

Nov. 1, 2011

Joint Select Deficit Reduction Committee Holds Hearing on a Review of Previous Debt Reduction Proposals

HENSARLING:

The committee will come to order.

Before I recognize myself for an opening statement, I wish to make a few preliminary remarks. Number one, I wish to remind all of our guests that the manifestation of approval or disapproval, including the use of signs or placards, is a violation of the rules which govern this committee. The chair wishes to thank our guests in advance for their cooperation in maintaining order and decorum.

This is the fourth hearing of the Joint Select Committee on Deficit Reduction entitled "*Overview of Previous Debt Proposals*."

I want to thank our witnesses. First, I wish to thank them for their service to their country, all long-time storied public officials: Senator Alan Simpson, who served as a senator from Wyoming for 18 years, served as chairman of the Veterans' Committee, a member of the Finance, Judiciary and Aging Committee, and obviously the co-chair of President Obama's National Commission on Fiscal Responsibility and Reform.

Additionally, Erskine Bowles, who served as chief of staff to President Bill Clinton and was appointed by President Obama to also co-chair the National Commission on Fiscal Responsibility and Reform.

Senator Pete Domenici, the longest serving senator in New Mexico's history -- although New Mexico is still a fairly young state -- a storied career as chairman of the Budget Committee, serves as a senior fellow at the Bipartisan Policy Center.

Finally, Dr. Alice Rivlin who was a vice chairman of the Federal Reserve, director of the OMB in the first Clinton administration, and the founding director of the Congressional Budget Office, and served with Senator Domenici on the Bipartisan Policy Center's Task Force for Debt Reduction.

Again, I want to thank each of our witnesses for their work. There are many other fine organizations and think tanks that have added value to the process. This particular committee chose to hear from these four individuals in these two bodies.

With that, the chair will now yield to himself for an opening statement.

HENSARLING:

What I do believe we will hear from each of our witnesses is that America at least does, indeed, face a legitimate debt crisis. Not only are we operating on borrowed money, we are operating on borrowed time as well.

In that vein, I never tired of reminding not only myself, but the public and my colleagues that although we have a statutory goal to reduce the growth of the deficit over 10 years by \$1.5 trillion, backed up by a \$1.2 trillion sequester should we fail, more importantly, we have a statutory duty to proffer legislation that would significantly improve the nation's long-term fiscal imbalance.

What could not be clearer is that unless we offer fundamental and structure -- structural reforms to our nation's entitlement programs, especially healthcare, we will not only end up failing in our duty, we may

fail our nation as well. Healthcare costs measured by GDP roughly have doubled since the time of my birth until I entered the workforce and have risen about two-thirds since then and are growing at what all acknowledge to be an unsustainable rate.

Every agency and think tank that I am aware of, every academic study shows that Medicare will go broke in nine to 13 years.

The president himself has said quote, the major driver of our long-term liabilities, everybody here knows it is Medicare and Medicaid and our healthcare spending, nothing comes close. I continue to agree with the president.

Unfortunately Social Security faces its problems as well. My children will likely put more money into Social Security than they take out, at best generational unfairness, at worst a form of generational theft.

We have previously heard from the Congressional Budget Office that tax revenues upon the recovery of this economy, will once again produce roughly 18.5 percent of GDP. We also know that there are many tax increases already built in to current law.

But spending, principally driven by our healthcare and retirement programs is due to roughly double in size to 40 percent of GDP over the course of generation from where it was just a few short years ago.

Certainly we cannot tax our way out of this crisis. We cannot solve it by simply tinkering around the edges of our entitlement programs. For the sake of our economy, our jobs, our national security and our children's future, many people say it is time to quote, unquote, go big. I agree, but going big is not nearly measured by slowing the rate of growth of the deficit over the next 10 years. Going big must be measured in solving the problem. In other words, fundamental and structural reforms of our entitlement programs, giving American the opportunity for quality healthcare and quality retirement security at a cost that does not harm our jobs and diminish our children's future.

With that, I will now yield for an opening statement to my co- chair, Senator Murray of Washington (ph)

MURRAY:

Thank you very much co-chair Hensarling and I want to thank all of our colleagues and especially our witnesses who've all come today, we really appreciate your being in front of this committee today and I want to thank all the members of the public who are joining us as well.

We have all been working very hard over the past two months but with 23 days left to go until our deadline, and with even less time before we need to have a plan ready to be voted on, we are now entering the critical final phase of this process. And as we all know, the consequences of failure are unacceptable.

The triggers that have been put in place would be devastating for our national defense and for middle class families in the most vulnerable Americans that depend on this country for things like education and housing and even nutrition assistance for women and infants.

Markets, rating agencies and businesses across the country are watching closely to see if Congress can solve this problem and the American people are looking to us to break out of the gridlock and partisan rancor that has dominated D.C. recently and to deliver the kinds of results that they expect and they deserve. That's why members of this committee have been clear, we need to find a way to come together around a bipartisan deal.

So I believe it's very appropriate that we are having this hearing with these witnesses as we move into these final few weeks.

Before us we have Democrats and Republicans who are able to come together around big and balanced proposals that tackle some of the most difficult challenges facing our nation. The two groups went about it in slightly different ways and I don't agree with each piece of each plan, but they provide serious models for big and balanced bipartisan proposals.

And as I know we will hear more about today, these proposals achieved bipartisan support and came together only because they were balanced, they included concessions from all sides and they required all Americans to share in the sacrifices that this endeavor calls for.

Neither of these bipartisan proposals included only spending cuts and they didn't simply address entitlements or only raise revenues, they put everything on the table. They made tough decisions and because of that, they were able to put together balanced packages that garnered bipartisan support.

So as this committee moves into the homestretch hearing more about the importance of a balanced approach is going to be very helpful. As our witnesses today can address, a bipartisan deal isn't possible if members refuse to come out of their partisan or ideological corners.

It's not enough for either side to simply say they want to reduce the deficit. Now is the time when everyone needs to be putting some real skin in the game and offering serious compromises.

Democrats have made clear that we are prepared to do that. We've said we're very open to painful concessions and compromises if Republicans are as well and we put forward serious ideas to reflect that. These concessions will only be made and only considered in the context of a balanced deal that doesn't just fall on the middle class and most vulnerable Americans. But that requires big corporations and the wealthiest among us to share in the sacrifice. The American people realize that, they overwhelmingly support a balanced approach which is why this is the kind of deal every bipartisan group that has successfully tackled this issue has made. It's the kind of solution I'm looking forward to hearing more about from our witnesses today and it's the kind of deal I hope that every member of this committee is prepared to make.

So again, I want to thank our witnesses for being here with us to have this critical conversation, the bipartisan balanced plans that you have put forward provide a strong foundation for this committee and we look forward to hearing your testimony and having a chance to ask our questions. So again, thank you to all of you for being here today.

HENSARLING:

Thank you Senator Murray, and now we will hear from our panel. I have no idea why you're seated in this order, but we're going to start with you, Mr. Bowles.

Each witness will be recognized for five minutes, at which time members will have 10 minutes for questions.

Mr. Bowles, we are now prepared to receive your testimony.

BOWLES:

Well thank you Mr. Chairman. I'm delighted to be here. I'm delighted to be in the company of these three great Americans and I want to thank you for inviting me to come. Both Alan and I thought long and hard

about what we wanted to say today. We've submitted something in writing to you, but instead I'd like to just speak to you from a few notes I made.

I know most of you. I've worked closely with all most all of you on both sides of the aisle. I have great respect for each of you individually, but collectively, I'm worried you're going to fail -- fail the country.

When Alan and I first got into this, we thought we were doing it for our 15 grandkids, I have nine and he has six. But the closer we got to the numbers, the more we realized we weren't doing it for our grandkids, we weren't even doing it for our kids. We were doing it for us, that's how dire the situation is today.

I think that we face the most predictable economic crisis in history. I know that the fiscal path we are on here in Washington is not sustainable and I know that each of you know it and you see it because it's as clear as day.

When Alan and I travel around the country and we talk to people and we ask them, why do you think we have these deficits? They tell us, oh, it's got to be waste, fraud and abuse. It's got to be foreign aide, oil company subsidies. And yes, all of those are a small part of the problem. But the big problem really comes from four sources, and you know it.

BOWLES:

The first is healthcare. We spend twice as much as any developed country in the world on healthcare. And unfortunately, if you look at the outcomes, our outcomes don't match the outlays. We rank somewhere between 25th and 50th in things like infant mortality, life expectancy, preventable -- preventable death. And so the rapid growth of healthcare and the unsustainable growth of healthcare is our number-one problem.

The second biggest problem today I believe is that we spend in this country more than the next 14 largest countries combined on defense. Admiral Mullen, chairman of the Joint Chiefs of Staff who just stepped down, recently said that our biggest national security problem is these deficits and this debt because it will consume every dollar or resource we have. We believe that we have to make reasonable cuts in defense.

Third, I believe that we have the most ineffective, inefficient, anti-competitive tax system that man could dream up. What we believe you need to do is broaden the base, simplify the code, eliminate or at least greatly reduce this backdoor spending that's in the tax code, and use that money to bring down rates and reduce the deficit.

And the fourth cause of the deficit is simply interest on the debt. And if there's one thing I'm familiar with, it's the power of compound interest. And when interest rates go back to normal, this country's going to experience the power of compound interest.

This is a problem we can't grow our way out of. We could have double-digit growth for decades and not solve this problem. And as the chairman said, it's not a problem we can solely tax our way out of. Raising taxes doesn't do a darn thing to change the demographics of a country or change the fact that healthcare's growing at a faster rate than GDP.

And it's also not a problem that we can solely cut our way out of. I think you all have proven that over the last year. That's why our commission came up with a balanced plan of \$4 trillion of deficit reduction over the next decade. We didn't make the \$4 trillion number up because the number four bus rode down the street.

\$4 trillion is not the maximum amount we need to reduce the deficit. It's not the ideal amount. It is the minimum amount we need to reduce the deficit in order to stabilize the debt and get it on a downward path as a percent of GDP.

We base this proposal this on six basic principles. Those principles are that we shouldn't do anything to disrupt a very economic recovery, so we made very light cuts in 2011 and '12 and did not get spending back to pre-crisis levels until 2013, when we did get it back to pre-crisis levels in real terms.

Secondly, we didn't want to do anything that hurt the truly disadvantaged, so we didn't make any big cuts or any cuts in things like food stamps or SSI or worker's comp. And we actually did some things to improve Social Security, while making it sustainably solvent.

Third, we do want to make sure this country's safe and secure, but we have to realize, as Admiral Mullen said, that our biggest national security problem is these deficits.

Fourth, we thought the president was right, or at least half right, in his State of the Union when he said America must invest in education, infrastructure, and high-value-added research if we're going to be competitive in a knowledge-based global economy. What he left out is we have to do it in a fiscally-responsible manner. We live in a world of limited resources. That means choices and priorities.

Fifth, as I said earlier, we believe we have to revise the tax code, simplify the tax code to broaden the base, to reduce the tax expenditures and use the proceeds to reduce rates, and to reduce the deficit.

And lastly, we have to be serious about spending cuts. We have to cut spending wherever it is, whether it's in the tax code, the defense budget, the non-defense budget, discretionary budget or the entitlement budget.

I believe if you all go big, if you're bold, and if you do it in a smart manner that the American people will support you if you make these big, bold, smart decisions. I hope for the country's sake you will. Thank you very much.

MURRAY:

Thank you, Mr. Bowles. Senator Simpson, you are now recognized.

SIMPSON:

Senator Murray and Representative Hensarling, it's a pleasure to be here. I look at this panel and I too know many of you, but at this age of life I've been around the track a while in this game. Never worked with finer people than Erksine and Alice and Pete. Have been working through (ph) years.

It is -- we don't need charts when we go out. We don't use PowerPoints. We just say if you spend more than you earn you lose your butt. And if you spend a buck and borrow 42 cents of it, you got to be stupid.

Now people do hear that. It's a rather wretched thing to say. And then you say that today your country is borrowing \$4,600,000 and will borrow that tomorrow and the next day and the next day. If that has any common sense to the American people, it certainly has escaped us.

Now, my dad was a governor and US senator. I know the game of inside baseball, and I know many of you well. As we wandered through this place a year ago, people came up and said, "Save us from ourselves." That's not a very smart thing to say in -- in the duties you have to perform.

So this is the toughest you have ever been in or ever will be in without question, what you're doing. You have my deepest admiration and respect, all of you. And you all know what you have to do in your gut. You know what you have to do.

So some will say, "Well you and Erskine have nothing to lose. You're not -- you're not in the game." Well, that's true. But Dick Durbin and Tom Coburn had a lot to lose. A couple of diverse ideological allies. They had something to lose, and they stepped right up to the plate and did it. They voted for our report. There were five Democrats, five Republicans and one Independent.

I used to take these people on when I was in the Congress. I did not do this suddenly. I'm the only living person that had a hearing on the AARP. They went goofy, absolutely ballistic. Why would you have a hearing on us? We do a great thing. Well, that's enough of that.

So anyway. I have dealt with professional veterans. I have dealt with extremists of the senior citizens. I have dealt with emotion, guilt, fear, racism. I did immigration, Social Security. I've done it all. And I never lost -- I never lost an election.

I dealt with Peter Rodino, a great Democrat, and Ron Mazzoli. We did things. I took on the professional veterans. I never heard anything out of Lloyd Bentsen and Bob Dole and Dan Inouye when we did veteran stuff. It was always from some guy who'd never done anything, never even been in the military.

Well, and in immigration I was called a bigot and a racist. And the yet pat (ph) bill brought 3 million people out of the dark. I was very proud of that, but it never got very far because the right and the left said, "This is a national ID card." That came from the right and the left. People admire guts and courage. They may fight you. They may vilify you, but they will admire you.

I've been the toast of the town one day and toast the next. I've been on the A list and the Z list in this town when I was here. It's a funny place. You're on the cover of Time one month and six months later you're doing it.

And -- and just a quick note about Grover Norquist. If Grover Norquist is now the most powerful man in America, he should run for president. There's no question about his power. And let me tell you, he has people in thrall. That's a terrible phrase. Lincoln used it. It means your mind has been captured. You're in bondage with a soul.

So here he is. I asked him. He said, "My hero is Ronald Reagan." I said, "Well, he raised 11 times in his eight years." And he said, "I don't know. I didn't like that at all." I said, "Well, he did it. Why do you suppose?" He said, "I don't know. Very disappointing." I said, "He probably did it." Why do you suppose? He said I don't know, very disappointing. I said probably he did it to make the country run, another sick idea.

And let's just look at the AARP. Just this morning I saw that ad, that is the most disgusting -- the most disgusting ad I've ever seen. I don't know what the people got paid, especially the actors. But I can tell you this, they're well paid. They said we are 50 million, we're watching you, we remember and we vote.

I tell you that is a really ugly thing. But let me tell you about the AARP. Let's -- let's remember what they will be when they do nothing. We asked them what they would do to help and they said, we have two things we'll tell you. They never did. But let me tell you what will happen with their view of the world, which is to do nothing to restore the solvency of Social Security. In the year 2036, you're going to waddle up to the window and get a check for 23 percent less.

And then I hope that they will remember the AARP. I certainly will and a lot of young people will too. So anyway, it's a tough job and you're going to have to do it. People who are out there are going to say now

I've helped you forever and now I never asked you for a thing, but here we are. And that's going to put a lot of heat. Well, the market will call the shots from now on. We won't need anything but that.

Interest rates will go up. Inflation will go up by the failure, and guess who gets hurt? The little guy. The vulnerable guy that everybody babbles about day and night will be the one hit with the hammer on the schnoz. So remember the definition of politics, in politics there are no right answers, only a continuum full of compromises among groups resulting in a changing cloudy and ambiguous series of public decisions or appetite and ambition compete openly with knowledge and wisdom.

Thank you very much.

HENSARLING:

Thank you Senator. Dr. Rivlin, you're now recognized.

RIVLIN:

I'm going to defer to my colleague, Senator Domenici, if that's all right to go first.

HENSARLING:

Absolutely in that case, Senator Domenici, you're recognized. And if you'll pull the microphone a little closer to you, Senator?

DOMENICI:

Thank you Mr. Chairman. I just wanted to say the reason she asked for that privilege is we have our discussion with you planned in that order. And so we thank you very much. First of all let me say to the two cochairs and the members of the committee, thank you for the opportunity to discuss with you today both the economic and fiscal challenges our nation faces and our comprehensive plan to stabilize the national debt.

More than 18 months ago, Dr. Alice Rivlin and I decided we should continue our decades long work for a rational federal fiscal policy. Our only stipulation was that everything is on the table. She and I agree. And we then invited 17 other members to join us in what became the Bipartisan Policy Center's Debt Reduction Task Force.

I tell you all of this because I think the history of the men and women that worked on this is very important, to show you what kind of Americans we have out there who are worried about the future and will step up to the table and do what's necessary. The condition of their membership, these that joined us, was that they too would agree that everything was on the table. Our task force ranged from Mayor Mark Morial of New Orleans, to former Oklahoma Governor Frank Keating.

Imagine the difference in the two. Some of you know. Yet they agreed. They agreed that we were in trouble and they agreed that we had to solve the problem. We had liberals, conservatives, think tank budget policymakers, former members of presidential cabinets and people with business and labor experience. Our task force was as diverse a group as serious American citizens as you could get to address what we all believe is a looming crisis for our nation.

Last November we issued our report. It has been much discussed and you and your staffs have seen it. Our recommendations after many days were unanimous and they -- they were controversial as they should be because they were all so serious. Individually each of us might have preferred a different mix of solutions, but each compromised to find a -- a set of policies that we could all support.

Since then we have seen unemployment continue to exceed nine percent. Our economy continued to stagnate. At the same time we have endured a damaging fight over the debt ceiling increase. We've seen other -- another series of the melodramas on annual appropriations and we've seen another year of deficits exceeding \$1 trillion and a debt that ballooned to over \$10 trillion. That is the debt held by the public.

With spending projected to grow faster than revenues, we will be forced to borrow more and more every year if we do not change our policies. This fiscal projection is clearly unsustainable. Now everybody has to learn that word because that's probably the best word to explain where we are. We are an America with an unsustainable economic policy. And it will ruin us sooner or later.

This unsustainable nature has been so attested to by the former chairman -- well the federal chairman Ben Bernanke, head of the International Monetary Commission, President Obama and almost all fiscal experts have used that word, unsustainable. You are there trying to fix the unsustainable and make it sustainable.

Writing our fiscal house will take three things; renewed economic growth, cutting federal spending, especially entitlements driven in large part by Medicare and Medicaid and pro-growth fundamental tax reform that yields significant net new revenues. The Medical proposal that Alice and I present to you today is the only reasonable, bipartisan plan to fundamentally reform that program, make it more efficient and preserve it for future generations.

We also present to you a comprehensive, pro tax -- pro-growth tax reform because it clears out all the special interests that are in the code. We, like our friends who chaired the President's Commission and I've listened carefully to their recommendations today, they recommended a fair and simpler tax system. We have one similar to it, but I would think that if you look carefully at it, it better -- it better solves the problem that we have today.

Now let me be blunt. A plan that does not fundamentally restructure Medicare and other health entitlements will fail to adequately address the debt crisis that we face. Both sides, those who are against any fundamental health entitlement reform and those who oppose any revenue increases will be equally complicit in bringing the nation closer to the fiscal brink. I hope you heard that.

I said it and it's not like me. I don't usually say that about things. But I did say if we don't do this, those who are for fixing health care and those who are for tax increases and they'd say, we'll do not one without the other, we will do only one. And they are both complicit in letting America destroy itself. Letting this great democracy destroy itself because we don't want to make tough decisions.

Additionally, while not currently the largest driver of our deficits, Social Security finances are unstable and we must soon take action to implement some small fixes that will keep the system on solid ground for generations to come. And that can be done. That's not so difficult. The citizens will understand that.

What will happen if we continue to try to wriggle around these facts, when the debt ceiling increase based battle caused short term disturbances in the markets, when that happened, I had hopes that the fiscal reality would push the president and the Congress to real fundamental action. And because the turmoil in North Africa, the European debt problems of the highest order, investors rushed into quality seen as the American sovereign debt.

So instead of seeing higher interest rates for American debt, we have seen much lower interest rates. Instead of the stock market collapse, DOW Jones has been rising and going down steadily and on the upside during the last month. That is not normal for the situation we are in. But I just told you why it was.

So are those of us who predict serious, perhaps calamitous consequences for our fiscal policies, are we wrong? I think not. Right now to borrow a phrase, "American debt is the best house in a truly terrible

neighborhood." Yes we have riots, holes in the roof and grass growing window high, but other houses where global investors destroy their money are even worse and that accounts for us having lower interest rates. However, it won't always be so.

DOMENICI:

The neighbors might fix their houses or the whole neighborhood might burn. Either way, we will pay for our neglect with slower future growth and that's the death mail for those in Middle America who have been part of America's prosperity. Future growth and less -- and less prosperous country, far less able to -- to play a leading role in the world is what we will present to the world if we don't fix this problem.

I am told that the joint select committee doesn't have the time to truly do comprehensive reform. I believe it can create time through a fast-track mechanism using section 404 of your enabling legislation and which we expand upon in the appendix documents in your folder. And I can say to you, goes in your folder from us today to five or six real sense and give you answers to almost every problem that you have before you.

I am told that the wise exchange of short-term political pain for long-term fiscal gain won't happen. I hope that's not true. Without substantial new revenues and structural entitlement reform, our fiscal ship is destined to capsize. I am told that we need to put these kind of tax and entitlement changes off until 2013, an odd-numbered non-election year. Well, 2011 is an odd-numbered non-election year. And although I'm not making a prediction, we might not get to the next one unscathed. I am saying we might have the calamity before that event. I know that the joint -- that the JSC has enormous power. What I don't know is whether or not they will use that power.

Now I want to -- I left one remark that was very important. I left it out here, and I want to find it so we can be sure that you understand that those who are for -- who say they will not support tax revenues unless they have -- we have entitlements, that's -- that can't -- that's a good position if, in fact, you are saying I will do it if we get both. But both are complicit. If they fail to act because each blames the other, they will both be complicit if they don't both cooperate in participating in this deficit reduction. Not one, not the tax raisers, not the entitlement cutters; but both will be complicit and will have caused America to suffer what we have described here today.

I thank you very much.

HENSARLING:

Thank you, Senator Domenici.

Now we will turn to Dr. Rivlin.

You're recognized.

RIVLIN:

Thank you, Co-Chairs Murray and Hensarling and members of the committee.

I share Senator Domenici's views and those of Mr. Bowles and Senator Simpson that this committee can change the course of economic history for the better. The United States faces two huge challenges at once: Accelerating growth and job creation and reducing future deficits to stabilize the debt. There's no choice between jobs and fiscal responsibility. Both are essential, and they reinforce each other. This committee, with its extraordinary powers, has the opportunity and the obligation to address both challenges.

To achieve success, the committee will have to go well beyond the minimum charge of \$1.2 trillion in savings over the next 10 years, because even savings of this magnitude would leave the debt rising faster than the economy can grow. We believe you should craft a grand bargain involving structural entitlement and tax reform that would save at least \$4 trillion over 10 years. To do so, the committee should take full advantage of the authority given to you in section 404 of the act and write instructions to authorizing committees to produce tax and entitlement reforms to be considered on a fast track.

A grand bargain would reduce the chances of a devastating double- dip recession that could lead to a stagnant lost decade. It would also reassure citizens and markets that our political process is functioning in the public interest, not stuck in partisan gridlock or overwhelmed by special interests.

I was privileged to serve on both the Simpson-Bowles Commission and the Domenici-Rivlin Task Force. Both groups worked hard to find a combination of policy changes that would enhance growth and put the budget on a sustainable path. The arithmetic of the problem far more than political considerations drove them to similar proposals. Both concluded that two major course changes were essential: Structural reform and health programs, especially Medicare, and comprehensive reform of the individual and corporate income taxes that would raise more revenue from a more pro-growth tax system. Both also advocated freezes in domestic and defense discretionary spending to encourage weeding out low-priority activities in favor of more important ones.

The Budget Control Act capped discretionary spending. We believe that further reductions in discretionary spending would risk harming essential government functions. For the same reason, we urge you to avoid the sequester. Instead, this committee should focus on reducing the growth of healthcare spending and reforming the tax code. Our report offers solid bipartisan proposals to do this.

Our proposal for Medicare reform, which we call defined support, would preserve traditional Medicare for all seniors who prefer a fee- for-service system. It would also offer an array of comprehensive health plans competing with traditional Medicare to deliver the same benefits. Plans could not refuse any Medicare beneficiary and would be compensated on a risk-adjusted basis. The federal contribution would be determined by competitive bidding on a regional exchange.

We believe that the competition on a well-regulated exchange would lead providers and plans to deliver care more cost-effectively and reduce spending growth. As a fail safe, the federal contribution would be capped at GDP growth plus 1 percent. Excess costs, if any, would result in an increased premium, but low and moderate income beneficiaries would be protected from these increased payments. This bipartisan proposal would preserve Medicare for our rapidly rising population of seniors.

On tax reform, while growth and spending must be controlled, we do not believe that the projected tsunami of retirees can be absorbed by federal programs without increasing revenues. Stabilizing the debt by spending cuts alone would cripple essential government functions and responses to human needs. Moreover, as our colleagues have stressed, our current tax code is riddled with exclusions, exemptions, deductions and other special provisions that distort economic activity, narrow the tax base so much that rates are unnecessarily high.

Our proposed tax code would have only two individual rates, 15 and 28 percent, and one corporate rate, 28 percent. Most special treatment of income or spending would be eliminated or phased out. Capital gains, dividends and so-called carried interest would be taxed at ordinary rates. Credits would be allowed for earned income, children, charitable deductions, charitable contributions, mortgage interest on primary residences, up to a limit, and retirement contributions. The exclusion of employer paid healthcare from taxable income would be phased out, which we regard as both a tax and a healthcare reform.

We believe, like our colleagues, that this simpler tax code would be both fairer and more conducive to economic growth. It would raise more revenue than current policy, but less than current law, and do it in a more progressive fashion. We fully appreciate the difficulty of the choices facing this committee and hope

you have the courage to restore fiscal responsibility and avoid the truly dire consequences of partisan gridlock.

Thank you very much.

HENSARLING:

Thank you, Dr. Rivlin. Thank you to the entire panel.

The chair will now yield to himself for 10 minutes.

I believe one of the things I've heard from all of the panelists, and I've certainly hear the revenue message, and we will go back to that. But I think I heard, particularly you, Senator Domenici, say that the number one challenge that we have in respect to our debt is healthcare. Is that correct? And I think, Mr. Bowles, I heard you say something similar. Do you -- is there a consensus among the panel that the number one challenge we face in our structural debt crisis is healthcare?

(UNKNOWN)

(OFF-MIKE)

HENSARLING:

No one's diverting from that?

Dr. Rivlin, I've got a question then for you...

(CROSSTALK)

DOMENICI:

Mr. Chairman, I want...

HENSARLING:

Yes, Senator (inaudible)?

DOMENICI:

I just wanted to ask if they would put up the chart that's very explicit on this. You cannot -- you cannot miss it. It's...

(CROSSTALK)

HENSARLING:

If you have the number for me, I'd be glad to have the staff put it up.

DOMENICI:

We don't use this, so I don't know. Somebody said they would put up...

HENSARLING:

I bet you somebody enterprising will be able to find that.

DOMENICI:

He showed me just before we bet, Mr. (inaudible).

HENSARLING:

"Wake up, folks. It's healthcare." That appears to be how you entitled your slide. If the staff can pull that one up, please.

DOMENICI:

I asked them if they can put it back.

HENSARLING:

What -- what...

DOMENICI:

There it is.

HENSARLING:

Yes, there.

DOMENICI:

Well, that's -- that's one of them.

HENSARLING That's it?

DOMENICI:

These various governmental functions versus GDP -- and look which one, that blue line up there. That's health care. Look at this -- the lines underneath. Those are big-ticket items that people think -- look how -- what's happening to health care.

I'm going to add -- give you a word. If we do not produce a plan that would permit CBO to say that the line has been bent -- the line has been bent -- if that isn't in the plan, then you have not caused, in a major way, the reform of health care.

Because that -- if that line keeps going that way, you have solved nothing. So it must start to bend someplace.

HENSARLING:

So you're not speaking of simply slowing the rate of growth. You're talking about a plan that actually bends the cost curve.

DOMENICI:

That's correct. And that's what we do.

HENSARLING:

Dr. Rivlin, having the honor -- and actually pleasure of serving with you and Senator Simpson and Mr. Bowles on President Obama's fiscal responsibility commission, I was somewhat familiar with your plan with House Budget Committee Chairman Paul Ryan on Medicare Premium Support System.

You now have what I believe you have called a defined support system. And as I was listening to your testimony, it includes an aspect of maintaining some facet of the current fee-for-service aspect of Medicare.

But could you tell me why this form of defined support is critical to saving us from the national debt crisis, and how does it differ from your earlier premium support plan with Chairman Ryan?

RIVLIN:

I think it differs in several respects. The most important one is the one you noted, that it preserves traditional Medicare for anyone who wants it. And I think that's important. It's important to seniors, and it's important to have -- you should forgive the expression -- a public option.

And -- but in addition to traditional Medicare, it sets up Medicare exchanges, where seniors would choose among an array of plans that provided at least the same benefits as Medicare, and competed with each other and with traditional Medicare to produce them in the most cost-effective way.

We believe that that would control the costs, that the costs would go up much less rapidly, and that would be part of bending the curve, as the senator says.

We have, however, a fail-safe mechanism in there. If the competition does not result in bending the curve enough, we would say the defined support, the federal contribution, would not go up faster than the GDP grows, plus 1 percent.

And if it did, there would be additional premiums for those choosing the more expensive plans. But those premiums would not apply to low-income people. That's the plan in a nutshell.

HENSARLING:

Thank you.

Question for you, Mr. Bowles, and Senator Simpson. And, again, it was both an honor and a pleasure to serve on your commission. I again want to say that I think you have contributed mightily to the nation's consciousness. And I hope that whatever success that this joint select committee achieves, part of it will certainly be on your shoulders and your previous good work.

Let me ask this question, having served alongside y'all -- and there was much great work that was done on the commission. One of my personal reservations was that the commission did not adopt the Rivlin-

Ryan premium support plan. I thought the word particularly in Social Security -- and if I have time, I want to go back to how -- what you do on the 75-year solvency.

But on Medicare, which is really a larger, long-term challenge, we seem, on the commission, to apply much smaller short-term reforms. You did put the 1 percent plus GDP cap, if I recall right, on total health care spending, with a trigger of expedited procedures, if I recall right, to go to both bodies to fix the problem. But it wasn't a hard trigger.

So two questions: do you believe in the defined support system policy that was just articulated by Senator Domenici and Dr. Rivlin? And if you do, why didn't we adopt something like that in Simpson-Bowles? I assume either one, you didn't agree with the policy; or two, you didn't have the votes. Or maybe there is a third option.

BOWLES:

Probably both. What we tried to do was to look at it on a realistic basis. If you look at the cost of Medicare and Medicaid alone today, it's about 6 percent of GDP. And it's growing like a weed. And that excludes what it takes to do the \$267 billion, to do the "doc fix," or \$76 billion to repeal the class act. So it really is a big portion of our cost.

If you -- it is, as, again, was said earlier, it is also, I believe, our biggest challenge from a fiscal viewpoint.

As we looked at the Affordable Health Care Act, which was recently passed, it was the contention of the Democrats on our commission that the cuts that were made to Medicare and the Affordable Health Care Act, along with the pilot programs that were set up, would reduce the rate of growth of health care to GDP plus 1.

HENSARLING:

If I could interrupt, most of those cuts on the provider side...

(CROSSTALK)

BOWLES:

That's correct.

HENSARLING:

... if I recall.

BOWLES:

That's correct. Our -- we didn't -- we didn't think that would happen. We didn't think those cuts were enough. So we did about \$500 billion of additional cuts over and above that, with the hope that those cuts would slow the rate of growth of health care to GDP plus 1.

But on the -- but assuming that that didn't happen, you know, to us there was no choice but to get the rate of growth to health care to that level, and we said there were certain options that would have to be considered at that point in time.

And those options did include a premium support plan, it did include a robust public option, it did include even a single or an all-payer plan.

HENSARLING:

And I see my time is about to run out here. Let me quickly cover two other subjects. With respect to both of your plans on raising revenue, I do note that, as part of that, marginal rates are brought down in both plans, is that correct? The witnesses are saying yes.

I have less than a minute remaining in my time. I also -- I was looking for certain common elements of your plans, one of which is global chain CPI throughout the entirety of government programs. And in the very short time that we have left, maybe I could get a 30-second answer out of each of you, why you thought that was a critical part of the solution. Senator Domenici, just...

DOMENICI:

OK, well, Dr. Rivlin, a brief answer on chain CPI?

RIVLIN:

Yes, that's a technical change that economists have, for quite a while, decided was a better way, more accurate way of measuring the cost of living for this purpose. And it would affect all government programs, including the tax code.

HENSARLING:

So the COLA would still be there, it simply would rise at a different rate.

RIVLIN:

Oh, absolutely. It's just a technical change in how you calculate the COLA and the index that is used for other programs with COLAs, including the tax code, which indexes the brackets.

HENSARLING:

Senator Simpson, I'm technically out of time. But can I get a quick answer on chain CPI?

SIMPSON:

Well, everything we looked at, people had looked at it. It's better, although there are suggestions for something else, CPI-I (ph), but that hasn't -- that's experimental. This one looks like everyone would adopt it. And if we could do it government-wide, saves billions.

HENSARLING:

Thank you, Senator. The co-chair will now yield to his co-chair, Senator Murray, for 10 minutes.

MURRAY:

Thank you very much.

And, again, thank you to all of you for your wise council on a very serious challenge. Let me just start -- it seems both of your prospective proposals would achieve deficit reduction at least \$4 trillion over the next 10 years through the use of a balanced approach framework that includes reductions in spending and increases in revenue.

So let me just ask all of you, maybe by show of hands, do all of you believe that to get a balanced program that addresses the fiscal crisis, do we need both spending cuts, including entitlement reform, and revenue increases? Show of hands.

OK. Well, let me start then with Senator Simpson, Ms. Rivlin, maybe both of you can answer for your sides. Tell us why a balanced approach that includes both reductions in spending and increases in revenue was proposed by your committees.

SIMPSON:

Well, we know you can't cut spending your way out of this. You can't tax your way out of it. If you get into some of the rates that would happen, if you're doing taxes or whatever it is, it can't be.

And we tire of the phrase tax increase, when we're digging around in a trillion -- \$1.1 trillion stack of stuff called tax expenditures, which really affect about 5 percent of the American people. The little guy's never heard of half of them.

And we said let's take those, let's take those, and when you take one of those out, to call that a tax increase is a terminological inexactitude. It would be called a lie, in other words.

And that's where that is. You can't -- this is a fake, to say that you get rid of a tax expenditure and a tax -- and it's a tax increase.

So we said we're not going to get into that business of tax increase so that Grover won't have a stroke over in his shop, we're just going to go around Grover and let Grover rant. Because I'll tell you one thing, if he and the AARP, if we are in thrall to those two groups, we haven't got a prayer, and neither have you.

MURRAY:

Dr. Rivlin?

RIVLIN:

I agree. We were attacking expenditures in the tax code, and they are almost identical with expenditures that are called spending.

There is another reason, however, why you need a balanced approach, and that, I think, is the demographics. This government is going to have to absorb a doubling of the number of people over 65 in the next couple of decades. That's an awful lot of people. That isn't changing the role of government. That's absorbing a lot more people, which we can't do unless we have some more revenue.

We must bend the curve on health care. We must fix Social Security. But we can't do it in such a drastic way that we can absorb all of those people without some more revenue.

MURRAY:

OK.

(CROSSTALK)

MURRAY:

Yes, Senator Domenici.

DOMENICI:

Might I just say, I think you all know, at least you, Madam Chairman, and a couple of other senators there know me, have known me for a long time. And I didn't come on this committee trying to get anything -- I didn't have any preconceived percentages that we used to work on. I said, let's start over.

And the truth of the matter is, even when you fix Medicare in any reasonable way, and bend the curve so that over 20 years you really get some savings, the deficit is still too big unless you decide to fill that gap with something.

In other words, you don't have a viable budget versus the economy situation. So you have to look to the only thing that's left, because you've done the others. And what we -- we did it that way.

MURRAY:

Very much appreciate that response.

And, Mr. Bowles, let me ask you, in the guiding principles and values that were established by your commission to guide in the development of your recommendations, you state that growth is essential to restoring fiscal strength and balance, and deficit reduction must not disrupt the fragile economic recovery.

CBO and many economists agree that the rate of economic growth and the recovery projected for the remainder of this year, and through 2012, was considerably stronger than when your commission put out its recommendation than it is today.

So I wanted to ask you if you believe, first of all, that the commission was successful in adhering to those economic principles, but also whether, given the weaker projections for today, whether we should be doing more now for economic growth and reducing unemployment.

BOWLES:

First of all, our commission, it was the number one founding principle in our commission that we didn't want to do anything that we considered to be overtly stupid. And we felt it would be overtly stupid to do anything to disrupt what is clearly a very fragile economy, and, in fact, a very fragile economic recovery.

Therefore, if you look at the cuts that we made in 2011 and 2012, you'll see that those cuts are quite small. However, we thought it was very important for us to get spending down, and so we did make significant cuts in spending in 2013. And those spending cuts do get us back to 2008 levels or pre-crisis levels of spending.

When we came forward with that provision, lots of people thought, you know, that we were being too conservative. They said the recovery is real. that if you look at things like, back in December, as you asked about, there was an increase in factory production, existing home sales were going up, retail sales were going up. It looked like banks were starting to lend to small businesses. Unemployment was starting to come down. And investor sentiment was strong. And therefore people said at that point in time the recovery is real.

We, on the other hand, felt, while the recovery may be real, it was very, very fragile. And the reason we thought it was fragile, and I think that's been proven to be right over time, is that we were very concerned about demand.

Demand comes from three basic sources. You know, the consumer is still two-thirds of GDP. And in our case, as we looked at what -- at consumer debt, or household debt, it was at about 120 percent of household income. It was about \$13 trillion outstanding. Over half of it was at floating rates. And if you think that the rise in food prices and gas prices took a bite out of consumer demand, you wait till interest rates go up. So we didn't see the consumer, who had suffered decline in their home value and a loss of income, driving the economic recovery.

Second leg of growth would come from business. It's a fact small businesses can't grow and can't create jobs without capital. And banks simply weren't lending to small businesses. And so we didn't see that the small business community would be able to lead us out of a recovery.

And with big businesses who had plenty of capital, their capital was basically on strike, because they didn't have confidence in the direction the country was going, or didn't know which direction the country was going in. And lastly, it's hard to see business really lead us out of a recovery when the construction industry is really on its backside.

The third level of economic growth would come from government. We didn't foresee an additional big stimulus package coming out of Washington to add growth to the economy. And if you look at what state and local business -- local governments were doing, they were actually cutting spending and laying people off, trying to balance their budgets.

So we didn't see where the growth would come to drive the economic recovery. Myself, I believe we're in a structural contraction, which will lead to a prolonged period of relatively slow growth and relatively high unemployment.

MURRAY:

Dr. Rivlin, your plan also addressed the concern of accelerating the recovery and phasing in some kind of deficit reduction. I think you also were worried about the demand. Can you talk to us about what you did in your proposal?

RIVLIN:

Yes. We were very worried about inadequate demand. And so we not only phased in the deficit reduction slowly, but we called for a one-year, both sides, employer and employee, payroll tax holiday on the grounds that that was needed to stimulate demand upfront before we could safely phase into the deficit reduction that we were calling for.

That was at a time when the economy was somewhat stronger. It seems to us even more necessary now.

MURRAY:

Did you have anything besides the payroll tax to stimulate jobs in your plan?

No. We put that in as a kind of symbol of how concerned we were a full year, a payroll tax holiday for employer and employee is, I think, \$650 billion. That's a lot. Now you could do it different ways, but we put it into -- to symbolize the fact that we were really worried about inadequate demand.

DOMENICI:

Madam Chairman I might comment on that. Frankly I was very surprised in looking at the group of people that are on this debt reduction group, when it came to this issue, they were as worried as -- on any issue I had seen because there were many fearful that the economy was not going to recover. Now frankly we don't know what will make it recover.

But, Alice has appropriately told you what became about -- how we came about what we did. And it is a lot of money. I guess some of us said it might have been a much better thing to have done it two years ago then whatever stimulate -- whatever we tried to get -- bring jobs. This might be a better way than anything we did. So we said, lets suggest it.

MURRAY:

OK. I appreciate that very much. My time has expired, so thank you very much.

HENSARLING:

The cochair now recognizes Senator Kyl from Arizona.

KYL:

Thank you first to Senator Domenici and Senator Simpson, it's great to see you both again and to all four panelists, thank you for the what, thousands of hours that you've put in on -- on these subjects and -- and it's been helpful to everyone. Senator Simpson, you never disappoint. This is a serious subject but a little levity sometimes can help and I appreciate that.

You talked about eliminating so-called tax expenditures. And I just have one quick question for you, a comment on taxes and then I'd like to talk about entitlement reform. If you eliminated the so-called tax expenditures, the biggest four of which on the personal side are deductions for medical expenses, charitable contributions, mortgage interest payments and payments of state and local taxes and you don't reduce marginal tax rates commensurately, the roughly one third of Americans who itemize would have a higher effective tax burden, would they not?

In other words, they would pay more in income taxes?

DOMENICI (?):

We -- in getting rid of the \$1 trillion one hundred billion suggested that the \$100 billion would go toward reduction of the debt and the rest of it would come out and we would give the people of America what they have been asking for, broaden the base, lower the rates, get spending out of the code and we said we'll give three rates. For zero to \$70 grand you pay eight percent. Seventy grand to \$210 thousand you pay 14 and everything over \$210 thousand you pay 23 and take the corporate rate to 26 from 36.

But if you want to put something back, go ahead. The issue being, if you want it, pay for it. So then you could go to rates of 12 and 18 or whatever you want to do if you want. We said give -- on home mortgage interest deduction, give them a 12.5 percent nonrefundable tax credit. That helps the little guy. If you want to do the charitable contributions, give them 12.5 percent nonrefundable tax credit.

We realize those things, municipal bonds. But at some point you just say, look the -- you were told to bring home the bacon. The lobbyists got you what you wanted and now it's over. The fun and games is over.

KYL:

So -- so do I understand of the \$1.1 trillion, \$1 trillion of that would go for rate reduction and ...

DOMENICI:

That is correct.

KYL:

... and only \$100 billion for debt reduction?

DOMENICI:

That is correct John and it -- it is good to see you. We served together. But let me just say that if you want to put something back and they're wonderful things. Unearned income tax credit, you can get the violin out if you want to talk about what you're doing.

(LAUGHTER)

KYL:

No we don't -- let -- let -- not take the time to do all that.

DOMENICI:

No I don't want to do that.

KYL:

Let me just make one observation and -- and then I do want to get to the entitlement spending. Both the Fiscal Commission and the bipartisan Policy Center have suggested that one of the options here is to tax capital gains and dividends at ordinary income tax rates. Now you started the testimony by noting that you wouldn't want to do anything to disrupt a fragile economic recovery.

Sort of along the line of, first do no harm. And my own observation is, I think you could do great harm by effectively doubling the capital gains and dividends taxes. Because those represent areas of -- of capital formation and investment in our economy. Let me just make a quick observation here. The government received capital gains revenues when taxpayers sell appreciated assets.

The technical terms are called, realizations. Now Congress tried taxing capital gains at the same rate as ordinary income before -- this was back in 1986. And the resulting capital gains revenues were dismal. In fact they shrunk and remained depressed for a decade until Congress lowered the capital gains rate in 1997.

Higher capital gains taxes need a few realizations. A higher cost of capital, less activity in the capital markets and less economic growth. The health care bill that was passed last year already increases capital gains and dividends rates by another 3.8 percent. And that means that the very lowest capital gains rate under your suggestion would be 26.8 percent, the highest would be 32.8.

In other words, more than double the existing rate. And even the Joint Committee on Taxation would say that a rate that high will actually lose, not gain revenue. And that doesn't even account for the negative impact on economic growth. Other economists, one who testified before our Finance Committee said

letting the top capital gains and dividends drift up to 20 percent will erase the theoretical revenue gain from increasing the tax rate and will lower both economic growth and wages.

If the rate is pushed even higher, more revenue and GDP will be lost and wages will be even lower. So I would just ask you all as we continue to visit about these things to think about this. Your views are important to the committee, but in this one respect I think it could be very counterproductive by lowering economic growth, not really raising revenues and it would make our deficit problem worse.

Now, let me turn to entitlements here because Dr. Rivlin, I think you said something very important in response to representative Hensarling's questions and I want to make sure that I have this right. First of all, I -- I think it would be useful for you to explain the benefits of a defined support or a premium support such as you recommend. If you could do that generally.

But also, correct me if I'm wrong, but I understood you to describe the plan laid out in your submitted testimony, which is a little different than the original Domenici-Rivlin, in that at least there are two attributes. First of all, you would actually -- you actually set the contribution -- the federal contribution level first by the second lowest bid, which would include fee for service, but have the fail-safe as you describe it that in no event would it go up more than GDP plus one with a sort of means tested premium support in the event that it did so.

If -- if that's not accurate, please tell me how I'm wrong?

RIVLIN:

Senator you have it exactly right. We have improved this plan I think, over our original one. It is now more like the bipartisan plan in the Rowe-Thomas proposal of the late 90's. And one of the complaints that we got about the way we did it originally was, it didn't reflect the actual costs of health care. When you do it by a bidding process, then it does reflect the actual cost of ...

KYL:

And also as you're describing the benefits of this, talk about how you select the second lowest bid. Because I think that's a very clever way to do this.

RIVLIN:

Well, that's arguable. There are different ways of doing it, but we thought ...

(CROSSTALK)

RIVLIN:

... selecting the second -- second lowest bid gave -- it wasn't the lowest, which might well be flukishly low for some -- for some reason. But people who -- then who wanted to go to the even lower bid, the one that wasn't selected could do so. And could get some money back.

KYL:

They -- they would pocket the difference ...

RIVLIN:

Right.

KYL:

... between the second bid and the one that ...

RIVLIN:

Correct.

KYL:

...and they wanted to be no dollar out of pocket. They would take the -- the second lowest bid plans.

RIVLIN:

Right.

KYL:

And of course anybody could offer plans at that level. And if somebody offered a plan that was more expensive and perhaps it had a different set of benefits or whatever, then they could pay for it. But the federal premium support would only be at that second lowest bid.

RIVLIN:

That's right.

KYL:

OK.

RIVLIN:

So it -- it gives you a way of making the competition real and we believe that would bring the costs down.

KYL:

I -- I agree with that. Now let me go back to my first question there. Discuss the benefits of that premium support concept generally. Because I think it's not necessarily well -- well understood. And then the final question I'll ask is, that's not all that you would recommend. You -- you also recommend -- and this is really a question for all of you, but additional changes to -- to the existing system that we have in order to potentially reduce expenditures, things like combining the -- the Part-A and Part-B, increasing premiums under certain circumstances.

I don't -- I've forgotten whether you get into the copay issue or not. But could you also discuss whether some of those things are useful to do even if we do the -- the premium support. And in any event, certainly if we don't do it.

RIVLIN:

Yes and I think also the things that Erskine-Bowles mentioned that the pilot programs and attempts to find better ways of delivering care and government support and private support for innovations and testing those things and putting them out in the public domain.

That is all a very good thing to do. And we think it will pay off in the end. And it's not incompatible with our defined support plan because once you have those innovations out there in the public domain, the private sector's going to pick them up. Medicare will use them. Things will get better.

KYL:

Hopefully reduce costs.

DOMENICI:

Mr. Chairman, might I just follow up with Senator Kyl with one observation. On this one that you're speaking of on Medicare, the first thing that we did was to note the objection to a new system. And it was generally right upfront that you were abolishing Medicare.

And so this new plan starts with the premise we can have both programs and you can choose. And that put us on a completely different path our members than before, and it is very different than anything you all have considered -- excuse me, you all in the House have considered heretofore when you took this subject up.

KYL:

Important observation. Thank you.

BOWLES:

(Inaudible) add, Senator (inaudible), in our plan we did try to address this issue. Our belief was the current benefit structure encourages overuse and there are currently a hodge-podge of current copays and deductibles and premiums.

We wanted more cost sharing in our plan. We wanted people to have some skin in the game. We wanted to get rid of first dollar coverage for that reason. So we went to one deductible on part A and part B of \$550. We had a 20 percent payment up to \$5,500, and then a 5 percent copay up to \$75,000 and capped out at that level.

We also, on Medigap, we had no -- no Medigap would be available for the first \$500 in the 50-50 up to \$5,000.

KYL:

All of those I think are very useful suggestions, and I appreciate them all. Thank you.

MURRAY:

Time of the gentleman has expired. The co-chair now recognizes the gentleman from California, Congressman Becerra.

BECERRA:

Thank you, Mr. Chairman. And to all of you, thank you very much for your service to this country and for the work you've done to give us some templates that we can use to try to resolve this issue for not just the Congress but for our country.

I enjoy always hearing from the four of you because you've shown us that you can be big, you can be bold, and you can be balanced and still try to move the country forward. So I thank you for that. And as I said to both Alan and Erskine on many occasions, I thank you so much for attacking those sacred cows that too often get in the way of Congress being able to deal with those things that are most important.

I honestly think, and I served on that commission with you, as I said before, I thought you put all the elements in place. I would have put the mixture of those elements differently, but I -- I compliment you today, as I did back then, and I applaud you for what you did in putting together the template of what could be a solution for the country.

I think I heard you all say this, but I want to make sure about this. While we're still suffering through these difficult economic times, and back when we were going through this with the commission and -- and Director Rivlin, I know that you and Senator Domenici were also going through this as well when you were coming up with your plan -- times were tough. Well, they're still tough. And I suspect all of us back when we were going through the work of these two commissions thought that the country, the economy would be doing far better.

Is it still your premise that we should really concentrate on getting the economy back on track, getting Americans back to work, before we go too heavily into trying to find these savings by making cuts in some of these important investments that we have? And I'll open it up to any -- anyone to answer. Director?

RIVLIN:

It's a timing question, Mr. Becerra. We believe that drastic cuts in spending right now would be damaging to the economy, as would tax increases right now. So we need to let the recovery happen, and indeed stimulate it with proposals that we've been talking about. But that doesn't mean putting off the deficit reduction.

It -- one of the best things we could do for the growth of the economy right now is for this committee to legislate long-run reduction in the deficit on the entitlement and tax side right now. We can't wait until after 2013 or some other time to do that. The markets and the public have got to see that it's going to happen, that we're serious and that it is in law. Then it doesn't have to take effect right away, but it's got to be in the law.

BECERRA:

So let it play itself through -- get it done, let it play itself out. You have time to make it take effect long term as you see the economy begin to recover.

RIVLIN:

Right. But don't wait to legislate it.

BECERRA:

Got it. Got it. May I ask a question regarding revenues? You all tackled the issue of revenues. You did it in somewhat different ways, but for the most part you did something that I thought was very important. You tried to also show the public that while we would increase real revenues, we would ultimately try to reduce the rates and give people a fairer taxation system.

And so that while we were still able to generate revenues, which we need, you're able to also tell the public that they're going to have a system that works better for them and so that they could understand the simplicity and the fairness of it.

In both plans, I believe -- and we've had a little discussion on this -- you equalized the taxation for capital gains and dividends to ordinary income. Or in layman's terms, an asset, an investment in stocks or bonds would not be taxed at the same rate that the income earned by a hard-working America would be taxed at, so they would be treated equally.

You also found ways to reduce the rates overall for all income groups, and you went after what I know in the Bowles-Simpson commission became known as tax earmarks, those tax expenditures which I believe, Senator Simpson, you mentioned totaled over a trillion dollars. And so you came up with a mix. Again, you tackled some sacred cows and you came up with a mix. Is it still your sense that that type of a mix can work for this committee? Open it up to anyone.

SIMPSON:

I'll say absolutely. And I would say to my friend, Senator Kyl, when he talks about capital gains, if you look at my record I have voted in favor of capital gains for my 36 years in the Senate, but I didn't have a chance to lower the rates like we're lowering them at the same time that you were looking at capital gains. In this case, that's what happened. We lowered the rates.

Now I heard from the best experts this country could put before me when I was chairing that the best way to affect growth in this country is to lower the rates on all people. That was the best instrument of growth. They didn't say except for capital gains. They said it's the best instrument for growth. And we lowered it all substantially.

So we put back into the code the instruments of growth, which is the lowering of the rates on middle America and all Americans, which we did in ours and they did in theirs. It's just theirs is a little stronger in terms of, as Al explained it, you come down lower so you can put back some things.

I would tell you we also included in this, so you don't forget, we put in this -- the medical expenses, which is the largest tax expenditures. It's bigger than homeowner interest rates. We phased that out over a long term. That's a very difficult one, but we did it in ours. And you all should know that's part of the reason we got the rates we got.

BECERRA:

And Erksine, I think you called the tax expenditures backdoor spending through the tax code.

BOWLES:

It is, Congressman. It's just spending by another name. I was flabbergasted. I was appalled to see that, you know, having listened to all the talk about earmarks all these years which are in the appropriations bills, there are about \$16 billion of annual earmarks a year. There are \$1.1 trillion worth of annual earmarks in the tax code. And it is just spending by another name. It's somebody's social policy.

And if you were to eliminate them and use 92 percent of the proceeds to reduce rates, and only 8 percent of the proceeds to reduce the deficit, you could reduce the deficit by about \$100 billion a year, so a total over a 10-year window of about a trillion dollars, and you could take rates to 8 percent up to \$70,000, 14 percent up to \$210,000, and have a maximum rate of 23 percent. You could take the corporate rate to 26 percent, and you could pay for a territorial system so that \$1 trillion is captured overseas could be brought back to this country to create jobs over here.

I believe that would create dynamic growth in this country and produce revenues far beyond what we have forecast. So I'm very excited about boarding the base and simplifying the code. I think it makes a lot of difference and I -- and I'd -- I'd love to focus on a couple more areas of spending.

I know that when we talk about spending, you also were willing to tackle this issue of the discretionary side of the budget, the kind of spending we typically talk about but most people don't recognize that 65 percent of all the spending increases that occurred over the 10 years -- the last 10 years came out of just one department, the Department of Defense, mostly because of the war, but because of the growth in some of our military projects and contracts and so forth.

I know that you tried to tackle that some and I appreciate the work that you did there.

With the limited amount of time that I have, I'd like to touch on healthcare and I appreciate what each of the commissions tried to do on healthcare. But let me just pose one question, perhaps you can help us with this. We could do any number of things to try to reduce the cost of Medicare and Medicaid for the American public, but at the end of the day, if we do nothing to try to help lower the cost of healthcare overall, not just within the public sector within Medicare and Medicaid, we will simply have shifted the expense of healthcare in Medicare and Medicaid to those who use healthcare through Medicare and Medicaid, to our seniors and our disabled.

Because the reality is that today the cost of healthcare under Medicare is growing slower than the cost of healthcare in the private insurance market.

We went through that in the Bowles-Simpson commission, how it's really strange we're talking about the crisis in healthcare, the reality is if you were to get rid of Medicare and send seniors over to the private sector insurance market, they would actually end up paying more because the cost of private insurance is growing at a faster clip than is Medicare and Medicaid.

And so the issue is how do we corral the cost of healthcare which include Medicare and Medicaid so that way we don't end up just shifting costs from the people, the tax payers to the actual beneficiaries, in this case our seniors who are now retired. And so if you can give that some thought that would be very instructive.

I know that the health reform of last year meant to do that to try to help corral the costs in the private sector, but if we don't do something about overall healthcare costs, simply telling seniors that they'll wind up paying more in Medicare doesn't help with our healthcare costs.

Thank you for your service to this country and your time.

HENSARLING:

The time of the gentleman has expired, the co-chair now recognizes Congressman Upton of Michigan.

UPTON:

Well thank you, Mr. Chairman and I certainly want to agree with each of you that these deficits is -- are unsustainable. I appreciate your candor, your service, your hard work, believe me we know a little bit about your work because we together have spent hundreds of hours as well over the last number of weeks and you underscore my respect for each of you as truly great Americans.

As you may know, my home state of Michigan, Dave Camp's as well, we've had 34 consecutive months of double digit unemployment. And as I talk to people back home, as I was again this last weekend,

people know that we're in a rut. Senator Simpson, they know exactly what you're talking about and they are, in fact, relying on us to try and get our car out of the ditch and -- and back in first gear.

I put a chart, I can't see it very well up here, but I think you have a chart, I think in front of you that scores the president's healthcare plan from 2014 to 2023 and that 10 year outlay plan shows that spending -- the effects on the federal deficit will be almost \$2 trillion in additional spending over the next 10 years. And each of you noted in your various proposals that the federal budget is on this unsustainable path and you identified healthcare as one of the most important items that this committee and the nation should be focusing on.

So as you see from this chart, that the exchange subsidies are certainly the primary driver of this dramatic expansion of Medicaid. CMS actually certified that because of the president's proposal, nearly 25 million more Americans will be on Medicaid after 2014 because of that expansion, which means that more than one if four Americans will be in fact a Medicaid beneficiary.

So based on that and the statements that you made about the budget crisis, do you believe that we should revisit the expansion of the Medicaid program in the president's proposal?

Erskine? Sorry you start on that end.

BOWLES:

No, no, no I'm very happy to answer any question that you ask, you won't smell any fear on us out here.

We had great question that if the -- the affordable healthcare plan could actually slow the rate of growth of healthcare, the GDP plus one. Because we had those questions, we did -- we did believe that, you know, would solve a problem providing more people healthcare, but we didn't think it solved the problem of how to control the cost of healthcare and therefore we made the \$500 billion worth of additional cuts to both Medicare and Medicaid and certain other healthcare programs in order -- in hoping that that would slow the rate of growth.

If it didn't slow the rate of growth, then what we said is there's there got to be an overall cap on all of these areas of spending of federal healthcare spending and you're going to have to look at some options like a premium support plan, like the robust public option, like a single payer plan.

UPTON:

Alice or I'm sorry, Alan?

SIMPSON:

We just knew that whatever you call it, whatever you -- if you want to use the negatives or call it Obama care or any kind of care you won't to, it won't work. It can't work because all you have to do is use common sense.

You have this imploding of people. You have diabetes, you have one person in America weighs more than the other two. You've got guys who choose to do tobacco, who choose to do booze, who choose to use designer drugs and all of them will be taken care of. You've got pre-existing conditions in 3-year-olds, what -- what happens through their 60 years or 50 years of life? All you have to do is forget the charts and know that if you torture statistics long enough they will eventually confess and know that this country cannot exist on any kind of situation where a guy who could buy this building gets \$150,000 heart operation and doesn't even get a bill. Now that's nuts and that's where we are in America. There's no

affluence testing, you've got to raise co-pays, you've got to knock down providers, you've got to deal with physicians, you've got to have hospitals keep one set of books instead of two. That would be a start.

UPTON:

Alan, what did -- what did you do about Medicaid? Because originally you all had, as I understand it, you - - you were going to convert it into a block grant for the states and it's my understanding that you dropped that proposal.

SIMPSON:

We were never going to convert it into a block grant for the states. One of the things that we thought that was too big of a shift now, too unproved a theory.

What we did advocate is testing it in 10 states. It's on the theory that one size doesn't fit all and if the governors could cover more people with less costs if they have control of the funds. So we said let's test it in 10 states, if it does prove to be, you know, something that does lower the cost of healthcare and still provides coverage to people who need it, then we could support it, but you ought to test it first.

I think that's what you would do in the business world, I think that's what you would do in most places. It's now being tested in Rhode Island, it is working very well. I understand Washington state is actually asking if they can test it. So I do think it's one of the things that will prove out over time.

UPTON:

So beyond those tests, did you do -- did you provide -- did you ask for any other reforms on the Medicaid side?

SIMPSON:

Yes we did.

UPTON:

And they were?

SIMPSON:

As an example, having run the public hospital in North Carolina for the last five years, you know you can see the gaming that goes on in the Medicaid program by the payments, since it's a shared cost program, it's approximately 50-50 between the states and the federal government, you know the -- the docs would up the amount that they would charge in order to cover higher fees charged by the state. They would both come out even, but the taxpayers would end up with about a \$50 million bill for that. So we cut out that kind of gaming in the state Medicaid programs.

UPTON:

Now, Alice, one of the proposals that you all recognized on the Medicaid side was this program called the per capita cap, which for those in the audience would actually -- each state would receive an allotment determined by the number of folks in the -- in the specific categories for Medicaid based on the state population number for those numbers and then that would be increased each year by GDP plus one

beginning, I want to say in 2014 -- 2015. Do you -- are you a part of that proposal? I know, way back when, what -- are you still supporting that idea?

RIVLIN:

We looked at a number of ways to reduce the rate of growth of cost in Medicaid. One was splitting the responsibility between the federal government and the states. Medicaid is really two programs. It's acute care, which is largely for children and their mothers, and it's long-term care.

And one of the things we looked at was split the responsibility for those two between the federal government and the states. We thought that would help make it clearer who is responsible for what, and not have the matching program that results in a certain amount of gaming.

We also wanted to get rid of the kind of gaming that goes on in Medicaid, as Mr. Bowles has suggested. And one thing we were very clear about was the dual eligibles, those who were eligible for both Medicaid and Medicare. There's some impediments to their getting into managed care and management of their usually multiple diseases. And we wanted to fix that.

UPTON:

And what did you do in terms of added state flexibility to allow the states to be able to have greater control over what services were eligible?

RIVLIN:

That's certainly a possibility. We did not, frankly, come down very clearly. We offered a menu of options on what to do about Medicaid. I think it's the hardest problem, much harder than Medicare. And we thought we had a good plan for Medicare. We offered a menu for Medicaid.

UPTON:

On Medicare, both Ways and Means and Energy and Commerce have jurisdiction over this issue. And I know that as many of us that have looked at this, we have felt that it is the toughest entitlement to try and curb the cost curve downwards.

We've heard a little bit about A & B, putting them together, the deductibles, the co-pay. It's my understanding that both of your groups also increase the age -- is that right -- for eligibility?

RIVLIN:

No, we did not. We didn't even do it for Social Security. But we certainly did not for Medicare.

UPTON:

Mr. -- Erskine?

BOWLES:

We have it as one of the options out at -- in the 10- year window. It's not in the first 10-year window.

UPTON:

And when you looked at all the options that you considered, what was the one that was the first -- what was the priority order that you came up with in terms of where you thought we -- what we ought to do to reform Medicare?

BOWLES:

We did not prioritize outside of a 10-year window. We said that there -- drastic steps are going to have to be taken. Those drastic steps must include looking at things like Alice and Paul's premium support plan.

It has to look at a robust public option, it has to look at things like block granting Medicaid to the states. It has to look at things like a single payer plan. It's got to look at things like raising the eligibility age for Medicare. That's what we -- those are the options we saw that would have to be considered if, in fact, you can't slow the rate of growth to GDP plus one.

UPTON:

Before yielding to the next panel member, Senator Simpson, I've think I've been informed that you have to depart in 20 minutes. If that's --

SIMPSON:

Mr. Co-Chairman, I could wait a few minutes after that. I have to get to Dulles to catch a 5:30 flight to Denver, so I can get out of town before they find out I've been here.

HENSARLING:

Well, certainly, Senator, we sincerely appreciate your participation today. And you'll be excused from the panel whenever you need to depart...

(CROSSTALK)

SIMPSON:

Let me share -- let me share with the co-chairs that Erskine Bowles has a remarkable thing to present to you, and if I do have to leave early, I would have given him my time. It's very important that you hear what I think is a solution for you, that only he in his brightness can propose. You can do anything you want with it, but I think it will get you somewhere, where we think you want to get.

And Erskine, as I say, if I leave, whatever time you would have allowed to me, I want to hear from my colleague who came to the Senate when I did, max. And I'll stick around until about 25 or 20 of. Thank you so much.

HENSARLING:

Thank you, Senator, and the co-chair notes Mr. Bowles now has your proxy and the...

SIMPSON:

Yes, he does.

HENSARLING:

... and the co-chair will yield to the gentleman from Montana, Senator Baucus.

BAUCUS:

Thank you, Congressman Hensarling, Congresswoman Murray.

Everyone wants to reform the tax code. I don't know anyone who doesn't. But it's in the eyes of the beholder. What's reform to one might not be reform to the other. You've mentioned the \$1.1 trillion of tax expenditures.

I think it's important for everyone to know that only about \$200 billion of those are itemized deductions. The rest are other tax expenditures, which include the employer-provided health insurance, for example; retirement income provisions, R&D tax credit.

There's a whole host of others, in addition to itemized deductions. So if the proposal is to repeal them all, in return for lower rates and deficit reduction, people have to realize what that means. A lot of people have relied on those provisions.

Employees have, because they're -- that's in-kind income that's not taxed generally, as well as the R&D tax credit to make America strong, and retirement provisions so people can save for the future.

Now the question that comes in my mind is, how quickly do you recommend we tackle all of that? We have a November 23rd deadline. And as I think one of you suggested -- I think it was Mr. Bowles -- you suggested that this be delegated to the tax writing committees so that we do tax reform with some kind of, you know, integrity, and a penalty if the committees and the Congress don't act, et cetera.

I'd like you to comment on that. I'm also waiting for the Bowles solution at the end of this presentation. I hope it includes something that addresses what I'm talking about.

But address revenue. When you gave your presentation, Mr. Bowles -- I might say we're all big fans of all four of you. You've worked so hard. When each of the four of you were speaking, you could hear a pin drop. You spent so much time on this subject and so conscientiously, so thoughtfully. People know that.

But when you, Mr. Bowles, mentioned one of your four principles that I recall, one of them was tax reform. But you didn't say much about revenue, how you raise revenue. My understanding is that the commission suggested something in the neighborhood of -- I've forgotten exactly what it was -- maybe a trillion dollars in new revenue to be offset with spending cuts.

And is that true? It's my understanding that you'd make the -- make permanent the middle income tax cuts but not the upper income. You, in effect, proposed raising revenue on a current policy basis of about \$1 trillion. Does that sound about right?

BOWLES:

Well, you know, you were on our commission, and you attended a few of our meetings, so I think you probably know exactly what we did.

What we did was we did, in the baseline, extend the Bush tax cuts for everyone except the top 2 percent.

BAUCUS:

Right.

BOWLES:

And then we reformed the tax code by broadening the base and simplifying the code, and by eliminating the tax expenditures in our zero option plan. And in the zero option plan, all of the tax expenditures did disappear.

And 92 percent of the money went to reduce rates and 8 percent went to reduce the deficit. None of it went to additional spending.

BAUCUS:

Right. So in answer to Senator Kyl's question, it would be about \$100 billion for deficit reduction, is that correct?

BOWLES:

That's about \$100 billion a year, approximately.

BAUCUS:

How can that be enough revenue, when there's such spending cuts recommended in your plan? I think you have a 2:1 ratio of revenue raised to spending cuts.

BOWLES:

I think it was even more than that, Senator. I think it was, depending on how you counted, we had about a trillion dollars' worth of additional revenue coming in, and we had about \$3 billion worth of spending cuts.

BAUCUS:

\$3 trillion?

BOWLES:

And we were working -- excuse me?

BAUCUS:

Trillion?

(UNKNOWN)

Trillion.

BOWLES:

Trillion, excuse me. When we were working towards that number, we were trying to get it to be no more than one-third revenue and two-thirds spending cuts. And we were trying to get it to be one-quarter and three-quarters.

BAUCUS:

Well, going back to my first question, do you recommend that we here try to enact all those -- cut all those tax expenditures and set rates...

BOWLES:

What...

BAUCUS:

... or delegate it to tax writing committees?

BOWLES:

Well, we do recommend that you delegate to the tax writing committees and set up a framework in this commission. I don't think you could possibly rewrite the tax law between now and November 23 and get it scored, nor do I think you can rewrite the entitlement legislation and get it scored by -- by November 23. But you can provide instructions to the -- to the appropriate committees.

BAUCUS:

To raise how much revenue?

BOWLES:

To raise about \$1 trillion of revenues.

DOMENICI:

I wonder if you would...

(CROSSTALK)

BAUCUS:

Which is included in the -- in the reform, with a broadening base of -- more of the rates?

BOWLES:

Yes.

BAUCUS:

OK.

DOMENICI:

I wonder if you would yield to me for one minute?

BAUCUS:

Sure.

DOMENICI:

Mr. Chairman, could I just offer a suggestion?

BAUCUS:

Sure.

DOMENICI:

We are -- we've felt ourselves extremely confronted by the problem of shortness of time with such a big job of reforming the tax code. Some of us were here when Bob Paquette (ph) was the chairman in the Senate, and that effort took place -- it took much longer than you need, but it took two or three years, 2-1/2, 3 years or more. What we did in our -- in our testimony and what we've sent to you in a packet is we've taken section 404 of the law that created you, which is a section that we think intentionally gave you an extreme amount of authority and more flexibility than we've been talking about.

BAUCUS:

All right...

(CROSSTALK)

DOMENICI:

And that flexibility, we think, permits you to set up a direction with specific things you ask the writing -- tax writing committee to do and that they have to do it by a date certain, which could be three months from now, four months.

BAUCUS:

OK, that -- I appreciate that.

DOMENICI:

They would go to the committees. They would -- it's not reconciliation...

(CROSSTALK)

BAUCUS:

Right...

DOMENICI:

...it's an instructions.

BAUCUS:

We want tax reform in the worst way. All of us do. We're trying to figure out the best process and the way to do it.

Second, I'd like to ask about defense spending. It's my understanding that the fiscal commission recommended roughly \$800 billion in defense cuts. When I compare that with the sequestration, which is about \$800 billion, a little bit more, not much, the Budget Control Act August cut about \$350, according to some accounting. Does that mean that you have suggested another \$450 billion in defense cuts?

(CROSSTALK)

BOWLES:

We recommended about \$1.7 trillion worth of discretionary cuts, and outlays it was about \$2 trillion in budget authority from the president's proposed discretionary budget. I think he proposed, Senator Baucus, \$11.7 trillion in discretionary spending. We proposed to cut it to \$9.7 trillion in the course of the way the budget authority plays out slower. In the form of outlays, it worked out to about \$1.7 trillion. We said that should be split proportionately between security and non-security spending.

We also recommended that there be a firewall between security and non-security spending over a period of time so that -- so that the current -- future congresses wouldn't come back and load it up all under the...

(CROSSTALK)

BAUCUS:

Sure. Right.

BOWLES:

...the non-defense side and not on the defense...

BAUCUS:

All right. In the same vein, I think the commission recommended a cap on something called overseas contingent operations.

BOWLES:

Yes, we did.

BAUCUS:

Right. And there's currently not a cap. Is that right? Is it -- isn't it true that -- we don't know this; you probably do -- that the corporation's commitment transferred \$9 billion over to the overseas contingent operation so they -- to escape the limitation?

BOWLES:

I -- I don't know about that.

BAUCUS:

Well, that's -- that's going on.

(CROSSTALK)

And so you therefore would suggest a cap to help minimize that. And I think your cap is \$50 billion here.

BOWLES:

We were trying to keep the OCO from being a slush fund.

BAUCUS:

Thank you. That's what I'm getting at.

Yes?

SIMPSON:

May I say that, whatever you do, and that will be so appropriate, just do a plan. You don't have to worry about, you know, who's doing this or the timetable and so on, because, let me tell you why the rating agencies don't mess with Germany or France or Great Britain; because each of those countries have a plan. All these people are waiting for is a plan. You can decide how many teeth you want to put in the jar, but just do a plan, and you will see dramatic effects around the world with the rating agencies.

BAUCUS:

Well, I agree with you very much.

One question on the supreme (ph) support. We don't have much time here. A concern some have is this: That with the election, if there -- to put it in rough terms, it'd be a death spiral; that is that people currently -- insurance companies will package their sales of policies to the most healthy. So the most healthy people will buy these new policies, leaving the less healthy in Medicare. And the more that happens, the more that sicker people are in Medicare, (inaudible) Medicare, the more that happens, Medicare costs just go up, up, up because the sickest are there.

I'm sure this is something you gave a lot of thought to. But some have raised this question, and I'm curious what...

(CROSSTALK)

RIVLIN:

Some have raised it, but we don't think it's true of our plan. We think we have avoided that possibility. By the rules that we put in, any plan on the exchange would have to accept anybody. And they would be compensated on a risk-adjusted basis. And I mean they've got more for people who are older and sicker; therefore, they have no incentive to not serve those people.

BAUCUS:

OK. Well, again, I just want to thank you all very much. You've all worked very hard, make tremendous contribution to this country. All of you.

(UNKNOWN)

Thank you.

(UNKNOWN)

Thank you.

HENSARLING:

Time of the gentleman has expired.

The co-chair now recognizes the gentleman from Ohio, Senator Portman.

PORTMAN:

Thank you, Mr. Chairman, and thank you to the four patriots who are sitting before us trying to avoid what Erskine Bowles talked about today and in the budget committee testimony as the most predictable economic crisis our country has ever faced, and I appreciate the discussion today. We've talked about a lot of the same issues that this group of 12 has been grappling with: revenues, of course, but also spending.

I'd like to focus, if I could, on some of the issues that we've talked about, but maybe with a little different angle. If you wouldn't mind putting up that bipartisan policy center chart again, whoever's in charge of the charts. That's the one that Senator Domenici asked to be put up later. And this is the chart that shows that healthcare spending as a percent of our GDP is set to just about double in the next 25 years.

So just take more word for it (inaudible). If you guys can put that chart up, I'd appreciate it, because it's the backdrop to this question. Erskine Bowles said current benefits encourage over- utilization. He talked about some of the things that could be done, including higher copays, higher premiums, talked about Part A and Part B being combined, having a single deductible that's a little higher. He also said that, in the Simpson-Bowles proposal, that you all recommended reducing -- there it is -- reducing healthcare spending over a 10-year period by \$500 billion. And I assume, to Senator Simpson and Mr. Bowles, that that refers to the GDP plus one. That's -- that's what that would mean, \$500 billion, given this enormous growth, or to use your words, unsustainable growth in healthcare expenses.

And let me ask you about a couple of ways to get there that we haven't talked about yet. One is means testing. Seems to me this is one where Republicans and Democrats alike ought to be able to come together. I'll give you some interesting statistics. A couple retiring today will pay about \$119,000 in lifetime Medicare taxes and receive about \$357,000 in lifetime Medicare benefits. That's 119 in taxes or 357 in benefits, which goes to the advertisement that you talked about, Al.

So that's about 3 bucks in benefits for every dollar in taxes. If you multiply this by the 77 million retiring baby boomers, it's not hard to see why we have an unsustainable program. Now, we -- we can talk about this in terms of being sure, as Dr. Rivlin just said, that those at the lower end of the income scale are taken care of, but at the same time, I think it's difficult to justify giving up your income seniors benefits that so far exceed what they've paid into the system. Can you all just comment on that or -- we haven't talked about that specifically. How do you feel about means testing, particularly on the Part B and Part D premiums?

SIMPSON:

Well, I -- you have to, you know, follow the nomenclature here. You never want to use the word "mean" in anything, especially. You call it affluence testing, and then you get juiced. And that's what you should do. You're going to have to start affluence testing some of these benefits. There is no possibility of people who, as I say, literally, as you know them in your own community, who use these systems and pay nothing.

PORTMAN:

How about copays?

SIMPSON:

Copays have to go up, and you have to affluence test in that...

(CROSSTALK)

PORTMAN:

Do we...

SIMPSON:

...my personal views -- what?

PORTMAN:

...the panel because the photographers love this. How many are for affluence testing...

(CROSSTALK)

SIMPSON:

It'd be like when they ask the Republicans for 9 bucks worth of spending and 1 buck worth of revenue and all hands shot up like robotics. You don't want to get into that. But I...

(CROSSTALK)

SIMPSON:

... do favor that affluence testing. I think -- I always talked about it. Bob Kerrey and I talked about it. Max remembers Bob Kerrey and I, and Danforth and Bradley were all involved in that years ago when we were here. You have to start. And it'll be called un-American, cruel, evil, breaking the contract. I can hear the music and the violins in the back already, and it won't work anymore.

PORTMAN:

OK. Let me do a little tougher one. I don't think we've...

RIVLIN:

Can I -- can I chime in on that? We already do it -- have in the Part B premiums...

PORTMAN:

And in Part D now.

RIVLIN:

And in Part D. And we're certainly in favor of increasing that.

PORTMAN:

OK. Erskine, you talked a little bit about, again, some other ideas. And I'm going to put you on the spot here, my friend, because one was raising the age. How do you feel about raising the eligibility age, given the statistics on longevity -- eligibility age on Medicare, I'm talking about.

BOWLES:

We actually did not have that in our plan. As I have thought about it since that time, you know under the Affordable Health Care Act, we provide subsidies for people who have really chronic illnesses and people who have limited incomes to get so that they can afford health care insurance in the private sector. And that didn't exist before the Affordable Health Care Act. And that means that people 65, 66, 67 would still be able to get health care insurance.

So, as I think about it, I could support raising the eligibility age for Medicare since we have other coverage available through the Affordable Health Care Act.

PORTMAN:

Let's go to tax reform for a second, if I could. All of you are talking about broadening the base. And Chairman Baucus -- I'm sure Chairman Camp's going to address this too. This is something they're very interested in, simplifying the code, being able to do so by reducing marginal rates and getting rid of some of the underbrush.

One thing we haven't talked about is corporate reform. As you all know, we have the second highest corporate tax rate among our trading partners. Japan slightly higher, and they're intending to take theirs down.

The average of all the developed countries, the OCED countries, is 26 percent. We're at 35 percent. But in fact, we're not because you have to add state taxes to that, and that averages about 6 percent, which happens to be Ohio's rate. So, you're talking about 41 percent.

And we do not have a territorial system. We have a worldwide system, which also puts us at a disadvantage, we're told, by all of our companies.

Can I see a show of hands on this? Do you all support getting a corporate rate down to a competitive level? I would define that as 25 percent, 26 percent and territoriality. Does everybody agree with that?

Oh, Alice. Almost got it. Alice.

RIVLIN:

Well, if you're pinning us down to a rate, I mean, we did take the rate down to 28 percent in our...

PORTMAN:

Yes, to 27 percent...

RIVLIN:

And actually, we didn't do territoriality. And the -- and the reason was interesting. Simpson-Bowles have strong representation from big multinational corporation on it. They spoke very eloquently for territoriality. Our business representation was more small business. They were not enthusiastic about territoriality. So, we left it out.

BOWLES:

Yes, we did. We took the corporate rate to 26 percent, and we went to a system and paid for it.

DOMENICI:

I support ours, the one we've been describing. We didn't come down as far as them, but we -- 28 percent's ours.

I think the problem we've got with the public on that is it's discussed in isolation by the commentators. They just say, we're lowering taxes on fat cat corporations. But when it's part of an overall plan, they got to...

PORTMAN:

Yes. I'm talking about now lowering the taxes. It would be revenue neutral. So, there would be no revenue neutral deduction in the taxation. In fact, you'd get growth from that...

DOMENICI:

Yes.

PORTMAN:

... based on all the economic analysis we've seen, which would add more revenue that was not revenue from increasing taxes, but revenue from growth and other feedback effects.

DOMENICI:

I don't disagree. I was just giving you an explanation that I've heard.

PORTMAN:

Yes. I appreciate it.

With regard to balance, because that has come up here, the co- chair talked about balance. You all talked about the ratios and balances. What is the right balance?

I think Erskine, you talked about this earlier in terms of where you all were headed and where you ended up. Could you or Senator Simpson give us a sense of what you believe is the right balance here between revenue that is generated again through tax reform, but new revenue on the one hand. On the other hand, reductions in spending. What's the right balance?

BOWLES:

We thought it was no less than two-thirds. And we worked towards three-quarters coming from spending as opposed to one- quarter or one-third coming from revenue.

If you look at the projections for 2020, it had spending, I think, at about 25 percent and revenue at 19 percent. And we didn't want to see revenue go above 21 percent, and, obviously, we wanted to see if we could drive spending down to where revenue was so we could balance the budget at some point in time.

PORTMAN:

Yeah. Well, that's interesting because you're right. You know, we're now at about a historical average of about 18.4 percent on revenue, and we're lower now with the recession, but even under CBO's statistics showing that the tax cuts would all continue, we get back up to that 18 percent in the next several years.

One final -- well, let's see. My time has expired. Listen, again, I want to thank you all for your help today and the help you've given us up to this point, all of you who have made contributions to our efforts and both individually and as part of your groups. And we're going to need your help going forward. Thank you.

HENSARLING:

The time of the gentleman is expired. The co-chair now recognizes the gentleman from South Carolina, Congressman Clyburn.

CLYBURN:

Thank you very much, Mr. Chairman. Let me add my voice of "thank you" to the -- all four of our panelists here today and thank them so much for their service.

I want to start with a statement. I've asked -- and it's been put up -- for a chart to be put up here looking at a bar graph that I suspect a lot of us have seen in the last week or so and we talked about when Dr. Elmendorf was before this committee.

It shows the widening wealth gap that is existent in our country today, and it covers basically the last 30 years. Now, we have 3,143 counties in -- in the United States. Of those 3,143 counties, 474 of them, 15 percent of those counties have been -- more than 20 percent of their citizens have been living beneath the poverty level for the last 30 years.

And it's, kind of, interesting because I didn't think about this until the weekend because, about several months ago, I joined with Congresswoman Emerson on trying to focus on these counties and trying to direct resources to these counties.

Back when we did the American Recovery and Reinvestment Act, the stimulus bill, in the rural development section of that bill, we were successful in getting that bill to focus on these counties by directing the expenditure of at least 10 percent of those funds into those counties where 30 percent or 20 percent or more have been beneath the poverty level for the last 30 years.

So when this report came out from CBO a couple weeks ago, it focused my attention once again to those communities.

Now, when I first came on this panel, I said that I wanted to focus on the human side of this deficit. So what I would like to ask today is whether or not it is feasible to do \$1.5 trillion reduction in deficit by cuts only.

What will that do to that bottom 20 percent that's seeing all the 18 percent growth in their income over the last 30 years and those communities where 20 percent or more of those -- that population have been beneath the poverty level the last 30 years? What would it do to those communities and those people if

we were to reduce this deficit only by cuts that had been proposed? I would like to hear from all four of you on that.

BOWLES:

Yes, I'm delighted to go first on that.

As you know, Mr. Clyburn. If you go east of I-90 and you're in North Carolina, we have more counties that fall into that category than any other place in the union. If that part of North Carolina was a state by itself, it would be the poorest state in the union.

So, as you know, I have many of our universities, from Fayetteville State to Elizabeth City State, that operated and served the people in those communities. I think if you think about what you've already done, if you look at the continuing resolution, you took about \$400 billion of cuts through the continuing resolution.

And then if you think about -- I always think about what you all are working on now with the Budget Control Act in two parts. In the first part was \$900 billion in cuts. So you had another \$900 billion in cuts that have already been done. So you've done about \$1.3 billion worth of cuts already before you guys start on what you are doing.

I've always thought it's got to be some combination of revenue and cuts in order to get to the \$4 trillion number that we focused on. I do think it's important for all of you to think about the fact that these deficits are just eating the budget alive.

And they don't leave any money left over to do the kind of economic development work in these poor counties that you want to see done if these deficits continue to grow and interest on the deficits continue to occur.

What we tried to do was to make sure in the analysis, in the plan we put forward, that we didn't make any cuts in the income support programs like SSI and food stamps and Workers' Compensation. In addition, we tried to make sure that, on things like Social Security, that we actually upped the minimum payment to 125 percent of poverty to help those people who really needed it.

And we gave people a 1 percent bump up per year between 81 and 86, because that's when every Democrat and Republican economist that came to see us said that's when people need it the most. So we tried to be sensitive to those people that were in -- that were most disadvantaged, while we did make the kind of cuts we had to make in order to put our fiscal house in order.

SIMPSON:

We have enjoyed our time with you during our work, and you've been very cordial and listened to us, and I appreciate that deeply.

CLYBURN:

Thank you.

SIMPSON:

The irony to me is that if we don't get there, and the strike (ph) comes, the tipping point -- Dick Durbin always asked, where is the tipping point? I didn't know where it was. But I do know that it will come

swiftly, and it will come by the ratings and the markets. It won't come by anything that any chart has ever disclosed before.

And at that point in time, interest rates will go up, and inflation will go up, and the very people who will be hurt the very worst in that procedure are the very people you speak of with such passion. This is a tremendous irony to me. By doing little or nothing, and the tipping point comes, the little guy is going to get hammered worse than ever he is or she is now. That's the irony, the strange, hideous irony.

CLYBURN:

That's true, Senator, but when you say that, if we were to do it, let's do a \$1.5 trillion deficit reduction, and let's do it on the backs of those same people. Then what happens to that chart in the next 30 years, where we have the 275 percent increase in income for those people who are in the upper 1 percent?

And if you are in the upper percentile, you saw an increase around 56 percent and the lower percentile only 18 percent.

So let's just say let's do it. Let's cut the deficit by \$1.5 trillion. Let's do it by cutting Medicare, Medicaid, cutting Pell grants, cutting education, cutting health care, and we will have saved the markets but what we've done to these 474 (ph) communities, that's my question.

RIVLIN:

Well, I think that's not a question that we should answer, because you shouldn't do that. And there are two points, and I think we're all making the same two points.

One is, we need to cut the deficits but not by hurting vulnerable people. You should avoid doing that. And secondly, that the importance of avoiding a double-dip recession and a lost decade of growth is extreme, and will hurt those people most if you don't avoid it.

DOMENICI:

Well, my -- I'm last here, and you heard almost anything humankind can think of, but I would suggest to you that the answers that we're given are really relevant and important.

And one of the reasons that our group did not get as big of reductions in appropriated accounts as other plans was because we came upon the idea that we were going to have to come up with some revenue, and we ought to have a budget that was understanding in this area or it would -- it would, quite properly, be attacked with equal vigor to destroy it as we were trying to create a country that was strong again.

And so we did take care of the problem you talk about. But I would tell you from my own experience, as I leave the scene, one time I asked a very wise man, what do we do to help poverty? And the person said, "I can tell you in one word," and I thought you must have direct ties with the Holy Spirit.

CLYBURN:

No.

DOMENICI:

And he said, "Educate."

CLYBURN:

Educate.

DOMENICI:

So would you like it again? Educate. And that's what he said, is that people must get educated. Well, that won't solve the bread on the table, but any plan you have in mind should also -- should, obviously, look at whether the poor people are getting educated or not.

CLYBURN:

I appreciate that.

DOMENICI:

That's the first walk -- step out has got to be that. And, secondly, your country has to grow or there's nothing to split, there's nothing to give to our people. So whatever programs you're talking about have to have growth in them. That's why all our tax plans are growth tax plans. Theirs is, ours is.

We call it that and we ask experts, and they say your tax plan will cause far better growth than the plan we're under now. That's why we cut corporate taxes. And people shouldn't immediately say what do you cut the fat cats for? They aren't making as much here to give to our people in wages, because they are going elsewhere, because our taxes are too high. So it's not what people say.

The reality is competition. We can't force them to stay in America if our taxes are too high. So I think education and a fair tax for corporations belongs on this litany. Maybe (inaudible).

HENSARLING:

The time of the gentleman has...

CLYBURN:

Thank you.

HENSARLING:

... expired.

The co-chair now will recognize the gentleman from -- Mr. Camp, Congressman Camp.

And before I do, just wish to thank him for arranging for the Joint Select Committee to use the Ways and Means Committee room and your chair is very comfortable. Thank you.

CAMP:

Thank you.

But I also want to thank our witnesses for being here, and for all of your hard work and your testimony today.

I do have a question in -- Mr. Bowles, in the Simpson-Bowles plan, you recommend that the United States move to a territorial tax system. And I agree with that recommendation, because I think our current system is one that really means that our companies and workers aren't competitive. Do you share that view, and is that why you recommended moving to that system?

BOWLES:

Yes, I've read your -- what you -- your -- I guess it's this committee put out, Ways and Means Committee put out, and I was very much in favor of what you put out.

CAMP:

Do you believe that -- in our proposal or draft discussion we have out there, there are ways to move to a territorial system that does not create incentives for companies and employers to move jobs to other parts of the world or their investment or their R&D? But also, I think it's possible to craft a plan that could get that policy wrong.

In the commission's meetings, our discussions, you were focused on moving to a territorial plan that did not make our companies less competitive. And do you think that can be done in the context of a revenue neutral territorial plan?

BOWLES:

Yes, I do. And I think, you know, if you -- if you encourage -- if we stay on a worldwide system, and you -- and you almost force companies to leave those dollars overseas, then naturally if they are going to have to pay a big tax on those dollars to bring them back, I think the likelihood is more probable that they're going to create the job somewhere else rather than here.

And that's one of the principal reasons I support a territorial system, in addition to the fact that everybody else in the world is going to it, with the exception of us.

CAMP:

You also really recommended a complete overhaul of our tax code, and I -- I appreciate the model that you set up where you tried to lower rates in exchange for doing away with various provisions or exceptions in the code and I think that really has shifted the debate on what tax reform might mean.

Your reform proposal would raise revenue compared to the current policy baseline but you didn't do it by raising taxes. A lot of people get those two things confused and why did you choose that route of raising taxes -- raising revenue really through reform rather than imposing new taxes?

BOWLES:

Because I felt like based on my experience in the business world and the economist that I talked to that it would create dynamic growth in this country and create jobs and opportunities for people and I felt it just made sense to get the spending out of the tax code and to use that money more efficiently and effectively by lower rates and reducing the deficit.

CAMP:

All right, thank you.

Dr. Rivlin and Senator Domenici, in your plan, you've -- you've had the government's share of our GDP around 21 percent, I believe, is that correct?

RIVLIN:

Yes.

CAMP:

And -- and that's basically one out of every five dollars of our economy would come to Washington, D.C., and that more than the highest levels of revenue we've seen in the history of the nation and I think it's only one time where the government's take has really gotten anywhere close to that level and that was during the Internet bubble and because there were enormous capital gains revenues associated with that.

Did you perform an analysis of the impact on the economy and of job creation of having government's revenue of GDP reach that level?

RIVLIN:

No, not -- not ourselves. We examined other people's research on this. I don't read the record as having much evidence at all of a connection between the exact proportion of the federal government's revenue and -- and economic growth.

The reason ours went up was, as I stated earlier in the hearing, we didn't see how, in this very new situation of a much older population and the tsunami of the baby boom, we didn't see how we could fulfill our obligations to those people and perform the other services of government without having the government in that range. It's been there before, it's not a disaster. This is not taking on new government responsibilities it's just saying we've got a lot more older people and we've got to take care of them and that's going to mean a slightly higher government spending than we had in the days when the population was a lot younger.

CAMP:

Senator?

DOMENICI:

Yes, let me just say, I too in my past, I have used percentages like that. I have learned that there -- there - there -- to many -- on many of them, there is no reality attached to the number. Nobody can tell you that 20 percent -- 19 percent is better than 19.5 or 20.6 if you have the rest of the policies right, things will, in our kind of economy, we will get growth.

The problem we have in this country is expressed over and over here today and that is the population is growing older. The population has less workers per -- per retiree and so you have a -- when we looked at the 20, at the 19 or 18.5 that was used as the historic -- historically significant number, we didn't have this -- this demographics. We didn't have this kind of problem.

So we solved it by -- by trying our best to use the tax code, to use the tax code to generate some extra revenue in the manner we have suggested here and at the same time, we have taken on the responsibility of some of the programs that are - are going to sink us if we sit by and say we have to have 18.5 percent and that's all on the revenue side and then what are we going to do about the exploding costs of the programs and I think we solved it in a pretty reasonable manner.

If you -- if you want to just say let that one go, I'll -- we'll fix it some day, we can't fix Medicare to match the 21 much less the 18.5 that was historically right.

So that's my answer. I think there's no -- no absolutely positive evidence that any of these numbers are absolutely right. They're right, they're in the range, but if you do the other policies correct, we -- we'll survive with 21 percent, I'm sure.

CAMP:

You -- you also had two new tax structures in your proposal. One was what you described as the debt reduction sales tax or what most people would consider to be the value added tax. The other was the tax on sugar drinks, beverages.

Did you do an analysis about the costs of those two new tax structures and the implementation of two new tax structures on our economy and what that might mean?

RIVLIN:

You're right that we did have the debt reduction sales tax. We didn't call it that, but you're right, it's analogues to -- to that. I think that the Senator and I and I and the members of the group all believe that it would be sensible for the United States to move part of its tax burden off the income tax and on to a broad based consumption tax. But at -- this is not the moment to do that and we realize that and eventually took it out -- though we still believe in it -- and revamped our income tax proposals to make up part of the lost revenue.

The sugar drinks was, you know, that's not going to change the economy, whether it at the margin discourages people from drinking too much soda, I don't know, but we had some (inaudible) for doing it.

DOMENICI:

I would say on that last one, sir, we didn't -- we didn't look at the economic significance of it. You've been chairman of a committee and I understand you are now of a great -- sometimes you're just out voted and you have to do things that aren't necessarily the greatest.

CAMP:

I get that part.

DOMENICI:

You got that.

CAMP:

All right. Thank you. Thank you very much. I yield back.

HENSARLING:

The gentleman yields back. The co-chair now recognizes the gentleman from Massachusetts, Senator Kerry.

KERRY:

Thank you very much, Mr. Co-chair.

First of all, I want to thank each of you for your extraordinary service not just in this effort, which is important, but over the years and we are particularly appreciative to this contribution to the dialogue and I hope it will be a contribution to more than a dialogue but to a result from this committee.

That -- I just want to spend a few moments on -- on sort of the context that brings us here. Administrator Bowles, you -- you opened up with a comment that caught my attention, two comments. One you said this is the most predictable economic crisis in history that we're looking at coming at us.

Even as you pegged the minimum figure, \$4 trillion, which is what you think we ought to do. But then you said you're worried that you're going to fail. I want you to speak to that for a moment.

BOWLES:

You all have done a great job of stopping the leaks coming out of your committee for an extended period of time, but over recent days, I've been able to put together some of the proposals that you all are considering. And I've also listened to some of the back and forth that has been in the press. And I've heard people talk about simply setting for \$1.2 trillion of deficit reduction, maybe \$1.5, but more of the talks at \$1.2, doing it across the board, which is never the smart way to make any kind of -- to do control of any of your budgets in any way, shape form of fashion. And I've even heard talk that if you end up doing \$600 out of defense and \$600 out of non- defense that the day after you -- the sequester takes place that you'll have people in the House and the Senate be working to -- to get around the sequester. I think that would be disastrous.

I think people would look at this country and say, you guys can't govern. I think people would look at it and say, you know what? They're really not going to stand up to their long-term fiscal problems and this is not going to be a powerful country in the future and they would think that we were on our way to becoming a second rate power. I think it would be a disaster.

KERRY:

So, I want to sort of build on that a little bit. We all know that the figure we should hit in order to stabilize the debt, which is the mission and ought to be the mission of the Congress, is \$4 trillion.

What is the impact in the marketplace? What would the impact be on a -- on a discounting of our debt, a write down if we hit 1.2 or 1.5? Aren't we going to just be back here almost immediately with the very same issues sitting on the table?

BOWLES:

You could lose a 1.2 to 1.5 by an increase in interest rates back to the normal rate very quickly. You wouldn't be accomplishing very much if you did that. And plus you know the effect it would have on how people would look at this country would really be devastating.

I can tell you when we went through this whole debt, default fiasco before August, I can tell you globally countries lost a lot of respect for America and they lost confidence in us that we would really stand up and address our long-term problems.

KERRY:

Now, Pete, I'm sorry that Al had to leave. But you and I have had the great pleasure of working together on a number of different issues.

I trust your judgment. And while we're not wearing partisan hats, hopefully here, you are a Republican. And I would like you to -- to share with us sort of your perception as a long-time legislator. When, in your memory, has a committee in Congress ever had the right to put together a proposal that would be voted on by expedited procedure in both houses of Congress with 51 vote majority without amendment?

DOMENICI:

(OFF-MIKE).

KERRY:

You need a mic there, Pete.

HENSARLING:

Microphone, please.

DOMENICI:

Excuse me. The answer is never. But I would tell you, when we passed, effectively in the Senate that the bill that created the Budget Committee, there was an Entitlement and Budget Act, as you recall, and it was to impound -- to -- to de-authorize the authority of the president to impound, and at the same time to create a Budget Committee.

Senator Robert Byrd, the expert extraordinary on the Senate spent weeks on end trying to figure out a way that you could assure a passage of bills that pertained to the budget and not destroy the filibuster rule. And in the end he -- he quietly gave in. And the Budget Act, if you go look at it, it's a big, thick bill. But nonetheless, if you read it and do what I did, I decided that it meant that I could take a reconciliation bill to the floor of the Senate and it could not be filibustered.

And I defeated Robert Byrd because his own writing said he had found a way without changing the rules of the Senate to get around filibuster and give authority to a committee. So, we gave the Budget Committee in the Senate the authority to act without filibuster. But nothing as powerful as this committee.

KERRY:

And what would be the implication, I'd like to ask all three of you. You answered this to some degree.

Director Rivlin, you've headed up the CBO. You've headed up the OMB as well. What would be the implications in your mind of the United States of America not meeting with, everybody understands is the financial challenge facing us? So, stabilizing the debt and beginning to get on a long-term fiscal path; how would the world view this, particularly given the fragility of Europe right now and their efforts on Greece, Italy, Spain, et cetera?

RIVLIN:

I think it could be devastating. I agree with Erskine, and would be even stronger. I think we could face a long period of stagnant growth, another recession, which would be worse than the one we're slowly climbing out of.

It's very hard to predict when this might happen or what the course might be. But certainly in the last few months we have seen dramatically in Europe that sovereign debt of quite solid seeming countries can go

down very fast. And that could happen to us. And we could just lose the confidence of our trading partners and ourselves.

I think the problem is if we are seen by our own citizens as not being able to face up to problems and solve them, we're in deep trouble.

KERRY:

And importantly I think it's been put on the table here clearly today, and I'm sort of trying to reiterate this because I think it's important. It is possible to put revenue on the table to the tune of a trillion dollars plus, whatever, with tax reform, is it not?

You do not have to raise the -- you don't have to raise the tax rates. In fact, you could do the tax reform with specific instructions to the tax committees to hold rates down, lower the rates, get a lower range from the base. Correct?

RIVLIN:

Right.

DOMENICI:

Well, we actually went out of our way to get some experts together, the best experts in this town. And I think we know who they are. And ask them does that Section 404 give the kind of authority that you just alluded to, to direct to the committees that they perform the following and report it back. And that bill would carry with it in the Senate the same prerogatives that the original bill carried when you were created...

KERRY:

You and I -- you and I met, and we talked about your concept with respect to health reform. And I appreciate the contribution of it. And I've been trying to work through how we might be able to do some of those things. There's some issues, I think, about how you guarantee the coordination of -- of the lowest health care plan and still get coverage in certain areas. But I don't want to get stuck on that for the moment. What I want to do is deal with a bigger issue here. I assume all of you would agree that you can do structural reform in Medicare and entitlements that is not necessarily just the premium support approach. Is that accurate? Director Rivlin?

RIVLIN:

Oh, certainly. There're several approaches. We like that one.

KERRY:

And for instance, the age thing that Senator Portman asked about, that's structural reform, isn't it?

RIVLIN:

I actually wouldn't think of raising the age as structural reform.

KERRY:

What would you think of? Give us some thoughts about structural reform that you think would conceivably alter it, whether it's dual eligible, Part A, Part B. Are there other components?

Or, how about this, that you begin to move the entire system off of fee-for-service where possible; where it works, you leave it, but you move into a value-based payment system?

RIVLIN:

Yes. That's actually what we're proposing.

SIMPSON:

Senator Kerry, I have a lot of opinions about health care. I think the current system doesn't make any sense to pay twice as much as any other developed country for health care and have our -- our results rank somewhere between 25th and 50th to have -- you know we got 50 million, roughly, people who don't have health care insurance.

You know I just ran the public health care system in North Carolina that reports to the president of the university. And if you don't think those 50 million people get health care, you're crazy. They get health care. But they just get it at the emergency room at five to seven times the cost it'd be at the doctor's office. And that cost doesn't disappear. It just gets cost shifted to those of us who have health care insurance, and in the form of higher taxes.

You know, we have got to have real structural reform in health care. I believe all people ought to have health care. But I don't think anybody should get on the -- on the government's checkbook or the taxpayers' checkbook or a Cadillac plan.

I don't think anybody ought to get first dollar coverage because I think that we ought to make sure that people have skin in the game. And if you're going to have everybody have coverage, then you've got to have everybody have a medical home.

And if everybody's going to have to have a medical home, then you darn well better make sure that education institutions like mine are producing more primary care doctors and more nurse practitioners and more physicians' assistants, and not so many specialists. I think if you want everybody to have prescription drugs then I don't know why in the world you wouldn't have Medicare negotiate with the drug companies for prescription drugs if the taxpayers are going to pay for them. And I don't know why anybody who was getting drugs from the taxpayers ought not to have generic drugs.

If you don't think that hospitals and doctors practice defensive medicine, you're absolutely crazy. They do. So, we've got to have some kind of real tort reform. And you're absolutely right. We've got to go to paying for quality, not quantity.

And at the end of a day, you know, nobody likes this, but without talking about death panels and that kind of crazy stuff, you're going to have to do something about the end of life scenario. Those kinds of things have to be done if you're really going to address health care.

KERRY:

Well, I thank you all. I apologize to the chair...

HENSARLING:

Time of the gentleman has expired. The co-chair now recognizes the gentleman from Pennsylvania, Senator Toomey.

TOOMEY:

Thank you very much, Mr. Co-chair.

And I also want to add my voice in thanks to the folks who have come here today, for the work you've done. It's been enormously helpful.

Let me -- let me touch on a couple of the issues and develop a few a little bit further if I could. One, obviously, we all -- we all know it's a given that the federal revenue is ultimately a function of our economy, but I think it's worth noting -- and I think you'll all agree -- that the growth in federal revenue is related to the growth of the economy.

But in fact, federal revenue will grow faster, as long as the economy is growing, than the growth of the economy. Since Dr. Rivlin is the professional economist on the panel I wonder if you'd just confirm that, as a general rule, if the -- if we have strong economic growth, we will have even faster federal revenue growth.

RIVLIN:

That used to be true, Senator, before we indexed the tax system. It's much less true now. Federal -- if you have strong growth, federal revenue will go up a little faster than the economy, not much. We gave away that tool, actually, with the indexing.

TOOMEY:

All right. So we could -- we could -- we could have a discussion about how much that magnitude is, but even now, there is -- there is some additional growth faster than GDP growth.

One of the things that came out from our discussion with CBO about this is that one-tenth of 1 percent of additional GDP growth, on average, over 10 years, they estimate results in about \$300 billion of additional revenue to the government.

Now, this is not perfectly linear, and I understand that. But, very roughly, if that were to be roughly true, less than half a percent of average greater economic growth would result in, coincidentally, about \$1.2 trillion, which is the statutory goal here.

I'm not suggesting that that's an alternative to our doing the work that we do, but I think it underscores how important it is that, whatever we do attempt, to create an environment to maximize growth.

My own view from the beginning has been that the most constructive thing we can do to maximize economic growth is major reform of both the corporate and the individual tax codes. I don't think there's any dispute about that, but I wanted to drill down a little bit.

For instance, if we -- there's many approaches one could take. Let's look at the individual side for a moment and, for sake of argument, if we were to reduce the value of all the deductions that are currently available to individuals, and we had an equivalent reduction in rates, for sake of argument, everybody agrees that would be very pro-growth. Is that right? Is that -- there's a consensus on that?

My understanding from both Mr. Bowles and Senator Simpson was that when you folks looked at this exercise of reducing deductions and credits and write-offs, lowering rates, you did it with roughly a 10:1

ratio. For every dollar that was dedicated to lowering rates, there was \$1 dedicated to deficit. I think you had suggested that it was 92:8?

BOWLES:

Yes.

TOOMEY:

So 10:1, 11:1, that was about the ratio.

Do you recommend that we take an approach like that, where we would, on the individual side, do that kind of simplification, lowering of rates and have a ratio comparable to that?

BOWLES:

Yes, I think it's -- I think you'll run into some of the problems that Senator Bachus brought up. That's why we presented two options.

If you go with the zero plan and get rid of all of the tax expenditures, then you do create enough resources that you can use only 8 percent of the resources and still generate a trillion dollars' worth of additional revenue that could go to reduce the deficit.

However, if you're going to go back and not get rid of all of these tax expenditures, but you're going to keep some of them, like some of the Democrats will want to keep the earned income tax credit, want to keep the child tax credit, they may -- some of you may want to keep -- go to a credit for mortgage insurance -- for mortgage -- to help people with their mortgage debts.

Some people might want to go to a credit for charitable contributions, so anything you keep gives you a smaller pile to work with. So if you're still going to come up with a trillion dollars of deficit reduction, then that 1:10 ratio won't work anymore.

TOOMEY:

OK.

Does everybody on the panel agree that if the -- any package were to include net tax revenue, it ought to come in the context of reform that'll actually -- lowers marginal rates?

(UNKNOWN)

Yes.

(UNKNOWN)

Yes.

(UNKNOWN)

Yes.

TOOMEY:

Let me move over to health care for just a second. And I'm glad, I think, again, that there was a consensus -- I think it was unanimous -- that it is our health care costs that is driving the deficit and debt crisis that we have.

It's been my view -- and I wonder if anyone disputes this -- that, in fact, it's -- our Medicare plan essentially drives the entire health care sector. And while there is an -- obviously a significant private sector component, to a large degree, it is a reaction to and it acts in the context of what Medicare does.

And so Medicare is the real driver of the entire health care picture. Do you -- do you agree with that?

(UNKNOWN)

Yes.

RIVLIN:

Yes, and there are instances in which Medicare has actually done significant reforms, and the private sector has followed.

TOOMEY:

Right.

BOWLES:

And the only part of it -- you said that Medicare was the only -- I'm not sure you said only, but Medicare is one of the drivers of our deficit problem. It's not the only driver.

TOOMEY:

When I...

(CROSSTALK)

BOWLES:

It is the number one problem...

TOOMEY:

What I said was the health care is -- and I -- and I -- and I meant to say is the primary driver.

BOWLES:

Yes.

TOOMEY:

Senator Kerry talked about structural reform. It seems, in my view, meaningful structural reform means getting away from fee- for-service. That's is, to me, that's at the -- that's the heart of Medicare, that's the heart of the design.

And because we use these -- this terminology and assume that everyone knows it, I'll take a crack at describing what I think of as fee-for-service, and tell me if I've characterized it right.

But essentially what we have is a committee here in Washington that specifies the price it will pay for every conceivable medical procedure, the circumstances under which it will pay it, the people who are permitted to perform it, where they're allowed to perform it, in which venue.

And it is a completely, you know, government-controlled mechanism, which also, by the way, doesn't account for whether the outcome is successful or not, and whether the procedure needs to be repeated. Is that a fair characterization of fee-for-service?

BOWLES:

Yes, I think what I said earlier, in answer to Senator Kerry, was that I think we're going to have to move from paying for quantity to paying for quality. And I think you're saying something very similar.

TOOMEY:

Well, I am. I think at the heart of this, this necessarily creates all kinds of inefficiencies, misallocations, perverse incentives, and the solution has to be to get away from this. I

Guess my last question for everybody, are all of you confident that...

(CROSSTALK)

SIMPSON:

(Inaudible), before you proceed...

TOOMEY:

Senator?

SIMPSON:

.. I did want to make an observation. We recognized that Medicare has very significant problems of the type you are alluding to, and that's why we are here suggesting that it be changed.

TOOMEY:

Right.

SIMPSON:

At the same time, we have explained why we said, as we move...

TOOMEY:

Right.

SIMPSON:

... we don't move so quickly with getting rid of one and establishing the other that we lose both or lose all reform.

TOOMEY:

One of the things that concerns me is that as long as we leave a significant fee-for-service component in place, I worry about whether the reforms are capable of defeating the mechanism and the misallocations and the sort of perverse effects of that fee-for- service.

So I would ask this: do you think it's possible to devise a plan that would be -- it would transition completely away from fee-for- service, some kind of premium support model, that is defined to ensure that the most vulnerable people have the coverage that they need?

SIMPSON:

Well, I'll say, for the time being, and for the foreseeable future, it seems to me you cannot do that. You have to go with some transition. You wouldn't get the -- get it done. That was the question, whether you can get it done.

I'm not an expert. I didn't sign on to this job for being an expert on Medicare. That's why I don't answer some of your questions. But I'm saying practically I don't think it could be done now under this circumstance --

TOOMEY:

Well, I'm not suggesting that so much, but I appreciate the response.

Dr. Rivlin?

RIVLIN:

Well, I agree with the senator. I think that the idea -- we believe that actually the competition between, on a well- designed exchange, between comprehensive health plans, particularly capitated plans, they would win out in a -- in a fair competition.

There are parts of the country, especially rural parts of the country, where it probably isn't feasible right now to do that, and that's why we think there ought to be a transition, and that it is much less scary for seniors to say, if you like what you've got, you can stay with it. And but you're going to be offered something, which is likely better.

BOWLES:

Yeah and I would say if you look at some of the pilot projects in the Affordable Healthcare Act, they have some -- some good examples in there of some experiments going on today to do just what you're talking about.

TOOMEY:

Thank y'all very much.

HENSARLING:

Gentleman yields back. Co-chair now recognizes the gentleman from Maryland, Congressman Van Hollen.

VAN HOLLEN:

Thank you, Mr. Chairman. I want to join my colleagues in thanking all of you for your terrific service to our country in many different capacities. Mr. Bowles, thank you for recognizing the actions that Congress has already taken to date including passage of the Budget Control Act has already achieved projected savings of close to a trillion dollars in discretionary funds which isn't far from the targets that all of you set in your work, the major difference being you actually had a higher part of that coming from defense cuts. Is that not the case?

BOWLES:

We actually divided ours between security and non- security.

VAN HOLLEN:

Right and so you were at about \$1.2 trillion in discretionary, half of that is \$600 billion. I -- I think that the figures will show that your proposals took more than has been taken to date from the defense side of the equation.

But I -- I want to -- I think many of us view your general approaches here is balanced approaches, balanced frameworks. So I want to put the discretionary piece to the side for a minute because we've come close to achieving in some cases over achieving your targets.

In Simpson-Bowles, as you mentioned, Mr. Bowles, you had about \$500 billion gross cuts in Medicare and Medicaid, you actually took some savings out of that, a net it was around \$400 billion.

But on the revenue, I just want people to understand because what you had in both your plans was genuine -- what us budget geeks call genuine CBO, joint tax committee scorable revenue.

And as you mentioned, Mr. Bowles, you're baseline assumed, as part of your deficit projections that we would have about \$800 billion, which is equivalent to about the amount of money that would be generated from allowing the rates, for the folks at the very top of the (inaudible). Correct?

BOWLES:

That's absolutely correct.

VAN HOLLEN:

That's right. And then on top of that, you had proposals through tax reforms and the other things you talked about, to generate another -- about \$1.2 trillion, isn't that right?

BOWLES:

Right. We -- that's exactly right.

VAN HOLLEN:

And so for, again, on -- on -- on the budget committee, when we're comparing that to what we call the current policy baselines, compared to CBO, that's about \$2.1, \$2.2 trillion tax cut compared to current law. Of course it's a -- excuse me, revenue increase compared to current law as a tax break.

And looking at your testimony, Dr. Rivlin and Senator Domenici, you -- you -- you come in about the same place \$2.2 trillion on a current law baseline. Correct?

DOMENICI:

Right.

VAN HOLLEN:

So -- so let me just ask one other question with respect to tax reform. I take it from looking at both your reports that you would want tax reform to be done in a way that maintains the -- at least the current progressivity of the tax code, is that correct?

BOWLES:

Yes.

VAN HOLLEN:

Is that ...

DOMENICI:

We worked very hard to do that in ours.

VAN HOLLEN:

Thank you.

RIVLIN:

Ours is actually slightly more progressive than the current.

VAN HOLLEN:

So at least the current progressivity tax cut. Now you've both, in your written testimony suggested we may want to do two step processes and down payment and then something else.

Dr. Rivlin, Senator Domenici, you specifically say as part of that down payment you would include about \$450 billion of what you call tax expenditure savings.

I assume, therefore that you see that as something you could do for deficit reduction purposes, not necessarily at the same time as tax reform and I think if I look at the ones you've picked out, you think that they could be what we call rifle shots, is that right?

RIVLIN:

Right, but it should be consistent with our -- our notion is that you have a tax reform idea ...

VAN HOLLEN:

Yes.

RIVLIN:

... you move some of it forward.

VAN HOLLEN:

That's right, but you'd have -- but and again, on net your tax reform ideas would generate \$2.2 trillion on the current policy baseline. Correct?

(UNKNOWN)

Right.

VAN HOLLEN:

Okay. Let me talk a minute about jobs and the economy because the Congressional Budget Office has said that about a little over one-third of our current deficit today is a as a result of the fact that we have a very weak economy. We're not operating at full potential. So I think all of us agree that we need to get the economy moving again.

Dr. Rivlin, you pointed out that -- that Senator -- your plan with Senator Domenici, has about six -- \$680 billion in payroll tax relief and I think you said the other day on one of the Sunday shows, you would quote, go bigger than the president's job plan.

Do you believe that something like something like that is necessary at this time?

RIVLIN:

Yes, I think we're in danger of slipping into stagnation and we should do something about it.

VAN HOLLEN:

And Mr. Bowles, would you agree that it would be a bad idea this coming year to have every working American see an increase in their payroll tax relative to last year?

BOWLES:

Yeah, on -- on the payroll tax that was in the president's proposal, I think it was about \$240 billion out of a \$447 billion and it's hard for me as a fiscal conservative to say this, but I could support a continuation of the payroll tax deduction for, you know, for another year for employees.

It's very hard for me to understand how an approximately \$600 deduction for the employer on a temporary basis is going to be enough to get them to hire a fulltime permanent \$30,000 a year employee. So I don't think I would support the payroll tax deduction for the employer, I could see supporting it for the employee if we could pay for it.

VAN HOLLEN:

Okay. Thank you.

It's just in the ...

DOMENICI:

Congressman could say on our end, I'm for what we've told you we're for, but I wouldn't argue if you followed his -- his suggestion as I see it, it's still alive and what he's talking about is certainly better than nothing.

VAN HOLLEN:

Got it. Thank you. Thank you Senator Domenici.

On -- on healthcare and Dr. Rivlin, you've testified many times in front of the budget committee and stated that you thought that the Affordable Care Act introduced a number of very important innovations. I agree with you that we need to do more in terms of modernizing the Medicare system to focus more on the value of care and the quantity of care versus the quantity of care.

I do have a question with respect to your version of the premium support plan, the most recent one and that is if you are confident in the market forces driving down the prices, and if your argument is that Medicare is driving those market forces, then why would you need a failsafe mechanism? In other words, why would you need to say if you don't achieve the goal we want savings, you have to have GDP plus one and if it's not keeping track with the market, isn't that just a cost transfer to Medicare beneficiaries?

RIVLIN:

Well, I think we're -- I'm not absolutely certain that how the markets will work. We have seen even in the limited market that is Medicare Advantage, that in some places they work well and come in under the fee for service and in other places they don't.

We think this is a more -- much more robust plan than Medicare Advantage.

But the reason you want the failsafe is so the Congress will absolutely know what they're going to spend going forward on Medicare. It's not going to be more -- it's not going to grow faster than this. It's a defended contribution and I -- we think that's -- that's very useful and as for the cost shifting, if there were -- there might be some cost shifting, but then you could arrange it so that it is not cost shifting on to lower income people. It is means tested, as we were saying before, its cost shifting on to people who can better afford it.

VAN HOLLEN:

Right. We'll I -- I -- I think that, again, if we're confident that the market forces were going to work the way intended then -- then I don't think there'd be a need for a -- a back up.

I do know that members of Congress and folks who run the federal employees health benefit plan, for example, they bid -- different plans bid and there's a defined support mechanism that's -- that's set in law, 72 percent, 28 percent. So I'm not sure why we would be proposing something different for Medicare beneficiaries.

Let me just close, Mr. Chairman by saying we asked actually CBO to take a look at some of these ideas including one where we just had competition among the managed care plans and another one where we threw in the (inaudible) premium support, it wasn't the second lowest bidder, it was more along the lines of what some other (inaudible) plan did, which is just market places and -- and just having competition among the managed care plans, they said -- came out of a score of about nine billion between 2014, 2021.

Adding in this other mechanism achieved about -- took you up to a total of about \$25 billion. So it's pretty clear, at least from these numbers, and we can take a look at them, that we're going to need to do other things, that this is not a panacea, at least according to CBO's numbers, for dealing with the Medicare challenge, that we need to look at a lot of these other innovative ideas that are out there, including some of the things that have been talked about today.

Thank you, Mr. Chairman.

HENSARLING:

Thank you.

The gentleman yields back. All time for member questions have concluded. However, I would note, prior to Senator Simpson's departure, he did mention, Mr. Bowles, that you had something you might want to present. Without objection, I would certainly yield you a couple minutes, if I understand you have something else you wish to present this committee.

BOWLES:

Yeah, I can do it very quickly. I tried to think, if I were sitting in your shoes or I was the go-between, as I was in what became the Simpson-Bowles plan, if it was possible for you all to get to the \$3.9 trillion deficit reduction, given where your positions are today -- and I think it is. I think you can get this done.

And I'll just go through briefly the arithmetic. And again, you've got to flesh out the policies, but if you look at where I understand the two sides now stand, and this is from just listening, which is what you've got to do if you're the guy in the middle, you know, the proposals for discretionary spending -- and these are all above what the \$900 billion and the \$400 billion that was in the continuing resolution, so this is in addition to the \$1.3 trillion worth of spending cuts that have already been done.

But you all are between \$250 billion and \$400 billion of additional cuts on discretionary. So I assumed that we could reach a compromise of an additional \$300 billion on discretionary spending cuts.

On health care, you are somewhere between \$500 billion and \$750 billion of additional health care cuts. I assumed that we could get to \$600 billion, and I got there by increases in the eligibility age for Medicare that I discussed with Senator Kerry when he was talking to me.

That's about \$100 billion. That would take you from the \$500 billion, where the Democrats are, to \$600 billion. And it happens to come not on the provider side, which I think would, kind of, balance that out. On other mandatory cuts, you're somewhere between \$250 billion and \$400 billion, so I settled on \$300 billion there, and we had enough cuts in our plan to get you to \$300 billion on the other mandatory.

Interest will obviously just fall out at approximately \$400 billion the savings there. You agreed, actually, on CPI, in your two plans, of approximately \$200 billion. The total of that is \$1.8 billion.

That left me a little short. That gets me to revenue. And on revenue, I took the number that the speaker of the House, I had read, had actually agreed to, and I was able to generate \$800 billion through revenue from the speaker's recommendation.

And if you did that without dynamic scoring but you did it -- and, you know, on dynamic scoring, I'm, kind of, on the Reagan plan, "Trust and verify," which we talked about earlier. If it actually comes, great; you'll use it to reduce rates or you'll use it to reduce the deficit.

But if you add the \$800 billion there and you do that slightly on a more -- make it so the code is slightly more progressive after you've done it than before, then I think you've really got something that you might be able to work with the Democrats on.

That would give you an additional total of \$2.6 trillion, added to the \$1.3 trillion you've already done. That's \$3.9 trillion in deficit reduction, and I think that would create a lot of excitement with people in the country, and I think it would go a long ways toward building up confidence that we really could stand up to our problems.

HENSARLING:

Thank you, Mr. Bowles. You certainly created some excitement with the press, I think. I would say don't necessarily believe everything you read and hear about the proceedings of this committee.

I do want to thank every single member of the panel on behalf of the Joint Select Committee for Deficit Reduction, not just for your presence here today, away from your businesses and your families, but frankly, more important, the entirety of what you have lent to the body of work to try to really address a -- a -- a very real crisis that we face.

I do thank you for that. Your testimony was certainly sobering and helpful and not the least of which was timely.

I do want to remind all members that they have three business days to submit questions for the record, and I would ask our witnesses to respond promptly to the questions. Members should submit their questions by the close of business on Thursday, November 3rd.

With no other business before the committee, without objection, the joint committee stands adjourned.

CQ Transcriptions, Nov. 1, 2011

List of Panel Members and Witnesses

PANEL MEMBERS:

SEN. PATTY MURRAY, D-WASH. CO-CHAIR

SEN. MAX BAUCUS, D-MONT.

SEN. JOHN KERRY, D-MASS.

SEN. JON KYL, R-ARIZ.

SEN. ROB PORTMAN, R-OHIO

SEN. PATRICK J. TOOMEY, R-PA.

REP. JEB HENSARLING, R-TEXAS CO-CHAIR

REP. DAVE CAMP, R-MICH.

REP. FRED UPTON, R-MICH.

REP. CHRIS VAN HOLLEN, D-MD.

REP. JAMES E. CLYBURN, D-S.C.

REP. XAVIER BECERRA, D-CALIF.

WITNESSES:

ALAN SIMPSON, CO-CHAIR, NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM

ERSKINE BOWLES, CO-CHAIR, NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM

FORMER SEN. PETE V. DOMENICI, R-N.M.

ALICE RIVLIN, MEMBER, NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM

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