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ANALYZING THE STATE OF THE UNION

Introduction: Strobe Talbott

Panelists:           Ivo Daalder  
                         Ron Haskins  
                         Isabel Sawhill  
                         Audrey Singer  
                         David Sandalow

Moderator:           Thomas Mann

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## P R O C E E D I N G S

MR. TALBOTT: Good morning, everybody. I'm Strobe Talbott. I want to welcome you all here and I'm going to get the program started with what is a very, very usual custom here, and that is first to ask you all, please, to turn off your cell phones, and second, to let those of you who are paying us the compliment of making this a standing-room-only crowd, take advantage of the overflow rooms, if you want, although you're perfectly welcome to stand in the back. There are a couple of seats, there's one in the second row here, and anybody who's sitting next to an empty seat might raise a hand, so that—well, there are not very many, I guess.

Okay, there are two over here and one here basically.

Now the next thing I'm going to do is just a tad different from the way I usually open a program like this, and I hope you will bear with me for a moment, and the reason I'm going to do that is to explain why we have a little bit of a change in our signage up here today, both behind me and also here on the podium.

This is a special and, indeed, inaugural event for Brookings, because this is our 90th anniversary year. It was in 1916, that Robert S. Brookings established and funded the Institute for Government Research, and that was the first private organization devoted to analyzing public policy issues on a national level.

And since then, every decade, this outfit has done serious, cutting edge, constructive work in a great many areas. I'm just going to mention one or two from each decade.

In the twenties, Brookings played a crucial role in helping put together a federal budget system.

In the thirties, Brookings was involved in the creation of the Social Security system.

In the forties, folks here helped design both the United Nations and the Marshall Plan.

In the fifties, Brookings scholars had a lot to do with improving the presidential transition process.

In the sixties, Brookings helped build the case for deregulation. In the seventies, it helped establish the Congressional Budget Office.

In the eighties, there was path-breaking work done here on health care and tax policy.

In the nineties, a lot of emphasis on new approaches to welfare, public service and campaign finance.

Now in the current period, I could get in trouble with all of you and all of my colleagues here because there would be so much to talk about.

I'm just going to mention five things that we're working on: Iraq, counterterrorism, democracy promotion, energy security and

competitiveness. And I'm sure you've already figured out why I picked out those five topics, because they all figured very prominently in last night's State of the Union Address.

So with that, over to you, Tom.

MR. MANN: Strobe, thank you very much.

I'm delighted to have the opportunity to moderate this discussion with my colleagues, and a superb cast of colleagues we have. Their bios are available to you. Let me simply move from my left down to the right and introduce each one.

First, we have Audrey Singer who's an immigration fellow in the Metropolitan Policy Program here at Brookings.

Then Ivo Daalder, a senior fellow in Foreign Policy Studies.

Isabel Sawhill on my right, vice president and director of Economic Studies at Brookings.

Ron Haskins, senior fellow in Economic Studies, and David Sandalow, who's director of our Environment and Energy Project within the Foreign Policy Studies Program here at Brookings.

First, let me tell you about our format. I'm going to pose some questions to our panelists to get our conversation going. Take about half the time we have here amongst ourselves, laying out some reactions and analysis, and maybe underlining some differences that we have amongst ourselves, and then we will turn immediately to the audience for questions.

But first you'll have to put up with a couple of minutes from me.

I have a theory about State of the Union speeches, namely that there's an inverse relationship between the attention that we give to them before, during and after, and their significance. Certainly in the short and midterm, folks who've actually tried to track the public reactions to these speeches to see if there's any profound change in the standing of the president have discovered, on balance, it goes up a little, it goes down a little, somewhat randomly; it doesn't seem to have any immediate impact on the standing of the president.

Interestingly, the one exception to that was in 1998, days after the Monica Lewinsky-Bill Clinton scandal emerged. There was a lot of talk about the president resigning or being forced to resign.

He went to Capitol Hill gave an exceedingly long and detailed "laundry list" State of the Union speech and enjoyed a ten point bounce in his standing, up to 69 percent. It was never higher, with one exception, during his presidency. That exception was the day after the House of Representatives impeached him. Then his approval ratings went even higher.

MR. HASKINS: A warning to Democrats.

MR. MANN: Beware of impeaching presidents; exactly.

So the point is there's no reason, from history, to think that one speech, in spite of the drama and the symbolism and the ritual and

the tradition and the large audience, relative to everything else that a president does and says, can make a huge difference.

In fact I'm struck, in talking to people ahead of time, including a lot of reporters, the favorite question is, What does the president need to do? Okay? And then after the speech, the question is, Did the president do what he needed to do?

Well, my theory is that there may be relatively little the president can say that will overcome the particular problems he's facing, or change the underlying conditions that, for good or for ill, are driving his administration and the political and policy dynamic.

We at least ought to be open to that possibility and not fall immediately into the trap of, What does he need to do and did he do what he needed to do?

I don't know what he needed to do and whatever he needed to do, he didn't do it.

[Laughter.]

MR. MANN: Now how's that for making a real signal contribution to our discussion here today.

It seems to me there's three questions one could ask. Is there some hope that in spite of what I've said about the historical record, that the speech and the aftermath to the speech could alter public assessments of the president

I think the skewed audience that you get at these things, that is, the president's partisans tend to be disproportionately represented in the viewing audience, and the intensely partisan lens, thick partisan lens through which the public now views the president and the Democrats, make it relatively unlikely that he will alter that dynamic, and therefore relative to the midterm elections, I wouldn't see any upward movement in his job approval ratings; but I think you could look at the speech for signals about how he intends to wage the campaign to try to retain Republican majorities in the House and the Senate.

The second goes to whether there are hints in the State of the Union speech about signal changes in the president's governing style.

You heard a lot about that in the briefing ahead of time. The president's going to call for civility, for bipartisanship, and in fact there were some lines suggesting just that, but I think as some of my colleagues are bound to point out, in other areas it underscored the sharp differences and the kind of issues that had been used in the past to wage electoral campaigns, will be front and center this time.

The third is does the speech signal any real changes in the policy agenda of this president and of this country?

And here, there's some more fertile ground, I think, for analysis. I'm thinking of the substance of the president's agenda, of the politics, and of the likely consequences if those particular policies were embraced.

I suspect we will touch on all three of these dimensions but that the third will be the focus of most of our discussion.

Since the president began with a very long discussion of the world, of foreign policy, indeed, of freedom and democracy, of globalization, we're going to begin with Ivo.

Ivo, the one thing I learned is that the president has said no to isolationism in this speech and that he said America will say no to isolationism.

Presumably others here are saying yes to isolationism. What's the substance behind the theme of rejecting isolationism?

MR. DAALDER: Thanks, Tom. I was struck by the notion that isolationism was this great and gathering threat on our shores, to which the president had to give his response, and I was wondering why he chose to make this the big issue.

I think there are really two explanations. One is a realistic concern that Americans are becoming wary of foreign engagement, and we see this actually in opinion polls. A poll done by Pew and CFR late last year showed that 42 percent of the American public, the highest ever recorded in some 50 or 60 years that this kind of question has been asked, says that the United States should mind its business internationally and concentrate on issues at home.

And that's a concern. There is a growing concern among the American people, that the costs of our engagement abroad, particularly

the cost of how we have engaged abroad – the cost of an America Unbound – is too large now, that in fact the best way we can deal with those costs is by disengaging from the world, by retreating, by coming home, in the vernacular of another way, and another time.

And the president was basically saying, no, we can't do that. We have to engage the world because the world has come to America.

That's not how he's put it, in fact he didn't use the word globalization, but that's what he was talking about.

He was talking about the fact that the world and the United States are increasingly integrated, increasingly interdependent, and in that sense, if you closed your eyes and just took away the Texas twang and put an Arkansas twang in there, you heard a lot last night of what you heard from Bill Clinton in the 1990's.

The fact that we are now one with the world means that our ability to pull away from the rest of the world is smaller, in fact it is likely to lead to costs and create problems for us down the road. That was one part, and I think that was the intellectual part.

There was also a political part, it seems to me, because he moved straight from his defense of American engagement in Iraq, and made very clear that those who are not in favor of his kind of engagement are defeatist, as he called them. I call them retreatists, I think is the word he was really looking for.

He mentioned the 1930's, just making clear that those who are not with him are somehow with Neville Chamberlain. Just to underscore that point, he went back in fact and misread American history with regard to Europe at the end of his speech, when he said that the United States did not accept the division of Europe—news to the Poles, who lived under division, and to the Germans in the East.

In any case, he was painting a picture of "I am in favor of engagement and my opponents are in favor of isolationism. They're in favor of staying behind. They're in favor of building walls of isolationism and protectionism." And those "opponents" were sitting to the right of the president who didn't applaud these lines.

But I do think that that was the political message. The political message is you are either with me on Iraq, on foreign policy, or you're with Neville Chamberlain, with the defeatists, and there really isn't a middle in between those two.

So an intellectual defense of engagement but also a political strike against his opponents, particularly on the issue of Iraq.

The real question which he didn't put forward and which I think explains why this was so politically motivated was no one debates, no one disputes the fact that we have to engage the world. The fundamental dispute is about how to do so. Could we do it on America's terms, with America's unilateralism, and our engagement in the way that

we want to do it? Or do we do it in the terms that at least take into account the rest of the world?

MR. MANN: Let me follow up with two specific questions, one on Iraq and one on Iran.

On Iraq, the president said we have a clear plan for victory and it entails building democracy, reconstructing the economy and society, and building up the Iraqi security forces. That we are winning and that the road of victory is the road that will take our troops home.

Okay. Here's the question. Did we get any clues from the speech that are, reinforce or differ from the comments coming out of Iraq in the last couple of days, that in fact there is a well-developed plan already in place to reduce all foreign troops beneath 100,000 by the end of this year?

MR. DAALDER: No, we didn't.

Instead we received the short version of the four speeches that the president gave in December. There really was nothing new on Iraq.

There was the statement repeated again, that me, the president, commander in chief, doesn't make decisions on troop levels. The military does that. A remarkable statement when you think about civilian control of the military. But, nevertheless, it's been part and parcel of his strategy with regard to Iraq and now we are seeing its implementation of that.

We are waiting for the military to present us with a plan. Apparently the military has a plan. They will present it when asked to reduce the troops, to well below 100,000 by the end of the year.

But that's not the real question with regard to Iraq. The question is do we have a strategy that in fact will lead us to win? And here, I'm afraid that the trends are just not looking very good. And they're not looking good with regard to the first element of his strategy, the most important element which is the issue of a government. He said we need an inclusive government. That's great, but how do we get an inclusive government? What is it that we need to do in order to get a government of national unity? Two things that are happening, that no time was spent talking about last night, and frankly, not enough time is being spent in the American debate here.

One is that there is a big debate going on among the Iraqis themselves, of how they're going to create a government of national unity that then will have a national compact, which will place Iraqi interest above sectarian interest.

We don't know how we're going to get that, and if we don't have a government of national unity that puts Iraqi interests above sectarian interests, you're not going to have reconstruction that proceeds because there will be too much fighting among the various factions, and frankly, you're not going to have a single army.

You can't have a single security force without a state that is to be supporting and directing that security force. So the essence of the strategy is getting the politics right. We haven't heard how we're going to get the politics right.

Secondly, it is true, as the president says, that the insurgency may in fact be shifting and changing. What isn't true is that the violence is reduced inside Iraq. The violence is increasing in sectarian terms, even though we may be decreasing in terrorist versus coalition force terms. But sectarian violence, the wholesale ethnic cleansing in a variety of neighborhoods and parts of Iraq, is continuing at an increasing pace.

So politics are moving in the wrong direction there. You are increasingly seeing an Iraq that is dividing against itself, in which sectarian interests are more important than Iraqi interests. How we're going to overcome that? How we're going to create an Iraq that is a single state, let alone whether it is a democratic state, let alone whether it is one that is viable, economically. How we're going to have an Iraq that is a single state is the question for 2006. And frankly, the president has said we had elections, it's wonderful, but we now know what elections can do. Sometimes the bad guys win elections.

MR. MANN: So what happens if the political compact is not reached by midyear, the violence continues, or intensifies, but the order to begin drawing down troops goes forward and is implemented as we approach November midterm elections? What happens?

MR. DAALDER: Well, if the compact and the government of national unity doesn't come about, we're going to have a covert civil turning overt. That is to say, we're going to have real people fighting in the streets in a sectarian war of control of Baghdad and national resources. We will be faced with a choice. We can either try to stop that civil war violently—and we would fail. It is extremely difficult, in any circumstances, to stop a civil war, but we now know in Iraq, where we've been trying to deal with the insurgency quite ineffectively, we're not going to be able to do a good job there.

Or we have to choose sides, so we can be on the Sunni side—those are the guys who've been killing us. I don't think that's an option. We can be on the Shia side, which means we are the Praetorian Guard for not only the Shias but also the Iranians who are backing the Shias at the moment that we're confronting Iran on other issues. I don't think that's going to happen. Or we can leave. And I think, frankly, those are the three choices we have, come the middle of this year, if there is no political improvement.

I think that the president will stay and we will have the kind of debate on Iraq that we thought we were going to have in the summer, which somehow, we turned off for a little while, but we will have a public debate about whether or not we should actually get out.

And then the rhetoric of defeatism, of retreatism, of Neville Chamberlain, all of a sudden starts to ring a little stronger and a little more noteworthy than the way it was put in the State of the Union.

I think there's an anticipation of a big debate about whether we should stay in Iraq, if the violence not only continues but becomes increasingly sectarian, as I think it will.

MR. MANN: One last question.

Many people expected Iran to be a much bigger part of the speech because it's a bigger part of global security considerations.

Why do you think it was so brief, and why do you think the main focus was on addressing the citizens of Iran?

MR. DAALDER: Well, actually, he did the same thing last year when he addressed the citizens of Iran and in fact last year called on the Iranian people to overthrow the government. Remarkable. You know, at some point we should learn that when you ask people to overthrow their government, they may sometimes do it, and you get something not necessarily better. But that's a different issue—let's leave that aside.

On Iran, in and of itself, it is noteworthy that there was no repeat of the Axis of Evil.

It is noteworthy that the phrase, "We will not allow the worst dictatorships or the worst men to possess the worst weapons," was absent. There was an exhortation to the international community not to permit

Iran to have nuclear weapons. Iran is barred by international treaty from having nuclear weapons.

There was none of the kind of swagger, Texan or otherwise, that this president has displayed in past State of the Union addresses when it comes to weapons of mass destruction. So the question is why?

Two reasons. One is in that in the last few months, including just earlier this week, Secretary of State Condoleezza Rice was engaged in an intensive diplomatic effort to get as large a number of important countries to support the American position that, one, Iran has violated its treaty obligations, and two, this is an issue that now ought to be taken up by the Security Council. And we've made progress. Steady diplomacy, when engaged in, sometimes has advantages. It actually can get people to your side, if you're willing to compromise. I think Secretary Rice needs to be congratulated for engaging not only in that diplomacy but getting it as far as she has, by having an agreement among the permanent five, plus Germany, to take the issue of Iran to the Security Council, never mind that we have no strategy yet, or idea about what we do when we get to the Security Council.

But process, as we and diplomats know, is important not only for its own sake, but it sets new benchmarks, new frameworks for how this issue needs to be addressed. So that's one issue.

The second is, frankly, Iran was a lot easier to deal with four years ago than it is today. For one reason, because the United States still

had credibility when it talked about issues of weapons of mass destruction. The U.S. no longer has as much credibility.

The other reason is Iran has us by the throat. They are next door to where we have 138,000 troops. They can offer financial and other support to a major faction that is engaged in Iraq and could make life very, very difficult for us inside Iraq.

Those realities now limit the ability of the United States to use its power, economic and military, to press Iran into a different course. So you're left with talk. Jaw-jaw may be better than war-war under almost all circumstances, but when war-war is no longer a realistic option, jaw-jaw becomes a less-effective option, and then that's why you probably shouldn't spend a lot of time talking about it. You just ignore it and move on to the next subject.

MR. MANN: Okay. I'll take your advice.

The second part of the speech focused on the economy. Belle, the president said U.S. economic performance is the envy of the world but he said anxiety remains among Americans, understandably, but we should beware of protectionism, of central planning, of higher taxes, and anti-immigrant measures, a subject we're going to return to specifically with Audrey.

He laid out a list of proposals like making his tax cuts permanent.

By the way, I noticed John McCain stood and applauded at that, and I thought he was the one who resisted that last time. That was interesting, wasn't it? Is he running for the Republican nomination for president?

Reduce unnecessary spending, cut the deficit in half, line-item veto and deal with mandatory spending and entitlements.

What did you make of the broader observations about economic performance and of the fiscal policy course he would propose to put us on if he could have his wishes enacted into law?

MS. SAWHILL: Well, I think he's been under some criticism from his friends and allies on the Republican side, for not having taken enough credit for what has been a pretty good economy in recent years. So to some extent he was trying to rectify that. I found it interesting that he put it in the context of how we're doing relative to other countries, the envy of the world thing, as opposed to we're doing better than previous administrations or better than the economy did in previous decades.

And that might be partly because of this overall theme in his speech about international competitiveness and globalization that you alluded to earlier.

But it may also be because if you looked at their job creation record, which is what the public cares about, and what has political resonance, the job creation record of his administration compared to some previous ones is not all that great.

Now I think although the economy has been doing pretty well and we grew 3.5 percent, real GDP growth last year, with a very weak fourth quarter, by the way, which could be a harbinger of some slowdown in the future, but overall, things are looking pretty good, particularly if you take out energy prices, inflation hasn't been bad, productivity growth has been quite astounding.

The questions I think we need to ask about all this is, first of all, who's benefiting from this economic growth, and secondly, is it sustainable?

And on the "who's benefiting?" The interesting thing is that most of these gains in economic output and income are not going to the vast middle class. In fact real wages have been going up not as rapidly as inflation, recently, so the incomes of most of the middle class and certainly their wage levels have been flat or declining a little bit in real terms.

Most of the gains are going to the very wealthy and poverty rates have gone up for four years and we have a very unequal distribution of income.

On the sustainability question, I think what's interesting is the amount that we are dependent upon the rest of the world. I mean, here's the theme in the speech about how we need to be strong vis-à-vis the rest of the world, and actually, we're in hock to the rest of the world. We are consuming more than we are producing, that's why we have very

large trade deficits, because we're importing more than we're exporting, and that is, so far, not gotten us into trouble, but almost everybody thinks that at some point it will.

The real questions are whether that's going to lead to some kind of meltdown in our financial markets and in our economy, or whether it's going to be a slower but still painful adjustment. But that adjustment has got to come at some point.

We cannot forever be piling up debt to the rest of the world. We're not only borrowing because of our trade deficit. We're also borrowing, as you noted, because of the budget deficits we've been running in recent years, and we're borrowing more and more of that money as well from foreigners.

As one pundit put it, Americans are making their living these days by selling houses to one another with money borrowed from the Chinese.

[Laughter.]

MS. SAWHILL: And, you know, it's not too far off the mark.

And in the meantime, we're saving virtually nothing. Household savings are actually negative and the government is dis-saving because of these budget deficits. So the one thing we could do, that would have some impact on the long-term stability of the economy and

the sustainability of this growth, would be to get our fiscal house in order and reduce the deficit.

I don't think there's—it's likely, at all, that the administration is going to achieve their objective of halving the deficit by 2009. As you say, the president is calling for an extension of the tax cuts, he's also calling for spending restraint, but you put the two together, and based on what the Congress has been able to do, a Congress that is obviously controlled by his own party, it actually is going to increase the deficit, what they've done so far.

So unless there's some new steps in the wings here that we haven't seen yet, and we'll see when the budget comes out next week, there isn't any action here that is going to do anything to bring down the deficit and therefore make this economic growth sustainable over the longer run.

So I mean, I could say a lot more but maybe I should leave it there for now.

MR. MANN: Well, what I want to know, though, is if nominated, will you serve on the new commission to explore the impact of the baby boom retirement on Social Security, Medicare and Medicaid?

MS. SAWHILL: Well, yeah, if I can brag for a moment, it's like Ivo talking about America Unbound. It was very interesting to me, the way he framed the longer-term fiscal challenges here, as the baby boom retires and we have exploding costs for health care which cause

Medicare, Medicaid and Social Security to absorb most of our revenues by 2030. What are we going to do? And he says we should have a commission to figure that out.

But the way he framed the issue, and said, in light of the baby boom's retirement, and in light of the fact that health care costs are growing 2 to 3 percent faster than per capita income, either we're going to have big tax increases or we're going to have to eliminate most of the rest of government or we're going to have to have major reforms and a new social contract around these entitlement programs for the elderly, and he obviously favors the latter.

But he did frame it exactly the way we have framed it in our Brookings books here, particularly the last issue of Restoring Fiscal Sanity. So I smiled a little bit when he said that.

MR. MANN: Good. Good. Belle, one last question. I think it's fair to say the public sees the mega problem, domestically, as health care costs, access, security of access to health care and health care insurance.

I think it's true that the policy community sees that as, in many respects, the most important challenge, and it's not just a public program challenge. It's a societal challenge. Okay.

The president seemed to acknowledge that by discussing it, and yet many of us were surprised by how brief that section of his speech

was and how much it seemed, if I could put it this way, to kind of patrol at the margins of the problem and not engage directly.

Did you have that reaction?

MS. SAWHILL: I had exactly that reaction and I was just smiling with, and talking with Gregg Bloche, who's sitting here in the front row here, a visiting scholar from Georgetown University, he's both a doctor and a lawyer, and much more of an expert on health care than I am, and we were comparing notes, and, you know, the president talked about six things but it was kind of like laundry-list style.

I mean, you know, electronic medical records, sure, great thing, but, you know, how do we change the culture of the doctor's office and how do we get the money and the technology to make this really work, because it requires an up-front investment and it requires interoperability of systems and all that.

Talked about expanding health savings accounts. I'll come back to that because I think that's going to be probably the most controversial and interesting part of this, not that it's new. Health savings accounts were first introduced in the 2003 Medicare bill.

But he seems to want to expand them, from everything we know. He talked about new tax subsidies for purchasing health care or health care insurance, when most experts, including his own tax reform commission, are talking about scaling those subsidies back, not expanding them, and I, for one, fail to understand how expanding tax

subsidies is going to reduce the health care cost inflation that he's worried about; rightly so.

He talked about malpractice reform and he talked about greater portability, so that if you change jobs, you don't lose your health insurance and I think, you know, again, that's not new but there's real merit in liberalizing that.

Now on health savings accounts, this is the idea that you can buy a high-deductible, catastrophic insurance plan, and put some money in a tax-free savings account to pay for the routine out-of-pocket care that goes with that, and carry the money forward if you don't need to use it from year to year.

I think this idea has some merit. I mean, the jury is still out on how that might work. I think it's worth experimenting with.

There hasn't been a lot of sign-up for it so far. We don't have a lot of evidence about what it's doing to health care costs or to access or quality or anything else.

I would say, on the one hand, there's the argument that if less health care is paid for by third parties like insurance companies or the government, consumers will have more of an incentive to become good consumers, to choose wisely and to not maybe consume quite so much health care and that will slow the growth of costs. This is the theory behind this.

On the other hand, some people may not get the care that they actually need, particularly preventive care and that may lead to even higher costs, longer term.

Furthermore, there's the danger that this will splinter people into those who are healthy and wealthy, who can benefit from these accounts and will want to have them, and those who are poorer and sicker who will be left in the traditional systems, including the employer-sponsored systems, which will just further drive up the premiums in those systems and not necessarily accomplish what's needed here.

So, you know, I was surprised, like you, that he was so brief about each of these, and that he didn't describe it in ways that I think the average American would understand.

I think we're probably going to see a lot more detail coming out on this and it will need to be assessed very carefully. This is a huge issue. The public, right now, as you know, Tom, has put this right after Iraq, at the top of their list of concerns, access and cost of care.

MR. MANN: The one piece, again, missing to me was no statement of the fact that you can define it, shave it any way you want, but say 80 percent of health care costs are absorbed by 8 percent of the population, that is to say the costs tend to be concentrated among a number of people who require a huge amount of health care, chronic care, and they may be the very people who are less reachable, less in a position

to benefit from kind of the health savings account, individual choice approach to health care.

MS. SAWHILL: That's exactly right. If this has a positive impact, it's going to be on, you know, that relatively small share of health care spending that is controllable.

I mean, you have a heart attack and you go into the hospital, you're not going to sit there and say, you know, don't give me the treatment I need because it costs too much, and furthermore, you don't have the information, as a consumer, that you would need to make choices between, you know, about where you go and what treatments you get.

You're going to have to rely on the provider community to tell you what you need.

So I think it's no panacea, but it's an interesting experiment.

MR. MANN: Thank you.

Audrey, I was struck by how much the president rooted his comments about immigration within the economic section of the speech. He talked, as I mentioned before, that we should beware of anti-immigrant measures.

He discussed immigration in the context of the importance of maintaining open markets.

And he made a rather impassioned statement, declarative statement about the importance of immigrants to America and American

society, and then specifically said we need orderly and secure borders and we need a guest worker program.

Now what was or was not different from what he said this year from previous years and what does that tell us about the state of immigration policy?

MS. SINGER: Thanks, Tom.

I think the president was loud and clear on the role immigrants play in the U.S. economy, when he said the U.S. economy could not function without immigrants.

And this is obviously something that needed to be voiced in terms of the vital role in competitiveness that immigrants play in our market and the world market, and an acknowledgement of the work that's being done.

In terms of what he said this year, and how he said it, and what it means for actually moving ahead with legislation on immigration reform, he said very little that was new this year than he said last year and the year before.

He has moved from two years ago, when he talked about having a guest worker program that included a pathway to citizenship for immigrants. He's moved recently to what he's calling a no amnesty, temporary guest worker program, which is more like a temporary visa program where immigrants work with an employer for a set number of years and then they return to their home country.

So this is a change in terms of a pathway into a different kind of legal status than before.

What I think that means, is what you're asking me, is that—oh, and the other principles that he laid out were stronger enforcement and border security, and measures along the lines of what passed in the House bill last December.

I think what this means is he's still laying out his principles, not necessarily pushing on any one thing, but he's got a split party on this issue. He's got very strong voices against any kind of legal status or permanent legal status for immigrants who arrived here illegally or who remain in a status that's not legal.

And then he's got those who support business interests who very clearly need immigrant labor and support any kind of temporary program or even a permanent program.

So there's this large gulf between what the president is saying and what needs to be done, and how Congress can carry out some kind of immigration reform, and what's being called for on many sides of the issue is both an enforcement, a stepped-up enforcement program along with a program about immigrants themselves and about workers and their contributions to society.

So bringing them in. So those things are covered.

A third part of a comprehensive immigration policy would also include work site enforcement, bringing the employers into the

picture and recognizing the role that they play and the demand that they create for immigrant labor.

So there's a lot to be hammered out in the details and there will continue to be a protracted fight on these issues because of one side saying we need enforcement first or we need enforcement only, and the other side recognizing that we're talking about a large and growing group of immigrants who are living in the United States, who continue to come to the United States, and many of them who are here in an unauthorized legal status.

I guess the first part of what he said in his speech about the role of immigrants in the economy recognize that immigrants are here under all kinds of legal conditions—you know, it's estimated that about a third of the immigrants here are without legal status and two-thirds with legal status, whether it's permanent residency or they've naturalized and become U.S. citizens.

So he was acknowledging the whole group that we have of foreign born persons living in the United States. But then his further comments about what the principles should be, going forward with immigration reform, really address the problems of illegal immigration.

MR. MANN: Audrey, I took as significant the absence of the statement he had had in his prior speeches about preserving a citizenship path for those who respect the law.

And it seemed to me, implicitly, an acknowledgement about the politics, especially as you indicated, within the Republican Party now, and the president, especially following Chairman Sensenbrenner of the House Judiciary Committee's statement, that he would not support a guest worker program, that he's going to live with the border security and enforcement piece, going forward on its own and then hope to come forward afterwards with a guest worker program.

The odds of the latter passing alone are pretty slim. The only way you could get that is package it together and use the Senate as a wedge against the House. Would that be a fair reading and assessment?

MS. SINGER: I think that would be a fair reading and assessment. I think what—the problem in excluding any provision that would change the status of immigrants who are currently here, who are illegal, is that this group will continue to grow and that there are consequences for not doing that.

So I think that's kind of at the root of this, and in addition, the resistance to temporary programs or temporary programs that don't allow people to become permanent residents, or lead to a pathway to more permanent status, is that there's a growing understanding of what happens with temporary immigrants living in this country. That there's a strong connection between temporary migration and permanent settlement.

And so by ignoring this kind of human process, people come here, and I'm talking about people who come here on high-skilled temporary visas and who come here as low-skilled workers, maybe outside of the legal system. People's lives change in the process that they're here. They may think that they're coming here temporarily but in fact they end up staying because they develop a relationship with an employer or they set their sights on new goals.

So there is this kind of social aspect, and I guess the other thing that's missing from this conversation is the impact on local areas, and what we've seen over the past 10-15 years is there's been a tremendous influx of immigrants coming into the U.S. but their settlement patterns have changed.

They're no longer exclusively going to the big immigrant magnets like New York, Chicago, Miami and LA.

These immigrants, in the '90s and in the last five years, have been dispersing to places that are not necessarily prepared for an influx of immigrants, whether it's small or large scale, and so one of the big challenges is that we have a federal program and we're working on fixing a broken immigration system. But there's still local officials, local communities that are learning how to deal with the social and economic and cultural incorporation of immigrants into their communities and there are a lot of "hot spots" around the country in places that there weren't before.

MR. MANN: Thank you, Audrey.

Now following immigration and health care, within the section of the speech on the economy was a discussion of affordable energy. That's not surprising. Americans are certainly worried about the price of energy, and gas in particular, but we know it's a mega problem in many dimensions—security dimension, economic, environmental.

But many of us were struck by the line that the president said, "America is addicted to oil." America is addicted to oil and we need to break this addiction.

That was jarring, David. So my question to you is, what does that signal? Is this in some way a sea change in views about energy in this country, in this administration? And did the president propose policies consonant with this change in rhetoric?

MR. SANDALOW: There's no question that the rhetoric was striking, Tom. The phrase "addicted to oil" is very catchy. It got the headlines. It goes beyond anything the president has said before. He's talked in the past about reducing dependence on foreign oil, but never used something so dramatic.

This is a phrase that has been in use in the dialogue about energy policy for many years. 10 years ago, this would only have been used on the left. But in the past several years, national security hawks have begun to use the phrase "addicted to oil," and the president is now embracing it. The American public, according to polls, believes that we

are addicted to oil by a large majority. This is a sea change in the framework for discussing this issue in this country.

Note one other thing about this phrase, which is that the president did not say "addicted to *foreign* oil." He said "addicted to oil." He also used the phrase "we're going to move beyond a petroleum-based economy." There's a difference between just focusing on oil imports and getting entirely beyond the use of petroleum, and we can talk in more detail about that later.

The president is doing something at a rhetorical level which I believe is quite dramatic—but then we get to the policies that you asked about. The rhetoric was striking, but the policies were meek. He jumped immediately to a 22 percent increase in clean energy research at the Department of Energy. Seldom has inspiring rhetoric been deflated so quickly with budget specifics.

[Laughter.]

MR. SANDALOW: This is an area of policy where we have regularly heard advocates talk about the need for a moon mission, for a new "Apollo program." We have trillions of dollars of invested infrastructure in the petroleum-based economy. The notion that we're going to break our addiction with 22 percent increases in the Department of Energy budgets is misguided.

MS. SAWHILL: My research assistant did a calculation of how much money that was. It's a little over \$300 million. Million.

MR. SANDALOW: Which is the research budget for a portion of one of the major oil companies. So the proposed policies don't seem to match the rhetoric. Nothing on fuel efficiency standards for autos, either. That's not surprising, since that's been a very politically contentious issue. The president didn't give any indication that he was shifting his view on that politically charged issue.

There was one exception, however, on the policy front, and that is ethanol. What the president said about ethanol was head-turning. Most striking for me was his focus on wood chips and grass. Amazing to find reference to wood chips and grass in the State of the Union Address. What he's talking about there is advanced ethanol—ethanol not from corn, which is what most of our ethanol is made with in this country, but ethanol using wood chips, grass, and other so-called "cellulosic products." This cellulosic ethanol takes less energy to make. It is therefore better from a reducing-foreign-oil-dependence standpoint. It's also much better for the environment. The president had a very strong embrace of this kind of ethanol—he said last night, "Our goal is to make this new kind of ethanol practical and competitive within six years." That's an achievable but rather aggressive goal that he set for this type of ethanol.

Among other things, I think this reflects a quite striking bipartisan convergence in the ethanol area. I mean, you've got farmers, obviously, labor unions, industrialists, national security hawks all

coming together to say we can and should be getting much more of our energy from homegrown sources.

Just two comments quickly, Tom, about the dogs that didn't bark in this speech. It's always useful to pay attention to that. The most important was the Arctic National Wildlife Refuge. Absolutely no reference whatsoever to this. This has been a centerpiece of the administration's energy strategy since they came into office. They suffered a bruising defeat on this at the end of last year in the Senate, and the failure to mention it signals at least a tactical retreat by the administration on this issue and maybe a white flag—there may be an implication that they're not going to be pushing this.

As I said, no reference on fuel efficiency standards. And also, no reference to global warming. It is rather commonplace in discussions on energy policy to talk about global warming as central to how we're going to think about these issues; absolutely no reference to the topic whatsoever.

Many people are asking today with regard to energy and the president's speech—is this a Nixon-goes-to-China moment? It's too soon to know. The rhetoric was soaring, the policies were meek. There may be more in the months ahead. We'll see.

MR. MANN: David, is it fair to say that no energy policy without some kind of energy tax is likely to accelerate a transition to reduced energy consumption and alternative-fuel use?

MR. SANDALOW: You know, I've never seen a sharper divide between the punditocracy and the politicians than on this issue. I mean, we've gotten to the point now where pundits across the political spectrum are calling for a gas tax. Charles Krauthammer is maybe the most notable one on the right who is calling for this. But I'm not aware of any politicians, anybody who has to face the voters, who is raising their hand and saying "I'm for a gas tax or a carbon tax."

Partly because of that, and because I'm an optimist, Tom, I believe the answer to your question is—no or yes, depending on how you put it—we can make progress without a gas tax or a carbon tax. I believe we can do it. Clearly, economists will tell you that that tax is the most efficient way to address this issue, that you can internalize externalities of energy use with a tax mechanism. But given that this is so far from political reality today, my own view is we ought to be pursuing many, many other policy tools that can take us the distance in a lot of these areas.

MR. MANN: Well, let me follow up. Can an energy policy work without either an energy tax or much tougher fuel economy standards?

MR. SANDALOW: I would doubt that. Look, the fact is that our auto fleet has tremendous national security implications. In any dark cloud there's a silver lining—I'm from Michigan and, I must say, pretty sobered by what's happening to the auto industry there today. But

if there is a silver lining in the disaster there, it's that we are poised for a historic transformation, I believe, in the auto industry. The dialogue between Washington and Detroit is ready to be reshaped. Among other things, we should be looking at a deal in which Washington relieves the pension and health care costs which so burden American auto manufacturers, and Detroit, in exchange, agrees to put fuel-efficient cars on the road in large numbers soon. A deal like that could dramatically improve our economy as well as our national security.

MR. MANN: Thank you. We didn't talk about nuclear power, but that's something we might come back to in our Q&A.

Ron, the final third of the speech was devoted to a whole host of other domestic initiatives and concerns. I was listening to see which term would win out, "competitiveness" or "compassion." He did use both terms. He talked about building a compassionate, decent, hopeful society, but frankly I was struck by the "competitiveness" thrust of his speech. You can make an argument that the meatiest part of his recommendations were there—in the whole speech—having to do with math and science and education. Did you notice that? And how significant do you think it is? Are there hints here of something substantial happening? Are there possibilities of, really, here—unlike other places—agreement across the partisan aisle? And does it remind you of Bill Clinton at all?

MR. HASKINS: Yes, yes, and no.

And let me begin by correcting something that you said at the very opening of the panel. I'll agree with half, and that is that I also do not know what the president needed to say last night. But whatever it was, he did say it.

So now that we have a balanced panel—

[Laughter.]

MR. HASKINS: No, I agree with everything you've said. Maybe the Clinton—I'm not exactly sure what the reference there is, but all presidents talk about competitiveness because in fact it is a huge issue. It is a huge issue—and I don't know how many people in this audience have looked at it recently, but it is scary. Our international position is changing so rapidly. You could cite any number of changes in the last two decades or so, but one of my favorites is that something like 60 to 70 percent of the Ph.D.s in engineering that are going to be granted in the United States this year are going to go to foreigners. And unlike in the past, many of them are going to go back to their countries of origin. And we're all, of course, familiar with how many times we dial the phone and it turns out we're talking to Bangladesh—you know, it's not Bethesda, it's Bangladesh.

So competitiveness is a huge issue, and I think Belle would agree with that in her assessment of the economy. It has to do with our balance of payments, everything, the whole future of the country, really. So it's a huge problem.

The second thing is I think there's a lot of understanding about what needs to be done about it. And it has two terms. One is "human capital," one of our favorite topics here at Brookings. And the heart of any human capital strategy, of course, is the public schools, because virtually all of our kids start in the public schools.

And then the second term of the need is "research and development." It's also a huge initiative in terms of cost. It looks like the total cost of the issue will be something on the order of about \$136 billion over 10 years, which is not a monstrous initiative, but it's certainly not small. That is a little misleading because I believe it includes the R&D tax credit, and that's something like \$85 billion or some such thing. But still, it's \$50 billion in new money. And in this context, as Belle has talked about, the budget deficit, that is very, very serious money. And I want to come back to that.

And another interesting thing suggested by your comments is there's been a lot of careful staff work on this. They know a lot about—I talked to several people in the White House, and they have really looked into this very carefully and they've thought through it a lot. So what do they want to do?

The first thing is, obviously, they're going to renew the R&D tax credit. I think that would happen with or without any kind of initiative by the president. It's almost impossible to get rid of the R&D tax credit.

But the second thing is that they're going to have much more investment in research and development. And here's where the research comes in. They look very carefully at what the most productive investments in the last decade, or decade and a half, have been. So they're going to give \$6 billion in new money to the National Science Foundation, to the Office of Science at the Department of Energy, and to the National Institute of Standards and Technology. And they have discovered through their research—I mean, this probably could be debatable; there may be somebody here who would disagree with it, but the work that these agencies have done has already led to a number of important developments in American economy. They cite prominently the iPod, which was based on research from these agencies, especially the National Institute of Standards and Technology.

And also the strategy of their investments is going to be something I think will be very pleasing to people here at Brookings. All of us depend on money that supports research—not necessarily empirical research and not necessarily in the hard sciences, but we're familiar with the scheme. And their strategy, apparently, is going to be primarily to invest in the most brilliant people, to give them money and then not to tell them what to do. And from a scientist's perspective, of course, that is the best way to invest money—you find the best people, you give them money, and you let them do what they think will be most productive.

The third thing is that they're going to invest in human capital. He was very clear about this last night in his speech. Again, they've done careful research on this. They're going to have enough money for 70,000 new teachers, specifically teachers that will teach advanced placement courses in math and science. Now, this strikes me as an extremely good strategy. They're going to focus on the brightest kids and make sure they get even more by the time they get out of high school. I think that's a position that would be well supported by research.

And in addition, they're going to have 30,000 professionals that they're going to—this is their goal, to get 30,000 professionals that work in occupations related to math and science and get them to go in the public schools—

As soon as we get through here—I just thought of something—I'm going to call them up and recommend that their poster child should be Alan Greenspan. I mean, he ought to be teaching economics in high school, math or some such thing. You know? And indeed, I actually—

MR. MANN: Forget the consulting firm.

MR. HASKINS: And believe it or not, he actually made a public statement about a year ago to this effect, that he might do something like that.

But we do have a lot of people like that around in America that would like to do something to give back. And with the right

approach, I think they could possibly be successful here. Some of you may have heard this before—it's called A Thousand Points of Light. You know?

So I think that's a reasonable thing to, and we'll see if they can pull that off. Unfortunately, it's going to cost \$380 million. That will all be appropriated money. As all of us know, that is money that's pretty precious. You've got to have enough for the set-asides and for the earmarks. So it will be competitive. I don't know if they'll be able to get this, but that's what they're going to be asking for, \$380 million next year and more in the years to follow.

And then finally they're also doing a very careful review of current programs. One thing they've already found out that I thought was quite fascinating is that we spend now something like \$2.8 billion on science and math education, less than 10 percent of which is in the Department of Education. So it's in the Department of Defense, Energy—it's all throughout the government. So they're going to look at all this stuff very closely. This is like the part that OMB is doing, where you evaluate programs. They're going to try to look at all these programs and see if they make sense and seeing if they are doing what they're supposed to do, and if they're not, they're going to propose to change the programs.

I do think there's a little downside here. In fact, there are two downsides that I can think of that are going to make this interesting. First, it is, I think, bipartisan. And indeed, there already has been

legislation, bipartisan legislation introduced on the Hill, the so-called PACE Bill. And that in turn—this will be music to Brookings's ears—it's based on the National Academy's report, a very careful study of a panel that was chaired by Norman Ornstein, who used to be with Lockheed Martin, I believe, he was the CEO of Lockheed Martin.

MR. MANN: Augustine.

MR. HASKINS: Augustine. Oh, I'm sorry. Yeah.

[Laughter.]

MR. HASKINS: Not Ornstein. "Mann" you probably wouldn't have corrected.

Yes. Okay. Augustine, who chaired a panel and they made recommendations that are very similar to this.

So you have all the background here. It looked—this is something that really could happen, except for the money will certainly be an issue. I think they'll get the tax credit, but the rest of the money will really be a fight.

And then the second thing is, very much like immigration and other issues—maybe not quite so sharp a disagreement—but there is a real split within the Republican Party because this is going to call for more money for the public schools and more federal input to the public schools, and this is something that was already extremely controversial in the Republican Party, especially in the House, and I would expect there to be a real battle to get that money for the public schools.

MR. MANN: Very interesting. What's your general sense of—looking at this particular initiative but then the other language, under the "compassionate, hopeful society," that really touched on issues about our culture and human life and so on—of how he navigated the divide within the Republican Party, those who are unhappy about building up federal involvement in resources and these areas and others who are quite comfortable with that?

MR. HASKINS: I was thinking of your comment this morning about competition and compassion. I thought, as I was watching the speech, it was much less about compassion than I would have expected. That's a word he likes a lot, uses a lot. There was an account in the Washington Post this morning—I can't remember what it said, and I can't remember if "compassion" was in there; "competitive" was—but I do think he said less, and certainly he was not full of specific proposals in the domestic area of things that we are going to try to do.

First of all, as Belle has pointed out several times, the bank is empty. It's very difficult for the president on initiatives that cost a lot more money. But secondly, I think, on many of these initiatives, as you've suggested, he has a badly split party. And so I—

And in addition, he's already done a lot. We shouldn't forget that. We might forget that on this panel. The president has had many bold domestic initiatives—most important No Child Left Behind, which apparently is having some modest success and could have more success in

years ahead. I was surprised he didn't talk more about it. I think he mentioned it in passing. But that is crucial to our competitiveness. And it's the first thing in years that the federal government has done that has some promise of success.

And I do think that his whole compassion agenda was bold and it was innovative. But unfortunately, I think, especially mainline churches and many of the typical community organizations in the country have not leaped on the bandwagon. And they resist federal direction and, of course, many Republicans resist federal direction.

So to the extent that he has not proposed lots of new things on the compassion agenda, I think it's because they want to try to make what they've already done more successful and more widespread. And they're going to have a big marriage initiative, which we apparently will find out later [inaudible], and that could turn out to be a very important thing. But secondly, he doesn't have much money to have bold new initiatives.

MR. MANN: All right.  
[End of panel presentations.]

Listen, let's turn to you. We have microphones. Do we have a question?

QUESTION: I'm tempted to ask you, Tom, whether he said what he needed to say.

MR. MANN: We're going to have everyone introduce themselves first.

QUESTION: Finley Lewis, Copley News Service.

But let me rephrase that question. Did the taxpayers hear what they needed to hear, or wanted to hear? I'm thinking particularly of the fact that he was silent on, for example, the AMT, and why that would be. And why he was so evasive and nonresponsive to the whole question that he raised last year about tax reform.

MS. SAWHILL: I think that one reason he might have been silent—I'm just speculating here—is because there is, as you probably know, Finley, a huge disagreement between the Senate and the House on this issue. The Senate has wanted to fix the AMT and make that part of a reconciliation bill. The House has preferred to go with extending the tax breaks for capital gains and dividends. And I believe that is still a point of contentiousness. So perhaps he didn't want to roil his own troops in the Congress.

MR. MANN: As you know, the AMT is exceedingly expensive to fix over the long term. So if you packaged it with making his tax cuts permanent, it would greatly increase the cost and make it even less likely that anything will be done to extend his tax cuts. I think that explains it.

MS. SAWHILL: And in the Budget Resolution, there wasn't enough money to do both.

MR. MANN: Right. Exactly.

MS. SAWHILL: So this is the problem.

MR. HASKINS: I do think there's one part of the speech, though, where he did do, I think, what people expected and he did a good job of it, and I think he did need at a minimum to do this, and that is the only thing between—already, his Iraq policy is questionable, as we've seen on this panel pretty clearly, and the American

public has not completely deserted him, but the numbers have gone down and down and down—and he still comes across as bold and confident and we're going to win. And I think if he hadn't done that, his numbers would fall even more and it would lead to—he would have huge internal problems within the party.

I agree with everything Tom said about his theory of State of the Union addresses, but I do think one of the most important consumers is Congress, and your party in Congress. And there, I think, he said a lot of things that Republicans wanted to hear. The most important is that he's going to remain tough on foreign policy and on Iraq and that we're going to have permanent—he wants to make the tax cuts permanent. Those are the two minimum things that he had to do. He sounded good doing it. At least the second is probably extremely questionable in policy terms, but I do think he satisfied at least his base, which would—that really has been probably the key to this presidency, is to keep the base satisfied.

MR. MANN: Excellent. Yes, a question back there.

QUESTION: Hi, my name is Adam Nudent [?]. I'm with the John Glenn Institute for Public Service and Public Policy.

I was just curious. You guys talked a lot about competitiveness. The president mentioned something to the effect of with open markets and a level playing field, no one can out-produce or out-compete the American worker. We've seen the emergence of China and India in the global markets. What kind of role do you guys think outsourcing is playing on these types of trade deficits that were mentioned a little bit earlier?

MS. SAWHILL: I don't think they're a major component right now, but they certainly are bothering people a lot and they certainly are beginning to affect white-collar jobs, whereas it used to be we worried about the blue-collar jobs going abroad. So there is a whole new anxiety about that, no question. And I thought it was interesting, if you compared the president's speech to the Democratic response, that there was a lot more—there really was a major difference, a sharp difference there, with the president calling for open trade, you know, no protectionism, and the Democrats flirting with the need to save jobs at home and being a little bit—there was a little note of populism to me in Kaine's response, particularly when he talked about energy prices and the fact that some of the big energy producers have been making out-sized profits.

It's going to be interesting, I think, the extent to which, as we move into the mid-term elections and beyond, whether those differences remain. In the Clinton administration, there was much emphasis on open trade, fair trade, and not closing down the borders. But if we continue to run these large trade deficits, if we continue to see more and more outsourcing, the political pressures could build for greater protectionism, and that will be an interesting one to watch. I don't know what you think about—

MR. HASKINS: And not just the trade deficit, though. The president has to say on a level playing field America can defeat anybody in the world in economic terms, because we've always done it. But we've always had the best education, the most education, especially the best secondary education, the best R&D. And the trends that I mentioned earlier are not favorable to that. So it's remarkable that the Republican Party and even Bill Clinton to a very substantial degree—more than any other Democratic president—could be free-traders. And Clinton played a vital role in NAFTA.

But we are going to lose jobs because of that, but we don't worry too much because there are going to be other jobs coming along because we have the R&D and the high IQ. So it isn't just a trade deficit, it's an IQ deficit in the long run that we're really worried about, and that India and China and many other countries are going to be as smart as we are, they're going to have lots of research and development, and they're going to get products to the market before we do. Then we really are going to have to worry about protectionism.

MR. MANN: That line is a very familiar one in presidential speeches, about American workers, on a level playing field, can out-compete any other workers. Every president has—

MR. HASKINS: Right. But it's less true today than it was 10 years ago, and could be a lot less true 10 years from now.

MR. MANN: Precisely the point I wanted to make.

MS. SAWHILL: We don't have a level playing field when we have health care costs in the wage package for our workers.

MR. MANN: And that's the other piece of it, which—part of it is the education, training; part of it is the pension and health care costs absorbed by employers in a way that presents some particular problems.

QUESTION: Gilbert Brown. I'm chairman of the economic and budget policy work at the Women's National Democratic Club.

I had two closely related comments. They're both on the point that the money that's going into health service accounts particularly could be used much better to solve another problem, social problem, and that is that that money is going to go mostly

to middle- and upper-income people, while we've got the 45 million uninsured, including 8 million children. So if that money, instead of going to HSA, was going into Medicaid and programs of that sort, we'd be defeating two things instead of one.

The other thought is that, while he says we need to bring in immigrants for the economy, we also have pockets of very serious unemployment in this country. Some are rural areas. The inner-city blacks is another, inner-city minorities.

So those are two questions I'd like to get some reaction to.

MS. SAWHILL: Gregg, you might want to take the health savings account question. But, you know, you're absolutely right that we're cutting back on Medicaid right now. That's been part of the budget deal in the Congress. And I wouldn't debate what you said about that.

Gregg, do you want to elaborate on that?

MR. BLOCHE: Thank you. It's certainly the case that, in terms of bang for the buck, getting prevention-oriented care and other care to poor people, putting money into programs that provide coverage directly, whether it's Medicaid or other programs, is going to be more effective. I think that's kind of a no-brainer.

MR. HASKINS: It may be a no-brainer, but there is another consideration, I think, that even people on this panel will admit to, and certainly it's reflected in our work here, especially in our budget work. And that is, a main goal of American health policy should be to control expenditures on health services. So the more people are covered, the more money we're spending. The fairness question comes up against it, but this is always the case in public policy. On the one hand, you need more coverage, but you're going to spend more money; on the other hand, in the long run

we're going to—we are really going to ruin our economy and international competitiveness and everything else if we keep increasing our spending on health care at such a rate.

MR. BLOCHE: But here's the disconnect between where the spending is blowing up in hospitals for seriously ill people and where this kind of cost control is going to occur, at the outpatient level with respect to prevention-oriented care. And we need to get at the bigger problem, the large size of hospital spending.

MR. MANN: I think it's— No, Audrey, go.

MS. SINGER: I was going to respond to the immigration piece, but—

MR. MANN: Go ahead. Please.

MS. SINGER: Okay. About 14 percent of our labor force are foreign-born right now. And I think the big thing you hear a lot is immigrants—the low-wage-worker type of immigrant—take jobs that Americans don't want to do. And I think a real issue here is that Americans don't want to do them at the wages they would be paid to do them. So there is this problem at the lower end that you've identified, and it's very hard to see how we can move under-employment and unemployment around in that context.

MR. BROWN: I'm not against immigration or immigrant workers, but I am against not trying to deal with our own domestic problem. And a little bit of the problem is wages at which Americans won't take them. Perhaps we should do something about minimum wages and deal with our domestic unemployed group, which is not—unless we do, it's not going to be good for social stability.

MR. MANN: I think it's interesting to note that in recent years the coalition on immigration has changed dramatically. Now labor unions and a number of civil rights organizations have joined the pro-immigration coalition because they see it in very different ways.

I'd like to pose a question, if I may, to Amy Liu. The word "Katrina" did not pass the president's lips last night, but he did talk about the Gulf and natural disasters and the reconstruction and about the problems that existed there and in American society before Katrina came along. So in one sense, there was an absence of talk about how the rebuilding is coming and the details; on the other hand, there's a pretty impressive rhetorical statement about the underlying issues and concerns. What did you make of that, Amy?

She's with the Metropolitan Policy Program here at Brookings.

MS. LIU: My name is Amy Liu and I am the deputy director of the Metropolitan Policy Program, and we have been following the Katrina issue. I would say that if you asked the families living in the Gulf Coast or who had formerly lived on the Gulf Coast, and if you asked the three members or family members from Louisiana and Mississippi that were in the First Lady's box last night, if the president said what he was supposed to say and did he say it, they would say no.

I think that in general there was a lot of disappointment in the president's lack of real commitment to progress in New Orleans. He did say, as you had suggested, that there is a need to make sure that families who are not achieving America's progress, that families who are not benefiting from upward mobility, those issues need to be addressed. And obviously, none of us will disagree with that. But he also said that three

months ago, six months ago, when he was standing in New Orleans, and we have not seen that kind of commitment yet.

I would say—and I do just want to remind people—that this was an unprecedented disaster that did require an unprecedented response. I think what we have seen is perhaps the wrong kind of unprecedented response, which is the lack of real federal leadership at this point.

And we have released today an index, what we call the Katrina Index, which is monitoring the progress of recovery on the ground. And based on some numbers today, I would say that progress is really at a standstill and I think that there needs to be recognition by the White House the important role the federal government plays in sending some very strong signals to the market.

So I would say, just in terms of highlighting some quick numbers, there really is interest. I know there are a lot of questions about whether or not families are going to return to the Gulf Coast. But if you look at the numbers right now, there actually is interest to return. I think many folks were surprised that there are 9,000 students that are back in the public school system, that a lot of the universities, including Tulane, have—when the school year opened up in January, that 93 percent of the students returned. I think the average is about 80 percent of the students returned to the three major universities, including the historically black colleges there.

So there is interest in returning. The problem is that the infrastructure to support more families to return does not exist, and that doesn't exist because the city and a lot of outlying parishes are literally flat broke from the disaster. So for instance, even though there are 9,000 students returning, there's only—15 percent of those schools are

open, so a lot of them are stretched thin, overcrowded at this point trying to meet demand. There are, I think, 7 out of the 22 hospitals in New Orleans are now opened, but they are experiencing incredible waiting lines in the emergency rooms for care. That we are—even though that majority of the — electric and gas utility services are back online, the majority of the homes are still not connected to those services, because the infrastructure is not there.

So I think there, again, are real problems on infrastructure services that I think that the federal government could help, again, put a quick down payment on to get that going, so that— And again, when the population doesn't return, we don't get workers filling those jobs. And a lot of the employers right now in the Gulf Coast are talking about the fact that they can't find workers to fill those jobs.

And I would say, in the last couple of months what the president has done is send some very strong signals—most recently with the rejection of the Baker Bill—that strong signal to the market that there is going to be—there's no real confidence about what's going to happen with the levees, that there is no aid to move the housing market at this point. There was a bill that everyone was talking about, the Baker Bill, to provide immediate mortgage relief to families, to accelerate the demolition and replacement of homes. All of that has been rejected. So again, a lot of families are just not knowing what to do in terms of getting their houses rebuilt.

So the whole—I think what you're hearing from a lot of families down on the Gulf Coast is there is no strong signal that any aid is coming to help jump-start the market there.

MR. MANN: Amy, Belle has a question.

MS. SAWHILL: Can you help us understand a little better, Amy, what's happened to all the money that was appropriated for Katrina? I mean, I think it's, what, \$85 billion. That seems like a lot of money. I don't understand whether it's the contracting process that's gone awry or whether it's at the state or local level that things are going awry. My understanding is we haven't begun to spend all that money, so it's not like the federal government hasn't put up the resources for this, right? How would you explain that?

MS. LIU: I think there might be other people who can follow this. One is that the \$85 billion, the bulk of that money has been for emergency relief. And dating back to even all the money for the Red Cross, all the money for FEMA and Army Corps of Engineers to do debris removal, to begin work on the levees, and to provide emergency housing to families. So that clearly is very important. And again, there are still 750,000 families that are in these temporary housing situations. And the bulk of that money has been, really, set aside for those emergency short-term purposes. And I think those are useful.

It isn't clear right now—I don't have the latest numbers or how much of the \$85 billion has been spent down, which is a good question.

But I think what most people are seeing is the short-term emergency issue is not enough, that there is—none of these dollars are really for infrastructure, that where there was infrastructure from the federal government, it was mostly to support federal facilities and not all the other public and nonprofit facilities in those cities and parishes. And again, everyone is saying even though you—you know, you can pass the Gulf Opportunity Zone and provide tax credits to a lot of the employers, but if you want to

jump-start that economy, you have to get the housing market back. And there are still over 200,000 homes that are destroyed or in some very severe degree of damage. There are still a lot of families that are really hesitant to rehab their homes because there are no funds for that.

It's very complicated right now. But the housing market returning is really critical to get the economy starting, and there has been no help on that front.

MR. DAALDER: Tom, can I—

MR. MANN: Ivo, please.

MR. DAALDER: Just a small anecdote, or story. This morning on NPR, Renee Montagne interviewed three residents in a trailer, two independents, one Republican, all of whom were very disappointed with the speech. And the woman, a nurse, said, "You know, I'm the kind of person who doesn't want the government to be in my life. But let me tell you, the time has come for the government to take over and to take charge here. When we can rebuild Iraq, we can rebuild New Orleans."

And I think that vignette says it all. And the fact is—

MR. HASKINS: No, no. It begs the question. Which government?

MR. DAALDER: No, it actually—well, she made very clear which government. Which is the federal government.

MR. HASKINS: I assumed you were going to say "federal," but that doesn't mean it necessarily should be the federal government.

MR. DAALDER: Well, the way they were talking about the mayor of New Orleans, it implied it was the federal government. No, in fact—

MR. MANN: They don't have confidence in their locals.

MR. DAALDER: In fact, that does beg the question. But it seems to me that this is not a time when we need to get into that question. That is to say, at some point there is a national responsibility at a national level, and if the local and the state government can't do it, the federal government does it. It's a very basic way of looking from—

MS. SAWHILL: Yeah, but my question, my sub-question here, Ivo, is is the problem money or is the problem that government doesn't know how to do the job?

MR. DAALDER: I think the problem is, as Amy pointed out, is that there is no sense of a commitment to the future of New Orleans. There's no sense that the federal government will stand behind that city, that the levees will not only be rebuilt but they will be rebuilt in such a way that the next storm is not going to flood the entire city. That's what's lacking. There's no sense of the future. And if you don't give a sense of the future, everything else cascades back.

And it's that inability of the federal government to stand up, and the president to stand up. The president went to New Orleans to say we're going to rebuild the city; we're going to do whatever it takes. And then he walked off the stage and never came back. He was on the stage again yesterday. He made very clear that he was not going to fulfill the kind of commitment he himself had made when he was in New Orleans.

This man gives great speeches. But the follow-up in this case and, frankly, in so many other cases, just isn't there.

MR. SANDALOW: Tom, just a very quick word about the environment/energy angle without turning this into a Katrina discussion.

Amy's absolutely right that this storm was unprecedented, but the science is also quite clear that we will see more storms like this over the course of the next several decades than we have over the past several decades as a result of global warming. The build-up of greenhouse gases in the atmosphere does not increase the frequency of storms like this, but it clearly increases the strength. And over the past couple of decades, Category 4 and 5 storms globally have doubled. Have doubled. So, as we start to think about the long-term preparations here as we get through this crisis, we need to be keeping that in mind. And of course there's a very significant implication for energy infrastructure, which was knocked out by this storm and is inherently vulnerable to storms like this in the decades ahead.

MR. MANN: Thank you.

Question right here, please.

QUESTION: [inaudible], Emerging Markets Management. I have two quick questions, one for Audrey.

You mentioned that 14 percent of the labor force is foreign-born. How does that compare to, let's say, the European Union in general, places like Ireland, now even middle-income developing countries like Thailand, Malaysia, Singapore—although that's no longer middle-income.

That was one question for you. And then a question for Ivo, you mentioned that politics is the essence in Iraq. Before kind of writing this off, is there any evidence that the U.S. is getting a handle on the politics?

MS. SINGER: On the labor force composition in other countries. I don't have those numbers on the tip of my tongue, but I can tell you that some of the Western

European countries are comparable in terms of the foreign-born and the extent to which they participate in the labor markets there. In developing countries, there is a mixture of different types of economies. So places that are growing very fast are both exporting people as well as importing people and there's also a lot of internal migration happening from—you know, to major centers in those places.

So I think the context is really important. And I'm sorry I don't really have a good sense of the numbers in developing countries.

MR. MANN: Ivo.

MR. DAALDER: Let me just say that I am within that 14 percent.

[Laughter.]

MR. DAALDER: So I take immigration personally, having had to go through the visa system here, which doesn't give you much hope for the future.

On Iraq, which gives you very little hope for the future either, I do think the administration now gets it in a very fundamental way. We spent 2005 talking about training security forces, which was a sideshow. Because you can train security forces as much as you want; if you don't get a single state to which those forces are going to be responsible and supporting, then you're not going to be able to solve the problem. So they do get it.

And I think that a major advance was made when we finally got an ambassador who understood the local culture. And Zal Khalilzad, who is our ambassador now, has been working his darndest to try to convince the parties, both the Kurds and the Shias, in the first instance, to bring in the Sunnis, and then the Sunnis to be willing to be brought into the process. But this is not a job that one man can do. And

this is a job that requires more than exhortation. It requires a fundamental political compromise by the leadership, and ultimately the populations themselves, on issues that have beset this part of the world not just for two or three years but for many, many decades. I mean, the Shia-Sunni rivalry is not something that was born because we "liberated" Iraq. This has been going on for some 1,300 years. It's not going to be resolved by engagement, however well-intentioned, by the U.S. ambassador.

That said, it is important that we continue to push this issue. And it is important that we succeed. Because if we don't get a government of national unity that also agrees to a compact which puts the Iraqi state above the sectarian interest of the groups that are there, we're going to fail in this system. And, in that sense, this president and his policies has placed far too much emphasis on elections. Elections are a wonderful mechanism for choosing governments within working societies. They are horrific mechanisms for choosing governments in societies that don't work.

I spent my government time trying to figure out what to do in Bosnia. And we pushed very hard back in 1996 for early elections. And we had the result that we would expect to have, which is that sectarian interests won. They won in Iraq, they have won again in Palestine. The electoral triumph of Hamas, Hezbollah, Iraqi Shiites, the Muslim Brotherhood don't spell for me the kind of freedom, democracy-inducing chain transformation of the Middle East that we want to see. And the equation of democracy and elections, as opposed to civil society, as opposed to figuring out ways in which the institutions of the rule of law, of full justice, of a free press, of all the kinds of things that we have in our Constitution are built up, then the liberal part, the

constitutional part of democracy, gets thrown away when you have elections that are too early or emphasized too quickly.

And it is these elections that lead you to a government system in which you now have—by three seats, the Kurds and the Shias can have a two-thirds majority and run this government. The temptation not to embrace the Sunnis, the temptation not to make the compromises becomes that much greater and therefore the likelihood of failure becomes that much greater—just because we are emphasizing elections over the essence of what democracy is, which isn't elections, it's the society that allows elections to choose our governments and in fact to have new governments chosen over time.

That hasn't happened, and that's where, really, the emphasis needs to be rather than on figuring out how you can get people to the polls and have purple fingers. Purple fingers are wonderful, but they don't solve problems.

MR. MANN: Yes, right here, please.

QUESTION: Nadia [inaudible]. I'm with the Embassy of Romania. My question is on foreign policy. Actually, I have two quick questions.

Why do you think North Korea was not an issue at all last evening?

And the other question is about the transatlantic dialogue. This was not mentioned at all. Is it because President Bush believes that the cooperation is better now with Angela Merkel in office and it takes two, the French and the Germans, to have an issue with the Europeans? Or is it simply because it was not necessary to make the case?

Thank you.

MR. DAALDER: You know, you have 5,500 words. And the question becomes who's going to be in those 5,500 words. And particularly when you do foreign

policy, you have less than 5,500 words, you have 2,500 or something. The standard is, "My God, Australia wasn't mentioned. The alliance must be going down the tubes." No. So that's Part 1 to the answer.

And I think the president has paid a lot of attention to transatlantic relations in the last year. I think they're much better than they were, in part, as a result. And Condoleezza Rice just spent one month in Europe last year, an entire month. The president traveled four times to Europe. And I think therefore not talking about it is probably a sign, in one sense, that things are moving in a relatively good direction. How good, we can debate, but compared to where we were, it's a lot better.

On North Korea, what was he going to say? We're trying to convince the North Koreans to give up the nuclear weapons that they built when we weren't paying attention to them? That is to say Iran is the issue of the day. North Korea, the policy, hasn't worked for a very long time and it ain't going to work for a very long time. And when things don't work, you don't talk about it.

So I think one can at least talk about North Korea as one of those instances where you don't talk about failure, you talk about your success—or the issue that is unavoidably on the table, which was Iran, where he didn't say a lot either.

MR. MANN: One last question. Garry?

QUESTION: Thanks. Garry Mitchell from The Mitchell Report. My real question has been usurped by Ivo. I was going to ask what the hell happened to Australia/New Zealand in the speech, but—

[Laughter.]

QUESTION: I want to ask a question on, I think it's a question for Belle. I want to say at the outset that I'm not sure whether this is a question about metrics or vocabulary. You said that the president paid some attention to the economy last night because it's performed reasonably well and there are people in his party who feel that he needs to be making that point.

And then, as we sort of marched through this discussion, one is reminded that, you know, the rich are getting rich and the poor are getting poor, the economic benefits do not seem to be flowing to the middle class, Ford et al. are laying off people at record rates, energy prices are going through the roof. There are any other number of metrics that we could use here.

So my question is, when we say this economy is performing reasonably well, what do we mean and who benefits and are we using the right metrics; or do we need a new way of looking at and describing these economic phenomena as it relates to how people are doing?

MS. SAWHILL: Well, I think I alluded to that, but I think it's the right question. And we do, we tend as economists and financial press, as you know well, and everybody else to talk about GDP growth and productivity growth and inflation; those are the usual categories. But if you look at what this translates into in terms of average family incomes, the average family in this country—by which I mean the median family—is not doing well.

Now, you know, you get a lot of playing with statistics. Because an "average" can be—you know, this sounds esoteric and really wonky, but it's very important, because the administration will talk about "average," meaning "mean," and

the New York Times editorially will talk about "median." And there's a huge difference between the two, because the mean tends to reflect disproportionately that people at the top are doing well, whereas the median takes the person who's exactly in the middle of the distribution and says they're not doing well.

So, yes. Your question is well taken. The middle class has not been benefiting from what's been going on.

MR. MANN: Well, I'd like to thank my colleagues for their wisdom and their insight, and thank all of you for coming. We are adjourned.

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