



SUMMARY AND HIGHLIGHTS

May 25, 2011 Washington, D.C.

2011 FISCAL SUMMIT

SOLUTIONS FOR AMERICA'S FUTURE
SPONSORED BY THE PETER G. PETERSON FOUNDATION

2011
FISCAL SUMMIT
SOLUTIONS FOR
AMERICA'S FUTURE

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 2011 Fiscal Summit

At a critical moment in the ongoing discussion of America's economic future, the Peter G. Peterson Foundation's 2011 Fiscal Summit brought together leading thinkers and policymakers who presented a range of ideas about how to solve the nation's long-term fiscal challenges. The Summit featured the results of the Foundation's Solutions Initiative, which provided grants to six organizations from across the ideological and generational spectrum to develop plans to address the nation's projected long-term debt and deficits.

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2011 FISCAL SUMMIT PROGRAM

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OPENING REMARKS: A TIME FOR SOLUTIONS

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

SIX PLANS: AN INTRODUCTION TO THE SOLUTIONS INITIATIVE

Michael A. Peterson, Vice Chairman, Peter G. Peterson Foundation

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Gene Sperling, Director, National Economic Council

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BEYOND THE CULTURE OF DEBT: UNDERSTANDING AMERICANS' ATTITUDES AND APPETITE FOR CHANGE

David Brooks, Columnist, *The New York Times*

David Cote, Chairman and CEO, Honeywell; Member, National Commission on Fiscal Responsibility and Reform

Tamara Draut, Vice President of Policy and Programs, Demos

Megan McArdle, Business and Economics Editor, *The Atlantic*

Senator Alan Simpson, Co-Chair, National Commission on Fiscal Responsibility and Reform

Moderator: **Ezra Klein**, Columnist, *The Washington Post* and Bloomberg; Policy Analyst, MSNBC

THE NEW FISCAL POLITICS: A VIEW FROM THE STATES

Governor Mitch Daniels, 49th Governor of Indiana; Former Director, The Office of Management and Budget

Interviewer: **George Will**, Columnist, *The Washington Post*

BRIDGING THE GAP: BIPARTISAN ACTION ON OUR FISCAL CHALLENGES

Senator Saxby Chambliss, (R-GA) Vice Chairman, Senate Select Committee on Intelligence

Senator Mike Crapo, (R-ID) Member, Senate Budget Committee

Senator Dick Durbin, (D-IL) Senate Majority Whip

Senator Mark Warner, (D-VA) Member, Senate Budget Committee

Moderator: **Judy Woodruff**, Senior Correspondent, *The PBS Newshour*

THE SOLUTIONS INITIATIVE: BLUEPRINTS FOR FISCAL ACTION

Alan Viard, Resident Scholar, American Enterprise Institute

Joe Minarik, Senior Vice President, Committee for Economic Development; Debt Reduction Task Force Member, Bipartisan Policy Center

Michael Ettlinger, Vice President for Economic Policy, Center for American Progress

John Irons, Research and Policy Director, Economic Policy Institute

Stuart Butler, Distinguished Fellow and Director, Center for Policy Innovation, The Heritage Foundation

Zach Kolodin, Director, Future Preparedness Initiative, Roosevelt Campus Network

Moderator: **David Wessel**, Bureau Chief, *The Wall Street Journal*

INTRODUCTION



President Bill Clinton and Gwen Ifill

On May 25, 2011, the Peter G. Peterson Foundation convened its second annual Fiscal Summit, focused on “Solutions for America’s Future.” Key policymakers, budget experts, journalists, and business leaders met to explore the factors that contribute to America’s fiscal challenges and help chart a more sustainable course for the future.

While specific proposals ran from left to right, common themes emerged. Most importantly, all in attendance agreed that our fiscal outlook is unsustainable.

Nearly every participant emphasized the need to promote economic growth, both today and in the future, and to get a handle on rapidly rising health care costs. Speakers from diverse ideological and generational perspectives agreed that the social safety net must be protected for those who depend on it. There was a widely shared sense that the tax code can be made more competitive and less complex. And people from inside and outside Washington acknowledged that Americans do want to see their leaders reach agreement on improving the nation’s long-term fiscal outlook, even though there are varying perspectives on how best to achieve that goal.

The highlight of the 2011 Fiscal Summit was the unveiling of six proposals from leading policy organizations who participated in the Foundation’s Solutions Initiative. The six organizations – American Enterprise Institute, Bipartisan Policy Center, Center for American Progress, Economic Policy Institute, The Heritage Foundation, and the Roosevelt Institute Campus Network, representing the views of younger Americans – brought their own philosophies and priorities to the project and produced plans that will surely shape the debate in Washington over the coming months.

It is clear that Americans have come a long way in agreeing that our economic path is unsustainable and must be changed. The question is no longer, “Why worry about the national debt?” Americans today are asking, “When and how are we going to do something about it?” At the 2011 Fiscal Summit, we saw that solutions are within reach.

OPENING REMARKS: A TIME FOR SOLUTIONS

PETER G. PETERSON
CHAIRMAN



Peter G. Peterson

Foundation chairman Pete Peterson opened the 2011 Fiscal Summit with remarks highlighting progress made since last year's Summit. He praised the work of the National Commission on Fiscal Responsibility and Reform, led by Erskine Bowles and former Senator Alan Simpson, and noted that President Barack Obama and House Budget Committee Chairman Paul Ryan have both issued frameworks for long-term deficit reduction, and two bipartisan groups – one in the Senate and one led by Vice President Joe Biden – continue to work on a long-term agreement.

Mr. Peterson said we are at “a very pivotal and hopeful moment,” and Americans are looking for solutions.

Without action, Mr. Peterson said, the United States faces potential short-term and long-term crises. In the short-term, eroding confidence in America's fiscal situation could lead to financial market turbulence that causes interest rates to spike. The resulting climate of sudden and dramatic budget adjustments would have a damaging impact on Social Security, Medicare, job creation, and the economy.

Over the long-term, rising debts in the United States and other developed nations – which are projected to approach 200 percent of GDP by 2035 – would drive U.S. interest costs higher, crowding out funds for badly needed investments in education, R&D, and infrastructure, and thereby threatening long-term economic growth and competitiveness.

“Changing our course will require tough decisions by the American people,” Mr. Peterson said, “and to build support for these decisions, we must make clear what we gain tomorrow for what we give up today.”

Mr. Peterson highlighted two areas on which the Foundation will focus increased attention: health care and defense spending. With respect to health care, Mr. Peterson said that reining in rising health care costs will be necessary for long-term fiscal sustainability. The Foundation will set up a new Center for Health Care Value to spur further research.

On defense, Mr. Peterson quoted Admiral Mike Mullen, Chairman of the Joint Chiefs of Staff, who called the national debt the “single greatest threat” to America's national security. Noting that the U.S. currently spends more on defense than the next 17 highest-spending nations combined, Mr. Peterson called for a fundamental review of U.S. defense strategy and funding to ensure that the nation is using its resources judiciously and appropriately to meet the threats of the 21st century.

Mr. Peterson concluded by saying that his dream for next year's Fiscal Summit is that participants won't simply be talking about what must be done, but what has been done.

SIX PLANS: AN INTRODUCTION TO THE SOLUTIONS INITIATIVE

MICHAEL A. PETERSON
VICE CHAIRMAN



Michael A. Peterson

Vice Chairman Michael Peterson's remarks introduced the Foundation's Solutions Initiative, a project in which six policy organizations from across the ideological and generational spectrum developed plans to address the nation's long-term fiscal challenges.

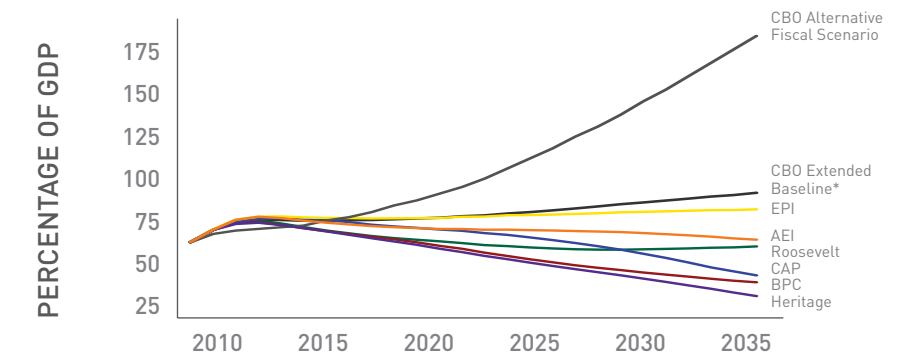
He started by outlining the challenge the grantees confronted. Many economists suggest maintaining a debt-to-GDP ratio of not more than about 60%. And they say it is dangerous if it stays above 90%. Today, our national debt totals more than \$14 trillion. Excluding Social Security, Medicare, and other trust funds, U.S. public debt is about \$10 trillion, or 65% of GDP.

“That's already quite high, but a strong country like ours can manage that. The real threat is right in front of us,” Mr. Peterson said, adding that future projections show interest costs rising to more than \$1 trillion a year, much of it paid to foreign creditors.

Mr. Peterson emphasized that the Foundation's challenge to the Solutions Initiative grantees was to devise a plan that would put the nation on a more sustainable fiscal path, and that there were “no requirements, no guidelines, no targets.” The plans were reviewed by independent scorekeepers to determine the impact on public debt 10 and 25 years into the future.

The results were encouraging, Mr. Peterson said, because all six grantees developed plans that would result in significantly lower future debt. He praised the groups for putting themselves on the line and making the hard choices: “They examined the tradeoffs and made the tough decisions. They each lay out a path to fiscal responsibility that reflects their vision for America.”

Solutions Initiative Projected Debt Levels



All of the plans lowered projected future debt from the Congressional Budget Office estimate of 185% of GDP to under 85%. Some groups favored smaller government, lower tax rates, and fewer investments, while others favored a larger role for government, requiring higher taxes and higher spending. However, there were areas on which the grantees agreed, including the need to protect seniors and vulnerable members of society; raise taxes or reduce benefits for higher-income Americans; and reform the tax code to reduce tax expenditures. The plans also contained novel proposals, particularly in tax and health care policy.

Mr. Peterson concluded by noting that “compromise is difficult, but it may be that a grand fiscal bargain is actually in the interest of both parties.”

*For this project, the June 2010 Extended Baseline was updated by the independent scorekeepers to reflect enacted legislative changes through January 2011. Among other assumptions, the Extended Baseline assumes that tax cuts will expire as scheduled and health care cost growth will be controlled.

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AMERICAN LEADERSHIP AND PROSPERITY: BUILDING A THRIVING ECONOMY IN A COMPETITIVE WORLD

PRESIDENT BILL CLINTON
INTERVIEWED BY GWEN IFILL

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The keynote speaker at the 2011 Fiscal Summit was President Bill Clinton, interviewed by PBS's Gwen Ifill, who began by asking if it's possible to cut budgets without regard to sacred cows. President Clinton said it is, but that America is in a terrible double bind right now. This is a bad time to cut public investment, while private economic activity is slow. The "genius" of the Bowles-Simpson framework was to lay out a plan for long-term deficit reduction but delay the start until the economy is recovered.

President Clinton said budget experts need to educate the American people about these issues and "create an appetite for the future again" by talking not just about the negative consequences of debt, but the positive consequences of building a more sustainable fiscal future.

In exploring various fiscal options, President Clinton emphasized the need to control the "toxic rate of inflation" in medical costs. He noted that other countries get outcomes that are just as good as ours, with much lower spending, and he said our biggest problem is paying for procedure, rather than paying for care. He also pointed to the lack of comparative studies of cost and outcome, as well as excessive administrative costs and profit margins, costly medical errors, and unhealthy lifestyle choices by Americans.

President Clinton urged Democrats and Republicans to not draw the "wrong conclusions" from the recent special election in New York and believe that no changes can be made to Medicare, Social Security, or the tax system. He did offer his opinion that Representative Paul Ryan's Medicare proposal is "wrong on the merits" because there is no evidence that Medicare recipients would be empowered to negotiate better prices for their health coverage. And he urged Democrats to come up with their own plan.

President Clinton said that tax rates, at least on higher-income Americans, will probably have to return to the levels of the 1990s, and that tax expenditure reform can bring in additional revenue. He also suggested that consumption and carbon taxes could reduce or replace taxes on lower and middle incomes. On the corporate side, he favored tax reform that lowers rates, removes tax expenditures, brings in the same or a little more revenue, and makes the U.S. more competitive internationally.

The former president noted that high revenues correspond to high economic growth rates, but that high growth rates are not achieved by low taxes alone, at the expense of fiscal responsibility.

"There's no question defense will have to be a bigger part of this than it's been so far," President Clinton said, adding that the money saved should be reinvested wisely so that it creates more jobs, since reducing defense spending will cost jobs. He also recommended that savings from domestic discretionary spending reductions should be reinvested in manufacturing, clean energy technology, and other job-creating areas.

One troubling aspect of our debt, according to President Clinton, is that so much of it is borrowed from countries that have trade surpluses with us. As a result, we're less inclined to vigorously defend trade agreements and improve the climate for American jobs and business. Furthermore, as interest rates rise, we'll be devoting more of the budget to interest payments and the money we save from reforming programs will be "sent out the door to foreign creditors."

Asked by Gwen Ifill about the likelihood that Democrats and Republicans will reach agreement, President Clinton said that, contrary to conventional wisdom, a deal could happen because we're coming up on an election year and Americans are hungry for an agreement.

Reaching an agreement will require people to reach across partisan divides that have gotten deeper in recent years. "In the end," President Clinton said, "We have to listen to people who disagree with us."



President Bill Clinton

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TOWARD A SUSTAINABLE FUTURE: CONVERSATIONS WITH REPRESENTATIVE PAUL RYAN AND GENE SPERLING

INTERVIEWED BY MARIA BARTIROMO

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Representative Paul Ryan

CNBC anchor Maria Bartiromo hosted back-to-back conversations with House Budget Committee Chairman Paul Ryan and National Economic Council Director Gene Sperling to explore the deficit-reduction challenge from the perspectives of House Republicans and President Obama.

Medicare was the major topic for Representative Ryan. He explained that his plan would turn Medicare into a premium support system in which the federal government would negotiate with insurers, guarantee coverage for seniors, and provide increased subsidies for people who have lower incomes or are in worse health. People with higher incomes would receive lower subsidies.

Bartiromo asked Ryan about Congressional Budget Office projections that seniors could pay substantially more out of pocket if his plan were enacted. Ryan responded that CBO's analysis failed to consider additional Medicare benefits that lower-income and less healthy seniors would receive. He also said experience shows that choice and competition work to control costs, pointing to the Federal Employee Health Benefits system and the Medicare prescription drug program. Ryan further argued that measuring Medicare against the status quo is a "fiscal fantasy" because the program currently faces tens of trillions of dollars in unfunded liabilities.

Beyond Medicare, Ryan discussed his proposal to turn Medicaid into a block grant to states, which would control costs and provide governors more flexibility to "customize Medicaid to meet the needs of their populations" – a change Ryan likened to welfare reform in the 1990s. And he emphasized that Republican Medicare and Medicaid proposals wouldn't cut spending from current levels, but cut the rate of growth of spending going forward.

On taxes, Ryan said the way to increase revenue to help close the fiscal gap is through economic growth and job creation. President Obama's proposals to raise taxes on higher earners and "job creators" would hurt economic growth, which Ryan called "the missing ingredient" in budget discussions. Republicans propose tax reform that would "clear out the clutter" by reducing tax expenditures. He suggested ending the tax deduction for employer-provided health insurance so that health insurance is attached to individuals, not to jobs.

Ryan also said that his budget proposal includes Secretary Robert Gates's proposed cuts to the defense budget, which totaled \$178 billion, with \$100 billion reinvested in defense and \$78 billion applied to deficit reduction.

Asked if the economy is too fragile for spending cuts now, Ryan disagreed, saying that stimulus spending has been discredited and it's time to restore market confidence by showing that the federal government is getting spending under control. If we fail to control our fiscal situation, austerity will be painful. "The people who get hurt the first and the worst are the people who need government the most."

Echoing President Clinton, Ryan said that Americans are hungry for solutions. President Obama's proposals don't fix the problem, Ryan said. "People may not like the [Republican] plan, but it fixes the problem."



Gene Sperling

Gene Sperling began his discussion by explaining how President Obama's plan differs from Representative Ryan's. He said the Obama plan, which would deliver \$4 trillion in deficit reduction over 12 years, differs in that it is more balanced, including \$3 of spending reductions and interest cost savings for every \$1 of revenue increases. Raising revenues on higher earners isn't only about additional revenue, Sperling said, but also about having the moral authority to ask everybody to sacrifice, for the benefit of restoring confidence in our long-term economic future.

Sperling emphasized that what happens to the top marginal tax rate is not the sole determinant of economic growth – the past two decades prove that. Raising taxes as part of a comprehensive fiscal discipline package will raise confidence and spur investment. Sperling said the White House would support tax reform that reduces tax expenditures and uses some of the savings for deficit reduction.

While acknowledging that the Ryan plan would accomplish deficit reduction more quickly, Sperling said it's important not to phase in deficit reduction while unemployment is still high, and that the White House wants to have the resources to continue investing in research, education, science, and other areas that are critical to competitiveness. Furthermore, it is essential to "protect the fundamental social compact," including Medicare and Medicaid.

Maria Bartiromo asked Sperling to explain how the Independent Payment Advisory Board would work to control Medicare costs. Sperling replied that if Medicare cost growth goes above a specified level, IPAB looks for additional savings. Furthermore, he said, IPAB would bring more independent, non-political expertise into the system. Sperling said the administration is open to other ideas, but they support the basic notion of using independent expertise to adjust the system as we learn more about quality and delivery system efficiencies. Under IPAB, Medicare spending "would never be on automatic pilot again." He added that health reform will help to bring down costs across the entire system, which must be done, otherwise Medicare savings are just cost-shifting.

Looking at the larger budget, Sperling said the country would be better off if policymakers act sooner rather than later to protect Social Security's "core purposes" and progressivity, and that the White House needs Republicans to be open to the possibility of increasing revenue. He also said that President Obama's revised plans for defense spending would reduce deficits by \$290 billion over 12 years.

Sperling noted that deficit reduction doesn't happen all at one time. In the 1990s, it started with President Bush and Democrats in Congress and continued with President Clinton and Republicans in Congress. But a down payment is necessary to maintain market confidence, avoid playing games with default, and show that "we, as a country, are capable of coming together and doing something serious."

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BEYOND THE CULTURE OF DEBT: UNDERSTANDING AMERICANS' ATTITUDES AND APPETITE FOR CHANGE

MODERATED BY EZRA KLEIN

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The midday session at the 2011 Fiscal Summit featured a panel discussion of Americans' attitudes about the changes required to put the nation on a more sustainable fiscal path. Moderator Ezra Klein, columnist for *The Washington Post* and Bloomberg, opened by asking who's responsible for the debt – the public, Washington, or a combination of both?

David Brooks responded that the public usually wants more government than it wants to pay for, and that the current generation has been particularly willing to spend on itself while shifting the burden of payment to future generations. Brooks ascribed this to an attitudinal change brought on by two individualistic revolutions – a cultural revolution in the 1960s and an economic revolution in the 1980s. As a country, we've done well by individual freedom, but our civic commitment has lagged.

Former Senator Alan Simpson said that politicians of his generation were told to go to Washington and "bring home the bacon," which led to spending promises the nation can't keep. Today, he said, "you can't bring home the bacon anymore because the pig is dead."

David Cote said that wanting more benefits and wanting to pay less in taxes is a perfectly logical desire from the public's standpoint. The big problem is that no one has explained the reality of the current situation directly to the public. Alan Simpson said that people around the country understand the problem when given the facts clearly – they know that borrowing 41 cents out of every dollar spent is not sustainable.

According to Tamara Draut, the problem is bad policymaking rooted in antipathy to government. A belief has taken hold that if government doesn't do anything right, we shouldn't support it with adequate revenue. She also suggested that too much attention is focused on the post-recession economy; the more significant problem is that wages were stagnant or declining for years before the recession. Strengthening middle-class earning opportunities should be at the heart of deficit-reduction efforts.

Megan McArdle said that politicians are responding to a desire from the public to solve the budget challenge in a way that doesn't affect them personally – by either cutting small parts of the federal budget such as foreign aid, or raising taxes on people who are very wealthy. Politicians exacerbate this tendency by arguing that the other side is acting in bad faith and that solutions are easy to come by.

Brooks said the task is to get people from different interest groups to cross Rubicons. Republicans will have to cross a Rubicon on taxes and President Obama and Democrats will have to cross a Rubicon on middle-class entitlement cuts.

Ezra Klein asked David Cote why the business community isn't more active in pushing for changes to the health care system. Cote agreed that the system operates poorly – we don't reward quality, comparison data are hard to come by – but business leaders and others are uneasy with the notion of government single-handedly fixing the problem. In his view, the best thing government can do is to



L-R: Ezra Klein, David Brooks, Senator Alan Simpson, David Cote, Tamara Draut, Megan McArdle

make data more transparent so that people are aware of the quality of care doctors and hospitals provide, because quality drives lower costs and better outcomes.

When asked whether current deficit-reduction efforts will mimic earlier efforts by being passed in a piecemeal approach, or whether a single major agreement will win approval, Megan McArdle responded that the choices used to be smaller and easier, but now the problem is essentially related to Medicare, Social Security, and defense, which makes the choices much harder. Ultimately, McArdle suggested, the bond market may be the only way to discipline policymakers and keep them on the right path.

THE NEW FISCAL POLITICS: A VIEW FROM THE STATES

GOVERNOR MITCH DANIELS
INTERVIEWED BY GEORGE WILL



Governor Mitch Daniels

Indiana Governor Mitch Daniels brought to the 2011 Fiscal Summit his perspective on budget issues as a state chief executive and a former director of the Office of Management and Budget. *Washington Post* columnist George Will interviewed Governor Daniels and began by asking him whether budget deficits can be turned into surpluses in Washington, as he's done in Indiana. Governor Daniels said it can happen – “there's nothing magic about it” – and some of the same tools that worked in Indiana could work on the national level. It's important not to sell the American people short, Daniels said, adding that if lawmakers are clear that people at the lowest rungs of the economic ladder are their main concern, and they get results, the support will be there.

Asked about the utility of balanced budget amendments and other constitutional measures to maintain fiscal discipline, Governor Daniels acknowledged that they can be useful, but that many states, including his own, have found ways to get around them. He favors a restraint such as requiring a legislative supermajority to go beyond certain budget limits, but he believes these measures are incomplete because policymakers find exceptions and the exceptions can always be expanded. Furthermore, Daniels said, constitutional requirements or fiscal triggers could become a diversion from having to wrestle with the real issues.

As for solutions to the nation's current fiscal challenges, Daniels said, “The arithmetic is plain as arithmetic normally is. We will have to not only transform the safety net, but restore the federal government to some kind of affordable shape.”

In dealing with entitlements, Daniels said our society is aging, we've made a commitment to protect people in their older years, and it's hard to anticipate exactly what level of spending will be required to do that. Since our resources are finite, we should concentrate them on those who will suffer without support.

Noting that the federal tax code resulting from the tax reform of 1986 has been “re-complicated,” Will asked if there is a “metabolic urge” that tends to make the tax code complex. Daniels responded that if you only weed the garden once every 25 years, it's going to be a mess. And in Washington, it's not just because of natural growth that the garden gets overgrown, but because people keep replanting weeds.

Reforming tax expenditures would eliminate spending through the tax code and allow for a pro-growth tax code with flatter, fairer rates. “We're going to need a long boom of strong economic growth” to improve the country's fiscal outlook, Daniels said.

In Indiana, Governor Daniels's administration has focused on raising workers' disposable income, “because it's the essence of the American promise and because if we get that right, the government will have the means to do the things we should do collectively.”

Governor Daniels concluded by saying that Washington should not blame the American people for their apparent reluctance to act. Most have never been given the facts about our fiscal situation. “I honestly believe that we can ... deal with these issues before the worst happens.”

BRIDGING THE GAP:
BIPARTISAN ACTION
ON OUR FISCAL
CHALLENGES

MODERATED BY JUDY WOODRUFF



Senator Saxby Chambliss



Senator Mike Crapo

For the first time, four members of the bipartisan group of senators working on a long-term deficit-reduction plan – Saxby Chambliss (R-GA), Mike Crapo (R-ID), Dick Durbin (D-IL), and Mark Warner (D-VA) – appeared together to discuss their work and the prospects for fiscal reform.

The discussion was moderated by PBS’s Judy Woodruff, who asked Senator Crapo if all policy options are on the table. He said that everything is on the table, though everything may not be included in a final agreement that wins 60 votes. He also said the discussion on taxes needs to shift from whether to raise or lower rates, to creating a system that is fairer, simpler, easier to comply with, and internationally competitive.

Senator Chambliss agreed, adding that anybody who thinks the long-term problem can be solved simply by cutting domestic discretionary spending isn’t thinking seriously about it. The approach the group is taking is similar to the approach taken by President Ronald Reagan – tax reform that raises revenue but doesn’t raise rates.

Woodruff asked Senator Warner if it may actually be easier to reach agreement on revenue than on entitlements. Warner said more progress has been made than is commonly assumed, and that the group also has to consider how to get an agreement through both houses of Congress. He noted that we’re currently at historically high levels of spending as a percentage of GDP and historically low levels of revenue, and the difference can’t be sustained. The key will be making entitlements sustainable while ensuring that the safety net protects those who need it.

Senator Chambliss said corporate tax reform, similar to individual reform, is also important to improve the competitive position of U.S. companies. He said such reform should be revenue-neutral. Senator Durbin said corporate tax reform should protect the existing revenue stream and also treat small and large businesses more equitably.



Senator Dick Durbin



Senator Mark Warner

On entitlements, Senator Durbin argued strongly that Social Security and the rest of the safety net should be seen not as anachronistic programs but as real lifelines for people who struggle. He said Americans get nervous when they hear policymakers talk about changing programs they rely on, but noted that the Social Security reform of 1983 was negotiated and enacted on a bipartisan basis and did not cost members of Congress their jobs.

Asked whether Republicans have faced particular difficulty with groups like Americans for Tax Reform that take dogmatic stances against taxes, Senator Crapo said that both sides had been subjected to fierce criticism, but that a lot of groups will be happy with the final product because their fears won’t be realized. As more Americans realize the status quo isn’t sustainable, they’ll be more willing to engage in serious discussions.

Senator Durbin said senators on both sides of the political spectrum have told members of the group to “stay at it” because the alternative is a fiscal crisis that would occur with few monetary or fiscal options to respond. Senator Warner asserted that “this is the most predictable financial crisis we’re approaching in our lives.”

Asked about the difference between this group and the bipartisan, bicameral group led by Vice President Biden, Senator Chambliss said the group he’s a part of is focused on dealing with the entire long-term debt issue, while the Vice President’s group is focused more specifically on reaching an agreement to raise the debt limit in the short-term. Senator Durbin added that the president and vice president have been encouraging to the Group of Six.

Senator Warner said that a comprehensive deal is the most promising path to long-term fiscal sustainability because even if people don’t like individual aspects of the plan, they will still see the greater good.

THE SOLUTIONS INITIATIVE: BLUEPRINTS FOR FISCAL ACTION

MODERATED BY DAVID WESSEL

The final session of the 2011 Fiscal Summit brought together representatives of the six organizations taking part in the Solutions Initiative: Alan Viard of the American Enterprise Institute (AEI); Joe Minarik of the Bipartisan Policy Center (BPC); Michael Ettlinger of the Center for American Progress (CAP); John Irons of the Economic Policy Institute (EPI); Stuart Butler of The Heritage Foundation; and Zachary Kolodin of the Roosevelt Institute Campus Network.

They spoke with moderator David Wessel of *The Wall Street Journal* about how they developed their plans and how the nation should proceed in addressing its fiscal challenges. Wessel began by asking each group to describe a key element of its plan that is different from the rest.

Stuart Butler emphasized that the Heritage plan would provide older Americans with genuine protection against poverty or excessive medical costs, while reducing benefits for seniors who are better off financially. John Irons spotlighted EPI's investments, including in early childhood education and efforts to improve the effectiveness of health care spending, which can generate returns and reduce costs in the long run.

A unique element of BPC's plan, according to Joe Minarik, is its tax reform proposal, which he believes could win support from both parties because it would increase revenues while lowering rates and improving competitiveness. Alan Viard also pointed to tax reform in the AEI team's plan, which would scrap individual and corporate income taxes, and estate and gift taxes, in favor of a progressive consumption tax designed to reward saving and investment. Zachary Kolodin said that the Roosevelt plan includes a tax on the largest financial institutions to prevent them from reaching the size at which they're "too big to fail."

Michael Ettlinger pointed out that the plan from CAP would balance the budget without "socking it to the middle class" or raising taxes on wealthier individuals to "irresponsible" levels. Wessel asked Ettlinger why protecting the middle class should be a priority in deficit reduction. The middle class is so large – does exempting them from shared sacrifice push the pain to the highest- and lowest-income Americans? Ettlinger responded that the middle class must continue to pay their share of taxes, but that middle-income Americans have already borne quite a lot of pain because they haven't benefited from income growth over the past 30 years.

Since AEI and Heritage would cut spending the most, Wessel asked Alan Viard and Stuart Butler whether they would give ground on taxes or accept higher deficits if spending cuts were unachievable. Viard disagreed with the premise of the question, but said that if it were impossible to get sufficient spending cuts, revenue increases would be the only option, albeit one that would not promote economic growth. Butler insisted that spending cuts are essential, because you won't get to sustainability without them.

Wessel asked the other groups the same question in reverse: Would you cut spending deeper if you can't get the tax revenue? John Irons said the real question is



L-R: Alan Viard, American Enterprise Institute; Joe Minarik, Bipartisan Policy Center; Michael Ettlinger, Center for American Progress; John Irons, Economic Policy Institute; Stuart Butler, The Heritage Foundation; Zach Kolodin, Roosevelt Institute Campus Network

less about levels of spending than about the allocation of dollars, noting that EPI would spend substantially less on defense, while spending more in areas such as energy, education, transportation, and R&D. He also said that in the short term, EPI would prefer higher deficits than lower spending in order to prevent the economy from slipping back into recession.

On health care, Wessel asked Joe Minarik to explain the differences between BPC's premium support model for Medicare and Paul Ryan's. Minarek said the key differences are that BPC would preserve the option for seniors to remain in traditional Medicare and that seniors would have a larger subsidy when they shop for a plan.

Michael Ettlinger said premium support is flawed because markets have performed very poorly in keeping health care costs down. CAP's preference is to work within the current system and reform it to make it more efficient. Minarek responded that some market-based systems have worked well, including the system that serves federal employees.

Stuart Butler said the health care discussion came down to a "fundamental divide over power and control," with some groups wanting individual consumers to have more control and others giving more power to government through mechanisms such as the Independent Payment Advisory Board. John Irons argued that the power in a more market-based system actually lies with insurance companies rather than with consumers.

After discussing tax provisions included in each plan, David Wessel concluded by thanking the panelists "for the seriousness of purpose" they brought to meeting the fiscal challenge.

CONCLUSION

A year ago, the inaugural Peter G. Peterson Foundation Fiscal Summit focused on convincing Americans of the urgency of our nation's long-term fiscal challenges. At the 2011 Fiscal Summit, all agreed that mounting debt and deficits pose a grave danger to our economy. Solutions Initiative grantees, as well as featured speakers and panelists, applied their principles and their creativity to the task of finding a better way forward.

By convening leaders representing broad points of view, bringing specific plans to the fore, and encouraging open and frank discussions about our priorities as a nation, the Summit established a framework for getting beyond partisan differences and focusing on viable solutions.

It is our fervent hope that policymakers will hear the will of the American people and come together to put the United States on a more sustainable fiscal path – one that builds a foundation for broadly shared prosperity and long-term economic growth.



For more photos and full video from the 2011 Fiscal Summit,
or to review the complete Solutions Initiative plans, please visit:

www.pgpf.org/fiscalsummit

