

THE ECONOMIC CLUB

O F W A S H I N G T O N, D. C.

Excerpts from the Signature Event featuring The Honorable Saxby Chambliss & The Honorable Mark Warner, United States Senator Saxby Chambliss (R – GA) and United States Senator Mark Warner (D – VA)

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Chambliss: We're in very difficult times in this country right now. . . . our country is in debt to the tune of \$14.4 trillion. . . . we have a window in which we have the opportunity to address as a country this \$14.4 trillion debt. We don't know how wide the window is or how long it's going to exist. But if we don't address it right now, then the issue is going to get dealt with, but it's going to be dealt with by mandate from the individuals or the countries or whoever it may be that buys our bonds down the road. They will tell us, we'll buy your bonds, but here's the interest rate and here's what you're going to have to do to get us to buy your bonds. That's one of the major reasons why it's so critically important that we address this issue of the debt and the deficit right now. Admiral Mike Mullen, who most of you know or know of, chairman of the Joint Chiefs, has said that the number-one national security interest facing the United States is not al-Qaeda. It's not terrorism. It's the debt. And he's exactly right on that because if we don't have the funds to equip our intelligence and law enforcement and military personnel, then we're going to be in a much, much more serious condition from a terrorism or law enforcement standpoint than we are today.

When you measure the debt of the United States against GDP, it's 63 percent of our Gross Domestic Product. In 2001, it was at 33 percent of GDP. . . . if we continue on the same course that we're on today, . . . that line goes virtually straight up. What economists have told us is that when you reach the point of your debt being 90 percent of GDP, that is the tipping point from which there is no point you can return.

We have been meeting now with this Gang of Six. . . . We are six serious-minded United States senators who now have been negotiating around a table for almost six months. . . . We don't have all the answers. But we do think that the debt commission report is a good foundation for a way forward.

Warner: There needs to be a sense of urgency around this issue. Saxby talked about \$14.4 trillion in debt – we add \$4 billion a day to that. Every day we don't act . . . this problem just gets exponentially worse.

The deficit creation is not one party's fault or the other. It's not the wars or the stimulus or the drug benefit in 2004 or the bailout – any of these individual actions. More than any of those individual actions, it is, candidly, just the growth of our population, the aging of our population, the increasing cost of health care and in a lot of areas, particularly around defense post-9/11, that we never used to spend on before, like homeland security; things that we need to spend on but create new obligations in government.

We're borrowing 41 cents of every dollar we spend right now. We're at record low interest rates now. This sense of urgency around the issue is needed because if we were to have that debt crisis, if we were to have that spike in interest rates, that alone would not only be devastating to job creation in the country – think about an economy that's only slowly recovering, if we suddenly had eight, 10, 12 percent interest rates – and, by the way, that would spread an conflagration across the world, not just America.

What it would also do is squeeze down the existing resources. So it exponentially makes the problem worse. And we are heading for that cliff. The analogy I use is, the country is kind of like Thelma and Louise in that car, racing for the cliff in the most predictable financial crisis we'll ever face and a crisis that, candidly, like or not like what happened when we had the financial crisis two years ago with the banking sector, but we've used all the traditional government tools. We've used monetary policy in terms of the Fed lowering interest rates. We've used stimulus; we've used bailouts. We don't have tools left.

[We have to] make sure that this is a balanced approach, make sure that we make America more competitive. I frankly think the best thing we can do for job creation in the government is get part of that \$2.6 trillion in capital that's sitting on American balance sheets off the sidelines. Invest it in America again. We give them that certainty that we've got a plan in place, a lot of that will happen.

Saxby and I have been working on tax reform. Not raising taxes – lowering tax rates. But at the same time, recognizing that if you do that, if you cut back on expenditures, you can actually generate revenue. If you look at corporate taxes as a share of our revenue stream over the last 50 years, that is already a declining stream. So the idea that's going to solve our problem or that somehow, we, vis-à-vis the rest of the world, in terms of effective tax rates, are dramatically higher is a debate that we ought to have.

Where we have had all our debate so far is on that 14 percent of the budget called domestic discretionary. Those are things like infrastructure, energy, R&D. That sector can't absorb all the cost. Defense has got to be on the table. You've got to look entitlement programs – that's where the money is: Medicare; Medicaid. Social Security hasn't contributed to the deficit directly, but we ought to make sure Social Security is there for the next 75 years. It won't be on the path we're continuing right now.

And tax expenditures. We put that up there because if you're against spending – government spending – tax expenditures are simply government spending by a different name. So if we're going to cut back and get this deficit under control, we have to not only cut back on direct spending, we have to cut back on the way we spend through the tax code. And that, candidly, for an income tax that collects a trillion dollars a year, we spend \$1.1 trillion in income tax expenditures. So we can actually generate revenues by lowering rates and making a flatter, simpler code.

Chambliss: What we want to make sure of is that when we come out with our proposal, that we do it right, and that we have a proposal that I can go to my conference and Mark can go to his, and our other colleagues, and say, look, folks, there is a lot in here you don't like, but here's why you should really think about this, because there are a lot of things you will like in here. We've got to generate 60 votes. That's why we've got to get it right, and that's why we've got to be able to convince our colleagues on both sides of the aisle that they need to support whatever that proposal might be.

Warner: The vast majority of business leaders, vast majority of Americans want to see our institutions work and get the job done, and I think there will be enormous support. If there's not public support for this, this won't be solved simply in the halls of Congress. It's going to have to have people across the country demand of all of us in elective office to step up and get the job done.

Chambliss: The debt commission, I think correctly, said that if you're going to solve this problem and you're going to get to the point to where you can begin retiring that \$14.4 trillion debt, you've got to look at discretionary spending. . . . That's not going to solve the problem if that's all we do. The fact is you've got to address Medicare and Medicaid and Social Security if we're going to solve this problem in conjunction with reduction in discretionary spending. And the third leg is revenues. Today, for the fiscal year ending September 30, 2010, our spending relative to GDP was 25 percent. Historically, that level has been about 19 to 20 percent. Our revenues relative to GDP were at 14.5 percent. So we've got this 10 and one-half point gap that's creating this \$1 and one-half trillion deficit that we had last year and is going to be even higher this year.

Warner: It would be inexcusable [*if Congress failed to increase the debt ceiling limit*]. We all ought to be fired if this were to happen. The effect this would have on an economy that is struggling, at best – it is a basic fundamental. Some of the comments you hear from some Members that dismiss this notion -- that it would somehow be just some passing event that the markets would build into -- just shows a remarkable lack, I think, of both Economics 101 and the volatility of the world's economy at this moment.

Chambliss: There's got to be shared sacrifice. . . . what we've got to do is figure out some way within that \$600 billion budget – and another 118 (billion dollars) that's going to our overseas contingencies – we've got to figure out a way to be more efficient in the way we operate at the Pentagon. . . . We've got to share this sacrifice all across the federal government and, frankly, all across America, because if we don't, we haven't done our job.

Warner: We didn't get into this problem overnight. We're not going to get out of it overnight. All we really need to do is start down a path that we sustain. . . . You can't cut your way or tax your way out of this. You've also got to have economic growth. If we can get the deficit as a percentage of GDP down to roughly 2 percent, virtually every economist says that starts [the debt] to head down. It's not done at 10 years. Chances are, we will have to come back and do more. But you've got to start.

Chambliss: The plan that we've had under discussion does pay back about \$4.7 trillion over 10 years. The debt commission plan paid a little over 4 trillion (dollars) in nine years. We've just taken it another year. . . . that's not going to solve the problem. We've still got 10 trillion (dollars) out there. We think that with economic growth and stimulating the economy like this proposal would do would probably, instead of allowing us to pay 4.7 trillion (dollars), it may be 5 (trillion dollars) or it may be 5 and one-half (trillion dollars) or 6 trillion (dollars) that we'd be able to pay back. But it's going to take a long time still to get out of this.

Warner: One of the things that I was personally embarrassed by was the almost shut down of the government a month and a half ago or two months. One of my fears is if we can't show that we can take on our country's big problems – and that's what I hear when I travel outside of the Beltway in terms of Virginians – can anybody up there actually get the job done? When people start to lose faith, then we are in, again, just even a bigger set of trouble.

Chambliss: Putting certainty in the marketplace would go a long way towards getting that capital off the sidelines and back into the game, and that's what we're going to have to do. We're going to have to see the business community encouraged by the policies that are being set in Washington. Right now, there's not a whole lot going on. . . . There's just not a lot happening from a policy standpoint to provide that certainty in the marketplace. Not only is that couple of trillion dollars sitting on balance sheets here in America, but there's also money offshore that was earned overseas that is sitting there, that companies would like to bring back, and we should encourage them to bring back, to invest in the United States, which will create the jobs that are needed to see the economic growth that's going to stimulate revenues without raising taxes. Those are the kinds of things that we need to do to put certainty back in the marketplace.

We can't compete with some of the countries that we compete with around the world from a labor perspective. We're never going to be able to. But what we've always been able to do is to stay ahead of that technology curve. That's why we've got to continue to invest in education, and particularly in technology, to make sure that we are not just the leader of the free world, but the world leader from a trade standpoint.

Warner: I don't care whether you're on the left or the right, Democrat or Republican – you can't have an absolutist position – particularly around these fiscal issues. Doesn't mean you sacrifice your principles, but this notion that we're never going to look at revenues or we're never going to look at entitlement programs, and we're going to draw lines in the sand and measure somebody's ideological purity on whether they cross these lines, to me is kind of the antithesis of what the whole American experiment was about. If we'd wanted a parliamentary system, we

could have adopted one. We put a system in place with checks and balances and people giving and taking. That system is being tested right now.