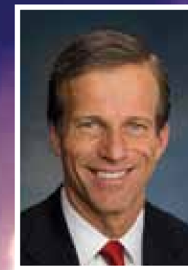
The Ripon Forum

Summer 2010
Volume 44, No. 3

AFTER THE REVOLUTION
John Thune on the President's big government agenda



The PERFECT STORM

The coming fiscal crisis facing America
by Douglas Holtz-Eakin

What the storm will look like when it hits
by Maya MacGuineas

While Congress slept
by Mike Enzi

Plus – Chris Christie: The Most Important Governor to Watch
And – Moderate Republicans & the Wimp Factor

The Ripon Forum

"Ideas that matter, since 1965."

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Articles

Cover Story

Cover Story (cont'd.)

Politics & Perspective

Sections

One Year Subscription:
$35.00 individuals
$10.00 students

The Ripon Forum (ISSN 0035-5526) is published by The Ripon Society. The Ripon Society is located at 1300 L Street, NW, Suite 900, Washington, DC 20005.

Postmaster, send address changes to: The Ripon Forum, 1300 L Street, NW, Suite 900, Washington, DC 20005.

Comments, opinion editorials and letters should be addressed to: The Ripon Forum, 1300 L Street, NW, Suite 900, Washington, DC 20005 or may be transmitted electronically to: editor@riponsociety.org.

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.

Art Lifson
1945-2010

"He was always there whenever needed,
A friend most true were words he heeded."

The Ripon Society lost a leader and a friend on July 7, 2010, with the passing of the Chairman of our Board of Directors, Art Lifson.

"For over a decade, Art contributed his energy and considerable talents to our organization," stated Jim Conzelman, the President and CEO of The Ripon Society. "The leadership he provided and the wisdom he shared during that time were invaluable, and helped make The Ripon Society one of the leading voices for centrist Republican thought in Washington.

"Just as important as his energy and talents were the principles of honesty and integrity that he imparted. In that regard, it's been said that every organization takes on the character of its leader. If that is the case, then The Ripon Society gained more than it gave having had Art as a guiding force and leader.

"Theodore Roosevelt once said that, 'There is always a tendency to believe that a hundred small men can furnish leadership equal to that of one big man. This is not so.' In that, he was right. The Ripon Society has relied on a lot of 'small men' over the years. But the success of our organization today is attributable in no small measure to the efforts of one 'big man' – and that is Art Lifson. We will miss him."

Art leaves behind his beloved wife of 43 years, Amy, as well as his daughters, Heidi and Beth, and his son-in-law, Michael. He also leaves behind a wealth of friends and colleagues who came to know, respect, and love him through the years.

One of these friends, Carol Kelly, wrote a moving tribute to Art that she read at his memorial service. It is a fitting remembrance to our late friend and leader, and is reprinted below.

The Greatest Gift:
A Friend Most True

I was new to private life, having just escaped government strife.
When Arthur came to my office door, to share his knowledge and so much more.
We were colleagues in Equitable days, when lobbying the Hill was a positive craze.
He took me under his wing and showed, all the "stuff" I needed to know.
Often he was a serious type, and the suits and shirts came with pin stripes.
At times he'd say "I'm such a stuffed shirt," but always he was on top of his work!
A couple years in he asked me to dine, with Amy his wife at his Chinese find.
She called him "Artie" with eyes of love, and I knew his hand had found the right glove.
We partnered in an alliance against, the Clinton health care reform angst!
Willing to accept some real reforms, but not go as far as Clinton norms.
The insurance industry I left behind, and worked for providers and more government time.
But always we would find time together, whether skies were fair or other weather.
I'll remember fondly in mind's eye, nights at Wolf Trap in seats so fine.
Movies and dinners in Georgetown, too, where the action was, we were the crew.
Through all the years and all the fun, of friend Arthur, I will remember one...
He was always there whenever needed, a friend most true were words he heeded.

Love always,
Carol Kelly
July 7, 2010

For those wishing to honor Art, the family requests that donations be made to the American Jewish Society for Service, 10309 Westlake Blvd., Suite 193, Bethesda, MD 20817, or the Mandel School of Applied and Social Sciences at Case Western Reserve University, 11235 Bellflower Rd., Cleveland, OH 44106.

In this Edition

For years, fiscal gurus and budgetary experts have been warning us about the long term implications of spending more than we take in.

The economy will collapse, they warned. Social Security and other important programs will become unaffordable. The standard of living that millions of people had grown accustomed to will no longer exist.

For years, we treated these warnings as distant events – as if they were rocks jutting up from a faraway shoal that America would never reach. In recent months, however, a consensus has begun to emerge that the warnings can no longer be ignored, and that a perfect storm is pushing our country toward the rocks.

It is a storm fueled by rising debt, runaway deficits, an aging population, and a level of entitlement spending that is spiraling out of control. It is a storm made worse by our leaders in Washington, who have pledged to deal with the looming crisis, but have then refused to make the tough decisions that are required to prevent it.

In this edition of The Ripon Forum, we look at this crisis with some of the same experts whose warnings of fiscal disaster are being proven right. Leading our coverage is former presidential advisor Douglas Holtz-Eakin, who puts the storm into perspective and discusses why the worst of it could arrive sooner than we would like. Following his excellent commentary is an insightful essay by budget authority Maya MacGuineas, who explains what this crisis will mean for the Nation's economy and how it could impact people's lives.

To find out what Washington is doing -- or rather not doing – to prevent this crisis from occurring, we also feature an essay by Wyoming Senator Mike Enzi, who was a certified public accountant prior to his election to the Senate and finds it outrageous that, in light of the fiscal challenges facing the Nation, Congress is failing to perform the one task he used to advise all of his former accounting clients to do – prepare a budget. One elected leader who is making tough calls is New Jersey Governor Chris Christie, who has not just succeeded in passing a budget in a challenging fiscal environment, but has done so with bipartisan support. In a fine essay, Robert Ward of the Nelson Rockefeller Institute tells us how he has accomplished this feat and become "The Most Important Governor to Watch."

In other topics, this edition of the Forum also features GOP rising star John Thune discussing why President Obama's call for revolutionary change has fallen flat across the country. House Small Business Committee Ranking Republican Sam Graves looks at one of these changes, the new health care law, and how it is harming entrepreneurs. And four departing U.S. Senators share words of wisdom about the future of the Nation and the GOP.

As with every edition, we hope you find this edition of the Forum interesting and informative, and encourage you to contact us at editor@riponsociety.org with any thoughts or comments you might have.

Lou Zickar
Editor
The Ripon Forum

After the Revolution

Americans expected hope and change, not a majority that governs from the left

JOHN THUNE

There's an old joke about Russia before the Soviet Union. A Communist party leader brags to a peasant, "After the Revolution, everyone will have strawberries." The peasant replies, "But I don't like strawberries." The party leader answers, "After the Revolution, everyone will like strawberries."

In the last election, President Obama promised a revolution of hope and change. But as the American people have seen what his ideas mean in practice, many have found that they're getting a lot of things for which they hadn't bargained. They have learned that change isn't always for the better. Sometimes it is a return to the failed policies and discredited ideas of the past.

As more and more Americans express their dissatisfaction, the response from this White House has been to continue full speed ahead, while explaining that the people simply don't know what's best for them.

In my home state of South Dakota and around the country, I hear over and over again that people are anxious and uncertain about the path our country is on, and where the Obama Administration might try to take us next. They see out of control spending and huge amounts of debt being racked up. They see the government not just chipping away at their liberty, but grabbing huge chunks of it.

The first red flag was the $862 billion "stimulus" bill the President signed when he had been in office for less than a month. It was sold as emergency spending that would keep our economy from tanking and hold unemployment to eight percent.

President Obama promised a revolution of hope and change. But as the American people have seen what his ideas mean in practice, many have found that they're getting a lot of things for which they hadn't bargained.

But today unemployment continues to hover around 10 percent, and our national debt is a staggering $13 trillion.

Next came the government takeover of health care, which will spend $2.5 trillion in the first decade it is fully in effect. And after all the hype, it turns out that many of the solutions the bill offered were too good to be true. The law is likely to cost hundreds of billions of dollars more than originally estimated. Millions of people will remain uninsured, despite a new government mandate that they buy coverage. Millions more will lose the coverage they have and like. Overall spending on health care will go up faster than it would have if we had done nothing at all.

Most recently, Democrats turned to regulating the financial services industry. In a masterpiece of missed opportunities, their plan failed to address the real causes of the financial crisis and did little or nothing to prevent another crisis. What they did manage to do was increase costs for Main Street banks and consumers while creating at least 17 new federal offices, agencies, units and boards, including the flawed Consumer Financial Protection Bureau. This new bureau will have a say in almost every aspect of American business, yet is insulated from any oversight and armed with an enormous budget. Far from reform, the law was little more than a jobs bill for regulators, lawyers and lobbyists.

Labor union giveaways; the political slush fund known as TARP; a job-killing cap-and-trade plan to control energy production from Washington, D.C.; Cash for Clunkers… the list goes on and on. In the past year and a half, we have witnessed a level of government involvement in the private sector that this country has not seen since Truman tried to take over the steel mills and Nixon froze wages and prices.

On every policy issue they have faced, the Obama Administration and the Democrats in Congress have had a choice between more freedom or more government. Time after time, on issue after issue, they have chosen the path that is farther to the left – more government over more freedom.

On every policy issue they have faced, the Obama Administration and the Democrats … have chosen the path that is farther to the left – more government over more freedom.

That top-down, command-and-control approach may be efficient in theory. But that's not the approach that made this country prosper, and it's not the best way for us to overcome our current challenges.

The American people wanted change. Unfortunately, they now have a President who has become the de facto CEO of large chunks of our economy, with the power to hire and fire executives, set their pay, influence what products should be made, and help decide who wins and who loses. That is a frightening prospect for most Americans, and the sense of buyer's remorse around the country is palpable.

Many Americans, having seen all of this, are turning away from President Obama in one poll after another. And it is likely they will be turning their backs on a large number of Democrats in the House and Senate this fall.

America has a proud history of reining in our leaders before they carry us over the cliff. We need to pull up on the reins one more time and get our country back on the right path again. **RF**

U.S. Senator John Thune (R-SD) serves as Chairman of the Senate Republican Policy Committee.

A Recipe for Economic Disaster

How the Health Care Law will Impact Small Business

SAM GRAVES

For centuries, small business owners have encouraged prosperity and vitality in this great nation. These entrepreneurs epitomize the American ingenuity that has allowed the United States to become an economic powerhouse in the global marketplace. Without small businesses, we would no longer have the resources we need to continue producing cutting-edge products and services that meet consumer demand worldwide.

In order to help keep small businesses on the forefront of the markets, it is critical that leaders in Washington foster an environment that encourages creativity and promotes free enterprise. Unfortunately, policies and programs that are being pushed by President Obama's Administration and Majority Leaders in Congress have made small business owners subject to a constant stream of higher taxes, more regulations and more mandates that will discourage entrepreneurs and force employers to cut jobs.

These days, small businesses are more hesitant than ever to expand or hire new workers due to the overwhelming uncertainty created by Washington's anti-small business agenda.

These days, small businesses are more hesitant than ever to expand or hire new workers due to the overwhelming uncertainty created by Washington's anti-small business agenda. Employers are struggling to understand the implications that the recently enacted government takeover of health care will have on their businesses. For many, the new health care law will raise health insurance premiums, hike taxes, require additional paperwork and make it more difficult to survive in an already tough economy.

According to a recently updated analysis from the nonpartisan Congressional Budget Office, the health care law is expected to cost at least $115 billion more than the $940 billion previously estimated. Add in the reconciliation bill that included a package of "fixes" to the health care legislation, and the cost for this health care overhaul jumps to more than $1.2 trillion. All that money has to come from somewhere, so the law includes $569.2 billion in tax increases that will fall heavily on small businesses and other employers. The idea of forcing our nation's job creators to carry the financial burden of the health care law is absurd.

Adding insult to injury, the law includes a new 1099 reporting mandate that will place an enormous burden on employers. Small business owners will be required to file a 1099 form for each purchase of goods or services of $600 or more per year from another entity. Retail and wholesalers of expensive products would be forced to file hundreds or even thousands of 1099s, solely for ordering inventory. Because the new law will require the filing of 1099s on goods as well as services, the number of 1099s that must be filed will increase exponentially.

In a feeble attempt to offset the cost of more Washington mandates and tax hikes, the Obama Administration spent millions of taxpayer dollars in an effort to promote its so-called small business health care tax credit. The credit was supposed to apply to companies with fewer than 25 workers and average annual wages under $50,000 that provide health care coverage. However, due to the complicated eligibility rules, the credit could apply to far fewer businesses than the Administration's previous estimate. In fact, some estimate that less than one-third of

U.S. small businesses would qualify for the tax credit.

With unemployment still hovering around 10 percent, families and businesses cannot afford new regulations and red tape from Washington that will make jobs more scarce and further slow our economic recovery. As Ranking Member of the House Small Business Committee, I am extremely concerned about how the health care mandates and tax regulations in the health care law will be enforced upon small businesses, and at what cost. Initiating such a massive overhaul of health care without first having a clear understanding of the cost and impact is a recipe for economic disaster.

Initiating such a massive overhaul of health care without first having a clear understanding of the cost and impact is a recipe for economic disaster.

Small business owners cannot survive unless Washington leaders craft legislation that encourages stability and growth in our economy. We can take a great stride toward helping our small business owners by lessening the scope of the 1099 reporting rule. That is why I have joined my Republican Small Business Committee colleagues in sending a letter to IRS Commissioner Douglas Shulman that outlines the impact that this rule could have on employers, and demanding details on exactly how the IRS plans to help business owners comply.

Ignoring the needs of American entrepreneurs puts our economy in a precarious position and leads our nation down a dangerous path. It is past time for a renewed commitment to economic growth and job creation in Washington. The small business owners who have electrified our economy in the past can lead our recovery today, but only if the government supports their mission by crafting policies that keep federal spending low, reduce our national debt, encourage job creation and allow business owners and families to keep more of what they earn. **RF**

Sam Graves represents the 6th District of Missouri in the U.S. House of Representatives. He is the Ranking Republican on the House Small Business Committee.

Why Missile Defense is Still Needed

MACKENZIE EAGLEN

Some arguments are worth repeating.

Take missile defense. The basic justification for developing this weapon system has not changed much since President Reagan proposed it in 1983. But the threats have changed. In fact, the threats we face are more varied and are evolving at a faster rate than at any other time in our history.

Ten years ago, for example, few people knew what an improvised explosive device was. Today, they are the weapon of choice for insurgents in Afghanistan, Iraq and elsewhere around the world. Recent conflicts have also demonstrated the devastating effects of cyber and denial-of-service attacks; and more unsettled state actors are partnering with sub-groups to cause trouble.

As the predictability of the kinds of threats we face has diminished, military planners have been forced to prepare to defend against virtually everything. Since no one would secure a home by locking all the windows but leaving the front door open, the U.S. shouldn't choose to remain vulnerable to a ballistic missile attack – particularly since these weapons can be armed with a chemical, biological or nuclear weapon.

It only takes 30 minutes for a ballistic missile to reach U.S. shores from anywhere in the world. We would barely have time to lament our lack of a missile defense before an attacking weapon was upon us. Since the enemy always "gets a vote," U.S. leaders need only pay attention to what others are saying and doing to validate the need for a comprehensive missile defense system to protect Americans.

In just the past decade, the number of nuclear states around the globe has grown from six to nine. Meanwhile a total of 28 countries have ballistic missile capabilities.

The Threats We Face

Iran will likely achieve nuclear status in the near future, and the world has limited visibility into their program and even less into their leaders' intentions. The International Atomic Energy Agency is having difficulty developing a comprehensive picture of Iran's nuclear program, but officials believe Iran may be working on affixing a nuclear warhead to one of its growing classes of ballistic missiles. Even the U.S. military estimates that Iran will be capable of fielding an intercontinental ballistic missile by 2015.

Numbers tell the rest of the story. In just the past decade, the number of nuclear states around the globe has grown from six to nine. Meanwhile a total of 28 countries have ballistic missile capabilities. Some are rapidly improving their arsenals with help from other states. China, for example, has shown it is capable of targeting U.S. satellites with ballistic missiles and electromagnetic pulse warheads. In January 2007, China launched an Intercontinental Ballistic Missile (ICBM) at one of its own satellites. The Chinese referred to the test as an experiment and not a deliberate anti-satellite test. Nevertheless, the action proved Chinese capabilities and demonstrates their potential for growth.

North Korea has some 1,000 missiles and is selling them to other countries. It has tested at least 25 missiles with ranges of up to 1,200 miles. This means North Korean missiles are capable of reaching South Korea and Japan. Its leaders are also developing a new ICBM with a minimum range of 3,700 miles that could hit Alaska and some parts of Hawaii if it functioned at its full capacity. Judging by capabilities (missile arsenals) as well as intentions (official statements from world leaders), the need for a U.S. missile defense system is clear.

Of course, missile defense offers more than protection of Americans at home and abroad. The purely defensive system also provides security assurance and comfort to friends and allies. Our investment in missile defense is what prevents others from building up their own arsenals and reduces their perceived need to acquire additional weapons. The United States today provides security for more than 30 countries around the world and thus prevents these nations from pursuing large missile programs of their own. As a result, the number of weapons throughout the world has decreased, which is a desirable outcome.

The bottom line is that missile defense decreases the importance and utility of ballistic missiles. This dramatically limits their attractiveness to potential enemies, given that such an attack would more than likely fail.

What's Needed Here at Home

A comprehensive, multi-layered missile defense should be a priority. And the vast majority of Americans support the program. A poll conducted by Opinion Research Corporation this past May reveals that 88 percent of the respondents believe that the federal government should field a system for countering ballistic missiles capable of carrying weapons of mass destruction. However, many also mistakenly believe we already have what is needed to defeat a range of threats.

President Obama's "phased adaptive approach" for missile defense has some merits but also has unnecessarily slowed the program while the threat has remained the same.

President Obama's "phased adaptive approach" for missile defense has some merits but also has unnecessarily slowed the program while the threat has remained the same. Iran may be capable of launching a long-range missile by 2015, yet the U.S. missile defense program will not be capable of defeating this type of threat until 2020. The Department of Defense has requested $9.9 billion in the fiscal year 2011 budget for the missile defense program, with $8.4 billion of that going to the Missile Defense Agency (MDA). One notable improvement is the $2.2 billion request for the sea-based Aegis ballistic missile defense system – an 11 percent increase over the previous year. While the MDA budget shows an increase over the previous year's request, it still falls nearly $1 billion short of President Bush's final request in fiscal year 2009.

The administration's plan for missile defense has four stages that continue through 2020. The program includes both land- and sea-based interceptors. Ultimately, the fourth phase would move the system beyond regional defense and protect the entire U.S. homeland against an ICBM attack. Unfortunately, the Administration has cut back on other integral parts of the comprehensive program. The number of ground-based interceptors in Alaska and California has been cut from 44 to 30, the planned "third site" for missile defense in Poland and the Czech Republic was cancelled, and funding has been eliminated for space-based interceptors.

For a truly effective and comprehensive system, the land, sea and air components must be strengthened. First, the Administration should reinstate the original plan to field 44 ground-based midcourse defense interceptors in Alaska and California. As the number of countries that possess ballistic missiles grows alongside the size of many arsenals, additional interceptors are necessary. Congress should add $200 million to the missile defense budget to begin restoring the planned interceptors here in the U.S.

Additional funding is also needed for the successful sea-based system. Congress should bolster the Aegis ballistic missile defense in 2011 to accelerate and expand both the development and procurement of the Aegis weapons system and the Standard Missile-3 (SM-3) family of interceptors. One example involves funding smaller and lighter vehicles for the SM-3 interceptors. An optimal speed for the interceptor is six to seven kilometers per hour, which can best be achieved by using these lighter vehicles. This would ensure that the interceptors can protect larger areas and allow them to intercept missiles in the first stage of launch all while engaging missiles with the longest ranges.

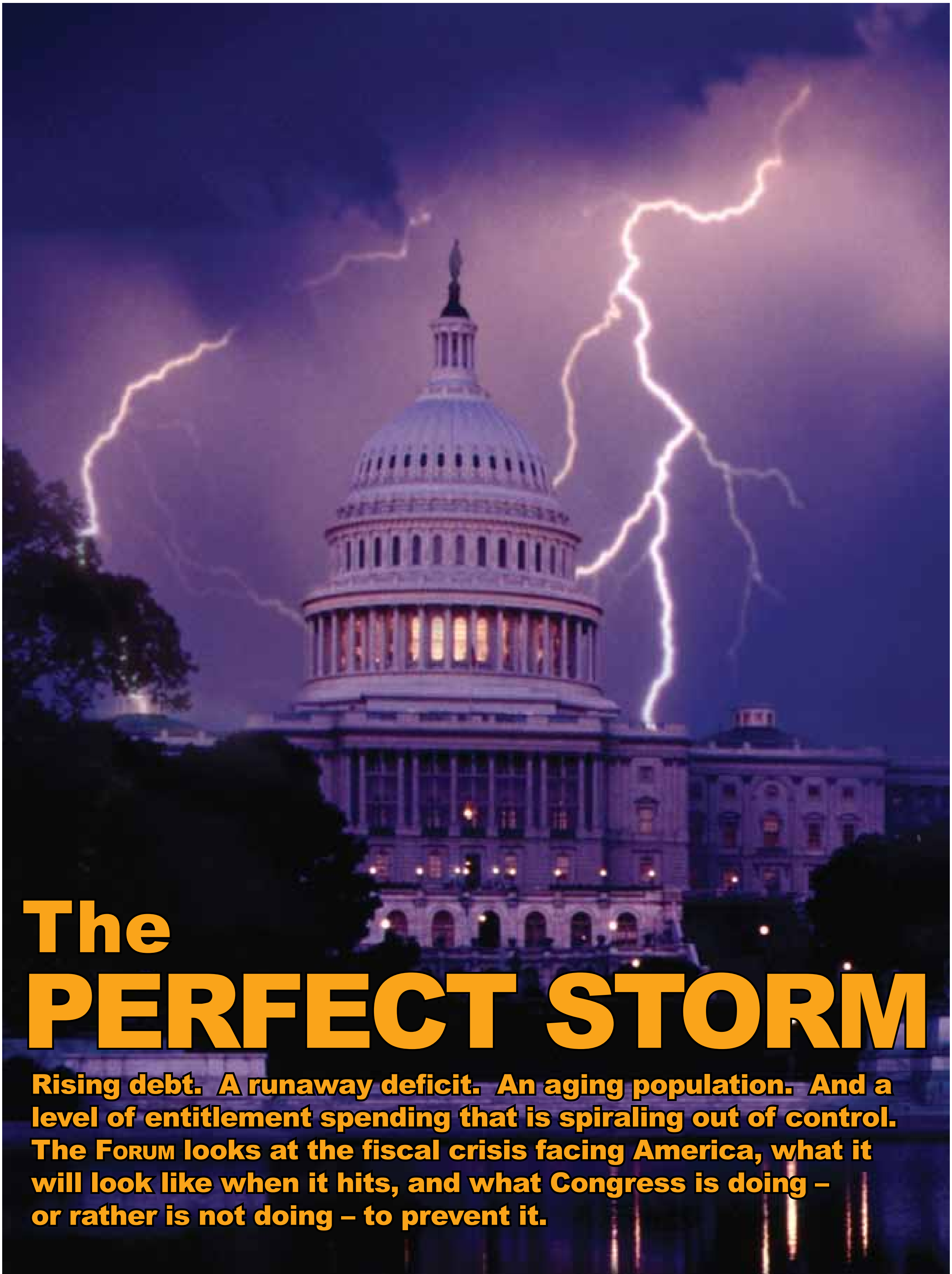
The complete lack of investment in space-based interceptors and minimal funding for space activities needs to be reversed. There are substantial benefits to a robust space-based system. The Airborne Laser program (which has already been proven successful at striking a missile in the first, or "boost," phase) should be resurrected. This is important because during the boost phase, the missile is still over the enemy's land. If intercepted at this point, it significantly reduces the risk of any spillover effects.

Indeed, as Lt. General (Ret.) Trey Obering has said, missile defense is similar to an insurance policy for the protection of all Americans -- except, of course, it's a much better investment. If, say, you get into a car accident, only then does your insurance help you.

But with missile defense, having a system in place could prevent an enemy attack from ever reaching Washington, New York, Dallas, Miami, Seattle or Los Angeles. It's peace of mind worth investing in.

It's also proof that old arguments are often worth repeating, particularly when – as in the case of missile defense – they are correct. **RF**

Mackenzie Eaglen is a Research Fellow for National Security Studies at the Allison Center for Foreign Policy Studies at the Heritage Foundation. She previously served as principal defense adviser to Senator Susan Collins of Maine.



The PERFECT STORM

Rising debt. A runaway deficit. An aging population. And a level of entitlement spending that is spiraling out of control. The Forum looks at the fiscal crisis facing America, what it will look like when it hits, and what Congress is doing – or rather is not doing – to prevent it.

PART I:

The Looming Fiscal Crisis Facing America

It's coming sooner rather than later

DOUGLAS HOLTZ-EAKIN

A United States fiscal crisis is now a threatening reality.

It wasn't always so, even though for many years the Congressional Budget Office has published a pessimistic Long-Term Budget Outlook.

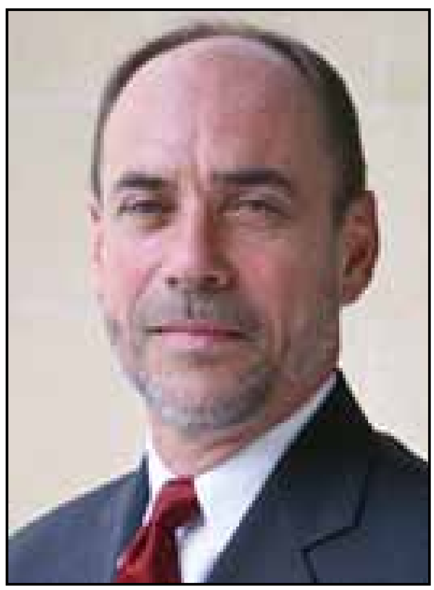
Each edition would reveal an inexorable increase in entitlement and other spending, from the traditional level of 20 cents out of every national dollar to between 30 and 40 cents over the next 30 years.

Despite this gloomy forecast, nobody seemed to care. Bond markets were quiescent. Voters were indifferent. And politicians were positively in denial that the "spend now, worry later" era would ever end.

Those were the good old days. Now Greece, Portugal, Spain, Ireland, and even Britain are under the scrutiny of skeptical financial markets. And there are signs that the U.S. is next.

The federal government ran a fiscal 2009 deficit of $1.4 trillion – the highest since World War II – as spending reached nearly 25 percent of GDP and receipts fell below 15 percent of GDP. In each case, the results are unlike those experienced during the last 50 years.

Going forward, there is no relief in sight. Over the next 10 years, according to the CBO's analysis of the President's Budgetary Proposals for Fiscal Year 2011, the deficit will never fall below $700 billion. Ten years from now, in 2020, the deficit will be 5.6 percent of the GDP, roughly $1.3 trillion, of which over $900 billion will be devoted to servicing debt on previous borrowing.



Going forward, there is no relief in sight. Over the next 10 years ... the deficit will never fall below $700 billion.

The U.S. will be perilously close to effectively getting a new credit card simply to pay off the old one.

It's the Spending, Stupid

The budget outlook is not the result of a shortfall of revenues.

The CBO projects that over the next decade the economy will fully recover and revenues in 2020 will be 19.6 percent of GDP – over $300 billion more than the historic norm of 18 percent.

Instead, the problem is spending. Federal outlays in 2020 are expected to be 25.2 percent of GDP – which is about $1.2 trillion higher than the 20 percent that has been business as usual in the postwar era.

As a result of the spending binge, in 2020 public debt will have more than doubled from its 2008 level to 90 percent of GDP, and will continue its upward trajectory. Traditionally, a debt-to-GDP ratio of 90 percent or more is associated with the risk of a sovereign debt crisis. Indeed, there are warning signs even before the debt rises to those levels.

As outlined in a recent report, the credit rating agency Moody's looks at the fraction of federal revenues dedicated to paying interest as a key metric for retaining a triple-A rating. Specifically, the large, credit-worthy sovereign borrowers are expected to devote less than 10 percent of their revenues to paying interest. Moody's grants the U.S. extra wiggle room based on its judgment that the U.S. has a strong ability to repair its condition after a bad shock. The upshot: no downgrade until interest equals 14 percent of revenues.

This is small comfort as the Obama Administration budget targets 2015 as the year when the federal government crosses the threshold and reaches 14.8 percent. Moreover, the plan is not merely to flirt with a modest deterioration in credit-worthiness. In 2020, the debt-to-GDP ratio reaches 20.1 percent. The U.S. is on track for a junk bond bonanza.

Perhaps even more troubling, much of this borrowing comes from international lending sources, including sovereign lenders like China that do not share our core values.

What happened? First, the U.S. frittered away its lead time. It was widely recognized that the crunch would only arrive when the baby boomers began to retire.

Well, guess what? The very first official baby boomer chose early retirement at age 62. Crunch time arrived and nothing was done in the interim to solve the basic spending problem – indeed the passage of the Medicare prescription drug bill in 2003 made it worse.

Second, the events of the financial crisis and recession used up the federal government's cushion. In 2008, debt outstanding was only 40 percent of GDP. Already it is over 60 percent and rising rapidly.

Third, active steps continue to make the problem worse. The recently passed health care "reform" bill adds two new entitlement programs for insurance subsidies and long-term care insurance without fixing the existing problems in Social Security, Medicare, and Medicaid.

Financial markets no longer can comfort themselves with the fact that the United States had time and flexibility to get its fiscal act together. Time passed, wiggle room vanished, and the only actions taken made matters worse.

Financial markets no longer can comfort themselves with the fact that the United States had time and flexibility to get its fiscal act together. Time passed, wiggle room vanished, and the only actions taken made matters worse.

No Bright Side Unless Something is Done

For Main Street America, the fiscal crisis comes in two unpalatable flavors.

Under the "good news" version, the debt will continue to edge northward – perhaps at times slowed by modest and ineffectual "reforms" – and borrowing costs in the United States will remain elevated. Profitable innovation and investment will flow elsewhere in the global economy. As U.S. productivity growth suffers, wage growth stagnates and standards of living stall. With little economic advancement prior to tax, and a very large tax burden from the debt, the next generation will inherit a standard of living inferior to that bequeathed to this one.

Under the "bad news" version, international lenders revolt over the outlook for debt and cut off U.S. access to international credit. In an eerie reprise of the recent financial crisis, the credit freeze would drag down business activity and household spending. The resulting deep recession would be exacerbated by the inability of the federal government's automatic stabilizers – unemployment insurance, lower taxes, etc. – to operate freely. Again, the upshot is that America fails its fundamental responsibility to leave to the next generation freedoms and prosperity greater than those of the past.

Of course, it need not happen at all. Congress and the Administration must rein in spending and stabilize federal debt relative to GDP. Every effort should be made to maximize economic growth at the same time, so that ultimately a larger economy can more easily shoulder the burden of inherited debt.

Everyone will recognize that this means changing the traditional politics of promise-and-spend for both politicians and their constituents alike. But it can happen because it must.

All that is at stake is our prosperity and our freedom. **RF**

Douglas Holtz-Eakin served as Director of the Congressional Budget Office from 2003 to 2005. He currently serves as President of the American Action Forum and is a Commissioner on the Congressionally-chartered Financial Crisis Inquiry Commission.

THE PERFECT STORM, PART II:

What the Crisis will Look Like When it Hits

Will the U.S. resemble Greece?

MAYA MACGUINEAS

Question: Is the United States Greece? Answer: Of course not, our islands aren't as pretty and our gyros aren't as tasty. Nonetheless, a U.S. sovereign debt crisis is not nearly as remote as it was once thought to be, and as a result, a debt default is something that, while not likely, is no longer inconceivable. Without question, if we fail to make policy changes, we will experience some type of fiscal crisis down the road.

At the moment, our borrowing patterns still seem manageable. Our debt is very large, with public debt at $8.5 trillion and total debt at over $13 trillion, and we are on track to add another $10 trillion over the next decade. But, as market concerns focus on Greece – with a leery eye also pointed on nearby Spain and Portugal – the United States seems only to be benefiting from the punitive prices other nations are paying because of their excessive debt, and we are able to continue our own borrowing binge at exceedingly low rates.

This could turn on a dime. The long-term debt projections are startling. Under reasonable assumptions, the public debt would grow from a historical average of below 40% of GDP to over 60% this year, to around 85% by the end of the decade, to 185% by 2035, and an astronomical 854% by 2080. It makes a college freshman, with his first seven credit cards in one hand and a bottle of Jack Daniel's in the other, look positively responsible.

And markets are fickle creatures—no money manager wants to be the last mutual, pension, or hedge fund over-weighted in U.S. Treasuries, so while they are happy to park their cash here for now, with the first whiff of U.S. market skittishness, capital will look for other places to go quicker than you can say, but I thought we were the reserve currency? Hello, safe haven anyone?

The U.S. has never directly defaulted before, and a fiscal crisis could play out in a number of ways.

The U.S. has never directly defaulted before, and a fiscal crisis could play out in a number of ways. We could just settle into a damaging but manageable debt cycle where we continue to borrow and creditors continue to lend because there's nowhere else to put their capital. Government borrowing would squeeze out productive investment, and U.S. growth would remain subpar for years if not decades, but it is the frog in the boiling water scenario, where we would be lulled into complacency and as a result, endure a steady decline in the standard of living compared to where it could have been.

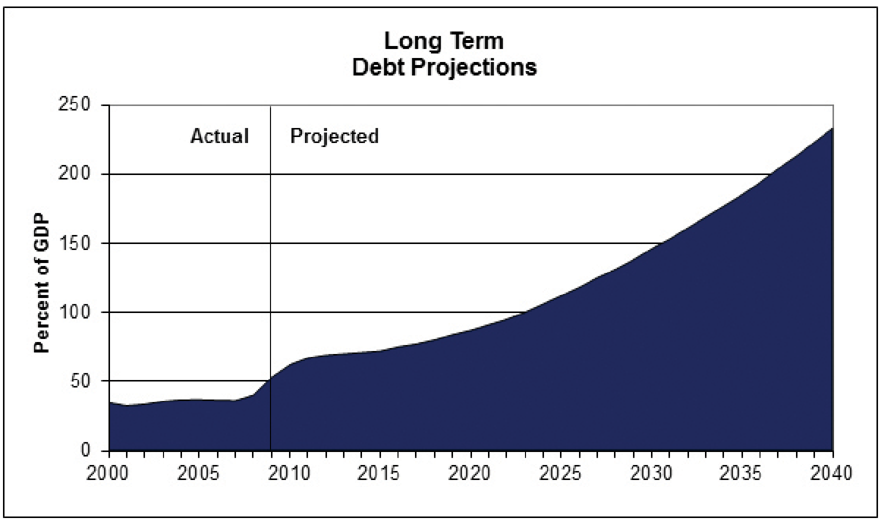
Or, our creditors could start to demand a higher return on their money as they perceived our debt to be more risky. Interest rates would be pushed up, causing interest payments in our budget to grow, forcing us to borrow more, pushing rates up further, leading to a vicious debt spiral. Such a spiral could either be gradual, or abrupt, with both likely pushing the economy back into a recession. This time however, we would not have the fiscal flexibility to respond as we did last time, and the recession would likely be much worse. Or the Fed could be pressured to buy more U.S. debt if lenders didn't want it, resulting in higher levels of inflation, an erosion in savings, and a nearly impossible inflationary cycle to break. One should study the cases in Latin American countries before concluding inflation is the easy way out of our fiscal problems.

Or things might just get so bad, policymakers would choose the default option. While it seems inconceivable now, borrowing costs could become prohibitively high, and the tax hikes and spending cuts needed to close the gap so draconian that politicians just wouldn't be willing to make them, and default might look like the best option available. Partisan politics could keep politicians from voting to raise the debt ceiling or policymakers could decide to reorder our debts, limiting what is paid, or lengthening the time over which payments are made. They might even choose to call it something else: a restructuring or renegotiation, or I am sure Frank Luntz could come up with something better.

But regardless of the name, the results would be the same: bad, bad, bad. Burned creditors would stop buying U.S. debt or demand onerous interest premiums heretofore unimaginable in the U.S. Domestic interest rates would skyrocket, causing the economy to sharply contract. The standard of living would be in the dumps, with consumption falling off, businesses going belly up, and mass layoffs, making us yearn for the good old days of 10% unemployment. Governments would be forced to stop doing things that even the staunchest libertarian might miss from sending grandma her check, to feeding and clothing the troops, to augmenting states' costs for police, fire fighters, and jails. Remember that 1980s TV movie, *The Day After,* which showed what the country would look like after a nuclear attack? Picture the fiscal version of that.

And the problems wouldn't end here. To get out of this mess, we would ultimately have to do what politicians were trying to avoid – raise taxes and cut spending – but to a much greater degree than we ever would have had to if we had acted in advance of a crisis. The direct toll on citizens would be huge as benefits – even for those who rely on them for the most basic necessities – were slashed, and truly burdensome tax rates ate up the incomes and savings of families. There would be no adjustment time as is usually assumed when contemplating large-scale reforms.

But debt does not have to be our destiny. The U.S. can and must change course. No immediate policy actions need to be taken as the economy continues along its shaky recovery – in fact further stimulus (paid for over time so as not to add to the debt) is probably in order.



The standard of living would be in the dumps, with consumption falling off, businesses going belly up, and mass layoffs, making us yearn for the good old days of 10% unemployment.

But we do quickly need to develop and credibly commit to a medium-term fiscal consolidation plan that would bring the debt back down to more manageable levels, as well as a longer plan to control entitlement spending and stabilize the debt so that it doesn't grow faster than the economy.

The types of policies we should be considering include: thoughtful reductions in defense; a temporary freeze in domestic discretionary spending; raising the retirement age; slowing the growth of Social Security benefits on the upper end; scaling back the amount of subsidies in the new health reform package; asking participants to pay more for their own Medicare; introducing vouchers as part of Medicare (which should work better now that we have created health care exchanges); and, eliminating agriculture subsidies.

On the tax side, (oh yes, there will be a tax side—not a single expert has shown a path to a reasonable and stable debt path through spending cuts alone,) we should start by broadening the tax base by eliminating the employer-provided health care exclusion, which is one of major causes of rising health care costs, and ratcheting down the million-dollar home mortgage interest deduction.

Then we should look to a broad-based carbon tax, which would help to break our energy dependency as well as providing a new revenues stream. Clinging on to unrealistic promises about not raising taxes on anyone, or even just those making less than $250,000, just makes the prospect of a large-scale VAT tax to plug the large fiscal gap down the road all the more likely, rather than more moderate increases now.

It may seem like a long list, and it certainly will not be easy, but it is a heck of a lot better than the alternatives. That said, New Zealand real estate – just as a hedge – looks pretty tempting. **RF**

Maya MacGuineas is the President of the Committee for a Responsible Federal Budget and the Director of the Fiscal Policy Program at the New America Foundation.

THE PERFECT STORM, PART III:

While Congress Slept

Failure to pass a budget is a dereliction of duty

MIKE ENZI

Where's the budget?

That's the question every American should be asking. Congress is way past April, when the budget is supposed to be done, and the majority party has been afraid to bring the required budget to the floor. The Majority leadership of this Congress is not doing something, and it's running our country's financial future into the ground.

Congress can't just sneak by without passing a budget and not expect to feel the repercussions of such inaction for many years to come.

In a speech on the House floor on June 22, House Majority Leader Steny Hoyer (D-MD) confirmed that the House Democrats will not pass a budget this year. His speech was disappointing at best and irresponsible at worst. Doesn't the Constitution demand that Congress exist to "lay and collect taxes, duties, imposts and excises to pay the debts and provide for…general welfare of the United States"?

When did it become an option to just NOT pass a budget to help ensure the country's financial welfare?

Granted, it's not an easy task. In fact, it's so hard that we find our country $13 trillion in debt. But that's exactly why passing and sticking to a budget is more crucial now than ever before. Giving up because it's hard is an example of the worst kind of leadership. Congress can't just sneak by without passing a budget and not expect to feel the repercussions of such inaction for many years to come. If this is the standard by which Congress is choosing to do its business, then what basic but necessary duty will they next choose to flat out neglect?

It's not just a dereliction of duty. It's a glaring example of Congress being asleep at the switch at the worst possible time for our Nation.

Congress needs to take a page from the hardworking families in this country who don't have the option of giving up on their financial obligations and responsibilities. Individuals and families set a personal budget to keep their spending in check. Since money doesn't grow on trees, it means we all need to make decisions about surviving with limited funds whether it be in our own lives or at the federal level as elected officials. We can't keep printing money. Instead, we need to learn to keep spending in check and the first step is to set a budget.

If a family spends more money on books per month than movies, it would be reasonable to say that reading is more of a priority to that family than movies. The act of making choices through a budget forces families and individuals to flesh out priorities. The same should happen for Congress. Congress needs to perform the basic task of budgeting to make sure our priorities aren't off kilter and that our budget is meeting the country's needs in the most efficient way possible.

As an accountant, failing to budget simply makes my head spin. But to add insult to injury, in the past few years after Congress has actually passed a budget, they have then failed to have a meaningful discussion on the appropriations bills that follow the budget and that actually specify where money should go. Instead of allowing amendments and multiple votes on appropriations bills, the majority would lump most of the massive appropriations bills into one mega bill at the end of the year without allowing an opportunity to makes changes. These large bills are called omnibus bills. They are a bad way of legislating and make for faulty laws.

But what is the point of having a

budget if there are ways to skirt around the spending limits?

Not surprisingly, Congress has found a myriad of ways to waive budget rules and keep on spending. One of the favorite ways of doing this is by labeling all sorts of spending as “emergency spending,” which increases the debt at rapid levels.

The Senate recently considered a $59 billion “emergency” supplemental appropriations bill. Known as H.R. 4899, the bill included money for some very real emergencies. But it also included millions of dollars in non-emergency funds. However, since it was labeled as an “emergency” by some of my colleagues, they thought it was okay to add to the deficit. I don’t buy it – especially since the kicker is a lot of that cost comes up year after year and can easily be planned for. Years of budget gimmicks like this and wasteful spending have brought us to the point we are now – with an out-of-control debt.

It took around 200 years for the country’s debt to reach $1 trillion and eight years to reach $3.4 trillion in 2009. Yet in the past 16 months, the national debt has risen to $13 trillion. That’s $42,000 per person in America. So far this year, 40 cents of every dollar spent by the federal government is borrowed. Something has to give. There are steps that must be taken to get this country on the right path.

This Congress needs to grab this responsibility by the horns and not let inaction be its legacy.

It starts with setting and sticking to a budget that cuts funding followed by a serious discussion of appropriations bills with adequate time to look over and debate them. Reforms of Medicare, Medicaid, Social Security and other entitlement programs should be close behind. It all starts with a budget.

This Congress needs to grab this responsibility by the horns and not let inaction be its legacy. There’s another quote from the past that fits our present situation – all that it takes for bad things to happen is for good men to do nothing.

Neglecting to pass a budget is doing nothing. **RF**

U.S. Senator Mike Enzi (R-WY) is the Senate’s only accountant by profession. He is a senior member of the Senate Budget Committee and a member of the Senate Finance Committee.

Chris Christie: The Most Important Governor to Watch

ROBERT B. WARD

Voters aren't stupid. But they often don't pay attention to the details of public policy, especially at the state level. That's why, when a forceful political leader comes along and points out the obvious, big things can happen fast.

We've seldom seen a better example of such rapid change than the dramatic steps Republican Governor Chris Christie has forced through in New Jersey. Just six months in office, Christie has established himself as the most important governor to watch as states wrestle with budget woes that will require years of yet-unidentified changes in fiscal policy to resolve. He's done it the old-fashioned way: Using the public power of the chief executive's office to educate citizens about the causes of the problem, promoting what most voters consider common sense solutions, and insisting that the Legislature agree to reforms that entrenched opposition previously made impossible.

Christie won voter support for what turned out to be a comfortable victory over Democratic incumbent Jon Corzine by campaigning primarily on spending and tax issues, with a special emphasis on New Jersey's notoriously high property taxes. Of the 10 counties nationwide where property taxes are highest as a proportion of homeowner income, six are in the Garden State, according to the nonpartisan Tax Foundation (the other four are in New York). In a review of his successful electoral strategy, *The New York Times* cited the state's "suffocating tax burden" as a primary challenge facing the incoming governor.

But what makes this new chief executive especially important isn't that he faces unique budget problems. Precisely the opposite: Virtually every state confronts the challenges Governor Christie is attacking so aggressively.

What makes Christie unique? The ambitious scale of his program to limit spending. An aggressive style that includes taking on the most powerful interests in the state – the public employee unions, especially the teachers. And finally, a record of one unexpected victory after another.

Pushing the Envelope

From a short-term perspective, the states' budget gaps are driven by historic drops in revenue, caused in turn by the recent deep recession and slow recovery. Starting with the final three months of 2008, overall tax revenues to the states fell on a year-over-year basis for five straight quarters – a decline not seen since at least the Great Depression. The Rockefeller Institute of Government reported in July that the start of 2010 finally brought an increase in revenues. That was largely the result of legislated tax increases in New York and California, though. Overall collections were still down by more than 9 percent from two years earlier.

Research from the Government Accountability Office (GAO) and elsewhere makes clear that the tough fiscal times for state and local governments will not end

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soon. Full recovery from recent revenue losses may take several years. By 2015, according to GAO's projections, the state-local sector will be well into a long-term deterioration of overall fiscal balance caused largely by rising costs for health care, including benefits for public employees and retirees. Over the next two to three decades, state and local officials would need to raise taxes, restrain spending, and/or find cost efficiencies valued at $350 billion or so in today's dollars to eliminate the gaps projected by GAO. For context, that's equivalent to more than half of all spending on K-12 education, or all state-local sales taxes and corporate income taxes combined.

To be sure, the immediate crisis confronting Christie when he took office this January was among the worst in the country. State officials estimated the gap between projected revenues and expenditures at more than $10 billion, on a prior-year basis of $29 billion. As is the case in many states, recent years' fiscal plans had been balanced with gimmicks or one-time revenues (such as $700 million from a tax amnesty plan), and use of extraordinary federal aid with no plan for when the Washington stimulus ends.

The Christie approach to closing the gap began immediately with executive action to reduce spending for the fiscal year ending June 30. The governor's office in New Jersey is institutionally among the strongest in the nation, with budgetary and appointment powers many other top elected officials lack. Even with that authority, Christie pushed the envelope of his executive powers to eliminate – without legislative approval – billions in expenditures that his predecessor and the Legislature had approved seven months earlier.

His March budget proposal for the current year went further. It called for reducing overall spending by more than 8 percent, including cuts to politically sensitive areas such as education and health care. Having promised to retain popular property-tax relief checks for homeowners, Christie said the state would simply "take a break" for a year and restore the payments in 2011. He even spread the political blame for some budget-busting actions of the past, citing "the unwarranted 9 percent pension increase granted by Republicans in 2001 but never paid for by either party."

Making a particularly risky investment of political capital, Christie told voters in April they should take a stand against school spending by voting against local education budgets. The result: voter turnout in school elections rose sharply, and 58 percent of budgets were defeated – the largest rejection rate in 35 years.

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The focus on education spending and budget cuts didn't endear the Governor to public-employee unions. A highly publicized internal memo from a teacher union official seemed to ask for divine intervention to bring Christie to his eternal reward quickly (the union leader said the prayer was a bad joke).

But it backfired, building the Governor's political standing – and thus his ability to sway the Legislature – even further.

Making the Sale

Christie was pushing for legislative action on a constitutional amendment imposing a 2.5 percent annual limit on local property tax increases. The Legislature instead approved a 2.9 percent statutory limit – thus leaving room for future legislated changes to the limit – along with a number of exceptions to the cap.

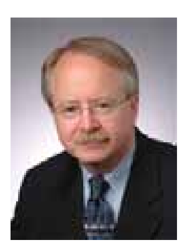
"We're willing to compromise, but the Governor hasn't shown that willingness," the Democratic Senate president, Stephen M. Sweeney, said in late June.

Christie went into campaign mode again, touring the state and visiting homeowners to build public pressure. Barely two weeks later, both houses of the Legislature had approved a compromise measure that was statutory only (as the Legislature sought), but capped increases at 2 percent (cutting the existing cap in half, below even the Governor's proposal) and allowing local voters to override the statewide limit if they choose.

The ultimate effect of that compromise remains to be determined. And, clearly, Governor Christie has not been able to resolve the budget problems entirely. Perhaps most troubling, this year's budget makes no provision for funding employee pensions – an omission that critics say means shifting $3 billion in expenses to the future, with no identifiable plan to cover the cost. And projections show a $10 billion budget gap approaching in 2011.

But this Governor has only just begun. Marking his six month anniversary in office in mid-July, Christie renewed the call for major pension reforms and steps to help local governments cope with reduced revenues.

As he told the crowd in an Ocean County community center, "You ain't seen nothing yet." For this new master of the bully pulpit, that sounds about right. **RF**



Robert B. Ward is deputy director of the Nelson A. Rockefeller Institute of Government, at the State University of New York's University of Albany.

Moderates and the Wimp Factor

LOU ZICKAR

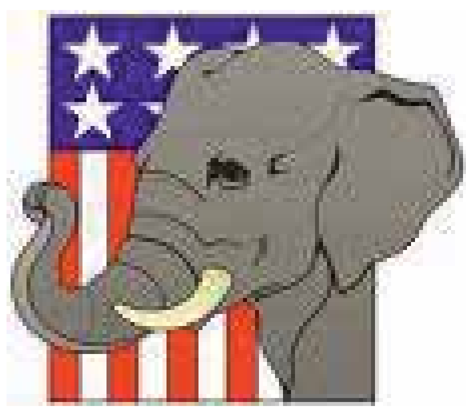
Perception is often reality in politics. Just ask George H.W. Bush. Twenty-three years ago this October, when he was beginning his campaign to succeed Ronald Reagan as President, *Newsweek* ran a cover story on him bearing this headline: "Fighting the Wimp Factor."

The gist of the story was that Bush didn't have the backbone of Reagan. Of course, it was nonsense. Among other things, he was a highly decorated veteran; someone who was shot down over the Pacific during World War II. The closest Ronald Reagan ever got to combat was a Hollywood backlot. Yet somehow, the perception stuck that Bush was soft.

He spent much of the 1988 campaign trying to overcome this perception. He ate pork rinds, attended NASCAR events, and wrapped himself in the American flag. By the time the November general election rolled around, there was no question as to who the toughest candidate in the race was. It was George H.W. Bush. He was elected 41st President of the United States, and out went any further mention of his being a wimp.

Today in America, another group of politicians is facing questions related to their toughness. They are Republican moderates. Some call them RINOs – Republicans in Name Only. Others call them squishes. Whatever their name, the perception of them collectively is that they are soft; that they have no backbone; that when tough votes come down the pike, they head for the hills and let conservatives lead the fight.

To be fair, this perception is



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not entirely accurate. Over the past 16 months, for example, moderates have been as unified as conservatives in their opposition to the Obama big government agenda. First, they held the line and voted as a bloc against the Administration's stimulus plan. Then, they held the line and opposed the President's health care reform plan. On both of these bills, moderate Republicans defied the perception that they lack resolve when it comes to fiscal discipline. Unfortunately, this type of spending restraint by moderates has often been the exception, not the rule.

The most recent BillTally report by the National Taxpayers Union bears that out. In this report, which is compiled annually by this nonpartisan watchdog organization, the NTU examined the cost or savings of all legislation introduced in the First Session of the 111th Congress that affected spending by at least $1 million. The NTU found that the average Republican in the House of Representatives was a "net cutter" – that is, they introduced legislation that resulted in less spending, not more. For the moderate Republican Main Street Partnership, however, the NTU found that just the opposite was true. Specifically, the NTU found that the typical Main Street member introduced legislation that increased spending by an average of $40.6 billion.

The NTU report is not that surprising. After all, moderates have always been more open to new spending than conservatives. But at a time when Republicans are debating the future of the party, the report should be of concern to anyone who wants moderates to have a bigger role in that debate. The reason is simple: the GOP is changing. Five years ago, the animating force that galvanized the party was its opposition to taxes and terrorism. While those issues are clearly still important, the issue that is galvanizing the party more than any other today – and the force that is driving the tea party -- is spending, and the belief that our national debt is spiraling dangerously out of control. As a result of this new paradigm, this year's BillTally report by the NTU should be wake-up call for moderates, for it not only calls into question their commitment to the GOP's top priority, but reinforces the perception that, when it comes to fiscal discipline, they are wimps.

To counter this perception, moderate Republicans need to find the fiscal equivalent of a pork rind -- something that will let them demonstrate their fiscal resolve and commitment to reducing the national debt. There are no shortages of options in this regard.

Some of these options are symbolic. For example, House Republican Whip Eric Cantor has established a website called YouCut that allows Americans to vote on where government spending can be reduced. In the eight weeks it has been online, YouCut has gotten over 1.6 million votes. To show their support of this effort, many House Republicans have posted a link to it on his or her own website. Of the 42 members of the Main Street Partnership, however, only seven have done such a thing. That should change. Every moderate Republican should link to this website and show their support for the YouCut effort.

Other options are more substantive. For instance, Texas Congressman Kevin Brady has introduced a bill that would essentially put an expiration date of 10 years on any new federal program. When the expiration date is reached, a nonpartisan review – or sunset – commission, or would assess whether the program was still performing the function it was originally intended to do. If the answer is no, the program would be abolished. If the answer is yes, the program would be reauthorized for another decade, at which time it would be reviewed again.

To counter this perception, moderate Republicans need to find the fiscal equivalent of a pork rind -- something that will let them demonstrate their fiscal resolve and commitment to reducing the national debt.

A version of this legislation was overwhelmingly approved by the Senate in 1978 by a vote of 87-1. The bill's supporters at the time ranged from Republicans Barry Goldwater and Jesse Helms to Democrats George McGovern and Edward Kennedy. Today, the bill's sponsors are primarily conservatives -- only six moderates are currently signed onto the bill. That should change. If a liberal Democrat such as Ted Kennedy could back the idea 30 years ago, moderate Republicans can certainly support the idea today. Every moderate should cosponsor this bill.

One other idea that has been around for a while is the Balanced Budget Amendment. Republicans tried unsuccessfully to pass a BBA when they controlled Congress in the 1990s. Another effort has been launched to bring the issue up for debate again today. The conservative Democrat Blue Dog Coalition has formally endorsed the idea. While the Main Street Partnership has not followed suit and officially endorsed the proposal, 37 of the group's 42 members have signed on as cosponsor of H.J. 1, the Balanced Budget Amendment bill.

This is a good start. But moderate Republicans can do better in demonstrating their fiscal resolve. They must do better. For if the GOP retakes the House next year, the party will need members who are ready to make difficult decisions regarding America's fiscal future.

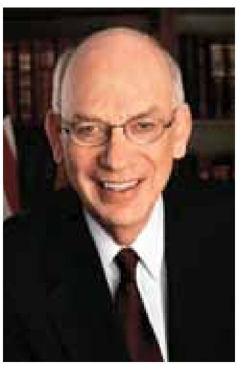
In short, the party -- and the Nation -- will need Republicans who are tough. The question for moderates is this:

Are they up to the challenge? **RF**

Lou Zickar is the Editor of The Ripon Forum.

Advice For My Party As I Head For the Door

Six Republican Senators are leaving office at the end of the year. Below, the Forum features words of wisdom from four of them – advice that is aimed not just at the future of the GOP, but the country as well.



BOB BENNETT

"As I look out at the political landscape now, I find plenty of slogans on the Republican side, but not very many ideas."

The concern I have is that ideology and a demand for absolute party purity endangers our ability to govern once we get into office. A personal story – back in 1976, a dear friend of mine called and said, "Will you interview for a political position in the Reagan campaign?"

I was not a fan of Governor Reagan – I thought he was too far to the right and he was an ideologue and all the rest of these things. And I didn't really have any interest in working in the Reagan campaign in 1976. But out of courtesy to this friend, I agreed to do that.

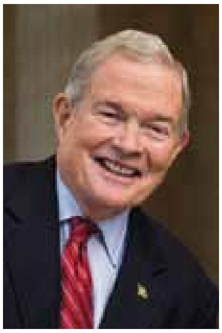
So I went to the interview, and it became very clear as the interview went forward that it was going very well and I was going to be offered a job. And I thought, "I better nip this in the bud right away." So I said, "Wait a minute, before we go any further, there's one thing I have to make clear – I am not a true believer." Whereupon Governor Reagan's campaign manager said, "That's alright – neither is the Governor."

And I came to understand that and have now become a huge Ronald Reagan fan, which as I said, I was not at one point. Because Ronald Reagan, in addition to having slogans that could whip up the ideologues and get them working at the polls, had ideas and solutions to our problems. The reason he was one of the pivotal Presidents of American history was not because of his slogans. It was because of his ideas. I met him but I didn't know him at all well, but the more I read about him the more I have come to appreciate just how deeply he was immersed in the ideas of government and how surely he understood the issues that we faced. As I look out at the political landscape now, I find plenty of slogans on the Republican side, but not very many ideas.

And indeed, if you raise specific ideas and solutions, as I've tried to do on health care with Ron Wyden, you are attacked with the same vigor we've seen in American politics all the way back to the arguments over slavery and polygamy. You are attacked as being a wimp, insufficiently pure, and unreliable. And if we cannot get the Republican Party out of that mode, the pendulum will swing. We will take control of the House – and I think that's going to happen... At which point, it's "thank you for the slogans" and "thank you for the election." But in the immortal words of Robert Redford in the movie, *The Candidate*, "What do we do now?"

If we do not have an answer to that [question], the pendulum will swing away from us as rapidly as it has swung towards us. And we will by default hand the reins of government back to the Democrats.

Senator Bob Bennett (R-UT) was elected to the Senate in 1992. These remarks are drawn from a speech he delivered to The Ripon Society on June 29, 2010.



KIT BOND

"…it is important to remember there is a lot of real estate between a political opponent and a true enemy."

As I've traveled across my home State of Missouri, I've talked to families who are struggling in today's economy, I've talked to small business owners who are doing their best to stay afloat, and I've talked to farmers who are on the brink of losing their family farms. The one thing I have heard time and again is that Washington is not listening.

Despite the people we serve who say no to "Washington-Gone-Wild" policies, the majority continues to force on the American people big government overreaches – from a financial regulation bill that will change how every American gets credit and is opposed by small business but supported by Goldman Sachs, to proposed cap-and-trade legislation that will impose new gas taxes on every family, farmer and business that big oil companies helped write.

While I'm hearing Americans say they are fed up with Washington's overspending, overregulation, and over-taxation, some folks are twisting that message to say Americans don't want bipartisanship. I don't think that's true – Americans want Democrats and Republicans to work together on making government work for them. Our party must commit to abandoning the current Washington practice of cramming through partisan solutions with the minority shut out.

Republicans have long believed that government should work for the people and help create the conditions for growth. The root of that philosophy is our belief that this country's future success – like our past success – depends far more on empowering individual Americans than empowering big government. It is critical that our Party promote policies that reflect this philosophy of empowering individuals over government and work to find common ground with like-minded Democrats.

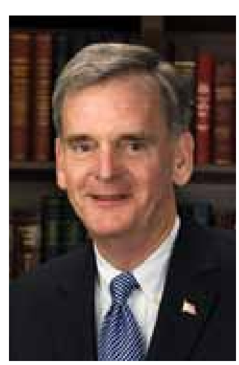
We can build bipartisan consensus with common sense solutions, including tax relief for individuals, families and small businesses; a comprehensive American energy bill; and real health care reform that lowers costs and improves care.

Building this consensus with pro-growth Democrats is critical to moving our Nation forward. As a Republican Governor, I had to learn to work with a Democratic legislature where I learned our State's – and our Nation's – greatest achievements are always bipartisan. In Missouri, by working across the aisle, we created a statewide health care safety net and made early childhood education available to all Missouri children. On the national level, Congress, on a bipartisan basis, passed legislation that put in place an early warning system against terrorist attacks through the Foreign Intelligence Surveillance Act.

It is essential that the Republican Party show the American people that bipartisan, common sense solutions like these are still possible. In a world today where enemies are real–the kind who in their hate-filled rage set off a bomb in a crowded, busy street – it is important to remember there is a lot of real estate between a political opponent and a true enemy.

Showing the American people that Washington – and the Republican Party – is listening does not mean abandoning bipartisanship. Instead, we must do the hard work, roll up our sleeves, and work across the aisle to bring sanity back to Washington policies.

Senator Kit Bond (R-MO) was elected to the Senate in 1986.



JUDD GREGG

"…we have to have a government that continues to encourage the entrepreneurial spirit of this country which is so great."

When we look at what's happening in Greece, we should be really worried. The Greek situation reflects the meltdown of the nation and its economic stability. It's really a precursor for our situation – whether we like it or not.

We are going to average over a trillion dollars of deficit for the next 10 years. And our public debt-to-GDP, which was 62 percent this year and has come up from 35 percent just two years ago … will be at 87 percent by 2017. Those are intolerable numbers. Those are numbers which lead to bankruptcy and which lead to insolvency.

What's driving this? There are two things driving it in my opinion. First is the incredible expansion of government under the Obama Administration. That is a function of the fact that this administration has decided to radically grow the size of government…

We're [also] going to go from 35 million people retired to 70 million people retired. We're going to go from the 1950s, where there were 16 people paying into our Social Security retirement program, and now there are two people paying.

How do we address [this problem]?

Well, number one, you stop spending – it's that simple. You just plain stop spending money you don't have and adding programs you can't afford. This is especially true on the discretionary side of the ledger.

Secondly, you've got to take on the entitlement programs. You've got to look at these entitlement programs – especially Medicare and Social Security – and recognize that because of this demographic shift, they are no longer affordable to the younger generation.

Thirdly, you've got to have a better energy policy. You can't continue to spend $300 billion and send it overseas … to people who don't like us, buying energy. So we've got to have an energy policy which encourages Americans production and encourages conservation…

And, you have to reform the taxes. We have a tax law which essentially is not working. It's not only not producing revenues that we should be able to produce, it's also not producing economic activity… We need a tax law that's simpler and more rational. And it can still be progressive.

Fifth and probably most important, although you can't get away without doing the first four -- those are all important -- you have to have a government that understands it is the individual who is the engine of this economy.

We cannot allow ourselves to be moved to a European Democratic welfare state model which is exactly what our colleagues on the other side of the aisle want to do and what this administration has as its goal.

Rather we have to have a government that continues to encourage the entrepreneurial spirit of this country which is so great.

Senator Judd Gregg (R-NH) was first elected to the Senate in 1992. These remarks are drawn from a speech he delivered to The Ripon Society on July 1, 2010.

GEORGE LEMIEUX

"The greatest threat we have to this country today is our inability to control this out-of-control spending."

The No. 1 problem facing this country is our out-of-control spending. It is to a point where it is unsustainable.

When I was sworn into the Senate in September, this government owed $12 trillion in money it shouldn't have spent in the past, that it couldn't afford to spend, and it was carrying that debt. Now, less than a year later, the national debt is $13 trillion. It took 200 years for this country to amass its first trillion dollars in debt, and we just added another trillion dollars in less than a year's time.

I have worked in both the private and public sectors and in each, we looked at receipts, and only spent – at most – as much money as we took in.

But Washington does not understand the basic dynamic that businesses, most state governments, and families in Florida and around the country have to make ends meet.

Right now, we spend $200 billion a year paying interest on the debt. At our current rate of spending, as projected by the White House, by the end of this decade we will spend $900 billion a year just making interest payments on debt. By 2020, our national debt will top $25 trillion and when we get to that point, our country is going to fail. This is not just a problem for our children or our grandchildren, but for generations still to come.

Perhaps most troubling is the government only takes in enough in tax receipts to cover entitlement programs like Social Security, Medicare, and Medicaid. Every other dollar we spend for every other function of government is borrowed. Washington's spending is unsustainable. Does Congress ever ask if government is spending money on things that are effective and efficient? No.

Instead, Washington creates new programs. We pass a financial regulatory reform bill and instead of firing all the people at the SEC who failed to do their job in policing Wall Street, we create a new governmental institution because that is what Washington does -- more and more layers of government on top of government, with nobody paying attention to the impact.

Until we can enact a balanced budget amendment requiring the federal government to spend only as much as it takes in, we should cap spending at a level that would allow government to carry out its intended functions, and pay down the national debt.

If we simply capped federal spending at the level we spent in 2007, our budget would be balanced in three years and the debt would be cut in half by 2020. The federal government can survive on $2.729 trillion, and lawmakers have an obligation to move in that direction, immediately.

If we do not address government spending, my greatest fear is the day one of my four children will come to me and say: "Dad, I am moving to a foreign country. I am going to Brazil or India or China because the opportunities in that country are greater than those in the United States."

The greatest threat we have to this country today is our inability to control this out-of-control spending. If we do not do it, we will violate the American creed, which is that we leave this country a better place than we found it for each generation that follows. **RF**

George LeMieux was appointed to the U.S. Senate in 2009.

Medicare's Crisis of *Accountability*

BILLY PITTS AND
LOU ZICKAR

Accountability seems to be a watchword in Washington these days. It is preached by the President, spoken by the Speaker, and has become a standard component of Democratic rhetoric this year.

But in one important area of government spending, the Democrats have chosen to throw accountability out the door. The area is Medicare. Current law requires that an annual report be issued by April 1st of each year outlining the fiscal health of this program upon which so many seniors rely.

The report is issued by the Medicare and Social Security Trustees, who are appointed by the President and tasked with making sure these programs remain solvent. In recent years, these reports have taken on greater prominence, due in no small part to the fact that baby boomers are retiring and people are concerned about the added financial pressure that will be placed on the Medicare system as a result.

At a time when Medicare is under increasing financial pressure, the positions are vacant, and the report that for over 25 years has been providing Americans with a better understanding about the program's future sits on a shelf somewhere, presumably collecting dust.

This year, however, the report was not released by April 1st. When asked about the delay, an unnamed source at the White House made a cryptic comment about the report being "obsolete," before eventually settling on the excuse that the report would be issued once the budgetary impact of the new health care law on the Medicare program could be assessed and taken into account.

Originally, the White House indicated this assessment would occur by June 30th. When that date came and went and no report was issued, rumors began circulating that the date had once again been pushed back -- this time to August, a month when Congress will be out of session and the focus of the American people will, in theory, be on something else. Naturally, a good many Americans are concerned about this delay. Many members of Congress are also concerned.

In fact, Senators Judd Gregg (R-NH) and Orrin Hatch (R-UT) wrote to the Obama Administration last month demanding that they release their annual assessment of the program immediately. "The 2009 Medicare Trustees Report laid out a grim assessment of the financial status of the Medicare program," the pair wrote. "Fueled by an aging population and rising health care costs, Medicare expenditures, according to that report, would rise from 3.2 percent of Gross Domestic Product (GDP) in 2008 to 11.4 percent of GDP in 2083. The 2009 Trustees Report estimated that Medicare's unfunded liability is $38 trillion over the next 75 years and that it's Hospital Insurance (HI) Trust

Fund is expected to become insolvent in 2017. For Congress to effectively address the critical challenge of Medicare solvency, it must have a complete and accurate assessment of the program's fiscal position."

But it's not just the delay in providing this assessment that has Gregg, Hatch, and many other Americans concerned. It's the fact that two of the Trustees who are supposed to review and approve it have not yet been appointed to the Medicare Board. Under current law, the annual report is intended to be signed by six trustees. Four of the trustees are administration officials; they are the Secretary of Health and Human Services, the Secretary of Treasury, the Secretary of Labor, and the Commissioner of Social Security.

The other two members of the Medicare Board of Trustees come from outside the Administration and are members of the public. The appointment of these two public trustees dates back to the mid-1980s, when former Democratic Senator Patrick Moynihan of New York advocated their selection as a way to not only increase public confidence in the program, but provide a perspective that was not swayed by the current administration.

Unfortunately, these two public trustees have not yet been appointed by President Obama. At a time when Medicare is under increasing financial pressure, the positions are vacant, and the report that for over 25 years has been providing Americans with a better understanding about the program's future sits on a shelf somewhere, presumably collecting dust.

Of course, that doesn't mean the Administration has turned its back on Medicare. In fact, over the July 4th holiday recess, President Obama appointed Sir Donald Berwick as the new Administrator of the program. Typically, Berwick's appointment would need to be approved by Congress. Because the House and Senate were out of session, this did not occur.

This recess appointment allowed Berwick to avoid answering key questions as to why the annual report on the health of Medicare is being delayed and, more critically, whether the health care reform law is, as some fear, a threat to the long-term solvency of the program.

In the process, it also allowed the President and his Democratic allies to avoid practicing something they have been preaching a lot about these days -- accountability. **RF**

Billy Pitts is a former aide to the House Republican Leadership and a member of The Ripon Forum's Editorial Board. Lou Zickar is the Forum's Editor.

48 Years of Public Policy

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Ripon Profile

Name: Charlie Dent

Hometown: Allentown, Pennsylvania

Occupation: Member, U.S. House of Representatives

Previous Jobs: Pennsylvania State Senator; Pennsylvania State Representative; Development Officer, Lehigh University; Industrial Electronics Salesman

Individual(s) who inspired me as a child: Growing up in a traditional Pennsylvania home, I was inspired by the honesty, compassion, work ethic and thrift of my parents and extended family. My hope is that in embracing these values, I have inspired my own children to live productive and compassionate lives.

Historical figure(s) I would most like to meet: Abraham Lincoln and Winston Churchill. Both Lincoln and Churchill guided their countries through supreme national emergencies with courage and conviction. Had they not played pivotal roles in determining the outcome of the American Civil War and World War II, today's world would be dramatically different. Defined by their outstanding judgment and unparalleled communication skills, both Lincoln and Churchill provided future generations with extraordinary and timeless insights. Their commitment to the rights of the individual, free enterprise and democracy has certainly shaped my approach to serving the people.

Issue facing America no one is talking about: As a member of the House Committee on Homeland Security, I have heard the troubling predictions of many counterterrorism and intelligence experts that future terrorist attacks against our nation are probable and imminent. Because of these sobering assessments and an increase in domestic, homegrown radicalization, the American public must remain vigilant that the threat of terrorism on our shores remains very real. While we certainly do not want Americans to live in fear of potential attacks, we must not allow the nation to become complacent, because this will simply enhance our vulnerability.

What the Republican Party must do to be successful in the elections this year: As Republicans, we must present a concise and understandable agenda that speaks to the economic and fiscal issues that are currently the greatest concern to the American public. The core values of the Republican Party – fiscal discipline and limited government – still resonate with the people of this nation. If we are able to demonstrate to voters that our principles will reinvigorate the economy and restore their confidence in government, I'm confident we'll experience great success this November.

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