

Northern California



THE FISCAL STEWARDSHIP PROJECT
The Concord Coalition • The Peter G. Peterson Foundation
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Northern California Fiscal Advisory Council

Final Report

The Concord Coalition is a non-partisan, grassroots organization dedicated to educating the public about the causes and consequences of federal budget deficits, the long-term challenges facing America's unsustainable entitlement programs, and how to build a sound foundation for economic growth.

The Peter G Peterson Foundation's mission is to increase public awareness of the nature and urgency of key economic challenges threatening America's future, and to accelerate action on them. To meet these challenges successfully, the Foundation's goal is to bring Americans together to find sensible, sustainable solutions that transcend age, party lines and ideological divides in order to achieve real results.



**THE CONCORD
COALITION**

Introduction

To keep our country fiscally strong and to build a healthy economy it is crucial for our government to take positions that are courageous and appropriate, and to pursue more responsible fiscal policies. We must examine the policy goals of all taxes and expenditures, change entitlement programs, cut all federal expenses that do not meet our goals and, if necessary, raise taxes.

The Fiscal Advisory Council of Northern California is dedicated to establishing a grassroots movement to help push for the policy changes that are needed to get the country back on track. While this panel of concerned citizens recognizes the political difficulties involved in these issues, we encourage the nation's political leaders to look beyond simple partisan politics and work towards realistic solutions. We will support our leaders proposing and making hard choices, and we encourage other citizens who care about the country's future to do the same.

If citizens are to be expected to make difficult sacrifices in the years ahead -- whether through lower government services or higher taxes -- Washington must show that it is spending the tax dollars it has more carefully than in the past. It must focus on providing essential government services at reasonable costs. Tax dollars should be spent in ways that strengthen our economy and respond to our national goals.

While government assistance is often appropriate, it should not become a substitute for accountability and personal responsibility. The country will be in a stronger position if individuals are encouraged to take greater responsibility for themselves and their families in everything from health habits and insurance coverage to college savings and retirement planning.

Total fiscal liabilities currently amount to a staggering \$56 trillion, and that number will continue to grow unless changes are made. Our country's unsustainable fiscal path requires constructive activity that honestly addresses the difficult choices that confront us.

Committee Resolutions

I. Alignment of Interests in Health Care. Rising costs for health care put enormous pressure on the federal budget, and that pressure will build rapidly in the years ahead without significant changes. The government, medical providers, insurance companies, the legal community and the public as health care consumers, must all work to cut the growth of health care spending and must share the burden of responsibility.

We believe that every American should be able to receive appropriate health care and that this must be a shared responsibility.

- Better collection, analysis and distribution of information by means of electronic systems is an important step towards helping doctors and their patients make the right choices while saving money. Only with good, easily available and transferable information can we reach a point where the expense of keeping paper records is reduced or eliminated and all medical personnel will have easy, necessary access to a patient's records, thus cutting time, errors and costs.
- We believe that financial incentives should be changed in ways that will better align the interests of doctors and other providers with those of the patients and the taxpayers who are footing much of the costs. Efficient and effective medical care should be rewarded while poor performance should be penalized. The country should shift away from the fee-for-service model that creates harmful financial incentives for unnecessary medical tests and treatments. Taxpayers should also not be asked to subsidize treatments that have not been scientifically established to be of value. The models of Kaiser Permanente and The Mayo and Cleveland Clinics wherein doctors are paid a salary, relieved of much paper work and have easy referral to specialists, have proven to serve all concerned well at reasonable cost and should be considered as models to emulate.
- At the same time, everyone should be expected to contribute in some way to paying their own medical costs so that they will be encouraged to economize. This should include additional cost-sharing in Medicare. Health Savings Accounts should be encouraged. Businesses and health-care providers should be rewarded for helping more of their employees/patients move in those directions. This council objects to subsidizing the costs of medical conditions that can be linked to irresponsible choices. Insurers and the government should move towards not only rewarding those who engage in beneficial behavior, but also penalizing those who make irresponsible health choices. Two-thirds of Americans are overweight. Seventy-five percent of chronic disease could be prevented by changes in lifestyle by Americans. These facts should be given high priority in considering the cost of medical care in our country.
- Whatever other changes are made in the U.S. health care system, healthy competition among public and private insurance companies should be strongly encouraged. Competition can help hold down cost increases and give consumers a wider range of options. Competition among insurance companies should be

encouraged and state barriers to such competition should be removed. While this could increase the need for some federal regulation, that could be offset by less need for state regulation.

- Medical malpractice tort reform should be enacted as part of the overall strategy to curb the growth in health care expenditures.

II. Additional Revenue. If additional government revenue is needed, elected officials must carefully weigh the different options in terms of fairness, economic impact and the ramifications on state and local governments. We believe that everyone, regardless of income, should be expected to contribute at least something in return for the government services they receive. This protects the public credibility of the tax system and gives everyone a stake in financing the government. It should be remembered, however, that the largest tax burden on most Americans is not the regular federal income tax but the payroll taxes that are collected for Social Security and Medicare.

Our recommendations both increase the tax burden on all members of the public through new energy consumption taxes and maintain the progressive nature of the overall tax code by allowing recent tax cuts to expire and by reducing tax expenditures.

- Federal income tax revenue could be substantially increased by simply closing many of the loopholes that were put in the tax code to benefit special interests. Eliminating these loopholes would simplify a tax system that is far too complex and requires individuals and businesses to spend too much on tax preparation costs. Simplifying the tax system could also save the government large amounts of money on enforcement costs. Such loophole closing would also increase progressivity in the tax code because income tax deductions provide larger benefits to higher earners.
- Given the size of the federal debt and trillions of dollars in other government liabilities, borrowing more money to extend outdated tax policies would be irresponsible.
- Increasing the taxes on gasoline by at least \$1 a gallon would raise additional revenue, encourage conservation and help protect the environment. This should be coupled with policies which encourage development and use of alternative energy.
- Other energy taxes, like an overall carbon tax, also need to be considered in order to attack global warming and increase revenue. The Council favors a simple carbon tax over a cap and trade system.
- In thinking about significant changes in the U.S. tax system to close the fiscal gaps, we should consider the experiences of some other countries to see what lessons might be learned from them. If a large federal sales tax or V.A.T. is considered, the impact that such a tax could have on state and local finances should be closely examined.
- Any new tax revenue raised for a specific purpose must be spent on a prioritized basis for that purpose.

- Campaign finance reform is a necessity in order to establish fiscal responsibility.

III. Defense Spending Reductions. The Defense budget should be pared back as the nation's military commitments abroad wind down. Indeed, portions have been excessive and misdirected. The Pentagon, the Obama administration and Congress should work to ensure that essential national security requirements are met while marginal programs are eliminated, duplication reduced and waste cut out. America has over seven hundred (700) bases overseas; one wonders if they are all necessary to protect our vital interests

IV. Repairs to Social Security. As the annual reports by the Social Security trustees have made clear, this critical program is on an unsustainable path. This creates uncertainty for older workers, and many younger workers have already lost their faith in the system. As the oldest members of the huge Baby Boom generation leave the work force and start to draw on Social Security, it is imperative for Washington to make repairs as quickly as possible.

- While benefit reductions of any sort will be difficult, they would be less harmful to people who can rely on relatively high incomes from other sources during their retirement years. This Fiscal Advisory Council favors greater use of means testing for Social Security benefits in the future as part of the overall solution.

V. Bipartisan Commission. We support legislation to create a bipartisan commission with a broad mandate to examine all aspects of fiscal policy and to recommend changes to Congress. This panel should be composed of elected officeholders, academics, experts and other individuals who represent a cross section of the American public. Unless the commission is truly bipartisan, it will be a waste of both time and money.

- No one should be allowed to impose preliminary restrictions on the commission's work.
- The public must be heavily engaged in the discussions surrounding the commission's work. We believe that Americans, armed with facts and given the opportunity, can have an honest discussion, set fiscal priorities and make hard choices.
- The commission should be chaired (or co-chaired) by a recognized national leader. It should accept input from many different sources, examine and review all the issues and possible solutions, and develop recommendations for our elected representatives to consider.
- This commission must be endowed by Congress with such stature that their recommendations will be viewed as legitimate both in Washington and outside it. These recommendations should receive an up-or-down congressional vote with only a limited opportunity for amendment.

Conclusion

The Northern California Fiscal Advisory Council's fundamental goal in making these recommendations is to ensure that our people, our families, and future generations are able to enjoy a full and rewarding life in a stable economic and political environment. The United States has enjoyed great economic strength for a long time. But our current policies are pointing us in the wrong direction, one that could seriously weaken our standard of living. That, in turn, could loosen our social fabric, undermine our military strength and create widespread doubts -- both at home and abroad -- about America's future. These are serious issues.

After wrestling with some of the fiscal and economic difficulties facing the federal government and the country, the Northern California Fiscal Council will continue pressing for the changes that we are recommending in this report. We believe that further citizen education is essential and we will explore ways in which this group might be able to help with this work in California. Unless people in this state and around the country understand the stakes that are involved for ourselves and future generations, they will be reluctant to make and accept the difficult choices that must be made. The cry: "Wake Up America!" is definitely in order.

Advisory council members will encourage the media to help improve public understanding. We will also press our elected officials as well as community and business leaders to remain focused on the long term and the big picture in making their day-to-day decisions about the use of tax dollars, the health system, federal assistance programs and other matters. They must strike the right balance between helping citizens who need assistance and encouraging people to take greater responsibility for themselves. And when cuts are made or new revenue is raised, elected officials must make sure that the money is spent largely on the deficit reduction that the public has been promised.

The United States has long been the strongest country in the world, admired for its drive, innovation and optimism. We must all work to ensure that our country pursues the right policy goals.

Signatories to the Final Report of the Northern California Fiscal Advisory Council

Tom Abels	Alvin Duskin	Tom Latour	Chuck Stockholm
Jerry Anderson	Bill Evers	Lucinda Lee	Bill Wheeler
Jim Boettcher	Marty Gans	Mark Levy	Jerry Williams
Avery Chope	David Gingsborg	John Nees	Viki Willock
Jane Chope	David Hunn	Ed Osgood	David Wood
Charlie Crocker	Leon Huntting	Jojo Osgood	Harold Zlot
John DeDominic	Karen Kelly	Mel Owen	
Michael Depatie	David Kralik	Steve Spaulding	