

The Thomas Willis Lambeth Lecture

The Deficit, Spending and Taxes

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The Deficit, Spending and Taxes

Thank you. I'm really happy to be back in Chapel Hill — you all know how much I love this place — and I've missed being here a lot.

I do want to thank you for asking me to give this talk. I said yes for two reasons.

First, and most importantly to me, I said yes because it gives me a chance to honor my family's life-long friend, supporter, advisor and mentor Tom Lambeth. If any of you here ever get in a tight spot or have one of those big 51/49 problems facing you, and you have just one call you can make, call Tom Lambeth. This lecture series is in honor of him, and by making it, I hope I can in some small way pay tribute to this man I respect so highly.

The second reason I'm here is to talk to you about a subject I care about passionately, a subject I have been engaged in since 1996.

As some of you may remember, in 1996 shortly after he was re-elected, President Clinton announced to the world that he had asked me to return to Washington as White House Chief of Staff to negotiate a balanced budget with the Republican House and Senate. Like lots of other folks, I thought, "Why me — there's got to be somebody else better;" and there probably was. But, for me, it was a turning point in my life and an experience that has shaped my perspective and my focus ever since.

To get that job done I had to spend months and months locked up in conference rooms with Newt Gingrich and Trent Lott, and you all owe me a lot

for that. Seriously, I found both Speaker Gingrich and Senator Lott to be smart, honorable, and good people to work with. Over time, we developed real trust in one another, we were able to put partisanship aside, and we worked together with a common purpose to put our Nation's fiscal house in order. Working together in a bipartisan—really a non-partisan—manner, the President and the leadership in Congress were able to strike a deal and balance the Federal budget for the first time in a generation. And when President Clinton left office the Nation had a budget surplus, and our debt to GDP ratio was at a very comfortable 35 percent: our fiscal house was strong. (If I was reading *The Three Little Pigs* to my grandchildren, I could easily say we had built our Nation's fiscal house out of bricks.) Today our Country has a budget deficit of over \$1.2 trillion, a net debt to GDP ratio of approximately 67 percent, and a gross debt to GDP ratio of almost 100 percent. Since this is a great university, I don't have to spell it out for you: simple arithmetic will tell you that this kind of fiscal structure is not sustainable. Our great Nation's fiscal house is now made out of straw, and any significant blow—an oil shock, a collapse in Europe—can blow our house down.

Therefore, when President Obama called me during my last year as President of UNC and asked me if I would return to Washington and co-chair with former Senator Alan Simpson of Wyoming the National Commission on Fiscal Responsibility and Reform, I wanted to say yes in the worst way. But before doing so I had to get permission from two folks: one was my boss Hannah Gage, Chair of the UNC Board of Governors, and the other was Jeff Davies, my right hand man, my partner in running general administration. If either person said no, I knew I would have to pass. Thankfully they both said yes. Hannah told me in her usual straightforward and direct manner, "Erskine, this is an enormous problem; the country needs you; go for it. It will be good for the country and good for the university. And anyway, you've assembled a team that can run this place without you; they won't miss a beat." I took that as a compliment, I think. After talking to Hannah, I went to Jeff. I was straight up with him about how much time this

commission work might take and the additional burden it would place on him. Jeff in his usual, wonderful, giving, supportive way simply said, “Do it: we can handle the load, Joanie and I will have your back.” And in their efficient, effective way, Joanie and Jeff and the rest of our team proved Hannah to be correct, and they shouldered this additional responsibility without complaint, and the University marched forward without missing a single beat.

My co-chair made this effort a joy. To know Al is to love him. He’s smart, quick, earthy, fun, hilarious, reasonable, and responsible. I’ve got so many Al Simpson stories, I could keep you all laughing from here to eternity; the only problem is I haven’t figured out how to tell any of them in public. Al and I made a good team. Al always said I was the numbers guy and he did the color. Both of us were dedicated to this effort, and the fact he was a lifelong Republican and former assistant majority leader in the Senate, and I was a lifelong Democrat (and a defeated Senatorial candidate) never entered our discussion.

When asked why we were doing this, Al and I originally said we were doing it for our 15 grandkids, my nine and his six. However, the more we got into the numbers, the more dire we understood our country’s financial situation to be. And we quickly realized we were not doing this for our kids, much less our grandkids, we were doing it for all of us. We realized that the fiscal problems facing our country were enormous, the solutions would all be painful, and there simply was no easy way out.

Al and I immediately went to work. We met with the President and his economic team and carefully defined success. We decided we’d go big or go home: no half measures, no fudging the numbers. If our country needed \$4 trillion in deficit reduction to stabilize the debt and get the debt on a downward path as a percent of GDP, then we wouldn’t settle for less. Neither of us was on our first mission in Washington, so we knew how hard it would be to accomplish this goal. To reduce the deficit by \$4 trillion, we knew we would have to gore the ox of every special interest in Washington. And as Al said, “Erskine, when we finish this

report, we better get ourselves in the witness protection program that day, cause every Republican and every Democrat alike is going to be on our xx@(@****.” (Well, you can imagine the rest.)

We knew that to get this job done and done right, we’d have to put together a staff of true believers. And since every “old hand” in Washington told us it couldn’t be done, we had to assemble a team of young kids who believed it was not only possible but necessary. Since we were a deficit reduction commission, we also didn’t want to spend a lot of money on staff. So we assembled a paid staff of two, and we begged, borrowed and stole smart kids from every think tank and congressional office in town regardless of party or political persuasion. Our team was led by Bruce Reed, and believe me, there wouldn’t be a Simpson-Bowles Report without Bruce. Bruce was not an economist and he wasn’t even a budget guy, but having worked with him in the Clinton administration where he was domestic policy director, I knew he was brilliant (a Rhodes Scholar), determined, fun to work with, and a great motivator and team builder. I knew if anyone could get this job done and done right, it was Bruce. Bruce is what my Daddy would have called a “trash mover” —and that was my Dad’s biggest compliment. Bruce was just what our team needed: a true leader. Bruce brought along his closest aide, Conor McKay, and three other kids whom Al and I quickly named “the wonder twins and Captain Paygo.” They were Marc Goldwin, Meagan Mann and Ed Lorenzen. These five folks formed the core of our team, and I swear they never met a problem they couldn’t solve. When we got stuck, they got us unstuck. They believed and they delivered.

The President and the leadership in the Senate and House gave us a fabulous group of commissioners. Our commissioners came from everywhere, from the center, the left, the far left, the right and the far right of the political spectrum. Each brought a perspective that had a major impact on our report. In addition to Al and me, the President appointed Dave Cote, CEO of Honeywell; Ann Fudge, Former CEO of Young & Rubicam; Andy Stern, former president of the powerful

union SEIU; and Alice Rivlin, former Fed vice chair and CBO and OMB budget director. Senate Majority Leader Harry Reed appointed Assistant Majority Leader Dick Durbin of Illinois, Budget Committee Chairman Kent Conrad of North Dakota, and Finance Committee Chairman Max Baucus of Montana. Senate Minority Leader Mitch McConnell appointed Senator Tom Coburn of Oklahoma, Senator Mike Crapo from Idaho, and former Budget Committee Chairman Judd Gregg from New Hampshire. Speaker Nancy Pelosi appointed Budget Committee Chair John Spratt of South Carolina, Representative Xavier Bacerra of California, and Representative Jan Schakowsky of Illinois. House Minority Leader and future Speaker John Boehner appointed future Budget Committee Chairman Paul Ryan of Wisconsin, future Ways and Means Chairman Dave Camp of Michigan, and future Assistant Majority Leader Jeb Hensarling of Texas.

Al and I knew as soon as this team of commissioners was announced that our first job, and perhaps our most important one, was to establish trust among this diverse group, just as I had had to do in 1996 and 1997 when I worked with Newt Gingrich and Trent Lott to balance the budget. Al's and my job was to get this diverse group to put politics aside; to understand the depth of the problem and the dire consequences of doing nothing; and to focus on how we could, as Dave Cote always said, "pull together, not pull apart."

After listening to economists and budgeters from both sides of the political aisle, it became clear to both Al and me and the other members of our bipartisan commission that we faced the most predictable economic crisis in history; that the fiscal path our country was on was not sustainable; that these trillion dollar deficits were like a cancer. Slowly, over time, they were going to destroy our country from within. And when this cancer metastasized, it would happen so quickly that no one would believe it.

Let me give you two examples of how dire we found our current fiscal situation to be. If you look at all, and I do mean all of the revenue that came into our country in fiscal 2010, almost 100 percent of it was consumed by our

mandatory spending and interest on our debt. Mandatory spending is principally Medicare, Medicaid, and Social Security. That means that every single dollar we spent in 2010 on these two wars, national security, our military, homeland security, education, infrastructure, and research was borrowed, and half of it was borrowed from foreign countries. That, my friends, is a formula for failure in anybody's book. And worse yet, if we did nothing to reduce future deficits, if we simply obeyed the ostrich theory and just stuck our heads in the ground, then by 2020 we would be spending over a trillion dollars a year in interest cost alone. That is crazy, it is insane: because that's not only a trillion dollars we cannot spend to educate our kids, to build America's schools and roads and bridges, and to do research in this country, it's a trillion dollars that will be spent somewhere else, principally in Asia to educate their kids, to build their roads and schools, and to create that next new thing over there — not here — so the jobs of the future will also be over there, not here in America. It's just nuts! To me, it's just plain economic suicide.

And I'm here to tell you that this problem is not one that can be solved either simply or quickly. Lots of politicians will tell you that this problem can be solved easily by growth, or that we can solely tax our way out of this fiscal mess, or we can solely cut our way to fiscal sanity. I'm here to tell you that we cannot do just any one of these things. It will take some of all three.

America cannot simply GROW our way out of this problem. According to the GAO we could have double-digit growth for decades and not solve our fiscal problem. And I want my Democrat friends to know that we cannot solely TAX our way out of this problem. Raising taxes doesn't do a damn thing to change the demographics of this country, or to change the fact that health care costs are growing at a faster rate than GDP. And if you wanted to try and solve this problem by solely raising taxes, you would have to raise the highest marginal rate to 70 percent, the corporate rate to 80 percent and the capital gains and dividend rate to 50 percent. Now I ask you, how many small businesses would be started in this country with that kind of tax structure? I can tell you: zero. So we can't just tax

our way out of this problem.

And I also don't believe that we can prudently just CUT our way out of this problem, as many Republicans think. I know I don't have to prove to any of you who work at the University how sharp my budget axe can be, or how much I hate phony numbers. So you can imagine how it drives me crazy to see these guys in Congress go on these Sunday morning shows and say we should balance the budget with all cuts but then turn around and say, "But I won't cut Medicare or Medicaid or Social Security, and I won't cut defense because we have to stay safe and secure, and, of course we have to pay the interest on our debt." Well, that's hogwash. If you exclude all these areas from cuts, you'd have to cut everything else by 75 percent, and that's just not going to happen.

So what a super-majority of our commission decided to support was a reasonable, responsible, balanced approach that would be composed of three-quarters spending cuts and one-quarter revenue enhancements, and would reduce the budget deficits by \$4 trillion dollars over the next 10 years. And we didn't just make up this \$4 trillion number when the number four bus passed by. Four trillion is the minimum amount of deficit reduction we need over the next 10 years to stabilize the debt and get it on a downward path. It's not the ideal number or the maximum number, it is the minimum amount we need to reduce the deficit over the next decade to put our fiscal house in order: to build our fiscal house out of bricks.

We built our recommendation around six principles. And I want you to understand those principles, because hopefully they will help you put any other deficit reduction plans in context.

The first principle was, we didn't want to do anything stupid: we didn't want to disrupt a very fragile economic recovery. At the time we submitted our report, the majority of us felt that the economic recovery was very fragile. Many, however, disagreed with us. They said, "Are you guys crazy? Factory production is up, existing home sales are up, retail sales are up, unemployment is down, banks are starting to lend to small businesses, investment sentiment is on the rise, the

recovery is real, let's make big cuts NOW."

We agreed that the economy was improving, but we were concerned about where the future demand would come from. We said, "Yes, that's all true today. The economy is improving, but the consumer is still two-thirds of GDP and the consumer remains highly leveraged. Household debt is about \$13 trillion, that's 120 percent of disposable income, and half that debt is floating. If you think a rise in food and gas prices will take a bite out of consumer demand, you just wait until interest rates get back to normal." In short, we were afraid that it was possible that the consumer remained too leveraged and too hesitant to spend to lead us out of the recession.

When we looked at the second leg of where demand comes from—the corporate sector—we saw what we felt was real risk in relying on demand coming from there. Small businesses were being tied up with regulation and couldn't get their hands on capital. And it's a fact that small businesses cannot grow and cannot create jobs without money. And unfortunately, new business starts had been declining for 30 years. And while big businesses had plenty of money, their capital was basically on strike. While many large businesses had money to spend, we didn't believe they would spend it until they had some confidence in where this economy was headed and that Washington was going to put its fiscal house in order. Plus it was hard to see business leading any recovery when the construction industry was on its backside. So we sure weren't positive that demand would be led by the business sector.

That left the government as the third leg of demand, and it looked to us at that time that the chances were close to zero that politicians in Washington would approve a new round of spending increases. And I don't have to tell anyone here in North Carolina that state and local governments were busy cutting spending, and laying people off, in order to balance their budgets. So demand wasn't going to come from there. And the growth sure wasn't going to come from Europe or Japan, or for that matter from China, which was busy throttling back its own economy.

All this told us that this economy was very fragile, and therefore we didn't want to take the risk of having big budget cuts in 2011 and 2012. We had cuts in those years, but our big cuts came in 2013 when hopefully we would be out of the woods. Now some people said to me, "Erskine, we can make bigger cuts in 2011 and 2012." And I said "you're exactly right — we can make bigger cuts in those years — but I don't think it would be the wise or prudent thing to do. I'm not willing to bet the country on it." So we made smaller cuts in 2011 and 2012 and big cuts in 2013, cuts of such magnitude that we would get back to pre-crisis (2008) levels of spending in real terms by 2013. We did it that way because we didn't want to disrupt a very fragile economic recovery.

The second principle we developed was that we didn't want to do anything that would hurt the truly disadvantaged. Therefore in our budget you won't see any cuts in SSI or Food Stamps or Workers' Compensation. And we actually did something to Social Security that cost money, that made our deficit reduction job more difficult: we increased the minimum payment for Social Security recipients to 125 percent of poverty, and we gave a 1 percent annual bump-up in the payment to recipients between the ages of 81 and 86 because that's when every Republican and Democrat expert that appeared before us said folks needed it the most. And, yes, we are the guys who raised the retirement age — we raised it one year, 40 years from now — because we wanted to give folks a chance to get ready. And we raised it one more year, 65 years from now, when my grandchildren will finally be eligible for it. And even then we put in a hardship provision that would allow those 20 percent of Americans who have tough physical labor jobs and need to retire early to still get their Social Security early. We did all this, even in the context of a \$4 trillion deficit reduction package, because we didn't want to hurt the truly disadvantaged.

The third principle we built our budget plan on was that we wanted to make sure that this country remains safe and secure. We agreed with Admiral Mullen, Chairman of the Joint Chiefs of Staff, when he said that our Nation's greatest

national security problem is this debt: it will simply consume every dollar of resources we have. Today we spend more on national defense than the next 14 largest countries combined. I don't personally believe that America can continue to do this. I don't believe we can afford to be the world's policeman. We are today simply bearing a disproportionate percent of the cost of world peace. Our allies have to step up and do their part or we will hollow out our country and bankrupt it. A simple example of how crazy our situation is today is that we have a treaty with Taiwan to defend it if it is attacked by the Chinese. The only problem with that is that we will have to borrow the money from the Chinese to do it. We made some cuts in the defense budget, therefore, to help us get our fiscal house in order and free up funds to prudently invest here at home. Which brings me to our fourth principle.

I think the President was right, or at least half right, in his State of the Union address when he said that our nation needs to invest in education, infrastructure, and high-value-added research if we are going to compete and compete successfully for the jobs of tomorrow in this knowledge-based global economy. Over the last six years, you all have heard me say the same thing a thousand times on our UNC campuses. But what the President left out in his State of the Union address was, we need to make these investments in a fiscally responsible manner.

Let me give you two examples that may hit home. During my tenure as UNC President one of the things I fought hardest for was for the university to do its part to improve K–12 grade school education. To do that, I believed our number one responsibility had to be to produce not just more teachers but better teachers, more math and science teachers. Well, when we looked to the Federal government to see how we could get some help in improving teacher education, we discovered that there were 82 programs to improve the quality of teacher education. Now, do we need two, maybe three good programs? Yes, but 82? Come on.

Similarly, over the last several years our campuses have worked hard to increase the amount of research the University does, and today UNC does over \$1.5 billion of federal research each year. In doing so, we join over 3,000 colleges

and universities doing federal scientific research. Now I ask you, is all that research “high value-added research?” I think the answer, on our campuses and other campuses throughout the Nation, is honestly no. We have to be realistic. We live in a time of limited resources. Limited resources force any organization to make choices. Our Nation must make choices now: we have to prioritize our spending. We have to take our limited resources and use them more wisely. It’s a little bit like what the great Nobel-Prize-winning chemist Ernst Rutherford said when his Nobel-Prize-winning project was running out of money. He turned to his team and said, “We’re running out of money — now we’ve got to start thinking!” That’s what America must do. We’re running out of money — now we’ve got to start thinking.

Fifth, we must reform the tax code. We have the most anti-competitive, inefficient, ineffective tax code man could dream up. Today we net approximately \$1.1 trillion in total tax revenue. The reason we net such a relatively small amount when our tax rates are nominally high is that literally half (\$1.1 trillion) of the money that would come into the Treasury in tax revenue is spent on various deductions and credits given to special interests. If we were to completely eliminate these deductions and credits, many of which those of you in this room really like, and if we used 92 percent of the proceeds to reduce rates and the other 8 percent to reduce the deficit, we could reduce the deficit by over \$1 trillion over the next decade, and we could lower the marginal tax rates for individuals to 8 percent up to \$70,000, 14 percent up to \$210,000, and have a maximum marginal income tax rate of 23 percent. In addition, we could reduce the corporate tax rate down to a more globally competitive 26 percent, and go to a territorial system so that the over \$1 trillion that is currently held by U.S. corporations overseas could be brought back home to create jobs here in this country. I think if we did that, it would spark dynamic growth and create millions of new jobs here in America.

Lastly, we have to get serious about cutting spending. What went on during the first part of this year, when the Congress spent months arguing about spending

cuts that ended up amounting to just \$40 billion dollars over the next 10 years, was disgraceful. Forty billion in cuts over 10 years sounds like a lot of money — and it is, until you realize that we are spending at least \$3.7 trillion every year. Even if we took all \$40 billion of cuts in just one year, it would only amount to a cut of about 1% of annual spending. Let's be honest, that is pitiful. There's not a single business owner here tonight who couldn't cut their budget by 1 percent tomorrow. We've got to get serious. Our problems are real, the solutions are all going to be painful, and there is no easy way out. We are all going to have to share in the sacrifice that is needed to put our fiscal house in order. We are going to have to be serious about spending cuts, and cut spending wherever we find it: in the defense budget, the non-defense discretionary budget, the tax code, and in the entitlement programs. It's simply a fact that our politicians in both parties, over a long, long period of time, have made promises that they can't keep.

Therefore, on a bipartisan basis, 11 out of 18 members of our commission — 5 Republicans, 5 Democrats, and the 1 Independent — voted to cut our deficit by \$4 trillion over the next decade. This amount does stabilize the debt, and does get the debt on a downward path as a percent of GDP. It reduces our debt-to-GDP ratio to 63 percent by 2020 and 60 percent by 2022. And it cuts the deficit in half by 2015 and by three quarters by 2020, reducing the deficit-to-GDP ratio to 2.3 percent by 2015 and 1.2 percent by 2020, and eventually takes us to balance.

Since making our proposal, House Budget Committee Chairman Paul Ryan introduced a bill that also reduced the budget deficit by \$4 trillion over 10 years, and the President, after submitting a budget that no one took seriously, came back and offered a budget framework that reduces the budget deficit by \$4 trillion over 12 years. In addition, a group of six senators, “the Gang of Six” — three Republicans and three Democrats — came forward with a bipartisan legislative proposal very similar to that proposed by our commission. This proposal was endorsed in concept by a large number of other senators in both parties, including the number two Democrat and Republican in the Senate.

However, there were great differences of opinion in each of these budget proposals on just what specifically should be cut, on whether there should be any cuts in the income support programs and entitlements, and on whether there should be any revenue enhancements at all. By and large, the Republicans felt strongly that there should not be any tax increases, and Democrats felt there should not be any entitlement cuts. Unfortunately, excluding either revenue increases or any cuts in entitlement programs makes achieving deficit reduction of \$4 trillion practically impossible. In August of this year this fact became all too clear, as all these budget discussions were brought to a head when the nation's debt ceiling was reached and the Treasury ran out of ways to borrow any additional funds to pay for obligations already incurred and committed to. As members of Congress laid down markers in the sand and argued back and forth, our Nation faced a "created crisis:" the potential that we would default on our debt for the first time in history. This fear of a default, this "created crisis," produced a last-minute compromise. I look at this compromise in three parts: the process, the deal terms, and the results.

The process that led up to the deficit reduction deal was very messy. I have publicly described it at various times as "pitiful," "disheartening," and "disappointing at best." I think the process hurt our Nation's credibility, and we lost a lot of global respect. The best you can say about it is that democracy is never pretty but it beats any other form of government. I personally take some comfort in Churchill's words that "Americans almost always get it right, but only after they have tried everything else." All I can say is, we'd better get it right soon, or we're going to spend ourselves into the poorhouse before you know it.

The deal terms you can simplistically break into two parts. Part 1 includes \$900 billion of cuts over 10 years, \$350 billion from defense and \$550 billion from non-defense. Most of the cuts have already been agreed to in the Biden Committee's work but have not been publicly identified. Part 2 calls for a "super-committee" of 12 members of Congress composed of 6 Republicans and 6 Democrats, 6 from the House and 6 from the Senate. They are to try and come

up with at least an additional \$1.5 trillion in deficit reduction for a total of \$2.4 trillion. There is no limit on the amount of deficit reduction they can recommend or the sources of that deficit reduction. If a majority of this super-committee fails to agree to a recommendation by November 23, or the Congress fails to support their recommendations by December 23, in a straight up-or-down vote, then in lieu of this \$1.5 trillion in deficit reduction, \$1.2 trillion of across-the-board deficit reduction beginning in 2013 is automatically triggered. Fifty percent of these \$1.2 trillion of cuts are to come from defense cuts and 50 percent from non-defense cuts. The non-defense cuts cannot touch any of the income support programs (SSI, Workers Compensation, Food Stamps) or Medicaid or Social Security. Any cuts to Medicare cannot come from the beneficiary side and cannot exceed 2 percent. No revenue enhancements can be used to meet the \$1.2 trillion goal. In this case, the total cuts would be a maximum of \$2.1 trillion instead of a minimum of \$2.4 trillion.

The results: To say that this whole debt-default fiasco didn't do our reputation any good would be a gross understatement. It certainly added to the lack of confidence others have in our country's ability to meet our long-term fiscal obligations and put our fiscal house in order. As I look at this deal, the good news is: (a) we did not have a default, and now will not have one until at least 2013 when the budget ceiling is scheduled to come up for a vote again; (b) Moody's and Fitch did not downgrade our credit, although they have put us on negative watch; (c) the \$900 billion of cuts in phase one, I'm told, are real and not just a bunch of gimmicks; (d) there should be at least \$2.1 trillion of total deficit reduction coming from this agreement; and (e) the action taken by the Congress in this deal will have minimal effect on the 2012 budget and therefore should not disrupt a very fragile economic recovery. The bad news is: (a) this whole debt/default mess did hurt our global credibility—some businesses, individuals, and other countries lost confidence in our Nation's ability to solve our problems; (b) Standard and Poor's did downgrade our credit from AAA to AA+ for the first time in history,

and no matter what anyone else says, that hurts; (c) \$2.1 to \$2.4 trillion of total deficit reduction does not solve our long-term fiscal problem, since we need a minimum of \$4 trillion in deficit reduction; (d) this amount of deficit reduction does not stabilize the debt or put it on a downward path as a percent of GDP; (e) this agreement does not reform the tax code and thereby make us more globally competitive; (f) the deal does almost nothing to slow the rate of growth in health care cost; and (g) it does not make Social Security sustainably solvent.

So with all that given, how do I feel about it? I'm disappointed: I wanted these guys to do their job, to "go big or go home." But if people realize that what the Congress did was only a first step forward; if people understand that what was done doesn't solve our long-term fiscal problem, and that we have a lot of work left to do; and if people understand that we have to have at least \$4 trillion dollars of deficit reduction to put our fiscal house in order and to stabilize our debt and get it on a downward path as a percent of GDP, then I'm okay with this as a start, but only as a start, a first step.

I am a realist. I fully understand that Congress rarely does anything big or bold all at once. I also remember that when we balanced the budget in 1997, it didn't all happen at once. It happened in three steps: in 1990 when President Bush raised taxes, in 1993 when President Clinton raised taxes and cut spending, and in 1997 when the bipartisan balanced budget agreement was reached. With these three steps, fiscal sanity was restored in Washington under the auspices of two different presidents, one Republican and one Democrat, and several Congresses with differing majorities. So what I hope is that what happened in August will represent simply a start, a new beginning towards fiscal responsibility.

My Daddy always said, "Erskine, you can't finish if you don't start." We've started now. I believe our Commission has set the gold standard for what needs to be done, and I am confident we will eventually pass legislation that will be similar to our recommendations. There just aren't that many other choices.

I am optimistic that there is at least a possibility that the super-committee of

our Congress will be bold, big and smart. I think there are several reasons why they may succeed:

First, they are not starting from ground zero. There are lots of good ideas contained in each of the plans that have already been released as to how to responsibly reduce our deficit.

Second, the problem in reaching a consensus on what to do has rarely been with the economics, it has been with the politics. During this debt/default crisis, the American people were force-fed a real lesson in the dangers of these deficits. The politics have changed since we created our report and the American people have been educated. Now a majority of Republicans, a majority of Democrats, and a majority of Independents want this super-committee to act responsibly and do a deal.

Third, to do a deal, the super-committee doesn't need a super-majority to vote yes, they simply need a simple majority. Our commission got over 60 percent of our members to vote yes—we got a majority of Republicans and a majority of Democrats—so it can be done.

And, lastly, this time there is a real penalty for doing nothing: there are the \$600 billion in cuts to the defense budget and the \$600 billion in non-defense cuts that will be triggered if the super-committee fails to reach a majority.

So I'm hopeful. There is a real chance that this super-committee will put politics aside and pull together, not pull apart.

If they do, I am confident that the future of this country will be very bright, and that we can withstand any blow that comes our way. If we don't, I think America will become a second rate power in our lifetime, and that the opportunities our children will have will, for the first time in American history, be less than those of their parents. I hope you will join me in this effort to build America's fiscal house out of bricks. I hope you will join me in this effort to achieve long-term fiscal responsibility and reform for our country, for our children, for our grandchildren, and for us.

Thank you.

Biography



Erskine Bowles co-chaired President Obama's National Commission on Fiscal Responsibility and Reform, charged to address the nation's budget deficit amidst the current economic crisis. Bowles served as director of the Small Business Administration during the Clinton Administration, and later as deputy White House chief of staff (1994–95) and White House chief of staff (1996–98). As chief of staff, he helped negotiate the first balanced budget in a generation. As a member of the National

Economic Council and National Security Council, he helped guide domestic and foreign policy. Born and raised in Greensboro, N.C., Bowles served as president of the 16-campus University of North Carolina from 2006 to 2010; he is a graduate of UNC-Chapel Hill (1967) and Columbia University's Graduate School of Business (1969).

Thomas Willis Lambeth



The Lambeth Lecture honors Thomas Willis Lambeth, who led the Z. Smith Reynolds Foundation as its executive director for more than two decades until his retirement in 2000. Born in Clayton, North Carolina, Lambeth graduated from the University of North Carolina in 1957 with a bachelor's degree in history, and served as Administrative Assistant to Governor Terry Sanford and to U.S. Representative Richardson Preyer before being named to lead the Foundation in 1978. Described by one journalist as “the state’s do-gooder-in-chief,” Lambeth throughout

his career has exemplified the qualities of personal integrity, a passionate devotion to education, democracy, and civic engagement, and wholehearted pursuit of the ideals of the public good and of progressive and innovative ways of achieving it.

During his tenure, the Reynolds Foundation awarded grants totaling more than \$260 million to address many of North Carolina’s most pressing public policy issues, particularly social justice and equity, governance and civic engagement, community-building and economic development, education, and protection of the state’s natural environment. Tom Lambeth also has made a strong personal impact on many key public policy issues in North Carolina and nationally, including leadership of the Public School Forum of North Carolina, Leadership North Carolina, the North Carolina Rural Center, and a task force of the national Institute of Medicine on the problems of people who lack medical insurance. He also has been a national leader in improving the management and effectiveness of family philanthropic foundations themselves.

*The Thomas
Willis Lambeth
Distinguished
Lecture in
Public Policy*

The Lambeth Lecture was established in 2006 at the University of North Carolina at Chapel Hill by the generous gift of an anonymous donor. Presented annually, its purpose is to bring to the UNC campus distinguished speakers who are practitioners or scholars of public policy, particularly those whose work touches on the fields of education, ethics, democratic institutions, and civic engagement. The lecture is administered by the Lambeth Lectureship Committee composed of faculty members, students, and distinguished individuals engaged in public policy, in collaboration with the Department of Public Policy.

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