the campaign on an expert level, so can anybody tell me what is the promise made that Export Import Bank will be reinstated? Now it doesn't exist, right? Thanks.

MR. WEBER: No, nobody on the Republican side is promising to reinstate the Ex-Im Bank. It doesn't mean it might not happen, but nobody is promising it.

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At this point it's very unpopular. Even people among the candidates who might think that that's a sensible -- you know, I've defended the Ex-Im Bank in writing, and I think that some of our candidates would think that, but in this environment, I mean, that's another way of looking at issues. Is that worth taking on if you're a republican candidate and you've got this populist vote against crony capitalism, as Bill pointed out, and spending and all that stuff? And you might say, well, the Ex-Im Bank is very sensible. That helps to lower the playing field for us around the world. Do I want to take that on in this campaign? The answer is probably no.

MR. HASKINS: Another question. Right back there on your left.

MR. SHUPAK: Thank you. David Shupak.

Should the candidates be talking about how the United States can compete with countries like China and India that are very unequal while maintaining something approximating universal wealth?

MR. GALSTON: Well, I'll just put the point very simply. We are five percent of the world's population, and you know, China and India put together in just a few years will have three billion people. We have no choice. We crossed that threshold in the 1990s and we ratified it with China's entry into the World Trade Organization at the turn of the century. And that redefined the game. And now we have to find a way of playing that game consistent with the idea of growth that is inclusive. It will not work if we keep on doing what we've done for the past 15 years; that is to have growth, all of the fruits of which go to the top. And that's why you have revolts on the left of the Democratic Party and on the populous right of the Republican Party. Those are not the same people but they have the same concerns, namely what good is growth if we're not feeling it? So yes. And I do think that the number one domestic issue in this campaign will turn out to be in the general election, if not necessarily in the primaries, how can we accelerate growth in such a way that its fruits are more widely shared?

MR. WEBER: I couldn't add to that. I agree with that entirely.

MR. HASKINS: Another question on the aisle there. Right there.

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MR. HURWITZ: Thank you. I'm Elliot Hurwitz. I'm a former State Department official, World Bank contractor, and Intelligence Committee contractor.

Does anyone have any comments on Ben Carson's views on foreign policy? Sorry to make you laugh.

MR. WEBER: Well, I have just one sentence. I think, you know, the famous intelligence operative Duane "Dewey" Clarridge committed a gaff yesterday, which is inadvertently telling the truth.

MR. GALSTON: Well, I don't know. He's promised to get the Chinese out of Syria. That's a start.

MR. HASKINS: He's already met that promise.

MR. WEBER: Are there any Chinese in Syria? I ask you.

MR. GALSTON: That's a good point. That's a good point.

I'll make a serious observation of something similar between Trump and Carson when it comes to policy. Neither one of them know much about policy. Neither one of them really pretend to, but they do have an answer, and they're similar but not the same. Ben Carson basically is saying to his country, to his constituency, "I don't know everything about policy. I mean, he's obviously not saying that but that's what he's saying. But I am a person of character, I am a person of intellect, I am a person of science, I am a clinician, and you can trust me to think through these problems and solve them. So don't get all hung up if my answers on policy are offensive to you. Give me an office and you'll have a person you can trust both intellectually and at the policy level."

Trump is saying something different but not totally different. He's saying, "I don't know the answers to all this stuff, but I'll get the right people to solve the problem. You know I can because I've built a \$10 billion company," or whatever the hell it is, "and I'm going to get Carl Icahn to solve the problems with trade with China. Don't ask me all the details. I will solve it with the right people.

Both of them are really avoiding getting deep into policy, and that's essentially what they're saying to their voters is, "Don't worry about that. I can figure this

out."

MR. WEBER: Yeah, that kind of campaign boils down to two words, "Trust me."

MR. HASKINS: On the aisle there, right there. Yes, good. Thank you.

MS. DODSON: Hi, I'm Meredith Dodson. I'm with Results, which is an antipoverty organization, but we're also part of the steering committee for Vote to End Hunger.

I would love if you could talk a bit more about kind of where is it that candidates are pushed forward to take specific stances on issues? Meaning, is it because they hear about it a lot from Iowa and New Hampshire voters right now or have been for six months? Is it because insiders are talking to them, you know, party committee chairs or D.C. insiders? I'm kind of curious where they're hearing about it, and of course, related, how we can -- who has specific issues we care about, how we can make sure they're hearing about it in a way that it will make a difference.

MR. WEBER: Well, that's a good question, and it's kind of all of the above. There's not one single clear conduit through which public concerns are transmitted to candidates. It's all the things you talk about.

I think at the moment, on the Republican side -- I don't know about the Democratic side but mainly on the Republican side, they're listening a lot more to local and state party leaders and asking them what are you hearing because they need to get the nomination. It goes back to what I talked about a little bit before. They're paying attention to the base. But we do have this phenomena now which wasn't always the case in presidential politics, of most candidates participating in some kind of a town meeting format. That was not always the case at all. And I do think it is worthwhile for your organization, or anybody else who wants to impact policy, to try to get people into these candidate forums and raise the issues. Candidates listen to what they hear. They're not deaf to repeated activity, repeated pleas for people to look at specific issues. And it may seem like a long slog in terms of a process, but I think that it can pay.

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MR. GALSTON: Very briefly, since I'm looking at the stop sign, the early primaries and caucuses matter more than the later ones for issue formation, and the one that matters the most is New Hampshire. I did a little historical research. It doesn't really matter where you finish in Iowa up to a point; you can win the nomination. But no candidate of either political party in the nominating process who has finished lower than second in New Hampshire has ever gone on to win his party's nomination. So if I were an organization trying to get a hearing for my view, I would flood the zone in New Hampshire. Have people at as many town meetings as you can go to questioning the candidate on your issue. Once that happens -- I've spent a month in New Hampshire with a presidential campaign -- once that happens two or three or four times, campaigns get the message. Hey, we have to have something to say about this issue.

MR. WEBER: Yeah. That's the way to leverage a small organization.

MR. HASKINS: One last question. Yes or no and one sentence, okay?

Kasich, and maybe other Republicans -- I haven't heard what all they say -- but Kasich has already said as a result of the explosion in Paris, that we should have boots on the ground in the Middle East. My question is will other Republicans follow suit, and will they seriously make this a distinction between themselves and the Democrats? And is it conceivable the Democrats at some point could agree with boots on the ground in the Middle East? Or more combat troops in the Middle East? Yes or no, and one sentence.

MR. GALSTON: Hillary Clinton would probably do it as president. Whether she'll say it as candidate is a different question.

MR. WEBER: Yes, I think so. I think that the approach has to be on both parties. Both parties are making mistakes in my view. We formulate the coalition and the strategy and then commit ourselves to do what is necessary to succeed with the strategy, including troops. We should not take it in reverse and say either we must put in 30,000 troops as some Republicans say or that our first priority as the president says is no boots on the ground. The end of the process needs to be we'll commit to do what's

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necessary once the strategy is in place and we have confidence in it.

MR. HASKINS: Thank you very much.

MR. GALSTON: One more sentence.

MR. HASKINS: Okay.

MR. GALSTON: Because I overstated my -- if I may. And that is, there are postwar situations and post-postwar situations. And so there was a post-Vietnam period and then a post post-Vietnam period where we behaved different. We have functioned, really since the beginning of the Obama administration, in a post-Iraq War world. It is at least possible that Paris has propelled us into the post post-Iraq War world, and the American people and candidates will think differently about our international obligations.

MR. WEBER: I think that's right.

MR. HASKINS: Thank you very much. Please join me in thanking the panel.

(Applause)

MR. HASKINS: The next panel? We have all kinds of panels.

MS. SAWHILL: So we're now going to turn to some specific issues, and I think when Bill was talking about issues, one of the points he made that I think is really important is that the issues the candidates focus on really gives you a sense of what they think is important, what their priorities are. And I think it's fair to say that this issue of economic mobility or opportunity in America -- and somewhere we have a PowerPoint that has that on its first slide, but we'll get there. Or do I have to go through this?

There we go. You got it. Thank you.

I think that this is a major issue now that a lot of people are talking about. The campaign rhetoric is usually about giving everyone a shot at the American Dream. And it gets a little conflated actually with economic growth, in a good way actually. Both

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Bill and Vin talked about broadly shared growth and the fact that there are so many people that care about that now. Maybe RRepublicans are talking more about growth and Democrats more about the shared part, but I think everyone is concerned about helping the struggling middle class and helping everybody have a shot at the American Dream.

So that doesn't mean that Republicans and Democrats are talking about it in exactly the same way. Bernie Sanders, for example, has said he is totally focused on the issue of income inequality in America, and especially how much money is going to the very top. And you've all, I'm sure, heard his statements and his passion about that, which seems very, very genuine. On the Republican side, you're hearing quite a lot about opportunity. I think Vin mentioned that this is a big issue for Bush, and we hear it from Rubio and others as well. In Rubio's case, he likes to use his own life story as an example of how anyone can be successful in America, that we have lots of opportunity, and that you can pull yourself up by your bootstraps.

So we have within the more academic discussions of all of these issues some debate about whether there are really separate questions. For example, if you have a lot of income inequality or inequality in general, does that mean we're going to have less mobility in the future? And I have argued that the two are connected in the sense that as the rungs on the ladder get further and further apart, it's going to get harder and harder to climb the ladder, and therefore, maybe you should worry about doing something about inequality if you care about mobility and opportunity, but not everyone agrees with that particular framing.

Some of you may have seen Bob Putnam's book called Our Kids, and Bob shares my view about this, that the two are connected, but there are others that are arguing that we don't have a lot of evidence that in the past anyway they've been all that connected.

The other debate, broad debate between the two parties here is if there isn't enough opportunity, why is it? What's the problem? And Democrats tend to

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emphasize the lack of the institutions that lead to a lack of upward mobility. The fact that people don't have doors they can walk through. That there are all kinds of barriers and that it's society's fault that we have so much inequality and not as much mobility as we would like. Whereas, on the republican side there's somewhat more emphasis on the whole issue of personal responsibility and anyone can do the boot strap thing if they are so inclined. I'm exaggerating and characterizing a little bit just to play out that there isn't total agreement about this even though there is some consensus around the overall goal.

So in our paper for this volume, and I want to recognize Pete Rodrigue, who is sitting here in the second row as my coauthor on this because he did so much work on it, we thought, well, one of the problems with this whole discussion is that even though the rhetoric has been right, and sometimes really very uplifting, there haven't been very many specific policies or programs put forward about how you would achieve greater opportunity or mobility. And so we went down into the weeds and we talked about a lot of specifics. And I'm not going to be able to go through those this morning, we don't have time, but I do want to tell you at least about the framework that we used and give you a couple of examples of some of the things we talked about.

The framework we use is to say that there are three pillars of upward mobility. And actually, this is something that Ron and I have talked about for a long time, including in our earlier book called Creating an Opportunity Society, which I think was one of, if I may say so, one of the early volumes to make the argument that we should be talking more about opportunity and not just about poverty and inequality.

And so in our new paper, and in the older work as well, we talk about these three pillars -- education, work, and the family. And that if you could get all three of those right, you could have a lot more opportunity and a lot less poverty. How much less? A lot less. Let's suppose that everybody graduated from high school at least. I mean, we hope they go on and get some post-secondary education and training as well. Let's suppose that everybody works full time at whatever wages they make or could make. And let's suppose that everybody delayed parenthood until they and their partner

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were really ready to become parents. Hopefully married, but I mean, the main thing here is to be in a stable, committed, two-parent relationship before you bring children into the world. If we could achieve those three goals, then only two percent of the population would be poor, roughly. We've just re-estimated this with up-to-date data. And over 70 percent of people would be part of the middle class.

So, the next question then becomes -- and the rest of the paper is devoted to this -- how do we get more people to get through the education system, at least to graduate high school? How do we get more people working full time? And how do we stabilize families? So we put forth some ideas in each area, and we also do a little bit of summarizing of the current problems.

Here's the high school graduation rate. As you can see, it's close to 80 percent now or over 80 percent, but in inner city areas, it's way, way below that and really very discouragingly low. I mean, look at Baltimore and Cleveland where more than half of kids are dropping out of high school before the graduate. And, you know, in today's economy, that means you can't really get a job or not easily, and certainly not one that pays a decent living.

So we go through a bunch of things you could do to improve education. I'm not going to focus on them right now because I don't have time, but we can come back to some of them if you're interested.

On increasing work, the first thing you need, you've got to have jobs there. So you've got to have a full employment economy. And, of course, for the last seven years or so, we really haven't had a full employment economy. Now we're getting back to full employment. We've got five percent now. That's good. But really, it's monetary and fiscal policy that have to play a key role there. And I think many people who are concerned about inequality, poverty, opportunity, forget about how critical macroeconomic policy is.

Secondly, people aren't going to work if work isn't rewarding. So we do need to make more efforts to have work pay better to be more rewarding, and that gets

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you into discussions of minimum wages, earned income tax credit, that kind of thing. And then I think there's going to be a big focus in this campaign on the work-family balance and making it easier for parents to both raise kids and hold jobs. And you're going to hear a lot about that from the candidates, I think. You already have both Hillary Clinton and Marco Rubio talking about providing paid leave to parents as an example there.

Finally, the fourth bullet here, I think that there's an opportunity for some kind of grand bargain here between Democrats who want to make some jobs available, sort of jobs of last resort for the hard to employ people coming out of prison, people who don't have the skills that are needed in today's labor market. And Republicans who want to condition various assistance programs more on work, I think you could combine the two. So that's an area that I'd like to see more work on or more discussion and debate on.

Finally, on the family front -- and I'll just make this point very quickly because I'm out of time -- where is it? This is a particular interest of mine, that if we don't go upstream before children are born and work on ensuring that more of them are born into families that are really ready, really want them, are ready to be parents, and are in a stable relationship with another person, then we're going to continue to have the growth unwed births and single mothers where the poverty rates are four or five times as high as they are for a two-parent family, and we now have some wonderful evidence that we know how to deal with this problem by providing people with long-acting, low maintenance forms of birth control that reduce these unplanned births that are leading to half of all American children in the youngest generation being born outside of marriage, usually maybe initially to a cohabiting family but then turning into a single parent family that needs assistance and doesn't have a lot of opportunity.

So I'm out of time, but happy to have questions and discussion, and I'm eager to hear from Yuval.

MR. LEVIN: Good morning. Thanks very much for inviting me, Ron, and especially for inviting me to talk about this very interesting and quite thoughtful paper.

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I want to start actually by reaffirming something that was said in the first panel about the importance of promises and getting candidates committed in almost a transactional way to certain kinds of policies in advance. I can tell you very briefly a story from my experience in the George W. Bush White House. In the second term -- so this is probably in 2005 or 2006 -- over a very arcane question about changing the CDC's approach to putting new vaccines on the required vaccine list. Very far down the process, somebody at HHS realized or remembered that there had been a questionnaire in the 2000 election where the Bush Campaign had been asked something about putting Thimerosal, this preservative, in vaccines. The question had something to do with a connection between vaccines and autism. The campaign responded by denying there was any connection, but saying that it made sense to reduce people's exposure to mercury in general and committing to not adding new vaccines with this additive into the required vaccine list. It was on a public written questionnaire answer that they had done in 2000, and we ended up basically altering the policy as a response to that because the president was on the record saying he would not do this very specifically. And we did all we could to still allow the CDC to do what it needed to do. I think it worked out in practice, but the importance of these kinds of promises, of very, very specific promises, concrete transactional commitments, put a questionnaire before them and say yes or no to this, makes a much larger difference than you might imagine in the way that a subsequent administration makes policy, and I do think that is very important for people who care about particular issues a lot to think about.

I thought that this paper that I'm up here to respond to is a very, very thoughtful paper, and it seems to me it also speaks to the issue of combatting entrenched poverty and thinking about mobility in a way that's particularly timely now. Because I think the way we think about this issue has changed quite meaningfully in the last few years. Even in the 2012 election, you would have basically found the Democrats talking about this set of questions very much in terms of inequality, and you would have found Republicans talking about them in almost abstract terms of economic growth. I think both

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parties in the intervening few years have moved from those two ways of talking about the problem and begun to converge around a way of talking about it that is about mobility or opportunity. The Republicans still generally just mean growth when they say that, and the Democrats very often just mean inequality, but I do think that the change in rhetoric is very significant. And to find candidates talking about Right to Rise as opposed to just four percent growth or whatever it is they want to promise, and to find the Democrats talking increasingly about opportunity, or at least combining -- President Obama now always combines opportunity and inequality. Any time he says "inequality," he'll say "opportunity." Again, it's a rhetorical difference but it's a very important difference. And I do think that it starts to bring us toward a kind of coalescence around a question that I think is the right question, which is how to help people at the bottom rise as opposed to just thinking more abstractly about the economy as a whole. That's one key problem that we have to be able to agree about, at least as a problem.

I also thought that this paper is a kind of reflection on the limits of using marginal incentives to affect behavior in a very interesting way. The paper doesn't quite make it explicit, but it seems to me that a lot of the way we've thought about social policy, and especially because the kind of success sequence that Belle and Ron have popularized over the last few years, ultimately is about making decisions. It says if you finish school and get a job and get married and then have a child, you're more likely -- you're less likely to be in poverty and your child is, too. Some of that is about having opportunities, especially finishing school and getting a job. Some of that is really about making choices, making personal choices, especially family formation. I think there's kind of a continuum from work to then education to family formation that moves from areas where it's possible to affect these issues by the sorts of marginal economic incentives that a lot of our social policy involves toward issues where it's just not and where people are not really going to make decisions about getting married or staying with the mother of your child because of these kinds of relatively modest incentives that you kind of see out of the corner of your eye. Big life decisions are less likely to work that way. And I think

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the paper takes that up in a very smart way and suggests that there's probably some room for agreement between left and right about the definitions of these problems and some of the proposed solutions.

So in thinking about work, it certainly makes more sense to think in terms of marginal incentives, of making it more rewarding, of changing the economic pressures that people are confronting when they make a choice about working. And I do think you've seen already a kind of coalescence around a specific set of changes to the earned income tax credit, for example, that Paul Ryan and Barack Obama have both proposed essentially the same thing. They want to pay for it in different ways. You know, I think in a different time in Washington, if the chairman of the Ways and Means Committee, let alone now the speaker of the House, and the president had proposed ideas that were so similar, they would have happened by now, more or less. And I do think that those ideas, and you do see them also in Marco Rubio's way of talking about wage subsidies. You see it in some of what Jeb Bush has had to say. That's going somewhere. I mean, it does seem to me that that's a very plausible sort of next step.

I do think differently about the minimum wage, especially when we're talking about encouraging employment. The minimum wage and the EITC do both make work more rewarding but in ways that are quite different from the point of view of encouraging employment, and I do think we need to recognize the difference and treat it as important.

When the paper turns to education, it moves a little bit away from these kinds of marginal incentives and thinks about changing the environment, changing the set of options that are available to people when they think about education. And so it does talk about school of choice. It does talk about giving families more options, not just about finding ways to push people through the existing system, which too often fails children, but allowing people to have ways out of that system and more options and more ways of thinking about how to get through it. And also experimenting with different options at the front end. That is, in early childhood. I think experimentation is key on this front because

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we don't know what the answers are. The data we have are very poor on the whole, and so again, allowing for options, allowing for people to try different things on the ground and then seeing what works where and thinking about why is really the nature of the answer there.

As the paper is very frank about saying, when you turn to family formation, most of this just doesn't work that way. We've done some experimentation. The Bush administration did that, especially in its second term, and I would say the experiments were useful in that they provided a null result. They had almost no effect whatsoever and it seems to me has shown us some things that don't work. That's worth knowing, but it doesn't help us figure out how public policy surrounding family formation ought to work. It does seem to me that there culture is just going to matter much more than marginal economic incentives, and that means enabling institutions on the ground, institutions that are parts of morally meaningful communities and not just means of delivering money to try different ways of helping people from functional families, of helping people think about how to stay together and raise kids. These kinds of things are just not going to look like our ways of encouraging work. They're not going to look like a federal social policy in the last half century. They're going to look more like bottom-up experimentation. That's much less satisfying to people who want to make policy here in Washington, but it seems to me that it is a response to failure; that is, experimentation is what you do when you don't know what the answer is. Experimentation isn't an end in itself. It's not some kind of fetish to privatize things. It's what you have to do when what you're doing doesn't seem to be working. And I do think we're definitely going to see a move in that direction when it comes to what social policy can do for family formation.

So my time is up. I'll end there.

MR. HASKINS: Thank you very much.

(Applause)

MR. HASKINS: All right. Thank you both for those fine papers and explanations, and a little bit of disagreement.

I want to ask you two questions. One is much more focused and the other one is broad. The focused question is that we all admit, I think on both sides of the aisle, it's been a real change for Republicans, that we have a big problem with not inequality, which is divisive, but with mobility. We don't have enough mobility. Too many kids are stuck at the bottom, and we -- everyone agrees we want to give them an equal shot. It's a part of the American Dream. It's part of American culture. So we need to do it.

Belle, you and I have worked on a strategy that could be characterized as if we had enough good programs and we put kids in good programs, in programs that avoid teen pregnancy and programs that teach them to read, programs that help them enter the workforce and so forth, that we would really make progress in the long run. Do you agree that that is actually going to produce a good result in the long run? And I'd like to hear what your views on that are.

MS. SAWHILL: You know, I'm glad you asked that because we have a lifecycle model here at Brookings that we created over three or four years. It was a lot of work that a lot of people dedicated time to, as you well know. And the model shows that if you intervened early in a child's life, and then intervened continuously, and you did so with a set of programs that have already been evaluated -- you're right, there are plenty that don't work -- but take the ones that do. And we know what their effect sizes are likely to be. Now, I'll admit we don't know if you really scaled them up whether they would continue to be so successful. Head Start is a good example of where we scaled something up and it doesn't seem to have worked so well. But our analysis, which is rough and ready to be sure, suggests that -- and I'm being conservative here -- more than half of the gaps between low income and higher income kids could be closed if we intervened at every life stage. And I'm talking about, you know, through the K-12 education system, and preschool, and parenting, and so forth.

So I don't want to be pessimistic that we don't know what works. I think we know a lot of things that work now, and that if we would simply invest in them, we

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could make a difference. You know, it wouldn't be a miracle, but it would make a very significant difference in these children's lives. And it would be a cumulative process. And in the end, they would be better off, they would be paying more taxes, they would be using social programs less. And so over the long run, this would even pay for itself according to our rough estimates.

MR. HASKINS: So your answer is yes, but with a caveat that it's going to take more than one program, so you would imagine that we would have additional programs for kids who are falling behind throughout their childhood -- three, four, five different interventions?

MS. SAWHILL: Yeah. I think it's a real mistake to think there's any magic bullet.

MR. HASKINS: Yuval, what do you think?

MR. LEVIN: Well, I certainly agree with that, that a magic bullet when thinking about these kinds of questions isn't going to be right. I also think that scaling up isn't always the right way to think about programs that work. There are many instances, and it seems to me especially in these kinds of issues where it's not simply a matter of getting resources in the right place, there's a different way of thinking about what these small experiments that succeed mean, and that is that we should put it in the hands of local authorities and local -- both public and private -- ways of trying different things in their circumstances. And the notion that once you find something that works in one place, scaling it up will have it working in all places. You know, the record of that in social policy just isn't that great, and a lot of times what happens when you scale up is that you leave the impression that this idea never worked and wouldn't work anywhere. And that's not true. The fact that something can't work as a national program doesn't mean that it can't work as a local effort. And it seems to me that enabling bottom-up experimentation, and then bottom-up social policy, localized social policy to advance mobility, is a way to think about these problems, not only as a way to prepare for national programs but as a way to deal with the problem. And I do think you see that way of thinking increasingly

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among Republicans in the presidential race. And also, if you look at what Marco Rubio has proposed on welfare reform, what Paul Ryan prepared last year, the two are quite similar, and both of them do involve using federal resources to allow localities and to allow civil society to some extent to offer assistance in ways that are tailored to local circumstances. You know, this is a vast country, immensely diverse in all kinds of ways, and I don't think there will be all that many ideas that work everywhere, but I do think that there will be a lot of ideas that work in particular instances, and different places can learn from one another.

MR. HASKINS: Now that he's brought this up, let me focus the question.

MS. SAWHILL: Just a quick follow-up.

MR. HASKINS: Okay. So, all right, go ahead.

MS. SAWHILL: Well, no, I think -- because I think this is a really good conversation, and I'm very intrigued. I've heard Yuval in another forum talk about this devolution to state and local governments, and I think we really need to be talking about that and I hope the candidates are going to talk about that. My question -- my quick follow-up is, how do we get the Congress to untie the strings that usually go with that assistance that they give to --

MR. LEVIN: Yeah, no, I think that's exactly the right question. It's why it was encouraging for me to see Paul Ryan, and Marco Rubio before he was running for president, proposed these kinds of ideas. Because if they come from members of Congress who are in some position to move these things in Congress, it may be easier, but I think it will be an enormous problem. And part of it is understandable. Congress doesn't want to send money anywhere without attaching to it some requirements for how it should be spent. But if the very idea is that we don't know in a national way how the money ought to be spent but we are trying to empower local governments and to, as I said, to some extent, civil society, too, to try to help the poor from the bottom up, it is going to require a different attitude about localism, about subsidiarity, about decentralization. A different attitude from both parties.

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MR. HASKINS: Okay. So the real issue here is that we have a lot of programs now. We spend about a trillion dollars between the federal government and the states, and the proposal would be to return power and authority over those programs to the states and localities so that they would have much more control over the problems. We've been over this before. Republicans have proposed things like this many times. Welfare reform was very much like this, and Democrats are really opposed, Belle. Can you imagine them agreeing that we would give states more flexibility, for example, over food stamps?

MS. SAWHILL: Yes, I actually can.

MR. HASKINS: For food stamps?

MS. SAWHILL: Well, look, I'm not saying there wouldn't be some pushback, and I'm not saying that all Democrats are on the same page. I mean, our colleague, Alice Rivlin, who has served at high levels in democratic administrations, has written extensively about this. Bob Reischauer, who is also not known as a big conservative, has written about this. So, you know, there's not a yes-no answer here. And I think that what Democrats will definitely oppose, and I would oppose as well, is if you're going to use this as an excuse to cut the money that's going for these programs, yes. It's going to be resisted strongly.

MR. HASKINS: Yeah, Ryan was clear that nobody wanted to do it.

MS. SAWHILL: Paul Ryan is a very smart guy who I think cares about these issues, but he's talking about this in the context of cutting budgets drastically.

MR. LEVIN: Well, the Ryan proposal last year specifically said that they would not reduce the overall level of spending, I think to address that concern and that point. I would say, too, there's a tradition of Democrats being open to these kinds of ideas, a very long tradition of kind of liberal communitarianism. It was very evident in the Clinton years. It has gone away as a lot of the ideas of the more centrist Democrats of the Clinton years have been reversed lately, but I don't think it's disappeared entirely. There's an extensive intellectual tradition to draw on for liberals who want to think about

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what localism can and can't mean. And it seems to me it's at least imaginable.

MR. HASKINS: Thank God that the Republican Party has maintained those centrist ideas, you know, because otherwise --

MR. LEVIN: Both parties have gone back to 1978. I don't think that's good for the country, but it seems to me that's where we are.

MR. HASKINS: All right. Audience, raise your hand and let's have right over here.

SPEAKER: Do you really think that there's any educational programs that can affect the poor people that could not be circumvented by the middle-class tiger moms? You can create a tremendous number of programs. It doesn't add seats at Harvard. It doesn't add seats at UVA. It doesn't add seats at Johns Hopkins. That just means more people are competing for the few tickets out of the lower middle class.

MR. LEVIN: I think in part that has to mean that there are more tickets out, and these ways of thinking don't end at the end of twelfth grade. There's a lot to be thought about in terms of higher education. And there again, I think some of the very same people -- Marco Rubio has some great ideas here. Mike Lee, a senator from Utah, has proposed some things. Jeb Bush has talked about it. And it's, again, a matter of adding options, of allowing people more ways through and upward into the middle class than just those few -- than just those few seats at those few universities. I think that's part of the answer.

MS. SAWHILL: I mean, Hillary Clinton has given that a big priority in terms of, you know, rolling out issues. This was at the top of her list, post-secondary education.

SPEAKER: How many public university graduates --

MS. SAWHILL: Well, I don't know.

SPEAKER: I would bet you almost none. I notice both of you have Ph.Ds.

MR. HASKINS: Not me. I'm North Carolina.

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SPEAKER: Nobody is perfect.

MR. HASKINS: I'm okay on this one.

Okay. Another question.

MS. SAWHILL: Hey, I dropped out of school.

MR. HASKINS: Another question?

Okay, good. Thank you very much. Please join me in thanking the panel. Thank you, Belle and Yuval.

(Applause)

MR. HASKINS: And now the next panel, please come up. The budget. We've all been waiting to talk about the budget.

So the next panel is on the budget. I introduced members before. Bob Bixby is going to start and Alison Fraser will refute almost everything he says.

MS. FRASER: Almost everything.

MR. HASKINS: Just keep talking and eventually it will come on.

MR. BIXBY: Thank you Ron and it's good be sharing a panel again with Alison Fraser. We worked together quite a bit on the Brookings Heritage Conquer David Walker Fiscal Wake up Tour, so some of them -- Joe and Bill may be having flashbacks seeing us go through the charts. Well this segment of the program is about the federal budget deficit. It's important in talking about that and thinking about it in terms of context of the election to remember that the budget deficit isn't necessarily an issue in and of itself, it's really an important part of all of the issues that we're talking about in these papers today and if you look through them as I hope you will you'll see that almost all of them mention the budget in one form or the other. Really this is about how do we get a sustainable fiscal path which is something that we don't have right now and so what we want to do in this paper that I wrote with Maya MacGuineas from the Committee for a Responsible Federal Budget is just review the fiscal terrain, the head winds anyway that are going to confront the next president when they come into office. And the importance of talking about those issues in the presidential campaign because one thing that we

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know the next president is going to do is present a budget. It might not present plans that have been discussed here or in the other papers but they are going to have to present a budget. And given the fiscal situation it's important that that budget that they are -- all of their campaign proposals that they are out there talking about now, that those proposals fit within a budget and hopefully we would argue within a sustainable budget.

Referencing what Bill had said earlier the conquered coalition and the campaign to fix the debt are engaged in a project in New Hampshire and in Iowa trying to get the candidates to talk about what they would do in their first budget. Let's look at why that's important and what the headwinds are. First of all there's the overall picture of the trajectory of the debt. Probably a lot of you are familiar with the picture but it's worth reminding everybody that the debt is already at a high level -- 74 percent of GDP. It hasn't been that high since it was coming down from the highs that it reached during World War II. And the difference now is that it was coming down from the heights of World War II, now on autopilot the debt is going up. So an important context here is that we're not on a sustainable fiscal course.

Drilling down a little bit deeper into why that is, this is an important chart because it looks at spending and revenues as a percentage of GDP and when there's a gap -- there's a deficit, the debt goes up. Generally we've tended to spend at around 20 percent, a little bit above 20 percent of GDP and tax somewhere around 17 and a half percent of GDP, so the steady state has been a deficit of somewhere around three percent of GDP, higher than I might like, but if the economy is growing around three percent a year you could call that a sustainable situation. The problem is looking forward, looking out in the projected years, you notice a trend there. This is the real headwind. This is the trend that the next president is going to have to deal with. It's that spending on autopilot is going to go up higher than it's been traditionally? Revenues are going to continue to go up on autopilot as they tend to do but not by as much and so that gap that used to be about three percent of GDP on a normal basis is going to go higher to about four percent of GDP or even higher. Keep going after that.

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The budget deficit at the end of the next President's hypothetical second term right now is projected to be close to four percent of GDP over a trillion dollars. It's not as if we can say well the deficit is coming down now, doesn't look so bad, problem is solved. Actually the next president is going to be looking at a deep fiscal hole ahead of him or her over the next 10 years -- over the next eight years. And so now let's look at little bit at why that is. Discretionary spending. That part of the budget that goes through the annual appropriations funds process, this doesn't look like it's a big part of the problem. Discretionary spending has been coming down as a percentage of GDP. It's been trending down the trend line over the next 10 years. It's budget holds caps hold. Actually discretionary spending on both defense and nondefense would be at the lowest level ever since we started keeping those records back in the early 1960's.

Keep in mind that budget projections assume that these cuts are actually going to happen and there are a couple of -- maybe they won't. They have to happen on a year by year basis and we're seeing with the budget deals that have been coming out recently -- congress has been slightly raising those caps. We don't know that those saving are going to be achieved and it's also not clear that even if they were that it would be a good idea to let discretionary spending fall by that much, because it means lack of investment. It means lack of resources for national security. Here's where we hit pay dirt when we start talking about the future of the budget. This is also called the third rail. Don't know how many more clichés I can use, but this is where it is. It's the major healthcare and entitlement programs, social security, Medicare, Medicaid, those are when you look at the budget projections whether it's for the next 10 years or the next 25 years, those are the programs and the only programs that are projected to grow relative to the size of the economy. Those are the ones that are -- I wanted to go backwards here, when that trend line -- the spending line is going up there it's for that reason and it's -- and the cuts and discretionary spending aren't enough to offset that nor is the projected revenue growth. And then there's that red bar there which is the biggest because if you don't do anything about the growing gap and you are running bigger and bigger budget

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deficits you're going to create a huge interest cost. And that adds to it. So why is this happening? Is it waste, fraud and abuse? Well no actually it's because people like me are getting older. The baby boom generation is beginning to enter its retirement years, so a lot of the problem really is demographics which is maybe a little bit different. There are things we can do about healthcare policy. There's not a whole lot we can do about demographics. Not within socially acceptable norms. But most of what is going on there is population. Let me just end with a comment. There is also the revenue side. I happen to think that dealing with this is going to require a combination of things, but if we're going to look at the revenue side it ought to be done in a way that enhances growth and simplicity. And we have all these tax expenditures which are really spending through the tax code. And I think if we put those on the table, we might be able to come up with a program that mixes everything, that could get political buy in from both sides. And we'll see. Let me just -- you can be looking at this as you're looking at Alison's. These are our recommendations. Okay. I'll just stand up.

MS. FRASER: Okay, thanks a lot. It's great to be here. Thanks for the invitation Ron and wonderful to join you in your discussion here. So while I was preparing my remarks last evening, reading through Bob and Maya's paper and the rest of the papers but in particular Bob and Maya's that I'm responding to, I was really trying to figure out something different to say that they lay out in their paper and it's a bit of a problem because I agree with almost everything that they say so I kind of run the risk of reiterating a bunch of Bob's remarks.

I thought Bob that your paper was very thoughtful and indeed I think makes a really compelling case that this is one of the most important issues that our next president has to deal with. My bias -- that's my long held view but I think you both did an excellent job at affirming it. So I guess one of the questions is why now? Deficits are way down. They are a lot different than they were when this president took office when they were a trillion dollars for a couple years or even in excess deficits as a share of GDP are much less. They are under 500 billion dollars. The economy is growing so that

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makes it easier to have smaller deficits as a share of GDP plus we have had a bunch of spending cuts and we have had a bunch of tax increases. Let's just call it a day, but I think to go with that notion that that really ignores a lot of the important warnings in Bob and Mia's paper as well as some of the charts that Bob displayed. Can I use this thing? How do you go backwards? You've got a bunch of stuff in here, but if you just look at the upward trajectory of spending and note that we are really coming into one of the big waves of the major causes of debt surging and that is the entitlement programs beginning to grow namely social security, Medicare, Medicaid and other health spending. Those are growing rapidly and even though we only have deficits that are less than 500 billion dollars that's still adding 500 billion dollars to the debt every year and by the end of the next president's term we'll be back into the trillion dollar range, so we do have to tackle this problem and I think we have to tackle it rather urgently.

Additionally I think for those who might really question the need for why do we need to tackle the budget again in another year, with another president spending has been cut, it was cut in the budget control act and it was cut in a couple more areas, but that was the big one back in 2011. In reality a good chunk of those cuts have actually been rewritten to avoid pain today and really what that means is to avoid making tough decisions today that are going to have an influence and a real impact on today's voters. And it puts them on the back burner for future congresses, they don't really want to deal with them either. So we had sequestration. As a part of the budget control act that did happen but now with two budget deals in a row today's cuts have either been offset completely or offset entirely through sort of phony budget means or putting them on the back burner, so in my view this is where Bob and I guess in the paper differ a little bit, I view that really spending is the problem and I think solutions thus should primarily come from spending. In addition as I said and as the paper said we've already increased taxes so waiting around to cut spending while we raise taxes I think is the wrong way to do this. I think it's also part of a greater conversation that we should have about how we have a growing economy and because we've raised taxes I don't see that as something that

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would appeal at all to the limited government constituency. And then as a rhetorical question we have to ask ourselves as a country just how high are we willing to raise taxes in order to not deal with our spending problem.

Particularly important to consider with taxes and tax burdens is how we think about what kind of tax policy we want to have when we all agree that economic growth is an important issue. I agree that tax reform should be part of the solution, it should be something that the next president should do even if it's quixotic. And I do think that more revenues should come from growth, but this isn't alone a solution. We have to tackle the spending problem. A critical part of tax reform I do believe is to eliminate corporate welfare and cronyism from the tax code. I think a lot of that what you guys talk about is spending but we need to do that in a substantive principled way on both the tax side and the spending side. We had a little bit of discussion about that in the first panel and I would say that certainly cronyism and corporate welfare is not a big line item in the budget but I think it's something that's important to address because it means that policy makers will be making decisions based on policies that are best for the country and not based on those that are important to those who have access or those who have financial means and I think in doing that it will address something that's important to the last panel which is ensuring that all Americans have better opportunity whether it's to start a job or to get employment. I think cronyism is an important thing that needs to be looked at for sure as a part of tax reform.

A couple things that were not addressed in the paper so I get to say something different from you, one of those was budget process reform. So I have sort of mixed views about the process but I think it definitely is flawed in a couple of ways. One is to improve disclosure and that would be to enforce some long term evaluation not just a five year or ten year budget window. Because if you follow the budget debate you know how congress can write a law to get around that. That's what we saw in the writing of the sequester cuts for this year. But to improve disclosure not just over the current budget window but really over the long term. Are any policy changes going to make us

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better off when it comes to our debt and deficits and make us have more sustainable fiscal policy. I think also with regard to disclosure the law makers and the presidents should be forced to regularly reevaluate what our long term sustainability is. As well I think that the budget process should account for all spending, not just some small portion or a large portion of discretionary spending, but leaving so called emergency spending completely free as well as leaving the biggest part of spending which is a mandatory spending completely out of the budgetary equation. Doesn't count in the numbers. I think we really need to come up with some solutions for that. Where I have more mixed feeling about the efficacy of that is having some way to actually enforce lawmakers to stay good on their promises so this is a little bit different from campaign promises. We saw that again just to refresh on the sequester. We wrote the cuts for today into the end of the budget period.

And moreover even if we had enforcement mechanisms like say the debt limit congress just writes their way around them. One thing that I think would have been helpful in the paper is to include more substantive reforms especially for entitlement programs. So it could have included a discussion about increasing their retirement age, income adjusting and so forth. I know a fair amount of that will be tackled in the next panel when they discuss health care, but I think it would have been helpful in a paper like this. Additionally some more specifics on the tax side, including what can be done and what should be done, what lawmakers should be considering to make us more competitive. And then I would have liked to have seen some specific targets for where deficits and spending should be but I probably shouldn't make the perfect the enemy of the good here. I think just getting us -- getting the country, getting lawmakers and the next president on a path to stabilizing and then reducing the debt is a great step.

We could have had more in terms of targets but I would definitely take stabilizing and then reducing the debt. These really are small quibbles with the paper. I think the overarching message that Bob and Maya lay out is really fundamentally important for the country. What my concern is is that this is not the same kind of urgent

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problem that lawmakers and the next president have to deal with. Things like foreign policy and so forth. But I think it is just as important for the future of the country that they do deal about it, that they are transparent, open and honest and lay out some very specific solutions. Thank you. (Applause)

MR. HASKINS: So I like to see things simply then maybe I can understand it. So Republicans are against tax cuts? I have not heard any republican president are against tax increases and I haven't heard any of the presidential candidates on the republican side propose any tax increases and as far as I can tell both Republicans and Democrats are against cuts in Medicare and probably social security as well. Might be able to work out some kind of a deal but they are not putting forth -- can you see that this election will result in any serious proposals about either tax increases or changes entitlement that the next president could then have some momentum to implement. You said the next president is going to have to deal with the debt. No he isn't.

MR. BIXBY: Yes, Ron and I've been saying that for 20 years. And some people in this room have been saying it even longer. I truly believe it. I don't know, we're talking about will campaign promises be kept and sometimes I listen to the rhetoric and I think God I hope not. It is a little bit, I'll end on an optimistic note, but it is a little bit frustrating to hear the rhetoric from both sides because it would almost be like you are back in 2000 and we're fighting about what to do with the budget surplus. Democratic candidates are proposing large expansions, entitlement expansions. Republicans are proposing very large tax cuts and for the reasons that both Alison and I have agreed on we have a budget deficit right now that's already a problem. And you have to go in the opposite direction. It's kind of -- there's a lack of reality out on the campaign trail that's even more lack of reality I think than has been in some other elections. Is there some possibility? There are a couple of nuggets out there. There are some candidates that are talking about entitlement reform, tax reform, but not so far in a context that would address the deficit situation.

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Even -- and this is not in any sense and endorsement. I don't endorse candidates. The Concord Coalition doesn't endorse candidates, but Jeb Bush has put out a fairly comprehensive tax plan, a fairly comprehensive entitlement plan, one of the few that's looked at both and yet it doesn't add up. It would -- even under generous scoring the tax plan would still outdo the entitlement cuts which would make the deficit grow longer. My only optimism Ron is that the situation may become so bad that it will force some sort of action.

MR. HASKINS: We've been thinking that for a long time. Alison is this election going to result in anything resembling a concrete step toward either increasing revenues or reducing spending on entitlements.

MS. FRASER: At my organization we don't really talk about elections or positions of candidates. I will say that I think that the nature of these programs makes it very difficult for candidates to discuss them, but I do agree with Bob that I think that we are -- where we are on the curve makes it absolutely imperative and it's a different environment than it was in 2000. We have to have our next president working with the congress to have a better growth agenda. And that's important the debt and deficit situation as well as improving opportunity for Americans and I think as a part of that conversation they are going to be forced to tackle entitlements.

And I think that's where organizations like those activities that you guys are doing -- Bob and today's conversation are important to help Americans really understand what the problem is, because even though a lot of us have spent a lot of time talking about it, I think it's much more close than it was 10 years ago because of the entry of baby boomers into the entitlement programs.

MR. HASKIN: Okay, I want to take your suggestions from your talk about budget reforms -- the process reforms of the budget. Back years ago one of the first things our group did was write a paper called taking back our fiscal future and the essence of the paper was to say that on entitlements we have no budget. They just keep going. Congress doesn't have to vote. They just grow. So we should have a budget.

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Proposal one: Congress should have a budget for social security and Medicare and then there should be penalties if they don't meet the targets for the budget.

Something that works really well like sequestration. Something like that. So the question is, can you imagine anything like that happening in a new administration? Certainly the candidates are not going to talk about budget process reform; they'd bore everybody to death. But they could propose it, talk about it and get it started and actually try to do something when they are elected. Is that likely to happen?

MR. BIXBY: I think it could happen and I hate to fall back on process, but sometimes process can help the substantive decisions be made. If you look at sequestration -- a very imperfect thing but it has prompted budget negotiations, so it's been a real herky-jerky way that they've done it for the past few years. But it might be that that's what you have to do and if you put in some sort of goal and some sort of substantive penalty for missing the goal. Not a debt limit thing which is putting the countries -- but something that would affect the policies that are producing the debt.

SPEAKER: Right, I could see that as a way that they could talk about the issues without talking about the issues.

MS. FRASER: Yeah, and I also think that if you look at some of the other movements that are going on right now, you have a number of different groups that are advancing balanced budget amendments. Now just what those amendments would look like varies and exactly what the different groups are trying to get varies, but I was meeting with a group yesterday that I think there's like -- there's over 25 states that have passed some sort of -- we would back a constitutional convention to pass a balanced budget amendment. I think that while you have these efforts going on with different state capitals with different groups that that's also going to bring a certain element of pressure to Washington to being to tackle these problems. Nothing sort of puts the fear into the capitol like states taking control over what their problem is.

MR. HASKINS: Okay, audience, questions from our audience. All the way back there. Wait until you get the mike.

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QUESTIONER: When it comes time to make very specific detailed decisions about what programs should be cut, particularly entitlements to what extent do you think that -- do you think that the poor and the working class will be considered when those decisions are made? To what extent do you think they will be marginalized if at all in those discussions?

MR. BIXBY: I don't think they'll be marginalized. I think that a lot of the issue is going to be how do you change those programs which people have come to rely upon in a way that's forward looking and progressive? I suspect that if you look at social security for example I'm sure that some way of either changing the benefit formula to make it more progressive or raising -- not eliminating the cap but raising the cap would be part of the mix. I suspect that with Medicare -- increased premiums have already started going in that direction and other income related remedies might be an important part of that mix.

MS. FRASER: I completely agree with that. I think that the focus is really going to be on how to make these programs work better for low income people or people with limited means and I would also say that unless the next administration and the congress deal with that that a lot of the choices ultimately will be even worse for that population.

MR. HASKINS: Wait do we all agree right now that the programs that disproportionately help the poor are the ones that are really being squeezed because of the very solutions congress has adopted?

MS. FRASER: Yeah, I think that's right and not only that I think that if you have a comprehensive reform and safe social security I don't know that it does the best job right now of helping the poor and so while really high income don't necessarily need their social security whether they believe that they worked for it all of their lives and are entitled to it is a different question. I think that we need to have a real open conversation about what should social security be and who should it help and how can we pay for it?

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MR. HASKINS: So the answer to your question is under current circumstances the poor are taking a fair share of the cuts and if there is change that it's likely that the poor will be considered and will not be negatively affected as much as people who have more money. Or at least that's the (inaudible).

MR. BIXBY: On social security it's important to remember that on autopilot the trust fund runs out of money, it's already running a cash deficit, running out of money and then literally you'd have an across the board cut which I don't think that that's going to happen. I know we are going to get there but it's not just a budget issue. The social security system is out of balance and needs to be corrected in any event.

MR. HASKINS: Right here on the side. On your left.

QUESTIONER: Given the current polarization in congress and the administration what would -- what could create necessity for debt reform. What can you imagine? Almost -- it might take catastrophic events. What are the kinds of possibilities that could force a coming together from both sides to get something done?

MR. BIXBY: We've already had them. We've had war. We've had a horrible terrorist attack here. We've had the financial crisis that everybody said would sober people up and so I don't know. Frankly, I don't look for a major crisis to do this. That's not a good way to get things done. Anyway -- and we used to say if we hope for a crisis something will happen. We've had a couple of crises and nothing has happened. I think that something should happen, but I think that it's political self-interest. I mean I do think at some point the two parties are going to realize that they can't govern. They can't get what they want out of government. Either Democrats or Republicans and that some sort of compromise is going to be essential in order for some part of the vision to come true.

MS. FRASER: I agree with that. I guess just one small point of distinction is we did have a very major financial recession. Impacted many people and is still impacting people in very deleterious ways, but that was really housing driven. It wasn't really a debt driven crisis and I think if there -- in looking at the different

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possibilities is that that would be one of them would be a debt crisis. I hope it doesn't happen because then you'd have to make a lot of decisions very fast without deliberating, without having a national conversation, without setting priorities and I think that's a bad way to make decision, but look what happened in Greece. I don't believe we're Greece but looks what happened more closely in some of our major cities like Detroit.

And there were a lot of painful decisions that were made. And so my hope is -- although hope is not a strategy that lawmakers are going to realize that they can't govern and we need to have this national conversation about what our priorities are. How high we want taxes. What we want entitlement programs to look like.

MR. HASKINS: Up here in the front.

QUESTIONER: I'm Basil Scarliss, my question relates to tax expenditures. It seemed to offer some hope, if you could reduce or face out tax expenditures you might be able to increase revenues without increasing the tax rate. Could you address the prospects for this in the next administration? The politics of it seems very difficult. Especially eliminating the mortgage interest reduction.

MR. BIXBY: I think that there is a lot of potential in that regard. It's not an accident that both Simpson-Bowles Commission and the Rivlin-Domenici Task Force that met in 2010 both rely heavily on lowering tax expenditures or eliminating them.

MR. HASKINS: And we're talking about a trillion dollars here.

MR. BIXBY: It's a pretty huge number. If we eliminated them we wouldn't quite get the three trillion dollars for reasons but anyway it's a lot of money. I think that's something that both sides -- there's a lot of interest in tax reform. This is tax reform. The question is really what do you do with the money? Whether you use it for deficit reduction or plow it all into lower rates or use it for infrastructure spending or something that you want to do.

The idea -- the concept is very fruitful for discussion and I think will be part of any solution that we come to. That issue yet to be decided is one of those three things that you want to do with it. What can you do with it?

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MS. FRASER: I think from the conservative side that the political difficulty is that tax expenditures are viewed as something that should be used to broaden the base and lower rates. That is exactly Bob's point, what do you do with it? Do you apply all of it to deficit reduction? Do you use it to do corporate tax reform or more largely business tax reform because we have the two sides: corporate versus individual owners being treated differently. I think that's really where the...

MR. HASKINS: Okay, all the way in the back one very quick question and very quick answers.

MR. HERSHEY: Loren Hershey, very quick question. Paul Ryan, new Speaker of the House. If he has an opportunity in 2016 to do something dynamic and get some legislation done with the president, et cetera what would it be and what are the chances?

MR. BIXBY: The chances are very slim for 2016. If you are talking about a new president fine, but if we are just looking at next year I really don't think that there's much of a chance, but if I were going to bet on anything, if you are going to try and do something it would be some sort of tax reform.

MS. FRASER: I agree with both of those things.

MR. HASKINS: Very good. Thank you very much and join me in thanking the panel. And we have still another panel.

MS. FRASER: Wait there's more.

MR. HASKINS: The panel is Bob Reischauer, who is a trustee of Medicare and Social Security and Joe Antos from American Enterprise Institute. Bob will talk first and then Joe.

MR. REISCHAUER: I'm actually a little reluctant to speak because I haven't heard this much optimism in a room on Washington policy for decades and I'm afraid that I'm at the other end of the spectrum on this which won't surprise any of you. Well there is no doubt that health policy will be a highly charged issue area in the 2016 presidential campaign. I think there's a very real question as to whether the debate that

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is generated will produce a consensus or any constructive proposals that would shape legislation to address the major healthcare issues that face policy makers today. And Alice Rivlin who was the coauthor with me on this paper and I felt there are really three major challenges here. None of them will surprise any of you. First of course is resolving the future of the affordable care act. The second is slowing the projected growth and national health spending which means not just federal spending but equally important private spending and that of state and local governments. And the third is ensuring the viability of Medicare for the rapidly increasing population of beneficiaries namely the baby boomers.

These three issues are complex. They are emotionally and ideologically charged and they are interrelated. There's a real danger that the debate during the campaign is going to deteriorate into fear mongering and the making of unrealistic policy promises that will leave the nation less rather than more capable of addressing the challenges that we face. In looking ahead I think it's important that policy makers realize that no matter what the outcome of the election the range of options that they will have before them is really quite limited and this is because the public is generally reluctant to change something as vital and personal as health care in any fundamental way.

Secondly that Medicare is an extremely popular program which you touched at considerable risk if you are a politician. And third and in many ways most importantly how the current health care establishment -- the stakeholders so to speak, providers, insurers, suppliers, beneficiaries is large, powerful and part of the economy which many people want to preserve and those stakeholders don't want to interfere with.

Turning to the affordable care act the clearest health policy divide between Republicans and Democrats is over the future of this piece of legislation. The Republicans have to a person promise to repeal and replace the affordable care act and the Democrats just have extolled its virtues and accomplishments and promised to protect it or even expand it in more generous ways.

But neither of these polar positions represents an adequate response to

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this situation that is going to face the next president. What's needed is for both parties to modify and clarify their stance that's on the Affordable Care Act if we're going to have some constructive developments after 2017. If the Republicans recapture the White House they are most certainly going to control of both chambers of congress and be in a good position to repeal Obamacare early in 2017. But what then? If the republican nominee sticks to a vague repeal and replace -- namely repeal and replace formulas and the republican electoral victory looks plausible in the spring of 2016 we're going to face the music earlier than most people expect in the sense that the affordable care act marketplace might be rather fundamentally disrupted starting in the summer of 2016. Insurers may be reluctant to submit premium bids for 2017 through the exchanges or they may propose significantly increased rates to compensate for the heightened uncertainty that they feel they will face. Some healthy individuals may begin to drop coverage reasoning that the penalties will not be enforced by a new administration. Many providers, hospitals and so on may begin to drive harder bargains with insurers and plan in anticipation of reduced cost reduction pressures from a new administration. States may constrain their Medicare roles fearing that a less generous block grant might replace the affordable care acts Medicaid expansion in 2018. So we might get a lot of turmoil starting less than a year from today.

To avoid this kind of chaos I think all of us, the media, stakeholders, providers, insurers, the public should urge the republican candidates in particular to reduce the uncertainty that will be generated by providing details of what they mean by replace and a timetable for those changes. While this will sound delusional to many of you and it does in a sense to me I think what would be required at this point for a constructive dialogue is to have the republican platform or supportive material provide enough specificity in a draft plan so that organizations like CBO and Brookings Institution, Rand can evaluate and provide some rough estimates of the likely cost, coverage and distributional impact of what replace would imply. As I said this is a bit delusional but on the other hand the consequences of a repeal and a replace are consequential of an order

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of magnitude that we haven't seen in policy changes for decades I think.

The Democratic nominee would be wise to do more than praise and promise to defend Obamacare. If the Democrats do retain control of the White House they are likely still to encounter major difficulties in gauging the Republicans who are likely to control at least one and probably two houses of congress. They should make clear that they'd like to find some common ground, not to just hang firm with what we have because what we have right now really needs some serious modification. This should include a willingness to consider alternatives to the independent payment advisory commission which isn't likely ever to be constituted as long as the Republicans can control the senate or have even a solid minority in the senate. It should include restructuring the Cadillac tax on employers. It should include some kind of compromise on Medicaid expansion as some of the republican senators have cut deals with the administration and showing more flexibility in this area would be good. I have one minute to cover two other topics.

The second issue here is moderating the growth of national health care spending and as you all know we've had a substantial reduction in the growth of healthcare spending over the last five years. It's grown at half the rate that it grew in the previous 10 years for a variety of reasons but even without the disruption that I suggested might occur with ambiguity of the replace component most of the projections for the next decade suggest that we're going to see a rebound in healthcare spending. Not as high as we experienced in the period in the 1995 to 2005 era but substantial none the less from about three and a half percent per capita to 5.1 percent. A whole lot of reasons for this. You know them all. Things like the release of pharmaceuticals that cost tens or hundreds of thousands of dollars. Costly innovations in genomic and nanotechnology. Provider consolidation insurance companies merging hospitals buying physician practices and just a general reduction in what little competitive pressure there were within our healthcare system.

Faced with the possibility that spending is going to rebound and this will

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have significant impacts on our revenues as well as on our spending I think it's incumbent on both parties to begin laying out how serious they think this problem is number one and what they would do to address it. It's particularly important for the Republicans to do because if the affordable care act is repealed so too would be a lot of measure that we hope will have some impact on cost growth in the future and without those hopes we're really nowhere.

Last issue is reforming Medicare to extend the life of the trust funds and to moderate the growth of general revenue subsidies for the part B and D programs. As has been alluded to before the Medicare HR Trust Fund become depleted in 2030 according the latest estimates at which point it will have resources only sufficient to pay 86 percent of the hospital insurance funds obligations. We have to do something about this and it's not too early to act now. I think if you look back on policy changes of this sort you go to the 1983 changes in the social security legislation which were also prompted by depletion of the trust fund and you find that the major policy change at that time was to raise the age at which full benefits could be received by security beneficiaries gradually over a 20 year period but not starting for 17 years. In other words politicians said in 1983 in the year 2000 we will begin making these tiny adjustments and that's really what you have to think about when you are talking about changing critical entitlement programs that people depend on. Laying out some kind of pathway for achieving such changes I think is essential for the next president whom might be in office for not just four years but eight years. Thank you.

MR. ANTOS: I want to thank Ron for inviting me here to comment on the paper and also thank Ron for not making me write the paper. So the topic today is will campaign promises be kept? And I think the point of Alison and Bob's paper is will campaign promises be made? Good question. I'd say right now don't hold your breath for lots of reasons. Perhaps the most important reason is that if you look at opinion polls what are the important issues that voters care about? They care about the economy, they care about jobs, they may care about family, they care about the war on terrorism.

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Health is usually a distant third or fourth. And I think given the recent events it's a much more distant third or fourth than ever before and I think that's going to stay throughout the duration of the campaign. I don't think we're going to hear much about this. Of course it does help to have reporters ask at these formal debates questions that have nothing to do actually with policy, that makes it a lot easier for politicians to avoid the questions. So we can't really expect very much in reality.

Now as Bob said -- he used the word chaos. There could be chaos particularly if Republicans win because they haven't said what they might want to do. And chaos involves insurers submitting bids for 2017. Insurers jacking up their premiums. Healthy people dropping coverage. Providers demanding higher pay or in other words business as usual. This is nothing new and in fact we have seen premiums go up this year, we have seen healthy people not sign up for insurance in spite of the mandate. We've certainly seen young people not sign up in droves. Why? Well because part of the law changed the way premiums worked so that younger people had to pay a lot more than they ever did before disproportionate to their actual usage of health services. It's not surprising that these things are happening.

The new insurance companies -- the new offerings were based on no information whatsoever. Not a surprise that premiums are going up and not a surprise that people are complaining about the \$5,000, \$6,000 deductibles. For a lot of people that's not useful insurance coverage and so that's why they are not signing up. It's a reality. It's not the result of political uncertainty. That's already going on right now. Now what about Republicans saying what they want? Well I would be just as interested as anybody about hearing the details of Donald Trump's really big deal with hospitals.

I really would like to know this. And even more fascinating to me because I've -- reporters have asked me about it and I don't know the answer, but Dr. Carson's plan to cash out Medicare would really like to know. But it's only idle curiosity. Let's face it. First of all the candidate are not going to get into that level of specificity. Certainly those candidates won't, but the other candidates really have gone about as far

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as they are going to go. I think Jeb Bush's op-ed probably gave as much detail as we can expect to see and it's about as much detail as you ever really see a presidential candidate. They don't want to get into any more specifics for lots of reasons one of which is those specifics are pretty boring. And furthermore those specifics seem very threatening to the average person and the reason is as the previous speaker said because they should feel threatened.

We can't go on like this. We have to find some ways to cut back the spending and Medicare and the affordable care act are two obvious targets. If not in the next year, if not in the next four years, if not in the next eight years by golly some time. We've all been saying that. So is there going to be panic in the streets? No, absolutely not. And the reason is because of the health sector, their business people. They are actually used to this sort of thing.

First of all the most important factor is that the sign up period next year runs from October 1st -- the affordable care act runs from October 1st to December 15th so what that means is that before the election millions of people will have signed up for coverage on the exchanges. Before the next president is sworn into office million more will have signed up.

No politician retroactively takes those benefits away. That's an insane thing to do. It won't happen. The insurance companies and the providers know this. So they are not going to overreact. Furthermore there is always going to be a transition. Even if Republicans win, even if they were to enact something that was a major change in health policy there is going to be a transition period. So from the standpoint of business which mean every doctor and every hospital and every provider in this country there is going to be years, one might even argue decades before anything happened but certainly there would be years over which changes would occur and which the businesses could adapt to. We're not going to have a major disaster, we're going to have business as usual and then finally the other thing that we know for sure is that politicians are politicians whether you call them Democrats or Republicans.

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Democrats made deals with the health sector. The only group that did not make a deal were the device manufacturers and they got a tax. So okay lesson learned. If Republicans were to take over they'll make deals too.

And if you are going to throw everything out. If you are going to say we are going out of the business you can't make a deal, so I think it's very implausible for let's call them the main stream candidates to truly throw everything out the window and indeed the phrase replace probably does mean something. Now it doesn't take much really research to figure out what it means. Not just Jeb Bush's op-ed but if you look at the proposals that we've seen from main stream Republicans on the hill -- Burn, Coburn, Hatch, Upton, people like that, what do you see? You see very similar themes. Yes, the first line is repeal, the second line is put in a tax credit. Well now there's an innovative idea. Never heard of that one before. It's just a different tax credit. Other kinds of changes really look like it's not throwing everything out and imagining some new horrible world that we've never seen before but in fact it is what human beings do. They transition to something else. If they disagree with a philosophy but they are not going to get to whatever that philosophical nirvana is incredibly quickly. And that was true for the Democrats, it's true for the Republicans, of course at the moment I would say you don't have to worry about it Bob, but hey. So the rest of the paper -- and of course we agree. We've been saying the same things for years. It will take some major effort to get politicians to come to grips with reality. It will not take major effort for people to come to grips with reality and that's the point. So we're not going to have political leadership we're going to have real leadership from people and the politicians will follow. They may be a little late but they will eventually follow. Thanks a lot.

MR. HASKINS: Okay, great. All right, so first young man.

MR. ANTOS: Yes, sir.

MR. HASKINS: You are essentially telling old Bob here Republicans are going to repeal Obama care but it's not going to make that much difference. First of all they will have things to replace it with that are similar to what's in Obama care. Secondly

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it's going to take them two years or more before it really gets implemented so that will give various organization and people time to adjust and so forth. That's really what you are saying right? You think that that's what Republican candidates will say out loud.

MR. ANTOS: No, of course not, are you kidding? You can't admit that reality is more boring than the assertions that you're going to make or the allegations that you are going to make against the other side. The reality is somewhere in the middle as we all know. And so I don't expect any -- let's go to whoever the ultimate candidate might be and we all have to imagine who that would be. A guy with nice hair or perhaps somebody with less hair, I don't know. But assuming it's say a more experienced politician then they will do...

MR. HASKINS: Maybe someone with one or two percent in the polls.

MR. ANTOS: That's a possibility. That is a possibility. If it's one of them and they actually talk about health policy they will talk in general terms. If it's the people who are now leading in the polls we know that one really won't say much in detail. The other guy is going to speak in general sociological terms and will never get into the details, however, my point is that I disagree with the paper. I'm not sure I disagree with Alison and Bob, but I disagree with the paper's statement that without a great deal of detail that we're going to have great problems. I just don't see that.

MR. HASKINS: Well this is really crucial because there's going to be -- if a republican gets elected they are going to repeal Obama care and you are predicting that even before the election there will be trouble and you still think that right?

MR. REISCHAUER: This is a program which hasn't taken full route except in a few states and you could get significant numbers of people dropping out of the game so to speak who will affect the nature of the risk pool in many states. The younger people who have been hard to bring in, healthy people have been hard to bring in. I think it will be very difficult, I agree with you that the repeal will take a number of years, but to replace will be very difficult for the Republicans to coalesce around the details of it and this is going to lead to an environment in which those who have opposed

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the cost controls of various kinds say whoopee, we're free. Those who didn't want to partake in this unless they were sick are going to say well this new group isn't going to enforce a penalty on me for not having insurance certainly. We're having a hard enough time enforcing the penalty anyway. And you're going to get a situation where there is a lot of turmoil and chaotic response. Will the world come to an end, will I not sleep at night, no I'll sleep at night. You don't have to worry about me Joe, but we are in a situation where we have made a lot of progress on a number of fronts. Access, costs, you might not like it but we have moved into the modern world of western society and I see this having the potential to start things moving in the opposite direction.

MR. ANTOS: One of the brilliant ideas of the ACA are these so called coop plans. And it's a great example of ideology over reality, over business reality. Of course they're failing. They're not failing because of something the Republicans did. They are failing because the law says the subsidies that are supposed to be given to them are supposed to balance out. That the ones that did well are supposed to pay for the ones that did poorly. None of them did well. All of them did poorly.

MR. REISCHAUER: The risk order adjustments were for everybody. They weren't just for the co-ops. And the government gave out 12 percent of what it said it was going to give out. I never was a believer that the coops were going to survive and they will maybe in Maine and in a very few other states. But they were not a huge element to this. They were to appease the liberal democrat group that wanted a national plan as a way to avoid a national insurance -- nonprofit national insurance company, they structured this co-op arrangement and then heavily subsidized it which I don't think was a realistic thing to do and what many of us predicted has happened.

MR. HASKINS: Okay, I want to move to another question, do you want to respond to that.

MR. ANTOS: No, it doesn't matter.

MR. HASKINS: Okay, good, all right, so to get away from ACA for a minute, the biggest issue before the country and healthcare is the growth of Medicare.

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And you basically said that in a paper, that we are not going to balance the budget, we're not going to have a health system that can last unless we can reduce the cost of Medicare. Will that happen? Do you see any sign that the candidates are proposing thing that could help reduce the cost of Medicare or I should say the rate of growth or do you think we are just going to continue going until we hit a crisis?

MR. REISCHAUER: Well remember most of the growth is associated with demographics.

MR. HASKINS: Right.

MR. REISCHAUER: The more people -- we have roughly three percent more people in Medicare than we had the year before and for years we went along with the growth of beneficiaries being one percent, 1.2 percent. So unless you're willing to reduce per capita expenditures in a nominal sense it's going to be very hard to do that. The predictions are that Medicare growth will be slower than the growth of the non-Medicare population. And I don't think you can slow Medicare growth appreciably without having the same affect in the private sector. And the private sector is doing a whole lot of things, thousands of things -- two or three percent will prove efficacious but that could have significant impacts over time. We are going to have to spend more too, there is no question about it. And so the sooner we except that reality the better off we'll be.

MR. ANTOS: Right, the Medicare slow down recently has been the result of a whole bunch of things but we certainly have benefited by having a large number of 65 year olds who use relatively less healthcare replacing in the only way you can replace older people who went out with a bang shall we say. In fact we've been living in a fool's paradise for the last few years. That's going to change in maybe five to ten years when the formally young baby boomers become the middle aged baby boomers in their 70's and really begin to see what the doctor is all about.

The ACA's major initiatives to slow down Medicare cost are the ones that we've seen year after year for the last 50 years which is reductions in the rate of payment not changes that would improve the efficiency of health care delivery, change people's

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attitudes about what they expect or are entitled to and by that I don't just mean the beneficiaries, I especially mean the providers. We really haven't seen much there and the big one -- the so called productivity reductions are based on projection of average productivity gains in the country. But the health sector, I think the health sector has hit productivity gains but they have been translated into greater utilization. In other words it's not that easy to pull the money out.

MR. REISCHAUER: Quality.

MR. ANTOS: Well, quality. I like to avoid using the word quality because everybody has their own definition of what that's supposed to mean. One definition of quality is more and that's not often the case, but the reality is that Medicare especially we are plagued by a population including me who want more. I want the best there is, I want that cure, I want that drug that's going to prolong my life. Well maybe not prolong my life a week but certainly improve my life for years and I don't mind if you pay for it. And that's our problem.

MR. HASKINS: Okay, audience. Questions from the audience. Wait. Up here. Come up here.

QUESTIONER: Yugastev Financial News, Moscow Russia. I have two questions. The first one about Cadillac tax, we will repeal to that because there is some concerns, even Secretary Clinton said it's a bad thing. And second question is about higher deductibles. Recently there was an article about deductibles that they are extremely high in exchanges so what could be done about that, thanks.

MR. ANTOS: Well, I'll say something about the Cadillac tax. I think from probably sometime in the 60's if not earlier economists have recognized that the tax subsidy for employer sponsored coverage since it's open ended has spawned a massive explosion of not just health benefits, but also health spending. Now I think one can reasonably argue that for a number of decades that's been a good thing, not a bad thing. We've had a lot more people with health insurance and the money has gone into the health sector that has been spit back out what are now being considered to be overly

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expensive treatments that are beginning to actually work. But the reality is that with this open ended entitlement that we had, that people just never saw the true cost or the true value of the health services that they were receiving. The problem with the Cadillac tax is that it deals with this problem in a clumsy way. I think most economists would have said well couldn't we put a cap on the maximum amount that you can deduct? The problem with the Cadillac tax is that it imposes a tax. If the plan you have is too expensive and that plan might not just be the plan that the CEO is buying. It might be the plan that the janitor is buying because they're all in the same health plan.

It would be great to go back to this. I don't think it's possible because anything you do that really makes sense will look like you are taking that tax away, that's what the politicians and the unions want right now, but then what about putting a tax back on or putting a levitation back on? Well nobody wants to do that, Democrats and Republicans alike. So I think actually we are where we are at the Cadillac tax.

MR. REISCHAUER: Yeah, there were better ways to do it.

MR. ANTOS: But, it's too late.

MR. REISCHAUER: But this is better than nothing.

MR. HASKINS: Nothing is going to happen at Cadillac tax.

MR. REISCHAUER: They have to pay for it somehow. It's a big chunk of change.

MR. HASKINS: Okay, any other questions from the audience? Right here? Right in front of you. Yeah.

QUESTIONER: Yes, I just want a little comment about the cost of medical care in the U.S. That is to say what hospitals and pharmaceutical industry and so on charged for medical care -- I lived outside the U.S. for 20 years and I paid for everything out of my pocket and the cost of MRIs and CAT scans and hospitalization and all the things that I did were less than one percent of what I now pay because I'm now back in the United States and I have to do this stuff under Medicare. So what is it that really inflates the cost of medical care beyond belief and what can be done about it?

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MR. REISCHAUER: The factors of production meaning the payments -- the income levels of physicians and other professionals are a lot higher, the availability of services is a lot higher. For certain things like MRIs I was interested to note that there were more MRI machines within five blocks of my office which encompasses this area here so you note then there are in the two largest provinces of Canada and they run there 24 hours a day and you have a hard time getting MRI appointments, but it suggests that we probably do a whole lot more stuff than is necessary for optimal healthcare but for peace of mind there might be a different answer to that question. Want to add anything?

MR. ANTOS: Impatience. We're used to -- the middle class now -- we're not talking about low income people. Middle class people are used to getting it now. They're not used to waiting and we have a tendency also to believe that one more test is really a good idea. Let's do that again just to make sure it's really true or not. We have a lot of objectively excess utilization that add to the cost. We're all paying for that. Foreign countries you don't see the cost as much at least partly because it's hidden in the tax bill. Not that we're not hiding a whole bunch of money in the tax bill here too, but it's there.

MR. HASKINS: One last question. Let's go right over here on the side.

MR. PHILLIPS: Thank you, Blake Phillips for the Federal Reserve Board of Governors but I'm here just more as an interested citizen. I guess my question is actually predominantly directed from the gentleman from the AEI and I guess it's more a question of -- my reading is it's one of the main drivers of health care spending is basically a fundamental mismatch between the incentives of the people who are buying -- like the users of health care and people who end up paying it, which is basically society at large. And so I'd be interested in knowing are there broader proposals we're trying to figure how to address this mismatch. And I guess it is one of the underlying driver of unsustainable health care for Medicare, et cetera.

MR. ANTOS: So you are saying that our system of third party payment means that I as a patient don't know what the price is certainly beforehand and actually I don't know the price afterward. Who knows what the price is. I'm oblivious to the cost of

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care. It's even worse than that as well because I don't have good information about what that service will actually do for me and furthermore I don't have very good information at all about whether the physician or the facility is the place that I really ought to be going to. It's a trifecta really. I can address -- the information problems people are well aware of them. I got to say that I find that CMS 600 different quality measures that they use to assess providers for the Medicare program are often irrelevant to what anybody would logically think was the quality of care and often have very little to do with actual performance on the part of the doctor and the hospital. We've got a long way to go there, but as far as economic incentives are concerned I'm a big fan although not personally of course of having me write out a check for my health insurance, write out a check for my doctor's visit. In other words the HAS health savings account approach that puts the cost front and center whereas frankly I would guess everybody in this room we don't know what our premiums are for our insurance because it's taken out of our pay. We might know it once a year maybe. We pay the doctor 20 bucks and months later we get an explanation of benefits that they want us to believe we get a gigantic discount. I don't believe it. You shouldn't either. We've got a long way to go. In European countries they don't address it that way. But there's a different ethic. People are not as eager to do absolutely everything and waiting in lines are acceptable.

MR. REISCHAUER: Yeah, the fact is in most European countries you don't pay much at all if you're part of the national health service. So it's not that which distinguishes why we cost more than they because they are facing copayments and coinsurance that's close to zero but they control the access to care and the quantity of care that's available for people. And the fact is it's made by a democratic process. Most people are healthy most of the time.

MR. HASKINS: Please join me in thanking the panel and thank you very much for being a patient audience.

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