The Economic Club of Washington, D.C.

The Gang of Six's Work on Reducing the Budget Deficit

Welcome and moderator:
David Rubenstein,
President,
Economic Club of Washington

Speakers:
Senator Saxby Chambliss (R-GA)

Senator Mark Warner (D-VA)

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DAVID M. RUBENSTEIN: Everybody please take their seats. We're on a tight schedule. Thank you.

I want to welcome everybody to our 10th event of this season. I know we've had a lot of events, but I think they've been pretty good. I want to thank all of you for coming to the events.

I want to recognize our corporate sponsors first: Bank of America – Bill Cooper, Larry Parrish is here. Bank of America is where? Right here; thank you. And Akin Gump – is Tony Pierce here? Thank you. Information Management Consultants: Sudhakar Shenoy – where is Sudhakar? There you are; thank you. Ernst & Young: Dan Murrin – Dan is there. Thank you. And Carlyle Group: Ed Mathias. There you are.

We have some special guests today. Jack Evans is here. Jack is a member of the city council. And Nat Gandhi from the District of Columbia government. The ambassador of Switzerland, Ambassador Sager, is here. Thank you.

So, we have upcoming events. I think people know on June the 28th, we have a breakfast at the JW Marriott with Tony Blair. There's a fair amount of interest so if you're interested in going, please sign up. I think you'll find that interesting, a session with former Prime Minister Blair.

In October – October 5th – Ursula Burns, the Chairman and CEO of Xerox, will be at a dinner we'll have at the Ritz-Carlton. And on October 11th, I will be hosting a dinner for our sponsors that I think you'll enjoy. We'll be in touch with you about that.

Now today, we're very pleased to have two distinguished senators with us, Senator Saxby Chambliss and Senator Mark Warner. We're going to have a format where I will introduce them, they will make some opening remarks and then I'll have some questions. Some of the TV cameras here are going to go live. I think Fox News is going to go live at 12:35. So we're going to start really on time at 12:30 or so, so eat quickly and I'll be back at about 12:30. Thank you.

(Audio break.)

Can I have your attention please? Please. Thank you.

The Economic Club of Washington is very pleased and honored today to have two distinguished United States senators here as our special guests. Let me give you a brief introduction of them and then they'll make some opening remarks. I will ask some questions, and then there will be time for questions from our members.

On my far right is Senator Saxby Chambliss, who is a senator from Georgia. He was born in North Carolina; grew up in the South. His father was an Episcopalian minister. He went to college at the University of Georgia; went to law school at the University of Tennessee; began a practice in Georgia. He practiced law and was a very prominent lawyer in his community. Ultimately he was elected, in 1994, as a Member of the House of Representatives from the 8th District of Georgia. He served as a Member of the House until he was elected in 2002 to the United States Senate and then reelected to the United States Senate in 2008.

He, in the Senate, now is the vice chair of the intelligence committee, the ranking member of the agriculture committee. He's also a member of the armed services committee and at one point he was chairman of the agriculture committee and became chairman of the agriculture committee after just two years in the Senate. I think, since 1947, nobody had become chairman of a standing committee in the Senate so quickly. He has also a great deal of interest in the budget and financial issues that we're going to talk about. And so, Senator Chambliss, thank you very much for coming.

SENATOR SAXBY CHAMBLISS (R-GA): Thanks, Dave.

MR. RUBENSTEIN: To my immediate right is Senator Mark Warner, who is a senator from Virginia. Mark was born in Illinois; grew up in Indiana and – was it Indiana?
SENATOR MARK WARNER (D-VA): Close enough.

MR. RUBENSTEIN: Born in Indiana and grew up in Illinois and Connecticut. Went to George Washington –

SEN. WARNER: I didn't emphasize that when I ran for office.

MR. RUBENSTEIN: Okay. All right. (Laughter.) Went to George Washington University and was valedictorian of his class at George Washington. Steve Knapp, the president of George Washington, is here today, no doubt to confirm that he was valedictorian of his class. (Laughter.) He went to Harvard Law School; graduated from Harvard Law School; came down to Washington; worked for Senator Dodge; got involved in telecommunications issues, and helped to put together some of the early wireless telephone deals. One of the companies he helped to put together became Nextel. He subsequently formed a company called Columbia Capital, which invested in telecommunications companies. Ultimately, he got involved in Virginia politics and was elected the 69th governor of the state of Virginia in the year 2002, served for four years and then served as governor of Georgia – I'm sorry, governor of Virginia.

He was subsequently elected to the United States Senate from Virginia and now is a member of the Senate. He is a member of the banking committee, the budget committee, the commerce committee, a member of the intelligence committee and also has had a great deal of interest in these issues that we're going to talk about today.

So the two of them have, of course, been two of the members of the Gang of Six, so-called. And we'll talk about where that name came from and what they're actually doing. But why don't we start off by – Senator Chambliss, you might have some opening remarks?

SEN. CHAMBLISS: Sure. And David, thank you very much. Good afternoon, everybody, and thanks for having Mark and I down here. And David, I want to thank you for introducing me as being on your far right.

MR. RUBENSTEIN: Right. (Laughter.)

SEN. CHAMBLISS: I can't wait to get back and tell my critics that that was the case here today.

We're in very difficult times in this country right now. As we sit here and enjoy lunch today and as you go back to work today, our country is in debt to the tune of $14.4 trillion. We have a window – and there are a number of economists I know that are out there today that might have a better idea about this than either Mark or I do. But what we've been told over the last year is that 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.

First of all, let me just tell you about the problem and how Mark and I got involved in this. We had a discussion on the floor about a year ago in which the issue of the debt and the deficit came up. It didn't appear that anybody was really circling the wagon on this issue. We decided to educate ourselves and ultimately educate some of our colleagues about the fact of the seriousness of this issue of the debt and the deficit.

Today, when you measure the debt of the United States against GDP, it's 63 percent of our Gross Domestic Product, as you'll see on this chart. In 2001, it was at 33 percent of GDP. Now, this chart is not a chart Mark or I conjured up – this is a CBO chart. And you can see, if we continue on the same course that we're on today, what's going to happen. 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.That's why we have this window of opportunity that's out there today.

As Mark and I began our conversations last year, we decided to increase our number: We went from two to four to eight to 10. And at the last formal meeting that we had, we had 31 members of the Senate – 16 Republicans and 15 Democrats – who listened to presentations through the course of last summer and last fall from various experts on the issue who told us why the problem is serious and gave us an indication of where we needed to go.

We knew that the President's fiscal debt commission was going to issue a report on the 1st of December. We didn't know what it was going to say; did not know whether it would be something we could embrace. But when that commission – the Bowles-Simpson Commission – did make their report, Mark and I both looked at it and said, wow. There's a lot in here we don't like, but there's an awful lot in here we do like. And if we're really going to get our arms around this issue and if we're ever going to be able to retire this debt and get our deficit under control, this appears to be the best way forward.

We have been meeting now with this Gang of Six. As I told the press the first time they dubbed us a gang, gangs are groups of bad guys that run around Atlanta and Washington and cause mischief. We are six serious-minded United States senators who now have been negotiating around a table for almost six months, even though we've had a little blip here of late with our colleague Tom Coburn. But we have negotiated in a very serious way to try to address this problem.

We don't have all the answers. But we do think that the debt commission report is a good foundation for a way forward. That has been the basis of our conversations and I look forward to talking about that in more detail as we move forward. This guy, though – W from Virginia – has done an outstanding job for you in the United States Senate. He's been a great partner and we have checked our partisan hats at the door as we've stepped into the room to have these discussions. It's been a privilege to work with Mark on this issue. We are working the way that I always thought the Senate was designed and supposed to work.

SEN. WARNER: Well, thank you, Saxby, and let me return the compliment. He's actually been in the Senate longer; he had a lot more at risk to take this plunge. And we both knew that we would get some arrows by taking this journey. He's probably taken more than I and I want to return that with a salute to you for the fact that you have stepped up in so many ways. And I think you're going hear some of this as we go forward.

I want to thank David as well and the Economic Club of Washington. There's a lot of friends in this room; I'm grateful for you all coming out. I want to take a moment of prerogative up here. We've introduced the ambassador from Switzerland but as chair of the U.S.-India caucus, I also want to recognize the ambassador from India, who is here as well. Thank you for being here. Now, those of you who know me or remember me as governor, you know you're not going to get a pitch from me without at least a little bit more of a PowerPoint.

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. So every day we don't act and we have such a structural deficit, there is no way we're going to climb out of it. This problem just gets exponentially worse --
even when you consider that, on an annualized basis, we had a few years of surplus.

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. Next slide.

One of the things that I think –most in this room understand, but I think many Americans don't understand -- is that if interest rates were at traditional levels already, we'd already be kind of down the tubes. We're borrowing 41 cents of every dollar we spend right now – the federal government. 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.

But 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. Next – change the slide.

And the notion that this is somehow something we can punt until 2013. Already, as David well knows, swaps insuring Treasuries for five years – in effect, the threat of the cost of the United States defaulting is starting to go up. On one-year swaps, for the United States, the market has said, it's more likely the United States will default on its debt than countries like Panama, the Philippines, Mexico. Think about that for a moment.

We've already seen Moody's and Standard & Poor's both threaten to downgrade our debt. And, just to make it a trifecta, we just got word, as we walked in today, Fitch put out a warning that if they don't see an action soon, they will join that group as well. So the notion that, somehow, this is an unexpected crisis hurtling at us doesn't pass the smell test. Next slide.

This is important– particularly for business-community groups. We need to make sure everybody's got some skin in the game. One of the things that we've talked about – and we're going to get into the conversation here – is making sure that this is a balanced approach, making 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. But it's got to be done in a way that looks at both sides of the balance sheet.

I strongly believe, and what Saxby and I have been working on, is 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. And for those of us on the business side – I spent more time in the business community than I have on political– one of the areas we've got to look at is the corporate tax rate. 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. Last slide, I think.

This is just one point that I think the Simpson-Bowles Commission pointed out in a very strong way. Elizabeth and I were talking at lunch that you hear a lot of comments that say, from some Americans, well, if we could just get rid of foreign aid and get rid of earmarks, we could solve the problem. Not the case.

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 – something, again, that we'll get back to.

MR. RUBENSTEIN: Okay, well, I think everybody applauds your bringing attention to this issue. When it was identified as the so-called Gang of Six, you had Senator Coburn from Oklahoma there. He's now publicly kind of dropped out of the group. Does that mean you can't go forward without somebody else replacing him? Or are you going to go ahead and come up with something that you're going to announce publicly, even though he's not a member any longer?

SEN. WARNER: Let me start with that. One of the things that didn't get a lot of attention was that 64 senators a few months ago signed on to a kind of an "attaboy" letter just saying, hang in there. A number of other colleagues, who didn't sign on to the letter and who fall on way different extremes of the political agenda, are saying, you know, you guys are kind of the best hope because we've seen in some of the votes recently, if you have a one-party-only solution, Democrat or Republican, it's not going to get there.

I still think the best hope and best chance is a bipartisan effort that starts in the Senate. We've got a few things left to resolve. Clearly, Tom Coburn added a lot of value to this group. There were a lot of things in what we've agreed to that he added tremendous value to. But I don't think we can say that we should stop simply because [of the actions of] one member of the Senate .

MR. RUBENSTEIN: Is there a date by which you intend to make public your recommendations?

SEN. CHAMBLISS: What we've said from the beginning, David, is that we're not targeting the continuing resolution, nor are we targeting the debt ceiling vote. 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.

So time has never been a factor. It is important that we do it as quickly as possible, but right now, particularly with Tom having dropped out – Tom brought a lot of assets to the table, as do each of the five of us. And when you lose part of your assets, you have to kind of regroup and figure out what is the best way forward. Tom is, frankly, on a sabbatical; he's not saying I'm never coming back. So I'm very hopeful at the end of the day we'll still have a proposal of the six of us.

MR. RUBENSTEIN: Let's suppose you do get 60 senators to sign on to your proposal. What about the House of Representatives? They might not buy into it. So what good would it do if you come up with 60 votes and the House just says no? What are you doing to talk to the House members?

SEN. WARNER: Again, I think that the key to this –echoing what Saxby said – if this plan – with a framework around the Simpson-Bowles plan – doesn't make every one of you at least a little bit mad, we probably haven't done our job, because there can be no sacred cows in this process.We've got to put it all on the table. I fundamentally believe if we get out with this, while there are groups in Washington that want us to fail, that 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. All the other issues that you talk about, all the other issues your businesses are concerned about pale in comparison to at least putting us on the path towards fiscal solvency.

MR. RUBENSTEIN: Are you hinting to House members what you might be doing, so that you might have some buy-in from the House, or not yet talking to them?

SEN. CHAMBLISS: We've had conversations with everybody from Speaker Boehner to Paul Ryan and on down the list from a player standpoint. We haven't attempted to sell them on our product, because we don't have a product yet. But John is one of my closest friends, and I have told him from time to time, from a progress standpoint, where we are.

But here's what you have to remember. 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. The chart that Mark put up there is very important from that standpoint, because the House, to this point, has been focused on cutting discretionary spending. I agree and Mark agrees that we are spending too much money from a discretionary standpoint and we've got to get our arms around it. That's not going to solve the problem if that's all we do. And that's where their focus has been.

They also said that you have got to address the issue of entitlements. You saw what happened in reaction to Paul Ryan's budget when he came out with a major reform of Medicare. I don't know whether that's the right answer or not. We're taking a slightly different approach in our discussions. But 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 – 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.

So the House folks understand that we have got to figure out a way to close that gap. Their focus to date has been on reduction in discretionary spending. I understand how important that is and what they have been doing with respect to the continuing resolution and also the debt ceiling. Both of those issues are short-term issues. We have always been more focused on the long-term issue of how we retire this $14.3 trillion debt.

MR. RUBENSTEIN: So in other words, what Vice President Biden is doing, that relates to your group in that they're focused on the debt limit, you would say, and you're focused on a longer-term thing? So you're not really doing anything in conflict with what Biden is doing?

SEN. WARNER: We don't think there's a conflict. I mean, there could be collaboration. When we talk about discretionary spending -- for those of you who don't speak "Washingtonese" all the time -- that also means defense has to be a piece of this; defense, domestic discretionary, the entitlements, and you've got to look at revenues.

The debt ceiling: one of my concerns about the debt ceiling negotiation is that if we kind of limp through the lowest-common-denominator debt ceiling extension -- what's the minimal amount to cut to kind of get through a short-term extension -- we may have the time, the bond markets may react OK, but I don't know how big this window is. I still believe the sooner we can finish our work, bring in other Members, make the case to you and the American people, the better this moves along.

The other point that I was going to make was that one of the things that we have spent a great deal of time on and that will, again, be foreign to most, is the process of even if you've got a great idea, how do you actually get it passed? How do you make sure that it gets locked in and doesn't then get overridden in terms of the way that previous efforts to try to bring down our debt -- when good times returned -- kind of got pushed to the side?

MR. RUBEINSTEIN: But do you – both of you believe that the debt limit bill or some extension by August 2nd will happen. You don't believe that we will go into default on our debt, do you, or do you not?

SEN. CHAMBLISS: Well, obviously we hope not. It's a very different atmosphere in Washington right now from at any time in the 17 years that I've been here. I am optimistic that there will be some resolution and that the Biden group will be able to come up with some sort of common-ground proposal, but I don't hazard a guess right now.

SEN. WARNER: It would be inexcusable. 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.

MR. RUBENSTEIN: Do you hear from your constituents very much that they want you to cut spending or they want you to increase taxes? Or what do they say to you about – when you go home, what do they want?

SEN. WARNER: They want you to cut taxes and increase spending. (Laughter.)

MR. RUBENSTEIN: Right. OK.

SEN. WARNER: Or cut the other guy. But I think that's because for a long time we've had this kind of mantra that you can do both. Well, the credit card's maxed out. I actually think the American people will do their part in recognizing we've all got to tighten our belt, as long as they feel like we all have got some skin in the game, as long as it's not pitting one side – one group of Americans against another -- or going after one sector of the economy alone. If not, then we're in a much bigger heap of trouble than just financial.

SEN. CHAMBLISS: That's an extremely important point. There's got to be shared sacrifice. I'm as big a defense hawk as there is, serve on the Armed Services Committee and on the Intelligence Committee, and I know how badly we need to spend more money on defense. But 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. Thank goodness Secretary Gates is really doing that. I'm very confident that new Secretary Panetta will have the same reaction to it. He brings a wealth of background, from an OMB standpoint. 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.

SEN. WARNER: And let me just add one more thing on that. This is a major change. 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. Think about for a moment what we would ask of everyone; we're asking something that would be less than what the new government in the U.K. has done with their financial circumstances. In my mind, it's downright un-American that we would let the Brits be bolder at solving their problems than we are.

But they had a deeper hole and they have actually made some of the hard – I don't agree with all the choices the Cameron government's made, but they bit the bullet, and we need to do the same.

MR. RUBENSTEIN: The British ambassador isn't here, so you were able to say that. (Laughter.)

But let me ask you, right now, you've said that there was $14 trillion more or less of debt. You're not counting the 5 trillion (dollars) or so of Fannie Mae, Freddie Mac that more or less is really debt as well. But under the President's own budget proposals, we're going to add another, say, 12 or 11 – 12 or 13 billion – trillion dollars of debt over the next 10 or 11 years. What I thought you and Vice President Biden were working on was cutting out 4 trillion (dollars) over the next 10 or 11 years. But is 4 trillion (dollars) really going to do much good? Because you're still going to add another 8 trillion (dollars) to the 14 trillion (dollars) we have.

SEN. WARNER: What 4 trillion (dollars) – and we're looking at north of 4 trillion (dollars) – but what 4 trillion (dollars) does is move the base line. 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.

SEN. 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.

And you're right, David, that 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.

MR. RUBENSTEIN: Under your proposal and what you're working on, can you say today that a VAT tax is not part of what you're proposing?

SEN. WARNER: We have great political courage but no suicidal instincts. (Laughter.)

MR. RUBENSTEIN: I will take that as a no.

Do you believe – if today you came up with your proposal and it was a voice vote in the Senate, could you win on a voice vote as opposed to a recorded vote? Would a voice vote make any real difference?

SEN. WARNER : I'll ask the senators.

SEN. CHAMBLISS: Well, under the rules of the Senate, first of all, they're not going to give us a voice vote.

But I would assure you if there were 94 voting yea, the six would holler louder than the 94. But, no, I don't think that that would help us that much.

MR. RUBENSTEIN: OK.

Let me ask you, who do you think is more frustrated in the Senate: former members of the House who come to the Senate and see things slower, or former governors who used to be in charge and now can't get things done? Where is the level of frustration greater? Who do you think has the greater level of frustration?

SEN. WARNER: I want to hear your honest answer on that one.

SEN. CHAMBLISS: Well, I was elected to the House in 1994. And you'll all remember, we had 73 new freshmen that came in. We took control of the House for the first time since 1942 or whatever – '52. And we took control of the Senate. And we were hard-charging. We had our Contract with America, and we passed all 10 of those items. Then we all complained that once we passed them and they went to the Senate, they fell in a black hole. I used to just dog cuss the Senate until I got over there and found out what a great institution it is. (Laughter.) But you do recognize as a member of the House that Jefferson had a plan in place for the Senate to be the saucer and to allow the coffee to spill over and cool off before laws became enacted. It worked very well for 200-plus years, and I think it will continue to work well. But there's always frustration, both on the House side with the Senate and in the Senate itself because we do more very slowly. It's deliberate.

MR. RUBENSTEIN: Mark?

SEN. WARNER: Well, I went from being His Excellency the Governor of the Commonwealth – we all would have to stand up when I was introduced.

SEN. CHAMBLISS: We still do. (Laughter.) He makes us do that.

SEN. WARNER: There are days I miss Richmond, even when my 2-to-1 Republican General Assembly was in town. (Laughter.)

But it's frustrating. I also feel very blessed to be there here at this time. I think this is something that Saxby and I and others can add some value on. I mean, -- and I don't want to sound melodramatic -- this issue is so important. It is maybe not the same drama as the fight against fascism or communism or terrorism, but it is of equal importance to all of our families, our kids, our grandkids in terms of getting right.

On top of that, 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. So I'm very, very lucky to have a friend like Saxby who's been willing to step out on this. Failure is not an option.

MR. RUBENSTEIN: But you mentioned the 60 votes you need. That's because of the filibuster rule. Would either of you be in favor of any changes in the filibuster rule? Or do you think – realistically -- that's suicidal as well; there's not going to be any changes in that and maybe there shouldn't be?

SEN. WARNER: There was a group of us newer members who were all excited about trying to change some of the rules between the last election and January. We kind of got filibustered by our own leadership. It's one of those rule changes that seems to be tough.

SEN. CHAMBLISS: We've had that debate before, and there are not going to be changes. The filibuster rule has its merit. We've gone from 67 down to 60. And we've survived. At the end of the day, what should happen in the Senate and what has happened on major legislation is that you have compromises in maybe numbers, not in principle, and you find that common ground that lets us come up with a good piece of legislation that, again, folks on either side are not totally happy with. But that usually means that you found that sweet spot that's in the best interest of the American people.

MR. RUBENSTEIN: Tax increases and things like that – I know you don't want to give away your package – but the business community would be quite interested, if you want to give us a hint. Do you think that capital gains taxes should go up as part of this, or do you think that's something you don't want to talk about right now?

SEN. WARNER: I think you've got to maintain an ability to encourage capital formation.

MR. RUBENSTEIN: And therefore – (laughter).

SEN. WARNER: Stay tuned.

MR. RUBENSTEIN: OK. All right. Well, I won't get an answer on that. But let me ask you –

SEN. WARNER: Do you want to get into carried interest?

MR. RUBENSTEIN: Only if it goes the right way, but – (laughter). But let me ask you, right now, the economy seems a little bit stalled. Growth last quarter was 1.8 percent. The jobs numbers were not very good and the unemployment rate went up to 9.1 percent. Does the Senate have the ability to do anything -- or the Congress -- to stimulate the economy, or because of the talks you're involved in, there's no money left? So what would you recommend that the President do or the Congress do to help stimulate or move the economy along, if there's anything you think can be done?

SEN. CHAMBLISS: Certainly I think 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. I mean, gee, we've spent about three months on a small-business bill, and we haven't done anything there. 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.

SEN. WARNER: I would agree generally with Saxby. I think, again, a deficit reduction plan that would be passed and signed into law would be the single-greatest job stimulus we could do right now, because it would give us some certainty. I also think there are things we can do around the edges.

One of the challenges, as you know, David, [is that] our communities still have enormous infrastructure needs. We've got a bipartisan approach on an infrastructure investment bank that would model after some of the other areas of the world that do more of a public/private infrastructure model where we could help buy down some interests rates. It wouldn't be a normal grant program. It'd be more of a loan and interest rate support programs.

I think there's things we can do right around regulatory reform that would approach on kind of a regulatory PAYGO, that if you add a regulation in an area, you've got to take one away to try to get the incentives right at the agency level so that you don't get rewarded for more regulation and you've got some ability to kind of sweep out some of the old ones that have over-lived their usefulness.

I think there are things around the edges we can do. But at the core, this is, as you know, making ourselves more competitive in the world market. You've still got to have that trained workforce, and you've got to have a fiscal balance sheet that supports them.

MR. RUBENSTEIN: How would you both rate the President's economic team in dealing with Congress? Do you feel that they inform you adequately of what the President's doing and help sell his policies, or would you make any suggestions to the President about how he can make economic policy better?

SEN. CHAMBLISS: They don't call me very often. (Laughter.)

SEN. WARNER: Listen, I think the President got dealt a really bad hand of cards. If you remember where we were two years ago, the Dow was at 6,500 and we were losing 700,000 jobs a month and we just lost 6 and one-half percent of our GDP in the previous quarter. We are not back to where we need to be -- clearly on the job-growth side -- but if we'd asked, David, you two years ago, would you have predicted the Dow at 12,000? And we've had three or four positive quarters. I've got minor concerns with certain things he's done. I think there are reasons around this debt and deficit issue that this has got to start bipartisan. I think he would be supportive of a bipartisan, bold effort to put everything on the table. But there's an awful lot of folks who seem to have gotten elected recently on the idea of being against anything the President proposes. That, again, is one of the reasons why I think we've got to start with a bipartisan approach.

SEN. CHAMBLISS: I think that one thing that the President could do -- and I'm really a little bit surprised that he hasn't done – and that is to look at the regulatory process. Whether it's in the banking industry or the health care industry, you just name it, if I went around this room and said, what's your number one problem from a business standpoint, I think regulatory measures would be pretty close to the top of that list. There are things the administration can do to reduce that regulatory burden, but they're not doing that.

MR. RUBENSTEIN: Before we have some questions from our members, I just want to shift for a moment to foreign policy. Both of you are on the Intelligence Committee. I assume you support the President's decision not to reveal the pictures of Osama bin Laden. Do either of you disagree with that?

SEN. WARNER: I agree with his position.

SEN. CHAMBLISS: I don't know that it serves any purpose to.

MR. RUBENSTEIN: OK. On the war in Afghanistan, do you think there's a lack of support increasingly in the Senate or in the Congress for what the President's doing? Do you sense some fatigue, or do you think the President can pretty much continue his policies without a lot of interruption from the Senate at this point?

SEN. CHAMBLISS: Well, nobody likes war. There's nothing fun or exciting to anybody about a war. But we are where we are there now. And we can't afford to lose, and we can't afford to lose for any number of reasons. I think the President took his time. I disagree with the amount of time that it took him to reach the decision that he did, what, two years, a year and a half ago now. But once he reached that decision, we've got to stay with that, the decision on plussing up the troops and giving General Petraeus the tools that he needs to provide for success in Afghanistan. We're getting there. There's a lot more positive things happening in Afghanistan today, frankly, than even what's being reported in the press. General Petraeus is sort of upbeat. Are we where we can feel comfortable and have so-called turn the corner as I've heard over the last couple days? I'm not sure we're there. But we're making real progress in Afghanistan.

Now, what you have to remember, too, is that you can't decouple Pakistan from Afghanistan. And it's very important that we make sure that Afghanistan is not a training ground for terrorists that want to get up every morning and kill and harm Americans. Likewise, we have to make sure that Pakistan is a country that does not allow that either.

SEN. WARNER: I would add that I think there is some fatigue. I think there has been progress on the military front. I think there are still enormous, enormous challenges on the governance front in Afghanistan. I think there's frustration – and I don't think there's some magic bullet here – that we are spending billions of dollars on what is a regime that still appears, on most objective basis, pretty darn corrupt. How you kind of get from where we are right now to some place to do an appropriate wind-down is an enormous, enormous challenge. As Saxby said, the whole region, Pakistan is part of the issue. Whether it is a haven in terms of challenges in Afghanistan or its ability to strike out or allow terrorists to take on – to attack India, it's just not acceptable.

MR. RUBENSTEIN: OK, questions from our members. Raise your hand, just identify yourself. There's a mic to be brought around. While we're getting the mic around, either of you see a double-dip recession happening, or are you not worried about that?

SEN. WARNER: I'm worried. I think that you see a default in early August. I would move it from a concern to a high probability, and it's again why we've got to get it done.

MR. RUBENSTEIN: A question here. Stand up and please identify yourself.

Q: Yes, my name is Denise Sobone (sp). I'm the head of the Immigration Practice Group at Duane Morris. One of the things that I haven't heard is anything about immigration. A lot of the small businesses are created by immigrants. And there's a lot of immigrant investors that want to come to the United States to invest. There's an immigrant investor program that's also a job creation program, where if a person invests a million dollars and hires 10 U.S. workers, they can obtain permanent residency. This is a terrific program. We can't even get a permanent extension of the program. And it seems to me that a piece of the economic program should include something positive about immigration. I know that immigration is a fairly ballistic term, and it creates a lot of problems on the Hill in terms of passing legislation. But there's a lot of really good economic ways to stimulate the U.S. growth by immigration. I was wondering if you all had given this any thought and if you're going to make that program a permanent program and make it easier for people to invest, because that program has raised billions of dollars already.

SEN. WARNER: The subject – the subject for today was the debt and deficit, but I agree with this immigration visa program. I actually think that it ought to be lowered from a million dollars to a $500,000 investment at least. I think we still need increased numbers on H-1B. Many of us say this -- we continue to educate some of the world's best and then send them home. I think that makes no sense. I'm biased coming from the tech community, but in Northern

Virginia, about 25 percent of our tech firms are first-generation Americans. I can tell you this much. They have helped drive our region's economy in enormous ways, and I think that's an asset that gives us a competitive edge.

SEN. CHAMBLISS: Your term "ballistic" for immigration is mild. (Laughter) It's even greater than that. But both L-1 and H-1B are very good and necessary programs. When I was chairman of the Immigration Subcommittee on Judiciary, we actually thought to raise the level of those numbers, because it's an issue that we've got to address, but it's going to have be in a comprehensive package.

Q: Hi, John Childers, Consortium of Universities of the Washington Area. Do you two gentlemen and your colleagues have to keep the whole package together to move forward? Or I've always thought, for example, Social Security is eminently solvable. Public opinion polls show that an increase in the age or the base on which the tax is imposed would be supported by a majority of the American people. Maybe solving one issue would then lead to success in other issues.

SEN. WARNER: My personal view in, clearly, anything we thought about is Social Security does not contribute to the deficit. Social Security's going to need to be solved, but I think it needs to be solved on a parallel path so it's not tied to the specific deficit reduction.

Respectfully, I disagree with you. I think if you do revenues, cuts, Medicare reform in a sequential basis, the forces of the status quo will always win. Unless you can get something where you're kind of at some point going to leap – link arms and jump together, then you won't get the kind of comprehensive approach we need.

SEN. CHAMBLISS: Your point about Social Security being solvable is exactly right. It should be the easy one to solve, but it's not. In our discussions it has been very, very difficult to come up with a solution to it. But Mark is right that this is one of those issues that a lot of people are going to like. Whatever reform package might be included on Social Security, a lot of people will like it. A lot of people will dislike Medicare that like Social Security reform. That's where you're going to find a lot of people disliking a lot of the package, but liking a lot of the package, and why it's necessary to have it as a comprehensive deal.

MR. RUBEINSTEIN: One more question before we finish. Right here. Just get a mic, or just get up and shout.

Q: Thank you. Matt Erskine, with the Board of Trade.

As you look at both solving the long-term debt issue, there's also a great need in this country on infrastructure, whether it be transportation, whether it be investment in our innovative capacity as we compete on the world stage. How do you balance both the drivers on tackling the debt and the deficit issues, at the same time making sure that we're remaining competitive and innovative and truly a competitive player on the world stage?

SEN. CHAMBLISS: One thing we need to do from the standpoint of our trade issues is get the three current free trade agreements, that have been on the table for three years now, passed. They need to be confirmed by the Senate. We are seeing other countries around the world encroach on our ability to trade with our friends around the world. These three countries are our friends. They want to trade with us and they want these trade agreements, but, unfortunately, we haven't been able to get that done.

I think you're going to have to look at infrastructure, whether it's our transportation infrastructure that allows the transportation of goods from our ports, as well as our airports, to every part of our country – you're going to have to look at that kind of infrastructure, which we are doing in our discussions. But I think at the end of the day, what you've got to make sure of is that if we come up with a deficit reduction package, it's going to have to emphasize that you've got to continue to spend money on infrastructure, on education and on technology.

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 just the leader of the free world, but the world leader from a trade standpoint.

SEN. WARNER: Matt, I would just add that we've had these battles in Virginia and have not been all that successful. Infrastructure, we used to be at competitive advantage; it's actually turning into competitive disadvantage in America. We've disinvested by 50 percent as a percent of GDP since the 1970s in infrastructure in America. We're down to 2 percent of our GDP investment. Europe's at 5 (percent); China's at 9 percent. We've got this conundrum again of a declining source of revenue on a gas tax, as we try to get more fuel-efficient vehicles. I think the infrastructure investment bank is a small tool – not a silver bullet, but a small tool. One of the things we've spent a lot of time talking about is how do you find a different financing mechanism and funding mechanism? There's no appetite, obviously, for gas tax, particularly during these challenging times – We've spent some time on that.

I agree with Saxby. If you're not educating your folks, innovating and building some infrastructure, you're not going to stay competitive.

MR. RUBENSTEIN: Senators, would you each like to make a one-minute final comment before we close?

SEN. CHAMBLISS: Well, again, David, thanks to you, and to all of you, for letting us come to have a chance to dialogue with you. Mark and I are not going to solve this by ourselves. The six of us, if we're successful, are not going to be able to solve this. It's going to take everybody in this room, getting onboard and promoting a program that we hope we can put out there that will move us down the road of providing the certainty and ultimately getting down the road of retiring the debt.

We would simply just ask that you continue to follow us, to, hopefully, see the progress that we're making at the end of the day, and encourage your members of Congress, your members of the Senate, to support whatever package we can all rally around.

SEN. WARNER: I have, again, thanks for David and the Economic Club and for Saxby for doing this. We have spent hours and hours and hours and hours on end on both substance and process. It has been a real [example] – Saxby mentioned this at the front end – of the way the Senate is supposed to work: people giving and taking.

I would just make kind of the same appeal, except flesh it out a little bit. On one hand – 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. In some small way, so many of you helped when we were trying to deal with a much smaller issue in Virginia, and we kind of beat the odds trying to get our fiscal circumstances straight. We're going to need that effort on steroids now, because there are forces out there that – for either short-term political gain or, because of their fear of change -- are going to try to oppose the big-picture solution. And they're going to be loud. It's a lot easier to kind of sit back and say, this is too much of a mess.

This is a problem that's not going to just affect your kids and grandkids. This deficit crisis will hit us full steam ahead. It's going to affect every one of our lives, our lifestyles and the country's ability to compete.

So just reinforcing what Saxby said: check your Democrat and Republican hats. It's time to step up. You've got to be part of this fight. We've got to give you the details, and they'll be subject to change and everything else. But we're going to need you there.

MR. RUBENSTEIN: Thank you both for your comments. (Applause.)