

THE FISCAL TIMES

FISCAL RESOLUTIONS -- ROUNDTABLE DISCUSSION AT THE NATIONAL PRESS CLUB, Washington, D.C., OCTOBER 1, 2010, to mark the start of the government's fiscal year

Eric Pianin: Good morning, everyone. I'm Eric Pianin. I'm the Washington Editor of The Fiscal Times, and I'd like to welcome you to the first of what I hope will be an annual gathering to discuss important economic and budget issues and try to look ahead a little to see what is likely to unfold in the coming year.

The Fiscal Times, as many of you know, is the new kid on the block. We are a mainstream digital news, analysis and opinion enterprise that focuses on budget, tax policy, the economy, health care, personal finance and a lot more. We formally launched our website back in March, and since then we've managed to assemble what I think is a truly impressive stable of writers, veteran journalists, bloggers, columnists who represent the full spectrum of political and economic views, many of whom are with us this morning. We are also very proud of our beautifully designed, robust website, and I hope all of you take an opportunity to look at thefiscaltimes.com on a regular basis.

Jackie Leo, our editor-in-chief, who is sitting over there -- Jackie -- has been the main engine behind The Fiscal Times, and a great friend of mine and colleague,

and she and I are very grateful to Pete Peterson for underwriting the costs of our operation, while giving Jackie and me complete editorial control over the content and direction. We are also grateful for the wise counsel and support we have received from The Fiscal Times advisory committee, including Bob Reischauer of The Urban Institute and Jodie Allen of Pew Research Center, who are both with us this morning. Thank you. And we also want to thank Laurie McGinley and Peggy Girshman of Kaiser Health News, who are our partners and have provided us with some great content, over the last few months. And finally, we want to thank Marcus Brauchli, executive editor of the Washington Post, who has been a true friend and ally of ours over the last few months.

To mark the start of the government's fiscal year, we asked dozens of prominent Americans the one thing they would do to get America back on track. Last night we published their responses on our website, and we think their ideas, taken together, offer an intriguing blueprint for strengthening the country and certainly grist for discussion this morning. With that I would like to turn over the program to our friend, Betsy Stark.

Let me just say that Betsy comes to us from ABC News, where she was the network's chief business and economic correspondent for the past 12 years and led its coverage of the financial system collapse and the great recession that followed. Her network career has taken her from the Oval Office to the floor of the New

York Stock Exchange to kitchen tables across the country. Her ability to make complex financial issues widely accessible is a hallmark of her work, and she has been honored for it with four Emmys -- wow -- including an award this year for her contribution to ABC's coverage of the inauguration of President Obama, and the first ever business Emmy for her reporting on disappearing pension benefits. Betsy, it's all yours.

Moderator Betsy Stark: All right, thank you, Eric. Good morning, everybody, and welcome to Day 1 of the new fiscal year, and thank you for coming out on a gray Friday morning to be with us.

It's an important time to be talking about our fiscal health and the fiscal future. Think about it: Congress is heading home today to campaign for what could be an historic mid-term election, and angry voters are talking about the deficit in ways they never have before. Polls show that voters are concerned about the direction the economy and the country is headed, and the great recession may be officially over, according to the experts, but we all know that it has left us still with painfully high unemployment and a lot of bills to pay. So you are in the right place to hear from our panel of experts this morning, assembled by The Fiscal Times, to talk about where we are and what next. And let me introduce them briefly, and you can read their full bios if you want to -- they're posted as well.

But starting to my immediate right, and on down: Ed Andrews, a former economics reporter for the New York Times, is a reporter and columnist for The Fiscal Times. Bruce Bartlett is a recent addition to The Fiscal Times, who focuses on the intersection between politics and economics, and attempts to inform politicians about economics, and the current nature of politics. Merrill Goozner is a reporter for The Fiscal Times. He spent 25 years as a foreign correspondent, economics writer, and investigative business reporter for The Chicago Tribune and other publications, filing stories from more than a dozen countries while posted in Chicago, Tokyo, New York, and Washington. Liz Peek is a reporter and columnist for The Fiscal Times and Fox News, who previously spent 20 years on Wall Street, most of them as a top-ranked research analyst, and Robert Reischauer is currently president of The Urban Institute and is also a former director of the Congressional Budget Office. Bob is a nationally known expert on the federal budget, Medicare, and Social Security, and so I'm going to put him on the spot first.

And say, on this first day of the new fiscal year, let's take a cold hard look at where we are, because there's rhetoric, and there's reality. So, from where you sit, and you know as much about federal finance as anyone, how do you see it? Is a crisis really at hand?

Bob Reischauer: I see it, we're dead in the water, in a situation where we really should be moving ahead on two quite different fronts. One is to strengthen the recovery that is weak but going in the right direction, and the other is facing the long-term reality of our budget situation, which will require some very difficult political decisions that there is no sign anywhere that our political system is willing to step up to the plate.

Betsy Stark: And put it in historical perspective for us, because, you look around the world, there are some countries that are worse off than we are. Maybe this isn't the first time in our history this has happened. I mean, how bad is it?

Bob Reischauer: Well, there's a pervasive feeling in the United States that well, when it really gets tough, our team will pull together and come up with some kind of a solution, and having been part of the crises of 1990 and 1993, I saw a very different cast of characters and a very attitude by the political leadership than I see now. And so, you know, I think this is really quite a dangerous situation we're in. Looking forward, do I think the bottom will fall out sometime in the next 12 or 18 months? No. Do I think we can play this game along for another 10 years? No. So sometime, I think, in this interval, we're going to face some very difficult choices. And my guess is they're not going to come about because the economic or the budget situation suddenly turns worse. It will be because events completely

unexpected, somewhere in the world, probably not in the United States, create a crisis of confidence that spreads throughout the globe.

Betsy Stark: Yeah –

Liz Peek: But actually we've already had that, sort of in miniature, with the Euro crisis, which all of a sudden made Americans realize that you cannot go on increasing your debt forever, there is a price to pay. And I would argue [leaning toward Bob Reischauer] that the vision of how dire our situation is has been masked by the fact that the dollar, until very recently, has been quite strong, because it's the currency of choice, compared to a lot of other bad choices. So, you know, I think our situation sort of is graver than it's been portrayed in the financial markets, because the Treasury still can borrow at very low rates. And just one other thing. I think that the federal situation is pretty bad, but when you add in also state and local problems and obligations, it is worse than bad.

Betsy Stark: Well, you raise two good points. One of them I want to ask you, Ed, about. What do we make of the fact that the world is willing to continue to finance this debt?

Ed Andrews: It's a strange conundrum that only the United States finds itself in. Which is that when you have a crisis of this magnitude generated out of the United

States to begin with, we're the ones that everybody looks to for being their safe haven for their spare money for investment. So we're in this kind of great situation at the moment, which is that money continues to flow into the United States. Our debt continues to be financed at very, very low rates. It's not just the Fed that is doing this. It's the world markets that are still making cheap money available to us, which is quite remarkable. But the downside of that is that it's postponing a lot of the hard decisions, you know, that we really do need to face. And I think that it's created sort of a false sense – certainly risks creating a false sense -- of complacency. The crisis is ebbing, or definitely on the downside of this immediate crisis. But the long-term effect of that, and the accumulated problems that we have had all along, with long-term entitlements and everything else, those are much worse. And so, you know, the fact that we've gotten a reprieve because the world is willing to finance our debts is I think a two-edged sword.

Betsy Stark: Do you think we've gotten a reprieve, Bruce?

Bruce Bartlett: I think things are in some ways worse than they appear, but for different reasons. The things that concern me are two. One is that in all previous economic downturns, we started from a much better situation in many ways. The deficits were smaller, the interest rates were higher, inflation was higher. This gave the Fed plenty of ammunition to be able to reduce real interest rates and stimulate growth. There was more money available to plug holes in the safety net.

And what we've done now is we've just run everything down to the lowest levels it can possibly be. The big problem the Fed has right now is that you can't reduce interest rates below zero. This is a very, very serious problem for the Fed that it is struggling to deal with. We've obviously had massive deficits, and yet we haven't had enough spending to get us off dead center and get growth going. So if we were to have another recession, you know, within another four or five years, as they often come, you know, we're really -- we're fighting a war with zero ammunition, and it's really frightening to think about that.

But what really frightens me is something that Bob alluded to, that is the nature of the political system is changed dramatically over the last generation. The sorts of people like Ronald Reagan and Bill Clinton who would raise taxes to reduce the deficit are gone. Even Bob Dole endorsed this crazy woman up in Delaware the other day. [laughter] And uh -- So you just don't see where the leadership is going to come from. We've had utterly irresponsible actions by Senate Republicans, just filibustering the most routine measures. And what they don't seem to realize is that if they get control, the Democrats can use all the same techniques against them, that they used against the Democrats. So we're in a situation which of not good gridlock, where, you know, good things will continue if we don't screw up, we're in a gridlock situation where bad things are going to continue because we don't have the political wherewithal to change them, and that's what really worries me a great deal. And I don't know where this is going to end, but it's going to end badly.

Betsy Stark: Merrill, weigh in on this. I mean, I hear two sort of big concerns. I mean, one is that, you know, we're pretty much running out fiscal bullets, and the Fed is running out of monetary bullets. And so, A, can we grow out of our way out of this mess, that's a lot of growing that's got to come from somewhere, we're not quite sure where; and B, you know, given the sort of the political dysfunction in the country, when you look out at what might happen over the mid-terms, that can't make you feel better about things.

Merrill Goozner: I think, going forward from here, I think Bob put his finger on it, which is that the economy is dead in the water, or it appears to be. And that, I think, in speaking about the real structural deficits that we have in the country, we have to -- it's a little unclear how much of this is cyclical and how much of this is structural. And so if unemployment right now were to start dropping, then we would see the deficits actually start to shrink, and that might start building the sort of replicating kind of positive environment that an economic takeoff requires. We do know that there are literally trillions of dollars of private capital sitting on the sidelines right now. And there's a crisis of confidence, really. So it's a chicken and egg kind of thing. So, I think one of the great unknowns moving forward is what's going to happen to the economy. I think the elections have shown us in recent years that they have a tremendous impact on confidence. And what will be the impact of this year's election on business confidence and on consumer confidence

will be interesting to see. I'm very leery of making predictions, but this is going to have a tremendous impact, I think, on the sort of long-term ability to deal with and solve a lot of these problems. I don't want to say that I'm optimistic. But I want to say that post-election, I think we're going to see a slightly different dynamic emerge, and I think some of the negative gridlock elements won't be as strong as they might appear to be heading into that.

Betsy Stark: But what do the rest of you think about that? If there is to be some period of prosperity that should emerge, there's still some structural problems out there, right? That doesn't change the pig and the python with the baby boomers, it doesn't change the Medicare funding, the unfunded pensions, the Social security problem. But what's your thought about that? Can we --

Liz Peek: If I might, I think that some of the gridlock is because the Democrats went on such an extreme legislative mission, and started coming up with bills that were so contentious that it kind of threw the entire country in a yes vs. no position. I mean, I would hope that you're right, after the election, possibly, you know, this tremendous antagonism in both houses will hopefully be reduced a little bit. And, yes, you could get more bills that just get stuck, I suppose, particularly if the Democrats lose the House. I mean I think that the entire country has lost some confidence, because we are looking at bills coming out that no one really totally understands, that govern enormous sectors of the economy. If in fact health care is

17% of GDP, to sort of throw out all these rules out there, that are really unknown and untested, and ditto with the financial services business, I think -- Look, we have seen -- I've never seen in my lifetime the business community become so antagonistic to a president. It has been totally unhelpful in trying to get those trillions of dollars back into the marketplace. I just think, that, you know, I'm hoping that after the election, you'll have a little more of a conciliatory tone from the White House and include the business community in trying to solve some of the nation's problems. I mean, that --

Bob Reischauer: Looking out after the election, I'm afraid I'm more pessimistic than I am before the election, because the incentives that are going to face members of Congress will be no different. The day after the mid-term elections we're going to begin the presidential election campaign. And, the -- if the prognostications are right, it's likely that the Republicans will control or come close to controlling the House of Representatives. Will they have an incentive to compromise with the president and in a sense build a record of positive accomplishment for the president for his reelection effort? I have a hard time seeing that.

Liz Peek: Well, the president now thinks he has a record of accomplishment, by dint of having passed all these big bills. So, I don't know, you may be right that this becomes a more fractured system. Again, I mean, my view is that an awful lot

of the problems that beset us right now have to do with exactly what you're talking about, which have to do with consumer confidence, which again took a hit in this last month. Business confidence is at a level that has never been seen in 40 years of tracking it. And I'm not talking big business, I'm talking about the independent small businesses. This is terrible, and I would hope that maybe the Republicans, if they do begin to get a little more clout, can begin to unwind some of the problems which have set the White House at such odds with the business community.

Bob Reischauer: But we had huge problems, in the sense of -- in the health area, in the financial services area --

Liz Peek: [interrupting] -- for sure --

Bob Reischauer: -- in the economy, and to deal with the huge problems required huge legislative interventions. And there's a lot of rules and regulations that accompany any piece of legislation. And working those through, in a bipartisan and conciliatory way, with the stakeholders out there in the economy I think is terribly important. I think the jury is still out on whether the administration is doing that. I think it's making an effort and hopefully will make more of an effort after the midterm elections.

Merrill Goozner: That's exactly right. We have to remember that growth has been driven prior to the current collapse by the health care sector and the financial services sector. And I think it's pretty safe to conclude that these are not going to be the engines of growth in the coming decade. And so, therefore, it's very difficult to know what the engine of growth will be. I mean, everyone can say what their pet projects might be. But it's very difficult to know in advance. But if you talk to the business community, which I often do, one of the things that they seem totally united about is the idea that health care costs can't continue to grow at twice the level of the rest of the economy. It's a terrible drain on their ability to invest in other things. So, that means that health care that created a huge proportion of the new jobs, if you look back over the last decade, can no longer play that function. It's going to have to become more efficient. And we have to hope -- I would argue, and this is another huge debate about whether or not what was put in the health care reform bill will be effective in terms of driving down the rate of cost increase in health care.

And that's a big debate, and people are on both sides of that debate, and you can make the arguments that it will, and you can be very cynical and say that it won't, and -- you know, I tend to be in the camp that says that it has a chance. But we know that's not going to be the engine of growth. I've seen numbers that said the financial services sector took over 40% of all business profits in the last decade. Well, that can't continue if you're going to have a thriving manufacturing sector, if

you're going to have a thriving service sector of other types. We need to have a better distributed economy moving forward. So, the true laws that have been passed that were major initiatives -- it's a little unclear what their ultimate affects are going to be. But I agree with Bob entirely that they address serious national imbalances that have to be addressed one way or the other.

Betsy Stark: But, so, Bruce, jump in on this. I mean, this brings me back, though, to the question of, Can you grow your way out of this fiscal mess, or is it also going to require some structural reform? Is it going to require higher taxes, is it going to require from the Pledge to America, you know, some across-the-board spending cuts? You know, can you just grow your way out of this mess, or is there just the reality that there's some pain and sacrifice that Americans are going to have to accept?

Bruce Bartlett: Well, if my friend Larry Kudlow were here, he'd say, 'Oh, of course we can grow our way out, all we need to do is cut taxes more.' I think that that's unfortunately ludicrous. [laughter] But unfortunately we're going to have at least one entire house of Congress that believes that, and are going to be strongly resistant to any specific measure that does anything. I mean, look at this stupid pledge they came out with the other day. [laughter] There was exactly one specific spending cut, a cancellation of TARP, \$16 billion dollars, and they said explicitly, 'We're gonna protect seniors, we're gonna protect Medicare, we're gonna protect

entitlements, and we're not gonna raise taxes one penny.' Well, those numbers just don't add up. And the problem is -- listening to the rhetoric, at least, of many of these Republican Tea Party-type candidates who are running, there's going to be a very, very long learning curve, where they come to understand that everything they believe is just complete nonsense. [laughter] And they have to learn to live in the real world. And I don't see -- one of the things that concerns me is -- I don't see who's going to be there to teach them. I mean, one of the things that was different about '94, when the Republicans took control before, is that they'd been out of power so long, and they were so grateful to be in power, and they owed their power to basically one person, Newt Gingrich, they were willing to pretty much do what they were told to do for awhile. And Newt had been around long enough that that system kind of worked. Nowadays, they have people who don't -- they're not going to owe their allegiance to anybody. The quality of the leadership on the Republican side is very poor. I just don't see where somebody's going to -- the adults are going to come forward to teach the children, that no, 2 and 2 don't make 5, it only makes 4, and I think it's going to be a very, very painful learning episode. And I fear that in the meantime, some really, really dreadful things are going to happen.

I'll mention one in particular. Around April, the debt limit is going to have to be increased. I don't see how the debt limit can be increased. I just don't see where they're ever going to get enough votes, in either the House or the Senate, to allow

that to happen. And I do believe there's the potential of default. And every time I bring this up, everybody on Wall Street just says, 'Oh, they always pass the debt limit.' And they always have. But the dynamics today are so different that I really think that -- I don't even know how they're going to find the votes to pass routine appropriations bills.

Betsy Stark: Do you agree [looking at Ed Andrews] -- potential for default?

Ed Andrews: No, I -- I think Bruce is right. This is not a question of economic default, this is a question of political default. But yeah, it's absolutely possible. Look, when we were in the midst of the Lehman week crisis, and we were trying to pass the TARP program, the much-maligned TARP program, the Republicans killed it the first time, the markets just fell, just tanked in response, and that scared enough people to allow the TARP bill to be passed, which now turns out -- you know, which has been reasonably successful.

Betsy Stark: They actually make money.

Ed Andrews: They might -- I don't think it will end up ultimately making money, but it sure is costing a lot less than expected. And a good case can be made that it helped, you know, prevent us from really going through a complete meltdown back then. I just want to go back to -- I can't let Liz get away entirely with the

argument that, you know, the stalemate is largely because of the Democrats passing extremist legislation. I don't think there is anything at all remotely extreme about any of this legislation --

Liz Peek: It's very unpopular.

Ed Andrews: That is different -- that is entirely different from --

Liz Peek: But -- [crosstalk] -- but listening to Bruce, it's sort of like, 'The American people are so stupid, they don't understand how wonderful these bills are.' I mean, the Republicans have a shot -- no one expected this two years into the Obama administration -- at retaking the House of Representatives, because what's been happening is so vastly unpopular.

Ed Andrews: Well, what we've got right now is a situation -- The gridlock -- the big fear that I have, that Bob has, that Bruce has, is this tremendous gridlock in Congress, and in Washington, this partisan gridlock. That is not stemming fundamentally from the Democrats or from extremist legislation. It's stemming, from, you know, basically, the pure, party-of-no, strategy of the Republicans --

Liz Peek: That's just not true --

Ed Andrews: Hold on --

Liz Peek: The first stimulus -- we went, they passed the first stimulus bill on a reasonably partisan basis. I mean, I really just don't think that's true. We've had increasing -- I mean, I agree, that it has gotten worse. But don't the Democrats still control the House and the Senate, am I wrong on that?

Ed Andrews: Yeah, you're half wrong, obviously, because the Senate, you know, has been --

Bruce Bartlett: Jim DeMint controls the Senate.

-- [cross-talk] --

Liz Peek: Boy, he'd be thrilled to know that.

Bob Reischauer: The fact of the matter is, to control the Senate you really need about 64 votes. And they don't have 64 votes.

Liz Peek: No, but they have --

Bob Reischauer: Because you're going to lose a couple --

Liz Peek: Well --

Bruce Bartlett: Well, I do think, quite apart from substance of the health bill and some of these other things, I think Obama made a terrible political mistake by taking his eye off the ball, which is the economy.

Liz Peek: Indeed.

Bruce Bartlett: I think that all of the problems that we're talking about would disappear if the economy were simply doing better. We're dealing with the fact that we went through the worst economic downturn since the Great Depression, and that -- everything bad flows from that. Now it may be that there wasn't anything more that could've been done after the February stimulus was passed, but I think if Obama had taken a page out of Bill Clinton's book, he would have been out there talking about the economy, and making people understand that he at least understood their concerns. And maybe that sounds like, 'Oh, I feel your pain, blah, blah, blah,' but by switching gears so rapidly and saying, basically, 'OK, we did the stimulus, that's it, let's move on, do another issue,' it gave people the impression that he didn't care, that he was aloof, and disconnected from the fundamental problems that are affecting them in terms of unemployment every

single day. And I think this has created a terrible, terrible political situation for the president, quite apart from the substance.

Bob Reischauer: You're right, but I ask, what was the alternative? To go into the midyear elections not having done health reform?

Bruce Bartlett: More could've been done on the economy --

Bob Reischauer: This is what you came in, or-- [crosstalk] -- go into the midterm elections having not addressed financial services reform? And everybody would have said, 'Good Lord, we had this huge crisis, and here we are two years into it, and you haven't done anything.' You know, he was given a lousy set of cards to play. And there was really no way to win the hand.

Liz Peek: Except, Bruce is totally right --

-- [crosstalk] --

Merrill Goozner: One argument -- one argument could be made that the only time that President Obama was going to have the political capital to work on health care reform or financial services reform was in the first two years of his administration. He got bills passed in both counts. And the reason why is, we don't know going

forward what the economy's going to do, but it's usually in the wake of crises in which you accomplish things in the financial arena. I mean, the Sarbanes-Oxley Act was passed after the last economic downturn, and so now we have the financial services reform bill. Both are -- I agree with Ed entirely: Both are fairly moderate pieces of legislation that have been reined in entirely because of the compromise process in Congress. Health care reform, exactly the same way. If you actually go through the details of health care reform, you see that most of the so-called radical experiments, the public plan, or whatever, were eliminated. And so, you know, in terms of changing the rules of the road, it was a fairly moderate plan. I think it would be totally ironic that the Democrats, if you go back now close to 20 years, lost control of Congress because they failed to pass health care reform, and now, almost 20 years later, they're going to potentially lose control of Congress because they passed health care reform. [laughter] It strikes me that we will never deal with health care reform ever again.

Liz Peek: Can I go back to the idea that Obama had only this time to do those bills? Perhaps that's true, but also, the country was in dire need of a jobs bill, and of other initiatives, after the stimulus, that could have helped the business community. So finally, Obama has a jobs summit, and who does he invite? Almost entirely academics and labor union leaders. The head of the chamber of commerce -- the chamber of commerce was not included. The independent federation of businesses, the small business lobbying group -- they were excluded from this

group. I mean, they have read from these signals that the business community is not welcome as part of the solution. So, I think, to your point [looking at Bob Reischauer], that, yes, maybe health care politically was important for them to focus on. But I think it was a huge mistake in retrospect, and I think it hurt the country.

Betsy Stark: Well, let me bring this jobs issue back to the matter of fiscal health, because yes, I mean, certainly there has been a lot of discussion and a lot of criticism that the White House failed to act aggressively enough on the number 1 economic problem as Americans did, which is jobs. And there is this school of thought -- and Ed, your former colleague at the Times, Paul Krugman, is a big advocate of this position, which is, Stop worrying so much about the deficit. We have an economic triage situation right now, and maybe the problem was we didn't spend enough, and now it's politically radioactive to even talk about more stimulus, but we haven't solved the jobs problem.

Ed Andrews: Well, I've actually disagreed with Krugman to some extent on this. What makes me nervous about Paul is that sometimes his rhetoric goes in the direction of saying, You know, you can go to debt of 100% of GDP, and how scary is that, and it's not a big problem, and I totally don't agree with that. But I think it's fair to say that most mainstream economists now agree that the economy needs more stimulus. That government spending or a mix of government spending

and temporary tax cuts would be helpful, that deficits -- short-term deficits -- are not the big issue, and I think that there's a pretty good case to be made for that. The fact is we've had a crisis that will ebb, that we will get through, either slowly or more quickly, we'll get through it, but it's going to leave a lot of scars, and we still have those immense long-term problems that we had before. So if we do have more stimulus, and I would be in favor of it, we really need a game plan now, a commitment now, a credible one, to solve the -- to address the long-term deficit problems. Some kind of agreement on Social Security would be a great thing, I think.

Betsy Stark: Bob?

Bob Reischauer: Yes, I agree with Ed's basic point that we need more action to stimulate the economy. I think it would be a terrible mistake to do that without connecting it to enacted legislation that in the future that will raise taxes and trim spending. And we have a unique opportunity of putting these two things together, should the president say something like, 'I'm proposing a stimulus measure, and that will include extension of the 2001-2003 tax cuts, but I will not sign that without also there being a multi-year deficit reduction plan connected to it, that phases down the tax cuts, some significant portion of them, and reduces spending. The president has an unusual amount of power in that if we do what we do best in this country, which is nothing -- [laughter] -- uh --

Liz Peek: He does it best.

Bob Reischauer: Well --

Liz Peek: (laughs) I'm sorry.

Bob Reischauer: (smiling) Well, your team has had a few moments of glory in that respect too.

Liz Peek: (laughing)

Bob Reischauer: -- Then, the tax cuts evaporate, and when they evaporate, of course, Congress will come together and try and put some substitute in place, but the president will have a whole lot of power in determining what that substitute looks like.

Liz Peek: But, then, in saying that, in a sense you're admitting that the health care bill has not reined in spending, which in fact it has not.

Bob Reischauer: Well, nobody intended it to, for, you know, five, seven, eight, ten, twenty years. You know, as Merrill says, what we've done is planted a lot of

seeds. We hope that those, in combination with the innovations and efforts that are going on in the private sector to rein in health care spending will, you know, over a longer period of time, bend the cost curve down. It's still a work in progress.

Liz Peek: It sure is.

Bruce Bartlett: You know, I think it's quite clear, painfully clear, in fact, that the critical problem is that everybody, and I mean everybody, grossly underestimated the depth of the recession, back when, in late 2008, it's clear that we just had a much worse situation to deal with than anybody imagined. And furthermore, the package of stimulus that was put forward was not even large enough to deal with the moderate assumptions that were made. So we really needed a much, much bigger stimulus in the first place. And I think everybody also kind of deluded themselves in thinking there would be other opportunities to enact additional stimulus if the initial one failed, but it quickly became clear because of political reasons that there was one bite at the apple, period. So you were never going to get another chance to say, 'OK, we didn't do enough, we need to do some more,' that was it, and we've had to live with that reality. Furthermore, I think some political mistakes were made in terms of the design of the package. I think it was a mistake not to put more money into aid to state and local governments, because they have been an enormous drag on the economy, because they operate under balanced budget requirements, so they've been cutting spending like crazy and raising taxes

like crazy, which is negative stimulus for the economy as a whole, that could have been prevented with more federal aid, and something like 40% of the package was giveaway tax cuts that had no stimulative effect whatsoever.

And so the whole package was poorly designed, it wasn't big enough, the magnitude of the problem wasn't perceived. Now it's easy to have 20-20 hindsight, but still, we have to accept that was – that we're living with the legacy of the decisions that were made a year and a half ago. And so the question is what can we do going forward, and I think it would be very easy to come up with a fiscal package that might help the economy, but I think the reality is, there's no votes, none, so, I keep looking more and more, and most economists I think are looking more and more to the Fed, to see what can they do, because they still have independent action. But they seem to be very, very reluctant to act and so, basically, we're just in a situation where nobody can act or wants to act. So we're just kind of bumping along the bottom, and I don't know -- I don't see any event, or anything with the potential to change that.

Betsy Stark: Well, I mean, so let's talk about, what do we do. Maybe, in December, we're going to get a report from the president's bipartisan commission on fiscal reform. What do you all hope to hear? And are you hopeful that anything will come out of that that will be prescriptive?

Ed Andrews: We may get some words of wisdom from them, or at least from a core group of that commission. I'd be really surprised if that commission actually comes up with a comprehensive set of recommendations. To do that, they have to get agreement. They have to get agreement from lawmakers in both parties who are on that commission. I just don't see it happening. I don't see the Republican members agreeing to any tax increases, and I think that's going to immobilize the Democrats on the spending side. I may be wrong. What you could get, and what I think would be helpful, is if sort of a rump group, if you will, of Republicans and Democrats agree on a game plan that could then be the subject of a debate in Congress going forward. I mean, this all is going to have to be settled politically. So, if they at least put out something that can start the debate next year, that's something, but to expect much more is unrealistic.

Betsy Stark: Anyone else?

Liz Peek: I want to go back to, can I retrace, just for a moment, back to this whole stimulus issue. I think, I mean, I think Krugman is wrong, but until we try it, we don't really know. That's the reality -- there is no blueprint for this. The reason I think it would be a mistake to do another stimulus bill or that it would be ineffective is because I think there's a point at which consumer anxiety about the nation's debt level offsets any stimulative effect that you have from spending. And I think we saw that already this year, I think that when, you know, the Greek

turmoil hit the markets, and all of a sudden you're talking about the Euro crashing and how the currency was under such pressure and all these budgets of Portugal and Spain and so forth were under such trouble, I think Americans just kind of went, Whoa, their numbers are not that different than our numbers, in terms of debt to GDP, and also budget deficit, and this could happen here. And the savings rate went up, now there's dispute about why our savings rate went up and how it's calculated. But, don't -- I mean, I'm interested in what you guys think of this. I mean, if they announce another half-trillion dollars, don't you think people are going to be scared?

Bob Reischauer: I think you're right, and that's why I would tie it together --

Liz Peek: -- to a long-term plan.

Bob Reischauer: -- with a long-term plan.

Merrill Goozner: I also think that any stimulus plan needs to be targeted to the idea of creating jobs --

Liz Peek: Yes --

Merrill Goozner: I mean one of the issues that we have on the fiscal side is that we're not generating enough tax revenue. And that's directly related to the idea that people are unemployed. And so, the jobs numbers are going to come out today, I think today's the day -- it's the first of the month, so they usually come out -- and I'm guessing there's not going to be a huge amount of job growth in the economy one more time. And until we start seeing those numbers actually starting to go down -- the unemployment rate -- I don't think you're going to get that virtuous cycle of where an economic takeoff can occur. That's really what's needed at this point more than anything else. And so when it comes to stimulus, what happened with the first stimulus package, and I think why Paul Krugman gets so angry about why it was so inadequate, is because it ended up being soaked up by things like bolstering state and local budgets. And so much of it went that way, which really doesn't get seen. When your teacher doesn't get laid off, or the policeman doesn't get laid off in your local community, you don't perceive that anything has really changed in the economy.

So we need to see from stimulus something that actually has an impact that people can actually see. Some people say, and this is one of the questions I've had in my mind, is well, where's all this infrastructure -- I see that the roads are being built everywhere. But there was supposed to be a lot of starts on new kinds of infrastructure, like high-speed rail and things like that. And I'm not seeing it yet,

you know, not when you drive around as an average citizen. So I'm guessing average citizens don't see this stuff.

Liz Peek: Did you take the Acela yesterday? No high speed rail. (laughs)

Merrill Goozner: Well, and that gets to -- the final point that I would make -- is that one of the more interesting things to watch happen is how other countries are pulling out of this recession much more quickly than we are. Germany is already taking off. China, which should have suffered a tremendous hit when you stop and think about how dependent they are on U.S. consumers, and first-world consumers, in order to buy their manufactured goods, apparently is finding the wherewithal with all the surpluses to make huge investments in infrastructure and soak up any potential they have for unrest and mass unemployment. So, you know, in the United States we have yet to figure out how we can have a direct -- how we can use the levers of government to have a direct impact on the economy. And in part that's politics, but in part it's also I think we've had a failure of imagination in how to really invest properly.

Betsy Stark: Well, you've set me up very nicely, thank you very much, to move to some of the resolutions, some of maybe the good ideas, that have come from the polling that The Fiscal Times did of thought leaders in business and government and academia, which you may not have seen, but I want to just read to you a

couple of those ideas, and then, just, you know, whatever sort of strikes you. Is it viable, is it a path forward?

So -- Grover Norquist, Americans for Tax Reform: 'For all new hires by the government, shift from unfunded, defined benefit pensions to fully funded defined contribution pensions such as 401Ks. Pay federal and state workers no more than private workers. Pay benefits and pensions.'

Or -- Jane Friedman, CEO, of Open Road Integrated Media: 'I believe more strongly than ever that the best way, and perhaps the only way, to secure America's fiscal health is to support groundbreaking start-ups and passionate entrepreneurs to start the next generation of great American companies.' Now I just throw those two out there. Anybody get excited?

Liz Peek: I think it's great to encourage entrepreneurs. You know, you can do that by allowing some of the things that have been talked about, immediate expensing of all kinds of business investment and so forth. You know, the entrepreneurial thrust, if you will -- I mean, going back to what Merrill was talking about much earlier -- where's it gonna be? I actually think -- I disagree that health care is not going to be the area of growth. I think there's enormous potential for the good health-care growth, meaning, pharmaceutical growth, and biotech etc, not for the bad part of health care, which is enormous outlays and waste in Medicare and so

forth. But I think it's interesting to look at the areas where we can do it and what the government do to help. Tech is certainly an area, green technology. You know, the Chinese have sort of walked off with the first round of green technology, and it would be nice to see our government be as supportive of that nascent industry as they are. But I think it's interesting to look at where we do have opportunities, and there are, there are plenty of areas of potential growth, and I hope financial services is also one of them, because we need that. It's a big part of the economy.

Bob Reischauer: You know, I think that if we're thinking about employment in the next three years, suggestions like these are a drop in the bucket.

Liz Peek: True.

Bob Reischauer: And while they sound good at one level -- 'let's encourage entrepreneurs, let's go to green technology,' which the legislation actually has done -- they're a lot easier to talk about than they are to do. And I think you and I [looking at Liz Peek] would agree that you don't necessarily want the government picking winners here and there --

Liz Peek: Definitely not, definitely not --

Bob Reischauer: You want more broad-based incentives to cause the private sector to respond. But with respect to green technology, that might mean a carbon tax. And then you'd [looking at Liz Peek] get off the train right there. [laughter]

Liz Peek: No, no, actually [laughter]. All right, I'll tell you, I -- for years I've been advocating an import fee. On oil. That would solve -- When oil prices fell in the last decade, we should have slapped on a -- just made up a price, \$75, whatever the difference was. And that would have guaranteed investment in green technologies and other things. And just taken the issue off the table. Obviously -- in fact, this administration looked at it and thought it was too controversial, which I think it probably is.

Betsy Stark: Well, it's interesting that one of the other ideas that came up was to eliminate all energy subsidies altogether and just see which energies thrive, what the market decides.

Liz Peek: Well, you're not going to be able to do that, because that would include ethanol, and the people running in the primaries in Iowa would have a heart attack. So that's not going to work. I mean, all these things are so complicated. And so --

Bob Reischauer: Good policy is not always good politics.

Liz Peek: Yes, exactly.

Bob Reischauer: And that's the bottom line here.

Liz Peek: Truly.

Betsy Stark: Your colleague, Bob, at The Urban Institute, Rudolph Penner, said that 'controlling the budget isn't possible unless we control health costs. We have to put health costs on a strict budget much as the health systems Canada and the United Kingdom.' Can we envision that here?

Bob Reischauer: Well, Canada and the U.K. have systems where everybody is in the same pot. We've taken one step in that direction, with the health reform. It was widely believed, I think, by all experts, that you couldn't control the growth of government-related health care costs without doing something about the sector as a whole. And now, at least, we have some possibility of doing it. For my money, the most important thing about this health reform is that the federal government is now responsible for the growth of health care costs, in the sense that it can't, as it has in the past, say, 'Whoa, they're going up too fast, I mean, isn't this terrible,' and everybody points a finger at everybody else on why it's true, but nobody is accountable for it. Now the federal government going forward will have to be

accountable for it. And, we have, as I said, a lot of little seeds that have been planted that we hope will grow well.

Merrill Goozner: At the risk of getting a little wonky, and I don't usually like to get too wonky in these things, but Rudolph Penner is basically asking for capped budgets for health care, and I think that that's a great idea and it would go nowhere in this country. The reality is that what these little seeds are, are that they're tinkering with delivery system reform, and we're hoping that the system will somehow, through various incentives, become more efficient, and therefore, the total growth in overall spending will somehow be less than what it was previously. And there is an easy way to get there. And he has put his finger right on it. And that's simply to say, Here's the amount of money we're going to spend on health, and let's take care of everybody. And then figure out what's the best way to do that within those capped budgets. That is how they do it in Great Britain. That is how they do it in Canada. It's how they more or less do it in most of the advanced industrial countries, although they have different ways of getting to the same place. And it's what we have refused to do in the United States, and it's ironic because health care in the end is a service, like education, like police and fire. I mean, while we deliver it through the private sector, in the end it's a social service that we agree everybody should have, and yet we treat it very, very differently than all the other social services.

Bob Reischauer: But there are options short of a budget, and one of them is, as we've taken a tiny step in the direction, is reducing the tax benefits that we provide for health insurance, that's above basic health insurance. And, you know, we should experiment with that and see if it will work.

Merrill Goozner: Well, my own feeling is that tax gimmicks -- in the end, the fact that some health insurance will be taxed and some will not be taxed, and somehow that this will have an overall impact, is the equivalent of delivery system reform. It tinkers at the margins rather than really dealing fundamentally with the issue.

Bob Reischauer: It provides an incentive for other reforms to take place.

Betsy Stark: Have ordinary Americans, do you think, started to take austerity into their own hands? Some of it, I mean, is not a matter of choice, it's a matter of desperation and lack of a paycheck. But there's also thinking that there's a new normal. And that given what we've been through, and the experience of the consequences of imagining that you could buy a house with no money down, if you could find the [unintelligible] in all that, that going forward things are going to be different. Do you all buy that idea of a new normal? I mean, is that behind a new frugality that you see? Is that why savings rates are up and credit card balances are down, or is it only because so many people unemployed and underemployed?

Bruce Bartlett: Well, I think it's quite clear that we've been suffering from what's called a balance sheet recession, and that people, historically, in these kinds of situations, have tried to rebuild their wealth levels back up to whatever their target level was before the crash. And so, it's perfectly normal to expect them to be raising saving and reducing spending. But part of this new normal thing, and I was just looking at some data yesterday, about the increase in household size that doesn't seem to be driven by birthrates. It's this whole anecdotal thing that you hear about adult children moving back in with the parents and things of this sort. I think there's a whole lot of this going on, because there's too much vacant housing. I mean, there's people who are living in those houses, who are not living in them now, and it's not clear where they're living. There hasn't been a big increase in multi-family housing. I think there's a shadow group of people, you know, nomads out there, who are potentially homeowners, or at least apartment renters, who right now are not in the system. And I don't know whether people will become comfortable with that, and will go back to a pre-WWII situation, where it's common to have three generations of a family all living in the same house and things of that sort. I don't know. I would just love to see data on this. But it seems like there's a lot of people that ought to be living in houses who aren't, and I don't know where they are. [laughter]

Liz Peek: Where did they go? Didn't the Census data pick that up, actually, that people were --

Bruce Bartlett: Well, that's coming through --

Bob Reischauer: There's a lag, and so we won't know for a year or two --

Liz Peek -- where they went. Yeah.

Merrill Goozner: I think that it seems, it seems obvious to me, and this is based on my neighborhood and people that I know, but this is basically a recession-driven phenomenon. This is not somehow a cultural shift, or somehow an underlying --

Bruce Bartlett: Well, it could become one if it goes on long enough --

Merrill Goozner: Well, again, if we have stagnation, and 9 to 10% unemployment as far as the eye can see, then obviously people are going to adapt, and they're not going to spend, they're not going to form new households, they're going to delay --

Bruce Bartlett: And then we become just like Japan.

Merrill Goozner: Well, that's what happened in Japan. I was there, at the front end, of the post-real state bubble bursting, and their stock market bubble collapsing, and they had the same set of policy dynamics, where the government was investing heavily in infrastructure through deficit spending, and interest rates were lowered to zero percent, and they would have false starts on economic recovery about every 18 months, and then it would slip back into a no-growth situation all over again. And there's real debates about why the policy levers never seem to work in that country. And, you know, I would argue, if you look at them, they had different dynamics, both in terms of the way they treated unemployment, so they allowed work levels to fall, and salary levels to fall, and didn't go to structural unemployment. In other words, they didn't lay off millions of people. They really had a social policy that said, 'We're going to try to keep as many people employed as possible, and we'll lower incomes.' And so that had a depressing effect on consumption, and then of course they also had deflation. You know, their prices had been sky-high by world norms because they manipulated their currency, and so their deflation in the wake of that also had a huge depressive effect on consumption.

So I think that some of the policies, some of the social factors that were at play in Japan, are not at play here. Historically in the United States, we've always claimed, that, well, you know, the flexibility in our labor markets -- which is a polite way of saying, 'We lay people off really fast when things go bad' -- the

flexibility in our labor markets enable us to rapidly rebound. And so there's a part of me that says, OK, this is a real test of that, we're right here, unlike other countries, we went to 10% unemployment, we're not collecting the taxes from these people, these people aren't consuming, they're dying to go back to work. I read newspaper stories every day about people in their 50s and 60s who want to go back to work and are definitely afraid they're never going to be able to get another good job again in their lives. And so therefore that, to me, is the great underutilized resource in our country right now. And until we figure out how to put it to work, we're going to be in deep trouble.

Liz Peek: It's complicated by the real-estate problem, right, because a lot of those people who are desperate to find jobs, there may be jobs three states away, but they can't sell their house, so they can't move to the -- I mean, that has become a massive trap for underemployed labor. The other thing, though, going back to Japan, huge difference, which is astounding because it was right there for everyone to see, because I was also in Japan, running our equities business at that time, was the demographic problem. All of a sudden their population shrank. And that's going on in Europe, it's going on in Russia, even in China, you can look forward to a time where you have a topping out of -- And by the way that's a reason, I think, in this country to be very pro-immigration, because we do have the underlying energy of a growing population. And I think that's a huge difference.

Betsy Stark: Do you have a comment, Ed, and then I want to open it up to the audience for questions.

Ed Andrews: Well, I was just going to say, my own gut instinct is we should be prepared for a long stretch of really sub-par growth. We have had, as Bruce said, a balance sheet downturn, a balance sheet recession, but it's been a huge balance sheet shock, that's just going to take a rather long time to fix. We're going to have a debt drag that I think it's just going to hold things back for a long time. So even if we don't have a crash, I think it's just going to be a very hard slow fight back, and I -- I kind of wish that both the administration and CBO would sort of back off some of their growth estimates. I think they're too optimistic right now.

Bruce Bartlett: Well, I think the critical question going forward is, To what extent is the unemployment cyclical or structural? And I think the initial assumption of the Obama administration economists is that it's essentially all cyclical, and that if we can just raise the GDP growth rate, those people will just automatically be reabsorbed into the labor force. But one of the things that you're hearing a lot of economists talk about today is that there is a point at which somebody's been out of work for so long, that they implicitly switch from being cyclically unemployed to becoming structurally unemployed. Because you look at a guy's resume and he's been out of work for two years, and you've got some other kid who just graduated from college, and you got doubts about the older guy. And so one of the things

that I've been thinking a lot about is that it would really help a lot if we would get rid of the earnings test for early retirees. Right now, if you retire at 62, you can get some money from Social Security, but you're prohibited from having earned income above the minimum wage. Now, if we would get rid of that, and there's no reason to keep it, it doesn't have any effect on Social Security's financings, it would at least -- you'd have some people out there, who are essentially unemployable in the jobs that they were in, but they do have now the cushion of Social Security. So they could maybe take some lower-paying job in some area, perhaps in a public service kind of category, helping out in the schools or something like that, where between what they would be paid there, plus what they get from Social Security, they could keep their heads above water. That might be one way you could help a big and growing category of the structurally unemployed, who are these people in their late 50s, early 60s, still able to work, impossible to find work.

Ed Andrews: Except that I thought that the one group of people in this country, who were, were actually -- their participation rate was going up -- was the older people.

Bruce Bartlett: That's above 65, I think. Bob probably knows --

Bob Reischauer: It's 55, it's been going up for about a decade. And it's worth remembering that the cohort of people sort of college age has peaked, and it's now headed down, so I would come out more on the cyclical side than the structural side here. You know, there is a lot of adjustment after any recession, where people can't get the pay that they made before, because they're going into new businesses where their specific capital isn't worth as much. But that's sort of a normal situation. I agree with Ed that's it's going to be a long slog. But we should reflect on the political consequences of that. What it suggests is that the American people are going to be very dissatisfied for a long time to come, and we're likely to get control of government handed from one party to the other party every two years or at most every four years, if that's the case. And of course that's the ticket also to a certain amount of gridlock and obstructionism by both parties.

Merrill Goozner: I agree that the unemployment is mostly cyclical and not structural. But the structural element that's real is that you have the baby boom generation now going into the down slope of their peak -- of their earning years. And that is just going to ripple through society. And I think that we're seeing in a lot of the anger that's out there, and that's amorphous, that this is happening to people, you used to make a lot of money and then all of a sudden you lose your job, and it's what you just said --

Bob Reischauer: And your house isn't worth as much.

Merrill Goozner: And your house isn't worth as much as it was, and the job that you can get only pays two thirds of what you were making before, and you just go through that and you know, it's not great. You know, you can pick up Gail Sheehy's book, Passages, and find out, Oh, yeah, that's what happens to people when they turn 60 years old in this society, but when it happens to you you're still not a happy camper. (laughs)

Liz Peek: That's funny... Don't want to know. [cross-talk]

Betsy Stark: Well, we have a little time left and I would like to take your questions.

Question from Crowd: My name is Carter Dougherty, and I'm one of the writers for The Fiscal Times. And I wanted to take on, uh, two kinds of presumptions that were embedded in the discussion earlier. One is to my friend, Ed Andrews, which is this notion that eventually this problem for the dollar comes, and that rates are depressed because the United States is the safe haven. True enough, but then again, what happens – what conceivable scenario could you foresee in the future that would change this? And I'm talking about the relatively near future, let's say 10 years. Dramatic appreciation of confidence in the euro, and suddenly money flows into euro zone bond markets. I'm going to posit that that's probably not

tremendously likely. How about a freely convertible [unintelligible] and deep Chinese bond markets. Also not going to happen, they're still experimenting with this in Hong Kong. You can't possibly start buying the yen if you're afraid of government debt because of the situation there. So this situation that people are describing -- 'Oh, this can't continue, this can't continue' -- I look at the contours of the world, and say, maybe it can, and maybe the U.S. should take advantage of this and borrow cheaply for as long as it needs to, to get out of the recession. And the second question, and sort of, Liz and Merrill kind of addressed this, is, this whole notion of capital's on the sidelines because of business confidence. I have to admit, so far on the evidence, I just don't buy this. And you mentioned in particular small businesses, and if you look at the survey of the National Federation of Independent Businesses, the element of the survey that shows government uncertainty has really barely ticked upward. Their main complaint is lack of customers, i.e. demand, so really the logical argument ought to be, we need more stimulus from these people. And yet, you know, occasionally you get these glimpses of honesty, where Jeffrey Immelt says, you know, 'We really should make decisions for our businesses, not whine about politics.' And I think the fallacy in this whole argument of 'business confidence is a problem,' is that when business people come to Washington and talk about confidence, they're not really businesspeople, they're politicians. And they're making a self-interested argument here that we should have, especially as journalists, look at more carefully and appreciate -- You know, we wouldn't take at face value an argument of, you know, 'Well, the Obama

administration saved the auto industry because it was the right thing to do,' and not ever mention the influence of unions, and yet somehow we take this whole confidence thing at face value from business lobbyists when I think we should really be more critical.

Betsy Stark: Ed, do you want to take on, first, the question of what's the scenario where this all falls apart?

Ed Andrews: Sure. Well, I would say first off that the evidence that the current situation is unsustainable over whatever period is that we had a similar argument being made before the crash. Which was that we had sort of a new Bretton Woods, that the Chinese were going to permanently keep financing us because they needed to, and we had sort of a new regulated balance. At some point the imbalances sort of take over, the numbers don't add up, things begin to crash, and that's kind of what happened. And so I'm not exactly sure how this is going to play out down the road, but if we had inflation start to creep up, six, seven, ten years down the road, if we had a ratings downgrade on U.S. Treasuries, which is certainly conceivable the next few years, if we had any kind of accelerated worries about a default on Treasuries, all bets are off on the U.S. as a safe haven. So, it can happen a lot of different ways. And I went to a conference about two weeks ago sponsored by macro-economic advisors, and they were putting up -- they ran their own models, of, you know, budget scenarios, and basically they tried to make the numbers work

where you had a scenario where you get employment basically to full employment levels, keep inflation low, and continue with the expected budget path based on what people want at the moment. And their models blew up at about 20 – 20 or 22, it's not that far -- you just can't make the numbers work. So one way or another, I think, it really isn't sustainable, not in the immediate term, but 10, 20 years is not long.

Question from Crowd / Jackie Leo: I have a question about the long-term future of the country in regard to the knowledge economy and where we are -- sorry, regarding the knowledge economy, and where we are -- whether or not we're prepared, or are preparing our citizens for what is clearly a global marketplace. And I just wanted to read this one item from the survey we did from David Kirkpatrick, who's a technologist, a former columnist for Fortune, and has written a book about Facebook, and he says, 'The need to create a workforce that can come up with the cutting-edge ideas and turn them into products and services is central not only to our fiscal future, but to our very national relevance. There's no divine right for the U.S. to remain the global dominant economy. Students and policymakers in countries around the world are increasingly aware of the need to study math and science, and gain the technological skills of the modern age.' And what I think he's really saying is that without a real education platform that demands the kind of results that make people ready to work in this global economy, we have another problem on the horizon that goes beyond jobs in the

next couple of years. And I just wanted to know if you think there's a policy out there that could help this.

Liz Peek: I don't think it's a future problem, I think it's a problem right now. You're actually reading about job vacancies in some manufacturing areas where they can't find young people to take on those jobs because they can't do the required math or they can't read adequately. I think one of the great things that's happening, and there isn't much great happening, is what's happening in education. We have an administration that's made it a priority and has been willing to buck the unions, not entirely, but at least they've forwarded some measures, which have been aimed at holding teachers accountable, I think that's hit a real note across the country. This new movie, which I haven't seen but I can't wait to see, *Waiting for Superman*, has taken on the teachers' unions, and going back to the conversation about helping out state and local budgets, the next big sort of ball to drop here is, that municipalities and states are really going broke. And we haven't had to face it because the stimulus bill funneled hundreds of billions of dollars into those coffers.

But when Chris Christie in New Jersey says, Look, I'm asking these guys to take a one-year pay freeze to solve this much of our budget crisis, people across the state go, 'Wait a minute, how does that become such an issue?' So I think, to some degree, the pressure on states and local municipalities is actually very welcome

because they have to address the entitlements issues. I was reading something last night where in California, the benefits liabilities went from -- increased 14-fold between 1999 I think and 2006 -- 14-fold -- from a relatively modest number to tens of billions. That's why California's broke, and it has got to be addressed.

Merrill Goozner: You know, I've been thinking about education, and education reform, since the late 1980s when this first became a huge issue, and this issue comes up over and over again. And focusing on the internal dynamics of the education system is important. That's where all of our energy gets focused. What doesn't get enough attention is the links between the education system in the United States and the employment system in the United States. Take Germany, again, for instance, and in other parts of Europe. There are very close ties between employers, they have apprentice systems, they have real school-to-work transition systems, that are part of their societies, and we just, do a very poor job at that. And in fact, you need to make that part of the education system, because that's what a person needs to know when they're growing up, in high school, and when they go into college, is how do you relate to the world of work. What goes on in the world of work? What skills do I need to have? And it's at every level, from what we might call the entry level jobs that might go to people with only a high school education, through junior college graduates, and even into the college years, and at almost every level we never make those kinds of ties in our society. Or where they are made, they're very tenuous, they come, they go, a recession hits, boom, all

of the internships disappear. I mean, we just don't have a system for really doing a consistent school-to-work transition for people so that when you invest in yourself, and invest in education, it pays off, as you enter the workforce.

Betsy Stark: We have time for one more question.

Question from Crowd: I have a question for Ed Andrews, I want to throw out this possibility, that if the polls are right and if the House goes Republican, and that say, half a dozen or more Tea Party candidates go into the Senate, you could have a very interesting situation with the future of continuing resolutions, to continue the government in the absence of government operations and financing and the absence of the passage of appropriations bills. We had that situation fairly recently where the appropriations bills were not finished in the lame duck session, and went over into the following session, in which case you'll have a block of -- kind of a third party in the Senate, which would be very unwilling, I think, to approve a continuing resolution, to continue the government. And certainly that would be in the energized Republican House. You'd have the same pressures, as you would, I think, as extending the debt limit, and so I'm wondering what happens then.

Ed Andrews: Well, I think that this gets to what Bruce was alluding to much earlier, and I think, is kind of an underlying theme that's been going through a lot of this, which is that the real problem here, I think the real source of the

uncertainty in this country, is about the ability of the political system to actually do anything right now. That's really the source of uncertainty. I totally agree with Carter that, you know, this mean [?] that the business government puts out that it's holding back because of uncertainty about regulation is kind of hogwash. What's holding business back is lack of sales, but there is a huge political risk in paralysis. And the kind of thing that you're alluding to right there is just a refinement of the fear that Bruce is talking about, sort of a political default. I would just say one thing. I'm a big critic of the Republican approach over the last couple of years. But on a political level I wish that the Republican party were actually stronger than it is. It's going to make great gains in this election, but I think internally the Tea Party phenomenon and everything that has happened with the Republicans has made them much weaker. Their leadership institutionally is really, really weak. They don't have the capability to withstand criticism from their own base constituency. And I think what we really need right now is leaders who have the fortitude and have the strength to make really tough calls. And the Republicans don't have it. They're completely controlled by basically a fringe element now.

Bob Reischauer: It's worth remembering that we've seen this movie once before, in the mid 1990s, and maybe we should turn to Newt Gingrich and ask for --

Bruce Bartlett: Well, there's nothing in the Constitution that says the Speaker of the House has to be a member of the House [laughter]. It's true, they could bring Newt back. You heard it here first!

Bob Reischauer: (smiling) You know, the point being --

Liz Peek: (laughs) That's a great idea --

Bob Reischauer: -- that when this type of gridlock over spending arrives, an articulate president has a tremendous advantage, and I think in Obama we would have that, just as we had with Bill Clinton. So when you say, There's no way out of this, there is a way out of it. Most Americans, whether they're Tea Partyists or big-spending Democrats, depend in some way on government services that are funded through these appropriation bills. And when, you know, the post office begins closing or the local people in the ag department extension again start getting laid off, the dynamic changes.

Betsy Stark: And we'll leave it there, so our thanks to all of you, and our thanks to this panel for a really interesting conversation.

[applause / end of program]

