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Addressing Long-Term Deficits: When and How? - Opening Remarks

There's a little gap between myself and Paul here, physically and intellectually I think there's a larger gap because I in a sense have a blinder right on steroids. My hope would be that we would begin to deal with our long-term budget problems in the next presidential budget and the next session of Congress. I have six somewhat interrelated and somewhat familiar, given the discussion in the first panel, reasons for suggesting this course. But before I elaborate on those six reasons, I want to make it clear that I'm not imposing any kind of significant spending reductions or tax increases in FY 2011, 2012 or 2013. What I'm talking about is making decisions next year that put in place policies that would kick in when the economy is stronger. And I have no doubt in my mind that should the economy not follow the path that we hope it follows and be relatively stronger by 2014 or 2015, that our political system will be able to readjust the implementation dates for some of the measures and put them off two or three years until a better time. What are the six reasons?

First, I think it's important that we send a signal to our creditors that we both recognize the long-run fiscal problem that faces us and that we have the political fortitude to take difficult actions to address it. If we don't, as the first panel suggested, we run a risk of possibly of higher borrowing rates, possibly a less certain supply of credits, and as Laura pointed out, the world going forward is likely to be different a little bit than it has been in the past. We are not alone in running large deficits. There are other countries in the market as well trying to borrow. The generators of surpluses that were invested in US treasuries and British bonds and other things, with the fall of oil prices, with the fall of trade surpluses, with the desire to invest in domestic economies, could be less going forward at a time when the demand is greater.

Second, the longer we stay on the unsustainable path that we are on, the higher the risk that some form of catastrophic failure will occur. I think Alan and Laura made a convincing case that economic imbalances are not likely going to cause us to careen off the edge of the cliff in the next three, five or seven years, but if history tells us anything, it suggests that when world economies are fragile, unstable, and there's a general lack of confidence in the financial system, economic collapses can be triggered by non-economic events. By the political environment changing, natural catastrophes, whatever, if recent months have shown us anything, we're living in a very, very uncertain world, where a number of governments that are important to us and to our political and economic situation are unstable; where terrorism is a real possibility; where mistakes of military intervention can occur; and there is also the possibility as Alan pointed out that the fragility and uncertainty of the political-economic environment will lead some country to pursue its geopolitical objectives—be they territorial, economic or political, in a way that destabilizes the world. If you just go through the countries out there which are in the newspapers everyday: North Korea, Iran, Israel, Pakistan, China, India, Venezuela—you could come up with a scenario, each with a tiny probability of occurring, but if you sum

them up, and then look at them over a decade, there's a level of risk that we shouldn't be entertaining.

Third, I think if progressive priorities are to be preserved, it's best to address the painful and unavoidable adjustments that are going to be needed in a measured and deliberate fashion and not in an environment where we are forced to act precipitously. In situations where our political system has to respond to some external shock or some internal problem, it's likely that the interests of vulnerable groups are going to get trampled. It's going to be those who give political contribution or those who have assets to protect that are going to call the tune.

Fourth, it would be best to make the unavoidable decisions about tax increases and spending cuts in a political environment that is sympathetic to the progressive agenda. And I don't claim to have any expertise on this, but I have a gut feeling and my gut feeling I think was confirmed by Charlie's remarks early on. And my gut feeling is that the current line-up we have in Congress and in the White House, is probably more in tuned with the progressive agenda now than any we will see in the next 10 years, say, after the mid-term elections. This offers I think an opportunity that may be not great, but this is a relative world—and what is it going to be like in the future.

Fifth, it's highly likely that the spending cuts that's going to be part of any significant adjustment are going to involve some reduction in the growth of benefits for core entitlement programs, and I think the sooner you define what those are, the better it'll be for Americans at all income levels but particularly for those who have limited abilities to respond. We want to phase them in as gradually as possible. We want to give people as much of a warning as possible. A corollary to this is that the longer we wait, as Alan has pointed out and Paul also, the larger the cohort that will be receiving the Social Security and Medicare benefits and other retirement-oriented benefits will be, and the more difficult it'll be to reduce the benefits of those people in this room when you age. In that in a way, really has to be part of the solution, that we dial back a little bit the benefits that upper-middle class people receive from these programs.

Sixth and finally, it would be best to address the problem when our leaders have the ability to force others to follow in the direction they want to go. Given the difficult the Obama Administration and Congress are having right now to move forward, you might say: what's this guy talking about? What I'm talking about is the expiration of the tax cuts. This is going to happen if Congress does what it does best, which is procrastination. An aggressive and bold leadership could use this as a club, I think, to shape in a progressive fashion the deficit reduction measures that would be implemented over the longer run.

Let me conclude just by saying a few words on the comments that this second panel had on, well, how would you do it? Like others, I think, first and foremost, the issue is of health care reform. We need to bend the curve. Alan correctly said that everyone says that but nobody really knows how to do it. That is true, but if you took the consensus of health experts, they would suggest that the curve is not going to be bent until we change

the incentives in ways that will modify the delivery system, and the best prospects for that involve integrated and coordinated care, payments for broader bundles like capitated payments, risk-adjusted, and bonuses for performance. And one has to ask: if we think that's the right way to go, why don't we say if you want the full tax advantage that we give out now, or you want a subsidy through exchange, your plan has to comply with that formula. I don't think there's a lot of will to do that, but I think we could move in that direction. Second, we need to consider new sources of revenue—probably devoted to some progressive purpose, like universal health care and here I'm sympathetic to a national value-added tax, which I think would be a whole heck of a lot more equitable and transparent than what we're proposing now which is to place fees on insurers, device makers, hospitals, pharmaceutical companies that are going to be passed through in mysterious, invisible ways on the premiums that everybody pays. And third I think we need sensible social security reform although I agree completely with Paul that this isn't the big deficit reducer. What this is trying to align the benefit package to the demographic, social and economic realities of the 21st century.