

**THE TRILATERAL COMMISSION PLENARY MEETING  
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**SESSION 1: UNITED STATES POLITICS AND ECONOMY**

**David Brooks, Chairman**

**Senator Tom A. Coburn, M.D. (R-OK), and Austan Goolsbee, Panelists**

CHAIR DAVID BROOKS: Welcome. It's a great pleasure to be here, and we're extremely fortunate to have two extremely intellectually honest, brave thinkers with us. I'll just give 30 seconds for introductions.

The gentleman to my right is Tom Coburn who was a businessman and then became an obstetrician, then joined the House from the State of Oklahoma, and now is a senator from State of Oklahoma, though I was in Oklahoma yesterday, and a member of his family who was garnering most of his attention was his daughter Sarah, who is an opera singer who just sang in Vienna and is an opera star.

Senator Coburn has always been, since he arrived in Washington, one of the major voices of the Republican side nationally on fiscal issues, on spending issues. He is sort of a beacon of integrity on these issues practicing what he preaches. He was a member of the Simpson-Bowles Commission. And now he is a member of a group of senators who are working on a bipartisan basis to get some long-term solutions to our fiscal situation.

The gentleman to my left is Austan Goolsbee whom I first got to know as a professor at the University of Chicago, an institution that has produced many of our finest minds around the world. Well, we should thank the Rockefeller family, now that I think about it, for the University of Chicago. Some of you know it as, when I went to school there, it's where fun goes to die. The other saying about U of Chicago is it's, if I get this right, a Baptist school where atheist professors teach Jewish students St. Thomas Aquinas.

Austan is an economist. He became, I think it's fair to say, the major economic advisor for the Obama campaign out of his friendship with Barack Obama, and then when Obama won, became a member of the Council of Economic Advisors and is now the chairman of the Council of Economic Advisors.

So, these are the two people we're lucky to have.

I just want to say one thing for 30 seconds about the situation we're in, especially for our guests from abroad. There are really three interlocking things that are happening right now.

One, we have the government shutdown. That shutdown is really a dispute over the current year fiscal budget, so it is a short-term dispute involving relatively low dollar amounts. Then next month, David Walker reminds me, we will have another fight, a fiscal fight which is about raising the debt ceiling limit in the next month or two, so that is the second crisis point. Then the third longer-term crisis, which I think we'll spend most of our time talking about, is the long-term fiscal situation for the United States, which I think has implications for people in all developed countries.

But I'm going to start with the short-term question, and I'm just going to ask a couple of quick questions, one of each, so we can just deal with this, and then we'll move on to longer-term issues. And I'll start with Senator Coburn.

As we think about the dispute that we're now having over how much to cut, I was wondering if you could reflect on the change in the Republican Party, especially since the last election, on the people who have come, what is their nature, how likely are they to compromise, and how they changed the party in your view.

SENATOR TOM COBURN: Well, I think there certainly is a mix of change, but the influence of the new people are affecting, especially in the House, those that have been here for awhile because they know they're going to be challenged by that same thought in their next election cycle. I think it's had a direct effect in terms of the American public. You know, it's not just conservatives that want spending decreased. Seventy-four percent of poll-registered Democrats would like to have the spending decreased in this country, so I think it has had an impact and not in just the new ones that have come, but also those that are here recognizing what the potential pitfalls may be if they don't get the spending under control.

MR. BROOKS: Now, it's commonly said the leadership has trouble managing some of the younger or most aggressive members. Is that the dynamic you found?

SENATOR COBURN: No, I wouldn't really attribute it all to the leadership necessarily. If you look at the last vote before this one yesterday in the House, 54 Republicans voted against it. About half of those were not new members. They were older members thinking about whether they're going to be primaried or not.

MR. BROOKS: Okay. Now, Austan, the man you work for, in this current crisis and in others, some people have criticized him, especially even in the Democratic Party, for not getting totally involved until maybe too late in some of the negotiations. Would you describe what you see as Obama's style in resolving these sorts of disputes?

AUSTAN GOOLSBEE: I don't know if it's always the same in every dispute. Certainly, a lot of this has got to be worked out within Congress, and we have had the feature that I've described as the old East German judge at the Olympics where the president bends over backwards, does a triple flip and there's no splash, and then they still give him a two. And it's hard to get out of an environment where everything the president says leads people to say that's exactly what we don't want. It's a little hard for him to be taking the public lead on some of that for fear of inflaming it.

Coming out of the State of the Union it had been my view that the issues of education, innovation, and investment which were the core of what he was calling his "Win the Future" agenda were pretty bipartisan. But although it has historically been bipartisan, it felt as if, by saying those three things, it put a target on each of the education, innovation and investment areas in the budget, just to defeat what the President was for. I think part of his approach is that you must be judicious and a little more behind the scenes in some of these discussions.

MR. BROOKS: In your view, what's this about? You're an economist. You know the size of our entire economy, the entire budget. Why are we having such a fight over a relatively small portion of it?

MR. GOOLSBEE: Look, I'm an expert on the economy and the budget, not on the fighting part of the thing. I don't think the funding of NPR is that important to the long-run fiscal challenge, but there are a lot of others. There are some social issues. Plus, this whole thing is about four months of funding. I think a lot that has been vested in this is symbolic, who is for cutting more, and even if it's \$2 billion here or \$4 billion there, it's not really the number, it's more the symbolic gesture.

MR. BROOKS: Would either of you like to venture a guess on whether the government will shut down?

SENATOR COBURN: I think if it does, it will be a very short period of time, probably people coming back to work by Monday evening.

MR. BROOKS: That's too bad. It's great for traffic when the government shuts down. Now let's turn to the longer issue. Let's start with the fundamental. How should we think about the build-up of public debt? Is it a long-term issue? Is it a short-term issue? Is it something that's going to plague us in the next five years or is it something that's going to affect us over the course of a generation gradually?

SENATOR COBURN: Well, I think if you could give us an assurance that we'll continue to have a quarter to one percent interest rates, it's not a problem for a long time in this country. The problem is, what is the

appetite for sovereign debt throughout the world and what is going to be available to us as we come to that? What's the effect of that going to be on our interest rates?

For every one percentage change in interest rates, it's \$150 billion this year. It will be \$170 billion next year in terms of money that's going to have to be taken out of some portion of the budget to pay for that or we're going to finance the interest costs with additional debt, so it will totally depend on the confidence of the people who want to buy our debt.

The second thing is today we're not doing a great job in terms of funding our debt because our Federal Reserve is buying the vast majority of our debt. If the Federal Reserve is buying the vast majority of our debt, what we will end up with? And if that continues, it is financial repression where, in fact, we take from the average American family the difference between what you can earn on your retirement or your pension and what the interest rate and inflation will be. You will see a net decline in buying and purchasing power of the assets held by the average American.

So, we're going to fix it one way or the other. One way is we're going to be honest and upfront. The other way is we're going to steal from the American family through a process of elevated interest rates and inflation greater than that which will decrease the purchasing power of their assets.

MR. BROOKS: Do you work under the assumption that we have seven or eight years to deal with this problem?

SENATOR COBURN: I do not. I work under the assumption that we have less than three. If you look forward from where we are today, not if we get some grand agreement, by 2022 the only thing that will be able to be funded in our federal government will be Medicare and Social Security. No Defense Department, no discretionary and interest. That's what's left in 11 years, so it is prudent to think about. And that's at the interest rates that we have today, David. That's not at an extrapolated higher interest rate, so for every one point that goes up, you drop two and a half years, and so if we have an average interest rate of three, three and a half percent next year, then we're going to be reaching that point in 2019.

If it goes on up to our historical average interest rate on American debt, it's six percent. And if you apply that to where we are today, you'd see us spending about \$700 billion a year on paying interest. So, it goes back to the original question. What are the interest rates going to be and what will the sovereign loaners of money for sovereign debt allow America to do? What we need to do is send a signal that we understand the difficulty we're in, and we plan on making the changes so that we are a great investment.

MR. BROOKS: Austan, is that your interpretation of the time frame?

MR. GOOLSBEE: I would say two things about this. Now, Senator Coburn was on the Fiscal Commission. The Fiscal Commission was pretty good about separating out what's the immediate term and what's the long-term fiscal issue. The problems that we face in the United States are centered around long-run aging of the population, acceleration of health care costs, those are clearly numbers one and two. Number three, I would argue, we had a series of tax changes in the 2000s which also changed the revenue path. These factors, however, are, fundamentally, not why we had a \$1.5 trillion deficit last year and this year. That is overwhelmingly from the business cycle. The spending as a share of GDP goes up by five plus points compared to normal and revenues drop by five plus points compared to normal, and so there has been, among some people, a conflating of a big current deficit with the long-run fiscal challenge we've got to address. That's different than what the Commission said, and as Senator Coburn pointed out, he's saying short run it matters, but the short run that matters is the interest rate caused by the long-term issues not the short-term deficit.

The second thing I'd say is my general view is that the problem of deficits is that you have to pay back the money rather than it drives up your interest rate. It's certainly possible that we would have an

immediate financial/fiscal-based crisis, because there is a psychological element, but the one thing I would observe is that the United States starts from a debt-to-GDP ratio, not below everybody but well below average among the most advanced countries. Our spending and tax levels as a share of GDP are lower than most advanced countries, and our demographic issues are less pronounced than almost any of the other advanced countries. So I can understand why markets would be saying the potential debt capacity of the U.S. is far higher than its debt load now. I could see us having a financial crisis but it feels like Japan and Italy and the UK and a number of other countries who start from higher debt-to-GDP ratios already have 15 and 20 percent VATs, already have marginal tax rates well in excess of those in the United States, already have spending levels well above where we are. It seems like we would get a little bit of advanced warning because logically it would have hit them all first, and I think that's why, if you think it's an impending crisis, then the puzzle you've got to explain is why are long treasury rates still so unbelievably low, so much below even the historic averages. You would have thought they would have starting shifting.

Now, I know Senator Coburn is of the view that the actions of the Fed have played a role in preventing that. It might be true but that would be kind of where I would be looking.

SENATOR COBURN: Yes, well, I think the rates are higher in spite of us spending about \$400 billion of freshly created money to buy the rate. But the problem with Austan's argument I find a little difficult is when we talk about Federal spending as a percentage of GDP, so compared to everybody else we're comparing to, we ignore looking at the states. And when you look, and I don't remember what that number is — Austan, you probably know what it is — but it's significantly higher than that, so there's not a great difference in terms of total government spending in the United States compared to the rest of the country.

The second thing is we are the reserve currency. With that comes some responsibility to act responsibly and to create the basis. Why do we have the conversation about people wanting to abandon the dollar as far as a reserve currency? Because we've not acted as an adult in holding that responsibility, and that's the other reason why we should be back. If you're given a responsibility, you need to act on it in a way that preserves that currency and doesn't have everybody else run around trying to protect themselves because we're not necessarily doing it. There's a great reaction to the fact that we're going to spend \$600 billion, and there's no answer yet that there's not going to be a QE3, and it will be really interesting. You'll get to see about a month after they stop QE2 whether Austan or I are right in terms of interest rates, because I expect to see them pop if QE2 stops because the demand is not there for the bond.

MR. BROOKS: Now, Austan, the president appointed the Simpson-Bowles Commission and then in the last budget really didn't take up too much of what was contained in there or head in that direction. Was that based on the supposition that the primary problem was growth and not debt?

MR. GOOLSBEE: Well, in my mind growth is the number one thing that we must re-establish, not just because that's the healthiest for the economy but also because sustained growth is critically important for the fiscal. Take the United States post-World War II from 1946 to sometime in the mid '70s — we dropped the debt-to-GDP ratio by 85 percentage points. It's one of the most epic debt drops ever. We only ran a surplus, I think, three times in that whole period, so it wasn't that we were paying back the debt, it was that we were sustained raising our income and then the serviceability of the debt was clearly there, so I do think that's important.

I think that in the budget, what the president said in the State of the Union was the primary motivation. He said it was about the conflating of the short-run and long-run debt. And he said people are insinuating that discretionary spending is out of control and the root of our fiscal problems. I'm going to give you a budget where we're going to get the non-defense discretionary spending to a level as a share of the economy that it hasn't been since Eisenhower was president. And doing that gets you arguably down to

something approaching primary surplus, a little above, which would approximately stabilize debt-to-GDP at a higher level than historic 85/90 percent but less than what a number of other countries have experienced.

He said, and you're going to look at it, that's only about 15 percent of the budget, so we've got to acknowledge that it's not really about discretionary spending. It's about entitlements and that we have to do in a bipartisan way. The insight of the Fiscal Commission is bipartisan. If by your question you're asking, why didn't the president get up and say, here's my plan for cutting Social Security and cutting Medicare, I'm an economics professor, it's not my job to say what's politically naive, but I will say that sounds politically naive to me.

MR. GOOLSBEE: Well, we saw in the debate over health care the response to what's perceived as a partisan approach. The president says we're going to cut Medicare Advantage, they say he's cutting your Medicare, and they go after him.

When George Bush, the son, was president and Republicans controlled both houses of Congress, they put forward a partisan Social Security plan. Again, it has to be everybody together holding hands to do it.

The thing I like about the Ryan Plan is it's taking seriously that it's about the longer-run fiscal issues, not the short-run deficit. The thing that made me a little nervous is that it appeared to fundamentally reject the Fiscal Commission argument which was, let's do this in a balanced package, that we're going to address entitlements, some on the spending. By getting rid of deductions and exemptions, we wouldn't have to necessarily raise anybody's marginal tax rates, but we could have more revenues and lower spending. I felt that the Ryan Plan was actively saying we won't entertain the idea of a balanced package at all. It's got to be all on the benefit side and even more than 100 percent, we're actually going to have tax cuts coupled with bigger reductions, and so I don't know if it helps drive things toward the Fiscal Commission.

MR. BROOKS: Senator, you've given us a relatively short time frame. What do you think the chances are we will have some sort of balanced package before that crisis hits and do you think the Ryan Plan got us closer?

SENATOR COBURN: Well, first of all, yes, I think we will. And I will speak up for my president. I think he's going to stand up and start leading on this issue.

Austan just described the political dynamics that this country works on. How do you play God to politics? And if the president stands up and explains to the American people the significance of our problem. For example, Reinhart and Rogoff, at 90 percent debt-to-GDP, which is where we are today if you count our internal debt which we have to borrow to pay off. It's real debt, which costs us one point of GDP. That's a million jobs in this country. That's a million jobs that we don't have today that we would have if we were far below that level.

The fact is, I think the president is going to stand up. And my hope in working with the senators that I'm working with in a bipartisan fashion is to give him the model that here's three senators from either side, two of us at far ends of both sides, saying we can come together. The president embraces that and then we try to pull people together. It won't be perfect. We will get dynamic effects of changing tax expenditures which will allow us to significantly lower both corporate rates, individual rates, eliminate our worldwide tax systems where we go to a territorial tax system that's really true, which will help our country a great deal in terms of bringing capital back home for greater investment here and greater productivity in jobs.

I believe we're there. I have to have confidence. I actually believe Ben Bernanke when he says we're not going to get there because the world isn't going to loan us the money. That isn't Allan Greenspan saying that, that's Ben Bernanke. So, it's a strong message that says you can't go on this. You won't get there because you won't — and if you can borrow the money, you won't be able to afford the carrying cost of it.

The second problem we have is that the term of our debt is way too short, and we've done that essentially so that our interest costs are low. But if you have any significant moves and you're all tied up in short-term debt, what happens to your debt cost, your servicing cost? Well, it rises exponentially which then hurts everything we're going to be trying to do.

MR. BROOKS: Well, I should just pause for a second to sort of give a landscape essentially for people who haven't followed this as closely as we have in Washington.

There is a Republican budget committee chairman in the House named Paul Ryan from Wisconsin who this week came out with a Republican budget plan which is, I think, quite a bold document which really re-envisioning our Medicare, our health care system, and gives more or less a plan to reduce the debt, really breaks through a lot of political barriers. At the same time that has happened in the House, Senator Coburn is part of a group of six senators who have been involved on a bipartisan basis to comment on the Simpson-Bowles-like political package. And then everybody is waiting for, are waiting for Godot, the president, and whether he will embrace this package or embrace another package or whether he'll even go before the American people with a bunch of charts and say here's the situation people, we can't do it by cutting foreign aid.

MR. GOOLSBEE: You know I'm the whiteboard guy. I love charts.

MR. BROOKS: Austan, online, I highly recommend. Austan does these white board explanations of various economic issues where he's very good. He's the Oprah Winfrey of macroeconomics.

MR. GOOLSBEE: Well, I think what Senator Coburn said is basically right about what's happening in the Senate. In the Fiscal Commission, if you didn't follow it, it was kind of everything that's promising but also everything that's not promising about the political system.

You had sitting senators of both parties say, look, we can hold hands, this is too important to mess around, let's do this in a balanced way. And then you had sitting House members of both parties say no deal, we want nothing to do with it. And on the Democrat's side saying we won't accept any benefit cuts of any kind and wanting the president to kind of preemptively demonize the issue and say in the State of the Union "I won't stand for the Republicans cutting your benefits." And on the House Republican side, saying not a dollar of tax revenue, it doesn't matter what it is, that's a tax increase.

The president has been careful over the objection of a number of people in his own party, to do nothing to demonize the Bowles-Simpson type of framework. We need to see how it plays out, what the group in the Senate is able to do because in my mind that's in the same spirit and in many cases it's the same people from Bowles-Simpson. And if the Ryan argument, which I would characterize as a budget that's 100 percent benefit cuts and there can't be any tax revenues, if that forwards the motion toward something that's more like Bowles-Simpson, that's great. If it ends up being a magnet to pull what Republican support was in the bipartisan toward the Ryan plan, which is really quite fundamentally different, then it would probably not have helped, it would have hurt us.

SENATOR COBURN: Let me correct history a little bit since I was on the plan with all these guys.

The reason you got no Republican House members to vote for Simpson-Bowles is Simpson-Bowles has one big hole in it. It does not address the magnificent and ever-growing costs of health care in this country, and they fully accepted the tax changes. They publicly stated that they fully accepted the tax changes, but because it didn't address the biggest problem in the room which is health care, they chose not to address it. Paul Ryan has addressed the big problem. The reason his budget does what it does is because he's a Willie Sutton guy. He's going where the money is, and so I would not overread Austan that they don't die, and I agree that his budget does very little on revenue. But if you dynamically score that, which they have, it does a great deal on revenue in terms of the economy, in terms of generating dollars for the economy.

I'm one of those rare Republicans, I didn't vote to extend the Bush tax cuts because I see the kind of problem we're in, but that doesn't mean I was necessarily right. It just means I don't think you continue to belabor the point on that.

MR. BROOKS: I'm going to ask two questions of what I think are the weak positions in each party's position and then I'm going to ask a macro question.

Let me start with you, Senator Coburn, and then we'll go to the floor. The Democrats spoke a lot, in many ways quite persuasively, that we not only have a debt problem, we have a weight stagnation problem, we have an inequality problem, and we have structural problems in our economy. And I guess I would say as I look over the various Republican plans, I see a lot of attention to the debt but not enough or not much attention to the underlying structural problems of the economy. Do you think that's fair?

SENATOR COBURN: Well, I think parts of it are fair. As a former businessman, I think we're not going to regenerate growth in this country until we get the regulatory scheme markedly decreased. I meet with seven to ten people a week from across the country, most of them from Oklahoma, telling me they can't invest because they've got a holdup at the federal level on some rule that's ridiculous that it doesn't match any particular need that they have. So we have a regulatory problem, but I think there's some truth to that, but we do that on the other side of the spectrum.

We need leadership in our country to describe the risks that we have, and then a coming together, because what happens when America gets challenged and we all identify it to be a true challenge, this country drops a lot of labels, drops a lot of differences, and comes together. And so my hope is the president will lead on that with several of us who are willing to hold hands and jump with him because we don't have a problem that's not solvable. All our problems are solvable. He agrees. Everybody knows that. The question is, they become much more difficult to solve with every moment we delay in addressing the issue.

MR. BROOKS: And then, Austan, we really can't get very far without presidential leadership and the Republicans do have a plan or at least Paul Ryan has a plan, the Senators have a plan. It's really hard when the White House is this passive.

MR. GOOLSBEE: That wasn't a question.

MR. BROOKS: It was an accusation. That's better than a question.

MR. GOOLSBEE: I think it's somewhat fair. My question is, whether leadership, in your view, is the president getting up and saying at the State of the Union, "I'm the one who got the Simpson-Bowles Commission formed, the opposition voted against it, it is my Commission, and I propose what the Commission said." Do you think the response would be, "Well, Mr. President, that's a good starting point, let's commence a negotiation"? I don't think that is what the response would be. I think that if that's your model of what is required as leadership of the president just to say here's my plan, I think you will be horrified over the coming weeks and in the run-up to the debt ceiling. I desperately wish we weren't going to have a debate like the one we're having now about the shutdown over the debt ceiling. In my view, that's really irresponsible. We shouldn't play with that if for whatever reason we can't agree, we're actually talking about defaulting on the debt for no reason, the world would still lend us the money but we just would default anyway.

But over the period from now to then, it does feel like we are going to be inching, seeing whether we can get to some grand bargain. I think the president's budget on the discretionary side is fairly responsible to begin on the point that you're describing and I think Senator Coburn's point is right that the president's got to help educate about where the real economic problems are.

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