

**The Economy and Higher Education
Forum for the Future of Higher Education**

**The Brookings Institution
Washington, DC
January 23, 2013**

Political Landscape Following the Election

William Galston and Ron Haskins

Karen Dynan, Moderator

Ron Haskins

MR. HASKINS: There are three critical pending issues in Washington today: the debt ceiling, which actually could be settled today, the sequester -- more than a trillion dollars in spending cuts that were reached in the summer of 2011 and have been put off by Congress and may be put off again. And then there's the continuing resolution, which comes due March 27th. In the past the continuing resolution has been an occasion for all kinds of ugly things in Washington, including closing the government, which I'll talk about more in just a minute.

With those three things pending, let me say a word about Obama and a word about Republicans. I would summarize Obama's situation succinctly by saying he has a very good hand to play. Things have really broken his way, not only reelection, but he's also very popular with the American public. It turns out that for the last three or four months, the polls show clearly the public has thought Republicans are primarily at fault for the problems in

Washington, and that Republicans are stubborn and intransigent, and that it's not Obama's fault. It's Republicans' fault. And if anything, that's even more true now.

Another really important factor is that the public does not want to do what Republicans want to do. Republicans want to cut entitlements. The public has never favored cutting entitlements. They say, oh, yes, we have to balance the budget. Oh, yes, we have to cut spending. Oh, yes, we have to raise taxes. But just don't raise my taxes, and just don't cut my entitlements.

So this is a huge strength for Obama. And then the last factor that's really interesting is that Obama apparently, and Bill [Galston] is welcome to disagree with this, has really decided to play hard ball. He made the flat statement that he wasn't going to negotiate over the deficit, which he already has done with the debt ceiling.

He also had some amazing lines in a press conference on the 14th of January, and somewhat repeated in his inaugural address, which is a call to bring us all together and so forth. Republicans regard that as directed against them, the intransigence in Washington, unreasonableness, yelling, and screaming, and so forth.

And it probably hasn't escaped your notice that in this case, there's just some justification for these kinds of accusations against Republicans because Republicans really have dramatically overplayed their hand in many cases.

So now Republicans. If anything the Republicans are more furious at the President than they were before because of these comments that he's made. Oh, and by the way, this is a fascinating thing. I have great respect for

David Brooks. He's generally considered to be right of center. And Dana Milbanks, who you may not have heard of, but he's a prominent reporter in Washington who writes for the *Post*. Brooks referred to the inaugural as one of the best in the past half century, but Milbanks, who's definitely on the left and has written any number of columns about how bad Republicans are, thought Obama was unnecessarily provocative, that he did not want to reach compromise, that he's really feeling his oats, and so forth.

So it's really interesting how people, very bright people, have opposite views of the exact same event. I mean, they can read the transcript and come to completely different conclusions. But I assure you, if we had accurate data on Republicans, they would say the inaugural address was directed against them, and that it's just crazy for the President who said he was going to change the debate in Washington, in the same speech provoke Republicans unnecessarily.

All right. The second thing is, Republicans are backing down. They're beginning to see the light. It looks like someone in the Party got an IQ, and they realize you can't run the United States of America from the House of Representatives. So they have a weak hand. I think because of all the factors that I mentioned they're in a more conciliatory mood. Things change quickly in Washington, as you know. But I think that they're going to be less confrontational.

The debt ceiling debate is a great example right out of the box. They themselves offered the compromise. They're supposed to vote on it in the House today. I thought the vote was going to be this morning, but it

hasn't occurred yet. I checked just before I came here. But it's apparently going to pass. And it's an amazing thing that Republicans would give up what many of them regarded as their main weapon against the President to force him into cuts. Nonetheless, they're already starting to back off.

And let me say that this does present one of the few strategies that Republicans might be able to play in the near future. The President has got to increase the debt ceiling. If the Republicans did it on a three-month basis, three-month basis, three-month basis, that would do two things for them. First of all, it would give them an occasion every time to bring before the public that spending is a huge problem. I think the public has a sense of that already, but it's a very, very good thing for them to reinforce with the public.

And the second thing is they might be able to extract little things from the President. Like on this vote, they're going to say that the Senate has to have a budget. What a radical idea that is that the United States Senate should have a budget for the federal government, which they have not had in three or four years.

So apparently the President said he would sign it, and that's an achievement that would be good for the federal government to have a budget, and Republicans could claim credit for it. They might be able to find other things like that that they could do in three-month chunks so they look like they're able to govern, so they can overcome this perception that they're not cooperative and so forth. So this repeated emphasis on three months and some compromise might be a good thing for Republicans.

I want to compare the situation just for a moment

to one that I was directly involved in, and that is the budget situation, '95 and '96. Some of you may remember this. The parallels between then and now are really quite striking. Republicans, as many of you may remember, took over the House for the first time in four or five centuries, and they also took over the Senate, so they controlled the House and Senate.

The President was Bill Clinton, and Republicans didn't exactly like Bill Clinton. They have a propensity not to like Democratic presidents. I'll bet you've never noticed that.

I was in the House at the time, and I went to a lot of these meetings. And the freshman class was full of masters of the universe. By god, they're going to come to Washington and change everything.

So they constantly fought the President. They would not compromise. Republicans closed the government twice. You may remember this, in December of '95 and then in January of '96. And, finally, Newt cut a deal with the President. Came back to the House, assembled the Republican Caucus, and he said, now, this is not the best deal that we would like to have, but it is the best deal we can get. And if you don't take it, you can find yourself a new speaker. Now to me, that's real leadership. Roughly that's what's occurring now. The Republicans, especially the freshmen, are realizing they can't win just by saying no and by constantly saying bad things about the President, and saying we have got to attack the deficit, which is true. We do have to do something about the deficit.

So it's going to be another interesting two years in Washington I think. And I think not much will get done.

Let me tell you something that I think is a

little amusing. We have a group here at Brookings that includes three former CBO directors. Alice Rivlin, for example, is on the group. It's a very illustrious group. And Bill and I are both on the group.

We published our first book about the deficit five or six years ago. And our line was always go big. Get a big deal, \$5, \$6 trillion of deficit reduction with both tax cuts -- with both tax increases and spending cuts.

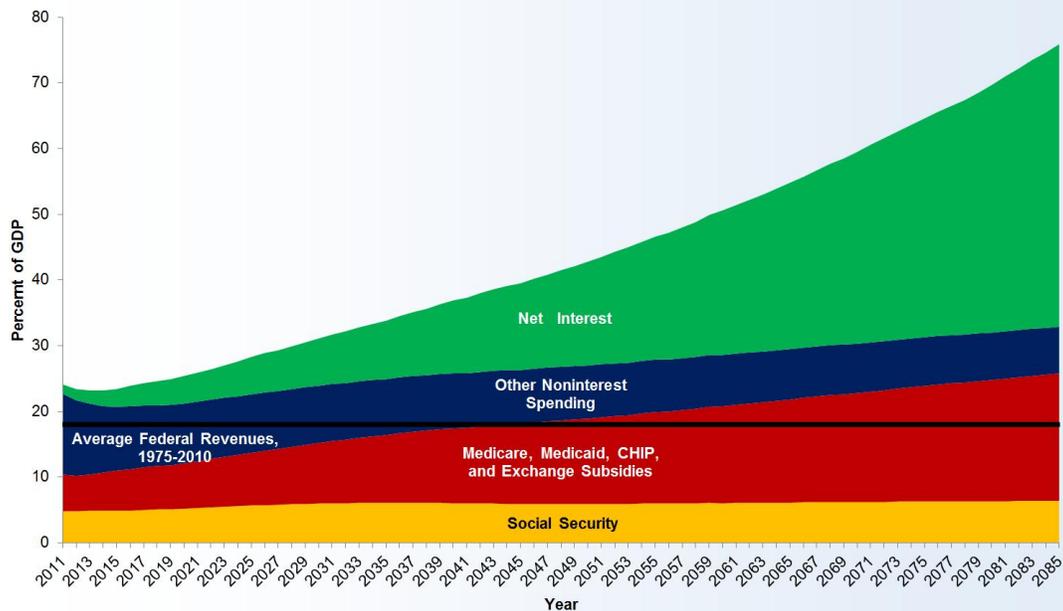
So then in the last year or so we've calmed down a little bit, and recently with Michael Hanlon I wrote a column called -- and a backup report -- called "Go Medium." Going big is not doing it. We can't get it done, so go medium, something in the order of \$2.5, \$3 trillion of deficit reduction.

So then, a week ago I wrote a column called "Go Tiny." We need a trillion or a trillion and a half. But to me, that nicely captures what's happened to the Republican Party and what's happening to the most important goals in the country, that we backed off what we eventually have to do. And nothing will happen in the next two, maybe four years. Not nothing, but little things at the most.

And I want to tell you why I think this is important for you. There are two charts here that are to me are amazing. Chart 1 is one of the most profound charts I've ever seen. I've felt this way ever since I first saw an earlier version of this chart three or four years ago. But it shows you spending between now and 2085.

Chart 1: Unsustainable Spending

The Big Picture: Unsustainable Spending



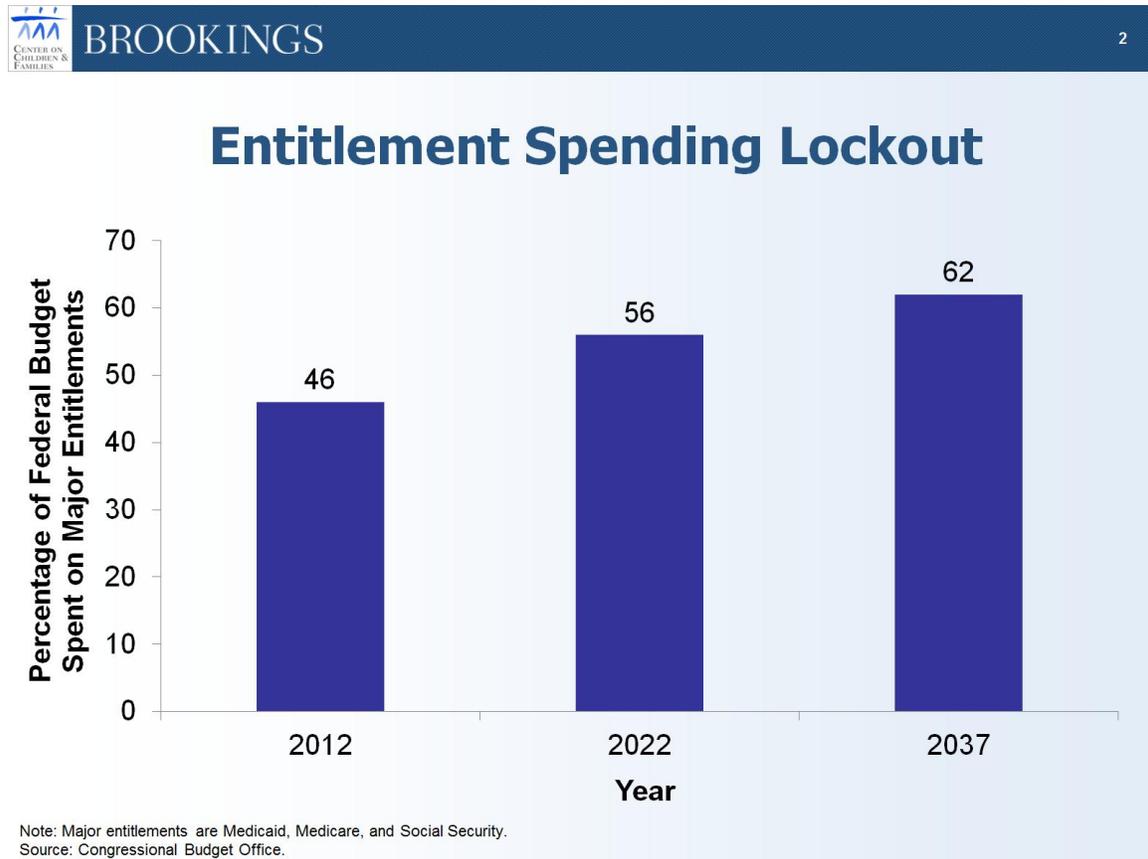
Sources: Spending: Congressional Budget Office, "Supplemental Data for the Congressional Budget Office's Long-Term Budget Outlook (June 2011)," available at <http://www.cbo.gov/doc.cfm?index=12212>. Revenues: OMB, Historical Table 1-2, *The President's 2012 Budget*, available at <http://www.whitehouse.gov/omb/budget/Historicals>. Note: Based on the Alternative Fiscal Scenario.

Social security comes up a little bit. That's the very bottom line. The next one is Medicare and Medicaid and CHIP, which is Child Health Insurance Program, another health. Again, that's where the action is, and it's mostly because of. Medicare is so huge and growing rapidly due both to the aging of the population, and to the increase in health care costs, which maybe are moderating a little bit.

But now the next -- the blue part of this chart is the part that you should be worried about. This shows what happens to all other spending. And, in fact, if you look at Chart 2 you'll see what I call the entitlement

spending lockout. This is the percentage of the federal budget that's taken up by entitlement spending -- 46, 56, 62 percent between 2012 and 2037. This could be an underestimate.

Chart 2: Entitlement Spending Lockout



So what does that mean? That means that little blue line up there is going to continue to be squeezed, and you all are in the blue line. Research, higher education funding, all of that is going to be squeezed. It's under relentless pressure, and it's not going to diminish. I'm not saying give up. You've got to still fight, and there'll be some organizations in some parts of the budget that will survive and maybe even expand a little bit during this time. But there'll be many that will be cut, and some

cut very deeply. It is inevitable. It might not happen this year. It might not happen next year. But in the next six, eight years, they're going to be cut. Many have already been cut.

These are all CBO assumptions. It will change a little bit. February 4th the CBO will have a new baseline, and this can be updated. But I think the general outline of this chart is what we face. And I want to call attention to one more thing before I turn it over to Bill.

Medicare is expanding rapidly, and that's what's driving our borrowing. But look at net interest under reasonable assumptions. This is why the debt ceiling to me is such a threat. If interest rates start going up, the federal government is going to really be ripped, and so are state governments because they're dependent on federal spending. And the first thing that'll happen is not only will the federal government have its credit rating knocked down, so will the states. So you get a double whammy here. You have to worry about the federal funding and state funding.

The word "unsustainable" was invented for a situation like this, and we have to do something, but we're not going to do anything very soon.

William Galston

MR. GALSTON: Well, you know, fellow educators, I spent about 30 years of my life in a couple of major state institutions, University of Texas at Austin and the University of Maryland, with a little time off for good behavior in politics before I came to Brookings. And when I was in the White House, one of the big chunks of my

portfolio was the education beat. So I think I know something about your issues from both sides of the table, and I wish I had some good news to bring you, but I don't.

I'm going to take a different road, but I'm going to get to very much Ron's conclusion. The first point is we live in very unusual political times. The polarization of the two political parties, according to standard political science measures, is at a peak last seen in the 1890s. That's not the 1990s. That's the 1890s. I mean, this is bad. And we always tend to be myopic and think that what just happened yesterday was the worst thing ever. But the basic structure of American politics right now is as deformed as it has been for more than a century.

I wish I could confirm what some political scientists argued about a decade ago, namely that the polarization was confined to the parties and wasn't characteristic of the electorate as a whole. If that was ever true, it no longer is.

And so the divisions among the people are a lot more severe than was the case a generation ago. People have sorted themselves out in partisan terms, ideological terms. If any of you are interested in the gory details, you can take a look at a monograph that I published not long after the most recent election on the Brookings website, "The 2012 Election: What Happened, What Changed, What It Means." Now what about the election? I think Ron is obviously right. The Democrats were emboldened, especially the President as his rather extraordinary second inaugural address clearly revealed. The Republicans were defeated, and I think sobered.

The Republicans in the first two months after the election were in a disorderly retreat, and anybody who's

ever had any military experience knows that you cannot really defend yourself during a disorderly retreat. Your only hope is to retreat to a new defensive perimeter that you can hold. And in my judgment, over the past week or so, the House Republicans have managed to do that.

I know for a fact that the Democratic leaders are impressed with the decisions that the House Republicans made in their retreat last Thursday and Friday. And it appears as though the proposal that the Republicans put on the table will go through the Senate, and will be signed by the President. The President said yesterday he'd sign it, and Harry Reid said a couple of hours ago that he wouldn't block it. So I think that deal is going to happen.

More broadly, it seems to me the election has confirmed the existence of a new Democratic coalition. Whether it's a permanent majority, I don't know. Some of my progressive friends are more confident in that point than I am. But you all know its basic building blocks -- minorities, young adults, single women, upscale professionals. These are people for whom social issues tend to be quite central. And as the President's second inaugural revealed, this is a group that is pro-government because it is focused on very specific programs: Medicare and social security for retirees, Medicaid for the poor, grants and loans for students, legal changes that would benefit immigrants, gays, and women, and regulations and laws that would do something about climate change.

That's the basic agenda, and I would say it's a coalition that puts more emphasis on inequality and the rectification of inequality through redistribution than on economic growth per se, and certainly a lot more emphasis on inequality than on fiscal issues, such as the long-term

budget deficit.

There is always a danger that a reelected president will over interpret his mandate. It happened to George W. Bush in 2005. It has happened to many second-term presidents, including Franklin Roosevelt, who was reelected with about the biggest landslide in American history in 1936. The Republicans were down to 11 seats in the Senate and 88 in the House. It was just a romp. And Roosevelt managed to overreach badly with the Court packing scheme, and his effort to purge southern conservatives from the Party. His decision to re-embrace the principle of fiscal rectitude on which he waged his 1932 campaign produced a mini depression in 1937 and 1938. So in politics, as in Greek tragedy, pride goeth before the fall.

And, you know, there is no guaranty that the political landscape which looks so favorable to the President right now is going to look as good in six months. I happen to be one of the skeptics on that point.

As for the key legislative issues for 2013: the President responded strongly to Newtown, so there will be a debate about gun safety. I think the President will get something out of the debate, probably much more rigorous background checks. I doubt very much that he'll get an assault weapons ban, although a number of educational institutions could breathe easier if he did.

There's a much better chance for real change on immigration policy. It is overwhelmingly likely that sometime in the next 12 to 18 months there will be comprehensive immigration reform for a very simple reason, which I can summarize in two words: 27 percent, the share of the Latino vote that Mitt Romney got.

But let me turn to the main game, which is the

fiscal debate. As Ron has pointed out, there are three strands of that debate this year: the debt ceiling, sequestration, and the expiration of the continuing resolution that kept the government funding, the expiration at the end of March.

Well before another week elapses, there will be a temporary extension of the debt ceiling. But with regard to the continuing resolution at the end of March, I think there's at least a 50 percent chance that we will see a rerun of late '95, early 1996 where the government shuts down. I don't know how long it's going to last. But the Republican conservatives and the newer members believe that they were compelled to give up a strong bargaining chip when they turned their back on the debt ceiling. And so they are looking now to the continuing resolution as the next place to really wage the fiscal fight. I think these emotions will be difficult for the leadership to contain.

With regard to sequestration, I spent all morning on the Hill at a meeting, and while I cannot reveal names, these are people in a position to know. Both Republicans and Democrats who spoke believe that sequestration would, in fact, go into effect. The irony is that what was devised as the worst case is now being regarded by both parties as preferable to what they would need to do in order to change it.

And sequestration, as you know, is the rain that falls on the just and the unjust alike. There will be massive cuts in the defense budget, but almost equally sized cuts in domestic discretionary programs. More on that in a minute.

I absolutely agree with Ron that while people may continue talk about and long for a grand bargain, that is

pretty much off the table. Republicans really resented being forced to vote for higher taxes on December 31st, early January, and I think they are being absolutely sincere when they say *no mas*. It's not going to happen again. And the President in the State of the Union address pretty much took the entitlement side of that grand bargain off the table.

We would do well in Obama's second term to put our fiscal trajectory on a line to stabilization of the famous debt to GDP ratio at roughly its present level. I doubt very much that we could do better than that. And even achieving that depends on assuming there will be no recession for the next 10 years. Good luck.

Now what does this mean? Here is where I converge with Ron's conclusion. There is a key mega trend at work in all of this that I think affects you and what you're about directly. Sequestration, that big hit on domestic discretionary programs -- I think you know what's in that basket, and it's not good news. It's not good news for the things that bring you together.

You've perhaps heard about this mock horror film, *The Tomato That Ate Cleveland*. Well, the entitlement programs are the tomato eating the Cleveland of the federal budget, and there's not going to be a lot left over.

And unless you assume that the national and global economy are going to remain as weak five years and 10 years from now as they are today, this massive debt that we're piling up, about 50 percent of which needs to be refinanced in the three-year cycle, will have to be refinanced at much higher interest rates.

Now why does this matter? The domestic portion of discretionary spending helps fund education, scientific

research, medical research, as well as investments in infrastructure and other things that help build the future. And to pile gloom on gloom, at the state level, there are also adverse trends at work. Let me name just one.

Even before the Affordable Care Act, Medicaid was on track to expand very significantly because Medicaid funds not only health care for poor and near poor people, but also nursing homes. The number of people 85 and over is going to quadruple in the next 20 years. And the relentless expansion of Medicaid creates constant and increasing pressure on state budgets. Having been at two state universities, including most recently the University of Maryland, I can tell you that higher education is fourth on the list of three priorities for governors and state legislatures when it comes right down to it. That's just a fact.

Higher education is the most fungible item in state budgets, and legislators and governors have been funging it to the max. And that is likely to continue, and you all know what that's doing to tuitions. You all know what that is doing to requirements for external fundraising. And I suspect, unfortunately, that higher education is about to hit a wall with the market; tuition increases substantially above the general rate of inflation will become less and less sustainable.

So with all of that good news, I will subside and yield to the questions.

Discussion

MS. DYNAN: Before we go into general questions, let's talk about time constraints. By the time Congress

deals with the debt and deficit this year, is there going to be time to address anything else, anything on social policy?

MR. HASKINS: I agree with Bill. I think Republicans need immigration reform. There will be people on the far right who will be completely intransigent. But I'll bet there's easily a majority in the House for something reasonable on immigration reform. And there are several other issues, I think, that the Congress can deal with.

SPEAKER: I have two questions. One, relates to repurposing campaign-oriented efforts to become permanent lobbying organizations; how Obama has taken his campaign and the money that he's raised, and the network, and the community organizing skills to lobby for things that he'll be interested in, presumably also including the gun control. The second, is this picture of yours that shows that what cannot continue will not continue. I have two sons in their 20s, who are socially quite liberal, as you've described young people, but fiscally quite conservative, and very skeptical about the prospects of the second half of the baby boom generation actually getting the benefits that have been promised to them.

Obviously our generation continues to vote for more and more goodies for ourselves. But when a good chunk of us is gone -- permanently gone -- and not voting anymore, what I'm hearing from people in their 20s is we're going to change the rules on the ones that survive. And I wonder if you have an opinion about that.

MR. GALSTON: You've correctly invoked the Herb Stein principle -- if it can't keep on going any longer,

stop. The fear is that if you don't brake in time, it'll stop in the worst and most destructive way. And that's why the people that Paul Krugman ridicules twice a week as, deficit nags think that maybe tapping the brakes a little bit starting now wouldn't be such a bad idea. Because anybody who knows anything about the way entitlement programs are structured and funded knows that it's like turning around an oil tanker. It's a huge turning radius. It takes a lot of time. You cannot make abrupt changes.

So the problem with the strategy of waiting until the likes of us die is that it's going to take too long to get these things on a sustainable footing in time to avoid a very abrupt discontinuity. That's what scares me.

MR. HASKINS: I think we published our first book five years ago. And we had a big event in this room. The room was stuffed with probably 180 people.

And we got into a discussion about how serious entitlement spending was and so forth, and what were the prospects that we would actually take action. And back in those days we were pretty optimistic.

But sitting right about where you are now was Alice Rivlin, and she stood up and she basically said-- I'm paraphrasing obviously-- the real concern is that we're going to hit a huge crisis first, and maybe the Congress is not capable of action.

So when I think about your kids and other young people that want fundamental changes in these programs, the fact is that Congress has to vote and we are in a situation right now where neither Party will even put a serious plan on the table. If you put a plan on the table to reduce either social security or Medicare, and maybe even

Medicaid, you will be attacked unmercifully. And I think the implication of Obama's speech and certainly many, many, many Democrats is that they will absolutely slaughter Republicans for cruelty to the poor and so forth.

So if we can't even put a serious proposal on the table, can you imagine Congress actually voting? Neither social security nor Medicare are on a budget. We don't even have a budget. And principle number one of governing is you've got to have a budget. You got to stick to it. With no budget everything's on automatic. Those huge increases you see, they don't involve any vote from Congress. It just grows.

So the idea of actually having a majority in the House and the Senate and a President that would sign serious changes in Medicare and in social security -- it ain't going to happen.

MR. GALSTON: But wait a minute now. John Boehner, Speaker of the House, had to pay a price in order to get his more conservative troops to agree to stand down on the debt ceiling. And he had to promise them that the Republican House majority would put together a budget showing how the federal government will get to balance within 10 years, not a stable debt to GDP ratio, but balance. Boehner gave his word that that would be the budget coming out of the House Republicans. And there's no way that you can do that without addressing exactly the questions that you said they'd get slaughtered for even raising. So now what?

MR. HASKINS: David Stockman developed the concept of the magic asterisk. So you put a little

asterisk in the budget, and then down in the footnotes say, "to be determined." That's how they're going to do it. I hope I'm wrong. I would love for Republicans to lay out a serious plan, even more serious than Ryan's. I think Ryan's was serious and it served a purpose, but it had no chance of passage. I think it's almost impossible to have the Medicare block grant. I wish it were more likely that we'd have something like premium support in Medicare, which I think really is a possibility. But I don't think Republicans will even go that far.

It would be helpful to the nation and to the debate to have a budget that would really solve the problem.

The problem is, though, you got to have really good leaders that people trust like Reagan and like Rostenkowski to pull off something like that. I have great admiration for the Speaker, but I don't think the public does. The polls show they don't.

SPEAKER: I'd ask for a commentary on some of the state issues. In states where you don't get to print money, and where you have to actually balance a budget, some of those bills have to be paid. They don't get to kick the can down the road.

How do you see that playing out politically?

MR. HASKINS: I'll tell you something very quickly and turn it over to Bill. I have no idea how the states can survive. They have huge increases in Medicaid because of Obamacare. The feds are supposed to pay 90 percent. But, if there are compromises, I think that's going to go away, and the states will have a bag there.

And there are many states, as you point out -- California, Illinois, several others -- that are really on the cusp of serious financial difficulty.

So I would expect to see more governors like Walker in Wisconsin and, before long, even blue dog Democrats who are willing to take on the teacher unions and willing to take on state employees. So I think that's the future, that there will be serious changes at the state level.

They don't have to deal with Social Security and Medicare like we do, but these issues are comparable at the state level, and I think we'll see some serious changes in the years ahead. Do you agree with that?

MR. GALSTON: We will see some serious changes in the years ahead, but it's the direction of those changes that we need to focus on. At roughly the same time events were unfolding in Wisconsin and Michigan, Jerry Brown was taking California in a very different direction.

As you know, he slashed spending, creating howls on the left. And then he went to the people and got them to authorize a very large tax increase, which created howls on the right. As a result he stood up at a press conference yesterday and said the California budget is now in balance, and will be in balance for the next four years.

Which one of those is the template for the future at the state level? I think it depends on whether states are red, or blue, or purple, and also what the actual components of the fiscal challenges are. In states like Illinois, which have the most underfunded public pension system in the country as a percentage of total obligations outstanding, there's only one way to go. And the unions

will scream, but there's no way that they can force the legislature to appropriate the sums of money for past obligations that would be required in order to make them whole.

But that gives me an opportunity to say that the range of possible responses at the state level can also be replicated at the federal level. I don't know whether any of you saw the business section of the *Times* this morning, but there was a very interesting article there summarizing a piece that the Brookings Urban Tax Center produced, asking the following question: To maintain roughly the government programs that we now have without that huge green swatch in Ron's chart expanding, how much in additional revenues would we have to start raising tomorrow? The answer is about six percent of gross domestic product.

With a GDP of, say, \$15 trillion, we'd have to raise about \$900 billion a year in taxes to stabilize things over the life of Ron's chart. To some extent the federal government is going to have to respond the way a number of states have: by taking another look at its revenue system. And while we've all been focused on the big debate in Washington, let me give you my snapshot of what has happened in the past 12 years.

In 2001 and again in 2003, George W. Bush cut taxes over the howls of Democrats. In 2008, Barack Obama campaigns on a very interesting pledge, that 98 percent of Americans will continue to receive George W. Bush's tax cuts. The Republicans say, oh, that's horrible. That's heresy. That's socialism. One hundred percent should continue to receive them. After four years of pitched battle, guess what? They compromised on 99 percent. And

that's what passes for a great fiscal debate in your nation's capital.

What that means is that the long-term revenue sources of the federal government are now permanently \$3.5 trillion lower over the next 10 years, and God knows how much more past that, at a time when various needs are escalating, and when the country is crumbling. And I meant that not culturally, but physically. The World Economic Forum now rates America's infrastructure 25th in the world and going down fast because we're underinvesting so radically. You can't cut taxes and fix the infrastructure. Something has got to give.

And so I think that there is going to be a very robust debate in this country over the next 10 years which will involve not only the entitlement programs, but also sizes and sources of revenues that we haven't heard a lot about in the debates up to now.

MR. HASKINS: Let me make one partisan point.

MR. GALSTON: Yes?

MR. HASKINS: I was opposed to Bush tax cuts. I've been giving speeches and writing about it and lost Republican friends over being opposed to the tax cuts because we have to have more revenue.

But I would put a big part of the blame at the President's and the Democrats' house because the President said we're not going to raise taxes under \$250,000. I mean, that is impossible, Bill. We've got to do that.

MR. GALSTON: We're not disagreeing. We're

agreeing vehemently as always. When I said that the President campaigned in 2008 on the platform that 98 percent should keep on receiving them, do you think I was happy about that?

MR. HASKINS: No, no. But Republicans get stuck with being unreasonable about taxes, which I think they were. But in this case, I think what really sealed the door was the President and the Democrats saying we're not going to increase middle class tax cuts at \$250,000, and then comprised at '99.

It does make a great story, but it's totally pitiful. And we're going to pay a huge price for it.

MR. GALSTON: Let me put it this way. A government that confers huge and increasing benefits on the middle class cannot continue to do that unless it asks for more from the middle class than either political party has been willing to do for a very long time. And the idea that we can finance indefinitely a middle class entitlement state through contributions from the rich fails the test of arithmetic.