

ICI VIEWPOINTS

May 20, 2013

U.S. Could Quickly Solve Its Budgetary Problems, Say Former Senators

The United States is tantalizingly close to solving its budgetary problems, according to former U.S. senators Kent Conrad (D-ND) and Judd Gregg (R-NH). If the country's leaders can come up with a mix of revenue and spending reforms, "this economy is going to explode," Gregg told attendees at ICI's 55th General Membership Meeting. "We are one debt deal away from leading the world out of its economic doldrums."

Speaking with ICI Chairman Gregory E. Johnson, President and CEO of Franklin Resources, the two senators addressed the nation's fiscal problems from their perspectives as former chairmen of the Senate Budget Committee and key members of the National Commission on Fiscal Responsibility and Reform, where they helped create the bipartisan Simpson-Bowles deficit-reduction plan.

Sen. Conrad began the session by illustrating recent trends in revenue and spending, and calling the increasingly wide gap between the two "unsustainable." Though fixing this requires "a commitment to austerity over the longer term to get us back on track," Sen. Conrad also pointed out that the country can't do much more in the area of discretionary spending, which is already shrinking and at the "lowest level we've seen in decades." Instead, he explained, policymakers need to reform and derive savings from entitlement programs—including Social Security, Medicare, and Medicaid—while looking for other ways to raise revenue. A combination of revenue increases and spending cuts totaling just 4.5 percent over the next decade "would put America on a sustainable course," he said. "Can't we do 4.5 percent? Of course we can."

Sen. Gregg also focused on entitlement reform. He said the problems involving the Social Security system are "totally solvable," and pointed toward Medicare as the bigger problem, explaining that its \$60 trillion unfunded liability exceeds the net worth of the country. But over the course of 10 to 15 years, "there are ways to get Medicare correctly aligned," he insisted. On the revenue side of the equation, Gregg recommended radical reform, calling the current tax system "massively complex and totally unfair." If the country were to dramatically reduce tax exemptions, he said, it would realize huge savings and be able to reduce tax rates, which would free up capital for productive investments. "The American people are ready to do things that create prosperity," he said.

Johnson kicked off the Q&A portion of the session by asking about the divisive political atmosphere in Washington, and how to bring the two sides to agreement. Both senators agreed that there is a willingness among many legislators to work together toward a solution, and that the best approach would be for President Obama to work with leaders in

the Senate to create a plan that both houses of Congress could then vote on. Both said they hoped this would be prompted by upcoming debates over the debt ceiling and the financial effects of the sequester, which has forced across-the-board spending cuts in discretionary spending. Both called the sequester a “forcing mechanism” that Gregg said should be replaced by “a thoughtful restructuring of entitlement programs coupled with tax reform.”

Though both senators agreed that tax reform is necessary, both also strongly stated their support for maintaining current incentives for savings, including the tax-deferred treatment of defined contribution plans, such as 401(k) plans and individual retirement accounts (IRAs). Responding to a question about proposals by the president and others to raise revenue by capping such retirement benefits, Sen. Gregg said, “That makes no sense at all to me. It’s critical that we have incentives for savings, and the way to do that is to reform the tax laws.

Sen. Conrad agreed, adding that fund industry representatives should “organize and educate” if they want to reach out to legislators. The most effective approach to doing this, he said, is to “approach them in their home state and home districts, when they’re more focused on constituents. You get more of their attention there than you can get here in Washington, and you can help them understand how these things all fit together.

“If you can help persuade them of this opportunity to get the country back on track,” Conrad counseled, “it makes all these things infinitely easier. Shame on us if we don’t take advantage of these opportunities to get the job done.”

To watch this entire session on video, as well as other sessions from ICI’s 55th General Membership Meeting, [visit the 2013 GMM Videos page](#).