Center for Strategic and International Studies (CSIS)

Robert Rubin and James A. Baker, III on the Economic and Foreign Policy Implications of America’s Debt

Welcome:
John Hamre,
President and CEO,
CSIS

Featuring:
Robert Rubin,
Former Secretary of the Treasury;
James A. Baker, III,
Former Secretary of the Treasury and Secretary of State (via Satellite)

Steering Members Speaking:
Former Senator Bill Brock (D-TN);
Former Senator Byron Dorgan (D-ND);
Former Senator Bennett Johnston (D-LA);
Former Representative Bill Frenzel (R-MN);
Former Representative Dan Glickman (D-KS);
Former Representative Tim Roemer (D-IN);
Former Representative John Tanner (D-TN)

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JOHN HAMRE: Good morning – good morning, everybody. Can you hear me? I don’t know if this is working. Is it – can you all hear? Good. Thank you very much for coming. We welcome you. We’re delighted to have you here for the start of a series. This is – this is a series that’s intended to look at what I personally consider to be America’s greatest national security risk, and that is our fiscal imbalance.

We cannot – we cannot remain a global superpower if we have such a – fragile feet of clay when it comes to our financial underpinning. It’s – this is a truly a national security issue, which is one of the reasons why we, at CSIS, wanted to be involved with this. The other reason we wanted to be involved with this is because my boss said we’re going to do this. (Laughter.) And that’s Senator Sam Nunn. And I – Mama Hamre didn’t raise a dummy, and she said, you know, when your boss says you want to do something, you want to do something. And so I want to thank you, boss, and I look forward to working on all four of these sessions.

We’re going to have really quite an important set of – why are we doing this and why are these gentlemen – former members of the House, former members of the Senate – why are they doing it? Because America is not having a debate on what really matters. What really matters is this fiscal future and finding a common-sense solution that’s – that meets the basic test of fairness and efficacy. And both parties have the same strategy for this election, which is to anger their own base so much they’ll get out to vote against the other guy. They’re both doing the same thing.

And that’s not a foundation for solving the fundamental problems that we have in this country. This country is in a perilous way financially and we have to have a strategy that meets that test, it’s fair and it makes sense. And the only way to do that, honestly, is to do it on a bipartisan basis. And this is what you are seeing here. You’re seeing leaders that, in their careers in Congress, had the strongest commitment to finding solutions, not having debating points. And they worked to find solutions.

That’s what this is going to be about. And I’m so pleased that we’re able to bring them together, and it wouldn’t be possible without Senator Nunn, my boss, taking the lead to make it happen. So let me turn it to him to get it started for real. I want to thank all of you, but I would also say: Everyone in this room, I think you take it seriously, which is why you’re here. You have just as much a responsibility as they do to try to get this an agenda for the country.

So Senator Nunn, I turn it to you. Thank you.

SAM NUNN: OK, John. Thank you very much. And I appreciate your welcome – appreciate your welcome, John. And appreciate you making Craig Cohen and Andrew Schwartz available to help on this effort. They’ve been invaluable. And, John, while I’m here, I can be completely unbiased as chairman of the board and say we thank you for making CSIS the premier national security and foreign policy think tank in the country and perhaps in the world. So we thank you for all of that.

And before anybody else does it, I want to label this the over-the-Hill gang effort. (Laughter.) So that’s what – what’s what we are – we’ve been there and done that. And we feel
like we got the call one more time to see if we can’t get together and help the country. I want to start by thanking my long-stand partner – long-standing partner Pete Domenici and the Bipartisan Policy Center, particularly including Steve Bell and also including Alice Rivlin, who is not here this morning but will be here for other forums.

A special thanks to my co-chair at The Concord Coalition, which is co-hosting this and playing a big role; Co-Chairman Warren Rudman, who has been part of The Concord Coalition from the very beginning – terrific leader. And Warren couldn’t be here today. Evan Bayh joined us earlier in a telephone conference but could not be here today. Evan’s a member of the board. They have been partners – full partners in planning and chairing this forum with Pete Domenici and with myself. Bob Bixby and The Concord Coalition team have been vital to this effort. Bob, we thank you very much and we’ll be hearing from you during the course of these forums.

This is the first of four forums which have been organized by several organizations who, from a variety of perspectives, believe that America’s current fiscal course is both irresponsible and unsustainable. These organizations, beyond Concord, CSIS and the Bipartisan Policy Center, include: the American Business Conference, John Endean, Barry Rogstad before him, who’ve been leaders in this arena for a long time and worked with Pete and I on the Strengthening America Commission many years ago; the James A. Baker III Institute of Public Policy at Rice University, and you’ll hear from Jim Baker later this morning; the Belfer Center at Harvard University, Graham Allison and his group; the Hoover Institute at Stanford University, John Taylor you’ll be hearing from later; and also former CEO – or CBO, rather, the director, Rudy Penner who’s here with us this morning. And Rudy has been absolutely invaluable in his advice and guidance.

We’re also working in full cooperation with the Campaign to Fix the Debt, chaired by a former New Hampshire senator, Judd Gregg, and former Pennsylvania governor, Ed Rendell and led, very capably, by the Committee for a Responsible Federal Government president, Maya MacGuineas. I’m not sure whether Maya’s made it here today, but she is certainly doing an outstanding job in working on this fiscal arena. We’re also working closely in this quest for fiscal sanity, as I call it, with David Walker’s Comeback America Initiative and the Peter G. Peterson Foundation’s ongoing and invaluable efforts to call attention to the fiscal challenges that threaten our nation’s future.

And finally, I thank all 35 of our former Senate and House colleagues who have signed on to this initiative and whose names you will see in your program. We are honored today to have with us today on this panel former Senators Bill Brock, Byron Dorgan and Bennett Johnston and former Representatives Bill Frenzel, Dan Glickman, Tim Roemer and John Tanner. And you will hear from them in just a few minutes.

Some of you may logically ask, what brings former members from both political parties together in the heat of the election? My answer: Our growing concern that our nation is in a perilous fiscal position, plus the seeming inability of our political parties to work together. But we’re not here to preach doom and gloom and hopelessness because we believe that there are feasible and responsible solutions that we can pursue to protect our children’s future if we work together – if we work together. To succeed, however, our elected leaders will have to summon
more political courage and be willing to engage the public in an honest dialogue about the magnitude of the challenge and the trade-offs involved in various solutions.

We’ll hear a lot about numbers in these forums, but this is not a complicated calculus or physics problem; it’s about simple arithmetic – addition, multiplication and, far too seldom, subtraction. The hard part is making political choices that involve compromise and shared sacrifice. And it is not just about numbers. It’s about honestly discussing our fiscal challenges with our citizens and taking control of our own fiscal future before the interest of debt dominates our choices and also dominates our children’s future. And this day, in my view, is not far away.

Ultimately, this is a moral issue. Each of us should think about the nation we inherited from our mothers and fathers and ask what we’re leaving to our children and grandchildren. From those we now praise as the greatest generation, we inherited a country with a sound balance sheet that underpinned a growing economy in which children could look forward to being better off than their parents. Unless we act now to bend current trend lines, we will pass along to our children and grandchildren a nation weighed down by unmanageable debt and unsustainable deficits.

Let’s not pretend, though, that it’ll be easy. Not only are we facing the looming burden of debt, the U.S. and the global economy are fragile. So America faces two big challenges if we are to restore prosperity. Our economy must grow, which requires private and public investment in skills, knowledge, modern infrastructure and a pro-growth tax system, which we certainly do not have now. The other challenge is that we must put our federal budget on a sustainable path so that debt is no longer rising faster than the economy can grow.

These two challenges must be addressed simultaneously. We cannot have growth without fiscal stability or fiscal stability without growth. Failure to address the looming debt will weaken the confidence of both consumers and savers and inhibit faster recovery and job growth. But sharp, immediate cuts in spending or large, immediate increases in taxes – such as those now on automatic pilot for January 1st, unless action is taken – will likely push us back into a serious recession. And of course then, the deficit and the debt get worse and worse.

While this task is politically difficult, it also offers us an opportunity to create a virtuous cycle. Greater fiscal stability would promote economic growth and future growth would increase fiscal stability. The good news is that we have current members in Congress of both political parties – the Ds and the Rs – who understand the stakes and who are willing to work together by putting the country first. But they don’t get support from their leadership in the Congress, nor do they get support from the White House.

As we saw at the conventions over the last two weeks, Democrats and Republicans have very different ideas about the role of government and what it should cost. My concern is not so much the difference itself – that’s why we have different political parties, always have and always will, different perspectives – but my concern is that the easiest compromise, as we’ve so often seen, is to pay for the Democrats’ vision of a larger government with the Republican vision of lower taxes. That is a bipartisan compromise we can no longer afford as a nation.
There’s an old country saying that when the ox is in the ditch you have to focus on how to get it out. In my view, both political parties are spending most of their rhetoric and most of their attention on who drove the ox in the ditch and very little thought about how to get it out. Even those who believe that their party is 100 percent right and the other party is 100 percent wrong have to recognize that there is no chance that one party is going to be able to run over the other and impose its, quote, “perfect solution,” end-quote – certainly not in time to prevent severe damage to our nation.

We can no longer afford to act out Winston Churchill’s prediction that America will always do the right thing, after we have explored every other alternative. Common-sense America must rally and support people who are willing to listen to the other side and find ways of working together. Our elected officials will build bridges if the American people demand it. And that’s what this is all about. The American people have to get involved.

It is encouraging that some thoughtful individuals and bipartisan groups have developed a reasonable – set of reasonable policy options that could stabilize the national debt, encourage economic growth and ensure the sustainability of critical government programs like Social Security and Medicare long into the future by making modest changes now.

Two of these groups produced reports that deserve close attention, both because of the individuals involved and the comprehensive nature of their recommendations: the National Commission on Fiscal Responsibility and Reform, headed by Alan Simpson and Erskine Bowles and the Bipartisan Policy Center’s Debt Reduction Task Force chaired by Pete Domenici and Alice Rivlin. We’ll hear from these four leaders at our forum next week. And of course, we have our friend Pete with us today and for all the forums.

Both groups were able to reach agreement on plans that call for shared sacrifice with substantial changes throughout the federal budget, rather than merely some selected parts of it. Both groups took our fragile economy and short-term economic concerns into account while laying out credible long-term structural reforms. They put everything on the table. They did not pretend that we can leave Social Security and Medicare untouched and get the ox out of the ditch. They did not pretend that we can increase the defense budget and decrease revenue and get the ox out of the ditch.

In both the House and the Senate, some courageous members of both parties also deserve high praise for their efforts to build upon the Simpson-Bowles and Domenici-Rivlin recommendations. Our Concord Coalition will honor 38 of these House leaders at our annual dinner on Thursday, September the 20th. Last year, we were pleased to honor Senator Saxby Chambliss and Senator Mark Warner and their Gang of Six in the Senate for their leadership on this – leadership on this crucial issue.

To raise awareness about our national fiscal crisis, our Strengthening of America group plans to hold four forums over the next 20 days, concluding before the first presidential debate. Today’s session will focus on the global economic and foreign policy implications of America’s debt. I can’t think of any two leaders more credible to discuss this than former Treasury Secretary Robert Rubin and former Treasury Secretary and Secretary of State James A. Baker.
III. Pete will introduce both Bob and Jim when they join us at precisely 10:30 a.m. Jim Baker’s coming in by satellite.

Our next forum will take place Monday afternoon September the 17th, here at CSIS and will consist of two panels. The first panel next Monday will focus on national security implications of the nation’s debt. We’ll be joined by former Secretary of Defense Bob Gates and former Chairman of the Joint Chiefs Admiral Mike Mullen. Secretary Gates will join us by satellite from Washington State. The second panel next Monday will look at bipartisan solutions. We’ll be joined by former Senator Alan Simpson, former White House Chief of Staff Erskine Bowles, both by satellite, as well as Pete Domenici and former OMB Director Alice Rivlin here in person.

The third forum will be on Thursday, September 27th, in New York City, and will focus on pro-growth tax reform. And we’ll announce those participants in a couple of panels next week. And then in the fourth and final forum we’ll return to Washington on Monday afternoon, October the 1st. The topic will be health care and entitlement cost control. Of course, this is the most important and most difficult challenge, but it has to be faced. That’s what we’ve scheduled.

Now, very briefly, what do we hope to accomplish? Simply put, we want many more people engaged in understanding the nation’s fiscal crisis inside and outside of Washington. We want the average American, especially young people, to better understand what is at stake for them if we don’t get this right. These are not table stakes. This – what we do or don’t do will affect this country for a long time in the future.

We want the media to hold candidates accountable and ask them the tough questions and follow-up questions when their plans flunk basic arithmetic. We want to support, strengthen and add to the group of senators and members of the House of both parties who are willing to work together by putting the country’s future before their political party. And we want candidates for federal office to explain how they will work with others to solve this crisis rather than playing “let’s pretend.”

Our leaders in Washington can no longer answer the question of what is two plus two with another question: What do you want it to be? On fiscal matters, both parties have a robust political strategy – no doubt about that. But America’s future requires a governing strategy. All of this is essential if we’re going to succeed in strengthening America and protecting our children’s future.

Over to you, Pete.

PETE DOMENICI: Thank you very much, Sam. Thank you very much, Sam. And I believe all of our members present here at the podium join me in thanking you for what you have done to bring this forum to this point and that, as we listen to you, we feel certain that we will get where we want to go. I’m pleased to be Sam’s co-chairperson. As we talked this over, he asked if I would do it. And obviously, many of you know, I’ve been working at budgets so long that many people are wondering who – which will get solved first – will we solve the budget or will
Senator Domenici finally leave us? (Laughter.) I really don’t know which is going to be first, but until I leave you I will continue to work on this and see what we can do.

So thank you, Sam. Literally millions of words have been spent on this topic during the past two years. When you and I, Senator Nunn, were still in the Senate, we heard our colleagues utter millions of words on the need for fiscal wisdom. You and I and our then-colleagues worked together to forge budgets that tried to balance government spending with revenues. We had colleagues on the left and the right who we expect – except for a handful of their extreme, were partners in our work.

Even after your retirement, Senator, Congress and president worked together, despite the partisan rancor that may have been there in their prior life. Indeed, after negotiations between President Clinton and the Congress, we were able to create four consecutive years of balanced budgets. Many watching this event today may forget the drama and the tension surrounding these negotiations. We had our ideologues then, just like now. However, we put together a coalition – I call it a coalition of the courageous.

What we face now is more dangerous than what we faced 10, 20, 30 years ago. But we see policymakers refuse to cooperate, as though America had all the time in the world to solve this fiscal problem. If we do not address the debt starting now, we risk suffering an economic emergency, we risk turning our great land into a poor country. Although I was not old enough to appreciate the dangers that America faced in World War II, I know that our very existence was at stake. I believe that our existence as a powerful nation, able to uphold the values that we hold dear, is threatened today.

Debt is not something that we see on a daily basis. We don’t think about it as we watch a football game, or the NFL, or take our children to school, or go support the Nationals as a new, wonderful team here in town. It is a silent killer slowly eating away at our society. It is easy to ignore. Too many people are fooled by today’s historically low interest rates. Those rates are low, to quote a market analyst, because America is the least rundown house in a terrible neighborhood. Global investors put safety and preservation of capital first in this dangerous world. Our debt, although it is huge, is considered relatively safe, for now. With the Federal Reserve as the buyer of last resort, the global economy weak, low interest rates on our debt are inevitable.

But that won’t last forever. At some point, markets will demand that Americans being paid a competitive rate for its debt. Indeed, if historical rates in a 10-year note were the – were the situation now, within a decade, interest payments on our debt would exceed every dollar we spend on national security, every dollar.

The debt is not a Republican debt, it is not a Democrat debt, and there is no use in one party blaming the other for the debt. It is an American debt as it approaches this particular time
in this country’s life. The only solution to it is an American solution, one where leaders of both parties band together for a better future in defiance of polarized ideologies that dominate today.

Let me stress quickly three things. First, the time to act prudently has come, indeed, has been here for some time. Second, delay merely means that measures that are long-term that can be phased in with only a little pain will become short-term and cause great disruption and pain. For example, our health care spending continues to dominate out of – out of control spending, and perhaps we could show the – show that on the graph, show the particular one. You see it? Can you see health care spending, where it is going, the blue line? It is going up, up and away. That’s what we know. We can reform these systems now and phase in reasonable changes, or we can be faced with a crisis like Greece, where benefits need to be slashed overnight. The third, policymakers have to admit that they have made promises they cannot keep, made with good intentions, yes, but given America’s demographics, they cannot be kept. We cannot keep health care promises we have made in exactly this form that we have made them. We cannot keep a tax system that we have promised. We cannot create programs that attempt to solve every ill that mankind is heir to.

And, Senator Nunn, the third point may be the key. Policymakers have fumbled around and fumbled around this issue again and again for years, and now, because none of them want to admit that they’ve made promises that cannot keep. It is easier to be ideologically arrogant than it is to be realistically humble.

Our leaders still have the opportunity to right the fiscal ship. It will take cooperation and decisiveness, but the excuse that politics are tough and tougher today than in our time simply won’t wash. Every generation has had that excuse: Vietnam, Watergate, riots in the street, recessions, foreign aggression, wars. We are here today to challenge our policymakers to face up to this challenge and restore the economic strength of this nation. There is no way out. And closing, it can be done.

Thank you. (Applause.)

MR. NUNN: Thank you very much, Pete. (Applause.) We’re going to do this in alphabetical order, given the various seniorities involved, and the always-present sensitivities between the upper house and the lower house. (Laughter.) So Bill Brock.

BILL BROCK: OK. Much of my time since leaving government has been in the cause of education reform. In 1983 some really good folks published a report called “A Nation at Risk” on the urgency of reforming our educational system. It’s been 30 years since we’ve had that report on our desk, and precious little has been done. In many cases, we’re at least as bad off as we were.

We’re now in a fiscal world where this is a nation at risk, and we don’t have the luxury of waiting for another 30 years. We don’t on education either, by the way. But it just is stunning to me to see Moody’s the last couple of days say they’re in the process of thinking about downgrading U.S. debt, S&P debt, Fitch – unbelievable that the debt of the United States could be at risk. But there you have it. It’s a big deal, and there is no particular magic wand.
The truth is that we have elected leaders who have been unwilling to tell us we have to pay for what we ask for, so we haven’t done it. The debt is now burdening our economy, our growth, our job creation, and frankly, even our attitudes. It creates a coloration of the whole climate that says, don’t take risk; you already owe too much. So when you slow down in that regard, you slow down the ability to solve the problem. And that’s where we are today.

So a couple of rules, as we begin this conversation, to shift from a problem approach to a solution approach. First of all, let’s try to get our leaders to say there are no quick fixes, there – and there are no absolutes. Let’s stop the exercise of saying, I will never – I will never support a tax increase; I will never support a touch on Social Security or entitlements. All that does is to delay the – honestly, the ability to work together. We have to do what we have to do to fix the problem that we created, and that’s the bottom line.

So I guess where I’d like to end up – if the American people have not been told the truth, there can be no higher responsibility for us as leaders or those who are candidates to inform them as to the degree of risk they and their children face. That simply means that we’ve got to have in the campaigns, when we’re asking for people’s votes, a willingness to say, I can’t do it without the other side. You can’t keep saying, I’m not going to talk about this until they talk about that. You have to be in the same room at the same table, both of you saying, the country has a problem, and until we do, we will be tragically a nation at risk.

MR. NUNN: Thank you, Bill. Byron Dorgan.

BYRON DORGAN: Well, thank you very much. And let me thank, Sam, you and Pete for your leadership as well.

I’m here to support this effort because I think we are lost in a long, dark tunnel of fiscal policy trouble, and I think it’s a danger to the future of this country. We know that we have a crushing debt that is growing and is unsustainable, and we know that that exists at the same time as we have a weak economy struggling to find its footing.

There’s an urgency, I think, to summon the will and, importantly, the wisdom to try to deal with both of these circumstances at the same time. The dilemma is that some will tell us that the solution for a weak economy is completely and inevitably at odds with the solutions to put our fiscal policy back on track. I understand the teaching of economics, taught some myself in college, but I believe that we can do both and must do both for the future of the country. The solutions are obviously not painless; they are painful. But it just seems to me that a plan that asks Americans to be part of something bigger than themselves, a plan that would give them some confidence about the future for themselves and their kids, is a plan they will embrace.

It’s also the case that in an era of rancid partisanship, perhaps more than any of us who served for a long while in Congress have ever seen, some would say it is just not possible to reach compromise and set the country on the right course through political compromise. I don’t agree with that either. I think the history, a couple hundred years of history, of this country is sprinkled with examples of leadership, and compromise, and courage and character that have
sprouted throughout our country at exactly the right moment by people who put the country’s future ahead of their own future. And I believe that will and can be the case today. But it needs to be nudged, and that’s what – probably “pushed” is a better example – and that’s what this effort is all about. And I very much appreciate the work that’s being done by this group.

MR. NUNN: Thank you, Byron. Bill Frenzel.

BILL FRENZEL: Thank you, Senator. I’m delighted to be here as part of Senators Nunn and Domenici’s program; particularly glad to be with some folks of my own age for a change. (Laughter.)

MR.: Some of us left. (Laughter.)

MR. FRENZEL: I do want to say that the problem as it has been laid out is real, and the two senators, I think, have given us a pretty complete picture of what we face and how we have to face up to it. I don’t – I can’t embellish that at all.

I only note that we are in an election contest now. None of the parties nor the candidates at any level are probably going to engage in the discourse that we think that’s necessary to lead to a solution until after the election. However, after the election, we have to have some progress in the lame-duck session before the cliff of the end of December.

The American public has not grasped the urgency of the situation. Congress, understanding that the end may not come tomorrow, it may come the day after, is content to wait until it comes. There is a time how – and the American people are not wanting to stand up, be the first in line to make sacrifices. That’s normal, but normally they are willing to follow good leadership. And it is now time for our elected leaders and those who will be elected to stand up and lead. And that’s going to require compromise; it’s going to require give on entitlements, taxes, defense. All of the elements of the budget have to be involved. We all know the general framework, but somebody has to negotiate it, and that’s up to our elected leaders. We’re going to try to nag them until they do.

Thank you.

MR. NUNN: Thank you. Thank you very much, Bill. Representative and Secretary Dan Glickman.

DAN GLICKMAN: Thank you, Sam, and thanks to you and my colleague at the Bipartisan Policy Center, Pete Domenici, for your leadership.

You know, it’s tough enough in our country to even make the simplest decisions. We’re built on separation of powers. The Founding Fathers wanted one foot on the brake and one foot on the accelerator at all time, and we’ve got it. And now the brakes are burning up. It’s tough enough under the best of circumstances, but, you know – but in that environment, coupled with this campaign environment and money in the political system, 24-hour media cycle, nobody is – seems to be free to make decisions. The incentives for leadership are really, really difficult.
And so – but it’s not all bleak. And, you know, it always struck me that when you look at great institutions that work well, from great companies to academic institutions, there is a kind of symbol of a high-performance team. Teamwork is part of making those institutions work. So you look at Fortune 500 companies, you look at entrepreneurial startups, you look at academics, you look at labor unions, NGOs. The ones that work are based on teamwork from the top down. They’re part of a team; they work together. And we have great trouble in our country now being a team, a high-performance team. And that – and I think that makes it much more difficult for us to address these very serious problems with deeply, deeply controversial political solutions.

I think we can make them. It doesn’t take rocket scientists – science to know what we’re doing. But hopefully, after the election, we will go back to a system of teamwork. We did that in the second world war, we did that in the Depression, we did – we’ve always done that when we have great compromises. That teamwork has to be led by a president who is – he’s the CEO of this teamwork, the team, so to speak, although there’s no absolute parallels to a corporate environment. But the president sets the policy and sets the agenda. And it requires people to follow along and to work together. And I honestly do believe that these concepts of teamwork and the principles of social institutions are just as applicable to government as they are to the private sector and the nonprofit sector, and we just haven’t seen them working very well because of the disincentives and impediments that I talked about before.

As Byron Dorgan talked about, the need for character and compromise, but in order to get that, you got to make sure that people believe that we’re all in this boat together, and there’s got to be leadership at all levels. And it really has to start with the CEO of the country, the president. And then it – and it’s not easy, because in the political environment we’re in, where some want to defeat CEO under any circumstances and not want to make him successful. But the truth of the matter is that if the CEO is successful in bringing people together and the folks are successful in working with him, then we can tackle these problems, which are not insurmountable at all. So I’m hopeful that in the post-election environment, with the nagging that Bill Frenzel is talking about, we will be able to look at this as a problem where we are all in this together, where the country sinks or swim because of working together, and we begin to operate more like a high-performance team.

Thank you very much.

MR. NUNN: Thank you very much. Our next speaker is J. Bennett Johnston, Democrat from Louisiana. I don’t know if we were telling everybody where these members are from, but I thought I must tell them where you’re from because – (laughter) – you look so different from when you were here that they – I want to make sure they remember you. (Laughter.)

J. BENNETT JOHNSTON: (Chuckles.) Thank you, Pete.

Unless the Congress acts in the lame duck, as we all know, we go off the fiscal cliff and probably into recession. So there is broad agreement among us, and I think officially among both parties, that we need a grand bargain. My concern is that in the lame duck, by trying to do
too much, by trying to get a grand bargain, which is virtually impossible in the lame duck, that we go into gridlock and that we go off the fiscal cliff.

What can we do? Now, there’s a lot of sentiment for what they call a credible down payment, that is, a reduction in the deficit not all the way to the grand bargain but partially. I think that’s a fool’s errand. It’s going to be just as hard to get a virtual – a credible down payment as to get a grand bargain because all of these things are interrelated: taxes, deficit reduction, entitlement reduction. And each party says, we won’t give you that unless you give us this. And they’re all interrelated, and there’s not time for, in my judgment, a credible down payment.

What we can do, what the Congress can do in a lame duck, in my judgment, is two things. First, agree on the size of the deficit reduction. In my judgment, Simpson-Bowles had it about right at $4 trillion over nine or 10 years with 2 trillion (dollars) in cuts, 1 trillion (dollars) in taxes, 1 trillion (dollars) in interest savings. Secondly, they need to provide for some kind of matrix with time horizons, milestones, so that, for example, you could say, by March the 1st, you must have reconciliation instructions to the committees telling them how much they have to save in each category, and that must be passed by March the 1st. Failing to meet that, then you go back to some kind of sequestration and have milestones throughout the rest of the year, because the grand bargain is going to take the greater part of a year. I mean, let’s face it. You cannot reform the tax code; you cannot do these things rapidly in a – in a lame duck.

Now, in my judgment, we could be very useful in outlining and trying to get agreement on that – on those two goals, that is, the size of the reduction and the mechanism by which the Congress goes into next year and the enforcement mechanism, because remember, Congress is going to insist on some sort of fail-safe so that if the Congress doesn’t act that something will happen like a sequestration. I hope we can get together on that kind of program.

MR. NUNN: Thank you, Bennett.

Tim Roemer, Democrat, Indiana, and also Ambassador to India. Tim.

TIM ROEMER: Thank you, sir. Thank you for the leadership from the all the senators and representatives up on the panel. Thanks to the think tanks who have helped organize this event.

I’d like to point out a couple things that have happened in the last 24 hours, point out two or three trends and then talk about why with what America faces globally in the world today, it is essential for us to have our fiscal house in order so that America projects power efficiently and effectively and powerfully in the next century.

First of all, in the last 24 hours we have tragically lost a United States ambassador in Libya, and on the front page of the “Financial Times” this morning, the headline reads that now Moody’s might join the S&P as downgrading the United States’ good credit ratings – excellent credit ratings. Both of those project serious threats to the United States. One, how do we continue our diplomatic efforts, our military and economic efforts abroad, to export, to engage the world, to explain American values and make sure our people are safe overseas? And two, how do we protect that great credit rating of “Made in the U.S.A.”?
I am an optimist. I believe that we can achieve these outcomes. The Caro book that many people are reading this past summer talks about great leadership, but it also quotes Walter Lippmann and James Reston talking about the worst Congress they’d ever seen in terms of a gridlock. And we overcame that, just as I am optimistic we will overcome the gridlock on Capitol Hill that we see today.

Two ways around that are great leadership, bipartisan leadership, Democrats and Republicans working together, as they did 15 years ago for a balanced budget in 1997, and secondly, with tweets, with blogs, with social media, the American people have to weigh in. They have to come forward and say when you take deficit reduction action, good things happen in America not only for our children, for our businesses to project forward predict what they do, for exports going overseas, for the tax code – good things happen to get our economy moving forward.

Let me just conclude by saying, in terms of the optimism that I’m talking about, Harry Truman once said this, and I quote: “No government is perfect. One of the chief virtues of a democracy, however, is that its defects are always visible and, under a democratic process, can be pointed out and corrected,” unquote. We can point out these defects, and we can, with optimism and biparticism (sic), correct these and move forward. We will project American power in the century ahead, and I’m very optimistic that the United States of America’s best years are ahead of itself.

Thank you very much.

MR. NUNN: Thank you very much, Tim. And our final member today is John Tanner. And we’ll have a few questions from the audience. I think we’ve got some time. We have a – beginning at 10:30 we will go straight to Jim Baker and to Bob Rubin.

John, you wrap us up. John was a Democrat from Tennessee.

JOHN TANNER: Thank you very much, Mr. Chairman.

And thank CSIS, Concord Coalition, and all who have participated in this. I intend to be brief, but with my accent, it might take a while. (Laughter.) I have been on a lot of panels, and I don’t know that I’ve ever been on one where I’ve agreed with every word that’s been said so far, and I hope you do too. These people have devoted a lot of thought and effort to what we’re doing here today, and I hope that everyone takes this as seriously as we – as we possibly can.

I want to talk a little different. Fifty years ago this year there was a case in the United States Supreme Court from my old congressional district in Tennessee called Baker versus Carr. And in that case, for the first time in modern political history, the judiciary said that they did – that apportionment of seats based on population was a justiciable issue, it involved equal protection and all the rest of it, and that from that came the system that we have today. That system today is where the state legislatures, politicians, draw districts for state House, state Senate, United States House of Representative seats. After – I don’t know about this last census, but for the last 10 years we’ve been talking about it, and had a bill in Congress. Of course, it went nowhere. But what has happened to us over this time is that we have imposed, inadvertently and, I think, unintentionally, a parliamentary system on a representative form of government. It doesn’t work. In parliament, you know, you only have the two branches, and
you have your government and opposition. The government decides something; it happens. They suffer – as one of my friends from the U.K. Parliament said, they suffer up to five years at a time under the tyranny of the majority.

Our forefathers intentionally did not want that system and set up a three-branch system. Not only does our system encourage compromise, it forces it if our government is to work. Our problem with the debt and deficit is not so much mathematics, although that’s certainly part of it; it is the political will to do something about it. And the way members come here, after the 2000 census, there were only 91 seats left in the U.S. House of Representatives that were even within the hypothetical margin of error of a 50-50 voting pattern, which means over 300 members are being elected in the party primaries where the most partisan elements of our society reside. And that’s why we wonder why we have this polarization that is killing our ability in the Congress to really make conclusions that are sane, sensible, mostly centrist-oriented so that everybody can at least live with it, if not embrace it and endorse it. We only talk about this every 10 years, but it affects us every day. I hope you’ll give it some consideration.

And I would just conclude by saying, either we fix our problem, or our children’s future is bleak. That’s the bad news. The good news is we can if we – if we have the political will to do so. They’ve cut me off. (Laughter.) Thank you, Mr. Chairman.

MR. NUNN: Thank – thank you very much, John. I don’t know why, but I understood every word you said. (Laughter.) I agree. I think we’ve got a little time here now between now and 10:30. I don’t know that I’ve got exactly the right time, so I’m going to ask one of our folks to make sure we cut off, leave a minute or two and make sure we get the satellite hooked up. So we’ll have questions if anybody has any from the audience.

STAFF: There’s a question back there. On your left, Sam. There’s a question over there.

MR. NUNN: OK.

Q: Thank you all for being here. My name is Corey Lewin (sp). I’m a grad student at the George Washington University. And the question that I have is really about the approach that we actually should be taken to bipartisanship. And I mean that in the sense, should we be looking at the ideas put forth both by the Democrats and the Republicans and trying to find compromise within those ideas, or should we be trying to find and circulate new ideas that we haven’t tried yet and haven’t even talked about yet? And if so, how do we get those ideas circulating?

MR. NUNN: My view is that we’ve had two sterling, blue-ribbon groups of people, the Simpson-Bowles and the Domenici-Rivlin, who’ve worked on this exact problem. So we’re – our group is not here to reinvent the wheel. Those are, to me, the best frameworks to work from. But within those frameworks, there are a lot of unanswered questions.

I don’t think anyone has a precise, exact answer on how you deal the escalating health care costs. This is a governmental problem of order of first magnitude, but it’s also a societal problem beyond the government. It affects every business in the country. And it affects patients around the country; it affects the whole health group of providers. So ideas in the health care and entitlement area of how we fairly begin to bend the line, the trajectory, is – they are all-
important. Also, I don’t think anybody’s got perfect solutions to the tax side. It’s very complex, complicated. I think most people would agree that we would be better off if we could throw the whole code out and start over, but boy, that’s hard to do. And so ideas along that line are enormously important.

But the main thing I think this group would like to see around the country is young people, and indeed all of our citizens, getting involved in trying to encourage people in office and those running for office to entertain and listen occasionally to other people and to entertain the possibility they may not be completely correct on everything. And so if we don’t start listening to each other, it’s going to be very hard to get any kind of agreement. So that would be a role I would think particularly our young people could really play, as well as the whole electorate.

Other people may have answers. Tim or Pete?

MR. DOMENICI: Well, I’ll give it a try. Let me just say to you, in the two proposals that have been alluded to, if you shake it, out comes a very simple proposition: that in order to solve the debt problem – at least this is one of the – one of the solutions – you have to reform entitlements, not to affect the current recipients – because remember, entitlements don’t need to be worked on for eight, 10, 12 years. And you can put them on a – on a line like this and barely have any impact. (Inaudible) – none backward, and you can go a long way forward before anybody is impacted. But you’ve got to decide to go into a room and talk about that.

This group that I worked with, Democrats and Republicans, said: You cannot get enough out of that and other cuts to solve this problem, so take a look at the revenue side. And in that – in both cases, these two groups said: Totally reform the tax code, and direct your attention at the hundreds of tax expenditures worth trillions of dollars, and decide which – or all of which – could be changed, removed, repealed. And what you get from that apply both to the debt and – to the debt and to the budget.

It turns out that we have never yet had a bipartisan group with authority looking at those two in a package to see what they could tell the American people the negatives are. We just generalize the negatives. If you once sat down and looked at them in detail and got them out, I believe, with leadership, you have the beginnings of a solution. You don’t need to find new solutions, and there are very few new ones, in my opinion. They are real. They’re there, and everybody knows them. Thank you.

MR. NUNN: Tim – (off mic) – Tim Roemer, and then Bennett.

MR. ROEMER: I would agree with Senator Nunn – (audio break) – a plethora of ways to balance the budget: commissions; the president has put a proposal out; lots of ideas. I would argue two points to build support for the deficit. One, I’ve been working with a next-generation group of young people at college campuses that have been trying to put a forum together for the presidential candidates. And as you probably know – you look pretty young, a lot younger than all of us up on this panel – the two biggest issues to college graduates and college enrollees right
now are college costs and tuition and debt, and the deficit, the national deficit. So they need to weigh into this.

And secondly, again, reading this Caro book, Lyndon Baines Johnson put a coalition on civil rights together that was not just church groups. It wasn’t just African-Americans and religious groups. He worked with business leaders. He worked with labor leaders. He formed coalitions, and Congress worked – Democratic and Republican leadership together – to get civil rights and voting rights bills done, with pushup from the American people and demonstrations. So I think a lot of this has to come from America. Leadership comes both ways. Comes from people in Washington, and it comes from you.

MR. NUNN: Bennett.

MR. JOHNSTON: Sam, I’d like to see us – I’d like to see us sponsor a Grover Norquist-type pledge, only I’d like to see our pledge say that I pledge to work on a bipartisan basis to seek a grand bargain with everything on the table, and put it out there and see who refuses to sign that. (Scattered laughter.)

MR. NUNN: Thank you very much, Bennett. Is that the way you do it in Louisiana?

MR. : Yes. (Laughter.)

MR. : Thank you very much.

MR. NUNN: Bill Brock.

MR. BROCK: It’s wonderful how many people up here don’t have an accent, you know. (Laughter.) Two or three things. First, I very much agree with Bennett. Tim says we’ve got a plethora of ways. The first commitment we have to make is to, as Bennett said earlier, go big. Go small, you got the same components of the same problem. If you’re going to do it, do it; and do it in a – in a way that receives the kind of support you need and that gets to the – to the problem. It’s too big.

New ideas? There are some new ideas out on the table. Consumption tax isn’t being discussed in this country, but it’s worth talking about as one of the solutions on the revenue side. The last – and that’s – (inaudible) – size, compensation and enforcement are sort of the three essentials to (meet ?) – because if you don’t have adequate size, if you don’t have the right compensation and if you don’t have an enforcement process, you don’t have – for all of us as citizens, as investors, as businesses who create jobs – you don’t have the assurance that we’re going to have to have that we are going to deal with this problem. If you don’t solve that problem, if you keep using quick fixes, you’re dead. You can’t get from here to there. There aren’t any quick fixes. It’s a long-term problem with a long-term solution, and it’s going to take some time to work through it.

MR. NUNN: Byron?
MR. DORGAN: Well, Sam, just to underscore the need that bipartisanship exist in order to do big things, Bill Frenzel and I were on the Ways and Means Committee in 1986 when we wrote the last major tax reform legislation. It was proposed by a Republican president, Ronald Reagan; introduction of legislation by Bill Bradley and Dick Gephardt. In the actual markup, we occasionally had the very active participation of the Treasury secretary, Jim Baker, and Dick Darman and others. It truly was a bipartisan effort, and it worked.

But I wanted to describe that only to say that reforming the tax code is very, very, very difficult, even under circumstances where there is substantial bipartisanship. I think it’s urgent that we do that now. I know it can’t be done until next year. I don’t even know if it can be done in a year. But I know it cannot be done without very substantial bipartisanship. It – this is very difficult to do. And if there is bipartisanship, it is doable.

MR. NUNN: Thank you, Byron.

Dan?

MR. GLICKMAN: (Clears throat.) Excuse me. Just to point to your question, you know, it strikes me, over the last 20 or 30 years the American people have been beaten down by the fact that government is bad, doesn’t work, is filled with corruption, is wasteful. And while there’s some truth to that, you know, this country has kept itself safe from terrorism through a – through a security force – through a security force, through the best military in the world.

You know, you – we’re all – I go back to this point about all in this together. We have kind of come out of this world that we’re all in this together, and we have this little piece – save Social Security but to hell with everything else, or save farm programs, the hell with everything else. And somehow we got to go back to trying to instill confidence in the American people that even with all the defects, our political system is good. What our government does is generally beneficial. It’s a positive experience; we’re the strongest nation in the world because of that. And then it will, I think, build support from the American people that a grand compromise is a positive thing to do.

MR. DOMENICI: Mr. Chairman, could I – could I comment for a minute? We’re about to go into the next session, when we have two distinguished witnesses. What I would like to share with every – with the members of the panel and the public – there is one thing that has to happen as we put together, as a nation, this solution. And that is we got to remember that’s – we are not growing. Our gross domestic product is not growing sufficient – or sufficiently to take care of the expected needs of our people. If the GDP is a pie, it grows a certain amount each year, and that permits more things to be done by more people that cost money. And ours is not growing enough.

So whatever we put together must be, as best humans can do, a growth-oriented budget, or we won’t have the tools to solve the problem – (inaudible) – tools are that we get richer annually rather than poorer. That means we grow rather than not grow, as occurring now. That’s a must in whatever package we put together.
Thank you, Mr. Chairman.

MR. NUNN: I agree. And one thing that— we’re going to have people from the American Business Conference testify later about that very point. How do you grow? These are the rapid-growing, medium-size companies in America.

So I think our time is just right to turn to Robert Rubin, who is coming forward to the podium. Bob, we hate to isolate you there, but your buddy Jim Baker is coming in on satellite. And— (inaudible) — let’s greet Bob Rubin and Jim Baker. (Applause.) Jim, we’re glad to have you and Bob, and Pete’s going to give you a proper introduction. And we’ll start with Jim for whatever thoughts are on your mind, and then we’ll turn to Bob Rubin, and then we’ll have a few questions.

MR. DOMENICI: Wow, this is a—

MR. : Thank you.

MR. DOMENICI: Jim, this is exactly why I agreed to work with Sam, because I knew I would get one opportunity to introduce my great friend. And so you’re here today, and we look forward to hearing from you. There’s no— should be no doubt in this room that this gentleman who is before us is one of the most distinguished Americans that have ever lived. And we are fortunate that he and his associate have both agreed, coming to us with distinguished records, to help us in our mission to make America strong again and to make our economy strong again.

This man has received more honors, including the distinguished Medal of Honor, than any living human being could fit in their major room where they put up the awards that are so many. And I want to say that I served with him, and I know firsthand what a wonderful leader he is, how fair he is and how tough he is. He claimed his toughness as an executive branch member because he once was a U.S. Marine. I told him that he was a softie, but he insisted that I should tell no one how I made so many pieces of legislation work when I worked with him. But the important thing is he knows plenty about America and America’s problems and the world and America’s problems in the world.

So he will be our first speaker, and join me in welcoming James A. Baker. (Applause.)

JAMES A. BAKER III: Thank you, Pete. Thank you for that over-the-top introduction.

I’m getting some feedback here— (inaudible) — earpiece.

MR. : We can’t hear.

MR. BAKER: You can’t hear me?

MR. : Barely.

(Off-side conversation.)
MR. : Pete, can you hear now?

MR. : Yeah, that’s better.

(Cross talk.)

MR. NUNN: All right, now go ahead, Jim. I think we hear you now.

MR. BAKER: You – did you hear that?

MR. : Yes.

MR. : That’s loud and clear.

MR. : We got it.

MR. BAKER: (Chuckles.) OK, great. Let me say – let me say I was – I’m still getting the feedback in my earpiece here, though. But let me – let me say that I appreciate that over-the-top introduction that Pete Domenici gave me. And I’m delighted to be here with you, Pete, and with Sam and with the others with whom I’ve worked through the years – and particularly delighted to associate myself with the efforts you have here in order to bring some sanity to our fiscal problems.

MR. : (Inaudible) – turn it off? It won’t turn off.

MR. BAKER: Let me say at the outset that I remain proud of the economic policies of the Reagan administration, which I think laid the groundwork for a record 24 out of 25 years of real GDP growth beginning in 1983. I heard – I guess it was Byron Dorgan’s comments about tax reform. I think – I think what we were able to do in 1986 with tax reform with a Republican president was significant because that proposal was passed really with Democratic votes. And there was a lot of cooperation from both sides of the aisle.

The same thing happened, of course, in 1983 when we fixed Social Security’s financial problems for a while by getting – by taking it out of the political debate – that fixed it – taking it out of the political debate by getting the leader of the Democratic Party and the leader of the Republican Party together to agree that they were going to try and fix this problem – Tip O’Neill and Ronald Reagan. And we fixed that problem.

Now, we need something like that today. I of course come to you with a – with a bit of bias in terms of how we might fix the problem because I was Ronald Reagan’s Treasury secretary for four years. And my view – strongly held view is not that Americans pay too few taxes but that our government spends too much. And I think that that view is incorporated pretty well both in Simpson-Bowles and in the Domenici-Rivlin proposals.
But one thing I do know is that a broad bipartisan agreement is going to be necessary if we’re going to be able to stabilize our debt. We cannot continue to move forward with a debt-to-GDP of over a hundred percent for as far as the eye can see. And a grand bargain of course is going to require something that sadly—and as many of your participants have said, it’s going to require something that’s become a dirty word up there in Disneyland on the Potomac, and that is compromise.

I’m not going to—I won’t go into the domestic consequences that I think would be associated if we just continue on our current path, except to say that I think they’d be catastrophic. Instead let me, as a former Treasury secretary and secretary of state, focus, if I could, on the international aspects of this debt problem before mentioning for you a few of the elements that I think should be part of any grand bargain.

Right now of course we enjoy a period—we’re enjoying a period of really low interest rates, and therefore we have manageable debt service. This isn’t going to continue indefinitely. Everybody knows that. I hope everybody agrees with that; I think most people do. In a real sense, this debt problem of ours is a ticking time bomb because as the—as the world economy recovers, as the U.S. economy recovers, interest rates are going to rise. Lenders, many of them foreign, are going to begin exacting a premium for lending to a government with total federal debt at over a hundred percent of GDP for as far as the eye can see, as I said earlier.

What’s happening to Europe today, I think, is a cautionary example because when a sovereign debt crisis hits, it can strike overnight. When it hits the United States, what’ll happen? Well, the Fed will probably respond by either raising interest rates and/or monetizing the debt. And that’s going to create the groundwork for a period of low growth, high inflation and a plunging dollar. Now, if that happens—and it’s not just possible, in my view, if we don’t take—make policy changes; it’s probable—such a state of affairs could imperil the traditional role of the U.S. dollar as the world’s reserve currency. That will increase instability in international markets. It would dampen global growth, and it would constrain, of course, the ability of our government to pursue an independent monetary and fiscal policy.

More generally, I think the—our fiscal crisis—our debt crisis, if you want to call it that—runs the risk of undermining our leadership abroad. There will be increasing and, frankly, understandable calls for us to reduce our expenditures on defense and diplomacy. That will constrain our ability to respond to a world where both threats and opportunities abound, as we’ve indeed seen as a result of the tragic events overnight in Libya and in Egypt. In the final analysis, our strength abroad depends upon our economic health at home. You can’t be strong politically, diplomatically and militarily if you’re not strong economically. And this fiscal crisis that we’re facing, this big debt—ticking debt bomb threatens both.

So you say to yourself, OK, what should a grand bargain look like? And I realize we’re not here—(chuckles)—to draft legislation or write agreements, but let me suggest to you, if I might, based on my experience with tax reform and with that Social Security compromise, a couple of broad principles. Number one, we ought to start by recognizing that any plan should be realistic. The idea, for instance, that we’re going to resolve our huge debt problem by simply raising taxes on the rich is, of course, a total fantasy. The so-called Buffett tax is projected to
raise less than $50 billion over 10 years. That’s a fraction of 1 percent of total expenditures over the period.

Secondly – someone said this earlier – any plan should strike a pro-growth balance – I think maybe it was you, Pete – a pro-growth balance between revenue increases and spending. The Simpson-Bowles plan, with a ratio of expenditure cuts to revenue increases of roughly 3-to-1 would be a great starting point, as far as I – as far as I’m concerned. My own preference might be for a plan more weighted toward cuts, but that’s a matter to be discussed, to be negotiated and to be compromised.

Third, any plan should include, as far as I am concerned, at least, upfront expenditure cuts. It really should not be tax increases done, agreed to, accomplished until the spending cuts have already been made or at least have been legislated. Now, I’m cognizant of the importance of avoiding further fiscal contraction during a period of weak economic performance, but I nevertheless, I think if you’re going to get into the negotiation for a grand bargain, there really needs to be a substantial down payment in terms of spending cuts. If you don’t have that, we will once again run the risk of raising taxes while deferring the tough decisions on spending, and we’ll never see the agreed-upon spending cuts. That’s happened once or twice before.

Fourth, any plan should have a spending cap that establishes strict spending targets. Our current high government spending to GDP ratio of 24 percent admittedly is at least in part due to the economic downturn, but still, we need a spending cap to bring this number down to a sustainable level as the economy recovers. Simpson-Bowles suggests a medium-term goal of 21 percent. Fine. That’s a good starting point for discussion. Negotiate it, compromise it. I would personally prefer a lower number, but it’s a good place to start.

Number five, any plan should include an enforcement mechanism. I don’t know who it was a minute ago talked about enforcement, how important it is – I think it may have been Bill Brock – to guarantee that the spending cap is met and maintained. You need that, because if you don’t have it, a strong enforcement mechanism – if you don’t have that, a future Congress can and will simply disregard the provisions of any bargain. This is particularly true, I think, when it comes to spending, because there are always good reasons, if not economic ones, darn good political reasons to spend more money. As the most effective enforcement mechanism, I have long supported a balanced budget amendment to the Constitution, but one with an overall limitation on the ratio of taxes to GDP. Given political realities today, though, ladies and gentlemen, my view is we’re probably going to have to be satisfied, if we can get it, with a legislative approach, something approaching, for instance, the lines of a – something along the lines of a beefed-up Gramm-Rudman-Hollings provision that would mandate automatic sequestrations should we exceed our target spending cap and that would mandate sunset provisions terminating tax increases included as a part of the grand bargain should total federal spending exceed the target percentage of GDP. That way, it seems to me, you’re taking care of both sides of the equation. Furthermore, I think that such an enforcement mechanism might feature supermajority requirements in both houses of Congress to repeal or change any elements of the grand bargain.
And lastly, let me say any effort to raise revenue as a part of the grand bargain should focus on broadening the tax base rather than raising marginal rates. Somebody mentioned the large number of expenditure provisions, deductions, loopholes and so forth in the current tax code. Comprehensive tax reform may be a bridge too far in today’s current political environment, because, as someone earlier said on the panel, I remember the difficulties we faced in achieving bipartisan support for even a revenue-neutral tax reform exercise in 1986. But if our objective is to reduce our ratio of debt to GDP – and I think it has to be one of our objectives – and if our objective is to restore growth to our economy, any revenue we raise would best be raised by closing loopholes rather than increasing marginal rates.

Now, am I sure such an approach as that will work? Let me be very frank with you: I think given today’s polarization of our politics, I’m really far from confident that a grand bargain will even be struck. I hope very much that it will, because it’s the only way I see out of this trap. But I’m not sure it will be, and this is particularly true, I think, if we continue to experience divided government, which is a very possible outcome of the November elections.

All of that said, I think it is critical, as many of you have – many of the panel have already said this morning, really critical that Americans of good will, Republicans, Democrats, independents alike do everything we can to press our elected officials to make the compromises, however painful, that are necessary if we are to set our country on a sustainable fiscal path. The alternative, which is permanent political gridlock, a lower standard of living for our citizens and a much diminished place for the United States in the international arena is simply unacceptable.

I liked what I just heard a minute ago, I think from Bennett Johnston, who said, maybe it would be good if we could get our elected officials to take a pledge to try and achieve a grand bargain so we get out of this trap. But whatever we do, we need to make a heroic effort. This is about the future of our country; it’s about the future of our children and grandchildren. To be successful, we’re going to have to keep our eye – our eyes on the prize, and that prize, of course, is a future in which our country prospers, our citizens can flourish and we can protect our interests abroad.

Thank you very much.

MR. NUNN: Thank you, Jim. (Applause.) Thank you, Jim. And if you will wait, we’ll finish now. We’ll go next to Mr. Rubin, and then we’ll come back to you, if that’s – if that’s consistent with your understanding.

MR. DOMENICI: Thank you. Now, what we have over here on our left and your right, another very distinguished American citizen, who has come to join us and share his wisdom with us. Robert E. Rubin is the chairman of the Council on Foreign Relations, former secretary of the United States Treasury. He joined the Clinton administration in 1993, serving in the White House as an assistant to the president for economic policy and the first director of the National Economic Council. He served as our nation’s 70th secretary of the Treasury from ’95 to ’99, and from ’99 to 2009, he served as member of the board of directors of City Corp and the senior
adviser to that company. From that point on, he has served in various community of – organizations and has lent of his time to those who need his talent.

We are privileged here to have a distinguished American take of his time and share with us on this issue, which we believe is so important to our country and its future. Thank you for joining us, and thanks for testifying before us. We appreciate your presence.

MR. NUNN: I think I one word. I think that Bob was secretary of Treasury the last time we were trying to figure out what to do with the surpluses. Is that correct? (Laughter.)

ROBERT RUBIN: Yeah, that is true, Sam. We decided the surpluses were too big, so we would do – we would do something to get rid of them. (Chuckles.)

MR. NUNN: We’re glad to have you.

MR. DOMENICI: He knows – he knows about budgets because he is the one secretary who has led an executive branch into four consecutive balanced budgets. That’s pretty heroic.

MR. RUBIN: Thank you, Pete. Thank you, Sam.

Let me – I do have a set of comments I’d like to make, and it’s a subject that – just as with Jim, that I’ve given a great deal of thought to. Let me make one comment, though, that I hadn’t planned to make, and I think it’s perhaps a – not a bad way to begin this thing. I think all of us agree that we should have a pro-growth economic policy, but I think there may be some real differences about what that policy should be, and I at least think that Jim was exactly right that that needs to be resolved through compromise.

I would just remind all of us that in 1993 we put in place a deficit reduction program that raised rates on the most affluent. That was 50 percent spending and 50 percent revenue increases, and that created the longest economic expansion in American history. So it is worth sort of keeping all of these kinds of historical moments in mind as we think about what we ought to do.

I believe and have believed for a long time that our country is at a historical crossroads. We have enormous strengths: the rule of law, a dynamic society, vast natural resources and a great deal else. And I believe that even a transforming global economy, we should succeed over the longer run.

However, if we’re going to realize that potential, I think we have to meet three great challenges. First, we have to address an unsustainable and, I believe, deeply dangerous fiscal trajectory. Secondly, we need robust public investment in areas that are critical to economic growth: education, infrastructure, basic research and so much else. And thirdly, we need reform in areas that, again, are very important to our economy: K-through-12 education, immigration and much else.
I believe that the most fundamental challenge – and I believe it will be ultimately ruinous if unmet – is our fiscal trajectory. It poses multiple risks, some of which are already materializing: first, crowding out private investment and creating an interest rate structure that is inconsistent with growth; secondly, severe destabilization – and I – this is the most dangerous – severe destabilization of our bond markets, our currency markets, macroeconomic conditions and our economy; three, undermanning our financial – undermanning our financial resistance to deal with economic difficulties or, as Jim said, geopolitical difficulties; fourth, dampening business confidence by heightening uncertainty about future economic conditions and heightening concern about whether or not our political system can work; and fifth, containing our capacity for public investment and for national security.

Severe destabilizations take many forms, including a long period of high interest rates, flagging confidence and, as a consequence of all that, low growth and probably increased cyclicality; number two, high and spiraling inflation at some point if we try to monetize our way out of our debt; number three, severe crisis in our bond and currency markets that will inevitably lead, and I think very quickly, to deep recession; and number four, some sequential combination of these consequences. The longer we wait to act preventively, the deeper the hole becomes, the harder to regain confidence and the harsher and more protracted responding measures will have to be. And if we don’t act preventively and are forced to act in response to crisis, the measures required will be far more extreme.

I do believe that to allow more time for recovery, it would probably, almost surely make sense to enact a program now but defer implementation for a limited period with an effective enforcement mechanism. I also believe that fiscal reform should be done in one comprehensive program, and somebody mentioned that on the panel before. Otherwise, we lose trade-off opportunities, and I think there’s a real risk that the easier measures will be done first and the more difficult measures deferred indefinitely. Elected officials and journalists often will say privately that they think that our system is incapable of acting on these issues without a crisis. But I believe that that view vastly underestimates how severe such a crisis might be and how harsh the responding measures may be required.

The substantive issues in resolving our fiscal situation are obviously difficult, but I believe it’s resolvable. A highly conservative economist said to me not long ago – and I think he was slightly exaggerating, but I think his point is right – that if he and a pragmatic liberal economist got together, they could put together the pieces of an effective fiscal program in a day. Democratic government is often messy. Somebody quoted Winston Churchill a bit ago. But at the end of the day – and I think this is absolutely critical – there must be an overriding commitment to govern and to do what is necessary. That means basing decisions on facts and analysis, not on ideology and politics or differing opinions. That means making politically tough choices, and very, very importantly, as Jim said, it means working across party lines and differing opinions to reach common ground.

Our nation’s Founding Fathers strongly disagreed on many fundamental issues, but they worked together through a sweltering summer in Philadelphia, with delegates often yielding substantially on matters they cared deeply about to form our Constitution. The process of reform will inevitably involve similarly impassioned debate. But as with our Founding Fathers, the
process must wind up with a principled and effective compromise based on political realities and on substantive trade-offs.

In that context, let me expand on two issues, both of which have already been commented on at some length: tax expenditures and spending cuts. Many proposals either eliminate or limit tax expenditures substantially, sometimes without specifying particulars and, in any event, without the discussion and the recognition of substantive effects and political realities that I believe should be done in an area that is newly focused on with such great intensity. I also believe that the effects of tax expenditure cuts or limitations are almost surely not well-understood by those that would be affected and probably not well understood by most non expert advocates.

Tax expenditure proposals may seem like a politically attractive alternative to the long-standing debates about spending cuts, income tax rate increases, imposing a VAT or other tax measures and the like. However, in my view, the tough choices, in many ways, have just been postponed. These measures may well be politically undoable or if adopted, then abandoned or evaded unless the substantive effects and the political realities are fully laid out and fully understood.

Tax expenditure reductions are used in many plans as a path toward both reducing tax rates and contributing revenue to deficit reduction. That is an appealing prospect, but it is truly a tall order. Tax reductions – or rather tax expenditure reductions can contribute to a fiscal plan, and I think it was a very useful approach in the number of plans that have been put forth. But they are not a silver bullet, and realistic savings may be far less than many plans anticipate.

In this regard, the nonpartisan Congressional Research Service said, and I quote, “Given the barriers to eliminating or reducing most tax expenditures, it may prove difficult to gain more than 100 (billion dollars) to $150 billion in additional tax revenues.” This per annum number is far less than is required in many of the proposals that have been put forward. Tax expenditure advocates argue, and I think absolutely correctly, that all choices are politically difficult and then go on to say that substantially more may be doable relative to other possibilities than the congressional research numbers suggest. I think that judgment can only be made when all tax expenditures are set out with great specificity with respect to which they will be, how much they will cost, and then provide a clear basis for understanding the substantive effects and the political realities.

As to spending cuts, plans generally tend to be broad and not specific, either in large measure or at least with respect to some areas. And most plans have spending reduction numbers that at least some analysts say would be hugely injurious in their substantive effects and may well be politically unrealistic. As with tax expenditures, only analysis of the specifics can provide the basis for an informed judgment and informed decision making, though I would say that for spending, because the numbers of pieces in the budget on the spending side are so large, which you probably need, are representative examples.

My next point is controversial, but I believe that the numbers clearly show – and I think that most mainstream analysts would agree – that it is impossible to meet our fiscal objectives
and to provide the governmental services expected by the predominance of Americans across the philosophical spectrum unless we act on all fronts. These fronts are serious cross-containment in the so-called nondefense discretionary budget, entitlement reform to put health care programs and Social Security on a sound financial footing, reductions in defense and a significant increase in revenues. Those who reject the need for revenue increases or entitlement reform, it seems to me, take on the obligation to show the full specifics of an alternative whose substantive effects are fully understood, and that is politically doable.

Every budget reflects views as to the fundamental objectives of public policy. Mine would be growth, competitiveness, increased living standards and reduced inequality, and a financially sustainable social safety net consistent with our values. My preferred fiscal program would be roughly 10 years of deficit reduction, which, as others have said, leads to stabilizing debt-to-GDP ratio. I would enact that now, as I said earlier, but defer implementation probably for two years, but with an enforcement mechanism that was real.

MR. DOMENICI: Mr. Rubin –

MR. RUBIN: Yes.

MR. DOMENICI: Would you go back about 30 seconds and repeat what you said?

MR. RUBIN: I’ll be delighted to do it if – which piece? (Chuckles.)

MR. DOMENICI: What?

MR.: Which piece – which piece do you want him to repeat?

MR. NUNN: I think he’s talking about the fact that probably those who deny that you need any more revenue, those who deny you need any entitlement cuts –

MR. DOMENICI: Oh yeah – oh yeah – that’s OK. I wanted you to repeat the last minute of the –

MR. RUBIN: Yeah. Absolutely, Pete; I’d be delighted.

I think that – yes, as we all know, there are many in one party that think we shouldn’t increase revenues, and there are many in the other party that think we shouldn’t reform entitlements. I believe that those who are – I think both are absolutely necessary if we’re going to get the kind of fiscal program we want. So I believe that those who reject the need for revenue increases and those who reject the need for entitlement reform have the obligation to show the full specifics of an alternative whose substantive effects are fully understood, and that it’s politically doable.

MR. DOMENICI: Thank you very much.
MR. NUNN: We’re going to have a couple of charges pertinent to that very important point in our next forum.

MR. RUBIN: Look, I think it lies at the heart, in many ways, of resolving the difficulties between the two parties. I do believe that I want to go back – (chuckles) – to the preferred program that I would have – I think we need room for critical public investment. And I would have – well, I know none of the proposed plans have this – what we had in 1993, which is a 50-50 split between revenue increases and spending cuts. And I would go back to the top rates of the 1990s, which were predicted at the time to be ruinous to the economy, and instead what we had was the longest economic expansion in American history with immense job creation.

Obviously, many would disagree with my view, but it seems to me that individual views are not the point. The imperative is for elected officials and all of us to work together in the spirit of our Founding Fathers to move to a sound fiscal regime. For later decades, as we all know, health care entitlements are increasingly central to our fiscal position, and that growth comes primarily from the rising costs in our overall health care system. And I believe everyone agrees that more must be done to address those increasing costs.

A sound fiscal regime – and this is my last – or second-to-last, rather, substantive point – a sound fiscal regime is also highly germane to reducing the current economic duress which is creating such hard – great hardship for so many Americans. There is an ongoing debate about whether the immediate emphasis should be on jobs and growth or deficit reduction. I believe that is a false choice. Our fiscal outlook undermines business confidence and economic confidence, as I said earlier, both because it creates heightened uncertainty about future economic and policy decisions and it heightens greatly the already considerable concern about whether our political system can work. I don’t think we will have a healthy, ongoing recovery until our fiscal underpinnings are in order, and I do believe that stimulus, if we were to have it, would be far more effective if combined with a deficit – a serious deficit-reduction program, and the confidence that would bring.

Let me wind up by saying that the – the so-called fiscal cliff, with its expiring tax cuts, sequester, and the distance from the next election creates an extraordinarily propitious set of conditions for producing compromise across party lines and differing opinions to meet our fiscal imperative. This is an opportunity that I believe all of us, in government and out of government, must do everything in our power not to lose.

Thank you very much. (Applause.)

MR. NUNN: Thank you, Bob, and thank you, Jim. If we could put Jim’s shining countenance back up – Jim –

MR. : Hi, Jim.

MR. NUNN: – hope you were able to hear Bob and so forth, but I’m just going to ask one question because we’ve got about 24 minutes; I want to make sure everybody has a chance for the questions. And that is, America – some – you can express it a lot of different ways, the
dog with the less fleas, or whatever, but the world’s a fragile place economically now, and the bottom markets have a lot to do with the discipline on countries in Europe, and we’re seeing that before our very eyes.

Do you – either of you want to venture how much time we have? Is this an urgent matter? Do we have an unlimited amount of time or a lot of time before America starts being a place that people don’t want to lend to? And of course, we’ll have a chart later that shows that – I think about 20 percent of our foreign debts held by China now and 20 percent by Japan, in that neighborhood. So it’s staggering as to what is happening out there with our debt. But do either one of – one of you would – well, both of you probably have some comment on the global implications, given the fragile global economy?

MR. BAKER: Well, I don’t know how much time we have, Sam, and I don’t know anybody that would know how much time we have. All I can say to you is – and I would suspect that Bob might agree with this – that a sovereign debt crisis can hit pretty quickly. Fiscal crisis can come along fairly quickly. Look what happened in 2008 right here in this country and in the world economy, for that matter. And the longer we go on like this, the greater risk we take that something truly adverse will happen.

And that’s why I agree with what Bob said, that we – we’re approaching an opportunity – a time of opportunity here to maybe sit down, in the aftermath of our presidential election, and with another four years before the next one. And I’m not – I’m not suggesting we can get this done in a lame-duck session of Congress, but it’s an appropriate time for us to wake up to the fact that this is a – that this crisis we’re in right now, this fiscal state we’re in could easily morph into a sovereign debt crisis or a crisis not unlike what happened in 2008.

So the time to act is now. And I agree also with what Bob had to say about everything ought to be on the table, absolutely everything. And the only way we’re going to get there is through – is through good leadership and good faith and the ability to sit down and negotiate out the problem between the parties.

MR. NUNN: Thanks, Jim. And Bob, do you want to comment on that, and then I’ll turn it to Pete.

MR. RUBIN: Listening to Jim, I wish that he was leading the nation’s efforts, because I think that that’s a very sensible comment. I just make two comments if I may, Sam. The bottom market – I used to run trading operations for a long, long time, so it’s kind of a world I’ve been in. The bottom markets today, I think, are being very much affected by the European crisis, because money’s coming here as a safe haven, and secondly, there’s very little investment demand in the United States.

But we still have time – look at what happened in Europe, Sam. Greek bonds were trading almost at no-spread to German bonds until, all of a sudden, everything blew up. To Jim’s point, things can happen dramatically, suddenly and with enormous magnitude, and there’s no way to predict it. Somebody said the other day, markets do what they’re doing until they don’t, and boy, that can change very, very quickly.
We have time now to do this, which is – Europe does not have. We have time right now to do this in a careful, thoughtful, phased kind of a way. But we’re giving up that time the longer we wait. And as to when it will happen exactly, I don’t know. Obviously the odds are greater that it will happen in – a little bit further out than they are right now, and those odds get greater and greater as time goes on. But I think it is virtually inconceivable that we will not have a far harsher crisis than almost anybody imagines unless we fix that problem. And the soon – as Jim said, the longer we wait, the harder. Conversely, by doing it now, it gives us more time to do it in a phased fashion with thoughtful decisions. This would be – this really would be a tragedy if we give up this opportunity.

MR. NUNN: Pete.

MR. DOMENICI: I’ll take one and then we have time for the rest.

Let me ask – let me ask both of you, do you have any advice for us on how we can better make the American people aware of what we’ve got on our hands and what we should do about it? It appears to me that, you know, Americans, while they see some things that they’re very worried about – unemployment, which seems to be something that is sticking and heretofore (able ?) to go away quicker; they see that. But – and they’re worried, they’re – inherently, Americans are worried about something going wrong. But we can’t wait until the cliff, we fall off the cliff, to solve the problem. That’s why we’re doing this. We could wait for the cliff and have one of these meetings, and everything would have gone to heck in America and we could have big meetings to put it together. But you’re telling us, put it together now. Can you use some additional words to tell the American people how bad it could be? And they don’t seem to appreciate, I don’t think, how bad it could be. Do you think you could share something with us? How about you, Robert, Mr. – (inaudible)?

MR. NUNN (?): Why don’t we start with Jim as our senior eminence?

MR. : Go ahead.

MR. NUNN (?): (Laughter.) Not by age, by wisdom.

MR. BAKER: I don’t think you can do much more, Pete, than what you’re – what you’re trying to do, what everybody involved in this – in this event is trying to do, and that is generate attention to the problem and point out the importance of it and the direness of it. I mean, that’s what we have to do.

I made a comment that was a little bit pessimistic when I was talking to you during my time there, when I said that if I – I said I think if we continue with divided government, it’s going to be damn hard to get to a grand bargain. That’s what I happen to believe, as someone who’s had a fair amount of political experience up there. I wish that were not the case. But if it does happen, then I think we need to do – all of us need to do everything we can to focus the attention of the American people on the importance of whoever doesn’t want to get – come to the table,
focus attention on the importance of encouraging, prodding, promoting, cajoling that group to come to the table. That’s all I know to say, to answer your question.

MR. NUNN (?): Thank you very much.

MR. BAKER: But it’s – this is an extraordinarily serious problem. I mean, if I was advising the president of the United States, the new president of the United States, whether it’s the same one we’ve got now or a different individual, I’d say, you know, you’ve got – (chuckles) – you’ve got three huge problems in this country that you need to address: the economy, the economy and the economy, and particularly our ticking debt bomb, time bomb. That’s just – we’ve got to deal with it. And I think all we can do is the kind of things we’re doing right now. And those of us who have access to the people who will be the decision-makers in the next government, can do whatever we can to try and promote that idea with them. That’s all I know to say, Pete.

MR. NUNN: Bob, do you want to add to that?

MR. RUBIN: I think the only thing I’d add, Sam – and basically in agreement with Jim – I think after this election – and I think you all can play a role it; I know there’s an effort in the business community to raise – to put a place – a very large effort trying to persuade those in public office to come together and compromise. I think after this election, anyone in our – every one of us who has some ability to relate to the political system ought to make – they really ought to have only two priorities: one – (chuckles) – compromise, work with each other in government effectively; and two, solve this fiscal problem.

And I think that you got it exactly right. The American public needs to be better educated about this issue, and I think the people who best do it are elected officials because they can break through most easily, though I thank groups like CSIS and many others who do their share, and I think all of us should try to persuade our elected officials that that is what they should use their holy pulpits for.

MR. NUNN: Thank you, Bob. OK, again, alphabetically, we’ll start with Bill Brock.

MR. BROCK: First, just –

MR. NUNN: Bill was a Republican from Tennessee, I should – because the audience may not know – an outstanding member of the Senate – served with him when I first got there, and Bill was one of the leaders with Ed Muskie in creating the Budget Committee. If you think it’s bad now, back then, we didn’t even have a budget.

MR. : That’s right.

MR. NUNN: When we got one, it went worse. (Laughter.)

MR. : Actually made it worse.

MR. BROCK: I’m not sure anybody in this panel or in this room would argue the point that we need to get this grand bargain. I think the component parts are where the challenge is. And I do have one specific question in that regard. Robert, when you talked about difficulty in
dealing with what I call subsidies in the tax system – loopholes, tax expenditures, whatever you want to call them – most of the conversations have been on doing that – removing those tax expenditures on the personal side.

I want to talk about the corporate side, because it does seem to me that maybe we have a better shot of reforming the corporate side. Everybody – the president and everybody else is talking about reducing the corporate rate. I don’t know you do that without getting rid of some of these subsidies in the – in the tax code for corporations. It seems to me that’s a good place to start, anyway.

MR. RUBIN: Bill, I agree with that. I agree with that, and I do think you could base-broaden and lower the rate. But if that’s going to be deficit-neutral, which seems to be generally how this is being approached on the corporate side – and I think we should do that. But if it’s deficit-neutral, it’s not contributing anything to dealing with our fiscal problem.

MR. BROCK: I don’t care if it’s deficit-neutral as long as it removes the inefficiencies of a system that’s distortive.

MR. RUBIN: No, no, I think that’s fine, so I agree with you. The trouble is – (chuckles) – it doesn’t do anything to address the – I totally agree with you. It doesn’t do anything to address the issue that we’re convened here today to discuss is the problem.

MR. NUNN: OK, and Bill Frenzel.

MR. FRENZEL: Gentlemen, thanks for your testimony. It’s been wonderful, and I don’t want to diminish its effect by asking any questions. Thank you. (Laughter.)

MR. NUNN: That’s the first time I’ve ever heard a member of Congress not want – (laughs) –

MR. NUNN: That’s a – that’s a – that’s a new precedent from either the sitting members or from former members, Bill. You made history this morning.

MR. BAKER: I can’t – is that the Bill Frenzel – is that the Bill Frenzel I know? (Laughter.)

MR. NUNN: Dan.

MR. GLICKMAN: I’m not from the Frenzel school, so I’ll ask a question. (Laughter.) You know, it just seems to me – Jim Baker talks about divided government. Bob Rubin talks a little bit about the political system and whether we’re capable to doing it. It – you know, the problems are not rocket science to solve. This is not like finding a cure for cancer, that it’s extremely complicated. We kind of all know what to do. The question is will our political system evolve to the point that will allow us to make these difficult, tough decisions? You both have been leaders in the private sector and the public sector. You know what leadership requires to get things done, you know, and what teamwork requires.

And I guess my question to you – and maybe it’s self-evident and you’ve already talked about it – is what are the incentives for leaders to act like leaders when we have a very risk-averse political system? We have presented the problems as serious and catastrophic if we don’t
do anything about them. So that’s what leadership is for. And so, you know, I would say to you, if you were advising the next president of the United States — and you’ve kind of alluded to this, Jim — because I think the president has to really take the lead on this and set the direction, as most CEOs do. What do we do to get leaders to act and operate in this environment in an affirmative, assertive way?

MR. BAKER: Well, I think I may have said it, Dan. You have to simply continue to hammer home the potential consequences of inaction, and they’re catastrophic. And I don’t think — you know, my sense is that regardless of how our election turns out for president, the new chief executive is going to want to deal — want to find a way, if he can, to deal with this problem. I’m pessimistic only if we continue to have divided government. If we don’t have that, I think we have a real opportunity to lead and to get something done. And I would hope we would have it even if we have divided government, but I suppose that remains to be seen.

MR. RUBIN: I think three quick points, if I may?

MR. NUNN: Sure, Bob.

MR. RUBIN: One, I do think the next president — if this problem isn’t solved, I think the next president is going to have four fallow years, because this will undermine anything that a president wants to do. So it seems to me there’s tremendous incentive for the president to provide leadership in getting this done.

Number two, a friend of mine who was in the senate for many, many years — a very distinguished former senator — said that when he was there many years ago it was always very partisan, but at the end of the day most senators had a commitment to govern and they got together and on most issues they were able to move forward. Somehow or other that’s got to be reestablished, though what the incentives are — maybe it’s just really looking in the mirror and deciding: I’m here, in the final analysis, to do what the country needs.

And thirdly — and Jim, I think, alluded to this, would be far more expert than I would be — if enough public pressure can be created, it may change the political calculus of those in office to feel that they better compromise, otherwise they may not be in office that much longer.

MR. NUNN: Thank you, Jim. Bob — Bennett.

MR. BAKER: One of your speakers — one of your speakers —

MR. : Bennett Johnston, Louisiana.

MR. : Excuse me, Jim?

MR. BAKER: Yeah. I was just going to say, Sam, that one of your speakers earlier — I think a former congressman maybe from Tennessee — referred to the Supreme Court decision in Baker versus Carr and talked about how the redistricting process we have in this country is exacerbating the problems of our political dysfunction. Because our campaigns now revolve around the primaries and not the general election, we don’t have many truly competitive seats
anymore. And now – but you can’t deal with that – you know, people say, what can we do to correct it? Well, you can’t deal with that without a constitutional amendment which is, of course, extraordinarily tough to get.

MR. NUNN: Bennett Johnson, Louisiana.

MR. JOHNSTON: If it is a disaster to go over the fiscal cliff, which I think we’re agreed that it is, and if there’s not time to deal with a grand bargain in the lame duck, then the question is, what do we do in the lame duck? That’s the emergency now. Do you agree with me that we can accomplish two things: first, get a goal as to deficit reduction – $4 trillion is what Simpson-Bowles has over nine or 10 years – and secondly, get a matrix, a procedure by which the Congress would act next year with mileposts so that if they do not act, for example, on reconciliation instructions by a certain date then certain things happen. Do you agree with that? And if you don’t, what would be the alternative? Because I think we need to focus on that lame duck session.

MR. NUNN: Thank you, Bennett. Tim Roemer.

MR. ROEMER: Do you want me to take a shot at that?

MR. : (Inaudible) – answer the question?

MR. ROEMER: All right, sure.

MR. NUNN: Jim and then Bob.

MR. BAKER: Yeah. Well, I – what I think – let me tell you what I think is going to happen, Bennett. I think that there – I think there’ll be a much greater focus on this problem right after the election. There won’t be time during the lame duck to get anything substantively done about it, but there’ll be a recognition that we have to move the cliff out and then – so that we have time to deal with it and deal with it in an effective and orderly way. And I think that’s what’s going to happen.

MR. NUNN: Bob.

MR. RUBIN: Yeah. Jim, I totally agree. I’ve given a lot of thought to it. I even wrote an op-ed on it for The Wall Street Journal not too long ago. I agree with Jim. I think that – I mean, one – first of all, you all know far more about legislative process than I do, but one approach at least would be to defer the year end for a couple of months, so instead of having the lame duck, you’d have the lame duck in a couple of months, and at least – and you still have the pressure of the fiscal cliff, and nobody’s giving up any – (inaudible) – I think you’re just – like continuing resolution, just deferring it for two months. I sort of – I’m not so sure we won’t go over the fiscal cliff briefly, because it may be that for all kinds of reasons, one party or another decides that’s the way to negotiate. But if we go over, we can’t stay over very long, that’s for sure.
And thirdly, I think that the idea of doing something general and then deferring its completion gets to be troubling to me, because I think the further you – again, you know far more about legislation than I do. The further – you get six months down the road, you get eight months down the road, we’re getting nearer to the next election, we’re getting further away from the last election – (chuckles) – and I have a feeling Congress, in its infinite wisdom or lack thereof, would be inclined then to begin to postpone things indefinitely.

So I kind of think that in this initial period, you got to put in place something that – not every piece of it, but it’s got to be – it can’t be 30,000 feet in the air; it’s got to really have a lot of specificity to it. And I think at least one should consider – I’m not sure it’s the right idea – well, I kind of think it is not a bad idea, to defer the end of the year for a couple – I’m sorry, defer the end of the – yeah, defer the end of the year for a couple of months.

MR. NUNN: Tim Roemer.

MR. DOMENICI (?): That’s what’ll happen.

MR. ROEMER: Yeah, thank you Senator. To both, you know, Jim and to Bob, you have really outlined very eloquently and articulately your economic credentials and, you know, your expertise here. What are you more worried about right now, the economic fundamentals or parts of the political dysfunction up on Capitol Hill? And to the political dysfunction and gridlock, how do we talk about the answers to the fiscal cliff and to the deficit in optimistic and positive ways, job growth, economic competitiveness, things that will get the legislators’ attention that will be rewarding to them and hopefully increase the cascade of both pressure but also opportunity and optimism for them?

MR. NUNN: Jim.

MR. BAKER: That’s going to be part of the debate – (laughter) – it seems to me, Tim. I mean, I – in my remarks, I outlined for you my view. I – you know, Bob and I will probably disagree on some of these issues. In fact, we do, and we’ve had discussions about it before. My view is you need to – you need to put in place pro-growth economic policies, and that reducing marginal tax rates is the most pro-growth economic policy you can come with. Now, Bob probably might not agree with that, but I think we just keep – we keep making that case.

You ask, first of all, what we worry about most, the economic or the political. I worry about the political dysfunction right now. If we could cure the political dysfunction, we can solve the economic problems through the mechanism of a grand bargain that has everything on the table, nothing excluded.

MR. NUNN: Bob.

MR. RUBIN: This is not going to be an exact quote, but it’s a fairly rough – it’s a fairly decent paraphrase. President Clinton used to say, if you – it’s sort of exactly what Jim said – if you can’t solve the politics, you’ll never get good policy. So I agree. I think the political system dysfunction is our ultimate challenge and our fundamental problem.
See, I think, Tim, you can turn – you can express all of this in the way that both of us have. I am deeply troubled by this. I really do think we are heading – forget the fiscal cliff. I think we are – I mean, that is sort of a – I think we’re heading into virtually certain crisis, as I said, of tremendous import at some unpredictable moment.

But you can turn that around – (chuckles) – and say that if we do the right things, we can be – we can get the benefit of increased confidence now – I at least would put a little bit of stimulus in, but you can argue that both ways – increase confidence now, and that would help improve our economic position, I think actually probably significantly, and we can build on our enormous, long-term strength so that we can be successful in this transforming global economy. So I think if we take all the negatives, and then you can turn them around and express them in positives. But I – by the way, I – oh, I know I already said this. I do agree with Jim that the ultimate challenge is our political system.

MR. NUNN: Bob, it’s a subject for another day, but I’d argue, to add to that, if we can get a virtuous circle going of fiscal responsibility and growth, we’ve been given a mulligan in terms of energy. I mean, we’ve – subject for another day, but – (inaudible) – beginning with the abundance of natural gas can make America one of the most competitive industrial nations in the world. We have that opportunity. So there are some really good things that could happen, but this problem has to be dealt with first.

I want to again – Jim, thank you for you and – for being here. I know you have a very busy schedule. Bob, thank you. I know that both of you are enormously busy. We deeply appreciate it. Jim, thank all the folks at the Baker Institute for joining in as a co-sponsor of this series of forums. Again, I want to thank Concord Coalition, CSIS, Bipartisan Policy Center, American Business Conference, the Baker Institute, the Belfer Center at Harvard, the Hoover Institute at Stanford and also, again, Rudy Penner and those who individually have made this effort possible.

We thank all of you for being here. Pete, last word.

MR. DOMENICI: Thank you very much, Sam, and I just thank everyone, as you did, and wanted to say that this is a terrific start. Perhaps we’re going to find some – this to turn into a rainbow where we’ll find some beautiful light, at least I hope so.

And I want to – I want to say that I believe this problem can be solved. I’m going to throw out a word that was invented by me in the Budget Act called “reconciliation,” and I believe what we’re talking about is the possibility that someone will find a way to bridge this gap with a bill that will get us – give us the time to do the work that the bill requires at some future date doable – it’s doable. I hope that’s the case. Thank you very much. Great to be with you and to be co-chairing with you.

MR. NUNN: Thank you very much. The clock’s run out. Thank you. (Applause.)

(END)