

A Brookings National Issues Forum

**AGENDA FOR 2003:
THE STATE OF THE UNION AND THE WORLD**

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ROBERT E. LITAN

Vice president and Director, Economic Policy Studies; The Cabot Family Chair

CAROL GRAHAM

Vice President and Director, Governance Studies; Co-Director, Center on Social and Economic Dynamics

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THIS IS AN UNCORRECTED TRANSCRIPT



MR. STROBE TALBOTT: Good afternoon everybody. Thank you for braving the elements and joining us for this discussion this afternoon.

This is a session which we intend with our participation to make more than just an analysis and review of the President's State of the Union message last night. The discussion will also I think capture in both spirit and substance what is something of a Brookings tradition. It goes back at least 25 years. That takes the form every couple of years of a book called *Agenda for the Nation* which reviews the whole range of the major challenges facing the country. That book will be coming out fairly shortly. It is previewed in the latest issue of the Brookings Review which is available at the desk outside.

Let me just very briefly introduce the panel. Tom Mann, who is of course our guru on matters political in the Governance Studies Department. Jim Steinberg, the Director of the Foreign Policy Studies Department. Ron Haskins, a Senior Fellow here at Brookings, and Ron welcome back after your service to the nation as President Bush's senior advisor on welfare policy. E.J. Dionne, who will be moderating the panel. Bob Litan, the Director of our Economic Studies Department. And Pietro Nivola and Carol Graham of our Governance Studies Department.

We're going to go straight into a discussion guided by E.J. and then in due course E.J. will open the discussion I'm sure to include you. So E.J., over to you.



MR. E.J. DIONNE JR.: Thank you very much.

This is sort of the equivalent of a Brookings super group. I think of this as sort of Bono, Cheryl Crow, Sting, and Dave Matthews. [Laughter] But whatever super group it is, it is definitely not Blind Faith. So I'm very honored to moderate this.

I won't say much more because we have so many people up here. What I'm going to do is ask several questions of the panelists and then start bringing you in.

Also once we go through an early round of questions I want everybody here to feel free to disagree with each other. I can assure you Ron will disagree with me even if only I ask him a question. [Laughter] Then we will turn to you and we will just go back and forth in the course of the afternoon.

Because the President's interest seemed to perk up in the second half of the speech I thought I would turn first to Jim Steinberg. I've asked everybody to confine, by the way, their answers in the first round to just a couple of minutes so we can bring everybody in. So Jim Steinberg, in just two minutes, the three key questions are Iraq, terrorism and North Korea. Go for it.

MR. JAMES B. STEINBERG: First, E.J., I have to say that I have a certain amount of envy that the President spent as much time talking about foreign policy as he did, as anybody who does

foreign policy in the White House dreams that they can have that much of a speech devoted to those issues. But I agree with you, I think that's where the President's head and heart was.



I think the President had a number of challenges that he was facing in the speech. On terrorism, I think the President is very sensitive to the charge that by virtue of his focus on Iraq that he's neglecting the war on terrorism, and I think he felt the need to try to make the case that we were serious, that we were still engaged in that. I think that's why he led with it. I think he did a reasonable job of making that case, but I think that there's still a lot of questions about whether we're really putting the effort not only into the hunt for al Qaeda abroad but our homeland security, and I think despite his initiative on bioterrorism preparedness, I think there are going to be a lot of questions about that.

On Iraq, that clearly was the focal point. That was the reason the President was up there. I think the President had three challenges that he was trying to deal with. He was trying to convince the American people that this was a sacrifice that was necessary to make in blood and treasure. I think he did a reasonably good job on that. I think he had to convince Saddam Hussein that we were coming and that he should have no doubt about it. He did a very good job on that. I don't think there can be any doubt of the President's determination to see this through. And then third he had to convince the international community that they should support the United States, and I think that was the greatest problem that he faced. He spoke to the American people reasonably effectively. I don't think he spoke very effectively to the rest of the world. But I think everybody is now going to be looking to Secretary Powell next week to see what he can present.

On North Korea, it's interesting. The President obviously didn't want to repeat the axis of evil claim, but on the other hand he did all three wheels on the axis. What he said was yes there's a problem but don't worry about it, we're handling it. I think there are going to be a lot of questions about whether this is something that the President has inappropriately put too far on the back burner while he tries to deal with the Iraq problem.

MR. DIONNE: Thank you very much. We'll come back to that.

When I read those three passages I thought the axis of evil had become the axis of muddle because if you compared this year with last year, it was really strikingly different language.

Bob Litan who is a Brookings Vice President, head of our Economic Studies Department, let's do basic questions again. How much of the Bush economic plan is likely to pass Congress and will it do any good?

MR. ROBERT E. LITAN: Well, there wasn't anything new in the State of the Union about --

MR. RON HASKINS: [inaudible]



MR. LITAN: -- temporarily until -- Exactly, Ron disagrees with me.

Nothing new on the economics because we heard it all a couple of weeks ago. I think what's remarkable is how quickly public support seems to have eroded for the Bush plan since it first came out. I think this is opposite from the foreign policy story where I think support was eroding but I think will clearly bounce back up after the President's persuasive case on Iraq. I don't think he persuaded anybody on the economics and that's because the plan is basically not a stimulus plan. Only half of it goes for income tax cuts and the rest is for dividends and I don't think any reasonable observer claims that the dividend part of it is going to be stimulative.

It's not a growth package despite its advertisement because it will enlarge the deficit over the long run and that in my view and the view of our scholars here at Brookings, that's anti-growth to have higher deficits.

The plan clearly though was crafted aimed at meeting Republican constituencies which it does well because it accelerates the rate cuts for the top bracket and also it obviously gives big breaks for shareholders. So it appeals to the party faithful, and for that reason it will pass the House I believe largely intact.

When it comes to the Senate it's going to get chopped up. I think the big addition in the Senate is going to be aid for the states. If you really want to stimulate the economy, that's where you get the biggest bang for the bucks. We have huge deficits at the state level. If you don't do anything about them they're all going to raise taxes or cut spending which is going to defeat the purpose of having a recovery. So if you can give money to the states and prevent them from doing that, it will be the most stimulative thing you could do. I think you will see money added by the Senate for the states. And in order to pay for it, it's conceivable the Senate in my view will cut the dividend exemption in half and it may not accelerate the rate cuts for the top bracket as a way of saving money so you can get more money to the states.

So I think at the end of the day there will be some kind of compromise where the President will have to accept these alterations and so will the House.

Now will it do any good for the economy? Not a lot this year because it's not going to get passed until this summer or later. Next year though it will do some good. It will probably add a half a point or more to GDP. And we're still counting on the Federal Reserve to bail us out if things get really bad in the wake of Iraq.

But by and large, I don't think he made much headway last night on the economic part of the plan. That's my view.

MR. DIONNE: Apparently there is an instant Gallup Poll which suggests that that's correct. The foreign policy part worked and the other part didn't, so Bob is supported by polling.

When he was saying what the Bush economic plan was not, I was reminded of a party that used to exist in France called the Radical Socialist party which the French press always said was neither radical nor socialist nor much of a party. [Laughter]

I want to turn to Carol Graham, head of our Governance Studies Department. Carol, as you know, we talked about this before. What I really wanted to ask you is what was not in Bush's speech that should have been. But also I wanted to ask you, there was an enormous amount of engagement with problems abroad, particularly the part on the spending on AIDS in Africa. As someone very much engaged in, if you will, global governance issues, let me talk about that and also the issue of what wasn't there.



MS. CAROL GRAHAM: Let me take the AIDS initiative sort of in the context of what wasn't there. I would say that the AIDS initiative was probably the only thing in terms of development objectives that was mentioned, and what was surprising that was not mentioned, there were two sets of issues. One is the Bush Administration's proposed increase of foreign aid, \$5 billion increase, setting up of the Millennium Challenge Corporation, and there are a lot of questions outstanding that are certainly going to be the subject of congressional debate coming up. I was surprised there wasn't a pitch made for this to sort of let's appropriate this, this is important, let's go forward. It could have been two sentences and it didn't come up.

The Millennium Challenge Corporation and the AID increase raises a number of issues about our foreign assistance strategy more generally. Will the funds even be appropriated as we see increasing budget pressure from the states and all kinds of other things. What are the implications for foreign assistance more generally? In particular because the Millennium Challenge Corporation has been set up to funnel aid to good performing countries, countries with good governance indicators. The star countries that will be development successes. But if you think about the Administration's interest in terrorism and all kinds of other objectives, what about the failed states? What's going to happen to them? What's going to happen to the budget for them? Is AID alone going to be responsible for them? There are a lot of unanswered questions there that I think will be the subject of debate, and also of I think fairly feisty budget issues because I would be surprised if the funds are appropriated without taking some from other budgets, in particular AID which doesn't have a great track record, certainly not with the Administration.

A second thing that's very clear from the way the debate about the Millennium Challenge Corporation has been set up is that it's not clear whether these funds are going to be to meet development objectives or to meet foreign policy objectives. One thing that's come out as you look at the criteria for which countries will be able to qualify going forward, are that the per capita income levels go up dramatically in the third year in countries such as Egypt, Peru, countries that really aren't the

poorest countries are allowed to qualify for these funds. That very clearly demonstrates that there's a real tension even going into this effort about whether these funds should meet development objectives or counter-terrorism objectives and reward our friends in the war on terrorism. Again, that didn't come up at all in the speech, maybe in part because these things haven't been resolved.

The other set of issues that didn't come up and understandably because Iraq and other things are much more pressing on the public agenda, but we do have some brewing crises in our own hemisphere. Argentina has imploded. We're sort of stumbling along with a partial resolution with the IMF right now but we aren't there yet in any way in terms of resolving the Argentine crisis and what it implies for financial markets more generally. Brazil just dodged a bullet before the election. It seems okay now but there are again questions about how long will that be stable. Not a lot of Administration attention to that at all.

Then we have more political crises in the hemisphere that could have, I think, much more security kinds of implications -- Venezuela, clearly a governance failure but with possibly major economic implications for us. There are initial signs that the crisis may be subsiding a bit but again we're not sure. And Venezuela is one of our major oil suppliers, and if we go to war with Iraq Venezuela may become more of interest. Again, that particular crisis didn't come up.

Finally, Colombia, civil war, terrorism, guerrilla kind of violence, not al Qaeda violence but certainly another potentially large crisis brewing in the hemisphere and it was surprising that there was just no mention of these situations at all.

Finally, there have been some real positive signs in terms of what the Administration has done in the past few months on free trade, and again, nothing came up on that. It would have been a chance again to maybe, a sentence, a phrase or two, to put a pitch in for moving forward on that agenda and at least recognizing that the hemisphere exists and that there are some problems that we could possibly ameliorate at least with some commitment to free trade.

MR. DIONNE: Thank you very much. That's sort of Carol's axis of [suris] and we should come back to that. [Laughter]

Tom Mann and I share something very important with Karl Rove which will surprise him. We love politics and politics could not have had anything to do with this speech yesterday. But could you Tom talk about, perhaps at the risk of being cynical, what is the President's legislative and electoral strategy here, and are the Democrats going to respond? That's something we'll obviously get back to as we go.

MR. THOMAS E. MANN: I think the President was entirely consistent last evening with the approach to his presidency, namely on the domestic front it was ambitious and it was polarizing. There was no hint of an early offer at negotiation or bargaining, it was setting out a marker well within the conservative base of his party, and then cloaking it in a rhetoric of moderation and bipartisanship and

compassion.



I think there are three key elements and Bob has discussed this. The tax cuts called an economic stimulus; the Medicare restructuring; and then the spending caps and spending priorities which I think will end up being a mega issue within the Congress. What I would say, what was striking was not there as Bob indicated again, was any fiscal relief to the states.

E.J. likes to do headlines. Headline -- Bush to State, Drop Dead. [Laughter] Remember that to New York City?

So my view is that Bush says let's go at it, let's engage. I think they have given up on any early action. They're counting on reconciliation. And basically imagining that the resolution of the war in Iraq will stabilize the President's decline in the public opinion polls and give him some oomph to enter into these negotiations.

My view is that he is in trouble on all three of them. Unlike Bob, my forecast is that he will get none of the dividend tax cut. He now faces opponents like Bill Thomas as well as many moderate Republicans who are very uneasy about this in both the House and the Senate.

In the House they can oftentimes be handled. It is a majoritarian body and there is enormous pressure on them. But if we get into some serious negotiation it will almost certainly, as Bob said, include some aid to the states and any rate cuts will be limited, and I think there will be a big battle over making them permanent as well.

So I don't think anything is coming easy. I think the Medicare restructuring is in big trouble. And I think you're going to see massive fights over spending priorities, particularly whether there's sufficient funding for homeland security and whether we have provided the resources genuinely needed in the area of education and health.

I don't think Bush or Rove shy away from this. They figure either they go for broke and win as they have sometimes, or they go for broke, mainly lose, then figure out a way to claim credit for whatever has happened. In any case, they're aiming very high and that's no surprise for this Administration.

MR. DIONNE: Thank you.

Just so you know this was not -- Transparency is a big deal these days and I did ask people what they wanted to talk about. Ron Haskins threw me a wonderful question where he said, "Does the Bush Administration have a domestic policy agenda?"

The only interesting answer from somebody who just came out of the Bush Administration would be no, so I won't ask him that question. [Laughter] If he wants to answer it he can.

VOICE: It's because they had one, and now that he's back here they don't have one any more. [Laughter]

MR. DIONNE: I would like you if you would, even though it's not your specific area to talk about this, the health care proposals, and also talk about the welfare reform law which is what you just came out of the White House to work on. What's going to happen and what catastrophe will befall them now that you're gone?

MR. HASKINS: Let me clarify your introduction first. The other panelists may be in the Sting faction of the entertainment group, but I'm in the Nat King Cole faction. I want to make that real clear. [Laughter]

MR. DIONNE: We'll keep expanding our super group.



MR. HASKINS: Yes, the President will pass welfare reform. It will be a little messy, though. They'll go through the House without very much difficulty. There is some trouble with financing already but I think they'll get that settled, it's a modest amount of money.

But when it gets to the Senate, the interesting thing about welfare reform in the Senate, as Tom Mann might say, is that the Senate hasn't changed that much. There were at least two Republican votes on the Finance Committee which is by far the most important committee, that sided with the Democrats last time around; now there are two new members of the committee, actually three new members of the committee, but two of them are questionable from the President's perspective. Smith of Oregon could easily fall in with Snow and Hatch and be reluctant to accept the President's proposal. And in addition Santorum has been suspiciously quiet about his position on welfare reform throughout the debate last year.

So I think what's going to happen is the bill that comes out of the Finance Committee is going to be not to the President's liking. I think it will be slightly to the right of the bill the Finance Committee passed last year which means the work requirements will not be to the President's liking, probably too much money for child care and so forth.

And then I think what will happen that will be interesting, it will go to conference, Senate conference, and I will bet you they will be extremely cautious in the Republicans on the conference committee so they can control the Senate Republican votes on the conference committee, and they will send back a bill to both houses that is much closer to the House bill than the Senate bill, and basically play chicken and say okay, moderate Republicans and Democrats, you want to vote against welfare reform? Here's your chance. I think that strategy will work and the bill will pass and the President will

sign it.

On health care, this is an interesting issue. My interpretation as a non-expert on health care is that moderate Democrats, moderate Republicans, everybody has been playing a good game for several years now. If they actually pass something they're talking about very serious money. The President talked about \$400 billion over ten years. In anybody's accounting, especially given the budget condition, that's serious money. But the question is whether they really are going to reach agreement and stop just circling each other and accusing each other and actually decide on a program and pass it and spend the money which will then make the budget situation much more difficult in the years ahead.

There's another angle on this from my perspective as someone interested in children's policy and that is, I would say it's unfortunate that our highest priority for spending \$400 billion in the next several years would be for the elderly rather than on children and families. There's a lot that could be done in children and family policy. In fact you could do a lot for about a tenth of that or certainly a half of that and we already spend such an enormous proportion of the budget on Social Security and Medicare. I realize politics being what they are that the elderly and people about to be elderly vote a lot more than five year olds, but still if you did a reasonable analysis of where the next dollar would do the most good I doubt you would come up with more money for the elderly.

MR. DIONNE: I want to come back to that. Only in Massachusetts where I grew up do we manage to register five year olds as long as they vote the right way. [Laughter] We should talk about that some more. Thank you.

Pietro Nivola wrote a piece in an issue of the Brookings Review that's available to you with the wonderful title "Can the Government Be Serious?" and it's a piece about politics after September 11th. Pietro wrote that "The nation could have become more vigilant over the preceding years if its politics had not aggravated in government a kind of attention deficit disorder." And I must say this morning I heard a wonderful phrase from somebody that our politics is imperiled by weapons of mass distraction - [Laughter] -- which is in keeping with Pietro's view.

Pietro goes on, "Too often Washington appeared more engrossed in rarified internal quarrels than alert to world events that were putting Americans in mortal danger." He concludes in this article that you should all read, "Developments like these," meaning what happened after September 11th and what's happening in North Korea, "Developments like these signal that our political process has been sobered. Whether the welcome change will hold up over the long haul remains to be seen."

So to Pietro a two-minute essay question. After last night and the reaction to it, what is your sense of whether politics will become more or less serious?

MR. PIETRO S. NIVOLA: Let me just quickly back up the main point of what I was trying to say in that article which is that there has been I think a fairly durable sobering of the political process. If you think back to the 1990s or even the run-up to the 1990s, this was a time when the political

culture in this town was literally consumed with sort of power of intrigue and arcane legal inquests and pretty petty disputes about rather mundane domestic issues.



I recently wrote a book here in which I talk about the federalization of just about everything, which is the sort of tendency to put Washington in the business of micromanaging every imaginable minute local administrative decision.

And in addition to that, you can recall the scandals of Monica Lewinski, the endless Whitewater affair and so on.

I think all of this has changed clearly after September 11th. Momentous foreign policy issues, not domestic minutia dominates the agenda. There was an interesting line by the way yesterday in the President's speech. He said, "We've come from small matters to great causes, and I think he's right. We have a President that's faced up pretty squarely to the main security threats facing the nation and we even put them kind of front and center in a mid-term election. I don't remember something like that happening many times in my lifetime and I'm a pretty old man actually.

Why has there been this change apart from forceful leadership? Well, I think there's been a profound change in the national mood which is also enduring. I think there's been a change in news media emphasis. And finally, and let me throw one last ingredient into the mix, we have a sort of fairly full-throated notion now at least among the Republicans of what a political part in power is supposed to do. My sense is that that notion is something like take it or leave it, this is along the lines of sort of a parliamentary model.

Now the question of whether this is going to hold up over the long haul, these changes that I've just touched on, I'll come back to that later.

MR. DIONNE: Let me jump on that. First of all I want at this point, having gotten everyone in here, I want people to feel free to jump in. I kind of want to provoke an argument, especially between my friends Pietro and Tom, where one of the issues it seems to me when you look at what happened in the last election is that the last election I think helped produce a kind of polarization which is reproducing the polarization that existed under Clinton. There's a lot of Democratic anger, a sense among Democrats that the national security issues were used or even manipulated for electoral purposes. A lot of anger over Max Cleland's defeat. I spoke to Mary Landrew for something I wrote in the Post where she has not forgotten what happened to her in that election. My wife who is Irish-American once taught me that the definition of Irish Alzheimers is you forget everything except your grudges. After I talked to Landrew I called her up and I said that's the definition of Cajun Alzheimer's too. [Laughter]

My question back to Pietro, and then I'd like Tom and anyone else to jump in on this and then we'll move on to other subjects. You know, I really agreed with you that there was a new seriousness in

politics and now I wonder if we've just lost that opening. The responses to the President's speech last night from the Democrats were extremely tough, suggesting that we are back to something or forward to something that is much more partisan which is not necessarily unserious but it's not what you were talking about when you wrote this very good piece.

MR. NIVOLA: There's no question that this President has drawn a kind of line in the sand. The differences between the parties have definitely widened. There's a real chasm there. And the intensity of the partisan competition has been accentuated, of course, by the very tight margins, especially in the House until now, and now in the Senate as well.

So there's going to be some bitterness, incredible divisiveness because the parties are very, in fact, polarized. But let me just explain that I think the Bush approach is this. Like it or not, one party or the other has to rule at a time. The party may not have much of a mandate or an electoral mandate or much of a majority and Tom Mann will certainly say it's not a very pretty picture in light of the 2000 election, but I guess Bush would simply say that's too bad.

There are certain goals and principles that energize the party, that drive the party, and those goals are going to be pursued pretty aggressively and in a pretty disciplined and uncompromising way. And if at the end of the way the voters don't like the results they can throw the rascals out and elect the opposition.

MR. DIONNE: Tom?

MR. MANN: The question is will operating a separation of power system like a parliamentary system work, and will it produce wise policies? What Pietro is suggesting is that it's really quite a radical conception of American government and politics because that's not how it ordinarily works. We're not used to having parties so ideologically polarized. We're not used to having such party unity in the Congress, and we're not used to Presidents with such threadbare electoral mandates attempting to govern in so ambitious a fashion. Maybe it will work. Maybe Bush will transform the policy and political space in a way that produces a more durable Republican majority, but governing like this also runs the great risk of over-reach, of being reckless. Being bold is the positive spin, being reckless is the flip side of that and negative.

One of the things that we've learned about George Bush is that in addition to being bold and ambitious he's tough as nails. And he will play tough in election as he did demagoguing homeland security reorganization in the election in the state of Georgia. He will play tough with not honoring an agreement with John McCain over the appointment of a Federal Election Commission Commissioner in order to get regulations that work to undermine the log. That in turn is going to produce responses from the Democrats that will make reaching any kind of accommodation in the center extremely difficult.

Now if you believe the alternatives proposed, more tax cuts and the kind of robust and at times unilateralist morality-based foreign policy is good that doesn't need any checking or balancing from the

other branch, and he can get away with it good, well then I suppose it is good. But I think in an American context where we tend to be more comfortable when our politicians reflect some of that public sentiment in between elections and not just wait until the subsequent presidential election.

VOICE: I might live in a different city than the last two speakers, but the United States Senate comes to mind. Nobody knows how to control the United States Senate, and Bush's agenda will have an extremely difficult time in the Senate. I doubt that he will be able to get his tax cuts in especially the dividend changes in anything like the proposed form through the Senate.

Now the House is something new in Washington. It is a lean, mean, machine. They don't lose votes in the House, but they have a Rules Committee and they can control things. You can't do that in the Senate. And the Democrats are getting very good at bringing amendments to the floor that embarrass Republicans and that changes the whole nature of the debate, plus everybody in the Senate has an IQ over 100, we all know that. So you have really --

MR. DIONNE: Everybody in the Senate thinks they have an IQ over 200. [Laughter]

VOICE: No, it's actually over 200. You didn't know that? [Laughter] This is why E.J. has so much trouble observing the Senate. He doesn't realize how smart those people really are.

So you have 100 parties in the Senate, and you try to work an issue in the Senate, welfare reform which is a great Republican issue. They're all over the place. I don't know why Daschle didn't bring several parts of the welfare bill before last year. He would have gotten 60 votes on \$10 billion for day care. Ten, 12, 14 Republicans would have voted yes on that. So the idea that we're going to have a parliamentary form of government and ram through the President's agenda, it is not going to happen.

MR. STEINBERG: I think it's important to see that there's a big change happening on the foreign policy, national security side as well. Last year Democrats didn't want to have any distance, any light between them and the President. But this is dramatically changed now. I think you saw in the reactions to the speech last night and more generally that the positions that Democrats are taking is that they are much more willing to challenge the President and I think there are two reasons for that.

One, they're hearing from their base that they have different views and a lot of reservations about the war in Iraq. I don't have the numbers at hand, but if you look at the difference among different parties on their support for war against Iraq, the Democrats in this country are very very negative on that.

Second, the President has made no effort to involve the Democrats in the Congress in bringing them on board. He's not invited them to the White House, they're not going up and briefing them. This is something that the President basically wants to have soul ownership of and he has basically said I can do this without you, I don't see any interest in bringing you on board. I think there's increasing frustration even among Democrats who support the President's positions on Iraq that there's not more of a

reaching a hand across the aisle to embrace those Democrats who have been supportive.

MR. DIONNE: You anticipated the question I wanted to ask. Your point on the polls, the Washington Post, ABC poll that came out last week, 57 percent of Democrats disapproved of the President's handling of Iraq. The first time you got anything like that number. So the polarization is clearly happening.

But where does that leave Democrats? I mean there is still, listening to some of the speeches, if you listen to the presidential candidates, except for how we're deemed, there is still this great reluctance to go all the way over into the opposition. Governor Locke's speech last night kind of threw some negatives out there by saying we really want this to be multilateral, not unilateral. Where is the logical end point of the Democratic position? I think you're absolutely right about more opposition but I think they're still struggling for where they want to land.

MR. STEINBERG: I actually applaud Governor Locke for finding a way to thread the needle on this, and he's speaking for the entire party and there are divisions. I think he found something that all Democrats could feel comfortable with. But I think you're seeing that the candidates are beginning to distinguish themselves, and I think if you watched Senator Kerry who I think is the bellwether of how the Democrats are going to emerge on this, that his line has become increasingly critical to the President. I think what you will see is that the Democrats are now going to basically split along these lines. I think that clearly Senator Lieberman, a strong supporter of the President on Iraq, has had a stronger position on Iraq than even most Republicans for a long time. I think Congressman Gephardt also has staked out a very tough position. The people to watch are Edwards and Kerry to see how they position themselves over the next month.

MR. DIONNE: I think that constitutes a prediction of whom Jim thinks are the front-runners, but I'm putting words in his mouth. [Laughter]

I don't understand why the Administration got to this dividend tax cut. I mean I understand some reasons for it but could you enlighten us about how this became the centerpiece of his plan and your just gut reaction -- not your gut reaction. Your deeply informed intelligent reaction based on deep study.

MR. LITAN: Based on press reports, and maybe Ron you know the answer to this.

MR. HASKINS: I wish I did.

MR. LITAN: Look, what we're told is that Charles Schwab first mentioned this idea in August.

MR. HASKINS: When Charles Schwab talks, people listen.

MR. LITAN: You got it. And you saw the Super Bowl ad, right? Where Charles -- the Charles Schwab figure was leading everybody across the Brooklyn Bridge, the Army and so forth. Bush would wish, right?

But in any event I don't know whether he independently thought of that and Bush said hey, that's a terrific idea, or whether that idea was planted in Schwab's mouth to come out in August and then Bush would say hey that's a great idea. But Schwab first mentioned it, then Glenn Hubbard either ran with it or helped articulate it while he was there. And this became --



MR. DIONNE: Although he had some history with this idea.

MR. LITAN: Oh, certainly. Glenn has written about this. And by the way I should let you know, for those of you who don't follow the details of economic literature, economists have been writing about this for years. That there is some unfairness attached to double taxation of dividends.

Now you get economists all over the map about how to fix it. A lot of economists, therefore there should be no corporate income tax, but Bush can't say that especially after the summer scandals of 2002. There's no way he can do that. So the only other way to fix this is to say I'll give the tax breaks to the individuals which is politically much cleverer than giving it to the corporations. And maybe when Hubbard pushed this he was pushing on an open door because the President, having been a businessman himself, he did go to Harvard and got his Master's, so he had learned this in business school as many people do in business school, that it's unfair to tax corporate dividends for profits twice, he probably said well by God that's right. And I think actually this appears to be ideological in the good sense of the word.

Bush agrees with the philosophy behind this, and I think there are times when he just puts his foot down and says by God we're going to do the right thing. And in the economic sphere this appeared to him to be the right thing.

Now the criticism of course on the other side, there are several criticism. A, as I said, it's not that stimulative. And B, if you're going to spend \$300 or \$400 billion over the next ten years let's take what Ron said. Should we spend \$400 billion on seniors as opposed to kids? Should we spend \$400 billion on a dividend tax break versus something else he could spend \$400 billion on? I mean think of it that way and a lot of people say actually I don't think spending money on dividend cuts is all that good. Maybe there's something else we could spend the money on. But it appears that the President embraced this I think as a religious virtue.

MR. NIVOLA: There's probably some truth in the idea, it is unambiguously double taxation. There's just no question about that. And economists know that and I think you're probably right, Bush knew that and when it came up he probably responded that way.

Here's the problem that you did not mention and I think is going to become increasingly clear in the next several weeks, and having talked to members of the Ways and Means Committee, this is a very complicated tax and when you change it, it could have all kinds of complicated behavioral effects on how corporations handle their money. This is going to come out in the hearings I guarantee it. And the members of the Ways and Means Committee, they partake of the lean machine like the rest of the House, but they're also a very thoughtful group and they will listen very carefully, they will call Bill Archer on the phone, they'll call all their friends, they'll call their businessmen back in their district. They're going to hear a lot about this tax and I'll bet you at the end their conclusion's going to be we're not really sure what happens if we change this tax. I would not be surprised if --

MR. DIONNE: Hold on just a second. I want to turn to Pietro, I want to bring Carol in. I want to know just by a show of hands how many people want to jump into the discussion at this point subsequently? Who has a question to ask? Okay. I want to bring folks in.

Why don't we start at the front and work our way backwards, but I want to let Pietro jump in. I can't resist, however, commenting on Bob Litan's comment.

As you know the first President Bush attacked Mike Dukakis for reflecting the ideas of the Harvard Boutique, and now we know that this is the critique that should be leveled against this President Bush from the Harvard Business School.

Pietro, and then Carol, we're talking about economics. I'd like you to come back in because what's happening down in Latin America is not getting much attention here and could have a rather powerful effect on this whole conversation we're having here. But Pietro, on this issue of dividends.

MR. NIVOLA: I just wanted to actually ask Bob a question. The issue with double taxation of dividends isn't just fairness or equity, it's whether this is an efficient tax. And if it creates distortions and is inefficient economically then it may be the kind of tax that affects long-term growth. Which is what the President is concerned about. Not just short-term stimulus but long-term prosperity.

MR. LITAN: In theory if corporations aren't paying out dividends and holding them unto themselves and wasting the money then obviously that detracts from growth. But it's really hard I think empirically to prove a lot of that.

The second thing is that the high tech companies originally when they read they proposals they said oh my God this really hurts us because we don't pay dividends. But then people read the fine print and the fine print of the plan as many of you know, has an equivalent feature for high tech and growth companies and basically allows you to exclude from capital gains the increase in the basis which is attributed to the ongoing earnings of the company. So that levels the playing field and that actually underscores your point, Ron, this is very complicated. Because when you basically gradually eliminate the capital gains tax at the same time you're also eliminating the dividend tax it's not clear at the margin how exactly it will work and who's going to be gored and who's going to be helped?

MR. DIONNE: If there are any lobbyists in the audience you will get very rich in the next six months. That's how the dividend proposal will increase economic growth.

Carol, could you take us again to Latin America and --

MS. GRAHAM: I don't want to divert too much, but just on this point and perhaps how it's perceived overseas. Certainly the intricacies of how the dividend tax plays out are lost on publics and in fact elite in Latin America and other developing countries. But I do think coming on the wave of the corporate scandals it's really had a shaking effect in terms of confidence in a region like Latin America which has just turned to the market in a big way, tried to privatize in a big way with very mixed results, a lot of corruption in the privatization process. The corporate scandals had a real shaking effect because the U.S. stock market, the U.S. business practices, corporate governance standards were seen to be the gold standard and the gold standard got shaken and it hasn't really been repaired. And at the same time you're talking about a region that is in crisis, or at least suffering from negative economic fallbacks, some of which are its own fault and some of which are the fault of the way financial markets are performing.

So this is just sort of another shaking of confidence. Did we from, as seen from the outside, did we really correct course after the corporate scandals? No real visible effects. So now what's the big proposal in this area? Let's alleviate tax on dividends. And I think there you do have just an additional shaking of confidence and at a time that the sort of support for markets throughout the whole region is still there, but it's being shaken. How that in conjunction with our lack of attention to the economic problems, to how financial markets are working, to even bigger problems in countries like Venezuela I think does -- It just erodes confidence one step further. Maybe it will correct course on its own, but it's certainly not going to correct course because we've done anything positive to help.

MR. STEINBERG: E.J., may I just add a brief footnote on the answer to the question why the dividend tax cut proposal.

The Administration has strong policy views in ideology but they had many choices in looking for a stimulus. They're also very skillful politically. There are two reasons that I think Karl Rove was attracted to this idea. One, he believes that stock market valuation in 2004 is going to be an important indicator of economic well being, and the idea is you might make marginally more attractive investments in stocks as a result of this change. Secondly, Karl believes very strongly in the growing power of the investor class and trying to link up in this way as with partial privatization of Social Security as a way of attracting other voters including younger voters. So I think there was a strong political motivation here.

MR. DIONNE: Thank you.

I want to go to questions. Jim, I want you to keep in the back of your head, I'd like you to use any question that's asked as an excuse to say what would you do next in Iraq. [Laughter] But this

gentleman up front, and unless someone has a powerful interest in confidentiality, if you could identify yourself that would be good.

QUESTION: [inaudible] from the Brazilian Embassy.

The question is you said that Democrats now are more willing to face President Bush on foreign issues. My question is will it make any difference? At this point is it too little, too late? What real effect can Democratic opposition have?

MR. STEINBERG: I think in general congressional opposition doesn't have a big impact. I think that Presidents do largely what they need to do on foreign policy. For President Clinton most of the times we started out in postures where we didn't have the support of Congress and often the American people. But I think that Presidents tend to feel that they will be vindicated in their choices by history and not need to demonstrate it beforehand, and they have an enormous amount of constitutional power to do it otherwise.

The sense of which it's important is the sense that in some ways President Clinton highlighted in a speech he made after the mid-term election which is he basically said Democrats cannot run away from the foreign policy issues. You can't either downplay them or just pretend you can do [meet you] with the President and still be successful. But you have to articulate your own view about it. You can either agree or disagree but you've got to step up to the plate on these issues. I think that Democrats have understood this. That you have to be a party of all the issues, just not a domestic policy party. I think that's why it will make a difference in terms of the long-term debate about what the U.S. national interests are, what the strategy is. And I think precisely because this Administration has been very doctrinal about talking about foreign policy it is actually an opportunity for the Democrats to engage not simply on should we go to war in Iraq or not, but what is the posture of the United States, what is the role of the United States in the world. I think that could be a very interesting conversation.

MR. DIONNE: How would you answer the question? I am representing the firm of Edwards, Kerry, Lieberman and I'm calling Jim Steinberg. Where would you go if you were they over the next, just the next couple of months

MR. STEINBERG: A lot of Democrats have said why Iraq now. I think you can make an argument that given the other priorities and particularly the war against terrorism, perhaps we should not have accelerated the issue against Iraq. But for better or worse that's happened, and I think we ought to take advantage of the opportunity.

The President has created an environment where we do have at least one shot at bringing about disarmament of Iraq without war. To the extent we can make clear that the President has made his intention to go forward, and to the extent that we can also get others on board for that, at least we will present Saddam with the ultimate choice that up until now I don't think he's ever faced or ever seen himself facing, which is either disarm or be gone.

So the challenge now is to take advantage of this squeeze play that the President has in effect set up and to try to maximize the sense that Saddam will make the choice to say I'd rather stay in power and be disarmed than face war.

What that means is that we do need to take advantage of what I believe is another six to eight weeks before the President's going to be ready to go to war to bring the rest of the world on board. That's why I regret that he didn't make more of an effort last night to reach out and to speak directly to the rest of the world to say here's why it's in your interest as well as ours to deal with this problem. Here's why this is something that we need to do.

So my recommendation to anyone, including Democrat, Republicans and everybody else is to say share the President's conviction that this is an issue which we do need to resolve now and we have an opportunity to finally press the issue, but for goodness sakes go the last mile to get the support of others -- not only in the security council but back to the point that Carol made which I think is extremely important. The President didn't speak to the Arab and Islamic world last night and to say -- He told the Iraqi people that he was going to help liberate them, but he didn't speak to the hundreds of millions of others who wonder what the United States cares about what's happening to them, whether we have an interest in the long term well being of people around the world. I regret that he didn't do it last night because I think it could have been quite powerful, but I still think there's an opportunity between now and whenever in March this war is going to begin to do that.

QUESTION: I sort of want to ask can the federal government walk and chew gum at the same time. You said that Bush is being criticized for not paying attention to terrorism while he pays attention to Iraq, but given the fine advice he could get from the Brookings Institution, from the National Security Council and from lots of other places, aren't there enough people to pay attention to everything at one time?

MR. DIONNE: This whole panel pays attention to everything at one time. [Laughter]

Tom, do you want to take that one?

MR. MANN: I don't know that I have any comparative advantage.

Of course it's possible to have a systematic campaign against terrorism and at the same time to finish the end game of this effort on Iraq. The question is a matter of priorities and judgments as to whether there is some genuinely synergistic effect in giving both that high priority or whether it would have made more sense to sequence them over time.

One of the fears that Senator Bob Graham has articulated so effectively is that in fact steps taken vis-à-vis Saddam Hussein before we have gotten our homeland security effort in order, and before we have penetrated the cells of thousands of graduates of al Qaeda camps, may put us at risk of

incurring some real damage.

So I think it's less a logistical problem than a question of judgment.

MR. DIONNE: And I also think, just to answer Tom, just the very thrust of the President's speech yesterday suggests that while I think there are plenty of people in the government who can handle plenty of problems, the focus of the government's attention is often in one place rather than another, especially on foreign policy. And just the percentage of words in that speech on Iraq tells you something about where the priorities of the government lie.

MR. STEINBERG: I think part of the problem was that the structural decision to give the war on terrorism focus around Tom Ridge I think has caused real problems. Because it's sort of a separate operation, it's away from the national security operation. So the national security kind of thing, and Tom Ridge is worrying about that. We're just going to go do our wars and our foreign policy. I think that's been a terrible mistake.

I think that in part because it's been very hard for Ridge to get the kind of clout and sort of internal strength that the NSC process has, he hasn't been able to mobilize, and at every turn the President has undercut it. He undercut him in the early days by not supporting his efforts to do reorganization along the lines that the Congress had originally recommended. There was a proposal to consolidate the border agencies that Ridge made to the President, the President shot him down and everybody knew it. Even more damaging, in the budget debates when the President declined to sign the bill with key spending for homeland security, everybody said this is clearly a secondary priority. For the life of me I think that has been one of the greatest mysteries about why the President would take the risk that of having other terrorist attacks and people will say how could you possibly have declined to spend that money when this is the greatest challenge that the country faces?

MR. DIONNE: Pietro and then --

MR. NIVOLA: There's been this general assumption that somehow problems like Iraq and terrorism are two separate domains, no connection whatsoever. The President last night was trying to suggest that there may indeed be a link. Now we don't know how much truth there is to that or how much evidence he can supply to back up the proposition, but presumably he will provide us some evidence of that sooner or later. And if so much of that is true, we're going to have to deal with both at once.

QUESTION: I'm Charlie Clark, Washington writer. A quick question about the UN Security Council.

Whenever France and Germany part company with the United States on the question of invading Iraq there's a lot of venom about their lack of gratitude or their ulterior motives or their business relations with Iraq. A lot of people think there is everything except merit in their arguments for why we

might want to go a little slower. I was hoping to get your reaction to that, whether there is merit in their arguments for going more slowly.

MR. DIONNE: Everybody hang on. The gentleman right behind over there.

QUESTION: Completely switching gears, but Martin Weiss. I'm with Congressional Research Service.

I wanted to get the panel's opinion on the lack of attention paid last night toward a real national economic agenda. There was really no talk about a trade agenda. Again there was also no talk with Argentina, with Venezuela. I'd like to get the panel's opinion on that.

MR. DIONNE: And one more.

QUESTION: Steve Schiffley with CNBC News. I'd just like to ask a bit more about your view of why the budget deficit doesn't seem to be the kind of issue in this Administration that it was in the Clinton Administration when there were these bitter battles over the rising deficit in times of prosperity which were significant constraints, and now it doesn't seem to be a significant constraint on spending.

And a related question in light of the testimony of the Treasury Secretary designate, he said it wasn't a worry because the financial markets weren't worried. How big will it get and when will the financial markets actually start to worry about that? Which seemed to be Bill Clinton's constraint.

MR. DIONNE: Those are great questions to everybody on this panel. We have to vastly over-simplify, are Germany and France right? What's the deal with the international economic agenda and why was it missing from the speech? And why aren't we worried about ballooning deficits.

Do you want to start on Germany and France, and then Carol maybe could come in on the international economic agenda.

MR. STEINBERG: The reason I don't think they're right is having agreed last fall to Resolution 1441, we set up a process that was pretty clear and that everybody understood, that we were going to move past the hide and seek games and the burden on the inspectors to find prohibited stuff. And that there was going to be a testing period in which Saddam would either demonstrate that he was serious about disarmament or not disarmament.

It wasn't George Bush who reached the conclusion that he wasn't serious, it was Tom Blix. And nobody has ever seen Tom Blix as doing U.S. bidding. Most of the neo-conservatives and the people in the Pentagon desperately sought the appointment of Blix because they thought he wouldn't be tough enough on Iraq.

Blix now having said that he is convinced that Saddam is not serious about disarmament, he will never get serious unless he has absolute clarity that the world has turned against him and that nobody's going to save him the way people tried to save him back in 1990 and 1991.

So I think if the French and the Germans want to avoid war, the clearest way to avoid war is to get behind what they agreed to in the fall in 1441 which is to say we're serious this time. Either disarm or face the consequences. I worry now that what happened last week will lead Saddam to think there's enough disarray that maybe the President can be stopped which will lead him to hold out further which will actually increase the likelihood of war.

So I think that everybody loses by that posture. I understand there is a desire to critique as many options for non-war, and it's the right instinct. But I think what they're doing is not likely to produce that result.

MR. DIONNE: There will be a Blix blitz in the Iowa caucus in a couple of years.

Carol, on the international economic question.

MS. GRAHAM: A couple of points and Bob may have some thoughts as well.

I'd say on the international economic agenda, why was it missing? On the one hand there was a real missed opportunity to talk about good things, and on the other hand there was a very clear, probably intended not talking about things that are going badly.

In terms of a missed opportunity, I think the Administration has actually muddled along and made some real progress on free trade issues including FTAA, Free Trade Agreement with Chile. I mean it's something that they could have talked about that they want to push further, it's something they need some political momentum on. They had some. It just didn't come up. There's no real political payoff for talking about free trade so that's probably why it didn't come up.

But again, I think it was a missed opportunity to say we are doing something positive on the international economic front.

In terms of the things they don't want to talk about, I think it's quite obvious why they wouldn't want to talk about either Argentina or Venezuela. Argentina they've bungled from the beginning, to be blunt. It's been mismanaged, mixed messages, even now there's disagreement in the IMF. It's not clear what the Administration wants. There's never been any clear agenda on how to even think through getting Argentina out of the crisis, what it could imply, what it implies for our financial markets, for the international financial architecture. Just an absence of a thinking discussion. And I think it's not surprising they didn't want to talk about that.

Venezuela is another situation where I think the Administration's just never had a handle on it.

We really burned our own bridges after the coup attempt last April or May when the Administration came out almost applauding the coup and really then lost their ability to speak on the Venezuelan situation, and I think we're still there. In terms of the group of friends and the U.S. even having to ask to be involved tells you that we are not the leading player on the Venezuela crisis.

So that latter set of issues is just one where the Administration doesn't have much to say and was probably not very likely to put that in the State of the Union address.

MR. DIONNE: Bob wants to come in but I can't resist giving Ron a chance to defend what some would call never me, of course the big spending, big deficit rob our grandchildren --

MR. HASKINS: I wasn't going to respond to exactly that one but now that you raise that, the Moynihan thesis that the Republicans want to cut the size of government and you can't stop spending in Washington, which we showed very clearly after the Republicans took over the Congress, it's very very difficult to stop spending increases. So what you do is create a disastrous deficit and it scares everybody and they stop spending money as much.

I just saw recently, my point is people are beginning to float that theory again.

Let me give some other ideas that I think are --

MR. DIONNE: Groundless, right?

MR. HASKINS: I don't think it's groundless. I think there are people who would say that's a wise thing to do, create a big deficit. Especially, first of all the Republican agenda is cutting taxes. No matter what you think of it, we're consistent. And the President said I'm pushing this thing to the wall, watch me. And he did it. He said he was going to do it, the American people elected him --

VOICE: I beg your pardon. [Laughter]

MR. HASKINS: And has done it once. And I would have to add as a footnote that there seems to be a lot of people who didn't like the first tax cut are suddenly beginning to see wisdom in the first tax cut and even support for doing it more quickly to get the economy rolling again. This case is not dead after all.

But in any case, to do what the President wanted to do, to cut taxes and to meet at least some minimal spending standards, you better not pay too much attention to the deficit. So that's one thing.

The second thing is, having watched the President and in some cases somewhat closely, the President is very serious about containing spending. A lot of people say well what about taxes? And of course the head of the OMB is a perfect choice for him because he also, Mitch Daniels is very serious about containing spending, and some of you may have noticed in the Post this morning he said it's no

problem, all we have to do is hold domestic spending to inflation and the problem will go away -- which I doubt that that's completely true.

A third thing is, very interesting. We played wolf with this. And Gramm/Rudman/Hollings, all of you lived through this. We're going to go to hell in a handbasket because of the deficit. The country's going to fall apart. So we had \$200, \$300 billion deficits year after year after year after year and what happened? You know, we survived.

The final argument is that the way to take care of the deficit is obvious. You grow yourself out a deficit, and that's really basically what happened with the last deficit. So guys like Mitch Daniels and other Republicans are saying don't worry about the deficit. We'll get the economy going again, and we can cut taxes and the money will roll in and we won't have to worry about the deficit any more.

So there are lots of different reasons that satisfy lots of different people. Some of them are pretty good reasons. So I don't think -- We certainly do not see anything like the total panic over deficits that we had back in the '80s and '90s.

MR. DIONNE: I want to let Bob come in. That leaves out two small things. One is a big tax increase under the first President Bush and the second is a big tax increase under President Clinton. I wanted to put that on the record. But Bob, answer both these deficit and international economics questions and then we'll go back to the audience.

MR. LITAN: Real quick. On international economics, I can imagine when the President sat down to tell his speechwriters this is what I want for the State of the Union, he said I want four messages, and just like Ronald Reagan I'm sure he said I don't want anything to get me off message. They picked four things and that's it. So at convocations like this all of us say well he should have talked about this and this and this and this and so forth, I'm sure the President said I don't want to do that. I don't want to have a laundry list. I want to talk about four things and that's it, and actually I think that's a more effective way to give a speech. That's my own view.

For things that are messy, you don't deal with.

MS. GRAHAM: Right.

MR. LITAN: On the deficit, look, there's a major reason why people don't really get exercised today about the deficit as they did ten years ago and there's a major reason for it. It's the level of interest rates. Interest rates today are at a 30 or 40 year low.

We at Brookings have produced a lot of analysis saying if we didn't have these long-run deficits interest rates would even be lower than they are now, but nobody takes that argument seriously, which by the way I happen to believe is right analytically. Nobody takes it very seriously because they're already so damn low. So instead of five they'd be 4.5 or four. People are so happy they're five, they

really don't give a damn that they can be four or 4.5. That's the reason.

Now if in the future the economy rebounds in the year 2007 or 2008 and interest rates are back up to seven, eight, nine percent, then people, there will be another Ross Perot and we'll get deficits back on the table again. But until that happens, I think right now we're going to pay the same level of attention to budget deficits as we do the trade deficits.

Remember in the '80s we cared about them? We don't care about them any more and we don't care right now about the budget deficit.

MR. DIONNE: By the way, there's a lovely article in *The Economist* this week vindicating the great work of Bob's colleague on this subject.

QUESTION: Al Milkman, Washington Independent Writers.

How nasty and uncivil could the fight over judicial nominations get? Will filibusters affect other nominations and legislation?

MR. DIONNE: Thank you Al, and just to answer that I'd like Ron to talk about the faith-based initiative as well at some point. Somehow I do see a link between judicial nominations and faith.

QUESTION: John Castins from the British Embassy.

It seems like the first half of the speech yesterday was a classic play out of the compassionate conservative playbook so my question is is compassionate conservatism a way of putting some fluffy rhetoric and a few mentoring programs around a basically part his own core agenda, or is it really a more serious attempt to build a new coalition and perhaps have a new philosophy of the role of government for conservatives?

VOICE: Yes. [Laughter]

VOICE: That's a great question.

VOICE: No is the answer. [Laughter]

QUESTION: Charles Reese.

I was wondering, in last night's speech it seemed that when he was reviewing the axis of evil, so called, that he went very lightly on Iran and given that, in the aftermath of a war in the Gulf what role could Iran play to stabilize the region?

MR. DIONNE: I have broadly speaking, judicial nominations and I appended faith-based;

compassionate conservatism and its meaning; and Iran.

Why don't we start Pietro and Tom maybe on judicial nominations. Pietro, do you have a thought on that?

MR. NIVOLA: I think it could get pretty harsh. There's a 51-seat majority in the Senate and you need a super majority to govern without filibusters and other problems like that.

VOICE: Either that or a reconciliation bill. [Laughter]

MR. NIVOLA: So I don't expect to see much of a change on that score. I think there will be continuing squabbles over presidential appointments, not just judicial by the way.

MR. DIONNE: Could I just say a quick thing? I have a theory which is that if Democrats were smart they would look at the circuits where an appointment would shift the balance decisively and pick out -- they need to pick targets because they can't filibuster everybody, and once they're done with Judge Pickering they've got to figure out where they're going to direct their energy. My hunch is if there are filibusters it would be on nominees that would change the balance of power within particular circuits. That to me would be a rational approach. There are going to be a lot of nominations they're going to have to let through.

Tom, do you have a thought on that?

MR. MANN: Yeah. Of course we have a tradition in the Senate of individual wholes that have in the past worked to keep nominees from hearings for years on end, but what we haven't had is filibusters of judicial nominees on the floor. But we're about to cross the rubicon with that. Democrats reflecting their frustration and anger and former Chairman Leahy reflecting the frustration of believing he actually moved a lot of nominees through relative to the pace at which Clinton nominees were moved through, has signaled that there will be opposition and it will be substantial. They will try to begin by slowing things down, applying holds. Hatch has indicated he wouldn't honor the blue slip system for appointments where both Senators from a state and the region of the appointment have to sign off on a nominee.

I expect this is going to be visible. It's going to involve the bases of each of the two political parties. It's going to be ugly. And Democrats are going to do it in part because of bitterness over 2000 and saying why should we sort of concede 30 years of judicial decisions over a 5/4 Supreme Court decision? But it's also a matter of setting the stage for Supreme Court vacancies that are likely to develop in the months ahead.

MR. DIONNE: The deeply compassionate Ron Haskins will deal with the --

MR. HASKINS: [Black] or somebody like that said that you have to have strong laws when

you have weak morality, and the social policy equivalent of that is if you have weak private compassion you have to have big spending government programs to make up for it. I think that's a serious idea, and I think it is a serious idea that America got away from the tradition of local community church-based, smaller organizations at the local level, families and so forth, taking care of their own, and developed a national entitlement mentality and set up AFDC and Medicaid and so forth.

Now I certainly think we'll never be able to do without those programs. I want to get that real clear. But I do think that there is intermediate ground here and I think it's been taken very seriously. There have been an outpouring of books. Even my friend here on my right which is very misleading has taken this topic very seriously and worked very hard on it. A number of very liberal foundations have done the same thing.

So the idea that individuals are responsible for their fellow man and that they can do things within families and at the local level and through churches and other small organizations is a very serious idea and the country would be much better off if we could do more of it.

The question is, and we don't know the answer to this, can it be stimulated by government? That's the issue. I don't think we know the answer to that. A lot of people go on and say oh yes, we just spend more money and so forth. We need to find out. That's really what the compassion agenda is about, I believe.

The problem is the bills in the Senate are quite expensive, the initial version of the President's bill was something like \$14 billion over two years. You could find out if these things would work for a lot cheaper than that, I think, and that's an argument that a lot of people have made.

Santorum is on the Finance Committee. He's a lead guy in the Senate. It passed the House last year. So maybe we will get something like, I don't think it will be \$14 billion but we will get something like a bill that does attempt to use the tax code and use spending programs to get government to try to initiate more compassion action among individual citizens and among churches and small organizations. So I think that agenda is very much alive. The President will continue to talk about it and the Congress may pass something this year.

MR. DIONNE: Before I turn to Jim and Carol on the Iran question I want to follow up on that and throw another question at you. I've always had a theory that there really are two kinds of so-called compassionate conservatives. One kind are people who genuinely care about poverty, if you will, have a bad conscience on the question of whether conservatives do enough to help the poor and are looking for alternative routes.

The other kind are people who essentially can't stand government programs and see this as I guess [Edmons Bergen] [inaudible] to cover up the fact that they really just want government to withdraw. Is that a fair view of these two camps within -- Obviously they're not explicit camps. I just think that both kinds of people kind of fly under the colors of compassionate conservatism.

MR. HASKINS: Yes, I think that's absolutely true. I think you can also tell the difference between the two by looking at the stuff they've said in the past. But that still does not detract from the notion that there is a legitimate idea here. It's something that really could have a major impact on the country and it could have impact in government spending at some point, but we're nowhere close to that. We need to find out, we need to know more, we need a much more not just a compassionate attitude but an experimental attitude to find out if government really can stimulate private compassion.

MR. DIONNE: Iran. The good question on Iran. Jim, you've had a lot of time to think about it so you have a fully formed policy now.

MR. MANN: Iran is a bit of an embarrassment to the Administration because if you had to give a composite tour to the axis of evil competitors on the combined WMD/terror front, Iran would definitely be first. IT has by far the most active support for terrorism, in addition to its direct and unambiguous support for terrorism in the Middle East -- it's support for Hezbollah, Hamas, the Palestinian Islamic Jihad. To the extent that al Qaeda is getting sanctuary anywhere outside of Afghanistan and Pakistan, Iran is almost certainly a greater implicit supporter than Iraq. On its WMD program, it's obviously not nearly as far advanced as North Korea, but it's probably further advanced than Iraq.

So the question, why are we going to war with Iraq and not war with Iran? The answer is because it's a lot harder to go to war with Iran. There's a lot less international support for that, and Iran has not been seen as externally as aggressive as Iraq. None of the neighbors which support a war against Iran, many of them, they're not happy to be public about a war against Iraq but they will not be sorry to see Saddam go.

So what's the long term? I think the Administration hopes and believes that after we succeed in knocking of Saddam, that the Iranians will realize that we're serious about this which side are you on bit of business and that they will come to the table. They will see that there is a prospect for a much better relationship with the United States if they go off the path of support for terror and development particularly of nuclear weapons. Is that plausible? I doubt it, because I think that even in Iran they see that these policies -- it's not deeply disputed between the conservatives and the so-called moderates. Everybody in Iran supports their nuclear weapons program.

So I think that this may be a bit of wishful thinking, but it's why on the one hand they felt they needed to have to say something because they would have been considered to be profoundly critical if the President had given a speech and not acknowledged the problems that Iran poses.

But what's his prescription? There's no policy prescription. We're going to support the aspirations of the Iranian people.

MR. DIONNE: Carol, do you have any thoughts on that?

MS. GRAHAM: The details of Iran? Definitely not. I do think that it does bring us back to what do we want out of this big aid increase? Do we want to support countries that are friends in the fight on terrorism or do we want to support poverty reduction? It's clear that the links between poverty and support for terrorism are not that direct. And that it's countries like Iran that aren't necessarily the poorest that are much more of a concern on there terrorism front, and yet how we're defining our aid policy reflects the real tension between what we want out of it. We're saying we want to stop poverty in the good-performing countries and yet the criteria are now letting in countries like Egypt that we want to solicit in the war on terrorism

MR. DIONNE: We're close to closing. If people could ask quick questions and then I'd like to invite the panel starting with Tom both to respond to whatever questions are asked. You can use these questions both to respond to them and to say anything you want. I'd just like to take it from Tom all the way down for brief responses.

QUESTION: Hi. My name is Jan Bates. I'm a proud citizen of both the United States and its principal ally, the United Kingdom.

My question is not really in relation to the war in Iraq, but rather on Africa. To what extent do the members of the panel think that the President's announcement of aid for the fight against AIDS in Africa will improve his image among the African American community here? And if it does not, why not?

MR. DIONNE: Great question.

QUESTION: I'm Lucky Varmin and I teach reading in Northeast D.C. and I also direct an internship program for international graduate students here in D.C.

I'd just like to ask about the President's education program. He calls himself an education president, yet the District is being forced to cut \$35 million out of their budget as are many states making similar drastic cuts. How does that square with his image?

MR. DIONNE: That's a question Tom would really like to answer, I think.

QUESTION: My name is Dave Dutt and I'm with the VOA, but this is not a VOA question.

My question is for Mr. Dionne, and it is that since 9/11 how do you think 9/11 has changed your view of the future of progressive politics in the U.S. given, for example, Clinton's speech a few weeks ago about how he spoke about how the Democrats need to prove to the American people that they can handle national security. I was wanting to hear your thoughts on that and the others as well.

MR. DIONNE: That's not fair. The moderator is supposed to put everybody else on the spot.

So I guess I will answer that question as we go down the panel. Can we start with Tom? And Tom, if you want to help me on that question --

MR. MANN: Oh, no. I'm leaving that one to you.

A prediction that the increase in the budget the President asked for on HIV/AIDS will have virtually no impact on his support among African Americans which is very low, less than one out of ten, in part because of the very forceful public philosophy that he articulates, that is cutting taxes and reducing the size of government. Most African Americans support government programs.

And secondly, I think the position he took on the University of Michigan affirmative action program will reinforce the general belief about the Administration, and the renomination of Judge Pickering and a host of other matters.

I think they've basically written off making progress on that constituency. It's the Hispanics the Republicans are aiming at and yet there are real challenges with that community as well.

With Lucky's question, I'd like to make a broad observation. I think the leave no child behind act is going to turn into another unfunded federal mandate on states and localities just as the domestic security agenda is turning out to be.

One of the ironies is that you would think a Bush public philosophy would be sensitive about putting such unfunded mandates on states that they might be sympathetic to the fiscal stress of the states, but in fact the President has moved from Austin to Washington, his focus is on the federal government, he's got things that are of higher priorities here.

There were large increases for education spending in the last year of the Clinton Administration with the Republican Congress really pushing and supporting that. And the initially in the first year of the Bush Administration. Now they're dropping precipitously and it's being noticed in states and localities around the country.

MR. STEINBERG: I think just as the AIDS announcement is not going to have much of a political impact on African Americans, I also think it's going to have a very limited impact on Africans.

First of all, it's welcome and 'mc sure that everybody is grateful for the President, it's long overdue and I think something that could be broadly embraced. But the problem is that this stands by itself next to a number of other things including the President's decision to cancel his trip to Africa, the fact that there is no discussion of the broader foreign aid budget or engagement with Africa in developing issues including on trade issues. So I think this will be seen as a welcome humanitarian gesture but not really responsive to [NEPAT] and the sort of broader sets of initiatives that the Africans are now focused on.

MR. LITAN: I totally agree that it will have no impact on African Americans in the United States but I think it could raise some really serious problems. I might have a slightly doctrinal view of this, but I believe that the research shows that the greatest success against AIDS in Africa has been in Uganda. Uganda emphasized something called the ABC program -- abstinence, be faithful, third and only third, condom use. This is completely against international norms.

So I would like to see what exact form this new \$10 billion, bringing to a total of \$15 billion is going to have in Africa. If the Administration is going to insist on something like an ABC approach, then we get in lots of conflict not just with people from the United Nations and other international agencies, but probably with African governments themselves, many of which have rejected an ABC type approach that's been followed in Uganda. So there's lots of room for serious doctrinaire conflict here.

VOICE: That's a great point. Just on that briefly, I agree with the consensus that this initiative alone doesn't create a huge opening for President Bush in the African-American community. I think on the other hand there are very important African-American leaders who have been arguing very strongly for the imperative to do this and I will surprise my friend Ron by saying this really is a very bold -- It was probably the boldest and most surprising thing in the speech last night.

Just on the question of the progressive moment, I wrote a book some year ago called *They only look dead: Why progressives will dominate American politics*. Whenever people laugh about that I say -- the subtitle was "By the year 2000", by the way.

MR. DIONNE: There was no date, it's an open commitment. I'm looking for many reprints. It's still good.

Two things on 9/11. First, and this echoes to some degree something Jim said, Democrats had a real problem in the last election because they unintentionally looked like they didn't care enough about the war. That when the war issue came up, Democrats seemed to be saying to a lot of Americans we want to push this issue aside as quickly as possible because we want to get back to the economy.

That's not a very good signal to send about war and I think the paradox is the Democrats who cared passionately about the war one way or the other I think did better because they sent the right signal on the war. I'm quite convinced, for example, that Paul Wellstone would have won that election. He was very surprised when he went home how much respect he got from people who disagreed with him because he took it seriously. People like Senators Levin and Durbin who voted against the war didn't seem to have any trouble, now granted they didn't have strong opposition. On the other hand if Joe Lieberman had been on the ballot, he had a strong position. I don't think he would have suffered either.

So I do agree with what Jim said which is that one lesson to the Democrats from this election is you really need an alternative foreign policy which might overlap in some ways with Bush's, but you

need an alternative.

The second point is I do think 9/11 and the reaction to it does open the way for a kind of progressive politics because the great tension in American political life is between, if you will, community and individualism or communitarianism and individualism, and Americans are both. At different moments in our history we lean more one way or lean more the other way. The post-9/11 America is more communitarian America. There's a stronger sense that freedom depends on trust, on mutual responsibility, on, as that great Democratic, I mean Republican presidential candidate John McCain put it. It means caring about something beyond your own self interest.

So it seems to me that the broad spirit of this post-9/11 America does tilt in a communitarian direction. I always love to remind my conservative friends that the great heroes of the country were unionized public employees, otherwise know as cops and firemen, and what we now know as first responders.

I don't think Democrats did a very good job of figuring out those facts and seeing how those sort of affected what I would see as an agenda in our progressive tradition. Some did. David Obey of Wisconsin I would single out as somebody who really did understand the links between what it meant to be a progressive Democrat and what it meant to care about national security.

I think Democrats are thinking a whole lot more about that after the defeat in 2002 than they were before, and I'd pass to my friend Bob.

MR. LITAN: Two quick points. On progressive and homeland security, a prediction which is easy to make. I think virtually every Democrat running for President will run to the right of the Administration on homeland security.

MR. DIONNE: And spend more money.

MR. LITAN: And spend more money. That inoculates them against the charge that Democrats are weak on homeland security.

Second, on appealing to the African American community, *The Economist* ran a piece a couple of weeks ago that I thought was dead right, no pun intended. That is that if the Republicans really wanted to get African Americans back, had any chance, especially in the wake of the Lott affair and everything else, and were to be true to their conservative principles, there's one thing they should support and that is vouchers for poor kids in school.

That is the issue. Take the Milwaukee experiment national, and that would have been really bold for Bush to have done it. Bush initially talked about vouchers, but backed off very early on. The reason that he did is that it makes white middle class people nervous. I think he did not want to rock the boat on this so you leave it along.

This is a second term issue, but if you really want to have a transformative effect I think that's the issue that you pursue and you ram it down the Democrats' throat.

MR. DIONNE: Pietro, who will second that last thought. [Laughter]

MR. NIVOLA: First of all on the AIDS question. I agree with everybody that this was a pretty bold initiative, somewhat unexpected.

I just wanted to quickly go back where I left off where I started. I said at the outset that I think our political process in this country has been profoundly sobered over the past year and a half, and I think the President's speech last night reflected that more serious and somber mood.

But that's not to say that there isn't a lot of politics as usual and hasn't been a lot of politics as usual over the past year and a half. Think back to the steel and lumber tariffs, the farm bill, the continuing squabbles over judicial appointments that was mentioned earlier, and things like that. What would it take to alter some of those dynamics?

I think a lot of things, but the main one would be less party parity. That is a less tightly contested partisan environment. There are some other adjustments that are more serious the governmental process ought to make, and in my opinion at least two things here. One is a better division of labor between the national level of government and the local governments. And another would be a less torturous process of recruitment to the public service. Those are both big topics which I won't elaborate on.

MR. DIONNE: Thank you.

Carol?

MS. GRAHAM: Just quickly, the AIDS and Africa thing. I think the announcement will probably have more of an impact on the inside the Beltway development community than on African Americans.

That said, it's a welcome initiative to the extent it's really a new initiative and it's not at the expense of other development funds and that really remains to be seen. Other initiatives of this kind, for example, Johannesburg, really turned out to be a reshuffling of development money. So it's a genuine initiative and the U.S. becomes more of a leader rather than a follower on this issue that would be a very welcome change, but I think that remains to be seen the extent to which that would be the case.

MR. DIONNE: Thank you all very much.

As you can see, this panel knows everything there is to know about public policy. They know everything, I know all the rest.

I want to thank this very thoughtful audience and we will reassemble in six months to hold everyone accountable for every prediction that was made on this panel today.

Thank you all for coming.

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