

BUDGET-2016/02/29

THE BROOKINGS INSTITUTION  
SAUL/ZILKHA ROOM

BRINGING THE BUDGET PROCESS  
INTO THE 21ST CENTURY

Washington, D.C.  
Monday, February 29, 2016

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## P R O C E E D I N G S

MR. GALSTON: Greetings, everyone, old friends and new. I'm Bill Galston, a senior fellow in Governance Studies here at Brookings. And I'm happy to welcome you to this panel on the budget process presented by the Center for Effective Public Management, directed by my colleague, Brookings Senior Fellow Elaine Kamarck.

The title of the panel is "Bringing the Budget Process into the 21st Century," which somewhat tangentially suggest that it is not there now. Indeed, the budget process has been described as broken. Why might that be the case?

Well, there is an all-purpose answer to explain everything that's going on in Washington these days, namely the partisan polarization which is at a peak we haven't seen since the late 1890s, but it's the hypothesis of this panel that something else is going on, as well, contributed to the brokenness, namely the obsolescence of some of the institutional design for the budget process, the basics of which were set in place more than four decades ago. So if the problems with the budget process are at least in part institutional, what can we do about it?

Well, to discuss this question we are really fortunate this afternoon to have an all-star panel of three former directors of the Congressional Budget Office. The opening remarks will be offered by CBO's founding director, Alice Rivlin, whose extensive record of accomplishments is summarized for you in the paper that has been distributed in advance of the meeting. It would take me the remaining hour and 28 minutes to run through it, so I won't. Let me content myself by saying that Alice is a national treasure and we should all hope that she lives forever.

After her opening remarks, she will join a panel that includes Robert Reischauer, the CBO director from 1989 to 1995, and the president emeritus of The Urban Institute; and also, Douglas Holtz-Eakin, the Congressional Budget Office director from 2003 to 2005, currently president of the American Action Forum. This panel will be moderated by my colleague Molly Reynolds, a fellow in Governance Studies and an expert on congressional rules and procedures.

Following the panel discussion, if all goes according to plan, there will be ample time for audience questions.

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Without further ado, Alice Rivlin. (Applause)

MS. RIVLIN: Thank you very much, Bill. Everyone seems to agree that the federal budget process is broken. "Broken" is the usual word and I had it in my notes before Bill used it. But there's not much agreement on what that means or what ought to be done about it or what can realistically happen in our current state of polarized politics and policy gridlock. So I want to start with real basics.

Organizations, institutions, governments, whatever, need a budget. That means a plan for what activities they will undertake in the upcoming period, what these activities are likely to cost and how they will be paid for, whether by revenues of some sort or by borrowing. Now, it's a good thing if you're one of these institutions or governments, to have an orderly process for making those decisions that the participants understand and respect and that isn't frustratingly complicated or time-consuming. And in a democracy, or, indeed, almost anyplace, it's good if the public understands the process and feels effectively represented in it.

It's also good if the process has a defined beginning and end, and finishes on schedule so that the people charged with getting the work done can get on with the job. It's desirable to plan ahead and not be surprised by unexpected costs that could have been anticipated; to have reasonable stability, so that the organization isn't lurching to respond to constantly changing sets of priorities.

But flexibility is nice, too. And the process must enable the participants to respond to changing circumstances, perceived needs and values, and to move the organization or the country in a new direction.

Now, all of that sounds very nice, but no organization, none that I've ever been associated with, has a perfect process for making budget decisions. And no process can make budget decision-making smooth or easy ever, anywhere. Budget-making is inherently contentious because resources are limited and participants typically have extremely diverse and strongly held views about what the organization or the government ought to do and how it ought to pay for it.

At the present moment in the United States, those views are extremely polarized and participants are angry and suspicious of each other, which never helps any process. On top of that, the

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United States Government has a Constitution explicitly dedicated to impeding quick and orderly decision-making. The separation of powers intentionally makes decision-making difficult and requires negotiation and compromise between the House and Senate and between the Executive and the Legislative, not to mention the Supreme Court.

If any of you are depressed by the current political scene I recommend reading about the election of 1800. It was worse and it'll make you feel better. (Laughter)

Even in normal times, if we ever have normal times, big decisions like budget require skill and patience in our government, even when the same party controls the branches. It's alleged to be worse under divided government. The rhetoric is certainly more strident, although historically divided government has not performed all that badly.

The fundamental problem is that our political system is broken because we've forgotten that our Constitution requires compromise and negotiation to move the country forward on any contentious decision. It isn't so much the polarization that afflicts us; it's the abandonment of the efforts to compromise across divisions. The result is gridlock and anger on many fronts: budget-related issues, foreign policy, basic role and size of the federal government, the role of the states, the confirmation of appointees, you name it. Changing the budget process will not repair our broken political system.

Now, I'm not despairing. American institutions are very resilient. The political system has been through worse and recovered. But in focusing on the budget process we must realize that we are having a contingent conversation. We are saying "if." If we had the political leadership that really wanted to make hard decisions about what the government should do and how to pay for it, not just this year, but into the future, what changes in the process would help them do that? And that's a question that former Senator Pete Domenici and I, under the auspices of the Bipartisan Policy Center, set out to answer with some help from Bill Hoagland and bunch of other experts. And we came out last July with this report, which I commend to you.

We said there were three principles or elements of reform that we thought were key. One is the budget process should include all spending and revenues. Sounds sort of simple. The current elaborate process focuses almost entirely on what is known as "discretionary spending" or annual

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appropriations. Now, that wasn't surprising under a law written in 1974, but it is ridiculous now that discretionary spending is less than a third of total spending.

The other part, mandatory spending, sometimes known as "entitlements," is much more important and it is what is driving the future projected increases in our federal debt. But mandatory spending is outside the budget process now. It is effectively on autopilot, as the cliché is. And spending in the tax code is also huge and also on autopilot.

Our second principle was the budget process should be easy to understand and completed on time. Don't laugh. The complexity of the current process is overwhelming. It makes the process seem arcane and if something is arcane, it might be nefarious because you don't know what they're doing. This process is never completed on time, if it's completed at all. And we rely, quite normally, on continuing resolutions and omnibus appropriations, which don't allow for much debate and deliberation and can be vehicles for mischief because they're so big you can hide a lot of things in them that nobody will notice.

And third, the process needs to have buy-in from congressional leadership and the president. The budget process should be a vehicle for resolving conflict between the two Houses and between the Congress and the White House, at least on the major framework within which detailed provisions can be hammered out.

Now, we had those three nice headings and then we had 10 -- actually more because we shoved several recommendations under one heading -- we had 10 principal recommendations. Under including all spending and revenues, first we said we would recommend keeping caps as a means of controlling discretionary spending and converting as much mandatory spending to discretionary as possible. Because mandatory spending was outside the budget process, there has been the tendency over the last few years to shove things that need not be mandatory into that category rather than discretionary, so we'd like to get them back under the tent.

Now, personally, I don't think caps are a good mechanism for controlling spending because it's too easy to squeeze down the total and keep cutting everything a little bit rather than to look at the priorities and what you really want the government to be spending for and what could be cut out. In

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other words, caps bias the process toward controlling discretionary spending. As we've seen in recent years, the easy thing for people to do if they want to control spending is to say let's lower the cap, and we've done it repeatedly. That gets the discretionary spending down without talking about the priorities or without saying we'll cut any particular thing. And so it isn't a very desirable mechanism, but Pete and I didn't have a better alternative, so we recommended keeping the caps.

We secondly recommended that the Congress enact long-term budgets for the principal entitlements -- for Medicare, for Medicaid, and Social Security -- and the other mandatory programs that you wouldn't manage to get in under the caps. That means one should look ahead depending on what the entitlement is, if it's Social Security you should look a long ways ahead, and set a budget that looks like it will take care of the problem for the foreseeable future. And if you go over the target for a prolonged period, then you would have a mandatory way of paying for it, something like the PAYGO rules which have been a part of the budget process for a while. But the idea would be not as in current PAYGO rules -- if you enact something new, you have to pay for it -- but if you are exceeding the projected budget trajectory, then you would have to pay for it.

Now, I don't think that's terribly satisfactory either. There's a real dilemma about how to handle entitlement programs, especially ones that people count on for their retirement benefits. You want to have people be able to count on something. You don't want to change it every year. On the other hand, you need control if the expenditures are running way ahead of what you thought they ought to be for some reason. You can't just let that happen. You have to say do we want that to happen? And if not, what do we do about it?

The best chance of entitlement reform, in my opinion, is outside the budget process. We should focus on the substantive policy issues of Social Security or Medicare or Medicaid or whatever because they are very different. We could, for example, put Social Security on a firm fiscal footing for the foreseeable future by doing what was done in 1983, again getting people together and saying we want to preserve this program and have it be fiscally sound, and we will craft a compromise proposal which, presumably, would have some long-run entitlement reductions and some tax increases in it. If we could get Medicare onto a premium support basis, that would give it more certainty, as well. But failing those

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substantive reforms, an automatic spending control could trigger attention to the more fundamental reforms and remind the Congress and the president that the mandatory programs are going off the track.

We proposed, also, a periodic review of tax expenditures using a similar process, a baseline which you expect the tax expenditures to follow and which would trigger a review if they began to go off that track. And we recommended setting a desirable trajectory in the future of the debt-to-GDP ratio, which is at the moment projected to go to levels that almost anybody would consider concerning and dangerous, and which we have not had in our modern history. We didn't suggest an enforcement mechanism because we weren't sure what one was, but it seemed good to have a trajectory and a goal that Congress could refer to.

Under timeliness and transparency we advocated a biennial budget and appropriations. I think that would help. We do the budget much too often and spend too much time arguing about it and give the agencies too little time to actually carry out the mandated budget.

We recommended that the debt ceiling be rolled automatically into a budget resolution when adopted so that we wouldn't run up against these crises of the debt ceiling accidentally.

We did have one recommendation that I thought was a little gimmicky, but it might help to keep us on track. If there was no budget resolution by April 15th, no recess for the Congress until you get one. (Laughter) That sounds pretty gimmicky, but an organization that Bill Galston and I have been associated with, named No Labels, passed an equally gimmicky thing that said no budget, no pay. And it actually had some effect, to my utter amazement. That speeded up the process for the year after they voted that.

One more, under timeliness and transparency. If there were not appropriations passed by the end of the fiscal year, we would have an automatic continuing resolution at last year's level to try to avoid closing down the government.

Under the heading of leadership buy-in, we would recommend making the budget committees leadership committees, meaning including the chairs and ranking members of the major fiscal, tax, and economic committees on the budget committees. There are other ways of doing that, but somehow getting the leadership or the leadership of the main committees into the process we think would

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help.

And then we had a tenth recommendation, which was a whole bunch of things which were technical things which might improve, and a recommendation that the president set up a Budget Concepts Commission, which hasn't happened since 1969, I think, and which might straighten out some of the budget concepts.

Now, would these recommendations help? I think they would if congressional leadership and the White House really want to make decisions, but they have to want that or nothing helps.

Now, one final thought which is not in the report. I have for many years and through all the years that I've worked on Capitol Hill thought that committee reform was essential to budget process reform. We need fewer committees with less overlapping jurisdictions. My favorite suggestion, which was one I made first in 1971, you'll see it hasn't happened, would be to get rid of the obsolete distinction between authorizing and appropriating; have a simple committee structure in which there would be program committees in charge of both authorizing and appropriating, if this distinction has any validity, for some set of programs, like defense or health; plus budget and tax-writing committees.

I never was able to convince anybody of that except Nancy Kassebaum, a senator from Kansas, who actually put it into bill form. Notice that this eliminates the appropriations committees, though it preserves the functions of the subcommittees, which makes it especially not likely to happen, but eventually we have to do something about committee reform.

I'm eager to hear what my colleagues have to say in reaction to these various proposals, so thank you very much.

MS. REYNOLDS: Thank you all for joining us. Thank you, Alice, for your remarks. And we're going to kick this off by just giving Bob first and then Doug a chance to respond to some of the ideas that Alice has thrown out for us for this conversation. So, Bob?

MR. REISCHAUER: Okay, thank you. I'm going to say a few remarks later about the specific proposals, but, on the whole, I think they're quite a sensible group of recommendations. A number of them I've endorsed. There are a number of other ones that I could live with if they were part of a larger package and that was the deal going forward.



But I'm often invited to this sort of gathering to be a counterpoint to Alice's optimism. (Laughter) And I apologize, a beautiful day out, and what am I going to do? I'm going to remind you, to begin with, that years ago, when Alice was first proposing the merger of the appropriations and authorizing committees and the budget wonks were getting increasingly frustrated at the failure of the budget process to live up to its hopes, Rudy Penner made a fundamental insight. And that insight was that the process wasn't the problem, the problem was the problem. In other words, he was saying that given the budget challenges that face the nation, no process was likely to produce the desired results.

And Alice admitted this and said, well, but we would have these things on the shelf should the White House, the congressional leadership, et cetera, ever want to be constructive. But this is speaking from somebody who made a reasonable proposal in 1972 and is still waiting for it. (Laughter) And I wonder if we adopted all these would we be in 2045 having another conference and reflecting on the reforms that were done?

MS. RIVLIN: Yes, we would. (Laughter)

MR. REISCHAUER: And I'm, as I said, a pessimist and a believer that we have a dysfunctional political system. We have institutions that are outdated and very difficult to change, such as the committee structure in Congress or the relative power between the President and the Congress on budgetary matters. And so it might be a futile exercise going forward to design the perfect farms, so to speak, and then wait for the harvest 100 years from now.

And I just want to remind you all, given that the problem is that we need to reduce the growth of spending and increase the take from taxes, what some of the impediments here are to moving forward and getting that kind of agreement that Alice said was so essential. And as others have pointed out, the political parties are more ideologically polarized than they have ever been and there's no indication that they're going to move in the other direction any time soon. Districts are more homogeneous, seats are safer, it's easier to be an advocate of extreme views and get elected to the Congress.

We have a political system that renews itself every two years, which means we're in a state of constant political campaigning. And the problem with dealing with the budget deficit is that the

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sacrifice is immediate and identifiable and the benefits, to the extent that they exist, are distant and diffuse. And some of the benefits from doing the right thing, so to speak, would be invisible because what they really are is avoiding things from getting worse. So you can't, 20 years from now, say, well, it's a good thing we adopted those higher taxes even though your incomes haven't increased, the GDP hasn't increased anymore, because it really could have been a lot worse. And so there's sort of a fundamental challenge here.

We have a system in which budgetary responsibility is fragmented between the Executive and the legislature within the legislature, as we see from today's paper, with the Republicans battling themselves, let alone battling the Democrats. And so we have a really, really difficult set of challenges, I think, and designing better processes is pretty far down my list of the things that we need to do. But since that's what we're supposed to talk about, let me just say a few things.

I'm a big advocate of fail-safe mechanisms like an automatic continuing resolution if Congress can't get together. But I would ratchet it up a notch and say that when that happened, the Executive had discretion to move money across accounts -- 5 percent, 3 percent, some small amount across accounts -- both for efficiency and good government reasons, but also to keep the situation that the automatic CR creates, which is perverse incentives. You're an advocate of a program that's going to be cut if there is a budget resolution and along comes the automatic CR which guarantees you what you had the year before. What do you do? You stick your heels in the ground. So you need some kind of sort of lubricant there to help things along.

Making the Budget Committee a leadership committee is, I think, absolutely essential. But Alice didn't say the little phrase that was in the report, which is it'll include the chairman and ranking members of the appropriations task committees, et cetera, or their designee. And the "or their designee" can transform what was a leadership committee into what do we give Fred? (Laughter) You know, to make him feel important kind of thing. And so I want to do this on steroids and stick with it. I sort of had the feeling that you were succumbing, you and Pete were succumbing, to political reality when you claimed that you weren't.

MS. RIVLIN: Heaven forbid.

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MR. REISCHAUER: No. In this town. (Laughter)

A final thing that I'll say is I'm a big advocate for enforcing mechanisms. There's a lot of good ideas here, but there's precious little on, well, how are we going to make this happen? Where are the enforcement mechanisms? And Alice said, you know, that stuff.

I'm a big advocate of triggers. If things are getting out of hand you have some mechanism that doesn't smash people the way sequestration does or could, but slaps the system on its wrists. And we have built into our system now on the tax side CPI indexing for the tax code, and we have indexing for a lot of benefit programs automatically occurs every year. And what I would want to do is not eliminate indexing or cut it big-time, but if the COLA was or indexing was going to be 3 percent, cut it back to 2-1/2, some small amount that gets the public riled up and starts a debate, but really doesn't significantly affect livelihoods of people. And I think that would motivate a lot more action and discipline than we see now.

Sorry to take too long.

MS. REYNOLDS: You're great.

MR. HOLTZ-EAKIN: So I want to just align myself with the optimism camp. As someone who's fundamentally optimistic, but now that I live in Washington, I do drink every day. (Laughter) I do want to point out this is the momentous occasion to hold this discussion because Clarence Thomas asked a question in Court today, so we're going to solve all the big ones today. This is it. (Laughter)

So if you think about this, I mean, let's just stipulate at the outset that if good policy was good politics we wouldn't have to have this. I mean, I've thought of my adult life has been spent in the pursuit of two things, one of which is to make good policy good politics and the idea that better-informed policymakers will make better decisions. There's no empirical evidence for either of those, but that's what we do. (Laughter)

And in thinking about this the phrase "budget process reform," you've got to sort of parse that carefully. Budget process presumably is a process that leads to a budget. We don't have a budget. We don't have anything that the House, the Senate, and the White House agree upon as a plan for spending taxes and borrowing. There's no such thing. We have no budget. We have budgetary

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outcomes, generally not very good but we don't really have a budget. And so I think the most important of the recommendations that came through this was principle number 3, which is that you get buy-in from the Executive Branch in this process and that you've actually generally moved this towards something that looks like a budget by conventional definitions. I'm not sure what you've got is strong enough, so I'm not going to pursue this too long, but I'd love to hear you elaborate on how you think the buy-ins going to work on this. That's sort of number one I think is really important.

The second thing that I know about budgeting is you're never going to get it exactly right, so you should budget for your biggest problem, and mandatory spending is our biggest problem, and whether you call it through the tax code or just our entitlement programs. And the focus here really is on putting the mandatory components into the budget and facing up to their scale and the tradeoffs necessary to make them work better. So I think, in terms of getting priorities right, I think that's absolutely appropriate.

The third little tweak in here that I like because it's been a long-time gripe of mine is that it fixes the asymmetry in the baseline between spending programs and tax programs, where when a tax program goes away, like the Bush tax cuts, it goes away in the baseline, but if a spending program's anything over 50 million, which is if it's anything, it continues in the baseline even if it hasn't been reauthorized or anything. You got to get some symmetry in this process.

You know, Congress is very clever at exploiting asymmetries in things like that. So, you know, getting it leveled out is I think absolutely important in this.

And then I like this idea of taking away some of the political cudgels, the no shutdowns, right, continuing resolutions. I think you're right about sort of giving a little discretion to the Executive, both because it can stop the perverse incentive of wanting to go to the continuing resolution, it also is an incentive for the Congress to get its work done because the last thing you want to do is leave it to the Executive Branch to make decisions. So it actually, I think, reinforces that.

And then certainly, absent getting rid of the debt subject to limit, which, you know, this remains an interesting fiscal institution, not allowing the liquidity of the Treasury market to get threatened periodically is a really good idea. And so I like those a lot.

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Some of the others, you know, changing who's on the Budget Committee, I think if you're going to get buy-in for floor votes, the leadership's going to have to weigh in anyway. I'm not sure that's going to matter that much.

I'm not a huge fan of commissions. You can have another Budget Concepts Commission, but, you know, the first presidential commission was supposed to stop the Whiskey Rebellion and history will show Washington had to send in the troops, thereby setting the precedent. So, you know, those are my people in Western Pennsylvania, who have been drinking ever since. (Laughter) So, you know, I'm less enthusiastic about that.

But on the whole, I'm with Bob. I mean, this is a very sensible set of reforms to support the desire to do something better. And I think they're also well-timed. And I'll close on this note of optimism and it's the following.

If you look at the CBO baseline, which is sort of the autopilot, we're going straight to hell. And the good news is we're now going to hell very fast, so by 2024, randomly chosen as the last year of the second term of whoever emerges in this cycle as the President, we've got very large deficits again, in absolute terms over a trillion dollars relative to GDP, debts rising relative to GDP. That is not a legacy that any president will want to leave. It simply will be unacceptable.

So no matter what they're saying right now, once in office they're going to have tremendous personal incentives to provide leadership to deal with this. And they might differ in how they'll deal with it, but they're going to have to deal with it not because they're wiser, braver, or anything like that, because they're self-interested and they can't have their legacy be they walked out when we were headed into this disastrous debt spiral.

So that means there's going to be the desire to do something. That means doing something will be good politics, it will have to be. And you need a process to support the good politics and that's why these things are important right now.

MS. REYNOLDS: Great. Thanks, Doug. So I want to --

MR. HOLTZ-EAKIN: That's my note of optimism.

MR. REISCHAUER: Good politics. (Laughter)

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MS. REYNOLDS: I want to start by picking up with something that Alice pointed out during her opening remarks, which is that we're having a contingent conversation. We're having a conversation that's contingent on the idea that Congress and the President want to take action on this. Bob also pointed out that we're really having a conversation that's contingent on current political realities. So how do we strike a balance between an enforcement mechanism that, on one hand, is unpleasant enough to force the kind of action that all three of you have said we need, but is not so unpleasant that Congress just undoes it when push comes to shove.

So Bob spoke a little bit about triggers, but I'll start with you, Alice, to see sort of what your thoughts are. And how do we strike that balance between bad enough to make us do something, but not so bad that Congress just undoes it?

MS. RIVLIN: Well, in the first place, we do have a history of success with some kinds of budget controls in the 1990s. The Budget Reform Act of 1990, which put us on this track that we're on now and said you have to decide on caps on discretionary spending, and had separate ones for defense and international and domestic, but that's arguable, but the caps thing dates from there.

More important, it had the PAYGO rules, which said you can't enact new entitlements or new tax cuts without paying for them. That was extremely effective in the 1990s until it lapsed in the next decade. So there's precedent for doing some difficult things. I mean, I was sometimes the one who had to say to President Bill Clinton you can't do that, sir, because we can't find a way to pay for it. It really mattered. So there is that precedent.

We are in this more difficult situation now where doing nothing makes things worse with the imbalance between the projected growth and the entitlements, which is mainly demographic and healthcare cost-driven, and the fact that taxes at current rates will not go up faster than the economy grows. So we're in a box. And then the question is can you adapt the PAYGO rules to that box? And to say if you have a trajectory which you've decided is desirable for mandatory programs and if you stray from it, then you have to pay for it. It's the PAYGO rule modified. And I don't think that's out of the question. Again, you have to want to have something good happen, but that's not a bad way to have it happen.

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MR. REISCHAUER: I think the PAYGO that you're suggesting would be great if we could do it. I don't think we could do it. It's very unlike the PAYGO that we had coming out of the 1990 agreement because what that PAYGO said was we adopted a whole set of frames and cuts on mandatory programs. And it said if you go back on any of them, you have to pay for it or you're punished. What this is is going forward and saying events beyond your control maybe, the economy, changes in demography, whatever, have caused spending the mandatory programs to exceed what your hopes were a few years ago, now do something to counteract that. And that's a very different kind of procedure. It's forcing people to take actions that they will regard as politically suicidal.

With respect to the 1990s, it was a period of success and it was a period of budgetary success largely for two reasons. One is, fortuitously, the evil empire, the Soviet Union, fell apart and that allowed us to reduce discretionary spending, military spending, significantly. Non-defense discretionary spending grew in real terms over that period, which people don't focus on. So it wasn't the period of great austerity the way the situation is now.

And, you know, once again, a lot of this, remember, in both 1990 and 1993, was motivated by crises. You know, the *deus ex machina* comes down and it's a crisis. And whether these crises are real or manufactured by our political system doesn't matter. It seems that we do, to galvanize political and popular support for austerity, we do need to have some kind of external crisis.

MS. RIVLIN: Can I just differ a little bit from that?

MR. REISCHAUER: A lot.

MS. RIVLIN: I wasn't saying that the -- I wasn't denying any of the things you said about the end of the Cold War and the prosperity of the '90s, but we were talking about triggers and making people do hard things. And for a President who has campaigned on I will have a middle-class tax cut, who's being told you can't do that; or a President who campaigned on I'm going to fix infrastructure, I'm going to have this big program, and is being told you can't do that; or a President who wants to respond to a very genuine demand for the prescription drugs in Medicare, to be told you can't do that, that's pretty serious stuff.

MR. REISCHAUER: Yes. No, my hat's off to you and Leon and the others who reined in

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MS. RIVLIN: But you might have said, if you were a pessimist, that'll never happen.

MR. REISCHAUER: I probably did. (Laughter)

MR. HOLTZ-EAKIN: So I think there's this discussion of triggers and enforcement mechanisms, but I think the most important thing is around what. And to me the sort of nice piece about this is the fact -- and I think this is where you get the Executive buy-in, so tell me if I'm wrong -- you agree in law -- so this is where you've got to sign, the president's got to sign -- to a trajectory for the debt in the hands of the public. And that is an all-in fiscal rule. It's not immutable. It's not like a constitutional thing, but it's a rule that says this is where we have to go and it transforms the baseline into an agreed-upon policy baseline.

It's no longer a current law baseline where you might not want that as the policy and you might not have agreed to the policy, you've now got a policy baseline. And once you're doing that, deviations are much more likely to be disliked by all sides because, I mean, they agreed on this trajectory. And so I think you're going to have a much easier time doing enforcement in that kind of an environment than we do in the current environment, where often the enforcement is one where it takes you further away from your preferred policy baseline because you never even bought into the current law baseline, that you were out of power or whatever when it happens.

So, having said that, I'm closer to Bob on this. I mean, PAYGO can stop you from making things worse, but it's very hard to write something that's an effective trigger to make people do the right thing. They don't want to do it. It's going to be really hard. That goes back to is it good politics or not? But I do think the most important thing here is buying into the policy baseline, an all-in trajectory for what you're going to spend and what you're going to end up borrowing as a result of the mix of tax and spending.

MR. REISCHAUER: There's a fly in the ointment.

MR. HOLTZ-EAKIN: Only one?

MR. REISCHAUER: Well, I want to be kind.

MR. HOLTZ-EAKIN: Thank you. (Laughter)



MR. REISCHAUER: And that is that the economy is not predictable.

MR. HOLTZ-EAKIN: Sure.

MR. REISCHAUER: And, you know, you have your debt-to-GDP ratio goal and your set of policies and then you have a recession. Well, are you going to stick with that or not? Whose fault is it that you broke through the limit that you should have? Or, alternatively, if you were in the 1997 period, 1996 or '95 period, and you had your debt-to-GDP ratio, and no one predicted we were going to go into a surplus when we did and suddenly we go into surplus, you're Bill Clinton and you spend it all two or three times.

MS. RIVLIN: Actually Bill Clinton didn't, George Bush did.

MS. REYNOLDS: So I want to pick up on this piece about Executive buy-in that each of you have mentioned in different contexts. So one of the sort of original goals of the '74 act was to wrest some of the control back from the Executive Branch in favor of the Congress. Have we swung too far? Does Congress have too much power in this arrangement now? If so, how do we right-size that? That sort of thing.

MS. RIVLIN: Yes, I think we have swung too far. And it's not that I want to change the power of the purse. That's in the Constitution. And we do need a congressional budget process that is run by the Congress, but I do think it has to have a framework which the Executive and the Congress can agree on that does force them to talk about and come to decisions on the goals. Because when you're not even talking about it, all sorts of things can go wrong, as Doug points.

MR. HOLTZ-EAKIN: So are there other places where there are buy-ins that I missed that you think are really important, like Executive branch?

MS. RIVLIN: Well, what it actually applies to in this report is the budget resolution. And you're applying it to -- we also had a long-term debt trajectory. You're applying it to the long-term debt trajectory. That's more complicated because of the things Bob's talking about, but I think --

MR. REISCHAUER: But they'd all be tied together --

MR. HOLTZ-EAKIN: They'd be tied together, okay.

MR. REISCHAUER: -- in the same thing.

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MS. RIVLIN: Yes. It depends on how long it is.

MR. REISCHAUER: It's a joint resolution that you're proposing.

MS. RIVLIN: Yes.

MR. REISCHAUER: A joint resolution has to be signed by the president.

MR. HOLTZ-EAKIN: By the president.

MR. REISCHAUER: A concurrent resolution, which is what we have now, does not. It's only agreed to by the two Houses of Congress. It has no binding authority on the Executive Branch.

MS. RIVLIN: We're straying a bit because I didn't get Pete Domenici to buy into the presidential sign-off, but it's implied there.

MR. HOLTZ-EAKIN: I didn't think so, but anyway. Anyway, you know, I'm with you, I think a joint resolution would be a good idea.

So I think the biggest issue is getting the budget planning in the congressional hands that are appropriate, but letting budget execution be done by the Executive. Whereas I think we've got the mix all wrong here, that the Congress essentially doesn't plan and then it micromanages the execution. It's a really bad combination of things and so we've just got to reallocate that.

MS. REYNOLDS: Great. I'm going to ask one more question and then we'll go to you all for Q&A, so get those questions ready.

So my last question to you all is if we think back to sort of the congressional coalition that got us the Budget Act, we had some sort of newer, more liberal Democratic members entering Congress; we had some progressive Republicans, a breed that is woefully absent from Congress these days. What do you think a contemporary budget reform coalition in Congress would look like? What kind of members do we need to get sort of excited around some of these ideas, whether they're the ones that Alice has laid out or other ones, to get us to the point where we actually want to have action on these ideas?

MS. RIVLIN: I think you need buy-in from the right and the left. And, in fact, in 1974, you had buy-in from the right and the left, but for different reasons. The left thought that this new budget process was going to allow them to consider priorities within spending, and that meant to many liberals we're going to reduce this big defense budget, which really was big in 1974 compared to the size of the

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economy or anything else, and spend more on domestic programs. And the right was saying we spend too much and this process is going to allow us to control the total. And indeed, in the original act, the right got the first budget resolution and the left got the second budget resolution, which is where reconciliation originally came in, which was supposed to allow them to adjust the priorities after the fact.

That was just too complicated. The Congress couldn't do it. The second resolution went away, and so it didn't come back.

MR. REISCHAUER: Let me just add that Alice is absolutely right for that subset of members of Congress who knew what was going on.

MS. RIVLIN: Yes.

MR. REISCHAUER: But the vast majority of Congress had no idea that this new budget process was part of a piece of legislation that was designed to control the impoundment power of Richard Nixon. It was the Impoundment Control Act that they were focused on. And many months after the Congressional Budget Office was set up, I remember running into members of Congress who said you work where? What's that? And you say you voted on it last year, you know. (Laughter)

MS. RIVLIN: Well, it was also true that many members of Congress had never looked at the whole budget to the extent that we have a whole budget. And they were on some subcommittee, it might have been of Appropriations, it might have been of something else. They knew an awful lot, especially there in the House, about that particular thing. And when we began talking about the whole budget and priorities, they were totally lost.

MR. HOLTZ-EAKIN: I think you need to have more members terrified that they're going to lose their job over budgetary outcomes because the first thing they'll do when they have that fear is they'll move to the budget process and that's what will get done.

MS. REYNOLDS: Great. So we'll take some questions from the audience. There are some microphones. I'll ask that when someone comes to you -- I'll call on you, when someone comes to you with a microphone, please tell us your name, your organization, and then follow that up with a brief question.

The gentleman in the back.

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MR. SCARRS: I'm Basil Scarrs. I used to observe the budget processes in European countries and one question I have that you didn't raise relates to the creation of an institution such as a public infrastructure bank. Do you think this would help smooth out the budget process? And in particular, one that is financed perhaps by federal government bonds so it's not subject to an annual appropriation process and also would be subject, though, to specific criteria on what kind of infrastructure spending?

MR. HOLTZ-EAKIN: I'm not a big fan of that. I mean, the basic notion there is let's somehow take politics out of how we spend the taxpayers' money and that, I think, is, A, wrong, but our elected representatives should decide how to spend the taxpayers' money. That's their job. There will be politics in that always. And so I think as a matter of the right way to do business it should be done through the Congress. It should be an appropriation. They should vote on it and defend it and it should compete with the other things that are in the budget and that we could spend money on and that's how we should do our business.

I also think it's naïve to believe we could erect a public infrastructure bank and keep it insulated from politics. The appropriators would crawl into that thing so quick you couldn't believe it. And so, you know, I've never been a fan of those things.

MS. RIVLIN: Could I reinforce that? I think one of the things we need to do, especially with infrastructure, is bring politics back. If you have the mindset that I have, that what we've lost is the ability to negotiate and to reach compromises, when you're doing that you need some bargaining chips. And infrastructure projects, earmarks, if you will, were very useful bargaining chips to get to yes and not very expensive.

MR. REISCHAUER: There's a strange moment of comedy. I agree with these two.

(Laughter)

MS. REYNOLDS: Great. Up here, up in the front.

MR. HOLTZ-EAKIN: CBO directors endorse pork barrel spending, I can see the headline now. (Laughter) We're dead.

MR. CHECCO: Thank you. Larry Checco, a columnist for Accountability Central. I think

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this segues into what Alice was just saying, but what impact does it have when a significant portion of Congress has signed a pledge never to increase taxes under any circumstances? Thank you.

MS. RIVLIN: Not good, but the glimmer of hope, and Bob will tell me why this is all wrong, that I've had for a long time and had some of my Republican friends, also, is that not increasing taxes means to some not increasing tax rates. And I think there is, in the end, a potential set of compromises that could give us quite a good tax reform that would not raise tax rates, but would get us some more revenue.

MR. REISCHAUER: I think this pushes us in the direction of tax reform as opposed to simple rate increases or changes that would harm one or the other because you say, oh, all this stuff is going on and it's going to end up with an overall increase, but it's not huge.

SPEAKER: So to start from the obligatory Rudy Penner quote that the process isn't the problem, the problem is the problem, my question is what is the problem then? So to go back to the last question that all these members have signed a pledge never to raise taxes, that's a hopeful look at it, that maybe reform is a way to raise revenue. The pledge that they've signed forecloses that possibility, but maybe they feel differently. In other words, if the problem is like a lack of compromise, if you only got the incentives, right, they would compromise then. Triggers forcing mechanisms, some sort of enforcement, would solve that problem if the problem is something different, that maybe the parties are acting more like parliamentary parties. That might suggest a different set of process reforms.

So to kind of start from square one, what is the problem here that we're trying to solve?

MS. REYNOLDS: Go ahead, Doug.

MR. HOLTZ-EAKIN: So I think in terms of sort of the past 20, 30 years, we've had this Mexican standoff, which is Republicans saying we're not going to raise taxes even in a tax reform until you take on those entitlement programs and Democrats saying you can't touch our favorite entitlement programs until you agree to raise some taxes, and they've been staring at each other for a long time. And the outcomes we get budgetarily have now become the problem because the trajectory we're on is dangerous to the American economy and to the average citizen, so that's the problem.

And so that's why I put so much focus on, you know, let's get a trajectory for the debt

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which is going to force the standoff to get settled somehow. And I don't know how that standoff gets settled, but that's the problem. You know, it's a political problem leading to a genuine economic problem.

And as Bob correctly points out, we can and will solve this. The only question is how much in advance of a real crisis will we solve it? That's it. And I'm a big fan of earlier as opposed to later.

MS. RIVLIN: I think I agree with all of that, but I think there's a further problem that absent a long-run agreement on where we want to go, what we've been doing is squeezing down on the only thing people know how to squeeze down, namely discretionary spending.

MR. HOLTZ-EAKIN: I agree.

MS. RIVLIN: Much too much because I think the other side of this coin is we needed to be investing more in the future so that we can grow faster. And that means, in my opinion, bigger appropriations for some kinds of discretionary spending at the same time that we are lowering the long-run cost of entitlements and increasing revenues.

MS. REYNOLDS: Bob, any thoughts on the problem?

MR. REISCHAUER: No.

MS. REYNOLDS: Okay.

MR. REISCHAUER: It'll go away. (Laughter)

MS. REYNOLDS: Not so pessimistic there. Right up here.

SPEAKER: Hi, thank you. I'm wondering, the problem is always made to seem like it's the entitlements, which, frankly, I get very tired of. I mean, what about all the military spending, not just in the current budget, but the military spending that is off-budget? None of you have mentioned that. And how significantly does that contribute to the debt?

MR. HOLTZ-EAKIN: So there's none of it that's off-budget in the sense that we simply ignore it. Every dime that we spend above and beyond tax revenues collected contributes to the deficit as it's measured. So whether it's budgeted at the same time or put in separately, as it was during the Iraq War with these supplemental and things, is sort of a different issue. It's all in in terms of being on the budget. The decision-making might be in pieces, not all at one time, but -- so that's --

MR. REISCHAUER: And there might be some of it that is ambiguously labeled.

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MR. HOLTZ-EAKIN: Hidden. Hidden, yes, but it's in there. (Laughter) So that's fine.

And, you know, you can talk about the size of the Pentagon budget, but, as Alice said, defense and non-defense discretionary spending is less than a third of all spending now, so the numbers are on the mandatory side, and I think that that's just an arithmetic fact. You have to go there if you want to substantially alter the budget trajectory.

MS. RIVLIN: And the defense budget is now so much smaller than it used to be. And it may be too big, but it's not driving future deficits and it's not very large as a percent of our economy. There was a time when it was 10 percent of our whole economy. Now it's under 4.

MR. HOLTZ-EAKIN: And the defense budget, I mean, it's important for people to recognize, the defense budget has the same problem as the entire budget writ smaller because it's getting consumed by pension and health costs just as the larger budget is. And what the military folks will tell you is this is coming at the expense of readiness and the size of the footprint and the things that are genuinely important for our national security.

MS. IRVING: Hi. I'm Susan Irving at GAO and I wrote a teaching case on Alice's creation of the CBO.

But I wanted to go back to the debt limit, which fundamentally, as people should know, was designed to make borrowing easier because the Constitution gives the Congress the authority to borrow. Well, when we looked at this last year, and we're hoping to maybe spend some of this year talking to members of Congress, you know, if you take your approach, Alice, and you sort of go back to -- imagine regular order and imagine you have in the budget resolution you spin off an increase in the debt limit to the amount envisioned in the budget resolution, you still have to deal with emergency SOPs and all of that. And so I think you'd want to pair that with something like -- it's a rule, it can be overridden, but that if you have an emergency SOP that you're not offsetting, Title 2 raises the debt limit by the amount of that, which at least begins to bring home that what creates the debt is the decisions you make.

You could try, if you're going to be really optimistic, you could try for the British approach, which is that you delegate to the Executive Branch the authority to borrow such sums as are necessary to implement the laws enacted by Congress and the President. And then you add a lot of bookkeeping and

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paperwork requirements and reporting to Treasury.

So anyway, if you have any other ideas, we're looking to go -- we have some members of Congress, believe it or not, who are willing to talk about them.

MS. RIVLIN: Well, I'd get rid of the debt limit altogether, but I don't think that's politically feasible.

MS. IRVING: Well, the problem is you have to find some way for Congress to delegate the authority --

MS. RIVLIN: Well, I certainly accept your -- and I think we meant this, but maybe didn't say it, that a supplemental should raise the debt ceiling the way anything else does.

MS. REYNOLDS: Josh?

MR. GOTBAUM: Josh Gotbaum, now of Brookings. This is entirely a hypothetical and I do know how unrealistic it is, but if you had a choice between biennial appropriations and accrual appropriations, meaning they could be spent in any -- the amount could be spent in any year, which would you pick?

MS. RIVLIN: Well, what Congress actually votes is budget authority, which can be spent in any year.

MR. REISCHAUER: Well, some of it can, some of it can't.

MR. HOLTZ-EAKIN: Some can't, yes.

MS. RIVLIN: Yes.

MR. REISCHAUER: A limit is put on or no limit is put on.

MR. GOTBAUM: So the question is if you had a choice between -- given that one side effect of the budgeting process is -- of the appropriations process is not making allocations over time and other consequent --

MR. REISCHAUER: I wouldn't want all appropriations to be open-ended because we already have this problem of sort of money that's been stashed away in that kind of an appropriation bill, then being brought out and used for some other purpose and battles ensue between the Executive and the Legislative Branch over that. And so I think what we have now is pretty sensible, not pretty, but not --



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good for an accountant.

MR. HOLTZ-EAKIN: I mean, you know, projects are different and they differ in their capital intensity and the contracting needs. And having one-year budget authority, two-year, three-year, four-year, I mean, Congress is thinking about, in a micro way, a real planning process when it does that, and I think that's a good thing and we should just let them do that and have the flexibility.

MR. POSNER: Paul Posner. A question about not budget trigger points, but political trigger points. There's kind of some assumption that Congress is not going to take ownership of this unless people are scared, unless there's a crisis. So given where our debt or our interest rates are, it's hard to see a crisis in the cake for the next 10 to 20 years. We're the prettiest horse in the glue factory, and so it's difficult. Obviously, things can change. So it kind of forces you to say is that all there is or is there kind of -- does shame still work in the political process? (Laughter)

I mean, in 1990 --

MR. REISCHAUER: You could ask that after this weekend we've just had? (Laughter)

MR. HOLTZ-EAKIN: Good answer.

MR. POSNER: Let's go back to the '90s, when rational people were in charge. In 1990 and 1993 and 1997, the three big budget acts, in fact, there was no external debt crisis. It was an internal process where political leaders were desperately afraid of being left as the last -- in a shaming position, and so they kind of created a collaborative mechanism to save themselves. Does that still hold sway?

MR. REISCHAUER: But hasn't the last few years shown that they needn't, that there is no shame in this world, in the budget world? I mean, when we can go through what we went through, you know, a year ago in the fall.

MR. POSNER: Well, listen, I agree. And on the other hand, there is the Ryan-Murray compromise. I mean, there are some efforts.

MR. REISCHAUER: But, I mean, an awful lot of the successes, one being the agreement in December, November/December of this year and the Ryan-Murray was, okay, we won't stick with the austerity that we agreed to. We'll open it up a little and pay for it down the road, you know.

MR. HOLTZ-EAKIN: So Alice's formulation, which is spend more on discretionary

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programs and offset it with mandatory reductions, is not quite as appealing as spending more on discretionary programs and offsetting with fake mandatory reductions. (Laughter) So that's fine, they got that.

MS. RIVLIN: I may be read out of the budget community for this, but I don't think that the budget process is where we are actually going to come to grips with the long-run deficit. It may remind us, it may help us, but.

Blessings on the trust funds. All sorts of people in the room probably say, ah, that's phony accounting or whatever. But the idea in Social Security that there is a trust fund that you pay into and get benefits out of is a very useful idea. I am hopeful that we can convince people that we need to preserve the fiscal soundness of the trust fund and that that will bring us to the table on a Social Security reform, which includes both long-run benefit reductions for the upper end and some tax increases.

I think there are ways we could get Medicare under control. And I think there's some hope for tax reform. If we can do all of those things, then we're close to home-free and we can rock along with a budget process that doesn't force us to do too much on the long run.

MR. HOLTZ-EAKIN: So, Paul, to go back to your original sort of formulation, I don't want Congress to take hold of it because that's what we have now, we have Congress operating in isolation from the Executive. The thing that I think is most important in our system is to get genuine White House leadership on issues and we're not going to get real reforms that sort of take on this problem without the White House centrally involved. And these reforms support a world in which the White House is centrally involved in dealing with the budget outlook.

SPEAKER: Well, I don't know what, going back to the beginning of this conversation, I don't know what the problem is, but I do know what a problem is. And that is that the vector sum of perverse political commitments and incentives is to -- has been and will continue to be to squeeze down discretionary spending, both domestic and defense, to a point that will within 10 years not only be the lowest recorded since these figures started to be assembled in their current form, but within hailing distance of Grover Norquist's famous desire to get the government so small that it can be drowned in a bathtub.

Now, what is the consequence of a budget process whose default is to squeeze discretionary spending in this manner? Answer: We retreat under fiscal pressure from a range of international commitments, which are really important for the future of the world economy and for world peace, and we cease making the investments in the future that are vital for economic growth in the medium to long run.

And so I guess my question is within the realm of political reality what can be done to reverse this alarming downward pressure on discretionary spending so that we can actually fulfill the purposes for which the government was invented in the first place?

MR. HOLTZ-EAKIN: So I at least want to stipulate that I agree with the diagnosis, that, you know, we are squeezing everything the Founders would recognize as the role of government, whether it's national security, basic research, infrastructure, education. That's what's in those accounts.

However, they've already spit the bit twice. There's no way they're going to go 10 years and hit that. So, you know, the notion that somehow those numbers written into budget resolutions or CBO baselines have any political salience, I think the answer's no. They're dead on arrival. They've already loosened them twice. They will never stick to them. The R's want a lot more defense spending, the D's want more non-defense. So I don't view that as actually what's going to happen. The question is sort of what do we do with the rest of the budget as we increase that spending?

I also think this is striking testament to Alice's basic insight, which is the budget process is not going to drive real reforms. Right? What the budget process does is drive "reforms" which are not founded on any policy basis. Those numbers were never -- no one ever scoped out a defense footprint and said, all right, this will fit, now let's do this and it'll be the Budget Control Act, in the same way they didn't scope out our infrastructure needs and come up with the BCA.

So, you know, we're going to come back to this. There's going to be a policy determination made on how much spending we're going to do and we will do that in the discretionary accounts. The question is only going to be what happens to the rest? Does it get offset in any way or do we just spend more?

MR. REISCHAUER: I agree with what he said, but I don't think your original proposition

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is viable. You know, you have in the original proposition that discretionary spending as a percent of GDP falls --

MR. HOLTZ-EAKIN: Perfect timing, yes.

MR. REISCHAUER: -- to levels we haven't experienced in modern history. And yet we still have a budget deficit that's unsustainable. So to make things sustainable you'd have to cut it even more and you would get something that --

MR. HOLTZ-EAKIN: You could zero it and have it --

MR. REISCHAUER: -- even the Founding Fathers wouldn't recognize.

MR. HOLTZ-EAKIN: I know that.

MR. REISCHAUER: The volunteer militia couldn't be provided with bullets.

SPEAKER: Well, you and I are not disagreeing on that point. I know those numbers, but I was making a much narrower point and that is that accepting "arguendo," you know, Doug's point that the worst case may not come to pass because Congress won't do it, current levels are manifestly inadequate to do either of these constitutionally mandated tasks. Right? It's not a question simply of the farther future, it's what has happened as a result of the vector sum of these contending political forces over the last decade or so. And this is not an argument about the budget deficit. This is an argument about the basic purposes and functions of government.

MR. HOLTZ-EAKIN: Right. So this is Washington and if it's a discussion you either invoke Rudy Penner's law, which is the problem isn't the process, the problem's the problem, or Herb Stein's law, which is if it can't continue, it won't. It won't. So, you know, we can't continue the current political standoff and numerical outcomes, so the politics are going to have to change because the numbers are going to have to change. How exactly that happens, I don't know. I gave you my pet theory on the White House being more engaged because of the fiscal outlook. Could be wrong. Something's going to change. The politics can't be what we currently see because it's unsustainable.

MS. RIVLIN: And there are a sensible set of policy alternatives which could happen if we were having a real conversation between the White House and the Congress. And what might come out of this election is a realization that that conversation has to happen.

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MR. OZAN: Hi, I'm Larry Ozan. Alice, was your proposal that the budget resolution would have to be signed by the President, as well as passed by both Houses? And what would make that happen?

MR. HOLTZ-EAKIN: It was hers, but not Pete's.

MS. RIVLIN: I would vote for that; Pete Domenici would not. It is not in our plan. An agreement between a strong president and a strong speaker of the House who wanted something done can happen.

SPEAKER: It seems to me in a way, Bill, to go back to your point, which is that we're all assuming that everybody wants government to work and I think there is a non-trivial core of elected officials who are gutting discretionary spending, then people see that government doesn't work because, you know, now it takes you five hours to get your phone call answered someplace because we've wiped out the staff, and then that proves their point and then you can get it back, I mean, back to Norquist's drown in a bathtub. So, I mean, I agree with your premise, Bill, but the problem is if it doesn't bother you that we're gutting government --

MS. RIVLIN: Unfortunately, you came to a meeting at The Brookings Institution where we do believe government ought to work.

SPEAKER: Yes, I understand. (Laughter)

MR. HOLTZ-EAKIN: That's an interesting hypothetical up here, effective public management.

MR. EFERT: Thank you very much. My name is Neal Efert and I'm a retired Foreign Service officer with Department of State with an economic affairs background primarily. I'd like to tag on to this question the gentleman asked back here about shame because I see a little glimmer of hope in the recent sequestration. Congress demonstrated thereby, I think, that it can, when faced with an impending tsunami of some kind, that it can enact something that it doesn't like to make itself do something, if I read that right.

And I'm wondering if you can imagine, is it conceivable that you could establish sort of a framework of required consultations, for lack of a better description, that would require periodic

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consultations, which, admittedly, people can just go there and say nothing. They can stonewall it, but at least they would be required to face these things. And you might be able to have sort of a systematic accrual of shame that could be focused.

MR. REISCHAUER: Congress and the Executive Branch?

MR. EFERT: Sorry?

MR. REISCHAUER: The meetings, are they between Congress and the Executive Branch?

MR. EFERT: The Congress and the Executive.

MR. REISCHAUER: And ask that when the budget committees are refusing to even hear the testimony of the OMB director and the Senate Judiciary Committee is refusing to hold hearings for a presidential nominee?

MR. EFERT: That's right.

MR. REISCHAUER: Where is shame?

MR. EFERT: That's right. That's right. The glimmer of hope may have been illusory.

MR. REISCHAUER: A glimmer.

MR. EFERT: It may be naïve. Thank you.

MR. OLSON: Tom Olson. Is there a third way which is a way that Congress already uses, which is to pass laws that require other people to spend money on things that Congress, for one reason or another, doesn't want to appropriate? In other words, a sort of "Trumpian" solution that we're going to build the wall and we're going to make somebody else pay for it.

MS. RIVLIN: Well, Congress has done that to the states for many years. (Laughter) Unfunded mandates of various sorts. I believe that's bad policy, not that the states shouldn't be encouraged to do a lot of things. I've even espoused devolution of some programs to the states. But I don't think saying you have to do this and you have to pay for it is good public policy. Won't work with Mexico either.

MR. HOLTZ-EAKIN: I worry about this because one of the byproducts of tight budgetary times, to use a euphemism to say the least, is Congress then tries to accomplish policy goals in other

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ways and regulations and mandates are an instant way to solve that. And so we're seeing a big increase in the regulatory burden easily measured. And, you know, there are a lot of proposals floating out there that actually have "regulatory budgets" to account for the sort of effective dollars being deployed for policy purposes in that way.

I don't think Pete and Alice should roll it into this set of proposals. I think that's a bridge too far, but it is worth keeping an eye on. It's a problem.

MS. RIVLIN: Well, yes. And then the other thing is make it a tax deduction or something, and then you don't have to pay for it you think.

MR. HOLTZ-EAKIN: Right.

MS. REYNOLDS: All right. We have time for one more question, if there is a last one in the audience. Wait for the microphone.

SPEAKER: You've talked about tax reform and I don't see any movement in that direction and there's certainly no movement towards making it a more progressive system. And what do you think would push that to the forefront?

MR. HOLTZ-EAKIN: If I'm going to channel my inner Reischauer, you know, I don't see any movement toward genuine broad-based tax reform because Republicans all have, you know, top rates coming down, the Democrats wants the top rate going up. There's a little bit of a conflict there.  
(Laughter)

SPEAKER: Just a tad.

MR. HOLTZ-EAKIN: And, you know, people forget that the antecedent to the '86 tax reform was the Dick Gephardts and Bill Bradleys of the world spending a decade from the left arguing that the American tax code was harming its citizens and that the average guy would be better off with a better tax code. Then Kemp and Roth and those on the right were doing the same thing. That was a very different environment than we see right now. And we haven't seen the public education and I don't see both sides getting there very fast.

MS. RIVLIN: Well, can I be the optimistic end?

MR. HOLTZ-EAKIN: Absolutely.

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MS. RIVLIN: I do think the problem here is on the Democratic side, that they have not focused on who gets the home mortgage deduction, the exclusion of employer-paid benefits, et cetera. It is perfectly possible to construct a tax reform that both lowers rates and makes the system substantially more progressive. And that's an educational hurdle that one has to get across, but I've been in bipartisan commissions that got that across to both sides and it's not impossible.

MS. REYNOLDS: Well, on that optimistic note, we'll leave it here. Let's thank Alice, Bob, and Doug for joining us. (Applause)

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