

Third Meeting of the National Commission on Fiscal Responsibility and Reform
June 30, 2010
Dirksen Senate Office Building
9:30 am – 12:00 pm

Meeting Start: 9:36 am

OPENING REMARKS

Sen. Simpson opens meeting with a word on the passing of Senator Robert Byrd

Mr. Bowles gives remarks on the G20 Summit, gives note of the public listening session the co-chairmen will hold in the afternoon, and introduces the presenter, CBO Director Doug Elmendorf

PRESENTATION

CBO Director Doug Elmendorf

Presents the 2010 Long-Term Budget Outlook from CBO – the latest in series of reports on the long term budget outlook, updating the report from last June

The healthcare projections are unchanged from what they were when the JCT and CBO joint committee released those numbers when the legislation was passed

Some longer term projections are included in the report

The alternative fiscal scenario incorporates changes in law that are expected to occur: ext. of 2001 and 2003 tax cuts, continued AMT relief, Medicare payments to physicians,

Final Points:

- 1) No contradiction between additional stimulus today and imposing fiscal restraint later
- 2) Future fiscal imbalance under alternative scenario is large and correction in imbalance would require significant revenue and spending changes
- 3) Growing healthcare cost is major challenge. Healthcare legislation made a dent, but did not solve the issue

MEMBER DISCUSSION

Rep. Schakowsky

- Thinks that the alternative baseline presented in the 2010 Long-Term Budget Outlook is a departure by the CBO from past practices of projecting based on existing legislation; Thinks the scenario is predicting future congressional action; Reminds us that we instituted statutory paygo

Mr. Elmendorf

- Notes that it is traditional for CBO in the long-term budget outlook to look at a set of alt budget scenarios; Previous outlooks had more than one alt outlook

Sen. Simpson

- Notes that it was the unanimous decision of this commission that they would use CBO figures

Mr. Cote

- Appreciates the alternative baseline; Wants to confirm that the problem is a structural issue and a demographic issue and that it has been coming for a long time

Mr. Elmendorf

- Confirms that the population is getting older, but also points out that it is going to stay older

Rep. Ryan

- Mentions to the chairmen that the Commission ought to have a discussion about what baseline to use; Ryan argues for using the CBO alternative baseline; Asks for clarification Asks for clarification on why the crowding out effect seems to crash on figure 1.5

Mr. Elmendorf

- The rule of thumb used in the model to show the crowding out effect cannot be applied beyond 2027; At that point the debt to GDP ratio would be higher than it has ever been in the country's history and higher than in most other countries at most times, so we would be entering uncharted territory

Rep. Ryan

- Thinks it is worth exploring different scenarios in regards to healthcare projections; Think it is worthwhile to see what kind of take up ratio we will have in the exchanges

Sen. Conrad

- Wants to confirm that what is going to be necessary to solve this problem is either a 25% increase in taxes or a 20% reduction in spending, or some combination thereof

Mr. Elmendorf

- Confirms the order of magnitude

Sen. Conrad

- Notes that according to Carmen of Reinhart, when a country gets to the level of gross debt at 90% of GDP that it starts to have an impact on growth rates

Mr. Elmendorf

- CBO focuses on debt held by the public, and projections of unified spending, and doesn't generally talk about gross debt

Rep. Camp

- Wants to clarify whether Medicare reductions, which the Medicare actuaries warned were unsustainable, are included in the alternative baseline

Mr. Elmendorf

- CBO includes them after 2020, in the extended scenario; CBO assumes that the legislation unfolds as written; Beyond 2030 CBO uses the same rates that would have existed in the case of no legislation; The alternative scenario follows CBO cost estimates to 2020, except CBO puts in Medicare payments to physicians; Beyond that point CBO use the growth rates in the absence of legislation

Rep. Camp

- Asks for projected government spending revenue to as a % of GDP in the long-term and how that compares to historical average.

Mr. Elmendorf

- In both scenarios, Federal spending is higher than it has been in history; Under the extended baseline revenues are significantly higher; Under the alternative scenario, revenues are not higher.

Sen. Durbin

- Notes concerns over a double-dip recession; Asks what should be accepted as a starting point to judge that the country is in the clear to start dealing with the long-term deficit

Mr. Elmendorf

- Says there is no contradiction between using stimulus now and imposing fiscal restraint years from now; CBOs last projection from January was looking for a slow economic recovery, and that is what we are experiencing, however there is much uncertainty going forward; But reaching an agreement on a long-term plan as quickly as possible would support the recovery because it provides clarity about future policy; There is no threshold for when it is safe to say that the economy is fully recovered

Rep. Hensarling

- Wants to confirm that if all provisions of the healthcare bill are enacted we would have slightly less healthcare cost

Mr. Elmendorf

- Confirms that this would mean slightly lower federal healthcare spending by the late 2020s

(NOTE: House members leave for votes-10:53AM)

Rep. Becerra

- Notes that the decrease in healthcare spending going into 2035 is with 30 million Americans in the health insurance programs, reducing cost overall; Thinks that

using the alternative scenario as a baseline would be taking many things off the table

Ms. Rivlin

- Points out that this is not a new problem, and that the graphs look a lot like the graphs from years prior

Sen. Crapo

- Wants to clarify the assumptions used in the alternative baseline

Mr. Elmendorf

- Explains that CBO assumes that the Medicare payments rise with the Medicare costs index which measures the rise in cost of inputs that doctors use

Sen. Gregg

- How do you see a congress binding a future congress to a future plan?

Mr. Elmendorf

- Confidence in future changes would require some public commitment from a large collection of elected representatives; Specificity would be very helpful in establishing credibility

Mr. Stern

- Wants to confirm that CBO says that economic activity would return to normal by 2012

Mr. Elmendorf

- CBO predicts an incomplete and slow recovery; Tax revenues will have recovered by 2012 but not employment until 2014; CBO's judgment is that further stimulus would help the economy if enacted this year or next year; It would not solve the problem overnight, but would lead to faster output and employment growth

Mr. Stern

- Asks about the conventional wisdom that long-term plans create confidence about the long-term trajectory

Mr. Elmendorf

- Notes that a number of analysts think the austerity plan that Greece has agreed to will not work, and that to many analysts it does not appear to be credible, so it has not calmed fears about Greece debt; The benefits that a credible plan might have for the short term are confidence of businesses in investing and hiring and family expenditures

Mr. Stern

- Asks what the advantage or disadvantage would be of having some sort of surcharge to try and pay off the debt faster

Mr. Elmendorf

- Notes that the lower the debt, the better it is for economic growth and investment

Sen. Baucus

- Notes that in March CBO estimated that the healthcare legislation would reduce deficit; Questions the wisdom of the CBO in making predictions about what aspects of legislation would be followed; Says that the Commission's challenge is to prove CBO wrong and keep from backsliding, at least on the healthcare side

Sen. Simpson

- Says he didn't come to this commission to raise taxes, but that they have to be on the table; Notes that no matter what anyone thinks of the current healthcare bill, it won't get us there; Thinks they can solve Social Security

Mr. Bowles

- Notes the two-steps – letting the economy recover, and then switching to the steps we have to take for long run fiscal responsibility; Argues that the more specific the Commission is in its recommendations toward the second step, the better the chances are for success; He would like to see the Commission deal with real solutions; Notes that if you put forward a realistic plan, you will see positive results; Had hoped to have some reports from working groups, but unfortunately ran out of time

Meeting End: 12:02