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FISCAL RESPONSIBILITY SUMMIT

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FISCAL RESPONSIBILITY SUMMIT

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FISCAL RESPONSIBILITY SUMMIT

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Introduction
Remarks of President Barack Obama

My Administration came into office one month ago in the depths of an economic crisis unlike any we have seen in generations. We recognized that we needed to act boldly, decisively and quickly—and that is precisely what we did.

Within our first 30 days in office, we passed the most sweeping economic recovery package in history to create or save 3.5 million new jobs, provide relief to struggling families, and lay the foundation for long-term growth and prosperity. I laid out my housing plan to break the cycle of falling home values and rising foreclosures that has devastated so many communities. And we put forth a Financial Stability Plan to start shoring up our banks, so we can free up credit, jump-start lending and restore confidence in our financial system.

These are extraordinary—but necessary—measures to address this economic emergency, and they will come at a cost. This Administration has inherited a 1.3 trillion dollar deficit—the largest in our nation's history—and our investments to rescue our economy will add to that deficit in the short-term. We also have long-term challenges—health care, energy, education and others—that we can no longer afford to ignore.

But I want to be very clear: we cannot, and will not, sustain deficits like these without end. Contrary to the prevailing wisdom in Washington these past few years, we cannot simply spend as we please, and defer the consequences to the next budget, the next Administration, or the next generation.

We are paying the price for these deficits *right now*. In 2008 alone, we paid $250 billion in interest on our debt—one in every ten taxpayer dollars. That is more than three times what we spent on education that year. More than seven times what the VA spent on health care for our veterans.

So if we confront this crisis without also confronting the deficits that helped cause it, we risk sinking into another crisis down the road as our interest payments rise, our obligations come due, confidence in our economy erodes, and our children and grandchildren are unable to pursue their dreams because they are saddled with our debts.

That is why today, I am pledging to cut the deficit we inherited in half by the end of my first term in office.

This will not be easy. It will require us to make difficult decisions and face challenges we have long neglected. But I refuse to leave our children with a debt they cannot repay—and that means taking responsibility right now, in this Administration, for getting our spending under control.

We'll start by being honest with ourselves about the magnitude of our deficits. For too long, our budget process in Washington has been an exercise in deception—a series of accounting tricks to hide the extent of our spending and the shortfalls in our revenue and hope the American people won't notice. Budgeting certain expenditures for just one year, when we know we'll incur them every year for five or ten. Budgeting zero dollars for the Iraq war—zero—for future years, even when we knew the war would continue. Budgeting no money for natural disasters, as if we would ever go 12 months without a single flood, fire, hurricane or earthquake.

We do ourselves no favors by hiding the truth about what we spend. In order to address our fiscal crisis, we must be candid about its scope. That is why the budget I will introduce later this week will look ahead ten years, and will include a full and honest accounting of the money we plan to spend and the deficits we will likely incur.

To start reducing these deficits, I have committed to going through our budget line-by-line to root out waste and inefficiency—a process my Administration has already begun. And I will soon be instructing each member of my cabinet to go through every item in their budgets as well. Already, we've seen how much money we can save. For example, the Department of Agriculture has moved some of its training programs online, saving an estimated $1.3 million a year. They're modernizing their financial management system, saving an estimated $17.5 million. And they're saving tens of thousands of dollars by cutting back on conferences and travel and other small expenses that add up over time.

We will replicate these efforts throughout the federal government, eliminating programs that don't work to make room for ones that do—and making the ones we keep work better. We'll end the payments to agribusinesses that don't need them and eliminate the no-bid contracts that have wasted billions in Iraq. We'll end the tax breaks for companies shipping jobs overseas and stop the fraud and abuse in our Medicare program.

And we will reinstate the pay-as-you-go rule that we followed during the 1990s—the rule that helped us start this new century with a $236 billion surplus. In recent years, we've strayed from this rule—and the results speak for themselves. The pay-go approach is based on a very simple concept: you don't spend what you don't have. So if we want to spend, we'll need to find somewhere else to cut. This is the rule that families across this country follow every single day—and there is no reason why their government shouldn't do the same.

Now, I want to be very clear: while we are making important progress toward fiscal responsibility this year, in this budget—this is just the beginning. In the coming years, we will be forced to make more tough choices and do much more to address our long-term challenges, from the rising cost of health care—the most pressing fiscal challenge we face—to the long-term solvency of Social Security.

In the end, however, if we want to rebuild our economy and restore discipline and honesty to our budget, we will need to change the way we do business in Washington, DC. We cannot fall back into the same old habits, and make the same unforgivable mistakes: The repeated failure to act as our economy spiraled deeper into crisis. The casual dishonesty of hiding irresponsible spending with clever accounting. The costly overruns, the fraud and abuse, the endless excuses. This is exactly what the American people rejected when they went to the polls this past November.

They sent us here to usher in a new era of responsibility in Washington—to start living within our means again; and being straight with them about where their tax dollars are going; and empowering them with the information they need to hold their representatives accountable.

That is why I have called this summit today, and why I have invited leaders from both sides of the aisle: because we all have a role to play in this work. Because I believe it is time for a frank conversation about the fiscal challenges we face—challenges that concern every single one of us, no matter where on the political spectrum we fall.

So today, I want all of you to start talking with each other and exchanging ideas. I want you to question each other, and challenge each other, and work together not just to identify problems, but to identify solutions.

That is the purpose of the breakout sessions that are starting right now. I know that each of you brings a wealth of expertise and experience on a broad range of topics, and I appreciate your willingness to participate in these sessions. I expect that this process will be engaging and productive, and I look forward to hearing the results when you report back later this afternoon.

Setting the Stage
Remarks of Vice President Joe Biden

I want to begin by thanking all of you for being here today.

Represented in this room—with notable exceptions of some of my old friends—are some of the finest minds in the country, representing a wide range of views across the political, ideological and academic spectrum.

Today we're asking you to help us begin to tackle the challenges of our nation's long-term fiscal situation. We are going to explore how we got where we are and begin to debate where we need to head. We hope this summit will help generate a healthy debate, because we truly believe that the best course to arriving at the best answers is to have that debate.

It won't be easy, to state the obvious. I think we all know that we've inherited unprecedented budget deficits, and this has made all the more difficult the nearly unprecedented economic challenges the country is facing today.

So the problem will not be solved overnight. That's news to no one in this room.

But we want to be clear: As we take the steps that we must to get through the crisis we're in now, we will not lose sight of the long term. We will not lose sight of the need to tackle the unmet need for health care reform, to deal with the energy policy that we need, and to address so many of the other challenges that are going to determine what the 21st century looks like.

We must be direct with the American people about the budget difficulties and the choices we have to make, and we should be straightforward with them throughout this whole process.

I've always believed that in the toughest moments we are presented with the greatest opportunities as a nation. There is no question this is a very tough moment. But it's also a real opportunity to both put our economy back on track and restore fiscal responsibility. That's why we need all of you.

Our first speaker today will be Dr. Mark Zandi. Dr. Zandi is the chief economist and co-founder of Moody's Economy.com, where he directs the company's research and consulting activities. He's one of the best big picture guys in the business. His most recent book, "Financial Shock," was widely praised for its lucid explanation of the housing bust. What's less well known about Mark is that he donated the royalties from that book to a fund to invest in low-wealth neighborhoods. He was also an economic adviser to John McCain's campaign. And I'm glad he's here with us today.

Following Mark will be Robert Greenstein, founder and executive director of the invaluable Center on Budget and Policy Priorities.

Bob and the Center are very well-known to us, as they have been the go-to resource for consistently reliable analysis on matters of budgets and fiscal policy at every level of government.

Bob was awarded the MacArthur Fellowship in 1996, and last year he received both the John W. Gardner Award from Independent Sector and the Heinz Award for Public Policy in recognition of his work to improve the economic outlook for many of America's poor citizens.

Setting the Stage

Remarks of President Dr. Mark Zandi

Chief Economist and Co-founder Moody's Economy.com

I'll make two broad points in my remarks about the nation's daunting long-term fiscal challenges.

First, the Obama Administration has inherited the worst fiscal situation in the nation's modern economic history.

In the year ending this January, the federal budget deficit was approaching $1 trillion, equal to nearly 7 percent of the nation's GDP. This is the largest budget deficit since in the midst of World War II.

Our fiscal problems reflect in significant part the rapidly eroding economy. The current economic downturn is on track to be the longest, most severe, and broadest-based recession since the Great Depression of the 1930s.

More than 3.6 million jobs have been lost since the economy began losing jobs a year ago, and recent job losses have intensified, to nearly over half a million per month. Job losses are occurring in nearly all occupations, every industry, and across all regions of the country.

Forty-two states by my reckoning are in recession, and those states not in recession are not too far behind. Nearly everyone is being affected by this downturn, either through a lost job, lost hours and wages, a lost home, or a cracked nest egg.

Job losses are undermining personal income and payroll tax revenue. Corporate tax revenues have collapsed with corporate earnings. And the reeling stock market is undermining capital gain revenues.

Government outlays are increasing quickly, as economically distressed households put increasing demands on government services.

By facilitating loan modifications that significantly reduce mortgage payments for hard-pressed homeowners, these households now have a fighting chance to hold on to their homes.

The unprecedented economic financial crisis requires an equally unprecedented policy response. This does carry substantial costs. The federal budget deficit, which topped $450 billion in fiscal year 2008, is expected to rise, by my forecast, to over $1.5 trillion in fiscal 2009, and remain equally as high in 2010. Borrowing by the Treasury will be even higher.

There will also be substantial long-term costs to extricate the government from the financial system. Unintended consequences for all these actions, taken in such a short period, will be considerable.

These are a problem—problems for another day, however. The financial system is in disarray, and the economy's struggles are intensifying. Policy-makers must be aggressive. Whether from a natural disaster, a terrorist attack or a financial calamity, crises of the magnitude of the current one only end with overwhelming government action.

The cost to taxpayers of all this will be significant, but a less aggressive response would tax payers measurably more. Only if our economy soon finds its bearings will addressing problems so important to writing our long-term fiscal situation, such a the rapidly rising cost of health care, energy independence, and comprehensive tax reform be within our reach.

Setting the Stage

Remarks of President Robert Greenstein

Center on Budget and Policy Priorities

The Center on Budget and Policy Priorities recently analyzed the fiscal outlook through mid century, and our results are similar to those of the Office of Management and Budget, the Congressional Budget Office, and others.

Simply put, the long-term fiscal picture is unsustainable.

If we do not change current policies, the national debt, which now equals about 45 percent of the Gross Domestic Product, will soar to about 300 percent of GDP by the year 2050. By then, interest payments on the debt alone would consume 14 percent of GDP—more than we spent last year on Medicare, Medicaid, Social Security, and all other entitlements combined.

We must avoid such an explosion of debt. To do that, we must make sure that the debt does not consistently grow faster than the overall economy, which in turn means that, over time, annual deficits should not average more than 2 to 3 percent of GDP.

But under current policies, even after the economy starts to grow again, deficits will never fall below 4 percent of GDP, and eventually will go much higher. So, we are on the path to the very debt explosion we must avoid.

What's driving this problem? Let me start with what's not driving it.

First, the recent economic recovery package is not driving the problem. That package is temporary, and it increased the size of the long-term fiscal gap by only about one-tenth of one percentage point of GDP. Its costs are dwarfed by the bigger, longer lasting factors I'm about to describe.

Second, entitlement programs in general are not driving the problem. Entitlements other than the three big ones—Medicare, Medicaid, and Social Security—have actually been falling as a share of the economy and will continue to do so.

So, what is driving the problem?

The increases projected in federal spending in coming decades as a share of the economy are due entirely to the projected growth in Medicare, Medicaid and Social Security—which in turn is driven by rising health care costs and the aging of the population.

The single biggest factor is rising health care costs—not just in Medicare and Medicaid, but throughout our health care system. For more than 30 years, costs per patient in Medicare, Medicaid, and private health care have all have risen at about the same rate—and much faster than the economy. If health care costs per patient were somehow to rise at the same rate that the economy grows on a per capita basis, rather than growing faster, the vast majority of the long-term fiscal gap would disappear.

So we face a daunting, system-wide health care problem.

Most experts agree that we cannot hold Medicare and Medicaid costs over time to a significantly lower rate of growth than private sector health care growth. The public and private sectors use the same providers and the same treatments.

Holding the growth in just the public sector to a much lower rate would lead either to rationing by income, or, more likely, to lots of cost shifting. Providers would raise prices even more on private health care to compensate for the lower public-sector reimbursements.

Two more points about health care on which most budget and health care experts agree.

First, if we want to slow the rate of growth in health care costs system-wide, then Medicare needs to help lead that effort—to institute payment and delivery system reforms that the private sector then picks up.

And second, because health care costs are rising mostly due to advances in medical technology—many of which do improve health and prolong life—we almost certainly won't be able to slow health care cost growth so much that it rises no faster than the economy. And that means we also need to make other significant changes in budget and tax policy to avoid a debt explosion.

What else must we do?

We will need to restore the long-term solvency of Social Security. Some people assume that Social Security benefits are very generous and there's plenty of room to reduce them. And a balanced Social Security solvency plan should certainly look at all aspects of the program.

Yet the room for benefit reductions is likely to be more modest than you may think. Social Security checks now replace about 39 percent of the average worker's pre-retirement wages, less than similar programs in other Western countries.

And because of the scheduled increase in the retirement age (which operates as an across-the-board benefit reduction) and the projected growth in Medicare premiums (which are deducted from Social Security checks), that figure will gradually fall from 39 percent to about 32 percent over the next two decades. In addition we cannot overlook the impact that recent losses in 401(k)s and other retirement plans that supplement Social Security will have on retirees' incomes.

Finally, revenues. The long-term fiscal problem is, of course, the mismatch between spending and revenues.

And with such a large long-term gap, it's hard to see how to avert a debt explosion without major policy changes in both spending and revenues.

Current tax policies would produce revenues somewhat below the historical average of 18.4 percent of GDP. Yet revenues at that level would have fallen short of balancing the budget in every year over the past 30 years. In fact in all four years of that period when we did balance the budget, revenues totaled between 20 and 21 percent of GDP.

So all of this suggests that, to address the daunting long-term fiscal problem, everything—on both the spending and tax sides of the budget—will have to be on the table… and that we will need to place a particular emphasis on health care costs and health care reform. It seems inescapable that shared sacrifice is going to be necessary.

In conclusion, we will need to act before mounting debt and interest payments make the challenge of addressing this problem even bigger—and more painful—than it already is.

Setting the Stage

Remarks of Dr. Peter Orszag

Office of Management and Budget

Our nation is being forced to grapple with a pair of trillion-dollar deficits. One is the trillion-dollar deficit between what the economy is producing each year and what it could produce. The other is the trillion-dollar budget deficits that this Administration is inheriting.

The first deficit, the trillion-dollar income gap this year, is an urgent crisis. The longer it persists, the more jobs that are lost, the more income that households lose, and the more businesses that are closed.

The Recovery Act that was enacted earlier this month is intended to address that crisis.

The second deficit, the budget deficit, may be somewhat less urgent, but it's no less important. Over the medium to long term, the nation is on an unsustainable fiscal course, and to be responsible, we must begin the process of fiscal reform now.

That's why the President convened this summit today, because we can no longer let the urgent get in the way of the important.

In charting a new fiscal course, we need to be clear in diagnosing the problem. The single most important thing we can do to put this nation back on a sustainable long-term fiscal course is slow the growth rate of health care costs.

As Bob Greenstein already emphasized, health care is the key to our fiscal future.

So, to my fellow budget hawks in this room and in the rest of the country, let me be very clear: Health care reform is entitlement reform. The path to fiscal responsibility must run directly through health care.

We also must recognize that reforms to Medicare and Medicaid will only succeed in the context of slowing the overall growth rate of health care costs.

Improving the efficiency of the health system so that we get better results for less money is therefore not just or even primarily a budget issue. It would also provide direct help to struggling families, since health care costs are reducing worker's take-home pay to a degree that is both underappreciated and unnecessarily large.

And for many states, health care is increasingly crowding out other priorities like higher education, which, in turn, is leading to higher tuition and painful cutbacks at state universities.

All of this is why the president had said, time and again, that he is committed to reforming the health system this year. And with his leadership and the hard work of everyone in this room, we can reform health care, start to bend the curve on long-term costs, and get our economy back on a path of long-term fiscal sustainability.

Confronting the Issues
Summary of Health Care Session

EXECUTIVE SUMMARY

- **There was widespread agreement that the health care system suffers from both high costs and inadequate health insurance coverage and that reform efforts should seek to address both problems soon, although participants expressed different opinions as to whether they should be addressed at the same time or sequentially.**
- **Many participants also spoke of particular ways to improve health care quality, access, and efficiency. There was general agreement that investing in prevention and community-based health outreach—such as done through the community health center program—are important mechanisms for improving the health system.**
- **Participants offered different opinions as to how broad-based health care reform should be done. In efforts to expand coverage, a number of participants emphasized the value of private-public partnerships, while others discussed the importance of universality. Still others called for changing incentives for both patients and doctors in order to restrain costs. Participants agreed to keep open lines of communication and work hard to find common ground.**
- **Attendees:**
    - The session moderators were Peter Orszag, Director of the Office of Management and Budget, and Melody Barnes, Director of the Domestic Policy Council.
    - The members of Congress who attended were: Senator Baucus, Representative Clyburn, Senator Alexander, Representative Waxman, Senator Dodd, Representative Barton, Senator Enzi, Representative Miller, Senator Nelson (NE), Senator Specter, Representative Kind, Representative Lee, and Representative Castle.
    - Other attendees from the Administration were: Ezekiel Emanuel, Senior Counselor to the Director of the Office of Management and Budget.
    - The outside attendees were: Gerald McEntee (AFSCME), Karen Davis (Century Foundation), Ron Pollack (Families USA), Robert Reischauer (Urban Institute), Douglas Holtz-Eakin, Richard Umbdenstock (American Hospital Association), Nancy Neilson (American Medical Association),

Drew Altman (Kaiser Family Foundation), Rebecca Patton (American Nurses Association), Bill Novelli (AARP), Ho Luong Tran[i] (Asian and Pacific Islander American Health Forum), Andrew Stern (SEIU), Jackie Johnson Pata (National Congress of American Indians), Dean Baker (Center for Economic and Policy Research), Dennis Van Roekel (National Education Association), Stuart Butler (Heritage Foundation), John Castellani (Business Roundtable), Eleanor Smeal[ii] (Feminist Majority), and Eleanor Hinton Hoytt (Black Women's Health Imperative).

DETAILED SUMMARY

Overarching Issue: How to contain rising health care costs?

- Among the attendees, there was a consensus that addressing rising health care costs is one of the keys to the federal government's fiscal future, as well as to the health of state governments, the nation's businesses, and Americans' pocketbooks. A number of ideas for containing health care costs were discussed, although the room did not reach a consensus.
- Many participants described health care costs as rising at an unsustainable rate and argued that there is evidence that high-cost health care is not necessarily better quality health care:
  - Representative Lee described addressing the rising cost of health care "as key in solving our fiscal problems and key in terms of our deficit."
  - Douglas Holtz-Eakin agreed and further described the "primary problem" in the health care system as "the rising cost in care that is not accompanied by an increase in quality."
  - Representative Waxman added that "the deficit cannot be controlled until we deal with Medicare and Medicaid." More specifically, he called for addressing what he described as large geographic variation in the amount that the federal government pays for health care services of similar quality in the Medicare system.
  - Senator Nelson also concluded that reform should, to a great degree, "be about cost."
- Others in the room emphasized that rising costs affect not only the federal government but also states and businesses:
  - Senator Alexander was particularly concerned about how the rising cost of health care is pressuring state budgets.[iii] Senator Alexander worried that, as Medicaid costs have continued their upward trajectory, other important parts of state budgets—such as education—are being crowded out. This led Senator Alexander to call for the "elimination" of the state role in Medicaid, with its responsibilities being taken over by the federal government. He said that Medicaid is "strangling the states."
  - Representative Waxman disagreed with Senator Alexander's call for the "elimination" of Medicaid, noting that it is important for seniors, but joined Senator Alexander in expressing concern regarding the effect of rising health care costs on state budgets.
  - Senator Dodd described how health care costs are affecting not only the federal and state governments, but also America's businesses. American businesses are being weighed down by health

care costs, according to the Senator. He noted that, when GM must pay $1,500 per car in health care costs and competitors are not, this becomes a serious economic issue.

- Participants offered a number of different options for restraining the rate of health care cost growth, with many describing how investments in prevention, health IT, and comparative effectiveness research could yield significant cost savings.
  - Senator Enzi highlighted what he characterized as the importance of establishing a system to better figure out "what works" and what doesn't in the health system, mentioning an expert Federal Health Board as one option that has been offered. Senator Enzi also endorsed changing incentives for doctors—by paying for best practices rather than paying based only on the quantity of services provided, and he further discussed investments in health IT done right as another means of both improving health care and reducing costs. Senator Enzi additionally discussed realigning payment incentives to encourage more primary care doctors, especially to better coordinate care for patients who have multiple conditions and are seeing multiple specialists.
  - Senator Nelson joined Senator Enzi in calling for more investment in health IT and in figuring out "what works" through "comparative effectiveness" research.
  - Representative Kind also reflected this sentiment concluding that "we need to reward outcomes and performance" and that "we have got to get to a system that starts rewarding what works."
  - Karen Davis similarly concluded that "we have done a lot to change incentives for patients but not done enough for doctors and hospitals."
  - Representative Miller, along with such voices as Representative Castle, Representative Lee, Senator Nelson, and Senator Specter, also emphasized the importance of prevention in both reducing costs and improving health outcomes.
  - Senator Dodd expressed concern about "focus[ing] on the cost savings in the medium term" and urged greater emphasis on long-term reform.

Overarching Issue: How to expand health insurance coverage and improve its quality?

- Many participants also agreed that the health system faces not only a problem of cost but also one of coverage, with too many Americans, according to these participants, being either uninsured or underinsured and not receiving good quality medical care.
  - Gerald McEntee highlighted that more than 40 million Americans are uninsured and called for health reform to address this problem.
  - Representative Clyburn expressed concern that people might "fall through the cracks" in health care reform efforts and worried that this might be the case with regard to the plan laid out by the President in his campaign.
  - Richard Umbdenstock described how "people are turning to hospitals now in more desperate conditions than we have ever seen."

- Participants offered differing opinions as to how best to address the problem of too little health care coverage, although many agreed that it should involve a private-public partnership:
  - Senator Baucus emphasized that this represents "a huge opportunity" and called for a health care solution that involves both the public and private sectors. Many others, such as Karen Davis, Gerald McEntee, and Ron Pollack also emphasized the importance of solutions that rely on both the public and private sectors. Ron Pollock described it as part of a "developing consensus" on how to escape the ideological battles of the past.
  - Senator Alexander, Representative Castle, and Senator Specter, urged consideration of the Wyden-Bennett health care plan, which features a form of public-private partnership.[iv]
  - Representative Miller, by contrast, spoke in favor of a "single payer" health care system, which would create a universal, public health insurance system.[v]
  - Representative Barton, taking a different tack, urged that any plan be "market-based and not government dominated." He argued that health saving accounts and flexible spending accounts be kept in any reformed system.[vi]
  - Representative Castle called for improved outreach to the uninsured population to make them better aware of the health care resources that are currently available to them.
- Many participants also spoke in favor of community-based health care interventions. Participants such as Representative Barton, Representative Castle, Representative Clyburn, and Representative Miller offered the community health center program as a model for expanding coverage and improving health quality.[vii]

Overarching Issue: How and When Should Health Reform Be Addressed?

- There was a general consensus among participants that the problems of both cost and coverage should be addressed soon, although there were differences of opinion as to which should be addressed first—or, whether they should be addressed at the same time.
  - Several attendees, including Senator Baucus, Senator Alexander, Representative Waxman, Douglas Holtz-Eakin, and Andrew Stern, agreed that health care reform should be tackled this year.
  - Robert Reischauer urged that cost and coverage be addressed together. He suggested that, for reasons of political economy and policy, the two issues should not be addressed sequentially. In calling for reform that addresses both issues at once, Robert Reischauer was joined by such participants as Senator Dodd and Ron Pollock.
  - Douglas Holtz-Eakin argued that the problem of rising costs should be addressed first; otherwise, policymakers, according to him, run the risk of aggravating the long-term budget problems. Senator Nelson also suggested that the initial focus of reform should be on controlling costs.
  - Nancy Nielsen expressed optimism that doctors could help control system costs, acting as "stewards of finite resources." And, she urged policymakers to plow savings derived from health care reform back into the health care system.

- Participants agreed to keep open lines of communication and to work hard to find common ground in order to produce reforms that lower costs, improve quality, and expand coverage. For instance, Bill Novelli asked participants to "engage and inform the public in this entire effort," warning that otherwise "we are not going to get the support we need," and Senator Baucus called for a "bipartisan and bicameral" effort to get health care reform done. In addition, Senator Enzi said to be successful, bills have to go through the regular legislative process—i.e., bipartisan bill drafting, committee review through roundtables, hearings, and markups, and the ability to debate it on the floor. Senator Enzi also stated that people can agree on 80 percent of the issues 80 percent of the time and if they leave the other 20 percent out, we can get a lot done on health care.

[i.] Ho Luong Tran of the Asian and Pacific Islander American Health Forum submitted written comments to a draft version of this Report, which stated, in part:

> Importantly, health reform, if done properly, can positively incentivize high-quality, appropriate delivery of care. For all individuals, high-quality care is absolutely contingent upon successful communication with their health providers. However, many people across America are not able to communicate with their doctors and health professionals because of language barriers. To begin the process of removing this impediment to high-quality care, we urge that reform includes the provision of full federal reimbursement for qualified medical interpreters and translators who provide services under Medicaid, SCHIP, and Medicare to reduce costly medical errors and assure the appropriate delivery of care.
>
> There are 23 million Americans who are limited English proficient. [According to the Institute of Medicine, poor] communication between providers and patients costs the U.S. $69 billion every year. When people don't understand their doctors, and their doctors don't understand them, good medical care simply can't happen.
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> . . . .
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> This is an immediate and pressing issue for Asian Americans, Native Hawaiians, and Pacific Islanders. We believe that the time for health care reform is now. We reiterate Robert Reischauer's urging that cost and coverage be addressed together. One in six Asian Americans and one in four Native Hawaiians and Pacific Islanders are uninsured and these numbers are only increasing. We applaud the Administration for engaging Asian American, Native Hawaiian, and Pacific Islanders as critical stakeholders in health reform discussions and urge that this be continued. We also support the engagement of the Congressional Asian Pacific American Caucus as policymakers who are trusted leaders in the Asian American, Native Hawaiian, and Pacific Islander communities.

[ii.] Eleanor Smeal of the Feminist Majority submitted written comments to a draft version of this Report, which stated, in part:

> I believe the report should include the need to reduce drug pricing. The federal government's power to negotiate drug prices or to increase drug price competitiveness should be addressed. I know the President's 2010 Budget does include provisions to reduce drug costs, but it was also a part of the discussion at the health breakout session. Moreover, covering and increasing access to women's reproductive health care such as increasing access to contraceptives as well as prenatal care such as providing prenatal vitamins will help to reduce costs both for women and their families and is essential. For example, for every dollar spent on family planning, four dollars are saved in Medicaid costs.
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> . . . .
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> Bringing together members of Congress and key constituencies from opposing sides is very illuminating for participants. We could all see vast areas of agreement. I found this unusual process very effective. Although skeptical at first, I would now argue for continuing this process. It is important to know that we can agree and to unlock the stalemate for health care reform. This process shows there is a substantial consensus on the need for health care reform now. I hope as the process continues more women can be involved. We are the primary care givers and in most need of reform. I also think reframing the debate to say reducing health care costs, and thereby health care reform, is necessary for controlling federal budget deficits is brilliant. Not waiting is essential not only for the health of the nation, but for the fiscal well being of the nation. I believe this point should be made over and over again until it breaks through to the media, which is still emphasizing the cost of health care reform rather than the savings that such reform would realize.

[iii.] Medicaid, which provides health care services to low-income parents, children, elderly, and people with disabilities, is co-financed by both the states and federal governments.

[iv.] The Wyden-Bennett plan, which aims at universal health care coverage, would require almost all Americans to enroll in a private insurance plan made available through state-level "purchasing pools," with each state-level pool offering at least two private insurance plans from which to choose. Further, the plan would offer subsidies for low- to middle-income individuals to help pay for insurance premiums, and the system would be financed, in part, by replacing the current tax exclusion for employer-sponsored insurance with a new, less costly standard income tax deduction.

[v.] Single payer systems generally offer insurance to the entire population through a government-sponsored plan. Such countries as Canada and the United Kingdom feature forms of single-payer systems.

[vi.] Health saving accounts allow enrollees in high-deductible insurance plans to contribute, on a tax favored basis, to saving accounts in order to pay for future health care expenses. Similarly, flexible spending accounts allow people to set aside money on a pre-tax basis to pay for health expenses.

[vii.] The community health center program funds centers that are located in communities that are federally designated as medically underserved areas. The centers are designed to provide primary and preventative care to the community.

Confronting the Issues
Summary of Social Security Session

EXECUTIVE SUMMARY

- **There was a consensus among several of the participants, including Senators Durbin and Graham and Representatives Hoyer and Boehner, that there was a moment of opportunity to make bipartisan headway on shoring up Social Security's long term finances.**
- **Several concrete ideas were put on the table to shore up long-term solvency. While there was disagreement among participants on the merits of these specific ideas, several participants emphasized the importance of creating the political space necessary to consider these ideas in a good-faith process.**
- **There was an emphasis on viewing Social Security reform through the larger prism of retirement security. Several participants expressed support for taking additional steps to encourage retirement savings outside of Social Security.**
- **Participants stressed the importance of strengthening Social Security's provisions for the most vulnerable populations, including disabled Americans and elderly unmarried women. Given the economic downturn, some participants suggested that Social Security benefits may need to be increased for these and other groups to ensure the program continues to provide elderly and disabled Americans a base of support to live above the poverty line.**
- **Attendees:**
    - The session moderators were Chair of the National Economic Council, Lawrence Summers, and Counselor to the Treasury Secretary, Gene Sperling.
    - Members of Congress who attended: Senator Durbin, Representative Boehner, Representative Hoyer, Representative Cantor, Senator Klobuchar, Senator Graham, Representative Tanner, Representative Boyd, and Representative Grijalva.
    - The outside attendees were: Doug Elmendorf (CBO), David Walker (Peterson Institute), Pete Peterson (Peterson Institute), Heidi Hartmann, (Institute for Women's Policy Research), John Sweeney (AFL-CIO), Roger Ferguson (TIAA-CREF), Randi Weingarten (American Federation of Teachers), Barbara Kennelly[i] (National Committee to Preserve Social Security and Medicare), Marty Ford (Consortium for Citizens with Disabilities), Susan Eckerly (NFIB), Ed Coyle (Alliance

for Retired Americans), Kevin Hassett (American Enterprise Institute), Maya Rockeymoore (CBCF), Fernando Torres Gil[ii] (UCLA), Don Danner (National Association of Independent Businesses), Laura Murphy (National Urban League), and Joe Salmonese (Human Rights Campaign).

DETAILED SUMMARY

Overarching Issue: Political context of Social Security reform this year?

- Both Lawrence Summers and Gene Sperling emphasized that the goal of the session was not to achieve consensus on particular reforms, but to initiate a dialogue about how to approach the issue during the coming year. Both suggested that the public may be more receptive to the government making the hard decisions necessary to shore up Social Security's long-term finances in an environment where people are anxious about their private retirement savings and the value of their single largest asset—their house.
- There was a consensus among several of the participants, including Senators Durbin and Graham and Representatives Hoyer and Boehner, that there was a moment of opportunity to make bipartisan headway on shoring up Social Security's long-term finances.
- Senator Graham pledged his full support to the Obama Administration to make a Social Security reform push a success if the Administration was committed to the process. He asked everyone involved to work to ensure that "demagoguery does not succeed."
- Representative Cantor suggested that part of a strategy around Social Security should be to send a clear signal to the millions of Americans who currently rely on the program's benefits that their benefits will be protected and that we will stand by them. If we deliver a firm commitment to those who really need support, and who rely on that support now, it could free up space to consider amendments to the program for today's current young workers.

Overarching Issue: Status of Social Security and the Need for Reform?

- Lawrence Summers explained the Administration's view that the rising cost of health care is the single largest threat to our long-term fiscal health. He also explained that Social Security is our nation's most important government program, and crucial to our long-term fiscal health. Both Summers and Sperling stated that the Administration intends to move on health care reform before Social Security, but places a priority on creating a process to address Social Security.
- Some participants emphasized the urgency of acting quickly on Social Security because of the looming fiscal challenges on the horizon. Pete Peterson presented the view that the Social Security system will begin running out of money in 2017, and that we cannot rely on the concept of a "Trust Fund" because the money has been spent.
- Others disagreed with this view. Barbara Kennelly argued that health care was the single most important threat to our fiscal health and was a more urgent priority than Social Security reform. Others

pointed out that the Social Security system will continue to pay full benefits through 2041, and will continue paying more than 70 percent of benefits after that even if changes are not made.

- Representative Hoyer emphasized that the economic crisis should compel everyone to look past their differences and work toward a near-term solution. The sooner we act, the easier it will be both politically and fiscally to get a satisfactory solution.
- Representative Boyd made the point that all of the tools and ideas available need to be on the table in order to achieve bipartisan support for long lasting solvency changes to this critical program. He encouraged the President to continue to organize forums like this first Fiscal Summit in order to keep the dialogue open. Addressing the solvency of the Social Security program is vital to the long-term financial stability of the nation and its citizens.

Overarching Issue: Potential changes to Social Security?

- Participants discussed challenges and options on both the revenue and benefit sides. Senator Durbin advocated for modest changes on both sides now, to avoid big burden-some changes down the road. He put forward one such suggestion on the revenue side: returning the maximum taxable income to a level that applies the current Social Security tax to 90 percent of all payroll earnings by modestly increasing the cap on income subject to Social Security taxes is one such proposal on the revenue side.
- Lawrence Summers suggested that the downturn in the financial markets had diminished the appetite for Social Security privatization, and that there was a heightened sense that the government needs to take a core public responsibility for Social Security.
- David Walker argued that an increase in the retirement age could be justified as part of a bipartisan reform to create certainty and security around the program. The reform could provide security to current retirees that their benefits are protected, and certainty to future generations that their defined benefit will be there. Thus, increasing the retirement age would encourage people to work longer but strengthen the safety net.
- Others opposed changes to the retirement age, and noted that we need to be careful when drawing blanket assumptions about life expectancy because not all demographics are actually living longer. Moreover, still others pointed out that the increase in the full retirement age currently phasing in represents a substantial cut in benefits already and disproportionately affects those who must retire early.
- Representative Boehner expressed openness to changes on the revenue and benefit sides. He said the government should consider cutting or eliminating Social Security benefits for older Americans with high retirement incomes. As he explained, "I don't have any problem looking people in the eye and saying, 'Thank you for your contributions, but for the good of the country, your benefits are gone.'" Boehner also supported pegging Social Security benefit increases to the Consumer Price Index rather than wage inflation.
- Senator Graham supported a balanced approach of revenue and benefit changes. However, he cautioned against making changes that would undermine Social Security's broad appeal as a middle-class safety-net program.

- Participants also highlighted potential proposals to modify Social Security's benefit structure to increase the program's protection for certain vulnerable groups. Heidi Hartmann underscored that, in the current economic environment, poverty among Social Security recipients could increase and that support for unmarried women in the program should be reexamined, with a view to increasing the benefits available to them outside marriage.
- John Sweeney agreed on the need for modest reforms to the program but opposed any changes that would jeopardize Social Security benefits.
- Susan Eckerly suggested that the NFIB and small business owners are willing to consider modest changes to Social Security to strengthen the program over the long term. Among the changes she discussed were adjusting the income cap and amending benefits for higher income earners.
- Marty Ford reinforced that one-third of current Social Security recipients are not retirees, including approximately eight million people with disabilities who are disabled workers, disabled widow(er)s, and disabled dependents of disabled, retired, or deceased workers. There are several reforms that would strengthen the program for this constituency, including changing income and asset tests to allow people with disabilities to save and work without risking losing their benefits. She also cautioned that any change to benefit formulas would affect all disabled beneficiaries and that the definition of disability should not be revised.

Overarching Issue: Social Security within the larger retirement security prism?

- Several participants emphasized the importance of viewing the Social Security challenge within the larger prism of retirement security and savings.
- Senator Klobuchar and Roger Ferguson advocated including efforts to help Americans save for retirement as part of a broader "Retirement Security" package that would also include changes to Social Security. Ferguson discussed steps to make savings more automatic, as well as to consider some form of guaranteed income for life.
- Randi Weingarten highlighted the growing challenge for the baby boomer generation of facing higher costs to care for both their children (e.g., rising college costs) and their parents (e.g. long-term care) at the same time. A retirement savings framework going forward needs to take into account the new burdens facing these families.
- Gene Sperling raised the idea of including some form of universal pension account that would encourage private retirement savings. These accounts would not be part of a Social Security reform plan itself, but could be part of a broader retirement savings package.
- Fernando Torres Gil discussed what he viewed as a "redefinition" of what it means to retire among today's aging population. People are changing how they live in their old age, including working more and engaging in more lifelong education. This reality should inform our efforts at promoting retirement security.

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[i] Barbara Kennelly of the National Committee to Preserve Social Security and Medicare submitted written comments to a draft version of this Report, which stated, in part:

> I agree Social Security should be strengthened sooner rather than later. However, I fear that beginning a debate about cutting benefits in Social Security, which is the only stable and reliable source of retirement income Americans can count on in a time of economic chaos, would compound our nation's financial insecurity and be counterproductive to the Administration's efforts to restore the economy.
>
> I also believe it is critical to remind the American public and policymakers considering changes to Social Security how crucial Social Security's benefits are for millions of Americans. Benefits are modest—the average retirement benefit is only $13,800 annually, about the equivalent of a full-time worker earning minimum wage. However, these benefits are crucial as a full two-thirds of the elderly currently receive more than one-half of their income from Social Security and about 20 percent rely on Social Security exclusively for their income in retirement. Without Social Security, almost one-half of those over age 65 would live below the poverty line—about the same poverty rate that existed before Social Security was enacted.

[ii] Fernando Torres Gil of UCLA submitted written comments to a draft version of this Report, which stated, in part:

> I would recommend that President Obama consider a "new national retirement strategy" that acknowledges [demographic realities] and focuses on educating and preparing 8l million baby boomers (our studies show that immigration has made a net addition to the original number of 73-75 million baby boomers) about their pending old age and increased life span. I made reference to this in my comments [during the Summit] but I would amplify this to say:
>
> - By redefining retirement within a larger and more pro-active prism, we can then talk about individual and collective responsibility for how this nation's prepares for a doubling in the number of older persons. That can then include such strategies as life-long education and training, saving and saving earlier, financial illiteracy, multiple careers, health wellness and prevention, enhancing and expanding individual and community support systems, caregiving and long-term care.
> - There is a political dimension to this: President Obama in his recent historic election captured a majority of all age group with one exception: those 55 years of age and over. It is precisely this group that is nervous about what may occur with entitlement programs and retirement. If we can alter the public debate and discussions to how this Administration will encourage us all to prepare for a longer life span and to do those things which enhance our quality of life in old age, then there may be more "wiggle room" to make changes in these entitlement programs that enhance the cost-effectiveness of these benefits.
> - Do note, however, that in discussing longevity, we are now witnessing in some locales of this country, a decline in life expectancy. As mentioned by one or two individuals in our workgroup, we are beginning to see the corrosive effects of lifestyle choices (obesity, poor diet, homicides, poverty) that is causing some groups and in the future, more individuals, to see a decline in their life expectancy.

Confronting the Issues

Summary of Tax Reform Session

EXECUTIVE SUMMARY

- **There seemed to be broad consensus that tax reform might be needed but that health care reform might be a higher priority item this year.**
- **There was a difference in opinion as to whether there should be comprehensive tax reform or if certain items, such as the corporate tax code and the temporary tax breaks that must regularly be extended, should comprise the basis of the effort. In addition, some of the participants identified the tax exclusion for employer sponsored health insurance as something that could be revisited.**
- **There was a discussion about the possibility of raising revenues before the economic recovery takes hold.**
- **There was general consensus that the Alternative Minimum Tax (AMT) is a problem and needs to be addressed.**
- **There was general consensus that the "tax gap," the difference between what people pay and what is owed, is a problem and needs to be closed; however, there was a difference of opinion as to how easily that could be accomplished.**
- **Attendees:**
    - The session moderators were Timothy Geithner, Secretary of the Treasury, and Christina Romer, Chairwoman of the Council of Economic Advisors.
    - Members of Congress who attended: Senator Baucus, Representative Rangel, Representative Camp, Senator Snowe, Senator Carper, Senator Cornyn, Representative Velazquez, Representative McCotter, Representative Matheson, and Representative Price of North Carolina.
    - The outside attendees were: Joe Minarik (Committee for Economic Development), Fred Goldberg (Skadden Arps), Lawrence Mishel (Economic Policy Institute), Maya MacGuineas (Committee for a Responsible Federal Budget), Michael Graetz (Columbia University), Sarah Wartell (Center for American Progress), Gary Flowers (Black Leadership Forum), Janet Murguia (National Council of La Raza), Aimee Baldillo (Asian American Justice Center), William Gale (Brookings/Tax Policy Center), and John Cavanagh (Institute for Policy Studies).

DETAILED SUMMARY

Overarching Issue: Should the Administration and Congress try to do both health care reform and comprehensive tax reform this year?

- Senator Baucus strongly favored moving on health care reform this year. He did not indicate whether he thought that tax reform could happen this year as well.
- Representative Rangel said that he was looking for signals from the Administration on health care and tax reform. Representative Rangel seemed to feel that even if health care were to move this spring, corporate tax reform could also move this year. He said that, when the middle class can't make do, the system needs reform and also that reform would make the economy more competitive.
- Representative Camp agreed with Representative Rangel that the corporate tax system needed reform.

Overarching Issue: Comprehensive tax reform or corporate tax reform?

- Secretary Geithner asked for thoughts about the importance of doing corporate tax reform in a revenue neutral way. Representative Camp said that it could be done in a revenue neutral way but also said that U.S. companies should not be penalized for foreign income. Representative Rangel said that figuring out how to do it in a revenue neutral way was the easy part—the hard part is that what one person sees as closing a loophole, someone else sees as a tax increase.
- Senator Snowe discussed the 1986 tax reform effort, saying that the genesis was a 1984 Treasury report, which sparked the debate. The process evolved over time, but ultimately it simplified the code, according to Senator Snowe. Senator Snowe said that we should take advantage of this window of time to re-examine the entire tax code. There are major fundamental provisions that should be addressed, and we should set-up a process to re-visit the entire tax code—to make it a 21st Century tax code. Senator Snowe said that tax reform should not be piecemeal, that we should coalesce around core principles and a "pro-growth" tax code, and that we need to figure out the aggregate levels—and find a way to bring spending in line with that level. The goal of the tax code, she said, is to encourage savings and innovation and to embrace progressivity. We need to end extenders and temporary tax cuts, Senator Snowe concluded, because extending them becomes a major challenge.
- Representative Velazquez said that the system is complex and unfair, and she focused on the particular compliance burden imposed on small businesses. Representative Velazquez called for policymakers to revisit the tax code, and she said that she would welcome a policy discussion on comprehensive tax reform.
- Representative McCotter suggested that tax reform could be done in three ways—revenue enhancing, revenue reducing, or revenue neutral. He said that we should look at the comprehensive fiscal picture and that the tax code was part of that.
- Representative Matheson said that, in looking at the tax code, we must also look at the regulatory structure. He emphasized that the current system imposes costs by creating uncertainty.

- Secretary Geithner gave an overview of what was discussed. He said that some have said that one path for tax reform is to come at this via health care or energy; others say that it should be comprehensive reform; still others say to focus on corporate tax rates or the tax gap. He mentioned that one way to start might be an informal working group to move forward.
- John Cavanagh called on the group to think of the working poor as it considers tax policy. He talked about how higher marginal tax rates on the very wealthy in the 1950s helped to create the middle class and pay for the GI Bill of Rights. He pointed out that there are wealthy people today like Warren Buffett and Bill Gates Sr. and the CEO of Netflix who understand that they need to pay higher taxes. He also pointed out the merits of a tax on financial transactions, which can both raise revenue and discourage speculative activity.
- Michael Graetz said that, when considering the corporate tax, the United States should recognize that it is part of a global economy. He said that the rate was important and that he was not as optimistic as Representative Rangel about doing corporate tax reform without harming U.S. multinationals.
- Maya MacGuineas said that there is going to have to be a grand bargain and that some people will have to get away from things like a no new tax pledge. She suggested looking at revenue sources that would not increase revenues as a share of GDP immediately, but would grow over time. She also said that she had recently written a tax paper, in which she argued that permanency in the tax code was needed for there to be certainty. She said that corporate tax rate reform is needed and that it should be revenue neutral. She also urged a move toward a consumption tax that is distributionally neutral. Lastly, on energy taxes, she said that we should generally tax things that we want less of, such as pollution, rather than income.
- Joe Minarik suggested that policymakers return to an idea circulated during the 1986 tax reform effort and, also, as part of Bill Bradley's 1992 plan—namely, converting itemized deductions to credits.

Overarching Issue: Increasing Revenues Too Early?

- Senator Kyl said that, in both the Great Depression and in Japan during the 1990s, raising taxes too early had a strong negative impact on economic growth. He warned that the idea of raising taxes or letting rates expire could have a very negative effect on economic growth, especially if the tax increases focus on those sectors that create jobs. He concluded by saying that the goal of cutting the deficit in half, though laudable, may be in tension with the goal of coming out of recession and staying out of recession.
- William Gale said that there needs to be an "exit strategy" for the recession, especially since we got into this by spending and taking on too much debt. He went on to urge policymakers to consider what happens when the government cuts back and, further, what types of taxes are needed in order to have a smooth landing. Finally, he noted that we need an investment-led recovery and that structure matters as much as timing.
- Secretary Geithner said that the President's deficit-reduction goal was a plausible path judging from what we see today. But he noted that there is a question about what is a realistic path to sustainability, and that policymakers are going to need to be careful in order to avoid creating a cliff.

Overarching Issue: Reforming the Alternative Minimum Tax?[i]

- Senator Baucus mentioned that the AMT patch needed to be made permanent.
- Representative Price emphasized that AMT fixes should no longer be done in a patchwork manner.
- Representative Velazquez added that AMT should be a top priority in tax reform.

Overarching Issue: Closing the tax gap?

- Senator Carper focused on the "tax gap"—the gap between what taxpayers pay and what they actually owe under current law—and suggested this as a source of revenue, noting that there's no better place to find offsets. He mentioned strengthening reporting requirements on interest-bearing accounts, credit cards, and contractors, as well as the possibility of expanding third-person withholding.
- Senator Baucus also spoke to the issue of the tax gap, noting that of the $285 billion in underpayments, $197 billion comes from small business. In light of this, Representative Rangel observed that targeting this could be politically difficult because so much of the underpayment is in the small business sector. Representative Camp agreed that it could be difficult to increase enforcement in this area.
- Senator Baucus complained that we don't provide adequate money to uncover fraud.
- Fred Goldberg said that he shared the others' concerns about the tax gap and also their words of caution about small business, expressing reservations regarding how much additional revenue could be collected. He added that it is important to give the IRS a long-term and stable budget. He said that an up-and-down funding stream causes a management problem for the IRS because it precludes effective planning and can lead to layoffs, since the IRS is a labor-intensive institution.
- Senator Snowe emphasized the importance of targeting tax havens, given the amount of funds involved.

Overarching Issue: Value added tax (VAT)?

- Michael Graetz urged that policymakers and not just academics consider enacting a Value Added Tax (VAT).[ii]
- Larry Mishel of EPI said that health care reform is important and suggested that a dedicated revenue source, such as a VAT, may be necessary.
- Fred Goldberg also spoke in favor of a VAT, noting that it could be done alongside corporate tax reform.

Concluding Note:

- CEA Chair Romer closed by saying that this session was the start of solving the problem. She asked for papers and ideas to be sent to the Administration. She said that the main thing is having open lines of communication and that this was a very high priority for the President.

Confronting the Issues
Summary of Budget Process Session

EXECUTIVE SUMMARY

- **There was considerable divergence of opinion over whether or not an extraordinary mechanism, such as a commission or task force, was necessary or advisable to remedy the nation's fiscal imbalance.**
- **Even among those who agreed that a commission could be productive, there was divergence over what form such a commission would take. Senators Conrad and Gregg advanced their joint proposal, with some additional support, though other less sweeping commission plans also emerged—such as the concept of a "hybrid commission" that would deal with health care, taxes, and Social Security separately, and the concept of a "metrics commission."**
- **Even if there was substantial disagreement over whether a commission is advisable, and if so, in what form, there was broad, if not perfect, consensus that current budget rules are not functioning well.**
- **Attendees:**
  - The session moderators were Ray LaHood, Secretary of Transportation, and Rob Nabors, Deputy Director of the Office of Management and Budget.
  - The members of Congress who attended were: Senator Conrad, Representative Spratt, Senator Gregg, Representative Ryan, Senator Inouye, Representative Obey, Representative Van Hollen, Senator Bayh, and Representative Herseth Sandlin.
  - Other attendees from the Administration were: Phil Schiliro, Assistant to the President for Legislative Affairs.
  - The outside attendees were: Mark Zandi (Moody's), Bob Bixby[i] (Concord Coalition), Robert Greenstein (Center on Budget and Policy Priorities), Bill Spriggs (Howard University), Al From (Progressive Policy Institute), and Roger Hickey (Campaign for America's Future).

DETAILED SUMMARY

Overarching Issue: In order to achieve solutions to the challenge of long-term fiscal imbalance, is an extraordinary process outside of regular order required, or is regular order sufficient to achieve reform?

- There was agreement that the nation faces a serious long-term fiscal problem and that the political system—including the budget process—has failed to address it. But there was significant disagreement as to whether the budget process itself is the problem and is broken, or whether the lack of success in making progress primarily reflects larger ideological and policy divides and a breakdown of bipartisanship. Moreover, support for an extraordinary mechanism such as a commission or task force was far from uniform.
- Supporters of a commission included Senators Conrad, Gregg, and Bayh:
    - Senator Conrad spoke strongly in favor of an extraordinary procedural mechanism such as the commission he and Senator Gregg have proposed.[ii] He quoted Allen Sinai, who argues that the United States needs to rein in its public debt or else risk becoming a banana republic. Senator Conrad did not feel that the regular rules of order (especially the amendment and cloture rules in the Senate) enable a solution to long-term problems such as Medicare and Medicaid, Social Security, and taxation—there are simply too many opportunities along the way to kill reform. He cited a series of prominent observers of the legislative process who do not feel that regular order can produce fundamental reform. For example, he noted that former Comptroller General David Walker has stated that "regular order is dysfunctional," and that AARP Chairman William Novelli has said that "business as usual won't get [reform] done."
    - Senator Gregg seconded Senator Conrad in his support for a Commission. As he stated, "Procedure drives policy, and we need a procedure that will allow Congress to reach a conclusion." He noted that he was at a table not unlike the one he was sitting at now back in the Clinton Administration, discussing the same kinds of long-term fiscal problems, but that nothing was achieved in that Administration because regular rules of order provided no capability for success. Senator Gregg stated that, in contrast to many people, he views regular order as more of a problem in the House than in the Senate, because House rules permit action to be taken in ways that are fundamentally not bipartisan, and bipartisanship is absolutely essential if we are going to arrive at fair and stable solutions to our long-term fiscal imbalance. The Conrad-Gregg proposal, in his opinion, overcomes these difficulties in the House rules by ensuring that the process is absolutely fair and absolutely bipartisan.
    - Senator Bayh concurred with Senators Conrad and Gregg. He noted the remarkable consensus about the scope and scale of the nation's fiscal problems in the opening session, which he found heartening. The question becomes, however, what to do about it, and he shares Senators Conrad and Gregg's perspective on this. From his eight years of experience as the governor of Indiana, he learned that process forces resolutions—in the case of Indiana, they needed to reach a balanced

budget, or else there was a government shutdown; at the federal level, there is no forcing mechanism, and so no solutions are reached.

- Senator Inouye, Al From, and Mark Zandi expressed support for a special process to address our long-term fiscal challenges, although they did not endorse the specific approach outlined in the Conrad-Gregg bill.
- Others—for example, Representative Spratt, Representative Ryan, and Robert Greenstein—were not necessarily opposed to commission-like solutions, but worried about either making the process "too fast" (Representative Spratt), focusing on a commission to the exclusion of reforming the regular budget rules (Representative Ryan), or else providing an excuse for policymakers to defer taking action while the commission deliberated, only to have the commission ultimately fail to reach agreement, as the last deficit commission did (Robert Greenstein).
    - Representative Spratt does not support Cooper-Wolf (the House bill similar to the Conrad-Gregg proposal), but he is not opposed to some streamlined process for considering solutions to long-term fiscal issues. As he stated: "I believe in fast track, but not too fast." For example, Representative Spratt felt that a BRAC-like process, while fine for military base closures, is too "draconian" for problems of the weight and import of health care, taxes, and Social Security.
    - Representative Ryan believed, in agreement with Senators Conrad and Gregg, that any process to achieve reform in the long-term fiscal picture will have to be bipartisan. But he stated that we should center our efforts on reforming the regular budget rules, which he sees as being "broken," rather than just leaving that regular process behind for a commission. He believed that we need to engineer a means of making PAYGO rules and discretionary caps sustainable and enforceable, but more generally argued that we need to rewrite the laws driving spending because our fiscal imbalance is being driven entirely on the spending side. He further stated that, in order to build bipartisanship, the parties should start with a series of trust-building initiatives, such as agreeing to common metrics. He then thought that they could move on to Social Security, and only finally move to health care, which will be very hard, in his opinion. He also cautioned that we should not underestimate the deep and fundamental nature of the philosophical differences separating the parties.
    - Robert Greenstein again noted the seriousness of the fiscal problem and stated that he is in favor of whatever process will be most effective at achieving a solution. That said, he fears that some may be putting "too many eggs in the commission basket." History has shown that commissions only work when there is basic agreement among the key political leaders before the commission arrives at its solutions; this, for example, was true of the Greenspan Commission.[iii] He pointed to his own experience on President Clinton's Bipartisan Commission on Entitlement and Tax Reform (the Kerrey-Danforth Commission); he noted that, though he started out with high hopes, it soon became apparent that there was not the type of broad political buy-in that would be necessary to make the Commission's recommendations stick, and they ended their work 8 or 9 months later with nothing to show for it.

In the end, Robert Greenstein counseled patience on seeking a commission right now, stating: "The President has only been in office a month. Let's give him a chance to talk to leaders of both parties, and determine the strategy he would like to adopt to forge a bipartisan deal, both with respect to process and with respect to which issues he wants to tackle first, before attempting to rush to any decisions about the need for a commission." Furthermore, he also worried that a Commission would "freeze" decision making by political leaders who would feel they could just throw the fiscal issue into the commission and into the future, "and before we know it, we run into the 2010 election."

- Still others—for example, Representative Obey, Representative Van Hollen, and Roger Hickey—stated express opposition to a commission.
    - Representative Obey stated that he believed a commission would thrill the policy wonks but nobody else, and that in the end nothing would be accomplished. "Count me among the strong skeptics," he said.
    - Representative Van Hollen's central concern with a commission process was his belief that Congress should not outsource the key fiscal policy decisions on health care, taxes, and Social Security to someone else. In his words: "Huge policy issues cannot be subcontracted." He feared that a commission would be viewed as undemocratic and an abrogation of congressional responsibility.
    - Roger Hickey believed that "an extraordinary procedure" had already been employed in the past year, to great effect—namely, the presidential election. He argued that the American people had spoken in favor of expanded health care and a fairer tax distribution, and also for greater honesty and transparency from their government—not in favor of handing over decisions on fundamental issues such as taxes, health, and retirement to a closed group of insiders.

Overarching Issue: Assuming that policymakers would like to pursue a reform process outside of regular legislative order, what form should that process take?

- The most frequently discussed design, as described above, was the Conrad-Gregg proposal for a commission to arrive at a bipartisan agreement across the full range of federal fiscal issues. As described above, although that proposal had significant support, many members of the working group felt that it was not workable in its current form, since it is viewed as "too draconian" and "outsourcing" key fiscal policy decisions.
- Another concept that the group discussed was a "hybrid commission," in which smaller commissions would separately take up health care, taxation, and Social Security for a year. At the end of that year, Congress as a whole or another task force would work to merge the proposals and ensure that the individual solutions worked together in a sensible way that tackled the overall fiscal problem.
    - Senator Conrad spoke first and favorably of the idea, after first noting that perhaps many in the group thought that the Conrad-Gregg proposal was too ambitious to be enacted and/or effective. He also observed that, from his perspective, in order to be effective and credible, Social Security and revenues would have to be considered simultaneously.

- Representative Spratt agreed in principle with Senator Conrad's idea for a "hybrid commission," noting that the two of them had discussed the idea before. He feared that if you try to do all three—health care, taxes, and Social Security—at once, then it would be just too much.
- Senator Bayh similarly expressed interest in Senator Conrad's idea.

- One additional concept that received some attention was the idea of having a commission on fiscal policy metrics—i.e., getting CBO, OMB, and the actuaries to adopt similar methodologies and estimating assumptions in calculations of program (and other) costs.
  - Representative Ryan broached the "metrics commission" idea, which was consonant with his vision of starting with small, trust-building steps between the parties to build momentum toward bipartisan reform on larger questions like Social Security. He thought that metrics questions are important, because policymakers should all be working from the same page, and also doable through a commission, because metrics are the kind of question that a small group of members and experts could solve in a technocratic way.
  - Representative Herseth Sandlin concurred with Representative Ryan's approach. She believed that such an approach could create "running room" to deal with bigger questions down the road, but that a small, measurable accomplishment would be helpful for getting that process started.
  - Senator Gregg was skeptical of Representatives Ryan and Herseth Sandlin's enthusiasm—in his words, a metrics commission would "miss the forest for the trees." Again, he advocated for the Conrad-Gregg approach, which would put the key issues on the table in a bipartisan manner.
  - Mark Zandi noted that he's not sure how much longer our window of opportunity will last for achieving fundamental fiscal reform. He expressed concern that unless international investors see at least some movement in the direction of reform, then they'll stop buying our debt at the types of prices that have for so long been favorable to us. As a result, he urged that Congress and the Administration take action, and soon, even if it is just a "commission-lite" that does something small but concrete, such as agree on metrics to measure key fiscal balance issues.
- Regardless of the final form that a process takes, Representative Herseth Sandlin advocated for the importance of setting a timeline for its completion. Whether it is a metrics-based approach, a hybrid commission, or another format entirely, we may ultimately need some kind of binding mechanism that kicks in to allow for consideration if both chambers of Congress cannot ultimately agree to move on it—i.e. an end date certain to force action and force a vote. The political forces may simply be too strong otherwise.

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[i] Bob Bixby of the Concord Coalition submitted written comments to a draft version of this Report, which stated, in part:

> The political dilemma is well known. Changing course will require substantial spending cuts from projected levels or equivalent tax increases. Neither party wants to be the first to propose these tough choices out of fear that the other side will attack it. Similarly, neither side wants to discuss possible compromises of its own priorities, out of fear that the other side will take the concessions and run. Unfortunately, these fears are justified.
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> . . . .

Aside from political obstacles, the budget process itself is stacked against long-term planning. It encourages short-term thinking by focusing on a five or ten-year window. Nothing requires Congress to review policy beyond the near-term budget window, much less to take corrective action. Yet, our truly unsustainable fiscal problem stems from commitments that extend far into the future. A five or ten year budget window may have been adequate back when most federal spending was appropriated annually. It is insufficient when most of the budget consists of entitlement programs set on a rising autopilot. A window of 30 or 40 years is now needed to establish a reasonable expectation that our fiscal policies are sustain-able.

A special task force or commission could take a major step in improving the transparency of our future obligations and encourage actions to deal with them by producing targets and estimates of its policy proposals stretching out far beyond the current window. At a minimum, it would help to establish the common metrics we discussed in the break-out session.

[ii.] Senators Conrad and Gregg have proposed a Commission to work toward fiscal reform outside of regular order, which would have the following elements:

- **Everything on the table** to address the gap between projected revenues and expenditures, including reforms to revenues, mandatory spending programs (such as Social Security and Medicare), and discretionary spending programs.
- **Bipartisan Membership:** The Task Force would have 16 voting members, split between the parties, who come exclusively from current Administration officials and Senators/Members—i.e., no members from outside groups.
- **Supermajorities at Each Stage, to Ensure Bipartisanship:** Three-quarters of the Commission's members would have to support the recommendations made in its report, which means that 12 members—more than the number of either political party represented—must support the proposals. Moreover, three-fifths of the Senate (60 votes) and three-fifths of the House (261 votes) would be needed for final passage of the bill.
- **Expedited Congressional Voting Procedures:** Resulting legislative recommendations would receive expedited consideration by Congress and a final vote—i.e., no amendments permitted either in committee or on floor, floor debate is time limited.

[iii.] The Greenspan Commission was a bipartisan commission, chaired by future Federal Reserve chairman Alan Greenspan, that President Reagan charged with staving off the imminent insolvency of the Social Security trust fund. It is often cited as a model for lawmakers to achieve consensus about controversial legislative matters. However, although it played an instrumental role in bringing various factions together in 1982, and ultimately provided a framework for congressional action on Social Security in 1983, it is unclear the Commission itself was the forum in which the ultimate solution evolved. Moreover, even as late as a week before the Commission was due to expire, there were press accounts of stalemate, and President Reagan extended the Commission's deadline by 15 days to afford more time for the Commission to reach an agreement. In other words, even this example of a successful Commission comes with several caveats.

Confronting the Issues
Summary of Procurement and Contracting Reform Session

EXECUTIVE SUMMARY

- **There was strong bipartisan agreement that the current procurement and contracting system is broken.**
- **The group strongly agreed that within the federal contracting system there must be: (i) a presumption for fixed price contracts, unless a strong need for a cost-plus contract can be demonstrated; (ii) a presumption of a competitive process, unless a need for a no-bid contract can be demonstrated; and (iii) a presumption of prototyping before procurement ("fly before you buy").**
- **Attendees:**
  - The session moderators were Secretary of the Department of Homeland Security, Janet Napolitano, and Deputy Secretary of State for Management, Jack Lew.
  - Members of Congress who attended: Senator Levin, Senator McCain, Senator Lieberman, Senator Collins, Representative Towns, Representative Issa, Senator McCaskill, Representative Tauscher, and Representative Price of Georgia.
  - The outside attendees were: Anna Burger (Change to Win), Hillary Shelton (NAACP), Larry Korb (Center for American Progress), Joe Flynn (American Federation of Government Employees), and Martin Regalia (U.S. Chamber of Commerce).

DETAILED SUMMARY

Overarching Issue: What are the main problems afflicting our contracting process?

- There was broad agreement that the federal government's procurement and contracting process is plagued with problems. The disagreement was on which problems were the most serious.
- Representative Tauscher commented that the opaqueness of the contracting process was a source of great concern, particularly as it has too often led to the exclusion of women- and minority-owned businesses in the contracting process. She said that transparency would help even the playing field and allow women- and minority-owned businesses to participate in federal contracts.

- Hillary Shelton identified with Representative Tauscher's remarks and recognized that the Department of Defense (DoD) has never met its soft goals on the participation of women- and minority-owned businesses receiving DoD contracts.
- Joe Flynn also lamented the lack of transparency in the process.
- Senator Collins contended that the lack of an adequate procurement workforce is a major contributor to our federal contracting problems. She noted that last year procurement was $532 billion, a 141 percent increase over 2001 levels, but that even as federal contracts are skyrocketing, the procurement work force has dropped by 22 percent. She suggested that the failure to exercise effective oversight of federal contracts is due in large part to the lack of the oversight capacity. In her words: "It all comes down to an insufficient number of procurement officials." She indicated that the problem is going to get worse. In 2012, 50 percent of the procurement workforce is eligible to retire, and "we don't have the people coming through the system to replace them."
- Senator McCain disagreed with the idea that our procurement workforce is the key to our problem. Instead, he noted that the consolidation of defense corporations has resulted in two or three main defense contractors, which means drastically reduced competition. He noted that the consolidation was promoted by both Democratic and Republican administrations, "and so we've ended up with a defense industry that is both noncompetitive and unregulated… the worst of all worlds." Senator McCain also noted that the increase in "cost-plus" contracts have resulted in drastically increased contracting costs.
- Representative Towns recognized that the prevalence of long-term no-bid contracts is a major problem in the federal contracting system and that the federal government has not addressed thousands of inspectors general recommendations to improve contracting over-sight.
- Senator Lieberman noted that there is a big problem with contractors performing inherently governmental services. He said that more than 50 percent of procurement contracts every year go to services. Despite the law forbidding the government contracting out for inherently governmental functions, "it is obvious that they're not following that law."
- Senator McCaskill said there is an overreliance on contract employees at the agencies. She pointed out that the Department of Homeland Security has a specific problem in this area. Secretary Napolitano indicated that she has undertaken a serious review of this issue.
- Representative Issa indicated that the use of contractors has resulted in a significant shifting of costs on health care. He said that many contractors don't provide health care to their employees, but those apparent cost savings disappear when these people are forced to rely on emergency health care and the federal government ends up footing the bill.
- Anna Burger noted that the labor and environmental laws are not being enforced against contractors.

Overarching Issue: How do you deal with the problems plaguing our contracting system?

- There was general agreement that steps must be taken to address the problems facing our contracting system. There were different solutions to the problems.

- Senators McCain and Levin noted that they planned to introduce bipartisan legislation designed to reform the defense contracting process, including an effort to give some "teeth" to the Nunn-McCurdy laws.[i] Senator McCain noted that, when first passed, it was a big deal when Congress received Nunn-McCurdy notification. Now, according to Senator McCain, cost overruns and Nunn-McCurdy notifications are common occurrences, and Congress no longer even notices. He stated that the Levin-McCain proposal would create a presumption that a defense system will not continue if there is a Nunn-McCurdy notification.
- Representative Issa recommended that defense contractors be required to provide health insurance for their employees, in order to account for the true costs of the contract to the federal government. He asserted that such a mandate would probably deliver long-term cost savings to the federal government. He also suggested that contractors were retaining the intellectual property rights to systems created under contract, thereby requiring the federal government to continually return to the contractor to run the system. In addition, Representative Issa argued that the large contracts should be unbundled to give smaller contractors, who are often the subcontractors on these large contracts, a fair chance to compete. He argued that it would result in reduced costs by eliminating the middle man, who often delivers marginal benefits.
- Joe Flynn argued that performing cost/benefit analyses will help uncover the true efficiencies in hiring federal workers.
- Larry Korb suggested that contracts would be more efficiently administered if you reviewed dollar amounts when considering costs, rather than the number of full-time employees who would be required to be hired to perform a contract.
- Several members indicated that the federal government must develop incentives for workers to stay, rather than leave to join the contracting workforce. Perverse incentives exist, especially in the military, for federal employees to retire and join the contracting workforce. These workers and their expertise should be retained.
- Several members indicated that existing laws and standards must be enforced. Senator McCaskill indicated that, in many instances, nonperforming contractors still receive performance bonuses. Senator Levin concurred with Senator McCaskill, saying that the Congress routinely passes strict contracting laws, which are then not enforced. Senator McCaskill suggested someone at the Department of Justice should have the task of prosecuting contract violations.
- Senator McCain, discussing ever-increasing contract cost overruns, pointed out that the planned presidential helicopter now will cost more than Air Force One. He suggested that maybe contractors should try to account for potential technological changes in their original bids. Senator Levin seemed to agree, further suggesting that the military may need to put an end to constant attempts to update technology during the performance of a contract.
- Senator Collins suggested that the government should have something similar to the Nunn-McCurdy Act for all its information technology contracts, to keep track of projects and protect against waste.

Principles of Procurement and Contracting Reform

Despite disagreements about the specific causes of our nation's federal contracting problems, Secretary Napolitano endeavored near the end of the session to describe ten key principles that had emerged during the discussion:

1. The group strongly agreed that within the federal contracting system there must be three basic presumptions:
    a. A presumption for fixed price contracts unless a strong need for a cost-plus contract can be demonstrated;
    b. A presumption of a competitive process unless a strong need for a no-bid contract can be demonstrated;
    c. A presumption of prototyping before procurement ("fly before you buy").
2. Independent cost assessment should be made at the time requirements for contract are set.
3. The current bias against full-time employees rather than contractors (even when employees are less expensive) should be reduced by controlling budgets rather than head count.
4. Security clearance procedures should be streamlined so federal employees can be hired more quickly and so contracts will not be the only option when quick action is needed.
5. Security clearance portability should be provided so federal employees can take their clearance from one job to another.
6. The number of well-trained procurement professionals should be increased so that contract requirements can be set more clearly and contracts monitored more effectively, reducing the need for expensive change orders.
7. Full transparency on federal contracts should be required.
8. Standards for contractors, taking into account compliance with the law and employment practices (benefits, hours, etc.), should be established and enforced.
9. Small business and minority bidding should be encouraged to increase competition.
10. Goldwater-Nichols for joint service cooperation in the military should be enforced and a civilian counterpart for inter-agency cooperation to eliminate duplication should be established.

[i.] Nunn-McCurdy requires that Congress is notified every time there is a cost overrun of a certain percent-age of the original contract.