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OPPORTUNITY 08:  
BETTER DIRECTION ON MAIN STREET

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**PANEL ONE**

**Moderator:**

WILLIAM ANTHOLIS  
Managing Director, The Brookings Institution

**Panelists:**

WILLIAM GALE  
Vice President and Director, Economic Studies, The Brookings Institution

RON HASKINS  
Senior Fellow, The Brookings Institution

BRUCE KATZ  
Vice President and Director, Metropolitan Policy Program  
The Brookings Institution

**PANEL TWO**

**Moderator:**

RICK KLEIN  
Senior Political Reporter and Author of "The Note", ABC

**Panelists:**

JIM BOGNET  
Policy Development Director  
Romney for President, Inc.

AUSTAN GOOLSBEE  
Lead Economic Advisor  
Obama for America

LEO HINDERY  
Senior Economic Advisor  
John Edwards for President

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## PROCEEDINGS

MR. ANTHOLIS: Welcome to Brookings and to Opportunity 08 and to December. We are one month away from Iowa. The sprint -- the marathon has descended into sprint, and given the weather that just passed through Iowa and New Hampshire, which was ice followed by rain, it's going to be a slick and slippery and even muddy sprint in more ways than one, and we're all looking forward to it here as we've been following this election cycle and the issues in it for almost an entire year.

Opportunity 08 is a project at the Brookings Institution with a number of our partners from around the country and friends. We commissioned about 25 papers a year ago on the top issues facing the country and the presidential candidate -- the candidates for the presidency.

And there is a book that is a compilation of some of the greatest hits of the project that is available here at the Brookings Press Bookstore right outside this auditorium. And you can find us at [Opportunity08.org](http://Opportunity08.org) or [Brookings.edu](http://Brookings.edu).

As the campaign winds up to its sprint this next month, we're going to be hearing a lot from the candidates about a lot of different things. Judging by the recent debates and TV ads, we can expect the candidates to taunt each other about a range of issues, from Iraq, to health care, to immigration, to religious belief, to guns, not to mention hair dos, TV shows,

UFO's, and baseball allegiances.

But as the candidates taunt, groups of voters will still be looking for very straight forward answers to core questions that have always been central to American political campaigns. One in particular is going to be the focus of today's discussion, how will the next president deal with main stream economic issues.

Every candidate in the presidential race claims to be fighting for the middle class in particular, which is both good policy and good politics. Of course, there is a long tradition in America to define the middle class broadly, and I'm going to take two recurring minimum issues in American politics to give you a sense of that.

On the one hand, Americans who earn the minimum wage tend to think of themselves as either in the middle class or trying to get there. Yet at a 40 hour a week and 52 weeks in a year, that would net somebody just over \$12,000. The other minimum issue out there is the alternative minimum tax, which the Congress needs to fix, because people, roughly 15 percent of people earning \$75,000 to \$100,000 a year are caught into this tax that was designed to catch the super rich from avoiding taxes. Yet many of those people feel that they're in the middle class.

So from the taxing -- from taxes to housing markets to education, all of those issues intersect across the two that I raised. The role

of the government in helping the middle class is going to be a big issue in the campaign.

Today we've pulled together two panels to discuss this. The first one, the one that you see here, is a panel of Brookings experts on the issues. And then we'll be followed by a panel representing three of the leading campaigns that will be moderated by Rick Klein, our colleague from ABC News.

I should say Opportunity 08 is a partnership between Brookings and ABC News, and through all of our discussions, we've worked with ABC to moderate them and to use their web site and their TV offerings to help promote the project, and we've been really appreciative of their partnership.

So today we have a very distinguished panel here from Brookings including two vice presidents and one of our leading scholars. I'll start with Ron Haskins, who's a Senior Fellow on Economic Studies, whose work on work and poverty and middle class issues has been a mainstay at Brookings and Economic Studies, and also in the Center on Children and Families, where he's a co-director.

Bill Gale, who's the Vice President for Economic Studies here at Brookings and also co-directs the Tax Policy Center, a partnership between Brookings and the Urban Institute, and also co-directs or directs the

Retirement Security Project. And Bruce Katz, who is the Vice President and Director of the Metropolitan Policy Program here at Brookings.

And I figure I'd start with this issue of the middle class with all three and just ask each of them in turn quickly. There are so many issues in the middle class. It's defined broadly, work connects to the middle class, education, housing, transportation. What is or should be the main issue that the candidates should focus on and what should they do? We'll start with Ron.

MR. HASKINS: They should make more people and help more people enter the middle class. Whether they can do that is another issue. But that is the big issue in our economy. I think everyone agrees, the more people we have in the middle class, the better off we'll all be. The American economy has been brilliant, as our recent project on mobility has shown that Belle Sawhill and another colleague, Julia Isaacs, that the American economy is great at producing more and more people earning above about 75,000. Now, that's above what I think most people think of as middle class.

But we probably have had about a 70 percent increase since 1980 in the number -- in constant dollars, the number of families earning over what in 2004 would be 75,000. So the economy is great for that.

Where we're not very great is at the bottom, in helping people

move from the bottom into the middle class. That, of course, would be the precise group that would move into the middle class, and they are not doing well at all.

Their wages are virtually stagnant. They actually declined quite substantially after 1970 or so, and then they came back up, but they finished a 30 year period, a little more than 30 years essentially where they started out, in constant dollars. So even if they work full-time, on average, at the ten percentile, they have had no increase in income over a three decade period.

So there is a huge issue that will really -- mobility. How do we help people that are willing to work and do work move up? Now, the traditional American answer has been education. And we all love education. I think everybody again -- it's in many cases a bipartisan issue. So let's look at education. And we've done this recently.

Belle and I are involved in publishing a journal, and we focused specifically on mobility issues in a journal issue that Belle edited. And there were three chapters in there on education, all written by renowned scholars, one on preschool, one on K12, and one on universities, and they all came to the same conclusion, what our schools do at all levels is basically help the middle class stay middle class. They do not boost by very much the number of people going from low income to upper income.

The best evidence for some success is prominent preschool,

and for this reason Belle and I have recommended a high quality preschool. We have some differences here about the importance of quality.

But probably a candidate that really wants to focus on this issue should focus on preschool, as indeed many of the candidates are. I have not heard any candidate say anything negative about it. Some of the candidates, most of the democratic candidates actually have plans; maybe there will be some forthcoming plans from the republicans. But I would emphasize that plans have -- they must focus on quality, because without quality, it won't work.

K to 12, we probably have more going on in the country than we've ever had certainly in my lifetime. We have all kinds of big experiments. The Department of Education has done a great job, kind of ironic on the Bush Administration. They're supposed to make up numbers and hide numbers and so forth. And we have really a huge increase in the quality of education and research.

But unfortunately, so far, what it showed us is that we're not making much progress. And we, compared to ourselves in the past or compared to other countries. In fact, other countries are moving ahead.

And then at the university level, which is probably where the real pay-off is, if we could get more low income kids into universities, that would be a key to move them into the middle class, as, in fact, low income



kids who go to universities do go into the middle class.

But unfortunately, we have not been very successful doing that. This chapter I was referring to shows very clearly that family background is one of the great predictors; not only of entering college, but even given that you enter college, finishing college. In fact, if you compare the upper quartile with the bottom quartile, in a longitudinal study of parental income, their kids, the kids from the upper quartile are about seven times as likely to get a four year college degree, thereby reinforcing class lines in America.

So I think education is a big key at all three levels. We need to continue focusing on it and do more of what we're doing now. And innovation would be --

MR. GALE: Thanks. I don't disagree with anything that Ron just said. I think what I'd emphasize in talking about the middle class is the example that you started with. We're talking about people who are on a minimum wage at one end, people who are on the alternative minimum tax on the other end. I'm not sure there's anyone who is both on the minimum wage and on the -- but --

SPEAKER: Maybe they have a good marriage.

MR. GALE: That's true.

SPEAKER: Or they're working 150 hours a week.

MR. GALE: Right; but it extends beyond that, too. There are people who are income high enough to be on the AMT, who don't have health insurance, that becomes a major concern. There are people with relatively high incomes that live, as Bruce -- talk about, in rural versus suburban versus urban areas, they face a very different set of issues. Tax reform, it seems to me, is going to be a major policy that will effect the middle class coming up. Retirement security, there are a number of options that can make the system work better for the typical middle class household.

And so it's very hard to define. I mean we've come to understand that there's diversity among the low income population. And in the last few years, we've understood very well that there's diversity in the high income population, with, you know, the people who are only making 100 million looking enviously at the people that are making a billion.

The middle class is just about as diverse. And if you think of it as going from 15 to maybe, in some cases, 150,000, I don't know. I don't want to put firm numbers on it. But if you live in the suburbs of New York City or the suburbs of Washington, 50 -- \$60,000 is not really what you'd call comfortable middle class income. And so it's a very diverse group. I don't know that a politician can "target" the middle class. I do think that whoever wins the middle class is likely to win the whole thing because it's just a big group. But let me toss that out there, for starters, and obviously we can talk

more specifics if people want.

MR. ANTHOLIS: Bruce.

MR. KATZ: I'll build directly from those comments, because I think if we had some kind of focus group here with suburbanites I suppose, and D.C. and Westchester, they probably would say, well, if my wages are sufficient to make ends meet, you know, and then have a little bit to save, and to put, you know, sort of the rainy day funds away, then I suppose I'm in sort of a comfortable position.

And I think for a growing portion of Americans, this gets back to what Ron was talking about, I think the central issue they face is that their wages are not keeping pace with rising prices.

That obviously is uneven across the country because of the way, you know, different industry is structured, given the different development patterns, but for a growing number of Americans, what they're finding is, their ability to deal with housing prices even with the so called market correction, and really to deal with transportation prices is becoming more and more difficult. And those two elements are really the biggest aspects of household budgets. So, again, if we were going to have a group here of people, you know, take your pick, at the starting income going up to the top income and you ask them, what do you spend the bulk of your income on, they would say, well, my mortgage or my rental payment and

transportation costs, whether it's the cost of owning and maintaining two or three cars, particularly in suburban areas, and dealing with the rising cost of gasoline.

I have not heard a lot yet in the campaign, with the exception of the sub prime issue, about either housing or transportation. I think we have heard some about health care, which is another, obviously, price and cost that people face.

We've heard some about the immediate threat of foreclosures and delinquencies and so forth coming from the sub prime issue. And we've heard some about education and skills. But I've not really heard that much yet about what is really the two central costs that most middle class families face in the United States, housing and transportation. These are areas of domestic policy that are not fully owned by the federal government. They really are shared responsibilities between the federal, state, local, and metropolitan governments. But I think they deserve, if we're going to have a serious conversation about this, not just about helping people in the middle class stay in the middle class, but more importantly, as Ron talked about, helping people sort of enter and stay.

I think we need to put a broader swath of domestic policies on the table and have a really more sophisticated conversation about the shared partnership between different levels of government.

MR. ANTHOLIS: Well, I want to stick with at least one of the themes that you've raised there, which was sort of keeping up. It strikes me when we talk about the middle class there are two issues, one is sort of keeping pace with the cost of living.

MR. KATZ: Right.

MR. ANTHOLIS: Two is mobility, sort of moving, if you're in the middle class, upward, everyone's desire to move upward in the middle class or at least pass on to your children the opportunity to move upward through education, or if you're in the lower parts of the middle class, to move solidly into it, if you're lower class, to move into the middle class. Before going to that, I want to talk about sort of just keeping pace. And start with Ron, how much is work allowing most Americans to keep pace in the middle class? Is work viable, and if not, should the government be doing something about it?

MR. HASKINS: I think the straight answer is, work is not viable to keep you in the middle class. If you look at the last three decades, certainly at the bottom, I already mentioned that the ten percentile wages are based when the flat went down and came back up, but for 30 years they've been flat.

And in the -- above that, at the 50th percentile, right in the middle, wages have crept up a little bit, and income -- but income in that

group has increased, and it's increased for a striking reason, which is marriage, because women have done so well, and women's employment and earnings have increased so greatly as compared with males.

So people who are married, especially males, get a good deal, because they -- that basically is the way families have moved up over the past two or three decades, it's because people who are married do very well. Of course, unfortunately, if they get a divorce, then that really harms them quite a bit, and especially the women are at a dramatic disadvantage after divorce, we have lots of studies that show that. So marriage is the key here. The only compensation, it's a big key, and families have kept pace or even moved ahead of pace by, A, getting married, and B, having fewer kids. And both of those feed directly into the prosperity of the middle class, and that's a strategy that Americans have tended to follow.

Now, the last thing to say, that I want to say about this is, creating families has been a real problem for low income Americans, especially minority Americans. Marriage rates have declined, divorce rates are high, non-marital birth rates are huge and growing.

I figured it something like 85 percent of black children spend at least part of their childhood, some of them their entire childhood, outside a married couple family, where they're at least five times -- live in poverty and suffer from all kinds of disadvantages.

So family is actually one of the main markers of a difference between the middle class and low income families. And we are not making progress for sure on having more of our families be married couple families and being able to share expenses and share income. And this is especially advantageous for males, because one, they've done so much better in the last several decades.

MR. ANTHOLIS: Bill, how much has the tax code kept up with that, kept up with or held back those changing demographic realities of married households doing better, but individuals I guess as a result falling behind?

MR. GALE: Let me take a step back and just clarify something.

MR. ANTHOLIS: Sure.

MR. GALE: I think we're on -- I just want to be sure it's right. Basically, income, as opposed to earnings, income for middle class households has been okay, income growth for middle class households has been okay over the last 40 or 30 years, not great, but that's because women have come into the labor force, and to boost the family income, even as male earnings were stagnant.

I don't think there's been an increase in marriage rates in the middle class. I think the income growth has come from the increased labor

force participation. And what that means is that that's a channel that's been used up now. You know, sure, you can get further increases as you get closer to 100 percent, but women labor force participation is looking more like men every year, yet the middle class is barely getting better over the last 20 -- 30 years. Having fewer kids is in the same category. Yeah, you can make a given dollar go farther if you have fewer kids. But I think you want to think about whether that constitutes keeping up. It's sort of like you're treading water, and after an hour you're still doing it, but you're exhausted. Does that mean you're keeping up or does that mean you're about to go under? Maybe it means both, I don't know.

But just in terms of interpreting what's going on, some of the obvious avenues through which income can be raised and expenses can be reduced have been exhausted basically. And so what happened the last 30 years in women's labor force participation, that increase can't happen again the next 30 years because there's just not enough room.

In terms of tax policy, surprisingly, despite all the mega debates and religious jihad that are held over tax policy, the distribution of taxes in the middle of the income distribution, the burdens there really haven't changed much.

At the low end, there's been an increase in the earned income credit, which has helped working families. At the high end, of course, there's



been a significant reduction the last seven years in rates -- capital gains and state taxes, et cetera. But the average tax rate, the average effective tax rate in the 20 to 80 range I don't think has changed that much. It hasn't been a driving force in the middle class.

MR. ANTHOLIS: I want to stick for one second this idea of the alternative minimum tax defer. We're likely to hear about it a lot down the street in Congress over the next several weeks, and my guess is that we'll also reverberate in places like Iowa and New Hampshire.

Is one of the reasons this has become an issue is that you suddenly have, in middle to sort of the lower end of upper middle class, two income sources in a household and that's driving the total household income up to a place that used to be the regions of the super rich?

MR. GALE: That's --

MR. ANTHOLIS: Or is that an over simplification because it's more complicated?

MR. GALE: That's pushing -- the two incomes are pushing people up the income scale, which is exposing them more to the AMT. At the same time, the AMT is not indexed for changes -- so it's creeping down into the income distribution. So now you're at a point where, if you have, you know, a cop married to a nurse, your sort of standard, you know, two earner, you think you'd want to call that a middle class family I think. They're going

to be on the AMT, especially if they have kids.

MR. ANTHOLIS: So the tax cuts that started the Bush Administration as we wind into the last year of the Bush Administration are getting sort of mitigated by the AMT?

MR. GALE: They are getting eaten away, right. In the 200 to 500,000 income range, about 70 percent of the tax cut is taken back by the AMT. What is happening is, in the 100 to 200 and the 75 to 100 range, increasingly more of the ripple tax cut is being taken back.

But that was -- that exacerbates the AMT issue. But the underlying issue with the AMT is the indexation issue. And even if there were no tax cuts, even if tax cuts went away, you know, 50 years from now, everyone would be on the AMT under current law.

MR. ANTHOLIS: Bruce, one thing that strikes me about these households with two working families is that it increasingly -- in an increasingly suburbanized country, that's where a lot of this is found and that's where also a lot of the swing votes are found, as well. Talk about that a little bit. Do you see that happening in the country? Has that changed their outlook as both workers, tax payers, and voters? What do you see out there?

MR. KATZ: Well, I think the larger issue is that place matters to a lot of this conversation. And and we tend to think of that particularly with

lower income and disadvantaged families, who, you know, if you live in a neighborhood of high poverty, for example, in an inner city or an older suburb, obviously you're living in a place where the schools don't function, where there may not be that many jobs for your -- particularly for teenage kids to get that first entry into the work force.

You may live sort of on the wrong side of the region where it's harder literally to get to work or find out about work because of a fairly anemic network. So we know with regard to lower income families that place matters dramatically, and that it really impedes and hinders the sort of entrance and retention in the middle class.

I think the way America is growing, and again, I think this really does need to be a topic ultimately at the national level, I think the way America is growing, which is almost uniformly across the country, with some variation, sort of extensive decentralization of the economic growth and the population growth, the periphery of metropolitan areas, with some revival within central cities and some sort of revival within some of the older suburban communities, but if you look really across the United States generally, what we are seeing is the growth of essentially an exit ramp economy, where families like the typical family that Bill is talking about are sort of pushed down further and further away from the older and the mature suburbs to the periphery of the metropolitan areas, where they can drive to

qualify, you know, where they can find that home at 150,000 or 200,000 that they can afford, which generally means that they have to drive back in fairly longer and longer commutes if they're working either within the public sector or the private sector, within the new employment clusters, within, you know, the Tysons Corner area or the Dulles Greenway or 270.

This is putting enormous stress, not just on their monthly costs, right, but also on the quality of life in their family, because of the enormous amount of time, you know, spent in the car, not just getting to work, but carrying out all the other necessities of daily life.

So, you know, to go back to my initial point, we've always known that place matters with regard to low income families, you know, making the transition to the middle class. But I think increasingly, the way in which we develop our metropolitan areas also matters for families who would consider themselves to be middle class to basically move on up the ladder, because they are not really given the kinds of choices they need to live closer to work, to live closer to quality schools, to cut down on these pressuring commutes, to lower their transportation costs, to really get wages and prices more in line.

Now, the federal government, you know, we're not England, and I do see some from England here, we're not, you know, we're not a country where the national government is going to basically dictate

development patterns so that we can deal not just with the social issues, but also with economic and environmental issues.

But the federal government has a dramatic influence on this because of their presence in the housing and transportation sectors and because of how they deal with energy and environmental policy. So I mean again, I'm bringing into the equation I think some sets of issues that normally are never discussed in this -- but really have to be if we're going to have a more robust and holistic approach to the issues.

MR. ANTHOLIS: I want to ask you --

MR. HASKINS: Can I --

MR. ANTHOLIS: Yeah, please, jump in.

MR. HASKINS: Let me just rescue my point. I'm glad Bill clarified. I certainly was not saying that middle class families do not also have divorce rates and all the other family problems, but here's the point; they have them at a striking, spectacularly lower level.

College educated women do not have babies outside marriage, their likelihood of divorce is much reduced, so a major part of the strategy of middle class Americans for staying middle class and doing better is to form a family and to retain that family, and it works very well.

Belle Sawhill and Adam Thomas have done analysis of the Census Bureau data, showing that if we had the marriage rate that we had in

1970, randomly matching individuals by race and education, we would reduce poverty by 30 percent. Now, think of that, reflect on this for a minute.

This does not mean we have an economic growth, no fancy new government policies, no redistributive wealth, we just do what we did before, we paired off into families and raised our children, and that in itself would reduce poverty 30 percent. Plus, as a bonus, we have definitive research from great scholars all over the country showing that the kids would be better off, not only would they have about a fifth of a chance of living in poverty, but they would more likely graduate from high school, more likely go to college, more likely graduate from college, less likely to have a baby outside marriage, more likely to work, less likely to be on welfare, on and on and on. So the candidates, I can see why there's some reluctance here, because it's a zone of privacy here.

But it is a major issue and it's a major difference among Americans, including racial groups in America, and including immigrants who take about one generation to catch on and start getting divorce rates and high non-marital birth rates. So this is a crucial issue for the future of the country and for our children, to have more two parent married couple families rearing their children.

MR. ANTHOLIS: I'm so tempted to ask more questions, but I know we only have a little bit more time for this conversation, and I want to

make sure that members of the audience have an opportunity to ask questions if they'd like. So let me at this point turn to the audience and see if we've got any questions out there. Yes, sir, please tell us who you are and stand up and use the microphone.

MR. JONES: All right. My name is Howard Jones. I used to work for the World Bank, and so my interests are a little bit different. But one of the things that hasn't been mentioned at all is the tremendous growth and productivity, labor productivity in the last eight years. And none of that has gone through to wages, as far as I can see.

And you haven't mentioned labor unions once in your discussion. Could you talk briefly about that, and the impact of the elimination of labor unions basically in this country to wage costs, et cetera, and income distribution?

SPEAKER: Sure; one, you're absolutely right on the facts. We've had robust productivity growth the last several years. It has not shown up in the middle of the income distribution. Normally, you know, the average wage tracks the efficiency of the average worker very closely.

There -- and you're also right, there's been a decline in labor unionism, which, you know, has existed on paper. In my mind, it goes back to 1982, I think, when Ronald Reagan met with the air traffic controllers. I think there was a change in the, you know, aside from whatever statistical

trends were going on, it seems to me ever since then that there's been a difference in the sense of how powerful the labor unions were even apart from the actual data. The other side of that coin is that one of the reasons we've had a lot of productivity growth the last few years is that we have a very flexible economy. People do move across industries, talent, education, training does shift in response to shocks. And the decline of unionism has probably made those shifts easier because unions are not usually anxious to make changes like that.

So there are both good and bad sides to that decline, and I think we're seeing in the data the fact that the -- exactly what you said, the manufacturing or the productivity side of the economy is doing quite well, but the results are not being shared in the same ways that they had been in the past.

MR. ANTHOLIS: And is part of the inequality also driven by the enormous gains at the upper regions of the earning spectrum. I think what it was, in 1992, the top one percent earned something like 12 percent of the income, and now the top one percent earn something like 18 percent of the income.

SPEAKER: Yeah; there are a lot of numbers like that floating around. That's either -- there's two ways to interpret that, one is, their productivity went up massively in the sense that deals that are 100 times as



big as they used to be can now be made. That's sort of stretching it, though. I think a better way to say this is, there's just something going on at the very top that's different from and on top of what's happening in the 9010 range.

MR KATZ: Well, it's also related to this restructuring, the loss of manufacturing. Manufacturing is only ten percent of the American work force. And so as unions think about the next generation of their organizing strategy, it needs to be in the services sector, which is radically different.

Now, a bunch of us were just in Vegas, which strikes me as one of the more unionized towns today, which, you know, you don't think about Vegas as a place that is at the progressive end of domestic policy. But actually, the way in which the --

SPEAKER: -- radical --

SPEAKER: We won't even go into that. But, no, I mean I do --

SPEAKER: What happens in Vegas stays in Vegas.

MR KATZ: Well, but actually this part should stay in Vegas, because I mean the fact that the entertainment sector of our economy in that particular metropolis has struck a very different kind of compact between employer and employee is really quite intriguing. After Katrina hit in New Orleans, we were asked by the corporate civic leadership of New Orleans, you know, which metropolis in the United States should we think about emulating with regard to some of our clusters of economic activity, and I said,

well, since you're such a big tourism and entertainment metropolis, maybe you should think about Vegas, and of course, that took a while to sink in.

Well, Tony, I mean we're not -- obviously, we've got a ways to go. But at least on the wage and the income side, I mean there's a good starting point.

MR. ANTHOLIS: Tony.

SPEAKER: I want to ask Ron if you think that families are so important, and I certainly agree with you, what public policy implications does that have?

MR. HASKINS: I think there are several. One is obvious and the Congress actually has tried to do something, that is to change the tax code so it's friendlier to marriage, and we've done a lot of that. Also we've done it with child credit to some extent. We could do more of that. There's recent research, especially for low income families, that shows that the real penalties are not in the tax code. In fact, if you look at all families under two percent of poverty who cohabit, if they got married, they would actually do better under the tax code because, believe it or not, their EITC would go up. Where they would get hit is through the redistribution programs, food stamps, the temporary assistance for needy family programs, sometimes they would lose housing benefits, or at least they'd be reduced so they'd have to pay that 30 percent.

So there's a lot of work that could be done there to change those policies. And then third, of course, in a way it's unfortunate, but I think the Bush Administration has done a great thing by emphasizing importance of marriage and created something, or at least stimulated something of a marriage movement around the country.

It has to be said right off the bat that it isn't clear that any of those programs will do any good. I know there are a lot of people out there saying that they will, but the evidence does not indicate they'll do any good.

But we won't know until we try. And to the Bush Administration's credit, they're doing big random experiments both with young couples who have had a baby who are not married and with young couples who had a baby, these are mostly low income families, who are married, and in the former case, see if they can promote marriage or at least a better relationship between the parents, and in the latter case, to sustain marriage rates. If those things work and we learn something about a strategy for helping couples either marry or stay together, and they say, by the way, overwhelmingly say they want to be married, low income, minority, all these low income couples who have babies together say they want to be married, will be far ahead, but it has to be -- it isn't clear that those will -- those strategies will work yet, but we should keep trying.

MR. ANTHOLIS: I think we've got time. What I'd like to do is

take two questions and let the panelists respond to both, because we've got about -- enough time for that. So Bell and then this gentleman halfway back.

MS. SAWHILL: I want to put the issue of international competition on the table here. I think probably there's no area where the experts and the people seeking the presidency differ more, particularly on the democratic side.

You're going to hear a great deal of concern from the public that it is basically international competition, whether trade or immigration, that is causing wages to be stagnant or jobs not to be there. And most people who have studied this, economists in particular, don't find or don't think, it seems to me, that those have been important reasons for this stagnation of income that all of you have alluded to. So I'm looking for some comments from anyone on that. Do you agree that there's a difference of opinion here, and what should we be recommending that candidates focus on if it isn't international competition?

We found recently in the data we've just released, Julia Isaacs' work, that one out of three Americans is downwardly mobile compared to where their parents were. Now, the question we get asked most frequently is, is that due to international competition, the outsourcing of jobs and so forth?

MR. PALO: My question is very related to hers and

piggybacks off the discussion of --

MR. ANTHOLIS: Tell us who you are, please.

MR. PALO: My name is Tom Palo, I'm with Progressive Democrats of America. We were talking about the productivity gains that have not been reflected in the middle class and lower class here, but have been reflected in the top one percent. How much of those productivity gains, however, have been reflected in the growth of the middle class and the labor class in the developing world post, you know, fall of the Soviet Union and the opening up of these new labor markets?

SPEAKER: Let's see, in terms of Bell's question, we would be idiots to close the door on globalization. It's like trying to stop the tide, it's going to be as successful, and it would be as trying to stop the tide, and it would, in effect -- the effects of trying to stop globalization would be far worse. We can't beat the world by sticking our head in the sand.

At the same time, globalization in general, the rise of India and China in particular, the shifts in communication and technology and all that are really big transforming radical changes. And just as it's I think wrong to try to stop that from happening, it's also wrong to say, oh, you know, whatever happens happens, and you know, tough luck.

It's actually a real opportunity for us to introduce policies that help people adopt the globalization rather than -- which could make it more

of a cooperative effort than rather having the debate be should we have globalization or not have globalization. We're having it, or it's happening. We can choose not to go for a long -- not to go along for the ride, but then we just shoot ourselves in the foot.

SPEAKER: I do think that what's happening in this campaign is a reaction not just to globalization, but immigration, and sort of sense that the political class of the United States has really not been -- on both sides of the aisle, have not been straight with the American public about what it will take to adapt to these dramatic phenomena.

And I think what we need is a clear explication of those things, those assets that really will drive prosperity for the country going forward, and those kind of policy tools that will enable us to share prosperity in a more dramatic way over time.

And so, you know, from our perspective, coming from the sort of metros on up, where the corporate civic and political leadership feel like they're at the front lines of competitiveness, and that the front lines are basically dealing with immigration, they are intensely focused on investments and innovation, because that's the only way this country will compete going forward, investments in human capital, education and skills, because that's how innovation will occur and that's how we'll reduce the racial disparities on income and wealth, and investments and infrastructure, which we never

really talk about in the United States, because that's the way we will not just move people and goods, but also the way we move ideas in a more effective and efficient way. And I think what's happening at the local and metro level is that we are constructing a way to adapt, and this is not uniform obviously, because there are some -- responses to this and protectionist responses to this, but I think generally there is a more sensible, mainstream response coming up from the bottom which says let's do what's necessary so that we can maintain our competitive edge, share prosperity going forward, which definitely has to involve some of the union and labor questions, and what we haven't talked about yet today is, grow in sustainable ways, because this climate issue I think is dramatically going to effect, you know, effect our ability to prosper.

So I think we're seeing the conversation happen like it usually happens in the United States, when there's a federal vacuum, happening at lower levels, not just of government, but of governance, corporate, civic, and political, university, et cetera, and the question is, can we bubble that up, bubble up that energy and innovation and just common sense approach to things, and then we'd have I think a very different kind of conversation.

SPEAKER: Well, the greatest thing about globalization is, it's created a huge pool of profits in other countries, primarily China, so that our government could dip into that money and borrow it from the Chinese and

sustain its unnecessary spending.

MR. ANTHOLIS: Well, I'll segue off that actually with a substantive point and then transition to our next group, and the substantive point is the paper that I did for this project, which was about trade and the climate issue that Bruce mentioned.

And I think one of the hold backs in moving forward on trade has been in previous periods of economic, global economic integration and trade rounds that went along with it. We could see the rising middle classes in other countries as consumers of our goods.

And while that is undoubtedly happening in places like India and China, it's not being felt as much, so that you don't have big American companies on the exporting side really arguing for the next round.

The biggest proponents have been farmers, but they're starting to see actually -- they're feeling comfortable in the subsidies they have. They don't see the prospect for lowering those subsidies in Europe, and they don't see enormous new consumers in places like India and China for their goods. So you've got a bit of a stall there. And on the climate side, people are now looking at India and China, not as developing countries, but as emerging markets, and wondering why they get an exemption that in the past have been given to what were thought of as poor countries, and now are economic competitors.



So you're going to start to see these two worlds I think collide with one another a bit. In the climate negotiations, you'll see American politicians start thinking about border taxes that adjust or the energy costs that we might fair by trying to act on climate change and trying to essentially impose those on developing countries that haven't taken a similar climate change goal in the world where we might take climate change goal perhaps in the next two or three years, and then you're crossing all bets off on that.

With that, I want to thank our terrific panel here. And we're going to just take one or two minutes to simply switch panels. I'd ask you, please, not to get up from your seats there because I think we want to move to the next panel, which will be moderated by Rick Klein from ABC News.

(Pause)

MR. KLEIN: Good morning, everyone. Thanks for sticking around for the second panel here. My name is Rick Klein, I'm a senior political reporter with ABC News and author of The Note at ABCNews.com, which will be the first of many plugs you'll hear for The Note today.

We've got a great panel with some top advisors to several of the presidential candidates. And it's a real honor to have them here, because, in case you haven't noticed, we're really in the high season to campaign.

The Iowa Caucuses are a month from today, the race is as

volatile as ever on both the democratic and the republican sides, so it's great to have these fine gentlemen with us for a period of time to talk about some real issues, something that gets lost often in the debate.

I'll just briefly, starting right here directly on my right, we have Mr. Jim Bognet, who is the Policy Development Director on Governor Romney's campaign. He is our token republican, and he is flanked by two democrats on the other side, Austan Goolsbee, who is Economic Advisor to Senator Barack Obama's campaign, and make sure I get all the titles right here, Leo Hindery, who is Economic Advisor to Senator John Edwards' campaign. And I just want to take a few minutes to kind of give an overview of the topic that we'll be talking about today. And it's now been four election cycles since Bill Clinton said the economy is stupid, and we're back where we started in a lot of ways where we're talking about the economy all over again.

A lot has changed in that period, obviously. We've seen the economy transform itself in many ways, we've seen booms and busts and unprecedented growth and recessions in a housing market that went crazy and is now very much falling. But it does seem like it's the economy all over again, and we're seeing signs of that again.

If you look at the major issues, and we poll on this sort of thing all the time, Iraq seems to be receding in a lot of peoples' minds in terms of

being a big issue, and you hear a lot of the same sort of economic issues you always hear about, you hear about taxes, you hear about health care, which is, of course, very much wrapped up in economic insecurities and the like.

Retirement security, social security, all those things are very much linked with the economy. And we've seen the candidates debate what it even means to be middle class. I think one of the most interesting exchanges of any of the debates was a few weeks ago, when Barack Obama and Hilary Clinton had a real substantive disagreement on what counts as middle class. And Hilary Clinton is saying that a firefighter that makes maybe \$95,000 a year is middle class, and Barack Obama is saying, well, that's someone that should be considered upper class, a richer person. And obviously these things differ depending on where you are in the country.

So we're seeing these issues begin to come to the floor. The housing crisis is the most immediate one of the ones in the news just today and this week. But all this stuff is playing out on the ground very much in Iowa and New Hampshire, because this is one of those issues that matter.

So I'd like to -- instead of offering introductory statements, I'd just like to ask sort of a general question to all the panelists and have everyone give a couple minutes to respond. But starting right here with you,

Jim, the first one on the spot, what does it mean to run on the economy in 2008, what's changed since Bill Clinton rode that slogan to winning, and how does a candidate, how does a presidential candidate speak to economic issues, what works as a message, what works as a policy?

MR. BOGNET: I think that's a very good question, and I think it really depends on -- running in the republican or democratic primaries, how you speak about the economy. I know for -- what we've seen in the voters we've talked to out there, taxes are a very important issue. And republican voters are fans of the Bush tax cuts. They think the pro growth tax cut and the pro growth tax policies we've had in the last eight years have really helped and are very concerned about that those are going to expire in 2010 - - 2011, and you know, all the democratic candidates have been very clear that they do want to repeal those tax cuts.

So we've been out there, the governor has been talking very forcefully about a very aggressive tax cutting agenda, extending all the tax cuts of the last few years. One thing we're really proud of is that he's put forth a middle class tax savings plan, which goes to the point of this discussion today, what is middle class.

And he said that for everybody with adjusted gross incomes under \$200,000 a year, we should have a zero percent rate on interest, capital gains, and dividends. So it's really extending pro growth tax cuts

even farther and covering a wide swath of the country. That would be 95 percent of the people in the country would qualify for those. That's probably something very different from the way the democrat candidates would address how to help the middle class. So we've kind of gone with the traditional route of trying to take burdens off the American people on taxes. There's also other big questions out there in the economy. We have the housing crisis, which we're certainly going to deal with the after effects for the next few years. We also have health care. And, you know, I think it's probably more traditional that democrat candidates would talk a lot about health care. But Governor Romney really feels that health care is going to be a major issue next year. And he's the only one with a record of getting more folks health insurance as a governor.

So he, you know, in our policy meetings, he's always, you know, saying very clearly that health care should be a republican issue, and that we have to work hard on it. And he concentrates on getting everyone private health insurance.

You know, there will be a candidate to talk about getting everybody health insurance, and they mean government health insurance. He concentrates on getting everybody private health insurance and bringing down the cost of health care. So I think taxes and health care are going to be two huge issues next year.

MR. KLEIN: Austan, how does a democratic candidate then run on the economy?

MR. GOOLSBEE: Okay. I would say, what does it mean, the question was, what does it mean to run on the economy now and how does that differ from what it was maybe in 1992. It's clear, and I don't think it's just in the democratic primary, though, we're the ones who have been talking about it the most.

The issue of economic insecurity/anxiety, the feeling -- the stuff about income mobility, the statistics are verifying what everybody has had this queasy feeling in their stomach about for, you know, the last six years, and that is, if you look at the income distribution, there's a small group of people who are flying off the top of the graph, and for a wide swath of people it's been pretty stagnant for a fairly sizeable period of time.

You combine that stagnant income with the price of energy at an all time high, the price of health care at an all time high, the price of education at an all time high, and I think that is the reason, and that's what Senator Obama says is the reason that the savings rate went to zero, it's because there's no -- we don't have any margin for error anymore. Addressing that anxiety is going to be absolutely on the forefront of the election. Now, Senator Obama actually has called for tax cuts for the middle class rather than extending the tax cuts that were intended to be temporary

all along, rather than extending them for the group who doesn't need it and didn't ask for it and aren't the ones who are facing the series of crisis that we outline, and then you add on top of that housing. Rather than give it to them, let's give the money back to the American people.

And if you take say the issue of savings, I applaud Governor Romney's approach that, let's look at the other 95 percent, not just the top. I think the evidence, for example, on that is that the approach taken by Senator Obama of let's have automatic defaulting people in, that you could choose not to save if you don't want to, but if you do nothing, your employer would put money into a savings account for you, my read on the evidence is, that's far more effective for the people who currently –

(Interruption)

MR. GOOLSBEE: (in progress) aren't saving, than is telling them that their capital gains tax rate is going to be zero percent, would be my read on things.

I always used to say, hey if Iraq is going to be the number one issue then Barack Obama is going to be the next president of the United States. Now I say of the economy is going to be the next issue, then Barack Obama is going to be the next President of the United States and whatever the next issue after that I agree, but Barack Obama is going

to be the President. But look, the economy – both pocketbook issues and the thing that's different from '92 is there it was almost exclusively pocketbook issues, recession and slowdown.

And we may get to that. I mean, the credit crunch may turn into that but I think the economy's stupid now also means thinking about the long run, and the, you know, have we completely abandoned regulatory oversight of financial markets. That's going to be relevant. Are we engaged in innovation and competitiveness in education for the long run? That's going to be important, too.

MR. HINDERY: You know Rick, I don't think John Edwards is running on the economy I think he's running for president and what I took away from the last panel and it is something that all of us, and certainly Austan and I on behalf of our candidates have wrestled with.

Is there is a great debate in this country as to what the middle class is and we don't even have that debate anymore. We answer it quite simply, that there seems to be somewhere around two to ten percent of the population and everybody else. And where I would ask the audience and frankly, Jim, is what part of this report card can you possibly like unless you are among that two to ten percent?

That there is not an indicator out there, there's not a characteristic in this economy that you can feel good about unless you are



in that two to ten percent. So when you say you want to do anything more of the same, I am appalled. What concerns me and I think concerns John Edwards the most, and he speaks about it literally everyday, is the predicament that we have gotten this middle class into is not happenstantial. It's purposeful.

How can you look at these trade practices, these compensation practices, these tax practices, the non-healthcare practices, the non-education practices? To draw back to Ron's comments in the prior panel, how can you look at those five and not expect exactly the crisis that Austan was speaking too? And John and Barack speak to everyday. It's a crisis, but it's a manmade crisis.

I think the easiest time that Austan and I have is to sit with people who say, gosh let's just do more of the same. It's hard to argue against somebody who is similarly motivated by change, but it's very easy to argue and contrast yourself with people who like this report card, because I don't like it and John Edwards hates it.

MR. KLEIN: Jim, I don't want to put you too0 much on the spot here, but –

MR. BOGNET: I'm happy to respond to that.

You know, you look at some of the statistics, unemployment under five percent. Back when I was in school that was called full

employment, inflation under three percent, five, six years of uninterrupted economic growth.

I think if you always want to make, if your frame on every issue is there's people that are doing better let's attack them and let's try to make it always about a class warfare approach, you're always going to have something to say. I think what all of the mobility statistics ignore is the temporal nature of it.

The people in the different income brackets change over time. The people that are in the top two to ten percent might have been different 15 years ago, that's why education is so important. We see an undeniable correlation between those who get more education are upwardly mobile. So, you know, things have been good I think they can get better. Governor Romney thinks they can get better.

One thing that we would really like to change is the deficit. Governor Romney feels very strongly about spending, that we have to attack that. Of course, on the other side of the aisle we hear of more spending programs. We need more tax revenue for more spending programs.

So there are two very different visions of which way we should go forward. Ours will be a low tax, low spending vision, theirs will be somewhat different.

MR. KLEIN: Certainly you acknowledge that there's a lot of economic insecurity out there?

MR. BOGNET: Certainly, insecurity and anxiety.

MR. KLEIN: And is there anything that Republicans or speaking for Governor Romney, what is he saying, what is he doing that gets at that? Is it – I mean, he said a lot of times that we need to be optimistic about the economy, but optimism isn't going to get people jobs.

MR. BOGNET: Well optimism is important, because when people – a credit crisis is a crisis of confidence. I mean that's what we're dealing with. Credit is a crisis of confidence. Lenders don't have the confidence that the economy is going to keep doing well. So optimism is important, but I think one of the main points and to a certain extent Mr. Obama and Mr. Edwards have hit it, that healthcare is a major source of insecurity and I think that's one area where Republicans have to do a better job talking about it.

Governor Romney definitely understands that there is insecurity about losing your healthcare when you lose your job, that's why he thinks that we should try to get everybody insured. That's why we should do it in a private market way. There's a perfect example. You have a situation where, I think, candidates on both sides or at least all three candidates represented here, realize that healthcare is major

concern to people.

Our approach is let's get people private health insurance. Most people are generally happy with their private health insurance. The approach on the other side of the aisle is let's get government health insurance for more people. So it's a very different philosophical approach.

MR. KLEIN: Austan I would like to get you to weigh in on that and talk about healthcare too, because there is an interesting debate that's raging now between Senator Obama and Senator Clinton and you can put Senator Edwards on the Clinton side in terms of the idea of a universal mandate for healthcare.

MR. GOOLSBEE: Okay, you are going to pose me the three greatest domestic issues of – do I have ten seconds or twenty?

MR. KLEIN: We don't have any -- this is a great debate.

MR. GOOLSBEE: I would only start on the issue of fiscal irresponsibility that not only do the Republicans know about it, they invented it. We had a surplus the last time the Democrats were in office so the calling for \$2, \$4, \$8 trillion tax cuts while at the same time saying we got to get rid of the deficit. I will simply leave to you to evaluate whether that will work.

So let us think for a bit about the nature of healthcare. On the Democratic side, I would say all of the candidates have put forward

very responsible plans that if you look at the health experts in the United States, we can argue about the details in those plans and I'm happy to do that.

It is a total mischaracterization to say that the Edwards or the Obama or the Clinton plan put the focus on getting everybody covered by a government program. That's not at all what it does. It creates a government option that people could enroll in if they can't – if they aren't employed for example. If they can't get private healthcare, which right now if you're an individual, you don't have a job, you don't have employer provided healthcare, good luck trying to get a policy. I mean the average policy in the individual market, if you aren't disqualified, is between \$5 and \$10,000.

It creates a marketplace where you can choose if you like what you currently have, or you want to enter into an exchange and buy private health insurance you can do that, and there is a public option that you could choose that if you wanted. So I think it's a bit of a bugaboo to say, ahh, they're trying to have the government take over the sector.

Anybody's got to look at the current situation and acknowledge, and Governor Romney almost alone among the Republican candidates has been emphasizing healthcare. I should say in fairness.

The issue of cost saving and getting the price down is

unbelievably important and is a multiyear thing. The coverage is an important issue as well and is immediately pressing. The issue of the mandate, if you haven't followed it is, would you put in place a law requiring everyone to buy health insurance?

Whether you have a mandate – and Senator Obama's plan does not start with a mandate, it says let's put all of our focus on getting cost down the most of any of the plans. In the Clinton plan and in the Edwards plan, it does call for a mandate. Every mandate we know in the short run has to have an exemption and I will say in the case of the Edwards plan they at least made clear, we will have a mandate once healthcare is affordable and we will have an exemption for hardship, for financial hardship. Of course, you have to do that. It would be totally immoral to require people to go buy healthcare they can't afford.

I believe it is unfortunate the Clinton campaign has a bit tried to portray their plan as covering everyone immediately with clearly fudging the issue of what is going to happen for the millions of people who couldn't afford healthcare now. So in Massachusetts, that is the only state that has a mandate.

They immediately exempted 20 percent of the uninsured from the mandate because if you'd look at what the prices are and you look at what the people would have to pay, it just doesn't match. They

wouldn't be able to afford it.

So the critique that not having a mandate is not universal clearly applies for the foreseeable future to a mandate plan as well, because of that issue of affordability and, you know, I would describe most of the debate as being somewhat intricate about is it more effective to cover 18 to 25 year-olds by what the Obama plan does, letting them stay on their parent's insurance up to age 25 versus passing a law saying that they have to go buy it. Which I would argue has not proved very effective for that group.

But, again, these are all minor details in plans that are 95 percent overlapping. And compared with five percent overlapping with the Republican-style plans which appear to me to be kind of like let's create a Health Savings Account for every person and give huge boons to the insurance industry who continue to price they way they price.

MR. KLEIN: Leo, are mandates important and how do you address some of the inherent flaws in any kind of a mandate system?

MR. HINDERY: The flaw is to not have a system and none of us are so naïve to think that any organization, any entity can develop the perfect solution. What we cannot tolerate, Rick, is 40 million uninsured growing to 47 so quickly. We can't tolerate, roughly, 50 million being chronically underinsured. We can't stick our heads in the sand on

that.

There will be inequities and inefficiencies out of what John has called for and that is why he has been so cognizant of exemption and qualification and affordability, but it is preferable. I resent the fact that somebody is suggesting that this is some sort of government plan. It is not a government plan. It doesn't disrupt the existing provider, it simply says to Austan's comment, that there are women, men, and children in this nation who cannot qualify and get the sort of healthcare they have. Forty-seven million by my last count, but 50 million chronically underinsured.

What I would like to go back to more immediately is this premise of mind anyway, which is John's, that these outcomes were predictable. And that the non-progressive nature of the tax system, I am a consummate beneficiary of Trickle-down, I've had the privilege through work of accumulating a quite substantial net worth so I know of firsthand of what I speak. The non-progressive nature of our tax system, ignore the globalization debate. Let's just simply talk about unfair trade practices.

Let's talk about compensation practices that in the course of my career, I've watched the average Chief Executive in the United States go from roughly 16 times what his or her average employee makes to 400 times. Let's talk about complete inattention to healthcare from 1993 when



it first became an issue in this country through today, 14 years later, soon to be 15.

It is completely untended to and an education system that Ron reminded us of is the single largest opportunity into the long term for the youth of this nation to stay competitive. It's a trashed system and we know that.

What concerns John Edwards the most is to look at that report card and then hear candidates suggest that no regulatory response, no government response is appropriate against that report card. And against a report card of A's, you know, I can live with no improvements. Against a report card of a sequence of F's, I would think John Edwards is right in calling for prescriptive behaviors.

MR. KLEIN: I want to segue from that into an issue that Senator Edwards has talked a lot about on the trail, and that's the issue of poverty. And he's made that a centerpiece of his campaign, really alone among recent presidential contenders and he's very proud of that. But how does that, how does helping the poor interact with helping the middle class, in this broad middle? And where is the distinction in Senator Edwards' mind, in your mind and does it matter? How does empowering the poor interact with empowering the middle class? In strengthening the middle class?

MR. HINDERY: I think Rick, John Edwards looks at the Nation in sort of five buckets so to speak. One is –

MR. KLEIN: I thought there were two Americas.

MR. HINDERY: That's been the misconception --

MR. KLEIN: -- two Americas, five buckets.

MR. HINDERY: That's been the misconception of John.

John and Elizabeth's passions for living in the richest nation of the world and having 37 million people in dire poverty is not fundamentally an economic issue, it's a morality issue. It's part of his and Elizabeth's sense of fairness.

But John says listen to me, listen to me exhaustibly, I speak about 37 million because nobody else seems to want to. I speak about the 47 million and certainly Austan's right that Barack Obama has done an able job of trying to address this 40 to 100 million that fall into the healthcare crisis or era. We do believe, John Edwards does believe that five million jobs have been unnecessarily off-shored with millions more gravely at risk. That it's lead to stagnation for those left behind. He looks at those areas of healthcare, of education that we've talked about. Compensation practices for the wealthiest, this one to two percent that so dominates our national incomes and say we have to answer all of those pieces.

It's not silos, although they live in silos so to speak. The solutions are all encompassing and to grab a phrase from us, and sort of all embracing.

MR. KLEIN: I'd like to ask you Jim, Governor Romney said in the last week or two that he gets angry when hears John Edwards talk about two Americas. I'd like you to expand on that a bit and also talk about what policies, I think Austan made a good point about it's great if you're not getting taxed on dividends or capital gains, but most of the folks that we're talking about here, certainly that this class of the uninsured, these aren't people that have investments to benefit from that.

So what policies in healthcare and beyond healthcare is Governor Romney talking about that gets at the lower middle class, the people who really don't have a lot of assets and are really struggling?

MR. BOGNET: Well, there's two parts to your question. I guess I will start with the latter part first.

We think education is the key for bringing people into the middle class. You know, the Governor spends a lot of time on the campaign trail talking about competitiveness. Mr. Hindery brought up the trade practices. One response to the new competitive world would be go to the protectionist route. You know, pull up the moat and say we don't want to deal with the rest of the world. Governor Romney believes the

approach is we need to be better educated to become more competitive. You're not going to be able to compete in a world economy where capital flows freely across the world to wherever the best investment options are without better education. That's how you're going to compete. Not by going the protectionist route.

So I think education would be the key there. Governor Romney has talked about Math and Science education. We have a whole specific program on how we could make education better.

To the first part of your point on two Americas, going back to what Mr. Hindery said. You know, it's funny to hear. He talks about two Americas all of the time and the income tax system has been more progressive than it's ever been. It's just a fact that the top ten percent, top two percent of the country pay a higher percentage of federal tax, income tax, than they ever have before in American history and I respect the business success that you've had and –

MR. HINDERY: The reason I paid more taxes is the rate, because I'm making a whole lot more for God's sake.

MR. BOGNET: Exactly, exactly. And you've done very well and I look out at the audience and it's mostly young people and I think you've done very well under that tax regime, why do you want to raise it on us as we're trying to move up income mobility-wise.

So I think the whole two Americas can see that is, I think that's basically a fundamental question in the election. If you look at it as two Americas and the way we're going to make things better is by taking the bigger part of America and seeing what they can reach in and take from the smaller part, that point of view is better.

If you say how can we make America better for everybody, how can we become more competitive, how can we can get everybody better educated, you're going to look at it more from Governor Romney's perspective.

MR. KLEIN: And not to try to interpret two Americas on behalf of Leo or Senator Edwards, but we can – we're right here near Dupont Circle in one of most expensive parts of this or any American city. We can drive three, four miles from here and be in just absolute blinding, awful poverty. I mean terrible school systems within the District of Columbia. Terrible school systems, you know, people where the unemployment rate – I don't know the numbers but it's well into the double digits I'm sure in a lot of neighborhoods in Washington.

What's wrong with talking about two Americas from that point of view? There are haves and have-nots.

MR. BOGNET: I think it's unnecessarily divisive and I think what you do, is you talk about the problem. It's totally fair to talk about

that problem, but it's the solution that we differ on.

A Governor Romney solution would be to look at things like the D.C. Opportunity Scholarships. Which say we spend \$10,000 per student in D.C. on the public schools and we have a pilot program to get kids out of those public schools, to give them an opportunity to go to private school. That's our solution for trying to help the next generation of kids.

On the other side of the solution would be let's spend more money on public education, even though D.C. is already the highest spending per pupil in the nation. So it's not that both sides don't recognize the problem, it's that one side has a different solution than the other side.

MR. KLEIN: Austan.

MR. HINDERY: I'm going to answer, of course.

MR. GOOLSBEE: Go ahead.

MR. HINDERY: I had the privilege of being Chairman of Teach for America, the most recently the last five years, so I speak with some firsthand insight and I've been a corporate Chief Executive, I've had that privilege in my life.

I think this education fix is one of the greatest ten fakes of all time. The women and men who argue for the education fix to the exclusion of everything else remedial. If the four of us had mandates with

unlimited responsibility and authority, it would take ten to 20 years to fix the education system in this country. We should do it. And we should do it with enormous passion and conviction and resources, but to hold hostage two or three more generations of Americans to tolerate these trade practices, this income inequity because I'm going to "fix" the education system.

I've watched women and men in positions of power and just chuckle because they know that they are just buying themselves 20 or 30 years more of this chronically unfair system because the education system won't get fixed in any reasonable timeframe and if that's all the palliative solution that people can find to this nightmare that we find ourselves in, in terms of inequity, it's just beyond tragic.

MR. KLEIN: Austan –

MR. GOOLSBEE: I was just going to say, since the – the attack was on the two Americas so it was fair that Leo speak again as a rebuttal.

You got a short term and a long term, and actually Senator Obama, I would say, if Senator Obama and Governor Romney sat down and I bet if Senator Edwards was there and they discussed that, certainly Senator Obama would applaud the effort that let's put a big focus on education. I know he wouldn't necessarily say vouchers for private

schools is the way to do that, but look, we can sit down and say how do we fix education?

As Leo says, that's a long run thing. That was one of the big motivators of Senator Obama adopting this working and middle class tax relief package that you ought to do something that could help people right now, separate from education. And I would simply caution people not to buy into the class warfare rhetoric of all, virtually the entire question of the tax "increase" is letting this temporary, the tax cut that was designed to be temporary expire.

And it's a bit like my, I have three kids and our seven year-old, she is obsessed with candy. So on Halloween we went out, you know, each kid with the Jack-o-lantern and she would devour the candy as it was handed to her. You know, say Trick-or-treat, [nom nom nom]. So –

MR. KLEIN: We can tell she's got some issues.

MR. GOOLSBEE: Yeah. She's got chocolate all over her face. Her brother who is this studious planner type, he's got a bucket full of his. So there's nothing in her bucket and she says, well I should get a treat. I don't have any treats in my bag. I was like you just ate 40 chocolate bars before we got home. And she said, oh but it's not fair, you know, I should have more.

And the thing is, it would be one thing if we had just come off



a period of raising taxes on high income Americans for the last six years and now we're talking about, let's got take their money and hand it out to everyone else. But that's not what happened. I mean, we had \$1.5 trillion of tax cuts to these high income Americans. And all power to them, they got to pocket the money, spend it do whatever.

All we're talking about is let those expire as they were designed to do. And that's the source of the money that we're using for these other priorities. I really don't see that as class warfare at all. I mean that strikes me as common sense.

MR. KLEIN: Well, as we ponder you daughter's stomachache, let's take some questions.

QUESTION: Hello Carolyn Eavery with IAS Group. Virtually all of our treaty partners have border adjustable taxes and the United States doesn't and that put U.S. exporters at a disadvantage.

What's your strategy for dealing with the imbalance?

MR. KLEIN: Jim, do you want to respond to that?

MR. BOGNET: Governor Romney has talked about that. Governor Romney does believe we should move toward a system where we do have border adjustable taxes. He believes that it does hurt our exporters. He's talked a lot about that. Coincidentally enough in Michigan.

He's talked a lot about how border adjustability would help

us compete, so Governor Romney does want to move to a system with border adjustability.

MR. KLEIN: Austan.

MR. GOOLSBEE: I'm an Economics Professor so I'm sure you don't want to get – there is considerable debate within economics about whether the exchange rate merely adjusts to reflect that the border, the issue of border adjustability in an income tax is a little strange.

Usually why the Republican candidates are talking about border adjustability is they're talking about replacing the income tax with a consumption tax. If you are asking about that more broadly, it's fine to think about the issue of a consumption tax but you have got to confront the issue of the massive shift in regressivity of the tax code if you shifted to a consumption tax because as you know most all of the savings is done by very high income people. So if you are essentially exempting all savings from taxation, what you're going to do is have, and I believe that Bill Gale has done the analysis on that, that would be a tax increase for about 90 to 95 percent of America and a gigantic tax cut for the top five percent.

It strikes me, you want to be a little circumspect about pushing that as the policy after the last six years.

MR. HINDERY: I just, ten seconds. I think that one of the

concerns probably all of us in this room have is the fundamental absence of savings in most of the economy and to Austan's comment, it's intellectually interesting to have consumption tax as a true alternative to the income tax in the predicament we find ourselves in which is a non-savings predicament. It would actually be an enormous windfall in today's economy, further enormous windfall, to the wealthiest of Americans and would decry the progressivity that we would like to see, not enhance it.

MR. KLEIN: Over there.

QUESTION: Bill Lewis, McKinsey and Company. I'm really happy this second panel got to the healthcare issue. The first panel didn't pay much attention to it and yet, the necessity of setting priorities requires us to face healthcare because from almost every point of view including the economic anxiety point of view, the elephant on the table is healthcare and it is getting some attention, so we need to be practical and pragmatic and tangible about what we're going to do.

So far all of the presidential candidates have proposed ideas that in the end won't end up solving the problem. On the Republican side the market approach is right in spirit but in practice healthcare is so complicated that it's not a naturally structuring market. It will not create the efficiency and the genius that has given us this high productivity in every other sector, simply because it's so complex. So some public

interaction to structure the market is necessary.

On the Democratic side, we have a lot of emphasis on coverage and Austan since you went into detail I will have to respond mostly to yours, but it is somewhat disingenuous to have a proposal that has three heads, two of which are really not viable.

The first one, that everybody likes their private insurance. Sure we all like our private insurance because it's so heavily subsidized by our employers or by the Federal government or both. The problem is those subsidies are not viable. They will not be sustainable and we will lose them over time. The third hit is the fall back on the government plan, a Medicare like plan.

Well, Medicare is part of the problem, not part of the solution. It's a fee-for-service plan and that has led to the cost escalation that we have. That leaves only the second head, which is this exchange system which you and everybody else sort of waves their hands about but doesn't get into any of the specifics because we're talking about reforming and restructuring a system that comprises 16 percent of the GDP. That is a massive undertaking. An economic reform unlike anything we have ever tried to do.

We desperately need more content in terms of that middle option on the Democratic side to have any confidence that system would

work.

MR. GOOLSBEE: Okay. The only thing I would say to that is what you call the three heads, that's actually just part of the one head. Okay. That is one head is on coverage and one head is on dealing with costs. Okay.

Now I can send you one and will be happy to do so and I'm happy to say that our cost saving measures were deeply informed by the work of the McKinsey Global Institute, which I am sure you are supportive of.

It is very specific and I am to share with you all of those things. So for example, issue like spreading interoperable information technology around the country to not just the highest end hospitals but to solo practitioners, health clinics, small doctor practices and rural hospitals has proven extremely effective at two things. One, getting the cost down of repeated tests. The person comes in, they have actually had the test, they can't find the records, they give it to them again. There are a bunch of cost savings on that. Second, the rate of errors in the medical system is disturbingly high.

Even separate from the costs, there are 170,000 deaths from medical errors each year. Okay, so something as simple as the point of prescription electronic interface, which just means the doctor comes in

and prescribes, okay the person has an infection give them penicillin. It beeps. And before you can prescribe it, it says, okay you're allowed to prescribe it but you just need to acknowledge that his record says he's allergic to penicillin before you can do that. So you did it on purpose, right? It wasn't an accident. The guy says yes, then he goes in and says no. Oh, whoop. That's one example.

The emphasis on comparative effectiveness research; our existing system for drugs, for procedures, et cetera is geared around evaluating is thing safe and does it work? Not on is this better than the things we already have that cost less money?

So in the case of Statins, for example, now when they start doing comparative effectiveness research many of these intensely expensive drugs, they are effective, but they are no more effective than taking an aspirin and taking stuff that's off patent and things like that.

Those are three examples of which there are many that put the emphasis on how to get costs down, which is going to be one important component. It's not an immediate component, but it's one component.

On the coverage side, the issue of pooling – I think you are exactly right that the --, nobody believes more in a market mechanism than a free market economist, but if you look at the healthcare market it's

a classic example of market failure. I mean we've got differing information, they are allowed to cut and drop people based on health status.

Pooling is the answer to that. Now Governor Romney's, the approach in Massachusetts puts a focus pooling. I'm not as convinced by your statement that the employers, that essentially the entire employer based system we ought to just acknowledge it's about to blow itself up and look for a third alternative unless we really, really have to.

Once we're to that point, maybe we do have to do that but right now I think there are a lot of fixes that we don't have to blow it up. And I think a lot of those are the centerpiece of the Obama plan, but also the Edwards plan and to some extent the Clinton plan. But I appreciate that comment and I am happy to share with you more details if you would like to evaluate it.

MR. BOGNET: I think one of the things that we haven't talked is, one of the things driving health care inflation is third party payer. When you don't have incentives lined up for people to shop wisely on their health choices, that's going to hurt. And that's why and I respect the comments my fellow panelists made about, it's not purely a government plan what they're suggesting. But they put the government option out there as one option and then as time goes on they may give the most

attractive option. And I'm really scared to put the Federal government --, Governor Romney's plan concentrates on state governments helping with Federal funding, getting their people insurance. But to say that the people who did Katrina should be in charge of health choices across the country for a much larger portion scares me.

MR. GOOLSBEE: By that you don't mean Republicans, you mean the government.

MR. BOGNET: Well, I mean the government.

MR. GOOLSBEE: Okay.

(Laughter.)

MR. BOGNET: Good point. But I mean, look at one of the other areas of the economy that's almost as big or somewhat near as big as medical spending, which is the Defense Department. Anytime you have government procurement, you're really asking for trouble. So I think a market system, where you have market failure, I don't think going to a government system is going to cure that market failure.

MR. GOOLSBEE: Just be aware of two things. One, if you look at issues like -- it is true, you could put some discipline on things by forcing people to pay, let's say on the marginal dollar, it's coming out of your pocket so you are going to be mindful of costs. But remember that one of the huge drivers of cost is chronic disease management and



preventive care and the more you put them high deductible, individual pays the full dollar out of their own pocket, the evidence is overwhelming that people don't put enough money into – if you're paying the full doctor visit, you know you should go in and get your blood pressure checked twice a year if you have high blood pressure, but you don't want to do it because you have to pay \$150 and you've got to go down to the doctor's office.

So the more you put the emphasis on let's have guys pay out of pocket so that they're concerned about costs, the less emphasis you are able to put on the preventive care a chronic disease management and ultimately that's actually a short sighted decision because those things, the preventive care and chronic disease management are massively, massively more expensive than whether the guy is going to be giving the pharmacist a hard time. You know, my Advil is a \$1.50 and I want it to be \$1.20. You've got to put in perspective what are the most important things and what are not as important. And so you've got to remember that.

And then the second, on the Defense Department, I will simply tell you Blackwater and Halliburton haven't been doing so great at cost containment and performance relative to the Army, but I will leave it to you to decide.

MR. KLEIN: Questions. Yes, back there.

QUESTION: Hi, my name is Pam Jackson. I'm with the Congressional Research Service. And the question is about education, in particular, K through 12. And I know there are limits to with what the Federal government's role is in that area, but I am curious to hear what policies you all are promoting and what policies you actually see that you can enact.

And I say that kind of in the context of this notion that the answer is vouchers. And I think that that proposal that you mentioned is very divisive. The notion that K through 12, and I'm specifically speaking to K through 12, but the notion that vouchers is the answer is divisive. It occurs to me that it's kind of skimming or creaming off the top and you still have individuals in the system that's not working. And I don't hear what the plans are to deal with the system and the fact at the end of the day with all of the fixes to the system there are still people in it, kids, that have to get handled.

MR. BOGNET: I think that was probably addressed to me.

QUESTION: It's all three. All three.

MR. BOGNET: Never did I say vouchers are the answer. What my point on the Washington School system is we have to experiment. We have to be more willing to try different things because

what we have been doing with K through 12 hasn't been working, so we need to experiment with other things. And the other thing, Governor Romney's talked about teaching for example. In the public school system, making teaching more like a profession.

Teacher's unions will tell you that every teacher should be paid based on how many credits, Masters – my mom's a teacher, so she goes through this all of the time with me. If I get more credits I'll get paid more and more years of service.

Governor Romney believes teachers should be paid for performance. That we should be willing to say if you're in the ten or 20 percent of best teachers, we're going to pay you more. That we should be able to get new types of people into the classroom, that we should be able to go out and get engineers and scientists and mathematicians and financiers and lawyers. People who have worked and want to come back to the classroom, but guess what? They have problems with certification, because we have very strict certification requirements.

Let's experiment, let's try new things in our public schools because the approach that we have been going down, I'd say the last 20, 30 years has not really helped our public schools. So I think there has to be more of an emphasis on Math and Science, also accountability.

You know, a lot of people on both sides of the aisle, a lot of

candidates have been taking a lot of shots at testing and accountability. Governor Romney believes in accountability. It isn't the only thing that's important in a school system, but the reason that testing is important is how are we going to be able to see are the children really getting better? We need individualized testing. So I think if you have more accountability and a better emphasis on getting, rewarding teachers that would go a long way to helping.

MR. KLEIN: Leo, do you want to talk about the Federal role?

MR. HINDERY: Yeah, let me, just – we have a difference of opinion. I think we have to be eminently respectful of the roughly 90 percent of the youth of this country who are in traditional public education and acknowledge that rather than seek palliative escapes for again, the wealthiest of Americans to leave that system. You know, where can the most immediate impact be found?

They can be found in infrastructure, both physical and traditional, but also most notably broadband. John Edwards has spoken quite strongly about universal broadband within three years time. The primary beneficiary of that would be our K-12 students, at least immediately down the road as Austan would allude to. It would be telemedicine, telecommuting, but most immediately education.

We do have to incent through compensation women and men to move into difficult parts of this country geographically as well as disciplines that are more challenging. And we have to find a way to increase the net pay of teachers. Thousands and thousands of young women and men would like to be school teachers. We know that from Teach for America, we have 14,000 who will apply this year for something on the order of 1,500 slots. It's more difficult to get into Teach for America, sadly than it is to get into college itself in terms of numbers.

So it's not a shortage of remarkable young women and men, it's a shortage of compensation that lets them stay in the profession into the long term and John Edwards has spoken strongly about that. That we would have to sit down, arguably even using the tax code as we did in my generation around Peace Corps and VISTA to let it be possible for committed young women and men to stay in a profession their entire careers.

MR. GOOLSBEE: I would say that Obama has a pretty detailed education plan and I would invite you to go through it. It's pre-K. The first component is a universal pre-K that everyone would have access to pre-K.

The evidence has shown that that A, has a big return as you heard in the earlier panel. But also sets the stage for improvements to K

through 12. That what they have found is that it's hard to have immediate impacts improving K through 12 if the kids, let's say in the fifth grade, they weren't prepared getting up to the fifth grade.

On the K through 12 part, there are many policies, the most important of which relates to this issue of teachers. Now, as if you weren't nervous enough already, it's clear in the data that something like a half a million to a million of our best teachers are retiring in the next I forget if it's five or eight years. So there is going to be a humongous teacher shortage without a significant push to recruit teachers and a significant increase in their pay.

So the centerpiece of the Obama educational effort on K through 12 is to set up an explicit federally based system of bonuses and income enhancement for recruiting new teachers. The advantage of it having, of it being operated at the federal level is A, it has this federal role that you can put the priorities where you want. And second, you avoid what it is now the death spiral for these public schools. Let's say you're in a neighborhood and the neighborhood starts to deteriorate. Okay, then your local tax base shrinks and you actually have less money to spend on your teachers. And then your teachers start saying, you know, it's not safe. I'm getting paid less, so they start leaving.

Which starts you on the death spiral, that people say well I

don't want to move to a place if all of the teachers are leaving and the schools are no good and you have to break that. And the only way you break that, is the Federal government says, look, we will increase the pay of teachers and we will increase it even more to people who will go to places to try to stop this downward spiral. So I actually think that's quite important.

He has a whole higher education component too, that you would probably be interested in. But I think it's got to start with the teachers and the principals.

MR. KLEIN: I think we have time for one more, one more question. Yeah, right there on the aisle.

QUESTION: I'm Patrick Malloy. I'm with the Alfred P. Sloan Foundation.

MR. GOOLSBEE: Woo-hoo.

QUESTION: Mr. Hindery has talked about the trade practices as being one problem and I heard Mr. Lewis from the McKinsey Company. They just did a very good study on sovereign wealth funds, in which they talked about how the wealth has accumulated due to the mercantilist trade practices of some of these Asian countries, and particularly under pricing their currencies as part of their strategy. And I was just wondering, do the candidates have strategies to deal with the

mercantilist trade practices being used by the Asian countries to transfer wealth from here to there. And I would like to start with Mr. Romney and then maybe go across.

MR. KLEIN: He's talked a lot about the challenge posed by China in particular.

MR. BOGNET: Yeah, Governor Romney spent a lot of time talking about the challenge of China and India, and again, it comes back to a very different philosophical point of view. You can talk about the currency policies, you can talk about mercantilism, but really you only have one answer and you have to out-compete them. You have to move up the value you chain and out-compete them.

Currencies go up, currencies go down. We've had prosperity with a weak dollar, we've had prosperity with a strong dollar, but the thing and I think you've done some great work on this. That drives how nations do as productivity. We have to increase our productivity growth. You know, the Governor has talked about having China work with us, you know, supported some of Secretary Paulson's effort of what he's trying to do with the Chinese currency. But in the long run the only way to beat them is to out-compete them.

I just, you know, we talk about what's going to have an effect to make things better. I for one would be interested in Mr. Hindery's



views. How protectionism is going to help us? It sounds really good, but after a few years you find yourself in a situation where you are not producing the goods and services that can compete internationally. And whether we like it or not, we are not where we were 70, 80 years ago. We are in an integrated global economy. So unless we make the investments in human capital through education and in better research development, leading the world in productivity innovation, we will not be able to win the global economic battle.

MR. KLEIN: Yeah, let's talk trade. Senator Edwards has been very critical of the trade deals that are being signed as we speak.

MR. HINDERY: You know, he has, let me specifically answer this particular question and then I will, Jim, try to answer yours.

Sovereign wealth funds must be addressed before a transaction is announced, not afterwards when momentum builds into the announcement. There are certain industries in this country, our transportation systems, most specifically our ports. Something called militarily critical technologies, advanced technical products.

These are items that are crucial to our national defense and our financial markets come most immediately to mind. It's imperative in John Edwards' opinion that the next administration have guidelines for investments, whether they be control investments or substantially

influential investments by sovereign wealth funds into those industries before any further announcements are made.

On the issue of trade, at no point in his candidacy has John Edwards uttered one word in my opinion that could be construed as protectionist. It is all about fairness. John Edwards believes in fair trade deep in his core. What he doesn't believe in is unfair free trade and I will give you sort of four areas of particular attention; the fundamental absence of labor standards in many of our trading partners, the fundamental absence of environmental standards, what we refer to as illegal subsidies and currency manipulation.

The American worker cannot be asked to compete against unfair practices. The women and men of this country are more than able to compete, wage differentials notwithstanding. They are more than able to compete against fair trade practices. They are not able to compete against illegal practices.

And I have had the privilege of knowing John Edwards for a decade. Not one speech of his has he every uttered anything that I would construe as protectionist. Protecting American workers and decrying unfairness, is not and can never be or should never be in this country protectionism.

MR. KLEIN: Austan. I want to ask you this and there's a bit

of difference of opinion in the Democratic field over the Peruvian deal.

MR. GOOLSBEE: Yeah, yeah.

MR. KLEIN: Senator Obama and Senator Clinton both support, Senator Edwards has been very critical of that support.

MR. GOOLSBEE: Okay. Let me start by saying I was Alfred P. Sloan Fellow and you guys do a great job.

MR. KLEIN: Did you pay back the loan?

(Laughter.)

MR. GOOLSBEE: We appreciate all of the work that you have also done with the NBR and the funding research on the economy.

As to sovereign wealth funds, I believe that no honest analysis of the sovereign wealth funds can come to a conclusion other than at 95 percent of the growth of sovereign wealth funds is not the result of mercantilist trade practices. It's a result of the U.S. having such giant imbalances.

We're running huge deficits, our savings rate is very low. And it is those imbalances that turn into these pools of money in other countries.

Now not to let them off the hook, I mean, they are clearly – they clearly enjoy accumulating these pools of money and now there is sentiment that countries in the Middle East and China and some other

places are going to use the money and try to buy up strategic resources. And if that's true, that's worrisome. We've got to look at that. But the one thing that we've got to start with is if you're disturbed by that then you – it's that much more imperative that we think about the fundamentals of the economy because that's where all of this thing came about. They accumulate huge reserves because we have huge trade deficits.

You're never going to be able to stick your head in the sand and pretend like China's not getting rich or India's not getting rich. It's a bit of a false dichotomy though, the Administration has put forward the view that either you're a protectionist or you should just support every single thing that they have done and I would raise certain things with you.

One, China was admitted to the WTO. To get into the WTO, they agreed, they signed on a piece on a paper, we will do the following five things. We will open our markets to free competition, our financial markets. We will protect intellectual property. We will do a series of things and they didn't do it. They just directly violated what they wrote down on a piece of paper that they would do.

Starting with the Bush Administration coming in, they stopped filing grievances against China's violating WTO policies and they said oh, we don't want to do that. We don't want to make China mad. We have to work with China. That doesn't make any sense. If people, I don't

have to tell you, that if people think they can sign trade deals with the United States, that they don't have to abide by what they wrote down, we're going to get a lot of trade deals and how do you think the trade deals are going to work out? I mean, you can see where the anxiety and the anger at the trade deals comes from.

Likewise, in NAFTA they put in these investor protections where the idea was a fine idea, and it was to be that Mexico's legal system isn't that well developed so Mexico might agree to certain things to protect the right of American companies to export to Mexico. But local governments in Mexico might just expropriate their money. What it has turned into is, for example, UPS has sued Canada for operating a postal service because they said that's expropriating the profits they would make if there wasn't a Canadian postal service and they could ship packages to Canada.

I mean, if you look at the trade agreements and I'm an economist. I mean nobody's more for the benefits of free trade than an economist. If you look at the trade agreements, they look like the tax code. They're riddled with loopholes, they're riddled with special giveaways, and we've got to be – if you're going to fill it up with gifts to whoever was on the negotiating team, you're going to have problems. People are going to oppose them.

On Peru specifically, Senator Obama supports the Peruvian Free Trade Agreement because he says from the, even before he was in the Senate, he's always said we should have enforceable labor and environmental standards in the trade agreements. Charlie Rangel and others, they sat down. They got those negotiated into the agreement and to now --

MR. HINDERY: I would beg to differ.

MR. GOOLSBEE: They got in the standards that many, including the UAW asked to be put into the agreements. And if you back out now you send a terrible signal to the future of getting such standards put into agreements because people will say, look, we sat down. We hammered out a compromise, we got it, and if you back away from that I think it's problematic. I think that's the root of the problem. I'm not going to put words in Leo's mouth, but the opponents say yes, there are those standards but we would like more standards than the ones that are in there.

That's an honest disagreement. I think you have to acknowledge that trade is good for the economy overall and as Senator Obama says, that there are a number of people who get left out in that and that if you do not address the anxieties created for those people left out, with their healthcare, with the tax code, dealing with job anxiety as

well as these international issues, then the political will and consensus in favor of the beneficial stuff dries up completely and you just can't – nobody will support that. It doesn't matter if you bring out the evidence, the academics would bring – look, it's not trade that's leading to wage stagnation. It doesn't matter. Look, if you don't deal with those anxieties directly you can forget it. It's over.

MR. BOGNET: It's amazing to me. I agree with a lot of what was said, but it's amazing to me if you look back. President Bill Clinton was one of the most eloquent advocates for increased international engagement and increased trade and now all of the major Democratic candidates to a certain extent, are retreating from that and I think that's probably one of the great unwritten ironies of this election is to see the way Hillary Clinton and some of the other candidates have totally walked away from free trade.

MR. HINDERY: Even the good guys get it wrong sometimes.

MR. KLEIN: Good closing words. Thanks you gentlemen.  
This has been a great discussion.

MR. HINDERY: Thank you.

MR. GOOLSBEE: Thank you.

MR. KLEIN: Thank you.

MR. BOGNET: Thanks.

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