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CGC PAST LIVE EVENTS

INTERVIEW WITH JUDD GREGG AND ED RENDELL

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(MUSIC)

BRUCE:

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Well, good event, everyone. And Anne, thank you so much for the nice introduction. We'd like to say thank you to Anne and everyone here at the-- New York Society for Ethical Culture for-- hosting us this evening and letting us take advantage of this truly wonderfully rich-- auditorium. It's really fun for us to be here. So thank you again. And thank you for all the good work that you're-- you and your organization are doing.

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So what is tonight all about? Well, on the surface it's about entitlement reform, but really it's about demonstration. We seek to demonstrate

at Common Ground Committee that when it comes to public discourse there is indeed a better way. Now, all the polls that we see out there-- and I'm sure all of this resonates with all of you-- you know, it says that people are really tired of the tone that we are experiencing today and how it constrains our ability to go forward.

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And-- many people have given up hope, frankly, that we can change it. But at Common Ground Committee we have not. We think that the change indeed can happen. And-- so what-- what are we doing? We are demonstrating that we can engage in passionate but civil debate without partisan bickering. We can demonstrate by listening to different views, not just taking positions. We can use data and facts to guide our discussions, rather than use emotionally charged talking points.

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We can be alert to points of agreement, rather than seeking holes in our opponents' arguments.

And we can find common ground and make progress from it without compromising fundamental principles. Now, we believe these things can be demonstrated by both public officials and private citizens. And indeed, the private citizens part is particularly interesting for us, because one of the things that's been particularly gratifying about the work that we do is that we have heard about and we have actually seen people change the way they engage in the discourse that they pursue in their own lives as a result of coming to one of our events and seeing what is possible.

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And indeed, that's how big change happens. People change individually, one by one, and before you know it, everybody's following suit. And indeed, we hope that when you leave tonight that you too are inspired to embrace that very spirit. Now, speaking of tonight, we're very excited about our program, Common Ground and Entitlement Reform. It's a very thorny issue, but we have assembled a blue chip panel to explore it.

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Now, as we have from day one, we are partnering-- partnering with the *Christian Science Monitor*, the Pulitzer prize-winning international daily news publication. Now, why the *Monitor*, you might ask? Well, you really don't have to look any further than the *Monitor's* motto, which is, "To injure no man but to bless all mankind." And you know what? I think we could all agree that's the kind of motto we can really use today. Now, we're also honored to be supporting a recent initiative that the *Monitor* has launched called Think, Share, Do.

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And really, this is about gaining insight from either *Monitor* journalism or activities that the *Monitor* is involved in, like this event, that inspire you to think perhaps a little bit differently than you have up to this point. And then to share that insight with others. And then perhaps to actually do something about it and to make a difference to drive change. Now, the

Monitor's editor, John Yemma, is our moderator tonight. And I'm going to introduce him-- he's gonna have a couple of comments-- and then introduce our other panelists.

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Now, John became the *Monitor's* editor in 2008 after 20 years at the *Boston Globe*, where he ran the online news operation and served stints as Foreign Editor, Sunday Editor, and Political Editor. He has been a foreign correspondent, a Washington reporter, and he's covered economics, science, and culture during his 35 year career. He's a graduate of the University of Texas, and he has been a Reuter Fellow at Oxford University and a Sulzberger Fellow at Columbia University. It is indeed my great pleasure to introduce to you Mr. John Yemma. John? (APPLAUSE)

SENATOR JUDD GREGG:

00:04:48;24

Thank you, Bruce. Thank you, Anne. Thank you, all of you, for coming out tonight. I know that the weather was a little inclement earlier, so you may have had transportation issues. I-- I got

soaked myself. And-- one of our guests was stuck on the tarmac and-- at Logan for quite a while, but we've-- we're all here. And we have a very interesting program tonight. If you're not familiar with the format, you have been given this document.

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And this document is the-- it's basically what-- my colleague, Kraft Bell (PH), whom I'll introduce in a second, has helped us devise. And it's a way of staking out the issues on both sides and then trying to move toward common ground. And what we've-- what we've done by staking out the issues is we've-- we've attempted to sort of take the conventional wisdom on the left and on the right. But what we wanna do in the center is not be conventional in our thinking, but try to actually achieve some kind of-- a sense of where we can go and how we can-- how we can get things done.

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This issue of entitlements is one that-- you

know, if you think about it just at its most basic level-- you think about how you say the word entitlement, really. If you can say that you're entitled to something because you've paid in. It's-- it's your right. But then there's other way of talking about entitlements, which is that you're deserving and perhaps acting as though you're deserving, even though you aren't. And so it's a loaded term in many ways. And there are many ways of dealing with the issue-- that-- that take on ideological slant.

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But there are also ways of trying to come together to solve the problem. And the problem is pretty clear, I think. The problem is that entitlements-- as a percentage of the U.S.-- government-- budget have been growing ex-- in an extraordinary way since the Second World War, and they're up to about 50% of the-- of the budget right now. And-- it's-- it's one of those issues where on the one hand you may need-- we may need to have more revenue, and on the other hand we

may need to cut-- cut the actual payout of entitlements.

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Or there may be some fundamental reforms that can be enacted. So we'll be exploring that tonight with (MIC NOISE) our two guests. The-- the first is Senator Judd Gregg. Senator Gregg is currently the CEO of the Securities Industry and Financial Markets Association. And-- Senator Gregg was a U.S. Senator from New Hampshire from 1993 to 2011. He was Governor of the Granite State from 1989 to 1992 and a U.S. Representative from 1981 to '89.

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Joining him is Governor-- Ed Rendell. Governor Rendell w-- is-- Special Counsel to Ballard and Spahr and a news analyst on NBC, which you're probably familiar with that. He's been Governor of Pennsylvania from 2003 to 2011 and Mayor of Philadelphia from 1992 to 2000. And then joining me on the stage is Kraft Bell. Kraft is a management consultant and facilitator. He's

worked with governments and corporations, universities, generals, executives. Tonight, he's working with us.

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He's the creator of a performance enhancing software called WorkFrames that fosters problem solving and change management. And he'll be helping listen for areas where we've achieved common ground. And he-- he will be jumping in and-- showing on the screen-- areas where we think we have come together. And then finally, or actually at the beginning of the program too-- we're gonna go to-- my colleague Gail Russell Chaddock in Washington, D.C. She's gonna be linked by Skype.

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And you should be able to see her up on this screen. Gail is the Deputy Washington Bureau Chief of the *Monitor*, a veteran Congress watcher, congressional correspondent. You can see she's done cover stories in the *Monitor* on Nancy Pelosi and on John Boehner. She has a great historic

perspective. She has also served as Paris Bureau Chief and National News Editor of the *Monitor* and was a political science professor at Bennington, and-- Wesleyan, and Swarthmore. so-- do we have Gail linked in? I'd like to-- hey, Gail.

(UNINTEL) How you doing?

GAIL RUSSELL CHADDOCK:

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Hi, John. How are you?

JOHN YEMMA:

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Great. Gail, I thought we would go to your first just--

SENATOR JUDD GREGG:

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Well, first, you have to mention that Gail is actually from New Hampshire.

JOHN YEMMA:

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Okay.

GAIL RUSSELL CHADDOCK:

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Thank you, Senator.

JOHN YEMMA:

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Gail (LAUGH) is from New Hampshire. Gail, help us frame this discussion. I think maybe we should look at it in two ways, first historically and

then politically. Maybe historically we can look at that great-- expansion of entitlements from the Second World War till today. What's behind that? Is it just that-- politically it's always easier to grant a new entitlement? Or is it--

SENATOR JUDD GREGG:

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Usually.

JOHN YEMMA:

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--kind of a general sense in the American public that more should be done to help people who have needs? And then maybe next we can talk about politically, what the political will is right now to actually tackle entitlement reform.

GAIL RUSSELL CHADDOCK:

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I think if you-- if you go back to immediately after World War II, you're coming out of the Dust Bowl and the recession depression that left people literally starving. And so the sense of-- you know, the mood of the country, that government must do something, was-- a critical starting point. It also helped that in the election of 1934-- Republicans were routed. You

had, in effect, the biggest defeat for the Republican Party in the country's history for any party.

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So the Roosevelt started with really a capacity to frame something new without a lot of opposition. You saw the Republicans as Social Security came on the floor voting against it for procedural reasons-- almost unanimously. But when the final bill came up, less than a third of them would vote against it because it was just too powerful an argument given where the country was. Now, fast forward to-- December 1981, '82, '83. You have the Congress wrestling for two years with a set of numbers that show decisively that the trust funds are going to run out of money-- in July, just a few months.

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What to be done? Well, after failing politically, they set up a commission. The commission came up with some issues. Ronald Reagan and Tip O'Neill, you know, under the pressure of-- an urgent

deadline, agreed on a fix that was to last 30 years. And in effect, it did. We had cash-- positive-- from 19-- the trust funds were cash positive from-- '84-- until just about 2010. Where are we now? We don't have a one party system. We don't have a dictator. We don't have a massive depression.

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Nor do we have the conviction that they had in '81 and '82 that these funds were about to run out of money. Now, despite the work of people like-- Senator Gregg and Kent Conrad-- who together on the Budget Committee tried to educate people for years and years that, "A crisis is coming. Look at these charts. We must do something," there never was the sense of urgency comparable to that period in '83, until John Boehner cred it artificially, you know, be declaring that-- the debt limit would be raised unless we-- cut the deficit severely.

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That was a kind of political crisis that has now

I think lost its edge. And ironically, just to sum up (LAUGH) the political situation, we're in a situation where we have a Democratic President who, to the horror of a lot of his Democratic base, offered up some concessions on social security, a tweak in the cost of living adjustment that actually would over time be very significant. And it's, in effect, going nowhere. The budget that this is attached to is going nowhere.

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The sense of urgency is not there. The reports that the trustees gave out on Friday gave people, you know-- a breath for a minute. They're not going to run out immediately. It's not quite as desperate as it looked. But without that sense of urgency, it doesn't appear that it is easy or even possible to get entitlement reform seriously on the agenda without the kind of political stunt or trick that John Boehner tried that I think is not gonna be easy to do a second time.

JOHN YEMMA:

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But-- but Gail, we're also looking at a situation where the baby boom generation's retiring, where the-- call on entitlement and Medicare and in Social Security in particular is going to be increasing drastically in the years to come. At least that's what we think. There may be some moderation with-- (COUGH) the Affordable Care Act on Medicare, but-- that-- that sense of creating-- a crisis, of-- of having-- what is Rahm Emanuel's term, that a crisis is something that is an opportunity that never--

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(GAIL RUSSELL CHADDOCK UNINTEL)

JOHN YEMMA:

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--should be wasted.

GAIL RUSSELL CHADDOCK:

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Right.

JOHN YEMMA:

00:14:21;02

Is there-- is there anything that can get Congress you think to act short of a crisis? I mean sort of a mature outlook that would say, "Our generation, our children's generation is

going to be saddled with this problem if we don't take care of it."

GAIL RUSSELL CHADDOCK:

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You know, I thought so. Take the examples of-- Senator Gregg and Kent Conrad. Neither of them are in the Senate anymore. And in fact, you know, any measure of-- ideological difference between Democrats and Republicans it used to be that there was a center. There were people-- there were Democrats who were more-- conservative than some Republicans and Republicans more liberal than some Democrats. Right now that's now longer the case.

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And so not only did Reagan and Tip O'Neill have time. You know, the fix they came up with lobbed forward 45 years. It has yet to fully take effect. But the baby boom right now is upon us. We don't have 45 years. And so it's going to take somehow generating that sense of we need to act now. The sooner we act, all the numbers-- the sooner the-- we act, the less the pain for people

who are expecting a certain level of benefit. But we also have to generate a political culture that can talk to each other. And that's-- that is a very serious political problem. We don't have it right now.

JOHN YEMMA:

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Okay Gail, thank you very much. This is the-- this is the moment where we hope that that political culture will be talking to one another in the-- in the-- the-- persona of our two guests. So thank you very much for joining us this evening, Gail.

GAIL RUSSELL CHADDOCK:

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You're welcome.

JOHN YEMMA:

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So-- the next part of our program we'll-- we'll be working through the-- Common Ground-- agenda. And-- I just wanted to-- as we go through it, I think we wanna take a look at-- if-- if you've got it in front of you or--

KRAFT BELL:

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(UNINTEL) give 'em five minutes to introduce

their pieces?

JOHN YEMMA:

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Yeah, we'll go through the-- the very beginning of the-- of the-- agenda where we look at the realities, then we look at reform, and then we look at how to achieve the goals. But perhaps to begin with, each of you could give us-- sort of a five minute view of where you think we can go to reach common ground on this and what you think the-- what you think the big issues are. Senator, would you go first?

SENATOR JUDD GREGG:

00:16:46;13

Sure. Thank you. First-- thanks to Common Ground for putting this-- program together. I think it's critical that this type of a discussion occur. We've tried to energize it, myself and Governor Rendell, for quite a while as cochairman of a group called Fix the Debt-- which came out the Simpson-Bowles Commission, on which I served and which is headed up by myself, Governor Rendell, Mike Bloomberg-- and-- Alan Simpson and Erskine Bowles. And it's-- it's a very large group of

people who want a comprehensive agreement on getting our debt under control.

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And it's a pleasure to be here with Governor Rendell, who has been just-- a beacon of common sense in this debate and who I've enjoyed-- working with and, regrettably, (LAUGH) I don't think gonna find a lot of differences. There's gonna be an awful lot of common ground here. Not regrettably, but I mean it's gonna take the fun out of the program in some ways. We'll make it fun, right? You know-- I-- the way I describe this is this: I-- first off, Gail did an excellent job of framing the issue.

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And by the way, I-- she covered the Senate I think all the while-- years I was there, and she was extraordinary-- reporter in that she-- extremely in depth approach to the issue. She always knew probably more than the members of the Senate knew. And so it was always a little dangerous to have her walk-- walk down through

the tunnels with you because she'd ask you questions which you'd have to think about. But-- President of the World Bank Zoellick tells a story.

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He says-- about four months ago-- he's no longer president. He just retired a little while ago. He said about four months ago he was with the Foreign Minister of Australia. And the Foreign Minister of Australia said to him, "You know, the United States is one debt deal away from leading the world out of economic-- its economic doldrums." And that's absolutely right. The only thing that stands between the United States and a period of extraordinary prosperity, I mean extraordinary prosperity, is our fiscal policies right now.

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We are a nation on the cusp of-- of an explosion of economic growth, driven primarily by this shift in the energy paradigm, (NOISE) where for the first time in 50 years we are going to be an

energy exporter rather than importer, we're gonna have the lowest priced energy in the world. None of us competitors in the industrialized world will even come-- be able to come close to us. And as a result, that translates to the whole economy in an incredibly aggressive way. Everything is affected by energy prices.

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And you couple that with the fact that we have lots of liquidity in this nation. We're still the place where all the great ideas come from, whether Apple, Facebook, or my part of the country-- biomedicine. And we have entrepreneurial people. We're just ready to go and try things and take risks. So we're positioned. But what's holding us back is this very significant, systemic debt problem which we have.

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We're on a path, if we don't get our fiscal house in order, to the same outcome that we've seen Greece go through, Spain go through, Italy go

through, and France is gonna go through, which is that we've-- we are gonna add massive amounts of debt which we can't afford to pay off. And which means we will have to do something fundamentally damaging to our economy, like inflating it, and passing a problem onto our kids, which will lead to a lower standard of living for them.

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And it's just not right and it's not fair to do it. And the driver of this debt is entitlement programs. It's that simple. If you-- if you look at the whole s-- panoply of the graphs and charts, it jumps out at you. The three major programs are essentially driving the cost of the government (NOISE) and their-- that's Medicare, Social Security, and Medicaid. And they are a function of two events. One is the retirement of baby boom generation already re-- es-- mentioned, where we're gonna go from 35 million retired Americans to 70 million retired Americans.

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Doubling the retiree population of this country.

And it will-- and they will be fully retired technically by 2017. Although because of the times, many won't retire. And secondly, medical technology, which is simply exploding in cost, the medical s-- the cost of medical care. So we've gotta figure out a way to address the entitlement programs. And running in tandem with that is-- Governor Rendell will certainly mention-- and I-- and I totally agree with is we've gotta repair our tax system.

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We have to have a tax law in this country which generates a willingness to pay taxes and-- and incentives to create acad-- activity which generates taxes. (NOISE) And we need fundamental tax reform. Can we get the agree which the Foreign Minister suggested from Australia? Yes, we can. There's no question about it. Simpson-Bowles laid a template out for this. It is extremely doable. We're not talking big numbers here relative to the overall economy.

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We're talking already-- we're talking about \$5 trillion over 10 years. That's a lot of numbers. Big number, yes. But on a \$45 trillion base it's about 5%. So it's a very doable-- it's about 10%. It's a very doable number. Half of it's already been done, by the way. \$2.5 trillion has already been put into the pipeline. We need another \$2.5 trillion. That's what we should talk about tonight, how we get there. And I'm sorry to speak so long, but it's a big issue. (LAUGH)

JOHN YEMMA:

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Governor Rendell.

GOVERNOR ED RENDELL:

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Well, first, let me say Judd makes an incredibly important point. I hear people on my side of the aisle say, "Well, we can't do entitlement reform. We can't do anything that smacks of austerity because it'll hurt the economy. We've gotta keep pumping money into the economy." Well, there's something to that. And if you look at Simpson-Bowles, the way it's structured, the-- it's a long term debt deal that phases in gradually. In

fact, Simpson-Bowles recommends spending money early to fuel short term economic growth.

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But what my side doesn't realize is if we're gonna have long term economic growth we have to resolve this problem. Because it is the business community, the world business community that is looking to see whether this country has the-- the ability to do a political solution that will give us a stable course to reducing our debt to under 70% of GDP. We think actually closer to 60% of GDP. If we do that, if we put it in place, even if the cost cutting is down the road, if that plan is locked in, it's gonna unleash a lot of money that's on the sidelines now.

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Judd spoke about it. I absolutely couldn't agree more. The Campaign to Fix the Debt has over 200 of the nation's top 1,000 corporate leaders as part of it. And they're doing it not because it'll help them. In fact, in many ways it may increase some of the taxes they pay or remove

some of the loopholes, but they're doing it because they want that stability to-- to be able to get off the sidelines and invest in real growth. So that's a very important point. It's also important.

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You had a lot of debt deniers who say, "Well, g-- look, revenues are up. Healthcare costs are down. We don't really have a problem. Look at the next 10 years. We don't really have a problem." The GDP-- even with the sequester, the GDP increases just a couple of points, from 73%, the amount of percentage of debt to GDP, to 79%. What's the big deal? Well, the big deal comes in the second 10 years and the third 10 years when because of the explosion that Judd referenced it's gonna go off the charts. And by 2050 if we don't do something we could have debt that's 200% of GDP. And J-- Judd, what's Greece's debt compared to its GDP?

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(Overtalk)--

SENATOR JUDD GREGG:

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About 175%.

GOVERNOR ED RENDELL:

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About 175%. We could be right there, folks. Right there. And your grandkids will have no shot at having a high quality of life. Now, as far as the format (LAUGH) tonight, this is not a great format. Judd and I are cochairmen of the Campaign to Fix the Debt. We agree on what should be done. I said-- I tried to talk my way out of this, especially when I found out that the game seven of the Heat versus the Pacers was tonight.

(LAUGHTER)

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I told the-- the organizers, "You want Bernie Sanders to represent (LAUGH) my side. You don't want me. Judd and I agree on most stuff." But I will try to play the role of my party and the base of my party a little bit. It's not necessarily something that I agree with, but I'll tell you their perspective. But the last thing I wanna say, and then we'll turn it over to the individual issues, is you can't just look at entitlement reform.

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If we're gonna fix the debt, fix this problem, it has to be in the context of everything else. Because if I were king of the world, I would solve the Social Security problem easily. Just uncap it. Payroll deduction. Pay right up to the - every nickel you earn you pay. Payroll is now capped at the first \$110,000 in income. And I would means test it. Solved. Problem solved for 50, 60, 70, 80 years. But that's not feasible. That's not finding common ground. That's my solution.

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There is no king in America. No party controls. We have to find common ground. And common ground means tradeoffs. And if tradeoff is chained CPI, which by the way is actually every economist will tell you it's a more accurate way of pegging inflation than what we have now, if chained CPI means that some people will get less in-- in-- in terms of benefits, as long as we protect the poorest and the oldest, which Simpson-Bowles

recommends, then it has to be.

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Because the political realities mean that we have to do something. It's why you saw President Obama talking about chained CPI. Revenue has to be a part of this. We believe that very carefully. So the people who believe that entitlements should be cut severely they can't get all of that without agreeing to raise revenue. There are-- the proposal that Governor Romney made to eliminate the tax expenditures that help high wage earners. The deductions-- (UNINTEL) deductions to cap it at a certain level. Cap it at \$25,000. Cap it at \$40,000.

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That would bring in over the course of 10 years over a half of a trillion dollars. And would anybody suffer? I-- I don't think so. So the other side's gotta look at things like that as well. So you can't just find common ground within the boundaries of entitlement reform. You've gotta find common ground within the boundaries of

everything that affects budgeting.

SENATOR JUDD GREGG:

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Well, let me just say I'm outraged, outraged that you'd express such common sense (UNINTEL).

(LAUGHTER)

GOVERNOR ED RENDELL:

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I'll start playing the role of Bernie Sanders, so we'll be in good shape. You won't have to apologize (UNINTEL).

JOHN YEMMA:

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Governor, before we move on-- could you help us a little bit with chained CPI? Tell-- give us a definition of it. Quick-- couple sentences.

SENATOR JUDD GREGG:

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Chained CPI's really pretty simple. What it essentially says is that it factors in human-- the human response to price-- price increases. On the present CPI-- the Labor Department will look at the cost of, let's say, bread. And if it goes up 500%, they'll assume a 500% increase in CPI. Well, you know if bread goes up 500% people are gonna stop buying bread. They're gonna buy

something else. So chained CPI reflects human reaction to a major price spike and is a much more accurate way to get the CPI correct.

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And it will have virtually no impact on present day retirees because, for all intents and purposes, there is no projected CPI (LAUGH) going forward because we're at the flat number. There is no inflation. Where it works and why it's so important is in the second 10 years and the third--

GOVERNOR ED RENDELL:

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Third 10.

SENATOR JUDD GREGG:

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--10 years. It's-- you know, Einstein said that the most incredible thing in-- in the world was interest because it compounded. Well, chained CPI compounds and it compounds really aggressively in, like, the third 10 years. It's a multi-- multitrillion dollar event. And-- and it's critical that we move in that direction.

JOHN YEMMA:

00:29:15;17 Okay. Great.

SENATOR JUDD GREGG:

00:29:15;24 It's an honest way to get an accurate CPI.

JOHN YEMMA:

00:29:19;02 Okay. So-- let's--

GOVERNOR ED RENDELL:

00:29:20;05 It al-- it also has the effect of reducing some
spendings programs as well.

SENATOR JUDD GREGG:

00:29:24;02 It raises taxes too.

GOVERNOR ED RENDELL:

00:29:25;11 And it raises taxes as well. So it raises
revenue, reduces spending, reduces entitlements
to a more accurate level.

JOHN YEMMA:

00:29:33;01 Okay. Let's-- let's move on through the program,
then. Kraft, help me with this a little bit.
We're gonna-- if-- if you wanna jump in to do any
explanation. The main thing is that there are
three areas that we're gonna look at. And the th-
- where we really wanna go is the third area, how

to achieve these goals. So first, we're gonna look at the current realities, just a general sense-- from-- from your points of view of how we're doing on the-- on how or what entitlements mean in terms of impact on wellbeing, on the budget, and on the deficit.

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And then the second will be goals for reform, security and fairness-- deficit reduction, economic growth. And then-- then the real payoff will be the-- how we actually achieve these goals and-- and where we can move with that. So-- just starting with the current realities. When you think about this-- on one side there's a view that-- the most vulnerable need to be protected by entitlements. And I-- I think we probably have a consensus on-- on that being the case.

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But on the other side-- and I think you did a good job of framing this up-- we wanna prevent economic disaster. Because if-- if entitlement reform goes on unchecked, it starts to crowd out

other kinds of spending, infrastructure. We have bridges collapsing almost every day in America. Defense spending. Education. So looking-- just looking at those two areas, I-- I think I sense that there-- that you have a general feeling that we've gotta keep the basics of entitlement-- of entitlements because we've gotta have that safety net for Americans, especially during bad economic times but that we've gotta have some degree of control over spending.

GOVERNOR ED RENDELL:

00:31:15;01

I think that's a very accurate-- assessment of it. Right now we-- in 2012 we paid \$454 billion of interest on our debt, more than the federal government pays for education, infrastructure, transportation, agriculture, and housing. Think about that. And that's only gonna grow, and grow, and grow, and grow if it's unchecked. So I think you-- you've sort of framed the issue of where we need to go and why we need to go there.

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And we can do it. If you look at Simpson-Bowles,

Simpson-Bowles protects most of the domestic spending that's really earmarked for the poorest and oldest and disabled Americans, and even unchained CPI. It builds in protection for the oldest and the poorest people receiving social security. We-- we can do it and still have a solid safety net.

SENATOR JUDD GREGG:

00:32:07;24

Yeah. It's a straw dog to set them against each other. The-- the low income recipient of entitlements and the need to control the rate of growth and-- of entitlements. You can easily control the rate of growth of entitlements. You're not talking about cutting anything here, by the way. You're talking about controlling the rate of growth of entitlements without affecting any moderate, low income individual in any significant way.

00:32:33;01

What you need is lead time to put in place the changes. And what Simpson-Bowles suggested and what people who think about this in-- in some

depth suggest is that you want the economy-- you don't want the economy to be suddenly broken by a significant reaction of cutting on entitlements or even on discretionary spending. And the sequester is--

GOVERNOR ED RENDELL:

00:32:58;20

Right.

SENATOR JUDD GREGG:

00:32:59;22

--extremely counterproductive for that purpose. What you want instead of that is the sequester should be replaced by entitlement reform which kicks in five, 10, 15 years from now. We don't have the immediate problem that the Europeans have. We have a problem which we know is coming at us five, 10, 15 years from now. We know that if we don't correct our problem, we will go bankrupt at some point in the future. The markets will lose confidence in our currency because they will know that to get out of this we're gonna have to inflate it.

00:33:31;24

And we'll have a financial crisis. Now, when that

comes, nobody knows 'cause nobody ever knows when the market's gonna react. But it's clear it's not gonna come tomorrow. So-- but if we put in place a proposal like Simpson-Bowles, which is comprehensive and has both entitlement reform and revenues, then the markets will look at that and say, "Okay, they got their house in order." But it won't affect anybody in a significant way immediately. It will give people time to plan for the changes.

00:34:00;04

For example: Simpson-Bowles suggested that we raise the age of retirement by two years. Do you know how long it'd phase that in over? 60 years. Nobody over the age of 15 was gonna be affected by this. You listen to the AARP on this subject, you would've thought tomorrow. Simpson-Bowles was going to slice everyone off the rolls who was under age 69 because they totally and dishonestly projected refo-- talked about it. The politics of this are what kill it. The well poisoners, as I call them, both on the Left and the Right take

issues which should be discussed in a comprehensive and thoughtful way-- and hyperbolize them into single phrase that they use them to raise money with. And that's their only purpose, is to raise money, by the way.

JOHN YEMMA:

00:34:44;01

Senator-- just-- just to follow up on that. And-- again, I'm-- I'm asking this-- I'm not expecting you to carry water for the far Right of your part. But the-- members of the Tea Party-- a lot of them believe that entitlements are counterproductive, that-- that somehow they create this culture of dependency, you know, from food stamps to Medicare to-- even the Affordable Care Act. Is there-- is there any sense-- is there anything to that, other than-- I mean is that just a single issue? Or is there any sense that there's--

SENATOR JUDD GREGG:

00:35:17;08

I-- I don't think there's any significant re-- part of the Republican Party that thinks that Social Security isn't a great program.

GOVERNOR ED RENDELL:

00:35:24;11 Right.

SENATOR JUDD GREGG:

00:35:24;24 That thinks that Medicare isn't a strong and important program. That thinks that Medicaid, if it were done correctly and turned over to the states, people like Governor Rendell who knew how to run a program, versus having the federal government tell you how to do it, isn't a very strong program. Obamacare, that's another subject. We-- we haven't even stepped onto the ground of Obamacare yet for what it's gonna cost this country and how it's going to negatively impact the delivery of healthcare, in my opinion. But that's a subject for another topic. If-- but if you don't wanna get common ground, it's probably--

KRAFT BELL:

00:35:51;21 What we'd like to do--

SENATOR JUDD GREGG:

00:35:51;24 --a pretty good subject.

KRAFT BELL:

00:35:52;18

If we could just-- (LAUGHTER) if we could just put this on the screen. The-- I'm trying to capture, as you go along. And you can see it on the screen, there, kind of the key things that you've been talking about. 'Cause we wanna, when we leave here, to be able to say, "Here are the common things that we've talked about." So you talked about protecting the vulnerable, yet-- limiting the rate of growth and the lead times over change.

00:36:13;04

That abrupt changes are counterproductive. Handle the second and the third-- 10 year of issue (MIC NOISE) and provide the staba-- stability that-- fosters growth. Phase in change over many years. Don't let single phrases drive the discussion when the perspective can be gained. Is that a summary?

GOVERNOR ED RENDELL:

00:36:29;07

Good job. You got 'em. Good job.

JOHN YEMMA:

00:36:31;04 Ready-- ready to sign--

KRAFT BELL:

00:36:31;19 If so--

JOHN YEMMA:

00:36:32;04 --sign on the dotted line.

KRAFT BELL:

00:36:32;24 So we're-- we're just talking kind of on the higher level of the current realities. Is there any other-- you know, you-- you talked earlier about--

SENATOR JUDD GREGG:

00:36:39;10 No, I think there's--

KRAFT BELL:

00:36:39;24 --kind of the balance--

SENATOR JUDD GREGG:

00:36:40;00 --I think there's agreement that you need to replace the sequester, which is counterproductive to the exercise, although it's a forcing mechanism, with significant, comprehensive reform of entitlements and the tax laws.

KRAFT BELL:

00:36:54;19 And the other one I think you mentioned was how--
how does taxes fit into this? That you talked
about tax reform as a parallel thing--

GOVERNOR ED RENDELL:

00:37:01;16 Well--

KRAFT BELL:

00:37:01;24 --going on.

GOVERNOR ED RENDELL:

00:37:02;17 --tax reform is absolutely necessary 1) because,
in basic fairness, it's necessary, but 2) it's
necessary to generate sig-- significant
additional revenue. Of the \$2.5-- trillion that's
left to be raised I think the general agreement
is two, two and a half in spending cuts, counting
entitlements, that's one in terms of revenue
increases. And--

SENATOR JUDD GREGG:

00:37:31;18 Well, the Simpson-Bowles proposal was \$4 trillion
over 10 years. \$3 trillion of that came in
savings and \$1 trillion came through tax reform.
Because Simpson-Bowles did what was caused zero

base tax reform where it essentially reduced or dramatically eliminated almost all the tax deductions. That created \$1.1 trillion of revenue a year. A trillion of that was taken and reduced rates. So the rates under Simpson-Bowles were 9%, 15%, and 23%. That was the top rate. Or maybe it was 25%. And then \$100 billion of that every year was taken to reduce debt. So over 10 years it was a trillion dollars of debt reduction. And that's the type of template that I think you need to-- if you're gonna be successful in this exercise.

GOVERNOR ED RENDELL:

00:38:19;19 Although, I think we all agree that that's risen to \$5 trillion.

SENATOR JUDD GREGG:

00:38:23;14 Right. The number now is \$5 trillion.

GOVERNOR ED RENDELL:

00:38:24;24 The number now is \$5 trillion.

SENATOR JUDD GREGG:

00:38:25;24 Not four. That's two years ago it was four.

JOHN YEMMA:

00:38:28;04 Okay. Shall we move on to the goals--

KRAFT BELL:

00:38:30;24 Yeah.

JOHN YEMMA:

00:38:31;19 --of reform? So let-- I think we've already touched on some of the goals of reform. But, you know, we're trying to balance prudence, fiscal prudence, with fairness. Governor, can you say something about how you do that? How-- how do we make sure that we-- that-- I mean is it just about revenue generation and about controlling spending through-- or controlling entitlements through different mechanisms, such as chained CPI? Or is there-- is there some other fundamental reform that has to take place?

GOVERNOR ED RENDELL:

00:39:00;14 Well, sure. I-- I mean I know this is an expression that everybody uses and everyone says, "We're gonna X millions of-- billions of dollars in government s-- efficiency, cutting out waste, fraud, and abuse." And that's usually bologna. But government inefficiency and bending back the healthcare cost curve are very, very important

elements. So I think the-- a third way is to make government more efficient and effective. For example: One of the things-- (MIC NOISE) and I don't share Judd's dread. Wasn't there a move, Judd--

SENATOR JUDD GREGG:

00:39:39;24

Judge Dredd. (LAUGHTER)

GOVERNOR ED RENDELL:

00:39:40;20

I don't Judd's dread about Obamacare so much, but I do believe there were a lot of things left on the table by Obamacare. And a lot of those were cost cutting. Let me just give you one quick-- quick example. In Pennsylvania before-- when President Bush was President, I actually went up and spent a day with Governor Romney with my staff 'cause we were intent on duplication Romneycare for Pennsylvania 'cause they didn't think there would ever be national health insurance.

00:40:07;16

And we looked at a number of areas. And we looked at one area that Governor Romney had sort of

touched on but hadn't done much: Hospital acquired infections. In Pennsylvania 2,500 people a year die of hospital acquired infections. It costs the healthcare delivery system in Pennsylvania \$3.5 billion a year. The average hospital stay in Pennsylvania is \$30,000 for the average hospital spay (SIC). If you get a hospital acquired infection it's \$150,000. And all that cost-- the hospital doesn't eat any of it-- gets passed on to the providers or the individuals.

00:40:46;12

So we put in some very strict rules and strict oversight on hospital acquired infection and we cut \$260 milli-- million out of the cost of hospital acquired infections in the first year. That's a 10% cut. Now, apply that across the nation and you've got real savings. Well, why wasn't that part of the Affordable Healthcare Act? And there are many, many other instances. There are many other ways to drive competition.

00:41:15;05

I think the-- the-- the-- the exchanges are a good way to drive competition, but there are other ways to drive competition that we left on the table. So government efficiency, government savings, real stuff. Not the BS that politicians talk about, but real stuff I think has to be part of the equation as well. There's gold in that.

JOHN YEMMA:

00:41:39;20

Okay. Senator, do you see something similar to that?

SENATOR JUDD GREGG:

00:41:42;24

Yeah, I just want-- wanted to go back. You said \$2.5 trillion in spending cuts and-- and a trillion dollars of tax enhancement. Enhancement's-- a hot button word. It's not enhancement. It's tax reform. The-- there is no question that--

GOVERNOR ED RENDELL:

00:42:00;04

And it's not-- sorry if I inter-- interrupt. It's not loopholes, it's tax expenditures. Loopholes by any other name.

SENATOR JUDD GREGG:

00:42:10;08

That's having a tax law that incentivizes people to invest rather than avoid taxes. The-- the-- this whole issue of healthcare is at the essence of how you get the federal deficit under control, how you get the federal spending under control. It's incredibly complex, unlike Social Security which only has four or five moving parts and which Ed and I could fix in 15 minutes.

GOVERNOR ED RENDELL:

00:42:32;24

Right.

SENATOR JUDD GREGG:

00:42:33;19

Really. Literally. Everybody knows how to fix it, it's just the politics that keeps it from being fixed. Healthcare is a constantly moving target. It's an incredibly complex matrix of moving parts, and it's driven by-- the costs are driven by two things: The dramatic aging of our population and the explosion in technology in the healthcare industry. The fastest growing demographic group in America day, do you know what it is? It's people over 100 per capita.

People over 100. Second fastest growing demographic group in America today.

GOVERNOR ED RENDELL:

00:43:09;01

90.

SENATOR JUDD GREGG:

00:43:09;21

People over 80. And those folks can be expensive. And you've gotta figure out a healthcare system that can deliver quality healthcare with-- to them without rationing. And so it's a real challenge. There's a lot of really good work being done, but it's coming from the bottom up. And one of the problems with Obamacare is it's-- it was put together by a bunch of staffers in Washington who thought that they could fix things from Washington top down because they were smarter than everybody else.

00:43:38;24

Well, they're not. Most of the really good ideas in healthcare are coming from healthcare providers, provider groups. There's a group-- a consortium up in Han-- that's centered out of Dartmouth which involves the Mayo Clinic, and

Baylor, and-- major hope centers, Salt Lake City, Pittsburgh. There are about 30 hospitals. They cover about 70 million patients. They've been studying for years the-- how-- how procedures are.

00:44:11;24

And taking just a simple procedure like a knee replacement across these hospital groups, which are the best in the country and technically the most efficient in the country-- they're not-- they're not factories that are trying to make money-- a knee replacement can cost-- can vary from \$2,000 to \$20,000. But the outcomes would be the same. So what they're trying to do is through sta-- their statistical analysis and setting up procedural-- procedure-- protocols, figure out how across the system you-- they can get the \$2,000 delivery as versus the \$20,000 delivery.

00:44:49;00

They also come up with a very unique approach which I think is really the direction we have to do in Medicare. Most Medicare controls are top

down and they're driven by the OMB, which will only score a top down approach. Top down I mean you cut the doctors 10%. Or you force patients-- recipients of Medicare to have their prem-- premiums increased. Those are top down. They're very inefficient and they don't produce results. What this consortium has come up with is what they call a withholding approach where they essentially say to a hospital system, "Okay.

00:45:19;09

"We're gonna pay you 80% of the cost of this procedure 'cause we know that that's about what it really should cost. And to the extent that you get your costs down towards that 80%, we're gonna give you part of the 20% you missed." So it's an incentive. It's a carrot rather than-- than a club. And it's a much better way to approach-- approach it. But all this is evolving constantly. It's-- it's moving all the time. And what we need is more flexibility out of Washington to allow the legitimate health providers in this country to pursue options and opportunities and states to

take control over Medicaid.

GOVERNOR ED RENDELL:

00:45:54;24

And no question what Judd said is-- is correct. But talk about common ground. What we need to do in-- in-- in this is to find ways to amend Obamacare. I mean this idea, this exercise that the Republicans in the House go through, talk about wasting money. It's, what, 38 times they've repealed Obamacare? Ridiculous. But the President should reach out and say, "Look, I know there are some things that can be improved. There are some changes we can layer in. There are some cost savings that we didn't have time to put in."

00:46:27;14

Let's open it up to a real discussion not just with the Republicans in Democrats, but let's bring in some of those healthcare professionals and let's find a way to get the individual to have a little stake in the game. I mean if you've ever seen a senior citizen go to the supermarket, they'll have a magnifying glass to check the prices, and then when they checkout they'll take

out the receipt and make sure every item's included in the bag.

00:46:53;23

Yet they'll leave a hospital without even bothering to look at a bill. No stake in the venture. So there are so many things we can do. And we need to have a process which opens up and changes and amends with the best ideas that are out there. The President shouldn't have pride in authorship. The Republicans should understand that some form of the Affordable Healthcare Act is here to stay. That would be common ground that would actually produce some positive results.

JOHN YEMMA:

00:47:23;00

Great. Kraft, we have a summary now. (CLEARS THROAT)

KRAFT BELL:

00:47:27;19

Yeah. If we just look at-- you went through-- quite a lot of ground fairly quickly. So if we could put it up on the screen, we have-- government efficiency and bending the healthcare cost curve. Cost cutting. For instance: The

hospital acquired infections is part of the healthcare improvement. Healthcare is crucial but very complex with aging population and healthcare costs.

00:47:48;13

Bottom up improvements work better than top down, staff driven change. Bottom up specific healthcare efficiencies that are being demonstrated in the medical profession. The top down is inefficient. Shared-- savings-- is a better way that comes with flexibility-- from the healthcare providers. Typing real fast here. Sorry.

GOVERNOR ED RENDELL:

00:48:11;14

It's all right, Kraft.

KRAFT BELL:

00:48:14;24

And-- the states, not just the healthcare providers. And that's where the controls should be, like in Medicare. Social Security you talked about could be fixed with the CPI reductions. And then five ways to amend Obamacare, you know, make it work, get a broad consensus, provide

incentives, and the participants have a stake in the outcomes. Is that--

GOVERNOR ED RENDELL:

00:48:33;24 It's (UNINTEL)--

SENATOR JUDD GREGG:

00:48:35;16 Well, social security-- requires more than just a CPI adjustment, but--

00:48:40;06 (OVERTALK)

GOVERNOR ED RENDELL:

00:48:41;03 It requires more-- it requires probably, again, to ta--

KRAFT BELL:

00:48:44;24 You-- you were saying it was simple--

JOHN YEMMA:

00:48:45;24 It's simpler but not--

KRAFT BELL:

00:48:46;19 --compared to the others. So I was trying--

SENATOR JUDD GREGG:

00:48:47;18 It is simple compared to the others.

00:48:48;11 (OVERTALK)

SENATOR JUDD GREGG:

00:48:49;24 CPI isn't the only action.

GOVERNOR ED RENDELL:

00:48:52;23

I think we do have to-- if not totally uncap the limit on payroll deduction, at least raise it. I think we've probably gotta increase the age as well. (MIC NOISE) Social Security was never meant to cover 20 years of life.

KRAFT BELL:

00:49:08;03

It's uncapping the--

SENATOR JUDD GREGG:

00:49:10;01

I think-- I think you probably just put down there four or five actions needed, rather than getting specific. But there are four or five things. And raising the bend point-- changing the bend points is one of them, which is means testing. And CPI is one of them. Raising the age is one of them. But raising probably the tax rate on-- to some per-- higher percentage is probably-- of income is probably one of them. It's just doable. (UNINTEL). It's very, very doable.

KRAFT BELL:

00:49:40;08

Okay. Thank you.

JOHN YEMMA:

00:49:41;01 So Kraft, I'm gonna suggest that maybe we--
instead of doing-- an overview of three, we move
on to--

KRAFT BELL:

00:49:46;20 Go into the detail.

JOHN YEMMA:

00:49:47;22 Yeah. We'll go into the details. So now let's--

KRAFT BELL:

00:49:49;09 Okay.

JOHN YEMMA:

00:49:50;14 Pardon?

KRAFT BELL:

00:49:50;19 Go ahead.

JOHN YEMMA:

00:49:51;18 Now let's try to-- to drill down on each of
these-- areas, say social security. I mean this
is really what we're talking about here, the--
the need to kind of get specific, right? On
social security, Medicare, Medicaid, and-- to the
extent that we can on healthcare only in the-- I
mean in-- I realize that by bringing the

Affordable Care Act into it it complicates things. But-- when you look at the-- the two polls here-- one side sees the program's-- as essential to diminishing poverty among the elderly.

00:50:24;12

Social Security and Medicare in particular. I mean these were terrible problems before these programs came along. And they helped the poor and the uninsured, especially during economic downturns. On the other side, the growing costs impairs their quality, promote dependency. Maybe that's not as big an issue-- Senator, as-- as-- we had assumed. But-- it impairs their quality and it crowds out private sector spending. So just looking at, say, Social Security-- we've touched on some of the common ground.

00:50:56;07

Do you-- is this a place here, Kraft, do you think maybe we could-- we should look carefully at the individual ways of working on Social Security? Which we (UNINTEL)--

KRAFT BELL:

00:51:05;24 Yeah. I think if-- if--

JOHN YEMMA:

00:51:06;13 --captured in that--

KRAFT BELL:

00:51:07;02 --if they can go ahead and talk through that, I can capture it.

SENATOR JUDD GREGG:

00:51:08;22 All you have to do is adopt the Simpson-Bowles position. (UNINTEL) Bowles made Social Security solvent for 75 years. Did not do it in the context of debt reduction. (MIC NOISE)

JOHN YEMMA:

00:51:16;19 Okay.

SENATOR JUDD GREGG:

00:51:17;05 It is a sidecar and it had I think four basic elements. One was change the CPI. One-- one to change CPI. Second was raise the age. Third was change the bend points, and fourth I think it-- it may have raised to some degree the-- the number at which the-- the C-- the Social Security tax kicks in-- kicks out. It didn't lift--

00:51:38;15

(KRAFT BELL UNINTEL)

SENATOR JUDD GREGG:

00:51:39;11

--completely.

JOHN YEMMA:

00:51:41;10

What was the third one of those you said?

KRAFT BELL:

00:51:42;14

Yeah. You said change the what points?

GOVERNOR ED RENDELL:

00:51:44;04

Bend points.

KRAFT BELL:

00:51:44;13

The--

SENATOR JUDD GREGG:

00:51:45;01

Bend points. That's called means testing.

JOHN YEMMA:

00:51:47;02

Okay. Okay.

GOVERNOR ED RENDELL:

00:51:51;24

Yeah. Whereby means testing Social Security. When I was a young man, I ran for governor the first time and got clobbered. But I was-- talking to one of my best contributors, a man by the name of Bill Fischmann, who started ARA, the worldwide food service country-- company. And he had just

turned 65. It was my bad luck that a month later I went to see him to try to get him to write me a big check for governor.

00:52:16;10

And he was so irate because he had gotten his first Social Security check the month before. He sent it back to the federal government saying, "I make \$47 million in dividend income and in-- in-- my stock options. \$47 million. I do not need this. Apply it to some other use." So he sent it back and they said, "We have no ability to-- to-- do that. You have to take it. You have to cash it. You'll be committing-- not-- a criminal offense but some offense if you don't cash the check." He-- was furious. I couldn't get him to concentrate on a thing. Well, why should someone who's (LAUGH) getting \$47 million a year in income get Social Security? It's ridiculous.

JOHN YEMMA:

00:52:59;09

But-- but means testing is one of those third rail issues, isn't it?

SENATOR JUDD GREGG:

00:53:02;10

Well, it is for the AARP because Social Security was conceived as an insurance program. The theory was that you would pay a premium throughout your working life and then you'd have a right to a benefit structure.

GOVERNOR ED RENDELL:

00:53:16;20

Well, it would be easy to craft it though, Judd. You say if that person is getting \$47 million (LAUGH) a year in income, if his income falls below a certain level, he gets not only the yearly supplement but everything going back to when he turned age eligible. If that ever happened. I mean so that's the way you would--

SENATOR JUDD GREGG:

00:53:34;20

Well, I'm sure it could be crafted. But I'm just saying that-- that the philosophy behind why Social Security has never been fully means tested is not an income transfer event. It is not seen as an income transfer.

GOVERNOR ED RENDELL:

00:53:47;01

Right.

SENATOR JUDD GREGG:

00:53:47;22

Is-- it was an insurance program. And I think there's a lot of historic precedent for trying to keep that differential.

GOVERNOR ED RENDELL:

00:53:56;18

But-- but it's interesting. Almost all of these problems-- we always say they're-- it's not rocket science. And it isn't rocket science. When-- raising the Social Security age came up, Nancy Pelosi, who I have an enormous amount of respect for. I think she's done some wonderful things in her career and has helped this country immeasurably. When Nancy though reacted the way our base always reacts and said, "Well, what about that woman who's a chambermaid at a hotel and has spent 40 years making up other people's bed and has a bad back. You're gonna tell her she has to work two more years?"

00:54:32;18

Well, that's a good point. We could do a carve out based on income. And if your income was below a certain amount for the last 10 or 15 years,

then you get it at the old age factor. That would be-- a small enough slice that you'd still get most of the benefits for it. So if people are good willed, try to work on problems together and not (CLAP) react, as Judd said, with slogans, I think all of this is doable.

KRAFT BELL:

00:54:59;24

Okay. So let's just go back for a second. Simpson-Bowles is out there. All right? So if we know the answer, then what's the question? The question is, "How do you get people to take what's an obvious answer and work it through?" I mean so it's, like, where's the common ground on how we would deal with that?

SENATOR JUDD GREGG:

00:55:18;11

Well, you need leadership. It's that simple. You need to be able to give members on both sides the cover they need to make the tough votes on Social Security when they're going to be facing attacks from people who are totally irresponsible on the issue. And Social Security is so easily res-- resolvable that-- substantively that the only

thing that is missing is the politics that are necessary to resolve it. And the politics aren't there because nobody's willing to stand up to groups that use Social Security either as a primary political weapon or a primary funding res-- raising.

00:55:59;05

(OVERTALK)

JOHN YEMMA:

00:55:59;14

Wasn't Simpson-Bowles originally supposed to be like the base closing commission? It was gonna be one of these-- one of these (MIC NOISE) commissions that would be above politics? What-- what happened?

SENATOR JUDD GREGG:

00:56:11;08

It lost that statutory impurture (PH)-- in a vote in the Senate, and so it became a presidential commission without any executable procedural requirement. However, it was followed by the supercommittee or the special committee which (NOISE) did have the statutory right to take by fast track a proposal to the floor of the House and the Senate and have it voted on with 45 votes

and pass. But the special committee or supercommittee-- which was chaired by-- Senator Murray and-- Congressman Hensarling-- did not reach an agreement 'cause they were firing real bullets, I guess.

JOHN YEMMA:

00:56:56;22 Yeah, maybe so.

00:56:58;08 (OVERTALK)

KRAFT BELL:

00:56:58;24 Would you agree with what-- Bob Joel said on Fox News the other day? He was-- they had an interview with him, and his basic premise was that the cover issue you just talked about is the most crucial. 'Cause he said he would put 'em-- put 'em in a room and he'd say, "Okay, here's where we're headed. You guys figure it out. And when you get done with this, I'll protect you and your cons-- you know, with the constituents."

SENATOR JUDD GREGG:

00:57:18;20 Yeah. Social Security-- that's a classic example of it. You have to have the President supporting a proposal (BURP) which will change CPI, which he

has done, and will allow the age to be increased. And that gives everybody cover to vote for that because he's a Democratic President.

GOVERNOR ED RENDELL:

00:57:38;08

And in return, you've gotta say to the Democratic base if this ever is gonna work, President Obama has the toughest task of all. Everyone says John Boehner's gotta deal with his caucus. Well, John Boehner doesn't have to get 50% of his caucus. We can pass it just as we passed the fiscal cliff with 75 Republicans voting for it and 170 Democrats voting for it.

00:58:00;04

What President Obama's gotta do is much tougher. He's gotta (SMACKING HANDS) go into the heart of the Democratic Party and say to them, "Look, the Rolling Stones said it best. You can't always get what you want. But if you try sometimes, you'll get what you need." (LAUGH) And, you know, we've gotta solve this problem. And so we're gonna give on Social Security a little bit, we're gonna give on Medicare a little bit, we're gonna protect

vital domestic programs, we're gonna protect the-
- the most vulnerable recipients of Social
Security and Medicare, and we're gonna get
revenue.

00:58:30;24

And we're gonna get revenue from the people we've
been talking about getting revenue from all the
time, not from the middle class. How many people
in this room-- how many people in this room claim
more than \$20,000 a year in deductions,
charitable deductions? Raise your hand. And this-
- my guess is a very affluent cross-section, and
four of you raised your hands. So we'll making
it \$40,000. (LAUGH) But that's what I'm saying. I
mean we can do this, but it really does-- Judd
had it absolutely right. It takes leadership. And
the ball is in the President's court.

SENATOR JUDD GREGG:

00:59:06;15

Well--

GOVERNOR ED RENDELL:

00:59:06;24

The ball is in the President' court.

SENATOR JUDD GREGG:

00:59:08;00

I might have a bit of a difference on the revenue side, but relative to so-- Social Security, I don't have a difference (BURP) of opinion. And-- this is-- it's really discouraging that this issue can't be resolved. And-- and, you know, the way we did it in Simpson-Bowles is we took it out of the deficit debate. I mean we pulled it out of the deficit debate. We didn't use anything we did in Social Security for the purposes (UNINTEL) debt, addressing the debt from a scoring mechanism.

00:59:33;24

We simply made it solvent for 75 years. But you know the reason Simpson-Bowles wasn't accepted by the White House? It was because the House Democratic leadership went down to the White House and said, "You can't sign onto Simpson-Bowles 'cause it will take Social Security off the table for the next election, and we need it to win the next-- the House back."

GOVERNOR ED RENDELL:

00:59:53;09

Which of course irony of ironies, the only demographic group that-- age wise that-- Governor Romney carried was senior citizens. (LAUGHTER)
Great irony.

JOHN YEMMA:

01:00:04;16

Just a quick time check. We're gonna go to questions from the audience in about five minutes. So-- we're really gonna I think try to look-- let's-- let's maybe just kind of close with-- with a look at Medicare and Medicaid. That's a big thing to look at. But using the same kind of-- approach to-- the-- the sort of how we can begin to address this. So Social Security is not-- it's not totally simple, but it's much simpler than fixing Medicare and Medicaid; however, give us a sense of how we should be tackling Medicare and Medicaid-- so that we begin to control those costs too. Because they too are skyrocketing.

SENATOR JUDD GREGG:

01:00:46;16

Well, first off, it's simpler by a factor of

about \$60 trillion. Social Security. The unfunded liability of Medicare and Medicaid is around \$60 trillion to \$65 trillion. That's trillion with a "T." Try to figure out what that means. Well, if you take all the taxes paid in the United States since we started collecting taxes (UNINTEL) government, federal government, 1789, we've paid in about \$45 trillion.

01:01:12;04

If you take entire net worth of America, all our cars, all our houses, all our stocks, all our bonds, that's about \$55 trillion. So we have a liability in those two accounts alone that we don't know how we're gonna pay for that exceeds our net worth, which is why I've said we're on the path road to bankruptcy. Social Security's unfunded liability's in the \$15 trillion range. It's a big number.

01:01:31;24

But it's totally resolvable within the context of-- of-- of at adjustments we've discussed. The only way you're gonna get Medicare, I believe,

under control is by changing the paradigm of Medicare so that you move more to a system which rewards outcomes versus utilization. And that means you gotta bring the market into the system. Because outcomes are determined by market. And-- that's why I-- I cited the Dartmouth study earlier, which is basically a market driven attempt to use a carrot rather than a stick.

01:02:03;23

In Medicaid the way you do it is (LAUGH) you give the states the flexibility to deliver Medicaid without all these rules and regulations which make it virtually impossible for them to do creative things. I mean I'm sure Pennsylvania-- and I know New Hampshire could do a heck of a lot better job with Medicaid delivery if we-- if the governor were just given the right to do it and given the money that the-- and the let the federal government fund whatever percentage they are.

01:02:26;14

In New Hampshire it's let's than 50%. I don't

know what it is in Pennsylvania. But let us figure out how we're gonna create capitated expenditures so that when that Medicaid patient comes into a hospital setting or into a group of doctors, the doctors in the hospital know how much they're gonna get from that patient because the state will have told them. You can't do that now. And the-- capitation program makes much more sense than a cost plus program, especially where doctors aren't gonna even see a Medicaid patient because they don't think they get reimbursed at anywhere near what the cost of seeing that patient is. There's lots of different things states can try. I-- I suspect Pennsylvania did a lot of things or tried to.

GOVERNOR ED RENDELL:

01:03:04;19

Yeah. That-- that's correct. And-- and you can do things with greater flexibility. You can change them and-- and do them more quickly. And the answers-- again, the answer cuts in Medicare, Medicaid, and Obamacare. For-- for example: The ability to-- change the way we pay for-- for

service. A diabetic and four-- 75% of all of our healthcare costs come from chronic diseases. A diabetic. Right now the way diabetics are reimbursed-- their treatment is reimbursed is they go to the doctor, the doctor prescribes things, tells them about insulin, et cetera, and that's it.

01:03:50;19

The next time the doctor sees them is in the emergency room when they're about to lose a leg. There's no management of the disease. There's a method named after a doctor I think from California, the Wagner method, that 10 states have adopted-- we were the tenth-- where you pay for managed, truly managed care. So you pay for the original doctor's visit, but then you pay for a pedi-- not a pediatrician-- a dietician. So the dietician works with the patient once a week.

01:04:21;16

"How are you doing on the diet, Mrs. Jones? Is it too tough. Do you wanna substitute this for that? We can structure something new." There's a

physician's assistant that we pay for who makes sure that the injection is the least painful and that they haven't stopped-- taking blood, drawing blood, and monitoring their-- their sugar count. You pay for the pharmacist. It's a team that manages a disease and manages the disease to keep people out of hospitals. We adopted that in my last two years as governor. And on a yearly basis, we reduced diabetics going into Pennsylvania hospitals by 29%. 29%. And that's where the--

SENATOR JUDD GREGG:

01:05:01;04

You had to get a waiver to do it.

GOVERNOR ED RENDELL:

01:05:02;20

And we had to get a waiver to do it. Now, the Affordable Healthcare Act does put some money in to encourage states to do stuff like this, but in Medicaid if it was block granted, states could do it. The danger in block granting Medicaid-- the danger in block granting Medicaid is you could get a politician who just says, basically, "Okay, I'll take the federal government money, and the

federal government money has to be used to provide healthcare to the targeted groups, but I'm not gonna kick in any state money." Right now the only way you get the federal money is to kick in state money at whatever the ratio is. It differs by-- from state to state.

JOHN YEMMA:

01:05:41;18

Okay. Bruce is gonna come up and we're gonna take questions from the audience now. And we'll-- we'll just basically continue to drill down on this via the questions.

BRUCE:

01:05:51;02

So ladies and gentlemen-- if you have a question-- we have a couple of folks with microphones. You can raise your hands and we will-- answer those questions for you. Also, if you're more comfortable writing your question out, please use the question card in the packet we gave you. You can-- write that down, and we'll have someone coming up the aisle and--

01:06:11;24

(OVERTALK)

BRUCE:

01:06:12;15 --picking those up. And we'll go through a few of 'em and, hopefully-- get them on the floor. So let us begin. I think we have someone over here. Connor?

AUDIENCE QUESTION:

01:06:20;24 Hello. I'd like to thank the society for putting on this event. It's a terribly important and interesting conversation tonight. I'm an attorney and I work in the field of-- healthcare public policy. Governor Rendell has had a lot of experience with a somewhat radical group in Pennsylvania called ADAPT. Unlike my-- disabled colleagues around the country-- I come from the other side of the political spectrum.

01:06:52;19 And as a Republican, I'm more interested in hearing about issues that promote the individual rights and a market based solution that will give individuals like me more of an opportunity to control exactly how their Medicaid dollars get spent on an annual basis. You know, I look at

what the government spends on my care, and I know that if-- if I had power over how that money got spent I could save \$20,000 or \$30,000 per year easily. And I would have more freedom, more liberty, and be able to (NOISE) participate in many other areas of economic vibrancy that everyone else takes for granted. So I'd like to hear (UNINTEL PHRASE).

GOVERNOR ED RENDELL:

01:07:37;13

Well, I'll (UNINTEL)-- I actually started off my time as governor being picketed by-- and mayor being picketed by ADAPT everywhere I went. And by the end, I was their favorite governor 'cause we adapted money follows the individual. But the problem is you could do it because you're a lawyer. You-- you know the issues. You know what's the best care to fashion. But I won't-- I can't see you well enough to figure out how much-- how old you are.

01:08:03;24

But the average 75-, 80-year-old, poor person has no ability to make those choices for themselves.

They have no ability. That's the problem with converting Social Security-- or-- into-- into-- a program where you get-- the individual gets money and is told to go out and-- excuse me-- Medicare into a program where the individual is told, "Here's your money. Go out and buy healthcare for yourself." Think of a lot of 80-year-olds, you know, poor 80-year-olds. They wouldn't have a clue to be able to do that.

01:08:38;06

And if they don't have anybody in their family willing to do it for them, the-- they'd be lost. So I imagine you could do it and do it well. But having said that, I agree there are-- it's important to find ways, tenable ways to get individuals into the marketplace themselves making those decisions. But I'm not sure that I know the answer to that. Judd, do you wanna take a shot at it?

SENATOR JUDD GREGG:

01:09:00;24

Well, I-- I actually think that-- there's a fairly large segment of the Medicare and Medicaid

population who, if given the opportunity to make choices, would make a lot better choices than what the government does for them. So-- premium support makes sense as an option. It should be a requirement. But-- clearly, if you can run a premium support, which is a pejorative these days. But basically, it means people get-- money in order to go out and buy their healthcare and they're given, like-- well, it's exactly what's gonna happen with the exchanges, by the way.

01:09:28;19

I mean it's what's the President is proposing in exchanges is that you go into an exchange and you're gonna get 20 or 30 different healthcare programs which you, theoretically, are gonna be willing to purchase from. Why not turn Medicare into the same type of system for people who are capable of doing it? There are gonna be a lot, as you mentioned, as people age up and even some who don't age up, they're not gonna be able to make those choices.

01:09:50;12

But you can certainly protect those folks and give them a standard, old Medicare system, which probably is pretty bad-- and at least give people who wanna use the system a choice to get what they want in the healthcare arena-- with the dollars that are available to them and get it probably much more effectively and efficiently-- from the provider groups. And the key here I think is-- I go back to what the key, in my opinion, is. It's 1) to reward outcomes and 2) to capitate the system in a way that gives people an incentive, the providers, an incentive to s-- to serve a person not based on utilization but on outcomes.

GOVERNOR ED RENDELL:

01:10:27;24

And I agree with that. And if Judd were fashioning a program, I'd be very comfortable with some form of premium support optional. But often the Republicans produce premium support at a level that nowhere-- in-- in America you could purchase health insurance for the year worth of money that they're making available.

SENATOR JUDD GREGG:

01:10:45;24 Remember, it was Alice Rivlin's idea, and she's not a Republican.

GOVERNOR ED RENDELL:

01:10:48;13 Well, but still. The premium support only works-- you give a senior citizen (MIC NOISE) premium support and you say, "Here. Good news. We're giving you \$800 a month to buy your healthcare."

SENATOR JUDD GREGG:

01:10:59;23 The number's gotta be a reasonable number, but--

GOVERNOR ED RENDELL:

01:11:01;03 Well, but-- but it-- a lotta the plans I've seen the number isn't reasonable. And they-- there-- there's the rub. I mean first of all, healthcare companies--

SENATOR JUDD GREGG:

01:11:07;19 Well actually, managed care is basically premium support. And people who are in managed care are pretty happy with it, usually.

GOVERNOR ED RENDELL:

01:11:13;24 Right. But it's managed care where there's an overview and where they have the purchasing power

of the group.

SENATOR JUDD GREGG:

01:11:19;24

That's-- that's the capitulation.

GOVERNOR ED RENDELL:

01:11:21;10

Right.

SENATOR JUDD GREGG:

01:11:23;24

We're getting really technical here, by the way.

GOVERNOR ED RENDELL:

01:11:25;19

Sorry.

SENATOR JUDD GREGG:

01:11:26;08

We'll lose a lot of your audience if we get into this stuff.

GOVERNOR ED RENDELL:

01:11:30;07

But a good question.

SENATOR JUDD GREGG:

01:11:31;13

Thank you.

AUDIENCE QUESTION:

01:11:32;17

This is a lot of details stuff to listen to. And it strikes me that the two of you seem to agree that there are many common sense problem-- situations that could be solved with common sense. My question to both of you is, "Why is it

you-- you both believe the-- Congress has become so polarized that they can't come to these common sense decisions anymore?"

SENATOR JUDD GREGG:

01:12:01;18

Great-- great question. I'm gonna take the first shot at it 'cause I know-- you-- the governor's gonna have even a better response and (LAUGH) he's gonna top me with it. But two reasons. Two things have fundamentally changed in the Congress since I was elected. The first is the Hou-- House is not 60% to 60% redistricted by party so that when you run for one of these House seats, you win your primary, you're the member of Congress.

01:12:27;23

Now, to win a primary in the United States means you've gotta speak to the base of your party. And so when those folks get to the Congress the one thing their base will not compro-- will not-- tolerate is compromise. So the one thing those folks can't do is cross the aisle to govern. And in our society we're not a parliamentary system. You've gotta govern in a bipartisan atmosphere.

Very rarely do we have a situation where you don't need bipartisanship.

01:12:53;24

We had it for the first two years of President Obama. We had it during Lynden Johnson, but it's a rare experience. Our system requires, especially on big issues where every American's affected, like Medicare, Medicaid, Social Security, and taxes. They wanna know that the solution is fair, and fairness, by definition, is bipartisanship. But the House is locked down on the issue of governance because people just can't go across the aisle.

GOVERNOR ED RENDELL:

01:13:18;01

Right.

SENATOR JUDD GREGG:

01:13:19;24

The s-- and so the only way you can deal with that is you've gotta get the momentum for a bipartisan agreement coming out of the Senate with Presidential leadership. And there is in the Senate right now a working center on these big policy issues, I believe, of 50 to 60 people. And

then the President has to lead and take that agreement to the House and allow the President to give the cover to get enough votes so that the-- along with the Speaker they can get over this systemic problem of the House not being able to govern in a compromising way or a bipartisan way.

01:13:55;12

The second big issue, quite honestly, is the fact that thoughtful discussion on these complex issues has been driven off the playing field, primarily by social media. It is so vitriolic, so aggressively opinionated that there really isn't a discussion going on. You know, when I was in the House I used to hold town meetings all over New Hampshire all the time. And I have to admit, I usually held 'em on Monday nights so nobody would come 'cause (HORN) it was Monday night football. (LAUGH)

01:14:26;20

But actually, a few people did show up. And usually there'd be-- and the-- and this was in the '80s. There'd be in the-- in one side of the

room there'd be four or five people who were former SDS members, and on the other side of the room there'd be four or five people who were-- read *Trim* magazine, which was the John Birch Society publication. And after the meeting was over, they'd get together in the back of the room-- not together. But I mean their groups would get together and they'd exchange thoughts 'cause they'd finally met.

01:14:50;12

This was the only place they could meet. Now they meet on social media and they have this massive megaphone and they drown out folks who wanna talk thoughtfully about the issues. And it really-- I think it's re-- it's a great event, social media, but it's debilitating thoughtful discussion on complex issues-- which require that people be willing to listen to the other side in order to make progress. So those are the two structural problems I think we have right now. (HORN)

GOVERNOR ED RENDELL:

01:15:20;15

And I agree with that, but I also think the

problem exists because politicians, again, both sides of the aisle, are afraid to tell their constituents the truth. Because they don't think we're smart enough to handle the truth. And in essence, we can. I mean the Democrats kowtowed on Social Security and Medicare and we lost the senior citizen vote to Mitt Romney. How is that possible? It's because seniors are smarter. Seniors are smarter.

01:15:50;24

I don't know how many of you watch *Morning Joe*, but if you do, you've heard Joe Scarborough say when he was campaigning in the panhandle of Florida he would tell seniors that there have to be change and reform if Social Security and Medicare were gonna survive. And they understood it. (BURP) If I tell a group of seniors, "Hey, when Social Security was put into place, the average life expectancy was 65. Today the average life expectancy is almost 80. And if you live to be 65, it's 85. And Social Security was never meant to cover 20 years."

01:16:26;03

You hear-- if you're talking to a group of seniors, you see them nodding. So of course we've gotta change the age level. Senior citizens aren't dumb. People in generally aren't dumb. We're just afraid to talk. The big-- biggest example of that-- and I won't-- (LAUGH) this-- don't mean to open a can of worms-- was on the gun issue, on university background checks. How in the Lord's name did Kelly Ayotte-- was she unwilling to support what 90% of New Hampshirites wanted?

01:16:57;13

And when she was asked why, she said, "Well, it was gonna establish-- the first steps towards establishing a registry." Well, the bill makes it a felony to do anything with that information that would establish a registry. Just trust-- trust-- trust people. People are smarter than we give them credit for. People are more reasonable than we give them credit for. Judd's right that some of the primary voters aren't all that

reasonable and campy, but ev-- even still you can build coalitions of reasonable people. Trust-- trust the voters. Trust the people. And we don't do it anymore.

SENATOR JUDD GREGG:

01:17:32;10

Well, just on behalf of Kelly, let me point-- make the point that probably nobody in our state has a stronger record of taking on criminal activity. She was the number one homicide prosecutor in the state for years. Then she was attorney general, appointed by two governments, both Republican and Democrat. And as attorney general, she tried the only homicide case that was a capital murder case, got a conviction, and the individual will probably be executed the first time in the state's history-- modern times anyway since the '30s because of the heinousness of his crime. So I don't think-- I think you gotta respect the Kelly knows what's law enforcement's about and the importance of-- of law enforcement.

GOVERNOR ED RENDELL:

01:18:10;17 All of that may be true, Judd, but Kelly Ayotte should've-- her performance should've spawned a rash of-- sale of my book *Nation of Wusses* because she was the perfect epitome of a wuss.

SENATOR JUDD GREGG:

01:18:24;01 I don't agree.

JOHN YEMMA:

01:18:24;07 Okay. Let's--

BRUCE:

01:18:25;06 Well, let's go to--

JOHN YEMMA:

01:18:25;17 --move on. (LAUGHTER)

SENATOR JUDD GREGG:

01:18:26;24 I can agree with that.

GOVERNOR ED RENDELL:

01:18:27;22 Well, you wanted a little--

JOHN YEMMA:

01:18:28;19 We're not gonna-- we're not gonna fight New Hampshire politics tonight. (LAUGH)

BRUCE:

01:18:33;06 So we have a question from the floor that was

written-- that-- "If Simp-- Simpson-Bowles is so good, how do we get it reconnected? And what can citizens do about this issue?"

SENATOR JUDD GREGG:

01:18:47;24

Well-- go ahead.

GOVERNOR ED RENDELL:

01:18:50;07

Well, real quick, write your Congressman. Write your Senator. Say, "I do think the debt is important. I think we need to do something about it now. I don't want a burden on my grandkids with it. And Simpson-Bowles is a reasonable format. Go." Simple letter. Email, whatever. Do it. Go on the-- the Campaign to Debt-- our website. Sign the petition. We have 369,000 Americans who've signed our petition. But better than signing the petition, write an individual letter to your Congressman or Senator.

SENATOR JUDD GREGG:

01:19:24;14

That'll certainly help. But I think, unfortunately, Gail's-- admonishment at the beginning that, with the debt coming-- deficits coming down, with so many issues now coming to

the front of the line, that the intensity needed to get a really comprehensive agreement has been waning. And the question is will there be another pressure point? And Gail made the point that the last pressure-- serious pressure point was when the Speaker of the House took on the debt ceiling in order to get action.

01:19:56;14

The action led to the sequester and it led to the fiscal cliff tax increase. Whether or not there'll be any stomach for having a real confrontation that causes action is, I think, very problematic and, therefore, you're gonna have to have leadership. And the President's gonna have to lead. In my opinion, this is a leadership issue for the President. If-- if he--

GOVERNOR ED RENDELL:

01:20:19;09

Right.

SENATOR JUDD GREGG:

01:20:20;01

--wants-- you know, he can leave his term of office and he probably won't have the crisis. We probably won't have the financial crisis that's

gonna occur because our debt won't have accumulated to that point. But it is absolutely clear it is unavoidable that within certainly the foreseeable future we will have a fiscal crisis in this coun-- country driven by the fact that people lose confidence in our debt because they know we can't repay it.

01:20:47;19

And that'll probably be-- crisis of-- driven by people fearing inflation. And that'll be a legacy. Because most of this debt-- you know, you can blame George W. Bush as much as you want, but most of this debt will have been added in the last four years, the last eight years, and it's gonna be added as we go forward into the next four years and the next eight years. And unless you change these entitlement programs so they're affordable five, 10, 15 years out, you cannot (COUGH) correct this problem.

GOVERNOR ED RENDELL:

01:21:17;24

But again-- and I think Judd's right. And I've talked about Presidential leadership all the

time. But when the President mentioned chained CPI in the fiscal cliff negotiations, why did nothing come of it? Because Mitch McConnell and the Senate Republicans took a walk on chained CPI. So they've gotta show-- if the President leads, Republicans and Democrats both have to respond and respond honestly. For once we've gotta put campaigning on the backburner and try to do something about it. Judd has a great-- backstage he used a great analogy about a train and where we are in terms of the debt issue.

SENATOR JUDD GREGG:

01:21:56;24

Well-- you know, the train is coming, it's just stopped blowing his whistle. And-- but it's gonna-- it's-- (LAUGH) it's coming at us, and we're in the tunnel. And-- there's no way out unless you figure out how to slow that train down. And the only way you can slow it down is slow the rate of the gro-- the growth of these programs (COUGH) down, in my opinion. I would say the chained CPI-- I wanna give the President credit for that.

01:22:17;19

I mean I (UNINTEL) a very significant give in that it stepped on the toes of his constituencies. And-- even though it didn't mean much in the first 10 years for solving the immediate \$5 trillion problem, in the second 10 years it's a trillion dollars, in the third 10 years it's probably three or four trillion dollars. And it was stepping on the toes of some folks in his party who really didn't want it go that way. So I respect him for having put that on the table.

01:22:44;22

(OFF-MIC CONVERSATION)

* * *END OF TRANSCRIPT* * *