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PRESIDENT BUSH FACES A NEW CONGRESS

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MODERATOR:

PIETRO S. NIVOLA
Vice President and Director, Governance Studies
The Brookings Institution

PANELISTS:

CARLOS PASCUAL
Vice President and Director, Foreign Policy Studies
The Brookings Institution

BILL FRENZEL
Guest Scholar, Economic Studies
The Brookings Institution

DAVID SANDALOW
Energy and Environment Scholar, Foreign Policy Studies
The Brookings Institution

WILLIAM A. GALSTON
Senior Fellow, Governance Studies
The Brookings Institution

P R O C E E D I N G S

MR. NIVOLA: Good morning, everybody. Can everybody hear me? We need to get started.

I am Pietro Nivola, the Director of the Governance Studies Department here at Brookings, and I welcome you to our annual tradition of kibitzing a little bit in the wake of the State of the Union Address which is always fun because it also gives us a chance to take stock of where the Nation stands at the beginning of each year for our own purposes as well as for commenting on what the President said last night.

We have a very good panel here, although I am sad to say that Audrey Singer who was going to discussion immigration policy with us has a bad, bad cold which we dodged, thank God, and she won't be joining us. Let me go across here.

Carlos Pascual is the Director of the Foreign Policy Program. He is really one of the most thoughtful and experienced foreign policy experts this Institution has ever had, and he will be talking about the foreign relations/foreign affairs aspects of this session.

Bill Frenzel, a foreign Congressman, you were on Ways and Means years ago, right, Bill? Bill goes way back, 30 or 40 years, and is an expert on just about everything including energy policy. He can attest to the fact that this is one of the more circular, repetitive debates this Country has ever had. I can't think of

another one more like that except maybe for the tariff in the 19th Century. So he will talk on a number of domestic issues.

To my left is my dear friend and colleague, Bill Galston, who is a Senior Fellow in Governance Studies, and he will talk about a number of domestic issues as well as commenting on some foreign policy questions.

David Sandalow is our resident expert on energy and environmental questions, and he will treat that aspect of the program in detail today.

Let me start with Carlos. Carlos, the speech last night was really more about domestic issues than foreign policy in a sense that the President devoted a great deal of time to the domestic side, perhaps trying to change the conversation a little from the Iraq predicament, but still the Iraq component and the war on terror and the usual themes were very much part of that speech. I guess did you sense anything different? Was there anything novel? Did the President acquit himself in some sense better or differently than he did two weeks ago? I wonder if you could talk about that.

Furthermore, he did touch on some other international questions of considerable significance -- Iran, the North Korean problem. He spoke about the intensive diplomacy that is going on there, but he seemed to down play those types of issues and he certainly downplayed the Russian role in blackmailing various countries with the energy card.

One of the more interesting things in the speech that probably isn't going to

get that much attention was the huge increase in foreign aid, combating HIV/AIDS, malaria, the Millennium Challenge Account and so on. I wonder if you want to say something about that too but generally comment on the foreign policy part of the speech.

AMB. PASCUAL: Pietro, thank you.

What I would say is from a foreign policy perspective, this was not really a statement on the state of the Union or a way forward on international security issues, and I think it failed to address the systemic and structural security challenges that we face today, that it failed to address convincingly some of the critical crises in which we face ourselves, including Iraq which was really a repetition of the previous week's speech, the Middle East peace process, Iran, North Korea, Lebanon or Darfur. There were lines on each of those issues but really no strategy that was put forward with any of those. It really ignored as well his own promise of bipartisanship where he indicated at the beginning of this that there is a willingness "to cross that aisle when there is work to be done", but in Iraq he basically reiterated my way is the only way to go forward.

Let me come back to a couple of these points. On the systemic questions, let me illustrate this with two paradoxes. We have the strongest military that we have ever seen in history. We have a nuclear arsenal that can destroy any country in the world. Yet, at the same time, our military capability has not been able to achieve our objectives in Iraq or Afghanistan; we have not been able to preclude

Iran or North Korea from gaining a nuclear capability or being well on the way toward gaining that capability; terrorism has spread around the world; and the United States is probably the most condemned that we have seen in recent history. In a poll that was released by the BBC yesterday of 25 countries throughout the world, for 19 of those 25 countries, it says that the U.S. is a negative influence on how we are handling Iraq, Lebanon, Iran, North Korea, Guantanamo, and climate change.

From a different perspective, this has been accused of being one of the most unilateralist administrations we have ever seen. Yet, at the same time, this Administration has had to come back to the United Nations for some form of help, whether it is through forces, legitimacy or resources on Iran, North Korea, Lebanon, Congo, Haiti, and Kosovo. Yet that institution itself is deeply flawed in part because the United States has not actually vested the energy that is necessary in order to reform.

If we were really going to have a state of the Union last night, we would have to say, honestly I think, that military power and its unilateral use is not adequate to achieve American foreign policy objectives abroad, that the multilateral institutions that we have today are not designed for the kinds of international and transnational challenges we face and have not been renewed in order to deal with that. We are less secure than we were seven years ago, we are not prepared for the future, and we have, in effect, squandered the moral authority

that we had after September 11th to be able to rally the international community.

Now what the President did spend time was on the war of terror, and he said it is the decisive ideological struggle of our time. He said that to win that war, we must take the fight to the enemy. But have we really done that?

I think that the first test of that is a country that was not mentioned for the most part in the speech and that is Afghanistan. It was seen as the centerpiece of the build-up of transnational terrorism with the presence of Al-Qaeda. Yet since the Taliban and Al-Qaeda have been chased out, the Taliban has started to be resurgent again in the south, Al-Qaeda and the Taliban are resurgent in Pakistan, and as a result of some tremendously courageous reporting by Carlotta Gall of the *New York Times*, we have seen that in Pakistan there has been at best a willingness to tolerate their rise and in fact possibly even an abetting of that.

If we look at how that mission has been staffed, we can only say that it is radically, radically under-resourced. Between NATO with 32,000 troops and the United States with about 10,000, there are 42,000 troops or so in Afghanistan. If we were to use the troop to population concentration levels that we saw in Bosnia or Kosovo, we would see a mission there on the order of 275,000 to 450,000 troops. Now let us put aside for a second that the geography is different. Let us assume that Afghanistan has some locally developed police and military that can take up part of the cause. At best, this is a mission that is staffed at a quarter to a fifth of what it needs to be to succeed.

What we are seeing in the south of Afghanistan again is that the Taliban is resurgent. The military is coming in, both NATO and the United States, and clearing out areas, and we cannot hold them. The population is feeling like they have been willing to put their faith in the international community to help, but the next time around it is going to become much more difficult after the Taliban have come in and reestablished themselves.

On Iraq, just a few additional words here, the President has again reiterated that the war in Iraq is essential to fight the war on terror. He did not indicate that originally, that this was a battle that was focused on weapons of mass destruction, and in fact that the rise of terror came as a result of the American inability to effectively manage the intervention in Iraq. He did recognize that today it is a Shia-Sunni conflagration. In his words, he said, it is a "tragic escalation of sectarian rage and reprisal." I think in other words a civil war, and it is in the midst of that civil war that we are proposing to put additional troops.

The President essentially reiterated the same proposal that he put on the table a week ago and which was roundly rejected by both Republicans and Democrats alike. In effect, when he laid out his goals, he did not actually put aside the term, victory. He said, "Our goal is a democratic Iraq that upholds the rule of law, respects the rights of its people, provides them security and is an ally in the war on terror." It is not a bad goal. But if you look at it from those on the right, the argument has been that we do not have the troops and resources to be

able to achieve it, and if you look at the arguments that others have put forward, the President is relying on Iraqis taking a lead, Iraqis who are part of a failed state where Shiite militias have infiltrated the police and most of the political leaders on the Shiite side are linked to those militias. So it is hard to see how we are putting forward a strategy that can actually succeed.

There is really very little mention of any kind of regional role in dealing with Iraq or the surrounding issues. The fact that there have been 1.8 million refugees and 100,000 people a month who are being displaced, and somehow there needs to be some kind of dialogue with the countries of the region in order to address that.

What is also not addressed in the dialogue is the reality that there is a Sunni-Shia split that is extending itself to the region and where the moderate states of say Jordan, Saudi Arabia and Egypt may be more willing to support Sunni extremists to win a battle than they would be willing to support an Iraqi Government that would be dominated by Shia moderates.

In effect, on Iraq, we heard nothing new and no response to the criticism that has been put forward on the plan from either those who advocate a more aggressive response or those who have said that relying on an Iraqi State which is essentially a failed state is not going to work.

The final thing I would just say is that the President did, I think, rightly put the war on terror in the context of a generational struggle. As part of that

generational struggle, he called for an increase of 92,000 in the Army and in the Marine Corps over a period of five years and he renewed the call for the spread of democracy in the Middle East. I think it is appropriate to remind people the importance of the power of freedom and what it can mean to individuals, but it is not a short-term strategy. If you ask the question, did the President help us understand how this can be done when we have seen in Iraq that certainly democracy cannot be imposed from the outside, really no tools were put forward. If one would have looked at this realistically in addition to the 92,000 members of the Armed Forces that were called for over five years, we might have seen for a call of expanding the mere 6,500 foreign service officers that we have around the world to at least a doubling, so that we can effectively engage on the ground and understand the developments that we are seeing throughout the world.

There was a call for a civilian reserve corps. Interestingly, it is exactly the same civilian reserve corps which the Administration had last year in its budget to kick it off for about $25 million. I would predict that when you see the budget go up from the Administration, there will not even be a budget for it this year even though it was called for by the President.

If you bring this back to an historical context and think of what we are facing right now as a generational struggle of our time and compare that to what we saw after World War II where we had a military build-up to be sure, but we also had a strategy, a strategy of containment; the creation of the United Nations,

the Bretton Woods Institution, the World Bank and the IMF to deal with the questions of poverty and financial stability; the creation of NATO and the development of the Marshall Plan. In effect, we had a policy, a strategy and the developments of institutions to internationalize a process of maintaining global peace and prosperity. Today, what we have is a call to fight them there with an increase of American troops but no understanding of how we internationalize this process, how we build the institutions to be able to take on this generational struggle.

Rightly so, a call for assistance on HIV/AIDS and malaria in particular, but in effect actually, Pietro, no new money; what was announced was a continuation of the programs that had been pledged before and a request to fund those programs but not additional money for those programs. Credit should be given for the fact that they were put forward, but we did not see something that is convincingly a call for a strategy to be able to make America more secure, to internationalize the capability to create a greater capacity for peace and security internationally nor did we see anything that was particular new on how we can deal with issues of poverty internationally as well.

MR. NIVOLA: Thank you, Carlos, a very interesting discussion of this problem.

I would like to turn quickly to Bill Galston just for a couple of quick comments to pick up on some of what Carlos touched on.

Bill, let me throw this at you. Let us do the following through experiment. Suppose that we were not in Iraq at all, and there was no Iraq war. There was just the war in Afghanistan, and you had the resurgent Taliban as a major problem there. The President goes before the American people last night and says we need an increase of up to 200,000 American troops to go into Afghanistan because we only have about a quarter of what we need in there. Would there be a similar outcry about escalation and how we were failing in Afghanistan? Would there be a similar kind of backlash in Congress as you are seeing over Iraq? That is question number one.

The other thing I thought I wanted to ask you was if you could also say just a quick word about Senator Jim Webb's reply to the President. A key part in his speech was that basically he would like the President to morph into the equivalent of Dwight D. Eisenhower and that if he wasn't going to do that, we will be showing the way, Senator Webb said. Well, give us a sense of what the Democratic Party's way would be on Iraq.

MR. GALSTON: To take your questions in the order posed, the answer to the first one is necessarily speculative. As the Greek philosopher, Heraclitus, reminded us for all time, it is impossible to step in the same river twice. Having said that, I think the record will show that the war in Afghanistan evoked a broad national consensus. It was seen as essentially defensive in character, made necessary and warranted by a cowardly and unprovoked attack. If we had only

been fighting the war in Afghanistan over the past five years, I believe the national conversation would have been entirely better and very different and the divisions that we are now seeing in the country would not be nearly as pronounced.

Having said that, listening to our generals over the past couple of weeks makes me wonder whether we could really mobilize and sustain 200,000 troops to do much of anything under current circumstances. What we are seeing is the consequence of what might be called an asymmetric drawdown of our forces after the end of the Cold War where the Air Force and the Navy were left more nearly intact than were our ground forces. That was based on an assumption about the nature of the threats that we would face. Unfortunately, in Afghanistan and Iraq, those assumptions have been contradicted by facts on the ground which is why the President is proposing, as Carlos noted, a major build-up of ground forces on a permanent basis but no net additions to either the Navy or the Air Force. That is a stark acknowledgement of what should have been clear three years ago. I think it is fair to say that we have wasted the better part of three years, and we would be in a better place if the build-up of ground forces had begun earlier.

With regard to your second question, a few notes about Senator Webb: First of all, he is a talented, experienced writer, and it showed in the clarity and forcefulness of the language of his speech. I think many people were surprised by the firm declarative manner of delivery. One commentator went so far as to

announce that a star is born. Whether or not that is true, it is clear that a potential leader of the Senate Democrats and perhaps the Democratic Party was born and that the country had a glimpse of what a narrow majority of the voters of Virginia endorsed in November.

Senator Webb made it very clear that, for Democrats, the way forward is the way out. Senator Webb endorsed robust regional diplomacy as did the Iraq Study Group, a topic conspicuous by its absence in the President's speech last night, dead silence on the issue of regional diplomacy for reasons that I think are all too clear. Senator Webb repudiated the idea of what he called a precipitous pullout, one that would leave chaos in its wake, but he clearly indicated that in his judgment, which I think is widely shared in the Democratic Party, what we need is a turn of basic orientation towards the assumption that over the next year to 18 months there will be a significant drawdown of American forces. I would be surprised, frankly, if the majority of the Democratic Party ended up in a different place either this year during Congressional debate or next year during the Presidential nominating contest.

MR. NIVOLA: Great; thanks, Bill.

Let me turn to David Sandalow.

Dave, lots of questions on the energy front, but let me begin with the climate change question. The good news was that the President finally really mentioned this. He talked about it as a serious challenge. I think the word,

challenge, gets overused in Washington. I wish sometimes people would use the term, problem, instead of challenge. Anyway, that is the good news.

The bad news is it is not clear what exactly is going to be done about it by this Administration other than try to reduce gasoline consumption. But as you know better than anybody in this room, gasoline consumption is not the major contributor to carbon emissions; electric power plants are, especially coal-fired ones.

I wonder if you could talk a little bit about the climate change question and the fact that so many major CEOs and major corporations came to town just before the President's speech and basically signed on to a cap and trade proposal. Then tell us something about the President's energy proposals. Actually, I might turn to Carlos about an aspect of that too.

MR. SANDALOW: Thank you, Pietro.

The White House created some great expectations in this speech. Last week, the President's National Economic Advisor said that the energy proposals in this talk would knock our socks off. It is now Wednesday morning, and our socks are still on.

There was one significant proposal in the energy section of this speech, and that was the proposal for a 35 billion gallon mandate for ethanol production by 2017. That is a significant increase over current ethanol production which last year was about 5 billion gallons and over the current mandate in law which is 7.5

billion gallons by 2012. It will require substantial increases in the production of ethanol from so-called cellulosic sources, which are switchgrass and other types of plants and trees, or imports such as sugar-based ethanol from Brazil. The limit of corn-based ethanol production in this Country, most experts think is around 15 billion gallons. So the only way to get up to the mandate that the President is talking about is with either this new type of ethanol which is not cellulosic ethanol, which is not currently commercial viable or with imports.

It is interesting to note in the White House documents talking about this, there is a reference to a safety valve related to this mandate in a statement that if the mandate becomes difficult to meet or infeasible, that different cabinet members would have authority to waive the mandate. I think the experience with mandates in general over the course of the past 30 years of U.S. regulatory history is that when businesses come to believe that they will be able to avoid them with negotiation with the government, they invest resources in lobbying to change them instead of meeting them. So the signaling up front that there is a safety valve in the Administration's proposal here significantly undercuts the proposal itself. But with that exception, I think this is a very significant proposal.

Nothing else the President said last night in the energy portion of his speech was significant in my opinion. The 20 percent cut in gasoline consumption by 10 years will be remembered as long as all the other proposals of a similar nature over the past 30 years. The *Wall Street Journal* had a wonderful collection of

these last week for anybody to go take a look, and there have been about a half dozen by Presidents over the course of the past 30 years. If anyone in this room can remember any of them, I will be impressed. The President is not proposing, as far as we can tell, to incorporate this 20 percent goal over 10 years into law. It is an aspirational goal by a lame duck President and will not have impact.

The CAFE plan that the President proposes is essentially what he has already proposed as far as we can tell. I actually would welcome anybody who has gotten more information about what the President is actually going to do than is in the documents that we have been able to review so far. It is clear from the documents what the President is against when it comes to CAFE. CAFE standards are automotive fuel efficiency standards. The President is against automatic increases on an annual basis which is one of the proposals that is being put forward by members of the legislature, and the President is against specific numeric targets. The President is for extending the authority to revise CAFE standards to cars which is something that he has called for before.

The President calls for doubling the strategic petroleum reserve in this speech. I think that would provide a modest additional cushion against supply disruptions. It would cost about $35 billion to fill this strategic petroleum reserve at the level the President is calling for. In my opinion, that same money spent on developing plug-in hybrid cars that could connect our vehicle fleet to the electric grid would do much more to protect against supply disruptions than putting more

oil into the petroleum reserve.

Finally, the President continued to call for drilling in the Arctic National Wildlife Refuge which was rejected in the last Congress. It underscores clearly the importance he continues to attach to pleasing his political base. It does not signal a strong interest in bipartisan cooperation.

The omissions in this speech are more important than the proposals, and the most important omission is the one that Pietro referred to and that is the lack of any support for binding limits on greenhouse gases. It is true the President mentioned the words, global warming, but in the context of other things going on in this town over the course of the past week, there are few people who would characterize that as leadership. In the course of the past week, we have had in this town evangelical leaders come to say that global warming is a hugely important issue that must be addressed, and then on Monday, CEOs of 10 of the top businesses in the world, including General Electric which I believe has the biggest market capitalization of any company in the world and Wal-Mart which may have the biggest revenues of any company, along with 8 other major companies, calling for binding limits on greenhouse gas emissions. There had been some speculation that the President might endorse this or signal some openness to this in his speech; he did nothing of the kind.

Surprisingly also, there were no references to any new proposals to plug-in hybrid vehicles. The President has previously embraced this technology, and it

has a technology that has broad bipartisan support. The President did mention plug-in hybrids favorably in the speech, but he didn't call for any new investment.

Finally, quickly, there were some confusing references in this speech, and this is hard to do, but there were some confusing references to gasoline consumption and imports. The President got it wrong. He said let us reduce gasoline usage in the United States by 20 percent in the next 10 years, thereby cutting our total imports by an amount equivalent to three-quarters of our imports from the Middle East. If you work out these numbers, he is saying let us cut our gasoline use by about 1.8 million barrels a day, and that will cut our imports by 1.8 million barrels a day. It doesn't work that way. The fact that we are cutting gasoline use in a globalized market for oil does not mean that imports will necessarily fall by that same amount. In fact, they are highly likely not to fall by that same amount. I would be happy to elaborate on that in the question and answer session.

I would say with apologies to Dickens, the President created great expectations but he delivered a bleak house in the section of his speech on energy. In terms of the expectations that were created by the President's advisors last week, I guess I would grade him a B on ethanol, a C on CAFE, an F on climate change and an F on domestic oil production.

MR. NIVOLA: Those aren't very passing grades or at least they aren't today.

Bill Frenzel, the President actually let off with a plea for what our dear colleague at Brookings, Isabel Sawhill, calls fiscal sanity, balancing the budget. Were you sort of surprised by that? Do you think there is any kind of real prospect for bipartisan collaboration or cooperation on that problem?

I also want you to comment, if you would, on the health care part of the proposal which I thought was the strongest part of the speech and the most compelling.

MR. FRENZEL: Getting to the fiscal situation, I think it was a good thing that the President noted that he wanted to set a deficit target. I think it is not a strong enough target -- 2012 is not soon enough for me -- but it is good to have a target. I think the Democrats, if one can judge by the previous campaign, are interested deficit reduction. They, of course, have an astoundingly great disparity in priorities. The Democrats will look in one area, principally in Iraq and in Defense Department appropriations, to make reductions. The President spoke last night about earmarks, and he will be interested in reducing items that Congress is dearly wanting to keep for itself. But simply the act of talking about deficits on both sides, that is by the Congressional majority and by the President, I think was a pretty good stroke.

Now I don't know where the cooperation is going to lie. I do not believe that some variation of the Gregg bill, the enhanced decision which Senator Byrd

called line item veto, is going to be a place where there is going to be agreement. I think, however, the parties may agree on a 2012 target for a balanced budget, but they will of course have different paths to glory and we will have to see how that is going to work out.

I would quickly and parenthetically state that I seem to have heard a different message than my co-panelists up here last night. Perhaps, their expectations were greater than mine, but I think we have to realize that State of the Union Addresses without a budget to sustain them are simply a matter of Presidents talking about nice things they would be for and nice results they hope are going to come along. I think the way to analyze them or at least a way I like to use is to see how the President and see how the Congress reacts. I didn't see any fist fights last night, although I thought Senator Webb was a bit over-aggressive. I thought the decorum in the chamber was fine. So, perhaps, we came out all right.

With respect to that health question, I have to agree; it is by far the most interesting item. It is not a new item, but it is new for the President. The President's Advisory Panel on Tax Reform had quite a similar recommendation as part of its tax reform package. It, at first blush, seems like something that the Democrat majorities might be interested in, but obviously big labor put the stake in its heart right off the bat and Congress says it is not interested. I think it is something that needs consideration, needs more work, needs budget analysis. It is

not going to go away. I don't think either the Congress or the public is going to tolerate very much longer the public subsidies for Cadillac health plans when money is needed in other places. I am not sure Congress is going to embrace this plan, but somewhere in here are some kernels of truth and interest that the Congress is going to get to, and we may see some policy definition over the next two years.

MR. NIVOLA: Thanks, Bill.

I thought I would come back to the other Bill for a moment just to segue from what you were talking about.

On the health care proposal, Bill Galston, Charlie Rangel was out of the blocks faster than Jesse Owens on this actually before the speech. It was when the plan was originally leaked about a week ago, and he said it was bad policy. Pete Stark said it was dead on arrival and so on. It was the usual reaction here from the Democrats about this. What is wrong with the idea of giving a standard deduction on health care plans, discouraging the gold-plating of employee-provided health insurance and leveling the playing field, as the President said, for the self-insured?

MR. GALSTON: Believe it or not, I am going to answer that question.

MR. NIVOLA: I was hoping.

MR. GALSTON: But before I do, I would like to step back from that question and ask and answer a question of my own, namely. This is Media

Management 101, isn't it.

When you put the President's speech and Jim Webb's reply together in a package, let us step back and ask: What does that package tell us about where we are? This is before we get to any details of policy, and I would make four observations very quickly.

First of all, we have, to continue the Dickens' theme, a tale of two economies. We have the President's story of the economic aggregates, and we have Jim Webb's story of economic anxiety and inequality. I confidently predict that that tale of two economies will be argued out, not only between the parties but within the parties. Senator Webb used the classic formulation of Main Street versus Wall Street. You might also put it in more of Brookings' pointed terms, populism versus Rubinomics. I confidently predict that we are going to have a serious debate about economic inequality, about the impact of globalization, about what many American families see as an increasing insecurity in their economic standing despite a snapshot that may look pretty favorable.

General observation number two, I think we have learned something about the agenda that we are going to be talking about for some years to come. After a hiatus since the mid-1990s, we are going to have a national conversation about health care. We are going to have a national conversation about energy security. We are going to have a national conversation on environmental concerns, even global warming or, to be more neutral, global climate change.

Whether we are going to have a national conversation on entitlements is very much in doubt. The President's speech was characterized by near silence on that issue. That, for me, was the single most surprising omission in the President's speech. I thought he would at least empower his Secretary of the Treasury, a laying on of hands that would create the predicate for a serious behind the scenes conversation, at least on social security. I think the President decided that that was, after his 2005 experience, a losing game and he didn't want to play out his hand. I regret to say that because I think an opportunity was missed.

Here is my observation: I think we saw in this exchange some new premises for public dialogue being established. The President acknowledged in so many words that the uninsured are a serious problem in the health care system after presiding over a relentless increase through his Administration for the first six years in the number of Americans who are uninsured and in the percentage of the population that is uninsured. He acknowledged in a remarkable shift from Dick Cheney's 2001 stance that conservation is not just a private virtue but indeed an important part of energy security, and he uttered words that he cannot take back, "the serious challenge of global climate change." To acknowledge the problem is to shape a debate.

Fourth point, there are indications, I think unmistakable indications, that during an extended period of policy gridlock in Washington, the basic shape of what might be called the political policy coalitions in the Country has been

shifting. That is particularly conspicuous in areas such as health care and global climate change where the private sector which took one position 15 years ago, 10 years ago, even 5 years ago, has now aligned itself squarely with the forces of reform. My personal prediction is that that new alliance which includes the private sector will turn out to be the dominant force in these discussions in 2009 if not earlier.

Now having answered my question, I will now answer yours. I think that the President's health care proposal is a good news-bad news story. The good news is that he acknowledged and named the problem, he put a concrete proposal on the table, and he made it very clear that there is no free lunch strategy for solving the problem. I think that in those three respects, he advanced the debate.

What is wrong with the specific proposal? Well, I don't want to tear wings off flies, but here are a few things that I would put on the table. First of all, proposing a deduction rather than a credit is a regressive strategy. I don't see why the advantage you get should be determined by the tax bracket you are in. If anything, I could make an argument for the reverse. A tax credit, I think, would have been a much fairer and more appropriate way to proceed.

Secondly, a whole lot of people are paying income taxes at all, and so the deduction offers them no assistance on the income tax front, modest assistance on the payroll tax front, but if you X out the income tax, really not enough to make the difference between affordability and unaffordability.

Third, I would note for the record that good health care plans are not necessarily the province of privileged higher income employees in our society. In a number of cases, those good plans are enjoyed by workers who have made sacrifice after sacrifice on the wage front which brings to my fourth point.

The Administration's background briefing paper blithely says well, if you are disadvantaged by this, you can shift from benefits to wages. Well, that is waving the law. That is not the way it works. The way the plan is structured, employers have zero incentive to make that shift because they have zero incentive going from something they can treat as a business expense to the wage side.

Three other points, the way the plan is structured, it gives younger, healthier workers an incentive to opt out the current plans that they are in and go for cheaper, high deductible plans. This generates the classic problem with adverse selection in a health care risk pool. Here is another problem.

The President's background briefing paper announces that as more and more people enter the individual market for health insurance, it will become more competitive and prices will come down. Anybody who knows anything about the way the individual market is currently structured will see that there are a lot of slips between that cup and that lip. I will spare you my personal litany of woe, helping my son enter the individual health care market in New York, but anybody who thinks that fixing the individual market is going to be easy is smoking a controlled substance.

MR. NIVOLA: That requires health care too.

MR. GALSTON: It is actually part of health care if you are a Democrat.

Finally, all the President's men and women insist that this policy will be revenue-neutral. I don't see how it can be. It certainly won't be during the next five years. Given the fact that the deduction is indexed which they are very proud of and rightly so, I don't see how it ever gets to be revenue-neutral. I can be talked out of that, but a back of the envelope calculation makes me very dubious.

So that is the beginning of an answer to your question of what is wrong with the President's plan, but if you give me another hour, I have much more to say.

MR. NIVOLA: No, I won't give you another hour, but I will give Bill Frenzel two minutes to fight back here if you want to, Bill.

MR. FRENZEL: Thank you. No; I don't want to fight back. I think Bill has raised a number of good points that have to be investigated, but in a lot of ways, Bill, it is flyspecking. People have to work through this program and make it work.

Would I rather have a credit than a deduction? Of course. I think that is the right way to do it. That is the way the Tax Reform Panel set it up, and it is better.

Is it revenue-neutral? How do I know until the CBO pounds out one of its budget analyses? It is counter-intuitive to me that it is revenue-neutral. It may be backend-loaded. We can't know that now until we see the plan.

I think what is important is the President identified a problem, attacked a corner of it. We are only talking I think, in his best estimate, 10 million additional people coming into an insured medical plan that they aren't in now. Then he identified a funding source, that is, to reduce the Federal subsidies for the so-called Cadillac insurance plan. To me, that is a good way to start. That is what you have State of the Union messages for. I think this is an area where Congress and the President could work something out. I hope they do. I don't think we have any guarantee of it.

MR. GALSTON: Well, I hope they do too. I agree with you, as I said at the outset, that by naming the problem and putting a concrete plan on the agenda, the President has moved the discussion forward.

My personal judgment is that as we look at what is going on in the States, this approach has been outrun by events. I think what is going on in the States makes it very clear that a bunch of Republican Governors as well as Democrats have made the judgment that it is time to stop putting patches on a boiler that is leaking from so many seams, that rather than going through piecemeal, it is time to step back and take a fresh look at the entire structure of the health care delivery and insurance system. I sure hope that as this conversation proceeds at the national level, that that judgment is the one that both parties reach sooner rather than later.

MR. FRENZEL: We already have one Presidential candidate with a ready-

made plan.

MR. NIVOLA: The President actually did include in his health care component a grant and aid system to the States to try to encourage more experimentation such as what Massachusetts and California and Vermont and Maine and other States have tried to do. So I think he did recognize that component.

We have not touched on immigration at all. That came up again. Let me do two things if we have time because we have about a half-hour left. I would like, if possible, for Bill Frenzel to say just a couple words on the immigration front. The President went back to what he proposed earlier, but this time he has a much stronger prospect of getting some help from the Congress, if you want to say a couple words on that.

Then I would like to go back to the energy question from a national security and foreign policy standpoint, Carlos, and also Dave, I hope you will chime in that too.

MR. FRENZEL: Okay, just a quick shot on immigration, the President apparently renewed his proposition from the last biennium in his thought that the Democrats would be friendlier to that kind of proposal than the Republicans were, particularly as illustrated by the leadership in the House in the 109th Congress. Everybody who wants to solve the problem is swimming upstream against public opinion. The public is about where the House Republican leadership was last

time, really stony on immigration. While the Democratic leadership, the new leadership, may be friendlier to the President's proposal, I don't think they are going to be in a hurry to rush out and handle what looks like another one of these third rail kind of problems.

I think there is a good possibility to work something out between the President and the Congress along the lines of the Senate bill of last year, but I don't think it is any given. I think the public opinion which was strongly made known to candidates of all parties in the last election is a bit of a fight in this case, and I am not certain that we are going to have any speedy progress on it.

MR. NIVOLA: Carlos, I am going to throw you a big question, but I hope you can answer it with some brevity because I would love to open this up to questions from the audience in a few minutes.

Did you sense that there was anything in the President's discussion of the energy issue yesterday, the energy strategy, that will make this Country in a genuine concrete sense more secure? Will it any way help our national security?

To put this another way, help us connect the dots. If energy markets are world markets and there is no domestic energy policy whatsoever that can change that and really insulate us from that fact of life, how, if at all, would the Administration's policies make us more secure or is this whole notion of energy independence basically a mirage, if you will, sort of like saying stop the world, we want to get off? Tell us about that.

AMB. PASCUAL: If we break this down to its most fundamental points, there is a supply side of the market and how secure is that supply side of the market, and there is a demand side of the market. If you can actually have a significant impact globally on the demand side of the market, that is least mitigating the rise for energy demand over time against a limited number of suppliers who can respond to that demand, suppliers that are in themselves in many cases in risky situations.

Let us think about the countries. Saudi Arabia, Russia, the Caspian Basin are probably the most secure ones, but then we come into the world of Nigeria, Iran, Iraq, Venezuela, Angola, not a particularly stable group or group that one would want to rely upon in order to be able to deal with your energy needs. I don't think that the demand question is irrelevant. I think it is an issue that really does have to be looked at, and here I defer to my other colleagues, in particular David, on the effectiveness of the strategies that are being proposed.

In the short term, one of the issues that really did not get touched upon, even though the President did, I think, a fairly good job of describing some of the potential regional consequences of the civil war in Iraq, is the energy dimension. There is very likely to be a speculative impact of what instability and an increased spillage of civil war can do to potential disruptions of energy supplies that could have an impact on oil prices. If there is any disruption on oil supplies, I think that will have a massive impact on energy prices. If there is any indication of

disruptions in the Persian Gulf, that will also be extremely destabilizing, and it is going to create a lot of anxieties within the international community.

I think this is one of the reasons why it is also particularly important in having a regional dialogue in the Gulf including countries such as Turkey, including the United Nations and the E.U. because these are issues that have a global dimension to them. It is not just a question that is going to have an immediate impact on the region. It is going to affect us back here. It is going to affect the principal consumers of energy around the world. So I don't think that these issues have really been adequately explored, and there are extraordinarily complex questions that are really going to have to occupy our attention.

MR. NIVOLA: Right, David, I want you to come back on this. In terms of okay, suppose there is a major disruption, our main line of defense against that is the strategic petroleum reserve which the President wants to increase by two-fold, I think, right, over a period of time. You seem to think that that was not a wise strategy to beef up the SPR, but it really is the only short-term way to offset a shortfall in world oil supplies and take the sting out of a big price spike.

MR. SANDALOW: I think it is trivial in the context of our larger energy problems; that is my major point. The increment in the strategic petroleum reserve that is proposed is, I think, somewhere between 30 and 60 extra days of coverage against all imports. I guess what that means is that if Saudi Arabia, Canada and Mexico simultaneously have jihadist revolutions, we will be covered

for an extra 30 or 60 days. In all seriousness, it does not address the core issue which is the exposure of U.S. oil purchasers to the volatility in the global market for oil. In my view and I think the view of most experts, the only way to protect against that volatility is to change our transportation infrastructure so that we are less dependent on oil overall. As long as we remain dependent on oil exclusively with our cars, we will be subject to price swings in the global oil market.

Just think about it quickly. If you are thirsty and you don't feel like drinking water, you can drink Coke or milk. If you want to relax and you don't want to watch TV, you go to a movie or read a book. If you want to go some place today and you don't want to use oil, you are probably out of luck. Maybe you can bike some place if you are not going too far or walk. Maybe you can buy ethanol at about 1 percent of the stations in the Country that have E85 gas. But oil is the one good we absolutely depend upon, and until we change that, we are going to be subject to this price volatility.

We can do that, I believe, with plug-in hybrid cars. If you want to know more about this, I recommend two things you can read. One of them is a paper I wrote on this topic which is out back, which you can get. A second is a wonderful editorial on this topic by the *Washington Post*. The lead editorial in Sunday's paper has a very good summary of this set of issues. Carlos hit this nail on the head with his points here too.

Can I make one point on global warming before we start the questions?

MR. NIVOLA: Absolutely, sure.

MR. SANDALOW: Great; Pietro, both you and Bill were somewhat encouraged by what the President had to say about global warming, and I tend to like to see the glass half full. So you caused me to wonder why I am not encouraged, and you got me thinking which is dangerous. I guess the reason that I am not tremendously encouraged by the few words on global warming I heard in the State of the Union is that what matters now on global warming is what President Bush does, not what he says. His global warming policy is almost as unpopular as his Iraq policy.

Even the Republican Party is looking to him for leadership on the global warming issue. Even his new political bosom buddy, John McCain, is in a completely different place than George Bush is on global warming. John McCain, who of course is in most people's eyes the front runner for the Republican Presidential nomination, is the co-sponsor of the leading global warming bill for the past couple of years in the U.S. Senate. George Bush is hardly a thought leader in any corner on global warming these days. The CEOs who came to town to make this announcement didn't even connect with the White House particularly in doing this. Then there is the history of George Bush saying things on this issue that he then doesn't do. In the 2000 campaign, he promised he would be for binding limits for carbon dioxide and then backed away from that.

I think it matters a lot because he is President and he holds a veto pen. It matters a lot what George Bush is willing to sign by way of global warming legislation. I just don't think that words about whether or not it is a challenge from him are that significant at this point.

MR. NIVOLA: Great, thanks very much, guys.

Let us take questions.

(Interruption)

QUESTION: . . .and where that leaves the two parties going into 2008. And for Carlos a bit more in-depth, we had a lot about Iran. Again, the President went into some great depth about Sunni extremists, Shia extremists, and made a lot of reference to how we are going to be trying to deter Iran and possibly also Syria.

I was watching it in Georgetown last night in a bar with a lot of younger people. A lot of them seemed to think that this was a call for further action against Iran, possibly even war. I wonder if your take is that this is more rhetoric or is this something that is a hint as to where the President plans to take us in the future.

MR. SANDALOW: Particularly on nuclear, I think the President may have made passing reference to nuclear in address or in the fact sheets and his administration have been very strong supporters of nuclear power, and I don't think this address intended to signal any change in that.

This is a technology that is deeply controversial. Neither on Wall Street nor on Main Street can you find much support for nuclear power. There has been growing interest in some parts of the utility sector, in a new generation of nuclear plants, a small amount of interest in the environmental community as the result of the potential savings in -- gases, but I think it still remains a very deeply controversial technology.

I have one other point, by the way. You should have directed this question to Pietro who actually knows much more about this than I do, or others, on this panel.

MR. NIVOLA: All I know is that nuclear power is extremely expensive, much more expensive than coal and, therefore, not competitive without significant government subsidy.

MR. SANDALOW: And you have written a wonderful paper on that topic which I commend you.

MR. GALSTON: With regard to the impact of the two speeches as events, I am going to make a reckless prediction. I have seen no morning after surveys. Two things would surprise me. Number one, I would be surprised if there were a huge surge of public sentiment toward the President on the basis of that speech. It was a workman-like speech I think delivered with some energy, but did it have what the late President Nixon called the lift of a driving dream?

No, I don't think so. Those driving dreams are in the past and seem to have driven into a ditch.

(Laughter)

MR GALSTON: With regard to Senator Webb's speech, I'd love to know how many Americans stayed up to watch it. Clearly, the junkies, and I assume everybody in this room falls into that category, did so, but I think that the speech will have more of an impact on the political version of the secondary market, the reverb, the replay, the chatter, et cetera, and I do think in Democratic circles at the grassroots level as well as in Washington that his stock has risen significantly as a result.

MR. PASCUAL: On the question of Iran and Syria and the Sunni and Shiite conflagration, one of the things I think that the President did make an effort to go after is try to explain some of the complexity which we are seeing in front of us, because on one hand he is trying to lay out that al-Qaeda has a Sunni base, that they are Sunni extremists, and what we see in Iraq increasingly are Shiite extremists who may be getting some support from Iran, but indeed also have an indigenous base of support. This is not a very clear picture of being on one side of Sunnis or Shias; in fact, we've got bad guys on both sides of the equation.

I personally actually felt that the President talked less about Iran than I might have expected. I thought he talked about it a little bit less than he did

last time. One of the things that we have seen is that the U.S. military somewhat publicly but certainly internally has been emphasizing that venturing across the border into Iran is probably not a very good step to take. There has certainly been wide political condemnation I think within the President's own team, a great number of his political strategists are indicating that this is not the direction to take, although I am sure that there are some hardliners who are leaving that open as an option. There has been a very negative reaction to the President's Iraq speech by the Congress, saying that we are putting down markers here, that we do not want to see any cross-border activities into Iran and Syria, so I frankly would not expect that the United States would take action into Iran or Syria.

But there is another issue here that need I think needs important attention. Iran in the meantime continues to develop its nuclear program and it has defied I think the quite extensive diplomatic effort by the administration, the E.U., and most of the P-5, although Russia and China have not necessarily been as helpful as they may have been. One of the risks that continues is that some will continue to point to Iran and say we have tried the diplomatic route and what has it gotten us? We have an Iran which continues to develop a nuclear program, an Iran that continues to be active in its support for Hizballah and Hamas, an Iran which is actively still in support of Shiite extremists internally within Iraq, and an Iran that certainly would love to see the United States withdraw from the region.

I think it is going to be an extraordinarily tricky issue to continue to manage, and one of the challenges for the administration will be to find ways to resuscitate or revive the diplomatic process around Iran. There has been some ability to maintain the P-5 together, and there has been some criticism that the United States has been too willing to accommodate compromises to keep Russia and China in the game. But I think the administration on this issue deserves a lot of credit, that by keeping the P-5 together to some extent, but sustaining some form of unity even though it does not demonstrate the kind of impact one ideally would have seen, that we are in a better situation than if the diplomatic process had fallen apart completely.

I think the real challenge for Russia and China is if they are willing to step up and acknowledge some of the difficulties that they are creating by being unwilling to demonstrate to Iran that there is a real international security risk and that this threatens to blow apart even further the nonproliferation regime that we have had in the past, and Russia certainly has an interest in being concerned about that and Russia can be part of the solution. So if there were a time for Russia to step up to the plate diplomatically and reinforce its rhetoric that it is important to have a multilateral system that works, this is an area where Russia can actually make a difference and play a constructive role.

MR. NIVOLA: A quick clarification of my comment in answer to your question about nuclear power, Scott. What I meant to say is that building

nuclear plants is a lot more expensive than building coal-fired or gas-fired plants. Once you have built the plants, then nuclear energy is highly competitive.

A question way in the back there.

QUESTION: I would like to ask a question about health policy. In California, the governor's program costs $12 billion and he wants $5-1/2 billion from the federal government. The governors of Pennsylvania and Ohio are going to come to Washington asking for a lot of Medicare money for their health reform programs. A, will it be forthcoming from Congress and the President especially under the Democratic pay-go rules, and does this mean that what is billed as health reform in the states really requires a huge increment of new federal spending?

SPEAKER: I would say it undoubtedly does. One of our presidential candidates has just done some kind of reform up in Massachusetts and you and other speakers here have mentioned the California experiment. All of them seem to rely very heavily on federal dollars. The new Democratic majorities after years of bellyaching about pay-go budget rules now may be hoisted on their own petard. I do not think there is going to be a lot of money to send out into the states for new programs and new coverages. My guess is that those majorities are going to have particular priorities of their own, education being one, child health being another, that if there is money left over, they are going to work on it and devote it to those priorities.

It is true, however, that they can waive the pay-go rules, and over the life of the Budget Act or over the life of the pay-go program which originated in the Budget Enforcement Act of 1990 and prior restraints such as Graham-Rudman, when anything began to bother the Congress, it would simply waive the pay-go or invent an emergency or do something else.

I could see the new majorities doing that on occasion, I hope they will not, but I would not see them doing it for the states simply to distribute money to other political subdivisions where the Congress does not really have a strong motivation to be helpful. So I would guess that they would ask for these monies mostly in vain.

MR. AVERY: Good afternoon. John Avery from the John Glenn Institute. I have a quick question about health care for the panel. It has been brought up recently the idea of negotiating with drug companies for name-brand prescription drugs, and they are accounting for a large chunk of health care costs in America. None of that was mentioned last night. Do you think it is they are trying to just avoid it or is that actually a viable solution that you guys would believe in?

MR. NIVOLA: Bill, I know you have in the past believed in it. I don't know where you stand now.

MR. GALSTON: The Democrats have been anything but silent on the question. It was an important element of the initial package of eight items that

made its way through the House of Representatives in well under 100 legislative hours. Its fate in the Senate is unknown for all sorts of reasons. Clearly, the administration went to the mat back in 2003 to prevent any such power being placed in the hands of the federal government and I am certain that if such a bill did make a way to the President's desk he would veto it. So it will be a long time if ever before we get to find out whether it will make a difference or not.

Speculating forward, you can make all sorts of complicated arguments to the effect that it would make a difference, and also some complicated arguments to the effect that it would not. My own view is that it probably would, but probably less than many enthusiastic Democrats in the House of Representatives believe and, therefore, like all of the other incremental steps that we have been talking about, would represent just one more patch on the proverbial leaky boiler. So my hope, to repeat, is that we get beyond discussions like that and most straight to the kinds of discussions that governors of both parties are now instigating and catalyzing in their respective states because I am convinced that only by putting everything on the table at the same time can we possibly arrive at a reasonable resolution of these issues that might be viable across party lines.

QUESTION: What are some of the solutions you are seeing from the governors that are working in their respective states, California or Pennsylvania?

MR. GALSTON: It is much too early to tell because to the best of my knowledge, of the ones that have been listed this morning, only the Massachusetts plan has been enacted into law, and because of the detailed regulatory implementation process is not yet effective. Governor Schwarzenegger's proposal is a proposal. Governor Rendell's proposal is a proposal. Stay tuned.

If you are asking for my personal opinion, it is that universal coverage consistent with the basic framework of private health insurance that we have in this country is going to include elements such as an individual mandate which is one of the basic building blocks in Massachusetts, and such as a means-tested financial assistance to low- and moderate-income families for the purchase of policies. I could go on, but I think those two elements at a minimum will be essential to any solution.

MR. NIVOLA: This gentleman right here.

QUESTION: I was struck by the speech as it was so very much centered on the United States and had such a total disregard of the international environment. I have two points. From my point what is the most serious problem for the United States is the current account deficit which has become structural and cannot be remedied either by balancing the federal budget or by devaluing the dollar. This is a very, very serious challenge to the United States.

The second thing is the energy question. When we have the energy problem the first time in the 1970s, Kissinger was in charge and he created the International Energy Agency in Paris as a kind of international response of the OECD of wealthy countries to that crisis. The problem at present, for instance, is not only just relatively high consumption of the United States, it is the rapidly rising consumption, for instance, in China and India. So all those things I think need an international response and I was struck that he Doha Round was not mentioned, the question of the current account deficit was not mentioned, and on the question of -- the international picture was completely left out. Thank you.

MR. NIVOLA: Does anybody want to take a crack at that?

MR. PASCUAL: I can just comment on a couple of things. I think your observation is exactly right, and the speech is one that was not really put in a broader international context, and was put very much in an American context. One of the things which was quite striking was the solutions that were posed to the problems even though they are seen as problems particularly affecting the United States, the war in terror and Iraq, were very much American solutions rather than actually looking at what it is in the international community that we need to do to restructure an international and a multilateral security system actually make us safer.

On the energy front, you are absolutely right to point out the importance of China and India in the overall equation. In fact, yesterday we had

here at Brookings an event that focused on energy issues in four countries, China, India, Russia, and Japan, as the beginning of an energy security initiative that we are beginning here at Brookings.

With China and India, the good part of the part of the story is that they are growing, they are growing tremendously, and it is better to have a China and India that are growing rapidly and are starting to respond to the needs of their people. The question that it also provokes is in what way, driven by what energy sources, right now particularly coal and the environmental impact that that has had, and the importance of transitioning off of coal, and as they have been doing that, the increased pressure that they have been putting in international oil and gas markets, and those are realities that have to be taken into account.

The other side of the story is that neither China or India are part of the International Energy Association and the significance of that is that if the IEA is essentially the body that sets the rules for how the international energy market is supposed to work, neither of these two countries are either participating in setting the rules or abiding by the rules, which is not good for either producers or consumers internationally.

The one other point that I would note on the side related to the current account deficit is with China which in fact holds a trillion dollars of American debt. If we are looking at trade issues with China, if we are looking at exchange rate management issues with China, with a country on which we have

become essentially dependent on financing the American deficit where the interest rates of ordinary Americans are dependent on China's willingness to continue to buy the level and the rate of debt that they have been willing to in the past, that has inevitably an impact on that bilateral relationship and it is one that we have to take seriously into account for the long-term.

MR. NIVOLA: Just a quick comment and then I am going to turn it over to Bill. The problem with the current account deficit on the one hand and of energy consumption in vast growing economies like China and India on the other hand actually cuts in opposite ways because the bad news is that China and India are consuming a lot more fossil fuel and spewing out a great deal more carbon into the atmosphere, but the good news is that the energy consumption fuels their growth and could eventually be one of the forces that helps bring down our trade deficit.

SPEAKER: I want to thank you for asking the question because I think it is a very important leading indicator for the future, not just of the United States. Unilateralism is more than a policy, it is a way of thinking, and the Yale historian John Lewis Gaddis points out that the kind of internationalism that characterized American foreign policy and American thinking after World War II is a conspicuous exception to the main current of American history and that the Bush administration rather than being exception represents a kind of reversion to the historical default position of American foreign policy.

In my judgment, it is going to be a great struggle for our political system to restore a balance that tilts more toward the internationalism that characterized the post-World War II period. In my judgment, nothing is more necessary. It is also the case that few things will be harder. The basis for hope is that the American people themselves appear to believe if public polls are to be trusted that our country has paid an enormous price internationally for its unilateralist turn, and Americans like to be liked which is not always a vice, and the American people are very uncomfortable with the current situation in which are neither liked nor respected, as Carlos pointed out, in so many nations around the world, including our historic post-World War II allies.

But I can tell you that there will be a significant debate within the Democratic Party, and I suspect within the Republican Party as well, as to how much we should reverse the current stance and move back toward the internationalism of the post-World War II period. Stay tuned.

MR. NIVOLA: We have time for one or possibly two questions depending on how pithy we can be up here at the front.

QUESTION: I have a question for Mr. Carlos. After September 11 we saw Mr. Bush had declared war against Islam and especially Saudi Arabia, and he is supported also by all the American media. And today as you mentioned, you would like Saudi Arabia and other countries like Jordan to evolve and to help get stability again in Iraq. So how we call them Wahhabi and a few people know

what does it mean -- and how we want then to be more involved in this world and they have never been consulted in this war or any Arabic countries. This is my question.

And second, I would like to talk just about the economic situation that's being practiced. The United States pays today for Arabic translation -- a year. My question is, what do you expect for Arabic countries to do, and especially Saudi Arabia?

MR. PASCUAL: I think, first of all, after September 11 I do not think President Bush declared a war on Islam or on Saudi Arabia, but he declared a war on terror. There have been statements that have been made by the President such as Islamofascists, or phrases that have been used that have I think unfortunately created a characterization or perception that the United States is at war against Islam. I think is the President were here on the stage today and he were asked is the United States at war against Islam that he would say no, and I think it would be a huge mistake if that perception were perpetuated. The United States is not at war against Islam and should not be at war against Islam.

The question then comes back to the issue of strategy. If the American strategy in fighting the war against terror is principally focused on a military response, then that is going to have certain complications. And I think we need to put this issue in the context of understanding or differentiating among Islam, extremist Islam, and terrorism, all of which are three different things. If

your response to all three of those is really a military focus on the war against terror and that comes to dominate your international perception, then there is a real possibility that those who are Islamists, those who are extremists, can actually be taken further into the camp of being terrorists and that is one of the dangers that we face today.

So as we look at the response in the war against terror it is going to be important for us to recognize that there are other dimensions, that there has to be a stronger diplomatic dimension, and while the President talked about reinforcing diplomacy, there were really no additional tools that were put in that diplomatic toolkit. There was no call for additional diplomats, no call for additional resources to those diplomats. The call for a Civilian Reserve, if it is created, would be something that could be created over a period of about 5 years and it might result in a reserve of things like police and police trainers that could be brought into conflict zones, but that is not the solution to this issue either. So there is a huge gap there I think still in American policy on how we deal internationally with the questions of Islam and extremist Islam, how we understand it and how we develop strategies that are localized.

In a recent article by George Packer in the "New Yorker" citing work that was done by David Kilcullen, an Australian, he emphasizes the point that you cannot actually aggregate this issue, you have to break it down. You have to break it down into location situations and understand what the problems

and the grievances are at that local level and then respond to those problems and grievances at that local level. The reality is that we do not have the capacity, the people, the skills, the tools, to do that today and that is where I think one of the biggest problems lies.

MR. NIVOLA: One last question, the lady here in front.

MS. ORCHOWSKY: I'm Peggy Orchowsky (?) and I am the congressional correspondent for "Hispanic Outlook" magazine. I write a lot about immigration and writing a book about it, actually. I would like to ask a question about immigration, and I'm sorry Ms. Sanger isn't here. The President spent exactly 1 minute and 57 seconds talking about immigration last night. His one main proposal was on expansion of temporary visas which most Democrats hate. Charles Rangel calls temporary visas the closest thing to slavery since we have the 18th century. Bush also never mentioned one of the biggest factors that Democrats push which is the legalization of illegal immigrants in the country. He only said the problem should be resolved. He didn't even use the buzzwords pathway to citizenship. Obviously, the speech was not an open gate to bipartisan legislation or at least Democratic legislation for immigration.

My question is, do you think after this speech that this mantra that immigration is the one issue that Democrats and Republicans, mainly Bush, will be able to push this year and will continue to be determined in the 110th Congress?

MR. GALSTON: If I may put in my two cents on that question, I think the answer to your final challenge continues to be yes. My hunch, and here I associate myself with my fellow Bill on this panel, is that if something like the Kennedy-McCain Senate bill is in effect the markup vehicle for the 110th Congress and if something comes out of that process that is within hailing distance of where the Senate ended up in the 109th Congress, I believe that large numbers of Democrats in both houses would find a way to support that bill, and I believe the President of the United States would happily sign it. And if I am not misjudging the situation, both political parties have an incentive to get this issue off the table before the 2008 presidential election.

Having said that to get a rise out of my fellow Bill, I will say that I do not entirely agree with his political assessment. As I looked at the November election, a lot of Republicans who took extreme, harsh, negative stances on immigration got whacked by their constituents. That was particularly true in Arizona. I do not detect a groundswell of public animosity, and I think that when the President used the phrase last night "without animosity and without amnesty" to characterize in broad terms the outlines of a possible solution to the legal status of those currently in this country, he hit at least emotionally a sweet spot because I think that is where the American people are. They do not want to be harsh and punitive, nor do they simply want to reward law breaking, and there are ways, and I think the Senate bill pointed toward them of squaring that circle. So I remain

optimistic. I would be very surprised, frankly, if the two parties did not find a way to a solution of this issue.

MR. FRENZEL: I feel the same way, and I would be overjoyed to be wrong in my estimate of public opinion.

MR. NIVOLA: Thank you so much for coming, and we will see you next year.

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