

2010

FISCAL
SUMMIT

AMERICA'S CHALLENGE AND A WAY FORWARD
SPONSORED BY THE PETER G. PETERSON FOUNDATION

SUMMARY & KEY FINDINGS

April 28, 2010 Washington, D.C.

2010
FISCAL

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2010 FISCAL SUMMIT

AMERICA'S CHALLENGE & A WAY FORWARD

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“ For those of us that genuinely believe that the world still needs America’s leadership, for those of us who truly care about leaving a better country to our kids, we have no alternative but to get our economic house in order. If America can no longer be America, who can be? ”

– Peter G. Peterson, April 28, 2010

About the Peter G. Peterson Foundation

Founded in 2008, the non-partisan Peter G. Peterson Foundation is dedicated to increasing public awareness of the nature and urgency of key fiscal challenges threatening America’s future and accelerating action on them. To meet these challenges successfully, the Foundation works to bring Americans together to find sensible, sustainable solutions that transcend age, party lines, and ideological divides. Since its launch, the Foundation has invested significantly in grants and projects related to public engagement, financial literacy and the study of fiscal policies and potential solutions.

About the 2010 Fiscal Summit

The Peterson Foundation recently convened a broad range of senior officials, policymakers, elected leaders, and experts at its first-ever *2010 Fiscal Summit: America’s Challenge and A Way Forward* to launch a national bipartisan dialogue on America’s fiscal challenges. The Fiscal Summit, held the day after the first meeting of the National Commission on Fiscal Responsibility and Reform, brought together hundreds of prominent stakeholders from across the political spectrum with diverse ideas on how to address critical fiscal issues, while continuing to meet the priorities of the American people.

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2010
FISCAL SUMMIT
PROGRAM

Opening Remarks

Peter G. Peterson, Founder and Chairman, Peter G. Peterson Foundation

Conversation with Commission Co-Chairs

Introduction: **Michael A. Peterson**, Vice Chairman, Peter G. Peterson Foundation

ERSKINE BOWLES

Co-Chair, National Commission on Fiscal Responsibility and Reform

SEN. ALAN SIMPSON

Co-Chair, National Commission on Fiscal Responsibility and Reform

Moderator: **Lesley Stahl**, Correspondent, CBS 60 Minutes

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Panel Discussion: Fiscal Challenges and Solutions

Robert Greenstein, Founder and Executive Director, Center on Budget and Policy Priorities

Lawrence Mishel, President, Economic Policy Institute

Alice Rivlin, Member, National Commission on Fiscal Responsibility and Reform; Founding Director, Congressional Budget Office; Former Director, Office of Management and Budget

Rep. Paul Ryan (R-WI), Member, National Commission on Fiscal Responsibility and Reform; Ranking Member, House Budget Committee

Neera Tanden, Chief Operating Officer, Center for American Progress

Moderator: **Gwen Ifill**, Managing Editor and Moderator, PBS Washington Week; Senior Correspondent, PBS NewsHour

Keynote: President Bill Clinton

Conversation and Introduction:

SECRETARY ROBERT RUBIN

Former Secretary of the Treasury

PRESIDENT BILL CLINTON

42nd President of the United States

With: **Bob Schieffer**, Host, CBS Face the Nation

Conversation with OMB Director

PETER ORSZAG

Director of the Office of Management and Budget

With: **Jon Meacham**, Editor, Newsweek

Panel Discussion: Reforming Health Care After Health Care Reform

John Castellani, President, Business Roundtable

Dr. Elliott Fisher, Director, Center for Health Policy Research,
Dartmouth Medical School

Sen. Judd Gregg (R-NH), Member, National Commission on Fiscal
Responsibility and Reform; Ranking Member, Senate Budget Committee

John Podesta, Founder, President, and Chief Executive Officer, Center for
American Progress

John Rother, Executive Vice President, Policy and Strategy, AARP

Rep. Allyson Schwartz (D-PA), Vice Chair, House Budget Committee;
Member, House Ways and Means Committee

Moderator: **Robert Reischauer**, President, Urban Institute

Conversation with Federal Reserve Chairmen

ALAN GREENSPAN

Former Chairman of the Federal Reserve

PAUL VOLCKER

Chairman, Economic Recovery Advisory Board; Former Chairman
of the Federal Reserve

Survey Presentation: Views of Senior Economic Officials

Jef Pollock, Partner, Global Strategy Group

Closing Remarks

David M. Walker, President and Chief Executive Officer,
Peter G. Peterson Foundation

KEY POINTS OF CONSENSUS

ON THE PROBLEM

While fiscal reform is often regarded as a subject of intense debate and deep disagreement, the diverse participants at the PGPF 2010 Fiscal Summit reached general consensus in several key areas. There was considerable and meaningful agreement on a number of issues, including the nation's overall fiscal outlook, the urgent nature of our fiscal situation, health care's critical role in our fiscal crisis, and other contributors to our America's long-range debt and deficits.

Consensus on America's overall fiscal outlook

- Throughout the day's discussions, panelists from across the political spectrum reiterated that **our nation's present fiscal course is unsustainable.**
- There was general agreement that **our most serious problem is the economic threat posed by long-term structural deficits, rather than short-term deficits.**
- The causes of these imbalances are basic and incontrovertible: **as a nation, we spend far beyond our means, raise too little revenue, and save too little money.**
- Many participants expressed repeatedly and passionately that what is **at stake is nothing short of the quality of life of our children and grandchildren, as well as America's ability to maintain its status as a first-rate global power.**
- However, panelists found reason to be hopeful about resolving this crisis, as it struck many as **one of the most predictable we have ever had to confront in our nation's history – and therefore one that we should take action to avert.**

Immediate action is required

- A preponderance of panelists felt that **our nation's long-term fiscal crisis warrants immediate attention and intervention.**

- Fiscal changes would not be implemented until the economy is stronger, but necessary **policy changes to address the structural imbalances could be designed and planned now.**
- Given the number of factors that are contributing to the unsustainable nature of current levels of spending – and the increasing difficulty of the political process to grapple with a long-range crisis of growing magnitude and required shared sacrifice – participants noted that **policymakers should begin to contend with our fiscal situation sooner rather than later, while it is more manageable economically and proposed solutions will be more palatable politically now than they will be in the future.**

The role of rising health care costs in our fiscal crisis

- Experts and officials across the political spectrum agreed that **rising health care costs are the greatest component of our long-term structural deficits.**
- In particular, it was repeatedly expressed that **Medicare – and to a lesser extent Medicaid – are most responsible for alarming long-term debt projections.**
- A number of panelists also felt that one of the **most fundamental reforms we need in the health care space is to move away from our fee-for-service health care delivery system,** which rewards quantity of procedures rather than quality of outcomes.

Other contributors to our long-range fiscal challenges

- Many panelists expressed that **America’s spending, combined with lack of savings, has made us dangerously – and increasingly – reliant on foreign lenders.**
- In addition, some felt that **our nation’s reliance on foreign creditors is a threat to our national sovereignty and to our economy.**
- It was repeatedly acknowledged that **our federal government has the difficult political challenge of spending now to promote economic recovery while also planning to reverse gears by cutting spending and raising taxes once the economy recovers.**
- Participants in the summit repeatedly expressed that **our nation’s tax system is unfair, overly complex, and inefficient, with so-called tax expenditures being a big problem.**
- Many expressed – and none doubted – that **it will take bipartisan efforts and determined political will to make the tough choices ahead, but that neither have been evident in recent years.**

KEY POINTS OF CONSENSUS ON REFORMS & SOLUTIONS

One of the most promising story lines from the Fiscal Summit was the extent to which experts and political leaders agreed on the broad outlines of reforms and solutions to our structural deficits and fiscal challenges.

Some of this agreement centered on the way forward and the political and practical path by which the nation might eventually achieve fiscal reform:

- The most hopeful sign that reforms might eventually be adopted and implemented is the near unanimity expressed that **“everything needs to be on the table” to address our fiscal crisis, including the new health care reform legislation, defense spending, budget controls, tax reforms, and entitlement reforms.**
- Broad consensus existed across party lines at the Summit that **any solution will likely require some balance of revenue increases and spending cuts.**
- Many participants emphasized **the importance of educating and activating the public about the nation’s fiscal challenges as a means to pressure politicians in Washington to take action on this crisis.**

There were also many specific reforms that were generally well received by the Summit’s participants, irrespective of their political affiliation. There was general agreement that:

- Needed tax reforms should include **addressing costly tax expenditures and consideration of more significant reforms, potentially including a value added tax and progressive consumption taxes.**

- Reforming our fee-for-service delivery system will require **incentivizing providers and patients to focus on the quality of outcomes, not just on quantity.**
- **While politically challenging, Social Security is, in some ways, the easiest entitlement program to reform and is “doable”** without undermining our economic recovery.
- **Addressing our fiscal situation soon will signal to foreign lenders that America is taking action to address its long-term fiscal outlook, and could boost confidence** among the nation’s creditors abroad.
- **Tackling “waste, fraud, and abuse” is an easy slogan** but is not a viable solution to the nation’s fiscal situation.
- **Planning to reduce long-term structural deficits must begin now**, but implementation must wait for evidence that the recent economic recovery is sustainable.

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INTRODUCTORY REMARKS

BY PETER G.
PETERSON

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Peter G. Peterson

Mr. Peterson's introduction to the Summit laid out the scope of the fiscal problems we face, the potential ramifications of inaction, and the many economic benefits that will result from successfully addressing the nation's fiscal challenges.

"Our present fiscal course is unsustainable," Mr. Peterson said, emphasizing that the Peterson Foundation makes a critical distinction between "current budget deficits and our longer-term structural deficits" and that the latter problem is the Foundation's primary concern and the primary economic threat to the country. He added that a huge concern is "ballooning interest costs" that would result from the structural deficits.

Mr. Peterson contended that it is immoral to "burden our kids with an unconscionable doubling of their taxes." America's history as "an exceptional place with exceptional possibilities in store" is at risk, as is America's leadership in the world, given that "we are more and more in hock up to our eyeballs to nations that may have very different interests at heart."

He expressed the Foundation's belief that "everything should be on the table." This includes both cuts in expenditures and increases in revenue – both of which are made more difficult by some who have "an entitlement fixation" and others who have "tax aversion syndrome."

Mr. Peterson emphasized that he believes "there are approaches to reforming Social Security that are compassionate, fair, and reasonable." He suggested that acting before a crisis occurs will give confidence to foreign lenders, and that sensible reforms could include "gradually increasing the retirement age, indexing it to longevity, and reducing benefits for the well off through what I call an affluence test or progressive wage indexing. Then one could also lift the payroll tax cap."

Mr. Peterson noted, however, that health care costs are "the big elephant that could bankrupt our economy" and that they deserve the "highest priority on our agenda." He further stated that per capita health care costs in the U.S. are double those of the rest of the developed world, with no appreciable differences in outcomes.

Mr. Peterson listed a number of additional items that should be considered in the search for solutions:

- A progressive consumption tax that not only increases revenue but also increases savings
- An energy or carbon tax to reduce our dependence on foreign oil and foreign lending and respond to the environmental challenge
- Ending a number of tax preferences, which aggregate to some \$1 trillion a year
- Reducing defense spending
- Implementing budget controls like PAY-GO rules and spending caps

Mr. Peterson concluded by expressing his belief that we can conquer our fiscal challenges with "courage and commitment" and with "a positive, optimistic vision of what an economically healthy and growing America would look like."

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ERSKINE BOWLES & SEN. ALAN SIMPSON

INTERVIEWED BY
LESLEY STAHL

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L-R: Erskine Bowles, Sen. Alan Simpson

“ I say everything is on the table including the new President’s and Congress’s health bill, that’s on the table too. There isn’t anything off the table. Now that may be the only thing that will save us.”

– Sen. Alan Simpson

A discussion with the co-chairs of the President’s National Commission on Fiscal Responsibility and Reform, moderated by Lesley Stahl.

KEY TAKEAWAYS

- **Everything, including the new health care reform legislation, is on the table at the Commission.**
- **The most critical ingredient for success is the political will to make tough decisions.**
- **The American people “get it” when educated about our fiscal challenges; the core problem is the political process.**
- **Even if the Commission stalemates, it will be real progress if the process educates Americans and encourages the public to put pressure on elected officials.**

Lesley Stahl kicked off the session by addressing the question of feasibility in the Commission’s ability to propose politically palatable solutions.

- Sen. Alan Simpson replied that he had no idea if the Commission’s proposals would be “doable” and that he and Erskine Bowles had told President Obama “we may be only able to move the football a yard.”
- Sen. Simpson added that Commission members expected to be “savaged” from the left and right. Nonetheless he said “everything is on the table, including the President’s and Congress’s new health bill.”

Ms. Stahl asked if the Commission’s work would be more about negotiation than “looking for the answer” since “everybody knows you’re going to have to raise taxes and cut big things.”

- Mr. Bowles said it would be about “trust and confidence,” with both sides convinced of the seriousness of the other side.
- He added that “talking about foreign aid or waste, fraud and abuse” won’t solve the problem. The solutions, he said, are relatively clear but what’s needed is “political will to step forward and make tough decisions.”

In addressing the question of communicating the urgency of the nation’s fiscal outlook to the American public, Sen. Simpson said that in his travels, he found the American people already realize “that something is desperately wrong in America.”

- Sen. Simpson pointed to “a dysfunctional Congress” as a core problem for this country.

“ And we can’t solve this problem by talking about foreign aid or waste, fraud, and abuse, we’ve got to seriously attack these big problems and we’ve got to do it now because if we don’t, they’re not going to be solvable without that word...bankruptcy. ”

– Erskine Bowles

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ERSKINE BOWLES & SEN. ALAN SIMPSON
INTERVIEWED BY LESLEY STAHL
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Lesley Stahl

· Mr. Bowles said that his college students at Chapel Hill “immediately get it” when he explains the nation’s fiscal challenge in this way: “If you take the revenue of [the] country today, this year, and butt it up against the mandatory expenditures...That means that every dollar we spend on education, infrastructure, transportation, the military, homeland defense, every single dollar is borrowed, and half of it is borrowed from foreign countries.”

Sen. Simpson candidly assessed the political environment and political risk of the Commission’s work.

· “We’ve been there before,” he said. “You learn in politics when they rip your skin off it grows back double strength...but never let them destroy who you are.”

Ms. Stahl asked Mr. Bowles what it would mean if the Commission’s work unfolds before the public and winds up “deadlocked because both sides have a veto out of the 18.”

· Mr. Bowles said, while that wouldn’t be a victory, it would be considered progress by virtue of having educated the public and getting “some push from them on the elected officials to actually face up to these big problems.”

· Mr. Bowles also told of how, during negotiations with Newt Gingrich and Trent Lott in the late 1990s on balancing the budget, no one left those meetings and talked about “the politics of any of the discussions we had...We built up some trust in each other and we got to a solution.”

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FISCAL CHALLENGES & SOLUTIONS: NO EASY ANSWERS

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“ This, I say, is the most predictable crisis we’ve ever had hitting our economy. It’s a forthcoming debt crisis, we know it, we see the problem on the horizons in Europe... we know a debt crisis is coming. We know that interest compounds viciously once interest rates go up. And so this is something that is obvious, easy to predict, and therefore, something we should tackle...”

– Rep. Paul Ryan

A panel discussion with Robert Greenstein, Lawrence Mishel, Alice Rivlin, Rep. Paul Ryan, and Neera Tanden, moderated by Gwen Ifill. This discussion engaged leading thinkers and experts on the state of the nation’s fiscal challenge, its underlying causes, and potential courses of action.

KEY TAKEAWAYS

- Full consensus on the fact that this is a predictable crisis that we must react to, and that long-term structural deficits pose a very serious problem.
- Widespread agreement that planning needs to begin now to reduce long-term deficits, but implemented only once the economic recovery is more fully realized and more people are employed.
- Disagreement over whether recently passed health care reform would reduce costs significantly.
- A consensus view that tax expenditures – spending through the tax code – are a significant problem that also blur the distinction between taxing and spending.
- The need for the Commission to educate the public and set realistic expectations.

Gwen Ifill asked Rep. Paul Ryan to explain his statement that “this is the most predictable fiscal crisis ever.”

- Rep. Ryan said that, unlike the credit crisis of 2008, this is a predictable crisis because we know there’s “a forthcoming debt crisis” and that “interest compounds viciously once interest rates go up.” What we don’t have sufficiently is “political will to prevent this crisis from occurring,” Rep. Ryan noted.



L-R: Gwen Ifill, Alice Rivlin, Lawrence Mishel

“...this is something that I think hopefully we can all agree on: that we should not let this focus on the long-term structural deficits kill the opportunity to generate millions more jobs that people need. We talk about the worry about our grandchildren. Well that’s true, but people are being scarred right now. That’s going to leave a permanent scar on our productive capacity, as innovation and productivity [are] hurt, as children are hurt.”

– Lawrence Mishel

- Alice Rivlin agreed, saying that we’ve known the entitlement programs were headed toward crisis for a long time.

Lawrence Mishel maintained that we aren’t talking sufficiently about the existing unemployment crisis.

- “What’s interesting to me is this talk about predicting a crisis when in fact we’re actually in a crisis... We have an out of control economy, not an out of control government budget,” he said. He urged that we not let our focus on long-term structural deficits “kill the opportunity to generate millions more jobs that people need.”
- Rep. Ryan, however, maintained that “what is driving those deficits is an excessive spending with more borrowing” and he pointed specifically to growth in entitlements. He said the way to create jobs is to lower taxes, so entrepreneurs are incentivized to take risks. He added that in 2011, “we’re going to go from easy money to tight money, from lower tax rates to higher tax rates. That is not a good recipe for economic growth.”

There was some disagreement among the panelists on health care.

- Neera Tanden said that it is critical that deficit-reduction provisions within the legislation be aggressively pursued. She said that the bill has initiatives that would transform health care “away from a fee-for-service model, more for paying for quality.” She said the administration needs to act aggressively “to capture those savings.”



L-R: Rep. Paul Ryan, Neera Tanden, Robert Greenstein

“ I think the American people are smart enough to think about two things at the same time...The increase in the deficit that we have had I believe was absolutely necessary; part of it was automatic because of the recession. Some of it reflected the things we needed to do to help grow the economy. But while we’re doing that we have to think about the future. And there are things we could do now that would reduce the deficits in the future that wouldn’t hurt the recovery at all.”

– Alice Rivlin

- Rep. Ryan disagreed, arguing that after the “doc fix” to Medicare is fully passed, which will roll back cuts in Medicare payments to doctors, “the claim of deficit reduction evaporates right away.” He also stated that the health care reform bill amounts to “the creation of the largest entitlement we’ve had.”
- Ms. Tanden took issue, saying that “spending goes up but the amount of money we’re paying for each person who had health insurance goes down.” By insuring so many more people, she said, “there’s less cost shifting over the long haul.”
- Rep. Ryan countered, noting that the big difference in philosophy is really about what size of government we will have.

Ms. Ifill asked about whether taxes are necessarily part of the solution.

- Robert Greenstein said that Social Security changes would have to happen gradually so “in the short run the single major place that you get most deficit reduction from is going to have to be revenues.”
- Ms. Rivlin agreed about the need for more revenues and said the income tax system can be made fairer and that could mean “making the base much broader, getting rid of a lot of the special provisions.”
- Rep. Ryan said the focus should be on spending, not taxes.
- Mr. Greenstein disagreed, saying it’s not simply a spending problem but “an imbalance between revenues and spending.” And he added that the distinction between spending and taxing is artificial, due to tax expenditures – “spending that uses the tax code as the vehicle for the spending.” The \$1 trillion in annual tax expenditures “is nearly as much as the current cost of Social Security and Medicare combined.” He said that we need to rein in “spending that’s in the tax code as well as the spending that’s on the other side of the budget.”

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FISCAL CHALLENGES & SOLUTIONS:

NO EASY ANSWERS
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“ ...I think we go in the wrong direction when we start saying things like we can't afford to extend unemployment benefits... so that those workers will have money in their pockets to buy products [so] businesses don't lay off more jobs. The problem is the long-term structural imbalance between the level of revenues that we bring in and the amount that we expend. And I don't think there's any mystery. That is the core of the problem. And we have to deal with that long-term structural imbalance. ”

– Robert Greenstein

- Rep. Ryan conceded that the tax code “is basically like an appropriations bill... We appropriate through the tax code and that needlessly raises rates which, depresses economic growth, entrepreneurship, saving, and investing.” He argued for “stopping all the social engineering in the tax code.”
- Mr. Mishel noted, “two-thirds of the tax expenditures go to the upper 20 percent of our nation. So leaving them off the table has very direct distributional consequences.”
- Mr. Greenstein added that you can have a higher tax rate but lower tax revenues if there are many loopholes – such as with a variety of the corporate tax subsidies. He also said that some European countries have “improved growth even as they've raised revenue,” by raising revenue in efficient ways and investing the money “in things like infrastructure, education, basic research that were positive for long-term growth.”

There was general agreement on the role that the National Commission on Fiscal Responsibility and Reform could play in educating the public on the nation's fiscal situation.

- Mr. Mishel said it's important that the Commission take on this role, in part to dispel wrong notions like “we have tremendous waste, fraud, and abuse” that, he contended, can lead to a resistance to such steps as raising taxes. You can “take it out of waste, fraud, and abuse” instead.
- Rep. Ryan agreed regarding the education function of the Commission and underscored his belief that “the social insurance strategies of the 20th century are not sustainable in the 21st century and so they have to be redesigned. We do not have a choice.”
- Mr. Greenstein said that he would expect it to be “very difficult to get 14 of 18 members of this Commission to agree on major policy changes.” He warned against allowing expectations to go too high “because one thing we don't need is a storyline that we had another failure.”

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A CONVERSATION
WITH
**SECRETARY
ROBERT RUBIN**

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Secretary Robert Rubin

KEY TAKEAWAYS

- **The nation’s long-term outlook is unequivocally unsustainable.**
- **The escalating risks we face include: deficits crowding out capital needed for investment; higher interest rates deterring investment; and disruptions in capital markets with serious consequences for jobs in this country.**
- **The most serious threats to Social Security would be federal inability to borrow along with all other debt obligations.**

Peter G. Peterson kicked off the discussion by asking former Treasury Secretary Robert Rubin whether he views the long-term fiscal outlook as sustainable or unsustainable.

- Secretary Rubin said no mainstream budget analyst that he knew thought the projected debt-to-GDP ratios were sustainable numbers.
- There are other exacerbating conditions, Secretary Rubin said: “We have a very low savings rate. We have very large annual maturities or annual debt maturities that also have to be funded. And we have heavily over weighted dollar denominated positions in foreign portfolios.”
- This unsustainable situation, he said, means we either “act preventively” or suffer “severe disruptions in our capital markets that will produce very difficult conditions with respect to jobs.”
- Secretary Rubin said, “This is not a Wall Street problem, this is a problem for all Americans. It undermines jobs, it undermines incomes and that is going to be very, very difficult to deal with. I’m more worried about this than anything in my adult lifetime in terms of the economic future of our country.

Secretary Rubin described to Mr. Peterson some of the risks if we fail to act.

- He said the “conventional economist’s view” would be that this level of deficits would “crowd out capital so that the interest rates will be higher, there’ll be less private investment.”
- A more serious risk, he said, would be “concerns over the future supply and demand for capital or concern about future inflation,” leading to higher interest rates that deter investment. And the most serious risk would be severe disruptions of capital markets “and the enormous impacts that could have on jobs and on incomes and really on the economic well-being of all Americans.”

“ ... this is a problem for all Americans. It undermines jobs, it undermines incomes and that is going to be very, very difficult to deal with. I’m more worried about this than anything in my adult lifetime in terms of the economic future of our country.”

– Secretary Robert Rubin

- He added that steps couldn’t be taken immediately, due to high unemployment, but “we need to commit...to take actions when the recovery can sustain the effect of those actions.”
- Regarding the \$2.5 trillion in U.S. government-backed bonds that the trust fund holds, Secretary Rubin said the danger becomes that, if the government gets to a place where it can’t borrow more, the trust fund will have no way to redeem the bonds it holds to fill a Social Security payment shortfall, and the government would not be able to meet these obligations.

**PRESIDENT
BILL CLINTON**

INTERVIEWED BY
BOB SCHIEFFER



President Bill Clinton

“ And one of the things that bothers me most...is that 48 percent of our debt is now held by non-American sources. I think this is a national sovereignty issue and it’s about control over our economic destiny. And you know I’m a free trader and I like to cooperate with everybody, but I don’t like to be in someone else’s control and I don’t think America should be.”

– President Bill Clinton

KEY TAKEAWAYS

- **America’s fiscal situation represents an issue of national sovereignty – the public should support fiscal reform so that Americans can control their economic destiny.**
- **Whether regarding health care, energy, education, or other sectors, we have fundamentally flawed delivery systems.**
- **Critics of the new health care legislation are pushing reforms – such as buying insurance across state lines and malpractice reform – that are not themselves sufficient to rein in costs.**
- **Immigration reform should be an important component of fiscal reform. It can lower the age of our population while bringing fresh talent to the country. A competitive advantage against China, India, and others is that immigrants do well in America.**
- **A value added tax, or VAT, could be a good idea for America, as long as it was coupled with major reform of the overall tax system.**

Bob Schieffer asked President Clinton “how serious” our fiscal problems are.

- President Clinton said “really serious” and said one thing that bothers him a great deal is that “48 percent of our debt is now held by non-American sources.”
- He called this “a national sovereignty issue” that involves “control over our economic destiny.”

President Clinton said that, as an “aging civilization,” we have become “rigid” in our systems and not future-looking.

- The President said that “America has got to get back in the future business.”
- He said our “delivery system problems” are especially acute. President Clinton then said we are not spending wisely with regard to health care or energy.
- He added, “the delivery system is deeply flawed” in higher education too, where spending gets wasted.” So, the President said, “you have to see the fiscal crisis we have as a part of America’s challenge to modernize its delivery systems.”

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PRESIDENT BILL CLINTON

INTERVIEWED BY BOB SCHIEFFER

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Bob Schieffer

Mr. Schieffer asked if the President agrees with Rep. Ryan that the new health reform legislation will only exacerbate the problem.

- The President responded that he did not agree. “Nothing could be worse than what we have,” he said. He added that those against the legislation offer only two solutions: buying insurance across state lines and malpractice reform.
- The President said he is not against either of the alternative solutions, but doesn’t see sufficient results from these alone.

Mr. Schieffer asked President Clinton, if he were running for office today, how he would frame the tough choices he’s advocating to the public.

- The President returned to the idea of national sovereignty: “The way to sell this to people around America is just to tell them that half our debt is held by people from other countries and pretty soon it will be 75 percent and do they really want that for their children and grandchildren.”
- The President also indicated that immigration reform might play a key role in addressing the nation’s structural deficits. “You’ve got to have more immigrants,” he said. “If we have any advantage over China in the race for the 21st Century, over India in the race for the 21st century, it is that we got somebody from everywhere here and they do well.”

Mr. Schieffer asked the President whether he supports the idea of a value added tax.

- He said it has worked fairly well in Europe, but here it would require us to “readjust the whole rest of the tax system to keep it progressive.”
- He pointed out that blue-collar Americans would like one effect of a VAT, which would be to boost exports while not allowing so much subsidy of imports.

PETER ORSZAG

INTERVIEWED BY
JON MEACHAM



Peter Orszag

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PETER ORSZAG

INTERVIEWED BY JON MEACHAM

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Jon Meacham

KEY TAKEAWAYS

- **The fee-for-service delivery system is an essential problem that needs fixing to rein in health care costs, which are more important than any other fiscal challenge.**
- **Medicare and Medicaid are at the heart of our fiscal problems and the newly formed Independent Payment Advisory Board has a real chance at changing Medicare policy.**
- **The toughest challenge is not to come up with new ideas for fiscal reform but to manage the political task of imposing fiscal discipline after having spent so much during the recession – that is, to take away what was so recently given.**

Jon Meacham asked Peter Orszag to discuss health care’s impact on the nation’s fiscal health.

- Mr. Orszag said there is a long-term problem with the fee-for-service delivery system, which provides “incentives for more care, rather than better care.” Everyone across party lines should agree “we need to be moving towards a system based on quality rather than quantity.” We need to “change the decisions the providers are making.”
- Mr. Orszag added that none of our fiscal reforms will matter if we don’t “change the way the health care system works.”

Mr. Meacham asked Mr. Orszag to discuss the role of Medicare in our fiscal troubles.

- Mr. Orszag said Medicare and Medicaid “are at the heart of our long-term fiscal imbalance.” The problems with Social Security are of “a much smaller magnitude.”
- He lauded the creation of the Independent Payment Advisory Board under the new health care legislation as a critical step in changing the way Medicare policy is set: “The default has now shifted in a very important way towards the recommendations from a board comprising health professionals who are instructed to hit a set of cost targets while boosting quality.”
- Mr. Orszag posited that in 20 or 30 years, “the creation of that board could wind up being the single most important provision in the legislation.”

“ ...it’s very clearly the case that spending, projected spending, is substantially in excess of projected revenue and, just arithmetically, you need either lower spending, or higher revenue, or some combination thereof. And I would suspect that the political system will evolve towards some combination.”

– Peter Orszag

The real trick to solving the fiscal crisis, Mr. Orszag said, will be how to pull back from the deficit spending that, given the economy, has been necessary to date.

- He said: “It is a very complicated thing, which is you have to be adding more now, but subtracting more later. I mean, imagine a business with a business plan of rapid growth for two or three years and then substantial decline or vice versa. That’s a very hard thing to manage, especially if your board of directors includes 535 people.”

Mr. Meacham asked for Mr. Orszag’s view on the President’s request of the Commission to come up with a way to achieve primary budget balance by 2015.

- Mr. Orszag said that primary budget balance is a misplaced emphasis. “If the overall deficit were 3 percent, then the budget would be balanced, excluding interest payments on the debt, because in that year interest payments would be about 3 percent of the economy.”

Mr. Meacham asked if “there is an idea out there that has not been had?”

- Mr. Orszag said that it is “less an issue of expanding the set of options and more an issue of finding an acceptable compromise among people who have different points of view.”

REFORMING HEALTH CARE

AFTER HEALTH CARE REFORM



L-R: Michael Peterson, Bob Reischauer, Rep. Allyson Schwartz, John Podesta

A panel discussion with John Castellani, Dr. Elliott Fisher, Sen. Judd Gregg, John Podesta, John Rother, and Rep. Allyson Schwartz, moderated by Bob Reischauer. Although new health care reform legislation has been signed into law, panelists discussed the major questions still on the table about the solvency and future of the nation's health care entitlements, and their projected impact on America's growing debt and future deficits.

KEY TAKEAWAYS

- Complete consensus on the need to move toward a delivery system that rewards quality and cost-effectiveness.
- Dissension about whether the new health care legislation amounts to “true reform” or just expands government without knowing how to pay for it.
- The National Commission on Fiscal Reform and Responsibility has a major role to play in demanding accountability from the government for instituting measures to lower costs and improve quality.
- A large challenge will be determining how to measure “quality,” especially in terms that align with patient definitions.
- A clear need for the Centers for Medicare and Medicaid Services to share its database on quality and cost-effectiveness so all the players in the health care system can make informed decisions.

Bob Reischauer asked the panel what they think are the most promising innovations in the new health care legislation.

- Dr. Elliot Fisher said there's an investment in better comparative effectiveness research, which will help patients understand about the many services that are actually useless. He also said there are a number of “delivery system models and payment reforms that are included in the bill that offer great hope” and that new models “give us the opportunity to really slow the growth in health care spending.”
- John Castellani agreed that the system needs to move to more emphasis on quality and outcomes.
- Sen. Judd Gregg said the health care bill is expanding quickly without anyone knowing how to pay for it and argued the approach is not real reform. He said, “Instead of making Medicare more solvent, you take that money and you move it over to the other side of the ledger and you create a brand new entitlement, which is on its face underfunded...you've aggravated the problem radically that we're confronting.” And he said this approach has “hamstrung the Fiscal Commission” relative to reforming health care.

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REFORMING HEALTH CARE

AFTER HEALTH CARE REFORM

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“ I think one of the roles that the Commission can play is to demand accountability from the administration on implementation and back them up when they’re making tough decisions. If they decide that they’re going to look at things like demonstrations in high-cost areas, and the high-cost areas start to squawk, the Commission could play an important role, I think, in backing up those tough political decisions... ”

– John Podesta

· John Podesta disagreed, saying that the Commission has an opportunity to “demand accountability on the implementation of provisions in the bill that can really drive the delivery of health care towards quality and away from quantity, away from piecework medicine.” He said the Commission can also play a role in “backing up tough decisions” when, for example, “high-cost areas start to squawk.”

Mr. Reischauer asked the panel how we measure “quality.”

· Dr. Fisher said the systems for interviewing patients about the quality of their care has greatly improved. And he said that these more accurate ways of measuring quality are also “tremendously motivating for physicians. They want to do better and want to improve. So the measures are going to motivate the systems to improve.”

· Mr. Podesta added that some aspects of quality are measurable: “Hospital re-admissions are measurable. Medical errors are generally measurable... Scans that have no diagnostic value are actually measurable. So the question is, do you align your payment systems to produce the outcomes and the quality that I think the medical research would indicate is the low hanging fruit in the system.”

· Sen. Gregg later countered that the insurance system does not incentivize consumers to evaluate the quality of their care, and the new reform bill “will aggravate” this system.

· Mr. Castellani said that a big problem has been accessing the data about costs and quality this is in the Centers for Medicare and Medicaid Services database – and that doctors have resisted releasing. He said, “...we don’t know as payers for health insurance, we don’t know as patients, we don’t know as doctors who performs the best quality procedures at the lowest price, with the best outcomes. But all of that database is within CMS now. Luckily, the legislation includes that.”

· Rep. Allyson Schwartz said that the legislation isn’t just nice words about doctors and hospitals coordinating care. “What we did is to say we’re going to focus on primary care. We’re going to provide extra payments for care coordination through medical homes, so that doctors will have nurse practitioners working with them...we’re going to encourage hospitals to have their practitioners get outside the walls of those hospitals, rather than just wait. So now we have actually defined quality as that episode. Did you do that procedure well or not?”



L-R: Elliott Fisher, John Castellani, John Rother, Sen. Judd Gregg

“...Medicare is the [biggest] health care account, soon to be followed by Medicaid, especially with this expansion by 50 percent under this [health care reform] bill. And we have extremely limited our capacity to make significant movement in those areas...We’ve dealt ourselves a very hard hand here and undermined our capacity as a nation to right our fiscal ship on the primary issue that we need to right our fiscal ship on, which is the issue of health care costs and how we deal with Medicare and Medicaid.”

– Sen. Judd Gregg

Mr. Reischauer pointed out to Sen. Gregg that some believe the only way to rein in health care costs is to have a budget for health care with enforceable limits, while others believe in solutions such as a dedicated revenue source, like a VAT. He asked the Senator what sort of dramatic medicine he thinks is required.

- Sen. Gregg said the issues behind health care costs are “disease drivers, like obesity and Alzheimer’s...quality versus quantity reimbursement issues...[and] the issue of employers not being able to adequately reward people for going out and causing their employees to pursue healthy lifestyles and preventative care.”

A CONVERSATION
WITH
PAUL VOLCKER



Paul Volcker

“ You know what we can do concretely at the moment is limited...We are still coming out of the early stages of coming out of the recession...So what can we do? In my view, we could deal with the Social Security problem reasonably promptly. It’s not going to produce a big change in the fiscal situation in the short run, but it’s confidence building.”

– Paul Volcker

KEY TAKEAWAYS

- **Entitlement programs must be central to reform.**
- **Tax reform is an important consideration, but will not meaningfully address the nation’s fiscal outlook unless coupled with spending reductions.**
- **Addressing Social Security promptly will convey the right message to the world.**
- **Important to maintain price stability to boost confidence.**

Peter G. Peterson asked Paul Volcker about solutions to the deficit problem.

- Mr. Volcker said you can’t solve it by adjusting taxes, whether personal income taxes or the estate tax or others. The entitlement programs “have to be front and center.” He noted, however, that you have to “do something about taxes” if you try and can’t control the deficit situation through spending reductions. These reductions should come first. He would include getting rid of some tax preferences “because they are enormous.”
- He reiterated his skepticism that you can do enough on the tax front “to cure the budgetary problem that looms ahead.” And he maintained that if you want to really take a big swing regarding tax reform, you’d have to tackle the biggest preference: “the mortgage deduction, which no other country provides.” He noted that “to just mention that possibility doesn’t sound all that promising.”

Mr. Peterson asked whether it’s good to “do something” in order to “convey the message to the rest of the world that we’re finally getting our act together.”

- Mr. Volcker said he puts some stock in that. He said one thing we can do “promptly” is address Social Security.
- He supports the idea of an outside commission looking at Social Security reform, with a mandate to “produce a comprehensive solution by December.”

Mr. Peterson brought up the expectation that when the economy starts to recover, the Fed will likely raise interest rates. He asked Mr. Volcker how this relates to the fiscal outlook.

- Mr. Volcker said this would be one of the purposes of confidence building, showing the country “will take action on the monetary front before too much time passes if the economy continues to recover.”
- A critically important thing, Mr. Volcker said, is “maintaining price stability and policies aimed at price stability. If we have these budget deficits and we have these big increases in indebtedness, as built into the system, if we have a lot of liquidity in the system, it’s terribly important that people maintain confidence in the stability of our currency.”

A CONVERSATION
WITH
ALAN GREENSPAN



Alan Greenspan

KEY TAKEAWAYS

- **Once banks begin making more loans again, inflationary pressures will inevitably appear.**
- **The federal debt is reducing our capacity to borrow, giving us small margins for error in our economic forecasts.**
- **We will need to ration health care more, which is already occurring, to balance demands and resources.**
- **The co-chairs of the Fiscal Commission need to involve key political players in deliberations from the start to have a chance at getting their recommendations implemented.**
- **To be economically significant, the Social Security Trust Fund would need to include independent assets, not just IOUs.**

Peter G. Peterson began by asking Alan Greenspan why, if the fiscal situation is so dire, it isn't being reflected in long-term interest rates.

- Mr. Greenspan said that current low interest rates reflect the fragile nature of the global economy. As economies recover and demand grows, inflationary pressures will increase and interest rates will rise. He said that no one is concerned with inflation at the moment but "that's going to change" and it could change very quickly. He reminded us that in 1979, "long-term interest rates went up 400 basis points in five months or four months, or something like that. And that is a startling change." He then warned, "And if we ran into that sort of problem, it would crush our system."

Mr. Peterson asked if there are other risks of not taking timely action.

- Mr. Greenspan said yes, and this involves our inability to forecast accurately, including CBO and OMB numbers. He gave the example of medical innovation, which can't be predicted, but new technologies like transplants, for instance, could become more common and they would be costly.
- He said the ramifications are that at a time when "federal debt is closing in our capacity to borrow," we could also have major questions about our margin of error. And "if we underestimate in a significant manner what the upside of outlays are, it is extremely dangerous to the system."
- To guard against this possibility, Mr. Greenspan said we should "aim at a much lower deficit than we really think is likely to happen."

Mr. Peterson asked how long Mr. Greenspan would guess we have before a significant upturn in interest rates.

- Mr. Greenspan said he studies the 10-year note and the 30-year bond as the “canary in the coal mine.” If they start to move up significantly “it is suggestive that we are in trouble.”
- He predicts we have maybe a year before deflationary pressures totally subside and the risk of inflation begins.
- Mr. Greenspan said, “You can’t have a system in which you have very large deficits, very large expansion in the monetary base, and not ultimately get inflation. It has never happened.”

Mr. Peterson noted that Americans are unaware of the true magnitude of health care costs and, as a result, have no particular incentive to reduce them.

- Mr. Greenspan responded that situation is a result of our system and creates an inability to impose effective controls of the growth of health care costs. He described the limitations on our ability to grow fast enough to accommodate an aging population and rapidly rising health care costs and, thus, put us in the position of devoting more of our economy to health care than is “consistent with stability.”
- Mr. Greenspan noted that given all that we require or demand, in health care and other areas, “if you add them all up, we don’t have the resources to do them all. We have to make choices.”

Mr. Peterson asked what lessons Mr. Greenspan had learned from his earlier work on the Social Security Commission.

- Mr. Greenspan said the main lesson was to involve the key political players throughout the process, to know what was in fact doable. “There is no such thing as an independent commission that doesn’t link itself up in real time to the political mechanism,” he said.
- He suggested that Mr. Bowles and Sen. Simpson “make certain that as they go forward, the President is on board and the senior people in the Republican Congress are shaking their heads in agreement. Because if that does not happen, the Commission will write a very interesting report and everyone might read it, get good press, and then it goes on the shelf for posterity.”

“ ...I think if there is a lesson to learn, [it] is that there is no such thing as an independent commission that doesn't link itself up in real time to the political mechanism. And I would very much suggest to these veteran co-heads, who know more about this issue than I could ever know, that they make certain that as they go forward, that the President is on board and the senior people in the Republican Congress are shaking their heads in agreement. Because if that does not happen, the Commission will write a very interesting report and everyone might read it, get good press, and then goes on the shelf for posterity.”

– Alan Greenspan

Mr. Peterson asked Mr. Greenspan to address the solvency of the Social Security Trust Fund.

- Mr. Greenspan pointed out that the Social Security trust fund is not the same as private trust funds, which contain marketable financial assets. The federal government's ability to pay Social Security benefits depends on dedicated payroll taxes and balances in the trust funds, which implies a significant benefit cut when those balances are depleted and payroll tax receipts are insufficient. However, because he believes that such a deep benefit cut is unlikely, and that future lawmakers will effectively replenish the trust fund, “the trust fund has no economic significance from an accounting point of view.”
- For the trust fund to have economic significance, its assets “cannot be merely obligations or guaranteed obligations of the United States Government, because it's the same thing as a corporation, which has got an intracompany transfer. On a consolidated basis, it washes out. And on a consolidated unified budget basis, the Social Security Trust Fund washes out.”

GLOBAL STRATEGY
GROUP SURVEY
PRESENTATION
BY JEF POLLOCK

Michael Peterson introduced Jef Pollock, President of Global Strategy Group, to announce the results of a new Peterson Foundation-commissioned survey of past senior economic officials and congressional leaders about our long-term structural deficits. Survey respondents included 58 of the most senior economic officials from the last eight administrations and economic leaders in the House and Senate from the past 30 years.

The respondents who completed the survey are comprised of former:

- Secretaries of the Treasury
- Presidents of the Federal Reserve and members of the Board of Governors
- Directors of the Office of Management & Budget
- Chairs of the Council of Economic Advisors
- Directors of the Congressional Budget Office
- Chairs and ranking members of the Senate Budget Committee
- Chairs and ranking members of the House Budget Committee
- Chairs and ranking members of the House Ways and Means Committee



Jef Pollock

The Foundation believed the collective views of these Democratic and Republican individuals, who possess deep knowledge and significant experience in various areas of economics and finance, would be a valuable contribution to the critical dialogue about the nation's fiscal situation and best steps forward.

“ 100 percent of both Republicans and Democrats said that the federal government is currently on an unsustainable fiscal path.”

-Jef Pollock

Global Strategy Group’s survey found bipartisan consensus across the board. According to Mr. Pollock, his research determined that points of consensus include:

- The belief that federal government is on an unsustainable fiscal path is unanimous.
- Unless we act soon, we are headed for “another major economic crisis.”
- Long-term structural deficits are a much bigger concern than short-term deficits.
- We should take action in the next one to two years.
- If we fail to take prompt action, we’re likely to see a rise in interest rates and a decline in the standard of living.
- Some combination of tax increases and spending cuts will be a necessary part of any solution.
- We need to consider both overall spending cuts and entitlement reforms.
- We need to reform our tax code.

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CLOSING REMARKS
BY DAVID WALKER

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David Walker

“ Ever since our founding, America has offered each generation the opportunity for a better life. Now we have put that long-standing tradition at risk. Serious structural deficits and mounting debt burdens threaten the future prosperity of our country, its position in the world, and the quality of life for our children and grandchildren. This is the challenge that will exist after the economy has fully recovered, after unemployment levels are down, after the wars are over, and long after the financial and housing crises have long past.”

– David Walker

Mr. Walker concluded the summit by recounting major themes and points of view expressed at the Summit that reveal consensus:

- The federal government is on an unsustainable fiscal path and elected officials need to begin to enact reforms within the next two years to put our federal fiscal house in order.
- The belief that everything must be on the table, “including budget controls, social insurance reforms, defense and other spending constraints, and additional revenues.”
- The fact that “the real problem is our longer-term structural deficits and not the short-term deficit.”
- The reality that many states’ fiscal imbalances also need to be addressed.
- That “health care costs remain the single largest challenge to our nation’s fiscal future.”
- The sense that tax preferences represent “back-door spending” and need to be reformed along with direct spending programs.

Mr. Walker noted that our major fiscal challenges will confront the nation after the economy has recovered, unemployment is down, the wars are over, and after the financial and housing crises have long passed. He stressed that, given the burdens we are threatening to place on our children and grandchildren, we have “not only an economic challenge, but an ethical and moral challenge.”

Mr. Walker stressed that citizen engagement is critical to the work of the National Commission on Fiscal Responsibility and Reform and to finding solutions to the nation’s fiscal challenges. He said that “we the people” must demand accountability from our elected officials to ensure the changes we need are made. For example, this will require a “citizen education effort” with representative groups of citizens in selected cities across the country – an effort that will include, but should not be limited to, a joint effort funded by the Peterson Foundation, the MacArthur Foundation and the Kellogg Foundation, that will be executed by AmericaSpeaks. This will be “an unprecedented citizen education and engagement exercise” focused on the federal fiscal challenge. Groups of Americans in 20 cities, and others linked by satellite and web, will be “provided the fiscal facts” and asked to express their opinions and suggest reform options.

Mr. Walker closed by saying that we should be pursuing fiscal responsibility with social justice. He noted that it will take non-partisan policy options and non-ideological approaches that can achieve bipartisan support “to turn ideas into action.” He added that the Peterson Foundation will do its part by “bringing attention to possible solutions.”



Peter G. Peterson
Foundation

Our America. Our Future.

