

Sixth Meeting of the National Commission on Fiscal Responsibility and Reform

December 1, 2010

Hart Senate Office Building, Room 216

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. Jan Schakowsky (D-IL-9)

Rep. Xavier Becerra (D-CA-31)

Rep. Paul Ryan (R-WI-1)

Rep. Camp (R-MI-4)

Rep. Spratt (D-SC-5)

Sen. Max Baucus (D-MT)

Sen. Tom Coburn (R-OK)

Sen. Kent Conrad (D-ND)

Sen. Crapo (R-ID)

Sen. Durbin (D-IL)

Sen. Gregg (R-NH)

Alice Rivlin

Andrew Stern

David Cote

Fiscal Commission Staff:

Conor McKay

Meaghan Mann

Marc Goldwein

Ed Lorenzen

Paul Weinstein

Fred Baldassaro

Ethan Pollack

Russ Anello

Lydia Ogden

Josh Odintz

Interns Caroline Matthews, Jacob Efron, Claude Barton, Reynold Strossen

OPENING REMARKS

Sen. Simpson makes opening remarks.

Mr. Bowles makes opening remarks and goes over specifics from *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform*.

MEMBER COMMENTS

Sen. Conrad

Thanks Co-chairs Bowles and Simpson for their work, and thanks Sen. Gregg for his leadership in helping form the Commission. Thanks every Commission member for their commitment and perspective, and the members of the staff for their long hours.

Remarks that this is a defining moment for him and that we are at a critical juncture; the country is headed for fiscal calamity, and we can either look the other way and hope someone else does something, or we can act. Says that this Commission has been given a very serious mission to produce a plan to bring the country back from the brink; there are things in the plan that he dislikes intensely, but there are things in the plan he thinks are homeruns for the economy. Says that he has reviewed the plan, and he is prepared to make a decision; he will support the plan, because he sees no other alternative. Adds that this is the work of both Democrats and Republicans; 18 Americans who have been given a serious responsibility and who have responded accordingly. Remarks on the importance of the restoration of Social Security and the reforming of the tax system, and that he will withhold talking about all of the aspects of the plan he does not like.

Concludes that he hopes we have the wisdom to act before harsher measures are required in order to salvage our economy.

Sen. Gregg

Joins other members in thanking Co-chairs for their leadership; thanks all other Commission members for their commitment. Remarks on greatness of our country, and other nations wondering how we got ourselves into this situation.

Says that they can't deny the facts, and that our government is growing at an unsustainable rate, and that if we continue on this path, we will be the first generation in the history of our country to pass on a less prosperous and secure nation to our children.

Remarks that this product is not perfect, nor does it solve the entire problem; it puts them on a path and says to the world that they are prepared to deal with the problem. Adds that it is a definitive step in the right direction, as it significantly reduces the debt and brings down the deficit. Remarks on spending cuts and changes to tax system, and adds that even though there may be heartburn among Democrats and Republicans about specifics of the plan, the debate and the changes the plan makes are fundamentally the right ones. Says that even if the plan does not get the necessary votes, it will still be the memo that controls the meeting, and that today they have reached the point where it's time to govern. They can either decide to govern or they risk losing the country's greatness, and this plan is a template for that governance.

Concludes that he intends to support it.

Sen. Durbin

Remarks that he apologizes for disrupting the order of speakers, he has another obligation. Thanks Mr. Bowles, Sen. Simpson, and Mr. Reed for their efforts; he has never seen an effort on Capitol Hill that has been so thinly but so well-staffed.

Says that the product is honest, and that it addresses the challenge the co-chairs were given; it could have past unnoticed and gathered dust, but the opposite happened because of their work. He thanks all the Commission members, particularly Sen. Gregg and Sen. Conrad for coming up with this idea. Remarks that he saw the finished product this morning, and he is not yet prepared to make a decision.

Says that the most vulnerable in our society must be protected at the expense of the rest, which is why some of the specifics about taxes trouble him; the more blessed in our society should contribute more. Thanks the co-chairs for what they did with tax expenditures. Says that this comment may get him into trouble on the left, but that what the plan does in raising the Social Security retirement age is acceptable to him; one year over 40 years is hardly radical, and to raise it 2 years over 65 years is also not radical. He finds that providing for those working in manual labor and for those that are older in Social Security is sensible. Says that the plan misses the mark in regards to earmarks as well as medical malpractice.

Concludes that he will study the plan carefully and closely and that he knows the time to make a decision will be upon him shortly. Thanks the co-chairs for their honesty and good effort.

Mr. Cote

Remarks that in his extensive travels, he's observed that successful countries are those that can act with collective purpose and have the political will to get things done. Says that our country has a serious national debt problem, and that we are being watched by countries who face similar problems that are looking for a model, and we are being watched by other countries who consider us past our prime. Adds that people need to stop partisan bickering, as the American public is smarter than that, and no one is really giving them the facts.

Remarks on the vast size of our debt and the difficulty of grasping such a large number, and says that his generation, the baby-boom generation, will crush the system when they begin to move through Social Security, Medicare, and Medicaid. Says that these difficult political decisions will be made either thoughtfully and proactively, or they will be put off until the bond market forces the country to act, in which case the results will be more abrupt and far less pleasant.

Remarks on the potential impacts of losing our global financial standing, and says that he doesn't like everything in this plan, and that he doesn't think the plan is big enough; it doesn't fully address Medicare or Medicaid. Adds that he does think it is a starting point, and that the American people must come together and not let the perfect be the enemy of the good.

Concludes that this is a time to pull together rather than apart, and even though he knows the Commission does not officially vote until Friday, he can let the co-chairs know now that he is with them and that he is their third vote.

Dr. Rivlin

Begins by commending the co-chairs and the staff in putting together such a serious plan; adds that it is a serious plan that addresses what she believes to be a clear and present threat to the US economy, and that if faced with a debt crisis it could happen fast, so action must be taken now. Says that while she agrees with fellow Commissioners that they should protect the most vulnerable in society, they must also ask what would happen to those people if they were faced with another economic catastrophe. Adds that the best thing they can do for the most vulnerable people in America is to have a prosperous and high growth economy, and not have another crisis; those are the choices they face. Adds that while there is a lot of pain in the plan, there is also a lot of opportunity; opportunity to reform the tax system, to reform health care, and to direct spending. Like everybody else, this was not her favorite list of options, so while she is going to vote for it, she is also going to give a list of things she would have liked to see in it. Says she would have liked to see some up-front stimulus in the plan to be sure they are getting out of the recession, and that she would have liked to see a little less cuts in spending and more revenue increases. She is also slightly worried about the timing of the large discretionary spending cuts in 2013. That being said, she adds that it's a very serious plan for dealing with an imminent catastrophe, and she hopes that it starts Congress on a path toward a solution before it's too late.

Rep. Schakowsky

Begins by saying what an honor it has been for her to be on this Commission, and thanks the co-chairs, and says that while they have disagreed on a number of things, there are many things in the plan that she agrees with. She hopes that, despite the fact that she cannot support the plan and will be voting no, those things will point them in the right direction.

She says that she admires the fact that tax expenditures and defense cuts were on the table, and adds that she was somewhat surprised at the consensus they reached on those issues. She continues that regardless of the amount of votes they get, the exercise they have gone through is constructive. Remarks that she agrees with the principles that the plan lays out, and that the country is on an unsustainable path; she adds that this unsustainable path can also be defined by the growing disparity of income that the country is facing, and that this is an equally troubling problem. Says she does not feel that this proposal addresses this inequality in the appropriate way. She agrees with Dr. Rivlin that they should invest in order to get the economy moving; the top one percent of Americans own 34% of the private net worth, and the bottom 90 percent owns just 29 percent. Remarks on the troubling circumstances of this transfer of wealth to the very top, and says that the notion of shared sacrifice is troubling to her because the numbers clearly show

that the sacrifice has not been evenly shared. The elderly have an average income of \$18,000 a year, and she thinks that asking them, Medicare beneficiaries, to pay more for health in order to reduce our debt and deficit is absolutely the wrong way to go, especially when there are other options. Remarks on the percentage of benefits that Social Security beneficiaries would lose under the proposal, and says that she has put out her own plan that ensures solvency in a different way that doesn't hurt the elderly. Concludes that she cannot support this plan.

Mr. Bowles

Explains that Rep. Camp and Sen. Baucus are not present because they are at a tax discussion.

Rep. Ryan

Thanks Mr. Bowles, Sen. Simpson, Mr. Reed, and the staff for doing such a great job. Remarks that this is the last time he will be sitting at a table like this with John Spratt, and that he respects him greatly and thanks him for everything he has done for this country. Says that he believes this Commission has been a success; those who have avoided making these difficult choices no longer have anywhere to hide. If they say that this plan or others are too draconian or too austere, they need to come up with their own plans. Continues by saying that if anything, this exercise has been successful because it has moved the conversation toward the adult level where it needed to be. Regardless of what happens, whether or not 14 votes are gotten, they should go home proud of what they've done in advancing this debate and putting ideas on the table.

Says that he likes the fact that the Commission has been able to reach some consensus on taxes, and that merging tax reform with budget reform is extremely important; he also likes the budget process reforms in the plan, particularly the discretionary caps. While he doesn't like everything done for Social Security reform, the plan has really advanced the ball and taken them one step further toward ensuring solvency. Adds that they have also taken a step forward in controlling discretionary spending, even though it might not be as much or as soon as he would prefer.

Continues by saying that there are some ideas in the plan that he considers worth copying, borrowing, and putting into next year's budget, and he fully intends to do so. Says that his primary area of concern with the plan is health care; he does not believe that this plan sufficiently fixes the health care problem, and that the debt problem is the health care problem.

Remarks on which baseline was used in determining the numbers in the plan, and says that if these proposals were looked at from a different CBO baseline, then some of the numbers would be significantly different. Adds that he would like to share this information with the Commission staff, and perhaps they can go over it before Friday. Continues by saying that if you don't sufficiently tackle health care you can't fix this problem, you are simply delaying it.

Concludes by saying that the plan and the co-chairs should be commended, that this is a serious effort, a serious proposal, and really advances the debate and he appreciates the effort that they and all of his colleagues have made.

Rep. Hensarling

Remarks that speaking directly after Rep. Ryan is somewhat like pressing the repeat button, but he will do so anyway. Says that he wishes to add his voice to the praise of the co-chairs; while the Commission was challenged by its design and by its timing, it has certainly not been challenged by its leadership, and the co-chairs are to be commended.

Continues by saying that the thing he likes best about this plan is that it is a plan, and there aren't a lot of them out there. Says that using the word "unsustainable" to describe our debt is downplaying the seriousness of the issue; when the Chairman of the Joint Chiefs of Staff says that the greatest threat to our national security is our debt, it should be a sobering wake-up call to every American. Says he applauds the co-chairs for putting a plan out there, and that every American who understands the crisis we face has a responsibility to sign up for some plan. Adds that he is one of the few Commission members who supports Rep. Ryan's "Roadmap for America's Future". Agrees with Mr. Bowles that this is one of the few adult conversations about this issue he has been able to be a part of, and says that many of the other ones have been with Rep. Spratt. Adds that though they have not always agreed, Rep. Spratt has always demanded his respect, and that he hopes his exit from Congress does not mean his exit from the debate about the country's fiscal future.

Continues by saying that when he looks at the country's fiscal problem, deficit is the symptom and spending is the disease. Adds that a very important part of this debate is the recognition that by broadening the tax base and lowering rates they can promote economic growth and jobs.

Remarks on the importance of lowering corporate rates and using dynamic scoring. Says that while the Social Security reform does not include everything he believes it should, he would support the steps in order to ensure solvency. Continues by saying that he is concerned with the tax portion of the plan; he is not in favor of any tax increase and doesn't think we have a taxing problem. Says that though the plan includes a revenue cap, it doesn't have a global expense cap; the cost of government is what it spends, not what it taxes, and that is one of the primary concerns he has with this plan. If he believed the increase in revenues would truly go to deficit reduction, he would be more likely to reluctantly support them, but history tells him that that is not usually the case. Says that until we have a constitutional amendment that enforces limits, he is not sure that restraint will be shown. Adds that if taxes are going to be put on the table, health care is going to have to be put on the table, though he understands that the timing is poor and that offers a challenge.

Says that the American dream is not a shiny new Cadillac or owning a home, it's leaving your children with more freedom, more opportunity, and a higher standard of living than you yourself enjoyed. Every generation in our country has always kept faith with the American dream. Says he doesn't know if this is the grand bargain, but if it's not, it better come soon. Remarks that no matter how many votes the plan gets, and he himself doesn't know if it will get his vote, but regardless there is nothing magical about the 14 votes – there is nothing that prevents Congress from bringing this plan to the floor. Says that he would like to see this or any other plan brought to the floor, and that he hopes they can seize the moment.

Rep. Becerra

Thanks the co-chairs for doing what many people bet they could not do, and his colleagues on the Commission for all reaching this point. Remarks on the seriousness of the plan, and the fact that there are sacred cows on the table.

Continues about the importance of knowing how the country got from record surpluses ten years ago to the deficits it has today; emphasizes the role that the conflicts in Iraq and Afghanistan have played in creating these deficits. Says that there are many positive aspects of this plan, particularly the inclusion of sacred cows and firewalls and the identifying the tax earmarks. While the plan takes on the earmarks, he believes it does not do so sufficiently. Remarks on the importance of firewalls, and that without them the middle class would be greatly harmed. Says that defense has to be on the table, and perhaps the Defense Department will finally be audited and have to account for itself. Adds that Social Security is currently in surplus and will not have a problem for 20 or 30 years, and while it does need to be addressed in the long-term, saying it needs to be done now is a disservice to those who have worked all of their life and paid into it for years. He continues that he is not interested in cutting benefits for those people in order to help resolve the deficits that were created by others.

Concludes by saying that Mr. Bowles and Sen. Simpson have performed a great service by putting everything on the table, and though he does not know what will happen on Friday, it is because of that great service that he will stay at the table.

Rep. Spratt

Begins that he wishes to echo what others have said about the co-chairs, that they wouldn't be where they are without them and their staff. Says that he and his Republican colleagues have been unable to sit down and hammer out a budgetary solution to reduce the deficit, and they now have the opportunity to do so, which may not come again soon. He adds that if the effort fails now, he is not sure what the result will be.

Remarks that the cuts that are outlined in the proposal are simply illustrative, and that this Commission has no authority to pass law or bring it to the floor, but it does lay down an agreement. Continues by saying that while most people would agree that the two main parts of the fiscal problem are revenue and mandatory spending, previous drafts of the proposal had reduced discretionary spending two times more than mandatory. Adds that it is odd they are on the threshold of renewing tax cuts that would have a revenue impact of about \$4 trillion, and this proposal has about the same impact. Says if they do nothing with the tax cuts, they would see the same effect as would happen under this proposal, and that certainly strikes him as ironic.

Concludes that he will not declare his colors until he has read the entire proposal more closely, and that if this opportunity fails he thinks the issue will not be revisited for some time. Adds that the proposal gives them a baseline upon which they can build, and that he feels they should keep this process moving along.

Ms. Fudge

Adds her thanks to the co-chairs and the staff for their incredible leadership, and remarks that as the only one on the Commission with no political affiliation, this has been quite an interesting experience for her. She came to the table with no ideological perspective of how to address the issue, other than being an American citizen with children and grandchildren.

Continues by saying there are a few things she wishes to highlight as they continue to develop this framework. Remarks on the need to understand how much they look in the rear-view mirror and how much they are looking toward the future, to understand demographic trends, to understand the need for greater global competitiveness because the country is slipping, to understand the need for continued focus on education and the need to develop a talent base in this country, and to get back to a position of economic growth. Says that she deeply supports what the Commission is trying to do in terms of tax reform; from a business standpoint, they have been hamstrung by the policies compared to their global competitors.

Says she does believe the time is now, and that she hopes they don't get caught up in a process that could take years to implement. Once the ball starts rolling in the wrong direction, it moves with remarkable speed, and they have the opportunity to shape the future now.

Concludes by saying that she agrees with about 80% of the plan, and that is more than enough to ensure her support. She believes that this is the framework to move forward, and she thanks everyone for their work, particularly Sen. Conrad and Sen. Gregg.

Mr. Stern

Remarks that it is an honor for him to sit at this table, and that if this process did anything, it made him appreciate the danger of the situation and the need to act now. He agrees with Rep. Ryan that no matter what, the Commission has been a success as it has focused the nation on the seriousness of the problem. It has forced him to write his own plan, as he agrees with Rep. Hensarling that this is not about ideas or picking your favorite options, but about coming up with solutions. He says that by reading his plan people will be able to see where he agreed with the Commission's final plan and where he thought of things differently.

Continues by saying that the problem with Washington is that they are historians and not futurists; while past economic revolutions took many years, the third one that is upon us now has only taken 30 years, and we are seeing what a global economy really is. Says he agrees with the tax reform in the Commission's plan. In terms of health care, he says they have to go forward instead of looking back at the recently passed health care legislation. Says that we are the only nation who determines the cost of health care based on the price of products, and competing with other nations who do not do so is poor economic judgment. Continues on saying that health care needs fundamental restructuring, not just patching up a few things, and it needs to be dealt with soon. In terms of competitiveness and lowering corporate rates, he adds that most other countries also have some kind of a consumption tax that goes along with their lower rates, and that while

we have a tax system that doesn't really help us, there is a tax system around the world that is helping everyone else. He appreciates what the co-chairs did in regards to cutting and investing, though it is not the methodology he would have chosen; he does not think PAYGO allows the country to have the amount of capital needed to invest in the kind of things it needs to invest in, as you have to gore someone else in order to receive funding.

Concludes by saying that there is no reason that leaders in Washington cannot put a plan out there this year, and that they should keep voting, debating, and amending until some kind of consensus is reached, because it cannot be put off any longer.

Sen. Coburn

Thanks the co-chairs for their work, and Joelle Cannon on his staff who has spent many sleepless nights with the Commission staff working towards this final product.

Continues by saying that as a physician, he is trained to find the real problem, not just the symptoms, and the problem is that as a country we have abandoned the concepts of our founders, and now we're in trouble, and no one is looking at the real problem. Remarks on the amount of borrowing that will happen between nations in the coming year, and that the cost of not living within your means is catastrophic. Says that as a country we have way too much government, and not enough of the thing that made America great, which is independence, personal responsibility and self-reliance; we have created dependency.

Says that the plan has disregarded the long-term problem the country has with health care, and that Rep. Ryan has had the courage to say that to solve the problem, everyone has to sacrifice, which means you cannot be comfortable with the status quo. Says that most of the time Washington doesn't do the tough, right, hard thing, it does what looks good in the short term.

Continues, saying that the people who made this plan struggled to reach a consensus, and he has heartache with tons of it, but if Congress doesn't do something now, they will have to in 2 years, and it will be a lot more difficult.

Says they should come together and put something out there, even though he doesn't agree with about half of it, but that makes a statement that says that this problem is so real, even if he can't have what he wants, he will still agree to it because he wants to make sure his grandchildren have the same opportunities he did. Says that there is a potential for them to re-embrace the real character and success of America and that will only come if we embrace our founding principles. He quotes Ben Franklin as saying "I gave you a Republic, if you can keep it."

Concludes by saying that they need to cheat history, as history says that the US can't make it, and the way to do that is for everyone to give up something. The way to honor that is to honor the sacrifice that came before us.

Sen. Crapo

Says that he will not be announcing his vote today, but like many others he will study the plan for a day or so before deciding. Continues on by thanking the co-chairs for their work, and remarking on the admiration and respect he has developed for them and for his fellow Commissioners throughout the past months. Thanks executive director Bruce Reed for all of his work.

He says that he shares the opinions that many other members have already voiced, but he will go over a few of the positive things in the plan and some of the concerns he has with it. While many things give him a lot of heartburn, many things are really important to him and also the American people. Says that there has been plenty of discussion about the level of threat the country is facing, and agrees that they are understating the importance of it. For those who will attack this plan and any other plan, it is important for the public to know how serious the consequences would be of sticking with the status quo.

Says that one of the key strengths of this plan is that it does recognize that spending is the problem, and that the issue on the revenue side is reform of our tax code. Says that if they set out to create a less effective and fair tax code, they probably could not do much worse than the one they have now. Most of his concerns are with things that are not in the plan rather than what is in the plan. He thinks that the plan needs to go further on the spending side, though it does take some robust steps in the right direction. He would also like to see some of the process reforms that are included strengthened, and he appreciates that the plan specifies that any increases in revenue that might occur in the future would be used for deficit reduction or rate relief as opposed to more spending. He agrees with some of his colleagues that the plan's approach to health care is too limited, and he agrees with Rep. Hensarling that it should include a global spending cap.

Continues by saying that as he looks at the plan, he doesn't see anything that stops Congress from engaging in health care reform, or adding stronger process protections or engaging in further reform on the spending side. The question he has is if they are putting into place a system that will get them down the road in the right direction, or if it is a system that will allow the same kind of failure they have seen with past efforts. He believes that these kinds of issues and this thought process is what they should all go through when deciding their vote.

Concludes by saying that this is just a concept, and Congress will still have to put a lot of structure in the plan to make it into legislative language, and he will look over the plan more thoroughly and thanks everyone for their serious effort.

CLOSING REMARKS

Mr. Bowles

Thanks all members for everything they have done for the Commission. Says that they will try to get together Friday, and if any members cannot make it, he will count on them to let him know where they stand by 11 A.M. that morning.

Sen. Gregg

Says that he won't be able to make it to the meeting on Friday, as he has a long-standing family commitment.

Sen. Simpson

Remarks on some of the specifics in the plan that may be unpopular.

Meeting Adjourned.