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Press Briefing

AN AGENDA FOR THE NATION: AT HOME AND ABROAD, WHAT'S AHEAD

FOR U.S. POLICYMAKERS IN 2004?

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PARTICIPANTS:

Introductory Remarks:

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President, The Brookings Institution

Moderator:

ISABEL V. SAWHILL
Vice President and Director, Economic Studies, and Co-Director, Welfare Reform & Beyond

Panelists:

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Senior Fellow, Economic Studies, and
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MICHAEL E. O'HANLON
Senior Fellow, Foreign Policy Studies,
and the Sydney Stein, Jr. Chair

WILLIAM G. GALE
Senior Fellow and Deputy Director
Economic Studies, and the Arjay and
Frances Fearing Miller Chair in Federal
Economic Policy

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P R O C E E D I N G S

MR. TALBOTT: Good morning, everybody, and thank you so much for coming out to help us launch the publication of a new Brookings book, "Agenda for the Nation." Let me just say a word or two about this book.

We have a lot of different products and enterprises and activities around here, but I can't think of anything that we do, I certainly can't think of anything that rolls off of our presses--and by the way, Bob Faherty, the director of the Brookings Institution Press is here today as well--that is more emblematic of what Brookings stands for and its mission. Its mission is summarized here on this motto behind me. And what that means, basically, is that this institution is dedicated to trying to help citizens and policymakers, opinion-makers, many of whom are represented in this room today, improve public policy and public policy-making in this country, and to do so through genuinely independent, nonpartisan research and, on the basis of that research, to come up with new, fresh, constructive, practical ideas, recommendations for how the powers that be in this country might do even better at advancing the national interest, making sure that any criticism of current or past policy contained in those recommendations is constructive, nonpartisan, avoids being ad hominem. And that's very much, I think, the spirit that infuses this new book.

Now, this is a new book, but it has a fairly venerable pedigree. It really goes back 35 years, to 1968, which was the first time that Brookings published a book by this title. 1968 was a fairly significant year in the history of our country. It happens to be the year that our president graduated from college. It was, of course, a time of racial unrest and urban disorder here at home; and also, the United States was contending with the consequences of a long and very unpopular war abroad.

Now the agenda for the nation is quite different in many respects. We're struggling to control soaring budget deficits, we're working hard to repair our health care system, to rebuild two war-torn countries far from home, to ensure the security of our own country, to maintain the balance between security and civil liberties here in the United States, and also to lead the world in a way that will induce others to welcome our leadership.

So the book represents a fairly ambitious undertaking. All of us are grateful to the more than 30 contributors who made it possible. I want to particularly thank the three editors, one of whom is here today, Hank Aaron, and also Jim Lindsay and Pietro Nivola. I also would like to add my thanks to--what I'm sure you'll hear Belle say in a moment--to our panelists, and special appreciation to Belle Sawhill herself for agreeing to moderate this discussion.

I would like to just say one more thing, given today's date. My colleagues who planned this event today were obviously, as we all are, conscious of the significance of this date. September 11th is, of course, a day of remembrance. But it is also a day that stands for a sense of renewed national resolve. And because it's very much in the spirit of renewed national resolve that this book was put together and is now rolled out into the world that we decided to go ahead with the event today.

So, Belle, I will turn it over to you.

MS. SAWHILL: Thank you, Strobe.

Can everybody hear? Are the mikes working okay? Okay. I'm particularly pleased to get to moderate this event today. I was out in Colorado this summer and I had this book mailed to me as soon as it came off press. I'd been reading some rather frothy novel, and I turned from the frothy novel to this more than 500-page book with its 15 chapters on everything from economic growth and income inequality to how we govern in a democracy in these times. And it was a bit of a shock to go from one to the other. But I really was impressed with the extent to which this book deals with the serious issues the country faces and the way in which the authors, without in any way being condescending to the reader, tried to boil down each issue into its essential components.

If you are an author, the idea of having three editors is at least two too many. But if you're a reader, the fact that these very, very talented and skilled editors worked so hard to make these chapters readable and accessible, I think, is a huge plus. So, like Strobe, I want to congratulate not only the authors who worked on this, but also the three editors.

I think that we are not, obviously, going to be able to cover all 15 chapters today. In fact, we're going to be quite selective. We're going to focus on the fiscal outlook for the United States--that's going to be Bill Gale. We're then going to talk about health care. Henry Aaron, who was an editor of the volume, has agreed to take on that topic, since the authors of the chapter are in California and he, of course, is himself an expert in this area. We will then have Mike O'Hanlon talking about the defense situation and the defense budget and, finally, Stuart Taylor talking about civil liberties in an age of terrorism.

Let me just briefly introduce each of these individuals. Bill Gale, sitting next to me here, is a senior fellow in economic studies. He's also deputy director of the Economic Studies Program and a co-director of our Tax Policy Center. What I like most about Bill's resume, as I was telling him before this began, is that he not only talks about all of his wonderful publications and other professional accomplishments, but he tells you that he has a golden retriever--which says to me he's not only a hard-headed economist, he's also a soft-hearted human being.

Henry Aaron is also a senior fellow in economic studies. He has three books being published by Brookings this year, one on the challenge of molecular medicine, one on the crisis in tax administration, and of course this one, which was a huge task.

Mike O'Hanlon is a senior fellow in our Foreign Policy Studies group. He's also a prolific author. He has been writing on expanding global military capacity for humanitarian purposes; he has written about the crisis in the Korean Peninsula; and he also, along with others here at Brookings, contributed to a volume we put out last year, or subsequent to the 9/11 event, called "Protecting the American Homeland."

Last, but not least, we're really pleased to have Stuart Taylor here today. Stuart is with the National Journal and Newsweek, or writes for both of them. He is a lawyer. He graduated at the top of his class from Harvard Law School, and I think that's one of the reasons so many of us find his writing so incisive and sharp on these issues. He does have a special interest in legal affairs as well as broader political and policy questions.

So with that, each of these individuals is going to speak briefly, and then we'll open it up for some further discussion. Bill?

MR. GALE: All right, thank you, Belle.

I'm going to focus on the budget outlook. There's been a huge amount of doom and gloom put forth in discussing the budget outlook, so I'd like to start on a positive note. And that is that the huge deficits that we're seeing this year and next year are not that big of a deal from an economic perspective. And the way to see that is to do a little thought experiment. And that is, suppose that starting in 2006, under realistic assumptions, the forecast showed that we had budget surpluses as far as the eye could see, and they were growing over time and they were cautiously estimated, et cetera. Under those circumstances, no one would care about what the budget deficit is right now or in 2004 or 2005. That is, the short-term budget deficit is not the issue. The issue is the medium- and the long-term budget deficit.

We, of course, don't have surpluses coming as far as the eye can see; we have exactly the opposite. We have ever-increasing budget deficits as far as the eye can see under reasonable estimates, reasonable forecasts.

So although the $500 billion deficit that might occur next year or the $400-some billion deficit that is occurring this year is getting all the attention, it's not the real issue. The real issue is the medium and long term. And the reason why is because of how budget deficits work. What a budget deficit does is raise current aggregate spending and therefore reduce current aggregate saving. If you're in a short-term slack economy,

where businesses are not using their existing capacity, then you want to boost aggregate demand. That will encourage people to spend, which will encourage businesses to employ the machines they already have, hire workers that they've laid off or that were laid off somewhere else, et cetera. So in the short run, if you have a slack economy and you need a stimulus, a deficit can help in that regard.

But for the same reason that deficits work positively in the short run, they work negatively in the long run. And that is, in the long run, the problem is not the use of existing capacity, it's increasing the amount of capacity--the capital, the skills, the investments that the economy has. And by reducing national saving, budget deficits reduce the amount that America as a nation invests in increasing its capacity. So you should think of budget deficits, as our colleague Charlie Schultz once said, as "termites in the woodwork" gnawing away at the economic growth prospects of the country, not as "the wolf at the door" that's going to cause some immediate crisis.

So Point 1, I think, is that the immediate budget deficit is not a particular concern from an economic perspective, and it might actually be doing some good. What is a concern is the fact that those immediate deficits never go away, and get bigger. So that's Point 1.

Point 2 has to do with the budget outlook itself. Since January 2001, the 10-year budget projection has deteriorated by almost $8 trillion. That's a lot of money by any measure. I tried to come up with some ways to express how big that was. It's something like a third of all revenues during the next 10 years, or 30 percent of all spending. But then President Bush gave me a better way to describe it when he asked for $87 billion in military spending last weekend. Eight trillion dollars, since January 2001, is the equivalent of spending $87 billion every 11 days since the Bush administration has taken office.

Now, not all that $8 trillion in the budget decline is due to policy; about 40 percent of it is due to the declining economy. But even if you just look at the policy requests, the policies that have been passed--the tax cuts, the spending increases since January 2001--we basically have spent $87 billion every 18 days since President Bush took office, over the 10-year horizon.

So that's a lot of--that's a very large decline. And if you translate back into what that's going to mean for the size of the future economy, it suggests that the economy will be permanently 2 percent smaller going forward, starting in the next decade. That's a very sizable adjustment relative to other things we can do to affect the economy.

So the budget outlook has deteriorated dramatically, and that will show up in a gradual decline in national income in the future.

That's the good news about the budget outlook! The bad news about the budget outlook is that the official CBO baseline very seriously distorts any sort of measure of the true underlying fiscal status of the government. In very round numbers, the baseline suggests a deficit of about 1 percent of GDP over the next decade. If you make reasonable

adjustments for what current policy really is and you take out the retirement trust funds--for a reason I'll tell you in a second--the deficit is really 5 to 6 percent of GDP going forward. That's every year going forward.

The reason you want to take the retirement trust funds out is that we only have a 10-year horizon when we look at the budget forecasts. The retirement trust funds are running surpluses right now, but we know they're going to run deficits in the future. So to get an accurate measure, either you can expand the time horizon so that you get those deficits that are kicking in in the 2030s, 2040s, 2050s, or you can keep the 10-year horizon and just take the retirement funds out.

So the way that I find it easiest to think about it is, over the next 10 years we have persistent budget deficits of 5 to 6 percent of GDP *and* we have a retirement trust fund problem on top of that. So we're not in a good situation on the fiscal side.

And so the third issue, then, is what do we about this? The administration--I want to say this carefully--the administration has no policy to address these issues. It's not that they have a policy and there's a debate about whether it's a good policy or a bad policy. They literally have no policy to address the long-run budget situation, or even the medium-term budget situation.

What they say they're doing is cutting spending and stimulating the economy by cutting taxes. All right? What they're actually doing, first of all, is raising spending, not cutting it; and second of all, they've developed a mantra that growth creates revenues, tax cuts create growth, therefore tax cuts will raise revenues. Well, the third step of that is wrong. And the reason why is that there is a bait-and-switch going on. Economic growth that's caused by something other than tax cuts raises revenues, because the pie gets bigger and the government's share of the pie stays the same. But economic growth that's caused by tax cuts ultimately reduces revenue, because you have to cut taxes so much, and you generate only a little increase in economic growth, so the government's ultimate take is less than it was before. So, for example, if you cut taxes by 10 percent, and that raised the size of the economy by 1 percent--which would be a generous and optimistic estimate--revenues would fall by 9 percent.

Now, the administration's economic documents show that tax cuts reduce revenues. But the administration's rhetoric is that tax cuts are going to increase revenues, which is just false. So the administration literally has--not only do they have no policy on this, but the policies they're pursuing are actually making the problem worse.

All right, so what do we do about this instead of what the administration is doing? Well, let me give you two facts to guide the discussion. One is that if you made all the tax cuts the administration has permanent, that would cost 2.4 percent of the GDP every year going forward through 2075. Right? That is greater than the cost of fixing the Social Security and Medicare problems over the next 75 years. So when people talk about these massive problems we have in Social Security and Medicare, recognize that making

the tax cut permanent would create a fiscal hole even bigger than the existing one that Medicare and Social Security create.

The other fact to keep in the back of your mind is that if we wanted to balance--if you took this adjusted budget that I talked about and you went to 2013, and you wanted to balance that budget, not counting retirement funds, by spending cuts alone, the question is how much would you have to cut. And the answer is, if you excluded Social Security, Medicare, defense, homeland security, and net interest, and just focused on everything else, you'd have to cut all that other spending by 80 percent in 2013 to balance the non-retirement trust fund budget.

So the lesson I get from this is, first of all, we cannot do this on the spending side alone. I don't think there's popular sentiment, I don't think it's a good idea to literally gut most of the government other than the three or four major programs. And the second thing to think about is we need budget rules back in place. The budget rules in the 1990s required Congress and the administration to pay any tax cuts they had with either other tax increases or spending cuts. But right now, the budget rules have expired and you're seeing a free-for-all on the Hill, with the administration wanting to make the tax cuts permanent, both sides talking about a prescription drug benefit, et cetera. We need some sort of anchor to the budget process, and the old budget rules actually, I thought, worked very well in that regard.

So the bottom line is that we cannot continue the way we're going. We do need to rein in spending, but we also need to put tax increases, what euphemistically were called revenue enhancements, back on the table. We cannot get out of this hole without considering both the revenue side and the spending side.

So on that cheery note, I will stop.

MS. SAWHILL: Henry, do you have any cheerier news about the health care system in the United States?

MR. AARON: Well, actually, I was going to start off by saying that there's this old story about a person who said there were three laws of life: Life is terrible, people are awful--and then found the third law, which is things get worse. And I'm going to play that role a bit.

I also wanted to say a bit about the exceedingly modest title of this volume. Agenda for the nation--you know, you do that in an afternoon. We chose it because it was a title that had been used in the past, but also to differentiate this volume from the previous annual or semiannual publications that Brookings has released on government policy, called "Setting National Priorities." The reason we wanted to distinguish it is that the intent was to have this book do just what Bill Gale did in his opening remarks:

take a longer-term view of the problems confronting the United States than is present by the annual budget, which had formed the basis for the earlier series. So this volume is not meant to provide a guide to this year's budget; it's meant to frame a wide range of issues so that you can understand the challenges that the United States faces over the next decade or so.

Having said that, I want to remind everybody I'm not the author of the chapter on health care--the very good chapter, in my view--in this volume, which is written by Victor Fuchs and Alan Garber, both of Stanford University. I'm going to freely mix some thoughts of my own and some thoughts of theirs. I'll try to make clear where.

Right now, health care policy is in the news in the United States, but the reasons it's in the news are not because the fundamental long-term issues are being confronted. Instead, it's in the news because of current congressional debates on some controversial legislation which, though important in its own domain, is really relatively minor in the broader sweep of the challenges that health care will put to the United States.
One of the issues concerns a drug benefit for Medicare. As a personal consumer of a fair bit of pharmaceutical products, I recognize this is not a minor issue. But it's even more important, of course, for people who have less financial means than I'm fortunate enough to have. Meeting this problem would be significant. But it would leave unaddressed the much larger issues of reform that need to be confronted about the Medicare system--the fact that it has no coverage against catastrophic health care expenses, that you can be covered by Medicare and still financially ruined quite nicely by a serious illness; that it doesn't have very good long-term care coverage--if you need nursing home benefits, you're likely to be forced back on your own resources or into Medicaid; that the cost-sharing arrangements are, to say nothing, bizarre and rather draconian. How many of our private health insurance plans for the non-elderly make you pay close to $1,000 for the first day in a hospital? None of them does. Medicare does.

So all of those issues are left on the table, even if Congress acts on drug benefits, which appears very far from a slam-dunk at this point.

The second reason that health is in the news is because of debates about malpractice legislation, which--and I'm sure if there are any physicians in the room, you will disagree with what I'm about to say--which deals with a genuinely minor problem in the health care system. It doesn't even do anything to solve the two fundamental problems with the malpractice system, which is intended fundamentally to provide good compensation to people who are legitimately victims of medical malpractice. Roughly 80 to 90 percent of the victims of malpractice never see a courtroom and never receive a nickel of compensation. And it isn't a very effective system for getting the bad actors among physicians either to clean up their acts or to get out of the business--which should be another function of the malpractice system.

Health care isn't in the news, although in my view it should be, because it is the largest component of the onrushing budget catastrophe that current policy is doing so much to aggravate. Official projections indicate that health care spending is going to come close

to tripling between the year 2000 and 2040, increasing by about 6 percent of gross domestic product, which would be enough to double--or is equal to about the size of the current deficits that Bill Gale described--numbers which, incidentally, are calculated before this increase occurs.

Furthermore, those official projections of Medicare spending growth are probably too optimistic, because they assume slower growth in per capita health care spending than has occurred in the past, despite the revolution in molecular biology that is likely, at least for an extended period of time, to increase the rate of growth of health care spending; and also because those projections assume no liberalization whatsoever in the range of Medicare benefits, Medicare as an insurance plan now ranking at about the 10th percentile in terms of generosity when compared with the health insurance plans the non-elderly typically have.

So what are the real challenges? Victor Fuchs and Alan Garber put it the following way. They say that the United States faces three broad challenges: to translate recent scientific advances into effective prevention, diagnosis, and treatment; to make sure that the fruits of that research are distributed in an equitable way across the nation; and at the same time, to prevent rising health care costs from compromising the nation's capacity to meet the many other challenges that it will confront in the decades ahead.

Meeting those three objectives are mutually inconsistent. You cannot simultaneously achieve all three of them to a maximum extent. Gain on access to increasingly expensive and effective technologies, and you increase the financial problem. Deal with the financial problems, and you threaten the other two goals.

So that I would say whether it was ever possible to provide beneficial care to everyone, all the beneficial care that's available, they in their chapter conclude, and I emphatically agree, that that possibility no longer exists for the United States or for any other developed industrial nation. In a very real sense, the age of health care rationing is upon us, and that means that, first of all, we need to be able to proceed to ration in a rational, fair, and sensible way.

Right now, we don't know enough to do that. And one of the specific suggestions Fuchs and Garber make is that we should immediately establish a well-funded federal agency charged with the evaluation not only of new but of existing health care technologies. Those of you familiar with the health care field know that the history of such efforts has not been smooth and has met with very considerable resistance. Notwithstanding that resistance, the need is greater than ever.

A second area poses even more serious problems. Fuchs and Garber point out that we have a health care financing system that sends crystal-clear incentives to medical scientists: Develop better, more effective interventions. If it's more expensive, it isn't a problem because the health care system will pay for it.

The health care scientific community has responded exquisitely to those incentives. They observe that they think it's important that the incentives change so that the medical scientific community understands that developing less costly, just as effective or slightly less effective procedures may also be in the long-run interest of the nation. The only way to do that is if cost sensitivity at the margin, on the part of patients and providers, is increased. In plain language, it means more cost sharing confronting patients.

In closing, I want to express a personal view, and that is that no single issue that the government and the private sector jointly face poses problems that are technically as difficult, as morally challenging, and as economically consequential--and, at the same time, as freighted with glorious opportunities for improving people's lives--as proper management of the health care revolution which is going to sweep over our nation and is going to stress government finances, private finances, and our governmental and political system.

MS. SAWHILL: Thank you very much, Henry. Mike?

MR. O'HANLON: Thanks, Belle. And thanks, everybody, for coming. And I also want to say it's an honor to be part of this Brookings project. Reading, studying "National Priorities" back in the '80s, written by people like Henry and others who were doing such great work at that time and throughout Brookings' history, is one of the reasons why I wanted to be here when I grew up and became a person who could aspire to a job at Brookings. So it's a real thrill to be associated with this volume.

I wanted to talk about foreign policy issues and find some way to thread them together that, to some extent, combines four of the chapters in this book and also responds to the fact that today is September 11, and does so in just a few minutes. So let me very quickly say that I do want to make the war on terrorism sort of the unifying focus or prism through which I look at the question. I also want to quickly mention that there are four chapters in this book, at least, with very important and immediate implications, and not even counting the chapter that will be discussed in just a second by my colleague.

But the four that I would mention, that I'm going to talk briefly about now, are the international economic chapter by Bob Litan and Lael Brainard, Steve Simon's chapter on terrorism and where we stand in the broader global campaign against terrorism, Ivo Daalder and Jim Lindsay's chapter on the Bush foreign policy, and then my chapter on the defense budget.

Let me say just a few things about how we're doing in the war on terror, what this suggests for our future agenda.

First of all, I think the military operations that we've conducted since 9/11 2001 have, generally speaking--despite the fact that we've had a lot of troublesome news this

summer--generally speaking been relatively successful. And I actually think we are somewhat safer today because al Qaeda is on its heels because it does not have sanctuary in Afghanistan, in particular. The Iraq mission, I think, was justifiable, but for largely different reasons that have not as much to do with the global war on terror.

But in general, I think that military operations have been, on balance, a success, despite the problems we're seeing this summer. And I still expect the Iraq mission to succeed in the end in bringing a better form of government and a more stable form of government to that country than was the case before. I do not say this as a great admirer of how the war was conducted or how the diplomacy was conducted, but nonetheless, I think on balance it's likely to still be a foreign policy accomplishment.

Secondly, I am very, very impressed, as I think many in this room are, by international intelligence and law enforcement efforts. These have been remarkable. And when the president spoke on Sunday night about the number of al Qaeda top operatives in custody or dead, he was right to be able to brag about this--not so much a personal accomplishment of his, but of the remarkable international legal and law enforcement and intelligence cooperation we've seen.

By the way, despite all the problems with our allies, that I think this administration has to a large extent exacerbated, there have not been major setbacks in cooperation on the international legal and law enforcement and intelligence domains. We work very well with the French still today. We work very well with the Germans still today. There has not been a major setback here. And not to mention the Pakistanis and many others.

So there, I think, we've done well. And the number of people we've arrested just below the bin Laden-Zawahiri level has been quite remarkable and promising. Al Qaeda does need its top people to conduct attacks of the nature of 9/11. It doesn't need top people to do truck bombings, as we unfortunately are reminded almost every other week it seems these days. But it does need top people to be creative, to be tactically innovative, to organize a multinational effort, to design something that is as devastating as 9/11. And I think al Qaeda is not in a position at present, at least, to repeat that kind of a performance. I hope very much it stays that way, and I'll say more about the unfinished agenda in just a second.

Finally, here at home. Even though there's been uneven progress in the war on terror, and especially in homeland security efforts, and even though we still haven't even seen all of our terrorism databases fully integrated, I do think that we have done a relatively good job--and this will perhaps set up a little bit of tension with my colleague, who's about to talk about other issues--but even though there have been some concerns about civil liberties, and they should be very much on our minds, I think on balance the international law enforcement efforts in this country have been appropriate and effective and have generally made us safer.

That's obviously just a quick one-liner that I'm not going to have time to fully develop here, and I'm not the best person on the panel to discuss it in detail anyhow. So you'll hear more about that in a second.

Those three things have gone pretty well--the military campaign, the international intelligence and law enforcement campaign, and then finally domestic intelligence-sharing and law enforcement to try to make it harder for terrorists to enter this country or operate freely once here.

What has not gone well? What's the unfinished agenda? Well, there are a number of things. And I've got five, and I'm not going to try to speak of them in any particular order, but I'm just going to tick off a couple of points about each.

One, the military operation we're now conducting in Iraq, in addition to the obvious difficulties of incurring casualties and not being able to stop all of the chaos and truck-bombings in Iraq, is at the verge of breaking the U.S. Army. I say that very specifically with the Army in mind. The other military services, and in particular the Air Force and the Navy, are actually, I think, slightly better off today than there were before the overthrow of Saddam because they don't have to maintain quite the level of vigilance in the Persian Gulf they did before. And this has made it easier for them to stand back at least a little bit in their global operational tempo. I don't by any means want to suggest the Air Force and the Navy have it easy now or that somehow their global mission has become without concern for their strains, but I do think that, on balance, we've actually made their lives a little better by the events of 2003.

The Marines like to think of themselves as the rapid reaction force, they go in and they leave after a quick mission is done. They are getting themselves out of Iraq. To my mind, this is a mistake. We actually need the Marines to help the Army, for reasons I'll go into in just a second. But nonetheless, on balance, the Marine Corps is recovering from the Iraq war and will continue to in future weeks as it reduces its remaining presence in Iraq, which is already much reduced from wartime levels.

But the U.S. Army is in a staggeringly difficult position, and I would argue this is by far the greatest threat to the health of the U.S. Army since the Vietnam War, since the period when we built up the U.S. Army into probably the finest ground force in the history of warfare--that I'm aware of, in any case. We are simply working people way too hard. We have one-fourth of all reservists called up. We're all reading stories every day about people's tours being extended. They went overseas six months ago thinking they'd be coming home soon; now it turns out, once they're already there, when they've been looking forward to a date of return, they're told they're going to have to stay longer. This is no way to treat people that you want to keep. And we're not going to keep them.

Right now, we're lulled into a false sense of complacency, I believe, because recruiting and retention data have not yet shown big problems. There's a certain patriotic upsurge in people's willingness to join the Army or stay in the Army. That's natural after a wartime victory like this past spring or after the tragedy of 9/11 2001. But we cannot

count on this continuing. Because in addition to the reserve call-up problem, we are now in a position where we are sending Army brigades and divisions from Iraq to Afghanistan, or vice versa, with only a few months in between for recovery at home.

We're also in the position where that famous 3rd Infantry Division that stormed Baghdad from the western side in March and then had to stay longer than expected in Iraq afterwards, and has finally been getting home this summer, that kind of a division is going to have to go back to Iraq in a year or so if we don't find some other way to share the burden. We can do one rotation by calling on other parts of the Army that have not yet been deployed; but we don't have enough for a second rotation after that. So by next fall, as Mr. Bush hopes to be reelected, he's going to face the prospect, if he doesn't find some other way around this, of sending back to Iraq the very people who won the war. This is going to be, to my mind, something that's going to be a very difficult challenge for the Army to deal with as it tries to hold onto an all-volunteer force.

And I don't believe the draft is a good idea. I think should we view that as failure, if we have to resort to a draft, because the volunteer army is so much better than the conscription armies of the past, that I don't see that as the real solution here, either.

Homeland security. I do think we've made a considerable amount of progress in the areas that Secretary Ridge wrote about in his Washington Post op ed today, starting with law enforcement at home, airport security--another one, vaccines and medications for a biological attack. However, there's a huge unmet agenda, everything from the kinds of airplanes that are still not being inspected--international airplanes, cargo airplanes--to the surface-to-air missile threat to aircraft that has not yet been adequately addressed.

And then huge swaths of our society that have not even yet been considered, especially large-scale private infrastructure--skyscrapers, large chemical facilities, trucking of hazardous materials. The government has essentially said let's hope the private sector figures out how to protect these assets on its own, or let's hope that al Qaeda doesn't get around to figuring out how to devise new attacks against these sectors. Because we've got its leadership on the run, maybe we can get lucky. This is, in the short term, perhaps, viable, but in the longer term, as al Qaeda inevitably reconstitutes at least partially, not going to be the sort of thing we can afford to continue with, these large-scale gaping vulnerabilities in our country's defenses.

We're also not protecting nearly enough container traffic coming into the United States. Mr. Ridge did point out we have this new concept called the Container Security Initiative. It puts American Customs officials overseas. It's a very good idea, but it still doesn't change the fact that we have probably 10 percent the size Customs work force that we need.

Another point, very quickly. Korea. In Korea, the president--and we did just write this book that Belle was kind enough to mention, "Crisis on the Korean Peninsula," so I won't say a lot, in the hopes that you'll be enticed to buy the book. But in any event, let me quickly say, in one sense, North Korea is really not part of the global terrorism

problem, in the sense that it has not been an active player in this area since the 1980s. On the other hand, the president's response to 9/11 naturally affected Korea, because his doctrines of preemption, his talk of the axis of evil and so forth, really, I believe, affected the Korean situation.

I give the president fairly good marks, on balance, for Afghanistan and even Iraq, but quite mediocre marks for Korea, where I think we're in a much worse position than when he took office. It's true the uranium enrichment program the North Koreans clandestinely began, they began under President Clinton. That was a problem that we discovered during the Bush presidency, but had pre-dated the Bush presidency. On the other hand, I believe this president's handling of that part of the world has made the matter much worse. And the fact that we're now on the verge of North Korea developing many nuclear weapons per year is not a function of the uranium enrichment program, it's a function of the more general breakdown in the situation that I think the Bush presidency has contributed towards.

I'm not going to say what we have to do about it here--I don't have time. But I think this is actually a very serious problem, partly because North Korea has threatened to return to its previous association with international terrorism and even consider selling nuclear materials overseas if the situation deteriorates further. And that would be perhaps by far the most horrendous thing I could imagine--nuclear materials being sold to a group like al Qaeda. The North Koreans did not repeat that threat in the recent talks in Beijing, so I'm hoping that they realize it's not the sort of thing to play with cavalierly and that they really don't intend to resort to except under the most dire of circumstances. However, the most dire of circumstances may very well result--as the very calm and sober Secretary of Defense Perry has recently himself argued--if we continue on the current path, which Perry called a gradual path towards war. And I'm afraid he may be right.

Global economics and global politics. Here I'm just going to mention that I hope very much you read the excellent chapters by Brainard and Litan on the one hand, and Simon on the other. Brainard and Litan talk about both these things. I won't get into specifics in their chapters. But both of these concepts relate to the broader vision we need for the war on terror that we don't yet have. Some critics of Mr. Bush say that he's been all military and not enough, sort of, soft power--not enough coalition building, not enough economic aid, et cetera.

I generally share that criticism. It's often made too starkly. The president has done some good things. He has his Millennium Challenge Account for increasing foreign aid much more even than the Clinton administration aspired to do, and I have to give him credit for that.

The Liberia intervention, on balance, wasn't pretty, but it did a little bit to accomplish its ends in the final analysis, and the U.S. didn't have to risk very much or do very much. It's obviously a work in progress. But I still credit the president because no American president, Democrat or Republican, tends to deal very easily with civil conflict problems in Africa. And the president chose to put this on his radar screen.

In terms with working with the Mideast peace process, the president has tried, at least, to create this alternative center of Palestinian power, and even though it failed in its first attempt, I still think that some of his more recent instincts have been correct and laudable.

But nonetheless, we are in the situation where the face of America today is one of a unilateralist power that intervened in Iraq at a timetable of its own choosing, and now essentially owns that country more or less on its own. This is not the image we need or want to deal with the global threat of terrorism. This will help bin Laden recruit more people, it will weaken the willingness of our allies to help us in this and other missions. It has not yet affected international law enforcement or intelligence-sharing, as far as I can tell, but someday it could. It certainly will continue to radicalize much of the Middle East and Arab world, and we need a broader agenda that, again, Simon and Brainard and Litan talk about. This involves even broader efforts to increase foreign assistance. It involves, certainly, reforms in our trade policy. The trade talks that are going on now are extraordinarily important. We're giving the developing world in general, the Arab world in particular, a little more feeling of hope and participation in the international economic system. And we need to also push Arab political reform, because that part of the world is still run by governments that we've condoned for far too long and we have to get around to pushing to reform, even if it means fairly radical and risky policies in the short term. Because as Martin Indyk has argued, the old bargain doesn't work and contributed to the problem of 9/11, and we've got to think more broadly about that.

So the president's doing well on the military and law enforcement fronts, not as well in homeland security, not as well in Korea. He's got the Army at the verge of being broken, and he does not yet have a broader vision for dealing with the threat of terrorism into the medium- to long-term future. On balance, it's a start, but it's only a start.

MS. SAWHILL: Thank you very much. That was quite impressive to be able to cover that much territory in those few minutes. Stuart?

MR. TAYLOR: Quite impressive and quite daunting to follow. I am, I should say, honored to be invited to participate in this projections. It's not often that a journalist gets to collaborate with real scholars. I sometimes flatter myself with the thought I could've been a scholar. It's nice to be able to play at being one.

But I must say, so many scholars are so gloomy. Michael had a couple of cheery spots, but Henry and Bill had a lot of gloomy things to say. And I was reflecting on the difference between journalists and scholars in this sense--journalists are less

gloomy. I think when a scholar sees the government screwing up, it's another chapter in the long, Sisyphean struggle to get our fallible leaders to do things right, and these leaders don't pay much attention to scholarship. When a journalist sees the government screwing up, it's a potential Pulitzer Prize.

But I'm feeling scholarly, or at least a bit grim today, about both the liberty and the security side of my chapter in the book. And there's a lot going on in current events. You all have probably seen in the papers that there's quite a backlash building against the so-called badly named USA Patriot Act. And Congress is beginning to cut back here and there. Meanwhile, the president yesterday proposed new laws.

And my fundamental complaint with the administration is that they're using sometimes means--such as incarceration without due process--and often rhetoric that's often, in terms of the rhetoric, inaccurate, misleading, occasionally demagogic, and fundamentally unserious a lot of the time. And the critics, in my opinion, and the media are, in all of these respects, worse.

Let me begin with the critics of the Patriot Act, just to give a couple of examples. One that I won't detail is in a Washington Post editorial this morning, detailing Senator John Edwards's peregrinations from being a supporter of the Patriot Act, who voted against all of the amendments to weaken it, to now being a passionate critic of this terrible thing that the president and John Ashcroft shoved down our throats.

Let's look at the American Civil Liberties Union fund-raiser that I recently received. And I've been a member of the ACLU in the past and think they do a lot of good work. The letter that came to me claimed, very conspicuously, that the Patriot Act includes, and I quote, "a provision that might allow the actions of peaceful groups that dissent from government policy, such as Greenpeace, to be treated as domestic terrorism."

That's flat-out false. The Act's definition of domestic terrorism, which is in Section 802, covers only criminal activities that are, among other things, "dangerous to human life." So if Greenpeace proposes to blow up an oil tanker because they don't want oil tankers around, why, yes, they might get spied on or classified as domestic terrorists, but not for peaceful activities.

Another example. This comes from the conservative libertarian front. On July 22nd, the House voted by 309 to 118 to adopt an appropriation rider to bar the government from invoking the Patriot Act to search a home or business without immediately notifying the occupants. The sponsor was Representative Butch Otter of Idaho, joined by the ACLU and other libertarians--cheered this vote as a mighty blow against so-called sneak and peek searches. I'm afraid the government was a little closer to the mark in denouncing it as a terrorist tip-off amendment, although that was a bit over-the-top, too.

Do 309 House members really want to require the FBI to leave a nice note the next time it gets an opportunity to search Mohammed Atta's hotel room or the hotel room of someone like him? It's not easy to tell from the provision that they passed. The

platitudinous floor debate left unclear whether the purpose is to bar all delayed-notice searches despite decades of judicial precedents upholding such searches in some circumstances, or just to roll the clock back to before the Patriot Act. Representative Otter demonstrated his own command of his subject by claiming that Section 213, this sneak and peak thing, "allows the CIA and NSA to operate domestically." False. Neither Section 213 nor anything else in the Patriot Act comes anywhere near doing either of those things.

One more. "Nightline" had a recent thing on the Patriot Act, which I have to catch up with. I printed out the transcript late last night. But in their website touting this broadcast, they said, "Imagine a nation where police can search your home without a court order or a warrant. Don't look too far. It's already here." Well, it's not in the Patriot Act, and it may not be anywhere in preexisting law. Setting aside the fact whether maybe once in a while the government should be able to search a home without a warrant--suppose they have an anonymous tip that somebody is making a bomb in the home and they don't have time to get a warrant.

These, I think, are three of many examples of the kind of frivolity of the attacks on the Patriot Act. There are things in the Patriot Act's 160-plus provisions that I'm not sure I like, but most of the critics and most of the journalists who write about these issues demonstrate very little understanding of what's in the darn thing, let alone what came before and how it changed things.

I'd also fault both the critics and the administration for putting the focus on the wrong front. There have been serious abuses in the war on terrorism, in my opinion, and none of them, as far as I know, involve the Patriot Act. Most of them involve locking people up. The Patriot Act says very little about locking people up. And yet, without any authority from the Patriot Act or any other piece of legislation, the government is now holding two U.S. citizens, one of whom was arrested at the airport in Chicago, Jose Padilla--no, actually three, I think--holding them incommunicado in military detention within the United States for well over a year with no opportunity ever to see a judge and say, hey, they've got the wrong guy. Not a military judge, not a civilian judge, not a magistrate, and certainly not a lawyer.

Meanwhile, down in Guantanamo, there are more than 600 foreign people being held in similar isolation with no opportunity ever to see--to have the modest right of a military tribunal to make sure that they really are bad guys that is guaranteed by Article 5 of the 1949 Geneva Convention on Prisoners of War, which the United States government is flagrantly violating right now by holding all these people with no hearings. There's ample reason to believe that a lot of these people may not be bad guys. They were handed over by bounty hunters, in many cases, in Pakistan. We should hear a little bit more about that, and I think we will, on ABC News tonight, and less about the Patriot Act.

I think the administration's new proposals yesterday are another example of its lapses into unseriousness. The president touted these in his speech. Based on reading about

them quickly and consulting with a friend of mine who was high up in the Justice Department under President Clinton, they seem to be an odd combination of not very important, not at all necessary, probably unwarranted as far as they go, but fundamentally frivolous.

A leading example. They want to have so-called administrative subpoenas. Now, today to get a subpoena, a prosecutor pulls a form off the shelf, fills it out, somehow waves it under the nose of a grand jury which never objects--bang. Done. This is too onerous? What is the point of making it easier? Darned if I know.

More death penalties. We have a gazillion death penalties on the books that can be used against terrorists. This is a stupid and silly proposal. The president should talk about serious things on this front because we have some very serious things going on, not stupid and silly proposals.

I also think it's unfortunate that the standard bearer and lightning rod for the government on these issues now touring the country to defend the Patriot Act is John Ashcroft. Suffice it to say that I hope those of you who may be disposed to doubt John Ashcroft's fitness to be attorney general won't blame it on the Patriot Act. The Patriot Act didn't make him attorney general, and he didn't write the Patriot Act. I think it's too bad that we don't have somebody who inspires more confidence holding up the security end of this debate.

Some fairly glaring problems that are addressed neither in the Patriot Act nor in the president's legislation nor in any other proposal that's getting very serious consideration. There is a proposal by Senator Schumer and Kyl. Remember Zacharia Moussaoui, the so-called 20th hijacker? Well, he wasn't the 20th hijacker, maybe, but he was certainly a bad guy up to no good who admits he was an al Qaeda agent. He was arrested on August 15th or 16th of 2001.

There was a big issue, well, the FBI suspected strongly that, people on the scene in Minnesota, that this was some kind of terrorist who might be plotting to fly an airplane into a building, as somebody said in one memo. And the question was, well, can we search his possessions, which we have in our possession because we locked him up and took everything out of his hotel room. Answer coming back from FBI headquarters, no, you can't search his possessions. We have no evidence that he's committed a crime. Fair enough. We had no evidence that he committed a crime.

Now the Foreign Intelligence Surveillance Act does say that if you have evidence that he's an agent of a foreign terrorist group, why, then you can search him. But, says headquarters, what's the group? We don't know what group he's a member of. So that won't work.

Answer: He's not searched until after September 11 occurs. Maybe searching him would have done some good in terms of detecting what was going on. And the law that the FBI interpreted as barring his search is exactly the same today as it was that day.

Under the FBI's interpretation of that law, they couldn't search a similar guy tomorrow if they had a similar situation.

Now, in practice they probably would, because the interpretation might change; it was debatable. But there's a proposal in Congress to put in a little fix and say, by the way, if you have evidence that the guy is a member of a foreign terrorist group, you can search him even if you don't know what group it is. That is regarded by some people in Congress, for reasons that escape me, as a terrible threat to our civil liberties, and therefore it languishes unattended.

All this kind of was crystallized in my mind, my frustration with some of this, in a piece, an op ed in this morning's Wall Street Journal by--I hasten to add, it being the Wall Street Journal--Lawrence F. Kaplan, who's a senior writer for the New Republic. And Kaplan says the unglamorous truth is that, when it comes to public policy priorities and civic habits, most of us have picked up exactly where we left off on September 10th. There are today two Americas--a September 11th America caught up in a world war, and a September 10th America largely oblivious to it.

And Kaplan, who is obviously a member of the September 11th group, says more in sorrow than anger that many of his fellow Democrats and liberals seem to be in the September 10th group, more for reasons of partisanship, perhaps, than for any particular reason that there should be partisan differences on issues of civil liberties today.

And so I'll go back to basics as I close, which is where I started with my chapter in this book. We face a mass movement of militant Islamic terrorists, including some 20,000 men trained at Osama bin Laden's camps in Afghanistan, who crave martyrdom, hide in the shadows, are fanatically bent on slaughtering as many Americans as possible, and using a nuclear truck bomb to obliterate New York or Chicago, or both, if they can. Such a bomb in Washington could kill the president, the vice president, and most of the cabinet, Congress, the Supreme Court, not to mention all of us. That would be too bad. But many of the critics of the administration of any proposal to cut back or to increase the government's surveillance powers seem to get met with an attitude as though we're still looking for truckloads of marijuana, not for bombs, or perhaps even nuclear bombs.

Today being September 11th, I'd just close by proposing that it's past time for all of us to get serious about these issues. I don't mean to get serious and get rid of civil liberties or to get serious and get rid of the Patriot Act. I mean get serious and stop being partisan and shallow. A good start on this, it struck me, would be for Brookings to name a scholar on liberty and security, since I don't know of anybody who's not a partisan who's playing that role today. And I could probably help you find one.

Thank you.

MS. SAWHILL: Can you find us the money to hire the person?

I want to bring in the audience, but let me start out with a couple of questions of my own for the panelists up here.

You know, I think on health care, one of the points made in the chapter in the book that many of us are familiar with is that we spend an enormous amount in this country, more than most other advanced countries, on health care, more per person than other countries, and yet our outcomes are, if anything, worse, not better, as a result. Do you want to comment on that, Henry?

MR. AARON: We're a very big and diverse country. We have populations that take good care of themselves and populations that don't. Our health care system provides exceedingly good care to those who can afford to get it. It does not provide equally good care to many who lack financial means.

We spend a lot in part because we pay some of our health care providers exceedingly well. Physicians are better remunerated here, relative to average earnings, than in most any other country. And we get a good deal from our health care spending in the way of amenities. We have the shortest length of stay in hospitals. We have no queues, to speak of. Many other countries that spend a great deal less, like our neighbors to the north, Canada, have major waiting lists. Those costs don't get factored in to the numbers you're describing.

In looking at outcomes, you've got this enormously complex mix of what's the underlying epidemiology that you have to deal with, how do you factor in the huge differences in a very large country. But at bottom, I think the key point here is we continue to have a large number of people who are not insured. Covering them would probably raise spending, not lower it. It's money worth spending. We use a lot of technologies that have not been adequately tested, and overuse a lot of them. We should improve our knowledge, and that would help us reduce some spending. Whether we should pay doctors less than we now do is something that I don't want to get into. Doctors certainly would have one view on this issue.

The problems that we all face are ones that are largely independent of this cost/outcome question. If we want to cover more people, we'll spend more. If we want to evaluate technology, which would be good in its own right, we may be able to save some money. In the end, I don't know whether the balance would be that we rein in the differences between ourselves and other countries or not.

MS. SAWHILL: What about the administrative costs of our very decentralized system relative to some of the single payer systems in other countries?

MR. AARON: Well, as you probably--it lies behind your question, there have been a series of analyses of this particular question in the New England Journal of Medicine, stretching back now about 15 years, documenting the fact that the United States spends a

great deal more than Canada does on administration. Exactly how much more is a matter of some dispute. My own view is that the authors of these estimates somewhat exaggerate the differences.

But I think, in looking at the administrative character of our system, we don't need to look north and do comparisons. All we need to do is look at the character of the system that we now have, which is an administrative calamity. We have a set of federal rules that is mind-bogglingly complex. We have a large number of private payers who use very different procedures to bill. Physicians are required to spend a large part of their gross income on administrative costs. Simplification of federal rules and establishment of uniform procedures among private payers could go some distance to reducing administrative costs.

We are not, I think, going to scuttle our whole health care system and replace it with something different because of the existing administrative complexity. Health care systems are rooted in politics, values, and traditions, and don't get changed lightly. But we could save money here. We should do so for our own sake and not because we lust after the health care system of another nation.

MS. SAWHILL: Okay. Bill, you talked about the fact that revenues had to be back on the table, and we all know that that's going to be politically difficult. One of the ideas that's been tossed around is the idea of doing something like we did in the 1960s to try to pay for the Vietnam War, which is to put a surtax, a war surtax, on corporate and individual incomes to--and earmark it for the costs of what hopefully are temporary and unusually high costs of rebuilding Iraq or other wartime needs.

Do you want to comment either on that or on something else that you didn't have time to talk about before, which is the whole debate about the estate tax?

MR. GALE: I'll comment on the first part, and in particular in light of Stuart Taylor's comments about how there's a 9/11 and a 9/10 America. And what I heard you saying was that liberals are mired in this 9/10 America and conservatives are really focused on the new threat.

In tax policy, at least, it's exactly the opposite. The administration continues robotically to push for a set of tax cuts. In 2001, it pushed these tax cuts on the grounds that the surplus was too high, we needed to cut the surplus and get the money out of Washington. In 2003, it said we need to accelerate these tax cuts. Why? Because the surplus was too low and we needed more revenues, and this is going to generate more revenues.

And now, with burgeoning budget deficits and a war in Iraq that they finally admitted is going to cost more than they've been saying for years, and the president's finally mentioned the S word, sacrifice, the President turns around and in the same week he says we need to sacrifice, he says we need to make the tax cuts permanent. Which has nothing to do, obviously, with fighting a war or helping the economy in the short run or

anything other than giving very large tax cuts to the same constituency they've been promoting since before the war.

So in tax policy, at least, it's exactly the opposite. It's conservatives that are living in 9/10 America and moderates and liberals who are saying, gee, the situation has changed, we need to think about the revenue side. And one of the proposals that's come up, more aligned to what Mike said, is this is the president's war. He chose the timing, he chose the nature, he chose the extent. And, you know, he's now acknowledged that we need to sacrifice. And the question is, who should make that sacrifice? Should it be the rank-and-file soldiers on the ground who are stuck there six months longer and maybe headed back in another rotation that they hadn't expected? Should it be low- and middle-income people who get their spending programs cut? Or should it be high-income people who've just received massive tax cuts that were legislated under a completely different state of the world?

And, you know, asking the question, or at least asking it the way I did, gives you the answer. And that is, we should either roll back the cuts because they were premised on a completely different world view, or we should apply some sort of surtax to help--to show that--at the very least, the president could show that he was serious about the need to sacrifice, serious about the fact that there are costs associated with the agenda that he's pursuing. You'd need about a 4 percent surtax on corporate income taxes this year and next year to pay for the $87 billion request. But more generally, the question is why is it that we can afford $87 billion--

MS. SAWHILL: More like 150, if you add in last year--

MR. GALE: Well, yeah, I mean, but if you go out farther, you know-- But the point is, you don't need a 20 percent surtax or something.

MS. SAWHILL: Right. Right.

MR. GALE: A relatively modest surtax would cover it. I'm not particularly proposing that. I think it would make more sense to roll back some of the tax cuts that were passed when we had a $5.6 trillion surplus. But somehow there's got to be a connect between the spending side and the tax side of the budget. And the sooner that that notion sort of reaches the public debate, the better.

MR. AARON: But isn't there a timing problem with a surtax? We don't want to do it this year or next year, for cyclical reasons.

MR. GALE: Well, that's why rolling back would be better.

MR. AARON: I mean, I think that's the chief argument against the surtax. If you could say we want to pay for it, but the surtax comes later, then you confront Bill's alternative.

MS. SAWHILL: Does either of you want to comment on these issues about the budgetary situation, or the 9/10 versus 9/11 mentality, and--

MR. TAYLOR: Just a footnote on 9/10 versus 9/11. If I kind of came across as making a partisan point, I didn't intend to. If Al Gore were president, I think he would have proposed something very like the Patriot Act. It would have passed overwhelmingly, and Tom DeLay would be out there whacking at him now, saying that our civil liberties were destroyed.

My point is that the partisan reflex from both sides is getting in the way of serious thought about these issues. The reason I emphasized 9/10 and 9/11 America from the piece I read this morning is, in my view, the momentum right now is too dramatically away from worrying about security and toward worrying about liberty, and I'd like--I'm trying to suggest that I hope Democrats could think about these issues more differently than I think they're thinking about them now.

MS. SAWHILL: Mike, do you want to say a few words about North Korea? You said you didn't have time to go into what you think we should be doing there. I think a lot of us are very perplexed about that, and a couple more comments might be helpful.

MR. O'HANLON: I'll be very--thanks, Belle, for the chance. First, I also will say I agree with both Bill and Stuart. And I like the way they put their points very succinctly and convincingly.

On the issue of North Korea, in broad terms I think we're in a Catch 22. The Bush administration is saying to North Korea you have to give up your nuclear weapons and we won't provide any real incentives until you do so. There really hasn't been a big change in that policy, despite some of what was in the newspaper last week.

The North Koreans implicitly say back to us, it's the one thing we got that we can get your attention with, that we can perhaps get resources with. And by the way, with all this talk about preemption and axis of evil, we think we may even need the things to protect ourselves.

So we're in this Catch 22. And I think that even though the administration's done very well to convene these six-party talks, with the Chinese playing a constructive role, essentially helping us but also trying to play a little bit of a bridge between the two main parties, the North Koreans and the U.S. That format, obviously, does not tell you what substance you should pursue in the negotiation. And Jack Pritchard here a couple of days ago, the former negotiator who's now joined Brookings, said that those multilateral talks may even be a mistake if pursued to the exclusion of any bilateral content.

But I'll leave aside process and just say that, substantively, I like to quote Donald Rumsfeld on this issue, even though I'm sure he doesn't agree with my Korea policy recommendation. And the Rumsfeld adage that I like is, If you have a problem you can't solve, enlarge it. We cannot give the North Koreans incentives to give up their nukes,

they're not going to give up their nukes until they get incentives, so the only way in which to get out of this bind, I think, is to offer more and demand more. And you have to try to get the North Koreans to begin to move on the path of reform that Vietnam and China have followed as communist countries in the last 20, 25 years.

This involves cutting their conventional military; opening up special economic zones to foreign investment; doing what it takes to attract that investment, which they haven't yet done; and more generally engaging in a legal and proper way with the outside world--letting Japanese kidnapping victims go home, begin to have at least a human rights dialogue, at least begin to soften some of the worst attributes of their policies towards their own people, and stop all the provocations toward South Korea and the United States. And if they do that, in exchange we should simultaneously be willing to begin to provide economic assistance in the form not of cash, but of economic infrastructural improvements; do this in conjunction with our regional partners, South Korea, Japan, and China--Russia as well, to a lesser extent; and also begin to ease and later lift trade sanctions and provide some kind of improvement in diplomatic relations.

You don't do all this thing in one fell swoop, but you do talk about it all at once. Because unless you think of the bargain in these terms, you're stuck in this Catch 22 where we find ourselves today.

MS. SAWHILL: Okay, let's open this up. Please identify who you are before you speak. And we've got some mikes coming around back here. Yes.

QUESTION: [inaudible] University of Copenhagen. First of all, I want to thank you, O'Hanlon, for your brilliant expose. Well, maybe I should go and buy your book about Korea.

I have two brief questions. First, about American strategy, we heard a lot about prevention and preemption. But the situation strategy, which is part of new strategy, we hear very seldom about, I mean, that the United States will say to the world do not dare to compete with us militarily, it will never pay. Could you comment on this?

And the other brief question is about the American way of dealing--of the defense--well, we've heard a lot, again, about revolution in military affairs. But now, Rumsfeld, at least, will speak about, the Pentagon will speak about transition. But is it a transition, or do you really see some signs of a revolution in military affairs?

MS. SAWHILL: Why don't we collect a few questions and then go through them up here. Yes, right here.

QUESTION: Thanks. Gary Mitchell from The Mitchell Report. This may be a rhetorical question and it may be a question that is more focused on the next publication of "Agenda for the Nation." But I was thinking that the approach today has been the fairly predictable one, I think, of sort of setting up a series of silos. There's a health care

chunk, there's a fiscal policy chunk, there's a defense and intelligence chunk, and there's security, liberty, et cetera.

The question that I have is, realistically, in a democratic, pluralistic and, some would argue, increasingly 50-50 society like this one, is it reasonable to think concretely about having something that really is an agenda for the nation? How do you set agendas for a nation of that sort, and how do you make progress on them?

MS. SAWHILL: Interesting question. Yes, right here.

QUESTION: I'm John Wertman [ph] with the Consortium of Social Science Associations. My question would go to Dr. Gale. We saw on Tuesday the Alabama tax referendum. President Bush's policies have shifted decisions down to the state level. Can you comment on the political repercussions of that? Should the Democrats and liberals have gotten more involved on Governor Riley's behalf? What are going to be the results of that, long-run?

MS. SAWHILL: Right here?

QUESTION: Peter Sperry [ph]. I'm a Hill staffer. You mentioned the idea of more co-payments and benefits. I'm intrigued, because Rostenkowski tried that once for catastrophic and long-term health care, and within a year the members of Congress were running for their lives and within two years it was repealed. And what I'm wondering is--sort of related to the Alabama thing--if we have a situation where people can use the ballot box to get benefits that they are unwilling or unable to pay for with their own labors, can we ever have either a financially solvent health care system or a financially solvent budget?

MS. SAWHILL: Okay. Why don't we take those questions. I think the first one was mainly for you, Mike.

MR. O'HANLON: Thanks for the question. Two parts. One was the issue of should dominance be essentially the American military goal. And I think the answer is yes. And frankly, I think it has been American policy for decades, through Republican and Democratic administrations. Sometimes Republicans have been a little too blunt with some of their language in recent years, and I think the doctrine of preemption, on the one hand, is substantively correct but is diplomatically a mistake to talk about. I think it's caused us nothing but damage in regard to the Iraq debate, where if we had focused on the weapons of mass destruction more narrowly and credibly from the start, we would have been better off. And also it's, I think, made the Korea situation worse.

So it's right substantively, but it's also uninteresting in that sense, because we've had that as policy for a long time. But it's wrong diplomatically.
Likewise with dominance. There's nobody we should be inviting to come into our ranks. I would welcome as strong of a Europe as we're going to ever have, but you and I both know European military power is not going to begin to approach that of the United

States. And it's not really the issue. The issue is what kind of dominance should we have vis-à-vis a China, an Iran, a North Korea. And here I would fully support the policy and just recommend that we maybe not talk about it when we're in government quite so much as we sometimes seem to these days.

On the second point of the RMA, it's a very interesting question. Let me very briefly simply say that militaries have been changing very fast for decades. And the 20th century was a period of rapid innovation. No decade stood still. Now, we're obviously in the period when electronics and precision are becoming very important and giving us rapid new capabilities.

I would argue that it's not so much a revolution as a rapid evolution. We're using a lot of traditional platforms and improving the things we put on them. At what point you want to define it a revolution can be debated. Mr. Perry, who's probably the most technically savvy secretary of defense we've ever had in this country--or at least up there with Harold Brown and one or two others--he said he thinks the Persian Gulf war of '91 was in may ways the culmination of this process, and we're seeing a continuation of that.

So revolution implies something that happens in a given moment in time and is radically greater than what happened before or since. And in that sense, I do not believe we're seeing a revolution. I think we're seeing a rapid evolution due to modern electronics, computing, and precision.

MS. SAWHILL: Stuart, do you want to take this question about whether it's possible to have an agenda?

MR. TAYLOR: Oh, boy. Let me reflect on it. It sort of seemed to me as I was laboring on this project--I must admit it crossed my mind once or twice to think, Who's going to read it? And how many of them are going to read all of it? And to some extent, I think it is impossible to prescribe an agenda for the nation in a way that's likely to be altogether persuasive to very many individual readers.

I think it's probably a worthy venture--and I take it that is the venture--to try and get a few people who can write persuasively about the major issues before us. The budget issue that you were talking about doesn't have a whole lot to do with the civil liberties issue that I was talking about. But they're both transcendingly important, and to try and pull it all together in one place so that somebody somewhere who's looking for nonpartisan analytical thought on these issues, rather than knee-jerk partisan reflexes, has a place to go.

MS. SAWHILL: Do you want to comment further on that, Henry, or should we move to--

MR. AARON: I was going to respond to the question that the gentleman-- [inaudible.]

MS. SAWHILL: All right, let's let Bill answer the question that was directed to him.

MR. GALE: Oh, about Alabama. For those of you who are not aware of the Alabama governor, I guess, campaign on the need--who is Republican--campaign on the need to raise taxes in Alabama, in part on the--a prominent part of his platform is that this is what Jesus Christ would have done. And so I think the impression is he was a bit left to hang out to dry by the groups that normally might favor tax increases as a way of balancing the budget.

I don't know--well, first thing, I think that these kind of referenda are good things. There was one in Oregon that also voted down tax increases, and Alabama voted down tax increases just recently. Anything that gets in the public mind that the benefits they get from government are linked to taxes they're willing to pay is a good thing. Anything that gets away from the "philosophy" that it's your money, therefore you should have it and government shouldn't, but doesn't link that to the fact that "your money" pays for "your programs," or having your programs but not taxing it creates debt that is your debt, anything that links those things is a good thing.

So whether, you know, popular referenda are a good thing or not is a political science question, and I gather there are strengths and weaknesses. As an economist, I'm not going to try to answer that question.

I will say, though, from the perspective of trying to improve the level of policy debate with the hope, perhaps the vain hope, that improving the level of policy debate will improve the outcomes, from that perspective, anything that gets people thinking about taxes linked to spending is a good thing. But whether the costs or benefits of referenda versus the regular legislative process outweigh that, I don't know.

MS. SAWHILL: Henry, you're the clean-up hitter here.

MR. AARON: Okay. Well, actually, I'm going to respond to the gentleman who asked about a national agenda. There really are two questions. One is to what extent can the president, the executive leadership, Congress construct a coherent national agenda? The world is so complicated, they inevitably are dealing with problems in a relatively fragmented fashion. I think the answer is pretty clear that they do present a tone, a philosophy, set a framework, and one way or another do create a national agenda.

The question for us is how to contribute to the debate that lies behind the formation of such an agenda. From that standpoint, Stuart raised the right questions. Is a 550-page shelf-bender the way to achieve that result, or separate shorter publications? One only hopes that thoughtful people will pick this up, read as much of it as they have the stomach for, and that it will in some measure influence how they think about these issues. It's the hope and goal of this kind of an enterprise.

The question about whether we can have a financially solvent health care system or budget when people are able, as they did in the case of the catastrophic health bill--an aptly named piece of legislation from more than one standpoint--which Congress passed,

I think, in the late 1980s and then promptly repealed after, among other things, old ladies draped themselves over then-Ways and Means Committee Chairman Rostenkowski's hood of his automobile in protest against this bill--can we hope to make progress in this area?

I think it's a fair question, but I think the important first point is to understand the problem. The problem is that, through tax legislation enacted in the past two years, we have at least temporarily lowered the share of national income collected in taxes. Baseline. Fact. We are entering an era in which, if we do nothing, the share of national income that is spent by the federal government will rise by a quarter to a third. Why? Because the baby boom generation will retire, claim Social Security pensions and, much more important, qualify for Medicare and Medicaid.

What do we do? A huge gap opens up between what we're committed to spend even if we don't expand in any way what the federal government does and the revenues that we're prepared to collect. We have three simple choices.

We can raise taxes a whole lot. That's what Bill was talking about. We can renege or cut back on a whole host of commitments, most notably to the elderly, the disabled, and the poor that the nation has undertaken over the past 50 years. These would not be small changes. Or we can be like banana republics and run huge deficits that result in vast increases in national debt, and ultimately borrowing abroad, and threaten the economic stability of the nation.

Those are the three choices. There are no others. And confronting that choice is what the national agenda has to be about.

MS. SAWHILL: On that note, I want to thank everybody up here for participating this morning and thank all of you for coming. I hope you will come back again soon and help us think about the future of these issues.

[End of press briefing.]

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