

Timothy Geithner
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Alex Jones

Good afternoon. I'm Alex Jones, Director of the Joan Shorenstein Center on the Press, Politics and Public Policy for Harvard Kennedy School, and I welcome you to this special event with Secretary of the Treasury, Tim Geithner. It is special not only because we have the Secretary with us, but because it is also a memorial to Walter H. Shorenstein, the Shorenstein Center's great friend and benefactor, who died just short of a year ago.

Walter Shorenstein was a man of many parts. He was best known as the founder of the Shorenstein Company, which is one of the nation's most successful commercial real estate companies, now run by his son, Doug, who is with us today. Walter Shorenstein endowed the Shorenstein Center as a memorial to his daughter, Joan, a superb journalist who died of cancer before her time. Walter wanted Joan's life to be honored by something as meaningful and dynamic as the life she had lived, and I'm proud to say that the Joan Shorenstein Center will celebrate its 25th anniversary this year.

But Walter was also a great citizen in every sense of the word. He cared deeply about his country, and it was his lifelong custom to look over the horizon and seek solutions to the nation's serious problems. He was especially attuned to financial affairs, and had strong views about how to safeguard the nation economically. Were he with us today, the nation's, indeed, the world's economic crisis would have been at the top of his list of concerns.

Doug Shorenstein, his sister Carole Shorenstein Hays, and the Shorenstein family joined with us in inviting Secretary of the Treasury Geithner to address those concerns today. Please join me in recognizing Walter Shorenstein and the members of the Shorenstein family who are present, for their enduring public spirit. And I would be remiss if I did not also publicly thank the staff of the Shorenstein Center, and especially Edie Holway, for their superb work on putting this together on very short notice.

For two years, three months and twenty-two days, I won't count the hours and minutes, Tim Geithner has been at the center of a fiscal maelstrom. If he did not have a thick skin when he started, he no doubt feels that he resembles a crocodile by now. Before becoming Secretary of the Treasury, he was Chief Executive Officer of the Federal Reserve Bank of New York. As a journalist who believes in

correcting journalistic errors, I would like to stress that he has never worked at Wall Street, and was not an employee of Goldman Sachs, ever. He's a graduate of Dartmouth College and the Johns Hopkins School of Advanced International Studies. He has studied Japanese and Chinese, and lived both places, something that seems to grow ever more important in navigating the world economy.

So how has he done his job so far? Two years and five months ago, he was being lambasted by both the right and the left for his fiscal rescue plan. Yesterday, the headline for a *Bloomberg News* column by Al Hunt said, "Geithner Emerges as Obama's Indispensable Man," which is not to say that brickbats are not still flying here and there.

It is my pleasure and honor to welcome the Secretary of the United States Department of the Treasury, Tim Geithner.

Timothy Geithner

Thank you, Alex, that was gracious. Nice to see you, from the Shorenstein family, I admire so much what Walter did. My uncle, Jonathan Moore, played a small role in the history of the center when he was the director of the Institute of Politics. I was studying at Dartmouth, and my parents were still living overseas then, and I used to go spend vacations with his family. I remember sitting on the floor of his office for many hours, sometimes studying, waiting for him to give me a ride home. What a great cause you're engaged in, which is trying to improve the basic quality of public debate on the consequential policy questions of our time.

I want to talk today about the question of how we deal with our fiscal challenges, to explain why this is so important, what should be done, the politics and the economics of the credible solution, and the perils and the promise of the negotiations now underway in Washington. I choose this subject not because it is the only challenge we face in economics and economic policy. With unemployment still around 9%, millions of Americans still uncertain about their economic future, we face, as a country, very formidable economic challenges. But our ability to deal with those challenges will be determined by our ability to restore long run fiscal sustainability.

Now, we spent the last decade piling on debt to pay for expensive tax cuts, a large prescription drug benefit and two wars. On top of that legacy of choices, we had to clean up the worst financial crisis since the Great Depression, and we face unsustainable future fiscal deficits caused, in large part, by the dramatic rise in the number of Americans who will turn 65 in the next decade, combined with the fact,

of course, that we now live longer, and the cost of medical treatments is so much more expensive. Today, we have to find a way to return to living within our means.

Our fiscal problems are so pressing that they threaten to undermine the foundations of our future economic strength, our ability to protect our national security interests, and our capacity to sustain the commitments made by 13 presidents over 75 years to provide economic security to the poor and to the elderly. We now borrow \$0.40 for every dollar we spend, and under current policies, our total federal debt burden will be almost as large as the entire output of the American economy within the next decade. We do not have the option of leaving this problem to another day, another congress, or another president.

Now it's true that we are able, today, to fund these deficits at very low interest rates, less than 3.5% now for a 10-year Treasury bond. But these rates are a reflection of confidence that we will act, not a justification for inaction. And they are unusually low today also because of the relative lack of other investment alternatives in a world still recovering from crisis, and with the other major economies facing comparatively tougher problems, tougher even than ours here in the United States.

Now there's no way of knowing how long the financial markets will give the American political system to get ahead of this problem. But it makes no sense for us to wait until they force action upon us. As we saw in the fall of 2008, when confidence turns, it can turn with brutal force, and with a momentum that is very difficult and very costly to arrest. This is a threat we should preempt. If we don't, the economic damage and the human cost will be much greater. Confidence is much more expensive to restore than it is to keep.

If we leave our debt problems unaddressed, those who lend us the resources to fund our past and future commitments will eventually demand higher interest rates, and higher borrowing costs for American households and businesses will discourage future private investment, lower our capital stock, reduce the rate of economic growth, and lower our standard of living. The cost of paying higher interest will make us poorer. Every dollar in interest payments means a dollar in higher future taxes, or a dollar we can't spend on more productive investments like education or our national security commitments or programs for the poor or the elderly or those with disabilities.

So for all these reasons, the choice we face is not whether to start to get our fiscal house in order, but how we do it, and to provide some context for the choices we face, consider the following facts.

In the United States of America today, 40% of children born each year are covered by Medicaid. If you're born today in hard-pressed communities in many American cities, like Detroit, St. Louis or Baltimore, you are more likely to die before your first birthday than if you were born in Sri Lanka or Belarus.

In education, we're, of course, losing ground. In L.A. today, for example, but not just in L.A., only about half the kids graduate from high school. Over the next 25 years, the number of Americans eligible for Medicare and Social Security will nearly double, while the number of working age Americans will increase only by about 10%, putting substantial new burdens on working Americans.

We still live in a dangerous world, with young men and women fighting and dying to protect our freedom. We spend \$700 billion a year on national security, and this is only about 2/3rds of what we spent during the cold war as a share of our economy.

The effective income tax rate for the wealthiest Americans, those earning more than \$250,000 a year, is at its lowest level in 50 years; and the effective tax rate for the very rich, say those earning more than \$10 million per year, has declined much further, and now is around 21%.

So clearly, we have some tough choices to make, and to put us on a path to living within our means, we have to bring these deficits down; to bring them down gradually, but dramatically, over the next three to five years. We need to cut our annual deficits that are now roughly 10% of GDP to the point where the overall debt burden begins to fall as a share of the economy. This requires that we achieve and maintain what economists call primary surplus, which means that we cut what we spend on everything except interest payments, to less than we raise in revenues. For the United States, this means a deficit below 3% of GDP. Achieving this goal is the essential test of fiscal sustainability.

We can't do this too quickly, though. It has to be a multi-year process with cuts phased in over time, that does not put at risk an economy coming out of crisis. With interest rates now very low, we cannot count on the Federal Reserve to be able to offset the contractionary effects on economic growth of a lurch to excessive and premature austerity. If we put our deficits on a path to get them down below

3% of GDP by 2015, and we hold them there, with reforms that politicians commit to sustain, to leave in place, then the federal debt held by the public will peak in the range of about 70% to 80% of GDP, and then start to fall.

The economic and the political question is not whether, but how, to achieve this objective. And the debate we now confront is how to cut these deficits while strengthening our ability to grow and compete in the future, protecting our national security interests, and preserving healthcare and retirement security for the elderly, the poor and those with disabilities. So let me describe briefly how the president proposes to do that.

First, the president proposes to reduce spending across the government, and toward that objective, the president has proposed cutting spending on government functions outside of national security, healthcare and Social Security, by more than \$1 trillion over the next 12 years. These cuts, if enacted, would bring non-security discretionary spending to its lowest level as a share of the economy since Eisenhower, and this will require savings in mandatory programs that have a lot of political support, like agricultural subsidies. On top of this, the president proposes to cut \$400 billion in security spending, while of course making sure we preserve the essential capacity to meet our national security responsibilities.

The president's framework cuts government spending, while at the same time preserving our ability to finance productive investments in things like education, research and innovation, infrastructure and clean energy, things that are critical to our capacity to grow in the future. These investments in those areas, education, research and innovation, infrastructure and clean energy, they meet two key tests. They have very high returns in terms of future economic growth, and the private markets will not finance these investments at an adequate level without the catalyst of government incentives.

Now alongside these investments, the president proposes to remake the corporate tax system so it does a better job of promoting business investment in the United States. And together, this mix of reforms reflects the fundamental reality that the composition of the spending cuts is hugely consequential to whether deficit reduction hurts or helps future economic growth.

The second key piece of the president's framework, the president proposes substantial savings from Medicare and Medicaid on top of those reforms that were adopted in the Affordable Care Act. Together, these programs, Medicare and Medicaid, are responsible for about 1/5th of our budget, and because, of course, of

the aging of the population, the increase in life expectancy, and rising costs of new medical treatments, they are the main source, the main drivers of our long term deficits. So for Medicaid, the president proposes at least \$100 billion in savings over the next decade, while making it easier for states to administer the program. He proposes for Medicare an additional \$200 billion in savings over the next decade by harnessing the purchasing power of Medicare to control spending.

In addition, he would build on the fundamental reforms in the Affordable Care Act that were praised by independent health experts from across the political spectrum, including by requiring the Independent Payment Advisory Board to target cost growth in Medicare to GDP plus .5%, a very tough standard for controlling cost growth. And while Social Security is not the cause of our current deficits, the president has said that Republicans and Democrats should come together to make changes to the program now that will put it on a solid footing into the future.

Finally, the president proposes changes to the individual tax code that will reduce the deficit, while moving towards a more fair and simple system. By restoring the tax rates on individuals earning more than \$250,000 a year to the level that prevailed during the Clinton Administration, by returning the estate tax to 2009 rates, and by scaling back tax expenditures, the president's plan would generate additional revenue without putting at risk future incentives for economic growth.

Now, the reforms we must adopt have to be grounded in realistic assumptions about the path of future policies, the impact of legislation and economic changes. Neither Congress nor the Administration should be able to use unrealistic assumptions about future economic growth or future political courage, or other forms of magical thinking to minimize the magnitude of the reforms that will be necessary. These changes will be difficult, of course, but in a balanced framework like this, with the burden of adjustment shared broadly and phased in over an appropriate period of time, then the overall economic impact will be manageable.

Now to make this framework credible, we need a mechanism that forces reform. So the president has proposed that congress impose on itself a debt cap that would lock in the necessary reductions in deficits over the next several years, and as a failsafe, would require automatic cuts in spending, including spending the tax code, if the targets aren't met. This is very important. It's the fiscal policy equivalent of trying to take politics out of monetary policy, as we and most other countries have done, did some time ago, by making central banks independent, with a mandate to keep inflation low. We need a debt cap so that politicians cannot choose to live with unsustainable deficits. It reduces the legitimate area for

political debate to how to achieve a sustainable fiscal position, not whether to achieve a sustainable fiscal position.

You can tell from the debate in Washington, there are big differences among Republicans and Democrats on how to achieve the reductions in future deficits that we all agree, we all know are necessary, and the divisions are very substantial. They're most pronounced in three areas: how best to promote future economic growth, how to reform the tax code, and how to protect healthcare and retirement security for the elderly and the poor.

Given these differences, we believe the most realistic approach is to design a framework that forces the necessary political agreement on reforms, and to do this, we're trying to negotiate a multi-year framework of debt caps and targets, with a substantial down payment of specific cuts and policy reforms. In order to be meaningful, this down payment has to be substantial relative to the total amount of deficit reduction we need over the next decade.

All the fiscal plans now on the table include roughly \$4 trillion in total deficit reduction over the next 10 to 12 years, so there's broad agreement now on the ultimate goal and the ultimate timeframe. The components of the down payment, again, to be credible, have to touch all parts of the federal budget, from defense to Medicare and Medicaid, and they should be balanced by changes in revenue. It should include a mix of specific savings from mandatory programs and commitments to lower future discretionary spending. The more specific the reforms the more believable and credible will be the framework. And these savings in the down payment will be complimented by an overall cap on future debt and deficits, with a strong enforcement mechanism to force action that would deliver the remaining savings.

Now here's how the mechanism would work. At the beginning of 2013 and every year after that, we would assess the magnitude of additional deficit reduction required necessary to bring down the debt as a share of the economy over the following five years. Congress would then have roughly nine months to enact legislation that would meet that target. If Congress cannot agree on the legislation, then automatic cuts in spending and tax expenditures would go into effect for the following year that would put us on a path to meeting that fiscal target.

Now the size of the remaining cuts we're going to need beyond the down payment will depend significantly on the future of the Bush tax cuts, which, of course, without new legislation, will expire at the end of 2012. The president, as you

know, has proposed to extend the tax cuts that benefit the middle class, but to allow the tax cuts that benefit just the top 2% to 3% of Americans to expire on schedule. Allowing those tax cuts to expire would reduce future deficits by roughly \$1 trillion over the decade ahead. Taken together, our view is this is a reasonable plan. It includes a balance of short term savings and long term reforms so that we don't just push all the tough decisions into the future. It's an achievable plan, and it meets the critical test of any plan, which is it is better than the alternatives.

A few points on the alternative strategies that have been proposed. Some have suggested that we set a global cap on spending as a share of the economy, at a level that prevailed in the decade before the crisis, or the decades before that. The two dominant suggestions on the table suggest a target of spending at either 20.6% of GDP, or something like 18% of GDP, or some are as low as 16% of GDP. Now these targets have obvious simplistic appeal, but they have no practical value as a device for fiscal restraint, and let me explain why.

We cannot cap or reverse the aging of the population. As the baby boom generation retires, the number of Americans turning 65 will increase dramatically, and as a result, if you cap spending at historical levels you would be forced to make exceptionally deep cuts in benefits to seniors and the poor, as well as in all the core functions of government, such as defense and education. Spending caps do not provide the government with the flexibility you need to respond to future national security threats or future recessions. And spending caps, even if set at more realistic levels, would not be sufficient to achieve fiscal sustainability. Without overall caps on debt or deficits, spending measures alone will just enable future congresses and presidents to still try to live with higher deficits by cutting tax rates or shifting more spending to the tax code. And it's worth noting that already today, we spend as much in special tax preferences in the tax code as we collect in federal income tax revenue from individuals.

Now the House Republicans have proposed a plan that has deep spending reductions, but devotes a substantial portion of those savings to keep tax rates low, at exceptionally low levels for the wealthy, not just for the middle class. This approach will not pass the Congress, now or in the future, not just because any legislation today requires votes from both Democrats and Republicans, but also because this alternative proposal would require implausibly deep cuts in benefits for the elderly and the poor, and it would reduce the rest of government spending to what it was before the modern era, or to a level more typical of a developing nation.

The fundamental reality of our fiscal situation is that we will need to generate more revenue, and we will need to reduce the rate of growth in spending on healthcare and retirement security. Both are necessary; neither alone can carry the full burden. And the essential value in the House budget is to show that if you try to deliver fiscal sustainability with no contribution from tax reform, then you have to make dramatic, drastic cuts to these critical government functions. According to the CBO, these cuts would, by 2022, raise costs for an average Medicare beneficiary, by \$6,500 a year, and would eventually reduce the total amount the government spends as a share of the economy, aside from interest and Social Security, to a lower level than at any time since World War II.

Now Americans can do better, and I want to make it clear that if the [Republicans] try to impose that plan on this country as a condition for raising the debt limit, then they will own the responsibility for the first default in American history, with devastating damage to the nation. Yesterday we reached the debt limit, and because Congress had not acted to raise it, we were forced to deploy a series of extraordinary measures to prevent default. These measures will give us until August 2nd before we will no longer be able to meet our obligations securely. And as I've said before, Congress has to meet its responsibility to protect the nation's full faith and credit by increasing the debt limit.

Now of course, the debt limit relates only to commitments we made in the past, and rather than debating whether we should pay our past bills, whether default would, in fact, be so bad, rather than designing schemes that are designed to allow us to continue to make interest payments by breaking our commitments to seniors and veterans, we should be working together to narrow our differences on how to solve the causes of our future deficits. But I want to emphasize again that if a fiscal agreement is not reached in the coming weeks in advance of August 2nd, then the debt limit must still be increased. It's not an option for Congress to evade the basic responsibility to protect America's credit worthiness.

Now our objective, our responsibility, is to seize this moment when Democrats and Republicans agree that deficits matter. That living within our means is not just an option, but it's a necessity; that putting this off for another day is no longer possible. Our objective is to build a bipartisan consensus on a comprehensive and balanced fiscal reform plan. This will help restore confidence that Washington is up to the many challenges we face as a nation. It will help give businesses and investors the confidence they need to make long term investments in the United States. It will help preserve the strong economic foundation necessary for

protecting our national security, and it will give us the room we need to invest in the future.

Thank you. Alex, I'd be happy to take your questions.

Alex Jones

Secretary Geithner, you've outlined an ambitious and, I think in a political sense, optimistic scenario. You've been, over the last two years, able to create confidence in both the financial situation and in you personally. This is going to have to be sold to a very difficult audience. Are you going to be taking the lead in this effort? I know that this is something that apparently, it seems, anyway, over the last couple of weeks or months, you have stepped out more forcefully as an individual, as the spokesman for the Obama Administration in this issue, not just of the debt ceiling, but of the overall economic future. Is that something that you're going to be taking a lead in?

Timothy Geithner

I'm the Secretary of the Treasury. It's essential to my role. But this is the president's cause. It's the president's conviction. And he's put the vice president of the United States in charge of negotiating the political solution for him, and he's been leading these negotiations that we just started. He's joined with, in this cause, with I think the most talented team of people in Jack Liu and Gene Sperling and Bruce Reed, who were the central architects of the best precedent that we have for bipartisan fiscal reform agreements reached in the period between '93, '95, '96 and '97.

But let me tell you why I think we can be optimistic. It's not just that we just successfully prevented a second great depression. That was a massively complicated endeavor. This is not as hard as that. It feels politically more difficult, but it's not nearly as hard as that. And if you listen carefully to what American people say about this, Americans are a very strong, much more confident, much more optimistic, much more generous people than many of their politicians give them credit for. They know we have to solve this, and they put it at the top or near the top of their concerns about the country. And if you listen carefully beneath the political rhetoric, you see Republicans and Democrats joined in embracing the imperative, talking about the same basic magnitude of reductions we need, and that's the critical moment.

Again, if you look back to the period between '95 and '97, it was when Republicans and Democrats both said we need to balance the budget that the

debate completely turned. And at that point, it was about how to do it, not whether to do it. That's the most important shift. And remember, we just lived with a decade if not more of people saying we don't have to worry about deficits. So again, I'm very optimistic about the country. I'm worried about this problem, very confident about the economy, and we need to get ahead of this, and we have a chance to do it now. We want to take this moment, this opportunity, to do as much as we can.

Alex Jones

You're the 75th Secretary of the Treasury. Leaving living secretaries aside, are there any secretaries of the treasury that you look to as models, and that you look to as people you admire for the job they did at a critical moment?

Timothy Geithner

So many of them, but since you asked me, I'm going to read you a quote.

Alex Jones

This was not staged, I promise.

Timothy Geithner

This is a letter about the debt limit. You didn't ask me about the debt limit, but I'd like to share this with you.

Alex Jones

I was going to.

Timothy Geithner

I'm going to read you two paragraphs. "I should stress that defaulting on already outstanding, validly incurred obligations has far graver effects than halting operations of the government when spending authority is allowed to lapse, such as when there's a delay in action on appropriations." A treasury secretary that had a particular command of poetry.

"A failure to pay what is already due will cause certain and serious harm to our credit, financial markets and our citizens. It is not remotely similar to a lapse in authority to incur new obligations, but I cannot overemphasize the damage that would be done to the United States' credit standing in the world if the government were to default on its obligations, nor the unprecedented and catastrophic repercussions that would ensue. Market chaos, financial institution failures, higher interest rates, flight from the dollar, loss of confidence in the certainty of all U.S.

government obligations would produce a global economic and financial calamity. Future generations of Americans would have to pay dearly for this grave breach of a 200 year old trust. Sincerely, James A. Baker, III. July 8, 1987.” He’s one I would cite.

Alex Jones

Do you think the rhetoric of pulling the trigger that the Republicans, many Republicans are using as far as the debt ceiling is concerned, is—shall I use the word Trumpery? I mean, is it baloney, or is it real?

Timothy Geithner

Washington is a complicate place, and it really is hard to separate the political theater from what’s real, what’s happening. I spend a lot of time with Republicans and Democrats, with the leadership of both parties, and the leadership of the Republican party has made it clear to the president that they will get this done. They will not take it too long, they will not play politics with it, because they recognize that it’s unthinkable for us to do this. But the real challenge is how to build a political consensus on a sensible way to bring some gravity to our fiscal position. That’s the real challenge. We have a moment to make some progress now. And again, our hope is, and our expectation is, that we can get something serious done. We’re not going to be able to resolve decades of ideological divide in this short timeframe we have, but we’ve got a lot of overlap in objectives, and our challenge is to lock those in now.

Alex Jones

May I ask, do you intend to continue as Secretary of the Treasury at least as long as President Obama is in office.

Timothy Geithner

Until we solve our long-term fiscal problems?

Alex Jones

Yes, all of them.

Timothy Geithner

We have a lot of work ahead of us still. As I said, I’m very proud of the progress we’ve made. We’re in a much stronger position than I ever thought we would be, given how damaging, how grave the crisis was. But we’ve got a lot of challenges left, and it’s been a great privilege for me to even have a chance to work with that group of people.

Alex Jones

Is that a yes or a maybe or what?

Timothy Geithner

It's an excellent, thoughtful question. I'm thinking about it a lot these days.

Alex Jones

Do you expect that the legacy of Tim Geithner as Secretary of the Treasury—

Timothy Geithner

Will be debated for a long period of time, I think.

Alex Jones

Well, the reality of it will be that when you announced your plan right after you became Secretary of the Treasury, you were hammered by practically everyone. That tune has changed dramatically. You have changed dramatically, I think, at least that's the way you present.

Timothy Geithner

I'm the same person I was then.

Alex Jones

I don't mean the same person inside, but I think that one of the questions has been all along, is the Obama Administration able to make its case, a case that is compelling, but has not very effectively been made, or at least not accepted by Americans. Can that be done better? Can you do better at that? Is that something you've worked on?

Timothy Geithner

I don't if I can, and I'm the wrong person to ask that kind of question to. You can tell, I'm not a political person. I didn't spend my life learning how to explain complicated—I tell my staff, or they tell me, that I can make any simple problem sound complicated. So I'm not the right person to ask that question to.

But I think you're right to point out, and this is why I admire so much the legacy of Walter, is that a huge part of making economic decisions is being able to explain not just what we're trying to do, but why the options we propose are better than the alternatives. My colleagues tease me for saying all the time that Plan B is no plan. Faced with unacceptable choices, no good choices, you still have to choose. But

the more important thing is to be able to judge a plan by the alternatives, and the hardest thing to do in economic policy is to explain why the alternative, that seems more simple and compelling, more just, more fair, more clear, more hope in it, does not work, offers no promise in practice. I think the big challenge, at least I can say personally for me, is to find a way to explain the choices we have to make so that people understand you have to judge something by the alternatives. And what's clear from the fiscal policy debate we face today is, it's easy to say to people that it's something we have to do, but of course that's just the beginning. You have to invest them in the difficulty of the choices and the tradeoffs so they understand why it's so hard. I think that's the central challenge of communication in economic policy. As you can see, I'm still wrestling with it.

Alex Jones

One of the things that the Obama Administration has been criticized for by some, especially on the left, is by being too willing to compromise. This kind of a situation is one in which compromise seems absolutely essential. Do you have a sense of how far is too far in the way you actually personally look at things, and recognize that there is a way that you believe in and a way perhaps that you don't?

Timothy Geithner

Well, I tried to say this in my remarks. I think there are things we cannot do, will not do, will not sacrifice. What we can't do is, given the stakes of the moment and given the delicacy around confidence in our country now emerging from crisis, what we can't do is set up a dynamic where people on any side of the aisle use this as a chance to try to legislate a particular political agenda. But I think that what's at stake for us, and why a balanced plan is so important, is because again, if you think about the challenges that we face, unless you do this in a broad based, balanced way, you will be imposing unacceptable damage on all the core things governments do. Our capacity to invest in our future, invest in things to make us stronger, commitments to the poor and the elderly, national security. It is not possible to offer people the choice of trying to do this just on spending that they can't see and don't believe in. It's not a responsible alternative.

So I think the core things we have to defend are the necessary functions that are essential to our capacity to grow, and we have to make sure that we preserve that. And I think that's why you need a more balanced, gradual framework.

Alex Jones

I want to invite those of you who are here to address a question to the Secretary. I would ask that you indicate that you want to do that by holding up your hand, and

wait until you get a microphone, and then identify yourself please. Yes, sir, back here.

Chris Olberback

Chris Olberback. Mr. Secretary, thank you very much for that, it was very, very interesting. You say you're not a political person, and just a quick question. I realize it's a public forum, but assuming a deal is reached at midnight on August 1st—

Timothy Geithner

It has to be before that. Let me stop you there. Again, this is not the kind of thing that you want to take to the edge. Think of it this way. If you leave people with any doubt, then they'll start to act in a way that protects them from the possibility we don't act. That in itself has the same basic dynamics of default. More modest initially, but they'll start. So you can't wait until the last minute. It would be irresponsible.

Chris Olberback

Well, pick I date, but what would you predict that the deal will look like?

Timothy Geithner

I think it will look largely like what I said in the sense it will have, it should have a basic framework that locks in a declining path for deficits—get them low enough and holds them there—with as large a down payment of specific savings across the core government function as we can, with an enforcement mechanism and a trigger that will force the remaining balance of choices. And you don't want to leave too much of the burden for the plan on the targets and the enforcement mechanism. The more you can identify specific reforms upfront, the more believable it will be, and the smaller burden you leave to the enforcement mechanism. But that's what it has to look like.

Chris Olberback

Given the short term situation here, do you have reason to believe that the leadership of the Republican party will work with you on this?

Timothy Geithner

Absolutely. They're sitting at the table with us. We're talking about detailed spending, detailed reforms now. We're going systematically through all the areas where the money is, to try and lock in some things. And I think they're actually

pretty realistic. Not all of them are realistic, but I think the leadership is pretty realistic about what's possible.

Rory O'Connor

Thank you for coming today. You said part of your plan is to generate new revenue, and that you're optimistic about that happening. You said further—

Timothy Geithner

No, I didn't say that. Let me just say I did not say I was optimistic that we have broad enthusiasm among Republicans for revenue. We obviously don't. But it's going to have to come. It's going to have to happen, and again, that's what they demonstrated with the plan they passed through the House. Because what that plan shows is, if you pretend you can't touch revenue, you're unwilling to, then you're forced to live with cuts that will be completely unacceptable to the American people or to Republicans. So I'm not optimistic that you see the basis for revenue now, but it's going to have to come.

Rory O'Connor

Okay, because you did say further that the Republican leadership has assured the president, and I guess you, that "we will get this done."

Timothy Geithner

That we'd get the debt limit done.

Rory O'Connor

The debt limit done, okay, because Speaker Boehner was here recently and made no bones about it. As a matter of fact, I think he said new revenue is off the table. How are you going to deal with that?

Timothy Geithner

Well, I think it's a challenge for us. It would be better for business confidence, better for individuals to know the precise shape of the fiscal reforms to come, because that would allow them to plan, to adjust. They could see that. But we can't do full clarity, full resolution, without a comprehensive approach, and if they're unwilling to put revenues on the table, then we're going to be able to do less upfront. That's the basic reality of the situation. So what you have to do, again, is lock in as much as you can in terms of spending and reforms, and you have to leave open where the balance are going to come from. And the balance is going to come from a mix of defense cuts, tax reform that raises revenues, and further cuts in spending entitlements. The precise mix of that balance, if it can't be

resolved right now, which it probably can't be ultimately, has to be forced by the careful design of a trigger.

So I think that's the realistic framework that's achievable now. But again, you can't put it all on what people would call process changes, process commitments. They have to be real things people can feel and see for it to be believable and credible, and that's the difficult balance. But ultimately, of course, you're going to need more of everything.

Adam Reiss

Adam Reiss with CNN. How concerned are you, sir, about the leadership vacuum at the IMF? You know Mr. Strauss-Kahn personally, what are your thoughts?

Timothy Geithner

Of course, I can't comment on the case, but he's obviously not in a position to run the IMF, and I think it's important that the board of the IMF formally put in place for an interim period somebody to act as managing director. They have, in John Lipsky, it's not the constitutional order of succession but the legal order of succession, and he's a very capable person, a lot of experience. So I think that's the appropriate step to take.

Adam Reiss

And your thoughts? You know him personally. You've known him for awhile.

Timothy Geithner

I think I should limit my comments to that. I think it's important that, there's a lot going on in the world, a lot going on in Europe in particular, and you want the IMF to have the capacity to be helpful in that context, and I'm very confident that they can continue to play a very constructive role.

Catherine Rampell

Catherine Rampell, *The New York Times*. So there have been other policy attempts to try to impose some kind of trigger, including, I mean, I would argue that the debt ceiling is one such type policy.

Timothy Geithner

No, I would stop you there. Debt ceiling has never proved a valuable device for discipline. I think it's been raised more than 70 times in the last several decades, at a period when the congress was piling on lots of debt. You're right to say the triggers themselves don't substitute for political will, but we have enough

experience with our design that we can design around the things that have undermined them in the past. And they can play a hugely valuable role. Just look at the experience with pay as you go rules on discretionary spending when they were in place in the '90s, and look what happened when they were abandoned. It puts a huge discipline, it's the same discipline that your family lives with, which is to say that if you don't have the money within that cap, you have to find ways to spend more. You can't cut taxes without finding a way to raise more revenue. You can't add spending without saving money. It's a necessary and perfectly feasible discipline. The challenge we face is you have to put it on the overall deficit, the overall balance of revenues and spending going forward so you can bring the deficits down.

Catherine Rampell

It just seems like there have been other attempts in the past by politicians to sort of tie themselves to the mast like Ulysses, sometime in the future. The [Bird Rule] is another example, and politicians always find a way, seemingly, to either undo the trigger or whatever handcuffs they put on.

Timothy Geithner

Absolutely it's a risk, but I think it's different now. Remember, our deficits are swollen by the recession. They're swollen by a bunch of temporary factors, the legacy of the crisis, but they're very high now. The fundamental value is different, and there is more recognition across the political spectrum of the need to lock things in now. Again, you can't put all the burden on the trigger and the target, I totally agree with you in that context. You have to have as much in terms of identified savings to give you as much distance as you can upfront for it to be believable.

But life is about alternatives, just to repeat that basic phrase, and unless you're going to see Republicans and Democrats come together in six weeks, eight weeks, on these fundamental questions that still divide them on the ultimate shape of tax reform or the ultimate shape of Medicare, then we're forced to try to figure out, what kind of framework can we embrace that will recognize the reality of that constraint, but still allow us to begin the process of restoring gravity to the fiscal position. That's why we're debating this. Not because we think that they substitute for political will, but they can help complement it. They can help force it. They can help incent it, and they can help constrain the loss of virtue.

Sarah Boxer

Sarah Boxer with CBS. If the debt ceiling isn't raised by August 2nd, what is the immediate consequence?

Timothy Geithner

Do you want me to read Baker's letter again? I can't improve on that. I've written, carefully, about what I think would be the likely consequences. I can't know it for sure, but we're not going to experiment with it so we can really understand it. We're not going to take that risk. That would be deeply irresponsible. We're the United States of America. You've got to be kidding. Coming out of this crisis, not a chance.

Kathleen Hays

Kathleen Hays of Bloomberg radio. Nice to see you again. Regarding corporate tax reform, what is going to be the basic driving thrust of that? Because for example, I was speaking to someone at a big oil company, I was down in Houston doing my show a few weeks ago and I was talking about energy policy. So many people think we should get rid of the subsidies and the windfalls, and he said, well, every industry has subsidies and windfalls.

Timothy Geithner

They have more than others.

Kathleen Hays

So you're in favor of that?

Timothy Geithner

The central rationale for corporate tax reform should be to lower the statutory rate to a level that puts us more in the range of our major trading partners, and to make that possible by dialing back, reducing the range of tax expenditures that now I'll say litter the corporate tax code, and that's a sensible thing to try to do. It's a very hard thing to do, because it will change the relative effective tax rates of different companies, different industries, but it's a sensible thing to do. Why should we want to live with a tax code where every year, people don't know what's going to be the tax preference for certain activities next year? Why would we want to live with a tax code where ultimately it's the quality of your lobbyists that determines a key part of the economics of your business? It makes no sense for the country.

So our view, the president's view is that this is worth trying to do. It's going to be politically difficult to do, particularly if you try and do it like we're going to try, ahead of individual tax reform. But I think it's a sensible thing to do. And again, I

think the political challenge for us is, given that we're going to be divided on some big political issues for some time, we want to find things that Republicans and Democrats can do together that aren't inherently partisan; have commanded in the past some bipartisan consensus. And we have to find ways we can do that that are going to be good for the economy, and this is one of them, I think.

Kathleen Hays

Is there any chance you get something like a flat tax for corporations?

Timothy Geithner

No, I don't think so. I mean, I don't think there's a realistic prospect for that.

Toshia Wata

I'm [Toshia Wata] with [unintelligible, 51:55] Japanese newspaper. Mr. Secretary, I have a question on corporate tax reform. Are you going to seek out an agreement on corporate tax reform as a part of the entire fiscal consideration?

Timothy Geithner

Not in this next two month framework. We've got a lot to do in that framework. But we're going to try to get this process moving, build political support for it. I think realistically, and it's probably right, that this fiscal debate we're having is going to dominate our preoccupation for the next couple of months until we get through it. But we've been doing a lot of work on how to figure out a sensible design of a better corporate tax system, and we'd like to move forward on that when we can.

Toshia Wata

A little more timeframe? Within this year?

Timothy Geithner

Well, again, I think we'd like to take a run at doing this ahead of the election. That means we've got to start, but we also need to get this fiscal stuff on a better trajectory.

Eric Alterman

I wrote a little book about the administration this year, and there's one thing I've never been able to figure out and I get asked about it, and I have no answer. It's this. During the primary season, Barak Obama took a lot of heat from Hillary Clinton for saying that he admired the way Ronald Reagan managed to change the discourse, to inject new ideas into the debate, and I thought he was right. I thought

that attack was unfair. And yet, as president, he hasn't really tried to do that. He hasn't tried to move the 50 yard line down the field so that the debate on economics would be conducted on traditionally Democratic grounds rather than on Republican grounds. He has left himself vulnerable to Republican conservative arguments because that's what he came into. That's not what Reagan did, and I'm wondering if there was a decision not to use the power of the bully pulpit to try and move the discussion into a more progressive direction?

Timothy Geithner

I think I'm the wrong person to ask that question to. It's a good question, but again, you know who I am. I'm not a politician. I'm not the president's political strategist. But I will say, if you look at what this president accomplished so far, at enormous political cost, he's made the most dramatic changes, progress on things progressive Democrats care about, than have been attempted and achieved in a very long period of time, at enormous political cost. So you want to judge him by not just what he's tried to achieve, but at the magnitude of those basic reforms, and the courage he showed in doing such difficult things with very little support.

I mean, again, just remember back how this place felt in the fall of 2008. At that point, everything was at risk, and he didn't sit there and say, let's have a debate about what would be interesting to do, or when are the Republicans going to join me in some bipartisan effort to try to solve this so I get some political cover. He chose to do the hard, tough thing, very early, at huge political cost. Portrayed enormous political courage; just compare to what one of his predecessors did in particular at a similar transition moment in history, and that was the necessary, decisive thing to do. There is no progressive cause that is possible, would have been possible, without the progress he achieved in putting out that financial fire, and the hundreds of billions of dollars we saved of the taxpayers' resources so that we could have some capacity to still support things that Democrats care about. But I'm not giving you a political answer to your question; it was a political question.

Euell Borginate

I know we discussed the historical perspectives on the economic recession, but since you live in the Far East and some of those countries rebounded more quickly than we have, or weathered the recession in a more positive light, I wanted to know if you saw any models for adoption, and if so, which ones?

Timothy Geithner

Excellent question, and I think this is important to recognize. I think Barney Frank said famously once, you can't win an election on explaining to people it could have

been worse. It is very hard, I think for most people to understand how perilous that moment was two and a half years ago. Even with the history of the Great Depression, it's hard for many people to understand that that was a credible reality at that basic moment. But I think even harder than that for people to understand is, why can't growth be faster now? Why does it look like we're going to be growing, if you listen to private economists, at 3% to 4% over the next two years, rather than north of that?

That's because, of course, this was a crisis born in part of the fact that we were living way beyond our means, and people had taken on much more debt than they could comfortably support with the income they were going to earn. You saw this huge increase in leverage in the financial system, and huge overinvestment in real estate in parts of the country, residential and commercial. And when you're coming out of a crisis like that, it just takes more time. Monetary policy can't do what it normally does to accelerate growth out of recession. It takes people time to bring down those debt burdens, to rebuild their balance sheets, to work off the huge overinvestment in construction. And that consigns you, along with the limits on monetary policy in a crisis like this. The tragic fate, the tragic consequence of crisis like this is that it consigns you to a slower rate of growth. So the disappointment people have today in the pace of recovery is just the tragic consequence of what caused this basis crisis, and it's going to take years still for us to work through this.

I still believe, though, that the basic strategy that we embraced for the financial crisis, that the president embraced, made possible alongside the Fed, I think it will be judged as the most effective financial strategy in modern history. And I think it compares exceptionally favorably to any recent experience by a developed country or a developing country. Again, just look at the state of parts of Europe today relative to us, and the consequences of adopting a dramatically different, much less aggressive, much more gradual strategy of the financial crisis. At the peak of this financial rescue, we had, by some measures, \$2.8 trillion of investments at risk in the system. We're likely, across all the programs, Fed through Fannie Mae and Freddie Mac, FDIC, TARP, to be well under \$100 billion, a fraction of the GDP of the United States, a fraction of the cost of the S&L crisis, a much more modest crisis, because we were so aggressive in adopting a strategy to bring private capital in as quickly as we could. We capitalized our financial system much more aggressively, much more quickly, and did a much more brutal restructuring of the system than I think any of those countries produced, and you saw growth turn here earlier, and I think stronger, than you've seen in many of the developed economies.

Now there are previous recoveries that were quicker, but those were recoveries with a very different kind of crisis, very different kind of cause. We don't have the option now of trying to engineer something dramatically stronger than that basic path, and that, again, is the tragic consequence of the type of crisis we got ourselves into.

Jackie Leo

Jackie Leo from the *Fiscal Times*. My question is about Dodd-Frank, and how or if it is going to actually be implemented, and how much crumbling is going on as we speak.

Timothy Geithner

You're right to say that there are people, I think even in this city, who are working hard to slow it down, reduce its scope, reduce its power and its force. The only tools they have are to try to starve funding for enforcement agencies, and to block appointments. And if they chose to do that and they get support from people, then they can slow things down a little bit, but I don't think they can touch the basic architecture of the reforms. We're still at the early stage of writing the rules and laying them out for comment and designing them. We have a long way to go to do that. But I think the core part of the reform thing will survive these efforts because I think it's the right thing to do for the country. I think that people ultimately won't put up with, given the trauma caused by this crisis, they will not put up with a system that still is this vulnerable without reform to the type of problems we still have.

Alex Jones

Is the announcement today of these audits of the five huge banks and their bad behavior in terms of mortgages something that will affect the public opinion about this regulatory question?

Timothy Geithner

I don't know. I can't speak to those things specifically. I would say that we have a long way to go to earn back the basic confidence of Americans and the integrity of this financial system, and that's going to require a sustained enforcement response. I think we should have a lot of confidence in the basic quality of our justice system enforcement capacity. But they're going to want to see also these reforms that Congress legislated take hold and get traction, and provide better protection for consumers, more transparent markets, a more safe system. I think that's something that's going to come only with time, because again, people want to see what you

do, not just what you say you're going to do, and that's going to take time for them to judge.

Vicki Schmelzer

Vicki Schmelzer, *Market News International*. In recent sessions we're again seeing the instance where the dollar is rising on safe haven demand rather than strong U.S. fundamentals. Are you at all concerned about global investors' preference for non-dollar currencies at times of high risk appetite?

Timothy Geithner

I'm very careful, as you know, not to comment on the markets beyond our careful standard phrase, and that's sort of a good practice. But I think you're right to point out and remind people that this is an important thing we want to preserve and protect about the United States. At the worst moments of the crisis, and really every time even over the last two years or three years when people started getting worried again about risks in other parts of the system, you saw people basically decide they wanted to be in dollars or in Treasuries. We need to preserve that. That's a great basic strength of this country. It reflects ultimately a huge amount of confidence in the basic strength of our political system's capacity to act to solve our problems. We want to act to earn that confidence over time, not take advantage of it.

Alex Jones

Secretary Geithner, thank you very much for being with us today. It was terrific. Thank you, we really appreciate it.

[End of audio]