

THE BROOKINGS INSTITUTION

PRESIDENT OBAMA AT 100 DAYS

Washington, D.C.

Thursday, April 30, 2009

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Welcome and Introduction:

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PANEL 1: THE ECONOMIC CRISIS AND DOMESTIC PRIORITIES

Moderator:

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Panelists:

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PANEL 2: FOREIGN POLICY PRIORITIES AND CLIMATE CHANGE

Moderator:

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Panelists:

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PROCEEDINGS

MR. WEST: Good morning everyone. I'm Darrel West, Director of Governance Studies at Brookings. I'd like to welcome you to our first 100 days assessment of the new administration, although I guess we should retitile that the first 101 days assessment, now that we are actually past that milestone.

All of us recognize that we've seen a very dramatic start to the Obama presidency. GDP declined six percent in the last quarter of 2008 and also in the first quarter of 2009. America faces two wars and an uncertain international situation. There have been new initiatives ranging from the economy and financial regulation to education, health care, energy efficiency, and foreign policy.

This morning we are launching our new GovWatch Project, and you can see on your screens the URL for that. We have a web site at Brookings.edu/govwatch. And this is an effort to monitor and benchmark various clinical, policy, and public opinion indicators of our national situation. That web site has detailed data and charts on presidential and congressional approval ratings, trust in government, public satisfaction, right track numbers, views of the major parties, and political polarization over the last several decades. And on the desk in the hallway, I hope you

were able to pick up our first report that has come out analyzing a few of those numbers.

And when I was writing that report, I was thinking about how different the public mood is today compared to three to six months ago. At that point, our situation was described as the mother of all fiscal collapses, the worse crisis in a century, and another great depression.

Now, for the first time in six years, a majority of Americans feel the country is headed in the right direction, consumer confidence is rising, and people are feeling more optimistic about the economy. So it certainly raises interesting questions about where we have been and where we are going.

I'd like to show three interesting tables, if I can navigate this, there we go. The first table shows some of the historic presidential approval ratings from 1981 through 2009. The brown area represents the overall presidential approval rating. The red line represents the assessments of Republicans over time about the President, and then the blue numbers represent Democrats. And you can see that President Obama is very popular. In most national public opinion surveys, he's in the mid 60's. That is actually not unusual. When you look historically, if you compare him to other post-World War II presidents, the average popularity across all of those presidents at the 100 day mark is actually 64

percent. So Obama actually is just at the mid point in terms of presidential popularity.

Now, if you look historically at the difference between the red line and the blue line, you can see a major political polarization over time, how the views of Republicans versus Democrats have compared. And you can see that political polarization is nothing new. You can go back to the Reagan presidency, the Clinton presidency, the Bush presidency, and so certainly Obama has a high level of political polarization in terms of how Republicans and Democrats view him, but it is not unprecedented in terms of what we are seeing.

Our next table charts public satisfaction with the United States. This is a Gallup question, are you satisfied or dissatisfied with the way things are going in the United States at this time. These numbers go back to 1979, so we have a 30 year time series of data represented here. And you can see that satisfaction peaked in 1989, and then also right after 911, but it's been mostly downhill since that point. Today only 29 percent of Americans say they are satisfied with the way that things are going, so that's not the best news for President Obama. The good news for him, though, is that if you chart these numbers just over the 100 day period for Obama, as well as the last six presidents, we have seen a 12 percentage point improvement in satisfaction levels just in the last three months during

the Obama presidency. That is actually the second largest improvement in public satisfaction for any new president since Ronald Reagan.

In the last chart that I'll quick show you is the historic numbers on public trust in government. These numbers go back to the 1950's up to the current period. You can see here, the high point on trust was in 1964, when nearly 80 percent of Americans trusted the government and Washington to do what is right. That number is now down to 30 percent. So clearly, Americans remain very cynical about government, and this, obviously, is going to complicate the President's ability to produce change.

The only good news for Obama on this front is, people also don't trust hardly any other major institution. They certainly don't trust the Wall Street banks, and so it does create a relative balance of power in terms of citizen mistrust. To help us understand the political, economic, and policy environment that we face today, we have put together an expert group to analyze what is happening. We have two panels this morning. Our first panel is going to focus on the economic crisis and domestic priorities, and it will be moderated by John Harris.

John, as I'm sure all of you know, is the Editor in Chief of *Politico*; actually had a terrific column this morning on what Obama said last night at his press conference and then what he really meant. And

John is a translator of Obama talk, I thought was very effective in drawing the contrast between the words versus the meaning.

We have a distinguished set of panelists including Sarah Binder, who's a Senior Fellow in Governance Studies and an expert on Congress; Mark McClellan, who is Director of the Engelberg Center for Health Care Reform at Brookings; Doug Elliott is a Fellow in Economic Studies and the Initiative on Business and Public Policy; Amy Liu is the Deputy Director of the Metropolitan Policy Program; and Bill Gale is Vice President and Director of Economic Studies.

Our second panel will look at foreign policy priorities and climate change, and it will be moderated by Mike Allen, the Chief White House Correspondent for *Politico*. The panelists there will include Bill Antholis, who's the Managing Director here at Brookings, Vanda Felbab-Brown, a Fellow in Foreign Policy Studies here, and Tamara Cofman Wittes, who's Director of Brookings Middle East Democracy and Development Project. So with that, I will turn it over to John Harris.

MR. HARRIS: Darrell, thank you very much, and it's great to be here at Brookings. *Politico*, my publication, had done some great collaborative work with Brookings during the campaign, and here in the first 100 days, this place feels like a little bit of a surrogate home for me.

I was once on book leave here at Brookings, I've got many friends here, and even family members in the person of Mike O'Hanlon. So anyway, it's great to be here at Brookings.

I do think here on the 101st day, this is probably going to be the last word on the 100 days. I can only say I hope so, because if it's not, I'm going to slit my wrist. I feel like we've been talking about the 100 days since maybe day ten or so. But I do think this will be the most authoritative word with this particular panel, because we've got a lot of expertise, and it's my job to sort of prod that expertise, and also hear from – want to hear your questions. And I do think we'd like to get that expertise directed, not just backward looking on the 100 days, but most of all, what the 100 days tells us about the next 100 days, and as President Obama said last at the news conference, 100 days after that and 100 days after this. It's clear that we're at the start of a major project in realigning government, realigning the relationship between government and the private sector.

This presidency is much bigger and bolder than at least I had envisioned during the campaign. I think even it's a bigger project than Barack Obama realized. And so there's a lot to talk about, but there's also a lot – and I can say this as somebody who's written my own 100 days pieces, there's a lot more evidence about how this president is, what his

style is, what his policy values are, what his personal values are than there might be.

The White House likes to derive this whole exercise as a Hallmark holiday, it's phony, and a journalistic convention, and there's something to that I think, but I do think the 100 days conceit, which really began in FDR's time, is probably more relevant and more useful than it is for the typical presidency, so there's a lot to talk about here. And I thought I would start with Sarah, who's done a lot of work on polarization and polarization in Congress, because that's really in the news new with Senator Specter's defection from the Republican Party and joining the Democrats.

And I guess my question is, the polarization of Washington and Congress has been a fascination of mine, but you could say like who cares anymore, the Democrats might be so beaten down that really the interesting question is now in Washington is only what's happening within the Democratic Party, and the Republican Party has fallen so far, so fast, that they've consigned themselves to almost irrelevancy. But give me your take on the political dynamic that Obama faces now in the next 100 days.

MS. BINDER: Well, that's a great question, given particular the Specter switch to the Democratic Party and unknown how a loyal

Democrat he claims he will be, in reality, how he will vote. I think the thing to keep in mind here when we're reviewing 100 day performances and looking forward is that Obama faces a very different political environment and partisan environment than his predecessors who aced the 100 days. So the FDR's of the world, LBJ, even Ronald Reagan, that is, the two political parties here, as Darrell was showing us, are quite polarized ideologically. And we see that they act sort of like teams when they vote on most many issues.

The question for Obama is whether or not, as you said, can he just ignore the Republicans and move ahead with these larger Democratic majorities. The problem is, the rules of the game require bipartisanship. Even if Democrats were to get the 60 votes, they are not a loyal 60 votes, and they're going to have to build coalitions on each of these tough issues, health care, energy reform, banking solvency and so forth.

So it's not sufficient to say, look, in the period of polarization we ignore the Republicans and we move on. It's tough to build bipartisanship if you don't try to track a handful, at least in the Senate, of Republican votes.

And one thing I think we lose sight of often is to keep in mind why we really want bipartisanship, and is it sufficient just on any big issue

to pick up Specter's vote, Colin's vote, Snow's vote, is that sufficient, right, can we go ahead, can Obama claim victory by saying I've built this majority, we're going to go ahead? The problem here is that the most durable policy reforms over the 20th century have been built when there's large bipartisanship, durable cross party, cross chamber majorities, and if you just squeak through, those reforms aren't going to last because they're going to be undone by subsequent majorities, and that's really the challenge here for Obama, and I think he understands why one wants to govern with these larger majorities.

MR. HARRIS: Right; I remember at the time of the Clinton health care failure in '93/'94, Pat Moynihan was widely quoted, what major social change in the United States happen only – doesn't happen or shouldn't happen with 51 percent, only with 70 percent or greater.

MS. BINDER: And just to think, we looked to FDR, we said, look, he got 13 major laws done, landmark laws done in the first 100 days, or look at LBJ, it wasn't 100 days, but he had Medicare, Medicaid, Social Security, Water Reform, Environment Reform, Education Reform. Those were different Republican Parties that they were facing, even Reagan. They were facing – they were able – FDR, LBJ attracted a third of the Republicans, on many votes he attracted half of the Republicans. It was a

different type of Republican majority. We didn't have polarization in those years across all issues, and that's what the challenge is for Obama here.

MR. HARRIS: Mark, the next couple 100 days, I mean it was unmistakable last night at the news conference, where President Obama, in the context of the Specter switch, you know, clearly put the emphasis on health care and clearly believes the new majority in the Senate is going to be decisive on that, and yet if Sarah is right and Patrick Moynihan was right, that doesn't necessarily bode well if this is going to be an all Democratic exercise. What do you see happening politically on health care, and is there a merger, is there a way that Republicans – are there sort of points of entry where Republicans could authentically engage with health care reform with the administration?

MR. MCCLELLAN: John, the administration unquestionably wants to make health care reform a top legislative priority for the next 100 days, and I think the Specter switch adds to the momentum for that. But as we're just talking about, this is a big and potentially controversial and complex issue, and having legislation that's partisan creates a couple problems; one is that it might be undone down the road, but another is more related to just the logistics of getting legislation through. And let me maybe illustrate that by asking you all who are here today a question. How many of you think the American health care system needs major

reform? I see a lot of hands go up. When that question is asked the general public, you get about 70 percent of the hands up.

Now, how many of you all would support health care reform if it had an impact on your interaction with your doctors or the treatments that you might get for your illnesses or those of your family? Well, that's a good number of hands, but significantly fewer. In the American public, it's about 25 percent. So the numbers go way down as soon as people think that health care reform might affect their own care.

Darrell showed some numbers earlier about the level of trust in government. People do not trust the government about their health care decisions, they don't trust private insurers either, they don't trust really anyone except their doctors and their health professionals. And this is why the number one principal from President Obama about health care reform has been, if you like what you have, you can keep it. Now, making sure that you can be true to that principal at the same time as you are implementing steps that are going to really help get costs down in our health care system, he's made that a priority, is a big challenge. What most Americans would like to see is continued access to their doctor, maybe more access to drugs and other new medical treatments, and less hassle in getting them, less out of pocket costs, less paperwork, things like that.

That costs a lot of money, and we're in a time when there is some significant sensitivities, particularly among the blue dog Democrats, as well as the Republicans, about long term fiscal outlook, and if we don't do something to change the trajectory of health care cost growth, you're talking a trillion dollars in the near term, much more of a negative impact on the country's fiscal outlook for the long term.

So there is a lot of work ahead to make this kind of proposal come together. And you've heard the administration, at least some of the leaders in the administration, Peter Orissa and others, talk about the importance of health care reform that changes health care, that actually reforms the way that health care is delivered, that gets waste out of the system, that emphasizes prevention, that uses health IT and so forth, that is some hard work, to find ways to implement those steps and actually save money. And we haven't yet seen the investment of political capital by the administration to bring the public along with those kinds of steps as opposed to steps that would just potentially reduce their out of pocket cost while still giving them just as much access to providers.

It's going to be very hard to do that without Republican support, because criticism on an issue as sensitive as health care, that the government is taking over, are going to restrict access to treatments, or on the flip side, the private insurance companies will, it's easy to shoot down

these big complex proposals, there's not much time, there's a lot of money at stake, there's a lot of complexity, it's going to take some real political capital, and it's going to be much easier if both sides are working together.

MR. HARRIS: I want to get back to health care a lot in a bit, but you've hinted at two issues, the deficit and imminently related to deficit, obviously, the economy. So let's go to Amy. Amy, Ron Brownstein, a journalistic colleague over at the National Journal, looking back at the 100 days, described it as a presidency in a box, in that so much – even if we stopped at the stimulus package, that's a pretty big initiative that would be as big as some presidents have had in their entire first term. The column really resonated with me. I covered the Clinton presidency and remember well his stimulus proposal at that time was for \$40 billion, massive, too big, and they shut it – they brought it down to 16 billion, and I guess it still failed.

They closed the government down in 1995 over a cap of about 20 billion between Republicans and Clinton. So the scale of these numbers is – tests my own ability to kind of even grasp the size of them, an \$800 billion stimulus. So, first off, tell us what is that stimulus, what is the effect of it so far, particularly in the localities and the state and local governments where it's aimed at, and what do you think is the likelihood that it won't be sufficient and we'll need a second stimulus?

MS. LIU: Well, I agree, in the last 100 days there's been such a high volume of activity to stabilize the fiscal and economic crisis. The stimulus package is even just one, and in the middle of that, they were able to do the financial stabilization, and they were even able to cobble two weeks later, release a draft FY '10 budget. This was a very ambitious set of 100 days. I'm going to view our sense of the economic recovery package from the ground up, because in an economic crisis, we have to understand that the economy is absolutely rooted in our cities and metropolitan areas.

If you take a look at the top 100 largest metropolitan areas, from New York, to Chicago, to Seattle, Kansas City, even medium size places like Louisville, Memphis, and even Lancaster, Pennsylvania, these places are the top 100 largest metro areas, they generate 75 percent of the nation's GDP, 75 percent of the nation's GDP in these places.

And so the economic recovery, the national economic recovery is going to be really based on the extent to which these places rebound. And so how do the cities, the county officials, the regional business leaders, the private sector leaders and their state partners, non-profit, all these folks view the recovery package?

I want to say first and foremost, because you asked about it, is it working, is that there's going to be – the economic and fiscal stress in

these places are very severe. The job losses that we hear at the national level is just completely wide spread at the local and regional level literally across the coasts. In fact, maybe it's less so in Texas and in some places in the south, but mostly really wide spread. At the same time, I was just reading yesterday from the governor's reports that almost every single state and every single governor, and we're talking about both Democratic and Republican governors now, are introducing proposals to raise taxes, bipartisan, to deal with the fiscal crisis, the budget, gaps that they see which, again, has impacts on tax payers quality of services.

I was in a meeting the other day with Shirley Franklin, who's the Mayor of Atlanta, and she is I think today going to announce a major property tax increase, I think 40 percent, to deal with the budget gaps, be able to retain the level of police force in that city; this is wide spread.

So I think that even though the money is just getting out the door, the ability for us to see the changes in terms of job stabilization, the fiscal stabilization in main street is going to take some time. Now, is this package –

MR. HARRIS: So the expansionary policies of the federal government, they're offset by the contractionary policies of the states?

MS. LIU: I probably will defer to my colleague on my left here about whether that's going to work. But I will tell you, even the state

fiscal aid that was in the stimulus package, I think many argue at the state and local level does not go far enough.

The irony of trying to implement a \$787 billion stimulus package on the backs of states and localities when they are laying off staff is what – is the conundrum right now in many state and local places.

But I would tell you, you know, I'll start with the disappointments, and then I think what we – I think the promise of the stimulus package, and there are many, so, you know, I'll just say a few.

I think the one disappointment by many people at the state and local level is that speed of getting the money out trumped all the other goals of economic growth, that its speed of getting the money out the door trumped the quality of the jobs, whether the investments are going to effect, have long lasting benefits to the economy versus just short term job growth that will disappear, and I think that's what we're going to see out of the package, is that most of the money – to get the money out the door quickly, the vast majority of the investments on infrastructure in particular, on work force development, education, went through traditional delivery systems, went through traditional formula programs, and many of those are broken systems that are not really currently matched to where the real challenges and assets of the economy are.

And the other disappointment is – so I'd say that. The promise – the other disappointment is that not only speed, I think folks at the state and local level are really trying to do good things with the stimulus money, to be smart with it, and the strong signal I think they feel that they're getting from the White House and the Vice President's office is the most – of all the goals of the stimulus package, the one message they're hearing loud and clear is, don't spend it on a stupid project, don't do anything stupid.

So the waste, fraud, and abuse, the sense that they're going to watch every dollar you spend on this, even though it's a valuable goal, again, is not going to allow a lot of creative, innovative spending out of this money. In fact, you're going to see a lot of small, safe paving investment that, again, aren't probably going to have any long term catalytic effect on this economy. The good stuff is, you know, of the \$787 billion, 40 percent of that money does go into direct investments in the assets of the economy that really matter, innovation, a lot of focus on energy innovation and green economy, infrastructure, human capital investments, and education, and you know, a lot of the sustainable community investments. And I think those are the things that are going to create the conditions for growth in the long haul.

And then the other I think, you know, the Obama Administration and Congress said that somewhere in this package we're going to signal a – so a shift towards a 21st century green economy, and they did make that promise in the stimulus package.

So the other good thing that I think a lot of state and local leaders are really organizing around is the fact that there's investments in energy innovation to create new fuel alternatives and energy efficient products focused on work force training, particularly in the green sector, real large scale energy retrofit, energy efficiency across the built environment. So I think the shift to a green economy is made real.

MR. HARRIS: Bill, I thought it was a revealing look at how Obama is already sort of changing some of the at least political assumptions in the city. Last night at the news conference, a month ago the news conference was dominated by questions about, are you taking on too much too soon, and what about these massive deficits, and neither of those questions came up last night. But the amount of debt, particularly since Mark brought it up with respect to how much leeway he's going to have in health care, Obama has placed an enormous bet, I think, on economic growth, but a substantive bet that, you know, he's going to need growth, and already large deficits are going to be enormous, and also a political debt.

The country has clearly signed up and is ready for activist government on health care, on energy, on education, but I'm not at all clear they've signed up for that kind of aggressive government if they – the bargain in that is low growth or higher taxation.

So even though nobody was talking about it last night, give me your sense of what the bet is he's placing on both economic growth and on whether these deficits matter. Jamie said they don't matter, Democrats – didn't holler at that, but now they are acting like deficits don't matter.

MR. GALE: Yeah; the – Obama has put down a big gamble on the economy, but not because he's necessarily a gambling type. The reason he put down a big bet is because he walked in the door on January 20th, and the question was not are you going to make a big bet, but what big bet are you going to do. I mean, remember, the administration inherited an enormously bad economic situation, now currently described as freefall at that time, and the administration, regardless of what they did, it would have been an enormous bet on something.

And the administration did what I think is the conventional approach, and I think it's the right approach in an economy with unused resources, that is, with people out of work, you know, unemployment at

now the highest rate since the early '80's, with capacity utilization in factories down at the lowest level since they started measuring the index.

With all those unused resources, the right thing to do is for the government to step in with the stimulus package, spend money, cut taxes, and aim to get those resources used again.

You can think of this through the vale of confidence. Right now, or a couple months ago certainly, consumers weren't confident to spend because they were worried about their jobs; businesses weren't confident to give jobs or keep jobs because they weren't sure that consumers were going to spend. That's, obviously, a vicious cycle. The less consumers spend, the fewer jobs businesses offer, the fewer jobs businesses offer, the less consumers spend. So getting out of that vicious cycle was the first order, or one of two or three first order issues, and the stimulus package is meant to address that.

Now, we've seen some green shoots or glimmers or whatever you want to call them, but I think – I forget who said it, but someone said most of those green shoots are going to turn out to be weeds, and I think that's probably right, unless they also address the issues in the housing and financial sector.

We've seen the stock market recovery right now, which a lot of people think – bare market rally, that is a rally that's going to not end

the bare market, sort of like a mountain that stays under seize, and I think we may have a similar sort of false recovery in the economy if we don't address – the stimulus will help get the recovery going, but it's not going to last, it's not going to be sustained or sustainable if we don't address the issues in the financial sector and the housing sector. So it is a big gamble, but it's a gamble on much more than just the stimulus package, it's a gamble that the housing package gets the housing sector worked out, and the financial package, you know, gets the bad asses out of the financial sector so that banks are willing to lend as the economy moves ahead.

MR. HARRIS: What's a reasonable length of time to fairly judge whether the bet is paid off?

MR. GALE: We know what mistakes were made in the 1930's, so that's certainly plenty of time. I think the issue really is – there's sort of two competing theories about how the economy is going to turn around, and I don't know which one is right, so I don't know what the answer is. One view is that sharp downturns are followed by sharp recoveries, historically that's accurate.

MR. HARRIS: The so called V?

MR. GALE: The V, yeah, the V shaped, or even a U shaped there. And the idea there is that a recession has in it the seeds of

recovery. So, for example, businesses stop making things, that means they draw down inventories as consumers continue to buy. Well, when the inventories are low, the factories start making things again. So the idea is, the faster it falls, the faster it comes back. The concern with that in the current situation is that the typical recession, with the sharp downturn and the sharp recovery, is a recession that's caused by the federal reserve tightening monetary policy, reducing interest rates – raising interest rates, reducing spending. So there's no destruction of the housing sector, there's no destruction of the financial sector, there's no massive government bail out, there's no consumer confidence going to the lowest recorded level in history, et cetera.

So to the extent that those things will sort of evolve differently in this downturn than they have in your “normal downturn”, we could see a much longer period before the economy recovers. Some people refer to that as an L shaped or a bathtub shaped downturn, so I don't know.

I think what they want to do is, avoid that, and you know, right now anyone would accept the V or the U instead of the bathtub or the L. But I think the key to that is going to be not a second stimulus package, which gets talked about a lot, but fixing the financial sector, which was the original cause of the problem.

MR. HARRIS: Well, that's your expertise, and he couldn't answer when the recovery is going to come, he failed the test, now you've got to tell us, when is the recovery going to come, because it all depends on the financial sector, which is – you've got the crystal ball, I know it's going to work, so enlighten us.

SPEAKER: Okay. Well, that's an easy question, obviously. I appreciate a nice, softball there, John. If I could just reinforce something Bill was saying, about the importance of the underlying question; there have been some very good analysis by Ken Rogoff and Carmen Reinhart, among others, as to what happens to economies around the world when they're in a severe recession associated with a very severe financial crisis, and it ties in with what Bill was saying, which is, when you have your financial sector going through immense destruction, it makes for a significantly worse and longer recession.

We don't know what would have happened if the Bush and then Obama Administrations hadn't put money into the banks and taken the other emergency actions. But if you look at what Rogoff and Reinhart have seen, they found that, on average, these recessions associated with severe financial crises had a destruction of production in the economy, shrinkage from peak to trough of nine percentage points. And for those of you who don't focus as much on the economic – quarterly economic

numbers, when you hear figures like the six percent decline in the economy, which was roughly what happened both fourth quarter and now first quarter, those are quarterly numbers annualized. It was really about a point and a half and then about a point and a half. So we're down about three points from where we were in terms of the size of the economy. And I think the consensus is, we've come down, you know, maybe another point, pessimists think maybe another couple points.

That still leaves us four points better than the average recession when you've had a severe financial crisis. So it is really important that the steps that are being taken do work.

Now, there's two very difficult questions there, one, will it work, and secondly, if it does, what is the timing. In some ways, the timing question is the easier one, because if it works, I think it'll start to be pretty clear within – you'll start to have quite positive signs in say three months, and I think it'll be pretty clear that it's working in say six. And I guess I'm an optimist on this; I do think it will work.

MR. HARRIS: The clear signs as reflected by what data point?

SPEAKER: Well, this is part of the problem. There are a ton of different data points you want to look at. The reason you care about the

banking system in the first place is clearly not the bankers, even though I was one.

MR. HARRIS: Right.

SPEAKER: Because right now we all loath bankers.

MR. HARRIS: Right.

SPEAKER: It's because it's the transmission mechanism by which you get money from savers to people who are going to do something with it. And we're in a very severe credit crunch. So most of the measures of recovery are going to be about whether that credit crunch is easing. That's not as easy to tell as you might think, because a lot of the evidence is anecdotal.

For instance, we've had shrinkage in the loans that are outstanding, but there are multiple reasons why that's happening, and so figuring out what the underlying causes are is really important to figuring out whether we're fixing the problems.

For example, it's actually natural that you have a decline in demand for loans during a severe recession, because the people who want to want the money, they're not stupid. They're less likely to buy things, and therefore, need the money if they see a bad economy, and whether that's, you know, business or consumers. So some of the decreases, the demand, some of it is that much of the lending in the

system in recent years actually didn't end up at the banks even if they intermediated in the first place, it ended up at pensions and money market funds and other – mutual funds, other types of investors who were buying the securitized products.

They're basically buying a piece of a package of loans. Much of that was mortgages, but it was also other types. The securitization market has more or less vanished temporarily.

One of the four pillars of what the administration – the regulators are trying to do is to rebuild that securitization market by having the federal reserve offer lots and lots of cheap money to people who are looking to buy those securitizations. And when I say lots and lots, they're shooting for a trillion dollars.

Now, it's been a slow start, it's \$10 billion or something, it's far below that, but they're willing to put a lot out there. If that works, it will make a significant difference. But you still also need the banks themselves to be okay. We've got lending figures for them which have come down, but not terribly much. So there's some real hope that will start up.

MR. HARRIS: What do you think, as they -- as the administration policy-making team looks and assesses its 100 days, what

do you think they've learned; what do you think they know now that they didn't know on January 19th?

SPEAKER: Well, they have a plan now, and I don't mean that in a caddy kind of way. This is a really complex situation. They've spent the first 100 days basically developing a coherent plan. I don't agree with all parts of it, but it fits together. You know, it's basically making sure the banks have enough capital and they've got liquidity so that they can start to take more chances, it's restarting the securitization market, it's trying to remove the toxic assets from the banks by encouraging others to buy it, because that will help make clear the strength of the banks, and then finally, as was alluded to, it's helping homeowners who are under water in their mortgages, who are having trouble getting by.

MR. HARRIS: Can you also help us illuminate the stress test, which is a term that's used a lot, but I'm not sure – fully understood, at least not by me? How sort of quantifiable and objective in exercise is that, and how much sort of judgment call and discretionary judgments are reflected in the stress test? One person actually within the White House I assume has some insight into this, basically says it's, you know, it's not like a multiple choice exam, it's an essay question, and they can either

have people pass or fail with wide latitude; is that true, and what are the implications of that?

SPEAKER: There is a huge amount of judgment here. For instance, the federal reserve is acting as the lead regulator in managing the test, though all the major banking regulators are involved. So the fed, at the end of last week, released a so called white paper to explain the methodology.

It's 21 pages that tells us what we already knew. The only numbers in it are the numbers that tell us what the overall macro economic scenarios are that they assumed. Everything else in there is a detailed description to describe just how much homework they're doing as part of this, and then saying, and the results are dependent on the judgment of the examiners, and that's not necessarily wrong. These are really complex institutions and they differ from each other. The regulators are supposed to make those kinds of judgments. But it makes it very difficult for folks like us to then look from the outside, see what they've come up with, and see if that seems sensible to us.

So, you know, the – first of all, I should say I like the idea of the stress test, and I still do. Because the administration, before this one, and the Obama Administration has inherited, to some extent, a lack of public credibility in their views about the banks. It's the big thing, the

administration keeps getting beat up on. They're seen as not being tough enough on the banks, which makes it hard to just kind of take this technical analysis at the word of the regulators.

But the stress test was intended to, let's go and really, really thoroughly look at things and report back, and if there's more capital needed, just to be sure, we'll make sure it's there. But it is so dependent on judgment that I don't think we're going to know until a few days after the announcements of the actions as to whether it's perceived as truly credible or not.

MR. HARRIS: Okay. I'm going to want to pivot soon to questions from the audience, and so let's get ready for that, but I do want to get back to health care for a minute, Mark, and just break down for us, like what are the subset of questions – the big question is, does he get comprehensive health care reform passed this year, but what do you see as like the pivot points within that large question, what are the separate arenas that you're really looking for to tell us how compromising the administration is likely to be, how compromising Republicans are likely to be, and what the eventual package looks like?

MR. MCCLELLAN: Sure; there's the substance and the process, or the policy and the politics.

MR. HARRIS: Right.

MR. MCCLELLAN: One way to –

MR. HARRIS: These guys all want the substance; I'm a reporter, I want the –

MR. MCCLELLAN: Yeah, probably mix them together a little bit, John. One way to break it down is into the following three pieces; number one is reforming the health care delivery system. So this is something that the administration has really been pushing with the evidence that cost in Medicare vary by 50 – 100 percent from one area of the country to another, that cost growth in one region has been twice as high as cost growth in other regions with no clear impact on health. All the evidence that we have, lots of preventable complications of chronic diseases, lots of under use of preventative treatments, and lots of costly readmission to the hospital, costly – additional costs in our health care system as a result, they want to do something about that.

That largely falls in the category of things like changing the way that we pay; instead of paying for more treatments and more intensity, pay on the basis of better outcomes and people staying healthier and getting costs down.

It makes sense, it has a lot of bipartisan support among policy-makers, but to go back to my earlier point, that is not the way the public is thinking about the health care problem now. The problem that

they see is that their doctors are trying to do a good job, but it's costing them too much to get the treatments they need, they want their costs down. They have not been sold yet on the need to really reform health care.

And providers are starting to move along in this direction, too. They're getting fed up with the current system and all its paperwork and all the price regulation, but figuring out how to bring that together is a challenge. The good news is that there's bipartisan support for it, so I do see a process for there. The second big piece is reforming coverage, so giving people who don't have good coverage now access to it, without disrupting the coverage that people have and like. People who are in Medicare like that, people who are in private employer coverage like that. Again, that's why President Obama has said he doesn't want to take anything away that people have got, so they want to focus on coverage for people who aren't lucky enough to have good options through their jobs.

And there's been a lot of discussion around the so called Massachusetts model, where there's an insurance exchange, where the insurance companies can't do underwriting, they have to charge everyone the same price, and there are subsidies for people who have lower incomes, so their – or credits, could be refundable tax credits, so that they can afford a good health insurance policy.

The problems here are, number one, how do we pay for all that? More generous coverage means more generous subsidies, and that means much higher cost. Again, we're talking in the trillions range now. Also, how are these programs going to be set up in a way that they can function? A big question here is, would people be required to get health insurance? You know, it's one thing to say insurance companies shouldn't charge more for people with chronic diseases or people who have high expected health care costs, but if that's all you do, the experience is that people tend to sign up for coverage only when they get sick, and that makes the insurance markets very unstable. It creates a problem with adverse selection. So there's been a lot of discussion coming back to the individual requirement issue, but again, that's something the public may not be fully sold on. And there's also a related issue of whether this new set of –

MR. HARRIS: -- themselves sold on that.

MR. MCCLELLAN: That's right; he criticized Senator Clinton very heavily around that issue. There's also an issue around whether there should be a public health insurance plan competing with a private plan. I'd say most Democrats support that. That's one of those – most Republicans clearly don't. That's one of those big divergences in Darrell's

chart earlier. Finding a way forward on that issue could be complicated for this process, as well.

MR. HARRIS: -- that issue, because we're hearing so much about it, is it a must have --

MR. MCCLELLAN: Well, it's an issue that people like you like to talk about. It's, you know, I think the hope is that there will be enough momentum coming from other parts of the health care reform package, around reforming delivery, around making other aspects of coverage work well, that this is something that can be worked out, or maybe this is one of the ones where, like the President said last night, well, you know, bipartisanship sometimes mean that the majority vote wins.

MR. HARRIS: Right.

MR. MCCLELLAN: So I think there's still more to be done there. The people who are closest to this process, Senator Bachus and others, are trying hard not to let this issue come to a head and derail the whole process too soon, but to try to move along the process and maybe get to this issue later is part of it, but it's there, something that's going to have to be dealt with.

And the third big issue is financing. With all of the costs involved, it is going to take some new financing sources. When the

administration says we're setting aside \$634 billion as a down payment, you know you're talking about some real money. And while there's a lot of tolerance in the public now for spending money right now, making investments now to make our country better, to maybe make our health care system better, there are some real concerns about the long term cost implications. After all, it's President Obama's own budget team that has been highlighting the nation's long term fiscal crisis being really a health care crisis. So there have to be some steps to make our financial commitments in health care much more sustainable.

That means either big steps to reform how health care delivery works. And it's hard to find enough money to credibly pay, according to the budget experts, for these coverage expansions through that stuff alone. It means finding new sources of revenues, and that may mean putting back on the table another proposal that candidate Obama criticized, this time from John McCain, for reforming the tax treatment of employer health insurance.

There's a lot of money in that, it's very aggressive, it's a \$250 billion per year tax exclusion, could really help with financing this kind of coverage expansion, but would be controversy with the unions, with people who have employer coverage and so on, or there would need to be other sources of financing identified, new tax increases like in the

President's budget, new savings in Medicare. All that can be pretty controversial.

MR. HARRIS: I've got a question that goes to both the cost issue and the one where you surveyed the audience about how much they're personally willing to be effected. I was really struck the other day; there was an interview that President Obama did with David Leeward, a columnist for the New York Times, in which he was talking on very personal terms about his grandmother, who, of course, died I think the day before the election, but she was terminally ill with cancer, they knew she had maybe three months, maybe six months, but very sick, in ways that were very expensive, and he said, look, I would have gladly paid for it myself, I've got the means to do it, but then they got – the reporter and Obama got going on a conversation, and I'm just going to read it, because I was really struck by it, and I'm wondering if I was right to be struck by it, what he was getting at.

He said, you know, the reporter was quite – it's very difficult to mention the – these very expensive end of life decisions, and Obama agrees with him and says – and notes that most people don't have the ability that he has just to pay for it out of pocket, so he says that's where I think you just get into some very difficult moral issues, but that's also a huge driver of cost, right. I mean the chronically ill and those toward the

end of their lives are counting for potentially 80 percent of the total health care bill out there, and how do we deal with that, he was asking. Well, I think there's going to have to be a conversation that's guided by doctors, scientists, ethicists, and then there's going to have to be a very difficult Democratic conversation that takes place. It's very difficult to imagine the country making these decisions just through normal political challenge, and that's part of why you have to have some sort of independent group that can give you guidance. What are we getting at here?

I mean, to me, it sounds like he is trying to lay the public predicate for, look, any sort of health care reform is going to be serious about cost, is going to have to have some degree, I'm sure he would never use this word, some degree of rationing, and some degree of very hard calculus about who's worth investing in their health care.

MR. MCCLELLAN: I don't think he would ever use the word "rationing", I agree with you on that. I think he is talking about – point about, yeah, you've got to really change the way that we're spending money in health care. And one of the areas in the first 100 days, where the administration did have a big impact on health care, you know, they're getting some credit, which they deserve, for expanding children's health insurance, but that was a bipartisan bill vetoed twice by President Bush, a lot of Republican support, pretty easy to do.

Well, they did make a difference, and it was in the stimulus bill, where they included funding over some opposition for what's called comparative effective research, and that's research on trying to do a better job of identifying what treatments really work for particular patients, and the interest in that comes from some of those figures that I was talking about earlier, where costs of treating patients with chronic disease, costs of patients near the end of life vary tremendously from hospital to hospital and medical practice to medical practice and region to region.

The hope is that by getting better evidence on which of these practices really are more effective for the least amount of money, we can get rid of a lot of the excess costs in our health care system without compromising quality, ideally with increasing quality. Now, that's a hope; the reality is that there is both – there are both policy reasons and political challenges to making this a big part of health care reform. The policy challenge is that it has – it's not new, there have been efforts for a long time to try to learn more about which treatments are best for which patients. These typically are costly trials and they often don't settle the issue.

Medical technology changes, the trials take a long time, doctors have increasing reason to think these days, but different patients may respond differently based on genomics or personal preferences or

things like that. So it's very hard to come up with rules that could simply be applied in an insurance plan like Medicare to say we're going to pay for this for these people and not pay for that.

Then there's the politics of it, which does get to rationing, and the American public is definitely not there. Medicare, for example, specifically is prohibited from considering cost or cost effectiveness in its coverage of cancer treatments and many other treatments for serious chronic diseases.

And that's what I was talking about earlier, about the need for some political capital to be extended. And it sounds like, you know, the President was starting to talk about that now, but there's a lot more work to be done there to get the public comfortable with steps that would effect how health care actually works, incredibly save money, at least over the long term, but not make them nervous about losing access to treatments that they or their loved ones need.

That is a very difficult issue, it was a big challenge in passing the stimulus legislation. In that case, the Obama Administration did get a provision through that they thought – that does help move in this direction, but they couldn't go too far, and this is going to be a big issue as the health care debate continues.

MR. HARRIS: Let's get some hands up. And while we do, Sarah, quickly, what do you – do you think the Republicans – significant numbers of Republicans are going to want to engage with health care, or do you envision a more repeat of '94, when they made a calculate decision, we're not going?

MS. BINDER: Well, I think the key question here for Republicans, in part, is the changes that have occurred in the health care industries and the positions of health care, the sectors of health care industries since '93/'94, and Mark would be better to speak to this, but the question is, is there more support on providers, doctors, insurance groups? My sense has been that there's a change going on there and their recognition about the importance of health care reform. Is that sufficient to buy Republican votes, I think that's the key question.

MR. HARRIS: We'll go here and then we'll go – yes, sir.

SPEAKER: Yeah, Chow – correspondent. I would like to get into the human factor. When we heard health care, he said need to Republican corporation, but when Obama come to the White House, the partition – is getting worse. First, when he has bail out, he went to Congress, he see the Republican people, but then when they – kick the Republican out, and then – when he – about the budget, then he only see the Democrat people, so I would like to ask all the wise men up there, he

say last night, he say he has tremendous power, and can you tell him how to use his tremendous power to convince the people in his own party and other party to have a – corporation?

And then when you talk about this stress test, really – and someone mentioned there's some kind of opinion it. I tell you, this stress test won't be objected – quite subjective. I tell you, what do you need to know that –

MR. HARRIS: Let's – get to the –

SPEAKER: IMF said – so – the bank. Thank you.

MR. HARRIS: Okay. I'm not sure I followed that, but somebody did.

SPEAKER: How do we get –

SPEAKER: Yeah, let me just say –

SPEAKER: -- work together.

MR. HARRIS: Okay, good.

SPEAKER: -- tremendous power.

SPEAKER: It takes two to tango, and Obama has offered some olive branches, or I was going to say fig leaves, but that's a different thing. You know –

MR. HARRIS: That's the Clinton presidency.

SPEAKER: -- it's a political strategy, and Darrell could probably answer it, or Sarah, better than I, but it just seems to me that you can't mandate bipartisanship. You can offer to talk, if the other party decides that they want -- that the better political strategy for them is to be an opposition party, oppose everything, and wait two years until the next election, there's not much you can do about that. So, you know, this will continue, but the administration has an agenda, the Republican party has an agenda, and it'll evolve. But I don't see that there's some crisis here.

MR. HARRIS: Anyone else?

SPEAKER: Sorry, can I finish one point? Obama is putting the health care package through reconciliation, right, this is a good example of this, rather than exposing it to the full 60 vote in the Senate filibuster and stuff like that. Well, the Republicans are crying, you know, that this is the end of the world, but this is exactly what they did with the Bush tax cuts.

And at that point, they talked about how stupid the budget rules were, and what they wanted was good policy, they didn't care about the rules, and now the Democrats are doing the same thing and it's the end of the world. Okay, so this is just -- this is just grand standing, and I wouldn't worry too much.

SPEAKER: I wouldn't rule out bipartisanship on health care yet. The reconciliation rule actually doesn't kick in until October, so there's some time. And I think the administration is going to face a decision, and it's going to depend on how things unfold, whether it's a bipartisan coalition that really does stay together, they're going to face a decision about do they want to build, it's going to make some of the more liberal wing of the Democratic party unhappy because it doesn't go far enough, there's not as much government involvement, it's not as generous as it could be, or do they want to do something that is generous enough and keeps the liberal Democrats on board, but loses more in the center and the right.

I would take some of the comments that the administration has made recently, including some of the recent comments from the Chief of Staff, as perhaps being willing to go to that middle.

They've certainly been trying to work with a bipartisan process in the Senate Finance Committee. They've kept emphasizing the need for cost control, even if that means giving something on generosity of coverage and just how expansive the new kinds of health insurance subsidies would be, but we'll see how that develops.

MR. HARRIS: Yes, ma'am.

SPEAKER: Just on this question of how do you attract bipartisanship, and I've never claimed to be a wise man, for many reasons, but the question is, for Obama to get members and Republicans to vote for something that they initially think might not be my interest, he has to convince them that they can vote for it, and yet not face recriminations from their constituents. And as the Republicans have lost seats in '06 and '08, it has shrunk and has become more conservative. Now, the challenge for Obama is to do it quickly, right, because his political capital decline every day. I know they understand that, but they're losing time as members start to think about primary challenges in going into the general election period.

SPEAKER: I just want to follow up on what they both – I agree with everything they just said, I just want to add, one, you can think of putting health into reconciliation as a negotiating strategy. Like Mark said, maybe they'll reach a bipartisan agreement before October. Well, the Republicans might be more inclined to do that if they know that if they hold up through October, that the Democrats can put it through reconciliation. So bipartisanship doesn't mean you use all the – you don't use all the tools at your disposal.

The other thing is, I just want to mention one other reason we need bipartisanship, and that is, parties don't compromise with

themselves, and I think the Democrats getting 60 votes might actually make it harder to do some stuff. Parties don't compromise with themselves, they only compromise with the other group, and the reason is, the nature of compromise is, there's always some stuff in there that you don't like, so the Democrats can go back to their people and say, yeah, we didn't want this, but the Republicans said we had to have this in order to get what we really wanted, and vice versa.

The Democrats can't go back to people and say, well, we liberal Democrats didn't want this, but the conservative Democrats said we had it, that doesn't work. You know, you can only negotiate with your enemies. And so they – I think the Democrats need the Republicans to have a voice at the table in order to have cover for their own stuff that they want done, and the Republicans, obviously, well, they need the Democrats at the table for the same reason, but, obviously, there are tons of Democrats at the table right now.

SPEAKER: If the next 100 days bring a pandemic to the U.S., how will that effect the administration's program?

SPEAKER: I think there actually is likely to be a pandemic at this point, that's the World Health Organization's outlook, that's the – if you listen to the very measured, but serious directions that are coming from HHS and Homeland Security and that sort of steady increase in

cases. I think there are still some questions about how serious the flu is going to turn out to be in this country and around the world, but unquestionably, it's going to take a significant amount of time and effort to deal with for a while.

There's got to be efforts to develop a vaccine, there are going to be efforts to get treatments out to people who are effected, both in the United States and elsewhere, there will be the impact on work productivity in schools and so forth, that is something that's going to effect the coming months, and this is a process that could well go on for the rest of the year.

Usually with these kinds of pandemics, you can get another bump when we get closer to winter, again, as well, and it's going to take some months to, in all likelihood, to develop really effective treatments, let alone – or particularly a vaccine.

So that is yet another major issue that will be in the air for this administration. As you heard the President say again last night, though, this is the hand he's dealt and he is intending to plow ahead with dealing with this and everything else that's urgent.

MR. HARRIS: Yes, sir.

MR. MITCHELL: John, thanks. Gary Mitchell from the Mitchell Report.

MR. HARRIS: People shoot hands up so I can get a sense of where in the room they are as he's making his question. Okay, good, all right. We'll get to the back. I realize I'm a little bunched in the front.

MR. MITCHELL: I hate to introduce a critical note into this conversation, but I just want to point out that while we've been talking about the hundreds of billions and trillions, no one has really focused seriously on the question of Obama's charge to the cabinet to save \$100 million, and I'm interested to know, maybe Bill Gale can shed some light on how that will change things. That was a joke.

Sarah, I wonder if you and/or John could talk a little bit about this sort of red and blue nation question and the deep partisanship and how and whether that's going to effect the capacity to create sustainable reforms in a variety of arenas, and maybe put the question this way, are we a deeply divided nation, or is it that our politics are deeply divided, which is not the same thing, I would argue, and that one of the things that distinguished Obama all along, and I think account for his success in the primaries and the election was the capacity to understand that and to use the new technologies to talk to people in a way that got above the sort of classic political divisiveness. I hope that turned out to be a question, and I'll leave it there.

MR. HARRIS: I sort of get it; go ahead.

MS. BINDER: I guess just a brief reply here. In there you've tapped a sort of big debate amongst political scientists about how deep those red and blue division run, and I think we differ even on the eighth floor, over in Governance Studies, about that.

My own view is your latter scenario, which is, there is less of the red and blue divisions, it's quite purple, in fact, but it's the choices voters have that makes them look so polarized. That is, we have Democrats, legislative Democrats, elite Democrats moving to the left and political sort of elite Republicans moving to the right. But at the mass voter level, I still think it is true that Americans are pretty moderate people.

However, if you have a conservative Republican against a liberal Democrat, it's the choices that are polarized. And so it looks like we have quite polarized districts as some states, polarized states, but I think we probably are over stating the degree of polarization if we think purely in terms of red and blue. Whether Obama recognizes that and tries to capitalize on it, that's one good interpretation of the election. Of course, another interpretation is that the economy was so poor and we had had eight years of Republican White House, that it was time for a change.

And the fact that Obama was able to pick up states like Indiana, a much more red state than usual, North Carolina, some other southern states, suggests either the economy was wide spread so poorly, or your

alternative, which is that he's recognizing moving to the middle is quite an important strategy and that there are votes there.

MR. HARRIS: My own view, quickly, is that one of the things that was so toxic about politics for the past 15 years or so, certainly starting in the Clinton years, very much accelerated in the Bush years, is that – not that there was disagreement or polarization, but that so much of it was driven not on principal grounds, but essentially on a profit mode, either political profit or actually financial profit. You've got people like – who built their business models, Rush Limbaugh, Fox News, there's equivalence on the left who have a strong incentive in sort of personal attack and division, and I think it really turns people off and ejects powerful cynicism into the political process. And I think some of it, leaching the toxicity out of politics is stylistic, and Obama is brilliant in this.

I was pondering the other day, if Hillary Clinton had been elected President and had proposed precisely the same agenda, how much more divided our politics is going to be. Obama is making an enormous argument about the role of government and the changes he wants, and he's doing it in kind of a subdued way. I think the lines of the division are much less fractious than they would be.

To the extent that there's authentic ideological division between the parties, why should Republicans, if they don't agree that this

– reflects their notion of what governments are looking for, why should they compromise in that? They ought to wage an argument. There's nothing wrong with them being opposed to it.

I think what Obama recognizes, though, that there's a tremendous hunger for people to approach problems in a practical way and compromise when there's genuine practical ground that can be covered. And a lot of that is, indeed, stylistic, and a lot of it is generational. I think he comes from the generation of just so damn sick of the debate that basically started in the 1960's and is going to – a certain generation of people is going to continue in the nursing home and won't end until they're six feet under, and the cultural wars just have no interest in it. Yes, sir.

SPEAKER: We hear a lot about the internal factors in this economic recovery, the banking situation, the housing situation, but there seems to be little attention paid to the great external factor, which is the deficit and trade, which is \$900 billion.

In 1925, Britain exports were going down, and people expected Winston Churchill, who was the Chancellor of the – at the time, to devalue the pound, but actually he went the other way, and the exports went down further, and the British government actually tried to get the wages and export industries to be lowered. And we seem to have a

similar pattern today, where we have – our exports now are falling, and we are asking the automobile workers to take a cut in wages. Shouldn't the deficit and trade be the paramount factor in something we're looking for in economic recovery?

SPEAKER: It's a really good question to focus on the international and the global aspects of the economic decline. In the downturn in GDP in the first quarter of this year, imports actually fell more than exports, so we got a little boost toward the direction you want to go.

But, of course, the rise in import – the reduction in imports was good news for GDP, so the real – the underlying situation is worse than the numbers, than the aggregate number that was reported.

Ultimately, we need to transition from a low saving society to a high saving society. You know, we got into this situation, in part, because we spent too much, that is, we ran the trade deficits and we took on too much debt. Now we're trying to get out of it by doing the same thing, spending even more and taking on even more debt, all right.

Now, that may work in the limited sense of getting output up and unemployment down, but even if it does, we're sort of out of the frying pan into the fire for precisely the reason you mentioned. It increases our consumption, it increases our indebtedness, and that will show up in larger capital inflows, larger trade deficits, and eventually that has to turn around.

Not only do we need to pay off our obligation to the rest of the world, we need to pay for entitlement, and we need to embark on this domestic investment agenda that Amy was talking about, energy, education, health, infrastructure, et cetera.

The only way to do that on a sustainable basis is to save more. The impact of that would be to reduce the trade deficit. So I'm not worried about the trade deficit, reducing it, per se, I'm worried about the policies that we need to do to increase saving that would then turn out to reduce the trade deficit.

But it's absolutely right to focus on the global dimension of this in particular, because about 18 months ago, or even more than that, there was talk about this so called decoupling hypothesis, that the U.S. was weak, but the rest of the world was going to stay strong.

You know, it used to be that if the U.S. coughed, the rest of the world got a cold or whatever; that today is now, and so people thought, well, maybe that's done, maybe the rest of the world will stay strong, we can export to them, that will get us out of the recession, obviously that's failed dramatically, the rest of the world is in worse shape than the U.S. So my broader point is just the international and global dimensions of this are really important.

MR. HARRIS: Amy, do you want to take a crack at that?

No, okay. Yes, ma'am.

MS. LUBARE: Linda Lubare of Morgan State University. I was just wondering, the divide that we were alluding to, the Republicans and Democrats, how much of that might be attributable to race? Because I remember in the primaries, people – I talked to some women and they said – and they were from the south, and they said there's just no way they could see having a black first lady, and so now we do have a black first lady, and so now I'm wondering how much of it, you know, there's that residue that we might not want to admit to, but you know, I think it's still there, how much of it really might be outplaying in this divide that we see?

Because, you know, I have some Republican black friends, so I know that it's not necessarily 100 percent one way or the other, but there is – how much underlying of that is still there with that divide?

MR. HARRIS: Who wants to take a crack at that?

MS. BINDER: The roots of polarization run deep, and the Democrats have become more liberal, at least starting in the '70's and '80's, and Republicans have moved several decades ago. So clearly, race was an important part of the story, with the position of LBJ on civil rights in 1964 and '65, moved the Democrats – southern blacks firmly into the Democratic party, so my sense is that there may be some added racial

story here with the introduction of Obama as President, but my sense is that the impact of race on the division of the parties is something that's sort of well incorporated into the party system already.

MR. HARRIS: If I can get the audience's help, I'd propose that we go, in the few minutes we have left, to kind of a speed round in which I'm going to take three questions in a row, and then I'm going to go down the panel and get people to give kind of a composite answer to that. I think it would be a good way for us to sum up, because there's been a lot of – we've covered a lot of waterfront here, so yes, sir, and then we'll go to – we'll get three and sum up that way. The nature of a speed round, it's got to be fast.

MR. LUCE: My name is Edward Luce from the *Financial Times*. What impact do you think the decision by Eric Holder to prosecute on the torch question would have on the Obama presidency?

SPEAKER: Okay, take note.

MR. KINGS: Yes, some say he's – my name is Martin Kings from the *German Weekly*. A lot of people say he's doing too much at the same time, but he says the problems are all interconnected and he has to do everything at the same time; what do you think, and is there the problem of over stretch?

SPEAKER: My name is – I'm from – Republic. And my question is about stress test. We mentioned here that it is very complicated and few people understand what this stress test means. I heard the – lecture two days ago in Europe, he doesn't understand stress test either. My question is, since this is about Barack Obama, does Barack Obama understand these 21 pages stress test himself?

MR. HARRIS: All right. Those are good questions, they're fast ones, and they're going to really test the elasticity of our panel's minds to be able to address those. But as best you can, at least address the parts of those questions that resonated with your area of expertise and sum up. We'll go right down the panel.

MR. MCCLELLAN: Okay. You made it easy for me, because there's only one question there I know anything about, which is the stress test. Look, of course, at one level the President doesn't understand the stress test, but at that level, nobody does. But I'm not trying to say this is an impossible thing; what I'm really trying to say, it's like judging a beauty contest or something, there are subjective elements here, so we can't, from the outside, impose a specific objective standard and know what the outcome is going to be, that's more the point I was trying to get across.

SPEAKER: I just want to add to that; I think the criticism of the stress test is overstated. I mean all accounting involves judgment; this happens to be accounting for a very complicated situation with very complicated entities, and so, of course, there's going to be judgment and subjective factors.

That doesn't negate the value of the stress test.

I think most of the criticism about the stress test comes from groups that basically want the stress test to go away. And I think the stress test are a good thing, it's good they're doing it, and yeah, there's some subjectivity, but that's a heck of a lot better than not having a clue what's going on, and I'll stop there.

SPEAKER: On the issue of the volume of activities in the administration, I would say, just looking forward beyond the next 100 days, at the state and local level, I think folks generally feel just energized by the fact that, for the first time in eight years, there's actually a partner in the White House on issues that they have been toiling with for a long time, how to adapt to global competition, how to deal with the desire to meet our climate change goals.

There are so many states and localities that find their own climate change packs in the absence of federal leadership, the desire to modernize crumbling infrastructure, increase transit to compete, and be

more green, and the issue of poverty is actually increased. Even after a period of decline, we've got poverty back up again and lagging wages.

At the state and local level, all that is interconnected, and those issues were really neglected over the last eight years. So I would say there is some promise and optimism that there's an administration that understands the interconnection of those issues to advance prosperity, there is concern that there is a crowding out effect on the budget and the fiscal capacity to deal with those issues, and if that's the case, there are many of us who think that you can advance many of those reforms through spending the existing money better. There needs to be more talk about low cost options, not the \$100 million cuts, but about making sure that if we're going to spend infrastructure dollars through the states, that let's take the politics out of the spending, use this administration's desire for transparency and data collection, and do more performance driven, data driven, outcome oriented selections of all of our projects. So –

MR. HARRIS: Where's the political lever to make that happen? Because that's been the theme of your talks; if we're going to spend all this money, we should do it more prudently and in a more strategic sense. Where's the push on that going to be?

SPEAKER: There are – I will tell you, there's been – folks are very excited about the fact that this administration is talking about

transparency with recovery.gov as a starting point of showing where all the fed's spending is, collecting data in a transparent way. The politics of this is the fact that the state and local level, the people who actually have to spend the money that the federal government is putting out there, or the rules, they are so tired of federal governments dictating how they do things, but not putting them accountable for the results. And many folks are saying, you know what, I would rather take the existing size money that you have and you just hold us accountable for our outcomes. And I do think there is a definite push from the ground up to focus on taking the politics out of decision-making and spending things wisely using all the data.

MR. HARRIS: Sarah, we do have an obligation to get that holder question, and it does seem to me that's one of those ones that really is becoming an ideological flashpoint.

MS. BINDER: Okay. My quick answer to at least two of the three, on torture, I mean the strategy of the Obama Administration releasing the memos was to get it out of the way and to move on, and that didn't work, and it definitely won't work if the Attorney General decides to pursue an investigation of it.

And the problem for the Obama Administration is that it detracts from their focus on solving the economic crisis, which is

paramount for getting Democrats re-elected, and for getting Obama re-elected, and to pursue all the rest of his agenda, so that's the danger for the torture memos. Well, the question of the agenda, is he taking on too much, my impression of the first 101 days, this President, he is having the time of his life, he is loving it. The challenges, he is up to it, it's – every day a different issue, I think – I don't think he's bothered by having too much. And if anything, I should say he's got the issues, he's got expertise, he's got debates in the Oval Office, he has it all, and as the owner of a Portuguese Water dog, he even gets a puppy.

MR. HARRIS: They're hypoallergenic.

SPEAKER: So I think the first 100 days has teed up this very broad agenda, as we've just been talking about, and one of the big questions for the next 100 days is, is it going to be too much at the same time. There are across the board a few things to watch, one is this overall level of public concern about spending. It's one thing to spend – to pass a stimulus bill in the short term, that does a lot, it's another thing to talk about major health care reform that could have some longer term implications, energy, so forth, all these other big issues.

I totally agree that it would be nice to see a focus where many of the policy leaders in the administration would like to go on outcomes, getting more for the money, again, that's a big part of the

health care debate, for example, but actually taking the politics out of this process, actually making the public comfortable with trusting either the government or whoever would be involved in this focus on outcomes could be a big change, is going to take some real political capital, so I think that's the right question for the next 100 days.

MR. HARRIS: A quick break and we're going to be back at it with the second panel. Thank you very much.

(Recess)

MR. ALLEN: Thank you all very much for coming back; I appreciate it. I'm Mike Allen from *Politico*. We're grateful to our friends at the Brookings Institution for this great enlightening panel, President Obama at 100 Days. I had a good time listening to the morning session with my boss, John Harris of *Politico* and he taught me a phrase that I didn't really realize, I guess you could call it moderator's prerogative. Harris seemed to like the phrase my own view is, so I'll try to throw that in at appropriate intervals.

We're very grateful to our partners here at the Brookings Institution. I have a buddy on Capital Hill who said that during the Bush Administration we probably wouldn't know anything if it weren't for Henry Waxman. Well, as a reporter, I can tell you that we wouldn't know

anything without the Brookings Institution. So we're grateful to their scholars and administrators who are so generous in helping us.

Now, in this part of the panel, we're going to turn to the world of foreign policy, national security, which we're excited about. First, as we start, we wanted to thank Darrell West, Director of Government Studies, here and I just wanted to congratulate Darrell and his colleagues on the launch of GovWatch, which is within Brookings.edu; just went up yesterday so day 101 for Barack Obama, day 2 for GovWatch. We'll have a day 100 event for them.

But there's a lot of juicy stuff in their collected metrics on presidential approval, presidential job performance, a little connecting of the dots, a very interesting series of data points suggesting that for all the hoopla there is about President Obama and it's standing right at this moment that there were two other presidents that had strikingly similar, in fact identical, in some case metrics at this moment and those are President Nixon and President George W. Bush. So day 100 can only tell you so much.

We're excited for this panel. We're going to start off, we're just going to walk down and each of them is going to make a brief comment about a topic that they're passionate about and then we'll mix it up a little bit. We're fortunate to have with us today Tammy Wittes who's the

Director of the Middle East Democracy and Development, that's MED, Project at the Saban Center for Middle East Policy, which of course is a project of Brookings before that, U.S. Institute of Peace, Georgetown and be sure to check out Doctor Wittes' book which is "Freedom's Unsteady March: America's Rule in Building Arab Democracy" from here at Brookings. And I wanted to key in right away on that issue, Tammy.

President Obama throughout the campaign, very early on going back to Iowa, promised a change in tone in our posture, internationally and generally, and specifically in the Middle East; I wonder at 100 days if we get a sense of when that's coming and is there even any progress yet?

MS. WITTES: Absolutely; Mike thanks. I think you can see the change in tone beginning even with the Inaugural Address and as far as the Middle East is concerned, I think there's probably no other region in the world where President Bush's departure from office was greeted with a greater sigh of relief.

So President Obama was able to begin his term, with respect to the Middle East and the broader Muslim world, even despite the war in Gaza with a major advantage just by contrast with his predecessor. And he took advantage of that right away in the Inaugural, speaking specifically to the Muslim world saying that we seek a new way forward based on mutual interest and mutual respect, giving his first broadcast interview to Al

Arabiya, an Arabic language satellite channel, and some may argue even that he might have gone a bit overboard in his outreach efforts to the Muslim world in these first 100 days.

You know, speaking in Turkey and so on, I think the dramatic change in tone in America's public diplomacy these past 100 days is striking; it certainly had an impact on perceptions in the region, but most importantly it's an easy way, in a sense, for President Obama, for his Foreign Policy Team, to try to begin to rebuild some of the political capital he needs with foreign leaders in order to work with them and get them to do some hard work on the tough questions that we're facing.

In a lot of ways changing tone is the easy part and the hard part is implementing a new direction in policy, which he also clearly has in mind on the Middle East Peace Process for example, but implementing that new direction in the face of all of those tough realities that haven't changed just because George Bush left office.

The divisions in the Palestinian camp, the election of a right wing government in Israel, the dangers of draw down in Iraq, the changes of engagement with Iran; all of these things are unaffected by that change in tone so all the tone does is give him maybe a little bit of a reserve of goodwill to get other states to do the work he'd like them to do on the path ahead.

MR. ALLEN: Now Tammy, -- you raised the possibility the President had gone overboard; what is the general view of his holiday YouTube for Iran and could you just tell us real quick, remind us what that was?

MS. WITTES: Well in Iran there is a traditional holiday marking the Spring Equinox called Nowruz and he isn't the first U.S. President to release a Nowruz message to the Iranian people, but he did it on YouTube making it more accessible and much more personal because it was on video and speaking to the Iranian people, referring to the Islamic Republic of Iran by name, in other words signaling that maybe this revolutionary government that the U.S. has been at odds with for 30 years is something that we can accept to de facto. But also speaking to the people of Iran and saying you're a great nation, we have tremendous respect for your history and your achievements and we want a new kind of relationship.

From a public diplomacy perspective it was a fantastic success. There was a lot of discussion of it in the Iranian press, in the regional press. On the Iranian Government's part their response was much more cautious and skeptical and I think this is of a piece with their responses to the broader idea of engagement.

They are taking it slow and I think for the most part President Obama and the Administration are also taking it slow. And so there's a little bit of careful dancing going on. We'll see how it plays out.

MR. ALLEN: Okay; thank you Tammy. Bill Antholis and I have been friends for so long that when we met he and I both had less need for a hat so we've known each other for a while. Bill is the Managing Director here at the Brookings Institution, our host. We're appreciative for that and Bill has seen it all.

Immediately before this he and I worked together when he was the Director of Studies and Senior Fellow of the German Marshall Fund of the United States, which does fascinating work in fields that we all are interested in and before this Bill really had his boots on inside the West Wing. He was at the White House; he was Director of International Economic Affairs for the National Security Council and the National Economic Council. He was the Chief Staff person for the G8 Summits in '97 and '98. Is that different than the Sherpa or is that the same thing?

MR. ANTHOLIS: It's the coordinator for the Sherpa.

MR. ALLEN: Okay; the Sherpa's Sherpa.

MR. ANTHOLIS: Exactly.

MR. ALLEN: And Deputy Director of the White House Climate Change Policy Team position that did not exist in the last

Administration. He's also with the CFR and he remains on the board of a great organization, the Civic Education Project, which supports western --, social science instructors for universities in Central and Eastern Europe.

Bill, I want to pick up right away on climate change. It's one of the big three for President Obama. You're seeing more and more skepticism in the press about the outlook for dramatic climate change, legislation, it seems like it always now has an asterisk with it. I wonder how optimistic are you and what sort of path is the Administration on in this important area?

MR. ANTHOLIS: Well, it's always great to do stuff with Mike. I remember the first time I got a phone call from Mike, it was when climate change came up at a G8 Summit in trying to figure out what happened, and where it was going, and the same can be said now as ten years ago. I mean it's good that it's on the agenda; it's good that it's moving forward but the outcome is far from clear. It's kind of like the weather, it's -- but the first 100 days I think have been remarkable in how consistent President Obama has been at keeping this at the top of the agenda, in spite of growing opposition.

In the election it was something that was very easy for both him and Senator McCain to talk about in a positive sense. But the rubber meets the road when you actually have to write legislative language for

things. You know, the initial Obama budget had -- Obama Administration budget had over \$300 billion in revenue from auctioning all of missions' permits. I think it's quite clear now that that's not going to happen in that full -- so in the first 100 days I would say that he gets an A for effort and a B for action, which is he keeps moving it but he -- he keeps moving it forward but they clearly haven't dotted all of the I's; they're fall from dotting all of the I's and crossing all the T's.

In the next 100 and 200 days there are important bench marks to look at. Starting with 200 days is there are going to be 100 or so U.S. Negotiators getting on airplanes and flying to Copenhagen to negotiate this big agreement. You know, for eight years one of the great hallmarks of global displeasure with the Bush Administration's unilateral approach has been the way that they torpedoed the Kyoto Agreement and the Obama Administration clearly wants to set that straight and they keep saying that they want to pass domestic legislation before they go negotiate a treaty, which is the right thing to do; it's good for the negotiations and it's good for domestic law.

The challenge is can they do that and 100 days from now we'll have a better sense of that; and here the challenge is the House and the Senate. The House, relatively speaking, green legislation is moving forward with the names Waxman -- with the name Waxman at the top of it,

Waxman and Markey. What the actual contours of that looks like when it comes out of the House is still to be determined. It's sort of banging around through the bumper cars of the committee process.

MR. ALLEN: And is it more or less aggressive than what President Obama proposed on the campaign trail?

MR. ANTHOLIS: It's slightly less aggressive. Some of the environmental groups are starting to look at it but it has the basic structures and features of what President Obama was looking for. It's almost all auctioning of the mission permits as opposed to allocating them and it's a rather technical thing we can go into but what it essentially means is it'll generate more revenue for the Administration if you auction all of this stuff as opposed to giving things away to power utilities and saying you determine what the value of these things are, the ability to reduce them --

MR. ALLEN: And that clearly makes them more --

MR. ANTHOLIS: If you auction -- if you allocate them --

MR. ALLEN: Right, right, right.

MR. ANTHOLIS: -- you bet. And folks, the real question is what you can get through the Senate, but the House wants to go through this ritual to strengthen its bargaining position because the structure of the Democratic majority and the House being what it is, they can get a

stronger bill than the Senate and then it's going to come down to reconciliation which sounds like a word of comedy but actually they fast track it to reconciliation which is not going to happen; it would be an explosive thing.

MR. ALLEN: Okay; all right. And rounding out our panel today, Vanda Felbab-Brown is the Fellow Inform Policy here at Brookings. She's an -- professor as well at Georgetown. She's an expert on the interaction between illicit economies, military conflict; she warned me the last time that she was on a panel here that she mentioned Pakistan and provoked a fire alarm. So we'll try to do that in a little more -- in a little less literal of a sense this time.

Her focus is all in the news, Afghanistan, South Asia, Latin America, and in August, September she has a new book coming out and I'm going to pull back the curtain for you a little bit, publishing here, and how sizzle even effects academia. The title for Doctor Felbab-Brown's book was "Shooting Up: Illicit Economies and Military Conflicts," but now it has a slightly sizzlier new title, it is "Shooting Up: -- Urgency and the War on Drugs." So that's how packaging occurs and she's just back from traveling in that area.

And there's a term that was unfamiliar to me that as the President began his Afghanistan Policy Review became quite common internally, it

now shows up in the media, and that is --, regarding Afghanistan, Pakistan more holistically. I wonder what we can tell so far from the cards that President Obama has showed on this policy and is that a new term or is it just new sort of in the -- world?

MS. FELBAB-BROWN: Thanks, Mike. I think it's both a new term and a new focus. Clearly, the new Administration managed to really generate momentum and raise Afghanistan and Pakistan to the priority of the agenda. To some extent it was happening inevitably in the world as the situation was deteriorating, but clearly the Bush Administration was not focused on the region and really let the region go adrift and become -- without doubt, the region today is the -- pad of very serious threat to U.S. nationalistic security, as well as to the security for many other countries of the world.

And a real big accomplishment I think of the new Administration will help very much by one of our colleagues, Bruce Riedel, was to realize how Afghanistan's history has been critically influenced by regional powers, above all by Pakistan. Hence, the importance of approaching the region more broadly; Afghanistan, Pakistan, but also not forgetting the critical influence of other -- such as India and of course the -- raised that awareness once again.

But I think that the Administration might have been surprised is what has happened with Pakistan. The first of the -- Policy, including the - - paper that was unveiled a month ago, was to look how Pakistan influences developments, the insurgency in Afghanistan. But I think what we have seen is withering of Pakistan itself that have caught many by surprise and I think that it is now increasingly -- both among analysts and among the government officials that we cannot simply look at Pakistan through the prism of what it means for Afghanistan; that we are in acute need of a policy for Pakistan that is Pakistan focused.

And I think the same is true equally of Pakistan officials who are frequent, and Pakistani public, who are frequently perhaps in denial, perhaps not fully aware of the tremendous challenges and real possibility of the withering of the state; that we are facing -- extremely disturbing.

MR. ALLEN: Now, can we call Pakistan an ally?

MS. FELBAB-BROWN: I think in many ways we have close interest of Pakistan, close relationship with Pakistan. The history between the two countries has been long and we have had important interactions. I think that Pakistan, themselves, are not always sure that the United States is a reliable ally.

MR. ALLEN: Right; that's a good point, yeah.

MS. FELBAB-BROWN: And I think, you know, part of the challenge is to persuade Pakistan that our interests are indeed common, that the United States and the world has no interest in seeing Pakistan dismembered, which is one of the key fears that Pakistan has, the sort of nightmare vision of being -- between India and Afghanistan with various elements within Pakistan succeeding --

MR. ALLEN: So a nightmare for them and a nightmare for us too; yeah.

MS. FELBAB-BROWN: Absolutely. And so I think that we in fact do have common interests but the strategy that the Pakistani state, the Pakistani Government has pursued, I think are not always in accordance with our strategies and with our view of what the appropriate strategies are.

And the Bush Administration essentially dealt with Pakistan through either bribery or coercion. But I think the task for the new Administration, a very difficult task, but the critical task is help the Pakistani state and the Pakistani public realign, restructure, their interests so that they can really see that our interests are genuinely -- and accordance. And then what is best for Pakistan will also be best for the regional situation and for us.

MR. ALLEN: Interesting; okay, thank you. Tammy, at this point when we say the Middle East Peace Process, can we say that with a

straight face or o we put quotes around it or what sort of insight can you give us into what to look for in the news to see if something is really happening or if we can sort of tune out and go about our business?

MS. WITTES: Excellent question. I think we can say that there is a peace process of intent. There is a clear intention on the part of President Obama and one that I think we have to note. He has quite confidently but quietly insisted upon over the last weeks, since the election of an Israeli Government, had a -- prime minister who said that the Oslo Peace Process was a mistake. So he is insisting on the idea of a two state solution and negotiations toward that end.

On the Arab side, we have the Arab Peace Initiative, which again is a statement of intent. If Palestinians and Israelis can come to an agreement on final status the Arab states are prepared to recognize Israel and normalize relations. So the challenge for President Obama is to translate all of this intent into reality and to create something that is an actual process. What makes this challenge difficult, of course, is that the parties on the ground are not well situated to realize this. The Israeli Government, as I said, is very reluctant to embark on a substantive process that deals with final status, although they are willing to deal with a lot of the interim issues of daily life on the ground for Palestinians.

I think what's important to remember here is that for President Obama and for his team who's working this issue, the peace process is not just an end in itself, although they recognize that both morally and politically the United States have a stake in Arab Israeli peace making. But it is a means to other, in some ways, bigger ends for the United States and the Middle East.

It is a means of defanging Iran and the destabilizing influence that it is having on the rest of the region. And this is an interest that Obama shares with the Arab states and with Israel. So while Benjamin Netanyahu, the new Israeli Prime Minister, clearly has Iran on the brain and some have suggested that he is going to come to Washington, which he's doing in a few weeks, and tell President Obama I can't move on the peace process until you can do something to deal with the Iranian nuclear problem.

I think Obama can quite persuasively turn that around on him and say I'm not going to be able to work effectively on the Iran issue until you help me on the peace process because the peace process is a means of containing Iranian influence through Hezbollah, through Hamas, in the heart of the region.

MR. ALLEN: Doctor Wittes, you mentioned President Obama's team that's working this issue; could you give us a little one-on-one on the envoy and what you think of this system?

MS. WITTES: You know, this was one of the big questions coming in. The appointment of Senator George Mitchell and day two of the administration to cover the Middle East Peace Process, Richard Holbrooke also on day two to cover Afghanistan and Pakistan, and then the long awaited and finally announced appointment of Dennis Ross as not quite a special envoy, but a special advisor for Southwest Asia, a region that was left undefined until you and your colleagues and the media community compelled the State Department to define it; basically dealing with Iran and its regional linkages.

The big question has been, and I think still is, how all these special envoys with their special duties and their special staffs would relate to the regular bureaucratic structure of this State Department that goes region by region and how -- whether they would be able to use that system to their advantage or whether they would, in essence, foul it up.

MR. ALLEN: Well, and how they relate to the special secretary.

MS. WITTES: Yes; so far I think, certainly on the Middle East Peace Process and with Senator Mitchell, everyone is marching in

lock step. Senator Mitchell has been out to the region three times; once with the Secretary, twice on his own. The briefings have been coordinated both with the White House and the State Department so that when Secretary Clinton gets briefed by Mitchell, the President is also briefed by Mitchell.

He is the President's envoy but he was appointed at the State Department formally by the Secretary. So this has all been very carefully managed to ensure that those in the region hearing from the special envoy are in no doubt that this is a unified message. I think that's very important. On the other two, I think the jury is still out.

MR. ALLEN: So -- I'm going to change what -- I was going to say that you sound skeptical but you think it's not a crazy system; maybe you do think it is somewhat crazy.

MS. WITTES: I suppose in an ideal world the regional bureaus would be able to put forward powerful diplomacy on behalf of the U.S. Government; that would persuade foreign leaders. But in practice, foreign leaders and especially allies, want to know that the person their speaking to speaks for the President, not just for the State Department.

MR. ALLEN: Okay; right.

MS. WITTES: And so I think that there is really an advantage to having somebody as a special envoy and who is clearly

designated as the president's surrogate. And how you manage the details of that is the question.

MR. ALLEN: Okay. Now, Doctor Wittes, this may be a better question. That is, could you tell us what it is about this Administration, this West Wing, that produced this system? Like what -- why did this emerge?

MS. WITTES: I'm not sure I do have good insight on that but for the obvious answer which is that there were a lot of very experienced, talented, and politically powerful personalities. In many ways this question isn't really about the special envoys; it's about the relationship between the Secretary and the President; two presidential rivals.

And I think that in practice, certainly on Middle East issues which are very high stakes and which are occupying a lot of attention on part of the new Administration, they're working very well together. And the Secretary does not seem to feel the need to put herself forward as an alternative voice.

MR. ALLEN: Interesting, very interesting; all right. Special panelist, Special Managing Director Bill Antholis, you mentioned --

MR. ANTHOLIS: We have a special envoy on climate change too, by the way.

MR. ALLEN: -- who is that?

MR. ANTHOLIS: Todd Stern.

MR. ALLEN: And there's a climate czar right?

MR. ANTHOLIS: And there's a climate czar too, yeah.

MR. ALLEN: How is Carol Browner doing?

MR. ANTHOLIS: You know, Climate Czar Browner, I guess she should go by, is putting a team together and I think trying to figure out the lay of the land on the hill. She has, for instance, not been as public as Special Envoy Stern. Special Envoy Stern went with Secretary Clinton on her first trip to Asia.

There was just a meeting here in Washington that Secretary Clinton opened but that Todd Stern ran, which was a meeting of the major admitters in the climate world. And by all accounts it was a pretty successful meeting, even with a very unclear legislative future in the United States. The initial steps from the Administration had been very well received over seas.

And people are lining up to try to -- they know that even in the best case scenario, Waxman Markey goes through and the Senate wraps its arms around it, it's still a lower level of ambition than is going to be the case in Europe and most people seem pretty comfortable with that. What they're concerned about is how much lower the level of ambition goes

when it rattles through the system and that's Carol Browner's problem; and that's the thing that she's trying to -- out right now.

I think if -- it depends who you listen to on how she's doing. Many in the industry think oh she just let Waxman and Congress write this thing and the, you know, it's similar to the critiques of the stimulus plan.

MR. ALLEN: Right, right, right.

MR. ANTHOLIS: But the Administration took a step a back and let Congress come in and write it. I think in retrospect what could be said about the Stimulus Plan was the urgency of now took over -- lead to the expression don't let the perfect be the enemy of the good. And I think that that's what she's doing.

The real question and the way to assess her success is how she games the Senate side of things; all in specter of being a Democrat helps this much on climate change. They have to get to 60 votes and it's going to be some combination of Democrats and Republicans no matter what they do.

There are not 60 Democrats that will support an allocation climate change bill. There are going to be just a few that are against. And there is no clear champion yet for the bill. On healthcare there is a clear champion for the bill, Max Baucus. There's no clear champion yet on climate change except for people either who are discredited, Joe

Lieberman, or who are so incredibly green that there is simply an echo of what happened in the House and so that being seen as credible, Barbara Boxer, maybe John Kerry. And the question is who emerges on the Senate side and how does Carol Browner pull that person into the process and make sure the Administration gets what it needs to hand over to Todd Stern to take with them to Copenhagen.

MR. ALLEN: Now, Bill Antholis, you probably know Todd Stern quite well from the Clinton Administration.

MR. ANTHOLIS: Todd and I have coauthored a few articles since then and work together pretty closely.

MR. ALLEN: Okay; tell us his mindset and the approach that we can see him taking so far.

MR. ANTHOLIS: Well, I think he first -- his mindset is good in the sense that he knows how difficult this challenge is. Former House majority leader Dick Gephardt has described this as the most complicated political transaction in the history of mankind. So Todd has that light burden on his shoulders.

Because remember, it's not just crazy domestic politics in the United States, it's also crazy domestic politics in 20 some odd European countries all negotiating with one another for a common European position and then oh yeah, there's the fact that there is big developing countries

that really don't have to do anything on this. They're not obligated in any way --

MR. ALLEN: Including --

MR. ANTHOLIS: -- framework of --, including China and India, most importantly, and the rest are all sort of rounding errors. And so Todd is -- his mindset is I need to pay attention to three or four big things. I have to pay attention to the broad framework of the negotiation.

I have to pay attention to the fact that some people in Capital Hill are going to pay attention to -- pay quite close attention to the fact that India and China don't have to do anything and for competitiveness reasons we need them to be engaged in solving this problem.

So in addition to the formal U.N. negotiation, he's also breaking it down into the 15 or 20 or so negotiators that matter. So there's 140 people in the U.N., there's 15 or 20 -- we called for eight in our article calling for an E8 .

I think he's a realist and knows that there's probably another seven that have to be part of the conversation so he's brought them in and there's this group of 15 to 19 major admitters. And then there's the E2, the U.S. and China, and how do you deal with that special relationship. And he's spending a lot of time and doing a lot of conversations thinking about that and what that -- and obviously having gone to China with

Secretary Clinton on her first trip, it was his first trip as well, he knows that that's a big part of the conversation.

MR. ALLEN: And you -- and when you were referring to the upcoming climate conference, you made it clear that it's your view that the United States is better to have legislation in hand. Now there are some climate specialists who -- to me and this is not the Obama Administration view; their view is the opposite.

But some climate people will tell you that it is better to have no law than a weak law on the theory that we're going to be stuck with this, that we only do something this big for like ten years, where the Obama view is much more we'll sign what we can get. What of the view that a weak bill would be worse than no bill?

MR. ANTHOLIS: Well it kind of depends how weak. I mean I think if it's so weak that the United States is discredited going into the negotiations, particularly --

MR. ALLEN: Well, let's make it harder. Let's say it's not, let's say that it's something that domestic -- straight faces being called energy climate change legislation, but it -- it doesn't have a really cap and tray, it doesn't have a real carbon -- it doesn't bear that much relationship to the sort of robustness of what the President proposed on the campaign trip.

MR. ANTHOLIS: I think from the President, if he has that situation, knowing where his own personal ambition is, both middle term, where are our missions are at in 2020 and long term, where they are in 2050, which has always been -- I'm not speaking for the administration, I'm speaking for myself. This is a long term game; we have to get to some place by -- in the next 45 years.

And knowing where the President's convictions are about that. He said it on election night when he was elected, he said it in the weeks after the election; it was his first public statement. He said it on Inauguration Day; he has consistently said energy, healthcare, and education, you know, every time he says energy he says climate change. So clearly a top priority, clearly wants to go there.

I think if the legislation were so bad that he walked away from it and said I'm going to be in here for four years and I'm going to bring you back solid legislation, let's work on a framework. And maybe let's -- I'm definitely not speaking for the Administration and haven't spoken with them about this, I think people should be thinking about plan B.

MR. ALLEN: Yeah.

MR. ANTHOLIS: But what is the plan B? And I think coming with a credible first set of steps on the challenge, and there are a bunch of different things you can do here. Some are technical, some are symbolic,

but there are things that the United States can do that demonstrates that we're still in this game and we're going to be for the four years of my first term and the four years after, in my second term. That's if I were President Obama saying that.

MR. ALLEN: All right. That's good insight there. Now, Vanda Felbab-Brown, what do you think that the impact will be on U.S. Mexican relations of this apparent pandemic that's resulting from the H1N1 flu virus?

MS. FELBAB-BROWN: Depends on what both Administrations make of it. I think that the danger of the pandemic provides an opportunity for strengthening the -- relationship; for showing to Mexico that we are not simply seeing them through the prism of counter narcotics and the violence related to the drug trade there. And this is clearly something that has very much been a concern for the -- Administration. The end of the assessment, for example by Pentagon, that Mexico could become a failing state was deeply troubling to the Mexican Government and to the political -- also because of the legislative elections coming up in July.

And at the same time, the really extraordinary level of violence that is taking place in Mexico in relationship to the drug trade has become of deep concern to the U.S. public and to the Congress because of the very

close relationships between Mexico and the U.S. The flow of people and goods and the possibility that crime will spill over into border communities.

MR. ALLEN: And especially on progressive blogs, I think there has been the idea that the spillover that's occurred to date has been overstated in the media; is that your sense or is that a future threat or is that threat here?

MS. FELBAB-BROWN: I would argue that to some extent the reporting has probably generated an atmosphere of greater panic than needs to be. That said, there is certainly the potential that violence will become more present on the U.S. side and there already are signs that some forms of violence have become intensified that are very much related to cartels.

We have, for example, seen specialized kidnappings that have increased vastly. We have seen increased exploitation on the part of the cartels of illegal immigrants or people who have illegal immigrants as relatives. So it has not been effecting necessarily the general public in the way it's been reporting, you know, there is no danger going to Phoenix or there is no danger going to Dallas or El Paso.

MR. ALLEN: Right, right.

MS. FELBAB-BROWN: But certainly the crime activity has been up and I think it's only prudent and wise to take measures that will

allow the active states to be positioned to -- crime, both the specialized crime that is effecting victims that are -- not citizens and -- but nonetheless we have responsibility toward them also to protect them. And also should this spillover into crime that can affect the public in a more robust way. So I think there is no place for complacency but this also should not generate sort of a reaction mass of panic that our southern border has become a battlefield.

MR. ALLEN: Right; and what I was --

MS. WITTES: Mike, can I --

MR. ALLEN: Yes.

MS. WITTES: -- just one broader point I think is worth making when you raise the issue of Mexico and bilateral relations and whether this is an opportunity or a crisis. You know, there was a comment made in the first panel about the number of issues on which President Obama has ambitious plans that he is pushing forward and a question about overstretch, and on foreign policy too.

I think we see this President coming in and swinging for the fences on a series of major issues. And you know, there are two downsides to this strategy. The upside is he's tremendously popular, he has a reserve of global goodwill, he's, you know, he's in his first year; if he can't do this stuff now when can you do it?

The potential downsides though are number one, that there are going to be some issues that are going to fall off the side of the table because you just have so many big things on your plate. Immigration reform is a great example of this and I think --

MR. ALLEN: Now can anybody read between -- did anybody by chance see him last night on that?

MS. FELBAB-BROWN: Mm-hmm.

MR. ALLEN: Can you help us read between the lines of that?

MS. FELBAB-BROWN: Well I think that, you know, to some extent this goes back to what Tammy said before. He has a huge political capital but he's still facing very serious problems --

MR. ALLEN: Yeah, but what did he say last night as you remember it? Like, it was clear to me he raised the issue of immigration and said that he was going to push it this year but I felt like at the same time he said well, but I don't expect it to pass. Was that --

MS. FELBAB-BROWN: Well, I wanted to get to it --

MR. ALLEN: Okay; excuse me.

MS. FELBAB-BROWN: -- so I think he has -- he has the intent and he has the ambition to work toward it. At the same time, he is recognizing that there are very serious domestic constraints on issues

relating to Mexico, not just immigration, but immigration being -- but for example, the gun control; that the Mexicans would really like us to say. One of the big things, in my view, but important things that the Administration is consistent; they told Mexico is that we share responsibility for the violence and that we understand that we share also responsibility for dealing with the immigration. But at the same time, the make up in Congress is such that these issues are difficult to pass. And he, for example, could not deliver on promising to install the ban on assault weapons, that the Mexicans would really love to see. And the same goes for immigration.

MR. ALLEN: So, excuse me, Doctor Wittes, you were talking about issues falling off the table, you mentioned immigration --

MS. WITTES: Right; and you know, potentially cap and trade is going to be one of those things. In other words, you push on a wide range of things. If you get pushed back maybe you sit that one aside. So that's one consequence of the swing for the fences strategy.

But the other consequence is that you actually have very little political slack for the unanticipated crisis and, you know, we don't know if swine flu is really going to end up being that kind of crisis but there may well be other things.

MR. ALLEN: -- yeah, yeah.

MS. WITTES: There's not a lot of excess capacity, politically, and in terms of time and attention.

MR. ALLEN: But this is where I think the special envoys and the czars can be very helpful in a couple regards. One is a big part of it is the brand name quality of these individuals; Carol Browner, Richard Holbrooke, George Mitchell. That opens doors with the media, with members of Congress, and one of the hardest things that you have when the oxygen is being sucked out of the room for big stuff and people are stretched thin is the White House getting meetings with influential people whether they're internationally or members of Congress or the media. And the fact that you've got some brand name people in those places that can do that is a very helpful thing.

MR. ANTHOLIS: That's very interesting.

MR. ALLEN: The challenge is when you've got those outsized personalities all trying to come back into a West Wing to get decision making. It's, you know, it's like trying to land a number of airplanes in a window -- in a weather window when you've got storms in the morning and storms in the afternoon and the planes are backed up. That's the challenge you have, is sort of a grid lock in a West Wing trying to get too much stuff done at one time.

MS. FELBAB-BROWN: Well, one thing I would like to come back on -- in many ways Mexico was the unanticipated crisis. I mean the agenda was extremely crowded and became more crowded in -- but Mexico was nowhere at the top of the agenda and all of a sudden the focus on the violence that was not new but really captured attention of the U.S. Congress, as well as media, became the unanticipated crisis.

Now I argue that the Administration responded well and responded really well without going through the route of a special envoy. They -- effective people and I think said effective things. Now, having the special envoys, on lots of issues, gave them the possibility of acting very rapidly on issues that are burning very quickly without having to -- through confirmations.

And at some point this needs to be aligned with regular policy, with regular decision making processes. One of the big things that President Obama campaigned on, as well as Secretary Clinton, was strengthening of the institutions of the State Department of Aid.

And you know, while there are real advantages and great effectiveness coming from using the special envoys, this I don't think should take place at the expense of neglecting the withering of these two institutions.

MS. WITTES: And we still have no director for USAID.

MR. ANTHOLIS: Well, I mean again, this is the plus minus of the special envoys. The special envoys, they made a choice to not have these people confirmed and that's a good thing because you can get them right in and get them working and, you know, administrator of USAID or any of these agencies requires going through that process and it's not happening.

What's fascinating to me, Mike, we've gone on for how long now, we haven't mentioned the global economic crisis. And we haven't -- prior to this we haven't mentioned the fact that there are still unconfirmed assistant secretaries, let alone administrators --

MR. ALLEN: And we have mentioned Iraq.

MR. ANTHOLIS: -- for all of these regions. And we haven't Iraq; and we have unconfirmed ambassadors for all of these places.

MR. ALLEN: Well give us something quick on the global economic crisis and then we're going to bring you all into this conversation.

MR. ANTHOLIS: Well, the only thing that I'd say about it is - well I'd say two things. One is if you're waiting for another shoe to drop, think about any country out there that might already be on a margin of either political or economic crisis and the margin just got a whole lot thinner as a result of the crisis.

MR. ALLEN: And what would be on our Watch West?

MR. ANTHOLIS: Well, I mean just look at all of the various weak states that we've looked at in the past and they're all much weaker so you can go through Africa, you can go through South America, you can go through Southeast Asia --

MS. FELBAB-BROWN: Pakistan.

MR. ANTHOLIS: -- Pakistan.

MS. FELBAB-BROWN: -- you know.

MS. WITTES: Or if you really want the perfect storm, a place like Yemen where you having growing all kinds of presents on top of everything else.

MS. FELBAB-BROWN: Oh, and Somalia. But -- plugged into the global economy other than the illegal one but --

MR. ANTHOLIS: Right.

MS. FELBAB-BROWN: -- the next terrorism nightmare.

MR. ALLEN: Okay; who has a question to join our cross fire here? Go ahead, sir.

MR. JUWATHAN : Thank you very much.

MR. ALLEN: And sir, if you -- please say your name and if you wish your affiliation?

MR. JUWATHAN: Sure. I hope that my name and the question won't start a fire alarm. My name is Mohammad Juwathan and I am a doctoral candidate and also a Research Analyst in -- my question is to Ms. Brown and I think once you were asked by Mr. Allen about the problems of aligning Pakistan, U.S., as an ally or otherwise in light of what has happened in the -- recent past and also once you go back to history as he very brightly said, there is a need, which has been identified by this administration of policy being -- and some analysts say that it's becoming - - now, realizing that the focus has to be somewhere else.

In view of what has happened so far in 100 days and the forthcoming events and on the 6th of May, both the Presidents are coming here from Pakistan and Afghanistan, there is talk going on about the trade -- about the trust deficit and also the question of that are we asking too much from Pakistan to handle being a new democracy and all that the country and its people have faced, internally, a lot of shift has taken place within the people from Northwest -- Province, Fata , Baluchistan , moving down south.

MR. ALLEN: Okay; okay.

MR. JUWATHAN: My question is how can we address the trust deficit between the two countries? Thank you.

MS. FELBAB-BROWN: Well, that is indeed the challenge for the Administration. I would argue the first part of it needs to be a realization in Pakistan that we are not in fact asking Pakistan too much. But the crisis that Pakistan is facing is indeed a crisis for Pakistan itself.

The threat of terrorism, the emergence of -- Taliban, Jihadi groups, it poses a very serious threat to Pakistan and that -- in Pakistan's own interest, vital interest, to take on these challenges, which is indeed what would be also very much in the alignment of what the United States is hoping.

I think we should have a very serious dialogue about the means of tackling those challenges and what way we can best assist Pakistan. The difficulties that our reliance on -- poses for Pakistan and the sustainability, as well as side affects of this policy. I think that's a very appropriate dialogue to have; about how best we can help with helping Pakistan address the broader -- economic issues that in many ways are providing breeding ground and an encouraging environment for the various Jihadi groups.

I also think it's a good thing that the Presidents have -- are coming next week; this is not the first meeting they will have. And there are opportunities for building on a trilateral relationships between the two --

within the three countries, and thinking about what other -- need to be brought to that table or some other tables.

And I'm thinking here about China, India, Saudi Arabia, Russia, Iran, a whole host of -- that can potentially break away from very narrow and potentially difficult -- relationship to presenting a more broader view of regional security than in some ways might reassure the fears that some of the countries have and yet they remove some of the difficulties on moving on the bilateral relations.

MR. ALLEN: Okay; somebody close to the microphone, this is your chance. Who in this neighborhood? Ma'am, go ahead.

MS. FONT: Hi, I'm Kara Font -- I'm a doctoral student at University of Maryland in the English Department. I was torn on whether to ask my question to the last panel or this one because I'm trying to make connections between the domestic and global economies but I thought Mr. Antholis, you kind of pro-edited an opening for this.

I'm wondering what is the connection between domestic unemployment and the use of foreign labor by U.S. companies and I'm wondering if large U.S. corporations are prioritizing larger profits to the detriment of the U.S. working class and whether sending jobs outside of the country ultimately is better or worse for the national economy with respect to the effect that it has on the global economy? Thank you.

MR. ANTHOLIS: Quite a question list there and it's -- I mean I would attest, saying tying it back to something like global warming, which trying to -- climb a change legislation and the worst economic crisis since the Great Depression, raises those exact set of challenges and how are we going to act in the Chinese don't act in fear that American multinationals will seek to set up shop in China where they don't face the same energy costs and thereby employ workers in China and further -- workers in the United States.

It's a really hard set of questions. And the protectionist impulse will be a genuine and protective one of American workers as opposed to trying to be hostile towards others and it's inevitable. I think the challenge in the crisis is that all countries don't do it to one another and it becomes a circular firing squad because we employ a lot of people here based on things that we sell to other countries and if they stop buying our stuff because we're not buying their stuff or because they're employing more people overseas, it could become a vicious cycle rather than a virtuous circle. And that's the fine line that the Administration and in working with the Congress is going to have --

MR. ALLEN: Okay; good question. Sir -- or, ma'am, we'll grab you real quick.

SPEAKER: I was wondering whether you thought there would be increase significance to the Somali pirate situation and whether there would be another boarding of an American ship and what would happen?

MS. FELBAB-BROWN: I don't think the issue is going to go away as long as Somalia exists and the state of -- existed. Now, the -- Somalia has existed in a state of collapse for 25 something years and the pirates issue has only become very imminent there over the past few years. We have -- the United States, as well as the international community has moved significant assets. One of the very interesting things is that China has deployed to the region its Navy.

It's a break with Chinese traditional pattern of which I think shows both the significance they place on protecting the trade route as well as their recognition of their sense in their place in the international community. I think that, you know, there are always possibilities that another U.S. ship will be attacked.

There are only so many things that international interdiction can accomplish and as long as the underlying economic collapse and governance collapse of the country is not resolved, the problem will exist there and we can sort of tighten the nets, not the fishing nets that the

pirates at some point were after, but the international interdiction nets but there will always be opportunities.

And so then we need to react with the means possible which is to, you know, beef up our security as much as possible, the shipping security, as well as -- encourage the transitional government that's taking place there; that it's taking, you know, facing an enormous challenge in the Jihadi group -- but then nonetheless has the potential to reach out across - - across various -- to stabilize the country. But you know, much of the piracy is also centered in -- which was the part of Somalia that's been most stable and that has had most -- of governance in economy.

MR. ALLEN: And so it sounds like you don't see prospects for a strong central government. Like what would it take or like will there ever be one or?

MS. FELBAB-BROWN: I would want to -- Somalia to arguing that they can never have a strong central government and we have to remember that under the ICU two years back, they had the degree of governance; they have not achieved --

MR. ALLEN: And what's the ICU?

MS. FELBAB-BROWN: That was the Islamic Culture Union, which was a Pan Islamist grouping that had the -- tribes and was really able for the first time to deliver governance and security. Now, it

generated a lot of fears for the United States because of connections of the one ring of their group that said -- to Al Qaeda -- connections and our government at the time to the decision that it was better to encourage Ethiopia to topple the government than have the ICU run the country.

Now we know the consequence of that is -- once again and much more limited prospects of stabilization, as well as I would argue much stronger, much more -- Jihadi pro Al Qaeda group -- than we saw in 2006.

MR. ALLEN: All right; thank you.

SPEAKER: -- at Georgetown from -- my question is about U.S. Russia relations. Actually, do you think that there is a future for a U.S. defense missile shield in Czech Republic and Poland?

MR. ALLEN: --

MS. WITTES: Well, I guess the first point I would make is that I'm not sure it's clear that there is a viable defense missile shield. So we can talk about deployment when we have system that's effective. But I think what became increasingly clear over the period of the transition and over these first 100 days is that President Obama wants to put relations with Russia into a much broader context.

And how he fits the pieces together, in other words the pieces related to Democratization in a former Soviet block, the pieces related to Iran and Russia's involvement with proliferation risks, the pieces related to

integrating Russia more firmly into a stable security architecture for Europe; how these pieces all fit together I think is still not clear. But painting on a broader canvas is the theme that they've articulated so far. And you know, part of how this is going to work out is up to the Russians and I'm not sure that we're at the stage yet where we can really judge the possibilities.

MS. FELBAB-BROWN: I think an important break from the Bush years is clear prioritization of what the key U.S. Russia relations are and viewing the missile deployment, the silo, the radar, and the interceptors in the Czech Republic and Poland through the prism, as well as recognizing that why they stabilize the important strategic relationship, the key issues on nuclear reductions on Iran in a system that is still very much in the drawing phase rather than an actual existence.

And in some ways this is being also welcomed by the 12 countries. The mood in Czech Republic is at best very -- possibly hostile and the governments, they're pushing the agenda through pretty much against the will of the public. In Poland there has been more support and more of a sense that we cannot back down against Russia; that we need to stand firmly to Russia. But I think the Administration is appropriately recalibrating what the key issues with Russia are and how, if we can make progress on these key issues we might have a more fruitful dialogue about

how Russia can become integrated into some interceptor system; whether some radars could be based in Russia in ways that otherwise Russia fears that its own arsenal could be threatened and that the strategic -- and the cornerstone of the nuclear approach since the mid 60's won't be -- stabilized.

SPEAKER: --

MR. ANTHOLIS: You know, Mike, what I -- one thing that I think this question really draws up, it's quite interesting and in the long history of American foreign policy there's been the discussion of the debates between realism and idealism, between a devotion to Democratic principles guiding foreign policy and purer power politics. And I think the Obama Administration is sort of charting a middle course.

What you see at these various, you know, the D20 meetings that have happened in the emergence of -- is the Obama Administration on the one hand coming back from Bush, unilateralism, but also the idealism of Democracy promotions. In -- that back both to multilateralism but paying attention to the great powers at the same time, China. Secretary Clinton going to China and saying we're not going to let an empty discussion about human rights get in the way of doing business. Russia; engaging the Russians not either demonizing them as a non Democracy nor putting them high on a pedestal but saying we have important issues to work on,

let's reset the relationship. And you're seeing them going from big player to big player doing that kind of thing.

MS. FELBAB-BROWN: And that's very much driven by the recognition that the Bush years of simply trying to control or persuade these great powers has not worked.

SPEAKER: --

MS. FELBAB-BROWN: That there are limits to our power. That you might be very powerful but we are not omnipotent and we are not omniscient either. And that for many of these issues the corporations of the great powers and emerging powers like Brazil that we have not mentioned at all, is vital and that it needs to lead us to reassessing our role in the world as a leading nation, but as a nation that's part of a multilateral process, of a multilateral system that possibly can be moving towards some sort of international community, if not international society. And that's the part of the idealism of -- element of the new Administration, as well as realism because it recognizes that there are limits to our power, as there are limits to the power of other countries.

MR. ALLEN: Lunch time; we're going to do a panel on topics we haven't mentioned. Bill Antholis, I was surprised by those comments by Senator Clinton about China and human rights and I wonder

if we need to worry about whether our need for them to buy debt will effect other parts of the relationship or is that inevitable?

MR. ANTHOLIS: It already affects those parts --

MR. ALLEN: First of all, did you share my surprise?

MR. ANTHOLIS: You know, I -- what was surprising to me about it was her as the conveyer of that message --

MR. ALLEN: Interesting.

MR. ANTHOLIS: -- and how effective it ended up being. You know, if you recall back to the Clinton Administration, one of her first steps on the world stage as First Lady was to go to China and to speak at the International Women's Conference --

MR. ALLEN: Very interesting.

MR. ANTHOLIS: -- on the importance of women empowerment and women human rights. So her first act of Secretary of State, the irony of going there and making a realist statement. And I think part of that was her credibility on these issues was fairly well established.

She was not Jean Kirkpatrick , she was not Madeline Albright in that she hadn't made a case -- a career for herself as a champion of human rights. But she had made some case, so she wasn't entirely vulnerable. And as a result, I think she was pretty effective. It went a little

bit against type; it got some attention, but not nearly the blow back that I would have expected.

MR. ALLEN: Does it worry you at all?

MR. ANTHOLIS: You know, it doesn't worry me that -- and coming back to the point on the debt, it doesn't worry me that much because if I thought that the United States needed China to buy our debt was greater than their need to buy our debt I would be worried.

MR. ALLEN: Great point.

MR. ANTHOLIS: They're going to be not just buying our debt but investing more in the United States, maybe sometime too much so. You remember back in the late 1980's, early 1990's when Japan was quite strong because of its export growth; they had all of this money and they didn't know what to do with it and what did they do, they not only bought American debt, they bought Rockefeller Center in New York. I think you're going to see China doing a lot of stuff like that. They have to spend money some place. The United States is still a place for productive investment over the long term, whether it's the securitization of our debt, or real property, or real businesses in the United States.

MS. WITTES: Can I make one related point which is that I think both with China and with some of the other statements that the secretary made with respect to human rights that troubled some people in

the Democracy and human rights community, the fact that the Democracy Human Rights and Labor Bureau of the State Department still doesn't have anyone designated as an Assistant Secretary.

The NSC post on Democracy is still empty. There are a lot of people who are concerned about what this means and I think getting back to the point I made at the outset, there's a case to be made for initially going to important global powers, going to important international partners and saying look, we don't want a lot of irritants in the relationship right now, we want to work with you; and it kind of sitting that stuff a little bit to the side. That is good to build up that reserve of capital.

You don't want to go too far in that direction and you don't want to keep doing that for too long because this is the United States of America, we always have had an idealist -- in our foreign policy and one way or another events in the world are going to compel us to respond to that call.

So if they walk too far down that road they're going to have to come back in a way that is awkward and difficult. So I'm not -- I was a little surprised by those statements on China and other indications on human rights and Democracy. I'm not troubled yet. But I would want to see them start around now to start laying down the markers on human rights in Democracy issues with large powers and small.

MR. ALLEN: Okay; now if we could do another jump ball. How worried are any of you about back sliding in Iraq? That as the President proceeds with his withdrawal time table that there will be some type of -- and increase violence?

MS. WITTE: Yeah, well, first I would say we've had a troubling couple of weeks and I think we have to acknowledge that. But I'm not sure that we should read too much into it at this point. You know, what we had a couple of years ago was a situation in which acts of mass violence created a self perpetuating dynamic between sectarian communities. There were a lot of arms and a lot of militias that were difficult to control. We're not in that situation today.

The central government has exercised pretty effective control over the more militant -- militias; has co-opted a number of them, has fought battles against some of the others. The sons of Iraq, the Sunni Insurgents are right now on the government payroll; they may not have permanent government jobs though and that is a potential trouble spot down the road. But I don't see the ingredients right now for the violence that we've seen in the last two weeks to spiral up into another civil war.

But this violence does remind us of the fragility of the situation in Iraq. And you know, there has been a lot of discussion if President

Obama can't get the economy going again, nothing else he wants to do on domestic policy is going to matter.

I would argue that Iraq plays that role on foreign policy. There are a lot of things he not only wants but needs to do in an -- for example, or on the Middle East Peace Process, or in dealing with Iran if he gets sucked into a situation where the draw down in Iraq cannot go forward because the situation on the ground is too volatile to allow for it. That is going to wrap the Administration in knots on a whole set of other foreign policy.

MR. ALLEN: Well yeah, and they're just simply aren't the troops, right, to do Afghanistan as well, right?

MS. FELBAB-BROWN: Correct, but you know, even the troops that we are sending to Afghanistan, the boost of 17,000 troops more plus 4,000 more military advisors, in my view aren't -- don't bring the necessary true density.

MR. ALLEN: You would have at least 10,000 more?

MS. FELBAB-BROWN: Yes. And you know, we are -- our Afghanistan Policy is very much and I would argue our Afghanistan Pakistan Policy because stabilization of Afghanistan has critical repercussions for Pakistan, not just visa versa. It's very much held hostage to Iraq as it has been, you know, during the Bush years.

I agree with Tammy that the central government in Iraq is stronger. I am worried about the like of political reconciliations and genuine like of political reconciliation and the mainly transactional relationship that the Sunni militias, -- and the tremendous military pressure at the time, as well as the resentment in Al Qaeda and Iraq enter into first with the U.S. and then through the U.S. with the government. But not the genuine sense of reconciliation that this is our country and we are going to live in this manner together operating under these principles.

And what also worries me then is trying to bring this very transactional monetary model into Afghanistan and trying to develop similar militias or-- in Afghanistan and peel the tribes off in Afghanistan precisely for this transactional relationship of fighting against the Taliban.

And to some extent the pressure to do that is a recognition of the real like of true density that we have, the NATO has, that the U.S. has, and the difficulties that are ahead in increasing the Afghan National Army.

And there's a -- saying that you cannot buy an Afghan but you can rent one and I think we are slipping into that mode but to this notion that we are just going to rent them I think in no way connects with the aspirations of the people and gives them hope that the elemental economic, social, and security needs will be addressed in a stable way.

MR. ALLEN: Okay; I'm about to get the hook. Do we have one more question from our guests that we'll bring in here? Going, going -

MR. ANTHOLIS: I can do a quick comment on this.

MR. ALLEN: Please do.

MR. ANTHOLIS: The other great phrase that I used to love about -- they used to say about Jordan, the King of Jordan was just here is that it's between Iraq and a hard place, right between there and the Arab - Israeli Palestinian crisis and you could say the same about Iran being between Iraq and a hard place of -- but the thing about Iraq is it's between Iran and a hard place.

You know, it was no accident that not only Secretary Clinton, but our former colleague here, her Deputy Secretary Jim Steinberg went with her to Iraq last week. And they went together and the Secretary and the Deputy Secretary -- it was one of these sort of minor things that people don't often pay attention to. They rarely travel together.

The fact that they traveled together sent a very important signal of the importance and one of the reasons is, you know, Jim is the coordinator of the special envoys. That's what his day job is and he's there because he knows that what happens in Iraq affects the Middle East Peace Process, it affects Iran, and as a result of that, what's going on in -- and

with the soldiers as well. So the critical nature of Iraq is not just what's happening on the ground, but it's a central piece to a very complicated puzzle.

MR. ALLEN: Okay; my parking meter is expired. I'm going to cheat by three sentences. I'm going to thank all of you and ask you to give me one sentence of something that we don't know that you're still looking for about President Obama and his view of America and the world, his view of American power; like what should we still be looking for, what are the clues that you're looking for as you pursue your contacts in government and follow the news.

MS. WITTES: We've heard a lot from both the President and the Secretary of State about the need to beef up two of the three D's of U.S. foreign policy, in other words, not just defense but diplomacy and development. Again, the intent is there. I want to see if the investment is there.

MR. ALLEN: Okay; and you stuck to the bargain. Thank you very much; Bill Antholis.

MR. ANTHOLIS: Is President Obama willing to take losses in the House and maybe even in the Senate or less wins than he might otherwise get in the mid term elections in order to accomplish some very

big things in the middle of this economic crisis? Like climate change and other things.

MR. ALLEN: Wow; now you're teasing me now. Like what would be an example of that?

MR. ANTHOLIS: You know, how hard is he going to make people walk on climate change legislation in order to get something big in this first term or is he willing to wait past the mid term election where maybe the economy recovers, he hasn't forced people to walk the plank --

MR. ALLEN: And tell us what you mean by walk the plank.

MR. ANTHOLIS: You know, are you going to force a -- state senator to vote in favor of something --

MR. ALLEN: Right.

MR. ANTHOLIS: -- so that you're giving a robust signal internationally in the climate negotiations. Are you willing to take a pass and let the economy recover in the next two years, cash out at the -- in the mid term elections and then be empowered in the second half of your term?

MR. ALLEN: Doctor Felbab-Brown and --

MS. FELBAB-BROWN: Will he and his team have the capacity to look beyond the burning crisis, the extraordinary amount of burning crisis, and look at neglected issues that have all of us pulling by

the wayside and perhaps come -- and as well as invest in developing new international structure, new international institutions in the economic realm, in the climate change realm, in security realm, or will they become prisoners of all of the crisis they have inherited?

MR. ALLEN: I want to thank you very much for being a great

--

MR. ANTHOLIS: That -- by the way, that requires people walking the plank.

MR. ALLEN: Good luck to the pirates.

MS. FELBAB-BROWN: I was investing in the other two D's.

MS. WITTES: That's right.

MR. ALLEN: I want to thank you very much for being here. I want to thank our host at Brookings Institution Government Studies. Thank you very much for these very insightful candid engaging panelists Tammy Wittes, Bill Antholis, Vanda Felbab-Brown. Thank you very much for a great presentation and thank you guys.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

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