

A Brookings National Issues Forum

**COOKING THE BOOKS:
The Economic and Political Implications
of the Crisis in Corporate Governance**

**Falk Auditorium
The Brookings Institution
September 4, 2002**

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Budget and Retirement Issues

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Economic Costs, International Impact

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Transparency Issues

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Political Implications

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Corporate Governance in Historical Perspective

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****THIS IS AN UNCORRECTED TRANSCRIPT****



MR. STROBE TALBOTT: I'm Strobe Talbott. I want to welcome all of you to the first public event of the fall season here at Brookings. It's going to be a very busy fall and I can't imagine a more appropriate subject in which to begin than the consequences for the economy and American politics of the corporate governance scandal.

This discussion is indeed public, not just for the benefit of those of you who have been good enough to come out here morning. But it will also be available in a WebCast on the Brookings web site which is "www.brookings.edu" and in due course there will be a full video available, also through the web site, as well as a transcript of the proceedings.

I'm joined here this morning by five colleagues and I'll briefly introduce them in the order in which they're going to be addressing the issue. Then after about a half an hour or so of opening presentations by them we'll have some dialogue among them and then go to a discussion involving all of you.

Carol Graham who is a Senior Fellow in the Economics Department here at Brookings has just become the Vice President and Director of our Governance Studies Program. She will be speaking about the cost to the American economy of the corporate governance scandal, an issue that she has addressed along with several of her colleagues in a policy brief that is in your press kit and has gotten some attention over the last couple of weeks.

Bill Gale is a Senior Fellow in Economic Study, he is also the Deputy Director of our Economic Studies Program. He will be talking with somewhat more specificity about the effect of the scandal on the federal budget and also on the nation's ability to meet the retirement crunch.

Mary Graham is a Visiting Fellow here at Brookings and she will look at this episode as a case study in the ongoing debate over public transparency which is the principal theme of her new book, *Democracy by Disclosure* several copies of which are outside and it's also on sale in the Brookings book store.

Charlie Schultze will offer a historical perspective on this most recent series of events. He of course, in addition to being an extremely distinguished scholar here at Brookings has had some role in the history of economic policy himself.

And Tom Mann who is a specialist on American politics will talk about the political implications of the scandal, particularly as we head into the fall election.

With that, Carol, if you'd please get us started.



MS. CAROL GRAHAM: Thanks, Strobe. Thank you all for coming.

I want to do two things in a very brief amount of time and hopefully can elaborate more in the discussion. First is to describe or summarize the ball park estimate, and I reiterate ball park assessment, of the economic cost of the scandal that my colleagues Bob Litan and Sandit Systemtar [ph] and I did.

The short version is the policy brief that you have in your packet. There's a longer version, a paper that's up on our web site.

The second thing I want to do is to discuss some of the implications beyond our borders.

The purpose of the costing exercise was not to provide "the" definitive assessment or estimate of the cost of the scandals which is virtually impossible to do, but basically to help advance the public discussion on these issues by highlighting the real and potential costs of the crisis in corporate governance.

One reason I think the scandals have had such a shaking effect on public confidence is that they're at the center rather than the periphery of the system. They hinge on companies misreporting their earnings, thereby skewing the price/earnings ratio which is a measure which is at the core of most of the decisions that investors make. They've also involved blue chip companies and touched actors at the highest levels of our political system. Thus the issue has captured a tremendous amount of public attention not only at home but also abroad. I think much of what we've read about in the press to date doesn't really account for the effect of the scandal beyond our borders and I'd like to touch a bit on that today.

First of all in terms of the cost, I think it's important to note that it's very difficult to assess these in any kind of precise manner. What we opted to do was to take a very narrow focus and estimate the cost of the loss in stock market wealth on consumption and investment. This means we have not accounted for other possible costs such as supply side disturbances related to the collapse of several large companies or the economic cost of inefficiency related to corporate reliance on core information and distorted consumption and investment patterns. Our assessment is based sole on the effects of losses in stock market wealth on consumption.

The Dow dropped, we began by looking at trends in market beginning with the March 2002 peak and ending at July 19th which is when we completed the analysis. We've updated it since, but basically our estimates are based on this time period and one could argue about whether we chose the appropriate time period and we can discuss that later.

Anyway, the Dow dropped 25 percent from its March 2002 peak to July 19th and the market yesterday closed at levels very close to the July 19th level so at least in terms of today's

event we've picked a good day.

In any event, in the absence of other causes of stock market decline we assumed that part of the drop in the stock market value since March can be attributed to the corporate scandals. Our base case assumption, and there are a range of assumptions in the paper, but our base case assumption is 17 percent of the loss in stock market wealth attributed to the scandals, and in the paper in detail we arrive at or near this figure a number of different ways so we think it's a realistic, possibly conservative estimate.

We then calibrate to the Feds model of the U.S. economy which assumes that each dollar of stock market wealth results in .35 percent additional consumption, or 3.5 cents on each dollar. The reverse is true with losses in wealth.

Using the Feds model and the loss based on the market value at its July 19th close, GDP would be reduced by approximately \$35 billion, or .34 percent over the first year.

Now this is roughly what the federal government spends per year on homeland security. Or another way of thinking about this is this is about what the increase in the cost of oil imports would be from a \$10 per barrel or 38 percent increase in the price of crude oil. Not an unrealistic scenario to think about, given events in Iraq.

Of course if the market recovers at higher levels and stays at a sustained higher level then the cost would be a bit lower, and we provide both higher and lower end estimates in the policy brief that you have in your packet.

Another question is how long will it take for the markets to recover. I'm certainly not making any predictions here, but just as we looked historically the market has recovered much more quickly from one day, sudden one-day seat drops than from drip-drip decline. The average recovery time from one-day drops in the past half century is ten weeks while the average recovery time after drip-drip declines is 3.9 years, or almost four years. While we're not making predictions, the current situation looks a lot more like a drip-drip than a one-shot decline.

Finally, what are the effects beyond our borders? An obvious one is the downturn in European markets which have fallen about as much as ours. Another effect which has received much less attention and is more difficult to measure but nonetheless important is that on a commitment to market-based policies elsewhere around the world, and particularly in our own hemisphere.

Until now the U.S. has served as a gold standard with our corporate management standards being a model for other countries to follow and our stock market as a sort of best of the breed example. So looking at the scandals in both corporate governance and trends in the stock

market, there's increasing public frustration in countries abroad, particularly in Latin America. Some of the frustrations are no doubt due to mixed results in many of these countries, and to the sharp downturns exacerbated by fluctuation in the market.

Argentina's the most extreme case, but there is increasing public frustration and questioning of markets in many other countries. Remember these are countries, particularly in Latin America, where pension funds have been privatized for the most part.

One example, a region-wide survey in Latin America taken in early 2002 after the exposure of Enron but prior to the broader crisis. Only 26 percent of respondents answered that they were satisfied with how the market economy was working.

In contrast, since the year 2000 over 50 percent of respondents expressed approval of the market economy. So a huge change in the extent to which people approve of the market economy and this is showing up in electoral trends as well.

Our own policy towards the region until recently was I would say, kindly put, one of the nine neglects. This summer after much criticism of IMF bailouts, the Administration shifted course and approved a \$4 billion loan for Uruguay. But now our eyes are on Brazil where the hopes are that a recently approved \$30 billion IMF bailout will calm the fears of investors jittery about the October election. We're looking at a scenario where fears in the market or uncertainty in the markets could actually trigger a default, a default which would have huge costs for the region and beyond, including for our own economy.

So the broader crisis of confidence in U.S. markets undoubtedly has effects beyond our borders and certainly in a region like Latin America that offers alternatives ranging from an ungovernable Argentina to a stable market-friendly Chile.

The crisis in corporate governance has come at a time that the U.S. plays an increasingly critical role in an integrated world economy.

On the home front I think the July 24th passage of new legislation on corporate governance was a welcome response from our political system. Hopefully we can also marshal the same kind of resolve and thinking about how we can help resolve issues beyond our borders.

I'll stop there. I've only touched on the margin of all of this, but I turn to my colleagues on the panel to discuss some of the broader implications.

One last thing, my co-author and colleague Bob Lighten who unfortunately cannot be here today is an expert on regulatory issues related to corporate governance and is completing a book entitled *Following the Money: Corporate Disclosure in an Age of Verbalization*. The first

chapter of this book is already available on our web site and I think there may even be copies outside. There are copies in the packet, even better. So since Bob can't be here today, some of his knowledge is available to you.

MR. TALBOTT: Bill?



MR. WILLIAM GALE: Thank you very much.

A change in the economic landscape as widespread as the stock market shift has been naturally has implications for a wide variety of sectors of the economy. I want to talk about two of those issues, two of those sectors. One is the impact on the government budget and the other is the impact on retirement saving and the pension system.

In terms of the budget, this is a convenient day to meet because of the particular level of the Dow, I gather. It's also a convenient day to meet because CBO just released a new budget forecast. And the budget forecast basically says the budget is in free fall. Revenues dropped almost seven percent last year which was the biggest percentage decline since World War II or just after World War II. The decline would have been even bigger except for a budget gimmick that was passed as part of the tax cut last year that shifted revenue from 2001 to 2002. So had that gimmick not occurred the drop would have been about nine percent, not six or seven.

So revenues have really disappeared. Part of that is the decline in the economy, in fact most of it is the decline in the economy. Part of it is the tax cut from last year. But there's a big chunk that's still not well understood. It's not coming through withholding taxes, that is taxes on wages or payroll taxes. It seems to be coming from the type of taxes that people only pay when they file their returns and that includes stuff like capital gains and taxes on retirement accounts. That makes the stock market a natural suggestion for the cause of the decline in revenue because obviously a decline in stock market values will reduce the amount of capital gains that people can report and oftentimes especially over the medium term and longer term, will reduce the size of people's retirement accounts and hence reduce the amount they take out of those retirement accounts and hence reduce the tax revenues from those retirement accounts.

Now there is one avenue that's not the cause of the decline in revenues and that is the declining use of stock options. It would seem like a natural cause of a reduction in revenues when the stock market tanks, is not what's going on. People are using options less, they are cashing in fewer options. The options they cash in are worth less, but the way the tax treatment of options works is when the individual cashes in the option the corporation takes a deduction. So when individual pay taxes on the options the corporation gets a deduction. It's not exactly a one-to-one offset but close enough to basically wipe that out as a first order consideration.

So the stock market to the extent it's influencing the budget is doing it mainly through capital gains taxes, some through retirement accounts, but not much through the stock option channels.

Now having said that, the stock market, unless there's some very strange behavior out there, the stock market can't explain everything that's happened to revenues right now. I think CBO is a little mystified, OMB is a little mystified about why the drop is as big as it is. So there's no doubt that the stock market is contributing to a reduction in revenues but it's not the whole story and I think it's fair to say that people aren't really sure what the whole story is right now.

Let me turn to the retirement side. You've heard all sorts of horror stories about what the stock market has done to people's retirement accounts. Without disputing the facts of any individual case study, I want to make a case that the popular outcry about this has been overstated. That case has a couple of points to it.

One is that people retire on things other than just their defined contribution account. They have Social Security, some have defined benefit plans. Neither of those were affected by the stock market. They have access to housing equity which has not been affected by the stock market. So a big portion of people's retirement assets, available retirement assets, has not been affected at all by the stock market decline.

People have two other assets in retirement that are also not affected. One is they can choose to retire later, that is they have a choice of when they retire so they can adjust their retirement date and hence reduce the amount they need to save for retirement. And second is, even in retirement they can choose to work part time. An increasing number of people are making that choice not so much for economic reasons, but because they're healthy and they're mentally able to do the work and they find it challenging and fun and so choose to work. So not only is a large chunk of retirement income not due to 401Ks or IRAs, but people also have some control over when they retire and what their labor income is when they retire.

Having said all that, let's turn to the 401K, IRA, Keough sector which in the aggregate has been substantially hurt by the stock market decline. Most assets in those plans are in stocks, are held via equities. But having said that, about half of the families in the country don't even have a defined contribution plan, a 401K plan, of any type. And of the remaining half, the median balance is something like \$24,000. So you take a \$24,000 account, you drop it by a third -- Let's say they invested two-thirds in stock and so they've got \$16,000 in stock, and let's say that falls by a third so they lose \$5,000 or \$6,000 in equities. If you then annuitize that at about a seven percent rate you end up with people being affected by about \$2 a day in their retirement income, or about \$780 a year. I'm sorry, that's the \$10,000. If you do \$6,000 you get about \$420 which is about \$1 or \$1.50 a day. So we're not talking about massive declines in retirement

wealth. We're talking about a Starbucks coffee every other day for the median household that has a defined contribution plan, and remember that half of households don't even have one.

Now the group that will be hurt most is probably the people sitting in this room which are relatively high income households that don't have defined benefit plans or have all their money tied up in defined contribution plans. But from the perspective of people who need to save more for retirement, the people who are currently most well prepared were also the hardest hit. So that mitigates some of the damage also.

Anyway, having said all that let me just say I'll be happy to take questions on it and turn to my colleagues.



MS. MARY GRAHAM: I think the title of my remarks is "even more bad news". The theme that I want to develop is that the financial transparency system is only one of a great many corporate transparency systems that's in very poor repair and where there are real dangers to the public.

But first there's a little bit of good news and I want to start with that. In the 1990s something very remarkable happened. This policy idea that transparency itself can improve corporate performance made a leap from the financial realm to create a whole new set of policies that are designed to save lives and reduce injuries. So for example we got a congressionally authorized disclosure system for SUV rollovers so you're supposed to be able now to tell which model is most likely to roll over with a five star system, and you should look at that web site. There's really a huge difference even among the new models.

After an outbreak of cryptosporidium in Milwaukee in 1993 Congress created a drinking water disclosure system so that people in communities could tell what the contaminants were in their drinking water even if those contaminants weren't illegal. Because people with AIDS or with compromised immune systems needed to know that. It was supposed to be a currently updated system to tell people about contaminants in drinking water.

We have a very complicated and mature system of telling people about toxic pollution in their community. That system has been credited with reducing toxic pollution by almost half in ten years. It's become a sort of full-fledged regulatory system.

We have a disclosure system for our biggest killers, heart disease and cancer. Nutritional labeling which was adopted only in 1994 is supposed to tell us about what's in our food and put pressure on the food manufacturers so that they'll create healthier products.

There's a new, not very good system for cell phones that may turn into a good system

that's supposed to tell people about the radiation levels in each model. There are many many more of these.

What's fascinating about this is that while the 1980s was a decade when we had extraordinary confidence in market mechanisms and therefore created a lot of regulations based on financial incentives and trading mechanisms, the 1990s in a sort of unheralded development turned out to be the decade of regulation by disclosure. We had extraordinary events as an information technology and an extraordinary confidence in communication mechanisms, and out of it came this huge array of social disclosures, policies that take their place beside the much older and now much in the news financial disclosure system.

These policies do two things. One is they in effect shift the burden from the government to the private sector of providing continuous, reliable, factual information to people about risks. So whereas investigative reporters used to have to ferret out the information and government officials used to have to dig for it, in these areas the purpose is to have a reliable, continuous source of information about risks that people can act on and that puts continuing economic and political pressure on companies to move in the direction of the public agendas. It puts a huge array of proprietary information in the public domain for the first time. It's really a very major event in public policy, one that's not much talked about because we've looked at each of these systems as kind of suigenerous [ph], that each is a response to a particular problem so we haven't seen it as an overall policy innovation which in the book that Strobe mentioned that Brookings Institute published, I contend that it is.

The bad news is that it has proven to be extremely difficult to do this well. Just as we're learning that it's extremely difficult to do financial disclosure well.

For example we now have a nutritional labeling system that is very ingenious, has probably the best known graphics in the United States. Many of us use it when we're at the grocery store. But it leaves out many of the critical elements that people need to know for their health. Most of this newly-discussed kind of fat called transfat. There's been a ten-year debate about how to put transfats on the labels. We should not be eating transfats. They're in most processed foods, things like muffins and breads, and it's pure politics. The reason it isn't on the labels is pure politics. There's now a proposed rule. They say there will be a final rule but the proposed rule was in 1999 and it's taken at least a decade.

That disclosure system also does not cover most of the foods that we spend our food budget on. It does not cover fast foods, anything sold in fast foods. Out West it doesn't cover anything sold in restaurants. It doesn't cover small producers. It doesn't cover grocery delis, and it also creates new risks. Because of, again, a political decision to carve out an exception for untested supplements which have been now added to many conventional foods, Congress said those supplement-makers can really make all kinds of claims that people selling ordinary foods

can't claim. They can claim to reduce depression, they can claim to improve circulation, and many of them have turned out to be dangerous, but there aren't the normal screening mechanisms that we have in the rest of the government for food in regard to these supplements.

The toxic pollution system which provides a lot of useful information also leaves out most of the problem. It doesn't cover pollution from cars, trucks and buses or pollution from dry cleaners, neighborhood print shops, photo shops. Those two sources are the majority of toxic pollution in the United States and they're closer to where people live.

It has a flawed metric, unfortunately, so it measures total pounds. It doesn't actually tell the public anything about risk. And after 15 years or so we don't know whether that disclosure system has actually improved public health.

So one of the most serious sources of our accidental deaths and injuries, medical mistakes which was much in the news three years ago when the National Academy of Sciences said we have a very serious problem, more people die from medical mistakes in hospitals than die in car accidents, Congress initially said this is an important subject for a new disclosure system so people can at least tell which hospitals are safer. Then politics took over, and as a result there's been no congressional action on disclosure. People don't know anything more about which hospitals are safer now than they knew three years ago or ten years ago. The experts know that some hospitals are ten times safer than others; the public has no way of knowing which hospitals those are.

So my theme is that there's just as much urgency in the need to repair these newer systems of social disclosure as there is in the older system of financial disclosure. The characteristics of the systems are remarkably similar and the reason for the problems are remarkably similar and to some degree what needs to be done in all these areas is remarkably similar. There's no reason to wait for another Enron in the health policy area presenting new health risks for people to reform the systems that are supposed to keep unnecessary deaths and injury from medical mistakes or from heart disease and cancer or from toxic pollution.



MR. CHARLES L. SCHULTZE: Like Mary, I want to talk about a problem of corporate governance which is actually somewhat different, quite different from the corporate accounting scandals that have come on us in the last several years.

In the traditional definition of corporate governance, the traditional view, stockholders own the corporation, provide its financial capital and hire corporate executives to maximize the value of that capital for the stockholders. The problem with corporate governance is fundamentally how do you make sure the managers act in the interest of the stockholders and don't skim the profits off for themselves.

You probably ought to add one elaboration to that traditional definition, namely the stock managers owe an obligation not just to existing stockholders but to potential future stockholders in the sense of presenting accurate and transparent information about the financial condition of the company.

With that elaboration, the traditional definition of corporate governance, the traditional view of it which really deals with the problem of the separation of ownership and control in the corporation, that traditional view covers the corporate malfeasance and accounting scandals that have come upon us.

But I think that's actually an excessively narrow definition of the corporate governance problem. I want to broaden that definition.

In that traditional definition the basic assumption is made that the only assets in the corporation that have value are those owned by the stockholders. Whereas in fact long-service workers in any advanced economy accumulate substantial assets on the job, assets a large part of which are lost when they're separated from the job. Workers accumulate skills and knowledge which raises their productivity, raises their value to the firm, and they tend to be paid accordingly with seniority raises and in many cases gradual promotions through the ranks as the years go on. But if they have to take a new job, that new job will initially, if they're laid off have to take a new job. That new job will initially, and for a long period of time, pay significantly less than they earned on their old job.

Some part of the skills that workers accumulate on the job are transferable but a substantial part aren't. There are many accumulated skills that are specific to particular firms that workers pick up. Knowledge of specialized machinery, practices and procedures. They acquire knowledge of customers and their set of idiosyncrasies and how to deal with them, how to satisfy customers. They learn the capabilities and limitations of their fellow workers, their bosses and their subordinates. They learn who to call and what to do in cases of trouble and emergencies. They learn when to discount, when not to discount, when to modify the instructions of busy supervisors. There are all sorts of qualities, skills, knowledge that get built up that are specific to that corporation which you can't take with you, at least not all of them can you take with you. In addition to which even when the skills are transferable, many of them are the subtle kind that you can't tell from kind of written certifications and a written record. The abilities of a worker are not stamped on a worker's forehead and it takes employers some time to learn those potentials and capabilities and the workers starting after a layoff in a new job also have to start back up through the promotion ladder all over again.

For those reasons long-service workers who acquire assets on the job, wage premiums, tend to lose those or at least a large chunk of them when they separate from the firm. And the

size of those at-risk assets are quite large.

The BLS every two years surveys displaced workers and gets statistics on displaced workers. From that we can estimate that for workers with six or more years seniority who are involuntarily separate from the job, and take a new full-time job, the average salary in that new full-time job is going to start about 17 percent less than the old job, and if the workers have really longer seniority like ten years or more, that loss is going to be something like 25 percent. That only counts workers who get full-time jobs and some workers when they're laid off with quite a bit of time have to take part-time jobs and their losses are even larger in terms of annual income.

Not only that, this gap in initial salaries after displacement while it closes or at least it narrows, it narrows gradually. The long-term loss is quite substantial. There was a large-scale study of Pennsylvania workers done in the mid '70s through the mid '80s which estimated that, again for workers with six or more years seniority who lost a job, took a full-time job, that the present value of the difference in the salaries on those jobs evaluated in today's wage terms is \$130,000. I've done some work which suggests if you get not just six years and over but 10, 12, a good bit more seniority, those asset losses are even larger.

This points to a really difficult problem in corporate governance for which there is no ideal solution, only some solutions less imperfect than others.

Long-term relationships between workers and employers produce valuable skills and productivity. On the other hand, any economy in order to change and grow has got to change. Asset values, both stockholders' and workers', are destroyed in the process of many firms.

Under the current corporate governance system decisions about the distribution of those losses ignore the value of the worker assets because executives are fundamentally charged to protect the assets of the shareholders.

There are three alternative solutions to this problem, and it's a fairly serious problem. I didn't mention that the average rate of displacement for workers with relatively long, six or more years seniority, is something like 1.5 percent a year which isn't terribly big, but you figure over a 15 year period that means the probability of a worker taking a permanent layoff may be in the neighborhood of one in five, so it's not an insignificant problem.

As I say, there are three alternative solutions. There's a continental European solution under which with government regulation aided by union power you just put a lot of restrictions on layoffs. You make it very difficult to lay people off. What's that done is widely believe, and I surely agree, that this is one of the factors behind the generally greater rigidity and inflexibility of European labor markets than in the United States which slows down their ability to adapt to

change, innovation, and to grow. Secondly, if you make it hard to fire somebody, that at the margin at least you make employers a little more reluctant to hire somebody and some people believe, I'm not so sure, but some people believe that this can help explain the higher unemployment in Europe than in the United States.

That's a very costly solution and an inferior solution.

A second possibility is to give long-service workers votes on the Board of Directors whereby they could influence layoff decisions.

Well, if that voting block isn't large enough to have a major influence it won't make any difference, and if it is large enough to have a big influence on layoffs we're going to drift right into the European solution through the back door and again set up substantial rigidities and barriers to change.

In my view the only way to deal with this is to recognize that in fact this problem of corporate governance can't be changed, can't be solved or eased by changing the rules of corporate governance. It has to be thought of as a problem of the social safety net, just as we do with unemployment insurance.

But the problem that I'm talking about is not the unemployment part of this. Relatively in the United States the period of getting a new job on the average isn't all that long, it's the loss of wages. That's the problem we have to deal with.

My colleague Bob Lighten and his co-author Laurie Klexer are looking at this problem, have suggested a program of government wage insurance in which, to give you their particular version, for workers with let's say, using their version, with two years or more tenure who acquire a new job after being laid off -- you've got to have a job to get this. The government would subsidize some fraction of the difference in wages between the old job and the new job. The data to do this are available in state unemployment insurance records. You could look at that and it would make it possible to do. You could vary the terms of this. They would make it available for the first two years. I'd make it available only to older workers, somewhat older workers, and workers with longer tenure, but make it available for a larger number of years with a declining scale. Actually, to be fair, Klexer and Lighten suggest you could make it variable. You could make the subsidy variable by tenure, by age, and so on and so forth.

The cost of that together with a subsidy for health insurance during the interim they figure would be \$3 billion a year, which is not small potatoes but it's really no big sum to deal with a very serious problem.

In summary, the current system of corporate governance when asset losses have to be

distributed makes no provision for taking into account the value of worker assets, and as you look through the ways to deal with that problem it turns out that almost any way to deal with it by regulation or changing the corporate governance structure probably is going to do a lot of damage, but then in all justice it seems to me we ought to spread the fairly substantial costs more equitably over the whole population and that's what wage insurance does.

MR. TALBOTT: Thank you, Charlie.

Tom?



MR. THOMAS E. MANN: To add to the diversity of perspectives on the crisis of corporate governance I am going to ruminate with you about the possible political implications.

Now my rule of thumb has always been when you want to understand the political impacts of something, first look at what the politicians are doing and then look at the public.

What has been clear since word of Enron's impending collapse first reached public attention has been the politician's fear of being associated with corporate scandals. I would argue that Enron provided a necessary though not certainly sufficient condition to push campaign finance reform over the edge. It kept some backsliding from occurring at a time when the bill was in some dicey difficulties in the House of Representatives and permitted the Senate acceptance of the House bill.

We saw it with the Sarbanes Corporate Accountability bill. It was just amazing, if you were to look through two or three weeks earlier and see the actions of the House, see the statements of the Secretary of the Treasury, of the President of the United States, of the Vice President on all of this, which were really quite hostile to the Sarbanes bill. Paul Volker was here and I remember everyone was very pessimistic about the possible passage of that bill. Then there was a world change, a sea change with WorldCom coming to our attention and politicians scrambled to associate themselves. The bill passed virtually by voice vote in the Senate and the House basically caved and accepted what the Senate had done.

If you look out on the campaign trail you will see on this issue the Democrats are trying to draw a line of difference between the parties. Republicans are trying to blur differences and identify with their support of the Sarbanes bill and other actions they have taken to ensure that corporate wrongdoers are prosecuted and punished very seriously. We had the "perk walks" and all kinds of public efforts to try to blur differences on this, and everyone wants to be on the same side of the issue.

That tells you right away, this is what we call a valence issue, not a position issue. That is there's only one side to be on. You want to be on the plus side, not the minus side. No longer are the substantial ideological and partisan differences on this issue germane. So that tells you this has already had a substantial impact on the behavior of politicians.

What about public opinion? Well, the impact is very very noticeable and I would argue potentially quite significant politically. You've all seen the tremendous change in polls reporting the growing economic insecurity, a growing belief that the country is off on the wrong track and not moving in the right direction. We've seen a substantial alteration in the agenda of the public as revealed by their response to the question what's the most important problem confronting the country? We've really had a shift from terrorism to domestic economic concerns. You see it in their ratings of various political actors and their trustworthiness, the sort of corporations as a category of actors have sunk substantially in public esteem.

You see it in the definition and saliency of public images of the two major political parties. Now what the corporate scandals have done here is not to change the images of the parties but to reinforce and highlight all the images. Democrats retain a partial image that goes back to the last major political realignment, the new deal realignment. It's sort of on the side of kind of working people when it's an economic issue and against large corporate interests. In fact those old images which have been overtaken by a series of developments in our politics that created a kind of working class conservatism on some social issues that gave Republicans a leg up has now come back to the fore and provided Democrats a real opportunity to exploit that difference in party image.

Finally, in the public opinion arena we see some changes in the public perception of the appropriate role of government, of the importance of regulation of the private sector, of the efficacy of any kind of privatization of Social Security.

Basically when Bill Clinton in his State of the Union speech said the era of big government is over, what he was really saying is that we have reached a point of equilibrium where the public wants every bit as much government as they have now and no less, but they want fiscal responsibility and therefore no more. If anything, I would say that the sense of the importance of government in keeping the private sector honest has increased as a consequence of developments in corporate governance over the past year, and even though I accept completely Bill's analysis of the real impact on people's pensions and the like, there is no question but that the perception of loss increases the importance of Social Security as an utterly dependable retirement safety net for people and has taken whatever air might have existed out of the privatization movement.

Interestingly it's been the Republican leadership in Congress that has pushed against any discussion of this issue and Republicans are avoiding it like the plague on the campaign trail.

Okay, what does all this suggest for the mid-term election? Mid-term elections are always a combination of macro versus micro forces; top down, bottom up. If you look at this from the bottom up it looks like a standoff, as if the narrow range of competitive seats and the sort of closeness of the parties in those seats suggests little change, but the possibility always exists of a national tide gathering that on election day rolls across those competitive races and even some not so competitive to create some surprising results. We saw that last time in the 1994 election. It reached tsunami proportions. That is very unlikely to happen this time in part because of the rich diversity of national themes that could actually become salient on election day. This is, frankly there are two things that will now determine the outcome of this election, determine whether Democrats will pick up the House, hold the Senate; whether Republicans have a chance of making headway in the Senate and holding their own in the House.

The first is framing the agenda. Will this election be about the whole host of economic forces that got to the stock market, the real economy, the surpluses into deficits, the perception of insecurity, the resentment over certain people making off like bandits? Will that be the frame? Or will the frame be the war on terrorism and a possible military engagement with Iraq?

June and July were about the first; August moving into September is about the second. This is not accidental. This is about framing the public debate for the election. We don't know how that will ultimately work out by election day.

The second thing is who will vote? That is what is turnout going to be? Which group within the electorate are most likely to be influenced by this crisis in corporate governance? That is something we will learn.

What I would say in conclusion is that from the public opinion data now it looks as if it's a minority of stockholders and seniors -- the very two that are most likely to vote who are most concerned about this, giving Democrats some hope that whatever tie develops will be likely to have positive turnout effects for them.

Thank you.

MR. TALBOTT: Thank you, Tom.

I'd like to spend just a couple of minutes with some interchange here among the panel, but then go quickly to a discussion involving all of you. I have an ulterior motive in proposing that we do that. There are quite a few folks out there who are following these proceedings through the audio and video streaming over the Internet. We want to give them a chance to send in some questions as well, and we'll have a couple of minutes for them to get to their keyboards and do that while we have just a little bit of a follow-up discussion here.

Those who are following this conference over the Internet can go to "questions@brookings.edu" and send in their questions, and my colleagues in the back of the room will pass those up to us and we'll try to work as many of those as we can into this.

But just for the next couple of minutes I would be interested to hear all of you maybe draw out from each other some amplification and perhaps sharpen up a little bit the prescriptive side of this discussion, and in order to get that started maybe Bill I would ask you to elaborate just a bit on two questions having to do with what our government can do.

One, what if anything can the government do to help people who are under straitened circumstances saving for retirement? And second, what can the government do to offset the effects of the fall in the stock market on the budget?

MR. GALE: Obviously those are kind of I'd say \$64,000 but it's almost a \$64 billion question hanging over, it might be \$64 trillion at some point.

There are a couple of things the government shouldn't do and I think it's important to get those out first.

The first thing they should not do is get in the way of people making their own adjustments to these changes. You will see people working longer, you'll see people saving more and spending less, you'll see people looking towards home equity as a potential source of retirement funding, and you'll see people shifting their assets from equities to interest-bearing accounts. That's all good and healthy. That's economic responses that people should do, and to the extent that people do undertake those changes the government should not get in the way.

The second thing the government should not do is they should not jump in with the sort of gimmick of the day, if you will, which is what's been floated so far.

For example, we've heard about increasing the capital loss deductions which Charles Schwab thinks is a good idea. We've heard about cutting capital gains taxes. We've heard about cutting dividend taxes. We've heard about increasing retirement contribution limits. None of these things address the issues that are at stake.

Let's take the first three first. Capital losses, expanding that, cutting capital gains taxes, cutting dividend taxes. None of those have any effect on retirement accounts because retirement accounts are taxed separately from ordinary taxable income. So none of those changes would benefit retirement accounts at all.

Expanding the loss deduction for capital losses could actually hurt the market because it

would encourage people to sell stock and it would encourage them to sell the stocks that had lost the most money. So not only could it hurt the market in the short run, it would have the biggest negative impact on the firms that have already had the biggest hits. And cutting dividend taxes is an interesting idea in the context of a broader reform that sort of maintain the level of revenues and productivity and cut marginal tax rates and close tax shelters, but as a stand-alone reform it would essentially be expensive and regressive, and the impact on the stock crisis would basically be big enough to undo yesterday's decline in the stock market. So it's not any substantial long-run saving grace type of policy.

Likewise introducing retirement account contribution limits only helps people who were already contributing to the limits. So it's like trying to help lower middle income families by cutting the tax rate that applies to income above a quarter of a million dollars. It's just a misplacement of the proposed solution and the actual problem.

Very few people contribute the limit. Those that do are predominantly high income and are uniformly high savers. The retirement savings problem in this country is the 50 percent of the households that don't have any pension and the 25 percent of the households that do have a pension but have very little. So we need to push access along those lines.

If I can take one more minute, what the government should do is use this as an opportunity to sort of rethink the fundamentals of the pension system and rethink how we should structure saving for retirement.

There are a couple of issues here. One is we've had this massive shift towards defined contribution plans. As the last year makes evident, defined contribution plans put all the risk on the worker -- the risk of saving the right amount, investing it in the right thing, holding it for the right period and taking it out in the right way. It imposes all the risk on the workers, but it also gives workers control. We might want to rethink that a little bit.

There are hybrid plans that combine features of traditional benefits and 401K plans. So for example they give workers some control but they also minimize some of the risks. These are called cash balance plans. They've gotten a bad name in the past because of the way they were introduced in several major corporations, but if you look at their features they could actually be a solution to some of the problems.

The other two big policy initiatives that government should think about, one is financial education. Just as Mary was saying we don't have good disclosure on a whole host of things, people do not receive good disclosure on the risks that they face investing in their 401Ks. So there could be a huge initiative there.

The last thing is, as Tom mentioned, you have to rethink Social Security privatization in

the context of a 30-40 percent market drop. I mentioned that half of the households in this country don't have defined contribution plans, but all of them have Social Security. So you can imagine the type of angst and anxiety and pressure for policy that would occur if this were people's private retirement accounts within Social Security that had fallen 40 percent rather than the market as a whole.

So I think although the impact on most people's actual retirement accumulations is not going to be that big, the impact on how we think about retirement and how we structure policies could actually be quite important.

MR. TALBOTT: Anything else among all of you? Charlie?

MR. SCHULTZE: It's a different point but you have to ask yourself the question why did all of this happen in the last three or four years? Why the big wave of corporate scandals? I think one answer is the very nature of the late '90s stock market. What you had, of course, was people paying 60 times earnings, idiotic prices to buy stock that obviously implied very large and accelerated growth in earnings, or at least in revenue. That's number one. So the whole focus was on quarter by quarter, quarter by quarter, getting earnings growth.

Combine that with stock options and you had a natural set of incentives to do everything you could to get a ponzy game going where you kind of helped the present at the expense of the future. Take in all kind of debt, but don't put it on the books as debt. Get tomorrow's revenues today, and so forth and so on. The two combined I think are what did this. I think ultimately Alan Greenspan was approximately right when he said it isn't that people have gotten greedier, it's just that the ways to satisfy greed pay off so much more than they did.

MR. TALBOTT: If that's the essence of the problem and of your diagnosis, what's the essence of the cure?

MR. SCHULTZE: A, I don't know. I wish I did. I'd market it.

B, I think the market's going to cure it for awhile. That doesn't mean it won't occur again but I doubt very much if we're going to have a replay, it's easy to say in my lifetime, but in even Tom's lifetime, of the kind of stock market we've had in the late '90s. I think people are not going to fall for that again.

MR. TALBOTT: It is an interesting question and I look to my economist colleagues to tell me what the answer is. My impression is the incentives got messed up. That is the incentives for corporate board members, the incentives through the compensation system for CEOs, the incentives for accounting firms and consulting firms, that somehow we got that whole system messed up.

The question is how do you get the incentives right to produce the behavior that you would like to optimize? Will this happen naturally as a result of transparency? As a result of the developments that have occurred, the drop in market values, the public anger? Warren Buffet now becomes the model and everyone follows? Or is there more role for government regulation here? Do we need to do something about stock options and how they're treated on financial reports? Is there an appropriate role for the government with regard to the nature of corporate boards and how they're appointed, the nature of their compensation systems? I don't know the answer, I'm simply raising the question.

MS. CAROL GRAHAM: Tom, your points made me think about that great Cludman piece in the New York Times a few weeks ago where he noted that a generation ago the highest paid officer in a company made at the most 40 times what a worker in the firm made, and today the highest paid CEOs make up to 500 times what workers in firms earn. That's significantly different from CEOs in Europe, for example. While at the middle management level pay differentials are quite similar, at the top levels it really is in the U.S. where we've gotten this very large differential between the CEOs of the firms and the rest. And while I think for a long time our national tolerance for high levels of inequality and sort of seeing these almost excessive displays of wealth as part of our efficiency and part of our productivity, I think we're rethinking that now and seeing that in fact if anything that led to the sort of greedy behavior that Charlie's noting. I think we may be rethinking that in terms of the role of government and in the role of the equity of the process. Too much inequality can actually be quite inefficient.

MR. TALBOTT: May I invite the audience to join in the discussion? If you would be good enough to raise your hand someone will come to you with a microphone. Please state your name, if you would.



QUESTION: I wanted to ask Mr. Mann something that you touched on but I don't think that has been well developed. If you would address the cronyism of the Board of Directors with the CEO in these large corporations, and the way that most of these corporations [end] the cronyism does a real disservice to the stockholders. Also in that same regard, I think that you haven't addressed really the collusion with the politicians and the donations to political campaigns with the various corporations and their CEOs.

MR. MANN: I may be better able to answer the second than the first of those. I raised the first point because of the well-known pattern of CEOs handpicking a fair number of members of their boards and that has led to a lot of ideas about how to produce a genuinely independent board that reflects the stockholders and maybe even the workers in some sense in dealing with the management. I defer to Charlie and my other colleagues here as to whether there are any

public policy ways of dealing with that problem.

On the connections between sort of political money and corporations, all I can tell you is it's a two-way street. Most of the effort is exerted by the politicians to derive resources from those corporations. It was all made possible by the emergency of so-called party soft money. We thought in 1907 we ended direct corporate treasury financing of federal elections and then did the same with union treasuries in the 1940s. But it turns out a series of rulings by the Federal Election Commission has created a gap now, the side of a wall to facilitate those flows. The new campaign finance law is designed to deal with that. It faces difficult hurdles in the rulemaking process and in the constitutional challenge, but if it's upheld in that process we will have dealt with the most egregious sort of violations of the understanding of the importance of reducing conflicts of interest by keeping direct corporate treasury money out of the hands of federal politicians.

QUESTION: My name is Aden Hatten. I'm with an independent investment management firm in Washington.

I'm fascinated, if this is indeed a drip-drip type of correction that we are engaged in right now where do you measure the starting point? From March of 2002 or March of 2000? In other words, are we two and a half years into the correction or are we six months into it?

MS. CAROL GRAHAM: I think I would defer to Bill on that.

[Laughter]

MS. CAROL GRAHAM: I guess I would guess March of 2000.

MR. GALE: As a matter of -- I think the reason she deferred to me is that her co-author Bob is the Director of Economic Studies and he's not here, so it lands on my lap. It has nothing to do with the stock market. But the stock market peaked in March of 2000 and the economy slowed down around then as well. The weird thing about this particular slow-down, at least the first part of it. Remember there was discussion about whether it was U-shaped or V-shaped or L-shaped and now if there's a double dip people are talking about it being W-shaped. The weird thing about the first part was that the economy was very non-synchronous, if you will. Different sectors were slowing down at different times. Business investment dropped off the map early. Consumption stayed strong. Employment was different than what it usually did, housing was different. The stock market was different than its historical pattern. So the down-turn in the economy is pretty hard to date. The down-turn in the stock market, we know the thing peaked in March of 2000. So if I were Carol I'd date the drip-drip from that point.

MS. CAROL GRAHAM: I completely agree then.

[Laughter]

QUESTION: A brief remark and one question both directed at Carol.

One is do you calculate the cost of the pre-Enron, post-Enron. Can you similarly calculate some off-setting benefits of the pre-Enron period where presumably stock prices were higher than they should have been? Did that correspond to a \$10 decrease in oil prices? That was the remark.

My question is the structural, more long-term structural consequences of this. Is there included in your calculations through the '90s, you saw a broadening of the investment base, more and more households bought stocks and presumably some benefits in liquidity and efficiency in the stock markets. Will this result in similarly a downturn in the investment base? Will you now see a period of less and less households going to stocks with less efficiency and less liquidity in markets, and have you tried to estimate any cost of this? Thank you.

MS. CAROL GRAHAM: A short answer to your last question, no. We haven't tried to calculate that. One certainly can assume there's already been some shift from stocks to bonds. How long, will that last for a long time I think is anybody's guess. And probably it depends on how much, are there going to be more scandals, how much more is going to be exposed?

In terms of the question about offsetting benefits, there certainly, others have written about or thought about problems with the bubble and why it's good that it's burst, so to speak, and that has some offsetting benefits to the economy. So our own calculations, we did not attempt to calculate these.

We certainly thought about some of them, and one of them that we write about in our brief is the drop in the value of the dollar having potential positive benefits for our exports, that being a possible offsetting benefit.

So there certainly are some, and probably in the longer run will be some in terms of efficiency of all kinds of things, particularly and hopefully efficiency and better corporate governance. But we have not attempted to calculate that.

QUESTION: My name is Carl McNear, I'm a member of the Board of Directors of a publicly traded company, independent, outside director, chairman of the audit committee, and I compliment you on a very comprehensive presentation and on your paper that you've just done.

My question really spins to the level just below that since I happen to be a resident of Northern Virginia. That is the potential financial and services impact upon the states and the

citizens of those states from which we receive our emergency and first responders and all the other applications, education and the like. The states, particularly Virginia, of course, cannot deficit spend, nor can Maryland. We read daily in the Post and other papers about the significant deficits for 2003 that the Governors are approaching.

Do you estimate that this will impact across the entire country? Because obviously with the federal revenues having diminished some seven to ten percent, put the name on the numbers that Bill has given us, do you anticipate since the federal government will not be able to provide any greater returns without huge deficits and the states cannot deficit spend, will we see a diminishing in the say quality of life and perhaps a subterranean impact that maybe we haven't assessed?

MR. TALBOTT: ?? Boy, is that important, isn't it? That's just a terribly important point to make.

The revenue condition of the states is abysmal. One need only look at the experience the California legislature just went through, and months of effort to try to pass a budget. New York is basically hiding a \$7 billion shortfall before the election. The vast majority of states have found the need to cut back on spending programs in a variety of areas. This creates more of a sort of Cysco drag at the time we need stimulus.

I mean if this were a reasonable world and a reasonable city the people in Washington now would not be talking about additional sort of targeted tax cuts on capital gains or of making longer term cuts permanent. They'd be figuring out a way to send money to the states to help them deal with the immediate problem and provide the very stimulus that's needed for the macro economy. So speaketh a political scientist. We'll see if the economists agree with that.

MR. SCHULTZE: I'm a little bit of a curmudgeon on that. Number one, all there state governments up until about the last quarter continue to spend like mad. It's a big lie. Their revenues were dropping and they were continue to spend.

I'm no expert at this in any detail, but I'm fairly sure that rainy day funds were either not accumulated or spent as if it was going to go on forever, so some of this is states themselves and localities ought to look to themselves because it happens time and time and time again.

Finally, logically the idea of countercyclical revenue sharing with state and local governments in which the federal government automatically begins to put additional funds in the recessions is not bad except given the standard pressures in democratic governments and the Congress which is independent of the President, the first thing that happens is the pressures get very very big. Oh, by the way, let's extend this cyclical revenue-sharing one more year, and then two more years. So it's not a bad idea, but if you do it, do it by a particular act of Congress every time. Let's not

institutionalize this kind of, bail-out's the wrong word. It would be a useful fiscal stimulus but you've got to be very careful it doesn't turn into a permanent farm program.

QUESTION: My name is Mike Brannon. I'm from the Joint Economic Committee. This is a question for Mr. Gale.

You characterized cutting the capital gains tax, increasing the deductions for capital losses and cutting the tax on dividends as tools to increase the stock market. I would agree that the first two are certainly that, but I think an argument a lot of people have made for cutting the taxation on dividends is that it would encourage the pay-out of dividends which would be a good form of corporate governance. You can fake earnings but you can't fake cash or you can't fake dividends.

What do you think about that argument for decreasing the tax rate on dividends? Is that just subterfuge or is this something that's politically impossible to do given the cost?

MR. GALE: The push for more dividends comes from sort of the aftermath of the episode that Charlie was talking about earlier in the '90s where there was a great push to sort of incorporate layer upon layer of complicated financial transactions to generate pay per value. Whereas dividends are actually cold hard cash in the hands of investors.

I guess I'd say a couple of things. One is that firms don't need a reduction in tax rates to pay more dividends. They can choose to pay more dividends.

Second is there are very natural clienteles for dividends including institutional investors, pension funds, non-profits, foundations, anyone that's not subject to the dividend tax. And in fact about half the dividends already go to people that don't pay dividend taxes, or to equity owners that don't pay dividend taxes.

I think this, as well as coming back to this question about options and incentives, this is a situation where institutional investors, whether they're state governments or pension funds or foundations, can take a big lead in telling firms they need to change their policies and we're not going to invest in you if you don't change your policies. But the idea that we need to cut the tax in order to get firms to pay dividends is just a non sequitur. Any firm that wants to can and any institutional investor that wants to push can do that.

Now I see, certainly there's a marginal effect. If you reduce taxes on dividends you'll get more dividends. But that doesn't mean firms are being more forthright and forthcoming, it just means they're responding to the tax incentives.

What you would like to see is a real shift in behavior which is paying more dividends

with an existing system, and as with the incentives, the solution to both of these is for investors to care. If investors value dividends as signals of firm profitability the way they did in the good old days when we had a dividend tax, then dividends would be more valued. But the market in these years of 20 percent, 30 percent returns, nobody cared about dividends.

Let me put it this way. I wouldn't blame -- Dividend taxes have been with us for a long time. I don't think they caused the market run-up from 1982 to 2000. I don't think they caused the collapse since 2000. I don't think that changing them would significantly affect the situation right now.

MR. TALBOTT: I'd like to insert here a question for Mary if I could, staying with the overall theme of policy prescription.

Mary, as I understood the bad news part of your message, part of the bad news is that real transparency has the cards stacked against it a bit. Is there anything you could say about possible policy initiatives or policy defenses against those, the fairly powerful forces you mentioned that are basically trying to gain the system to their own advantage?

MS. MARY GRAHAM: That in itself is important to understand. The forces of secrecy are what I would call manipulated disclosure. In normal times they're much stronger than the forces of openness. It's amazing that we have these disclosure systems at all, and most of them arose in big crisis situations where the Congress simply said the public needs more information to regain their confidence in the system.

There are ways to structure disclosure systems so that they're less likely to be games. There's always going to be gaming. The search for loopholes goes on by those who are asked to disclose things they don't want to disclose, and the attempt to kind of gerrymander the disclosure system on the Hill goes on. So those are inevitable.

But looking at this kind of broad array of the financial disclosure system and this other array of newer disclosure systems, they need constant oversight. You can build in constant oversight. There was legally constant oversight since 1934 in the financial disclosure system in the form of SEC oversight of accounting methods, but it wasn't really exercised. I mean FASB was a better replacement for the Accounting Principles Board that preceded it, but FASB was a form of self-governance. There really wasn't kind of a responsible oversight.

Secondly, you can build in mechanisms for quicker adaptation to market changes and changes in the science. One of the problems with Enron was the market changed. Enron was kind of a new sort of animal and traditional regulators and people who watched the traditional disclosures didn't see all the effects that this new creature was having on the system.

Third is enforcement, and you've seen the articles that have said the SEC enforcement system has been starved. Transparency is not simple. We like to think just put the information out there and everything will get better. It takes the same kind of day in, day out expensive enforcement system that any other form of regulation does and when you starve the enforcement system, as Tom said, you're going to change the incentives, and you get changed incentives and changed behaviors.

MR. SCHULTZE: One question, I'll play devil's advocate a little bit. That's an information overload. It's like deregulating the telephone companies. Great idea, I'm all for it, it's done us a lot of good, but I despair of ever understanding what my options are on long distance telephones. I wonder whether or not you can't do too much of this and overwhelm the really important with the fairly important.

MS. MARY GRAHAM: That's the final point. These systems have to be designed by a disciplined process. Disclosure is not the solution for every problem. There are lots of situations where it just doesn't work. You don't have consensus about what the right metric is.

When it is appropriate, when it is a serious problem and it is worth the effort of setting up one of these systems, then I think our best hope is information technology. That's why the subtitle of my book is "The Rise of Technopopulism". You can have very complex layers of information, but today you can customize those into a very simple message for individual consumers. We ought to be making much more use of that and getting the communication clearer and lessening the information overload.

MR. TALBOTT: When any moderator worth his salt hears the phrases "final point" and "best hope" from a colleague, he knows that's probably time to wrap it up, as well as hearing cell phones beginning to go off because some people are already late to other appointments.

Let me thank all of you for the quality of your participation, and let me say one other thing.

I mentioned that this is the first public event of the fall season here at Brookings. We have an ambiguous set of programs ahead of us.

Tom Mann mentioned in passing that the Bush Administration has made some effort since the summer to frame and in some ways redefine the public debate on issues that are perhaps more intellectually comfortable for the Administration than corporate governance scandals. I suspect he had Iraq in mind.

Even earlier tomorrow than this program began here today we will have Deputy Secretary of Defense Paul Wolfowitz here. I can assure you he will have nothing to say on the

subject of corporate governance and a great deal to say on the subject of Iraq, and those of you who can get up early enough tomorrow, the coffee and the danish will be equally good, and I hope to see some of you then. But thanks for being with us today.

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