Ethics in Government:
What Joel Hefley
really thinks.

The Ripon Forum

December 2006/January 2007
Volume 40, No. 6

Ho, Ho, Ho!

When it comes to federal spending, it's become Christmas all year.

Plus:
Rich Bond and Charlie Cook
assess the midterms
and the outlook
for 2007.

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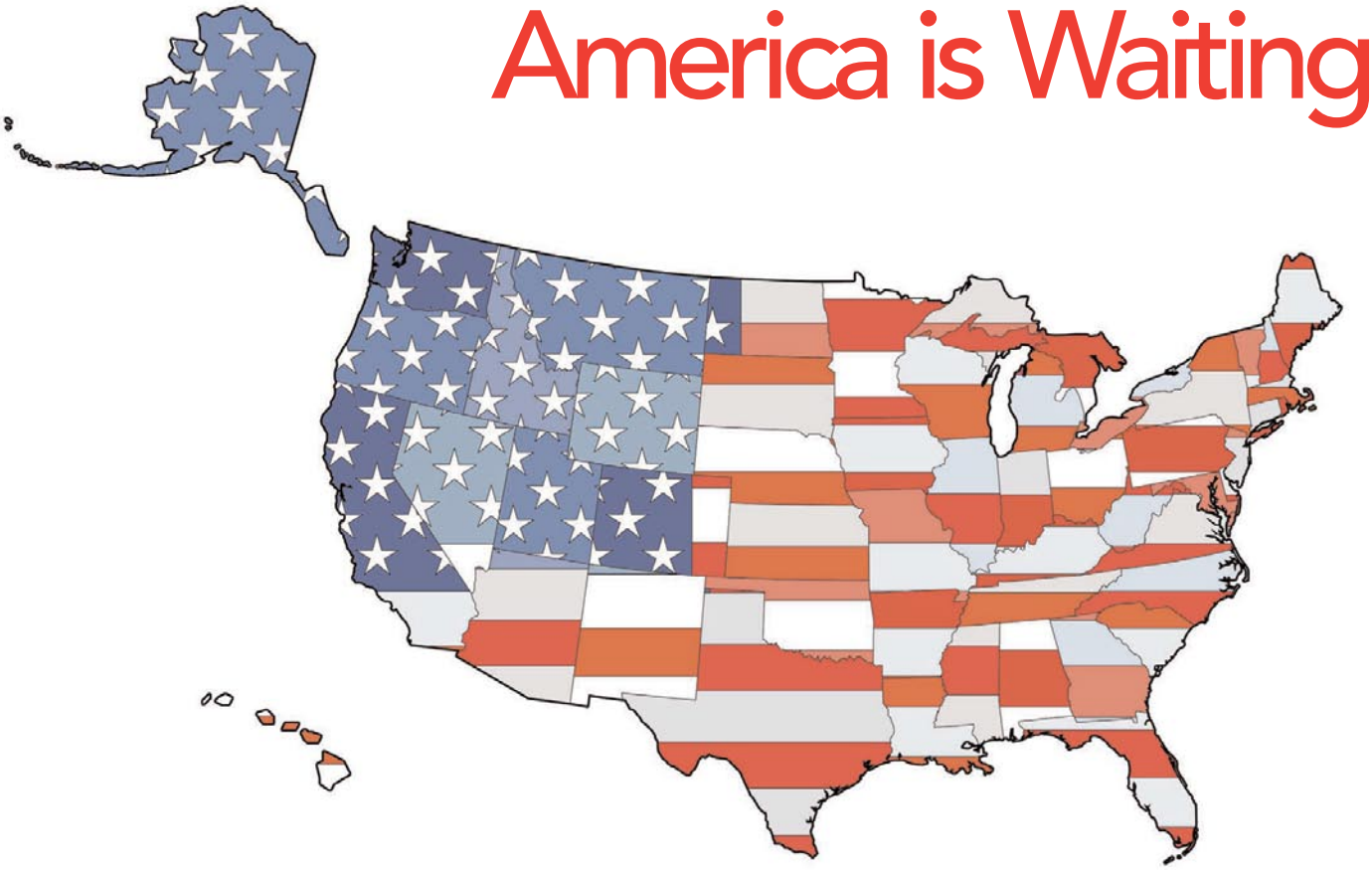
America is Waiting



Red State or Blue State, Republican or Democrat, 89% of Americans Consistently Agree on the Idea of Small Business Health Plans*

Across the country — and across party lines — an overwhelming majority of Americans are counting on Congress to give small businesses and the self-employed greater access to affordable health plans. It's not politics, it's a fact of life: Two-thirds of Americans say they worry "a great deal" about the availability and affordability of healthcare.**

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*Public Opinion Strategies and Lake Research Poll, March 2006

**The Gallup Poll, March 2006

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In publishing this magazine, the Ripon Society seeks to provide a forum for fresh ideas, well-researched proposals, and for a spirit of criticism, innovation, and independent thinking within the Republican Party.

The Ripon Society is a research and policy organization located in Washington, D.C. There are National Associate members throughout the United States.

A Note from the Chairman Emeritus

Earlier this year, there was a joke making the rounds in Washington. It went like this:

Question: What do Republicans and fiscal conservatives have in common?

Answer: Absolutely nothing.

The joke was not particularly clever. But, unfortunately, it was illustrative of part of the GOP's election problem this year. In short, the party that had been elected to balance the budget had blown the budget completely off its hinges.

Yes, there were some excuses. *The war on terror costs money. The worst natural disaster in our Nation's history is not cheap.* But there was also a clear sense that the party's commitment to fiscal discipline had come undone. And Republicans paid a price for it at the polls.

In this issue of the FORUM, we look at the mess that has been left and some of the solutions that have been proposed to get spending under control. We ask whether deficits really matter during this time of solid economic growth, and examine how the new Democratic majority may go about handling the situation. For more insight in this regard, we also hear how one Governor has successfully balanced the budget in his own state, and how one Mayor has charted a new course for his city that produced better services and a budget surplus to boot.

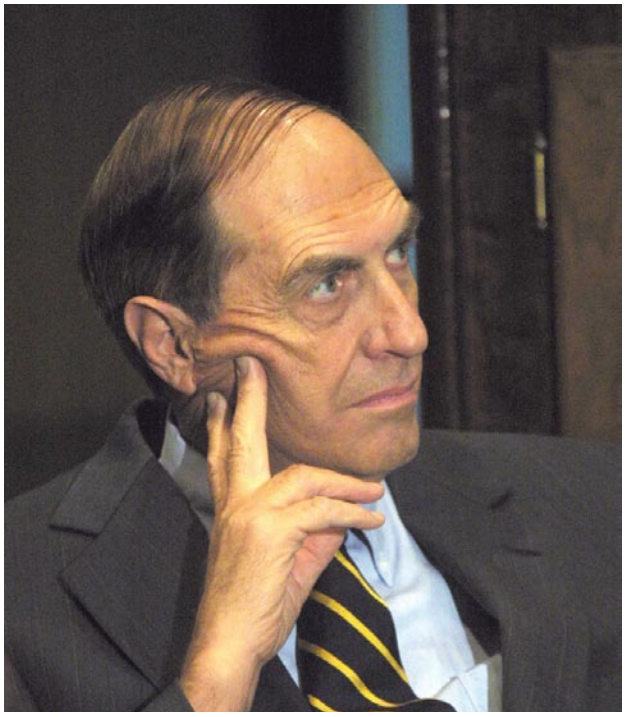
We get things started, though, with an article not on federal spending but on another issue that contributed to the GOP's downfall – ethics. Joel Hefley, who is retiring from the House after 20 years of distinguished service, shares his thoughts on the ethics process in Congress and how it can be improved.

There's a lot of food for thought in this issue, and a lot for Republicans to think about as they pick up the pieces and look toward next year.

Bill Frenzel
Chairman Emeritus
Ripon Society

The Importance of the Ethics Process for the New Congress

JOEL HEFLEY



Sean Cayton

After twelve years, the tide of power turned this November. Great responsibility comes with power, and we will soon be witness to that power in the 110th Congress.

Knowing that Congress is an institution, we can find comfort in the fact that faces may change but purpose remains. During the years, we as elected officials represent our home districts, our people and our values. We hold ourselves to higher standards because we have been given the power to change law, to create law, and to fund our government. And when those standards weaken in the House, we monitor each other through the use of the Ethics Committee.

Since its inception in 1968, the Committee on Standards for Official Conduct (informally known as the House Ethics Committee) has been unique in the House of Representatives. It is the only standing committee in which membership is equally divided between each party. The make-up of the committee is intended to provide a fair procedural framework for the conduct of the committee's activities and to help ensure that the committee serves well the people of the United States, the House of Representatives, and the members, officers and employees of the House.

To be a credible ethics process, bipartisanship must exist not only in Committee deliberations and actions, but also in the development of the rules under which those deliberations and actions will occur.

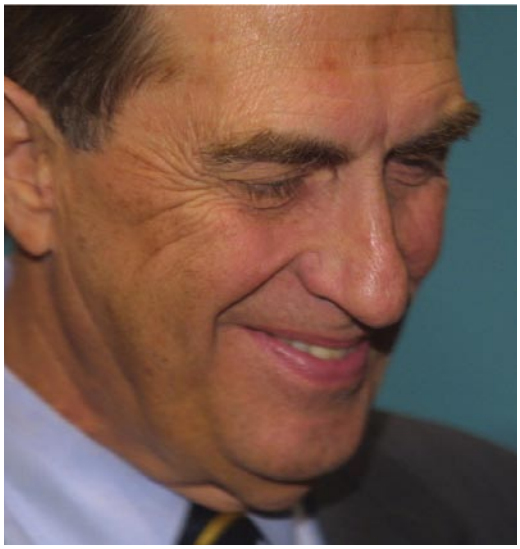
I have been in the unique position of serving on the Ethics Committee as a member and as Chairman. During my service, I have come to the conclusion that the process works if Leadership allows it to. Having an equally divided committee fosters a working relationship that has rarely been equaled on other committees. In my time as Chairman, no decision was made on a partisan basis, and most decisions were unanimous. I would be hard pressed to remember a time when Congress was not under scrutiny, but in recent times we have come under a direct dissection and search for credibility. To be a credible ethics process, bipartisanship must exist not only in Committee deliberations and actions, but also in the development of the rules under which those deliberations and actions will occur.

I believe some of our credibility disappeared in late 2004 and early 2005 when Leadership fast-tracked legislation, calling on party loyalty to pass the rules changes. This is a misfortune that should be remedied in the 110th Congress. The vote on the ethics process should be separate and apart from the vote on the House rules. The vote on House rules is a party-line vote, but the vote on the ethics process should not be. The January 2005 vote signified a major detour from a bipartisan ethics resolution.

Besides the actual rule changes, I am troubled by the actual process Leadership engaged in to fast-track the rules changes. Despite numerous requests by the committee, Leadership did not consult the

committee on any of the changes they proposed and publicly released the text of these rules only a few hours before they were to be voted upon. The Ethics Committee has almost 40 years of bipartisan tradition. From its very beginning, the rules for its operation were the results of a bipartisan panel composed of six Democrats and six Republicans. To continue working without undue influence, it is imperative to develop the rules in a bipartisan manner.

Past evidence reveals the chair and ranking member would submit changes to the ethics rules when the process stopped working. By submitting changes, the committee commits to three things: bipartisanship, careful deliberation, and a showing of necessity. Through change, we strive to strengthen the ethics rules. From 1997, when I served my first term, until 2004, while serving my last, we as a committee gave unanimous or overwhelmingly bipartisan conclusions. The committee, as part of the institution, worked. Deadlock never reared its ugly head. Partisanship was left at the door. And careful deliberation carried us to our conclusions.



Sean Cayton

In the end, it is the independent nature of the Ethics Committee that will sustain change and provide oversight to the standards necessary for an institution worthy of respect.

The importance of the Ethics process for the new Congress will redefine the character of Congress. We have the duty to protect the institution Congress represents, and within that duty, we must hold ourselves accountable for our own actions as well as our colleagues' actions. I would suggest that if Chairman Hastings goes on to other things, the new Minority Leader of the House should appoint Representative Kenny Hulshof (R-MO) to be the ranking member of the Ethics Committee. Hulshof, in my opinion, represents a proven option to lead the committee. He has proven to be non-partisan and holds the respect of everyone. If there is any committee on the Hill that should aspire to non-partisanship and respect, it is the Ethics Committee. The Ethics Committee can continue to produce fair decisions so long as Leadership stays out of the process.

As I face the last days of service here in the House, I urge those returning and those just chosen to use a different process than used in January 2005 to adopt the new ethics rules for the House. We have done a great disservice to ourselves by voting for partisanship in the ethics process, and the consequences of that vote show in the form of stalemate during most of the last Congress. It is my hope that a real analysis of the rules is undertaken when deciding on changes. Based on my experience on the Ethics Committee, I, along with Representative Hulshof, have suggested reforms to the House ethics procedure that were not included in H.R. 4975, the bill which passed the House. Our bill, H.R. 4988, does three things the passed legislation does not. Our bill gives the Ethics Committee broader subpoena power during informal investigations, which is when the key decision is made whether to fully investigate a potential violation. Our bill would strengthen the independence of the chair and ranking Member by giving them presumptive six year terms like other Chairmen. And our bill would strengthen the independence of the Ethics Committee staff by making this a career office, like the Parliamentarian's office, yet with the accountability all staff should have.

In the end, it is the independent nature of the Ethics Committee that will sustain change and provide oversight to the standards necessary for an institution worthy of respect. The Ethics process sets the tone. **RF**

Joel Hefley has represented the Fifth District of Colorado in the U.S. House of Representatives since 1987. From 2001 until 2005, he served as Chairman of the Ethics Committee. He is retiring at the end of this term.

Midterm Consequences

RICHARD N. BOND

The aftershocks of the 2006 election earthquake will reverberate through the federal scene for years to come, profoundly affecting governance, policy, and politics.

Success or failure in the next two years in particular will cement the final legacy of the Bush Administration, signal the revival or demise of the Reagan Revolution, and demonstrate whether newly empowered Democrats can consolidate their congressional gains and use them as a springboard to retake the White House.

How President Bush handles his lame duck status is the key indicator. He can retreat and work on his golf game (not in his character), begin to exercise his veto pen (will the minority GOP support him?), or triangulate and compromise (as president Clinton did).

Triangulation is the path the President is most likely to pursue, if his dismissal of Defense Secretary Donald Rumsfeld and his initial conversations with incoming Speaker Nancy Pelosi and Majority Leader Harry Reid are any indication.

It is doubtful the GOP House Minority will be much of a force in these deliberations, although their GOP Senate counterparts, with their power to filibuster, will be crucial to every negotiation.

Since the President can count on Senate Republicans to bottle up policy excesses potentially passed by an activist, liberal House of Representatives such as tax cut rollbacks or a defunding of the Iraq war, the initial list of "triangulated" policies is limited. Education issues such as increasing student financial aid limits and the repassage of the *No Child Left Behind Act* are likely candidates for compromise.

Bush and GOP presidential front-runner Senator John McCain seem willing to deal on the immigration issue, but Democrats have yet to signal that this politically charged issue is one of their top priorities. This is a noteworthy signal of just how serious the Democrats are about keeping their new congressional majority. After punishing the GOP at the polls by rallying Hispanics and the immigrant community on immigration, the Democrats are now shelving the action on comprehensive reform. Equally contentious issues such as a new energy tax, spending bills, and a reopening of the Medicare drug benefit also are prime candidates for legislative gridlock.

House and Senate Republicans will be desperate to regain their majorities and will run away from the Bush administration if they perceive the Bush-Cheney term as a drag on their prospects.

Underscoring all of this is of course, politics. House and Senate Republicans will be desperate to regain their majorities and will run away from the Bush Administration if they perceive the Bush-Cheney term as a drag on their prospects.

Interestingly, the President planted the seeds for his lame duck status six years ago with his selection of Dick Cheney and Cheney's subsequent announcement not to seek the presidency. Vice Presidents seeking the presidency provide useful

political stroke in the last two years of a presidency. They help keep rivals at bay, mute criticism of the incumbent, and keep the party apparatus united and loyal.

All of this is absent as the GOP enters the post-Bush era, so to maintain his relevance and viability, the President will have to make triangulation, or the veto pen, work for him to regain his standing with the public.

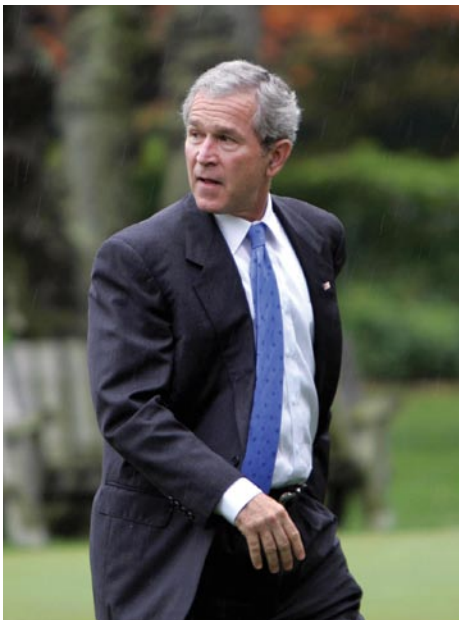
House and Senate Republicans have equally daunting tasks before them. To regain their majority, the House GOP will need to focus on 18 of the 30 seats that they lost, which are in districts won by Bush in 2004. These seats are the easiest to take back, especially if their occupants end up acting like loopy liberals (my number one candidate for this: Carol Shea-Porter who won in New Hampshire's 1st District).

Senate Republicans face a double whammy: losing their majority in 2006 when more Democrats seats were at risk; and attempting to regain the majority in 2008 when more Republican than Democrat seats are at risk. Twenty-one GOP seats (four in "blue" states) are up in 2008, while only twelve Democratic seats (six in "red" states) are up for grabs.

Retirements also are a looming difficulty for the GOP congressional minority. Unlike congressional Democrats – many of whom have no interest in a livelihood outside of politics (think John Dingell, John Conyers, Charlie Rangel) – Republicans are more likely to return home to family and friends outside of the Washington, DC beltway when subjected to minority status. If key House and Senate Republicans choose the retirement option, the additional challenge of holding on to their seats will make it more difficult to win back the majority.

The Presidential campaign will play a large part in determining whether there will be a pro- or anti-Republican wave in 2008. Among Republicans, Senator McCain is best positioned to take advantage of the current sour national political mood by virtue of his independence and reputation for straight talk. The possible emergence of former New York Mayor Rudy Giuliani as a presidential candidate is a cause for worry for McCain, as is the emergence of a single conservative challenge once the GOP field winnows.

On the Democrat side, Senator Barack Obama cut Hillary Clinton's lead in half as the presumptive front-runner, just by mentioning he was considering making the race. If Obama does run, political oddsmakers may need to recalculate Ms. Clinton's prospects.



… to maintain his relevance and viability, the President will have to make triangulation, or the veto pen, work for him to regain his standing with the public.

Additionally, waiting in the wings is New York Mayor Michael Bloomberg, who is reported to have a third party presidential run under active consideration. The non-flashy and competent Bloomberg will be a welcome contrast to the likes of Ross Perot, Pat Buchanan, and Ralph Nader, all colorful but kooky former third party candidates who ended up in the remainder bin of political history.

President Bush and Republicans need to learn from their mistakes, return to core principles, and correct the ethics, profligate spending, and the out-of-step image that plagued them in 2006. Only with this type of course correction can the GOP regain its congressional majority and hold the White House.

Democrats will need to show they can govern from the center and deliver more than just anti-GOP rhetoric to the voters.

The ultimate question from the 2006 verdict is that once America knows where both parties want to lead the country, is that where America really wants to go? **RF**

Richard N. Bond is a former Chairman of the Republican National Committee.

Q&A
With Charlie Cook

Charlie Cook is the Publisher of *The Cook Political Report*, and a political analyst for the National Journal Group, where he writes weekly for *National Journal* magazine and *CongressDailyAM*. He also writes a regular column for the *Washington Quarterly*, published by the Center for Strategic and International Studies, and is a political analyst for NBC News.

Widely regarded as one of the nation's leading authorities on U.S. elections and political trends, Cook has also become widely recognized for his regular appearances on "Meet the Press," "Good Morning America," and other cable and television broadcast news programs. *The New York Times* has called him, "...one of the best political handicappers in the nation" and noted that *The Cook Political Report* is "...a newsletter that both parties regard as authoritative." *The Wall Street Journal's* Al Hunt has called Cook "the Picasso of election analysis," while David Broder of *The Washington Post* has written that Charlie Cook is "perhaps the best non-partisan tracker of Congressional races."

Cook lives in Chevy Chase, Maryland with his wife Lucy and three children, Rebecca, David and Jeffrey.

RF: *Did Republicans lose the November elections because they ceded the center or because their political base did not turnout?*

Cook: More of the former than the latter but a little bit of both. The Republican share of the turnout in 2006 was three points below 2002, the last midterm election, so there was disillusionment among Republicans. But I think the strategy of organically growing the conservative base as opposed to connecting with weak Republicans, independents and weak Democrats was the bigger problem.

...I think the strategy of organically growing the conservative base as opposed to connecting with weak Republicans, independents and weak Democrats was the bigger problem.

Symbolically speaking, the Republican Party has moved its headquarters from Indianapolis or Columbus to Dallas, and the new direction – with its focus on social and cultural issues and the sharper edges – has come at a real cost, virtually destroying the party in New England, hurting it badly in the Northeast, and to a lesser extent the Midwest and West Coast.

Many secular Republicans, those with little or no social/cultural agenda, or those with more centrist views on those issues, have come to feel disenfranchised, and independents are totally alienated by the GOP.

RF: *One of the hallmarks of independent voters is their belief in compromise – that is, their belief that Republicans and Democrats should set aside partisan differences and work together to get things done. Does this present a problem for those in the GOP who believe the party will regain its majority only through confrontation and by sharpening their differences with Democrats?*

Cook: I think there is plenty of blame on both sides of the aisle, Democrats back in the 1980s and early 1990s, Republicans more recently. But some of the blame is systemic.

As you started seeing more and more Members of Congress leaving their families back home, turning Congress into a Tuesday through Thursday club, minimal socialization between Members of different parties and ideologies, less foreign travel for most members (I believe in the adage that you never really know someone until you travel with them), the tougher, nastier campaigns and advertising… all of these things have contributed to heightened partisanship. These Members don't know each other, they don't like each other, and, most importantly, they don't trust each other.

While centrists are decidedly in the minority in each party, it is possible to cobble together a centrist majority on many issues. It just won't be easy.

Congress has become a dysfunctional institution. I don't know how this can be changed.

RF: *Tip O'Neill once famously stated that, "All politics is local." In today's era of Internet blogs and 24/7 cable news coverage, do you think that is still true?*

Cook: In four out of five midterm election years and – in terms of the House, Senate and gubernatorial races – nine out of ten presidential election years, all politics is local. But in one of out five midterms and one out of ten presidential election years, all politics isn't local, and national dynamics kick in.

The important thing is to be able to ascertain before the election whether it will be a normal election (such as in 1996, 1998, 2000, 2002 and 2004) or an abnormal election (such as in 1958, 1964, 1966, 1974, 1980, 1982, 1994 or 2006). The signs seemed pretty clear to me over the summer that this was going to be an abnormal election when all politics wouldn't be local.

I don't think this has anything to do with 24/7 news or blogs or anything. It is when the electorate is angry, fed up or there is a consensus rejection of one party.

RF: *What do you think will be the key issues on the 2007 legislative agenda?*

Cook: I think it is very difficult when Congress is so evenly divided and you have a lame duck president with low poll numbers to see a lot getting done.

Obviously there are enormous problems facing the country—budget deficits, Social Security, Medicare and Medicaid, greater energy independence, controlling the costs of health care without stifling essential research—but it is very hard to see the kind of leadership, the kind of risk-taking that is necessary to solve or at least substantially address these problems

RF: *Finally, do you think the 2007 legislative agenda will be impacted at all by the start of the 2008 presidential campaign?*

Cook: With almost a tenth of the Senate running for President, both parties are as nervous and cautious as long-tailed cats in a room full of rocking chairs. It just makes anything and everything harder to accomplish than would otherwise be the case, and the window of getting anything done much narrower.

What it will take is Members on both sides to have the guts to keep an arms length from their leaderships and to forge their own coalitions and make one or both parties come to them to get anything done. While centrists are decidedly in the minority in each party, it is possible to cobble together a centrist majority on many issues. It just won't be easy. **RF**

Centrist Coalition news conference in 2001.

Ho, Ho, Ho!

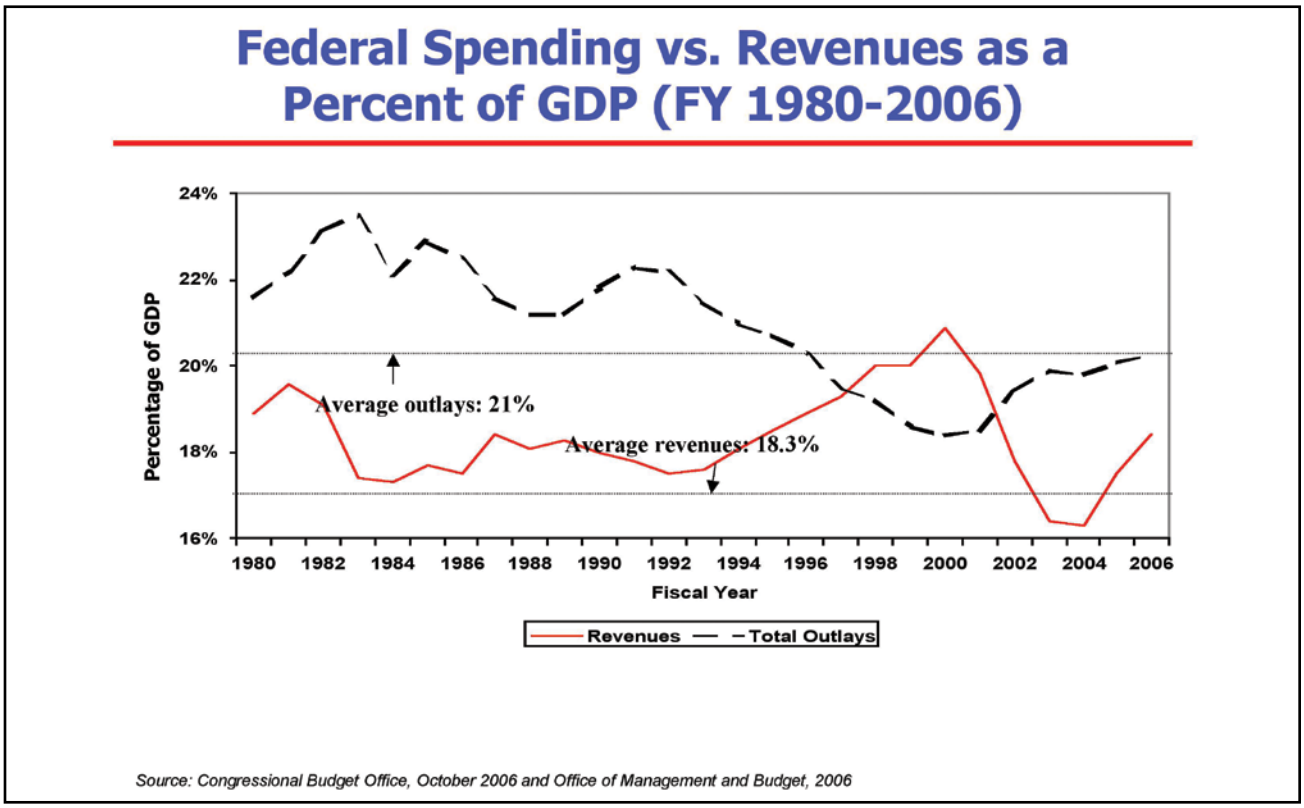
When it comes to federal spending, it's become Christmas all year.

ROBERT L. BIXBY

At this time of year politicians are often portrayed as Santa Claus, joyfully doling out spending goodies and tax breaks to grateful constituents. This comparison does a gross injustice to Santa. When he delivers presents he doesn't slip a bill for several trillion dollars into our kids' stockings. If politicians want to play Santa Claus, they should start by giving today's children a present they really need—a sustainable fiscal future.

Consider the gift package that awaits future generations. A major demographic shift to a permanently older society will put enormous pressure on the federal budget. Social Security, Medicare, and Medicaid are projected to grow by 27 percent as a share of the economy (GDP) in the next 10 years. As a result, these programs, which consumed 40 percent of the budget in 2006, will consume 51 percent by 2016—and that is just the tip of the demographic iceberg.

Demographic change, however, is only part of the problem. Health care prices, on average, have outpaced economic growth by 2.6 percentage points annually since 1960. If this continues, by 2050 Medicare and Medicaid will absorb as much of our



nation's economy as the entire federal budget does today. Most of that increase would come from the rising cost of health care rather than demographics.

Higher savings today would contribute to a larger economy tomorrow, and that would make the looming fiscal burden more affordable. Unfortunately, here, too, we are not acting with regard for the future. Americans' personal savings rate as a percentage of disposable income has steadily declined from over 7 percent in the early 1990s to negative 0.4 percent in 2005. Net national saving, public and private combined, has plummeted from 8.5 percent of gross national income 25 years ago to essentially zero today.

In the absence of domestic savings, foreign sources have taken up the slack. The portion of the government's privately held debt owned by foreign investors has risen dramatically since 2001 – from 37 percent to 52 percent. Reliance on foreign borrowing increases the budget's exposure to international capital markets and decisions made by foreign interests. Moreover, interest payments on the national debt go to bond holders from abroad, and this acts as a growing mortgage on future national income.

Beyond fiscal imbalance, today's budget policies threaten to place ever-tighter constraints on the ability of future generations to determine their own priorities or to meet challenges that cannot be foreseen. As the share of federal resources pledged to retirement and health care benefits grows, it will leave shrinking amounts for all other purposes.

The bottom line is stark. We are expecting our children to support growing promises for retirement and health care benefits while doing very little to invest in the future economy that will have to produce those benefits. No nation can prosper without investing, nor can it invest for long without saving, nor can it save for long without a responsible fiscal policy.

Responsible, however, is not a word that describes current fiscal policy. In the past few years, lawmakers have simultaneously enacted large tax cuts and piled huge new spending commitments on top of an already unsustainable burden. Total spending has gone up from $1.79 trillion, or 18.4 percent of GDP in 2000 to $2.7 trillion, or 20.3 percent of GDP in 2006. Incredibly, the unfunded obligations of the new Medicare prescription drug benefit are roughly 50 percent more than those of the entire Social Security program. There is no plan to pay for all this budgetary largesse other than running up the national debt, which now stands at $8.6 trillion.

If politicians want to play Santa Claus, they should start by giving today's children a present they really need—a sustainable fiscal future.

A more comprehensive way to measure the mounting fiscal burden is to total up the government's explicit liabilities, such as the national debt, and its implicit obligations, such as future Social Security and Medicare benefits. According to the Government Accountability Office (GAO), all such "fiscal exposures" have a present value of $46 trillion—almost as much as today's total national wealth and equivalent to $375,000 per full-time worker in the United States.

There is at least one positive thing to report on the budget front: at $248 billion (1.9 percent of GDP), the deficit in fiscal year 2006 was lower than the $319 billion deficit in 2005 (2.6 percent of GDP). It was the second year in a row that the deficit declined. This does not mean, however, that we are on a smooth and easy road back to balanced budgets. Both the Congressional Budget Office (CBO) and the President's Office of Management and Budget

(OMB) project an increase in the deficit next year.

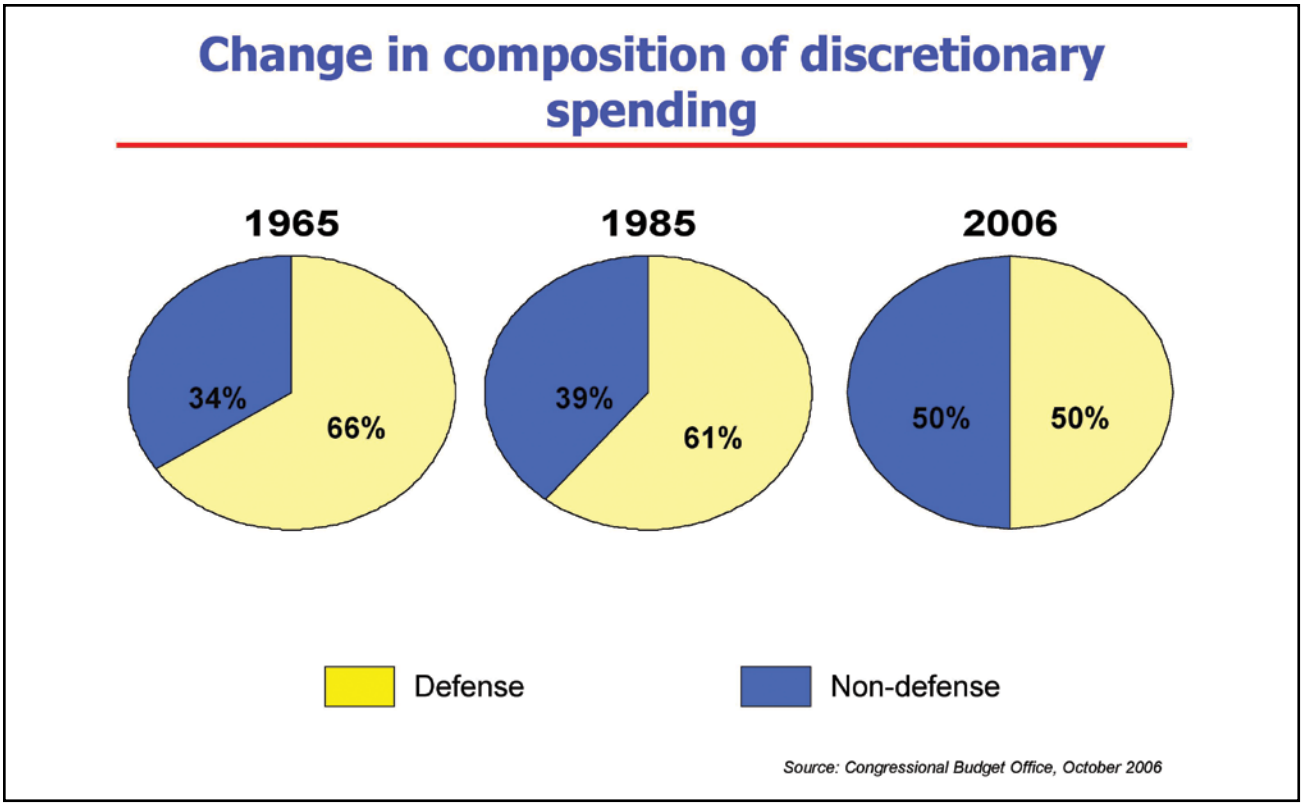
Budget projections are uncertain, but under plausible assumptions about current trends, deficits would total $5.2 trillion through 2016. This assumes that funding in Iraq is phased down, that all expiring tax cuts are extended, that appropriations grow at the same rate as the economy, and that the Alternative Minimum Tax (AMT) is adjusted for inflation. It also assumes a healthy economy.

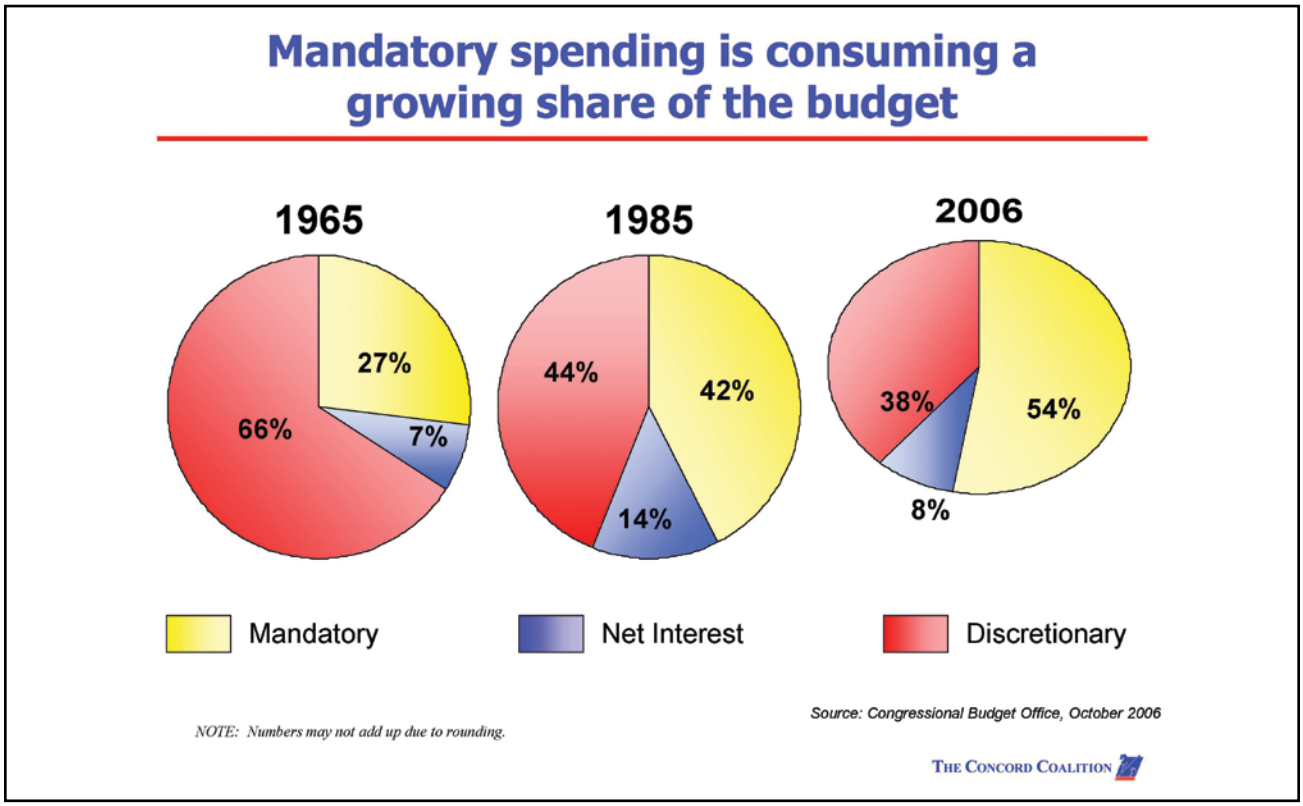
Under that scenario, deficits would steadily rise to 4 percent of GDP by 2016. Persistent deficits of that size, while not unprecedented, are nevertheless harmful and would come at a very bad time. They would drain national savings, raise the debt to GDP ratio and increase interest costs at the very time when we should be doing the opposite in preparation for the looming fiscal challenges as the baby boomers retire and entitlement spending balloons.

Total spending has gone up from $1.79 trillion, or 18.4 percent of GDP in 2000 to $2.7 trillion, or 20.3 percent of GDP in 2006.

As government debt increases, interest costs grow as well. These costs add to government spending and are paid for with tax dollars. Interest costs totaled $227 billion in fiscal year 2006. It was the fastest growing major spending category in the federal budget, increasing by 24 percent. We spent more on interest in 2006 than we did on either the federal government's share of Medicaid ($181 billion) or appropriations for military operations in Iraq and Afghanistan ($120 billion). All of this is occurring as we enter our fifth year of economic recovery and with two years of very strong revenue growth.

Problematic as the 10-year outlook is, longer-term projections are even worse. Today, federal government spending absorbs 20.3 percent of the economy. At the high end of what the CBO sees as a possible range, federal spending, excluding interest, could rise to 34 percent of GDP in 2050. Federal tax receipts have hovered in the range of 18 percent of GDP over the past half century. If retirement and health care entitlements are allowed to grow on autopilot, pushing total federal spending above 30 percent of GDP, and Americans' reluctance to pay taxes above 20 percent of GDP holds true, the resulting deficits will rapidly escalate to dangerous levels. A deficit equaling 10 percent of GDP in today's terms is the





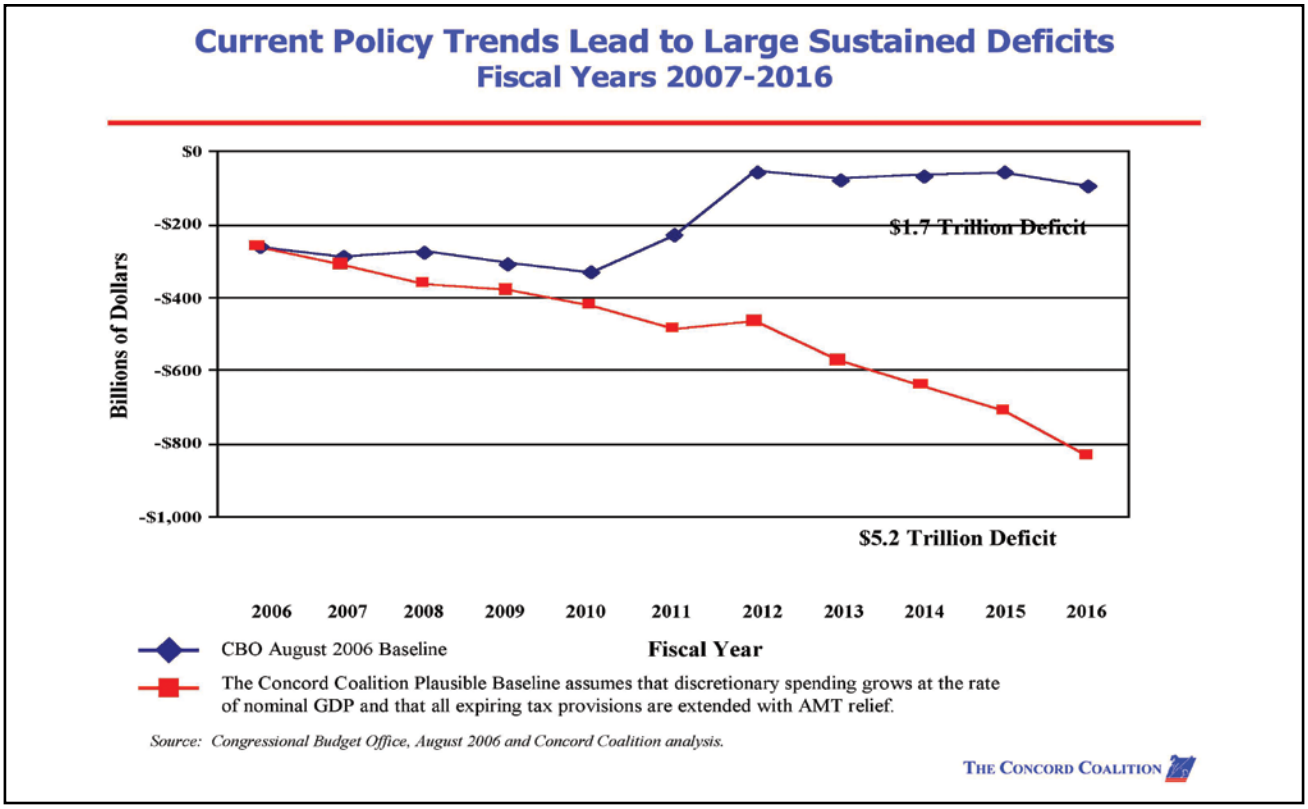
equivalent of $1.3 trillion. That amount is more than five times the size of the 2006 deficit.

Borrowing our way through the problem is not a viable option because the rising cost of Social Security, Medicare and Medicaid gets bigger with time. Incurring ever-rising levels of debt would result in staggering interest costs and ultimately a level of debt that would crush the economy. Nor can we grow our way out of the problem. The GAO has estimated that it would require real (inflation-adjusted) average annual economic growth in the double-digit range every year for the next 75 years to close the gap. Given that real economic growth has averaged about 3 percent annually over the last thirty years, any idea of growing our way out of the problem is more of a fantasy than a plan.

What about cutting waste, fraud and abuse? These things exist throughout the federal budget and every effort should be made to eliminate them. Unfortunately, there is no line-item in the budget labeled "waste, fraud and abuse." What may seem like waste to some can seem like vital government services to those who directly benefit from them. Stories about "bridges to nowhere" and other such earmarked spending justifiably diminishes public confidence in Congress' willingness to exercise fiscal discipline, but if all such earmarks were eliminated, and the money not simply reprogrammed to be spent elsewhere, it would only save about one percent of all federal spending.

Another seemingly painless option is to cut taxes and "starve the beast," but experience has demonstrated that this is a failed strategy. Ultimately, the tax burden is determined by the government's spending commitments and not the other way around. Moreover, Dr. William Niskanen, a former Chairman of the Council of Economic Advisors under President Reagan, has found that spending tends to increase as a percentage of GDP when revenues decline. The reason is simple – cutting taxes and relying on borrowing to continue the current level of spending shields taxpayers from the true cost of government. As a result government services seem "cheaper" for taxpayers, which creates a greater demand for even more spending.

The real choices require scaling back future health care and retirement benefit promises, raising revenues to pay for them or—most likely—some combination of



both. Americans may have very different views about whether it would be better if the federal government were both taxing and spending at 18 percent of GDP or both taxing and spending at 30 percent of GDP. Yet no one would advocate that the government tax at 18 percent of GDP and spend at 30 percent. This would certainly shatter the economy. And this is precisely the future we are now embarked upon.

Indeed, the rapid increase in federal revenues over the past two years has prompted some to suggest that revenue increases should not be on the table because tax cuts pay for themselves through greater economic growth. It's a politically convenient theory, but the evidence does not support it. Indeed, the revenue "record" of $2.41 trillion in 2006 is not remarkable because revenues almost always set a record in nominal dollars every year as revenues naturally increase with inflation, economic growth and other factors. What is remarkable is that the revenue record set in 2000 ($2 trillion) was not broken until 2005. Between 2001 and 2003 revenues actually declined for three years in a row. Moreover, revenues in 2006 represented a much lower percentage of the economy than in 2000 before the tax cuts were enacted — 18.4 percent of GDP as opposed to 20.9 percent. Measured in inflation-adjusted terms, revenues in 2006 were almost identical to 2000 revenues despite five years of economic growth. In fact, revenue from individual income taxes is still below 2000 levels, adjusted for inflation.

Economists from the left and right generally agree that tax cuts do not fully pay for themselves. A July 2006 analysis by the U.S. Treasury Department suggested that the economic feedback from extending the 2001 and 2003 tax cuts would offset less than ten percent of the revenue loss, and would only do so if the tax cuts were offset by spending cuts, something that has neither happened nor been proposed.

The lesson is that debt is not a painless alternative to taxes. Whatever government spends, it must eventually pay for. Unless we reduce spending over the long-term we are not really lowering the tax burden over the long-term but merely shifting it from ourselves to our children.

Generational fairness requires a major course correction. The choices we make today will determine what kind of society our children and grandchildren

inherit 20 and 30 years from now. Inaction increases the prospects of severe changes later. By contrast, modest reductions in projected entitlement costs, enacted promptly and phased-in over many years, could have a substantial impact in bringing future costs down to a more sustainable level, while giving people a chance to adjust their expectations of the extent to which their retirement years will be financed by future taxpayers. Similarly, eliminating or even reducing the budget deficit over the next few years would generate major savings in future interest costs.

The sooner we get started the better. Budget rules, such as realistic caps on appropriations and a "pay-as-you-go" rule that applies to both entitlement expansions and tax cuts, can help in this regard. However, rules are not a substitute for the political will needed to make tough choices. A realistic strategy will require that someone give up something—either in reduced promised benefits or higher taxes. Because this reality is politically problematic, serious action is not likely to occur unless it is the result of a bipartisan process with greater public awareness of the need for trade-offs. Everything must be on the table to ensure that the total mix of spending, taxes and debt does not reach levels that could damage the economy and reduce future standards of living.

Let's hope that the new Congress, the current President and the crop of would-be presidents in the 2008 campaign decide to be more like the real Santa Claus by supporting policies that put our children's future ahead of short-term political satisfaction. **RF**

Robert L. Bixby is Executive Director of the Concord Coalition, a nonpartisan, grassroots organization dedicated to fiscal responsibility.

Do Deficits Really Matter?

DOUGLAS HOLTZ-EAKIN

Budget deficits matter. They may be irrelevant politically; they may move financial markets only intermittently, but they always impact the economy. This is unsurprising.

Budget deficits are the difference between federal spending and federal taxes. Federal spending matters – reflect only for a second on pork barrel spending and other waste, the work incentives of anti-poverty programs, or other spending impacts.

Federal taxes matter – the income and payroll taxes embody disincentives for work, saving, investment and risk-taking. Deficits *have* to matter. If they didn't, then there should be no debate over the economic consequences of anything the federal government does.

Economic Effects of Budget Deficits

The main impact of a budget deficit is to lower national saving. That is, deficits shift the composition of U.S. economic activity away from saving for the future and toward consuming. Why? The vast majority of federal spending is designed to increase current consumption. Retirement income programs (Social Security), retirement health programs (Medicare), anti-poverty programs (Medicaid, food stamps, TANF) and so forth are explicitly intended to raise the living standards of households; that is, allow them to spend more. Taxes, in contrast, do not work exclusively to offset this bias toward consumption – they reduce some consumption, but some saving as well. The net effect (even when the budget is balanced) is to lower saving.

Economic growth involves sacrificing current satisfaction and using the saving to finance innovation, new equipment and facilities, and greater job skills. Reducing national saving inhibits this process and lowers the potential for the U.S. economy to produce growth in living standards.

Structural deficits – "deficits as far as the eye can see" – are the poster child for lower national saving. At present, the federal government spends 20 cents out of every national dollar and raises 18 cents in taxes. This is postwar business as usual for the U.S.

However, the United States is staring the impending retirement of the baby boom generation square in the face. As a result, over the next four decades spending on Social Security is projected to rise from 4½ cents to nearly 7 cents out of every national dollar.

Structural deficits – "deficits as far as the eye can see" – are the poster child for lower national saving.

Over the same period, federal spending on Medicare and Medicaid will rise from 4 cents to anywhere from 12 cents to 22 cents. The result is three programs that equal or exceed the *entire* current federal budget depending on the pace of growth in health care costs.

Left unchanged, the resulting rise in deficit spending will eat away at national saving and have a corrosive impact on growth in future living standards.

Why not just raise taxes? After all, arithmetic indicates that higher taxes will make deficits disappear. But higher taxes will further reduce saving; they do not just come out of household consumption. And raising taxes to the levels implied by spending growth, perhaps twice as much as at present, would have a crippling impact on economic incentives. The focus must be on reducing growth in spending.

Caveats

Public understanding of deficits is complicated by the fact that less saving is a virtue on occasion. In the depths of a recession businesses are desperate to find someone willing to buy their products. Deficits provide this impetus and speed the recovery toward full utilization of capital and labor. This explains why the swing from a federal surplus of 2.4 percent of Gross Domestic Product (GDP) in 2000 to a deficit of 3.6 percent of GDP – a full 6 percent of GDP – served to cushion the recession and have little harmful impacts.

But now that the economy is chugging along there is no further virtue to too much spending. Business cycles throw another wrench into public understanding of deficits. They make them worse. As the economy slumps, taxes fall and spending on programs like unemployment insurance and food stamps rises. The rise in deficits is transitory and not the result of proactive policy decisions. A better picture of the long-run impact of policies emerges when the economy recovers. The deficits that remain are what really will matter.

When saving falls, the entrepreneurs, homebuilders, and businesses compete to have access to a smaller pool of dollars, and [interest] rates rise.

Financial Market Effects of Budget Deficits

It is sometimes argued that the problem with deficits is that they cause higher interest rates. That may be true, but this is just a potential symptom of lower national saving. When saving falls, the entrepreneurs, homebuilders, and businesses compete to have access to a smaller pool of dollars, and rates rise. In the process, projects get cancelled, expansions get scaled back, and new products get deferred. The result is diminished growth; higher interest rates are just the mechanism.

However, it may also be the case that interest rates do not rise in response to federal budget deficits. In particular, international capital flows may offset the lower national saving and keep interest rates low. More generally, this argument applies to a broader array of financial indicators. Deficits may or may not be accompanied by higher interest rates, lower stock prices, and shifts in the value of the dollar. But they are associated with reduced saving as a nation. Since the United States is the premier location for investment capital it is possible that households in Shanghai or Seoul will supply savings that the United States does not. Unfortunately, these same households have a claim to the return on these investments. Their gain is our loss.

In sum, deficits matter, and they matter because they lower national saving; slow the accumulation of capital, labor, and technology; and reduce the growth of living standards. The fiscal 2006 deficit of 2 percent of GDP is typical for the United States and does not raise alarms. However, the potential for future federal budget deficit spending *is* alarming. **RF**

Douglas Holtz-Eakin is the Paul A. Volker Chair in International Economics and Director of the Maurice R. Greenberg Center for Geoeconomic Studies at the Council of Foreign Relations. From 2003 to 2005, he served as Director of the Congressional Budget Office.

A Bipartisan Solution to Long-Term Spending Discipline

ARLEN SPECTER

One of the most important duties entrusted to Congress is budgeting. Congress must guard against an oversized bureaucracy and wasteful spending, while supporting effective programs and preserving the hard-earned dollars of our nation's taxpayers.

Regrettably, our government has historically spent more than we have taken in. To make matters worse, we are ill-equipped to handle an aging U.S. population, an increasing life expectancy and the rising cost of healthcare, all of which will put severe pressure on the federal budget over the coming decades. Massive projected growth in entitlement programs such as Social Security, Medicare, and Medicaid will create a situation in which economic growth alone is unlikely to mitigate the expanding deficit.

Tackling the federal budget deficit is no easy task. As Nicholas Gregory Mankiw, a former chairman of President Bush's Council of Economic Advisors, noted, "policy options aren't pretty – either large cuts in promised benefits or taxes vastly higher than anything ever experienced in U.S. history." Additionally, partisan politics have often prevented meaningful dialogue on the problem.

One important hallmark of this legislation is that, unlike most commissions whose work often goes unnoticed, the final product of the SAFE Commission will see action when Congress casts a required up-or-down vote on the recommendations and any other proposals put on the table.

In an August 28th op-ed in *The Washington Post*, former Senators Bob Kerrey and Warren Rudman aptly described the partisan quandary. "Neither party wants to be the first to propose these tough choices out of fear that the other side would attack it," they wrote. "Similarly, neither side wants to discuss possible compromises of its own priorities, out of fear that the other side will take the concessions and run." Thus, it has become glaringly clear that we must explore new and inventive approaches that will bypass partisan politics and help us find a solution to the flood of debt on the horizon. This is precisely why I have decided to become a cosponsor of the Securing America's Future Economy (SAFE) Commission Act.

In the same August op-ed, Senators Kerrey and Rudman endorse the SAFE Commission Act. Proposed by Senator George Voinovich and Congressman Frank Wolf, the legislation seeks to overcome the political difficulties associated with tackling long-term reform of fiscal policy. Under the plan, a commission of bipartisan experts on budget and economic policies will be tasked with studying, identifying, and recommending solutions to the long-term fiscal challenges facing the United States. Based on their analysis and the crucial input of the public at town hall meetings throughout the country, the Commission will put all options on the table and craft legislation. In particular, they will seek to address the following: the imbalance between long-term federal spending commitments and projected revenues; stimulating domestic investment and economic growth through increased national savings; and, improving the budget process to place greater emphasis on long-term fiscal issues.

The President and Congress will each have

sufficient time to review the Commission's legislation and develop alternative proposals if they deem it necessary. One important hallmark of this legislation is that, unlike most commissions whose work often goes unnoticed, the final product of the SAFE Commission will see action when Congress casts a required up-or-down vote on the recommendations and any other proposals put on the table.

The commission approach has proved successful in addressing the fiscal imbalance of spending and entitlements. In 1981, Congress and the President appointed The National Commission on Social Security Reform, better known as the "Greenspan Commission," to study and make recommendations on how best to solve the Social Security crisis. That approach shaped a bipartisan dialogue and formed the basis for the enactment of the Social Security Amendments of 1983 which made significant changes to the program and enhanced long-term solvency. This type of bipartisan approach should again be considered to evaluate the looming problems facing our nation with respect to its long-term fiscal health.

Supporting the SAFE Commission Act is consistent with my previous efforts to enact economic and budget process reforms to ensure fiscal discipline, protect against wasteful spending, and simplify the tax code. In 1996, I strongly supported giving the President the authority to veto specific line items in appropriations bills. However, that law was subsequently ruled unconstitutional by the U.S. Supreme Court in 1998. In 1997, I was an original cosponsor of an amendment to the Constitution of the United States to require a balanced budget. This would force the President and Congress to determine priorities and pass a responsible budget based on the resources available. Unfortunately, enactment of this tool fell one vote short of the constitutionally required 67 votes in the Senate. In 1995, I introduced the first bill in the Senate that would create a Federal flat tax and completely replace current tax provisions with an across-the-board 20 percent Federal tax on the income of individuals and businesses. I have included provisions in this bill that would eliminate the estate tax as well as the tax on dividends.

The need to ensure the federal budget is on a sustainable path comes into sharp focus for me when I consider the future of my four grandchildren.

The need to ensure the federal budget is on a sustainable path comes into sharp focus for me when I consider the future of my four grandchildren. My wife Joan and I would never consider imposing our financial obligations on them, or spending money on their credit cards for them to pay at some later date. But that is precisely what we have done as a society. Unfortunately, partisan politics often gets in the way of having a candid dialogue on controlling federal spending.

The SAFE Commission Act would help overcome that by providing expert analysis of the situation. In the process, it would set the stage for a meaningful, fair debate on how best to confront our rising national debt. **RF**

Arlen Specter is the senior United States Senator from Pennsylvania.

An S.O.S. to Keep America's Fiscal Ship Afloat

JUDD GREGG

As the majority party on Capitol Hill shifts from Republican to Democrat in the 110th Congress, the deficit and the long-term fiscal challenges facing the government will continue to be hot-button issues for Congress.

Federal spending poses a serious problem to our children's economic future. On the discretionary side of the ledger, the use of emergency spending during the annual appropriations process has risen dramatically. In recent years, Congress has passed appropriations bills containing "emergency" spending above budget allocations and controls for items and events that are predictable and recurring. Emergency spending is considered "free money," because it is not controlled or offset in relation to other federal spending. Instead of offsetting the spending by reducing other spending or increasing revenue, emergency spending is charged straight to the government's credit card, with future generations paying the interest.

The average American family lives on a budget, and avoids making big purchases or long-term financial commitments it cannot pay for. There is no reason Congress cannot do the same.

However, these short-term deficits pale in comparison to the much more serious problem of entitlement spending – programs such as Social Security, Medicare and Medicaid that grow automatically each year and require no annual review by Congress. The retirement of the massive Baby Boom generation, which begins in 2008, combined with skyrocketing health care costs, creates a fiscal and demographic tsunami. With fewer workers contributing for each retiree, the burden on our children becomes astronomical. Over the next 10 years, the growth in mandatory spending programs will accelerate and by 2016, the cost of Social Security, Medicare and Medicaid alone will absorb 56 percent of total federal spending. By 2030, these three programs will exceed the total cost of government today.

The average American family lives on a budget, and avoids making big purchases or long-term financial commitments it cannot pay for. There is no reason Congress cannot do the same. With more than $66 trillion in unfunded government obligations over the next 75 years, serious spending restraints are long overdue. Something must be done, and soon.

Within the last year, Congress took a first swing at this by passing the *Deficit Reduction Act* (DRA), a bill that works to slow the growth of entitlement programs by nearly $40 billion over the next five years. However, that action was merely Congress dipping its toe in the water of what looms as a pending financial disaster for future generations.

Building on the success of the DRA, I introduced a comprehensive package of reforms that provides common sense ways to slow the runaway train of government spending. The *Stop Over-Spending Act of 2006*, or "S.O.S.," would put in place procedures that would force Congress to make policy decisions on how to limit spending. The bill, co-sponsored by nearly 30 Senators and endorsed by a number of blue-ribbon economic organizations in the private sector, would re-establish an honest and straightforward approach to how the government spends the people's money.

To address annual discretionary spending, the S.O.S. Act reinstates discretionary spending caps in law. If Congress exceeds these limits, the overage must be offset by an across-the-board reduction. By establishing reasonable limitations on emergency

spending within the caps, the bill eliminates the excessive misuse of emergency spending, which has created "shadow budgets" in recent years.

The bill includes a line item veto/expedited rescission process to allow the President to identify wasteful discretionary spending and to get an up-or-down vote without amendment. It also creates a commission to identify and eliminate agency duplication and programs that have outlived their usefulness.

To address the deficit, the S.O.S. Act requires the deficit to be measured and considered as its share of economy, or the Gross Domestic Product (GDP), and requires the deficit to decline from 2.75 percent of GDP next year to .05 percent of GDP by 2012. If these deficit targets are not achieved, congressional committees are required to "reconcile" and write laws to achieve savings. If these committees do not make the necessary decisions, then an across-the-board sequester of entitlement programs kicks in.

To address long-term entitlement spending, the bill creates a commission to ensure the solvency of entitlement programs, such as Social Security, Medicare and Medicaid. The commission has attracted outrageous attacks from the other side of the aisle, who falsely claim it is designed to harm Social Security. Such statements are simply an election-year scare tactic. Instead, the commission is a 15-member, bipartisan group. Two-thirds of the commission, a bipartisan majority, must agree to any solvency recommendations before they can be reported to Congress. The Committee's report is subject to amendments, is ensured 50 hours of debate, and requires a 60-vote bipartisan majority to proceed to final passage of a bicameral conference report.

While Democrats seem to think that Pay-Go is the solution to reducing spending, it is simply a mechanism that encourages the growth of government and allows a "tax-and-spend" method of governing to thrive. It requires the tax relief currently driving economic growth to be offset, but not the nearly $400 billion in expiring mandatory programs that are expected to be extended in the new Congress. And worse, Pay-Go doesn't address the deficit or long-term entitlement spending.

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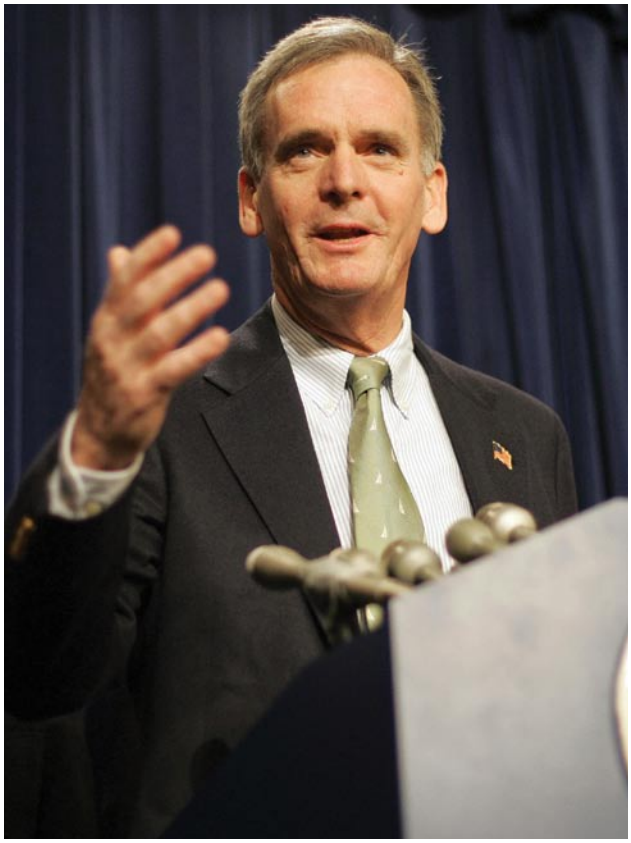
I am hopeful that we can work in a bipartisan manner to address the entitlement issue, to better position our economy to handle the tsunami of fiscal obligations we are facing in the very near future. I plan to continue to push for the S.O.S. plan in the 110th Congress and call on my Democratic colleagues to join me in this effort.

Regardless of which party is in power, it is time for the elected officials of this government to stop looking at the next election and instead look at the next generation. We must stop playing politics and have an open and honest debate about how to tackle our fiscal problems. Our children deserve a government they can afford, and we cannot continue to pretend these issues will resolve themselves. **RF**

Judd Gregg is the senior United States Senator from New Hampshire.



No More Bridges to Nowhere

PAUL RYAN

Of all the messages that voters sent this November 7, among the clearest was their demand for a change in the way Washington spends their tax dollars.

Highly publicized boondoggles – from the "Bridge to Nowhere" to an indoor rainforest museum in Iowa – have sparked public outrage in recent years and raised awareness of earmarks as a tool of influence and a conduit for overspending.

According to Citizens Against Government Waste, the federal government spent $29 billion on 9,963 pork barrel projects in fiscal year 2006, an increase of 6.3% from 2005, and an increase of over 900% since 1991. At the same time, a series of scandals have demonstrated how corrupt individuals, regardless of party, can abuse their power and manipulate the system in pursuit of personal gain.

The sole silver lining has been that, by demonstrating the extent to which our present spending process is broken, such waste and abuse have given real momentum to the drive for reform.

The effort to reform the federal budget process, including earmarks, has been a long-term project of fiscal hawks who take seriously Congress' obligation to the taxpayers. When lawmakers enter Congress, they experience firsthand the frustration of trying to combat unnecessary spending within a system that is institutionally biased towards allocating money rather than saving it.

When lawmakers enter Congress, they experience firsthand the frustration of trying to combat unnecessary spending within a system that is institutionally biased towards allocating money rather than saving it.

For example, under the existing congressional budget and spending process, if a congressman wishes to cut a wasteful pork barrel project from an appropriations bill and succeeds in amending the measure to do this, the savings must be channeled toward other government expenditures rather than debt or tax reduction. This and other incomprehensible policies that create a predisposition to spend tax dollars are the unfortunate legacy of the 1974 Budget Act, and this is what we must change if we are to bring lasting fiscal responsibility and accountability to Congress.

Among those with whom I have worked closely over the years to bring about this kind of reform are Representatives Jeb Hensarling, Chris Chocola, Jeff Flake, Mike Pence, and former Representative Chris Cox. Between 2002 and 2005, my colleagues and I introduced several comprehensive budget process reform bills to rein in spending, require greater oversight and accountability, and improve government accounting practices. Among the improvements we fought for were reforms to give Members of Congress and the President more effective tools to challenge wasteful earmarks and other frivolous spending items.

Specifically, our proposals enabling representatives to use points of order to enforce budget discipline and prevent unrelated spending from being tucked into omnibus appropriation bills, would have helped pare pork. Similarly, creating special budget protection accounts, as we urged, would have allowed Members of Congress to

achieve true savings when they target unnecessary earmarks, directing the money saved toward deficit reduction or tax relief. Finally, our proposal to give the President expedited rescission authority so that he could pinpoint wasteful spending items in broad legislation and send these individual provisions back to Congress for a separate vote on their own merits, would have served as another key way for us to enforce fiscal discipline and discourage unjustifiable earmarks.

Despite the common sense nature of these reforms, enacting them has been an uphill struggle. In 2004, the House voted on our comprehensive budget bill as well as many of its individual elements, but most Democrats and some Republicans declined to support the needed changes. Expedited rescission, for instance, garnered 174 yes votes – a considerable show of support but insufficient to pass the measure.

The good news is that over the past two years, the public's growing awareness of Washington's spending problem has changed the landscape and improved our ability to win these reform votes. Majority Leader Boehner's commitment to bringing these initiatives up for consideration on the House floor has also been a factor that has helped us make progress over the past year on earmark reform and related steps to restrain spending.

To prevent earmark abuse, we must shine sunlight on the budget and spending process in Congress from its early stages to the final moment when legislation lands on the President's desk for signature.

To prevent earmark abuse, we must shine sunlight on the budget and spending process in Congress from its early stages to the final moment when legislation lands on the President's desk for signature. In other words, we need safeguards at both the front and back end of spending bills to ensure that everyone can find out what earmarks are included and who requested them, and give Congress and the President an effective means of working together to remove wasteful spending items before they become law. In fact, this is what a majority of the House voted for earlier this year.

In May 2006, the House passed legislation to bring greater transparency to earmarks as part of a broader lobbying accountability measure. When the House and Senate had difficulty resolving their differences on the lobbying bill, effectively stalling its progress, the House moved unilaterally to pass an internal rules change that at least makes House representatives more accountable for earmarks they request.

Under the new rule, all reported bills and conference reports – whether they are appropriations, authorization or tax bills – must include a list of earmarks, along with the names of the representatives who requested them. If the relevant committee fails to provide a list of earmarks, a Member of Congress can raise a procedural objection against consideration of the bill or conference report.

While this rule change is not as extensive as many of us would like, it's still a major step toward bringing earmarks out in the open where they can be examined and challenged. Moreover, pairing earmark disclosure with a legislative line item veto, such as the bill I authored (H.R. 4890) which the House passed in June, creates a backstop that can be used to catch questionable earmarks at the end of the process and deter these requests in the first place.

My constitutional version of the line item veto enables the President to single out individual spending items in bills that reach him, put a temporary hold on this funding, and propose that Congress rescind it. The House and Senate would then have up to 14 legislative days to vote up or down, without amendment, on the President's request. This keeps the power of the purse in Congress, where it belongs, while ensuring that rescission requests receive fast-track consideration and cannot be ignored. This measure closely resembles the expedited rescission provision that failed to pass the House in 2004, and the fact that this line item legislation passed easily by a vote of 247-172 shows how far we have come.

I am hopeful that the Democratic leadership of the 110th Congress will work with us to build on this positive momentum. House Speaker-to-be Nancy Pelosi has reportedly said the first agenda item will be a vote requiring earmark sponsors to be named. It would certainly be a welcome development if the incoming House leadership seeks to renew the earmark reforms we passed this fall.

Beyond this initial step, I believe there are many areas in which we can cooperate to prevent wasteful spending and live up to our responsibility to America's taxpayers. **RF**

Paul Ryan represents the First District of Wisconsin in the U.S. House of Representatives.

Bold Leadership, Tough Choices

MATT BLUNT

It is hard to believe that it was more than half a century ago that William F. Buckley, Jr. stood "athwart history yelling stop" in a new little magazine of conservative opinion.

Of course, that little magazine, the National Review, and particularly the words in that early article, served as a catalyst for a nascent conversation that would eventually pave the way for Barry Goldwater's 1964 nomination and then President Reagan's election nearly two decades after that.

Yet, despite the passage of time, and the importance of President Reagan's time in office, we seem to have abandoned the lessons they taught us. Primarily, we have forgotten Mr. Buckley's instruction that:

"[B]ack of all political institutions there are moral and philosophical concepts, implicit or defined. Our political economy and our high-energy industry run on large, general principles, on ideas—not by day-to-day guess work, expedients and improvisations."

We must show the American people that we live by the conviction that public measures ought to be judged by their prudence. We ought to demand fiscal responsibility and deny the short-term benefits of political advantage or popularity.

Our political adversaries have always disagreed with the power of ideas, preferring instead to point to materialism as the true mover of history. Thus, they continually focus on Republican machinery. The truth is, however, that without those words, and the ideas they represented, there would have been no conservative movement, no Reagan Revolution, no Contract with America, and certainly no Republican machinery.

But that movement and its ideas have not always been the harbingers of Republican success. As author Craig Shirley pointed out, in 1974, just following the Watergate scandal and an administration that had ignored ideas, the Republican National Committee was so depressed about its electoral chances that it began distributing buttons that read, "Republicans are People Too." By 1976, the GOP could only count 38 Senators, and in the House Democrats outnumbered Republicans by more than a two to one margin. Only a handful of governorships were in Republican control, and the situation in state legislatures was even worse. In sum, the much talked about dream of establishing a permanent Republican majority would have been laughable just 30 years ago.

Fortunately, as we all know, in 1980 Ronald Reagan came to the White House and gave body and force to conservative ideas. Now nearly two decades after he completed his service as President, it is high time that we return to those ideas that he embodied. We must show the American people that we live by the conviction that public measures ought to be judged by their prudence. We ought to demand fiscal responsibility and deny the short-term benefits of political advantage or popularity.

The American people expect and deserve effective leadership from us. Conservatism can offer a bold and effective agenda, one that can bring reform at a time when reform is most needed. The recent state election results in Missouri offer a sharp contrast to the federal results and illustrate just how a bold conservative agenda was able to hold back the tide during a terrible year for Republicans. We experienced only small losses in our General Assembly, and Republicans still command large majorities in both houses. In a difficult year, we even beat incumbent Democrats. Some of our policies help explain why.

When I took office as Governor of Missouri in

January, 2005, I faced a billion-dollar funding shortfall for the coming fiscal year. Prior administrations' tax and spend philosophy had led to several gluttonous spending binges, and voters were left with the credit card bill.

First, I froze all state spending on items such as vehicles, cell phones and new leases and took other common-sense steps like closing the state's unnecessary Washington D.C. office and eliminating more than 220,000 square feet of wasted office space right here in Missouri. So far, those common–sense steps have saved Missouri taxpayers tens of millions of dollars, and the work continues.

Similarly, after years of rapid growth we acted to reduce the size of state government by partnering with the private sector to reduce cost while improving services and by creating a culture where leaders and managers know that they will be rewarded for reducing size and cost. Missouri state employees now total less than 60,000—the smallest number in eight years—and I am committed to not going above that number during my service as Governor.

I also took aim at waste, fraud and abuse. Social welfare provider fraud was ignored by previous administrations, to the detriment of Missouri's neediest citizens. Over $120 million that was being wasted is now directed to those who have a real need.

Very early in my administration I also had to face the tough and unpopular task of reining in Missouri's overextended Medicaid system, which was on the verge of bankrupting the state. Maintaining the status quo would have meant sacrificing public education and proposing harmful tax increases. Instead, I called for tightened eligibility requirements and some co-payments. I also proposed the Department of Social Services annually review the eligibility of each Medicaid recipient. These measures have not only saved us millions of dollars, but they have also ensured that the Missourians who most need services are the ones receiving them.

By putting a bold agenda in place in Missouri we have reduced the size of state government, aligned spending with Missouri values, and allowed for innovative investments to protect Missouri's prosperity for generations to come.

I also realized that we must develop a new system to better deliver healthcare to low income Missourians. In the upcoming legislative session I will introduce major reform proposals to change our Medicaid system.

By reducing spending and focusing on priorities, I have been able to invest in our future. For instance, we have been able to increase funding for education by more than $331.8 million and higher education institutions have received an additional $20 million.

I believe Missourians pay enough taxes, and I have worked to return structural balance to our budget and ensure we live within our means without increasing the tax burden on Missouri's hard working families.

By putting a bold agenda in place in Missouri we have reduced the size of state government, aligned spending with Missouri values, and allowed for innovative investments to protect Missouri's prosperity for generations to come. Moving this bold agenda forward has brought significant challenges, but it is worth it because it is consistent with the principles that have guided our party in its greatest moments. **RF**

Matt Blunt is the Governor of Missouri. In October 2006, he became the only Governor in the Nation to earn an "A" in the CATO Institute's annual fiscal policy report card of the 50 states.

The New Normal

How the Mayor of Fresno is making his city's government more efficient and accountable.

ALAN AUTRY

The holidays are a time for excess. Excess eating, excess celebrating, and excess spending. For most people, once the holidays are over, the excess goes away. In Washington, DC, however, that's not the case. For as others have pointed out, when it comes to federal spending, it truly has become Christmas all year.

Put another way, fiscal excess in our Nation's capital has become the norm. But with our debts piling up and our obligations growing everyday, perhaps it's time to admit that "normal" doesn't cut it anymore and start acting like responsible adults. That's what we did in Fresno, California, where I proudly serve as Mayor. Not only have we invented a remarkable way of conducting the people's business, but we have also been able to do more than we ever imagined.

We have invested over $100 million in infrastructure capital throughout the City and have dedicated another $45 million to our neediest areas through our "No Neighborhood Left Behind" program. We have built, in 11 months, what is considered one of the top Triple A baseball stadiums in the country. We have experienced over $1 billion worth of new investment in downtown renewal projects. We have invested in our Police Department in record amounts which has resulted in the lowest crime rates in over 30 years and resuscitated our Fire Department which had been gasping for air far too long. Perhaps most significantly, we created an outcome based budgeting system. At a time when governments at all levels are struggling to stay in the black, we built up our reserves from zero to over $15 million.

We call our system "The New Normal." The New Normal is the result of a realization very early in my first term that there was no real knowledge of what our budget was based on. Oh, there were trappings of good judgment. There were endless columns of revenues and expenses, volumes of departmental reviews of last year's extraordinary accomplishments, pages and pages and pages of numbers all bound neatly into a heavy green book. But the more I looked and the more I questioned, the more it became clear that the current year's budget was simply based on the prior year with the addition of incremental departmental increases based almost entirely on a barter system that had been the norm for decades.

The New Normal is the result of a realization very early in my first term that there was no real knowledge of what our budget was based on.

For Fresno to reach its potential in the competitive world of municipal government in the new millennium, change was mandatory. I compare it to an automobile race. You can have the nifty paint job, the shiny wheels and even a handsome driver behind the wheel, but if you enter the race with a four cylinder engine when everyone else has eight, not only will you be unable to compete, you'll most likely embarrass yourself and your team in the process.

We lacked a universal game plan, a system that would motivate appropriate behaviors and lead us inevitably and predictably to success. Like other municipal organizations, operations were steeped in conventional methods and procedures. In fact, it could be said that processes had become our products and comfort was found in their built-in predictability. Without meaning to, we had sequestered ourselves from the very people we were bound to serve. Instead of focusing on outcomes that were in sync with organizational and community objectives, we

maintained a commodious relationship with the status quo.

Let me be clear – I do not believe in big government. However, I do believe in government big enough to do its intended job. The challenge is figuring how big is big enough. Put another way, how many cylinders do we need to be successful? To answer this question, we first set forth a set of financial principles to guide our administration:

1. We will always spend within our means.
2. We will apportion the people's money by following three basic tenets:
   - Return the majority to the people in the form of efficient services.
   - Invest in economic development.
   - Save for emergencies.
3. We will be wary of gifts, grants and guarantees that come with too many restrictions that can end up doing more harm than good.

In developing our New Normal system of government, we planned and systematically constructed a series of sequential elements. No attempt was made to implement any element out of sequence or on its own. To do so would have corrupted the system and meant a return to the old normal. Furthermore, each element was specifically designed to motivate certain behaviors that would be essential to achieving success. These six elements included the following:

First, I circulated to the entire community my mission: "Fresno – A united City working together to ensure equal access to opportunity, education and quality of life for every man, woman and child regardless of their race, religion, age or socio-economic status." I wanted the City's Municipal Operations Organization (traditionally referred to as "The City" and lead by our City Manager) to realize that if they pictured the City as a wagon wheel, it would be clear that they were one of many spokes that, when made strong and true, supported the wheel on its journey. This new picture helped them understand that they were not "The Wheel" as many had believed. Rather, they were an integral spoke among many others that are required to move the "Wheel" forward. The message I was trying to convey was simple: in short, we've got to remember who we work for – the people.

Second, after realizing their position within the bigger picture, the organization needed to create a view in their collective minds that would depict specifically how they wanted to be identified. They put that picture into words and called it their Vision: "Fresno – A Culture of Excellence Where People Get the Best Every Day"

Let me be clear—I do not believe in big government. However, I do believe in government big enough to do its intended job.

Third, after stating how they envisioned themselves, they agreed upon a core set of Values that would guide behavior and become the bedrock of our organizational culture: Accountability, Compassion, Trust, Innovation, and Teamwork.

The fourth element consisted of what we called our triad of Key Objectives that, when kept in absolute balance, will be the ultimate measure of our success. These Key Objectives included Customer Satisfaction, Employee Satisfaction, and Prudent Financial Management. Every decision we make is determined by quantifying each of these Key Objectives and making sure that one or another does not upset the equilibrium of the three as a whole.

Fifth, we established six Key Result Areas (KRAs) for the purpose of determining who would do what and by when. A Cabinet made up of inter-departmental decision makers was created for each KRA. Their objective was to work together as a formal team to establish specific outcomes relative

to their particular KRA and then formalize the Goals, Strategies and Tactics that would allow them to achieve success.

Notably, this system became the basis of our budgeting process. No longer would we budget by adding incremental increases to each department's previous year total; now every dollar had to fit within one of the KRAs, balance the Key Objectives and be formally justified and substantiated by the KRA cabinet. The KRA system spurred the destruction of silo-based budget bloating. Honest budgeting can only be accomplished in a cross-departmental group setting.

The sixth and final element of our New Normal system of government is a compilation of Implementation Tools, a set of devices, mechanisms, gadgets and contraptions with which we measure success, adjust direction and reward performance.

Through all of this, our goal is to not spend one dollar without fully understanding how it adds value to the outcome for which it is being requested. Our system takes more time and effort in the short run. In the long run, we believe it will pay, and is paying, dividends far beyond our investment.

But of course, in the end, the success of any system – no matter how potentially efficient – is dependent on its leadership. I truly believe the only way to govern successfully, whether you're a Mayor, Governor, Senator or President, is to have unshakable principles and flexible politics. Too often it's just the opposite when dogmatic political ideology clouds the principles of good governance.

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There is no silver bullet or secret mojo that will change the "Christmas all year" attitude of government spending. It is only through people of principle with the political courage to change what has been considered normal for far too long that we will find true economic integrity. **RF**

Alan Autry is the Mayor of Fresno, California.

Democrats and a Balanced Budget

Will the new majority get it done?

TIMOTHY J. PENNY

In 1992, President Bill Clinton campaigned on promises to increase federal domestic spending, provide middle class tax cuts, and still reduce the deficit by 50 percent in his first term.

He arrived in Washington only to discover that, even with a "peace dividend" made possible by the end of the Cold War, he could not keep his domestic spending promises and also reduce the deficit – unless he reneged on his promise to cut taxes. The budget realities he faced once in office (huge and growing deficits) required a different approach than the rhetoric of his campaign.

Like Clinton in 1992, congressional Democrats today face a similar dilemma. In short, Democrats must feel like the dog that finally caught the tire. After sweeping to victory in nearly every closely fought congressional race, they now have a majority in both congressional chambers. From the war in Iraq, to ethics, to deficits, the Democrats spent the election season criticizing Republican mismanagement of the people's business – while seldom offering a coherent alternative of their own. Now they are in charge of Congress and must deliver. What will they do? What can Democrats agree upon?

…Democrats spent the election season criticizing Republican mismanagement of the people's business – while seldom offering a coherent alternative of their own. Now they are in charge of Congress and must deliver.

Thankfully, the new majority will be led by two experienced and respected Budget Committee chairmen, John Spratt (SC) in the House and Kent Conrad (ND) in the Senate, both of whom are serious about reducing deficits. Spratt has recently gone on record calling for a balanced budget within five years. To reach that goal, they might start by looking to the Blue Dog caucus – comprised of 44 moderate and fiscally conservative members (nine of whom were newly elected this fall). In the immediate aftermath of the election, a key Blue Dog had this to say: "We're not going to be a rubber stamp for anyone. We're going to help bring our party back to the middle. We have a lot to say about what passes or doesn't pass when it reaches the floor."

And, the Blue Dogs do have a lot to say about how to handle the federal budget and reduce the deficit. Their prescription for fixing the budget morass created in recent years by Republicans is worth a serious look. Blue Dogs have proposed the following:

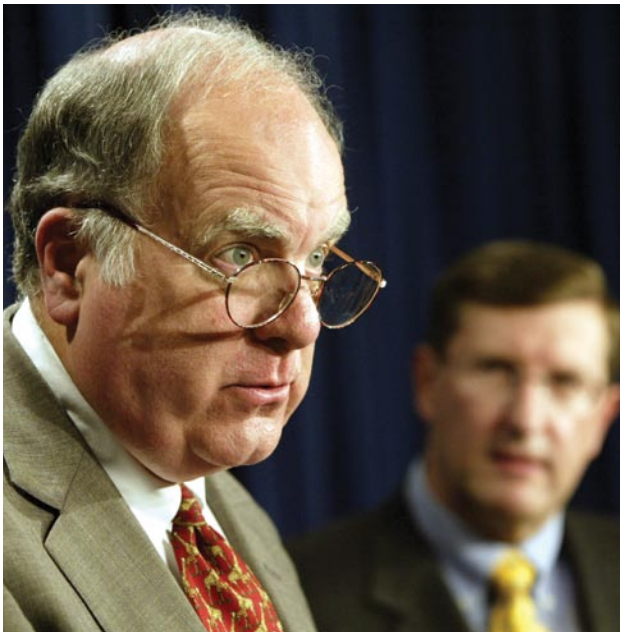
- a constitutional amendment mandating a balanced budget;
- restoration of "Pay-as-you-go" budget guidelines through 2010;
- implementation of new rules requiring roll call votes for spending bills with more than $50 million in new spending;
- establishment of strict rules on emergency spending, as well as establishing a "rainy day" fund for those funds;
- subjecting any increase in the debt limit to a roll call vote;
- implementing new rules requiring all Congressional earmarks to include publicly accessible justifications;
- creating new guidelines requiring a three-day minimum for Members to review legislation before a scheduled vote; and,
- enacting new guidelines requiring House committees to detail their oversight efforts in biannual reports.

From the Blue Dog list, Democratic party leaders have only embraced the re-enactment of "Pay-as-you-go" budget rules. That would make imminent sense given the success of these rules in the decade of the 1990s when budget surpluses reappeared for the first time since 1969. Pay-go policies serve to hold the line on new entitlement spending and new tax cuts (requiring that any such measures be honestly offset with other cuts or revenue increases so as to result in no net increase in the deficit). Regrettably, Republicans allowed these Pay-go rules to lapse in 2002 – and large deficits have returned in the ensuing years. Restoration of Pay-go would hamper any proposed expansion of entitlement spending – and would make extension of tax cuts beyond their expiration date in 2010 more difficult to achieve. But, for the most part, Pay-go simply preserves the status quo.

Sadly, not even the Blue Dogs have proposed taking a serious look at reducing entitlement spending. Yet, with the retirement of the Baby Boom generation just a few short years away, the cost of Social Security, Medicare and Medicaid will soon skyrocket. Medicare is already in fiscal straits and Social Security will be in a cash flow crunch by the year 2017 (according to the Government Accountability Office). Whether through a "blue ribbon" entitlement commission – or some other means – it would make sense for Democrats to deal with these issues now. Delaying action only makes the solutions more costly and painful. President Bush now seems willing to work with Democrats to create a truly bipartisan commission. Democrats would be wise to accept his offer – unless they want the next President (who they obviously hope will be a Democrat) to inherit an even greater budget challenge than Clinton faced in 1992.

Restoring fiscal responsibility in Washington also makes the remaining items on the Blue Dog agenda critically important. If Democrats want to prove to skeptical voters that they can be careful with the public purse, they must act quickly to reverse the explosion in pork barrel spending that occurred while Republicans controlled Congress. They must once again assure that only true emergencies are funded in emergency spending legislation.

With a Democratic party majority of less than twenty seats, clearly, the 44 member Blue Dog caucus could be the margin of victory on any budget measures brought before Congress. Rather than simply listening to the Blue Dog caucus, Democratic leaders should place the Blue Dog budget agenda at the top of this Congress's "to do" list. **RF**



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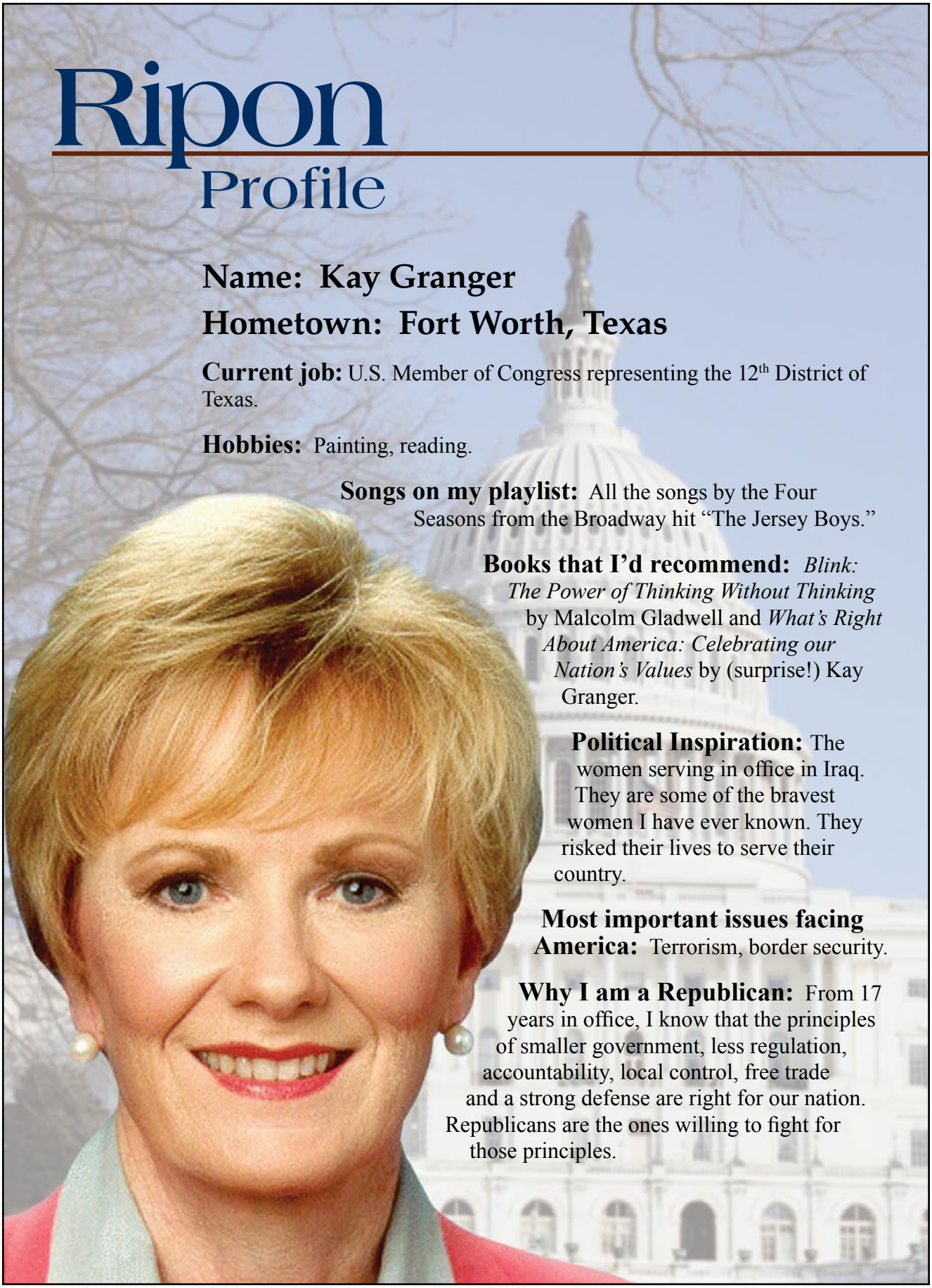
Timothy J. Penny represented Minnesota's First Congressional District from 1982 through 1994. While in Congress, he founded and co-chaired the Democratic Budget Group and drafted deficit-cutting initiatives. He is currently a senior fellow at the University of Minnesota's Hubert H. Humphrey Institute of Public Affairs. He is also a Board Member of the Concord Coalition.

Ripon Profile



Name: Kay Granger

Hometown: Fort Worth, Texas

Current job: U.S. Member of Congress representing the 12th District of Texas.

Hobbies: Painting, reading.

Songs on my playlist: All the songs by the Four Seasons from the Broadway hit "The Jersey Boys."

Books that I'd recommend: *Blink: The Power of Thinking Without Thinking* by Malcolm Gladwell and *What's Right About America: Celebrating our Nation's Values* by (surprise!) Kay Granger.

Political Inspiration: The women serving in office in Iraq. They are some of the bravest women I have ever known. They risked their lives to serve their country.

Most important issues facing America: Terrorism, border security.

Why I am a Republican: From 17 years in office, I know that the principles of smaller government, less regulation, accountability, local control, free trade and a strong defense are right for our nation. Republicans are the ones willing to fight for those principles.

It Begins with Ideas

LOUIS M. ZICKAR

One of my first jobs in Washington was working as the press secretary to former Congressman Bob Walker of Pennsylvania. In addition to being a great boss, Bob was also a member of the Conservative Opportunity Society.

One of my responsibilities was to attend the group's weekly meetings. The year was 1989. I vividly recall sitting along the wall of the cramped Cannon conference room where they met, watching Bob, Newt Gingrich, Duncan Hunter and the other members of C.O.S. talk strategy and policy over doughnuts and coffee.

Two things stand out from those meetings. The first was how often the group talked about recapturing the majority in Congress. The second thing that stood out was how much the group talked about ideas. Passing a Balanced Budget Amendment. Cutting the capital gains tax. Reforming welfare. The ideas that formed the basis of the Contract with America were hashed out right there in that room.

Make no mistake – the results of this past election were not an aberration. They were caused by an abdication of ideas.

Nearly five years later, I went to work for the National Policy Forum. NPF was a think tank that Haley Barbour established when he became Chairman of the RNC. Between November 1993 and June 1994, the organization conducted a "Listening to America" tour. It held 70 public meetings in communities across the country. The meetings featured Republicans from all levels of government and focused on many of the same issues the members of C.O.S. would talk about on Capitol Hill. According to Barbour, the objective of the tour was not just to promote the GOP. It was also to promote ideas.

I bring all of this up now because one of the debates underway in Washington these days has to do with why Republicans lost their majority this past November. Some believe it is because the Republican Party ran out of ideas. Others believe it is because Republicans ran away from the ideas that made the Party great.

I tend to think it is the latter and not the former.

Indeed, the core principles that helped Republicans win the majority 12 years ago – principles such as lower taxes, free markets, limited government, and a strong defense – remain vital and salient notions today. Moreover, they are notions that, historically at least, Republicans have successfully branded as their own.

Unfortunately, as the mid-terms revealed, the Republican brand in this regard has been severely compromised. Nowhere is this truer than in the area of spending and ethics. Enough has been written about Republican failures in these areas to warrant no further explanation in this space. But for those of us who worked in the minority during the late 1980s, there was a sense that the Republican majority of the past few years had, in these two areas especially, become no better than the Democratic majority we had worked so hard to defeat. To say it was disappointing is an understatement.

Republicans now face an uphill battle. In waging this battle, they should look at what has worked in the past. Specifically, the Party should begin talking again about the ideas that helped them win control of Congress in the first place. The example Haley Barbour set at the National Policy Forum might be a good place to start; get the Party outside the beltway and go directly to the American people. Fortunately, Republicans have a wealth of talent to help achieve this goal. Over the next year and a half, the GOP should showcase this talent by conducting a new "Listening to America" tour.

Have Senator Judd Gregg and Congressman Paul Ryan lead a team on balancing the budget and Senator Chuck Hagel and Congresswoman Kay Granger take the lead on national defense. Recruit Governors like Missouri's Matt Blunt, Hawaii's Linda Lingle, Minnesota's Tim Pawlenty and, of course, Governor Barbour of Mississippi to talk about how they are meeting the challenges in their own home states. Send them into communities where polling indicates they will do the most good. Follow-up their appearances with ads paid for by the RNC that reinforce the messages being delivered.

Make no mistake – the results of this past election were not an aberration. They were caused by an abdication of ideas. The key thing now is to begin a new dialogue with the American people – a dialogue based on ideas, and one that will help restore the public trust in the GOP.

Only then will Republicans be in a position to recapture what it took four decades to win and just over one decade to lose.

Louis M. Zickar is the Editor of The Ripon Forum.

"Part of being a revolutionary is knowing that you don't have to acquiesce to the tired old ideas of the past."

Ronald Reagan
1985

For over 40 years, the Ripon Society has been dedicated to a simple but important notion – the notion that ideas matter in American life.

Whether it is securing our Nation, keeping taxes low, or making the federal government smaller and smarter, the Ripon Society believes that ideas are the fuel for our democracy. We also believe that good ideas can come from anywhere – be it the left, right, or political center.

We invite you to join us in the debate. For cutting edge news commentaries and the latest information on upcoming Ripon Society events, please visit our website at www.riponsociety.org. At our website, you'll be able to update your membership and read *The Ripon Forum* online.

You'll also be able to learn more about the ideas that are shaping the future of the Republican Party and our Nation.

The Ripon Society

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