



DEMOCRATIC LEADERSHIP COUNCIL

**THE PROGRESSIVE ALTERNATIVE:
RESTORING FISCAL RESPONSIBILITY**

**TUESDAY, OCTOBER 25, 2005
11:00 A.M. – 12:30 P.M.**

WASHINGTON, D.C.

FEATURING:

**GOVERNOR TOM VILSACK, IOWA, DLC CHAIR
SENATOR TOM CARPER, DELAWARE, DLC VICE CHAIR
GENE SPERLING, SENIOR FELLOW, CENTER FOR AMERICAN PROGRESS
AL FROM, FOUNDER & CEO, DEMOCRATIC LEADERSHIP COUNCIL
MAYA MACGUINEAS, DIRECTOR, FISCAL POLICY PROGRAM,
NEW AMERICA FOUNDATION;
PRESIDENT, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET
PAUL WEINSTEIN JR., CHIEF OPERATING OFFICER & SENIOR FELLOW,
PROGRESSIVE POLICY INSTITUTE**

*Transcript by:
Federal News Service
Washington, D.C.*

AL FROM: Good morning. I'm Al From, founder of the DLC, and welcome to this forum on "The Progressive Alternative: Restoring Fiscal Responsibility." What we're going to do this morning is we have a distinguished panel, including one sitting governor and one former governor, who have actually had to manage budgets, so they may actually have some expertise. And then we have Gene Sperling, who was President Clinton's economic advisor, who was responsible for the only surplus we've had in this country in a very long time. But what I want to do very quickly – the format will be this: Each of these speakers will make presentations and then hopefully we'll have a little bit of time for questions at the end. I'm going to be very brief, because with all these experts you don't want to hear from me.

I'll just make two quick points. The first is that, oddly, sound fiscal policy is a critical underpinning for a growing economy and for an economic growth strategy. And to the DLC and the "new Democrats," growing the private economy has always been critical if we're going to be what we ought to be, which is the party of opportunity.

And the second thing is in this tight budget situation, we have to make decisions. We simply can't afford to spend on everything, and particularly now with the war, with the hurricane and all the other things that we have going on in this country, we've got to make choices. And one of the things we've argued consistently here is that our public dollars have to be spent wisely and they have to be spent on investments that help grow the economy and help create opportunity and not on subsidies that are going to prop up failing industries. We call that corporate welfare.

As I said, that's all I'm going to say, and I'm going to, in a minute, turn it over to Tom Vilsack. I just want to introduce everybody so we can we move quickly through the panel.

First will be Governor Tom Vilsack of Iowa, the chairman of the Democratic Leadership Council and a real reformer, is a reform governor who has instituted some interesting budgeting systems in the state of Iowa.

Next we'll hear from Gene Sperling, who is now a senior fellow at the Center for American Progress and a part of our blueprint economic editorial board, and was President's Clinton's economic advisor and tells me that next week you'll be able to find this book, "The Pro-Growth Progressive," which will be out next week that Gene has written.

We'll then hear from Senator Tom Carper, who is also Governor Tom Carper. He's vice chair of the DLC, and the thing that I'm most delighted about is to have – two people on this panel actually had to make those hard decisions, and I think can talk from that perspective.

We'll next hear from Maya MacGuineas, who is the director of fiscal policy at the New America Foundation and the president of the Committee for Responsible Federal

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Budget, who will talk about trying to put together a grand fiscal bargain. Maya was also an advisor for Senator McCain.

And finally, we'll hear from Paul Weinstein, who is the chief operating officer and a senior fellow at the PPI, who has put together, I think, a very innovative middle class tax reform package, and also will talk about how we cut unnecessary spending and reduced waste.

With that let me turn it over to Governor Vilsack.

GOVERNOR TOM VILSACK: Al, thanks very much and good morning to everyone. Thank you for taking time from busy schedules to be involved in this. My remarks at the outset are going to be very, very brief. My responsibility at this point is to frame the discussion, and it's a simple one to frame, and that is that in the next several weeks and months, the federal government will be making a set of decisions that will reflect the values of this country, and in order to do that there will be a debate and conversation about those values and those choices, and I think it is incumbent on Democrats in particular not just simply to criticize what is being proposed but also to lay out a more progressive and appropriate approach that supports the values of America and Americans, and reflects sort of a community of values.

That's why we've asked these distinguished panelists to participate today. They're going to set forth their thoughts and ideas about what a Democratic proposal and budget should look like and be, and then when they are finished I'm going to come back to the podium and talk a little bit about my views about this relative to the national government and in my position as a governor of a state. So I'm going to turn it over to Gene and we'll take it from there.

GENE SPERLING: I was just told by Senator Carper that my job was to be his warm-up act. (Laughter.) I do have a few jokes, actually. But thank you – thank you to Bruce Reed for inviting me here and for their support and their leadership on setting forth the values of progressive fiscal policy.

Let me make a few points here today. There is no question that fiscal policy or the state of the deficit at any given time is of course affected by the state of the economy. It's a rather meaningless debate as to whether growth leads to strong fiscal policy or strong fiscal policy helps lead to growth that leads to strong fiscal policy. Clearly they're interrelated, and clearly, whoever is running or in charge of fiscal policy has a great responsibility to try to create the strongest foundation possible to spur not only that growth in the short term but the foundations of long-term growth and prosperity.

Now, I was assigned to talk about the fiscal policy and the Bush tax cuts. Let me make, hopefully, a few broader points, which is that the conscious policy choices that have been made, apart from what has happened in the economy or the war, the conscious policy choices that are made have mattered enormously for the long-term future of fiscal

policy just in terms of the numbers as they add up. But second and thirdly, they have also mattered for the culture of fiscal discipline in Washington and the degree that there is any moral authority in Washington, D.C. to pull together the type of grand bargain that Maya is going to talk about.

Now, on numbers, you don't have to live here much to know what the general philosophy was. There was a general view on the conservative side that Newt Gingrich had made a mistake by putting out very, very large tax cuts with huge numbers, and that this had essentially scared Americans off. And so there is a different strategy that came in. Now, I think of it as kind of the M&M strategy because when I was at the White House – you know, in the Clinton White House we didn't have jelly beans, we had M&Ms, and there were these bowls of M&Ms – Bill Galston is nodding – everywhere you went. They were a constant source of temptations. So one day I opened up a pack, I did the math, and I realized that each M&M is about 5.9 calories. So I decided that as I walked by the different bowls of M&Ms, that if I could just take handfuls of 10 M&Ms, I was only having 59 calories. How much could 59 calories ever affect your weight?

Well, we can all figure out what the M&M fallacy is. Incrementally, each decision to have another 59 calories isn't going to affect your weight. However, if you make that incremental decision eight or nine times in a particular day, it indeed can add a good 15 or 20 pounds, which fortunately for me this podium hides.

I think that the only thing that perhaps the Bush team adopted from my transition talk to them was probably the M&M strategy, because everything they did was designed to not make you add up the different handfuls. Tax cuts were passed separately. They were sunsetted. They were then accelerated, made expensive. Now, if you add up all the amounts – forget about the debate of how much was lost and other things; just look at the conscious choices that were made. This year alone we'll have \$225 (billion), \$250 billion in tax cuts, but going out into the future it will be more – \$300 (billion), \$325 (billion), \$350 (billion.) We have a Medicare prescription drug plan that will probably be costing now \$100 billion a year. Now, whether you like or don't like those policies, the important point to note is that none of them were paid for. There was not a single penny of them paid for.

So put everything aside and just ask ourselves where we were when they came into office. We were on the cusp of the baby boom retirement challenge. We were supposed to be in a place where we all agreed that we as a nation had to increase our national savings. We were like the family with triplets who are 13 years old and all supposed to go to Ivy League schools. We don't have a huge problem at the moment, but we better save a lot or we have a huge debt coming. And in the '90s there was a degree of bipartisan support for increasing savings, even getting to surpluses to pay down the debt. If you look at what's happened since we've been here, we see that the expected debt, we have made conscious fiscal choices that have virtually doubled what the expected debt we have in Medicare and Social Security.

In other words, we have to make all of those difficult choices in terms of net national savings, et cetera, just to get to where we were. And it is really worth just – you know, we don't have to debate the numbers, whether the deficit be this or that, just look at the amount of money that was done on their signature proposals that were not paid for and ask what it means. The Social Security shortfall, if we made it up now, if we started saving money now, would be about .7 percent of GDP. Medicare might be two or three times higher. But when you look at the size of the tax cut and Medicare prescription drugs, they are together very much in the neighborhood of 3 percent of GDP, unpaid for, enough that if those revenues had been focused on Medicare and Social Security, we could perhaps have taken care of our problems.

Now, that would have been highly ambitious, but the point is, these different handfuls of M&Ms have added up to a serious debt or debt weight problem for our country in the future, and it is worth looking at the size of them. They do matter. They are consequential.

Secondly, it's worth affecting what the culture – how the culture has changed. Now, you can say a lot of things about '95. People will say, well, that was the heart of fiscal animosity, Clinton versus Gingrich. Well, yes and no. Yes, there was enormous differences on what priorities people were for. We were for more investments, we were for less tax cuts, they were for a much more severe reduction of what we thought were crucial safety net programs and investments and large tax cuts. But, interestingly enough, there was never a discussion that you could do any of your priorities without putting it in a context of deficit reduction, if not balanced budget. In all of my eight years, you didn't go 25 seconds on a conference call without a reporter saying, how are you going to pay for it? I don't think that was a common question between 2001 and 2004.

You know, in one of my favorite movies, "Young Frankenstein," Gene Wilder is playing Dr. Frankenstein and he's about to go into the Frankenstein room to see Frankenstein, and he says to his aids, now, when I go in there, no matter what I do, no matter how much I scream or yell or pound on the door, do not let me out. So of course Gene Wilder walks into the room, the Frankenstein monster growls, he runs for the door and starts pounding, let me out, and his aids don't. And then he says, oh, come on, you didn't fall for the don't-let-me-out-no-matter-how-much-I-yell-or-scream routine did you? Well, I mean, that is the way fiscal policy is in Washington a lot. Everybody wants to – makes the pledge they're going to be fiscally responsible, but they want a way out when it's their particular priorities. But what happens is once you've opened that door, once the free lunch mentality replaces the how-are-you-going-to-pay-for-it mentality, it is very hard to pull it back.

And I think that there are a lot of conservatives at think tanks and other places that I think, if they're honest, learned a lesson in the last four years, which was they were all for large tax cuts that were not paid for. They thought, that's great, large tax cuts – starve the beast, less government. But when they got to the Medicare prescription drug, they found the Frankenstein monster they had created. A culture in Washington had been

created that you don't have to pay for your priorities, and that same culture, that same attitude that went to the tax cuts suddenly went into what was one of the largest expansions – I think a worth idea or program, but the notion is that it did not have to be paid for, and now suddenly a lot of Republicans are saying, now, how is it that we just passed a new entitlement expansion that will be over \$120 billion a year soon and wasn't paid for with a single penny of savings or cut? That is the cultural change in Washington, from mutual commitment to fiscal discipline to anything-goes-Christmas-tree mentality.

Now, it also goes to the moral authority of the president to do the types of grand bargains that matter. There is an expression in this town – I think it comes from Dick Darman – that says we have to hold hands and jump together. The reality is that the 1993 plan that President Clinton pushed was an anomaly. I'm very proud of it, I'm very proud of the idea that one party took all the political burden of doing fiscal discipline, but it's hardly the model going forward. If you look at 1982 and 1983, President Reagan and Tip O'Neill, both in raising taxes in the Social Security plan; if you look at President Bush and Speaker Foley; if you look in 1997 at the Medicare savings with President Clinton's speaker, Gingrich, these were cases where the leaders of the party came together and held hands and jumped together. They did things that neither party could have politically done alone, and in doing so, each one compromised. I don't mean fake compromises; I mean real compromises.

President Clinton went along with their capital gains tax cut in 1997. Ronald Reagan raised taxes twice in '82 and '83. These were real compromises but it gave the leaders the moral authority to ask for compromise from others. When you have a tax cut – you know, people can say, well, all we ever talk about is the tax cut for the top 1 percent. What's that, \$100 billion a year? Well, you know, \$100 billion a year matters. That's a lot of money. That could make a big difference. That could be enough to virtually make Social Security solvent. But it's even more once you've decided that you have the resources to afford \$100 billion a year to people who make over \$2 (hundred-thousand), \$3 (hundred-thousand), \$400,000, how do you have the moral authority to tell a town meeting that people are going to just have to deal with less Social Security benefits going forward, that they're going to just have to deal with their agriculture subsidy being cut. You don't have that – and it's impossible for a progressive to go forward and ask those type of sacrifices from their side when we could afford to give so much to those who already have so much.

So I think that if – people always ask me, what would you do if you were President Bush? If I were President Bush I would say to the Democratic leadership, I am willing to pull back on the tax cuts for those making over a quarter-of-a-million dollars in new tax cuts, but I'm only going to do it if you come to the table and work out some savings on entitlement and spending programs. He would have a very strong moral authority in that case to at least bring them to the table. He would have the chance. That seems like a joke when you say that now. People say, oh, come on, that will never happen. Why? Each of the last three presidents were willing to do that. Without that

type of willingness to compromise and to give in on some of his priorities, we will never get the mutual sacrifice we need.

Now, the last thing I'm going to say is that with apologies to fourth grade teachers everywhere, there is such thing as a bad question, and here is a bad question: How do you pay for Katrina? That is one of the – I'm sorry – the dumbest questions in fiscal policy I've heard – again, apologies. Why? Because what a strong company or a strong country wants to do is essentially save for a rainy day, is to actually be in strong enough footing so that when a disaster happens, when a major lawsuit happens, when a one-time charge happens, you can deal with it. If we were still running balanced budgets, if we were still running surplus, \$100 billion for one or two years for a war or a natural disaster would be a blip. That's why you have a cushion. That's why you have that kind of extra fiscal strength.

President Bush benefited from that cushion. We were expecting surpluses. When we had a \$600-billion deterioration in our deficit, it led to a \$300 billion deficit. What if President Clinton had left President Bush expectations of \$500 billion deficits? Then the deterioration would bring us over a trillion dollars. That's where we are right now. Our steady state – what Goldman Sachs and others say, looking at a steady state, the economy – assuming – just grows evenly over the next 10 years, expects \$4.75 trillion – \$475 billion a year average. That's without assuming that one of those years we could again face something like 2001, the combination of recession and terrorism in the same year. What kind of shape will we be in then?

So the right question is what do we do about our long-term future, not how do we pay for one-time costs for one year; how do we put ourselves on the stronger fiscal path, not only for dealing with the challenges we know, like Social Security and Medicare, but the challenges we don't know on the national security or terrorism side? That's the right question: How do we turn around our long-term deterioration? Thank you very much.

(Applause.)

SENATOR TOM CARPER (D-DE): Gene Sperling, you're a more-than-able warm-up act. I'm reminded, whenever I think of warm-up acts, of a long time ago when two of the icons in rock and roll history, Chuck Berry and Jerry Lee Lewis, were at the top, the pinnacle of their careers, and the both had agreed to perform at the same venue at the same time, and neither one wanted to open for the other. Neither one wanted to be the opening act; they wanted to be the closing act. They went back and forth, back and forth – their managers went back and forth, back and forth. Finally, after all this haggling and everything, Jerry Lee Lewis, much to his chagrin, agreed to be the opening act. The evening of the performance came and Jerry Lee Lewis was determined to make this the performance of his lifetime and just to really show Chuck Berry.

And he brought his piano on the stage and he was like a madman. He usually was like a madman anyway when he performed, but this night he was just like a man

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possessed and just drove the fans like wild, three encores, people screaming in pandemonium, and to finish off his act he lit his piano on fire – (laughter, inaudible) – the piano was just incinerated on this stage and the people are going crazy and nuts – kind of like you were after Gene’s speech. (Laughter.) And as he walked off the stage, there, waiting in the wings to come on was Chuck Berry. And Jerry Lee Lewis said, you’re on. (Laughter.) And he was.

Well, Gene, thanks for being my warm-up act, and let me come on and try to cool down these passions that you’ve wrought up in all the folks that are here. I want to say to Al and our team at the DLC, thanks for pulling us all together, to Tom Vilsack, my friend and former colleague. It’s great to be with a sitting governor as opposed to being a recovering governor, which is what I am. And I’m delighted to get to sit next to Maya just down the table here from Paul, and we look forward to your thoughts on how we can tighten our belts and get this car out of the ditch.

My theme is requiring fiscal discipline. The federal budget will require the leadership from the executive. I’ll go back to my old job – I’ll go back to my old job a couple of times here. As governor of Delaware, if I’d come in and said to my legislature, ever, that we have these huge budget deficits in Delaware, and by the way, I’m going to submit a deficit budget and it’s your job to figure out how to raise the taxes or cut the spending in order to balance the budget, they would have run me out of town every single year. And they should have.

History shows that budgets don’t get balanced without leadership from governors or mayors, or frankly from the presidents of this country, and in recent years, that leadership has oftentimes come from Democrats. I think Bill Clinton may have been the only president in the last 30 years to balance a budget, and I think before him I think Lyndon Johnson might have been the last to submit a balanced budget. President Clinton did not balance the budget out of political necessity or because Republicans in Congress actually force him to do it. He campaigned on fiscal responsibility, and once elected he demanded it from Congress, sometimes at the expense of our party.

He and his skilled team of economic advisors understood that balancing the budget and paying down our publicly held debt were the right thing to do, not only for future generations but also the right thing to do for our economy. And the result, well, you know it – Gene knows this better than I do – 17 million or so new jobs, the lowest peacetime unemployment rate in 41 years, sustained GDP growth, low inflation, median family incomes that went up by some \$3,500 per family.

Going back in time, when Bill Clinton was president and balancing the federal budget, I was back in Delaware taking over from my friend, Mike Castle, and we were able to balance budgets eight years in a row. We did it guided by a principle whereby we cut taxes seven out of eight years, paid down the debt and ended up with AAA credit ratings. This was a state that in 1977 has the lowest credit rating of any state in the country, and about 20 years later we’ve got the best.

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But there was one sort of abiding principle that we tried to stick to in the time that I was privileged to serve there in that job, and that is if something is worth doing, it's worth paying for. And that's not always – as we know as individuals, that's not always an easy principle to follow, whether you happen to be in government or just in our own personal lives. There is always some trust fund that we can raid in government that's just waiting to be raided. Or in our personal lives we always get credit card applications in the mail almost every day, mostly from Delaware, I might add – (laughter) – enticing us to open up yet another account. But if we stick to this principle, and that principle is if something's worth doing it's worth paying for, more often than not we'll be successful, whether we happen to be running a state or a city or county or, frankly, a country, or a company, or in our own personal lives.

I've got to tell you a story – true story. I remember in 2001 I'd been governor, I was just stepping down, and we had a new former governor from Texas who came to Delaware to visit us, and I remember going to meet him at a football field where he landed in his helicopter. And we rode – Mike Castle and myself rode over to this event that George Bush was going to be – President George Bush was going to be speaking at, and we talked about cutting taxes. And he was sort of preparing to lay out his tax cut proposal and just sort of like go out and get a whole lot right at once. And I said, well, why do you want to get it all at once? Why don't you consider what we did in Delaware? We'd cut taxes one year, come back, still have a balanced budget, come back the next year, cut taxes a little bit more, balance the budget, come back the third year, and on. And you know what he said to me? He said, you've got to go out and get it all at once. That's what he said. He said, you've got to go out and get it all at once. And he reminded me of Ronald Reagan. He said, Ronald Reagan, in '81, went out and got it all at once, because, you know, Congress doesn't like to vote to cut taxes and it may be the only chance we have to get it.

And I said, it's funny, here in Delaware we like cutting taxes. (Laughter.) That hasn't been that hard, and Democrats and Republicans, I convinced them year after year after year to cut them again, but only when we're sure that we could do so in a responsible way. And there are a lot of other Democrat governors who have done the same thing. One of them is sitting right here – Evan Bayh, whose is predecessor as DLC chair; another, Governor Napolitano down in Arizona, Bill Richardson in New Mexico. There is a bunch of folks.

I wanted to focus a little bit if I could also on the lack of fiscal leadership from our current administration. Our current administration has shown us the opposite of good fiscal leadership, and instead of sticking to that motto I used earlier, it's worth paying for – if it's worth doing then it's worth paying for, the Bush White House has chosen to cut taxes – and Gene has talked about this – and increase spending I think more than any administration in the last 30 years, and the result, as we all know, is record budget deficits and a rather bleak fiscal outlook. They turned the largest budget surplus in history into the largest fiscal deficit in our history and refused to choose what's worth

paying for and what's not. And they've done all this with a straight face and tried to lead us to believe that bad news is actually good news. And this idea that our budget deficit for last year was "only" \$300 billion – I asked myself, I said, check and see how long it took us as a country to run up \$300 billion in deficit right from the start? And I think it took about 200 years to actually run up that large a deficit. And somehow it's good news when we get our deficit down to \$319 billion.

The bad news is guys like me, the baby boomers, we're going to be retiring in a couple of years – hopefully for me at least seven. (Laughter.) But some of my generation is going to retire even sooner than that, and we think it's hard to balance our budget before the boomers retire; god bless us when they start to retire in a couple of years.

Well, I think we're in a hole, a fiscal hole, a deficit hole. Remember what Dennis Healy, I guess who was a chancellor for the Exchequer, used to say. He used to say, when you find yourself in a hole, stop digging. And he was right. He was right then and he's right now. This administration came on five years ago and they weren't in a hole; they were like on the top of the mountain. And within about a year or two we got ourselves in a hole and just kept digging. And frankly they want to continue to dig. I think Gene has mentioned the prescription drug bill. I voted for it but the deal was it was going to cost maybe \$400 billion over, what is it, 10 years, and as it turns out it's at least 25 percent more than that, and god only knows how far off that is.

And it's probably been clear to you – it has been to me – that for some time we've had these military operations going in Iraq and Afghanistan, and they're ongoing, but the administration has never requested – I don't think they have ever requested money for these military operations as part of their annual budget – never. I served in the Vietnam War. Every year Lyndon Johnson took us through that war – John Kennedy before that and then Lyndon Johnson. At least he had the – whether he liked the war or not in Vietnam, at least he asked for the money in the budget process, and didn't somebody call for some kind of last-minute spending or waive the Budget Act, and that sort of thing? And meanwhile – and by the way, they actually balanced the budget in one of those last years that Lyndon Johnson served.

Well, my friends, we can do better than this. We can do better than this, but it's not going to be without strong executive leadership from our president – hopefully this president. If not, then certainly the next president. President Clinton led by example when he cajoled the Republicans to agree to a set of spending and tax initiatives that put our country back on the right path for eight years, and it's time for us to do that again, for Democrats and Republicans to get together, to be honest with one another about the size and scope of this problem, to set some priorities, then put everything on the table, everything, as Gene has suggested: tax cuts, discretionary spending, domestic and defense, mandatory spending, and really the budget process itself.

In the meantime we can start by re-implementing a couple of budget process reforms with proven track records – pay as you go discretionary budget caps. There is two good ones for starters.

Let me close by saying this: We have – in my view, we've got to commit – recommit ourselves to the principle that if it's worth doing, it's worth paying for. We have to dig ourselves out of this hole that we've dug. It's not going to be easy. We'll face a whole lot of opposition, probably from both sides of the aisle, but that's why our constituents sent us to Washington. They expect us to be good stewards of their money and they expect us to make the tough choices. They expect us to lead.

Maya?

(Applause.)

MAYA MACGUINEAS: Good morning, everybody. Thank you very much. Thank you to the DLC for hosting this, and it's quite an honor to be on the panel with this esteemed group of people. Just to begin, I'm going to start with saying that I don't think there is any partisan fix which will actually work to fix this mess, and I think it's most important that we look at this as a bipartisan solution waiting to happen. There is plenty of blame to go around for how we got here and there is nothing that's going to work to pull us back from the mess we've gotten ourselves in unless we start to work bipartisanship on the issue.

So to specifics: What do we do? I'm going to respectfully take issue with Gene and align myself with, I guess, the fourth grade teacher, saying that the question of how we pay for Katrina, something in the short run, is a worthwhile question right now, given the circumstances we face. Generally it wouldn't be. What you want is to have a budget that is absolutely capable of accommodating unexpected emergency situations like Katrina, or even wars in the short term. You want to be running balances – you want to be in fiscal balance over a business cycle, and you therefore want to be able to borrow when something unanticipated happens.

However, that's not the situation we were in. We already have large budget deficits and we're sitting on the precipice of the retirement of the baby boom. So we're in a uniquely sort of back-up-against-the-wall situation where we now have to look for offsets for things we normally might not. Because of that I think it's important to talk about how you pay for something that comes along, whether it is the war, Katrina, prescription drugs or tax cuts, all of the things that have accumulated – led to additional borrowing in the past couple of years. And both I and Governor Vilsack recently have written op eds getting to the specifics. There are many ways that one can pay for – whether it's \$100 billion or \$200 billion spent over five years, there are ways that you can pay for this. I think both of the approaches we have laid out focus a lot on earmarks, on pork. I included defense in my areas of cuts. I didn't cut anything for children or poor families, low-income families, or the environment, and I had something called a

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progressive surtax to help pay for it. I don't think the specifics are actually what matter so much as moving the discussion away from pointing fingers into productive specifics: What can we do to offset the costs of things?

Another thought that the Committee for a Responsible Federal Budget has recently is in the current budget we are planning to go forward with planned spending cuts – around \$35 billion, and some members of the House are talking about increasing those numbers – and larger tax cuts. What we would recommend that we do in the face of people saying, well, we should hold off on those spending cuts; they might hurt some of the vulnerable populations that have been affected by Katrina, and others saying we need to go forward with those tax cuts, we need to have tax cuts to strengthen the economy, we would actually disagree with both of those and say, what we should do is we should proceed with spending reductions; we should look at ways to pull back on the planned spending that's in the budget and go forward with the savings we've promised to find, while at the same time holding off on tax cuts, certainly not doing anything on taxes this year, so that we'll have time to reassess what the budget situation post-Katrina really is.

Finally, in the short term, I think we do need to build into our budget things called rainy-day funds. We know that disasters will continue to happen. Good budgeters for years have been recommending that we set aside resources to pay for disasters for when they come along, and we should build that into our budgets going forward. But the far more imposing and challenging problem is how we tackle the long-term problems, those being both structural budget deficits and the challenge of under-funded entitlement programs.

Just to take a step back, of course the reason why these issues matter are numerous. I mean, interest payments in the budget are one of the faster-growing areas. This squeezes out spending on things that – room for spending on the things that people care about. It also can risk harming the economy if it drives your interest rates up, something we haven't seen recently because we have nearly integrated global capital markets, but one doesn't know what that might happen.

Something you don't see but has a profound effect on all of us is that this level of borrowing decreases our ongoing standard of living. In the future, our wages will be lower than they otherwise would have been because in order to keep investment in the U.S. as high as it needs to be to grow the economy, we borrow from abroad, and therefore the returns on those investments go back abroad. They don't stay here and increase our standard of living.

And then finally there is this kind of dark cloud out there: the risk of a real financial market crisis, finally saying we no longer tolerate the level of borrowing that's going on in the U.S., and we'll see that show up in either currency markets or the bond markets. That's the really untidy way out of this mess.

So I mentioned I think there is enough blame to go around in the long-term situation, how we've gotten here, and I do think that that's true. When it comes to taxes and sort of the, to generalize, Republican approach that we've seen recently of cutting taxes but not cutting spending, we've had four or five years of testing this sort of big-government conservatism approach out. It's a political strategy. It's not working for the economy, it's not responsible, and that must stop. If you believe there should be a smaller government, you cut spending, and then you can cut taxes as well. If you believe there should be a bigger government, you raise the taxes to pay for what you want to spend. I completely agree with the point that if you think something is worth spending money on, you should be willing to pay for it. But cutting taxes, growing government is not a recipe that is working for the economy.

On the left – the president put Social Security reform on the agenda, the easier of the two entitlement challenges that we face. I sort of look at it as this is the dress rehearsal or the warm-up act for the really difficult challenge of tackling our healthcare programs. And whether you liked the president's approach or you didn't like it, the Social Security challenge is a real one. And on the left, instead of sort of stepping up to the table saying, here is the way I think we should approach reforming Social Security, most politicians pretty much bury their head in the sand. It was kind of ignoring of the issue, and in many ways it was a partisan fight where I heard a lot of comments saying, well, we're the minority; we don't have to lead on this. And I think that that is also part of the problem. Right now we have a political system that has become so adversarial, with the minority saying, we don't really have to be constructive, and the majority not being constructive. Adversarial systems may work in sports, they may work in law; I don't think they're working in politics anymore. I think we have to find a way to break that logjam.

So, moving on to what a grand fiscal bargain might look like, I think the numbers in many ways spell it out. Revenues right now, as a share of the economy, are at 17.5 percent of GDP – pretty close to a historical low, though they have been growing a little bit recently. Historically they've run at closer to 19 percent of GDP. Spending is at about a little bit over 20 percent, where it traditionally has been, but it's projected to rise anywhere from 25 to 30 percent of GDP. So in the short run the problem truly appears to be on the revenue side, and in the long run the problem truly appears to be on the spending side. And it seems to me that any constructive solution will link these two together. What jumps out at me is the need to raise taxes in the short run while combining that with a scaling back of the promises or the under-funded entitlement programs that we have on the books so that we're not promising that the government will grow to much beyond where it has been historically, or at least what we're willing to pay for.

I think there is something that's just as sort of inappropriate as cutting taxes without cutting spending in the short run. I think it's inappropriate to promise much bigger government in the future and that somebody else will figure out how to pay for it.

If we want to make those promises, we would also have to figure out how to pay for them today.

So I think there are plenty of ways to bring that grand fiscal bargain together of increasing taxes in the short run and scaling back on entitlements in the long run, but I also think that each of those big, big policy changes bring up a few other important questions. So on the tax side, they are often, between the left and the right, ongoing fights about taxes as a share of economy and also how progressive taxes should be. I think we have to acknowledge taxes will go up because there are budget deficits, but also because we have an aging economy, and in order to accommodate the growing retired population, government will probably grow.

The more that taxes increase, the more important arguments about effects of taxes on the economy become. I don't particularly worry about taxes at this share of the economy having a tremendously negative effect, but as they grow, they could. So you want to think carefully about what tax increases to consider. I think there are lots of ideas that are worth discussing out there, things like progressive consumption taxes; things like integrating the corporate and individual income tax, but taxing all capital income the same, or all income the same, capital income and labor income; things like new forms of energy taxes which could both have positive effects on the economy, if done right and phased in right, and also the environment and our energy policies. So I think that you want to think about the effects on the economy while also taking into account important distributional concerns. So you don't want to just pick taxes, which would shift the burden downwards, even though they might be better for the economy. There is an ongoing tension between taxes that are efficient, taxes that are fair. We can figure out what kind of taxes combine those two objectives.

On the other side, when you scale back on entitlements, I don't think that we should just proceed at kind of chipping away at the current intergenerational consumption-based transfer programs that we have, but instead, the aging of the baby boom really calls for a grand rethinking of what social insurance, or the social contract, should look like. And I would just put out there that due to the new realities of the economies, the new risks, the new opportunities, one proposal that I think is intriguing has three parts. The first would be mandated savings for the things we know are going to happen, such as retirement and basic healthcare costs, education and housing costs. So saving but instead of kind of using these carrots that we use through the tax code to incentivize people to save, just outright requiring it, and using progressive matches to help low-income people save as well.

The second thing is I think we need to look at insurance differently and start having a real system of insurance for things that we don't know whether will happen but could be catastrophic – so catastrophic healthcare, unemployment, disability, long-term care – and less of a focus on insurance for things that we know are very likely to happen where you could in fact be saving on your own for those things.

And then finally, we need a strong safety net because it is a risky – it's an increasingly risky economy, I believe, and there is no reason that everybody who is – or somebody who is doing everything right but still events turn against them, should ever fall through the cracks. And you want to have a relatively strong safety net to protect against that.

I don't look at this as a left or a right kind of proposal but rather one that is sort of targeted towards the new economy and new opportunities this century, with financial markets, with globalization, with all the changes that we're seeing with the changes in demographics.

So, just finally, what will it take, and not what will it take to achieve sort of the grand bargain I'm talking about but any grand bargain at all that there starts to be – agreement has possibility of moving.

Change, and particularly difficult change, which this is, because if you look back to the last presidential election, we were still talking about two candidates who were fighting over what taxes to cut and what spending to grow, and that is not the discussion we should be having any longer, and I hope it's not the discussion we will have at the next election. We need to be talking about much less pleasant things – what taxes we will be increasing and what spending we will reduce. But the only way that those changes come about are – and I see two models: one, the model of leadership, and second, the model of crisis. We've actually gone through a number of what seemed as though they would be crises, whether it was 9/11 or the war or Katrina, and we still failed to have this discussion of national shared sacrifice, which I think will help guide us through these kinds of choices. But it's my personal belief that actually the country is ready for that discussion; we just need the leaders who are willing to go there.

So I think there's an opening for leaders who are willing to get specific and talk about difficult choices. The country learned 10 years ago that you can't have everything for nothing. We were willing to support budget deals. I think the country would be willing to do that again, especially something that comes out of a bipartisan budget summit, but you do need leadership on that, and I hope that that's the path we'll take because the other option that is still looming out there is the one that a crisis, and I think it's probably a financial market crisis, would press our hand if we failed to do anything.

So I remain optimistic. I actually feel that the mood of the country is tipping gradually into believing we have to address these challenges, but we need some groups of people I think who are willing to talk very directly and be straight shooters on what it will involve.

So thank you very much.

(Applause.)

PAUL WEINSTEIN, JR.: Thank you. I'm glad to be here. Gene, actually, when I think of Mel Brooks movies and the budget deficit I tend to think of "The Producers," actually and Max Bialystock and Bloom offering 100 percent of their play to every single investor. It is much as though the government keeps offering every taxpayer 100 percent and saying the bill you can pay later; you all get the profit from it; don't worry, and knowing basically that actually they expect the government will eventually just shut down and collapse.

That is not say I think the Bush administration is trying to make the government collapse, but I do think there has been a strategy at some levels and a desire basically to starve the government to a point where it eventually would have to force the cut of programs on the domestic side that basically a number of people, especially a number progressives, I believe, support. That is not to say that this crisis that we face isn't really caused by multiple dimensions.

I mean, Gene and Maya both are absolutely right if you look at revenues on the side of the ledger. You know, we have had huge decreases in the amount of revenues that we have been growing in this country. If you look at the last several years, we are now – I think Maya mentioned this – around 16 to 17 percent of GDP down from about 19 to 20 percent at the end of the Clinton administration.

So revenues clearly have to be on the table. I agree with Gene basically that we have got to put the tax breaks for the wealthy that were put in place in 2001 and 2003 on the table if we re going to be serious about taking this issue on. Not just there, though – we shouldn't just end there basically. If you look last year, we have passed the American jobs creation tax cut. There are a number of tax loopholes in the code that have existed, and existed for a while, and we seem to also add them on a pretty regular basis. I think we have got to look at those as well, put those on the table.

The other issue that has really caused a lot of our problems is that we have lost our discipline when it comes to the budget deficits. In the 1990s, we had those wonderful terms called pay-go, and the discretionary caps and so forth, things that will – I think a lot of people outside of Washington don't really understand, but they were important because they chance the debate in Washington, they changed the focus.

In the 1980s we had attempts to basically try to cut the deficit. The focus was on cutting the deficit. What was different about pay-go and the cap was they focused on the cause of the problem, not the result; specifically they focused on spending, okay, and when I mean spending I don't mean just how is the spending on the discretionary side or entitlements, but I also mean spending in terms of tax breaks. That focus was key and that is something we have been missing – quite honestly since basically 2000, 2001 because that point with the surpluses it made the caps irrelevant, and pay-go of course then expired in 2002.

Obviously we need those rules back but we need more; we need much tougher roles. And Washington is very clever about getting around things; they figure things out. Originally when they had these rules in place, for example, the caps from 1991 to 1997, spending was held to roughly the rate of inflation. That was pretty good, and there were no new entitlements that were created that weren't paid for, but by the late 1990s and in 2000 with the surplus, Congress and the president figure out ways, on both sides of the part – I agree with Maya – both sides of the aisle figured out ways to get around these spending caps and restrictions, emergency spending being the classic example. Emerging spending wasn't prohibited by these rules and they simply passed emergency spending bills that not only focused on real disasters or wars like Katrina and Iraq, but quite honestly, a lot of projects that existed in members' districts.

So if you are actually going to be serious about this, as part of the grand bargain that you had to put on the table, in addition to talking about the tax side, is a whole new set of budget rules, a whole new set of budget rules, and they have to apply both to the spending side as well as the tax side. And what I mean by that is, well, for example, we have on the law books called unfunded mandated reformat, which applies to proposals that the government puts into place, and when it puts a burden on state and local economies and state and local governments.

But we don't use that law, for example, to treat tax changes. I will give you one example. When we put into place the change on the estate tax, many states lost significant amounts of revenue. Why? Because they tie their tax code to the federal government because they want it to be simple and make it easier for businesses and people. It makes sense there for the tie to the federal code. When the government does something like change the tax code, this impacts state and local governments. Well, one thing to put in place would be a rule, which says you have to analyze this, and a senator or a member of Congress could raise a point of order against that.

Another thing, again, is emergency spending. We need to look at basically making much tougher rules on restricting emergency spending, what you would define as emergency spending, and whether or not you can actually use it as a way to get around these budget rules we have in place. Maybe we need to look at supermajority votes.

The third side of the piece, which isn't the biggest piece of this, but it is an important piece, and I think it's a particularly important piece for democrats because I don't think the American people are going to take seriously on the deficit until we show that once again, like we did in the '90s, that we are serious about also restraining the growth of spending is just that, spending.

I think Maya pointed out that spending is roughly where it is as a percentage of GDP but it has grown in the last couple of years, roughly two percentage points. And if you look at household, on a household-to-household basis, which is a little bit misleading, the rates are even significantly more here.

I think we have got to take a different look at spending, not just talk about entitlements and discretionary spending, which, again, are budget terms that I think quite honestly most American people don't really understand. I think we have to focus on target spending in the three categories. One is reform, spending reform, okay. And what I'm talking about there is I don't really understand what the Bush administration has been doing in the last five years in the area of reform, okay. Part of OMB's responsibility is the management of the government. Now, when we were in the Clinton administration, we put together a re-inventing government initiative that would do – that the government workforce by 370,000. We cut administrative expenses by 3 percent. We eliminated other programs, merged things. We were very aggressive about it.

Why do we do that? Well, because we actually believe government was a force for good, and if you believe government is a force for good then you are actually going to be earnest about making it work more efficiently. Well, in the last five years, I don't think this administration particularly believe in government reform because I don't think necessarily they see government necessarily as a force for a good. So I think we have got to get back to that.

And if you don't think there is government waste, well, I think you're just wrong because there is lots of it. I could come up with a list of programs right now that you could immediately merge or bring together. It's not that hard. You don't need a whole new campaign or basically a government review to do this. I will give you two examples right off the top of my head. They don't save a lot of money but part of this is message, okay.

Many of you remember the Jimmy Stewart movies of the years gone by when – it was "A Wonderful Life" where he had worked for a small savings and loan. Back then, savings and loans, what were they? They basically were designed to help people by homes. Well, the savings and loan industry has changed dramatically since the S&L crisis and for the regulatory changes in the '80s.

Making a long story short basically, they are basically banks, yet we regulate them with a whole different regulatory structure, even though the regulatory structures are basically the same. They have different offices in the same cities, the same types of regulations exist. Well, being simple, why not merge the bank regulatory industries and the thrift regulatory agencies?

I will give you another example, also of Private Investment Corporation and Ex-Im Bank – serve useful function that promote our exports overseas. They both do very similar things, again, multiple offices in the same place. Why do they have this? What is the point? Why not merge them? Those are two very simple things.

I will give you some bigger items: Negotiating Medicare drug costs – huge savings in the government, okay – letting, for example, the Veterans Administration and the Defense Department to join together in negotiating – other simple things. These

would probably save billions of dollars. Another one: student loans, okay. Today we have a whole intermediary system where you can get student loans or you can go through direct systems. If you simply had the direct student loan system, you can save billions of dollars of years – a simple approach. That one, actually, the Bush administration has endorsed to their credit. Unfortunately there has been considerable opposition elsewhere.

Another thing, okay, looking at administrative expenses – I think this is the second sort of area we have to look at. I mentioned before we cut 370,000 employees out of the government back in the 1990s. Obviously we have had the need to grow some of the government because of our Homeland Security. But there are other areas in administrative costs that we can look at as well, and again I will give you some examples. A number of governors have looked at how many vehicles that their states have owned. Jennifer Granholm cut, for example the use of vehicles in her state. We can look at that.

There are three consultants and contractors for every federal employee in the United States government, okay. That is a serious area which we need to look at. Nothing wrong with consultants; sometimes they can save you money and they are very important. But if we are serious about this, we need to start looking at the missions and why and how they are being used because the savings there are quite tremendous if you start actually taking a serious look at this.

Travel. Okay, every year the government basically increases its travel roughly by half-a-billion to a billion dollars. That is simply unnecessary and very dangerous. That is something again that we should be looking at. If we can save money in travel then we have more to use on important investments elsewhere, and these are the kinds of investments I think you have to look at.

Finally, we have also got to look at programmatic spending. And I want to tell a little brief story. When I worked back in 1992 for – I think I was in my '20s back then. I can't remember very well anymore. But I was young and I worked for two very aged politicians, Bruce Reed and Gene Sperling, who I think were maybe 30 at the time. And we wanted to look at programmatic spending, and we were trying to actually come up with some actual things that we could actually get rid of to show that Bill Clinton was serious about the budget.

And one of the programs we targeted was the (honey ?) program, and we put that – and Putting People First. There was a lot of debate. It was awfully small. I think it was only about \$10 million in savings over 10 years. I don't remember exactly. And we thought a lot about this, but we felt it was an important message then that we could actually get rid of something. And sure enough at some point in the '90s, I forget the exact year, we actually were able to get the program off the books.

Suddenly, about two years ago, it reappeared – (laughter) – and it reappeared in more generous terms that has been – the previous incarnation. And what does that tell me? Well, that tells me it is very hard to get rid of things in government. It is very

difficult. And I think we have gotten to a point where there are a lot of things that we can probably point out and point to do, but we have come to a point where I actually think that we need the base the approaches in a more government-wide approach.

And one thing that we have talked a lot about at PPI for a long time, Rob Shapiro and others – talked about basically creating a commission to look at a lot of these programs because I don't think if you sort of have one or the other that you are ever going to be able to get at them. Much like base closing, I think you are going to have to approach this in a way in which you bring a list together, and through several rounds, not just one shot, they will basically give Congress and a president a chance to support yes or no. And that is tough because quite honestly the budget as a policy tool is the most important thing for a policymaker, and that is giving up some responsibility.

But I think we have gotten to the point where we have no choice and we have got to take some more serious steps. And I just don't see how we can actually get at this problem unless we packet it some form like that. Anyway, I am going to close my remarks on that.

(Applause.)

GOV. VILSACK: Thanks, everybody, for some challenging discussions. I want to talk a little bit from a Main Street perspective for just a minute. We have talked a little bit this afternoon or this morning about sacrifice. And I really didn't quite fully appreciate how much feeling there is in the United States about the need for sacrifice until I started visiting with families and family members of those who were serving in Iraq. And specifically one conversation underscored this importance of sacrifice and I think suggest that there is a willingness in the country to consider some of the hard decisions that have been discussed today.

As a governor it's my responsibility as commander and chief of the National Guard to visit with family members who have lost loved ones, and those are always very difficult conversations. Perhaps the most difficult conversation I had was with a woman who was now widowed with three children. Who husband was 42 years of age. He was the senior guy in our National Guard. He was sent to Iraq with a group of young soldiers. His job was to be the helicopter and pilot to make sure that these young people were protected and safe.

While on a mission one day his chopper was hit with a missile and he as I understand it had a split decision to make whether he would maneuver the chopper in such a way that his life would probably be saved but he would put at risk the 18 people on board, or whether he would save the lives of the 18 people on board and perhaps risk his own life. He made the decision that he was trained to make; he made the right decision. He put his own life at risk, and in fact saved 18 people but unfortunately lost his life.

Now, when you are the governor of a state and have to make a phone call like that, there is really not much you can say. And as I was attempting to express sympathy and express my gratitude on behalf of Iowans for the service and sacrifice this woman stopped me in mid-sentence, and she said, you know, I have thought about this a lot and the way I have got it figured, governor, those 18 men needed my husband more in that split second than I will need him the rest of my life. And I thought to myself I am in the presence of nobility – regular, common, ordinary person who had talked about the sacrifice that her family had made and put it in a larger context.

And that made me think to myself what sacrifice have I been asked to make for this country recently, and for that matter, as we sit here today, what sacrifices have any of us been asked in the face of what a small group of Americans have been asked to do. I believe on the Main Streets across this country there is really a desire and a hope that the national leadership will speak to that need for sacrifice and will ask us to consider this.

I appreciate that there are special interests that are represented in this town and do a very good job of expressing themselves, but outside of this town there is a belief that we as a country need to pull together and need to have common purpose and common direction. And while budget decisions are about numbers, they are also about people, and they are also about values. That is why I think it is important and necessary for us to question whether or not some of the recent decisions about budgets are ones that we collectively agree with, or ones that perhaps we would be willing to sacrifice on for a period of time to get our fiscal house in order.

Budgets are also about values. And I am here as the governor as one state, but I suspect I speak for many of the governors if not all of the governors when I suggest and say to my good friend in the United States Senate it is morally wrong, it is morally wrong to ask the poor people of my state to sacrifice solely and completely for the poor people in New Orleans. When we talk about paying for Katrina relief through Medicaid cuts only that is essentially what we are asking to be done.

When we don't talk about tax cuts, when we don't talk about benefits that are accrued to those who are more fortunate in the same discussion, it seems to me that we have our values misplaced, and I would hope that over the course of these discussions about the budget and about how we pay for relief and so forth that we don't simply burden the poor people of this country with the entire price tag. Certainly oil and gas subsidies as suggested in the editorial, an industry that is now making substantial sums of money, they too can be asked to sacrifice, they too can be asked to perhaps do with a bit less so that the people in my state don't necessarily have to lose all of their healthcare.

And I would agree as governors through the country have looked for innovative ways to redefine and reinvent government, I would agree there are ways to improve the services that we provide without necessarily negatively impacting folks. I know in my state we have few departments today than we did when I became governor, we have fewer divisions within departments, we have fewer workers, but we, I believe are

improving our process, and we are doing this by asking for the best practices in the business world for process improvement.

We have taken routine permits that used to take literally months and in some cases years for approval and through that process we have reduced the number of people involved with that process, we have reduced the time it takes to get the process and permit approved, and I think we have not sacrificed the quality of the work. So clearly in this large structure of the federal government, there are opportunities for us to continually and constantly and permanently seek to improve the ways we do business.

And I think most governors would agree that the establishment of rainy-day accounts or some kind of process by which we put money aside makes sense. I know that when we went through fiscal crisis in our state we were fortunate to have a rainy-day fund that will allow us to maintain our moral responsibilities while at the same time maintaining fiscal responsibility. Those two don't necessarily have to always be in conflict.

So these are serious, serious issues, but I sincerely hope that as folks in this town make those decisions, they don't forget the willingness of Americans across the country to be part of a national effort to get our fiscal house in order. I think the people are there and I believe that our leaders need to understand that.

With that, I think we have a few minutes for questions and we will open it up.

(Applause.)

SEN. CARPER: If you have a – we will take questions for about seven or eight minutes. But if you have a question, go to the mike and identify yourself.

Q: The Republicans are indeed big spenders. But I am wondering where are the spending cuts being proposed by Democrats in Washington?

SEN. CARPER: Actually, I think we heard from Maya and from Paul not a bad list to start from. The – one of the – I got out of the Navy in 1973 and I remember coming to Delaware from California. I carried with me a manila folder. Actually, it looked kind of like this one. And it had in it my medical records from the time that I was in the Navy. I think I was transferred 13 times in five years on active duty. And everywhere I – I would go from station to station from duty station – I always carried my medical records with me – show up and turn into whoever is the command.

Folks don't do that in the military these days. You sign up in active duty and an electronic health record is created for you, and it basically provides for you – it's a full record of your medical history as you go through the time you are on active duty and when you check out. If you are in the Reserves – follows you. If you are in the VA system it follows you as well.

It is – you know, when we had Hurricane Katrina we had a whole lot of folks that were displaced that were in nursing homes and hospitals and other health facilities. The folks that were veterans who had an electronic health record, they were literally up online within a day, within 24 hours, so that whoever received them was able to know who provided – you know, what kind of meds these guys and gals were taking, the lab tests, their MRIs – really, it had the whole medical history of them. We are still looking for that of the paper records – for other folks who were in hospitals and nursing homes down in that part of the world.

There are great opportunities. I don't know if it was Maya but somebody talked about Medicare being the really big crisis as opposed to Social Security. There are great opportunities for providing better healthcare at a more affordable price – folks that are in Medicaid and for Medicare – by figuring out how to harness information technology in the provision of that. We provide on a per-capita basis for folks that are in the military now through their VA system, we provide much better healthcare, some say some of the best healthcare in this country, and we do it on a per-capita basis for less than we were doing 10 years ago.

GOV. VILSACK: I think there are number of things that we could take a look at in response to your question. And some may require us to revisit decisions that have recently been made. As we look at the transportation bill I think there is a lot of angst as I listen to people across the country about some of the decisions that were made, some of the programs and projects that were funded. I hear a lot in the coffee shops where I visit concerns about the bridge to nowhere, for example, and I suspect that there are many examples like that in the transportation bill that we could take a look at.

And yes indeed it may cause short-term concern, but, again, I think people are anxious to see that kind of leadership from our nation's capital. To the extent that we are providing corporate entities assistance that they may not specifically need – for example, companies want to do business overseas. That is terrific, but we spend several billion dollars that companies could easily help pay for themselves for promotion of overseas trade opportunities. I mentioned the oil and gas subsidies. This is in an industry that seems to be doing pretty well, by some accounts record profits at the rate of \$7 billion a month. It may be an opportunity there for us.

I think that there are some efficiencies within government that have been talked about before. And I would suggest on other issue that we haven't had a chance to talk about today but I think at some point in time needs to be part of this discussion, and that is the need for us to take a look at how to transform the American economy, not just the budget process, not just the budget decisions, but what are we going to do to create an economy that will basically be stronger and more supportive of families and communities than the one we have today because clearly the one we have today is going to be challenged with significant competition in a lot of areas.

SEN. CARPER: Governor Vilsack I think has to leave. I want to thank him for participating. And I'll take one more question. Leubsdorf, you could go to the mike.

Q: Carl Leubsdorf for the Dallas Morning News. Given the way that the two parties are sort of locked into their positions on spending on taxes, what has to change politically in this town for something to happen, and realistically, is there anything hope of anything before, say, the spring of 2009 as a result of the 2008 election?

MR. SPERLING: I am a bit discouraged obviously. I think that capacity is there almost all of the time. I mean, when I said – when people said, well, what would you do? And I said if I were President Bush I would put the repeal of the tax cuts for the well off conditionally on the table and only support them if there was also spending or entitlement restraint. I actually believe that would be a very positive move both economically and politically.

I agree with the governor; I think there was enormous missed opportunity, particularly after 9/11, to call for a not just a rainy-day fund, but a larger sense that we as a nation have to save more for the unknown events so that we as a country can always respond with strain.

Now, what I just said there is very, very close to what Senator McCain said both times he voted against the tax cut. I believe that the second- and third-most-likely people to have become president in 2000 or 2004, John McCain and Collin Powell would have used – I mean this – I believe they would have used that moment to call for sacrifice and I think it would have been virtually impossible for any party to have resisted a president in a time of national emergency who is willing to put his own priorities on hold in asking everybody else to do so.

And I think it's an enormous waste of opportunity the fact that three weeks after 9/11 – this is true – October 5, 2001, the president proposed retroactive repeal of the corporate alternative minimum tax – kind of shows how – you know, the wrong direction.

Is there a possibility? I think it's very difficult now, but I do see that there could be some changes. I do think that – I think that you might see some empowering of some of the moderate Republicans. But I think you will see that more in them simply resisting perhaps new tax cuts or new spending cuts. Whether there can actually be some form of coalition I think it's very difficult. And I guess the thing I would say is that I really do feel it's very difficult to do that without leadership from the president. And I know that may seem like I am just putting all of the illness on him, but I think I would say the same thing coming in.

So I think there may be greater hope that they are – that it may be empowering for people on both sides who want to have a bipartisan message of fiscal discipline. And I just amend one comment in light of my scolding from Maya, which is it's not that the idea of paying for a natural disaster or war is a bad idea. I think that when you're in a

period of war that may be a very good time for the country, as Governor Vilsack said, note that people are sacrificing and seeing what a small degree it would be for us to contribute.

But my fear is that that becomes the only issue, that we run together and we do \$50 billion or \$35 billion of one-time cuts that will fall mostly on the spending side and often hit lower-income Americans, and that we will think we are done, as opposed to focusing on what are the things that are going to lower the long-term obligations, the long-term fiscal deficit in the future that will determine our national savings rates and our ability to deal again with not only Social Security and Medicare. But I think that we are in a world where we have to have a bigger cushion for the unknown.

MS. MACGUINEAS: I have heard a lot of people say that they think we'll have to have the return to divided government before anything happens. I don't know whether that is true or not. I do think sort of the revitalization of the moderates in both parties can make a crucial difference. And I see just a tiny sign that is starting happen. There have been things like the agreements on filibusters where you have people crossing party lines to work together. And I think behind the scenes there are people who are reaching out more than they were a year ago.

But I also think that somebody who is strong enough to send a message could make a huge difference. Now, I regularly have the experience where I will go in and talk with a politicians who is maybe considering running for something, and I will give them sort of my five important ideas of things I think should happen, and they are things like raising the retirement age, repealing prescription drug program, and fixing it along with comprehensive healthcare reform, getting rid of or decreasing the home-mortgage interest deduction, fixing the CPI, and raising taxes. And if I am still in the room, which I am not because I have been hustled out at that time, somebody assures me that that is a quick political death.

I am not convinced that the country is not ready to hear hard truths that people know are there. So I really think that the opportunity will come from somebody who has an elevated platform putting the message out there. I mean, there are going to be future Ross Perots of the world who shift the political tide by putting ideas out there that change the entire political debate. And whether they are the people who see those policies actually become implemented or they pave the path for somebody else to, I am not sure, but I think you need somebody who has a bully pulpit to send that message.

And I in fact think that by speaking that message, people who might not otherwise have it will get the bully pulpit. So I think there is hope and it comes in packages that people traditionally think of as political suicide by actually hold promise.

SEN. CARPER: It seems to me that if you are going to break an impasse you just need leadership, and that leadership can come form the president; it can come as it did when the judges from a group of – or senators in both parties. But I also think this is –

Democratic Leadership Council, "The Progressive Alternative: Restoring Fiscal Responsibility," Event Transcript, October 25, 2005.

what we are seeing is a direct consequence of a very important and I think alarming trend in American politics that Bill Galston wrote about last week – a week with Elaine Kamarck, which is this incredible polarization of the politics. And it is also the result of ideology and party sort of coming together.

I mean, I will just tell you a story. I was – as some of you remember, I was director of the House Democratic Caucus in 1981. I believe at that time we had a 243-to-192 margin – or 242-193. We had a 50-vote margin on the Democratic side. You know, the vote for Congress – or the vote on the budget in 1981 and the vote on the budget this year was exactly the same. The Republican side won 214 to 211. The difference was that there was still mostly Southern Democrats, the old Boll Weevil, who still organized with the Democrats. And that gave you a chance to make deals in succeeding years, but it is a lot harder when all of the conservatives are on one side and all of the liberals are on another side. It is a very hard thing to break those lines.

I think and you sort of heard this from Governor Vilsack, but when you go down in the country people don't care whether you're a Democrat or Republican. In Washington, it's all you care about – a lot of people care about. And I think that eventually somebody will step up, whether it's this president, it's a candidate for present in 2008, whether it's a group of Senators who finally say, you know, we are probably not going to be – we are going to be the few people among this body who aren't going to be president and maybe we ought to do something for the country. (Laughter.)

And I am always optimistic that a system as resilient as ours will change itself and reform itself for the better but you can't do it without leadership, and you can't do it without taking the risk that you are going to be hammered to death inside this town.

Anyway, with that, thank you all for coming. Thanks to the panel for a great – (applause).

(END)