

Fourth Meeting of the National Commission on Fiscal Responsibility and Reform

July 28, 2010

Dirksen Senate Office Building, Room 608

9:30 am – 12:00 pm

Commission Members In Attendance:

Co-chairs Erskine Bowles and Sen. Alan Simpson (R-WY)

Executive Director Bruce Reed

Rep. Jeb Hensarling (R-TX-5)

Rep. Dave Camp (R-MI-4)

Rep. Jan Schakowsky (D-IL-9)

Rep. John Spratt (D-SC-5)

Rep. Xavier Becerra (D-CA-31)

Rep. Paul Ryan (R-WI-1)

Sen. Max Baucus (D-MT)

Sen. Tom Coburn (R-OK)

Sen. Richard Durbin (D-IL)

Sen. Kent Conrad (D-ND)

Sen. Judd Gregg (R-NH)

Sen. Mike Crapo (R-ID)

Ann Fudge

Andrew Stern

David Cote

Also Present:

Presenters Maya MacGuineas (President, Committee for a Responsible Federal Budget; Director, Fiscal Policy, New America Foundation) and Barry Anderson (former Head of the Budget and Public Expenditures Division of OECD)

OPENING REMARKS

Sen. Simpson gives opening remarks

Mr. Bowles gives opening remarks

Mr. Bowles introduces speakers Maya MacGuineas and Barry Anderson.

PRESENTATIONS

Maya MacGuineas Remarks

Main Points:

- Need medium and long term fiscal goals
- Balancing economic recovery and fiscal consolidation
- Focus on policies that will help growth (but know that we cannot grow our way out of the problem)
- Outside efforts to support the work of the commission

1. Balancing Economic Recovery and Fiscal Consolidation

- The economic recovery is not strong; continue stimulus as necessary
- Benefits of the “Announcement Effect” of committing to a fiscal plan immediately
- Phase fiscal plan in gradually
- Markets must view as credible

2. Specific Policies

- Need specific proposals floated to prepare the public (and policymakers) for what will be involved
- End practice of leaving budget holes (AMT, doc fix)
- More than just an exercise in getting the number to add up – need to consider national priorities, values, program performance, and effects on the economy

3. Outside Policy and Process Efforts

- Peterson-Pew Commission on Budget Reform: Volumes 1 & 2
- NRC/NAPA: Choosing the Nation’s Fiscal Future
- Domenici – Rivlin Debt Reduction Task Force

Barry Anderson Remarks: “Fiscal Rules – Some Lessons from International Experience”

Outline

- Characteristics of Budget Systems
- A Better Fiscal Rule
- Two Examples of Rules That Limit Spending
 1. The Swiss “Debt Brake”
 2. The Swedish Medium Term Budget Framework
- Final Observations

1. Characteristics of Budget Systems
 - Characteristics Predetermined by the Country’s Overall Political Framework
 - Characteristics Determined by Political Choice
2. A Better Fiscal Rule: Rules Reviewed
 - Deficit-Based Rules
 - Spending Rules
 - Other Rules
3. Why a Spending Rule is Better
4. Major Elements of a Spending Rule
 - Targets
 - Economic Assumptions
 - Coverage
 - Time Frame
 - Enforcement

- Flexibility
- 5. The Swiss “Debt Brake”
- 6. The Swedish Medium Term Budget
- 7. Final Observations

MEMBER DISCUSSION

Rep. Ryan

Asks Mr. Anderson his position on a document Maya was involved in (“Taking Back Our Fiscal Future”), and says it is one of the most bipartisan proposals he has seen in a long time.

Sen. Conrad

Asks presenters about triggers, and the best way to construct them in order to avoid “gaming the system”. Says he personally believes in them, and that they impose a certain discipline, but he has seen what has happened in the past if they are not triggered in a way that is effective.

Mr. Anderson

Says the broader you make the trigger the better; if you make it simple then the gaming becomes transparent.

Sen. Crapo

Asks Ms. MacGuineas what she considers to be, if stimulus is justified at this point, the kind of stimulus that is proper to utilize.

Rep. Hensarling

Asks a multipart question...first asks presenters to comment on what spending targets should be tied to. Secondly, asks why they are speaking in terms of a statutory enforcement regime as opposed to a constitutional regime, and if this crisis is worthy of that effort or not. Thirdly, asks Mr. Anderson to elaborate on the phrase “worked remarkably well” used in reference to Swedish cap entitlement spending.

Ms. MacGuineas

Responds that if something were to be put into the Constitution, it would have to be “the perfect rule”, and there is no perfect rule. Adds that we are past the point where one simple idea will fix the problem.

Ms. Fudge

Thanks the presenters for their comments.

Asks Ms. MacGuineas to elaborate on the “announcement effect”, as it is a critical piece of what the Commission is doing.

Mr. Stern

Asks Mr. Anderson what he has seen other people do with health care that would be instructive.

Rep. Becerra

Asks if when talking about controlling spending, that also includes the tax code.

Mr. Anderson

Responds yes.

Rep. Becerra

Says it might be instructive if the presenters could provide a list of things (tax expenditures, tax shelters) the Commission should look into that are highly cherished and would be vigorously defended by those who receive benefits from them, and how they might be able to tweak those systems.

Ms. MacGuineas

Remarks that she will, with great excitement, present a list of potential tax expenditure reforms, and that she thinks it is perhaps the most important part of the budget to reform.

Mr. Bowles

Remarks on how much tax expenditures have grown, and that it is very important that the Commission address this issue.

Sen. Baucus

Asks what other countries do with respect to their tax gaps. Remarks on the amount of taxes legally owed versus what is actually collected and that the Commission should spend time on this; tells Chairmen Simpson and Bowles that he thinks the tax gap should be looked at as a part of the solution.

Mr. Anderson

Remarks that most European countries have a VAT, and that as those are easier to collect, that makes a difference with respect to the tax gap.

Rep. Schakowsky

Asks Ms. McGuineas to what extent do proposals that have been made take into consideration the issue of income inequality in our country; remarks that she has been asking for a distributional analysis be applied to everything that this Commission might propose, and that this country has the greatest income inequality of most, if not all, of the countries discussed today.

Rep. Becerra

Asks the presenters about Statutory PAYGO, and what exactly it means to have something in statute.

Sen. Simpson

Asks presenters about Social Security and Disability Insurance, and what they think about reports he has received stating that the Disability Insurance will not be able to pay benefits in the future.

Ms. MacGuineas

Remarks that SS is a central part of retirement security, and that it is clearly on a path that is unsustainable. Adds that the sooner we make changes to the system, the easier it will be to make those changes. Says they need to tone down the political rhetoric around the issue.

Rep. Camp

Remarks that a lot of good things have been said today, and thanks the presenters for being here. Adds that a lot of time has been spent on tax expenditures in the past few minutes, and that while it's an important piece to look at, it won't solve everything.

Asks presenters what their comments are on the broader tax situation in our country where many people aren't paying taxes or contributing to the system, yet are going to be receiving benefits from programs.

Rep. Schakowsky

Remarks on how cynical she thinks it is that Mr. Anderson went to college campuses and handed out "suckers" to students.

Mr. Bowles

Says how students on college campuses understand the problem and that they want something done about it.

Turns to reports from the different committees.

WORKING GROUP MEETING REPORTS

Tax Reform Working Group (Sen. Conrad and Rep. Camp)

Sen. Conrad

Presenters: June 30th: Eugene Steuerle from the Urban Institute to talk about tax expenditures and the tax gap.

July 24th: Rosanne Altshuler from Rutgers University and Donald Marron from the Tax Policy Center.

Remarks that the system is badly outdated and no longer relates to the world we are in today, and that we need to think of how the tax system affects the competitive position of the United States.

Mr. Bowles

Remarks that the system was put into place before capital was as mobile as it is now, and how that has an enormous effect on where the revenue goes.

Sen. Conrad

Says that the tax system is only collecting about 80% of what is owed, and that one could greatly increase revenue without a tax increase by collecting more of what is owed.

Rep. Camp

Says that he doesn't have very much to add, that was a very good summary of what they've done, and that he agrees with everything Sen. Conrad said.

Mr. Bowles

Thanks the two staffs of Rep. Camp and Rep. Conrad for working remarkably well together, and says that he wishes the American people could see these Republicans and Democrats working side by side on such difficult problems.

References a Wall Street Journal article by Marty Feldstein, and says that Mr. Feldstein implored the commission to go after tax expenditures and that if they didn't, they weren't really serious.

Turns to reports from Discretionary Working Groups (Sen. Coburn and Rep. Spratt); remarks that Sen. Coburn had to leave the meeting, but that he has been enormously helpful.

Rep. Spratt

Says that the Discretionary Working Group has had lively and lengthy conversations about various options for discretionary spending.

There were no guest speakers.

Says that the general consensus was that overall limits on spending would be more appropriate than specific cuts, and that any proposal concerning discretionary spending has to address war spending.

Adds that while everyone left the meeting with more clarity regarding the situation, they weren't that much closer to a consensus.

Mr. Reed

Read prepared statement from Sen. Coburn. (Spoke of inappropriate spending, increasing transparency, discretionary spending caps, and specific examples of cutting duplicative and wasteful programs)

Mr. Bowles

Turns to report from Mandatory Working Group Meetings (Rep. Becerra and Rep. Ryan)

Rep. Becerra

Reporting for Dr. Rivlin who is not present.

Presentations: CMS Chief Actuary Rick Foster: talked about Medicare, Medicaid, and Overall Health Care Expenditures.

Mindy Levit from CRS – spoke about Mandatory Spending Programs.

Rep. Ryan

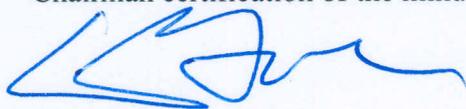
Says there is not much he can add to Rep. Becerra's very accurate summary. Adds that it was interesting to have a fresh analysis of health care since the passage of health care reform; it is clear that members of the commission all have different opinions about the health care bill.

CONCLUDING REMARKS

Mr. Bowles

Asks public to let Commission hear from them over this recess; says they need questions and ideas. There are only 4 months left, and their staff wants to make sure they can work hard over the break and hit the ground running when they return.

Chairman certification of the minutes:

A handwritten signature in blue ink, appearing to read 'Erskine Bowles', is written over the printed name below it.

Erskine Bowles