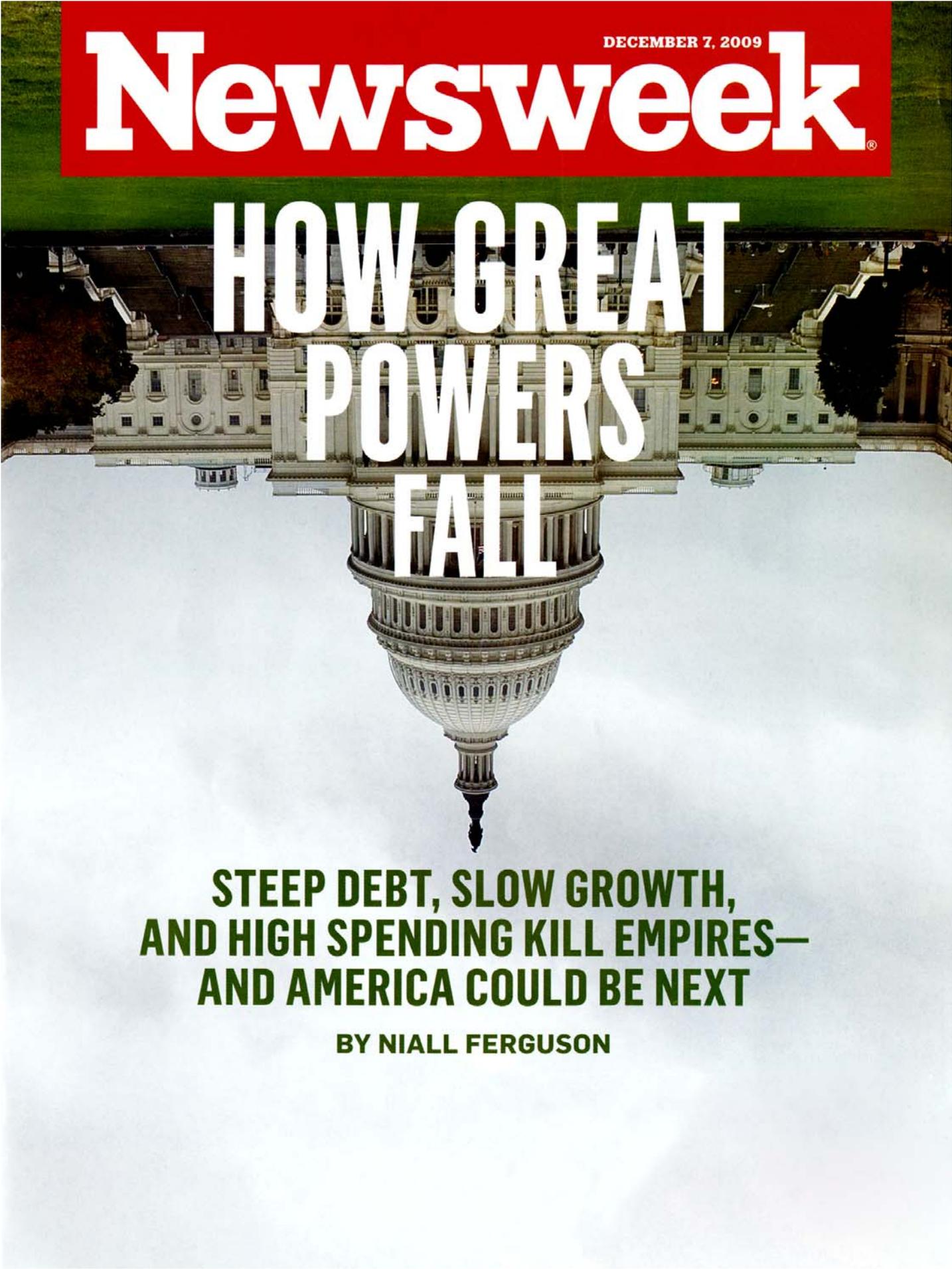


DECEMBER 7, 2009
Newsweek



**HOW GREAT
POWERS
FALL**

**STEEP DEBT, SLOW GROWTH,
AND HIGH SPENDING KILL EMPIRES—
AND AMERICA COULD BE NEXT**

BY NIALL FERGUSON

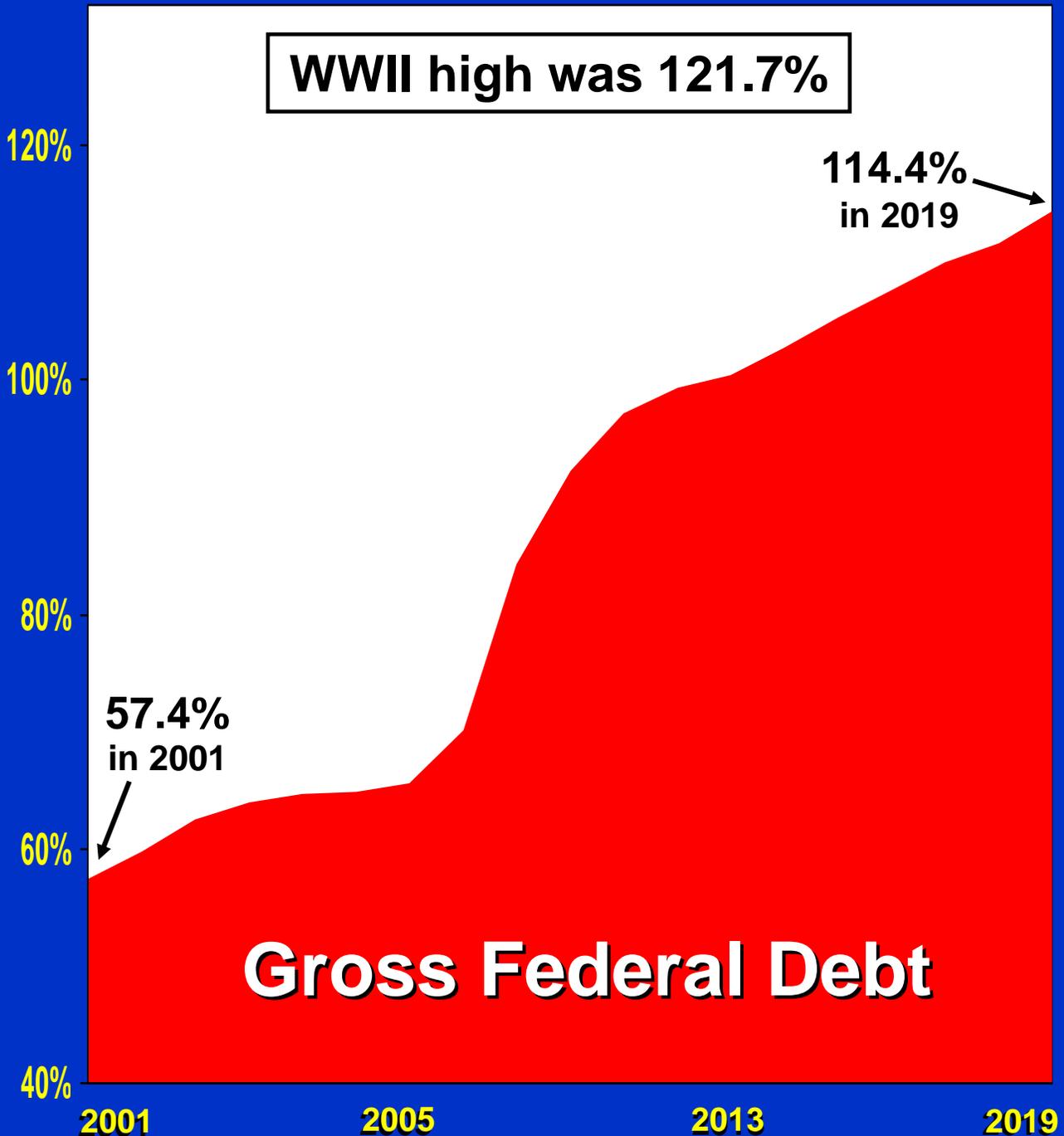
Newsweek: “An Empire At Risk”

“This is how empires decline. It begins with a debt explosion. It ends with an inexorable reduction in the resources available for the Army, Navy, and Air Force.... If the United States doesn’t come up soon with a credible plan to restore the federal budget to balance over the next five to 10 years, the danger is very real that a debt crisis could lead to a major weakening of American power.”

**– *Newsweek* cover story
By Niall Ferguson
November 28, 2009**

Gross Debt Approaches WWII Levels

(Percent of GDP)

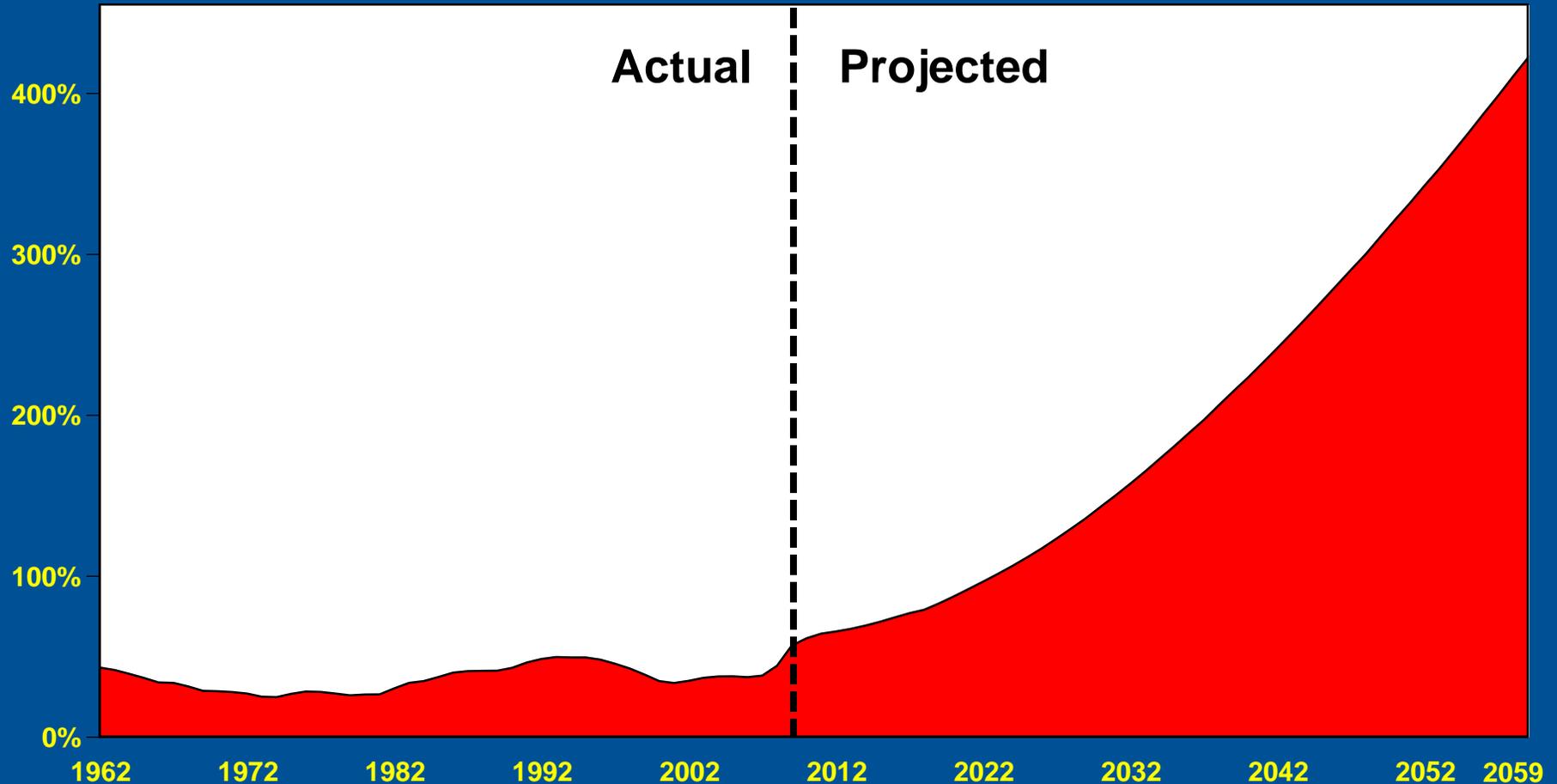


Sources: OMB, SBC, CBO

Note: Gross debt calculations by SBC staff using CBO's "The Budget and Economic Outlook: An Update," adjusted for alternative policies: extension of 2001 and 2003 tax cuts, traditional tax extenders, AMT reform, and ongoing overseas military operations.

Federal Debt Soars Under CBO Long-Term Budget Scenario

(Debt held by the public as a percent of GDP)



Source: CBO Long-Term Budget Outlook, June 2009

Note: CBO alternative fiscal scenario with tax cuts made permanent, AMT indexed for inflation, and Medicare physician payments growing with higher MEI rate.

National Journal: “The Debt Problem Is Worse Than You Think”

“Simply put, even alarmists may be underestimating the size of the (debt) problem, how quickly it will become unbearable, and how poorly prepared our political system is to deal with it.”

***– National Journal cover story
By John Maggs
November 7, 2009***

Former Fed Chairman Greenspan On Need to Address Long-Term Fiscal Imbalance

“The challenge to contain this threat is more urgent than at any time in our history.... [O]ur nation has never before had to confront so formidable a fiscal crisis as is now visible just over the horizon.”

**– Former Federal Reserve Chairman Alan Greenspan
Testimony before Homeland Security and
Governmental Affairs Committee
December 17, 2009**

Bipartisan Fiscal Task Force - Accountability

- **All Task Force members directly accountable to American people**
- **18 members – 10 Democrats (2 from Administration) and 8 Republicans**
- **Currently-serving members of Congress selected by Democratic and Republican leaders**
- **Treasury Secretary and one other administration official**

Bipartisan Fiscal Task Force - Broad Coverage

- **Everything on the table**
- **Spending and revenues**

Bipartisan Fiscal Task Force - Expedited Process

- **Recommendations to be submitted after 2010 election**
- **Fast-track consideration in Senate and House**
- **No amendments**
- **Final vote before 111th Congress adjourns**

Bipartisan Fiscal Task Force - Bipartisan Outcome

- **14 of 18 Task Force members must agree to recommendations**
- **Final passage requires supermajorities (3/5 vote) in both Senate and House**
- **President must still sign – retains veto power**

The logo for TPM (Talking Points Memo) consists of the letters "TPM" in a bold, white, sans-serif font, centered within a solid red square.

Talking Points Memo

“Commission” is WashingtonSpeak for Cutting Social Security and Medicare

By Dean Baker - December 1, 2009, 12:27PM

The "experts" who could not see the \$8 trillion housing bubble that wrecked the economy are now telling us that we have to create a special commission so that they can cut Social Security and Medicare. With much of Washington's punditry behind this effort, they could succeed.

The basic story is straightforward. There is a determined clique, led by Wall Street investment banker Peter Peterson, that has been trying to cut Social Security and Medicare benefits for at least the last two decades. Peterson, a cabinet member in the Nixon administration, is especially important in this story because he has personally bankrolled much of it.

Peterson started the Concord Coalition for this purpose back in the early 90s. He has written numerous books calling for cuts in these programs. He uses his vast Wall Street fortune to publicize these books, thereby ensuring that they are reviewed in major media outlets and reach a wide audience. More recently, he has pledged a billion dollars to support a foundation that is devoting considerable resources to bring about cuts in Social Security and Medicare.

Peterson and his crew have been peddling a story of fiscal calamity to advance their agenda. They try to scare young people with tales of enormous deficits driven by Social Security and Medicare.

The grain of truth in the Peterson story is that Medicare is projected to pose an enormous burden on the country in future decades. However, this is due to the fact that costs in the U.S. healthcare system are projected to continue to spiral out of control. The Medicare horror stories assume that per capita health care costs in the United States increase from twice the levels in other wealthy countries to four or five times the levels in other wealthy countries.

If health care costs spiral out of control as these projections assume, then the economy will be devastated regardless of what we do with Medicare. There will be many more General Motors and Chryslers as companies that pay for their workers' health care insurance will find themselves unable to compete. Tens of millions of workers will find themselves uncovered and unable to afford health care themselves.

In this context, serious people would focus on fixing the country's health care system, but the Peterson crew focuses on cutting Medicare. One obvious way to both cut Medicare costs and start to get U.S. health care costs under control would be to allow beneficiaries to buy into more efficient foreign health care systems, but the Peterson crew doesn't seem interested in proposals that don't cut benefits for working people.

It is especially outrageous that the Peterson crew would be leading this crusade to cut Social Security and Medicare. In part, because they were running around yelling about deficits projected for 2050, those of us who were trying to warn about the \$8 trillion housing bubble could not get attention. The Peterson's crew imaginary horror story helped to conceal the real disaster that was about to blow up the economy. Now this gang has the nerve to use the deficits created in part by their own incompetence as a reason to push their agenda for cutting Social Security and Medicare.

Peterson's efforts in this area are especially offensive because he personally has profited enormously from the "fund managers' tax break," a loophole in the tax code that allowed Peterson to be taxed at a lower rate than most school teachers and firefighters. Peterson not only personally profited from this tax break, he has lobbied Congress to ensure that it remains in the code for future Wall Street tycoons. No doubt much of the money he is using to cut retirees' Social Security and Medicare are attributable to this loophole.

So now we face the prospect of Congress creating a commission to cut Social Security at the behest of a person who has personally profited to the tune of tens of millions of dollars from a special tax loophole that his friends in Congress slipped into the tax code. This is corruption at its worst. The Wall Street crew simply will not rest until they have sucked the last dollar away from everyone else; and Congress appears ready to help.

Current Status of Social Security and Medicare Trust Funds

Social Security

- Permanently cash negative in 2016
- Insolvent in 2037 – 4 years earlier than forecast in 2008

Medicare (HI trust fund)

- Went cash negative in 2008
- Insolvent in 2017 – 2 years earlier than forecast in 2008

THE WALL STREET JOURNAL.

Tuesday, December 29, 2009

The Deficit Commission Trap

After signing a \$787 billion economic stimulus and embracing two annual blowout budgets that will double the national debt over 10 years even before ObamaCare, President Obama is poised to pivot next (election) year and denounce the horrors of deficit spending. So the White House it is now floating a bipartisan commission to reduce federal borrowing, and much of the political class is all for it.

We only hope Republicans aren't foolish enough to fall down this trap door, though some are already tempted. A budget deficit commission is nothing more than a time-tested ploy to get Republicans to raise taxes. In the 2009 version, Republicans are being teed up to hold hands with Democrats and agree to become the tax collectors for Obamanomics.

The deficit reduction commission is a longstanding idea that is now being pushed with renewed fervor by Republican Frank Wolf of Virginia and Democrat Jim Cooper of Tennessee in the House and Democrat Kent Conrad of North Dakota and Republican Judd Gregg of New Hampshire in the Senate. All you need to know about the sincerity of the two Democrats is that they're both supporting the multitrillion-dollar health-care entitlement even as they moan about the fiscal dangers of current entitlements.

Mr. Wolf says the commission would be "a 16-member panel that would look at everything—from what the government is required to spend on mandatory entitlements to spending on all other programs to tax policy." Congress would agree to vote up or down on the package through expedited procedures without amendments. Messrs. Gregg and Wolf believe this is the only way to force a Washington consensus to slow the growth of federal spending.

They're correct that current federal commitments are unsustainable, starting with \$37 trillion in unfunded Medicare liabilities. They're also right that a Washington consensus is likely to emerge from such a commission, but history shows it is unlikely to favor more than token future spending reductions. The real goal is to get GOP political cover for tax increases so Democrats aren't run out of town in 2010 and 2012 for blowing up the national balance sheet.

Let Mr. Conrad explain: "If one looks at the history of how these major [deficit reduction] agreements have been reached, it's almost always been through some sort of special process." He mentions in particular the 1983 Social Security commission and the 1990 budget deal.

Remember those gems? In 1983 Ronald Reagan and Congressional Republicans agreed to decades of job-destroying increases

in payroll taxes to "fix" Social Security, which you may have noticed still isn't fixed. As for 1990, that was the infamous Andrews Air Force Base summit when President George H.W. Bush renounced his no-new-taxes pledge and made himself a one-termer. No wonder Mr. Conrad wants a repeat. The budget deficit nearly dou-

**Democrats now want
Republican cover
for their tax increases.**

bled in the year after that deal, and it wasn't eliminated until Republicans took Congress in 1994 and reduced the rate of spending increases.

Democrats are candid, at least in private, about the kind of the deal they have mind this time around. Democrats would agree to means-test entitlements, which means that middle and upper-middle class (i.e., GOP) voters would get less than they were promised in return for a lifetime of payroll taxes. Democrats would also agree to cut appropriations by two or three percentage points and live under pay-as-you-go budget rules—the same rules Democrats promised to live by in 2006 but have since violated routinely.

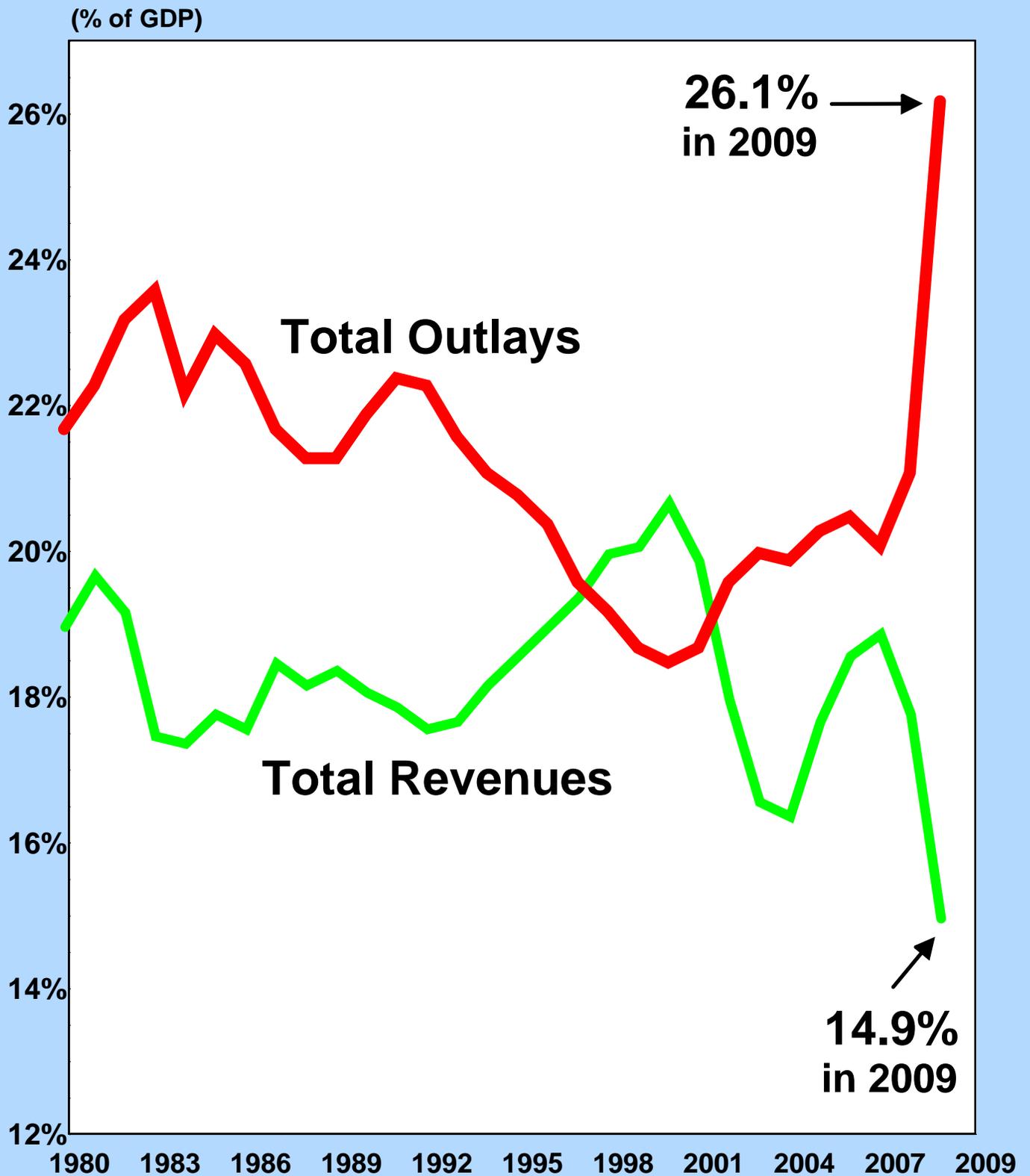
In return, Republicans would agree to an increase in the top income tax rate to as high as 49% and in addition to a new energy tax, a stock transaction tax, or value-added tax. The Indians got a better deal for selling Manhattan.

New taxes will only reduce the pressure to cut future spending. From 2001 to 2008, under President Bush, federal spending on discretionary spending grew by 54%. Mr. Obama's policies have expanded these agency budgets by another 57% over just two years. So an offer to cut these programs by 2% to 3% gives up very little.

The other big spending drivers are Medicare and Medicaid, which grew in fiscal 2009 by 10.1% and 24.6% respectively. But the House and Senate health bills would vastly expand the latter and likely retain the status quo for the former, at least at first. And rather than use repaid financial bailout money to reduce the deficit, Democrats are now moving to take \$130 billion in TARP cash and spend it on a new "jobs" stimulus even as the economy has begun to grow again. Why should Republicans sign up as the tax collectors for this agenda?

The Democrats will use a tax-and-spend commission to confront Republicans with the false choice between huge tax increases or fiscal disaster. Republicans should respond with their own choice: They'll agree to a deficit commission only if it takes tax increases off the table and forces all of Washington to confront the hard spending trade-offs between guns and butter, old and young, the poor and middle class, and social welfare and corporate welfare. Otherwise, Democrats should be forced to defend and finance their own destructive fiscal choices.

Spending and Revenues



Sources: OMB, CBO

The Need for Tax Reform

- Tax system out of date and hurting U.S. competitiveness
- Hemorrhaging revenue – tax gap, tax havens, abusive shelters
- AMT problem threatening millions of middle-class taxpayers
- Long-term imbalance must be addressed
- Simplification and reform keep rates low

Economic and Budget Experts Agree That Special Process is Needed

Greenspan

“The recommendation of Senators Conrad and Gregg for a bipartisan fiscal task force is an excellent idea.... I hope that you succeed.”

- **Former Federal Reserve Chairman Alan Greenspan**
Testimony before Senate Homeland Security and Governmental Affairs Committee
December 17, 2009

Holtz-Eakin

“I am a reluctant convert. I have always felt that this is Congress’ job, and, quite frankly, it ought to just do it. And that attitude has earned me no friends and has gotten us no action. So I’ve come around to the point where I’m in favor of something that is a special legislative procedure to get this legislation in front of Congress and passed.”

- **Former Congressional Budget Office Director Douglas Holtz-Eakin**
Testimony before Senate Budget Committee
November 10, 2009

Geithner

“...[I]t is going to require a different approach if we’re going to solve [the long-term fiscal imbalance].... It’s going to require a fundamental change in approach, because I don’t see realistically how we’re going to get there through the existing mechanisms.”

- **Treasury Secretary Timothy Geithner**
Testimony before Senate Budget Committee
February 11, 2009

Walker

“I think the regular order is dysfunctional as it relates to these types of issues. And it’s, quite frankly, understandable, because you’re talking about putting together a package that crosses many different jurisdictions.... And the idea that that would end up emerging from the regular order I think is just totally unrealistic.”

- **Then-Government Accountability Office Comptroller General David Walker**
Testimony before Senate Budget Committee
October 31, 2007

Panetta

“It’ll never happen. The committees of jurisdiction will never take on the kind of challenges that are involved in this kind of effort.... If you just leave them under their own jurisdictions, that will never happen.”

- **Former OMB Director and House Budget Committee Chairman Leon Panetta**
Testimony before Senate Budget Committee
October 31, 2007