

**GENE SPERLING, DIRECTOR NATIONAL ECONOMIC COUNCIL, IS
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SPEAKERS: GENE SPERLING, DIRECTOR NATIONAL ECONOMIC COUNCIL

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BENNET: Hello again, everybody. Gene Sperling, as you know, is the Director of the National Economic Council. Same post he held in the Clinton Administration when he negotiated a bipartisan budget deal -- something he's in the midst of trying to accomplish again now.

And he was also recently exposed as one of the more polite writers of email in Washington D.C. I thought we might pick up where the last panel left off. There was -- at least until Maya MacGuineas got here, there was a high degree of consensus on the last panel that the problem in Washington right now is too much consensus between Republicans and Democrats that the problem is the deficit.

And what we need is austerity and dramatic action now. And excessive focus on the numerator -- the debt rather than the denominator which is growth. Do you feel like this is largely a politically driven process that you're engaged in? Or is there -- how would you make the case that the underlying reality is alarming enough that it merits this tremendous focus?

SPERLING: Well there's no question that whenever we're talking about deficits or fiscal discipline, you know, we should always remember that those are not ends that -- sole ends in themselves. They have to be part of an overall economic plan.

And so the overall -- your overall end goal is to strengthen the economy, to have a growing, inclusive, more secure middle class. Make sure you have an economy where the abstinence of your birth doesn't overly determine the outcome of your life where people can move up and succeed.

And that you have an economy where people can work in dignity, raise their children in dignity, retire in dignity. Those are the overall goals. And so you have to ask yourself how your overall plan fits into those -- the ultimate goals of economic policy. So I think if you look at what we're facing right now, we have to be capable of walking and chewing gum at the same time.

Or to put it another way, to have an economic strategy that can accomplish more than one thing. So for example, it is the case that we still have to go further in reducing our long-term fiscal situation. That is an appropriate goal. It's an appropriate goal because we are dealing with the baby boom retirement. Dramatic -- more number of people who are older and will be on our most important entitlement program, Social Security and Medicare.

And we have to have a strategy as a country for treating those seniors with great dignity, but also at the same time making sure we're not crowding out either private investment or public investment in children and productivity in the future. So you want to deal with it, but you want to deal with it in a way that still promotes your larger goals of growth and jobs and investing in the future ...

(CROSSTALK)

BENNET: ... so it ...

(CROSSTALK)

SPERLING: ... so to me. I was just going to say to me the right strategy for us is that you would like to have an overall package that right now when we're still at 7.7 percent unemployment -- an overall package that I think would still be putting more demand in the economy right now by doing things like accelerating infrastructure investment and other things that right now would still help deal with jobs, help deal with long-term unemployment.

You can, in that same package, have the strategy that helps bring our deficits and debt down as a percentage of the economy at a pace that does not interfere with giving the economy more momentum for jobs and growth right now. There's no reason you can't have a package that does it.

And as you're bringing the deficit down, you want to do it in ways that still allow you to invest in the future. So just, you know, just to stress the point I made just a bit before which is, you know a lot of the reason that people back in the 90s were talking about us preparing for the baby boom retirement was we wanted to make sure not just that we didn't have a debt rising, a debt and deficits.

But that we still had enough -- that we had a strategy that still allowed us to invest in the modern infrastructure, in biomedical research in early childhood, investing in children.

These have been part of the hallmark of our country. So when I see people now saying that because we have a baby boom crisis we should just be crunching down deeper and deeper on the areas in domestic spending which are about investing in the future. I think it turns that -- much of that rationale for sensibly dealing with the baby boom retirement on its head.

BENNET: I should have said we only have about 20 minutes with Gene. So I'm going to take about half of that and turn it over to you guys, so people should start getting their questions ready. So just to follow up on that then, you would be pushing for entitlement reform now, including Medicare reform, even if the Republicans weren't pressuring you to do it?

SPERLING: Yes, but in a sensible way. So, I mean, for example, you're trying to deal with a 20, 30, 40 year problem. That doesn't -- so it doesn't make sense that it's important to have that hitting right now in 2013 at a time when our economy still needs more momentum and more demand. If you look at 1983 Social Security compromise, they locked in some things that took place over time.

But to have help to make Social Security stronger for the future. I guess for us we would look at it the following way. That Medicare and Social Security are some of the most important really crown jewels of what government has done for a stronger middle class. So for those of us who care deeply about keeping those as rock solid, guaranteed benefits for all Americans as they approach their senior years should want to take steps to make sure they are secure and strong.

So you want sensible entitlement reform. And then also -- if you care about giving people the confidence to keep investing in here -- in the United States make long-term investments, you want them to have the confidence that we as a country can sensibly deal with that long-term problem. That we are not going to be a country that is overrun by debt problems. That doesn't mean that you have to do it in a way that hurts the recovery.

And again, I would also go back to the point that we made before. And the president said this in the State of the Union. You don't want to make no reforms or not take any fiscal efforts to deal with the baby boom crisis not just because you're worried about its impact on debt and deficits and competence of the private sector.

But you also want to make sure, we as a country don't crowd out our ability to do sensible things like make sure that, you know, every young child in our country isn't condemned to less opportunity by simply the accident of their birth, something that goes against our values and doesn't make economic sense as well.

BENNET: So given it's a priority on its own terms, could you imagine ultimately accepting a deal that included entitlement reform but no new tax revenue?

SPERLING: No because one of the most critical things when you're doing any kind of long-term deficit reduction. You know, I'd say no for a few reasons. One, it is a misdiagnosis of the problem to say that this is only

about long-term entitlements. Let's remember every single thing that we know about the challenge of the baby boom retirement.

Every single thing we know now, we knew in the year 2000 when we had three years of surpluses. What's changed? We were projecting balanced budgets and surpluses right now. When you look at what has gone wrong in the last 13 or 14 years, a significant part of that problem was that in the previous decade we had two different tax cuts that were not offset in any way.

We -- our deficits would be close to one percent -- as a percentage of GDP probably if we had simply paid for the tax cuts in the last decade. So, yes, the revenue gap is part of the problem. It's not the sole problem. The long-term entitlement and baby boom problem -- it may be the overriding challenge, but revenue is a piece of it. That's number one.

Number two, you -- I've been involved in many deficit reduction efforts in 1993, 1997, the ones recently. If there's one thing that's very important, it's to be able to go to the public and say, "We're all in this together. Everybody is going to be doing their part to contribute for something that will benefit all of us." The idea that you would go, say at this point, as I think some of the House Republican leadership is saying. That from this point forward, the only way that we can deal with our long-term deficit is to cut -- is to put pressure that would cut education and research.

That would cut Medicaid funding for older Americans, for poor children, for families with someone with serious disabilities. That we're going to make -- ask for Medicare, you know, trimming back on Medicare. But we can't find--there is a single penny that can contribute to deficit reduction from closing a loophole or an expenditure that goes to a large corporation or to a very well-off individual.

I think that just defies a certain basic sense of fairness that is not just important for our values. I think it's important to having public acceptance of a long-term deficit reduction plan.

BENNET: But the Republicans have shown so far anyway, that they're willing to take what? 600 billion dollars worth of defense cuts whether than consider any new tax increase and so I wonder -- do you -- in retrospect, do you think you guys miscalculated on the fiscal cliff deal? That in fact the prospect of those defense cuts would be so scary that it would bring them back to the table and force some sort of a deal?

SPERLING: Well you have to remember that up to the last few days our goal was to have an enforcement -- if we -- well let me just step back and say. As you remember in 2011, we did come to an agreement on how much discretionary savings to have. That was something that where an agreement was generally reached in the Boehner and Obama and Cantor discussions.

Where we never came to an agreement was on the exact mix of revenue and entitlements. That's where we fell apart. It wasn't about no revenue. A lot of the debate was about 800 billion or 1.2 trillion. But it was never an absolute -- an absolutist decision.

The goal was the have an enforcement mechanism that would make both sides come back to the table to essentially take another shot at this type of grand bargain. Our view was it was better to force everybody back to the table to have a degree of spending cuts in your enforcement mechanisms and revenues that would hit high-income Americans and that that would bring people back to the table.

In the last several days as we approached the potential of default we did make a concession to agree to an enforcement mechanism that was all on the spending side. Being forced to take that concept that they wanted and pushed, we put forward what had been tried 20 years before the Gramm-Rudman-Hollings mechanism that was half on defense.

I don't see any reason why they should not be an incentive for all sides to come back together. I mean let's just remember, this is not a win for anyone. I mean, as the president said you know, if the Republicans refuse to compromise--if the House Republican leadership refuses to compromise then, yes it's possible we will just have to

live with this very dumb and harmful economic policy and we will be able to survive it as a country if the goal -- if they are completely unwilling to compromise.

But don't think this is a win for them. Therefore, higher defense spending -- this deeply cuts defense spending. They're supposed to be for more border security. This will cut ours so much -- it will be the equivalent of cutting thousands of border patrol agents. They say they're for long-term entitlement reform.

Do you know how much long-term entitlement reform is in this sequester? That would be zero. There's a two percent across-the-board on Medicare and then at 10 years it ends. So what is it that anybody is achieving from this? And it will have real harm -- it will hurt growth, it will hurt civilian military employees, about half of which are veterans.

It will hurt children. So it's not a wise thing. And it's not a victory for anybody's priorities.

BENNET: Let me open up to you guys. But arguably between the Budget Control Act and the sequester you guys -- President Obama and Speaker Boehner have gotten two trillion solid worth of cuts so. So that's a lot more than you ever did under Bill Clinton. So is this going to look like the golden age of bipartisan deal making in the long term?

And please move to the microphones if anybody has a question.

SPERLING: It is true that as unfortunate as the process has been, that we have cut 2.5 trillion dollars from the deficit. Now out that 2.5 trillion only 620 billion has been revenues. So when somebody is telling you it's all about us wanting to raise revenues, 620 billion, less than a fourth of the 2.5 trillion have come from revenues.

I also want to make a second point. When the negotiations ended between Speaker Boehner and President Obama at the end of this year, the speaker was at one trillion dollars of revenue. The President of the United States has kept his offer on the table. It's a difficult offer. It includes 400 billion in Medicare savings. It includes correcting the CPI which is a very difficult and tough policy decision to make.

But he's kept that on the table in the spirit of bipartisanship. If the speaker were just keeping his offer on the table, he would still have at least 400 billion dollars of revenue on the table without moving from his last offer. So when you ask why we're not making progress. It's not that the president hasn't been willing to compromise.

He clearly has been. I think there are -- and I think there are other Republicans in the Senate, and hopefully in the House who are willing to be part of what the president calls a caucus of common sense. The real thing that is holding us back right now is an absolutist decision by the House Republicans to say there won't be a single penny of revenue.

Just to be clear, that would be the equivalent of us putting forward a plan that was a hundred percent revenue. If we put forward a plan, we said, "Look we're lowering the deficit, and it's all revenue." Everybody would think that that was unreasonable, not a constructive effort to compromise. That's basically what the House leadership is doing now. And I think what the president is doing by putting out a balance plan by willing to put out his compromise as he wants to let everyone in the Congress but the public to know there is another way.

There is a way with bipartisan compromise and balance so -- and this goes to your point, it's 2.5 trillion dollars. But the next one to two trillion or 1.8 trillion we should get should be a mix of getting more deficit reduction from the tax expenditures and loophole closing that even the speaker was for to a degree plus the longer term sensible entitlement reform.

That would not only give us below three percent of GDP but it would do it in the right way and it wouldn't be doing what the sequester does that it just will cramp down, it will not only hurt people but it will cramp down on the things that are about investing and productivity, NIH, biomedical research, children, early childhood. The things that most Americans, I think, strongly support.

BENNET: You have a question from the floor.

QUESTION: Gloria Goldman. My concern is (inaudible). How do you work in bipartisanship? You know, it just doesn't-yesterday there was a report (inaudible). What are you actually constructively doing to get something done?

SPERLING: You know, in Washington you cannot account for every single person -- every single off the record line. I can tell you that whoever said that -- if somebody did say that, they do not speak for the president and they are not a senior advisor working closely on this. What the president's done -- the most important thing he's done is kept his offer on the table.

That's a difficult thing to do when the other side has gone back to its corner, number one. Number two, you've seen him engaging, not just the dinner he did with the Republicans but he is talking to people confidentially, trying to find out where, you know, trying to encourage people on both sides to be part of a compromise.

And he's -- the third thing I'd say and this is what you hear from a lot of Republicans. He is providing the political cover for people to do difficult choices. For him saying he's willing to do 400 billion in Medicare savings, that he's willing to do even some smart beneficiary savings on future employees.

That he's willing to adjust the CPI. He is providing the cover -- the political cover and the intellectual explanation for the difficult kind of compromises that we as a country need to move forward.

BENNET: One last lightning round here, please. Just one quick question and answer and then we're off.

QUESTION: (Inaudible). Of the 2.5 trillion dollars that you just described can you give us a breakdown? How much of that has to do with reductions on military expenditures in Afghanistan that would be automatically done anyway?

SPERLING: Now the 2.5 trillion does not count what's called the (inaudible) savings. We believe those should count. Because we think when you do reduce your involvement and exceptional military efforts that that should count as debt reduction. But the 2.5 trillion is basically, 1.4 trillion in discretionary savings from the Budget Control Act and the other discretionary bills that we've had in the last two years.

That's one for -- 600 is from the revenue and the fiscal cliff. Together those reduce projected interest savings by 500 billion. And that number is, you know, agree on not just by us but by Maya MacGuineas, by Bowles, and Simpson and other.

BENNET: All right thank you. That's all the time we have unfortunately. Gene Sperling, thank you very much.

SPERLING: Thank you.

(APPLAUSE)

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