The Economic Club of New York

313th Meeting
79th Year

The Honorable James C. Miller, III
Office of Management and Budget Director

The Honorable Pete Domenici
Chairman of the Senate Committee on the Budget

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Questioners: Nicholas F. Brady
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Statue of Liberty - Ellis Island Foundation

Introduction

Chairman Dwayne O. Andreas

Director Miller, Senator Domenici, ladies and gentlemen. I welcome you to this 313th dinner in the 79th year of the Economic Club of New York. Tonight is a very special Economic Club dinner. It's special because of the subject, and it's special because of the timing, and because of our two very distinguished guests.

One of the hottest political battles of the season is reaching a climax this very week in the United States Senate. It is raging over one of the most important issues the country faces – how to get control of the United States trillion dollar budget that's already given us a national debt of $2 trillion. In one sense, as businessmen, we envy our speakers here tonight. They're from the only outfit I know that can lose $200 billion a year and still stay in business. (Laughter)

Now our first speaker is a professional economist, a scholar, an author. He taught at Texas A&M and at Georgia State. He spent four years as a Resident Scholar at the American Enterprise Institute. At the start of the Reagan administration he headed the Task Force on Regulatory Reform. President Reagan then named him Chairman of the Federal Trade Commission. While there he was credited with achieving more deregulation than any other administration official, and while he was at it, he cut his own agency's budget by 30%. Then last year he got the biggest budget cutting job of all. The president chose him to replace David Stockman as Budget

Director. He thus became the second Federal Trade Commission Chairman to become Director of the Office of Management and Budget. The first was Cap Weinberger.

Now Jim Miller is the first budget director to operate under the Gramm-Rudman. He's now shepherding his first budget through Congress, and he's encountering so many disputes over both substance and strategy that yesterday's headline in the New York Times read, and I quote, "Dole sees budget dying in Capitol Hill shootout." Both speakers assure me they have checked their guns at the door. We look forward eagerly to hearing about that shootout from both of them. Ladies and gentlemen, Jim Miller. (Applause)

The Honorable James C. Miller, III
Office of Management and Budget Director

Thank you very much Mr. Chairman. The Honorable Chairman of the Senate Budget Committee to my left and I have not always seen eye to eye, but I have enormous respect for him, if for no other reason that I must tell you, that he is one tough hombre. Negotiating with Pete is not easy if you try to make much headway. You go back and tell the president, yes, sir, I met with Chairman Domenici. No sir, I didn't get very far. I look forward to tonight, especially the question and answer period, and also to hearing Pete's remarks.

I really appreciate being invited here tonight. We're quickly approaching two historic occasions.

The first is the 100th Anniversary of the Statue of Liberty. Now that will be a cause of celebration here and across the nation. It will also be a time to look back with great pride on all we've accomplished in this great land of opportunity. Now the second occasion comes six weeks later. There may be fireworks then too. But if so, you won't see them in the sky. You'll read about them in newsprint, hear about them on radio and see them on TV. For on August 20, the Office of Management and Budget and the Congressional Budget Office will issue their joint report on the program by program sequestration for fiscal year 1987 as required under the Gramm-Rudman-Hollings Law.

Now I hope August 20 will come and go without such fireworks, but I'm not certain that will be possible. Congress does not appear willing to adopt a budget that's satisfactory to the president. If Congress continues to insist on raising taxes, slashing defense, and taking largely a do-nothing approach to domestic, or excessive domestic spending, we could end up with triggering a mindless automatic mechanism that will set our spending priorities for us.

Now Gramm-Rudman-Hollings is truly a watershed in our fiscal history. It is tangible evidence of the widespread recognition that left to its own devices; Congress is incapable of reining in excessive spending. A fundamental structural change – the fail-safe device of automatic sequestration – was needed as an antidote to our contemporary addiction to deficit finance. Under Gramm-Rudman-Hollings, if Congress doesn't shape up, the law puts us all on basic training and on reduced rations.

Now how did we develop this addiction to deficit finance and bloated budgets? I believe it's a natural outcome of an imbalance in the pressures on legislators which generates an inherent propensity for them to overspend. While the benefits of Federal programs tend to be concentrated on particular groups who are fully aware of the advantages they receive, the costs are much more widely distributed and not nearly so well recognized. The result is that in modern representative democracies the advocates of more spending tend to dominate the legislature, even though they are massively outnumbered by the poorly organized taxpayers.

For every organization in Washington representing the average taxpayer, there are literally thousands representing narrower interests. It's not my intention tonight to deplore that political fact of life, but rather to draw logical implications from it. The Congressional deck is stacked against spending restraint because the political costs and benefits of extra spending do not reflect the true societal costs and benefits of government programs.

I once sat in a seminar with Bill Coleman, Secretary of Transportation, and we were talking about some railroad and some interest in some infrastructure building. And finally one of the economists who was very perceptive said, well, the problem we really have is that what most economists call cost, politicians call benefits. And what most economists call benefits, politicians call costs.

Now with Gramm-Rudman-Hollings on the books, and it will remain on the books even if the

Supreme Court upholds the Lower Court and declares unconstitutional the current mechanism involving the General Accounting Office, which triggers the automatic spending cuts, all parties to the budget debate must now live with the maximum deficit ceilings year by year. There's no escape from political deadlock through higher deficits. As I put it on several occasions, there's no longer a big pot of red ink to dip into and to write from.

Now given maximum lawful deficits and given clear evidence that actual deficits will exceed the maximum deficits in every year unless deficit-reducing actions are taken, there are only three ways to comply with the new law. Raise taxes, assuming that we're not past the bend on the Laffer Curve, cut even more out of defense, or further prune domestic spending. Now the last category, I should note, includes not only outlay reductions, but also non-tax revenue measures such as increased user fees, and sales of assets, neither of which involve reduction in programs. They happen to be called negative outlays. Kathryn Eickhoff tried to explain that to me. I'm not sure why it's called that way.

Now when you look closely at the three options, as the president has and as I have, one makes sense and two do not. Higher taxes are not the right way to reduce the deficit for a number of reasons – not the least of which is the president took a position against tax increases in the 1984 election. And voters in 49 of 50 states agreed with him. That was about as close to national referendum on any subject we're likely to see.

In addition, higher taxes would pose a threat to our economic well-being. Indicators from the financial markets suggest the economy is about to enter a period of faster growth. The last thing we need is to impede the forces propelling the economy forward by raising taxes. Even ignoring the short run cyclical damage, higher taxes would have significantly adverse long-term effects. These are hidden costs that go with any increase in tax rates. And in the long run these costs should offset some of the projected revenue increases.

Now parenthetically, the deficit problem is not caused by lack of revenue. Total federal revenues are running right at the historical average of 18.5% of GNP. The heart of the problem is excessive spending. But where should the spending cuts be made? Because defense accounts for more than one-fourth of total outlays, it is a ready target for some. However, few Americans realize the magnitude of the erosion in the planned defense program that's taken place in the last two years.

To give you just one figure, in the budget we submitted last February, outlays for defense in fiscal year 1987 are $66 billion below what the president asked for 1987 just two years earlier. So when people talk about the president must compromise on defense, he's already compromised on defense. Now this is a huge reduction, more than double all the proposed domestic cuts put together. The president reluctantly has agreed to the lower level of defense spending forced on him by Congress, but further reductions clearly pose serious dangers.

In recent weeks we have seen the injuring and killing of U.S. citizens by terrorists. We've also seen the ability of our armed services to strike at those nations that support terrorist activities. I, for one, believe it's imperative that we maintain a strong defense to deal with terrorism and to place us in a strong negotiating posture with the Soviet Union.

Now what remains to be cut is what should have been cut long ago – ineffective and inefficient domestic programs. These are programs that have outlived or outgrown their usefulness to the American, to the average American. They have been kept around too long and have been allowed to swell because of the disproportionate power of those who benefit from them compared with the influence, the relative modest influence, of those who must pay for them.

The president's budget identifies just over $22 billion of such needed cuts for fiscal year 1987. This is only 5% of domestic programmatic spending, excluding defense, interest on the debt, and Social Security. The cuts requested in the president's budget enable us to reach the Gramm-Rudman-Hollings targets, not just by fiscal year 1987, but in every year beyond. That is, provided our economic assumptions hold, the deficit will be totally eliminated by 1991.

Now in no sense of the word does the president's budget constitute a devastation of social spending programs, nor is it a declaration of war on the cities, or the other dreadful things that some have alleged. These reductions, including termination of some 44 major programs that are no longer warranted, are supplemented by increased user fees, asset sales, and other revenue items such as having the Internal Revenue Service collect more of the taxes actually due to achieve the $38 billion in deficit reduction needed to meet fiscal year 1987's Gramm-Rudman-Hollings target.

Now, of course, a lot of members of the House and Senate in both parties, I must acknowledge, don’t like the president’s priorities. They would rather raise taxes or slash defense or both than do the pruning of domestic spending that we advocate and think is fully justified. Often the reason is not that the individual member of Congress really believes in these spending programs, but rather he or she doesn’t want to take the heat from constituents affected by eliminating, reducing, or charging for them. Now I can understand their problem. But it doesn’t mean that I should agree automatically and immediately to their demands. That would lead to more taxes, less defense, and very little reduction in domestic spending. That would be meeting the Gramm-Rudman-Hollings targets the wrong way – a way that would perpetuate the results of the decision making imbalance that I’ve just been describing.

Now we constantly hear the refrain that the administration must compromise. They must accept political reality. They must raise taxes. According to our critics, it is the only responsible thing to do. I disagree. If we were simply to give in, we’d lose – perhaps forever – the chance to shape up the Federal establishment. For a bloated bureaucracy is not only expensive, it’s downright unhealthy. And without courageous action, we run the risk of locking in place the higher levels of Federal spending that are the product of Congressional addiction to deficit finance and program expansion. In my judgment, that would be the height of fiscal irresponsibility.

When I say no to major concessions on spending, on defense spending and on new taxes, I'm not being stubborn, but simply revealing my judgment as how best to reach the Gramm-Rudman-Hollings spending target while at the same time adhering to the president's priorities. I'll admit that it's an uphill fight, but it's the right fight and that's why I'm not backing away from it.

This fight over priorities is more important than just Congress versus the Executive. It warrants the keen interest and participation of all Americans. I see in this audience leaders of corporations, law firms, and financial institutions. If you feel as I do that there's a right way to meet our deficit targets, as opposed to two wrongs, don't sit quietly by. Let your views be heard and let them be heard loudly. In the words of one of my favorite Gospel hymns, "You can't be a beacon if your light don't shine." Thank you very much. (Applause)

Chairman Dwayne O. Andreas: Thank you very much, Jim, for that very interesting and informative view. I want to tell you a little story that I was thinking of while Jim was speaking. It casts a little light on how politics work in Washington. It was in the early 70s, I got a call from a man who many of you knew and I'm sure loved, Tom Dewey, a famous New Yorker. It went like this. Dwayne, President Nixon would like to have you serve on a task force to reorganize the structure of the White House and the Office of the Budget. Well, I said, what do you have in mind, Tom? Well, he said, first, he said, I'd like to tell you what the president wants. He wants the Bureau of the Budget to cease being a bookkeeping operation and to be a strong arm of the president, to control the budget so that we can finally get the budget under control. Well, I said, Tom, that sounds all right to me. I'll be glad to work in that direction. Well, just a minute, Dwayne, he said, we have another request. He said, you have a very important senator up there in Minnesota, Senator Humphrey, and he said, we could never get this thing through the Congress unless Humphrey would team up with the president and approve of it, and speak up for it. Well, I said, I'll make a phone call and find out – which I did. Humphrey said, it sounds a like a good idea to me, Dwayne. He said, tell the president as soon as it's ready, I'll just make a speech for it. So that's the way, that's why I happen to know a good deal about the job description under which Jim works. And the Office of Management and Budget, which we named it at that time, is now one of the most powerful institutions in government and I want to say that Senator Domenici at that time was one of the senators who strongly supported what we did.

The Honorable Pete Domenici: I didn't know what I was doing. (Laughter)

Chairman Dwayne O. Andreas: Well, I'll cast a little light on that. There are two things that I know about Pete. One is that he won his last election in a Democratic state, a solid Democratic state, with 74% of the vote, which I believe is the highest percentage that any senator ever received in history. And I want to tell you another thing about him that makes me think that he probably knows what he's doing. Sitting right here at this table two years ago, Bob Dole said to me, Dwayne, we're talking about finance. I want to tell you something that you ought to get to learn right now. Pete Domenici may be the smartest man in the Senate and he knows more about this subject than anybody alive. So that's what I've heard about Pete.

Pete is a lawyer. In his younger days, he played professional baseball. He served as mayor of Albuquerque. And since 1972, he has represented New Mexico in the United States Senate. Then the 1980 elections made him a major national figure because they gave the Republicans control of the Senate and made Pete Domenici Chairman of the Senate Budget Committee, one of the most powerful offices in the land. He quickly won a reputation for a keen understanding of the budget's difficult and technical aspects.

As Budget Chairman, he played a major role in steering the initial Reagan spending cuts through Congress. More recently, he's been waging a running battle with the administration over its approach to the 1987 budget, but that's a matter on which we'll let him speak for himself. It's now my very great privilege to present the Chairman of the Budget Committee of the United States Senate, Pete Domenici.

The Honorable Pete Domenici

Chairman of the Senate Committee on the Budget

Thank you very much. Thank you Dwayne. Thank you very much. Director Miller, it's good to be with you. I wish I had an advanced copy of your speech. It would have just been a marvelous evening. (Laughter) Since I didn't, I will just touch on a little bit of it here and there.

But let me first say how nice it is to be with a couple of very good friends. Nick Brady, who served with me – well, I served with him in the Senate for a while – it's always great to be with you. And thank you so much for all of your kindness when you were there and for all you do for our country. And another very good friend, George Monroe, who sits over here on my left. I guess you all know why he's my good friend. He has an interest in matters that have to do with copper and copper smelting. And since company is making money, I'm very happy because that means he's alive in New Mexico and he has lots of workers and it helps us. And it's so good to see you smiling again.

Well, I'm in New York but I'm from New Mexico. And I've been kind of wondering if I really ought to let you all know what being a U.S. Senator and serving in a democracy is all about so that my friend, the director, Mr. Miller, will understand what we go through. I thought I might just start by telling you a New Mexico story. On the other hand, I look out there and I wonder if I dare. But I think you really ought to know me for what I am, so I will. First, let me say to you that I am…I came to the U.S. Senate 14 years ago from the bottom of my feet to the top of my head as committed as I could be to this system called democracy and capitalism.

Frankly, I didn't know an awful lot about it but somehow I just felt it was just something super.

Maybe because both of my parents were immigrants and maybe because my father never learned how to write English and he did a lot of strange things enticing me to get out there and get through school and things. But let me assure you that after 14 years, I am not one bit cynical about it. It is a magnificent system. And the essence of its greatness is that the consent of the governed ultimate prevails. That is really what distinguishes us from all other systems and we do it in a not-perfect way, but maybe if you are from Chicago, you would say, you know, Senator, that's really not so, the consent of the governed has to wait around for the mayor to die. (Laughter) But in any event, from time to time it stagnates a little but for the most part; the consent of the governed prevails. And that means you have to go out there and get with the people and you have to take a little guff and you have to listen and you have to, within reason, within reason understand what they want while you proceed to educate them.

Well, I was returning from a little town of Belen, New Mexico, 30 miles south of Albuquerque on the freeway heading back home to Albuquerque, and I told my driver, one of my wonderful workers, Tony, let's get off the freeway. Let's get down on the old highway, US-85, and let's go see how the old stomping grounds look. I used to run a bar in that part of Albuquerque when I was 21. And we drove down that street, 4:00 Sunday, snowing in Albuquerque, a strange sort of day. Pinstripe suit, I just came from a big Republican event, right? (Laughter) Well, it was a big breakfast. We were supposed to be dressed up.

But in any event, we drove by a bar and the bar was Archie's Bar. And I said, Tony, we better stop. He said, what? I said, that's my friend and I think he's probably there. So we pulled off and I said I'll sneak in the back and we'll sit with Archie and have a beer. Well, I tried to do that, but you see on a Sunday afternoon at Archie's Bar in Albuquerque, about 50 people are sitting up at the bar enjoying themselves and they see me, right? And so I'm trying to hide and all I can find out is they're all looking at me. So I said, Archie, it would be better that I not have stopped, than I not speak to them. So I said I'll see you in a while.

I went up to the bar to start saying hi, and the first two people were as if I were their long-lost cousin. Hugs and kisses and boy, I remember, and I played baseball with you. You know at this point everyone in New Mexico that has ever been on a baseball field that is over 26 played baseball with me. But in any event, and incidentally if you're in a bar late of an evening, 12:00 or so, not only did they play ball with you, they hit home runs by then. But in any event, the two of them said, bartender, the best bourbon in the house, the Senator needs a double shot of whiskey. I said, oh, my God, how will I make it around here? So I faked it a bit, thanked them, and it was nice.

I went around and, you know, for the most part everybody said nice things. Maybe an occasional, hey, your letter took too long. Until I got to that end of the bar and then a woman didn't wait until I get within ten feet and she told me what her name was. Her name was Grace. And she said, Senator, my name is Grace and come here, you...and told me what I was...and then for ten minutes I was told everything I am doing wrong. Incidentally, Mr Miller, she even had a nickname for our president. She nicknamed him Reggie Reagan and she went on and you wouldn't believe what I took for ten minutes. And finally I said goodbye, ma'am. I didn't come here to spend the whole afternoon taking all this from you, goodbye. Went and sat down and she came running with a little pack of matches and she had torn out the matches and she said, Senator. Yes ma'am, I said. She said, would you give me your autograph? Can you imagine? I said...what do you all think I said? I said, hell no. And she said, what? I said, you don't really want my autograph. She said my sons would never believe you were at Archie's Bar. I said, okay, so I wrote their names down, she told me them, and I signed it. I said, here, but don't make any bones about it, Grace, this is not for you. This is for your sons. And she stood up and smiled and she said, Senator, when you go back to Washington, you tell all those big wheels including the president that you were at Archie's Bar on Sunday afternoon and Grace told you how the "shit" really is. Well, that's very bad to say here to you all from a little, old Senator from New Mexico, but I'd like to make my point sort of talking about that.

Now one more story that I believe is relevant. It has to do with where I get my information. I was riding with a cabbie from a hotel in Georgetown to Washington, Dirksen Building, the day after the president's speech on defense. And frankly, I was absolutely astounded. The cab driver had a wool hat over his head and was in a hurry to get me where I ought to be, and he didn't know who I was. And so he opened by saying, Mister, did you hear the Chief last night? I said, what? He said, did you hear the Chief last night? I said, you mean the Commander-in-Chief? And he said, yes, I call him the Chief. He said, what did you think about this speech? And I said, well, I have been pro-defense. I didn't really need to hear the speech, but I don't think it changed one vote in the Congress and my bet is we won't get any letters in our offices on that speech. He drives along, Mister, I think you're right. Mister, do you know anything about budgets? By then, I was wondering, but he was sincere. I said, a little bit. He said, does defense spending contribute to the deficit? And I said, well, unless you're Cap Weinberger, they do. And he said, what? I said, oh, forget that, yes, they do, just like everything else. There are some who think more or less but the truth of the matter is they do. We drove about another mile and he said, Mister, the Chief perplexes me. This is an honest, truthful story. I said, what? He said, the Chief perplexes me. And I said, how's that? He said, I think we should have more defense. He thinks we should have more defense. He said, defense contributes to the deficit and the deficit's big, and anything we add to defense adds to the deficit. Why doesn't the Chief ask the taxpayers to pay for some of that new defense? Well, I really couldn't believe it, but that's what he told me. And I said, well, cabbie, you sort of know what you're talking about, but I really can't believe that you're serious about that. And he said, I am.

Well, here's the truth about this budget. The budget director is right. If there was one dictator in the U.S. Congress that could match up with the President of the United States, that they could sit down across the table and negotiate. If they both felt exactly the same and if none of them ever had to visit Archie's Bars across America, they would sit there and negotiate out this budget precisely as the director says. But believe me, even at that, the president could not get his budget, the budget he sent us through my friend, Mr. Miller. Because the first thing the Congressional dictator would say, Mr. President, the budget you sent us doesn't meet Gramm-Rudman-Hollings, and it doesn't. It is somewhere between $12 - $16 billion off in outlays.

And so we would immediately have to say, what do you do about that? Because indeed the way we figure it, the $35 billion new authority for defense and even with 3.5%, 3.7% real growth, and even with the president's cuts that he recommends, it doesn't meet the target. They would say it's slightly off, but it's off. So we'd have to start talking about what do we do about that, for starters. Then we would have to say, now do you know that in five years, contrary to what you all are saying, the Congress of the United States has done a pretty good job. Do you know that defense, which we all knew we needed, in a five-year span, with two years of it in recession, has almost doubled programmatically in five years? And real growth has grown each of the years, 7.5%. Why would we complain, those of us who are for defense? That's a magnificent performance for a democracy to be able to do that in five short years – almost half of it in a recession.

And then we would say, you know, if you're asking some people like those out in this audience to help, how come 40% of the budget, not defense, 40% that is Social Security and entitlements, you, Mr. President, have decided we can't touch. You have decided that whether senior citizens have earned that, whether they're entitled to it, you have decided it won't be touched. I urge, as the director did, if you're worried about your national budget, you ought to be worried about the fact that that 40%, that's Social Security, Medicare, a couple of pension plans, and a couple of other programs that are built into this budget permanently are all investments in the past and that fully 50% of those that are getting the money are getting more than they ever paid in and there's not one single solitary test of means or need. And for most of those seniors, they'll get back every penny plus interest that they put in on average in 24 months from the first check they get. That's the average now, 24 months from the first check, seniors have received back everything they put in. And people are running around saying they paid for it, they earned it. Now I am confronted with the fact that that is established by our president and our Congress and I abide by both their desires, and I say we aren't going to touch that.

And then I submit that defense must grow a little bit, it can't come down. And I'm going to give you a quick round number and say that's 30% – and 40% and 30% is 70%. And now your debt service, which is now a debt servicing $2 trillion-plus is 15%. And if my arithmetic is right, that's 85%. And interestingly enough, the deficit equals all the rest of the budget.

So if you really want to balance it tomorrow morning by getting rid of bloated government and too many programs, you can leave those things I've just described on the table and you can tell your Congress get rid of the rest. They won't do it. They can't do it. And nobody's asking them to do it tomorrow. Gramm-Rudman basically asks them to do it over five years, including some growth built in, God willing that we'll have.

But the truth of the matter is while defense grew 7.5% on average for the last five years, the previous decade was a disaster. It grew at a negative real term. While entitlements were growing at 11 and 11 ½ at the peak of inflation, they're getting under control. They're growing at 4, 4.2. But all the rest of the budget, while we have all of the politics on our back, while we all have to go to Archie's Bar across this land and get re-elected, we have turned the rest of the accounts of government into an on-average negative 3.6% growth over the last five years. Not bad. The previous decade, that account grew at 8% real growth, that $150 billion - $190 billion, and we got it down to negative 3.4 with two years out of the five being recessionary years. I think we did a pretty good job.

I read Dave Stockman's book over the weekend. I don't agree with a lot of it. I'm not so sure he's as good a book writer as he is budget director, and I'm not sure that he should have written a book. But in essence what I have just told you, it took Dave Stockman five years to learn and he labeled it the Triumph of Politics. And that's what it is.

Now the truth of the matter is that we hear very, very interesting slogans about taxes. But let me tell you, isn't it interesting that $11 billion or $12 billion in new taxes to fix this year's budget deserve an economic model to see how much damage it will do. And I think I even heard the director say something about a bend in the Laffer Curve. Frankly, I'm not an economist. I don't know what a bend in a Laffer Curve is, but I guarantee you that I don't agree with Laffer. In any event, perhaps his bend is something more conventional than his theory of economics.

But in any event, isn't it interesting that \$11 billion or \$12 billion in new taxes, perhaps user fees, perhaps excise taxes, perhaps a gasoline tax, we must model that for its economic negative effect, that we would go to the American people and say, in the name of tax reform we will put \$100 billion to \$150 billion in new taxes on American business. New, yes, because they didn't have them yesterday. They would have them tomorrow. And we don't even have to worry about modeling that. That's just inherently good. Now frankly, I don't believe that.

And I don't believe the issue on new taxes to fix this budget is an economic issue. And I believe my good friend, the budget director, in essence will end up saying, you're right, it's a political issue. No more, no less. Frankly I kind of chuckle when people tell me Ronald Reagan, my good friend, our great president; he already had a referendum on taxes. You know what I say? I say if Ronald Reagan would have said we need a little bit of new taxes to fix this thing up and pay for defense when he ran against Walter Mondale, he might have even won the one state he didn't win. (Laughter) That's how tough it would have been on it. (Applause) I mean frankly I believe, I don't believe it amounts to anything. That's the political issue.

Now why am I concerned? Well, I'm concerned because frankly I'm very, very pleased that we did not tonight get in a major discussion about how good things are or how bad things are. I am not charged with being the eternal optimist and I have not by nature any fix or predilection to being a Mr. Pessimist. But I don't think things are as good as some people are making them out to be.

As a matter of fact, if there is some vitality in the American economy, and it appears that there is, I submit to you that there ought to be. I submit to you it ought to be booming. I submit to you that not a single one of you would have believed five years ago that if we were to spend $200 billion a year for three consecutive years, more than we took in, $200 billion a year more than we took in, once we got out of the recession, I don't think there's a single one of you that wouldn't have believed that's pretty good pump priming. We ought to have a pretty good economy. And I don't think there's a single one of you that if we would have told you five years ago the price of oil will drop precipitously 40% or 50% that you wouldn't have said, boy, won't that help things. You bet it will. And I don't believe there's a single one of you that's knowledgeable that wouldn't have said, why, of course, we can debt service a $200 billion a year national debt if Japan sends us about $75 billion a year to buy that debt. And you'd all be saying, but that really couldn't happen. But it is happening. And I only worry because I wonder what's going to happen when that changes, and I submit it will. I submit it has to.

Now I also worry because I agree with Chairman Volcker. I gave a speech three months ago on the floor of the Senate and I called it, Borrowed Money, Borrowed Time. And it stated the same numbers he stated about corporate debt, private debt, international debt, led by the marvelous example of the national government which in five short years doubled its debt from $1 trillion to $2 trillion. And if we don't fix it, within five years it'll hit the $3 trillion mark. Now I think that's a clear and present danger, and I believe we should fix it. And I believe we must increase defense over this year's level, and we will. But there is no possible way that we can increase it 12%, have no revenue to pay for it, and get all the rest of the savings out of the domestic side of this budget when as a matter of fact Congress pushing, shoving, kicking, going to Archie's Bars across this country and saying we didn't do this, we didn't do that, bear with us, it's all for the betterment, it's all for the best. We've already come a long way. Nonetheless, we must cut more, we must freeze, we must reform, and we must let defense grow some.

But I submit to you, when you add up the numbers, you can't get there without somewhere between $10 billion and $15 billion in new revenue. And frankly, so long as that goes to the deficit, and it will under Gramm-Rudman-Hollings for it can go nowhere else, because it's all moving toward that $144 billion magic number, trend line downward, I submit it's not an economic issue. It's a political issue. And it's just a question of whether we want a budget or do we want chaos? Do we want a budget that we can live by and do? Or do we want to wait and gamble at the end of the year with one of these sequester things which may not happen? He may have more tools within his power than he cares to share. They may be able to avoid it. But they won't avoid the consequence the next year and the next year of the deficit continuing to go up. So that's how I see it. I hope you understand that...(CHANGED AUDIO SIDES)...take the risk any longer, we better get started. Thank you very much. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN DWAYNE O. ANDREAS: Senator Domenici, thank you very much for those very thoughtful comments. Now at this point in the program it is our tradition to call on two of our distinguished members to question our two speakers. Tonight our questioners are Nick Brady, Chairman and Chief Executive Officer of Dillon Read, and former United States Senator from New Jersey, and the other one is William May, President and Chief Operating Officer of the Statue of Liberty - Ellis Island Foundation and, as you know, former Chairman and Chief Executive Officer of the American Can Company. We'd like to alternate these questions and you address them to whichever speaker you care to. And our first questioner will be William May.

WILLIAM F. MAY: This question can be addressed to both speakers. Do you feel that the budget resolution issues should precede the determination of a tax reform?

THE HONORABLE PETE DOMENICI: Absolutely. I don't think there's any question about it in my mind. First of all, I think the issue is still out as to what ought to be in a tax reform package. One speaks of it being neutral, but the truth of the matter is that a compelling consensus in growing in both houses that as it pertains to the budget and fiscal matters it needs some added revenues. So I would assume that the American people ought to understand, they ought to understand this is tax reform, but they ought not understand that here's tax reform and it's neutral. And six weeks later we come along and say, yes, we just gave you something that's neutral, but we need to raise $12 billion or $14 billion, however it be. It doesn't have to be all personal taxes or general corporate taxes. I think we ought to know in advance what we're talking about before we produce it. Frankly I'm not terribly sanguine, as you probably gathered from my remarks, about the ease with which some deal with shifting billions around in the tax reform saying it's all going to work out. I'm not so sure of that, so I'm a little more cautious. That's probably my nature. But nonetheless, I believe you should face up to what you need in revenue first before you do the reform.

THE HONORABLE JAMES C. MILLER, III: As usual we have a disagreement. No, I don't think that one should precede the other. They're two different issues and they're on two different tracks. I will say this; however, it's kind of interesting to me that the House went first on tax reform. As you know, the Constitution says that revenue bills should originate in the House of Representatives. By historic precedence, budgets have also originated in the House of Representatives. Despite the differences of opinion that the president and I have had with Senator Domenici, Chairman Domenici, and his colleagues over the Senate budget resolution and the differences in the grand universe of things are not that large – although philosophically there are some differences – the fact of the matter is that he has brought forth a budget. In the House of Representatives, they haven't done a thing. Nothing. They're sitting back playing politics, partisan politics. They're waiting. They're waiting for the Senate to act. Hopefully, in their view, the Senate will increase taxes and will cut defense so they can say me too. I didn't do it, the Senate did it. I didn't cut defense, the Senate did. I didn't raise taxes, the Senate did. Well, I think that is irresponsible. I think the House should have moved by now on a budget resolution. Time's a wasting. Now an interesting thing, in Gramm-Rudman-Hollings, any appropriations measure is subject to a point of order after April 15 if there's not a Congressional Budget Resolution. In the House, there's no such restraint. There is a different kind of restraint. If all appropriations measures have not been passed by July 4, the House cannot take more than a three-day recess. Now we're going to see a grand test of Gramm-Rudman-Hollings to see if they will really go home or not. I have a prediction. I hate to say it. My suspicion is July 4 will come around, they will go on a three-day recess, and then they will come back for a perfunctory session of the House attended by six members. And they will declare another recess for three days and then they will come back. That's my suspicion. That's my prediction also because I suspect they will not be finished by then and I suspect that they will want to take a July 4 recess of more than three days. This process we're going through with Gramm-Rudman-Hollings is new. People haven't really quite understood it completely and there is some holding back. And I have to say this about Pete, he's sure got guts. And he has lived up to his part of the bargain, but the House has not. And I surely wish that we would see some evidence of progress out of that body.

NICHOLAS F. BRADY: A question for Senator Domenici. The current budget debate is based on economic estimates from the beginning of the year. In August, the CBO and the OBM will recalculate the figures using new data. Many of your colleagues are asking why should we wait to see what the numbers are in August before we do anything on the fiscal year '87 budget and avoid taking a lot of tough votes now.

THE HONORABLE PETE DOMENICI: Well, this is very, almost esoteric, but August 15th is the date under the new law that Director Miller, CBO, they have a new act to perform. Let's see how we can describe it. They stop the fiscal policy of the nation hypothetically on that day, draw a line and say whatever is, is, and they take a snapshot. That's the best way to describe it. They take a snapshot of the programs, policies, appropriations, and revenues. And they then get together and say what does this snapshot reveal on expenditures and what does it reveal on revenues, what's the difference? And if that difference for this first year exceeds $154 billion, whatever amount, let's assume it's $164 billion, then they must perform the function of cutting government as prescribed in Gramm-Rudman-Hollings by $20 billion...$164 billion down to $144 billion. That will get you to the target. Now some people are suggesting that because in the first, you know, the last quarter before this one we just got, we had 7/10% growth and then we got the early indications that the immediate past one was 3.4%. And because interest rates are coming down, that we ought to wait around and take that snapshot because things may look better. Well, I have concluded, as best I could, talking to as many people as I can, that if we ask somebody to do it now, they would say interest payments are down, growth is somewhat up, but it isn't up enough because we figured we were going to have 12 months preceding '87 at almost 3.4%, 3.5% real growth. We're not going to get that. In addition, when you have deflation, nominal GNP does not grow as fast. Taxes don't grow as fast. And the net effect is that you probably today would have a wash at best, and at worst, slightly worse deficits than we have already calculated. Now that's the theory, and that's justification for those who want to run around taking snapshots of the fiscal policy of this huge country every couple of months. I'll tell you what I feel about it inside. It's that it's stupid. I mean what are we about? I mean we have this magnificent country and we have a big deficit. And if we got to $144 billion, wouldn't that be fantastic. I mean that's the fourth largest deficit in history – and we got there – it's the fourth largest. Wouldn't it be nice if we were wrong and it turned out $133 billion. Let's just do it. We can't run around assuming there's been a little switch because we got some oil relief and somehow or another we don't want to face the music. I mean that's my private kind of thoughts. My public ones are what I told you first. It ain't going to make any difference. But I mean I really think we're acting kind of childish, that we ought to run around taking an economic picture every two months so we can wish away what we have to do. It just isn't going to work. (Applause)

WILLIAM F. MAY: This question is addressed to Senator Domenici. One of the criticisms of our economy is the very low rate of savings that we have, somewhere around 6% compared to a multiple of that by our trading, in the economies of our trading partners. The IRAs and the Keoghs are designed to stimulate this savings which, of course, is going to become more and more essential to handle these deficits, even if we lower the deficits. First of all, do you think that the IRAs and the Keoghs have been effective? Or are they just a shift of money from existing savings into another form of savings? And do you have any ideas as to other methods, procedures by which our savings levels can be increased?

THE HONORABLE PETE DOMENICI: Let me ask, if you don't mind, can Mr. Miller answer the questions also, I mean if he has some thoughts on that. I really believe he knows more about economics than I will ever know. Let me just say, absolutely they've been tremendously effective. I note with interest that as of today, whatever one considers the state of the American economy to be, that we are doing tremendously well on the consumption side. We are now at an all-time high of 70% is what we spend on ourselves and we are very, very grateful that the Japanese don't do that because they have a lot of money, so they pay our bills for us. And isn't it most interesting that we are now telling them we want you to change. When I went over there to visit with them, I was embarrassed because we wanted to tell them that saving at 17% was bad because if they'd stop saving so much they would consume more and presumably they would buy more of our goods or maybe export less of theirs – they'd buy more of their own. We also told them that they shouldn't tax cigarettes – I thought, my, isn't that something – so they could tax our cigarettes so they could smoke more. And we also complained because they had a tax on our alcohol. Those three things didn't depress me too much. (Laughter) But in any event, I believe it is very, very difficult for Americans to save. And I don't think there's any doubt about it. That is the nature of our society. Now you all know why. Just watch television and see why. Everybody wants what everybody else has. And everybody ought to have it because that's what America is all about. So anything we could do in that tax code to encourage savings – the savings under IRAs are phenomenal – exceeding anything we ever planned. The Keogh plan is working. I hope they leave it in the code. I don't have any new ideas because I don't think we're going to have any new ideas to encourage savings in the tax laws of the country. But it does seem to me that one thing we can start doing is setting sort of an example by paying our own bills and not borrowing so much. That is the first step. You've got to have something to save. So it seems to me that we ought to start with that. (Applause)

WILLIAM F. MAY: Director Miller, do you want to take a shot at this?

THE HONORABLE JAMES C. MILLER, III: Well, I don't really have much to say about that. I'd like to speak to the former question. (Laughter) I will say I think the incentive structure that we do face is one that is biased towards consumption and we need to address that and do some more saving. I want to talk just a second about these projections and these snapshots. As Kathryn will tell you, making the snapshots is no easy task. We go through an extraordinary detailed, extraordinarily detailed set of fact-finding with the agencies in order to make that forecast. We will do that in July. And on the basis of what we do in July will be the snapshot that we take for August. Now I have been asked repeatedly, especially by members of Congress, what affect the falling oil prices and the interest rates are going to have on the deficit. We estimated it to be $182 billion under the president's budget, current services deficit is $182 billion. Well, there are direct and indirect effects. The direct effect of the oil price decrease raises the deficit. Now how does it do that? Well, with the falling oil prices, you lose the OCS money, Outer Continental Shelf royalties. You lose the windfall profits tax. You lose some of the revenues from Elk Hills and Teapot Dome. You reduce outlays for oil and heating and that sort of thing, but it's not enough to overcome. But the indirect effects show up in economic growth. And when you add those back in, I believe when you do that for interest and all the other things, that you're probably going to knock about $10 billion off the deficit vis-a-vis our projections in February. Now let me just impress upon you that I understand there's a variance around that estimate. When you estimate $800 billion in revenue, there's a variance around it. If you estimate a trillion dollars in outlays, there's a variance around it. Now the same kind of argument, you know, profit is a small difference between two large numbers and estimating profit is difficult. Well, estimating the deficit is too because it's the difference between two large numbers. So you've got a variance around the deficit and the ratio of the mean to the variance is going to be much larger with the deficit than it is with either the estimate of total revenues to total outlays. And then you're estimating the shortfall which is $38 billion we estimated. And the ratio of the mean to the variance is going to be even larger when you estimate the shortfall. So there's a great deal of uncertainty attended to this. Now it bothers me that there is so little appreciation for all these complications on the part of some members of Congress. Some could say, well, it's going to increase, or it's decreasing, or why can't you tell us precisely the number. We try to give some evidence, some feeling for the number. But it's important, I think, that people focus on the fact it's a difficult thing to do and unless you do a full Cleveland on it, you can't get a number that's very definitive right up front. And it sort of reminds me of the Texas Aggie that went into a hardware store to buy a saw. Now I used to teach at Texas A&M so it's all right for me to tell Texas Aggie stories. For any reporters who might be out there, I just want to repeat, it's okay for me to tell Aggie stories. This Aggie goes in a hardware store. And he says, I need a saw to cut some logs. And the hardware salesman says, well, why don't you come back here. I think what you need is one of these chainsaws. And the salesman shows him the chainsaw and the Aggie says, does it work? He says, sure, this is exactly what you need. He says, okay, I'll buy one. He takes it and goes home. He comes back about a week later and he sees the salesman. And he says, you know, that chainsaw you sold me, you said it would cut logs. Well, that thing doesn't work worth a flip. And the salesman says, well, let's look at it and see what's wrong. So he takes it back and he lays it the counter and he pulls it a couple of times, and it goes vroom. And the Aggie says, what was that? (Laughter)

NICHOLAS F. BRADY: I have a question for both Budget Director Miller and Senator Domenici. Is Gramm-Rudman dead if the Supreme Court rules against the sequestration job for the Comptroller General? Will the fallback mechanism work? Or are the wheels going to come off the whole process and we're going to head back from Ground Zero? Both of the gentlemen please.

THE HONORABLE JAMES C. MILLER, III: Gramm-Rudman will survive this core test. I would lay good money that the Supreme Court will uphold the Lower Scalia three-judge panel, and find the participation of the Comptroller General unconstitutional which means that we rely then on an ordinary joint resolution of Congress. My prediction is that if the amount of the sequester required for fiscal '87 is on the order of the size of the sequester for '86 which was $12 billion, $11.7 billion, then Congress will come forward with a joint resolution and force the sequester. But if it's very much higher, the Congress will not. Now it's very easy for Congress to avoid a joint resolution and the president can't sign a joint resolution that Congress doesn't produce. And they will go home, in an election year, everybody pointing to the other fellow or the other lady, as to why it didn't get out of committee and it didn't come to the floor and it didn't reach the president's desk. So I think that's likely what will happen. One point that I want to make, and some of the papers are beginning to pick up on the issue, is that it may be – I said in the oral argument, and I didn't detect quite as much interest in the issue as I anticipated – but it may well be that the Supreme Court in this litigation will hand down a decision that will cause eventually substantial changes in the way we look at the accountability of agencies. So-called independent agencies such as the FTC that I used to head and other agencies that have been viewed as beyond the direct control of the president maybe stated, the Supreme Court may state categorically that they are arms of the president and the people are accountable directly to the president. When I was at the FTC and I got up in the morning, sometimes I said, to whom am I accountable? And it seemed like sometimes the President of the United States and 100 members of the Senate and 435 members of the House, and they all wanted a piece of me. But there were other days I got up and I looked in the mirror and I realized, Jim, if you weren't so ambitious in pursuit of the president's objectives, and you just sort of went along, and got along, you could work things so that people really wouldn't bother you. And you could do pretty much whatever you wanted to do. Now that is bad government. That is an unaccountable bureaucrat, and I think that's a bad idea. So I would suggest that you look carefully at that because we're beginning to think what this means. It may mean substantial reorganization of the executive branch of government and inclusion of a lot of things that are not now thought to be part of the executive branch. We have a revolution coming, very much the same way as the Chadha decision and its progeny X-d out legislative vetoes. So that's something to watch and be concerned about. From my standpoint, it's not about power-grabbing by the executive, but a logical ramification of the way the Supreme Court is going and I think they're correct on the basis of the Constitution.

THE HONORABLE PETE DOMENICI: Well, I think on the last point first, I think it is worth observing, but I really don't believe that the Supreme Court is going to rule out all of the independent agencies in this case. I think they may find a case where they more directly in point where they might, but frankly it's such a monumental constitutional decision that my lawyer instincts tell me that they have enough on the table in this case. And they're not going to bite off the Federal Trade Commission and all the others in this decision. But, you know, it's there. They're thinking about it. And they're going to find a way, if they're going to throw out the GAO, to do it without deciding the issue of those independent agencies. To the question specifically of...I'm not sure that you all know what we're talking about, but let me just quickly tell you. The way we drafted this law, we said there will be an automatic sequester if we don't meet the targets. And we had to have some way to make it automatic. I mean if it came back to Congress, obviously we hadn't done anything. And Congress isn't about to say it's automatic, but it's left up to the president because that is just an abdication to him. While I tried to push for some more flexibility in some areas, Congress is very covetous in that area. So we really set up OMB, CBO, to do the numbers work, and then we said here's the Comptroller General. And that fellow and his big staff can come along and arbitrate their differences and produce an order. And the other produces the savings as prescribed by law and they send that order over to the president and he signs it. That's all the president does, except for his budget director's involvement in that first phase. Now when we did that, we knew that there's a question about whether the GAO belonged to the executive branch or the legislative branch. And clearly, if it belonged to the legislative branch constitutionally, then we were taking away presidential prerogatives in making the cut. So what we did is say that's the way it will be, but in the event the U.S. Supreme Court says that is unconstitutional – and we knew all about it, there was already a District Court case saying what the GAO was – and the Solicitor General for the administration was arguing that the GAO belonged to the Congress. So we said in the event they throw that out, we still have a process. That's the process that Nick's alluding to. We said it'll all work exactly as planned. He will do his work, OBM Director Miller, the CBO will do theirs. But Congress then will have to pass a joint resolution mandating the authenticity of what they found and we will send a bill to the president doing the cut. The question is will Congress do that? Mr. Miller's answer is if it's not too big, they will. If it's big, meaning the deficit is way out there and you have to cut an awful lot, they won't. I have been telling the members of the Senate that you will vote for that joint resolution because if you don't, the voters will have your hide because you ran around talking about Gramm-Rudman-Hollings and you all voted for it. I don't remember how many senators – Jim, do you remember – 68, 70? And now you're going to find a way to chicken out and excuse yourselves and run home. Now I can't change my story before you all here tonight, so that's what I think will happen, although I'm not at all sure. (Laughter)

WILLIAM F. MAY: Based upon the analysis which the senator has made of the untouchables in the budget and what's left that might be touched, perhaps we have to take a look at some of the entitlements. And I'd like to address a couple of questions with respect to Social Security. First of all, do you think that the limitation on COLA application will be extended? Or will the 3% threshold be eliminated even if the cost of living doesn't go up 3%. And also I'd like another opinion from you. It seems to me that the present taxation on Social Security benefits is rather complex. And I wonder whether it wouldn't be more simple to adopt the established procedures that apply to contributory pension plans where after the contributions are exhausted, the other, the additional monies are taxed at earned income rates? I'll first address it to Director Miller.

THE HONORABLE JAMES C. MILLER, III: On the question of entitlements, let me say that I read the deficit, excuse me, the outlay base differently than does Chairman Domenici. You've got a trillion, 0.025 in outlays. Of that, $418 billion dollars is the base from which the president's budget makes programmatic cuts – $418 billion. By my, according to the calculator that Dave Stockman left me, that's about 41%. It's not 15%. Now the entitlements programs do come in for some cuts under the president's budget. Medicare comes in for some cuts and so do some of the other entitlement programs. Social Security is not touched in the president's budget. We didn't propose, as you suggested, taxing Social Security differently. We didn't propose, as Senator Domenici was suggesting, perhaps taxing the part that one has not already contributed into the pot. I am reluctant standing here to even suggest that I've ever thought about Social Security. I'm more interested in job security. And if there are stories in the press that I have been thinking even about Social Security, I can just see the newspapers tomorrow. The president's view on Social

Security is rather firm. He has been bludgeoned on that issue by the politicians on the other side so frequently that he's simply not going to touch it. Now the question will have to come to a head, on the question of the 3%, because as you know under current law if the third quarter average over third quarter average is less than 3% on the CPI-W, it means that the Social Security COLA for '87 wouldn't be paid although in '88 it would catch up. You pay it and then you pay on top of it. This saves about $5 billion or $6 billion in outlays for '87. The same thing happened in '84 but Congress rushed headlong with the president's support to overturn that provision. We're going to see an interesting thing this year. I think you will see in this election year a headlong rush to overturn that provision or to suspend that provision for this year's COLA. It's a very powerful political argument. And it is one of those things that is extraordinarily difficult for anybody to resist.

THE HONORABLE PETE DOMENICI: First, I want you to know that I popped my...whatever this is…so I'm going to have to hide. I'm getting as fat as Director Miller. (Laughter) Let me say that – maybe I'm mistaken but – they told me there were no press here, so you could be honest. (Laughter) You could have told the truth about Social Security because there's nobody here. The Congress will not rush headlong at the end of the year into giving the COLAs – that is about 2% because that's what inflation is – they'll do that within the next 15 days. So that will be decided. You can count on it. And you can count on the president signing it too. There's no question about that. We're delighted it's so low because it saves lot of money. We were expecting it to be 3.3 or 3.4 so it's going to save a lot of money. And frankly, it's not all that bad, you know, because the truth of the matter is the way the law is written, if it's under 3 you don't get it that year. So that's two that they wouldn't get. But next year they double up. So it's just not worth all the pain. They'll get 2 now and 2 next year. And if any of you wonder how many that is, if you add military and civilians and if you wonder how many constituents there are, I think that's 39 million, 39 million checks. So they'll all get 2%. You hit on that right. That's the largest group of Americans behind something other than taxpayers at large. There's nobody else that big. Let me tell you about your very simple proposition and about letting everybody that pays into Social Security get all of that which they paid and their contributor paid with whatever interest you want to figure, get it back as you do on some pensions and then pay taxes. Would you all believe that literally we would not be here arguing about the fiscal policy of this country if we did that. This budget is fixed. It's plain and simple. It is a huge amount of money. It would take three or four years to catch up but if you made the Social Security after they got everything back, it just goes in the income, I wish I had the numbers. I know most of them here tonight but I don't know it. But I could tell you that we wouldn't be having this fight. Now that brings me to a slight variation in your budget today and your historic budget, because your director is right on taxes. He says the problem is not the level of taxation because 18.7% to 19.5% of GNP is historic. That's where we've been under Democrats, under Republicans. That's sort of our capitalistic system's way of saying take that much out for those that can't do it all themselves and we do something as a government. But here's the difference. The reason we can't fix this budget is because a huge new percent of that tax is Social Security, dedicated singularly, totally, and solely for that. Now if you take that out and look at the rest of the taxes – now I am not arguing macroeconomics, I am not arguing what's fair to the American people – we've got to look at that – I'm merely telling you the reason you can't put as much in defense as the president wants, and the reason you can't get as much out of the rest of the programs as the director and the president want and meet that traditional 19.5% is because what's left after Social Security is not traditionally the level we've been living under. I will give you a rough number. I will guess it's between 3% and 5% of GNP different. That's huge. One point GNP, $30 billion – 1 point GNP equals $30 billion. So it's a huge difference. Now let me tell you the irony. We're shooting for $144 billion on Gramm-Rudman-Hollings. Our president says you can't touch Social Security. I will agree with the director. He's been put in that position by the other side unequivocally, but it's there. There is even a suggestion that we ought to take that entire fund and take it off budget – just not count it in your fiscal policy because it's a trust fund. If we literally did that today, the deficit is $15 billion higher than we're talking about because it has a surplus. Next year it's $25 billion higher because it's a surplus. The next year it's $40 billion higher. Now what that means is that the normal budget for defense, water and sewer, your mayor's revenue sharing that he wants, and our great national institutes of health, and add everything else you want, the rest of that comes in that budget that is not supposed to be paid for with that. And when we speak of traditional levels of taxation, you have the facts staring you in the face that I've just described and therein, as we wind this thing up, is literally the dilemma of your national government's fiscal policy, right? Plain and simple. We will never be able to give the president the amount of defense he wants. No way. They won't pay for it because the deficit will be too big and we can't raise the taxes for it. And the traditional level of taxes is right there, but a huge percent is going to Social Security and Medicare that was not there 15 years ago.

CHAIRMAN DWAYNE O. ANDREAS: We have reached our final moment. We have promised our guests that we would bring this to a timely end. First, I want to say to our distinguished speakers, Jim Miller and Pete Domenici, and to our distinguished questioners, Nick Brady and Bill May, many thanks for giving us this most enlightening and entertaining evening. I'm sure that we will all read the newspapers in a much more enlightened way in the weeks to come because of what we have heard. Now as is our tradition, this Steuben Apple has been adopted as a symbol of the Economic Club and we would like each of our speakers to accept one with our warmest thanks and expression of our appreciation for what you have done for us and for the club by being here this evening. Thank you very much. (Applause) Our meeting is adjourned.

End of Meeting