It’s my pleasure now to introduce our luncheon speaker. He is Bill Thomas, Congressman from California’s 22nd district and resident of Bakersfield, California. He has served 14 terms in the House. After a distinguished 11 terms in Congress and being a member of the Ways and Means Committee starting in 1983 in 2001 Bill Thomas was elected to be chairman of the Ways and Means Committee. And for those of us outside of Washington who don’t follow the inside baseball(?) that was when Bill Thomas occupied front and center my own radar screen. Since that time he has been instrumental in the act of Congressional agenda, not only in tax policy, but also in trade policy, the trade act of 2002, and in health policy, in Medicare modernization and prescription drug act. His interests and his accomplishments in tax policy have been broad, the latter covering rate cuts on labor and capital income, health savings accounts, IRA and 401K limits, the saver’s credit, the estate tax, pensions and international tax reform. This March Chairman Thomas announced that he will not seek election this year to his California seat. Upon this announcement majority leader John Baynor called Thomas “One of the most effective and successful legislators Congress has seen in years,” citing his devotion to the issues that matter and passion for seeing them through. From my interactions with Chairman Thomas I can certainly attest to his passion and willingness to engage in the substance of fiscal policy issues. In a way, he is the ideal luncheon
speaker for today’s conference, because in his role as chairman he has had to assess the arguments for tax changes on their merits, and evaluate the claims and counterclaims of economists, lawyers, accountants and tax administrators. He has had to listen to the entreaties of business representatives who convey essential facts about the real world and may have interests of their own. He has had to convey the workings of the committee to the public with journalists as intermediaries. When we first considered this conference and circulated the idea to the NTA board we got suggestions for topics that exceeded the time that we had in one day. One of the suggestions, which has come up already, was to have a panel of political scientists. We put that aside for today, but in a way, Chairman Thomas I’m sure will tell us about what happens when the economics, law, accounting, administration of tax policy meets the political real world. And if we’re lucky we’ll get a 30-minute summary of Chairman Thomas’ forthcoming unexpurgated memoir of six years at the helm of U.S. tax policy and I look forward to that. Please welcome Bill Thomas.

Applause

BT Thanks. And to give aid and comfort on the poli-sci question I did teach poli-sci for ten years at the college level, so I can fake it with most of them. Buckle your seatbelts. I’ll try to move fairly quickly.
I’m going to give you examples of, instances, of all of which could be expounded in a number of different ways, at the end of which I hope you will now have a conceptual framework in which you can examine what occurs in terms of tax policy, and then we’ll throw it open to Q&A, and what I hope you will do would be then to give me an example of either something you can’t figure out, or why don’t we do this, or why did we do that so I don’t waste my time dealing with particulars. Okay?

If what I was about to say was a book you were thinking about buying my argument would be the price--well, probably the cost of the book is priceless. Immediately some of you are now thinking, Priceless? That means worthless. I hope not.

One of the things that you have got to understand about the House and the Senate and the people that constitute the House and the Senate determines completely what we do. And for those people who aren’t in the business or don’t understand the business, first of all, some of you are surprised I call that a business, because it is to a certain extent, and if you begin to think about it that way all businesses have jargons, all businesses have relationships, all businesses have hierarchies and all the rest. I’m going to give you, following the theme, which I think is fairly clever in terms of conferences I’ve seen, I’m going to give you the keys to the kingdom. When I’m done some of you will say,
“The kingdom has no doors with locks,” in trying to judge what I’ve had to say. Let’s go ahead.

Five key perspectives who are in the business about the business that perhaps you didn’t know, or understand or appreciate, which produces what we produce and that has baffled you to a certain extent. Number one: how many here did not take political science? You didn’t take any political science whatsoever? That’s good, because I’m not going to talk about political science, because if you talk about political science most political scientists, unless they’re really dedicated behavioralists slip over inevitably into structure function. You know? Article one in the Constitution is about the Congress. It’s composed of the House and the Senate. And when you go through that kind of an analysis you get a kind of a scaffolding concept of a structure, but it doesn’t really tell you anything.

So what I’m going to offer is a slightly modified course called politics 101. Definition of politics: might be familiar with it--who gets what, when and how. Now, the beauty of that definition really creates almost an onion approach to dealing with politics. It’s one of the reasons I like so much being chairman of Ways and Means, because in most of the other committees they’re authorizing committees, they’re appropriations committees, they vote for dams and hope there’s money to cover them, they do this, they do that. In a Ways
and Means Committee you either change a line in the tax code or you
don’t change a line in the tax code. You got winners or you got
losers. You have politics 101. Who gets what, when and how
unvarnished. And then you can see the onion effect, because the law
that we write determines who gets what, when and how in terms of the
society or the economy, one group over another.

But also keep in mind politics 101 applies to any interpersonal
interactive relationship. It applies to the Senate. They’re most
especially concerned about who gets what, when and how. It applies
to the House. It applies to the committees, turf jurisdiction. It applies
to individuals in terms of their interactions. So this is all about trying
to get you to understand that the first real key is—it’s about who gets
what, when and how on a number of different levels. Okay? Let’s
look at the structure function just to give you an idea how if you were
explaining it, and then I’ll shift briefly to politics 101.

Remember, the House based on population, Senate based on
geography. House, the term is every two years. Everybody is up in
the House. The length of a Congress is two sessions and it starts all
over again. The Senate, six-year term, only one third are elected
every two years, so it’s a continuously sitting body, especially based
upon geography. It’s only the number of people in the state, so a
Senator with one vote can represent 600 thousand people, or another
Senator with one vote can represent 35 million people. Because the House in terms of its 435 members would be fairly difficult to run, and we don’t have a lot of time, time is limited in terms of speaking. You get five minutes. If you want to talk longer you can ask unanimous consent of your colleagues to allow you to continue. You have rules committees. All Ways and Means bills on tax come to the floor and they’re un-amendable. Efficient movement, time limited toward a majority decision. The Senate based on geography, based on being a continuously sitting body doesn’t have a lot of rules, or at least in terms of rules applying what you can do. Debate as long as you want to until you can get a super majority to tell you to stop, completely different concept in the House. They can amend tax bills on the floor of the Senate. However, because under the Constitution all the revenue bills originate in the House they can only react, or as I like to say, we pitch, they catch, which causes a degree of who gets what, when and how envy and a few other circumstances based upon that structure function.

So that’s kind of boring. Let me explain it another way. I like the hotel analogy. Members of the House, when told they’ve been offered a room at the hotel free they say, “Gee, you mean I get a room free?” Why? Because less than 10% of the House are on the Ways and Means Committee. Remember, all of the policy on revenue
coming out of the Ways and Means Committee is not subject to amendment on the floor. You don’t get to participate in amending the tax code unless you’re a member of the Ways and Means Committee. So the idea of getting the room is pretty great. A Senator expects a room, expects a room with a view, expects a room with a view with a gift bag on the bed, because that’s the way the Senate operates. House, tight hierarchical power relationship. Some people make decisions, others go along with it. In the Senate it’s a feudal system. I deem to work with you if I choose to work with you. By the way, this is my price of working with you. How do you pass legislation in the House? You line up your votes; you tend to have your shirts and your skins battles. In the Senate how do you line up votes? What do you want? What do you want? What do you want? It’s an additive process, and when you get enough IOU’s and you commit to pay them off, then you have a majority to pass the bill. I always tell them, “Why don’t you just do a 55 or a 60 vote bill?” No, they always do these 85 or 90 vote bills, which means they’ve put together all of these ask fors, and then they get amended on the floor. So don’t expect policy or focus to come out of the Senate. Or as I tell them, “Just hurry up and drag your dead cat to conference and we can start trying to build a tax bill.”
Now, remember, they don’t have responsibility over the tax code. We are the ones who are the guardians of the tax code so we are concerned about frivolousness, about trying to keep core policy, build on it. Senate doesn’t have that responsibility. They just want this stuff, and they’re willing to accept our policy if we’ll pay the price. We just finished a discussion with them and they hate it when I put it that way. But basically the whole dang bill they have are grants. They didn’t even have two of our core concepts. So I said--and so they’re complaining about what we’re doing, because what we’re doing is changing behavior, and so some people are unhappy. And so those people who are unhappy complain to the Senate, and the Senate didn’t want to do that.” I said, “Look, you don’t want policy, I don’t want to spend the money, so I’m willing to buy policy.” Now, how much policy I buy is based upon how much you’re accepting, which allows me to say yes to certain things. And remember, because of the Senate’s structure, continuously sitting body, we don’t--they don’t have the ability to say, “Hey, we’re all up next year. We got to be very careful, and I’d like to vote for it, but I can’t.” Because they’re there forever and it goes on and on.

Now, did you ever see that cartoon with this really old flight attendant, and she’s handing the guy the glass, and the bottom line was, “Yes, this is a non stop flight.” That’s the Senate’s mentality.
We don’t make it at this deadline, I mean, it’s life and death for reelection in this particular off term election, you know, we’ll get to it next year. So it is really a different arrangement. And since everything is additive they have their lists of wants and they pick and choose from their wants and so they expect to be given their wants when they come to conference, because their leadership won’t say no. What happens if they say no? They don’t get the vote. Who gets what, when and how? Pretty much retail politics, and so one of the things that happens over the years is that you develop reputations. And the Washingtonian Magazine—I don’t know if you’ve ever seen it—it’s the annual opportunity for staff to get even with members poll. And I’m always the winner or the runner up on the meanest member of the House. And people say, “Doesn’t that bother you?” And I say, “Look, would you have ever heard of Ivan the Meek?” One of the things I do as a service for the Senate is to say no.

Now, you’d say, “Well, but then they’re mad and they won’t give you their vote, because you said no.” Uh-uh. What they’ve brought from the Senate is a list of wants, because no one will say no to them. My job is to analyze that list and come up with their needs, and over time you develop a relationship where if it’s just a want it’s really stupid or it really destroys a portion of the code they know I will say no. And they’re not the ones who said no. He said no. Who? Thomas the
Terrible said no. Great. I’m performing a service, which the Senate is grateful for, because they’ve just shifted the blame to me and not to them. Okay? Who gets what, when and how? I have an interest, which is slightly different than theirs, trying to put as much good policy into a package as possible, but I got to get them to yes. If you don’t get them to yes you can’t make law. Okay?

Key number two: along those lines, don’t think in this business you’re dealing with the best and the brightest. You’re dealing with the available and the willing. That’s what happens in our form of government. Back to that Washingtonian poll; annually I get selected in the top three, one, two, three brightest, and of course--and as my wife, Sharon, mumbles as I show her the poll again, and she says, “Remember dear, in the land of the blind the one eyed man is king.” So to get rated that high in the environment that you find yourself in you got to temper it just a little bit. Now remember, this available pool of talent, it’s an all volunteer pool. Nobody got drafted. What are the qualifications? Well, there’s--back to structure function polisci--there’s a time and happenstance requirement. Right? Age, residence, everything else--well the basic criteria is usually warm and vertical. That’s optional in some instances. But beyond that it’s whatever works. What you got? I mean, the old saw about for the first six months you wonder how you got there, and for the rest of
your career you try to figure out how others got there is really true. But it’s worth spending the time and energy, because they got there, and there’s a reason why they got there, and they have particular talents whatever they may be that you need to observe and understand, because it explains, gives you an opportunity to do things. It was very tough when I first came back. I’m basically Welsh, and we don’t touch each other a lot. These guys in the elevator, you know, he’s talking to me and he’s touching me, and rubbing me on the back and patting me. I’m looking at him—that’s their way of—if I may use the word—intercourse in discussing politics. You know, I got my space, back up. “Hey, buddy! How you doing?” You just have to know and understand the rhythm of some folks, because somebody got elected by being hail fellow, well met. And here I am, standing by the door on a really important piece of legislation, and he approaches me and he says, “Bill, what is this?” “Well, actually it’s a technical amendment to 501(c)4 dealing with…” “Bill, up or down?” So as they come through I’ll do this, you know? Okay. And they think we have a really good working relationship, because if they never get burned with my thumb this way or that way they don’t have to read stuff. They’re covered, okay? So that’s the universe you’re dealing with.

Key number three: and this is what’s really frustrating to most of you, and to a certain extent frustrating to me as well. Remember I said we
have a new Congress every two years, it’s a clean sheet? The problem is the tax code isn’t a clean sheet. The clean sheet refers to the opportunity to turn over all the folk, and you also have to put it in the historical context of the fact that had we lost a war or two in a critical time in history we would be a whole lot better off in terms of our tax code than we are right now. Remember, our code was basically put in the way it is now with the progressive income tax to pay for the Civil War. Then it went away, then it came back, we had a big struggle, we had to change the Constitution to say that we could do it, and all that occurred in the early 20th century.

And just as we didn’t have, following World War I and World War II especially, the ability, the opportunity or the sad situation of rebuilding our economic structure we didn’t rebuild our political structure and we didn’t rebuild our tax structure. And so we have the equivalent of a 19th century steel mill in trying to compete in the even more competitive world in terms of our tax code. It’s antiquated. And we are trying to make changes to it, I mean, if we’re the world’s largest importer, world’s largest exporter you’d think we could figure out that a rebatable tax at the border would be a real advantage since everybody in Europe and everybody in Asia are getting some of their social welfare cost paid for by virtue of their products coming in free, our products going in taxed and we don’t get to get some money back
from them, because somebody said, “A direct tax does this and an indirect tax does that.” So what do you do? You can fight them, but we’re not going to be successful, or you can join them. Joining them means you are changing in a pretty fundamental way the tax code.

How many people do you remember bitching about the current code and all the reasons it’s terrible and it needs to be changed? And then, boom, the President’s tax reform commission puts out its report, and then people are saying, “Well, you know, this current system ain’t all that bad.” Who gets what, when and how? Some of the folks who were getting weren’t going to get. There was some redistribution. Now, of course, we did nail down some corners, didn’t we? That the mortgage deduction couldn’t be changed, that it has to be revenue neutral--why? If the current system is so painful and costs so much money to do if you could streamline it couldn’t you actually raise more revenue with less pain and disruption? Revenue neutral--and so it’s really hard to try to deal with making necessary fundamental changes when you’re saddled--not only saddled with what you got, but saddled within the political structure with those who are there doing everything they can to hang onto what’s there. Okay.

Now, in that context then you’ve got to go forward and try to make changes. So as I said, and I’ll give you key four, members of the House and members of the Senate, notwithstanding their disparate
backgrounds, notwithstanding their different personalities, their former occupations, when they’re there long enough to move into the structure to be at a conference between the House and the Senate, say on a major tax bill, people oftentimes said, you know, way back, “Why didn’t I run for the Senate?” Well, I said, “Let’s see. Let’s do the math.” California, 53 members of the House--did you ever notice that the ones who went from the House to the Senate were from states that had like one member of the House, two members of the House? Go way out, five members of the House where obviously you had statewide--we have 52 other members of the House, and by the way, 35 million people campaigning all over, not only the population wise the largest state, but geographically a pretty large state, I’d probably have to pile together 40 or 50 million dollars to have a chance.

Now, member of the House, a member of the Senate makes the same amount of money. You say, “Why would I mention that?” We did a House correspondence dinner a couple of years ago now where I was the spokesperson for the Republicans and Senator Corzine was the spokesperson for the Democrats. And I just wanted to point out how ironic it was that the guy who was representing the Democrats was a multimillionaire, and the guy who was representing the Republicans was a former schoolteacher who frankly took the job for the money. So they make the same amount of money. There’s no incentive there.
And let’s say I raised the 50 million, and let’s say I go through the election in which every irrelevant aspect of an election is brought out-if you don’t know what I mean look at some races being run right now in terms of what the issue arguments are--and then I’m now a member of the Senate. Guess what? I probably wouldn’t be a member of the Senate Finance Committee. In fact, I can tell you I wouldn’t be a member of the Senate Finance Committee, and they’re going to a conference and I wouldn’t be able to go to the conference. So here I am in the room, Chairman of the conference, and I’m going to trade that for being a Senator who isn’t even in the room?

Now, I know some people like to be called Senator, but that’s a pretty high price to pay. And frankly, given the job of a Senator and given the job of a member of the House, if you look at the Constitutional aspects of it I happen to think the job of a member of the House with the responsibilities that the House has in the Constitution in Article One are superior to somebody who gets to okay who the President appoints. They do other things. But given the environment, additive feudal relationship, you don’t have to go with the hierarchical structure, I don’t need to vote yes unless you convince me to vote yes, and the way you convince me to vote yes, you know, is to show me that you love me. And the office that you hold significantly affects your behavior, and so when we get ready for a conference the
conferees for our side have a conversation that goes something like this. “Well, Bill, we’ve made some fairly bold policy moves here, and I know there’s some argument about lowering the individual rate and whether or not the marginal rate at that level is really significant enough to influence the economy, and I know that the President wanted zero dividends, but you’ve told him we can’t do zero dividends and you looked it into cap gains at 15/15. At least you don’t have that differential rate on different uses of capital. Now, are we going to be able to hold this?” And my conversation with the Senator is, “Bill, I have six things; five of them are really important. The first one is we need this grant money to move low power green paddle wheels in irrigation ditches, and it’s only six hundred million. And I want, you know,”--it’s the additive process in terms of what it is that is their currency. They give me lists of stuff! And my job is to say yes or no, and if I say no, then their staff votes for me as the meanest man in Congress. Now, you’d think there’d be something positive if I voted yes and said, “Yeah, you can have that.” But I don’t care what they say about me, because if I do that I get their vote, and the vote is the most important thing to me, because without getting people to yes you can’t make law.

So actually the politics of who gets what, when and how boils down to one thing. What is it that you need to know and use that gets people
to yes? And some of you are aghast at the level at which people get to yes, thumbs up, thumbs down. Hey, if that’s what it takes okay. And you say, “Why in the world can’t people see the validity of this concept?” Hey, you got to get them to yes. You can’t tell them they have to be yes, you got to woo them. Basically what you have to do is to get them to let you control their vote. Some you have to rent. That’s called the Senate and some members of the House. Others you can get--Paul Ryan, I love him. I don’t know if any of you know Paul Ryan - bright, bright, talented kid. He’s not a kid anymore, but he’s still really young. And you know, he comes up to me on the floor and he starts in on this supply side argument in terms of some tax provision and he’s just all upset, because he talked to another member who 1) didn’t appreciate the importance of this particular provision and 2) he wants assurance renewed from two hours ago that I’m going to push for this in conference. I said, “Paul, I love you, but you’re really tiring.” But I love it, because here he is engaged on policy and understands the role of the House, members of the Ways and Means Committee trying to move into the 21st century a tax code basically grounded in the 19th. And what gets him all excited is, yes, I understand the concept, two, I will fight for it, and people know that if I fight for it it means it’s as important as anything I want. In fact, most of the time I come out of a conference committee not getting anything except making law, which is really the most important thing
if you have somewhere in the center of it some kind of a nugget of policy. And you guys are objecting because we’re not somewhere way out on Pluto--oh no, I can’t say Pluto anymore; it’s been demoted--Neptune, Uranus pushing some kind of a fundamental clean sheet of paper tax structure. And all I’m trying to do is to keep cluttering up the tax code by buying as little as possible of the Senate’s wares to get them to yes. That’s the business. You just have to understand that as you talk about it. Okay? So I’m done.

Now, immediately those of you who thought priceless was worthless are going to say, “Wait a minute, wait a minute, one, two, three, four--he didn’t give us the fifth key.” There are as many keys as you want them to be. You can have three keys, you can have five keys, you can have six keys. It doesn’t have to be five keys. Just because someone tells you there are five keys to something, there doesn’t have to be. So if you want a fifth key it’s this; when someone tells you about the world, including you, about what tax policy ought to be, they’re telling you more about themselves than they are about the world. Okay? And if I had that conversation with a member of either the House or the Senate I’m reminded of that famous line from the treasurer of the Sierra Madre, “Keys? I don’t need no stinkin keys. I want this.” So welcome to my world. Alright? Let’s hear some questions.
Applause

BT   Why did we do what, why didn’t we do which, anybody--or anything else you want to talk about. You want to talk about personality? That’s always fun. Fire away.

Q    I majored in government, Congressman, and--

BT   I’m sorry. I missed the first part.

Q    --I majored in government--

BT   Oh.

Q    --political science I guess.

BT   My apologies.

Q    Yeah. And in political science 101 we learned that there’s another actor and that’s the President, and that the President does exercise some control over who gets what and when, if only in terms of campaign money to get reelected.

BT   Ooh.

Q    How does the President play into tax policy? And to what extent is he an ally in trying to get the Senators to perhaps modify what they want?
Oh, it all depends. It depends on the extra Constitutional structure, since political parties aren’t mentioned in the Constitution. If it’s a President of a different party we have some difficulty. One of the real privileges that I had when I became chairman of the Ways and Means Committee in 2001 was that something happened that I didn’t think would happen in my--well, there were two things I didn’t think would happen in my career in this business. One, I never thought we’d be able to index the rates taking away the automatic generation of revenue, which fed expanded governments and programs. And two, I never thought that I would be in the majority in a position to make things happen with my party controlling both the Senate and the Presidency. And so the President is invaluable in advocating T.R.’s bully pulpit concept, but partly you just have to--and I say this as cautiously as I need to--it’s not unlike the Senate, because they will tell you what they want--excuse me, they will tell you what they need, what they believe is most appropriate, and of course, some of that is generated by the President’s Council of Economic Advisors, who the common line, you wish some of them would have run for dog catcher, because then you don’t have to explain what I just spent the time explaining to you, but sometimes you do, because in theory see we really believe in zero dividends. Fine. But why are we going to spend any time talking about advocating a policy of going to zero dividends? Well, the reason we’re doing it is because the President gave a speech
and said that’s what he was for. I said, “You didn’t check with me before you let him give that speech.” Because the answer’s simple. I can’t get there. Okay? I can’t get there. It can’t happen. Politically in the environment of the House and the Senate in trying to make law I cannot deliver you zero dividends. You want to spend the rest of the night having wine, and complaining, and crying in each other’s wine about the fact you can’t get to zero dividends, or do you want to sit down and figure out a way where we can make maximum impact in the direction you want to go that is doable? Now, that’s really hard to take when you’re at the pinnacle of power in the world and you want this. Okay?

So you try to be as accommodating as much as you can, because it probably doesn’t advance your effort if the President says you’re an obstacle in a structure in which his party--your party--controls all the key levers. So you got to schmooze, you got to--you know, you got to do the things you got to do. But your key role is to be creative and offer potential solutions to get you where you need to go. And you also obviously have beliefs and philosophies, and you’re surrounded by people who are good in the academic aspect of say economics, who are learning the politics of it, who are coming up with alternate positions, which give us a movement in the right direction. I mean, when we were working on the FSC bill, yes, we were involved in a
trade violation where we didn’t want to restructure, couldn’t restructure, so we created these entities, which were, in fact, in violation of the world trading order, and which we got knocked down on, and then all we did was march through the alphabet, DSC, no that doesn’t work, FSC, no that doesn’t work--I figured we shouldn’t run it out until we get to ZSC. What we ought to do is maybe figure out how we can stop doing that and do what we should have been doing, trying to change the corporate code, going from a world where we had 1/6 of the world’s population and over half the wealth in a tax system that was now a detriment rather than a positive.

And of course, we came up with a solution, which got us back into WTO compliance, but the cost of--enormous in the trade world--of the sanction on FSC was four billion dollars. And the solution was 150 billion dollar tax bill. But that was the only vehicle focusing on the antiquated corporate tax structure that we had where we could try to get some changes in it.

Now, you don’t--you can’t take a four billion dollar problem and make it a 150 billion dollar solution very often. But what you try to do is to communicate to the President this is where we’re trying to go, he tells you what he would like to have, and if you have a really good working relationship you tell him in your opinion what you can get. And then he has to make a judgment based upon talking to everybody.
else whether you have an accurate view of what you can do or what you can’t do. And of course, one of the satisfying things I’ll take from this job is that it got to the point toward the current time that basically if I say I can do it they take a comfort level, because we can do it. And if I say we can’t do it then they’re upset, but they accept it, because it can’t be done.

The problem with that is you better be very careful, because if you say you can do it then they expect you to do it. But that’s a very rewarding working relationship. So it depends on the President, it depends on the party relationship, it depends upon the time in which they’re in, and a lot of times there are folk who want to make a major move with taxes, and this President has taken on entitlement and wanted to move on Social Security, wanted to move on Medicare, wanted to move on the tax code. I’ll tell you one of the really fun experiences was to be able to do what people--I think--a lot of people thought couldn’t be done, and that was to affect the monetary supply in a significant and timely way through fiscal policy rather than monetary policy. And we did in 2001, because here was Greenspan trying to control the economy through the old fashioned tools, and he doesn’t like it, but I think it represents the view of a lot of people. He was there playing one potato-two potato. I mean, you know, 25 basis points, 25 basis points, 25 basis points--people began to expect,
what’s next--25 basis points. You just dismiss it, because you know it’s coming. So you got into a rhythm where he was spending his cupboard bare and he wasn’t getting the kind of reaction that you would want.

Well, what do you do when you get down to a percent and a half left? What do you do when you get down to a percent? What’s on the other side of no leverage but job owning? We were able to move when we came in in January of 2001 by April sending checks out in August for back to school that gave individuals, consumers, significant leverage in spending, which I think made a major difference in the economy and did it in a timely way. And most people thought Congress would react, that Congress wouldn’t get it right, they’d overshoot or undershoot, and that was always the case. In that instance we were able to line it up and deliver fiscal policy that I think given how much was left in the cupboard a major assistance to the primary institution that we rely on to regulate the economy, stuff like that. See, that’s really exciting to some of us. I don’t know--

Q Can you talk a little bit about budget deficits. First off, do you see them as a problem, and is there--has there been any decisions that you’ve made for or against revenue decisions that you would regret or change?
Well, I mean, it doesn’t—it’s not useful to engage in that activity unless you don’t think you made the best decision you could with all the information available at the time you made it. If something comes up later then there was a flaw in your collection of information, there was a flaw in your analysis. I mean, that’s called learning as you go forward. So I didn’t sit around and regret something. If I had bought that 1.5 billion dollar bridge could we have made a change? And you know—but in terms of deficits the only answer I can give you is it depends. Are you dealing with a deficit that’s 20% of your GDP? You got a problem. And it’s fun, because in politics you see people want to try to put the worst possible spin on what’s going on. So they don’t talk about 1.6 percent of the annual GDP representing the deficit. They say 500 billion dollars when, in fact, in 1960 the equivalent 1.6 would have been 85 billion.

So you have to look at it in—it’s really hard for people to get their arms around a 15 trillion dollar economy. But one of the easiest ways I try to point it out is remember all the arguments from your history books about the decisions the Presidents had to make between guns and butter and all of that? And we just went through a major devastation psychologically and physically with 2001 attack. We rebound from that, we go through one of the major natural disasters, Katrina, and you got this mental set about things aren’t going too well,
and you got less than a five percent unemployment rate when it used to be that the Humphrey Hawkins bill said that six percent was full employment. And still people are looking--because if it’s drummed into your mind every day that we have problems, and somehow you never really see the outcome of the problems. And every time I look at the market it’s up another 50 points, and right now we’re on the verge of gaining everything back and moving beyond it.

So how do you reconcile all of this? Okay. It depends on how big the deficit is in relation to how much you’re making. It depends on productivity; it depends on all the arguments that you guys make in terms of putting into that equation. But it relies on something else, and this is where on the margin we’ve been able to carry on a semi successful educational training program for our members. I have a dollar to spend, and it’s in deficit almost by definition if I’m going to be trying to spend. Should I spend it on the beginning of a new program, which is a cute little puppy? I don’t know its parents, but it’s a cute little puppy. And you start feeding it, and it grows, and it gets big, and it consumes more and more deficit dollars, and you’ve now added to the deficit. Or take a deficit dollar and I make a change in the tax code, and I create the opportunity, in fact, the real incentive for delayed consumption, investment, savings and I grow the economy, and I actually make more revenue off of the use of that
deficit dollar than would otherwise have been the case. Two dollars, both in deficit. Which one gives you a return versus the other?

Now, let’s take it one step farther, because this is where we’ve had some success in educating our members. Okay. We’re going to spend a dollar in the tax area. You ask the average member where they want to spend the tax dollar, marriage penalty, child credit, feed the consumption side. Why? People who are married vote. People who want child credits vote. You make a decision in the tax arena on who votes when, in fact, that dollar directed toward investment, savings, nurturing approach to the economy will give you a greater return on your investment. And a lot of the early tax battles was getting people not to dump a lot of money, which you can, in the consumption side of the tax packages. And one of the real advantages we’ve been able to get is behavioral analysis, which accounts for some of that activity, which contributes to investment and saving versus some of that activity, which is one more buck churning past the counting post in the consumptive side. And you can show if you deal with the tax level amount big enough, I mean, you know, it’s got to be in the trillions, that you can have this positive affect as it goes. So we’re showing members, look, you got a buck to spend, you spend it here, this is what happens, and you have a buck to spend and this is what happens, so if you’re really interested in tax policy and helping
to grow the country you should spend it here. Now, a lot of folks say, “Look, I need to get elected, so I want to spend it here where I get an immediate return on the dollar.” But more and more are beginning to understand that the changes you make if you see it in that context make some sense. Now, the inevitable downside of that is you’re dealing with trillion plus movements over some years, still fairly new science and not as good as we would like yet, but immediately the reaction of members--who gets what, when and how--is that the guy comes in with the 60 million dollar tax package and says, “How much do I get out of the behavioral interaction?” And I said, “Well, point how many zeroes do you want in front of,”--you can’t measure it. Well, I thought you told me that--you know, so now we go into the size of the economy and education and the rest. If you want to deal with deficits don’t keep spending. Try to maintain the spending as the economy grows, and where you do spend deficit dollars invest in productivity, savings, bootstrapping the system to get revenue back in. and when the revenue comes back in don’t spend it. Reinvest it. It’s all stuff that financial advisors tell us, which we listen to and then don’t do. So in that sense to get people not to continue to spend but to invest for growth where you can show demonstrations of growth, you’ve got a really good learning tool in which members are a lot more sophisticated than they were just a few years ago about the wisdom of where you put money and how.
Now, you still go back to the old axiom--you don’t get reelected saying no. You get reelected saying yes. And you have to manage that, so there has to be some yes in terms of those activities or you don’t get their votes when you’re trying to do the deficit investment spending. So it all gets back to who gets when, when and how. That’s what makes it operate. And just let me say that you can use it in a technical sense, but you can also use it in a total universal sense. Politics is everywhere. If you’re married and you talk to your wife or husband or go home it’s who gets what, when and how. If you interact with our children, if you interact with your dog, any institution, not just government--we’re sovereign so we get to dictate a little bit more--every human endeavor and interaction is politics. Who gets what, when and how. And my time is up. Thanks.

Applause

End of Presentation