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Ten Leadership Lessons from Simpson-Bowles

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EXECUTIVE SUMMARY



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It was January, 2010 and the Senate was locked in a sharp debate about the country's debt and deficit crisis. Unable to agree on a course of action, some Senators proposed the creation of a fiscal commission that would send Congress a proposal to address the problem with no possibility of amendments.

The bill failed but President Barack Obama signed an executive order establishing The National Commission on Fiscal Responsibility and Reform. It was chaired by former Senator Alan Simpson and former White House chief of staff Erskine Bowles and consisted of 18 members (six Senators, six House members, and six individuals representing the general public).¹

With the national debt then totaling around \$13.56 trillion and federal budget deficit running over \$1 trillion each year, the members' task was to produce a report recommending budget steps that would address long-term fiscal issues. Following months of meetings, 11 of the members signed onto a report recommending that the federal government take dramatic action. However, that number was short of the super-majority requirement of 14 votes necessary to send the package to Congress for an up or down vote.

Despite the political inaction, the Simpson-Bowles Commission report remains one of the most credible debt/deficit reduction plans on the table. It proposed an initiative that reduced the deficit by \$4 trillion through 2020, reformed the tax code by ending a number of tax loopholes, cut tax rates and capped revenue at 21 percent of Gross Domestic Product, and suggested changes designed to contain health care costs, stabilize the debt, and reform the budget process.²

In this report, we review the fiscal leadership lessons that emerged from this effort and what it tells us about future debt reduction activities. We interviewed principals of the Fiscal Commission and compiled documentary evidence, media interviews, budget information, and background materials on fiscal leadership. Based on this information, we developed a list of fiscal leadership lessons relevant for future budget action. We emphasize the importance of ending the fantasy that there are easy solutions, focusing on facts, understanding that compromise is not a dirty word, respecting that Democrats and Republicans have credibility in different fiscal areas, and valuing personal relationships among political leaders.

Stop Fantasizing About Easy Budget Fixes

Cutting waste and fraud is not sufficient to address long-term debt and deficit issues. It is a fantasy that we can avoid difficult policy choices simply by getting rid of wasteful spending. It would be nice if this were the case, but the "easy" deficit reduction solutions were implemented years ago and what remains are hard budgetary choices. Commission Co-Chairman Alan Simpson recognized that fiscal issues are difficult when he said "leadership is about taking flack. If you don't want to take flack, don't be a leader."

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There is a popular myth that future economic growth will solve our fiscal problem. According to this perspective, we need not take any decisive actions other than promoting pro-growth policies because we can grow our way out of budgetary shortfalls. While economic growth undeniably boosts government revenues, growth alone will not solve long-term fiscal problems. Rather, we need forceful action on health care, entitlement programs, and revenue to close our budget gaps.

In a time of fiscal crisis, it is important for public officials to tell the truth to the American public. “They’ve got to stop being afraid of Grover Norquist (the leader who encouraged politicians to sign a ‘no new taxes’ pledge),” noted Governor Ed Rendell. “There’s going to be some pain, but that’s inevitable. The pain will be shared across the board through taxes and spending decreases.”

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To assume that people cannot handle the truth and need to be beguiled by easy solutions will not solve the fiscal problems we have. Leaders must trust that voters understand the importance of sacrifice during times of crises. As Chairman Erskine Bowles pointed out, “If there’s shared sacrifice from all people and no playing favorites, everyone is more willing to sacrifice and do something real.” Simpson echoed this thought when he said, “People are so damn sick of BS and mush. They’re thirsting for the truth. The truth is called math, maybe the dirtiest four-letter word in the alphabet.” Rendell also commented on this problem, noting that “politicians have to stop being reluctant to tell their constituents the truth and have more confidence in their constituents’ ability to understand things and to be reasonable.”

Facts Are Informative

Senator Daniel Patrick Moynihan famously remarked that “everyone is entitled to his own opinion, but not to his own facts.”³ This insight often is lost in D.C. where leaders invoke “facts” on a selective or misleading basis. In reality, there are certain fiscal facts that should guide political deliberations.

In 2010, at the time of the Fiscal Commission deliberations, “federal spending was nearly 24 percent of Gross Domestic Product,” the largest since World War II. Annual budget deficits ran well over \$1 trillion. Tax rates meanwhile “stood at 15 percent of GDP this year [2010], the lowest level since 1950.”⁴

When discussing tax reform, many members were surprised to learn the total cost of loopholes, deductions, and tax expenditures. Overall, the federal government “gives up more in deductions (about \$1.1 trillion) than it collects (\$1 trillion).”⁵ This includes deductions for employer-provided health care (\$131

billion), retirement savings (\$118 billion), home mortgage interest payments (\$89 billion), and charitable contributions (\$47 billion). Simpson said that “tax expenditures are basically earmarks and spending.”

In terms of entitlement programs, demographic changes linked to an aging population and government spending on Medicare and Medicaid drive much of the long-term budget growth.⁶ If current growth levels continue without alteration, expenditures on federal health programs will move from 5 to 10 percent of GDP. For the country as a whole, public and private spending on health care has reached nearly 17 percent of GDP.⁷

Defense spending continues to rise dramatically. The United States currently spends more on defense than the other top nine nations combined. Overall, America has a defense budget of around \$700 billion compared to about \$500 billion for the next nine countries as a whole.⁸ Table 1 provides the military breakdowns for the top ten nations and it is apparent how big the U.S. defense budget is relative to other countries.

Table 1 Military Expenditures in Top Ten Countries, 2012	
United States	\$711 Billion
China	\$143
Russia	\$72
United Kingdom	\$63
France	\$62
Japan	\$59
India	\$49
Saudi Arabia	\$48
Germany	\$47
Brazil	\$35
<i>Source: Stockholm International Peace Research Institute, SIPRI Yearbook 2012: Armaments, Disarmament and National Security, New York: Oxford University Press, July 2012, p. 9.</i>	

Several members also experienced an epiphany, according to Executive Director Bruce Reed, when a defense expert said that “the number of contractors in the Pentagon was somewhere between 1 million and 9 million.” The sheer magnitude of those figures was mind-boggling to legislators because it illustrated how difficult it would be to streamline defense spending.

Interviews with Fiscal Commission members indicated that many were surprised at the fiscal facts they were given. According to member Alice Rivlin, having agreement on key facts was crucial: “No one questioned the CBO (Congressional Budget Office) numbers,” she said. Rendell also cited the budget agency, saying “Everyone should agree to the facts as reported by the CBO. I’m not saying the CBO is always right, but at least that’s an organization that has had longstanding credibility in the Congress as being non-partisan.”

Even though many Commissioners had deep involvement in federal policymaking through their Congressional service, they were not all aware of the scope of the problem. Nearly everyone interviewed said they found the facts

presented at Commission meetings to be eye-opening and dramatic in nature. These and other budget facts demonstrated the depth of the problem and need for dramatic action.

At the beginning of their deliberations, the Fiscal Commission broke down into working groups focusing on revenues, mandatory spending, and discretionary spending. Each member served on two of the working groups. Meeting sites alternated between the House and Senate to make it as easy as possible for legislators to attend.

The revenue group was co-chaired by Representative Dave Camp (R-MI) and Senator Kent Conrad (D-ND). The mandatory spending group was co-chaired by Alice Rivlin (a Democratic public member), Senator Judd Gregg (R-NH), and Representative Paul Ryan (R-WI). The discretionary spending group was co-chaired by Representative John Spratt (D-SC) and Senator Tom Coburn (R-OK). Each group heard informative presentations by policy experts regarding the roots of federal deficits and longterm debt. The factual nature of the conversations helped drive the group towards policy recommendations. "Arithmetic drives you to the solution," said Rivlin.

According to Simpson, though, Honeywell Chief Executive Officer David Cote got everyone's attention midway through the deliberations. After a lack of progress in one session, he said "Who are you people? If I had a company like this, I'd fire everyone." The stark reality of that comment startled politicians with its directness and helped galvanize them toward meaningful action.

Compromise Is Not a Dirty Word

One of the most challenging aspects of the contemporary political situation is how bargaining, compromise, and negotiation have become dirty words. In earlier eras, political leaders disagreed about major issues but worked together to solve problems. They did this by bargaining over differences and compromising on stated goals.⁹

On the Fiscal Commission, many participants realized that solving fiscal challenges required some accommodation to those with other points of view. Fiscal deficits could not be addressed through a partisan lens. Rather, Republicans and Democrats had to keep everything on the table and start with the assumption that there were no sacred cows in terms of taxes, entitlement programs, or national defense.

According to Reed, requiring a Commission super-majority to force a Congressional vote was important: "The 'bipartisanship or bust' mentality helped members check their politics at the door." It built trust that neither party could impose its solo will on the final report.

There are many reasons why our political system has become polarized and subject to hyper-partisanship. But the point is that neither party can solve our fiscal challenges by dogmatically defending its core tenets and refusing to

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compromise on basic principles. The reason our country has reached the sad state of current affairs is political leaders who refuse to bargain and who campaign against the compromises made by the other party. What is needed in the eyes of Rendell is a chief executive who encourages compromise by promising “you have my word that if you do this, we will not be out there using anything you do to campaign against you.”

Going Big Is Easier Politically than Staying Small

One of the ironies of the current situation is that it is easier politically to go big than small in the fiscal solution. A number of Fiscal Commission members had the motto of “go big or go home.” When preparing their final plan for votes, Simpson and Bowles had the option to make watered-down suggestions that would be easier for members to accept politically, or present a comprehensive, far-reaching plan that had greater impact. As Bowles explained, “The more comprehensive we made it, the more support got built.”

Each of the chairmen realized that a comprehensive solution ultimately would garner more votes. It was easier to get legislators to compromise if they thought they were reaching an important agreement and if members from both parties had to accept provisions that were unpopular on their own side. Still, according to Reed, “Members were dumbfounded and their jaws dropped [when they saw the chairmen’s plan] because they had no idea we’d gone that far. But they were excited at the possibility that the commission would do something this grand.”

By setting the bar high, the framework did a better job of “shaming the system” to ensure that future deficit reduction plans were similarly comprehensive. According to Reed, the goal of their plan was in “setting the gold standard of deficit reduction.” Noting how the plan brought together a diverse range of supporters, he explained that “if you asked me when I started if there was any agreement that would bring Senators Coburn and Durbin together, none of us did.”

Looming over all the Commissioners was the fear of precipitous stock or bond market action. According to Simpson, Senator Dick Durbin kept asking Bowles (a finance guy) what the tipping point was. Bowles replied that “the tipping point is when the markets say we’ve had enough. When the guys that loan the money see our dysfunctional government and say we don’t care about Democrats, Republicans, and the President, we care about the money.”

The Nixon Rule: Republicans and Democrats Have Credibility in Different Fiscal Areas

In thinking about difficult choices, political leaders should recall the wisdom of Richard Nixon. It took conservative Nixon to go to China and establish formal diplomatic relations because he had the political credibility to withstand the

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inevitable backlash from party hardliners. It is not clear that a liberal Democratic president could have opened up China without incurring major political damage. Because of his long history of anti-communism, Nixon had the political capital and personal prestige to take this historic step.

The same rationale applies to deficit and debt reduction. On fiscal issues, Democrats have credibility on entitlement reform because of their party's longstanding advocacy on behalf of Social Security, Medicare, and Medicaid. Meanwhile, Republicans have tremendous credibility on defense issues and revenue enhancement because of that party's history of defending the military and fighting revenue increases. "The deficit is really the product of failure of bipartisanship over the past decade so in order to repair it, you have to do the things we've failed to do," said Reed.

This dynamic suggests a peculiar but persuasive truism for solving the politics of deficit reduction. Republicans have to sign off on defense and revenue issues, while Democrats must do the same on entitlement reform. As noted by Rendell, "Democrats have to tell the truth to seniors about Medicare and changing demographics, while Republicans have to go to their base and say we have to cut military spending and raise revenue." Given the politics of the current situation, it is unlikely that either party can be successful at deficit reduction on their own. Dealing with fiscal issues inherently requires bipartisan support.

Follow the Congressman Becerra Rule: If You Take Something Off the Table, You Have To Replace It With a Comparable Recommendation

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The Fiscal Commission got around this obstacle by following a rule named in honor of Commission member and Representative Xavier Becerra (D-CA). In their fiscal discussions, members agreed that the only way to take something off of the table was to replace it with a comparable recommendation. This meant that if someone didn't want to reform Social Security in order to make it more solvent, he or she had to find a policy reform that would bring in the same money.

Members were encouraged to be creative and devise their own solutions, which several of them did. For example, Rivlin worked with former Senator Pete Domenici to develop their own framework. Service Employee Union International President Andrew Stern spent considerable time formulating his own views into a proposal, as did Representative Jan Schakowsky (D-Ill).

The thought was that as long as Commission members were grappling with hard choices, that was considered forward progress for the cause of debt and deficit reduction. It was helpful to the fiscal discussions to have the Becerra rule

because it forced everyone to be serious about the ultimate goal even if several members tried to reach the end result through different mechanisms.

Setting the Agenda through the Chairman's Mark

In closed meetings, politicians concerned with reelection dropped their talking points and started making real deals. There was much greater posturing and playing to the base in public than in private.

Intractable budget problems are hard to resolve without strong political leadership. As noted by Ed Rendell, "To do something this sweeping with this much change and that covers so much new ground, it won't happen without leadership."

On the Fiscal Commission, both Simpson and Bowles exercised leadership as did the staff led by Reed. Policy problem-solving requires someone to define the problem and delineate possible solutions. As New Jersey Governor Chris Christie said in a speech at the Brookings Institution, "The job of an executive is to make sure that you get the job done, that you force people into a room, and you find a way to get to compromise."¹⁰

The Commission staff played an integral role in engaging and building trust among members. They served as fact-gatherers and conduits of information among the members. They compiled data and answered questions that were vital to the overall deliberations.

The co-chairmen were responsible for identifying viable ideas, building support, and negotiating with individual members. Through a series of one-on-one meetings and shuttle diplomacy, they were able to determine what each member supported, where they were absolutely opposed, and identify possible areas of compromise. This helped them write a tentative plan called the "Chairman's mark" that became a very useful starting point in Commission negotiations. "Everyone understood the economics; it was the politics that were really hard," noted Bowles.

Simpson and Bowles came from differing backgrounds and played different roles on the Commission. Bowles served as the detail guy who understood the nitty-gritty of federal budget policy. Simpson meanwhile excelled at personalizing the issues and explaining key tradeoffs to the media and general public. In many respects, they were the Yin and Yang of deficit reduction. As Rivlin put it, "Erskine did the play by play and Alan did the commentary." But their close working relationship was vital to winning a majority of Commission members. Simpson himself described the relationship as "he [Bowles] does the numbers and I do the color."

Of course, it is more challenging to reach agreement when negotiations move to elected officials. Here, the role of the President, Speaker, and Senate Leader are key. It is impossible to resolve fiscal deficits without those three individuals being willing to work together and negotiate in good faith. Unless those crucial leaders find ways to have meaningful discussions, there is no hope of resolving major fiscal issues.

In his book, *A Nation of Wusses*, Rendell explains the problems that typically

torpedo political leadership.¹¹ Among his top items are refusing to give credit to political rivals no matter what the person does, not having the courage to say no to the constituent base, refusing to admit mistakes, and refusing to answer basic questions. American leaders must do better on these dimensions if they want to be serious about dealing with fiscal challenges.

It's Relationships, Stupid! The Value of Confidential Discussions and Trust-Building Exercises

Commission leaders found that private and confidential discussions and trust-building exercises were important to achieving the final result. They felt that while public access and a free press were essential to openness and transparency, some meetings and most discussions had to be held behind closed doors. Reed noted that “the key to success of bipartisanship was actually listening to what the other side had to say. The more time spent meeting one-on-one, the more we could figure out what it would take for each side to reach an agreement.”

In closed meetings, politicians concerned with reelection dropped their talking points and started making real deals. There was much greater posturing and playing to the base in public than in private. Commissioner Ann Fudge said that “if working sessions were open to the public, our discussions might have been less candid; nothing would have been accomplished.” She noted that “there were great discussions in the sessions when people had facts in front of them. None of the politicians needed talking points.”

In order to build trust among commission members, the group held several dinners and social get-togethers that allowed members to meet informally and establish closer personal relationships. Businessman Cote was particularly good at relationship-building, according to several Commission members. Having someone from outside the political process brought a reality test that many legislators found useful. This was valuable, according to Fudge, because “you have to know and accept each other as people before you begin negotiating.”

By getting to know one another on a personal level, the Commission managed to create trust that has become rare in the U.S. Congress or between the Congress and the President. In a public forum with former Senator Pete Domenici (R-NM), Rivlin explained that “One example of what’s happened in Washington – and Pete knows this better than I do – back a few years ago, members of Congress lived here, socialized with each other, their kids played on the same soccer team, their wives knew each other or their husbands. And it’s a lot harder to go out and say this person is a bad person as opposed to I disagree with their position if you actually know each other and socialize together. And that has diminished greatly in the Congress.”¹² Reed elaborated on this point when he noted that “trust is central to bipartisanship, which is at the heart of principled compromise. There will be no deficit reduction without principled compromise.”

In high-stakes budget negotiations involving closely-held party principles,

personal relationships ensure that bargainers have the trust so they can debate key issues without major leaks to the press or actions that sabotage the deliberations. Similar to Cold War negotiations between major adversaries, these types of trust-building activities proved vital to getting a majority of members to support the Commission report.

The Need to Protect Elected Officials from Themselves

Politicians sometimes are their own worst enemy. When dealing with difficult choices, elected officials need procedural mechanisms that force action or shield themselves from unpleasant political realities. For example, in the military base-closing process an independent commission makes decisions and Congress has an up or down vote with no amendments. This protects members from decisions they recognize need to be made but are difficult for them actually to do.¹³

It is hard for elected officials to make program cuts or raise revenue given the inherently unpopular nature of those actions. For this reason, it is important for budget negotiations to have procedures in place to enforce fiscal agreements. Agreeing to abstract principles with little chance of implementation will not solve the problem. Effective enforcement is vital to successful problem-solving. Members have to realize they are part of the problem, and they need procedures that help them overcome their own dysfunctional tendencies.

The Necessity of Continuing Public and Media Outreach

Once an agreement is reached, it is crucial to continue to engage in public and media outreach. The Commission's work did not end after its report was published. Members devoted considerable time to educating, engaging, and empowering the public through outreach such as social media, news interviews, and town meetings.

Outreach is a challenge during tough economic times. "How do we get down to the grassroots and get people to engage constructively in an environment where there is such economic stress? What will be the breakthrough to get people to think beyond their own basic survival?" Fudge asked.

Promoting a bipartisan fiscal solution is difficult given current patterns of news media polarization. "News media has to do less demagoguing and more truth telling. Demagoguing happens on 24/7 cable news TV, on both the left and right, and they deny the facts," explained Rendell.

Despite these challenges, after the 2012 election is an opportune time to address fiscal issues. Rendell says that, "because of the threat of sequestration, our backs are against the wall. But it's also the perfect storm because we're coming off an election. There's not another election for two years and we will have a two-to four month window of opportunity."

It is important for budget negotiators to build support networks through

legislators, reporters, finance experts, business CEOs, and outside organizations such as the Committee for a Responsible Fiscal Budget, FixtheDebt, and the Concord Coalition, among others. Leaders must use a combination of old and new media to frame the discussion and build external support for their recommendations.

The same will be true for members of Congress and the President when both get serious about addressing fiscal challenges. When they reach an agreement, they will have to devote time and energy to informing the public. They will have to explain the budgetary tradeoffs and why they reached the agreement they did. Only in that way will we be able to address our debt and deficit problems.

Governance Studies

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