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GROWTH THROUGH INNOVATION

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P R O C E E D I N G S

MR. THORNTON: If I could get your attention, please. Good afternoon, everyone, and welcome. For those of you that don't know me I'm John Thornton, the chairman of the Brookings Institution. It's my great pleasure to introduce both the topic and this particular panel. This is one of the occasions which Brookings has taken all of its capability across the institution and applied it to a particular problem, in this case the problem being the fiscal situation in the United States and how to get the country's economy moving again towards a growth trajectory.

The genesis of this goes back two years ago at a trustee meeting in which a number of trustees and scholars got together and started talking about the state of the U.S. economy and how to get it moving and what we could be doing to make a contribution to that. And since then the scholars have been working very assiduously on this and they're publishing the paper today which we've all got copies of.

So, speaking for myself, I will regard this as a particularly important meeting and a particularly important topic. Darrell West, Martin Baily, Bruce Katz, you all know them very well, represent three different policy centers at Brookings and they're going to go for the next half an hour or so. Then Glenn Hutchins is going to come up, another one of our trustees, very involved in this process, and speak for a few minutes, introduce Senator Warner, and then the meeting will convene.

I want to also just say that there are three or four trustees, Steve Denning, if he's still here, Dominic Barton, who's not here, Klaus Kleinfeld, Ann Fudge, and Glenn, who have been very involved in giving some good impetus to this and bringing in, sort of, the real world economy into the conversation to interact with the scholars.

So, Martin or Bruce?

MR. KATZ: Thank you, John and Glenn and Steve and so many of the others, who have been involved in this. I just want to set the context for the conversation and give you a quick overview then Martin will proceed.

So, let's just talk about some of the facts. The Great Recession was a wakeup call, 8.8 million jobs lost, we've only regained 20 percent of the jobs lost and if we were on track to just repeat the April performance, about 244,000 jobs lost, it would take another 29 months to make up the jobs deficit. We seem to have a Brookings logo there, but maybe it will go away.

About 1 in 10 Americans are unemployed. It's about 15 million Americans. And 43 percent of the unemployed have been unemployed for more than 27 weeks, so long-term unemployment; 14 percent poverty, a jump about 4 million between 2008 and 2009, 43 million Americans live below the poverty line. And then this slide, three in four people, either lost their job or knew someone who did. Okay? So, this was a different kind of recession than in the early '80s or early '90s or early part of the last decade, really profound implications.

There's no going back. The economy that preceded the recession, we had housing on steroids, we elevated consumption over production, we lost the fundamentals in so many ways, so our search with trustees and many of these business leaders from the outside is to focus on a new growth model and focus on a new play book and what you're going to hear are really three things. Martin's going to describe the need to get our fiscal house back in order -- I see Alice here -- absolutely critical to unlock capital to invest in the productive sectors. I'm going to focus again on a vision of the next economy and the need to prioritize investment in a certain segment of economic drivers, and then Darrell's going to walk through improving government performance, integrating more technologically savvy -- to again undergird this recovery.

Martin?

MR. BAILY: Thank you. Let me state the obvious: the U.S. economy is still recovering from this deep recession. I had expected, many had expected, that we would be in full fledge recovery by now with growth in excess of 3, maybe even excess of 4 percent, but that does not appear to be the case. We were around 2 percent in the first quarter, looks like we're going to be between 2 and 3 in the second quarter, unless things look up. So, this economy is still fragile.

One implication of that is that I think a sharp fiscal consolidation immediately would be a mistake. I think the U.S. does have the capacity to continue to borrow at the rate that it's borrowing now, for the rest of this year, maybe into next year. When we hit that cliff, I'm not sure, and we don't want to push the limit on that, but I do think we have the capacity to not do what Ireland and the UK and maybe some of the other European countries have been forced to do, which is to do a quick fiscal consolidation and pay the price in terms of slowing down or even reversing the recoveries that they were experiencing.

Now, I do want to put a slightly different slant on the deficit than most people do. It's obviously true that we're worried about the debt limit, we're worried about our ability to borrow, and we're worried about handing on a lot of debt to our children, but the thing that I want to emphasize is that doing something about the deficit over the longer run is a crucial part of the U.S. becoming more competitive, expanding its manufacturing output, and reducing its trade deficit, which is dominated by manufacturing. We import a lot of oil also, but that's probably not going to change in the short run.

Okay, so as it says here, we've experienced very weak employment in manufacturing. It's dropped from 17 million to 11.6 million. It's slowly recovering. What can we do to at least preserve jobs in manufacturing? We have to make room for that in our economy. And the key to that is to make sure we have enough national saving. There is a counterpart between the national saving and the trade deficit.

So, this chart, which is nicely animated courtesy of Bruce's colleagues -- is the rest going to come in or do I have to press again?

There it goes, it comes in -- okay, so, if we just do business as usual, we get $8.45 trillion increase in the amount of debt that we have to carry. That's the CBO forecast through now to 2021. If we do things that a lot of people want us to do, which is extend the Bush tax cuts and do a fix for the AMT, we'd actually get to an additional $12 trillion of debt. So, that's a pretty scary scenario. So, you know, I don't think we can actually borrow that much over the next 10 years. We sort of borrowed a heck of a lot -- 85 percent of the world's available surplus capital we borrowed over the previous 10 years. I'm not sure we can do the same again -- the same, to this degree, but even if we could, I'm going to argue that that's a mistake. We can't do that. We've got to do -- put in place now something that will change this dynamic going forward.

One way to illustrate this, and I've done a little simulation exercise, there are a number of moving pieces. Back in the 1990s, I mistakenly thought there was a very direct link between the budget deficit and the trade deficit, and I turned out to be wrong. In 2000, we had a budget surplus, but we still had a trade deficit. And the reason that prediction was wrong was because private saving went down even as the budget was balanced, so we ended up with no more national saving at the end of the 1990s, or very little more, than we had had before. Doesn't say it wasn't a good thing. I'm proud of the fact that I was in the administration where we balanced the budget, it was a good thing to do, but it didn't, in the end, solve the trade deficit problem.

So, what do we have to do, then, as a country to make enough room so that we can have roughly balanced trade? We do have to do something about the deficit. We've stepped back what's on that, gone back to huge deficits, so that's number one priority. We also have to be concerned that the private saving rate and the numbers that I give there, 4.9 percent, which was the level we had in 2007, and 7 percent, which is where we've gotten to as a result of the recession, that includes both corporate saving and household saving. Household saving has traditionally been very low in the U.S. It's now come up a little bit. Corporate saving is still fairly high.

So, we don't have to necessarily go to 10 percent, although that would make our lives a little easier in the long-run, but we have to have a decent rate of private saving if we're going to make room in our economy for that manufacturing sector to expand and for the trade deficit to go down. So, it's quite a demanding scenario we have ahead.

Now, there are other ways in which the pieces of the puzzle could fit together. We could stop investing, for example. That's obviously not such a great idea either. Going in the other direction, we could find that even though we balanced the federal budget, states and localities start running huge deficits, which they're in danger of doing because of all the pension liabilities and all the stresses they're under right now. That wouldn't be such a great idea either. Mostly they are prevented from doing that by balanced budget amendments, but if that were to happen, that would make the challenge of improving national saving to be even tougher. So, these numbers that I put up here assume that the states do get back to balance and, as it says here, if the saving rate -- the national savings rate, corporate and household, stays at around 7 percent, then we can get our trade deficit, our current account deficit, down and make room for manufacturing and tradable services within our economy.

So, how are we going to do that? At this point, you know, all the ideas are sort of on the table. I would be very happy to take the Rivlin-Domenici program, I would even be happy to take the Bowles-Simpson program if somebody would support it. Either of those or some combination of those would certainly provide the answer.

I think many of us that are part of those proposals, and many of us here at Brookings would like to see some of the tax expenditures capped, I don't think we should eliminate them tomorrow, but mortgage interest deduction, health insurance payments, state and local taxes.

Now, all of those have got big constituencies behind them so dealing with those is no easier than raising tax rates or imposing a value-added tax, which is in the Rivlin-Domenici plan, so all of the options are lousy, and obviously controlling expenditures, and that means in the end, entitlement expenditures, has to be part of the story as well.

Let me stop there and hand off to Darrell.

MR. WEST: Actually, it's Bruce.

MR. BAILY: Sorry.

MR. KATZ: That's okay. So, building from that, if we do get our fiscal house in order, how do we think about investment again, particularly on the public side? And that really requires us first to have a vision of the next economy. And as many of you have heard, the vision that we're focused on here is a vision of an economy that is driven by exports and powered by low carbon and fueled by innovation and rich with opportunity. So, obviously, why exports? Because demand is coming from abroad. Brazil, India, China, these countries are urbanizing and they're industrializing and they're creating markets for American goods and services. Here's part of the challenge: only 13 percent of our GDP comes from the export sector compared, obviously, to much higher levels in China, Canada, India, Japan, and the European Union, and obviously the European Union hides the export powerhouse of Germany.

Why low carbon? Because our view is everything is about to change at varying degrees of speed -- the energy we use, the infrastructure we build, the products we buy, and essentially the built environment to a lower carbon regime. The challenge is, our competitors -- Germany, China, Brazil -- are setting the platform for clean energy growth and in China's case they're frankly subsidizing their way to clean energy growth. They want us to purchase the clean energy products from them, and they're about 65 percent, I think, of the solar panel market right now.

With regard to innovation, now, innovation is obviously always the fuel for economic and productivity, but going forward it's not just about the United States being a generator of the next ideas or the inventors, as really Martin has said, we need to make things again in the United States. We will innovate less if we do not produce more and the economy we inherit, with regard, for example, to advanced technology products, is an economy where production has shifted abroad. Design and idea generation may still be onshore. Going forward again, we will innovate less in this and other sectors unless we produce more at home.

And, finally, opportunity. If you actually built an economy like that, it would yield many more jobs with better wages and higher benefits. Here's the challenge: we're going through a major demographic shift in our workforce from about 25 percent African-American and Hispanic, to 40 percent African-American and Hispanic, and there are huge disparities on postsecondary education, high school education, across racial and ethnic groups. This is not just an issue of equity or fairness anymore, it's a competitive proposition for the country.

Last piece about the next economy, it will be determined, it will be delivered, it will be shaped, by metropolitan America, the same way the Chinese economy is being determined, delivered and shaped by their metro areas, or Europe. A hundred metropolitan areas, after decades of growth, are now two-thirds of our population, three-quarters of our GDP, are in every asset that matters -- innovation, infrastructure, human capital, 75, 80, 85, 90, 95 percent of the national share. We are still a country that thinks we're a network of small towns. Wake up. We're a metropolitan nation and we need to act like one.

So, what do we do? We have short and long-term. Set the rules of the road. We need to get back in the trade game again. We've got three FTAs before the Congress, we need to move these. On long-term strategy, we've got to streamline the process for approving patents. We're got 700,000 patents stuck at the patent office. There is legislation moving right now. So, short- and long-term. But then there's investments. We have to cut to invest. If we actually cap the mortgage interest deduction, at this fiscal year's level, we would generate $166 billion over the next five fiscal years for deficit reduction and investments. What do we invest in? In the short-term, on innovation, extend the R&D credit, create a network that's just begun of energy innovation hubs or energy discovery innovation institutions based on the German model, applied research, research moving quickly to market. On long-term, we need a better system in a unified way for commercializing idea generation, and Martin's idea of establishing a manufacturing innovation fund at the national scale with resources allocated by evidence, as opposed to political log rolling, is a great idea.

On infrastructure, hopefully Senator Warner will talk about the National Infrastructure Bank. It's been an idea around. How do we leverage public resources with private sector investment in transformative infrastructure? So much of the Recovery Act was used to fill potholes, right, we did not modernize our ports. We did not invest in the next generation of freight rail or transit or EV infrastructure at the scale we need, so how do we set that public platform for private sector investment? On the national greenback, this Monday, Cameron's government in the UK announced their green investment, $3 billion to leverage up about $15 billion. Every country has a play in the low carbon economy, but it's this special mix of public-private investment which is necessary.

And on human capital, Darrell has talked and written about this so much. We have got to facilitation skilled immigration. We've got to double H1B visas. We've got to stamp a green card on anyone who's educated in the United States from abroad. We are educating the best talent in the world here and then we're sending them home. We've got to change that, we have to change that quickly, but over time, we've got to build this incredible infrastructure we have of high schools, skill providers, and community colleges, a feeder network for the next economy, mostly at the metropolitan scale, as I've described.

And now, Darrell West.

MR. WEST: Thank you. The part of growth through innovation that I've been working on is the topic of improving government performance. Now, some people view that as a contradiction in terms, improving government performance. You know, what's wrong with that idea? They think government can never perform any better. It can never be efficient. It can't do many of the things that we see in the private sector. But in our paper we argue that government can and should do better, it has to do better. It really doesn't matter what issue you care about, whether it's the deficit issue, improving exports, improving manufacturing, healthcare, infrastructure, you name the issue, we have to have a functioning political system to address any one of those issues.

It's clear, from a governance standpoint, that the United States is at a crisis point. Our political institutions are performing poorly. There is a CNN opinion research survey last year that came out that found 86 percent of Americans said they believe the federal government is broken, and of course that makes you wonder about the other 14 percent that thought it was smoothly functioning, like what government are they actually looking at. Citizens are cynical about American politics, they're disengaged, they don't participate in large numbers, they think Wall Street and special interest groups get all the benefits, they feel that their privacy is under assault by some of the very new digital technologies that are popping up on the scene.

I actually have a new book that was just published by Brookings Institution Press, hot off the press this morning. Yes, Phil got a copy -- he got copy number one. It looks at the next wave of digital technology and how it can further social and political innovation, so I present a number of different ideas in there about what we can do differently to make a difference in the public sector.

In our governance studies program and in our center for technology innovation, we're working on various aspects of public sector innovation. I argue that governments must learn to innovate, they must learn to integrate, they have to focus on outcomes. We need reforms that make the government perform faster, smarter, and in a more efficient manner.

New technology is going to be part of that, although technology is not the only solution to this. I'm not a technology determinist, even though I study technology. When you look at the technologies that actually are transformative, typically we combine new technology with new organizational structures. And I think when we're thinking about government, both of those things are key, the new technology, but new agencies, new organizations, new ways of thinking about how the public sector operates.

I want to give a couple of examples from the area of information technology because in the private sector we have seen companies show tremendous improvements in productivity and innovation. There are many companies, some which are represented here in this room, that have become much more efficient and productive in how they operate. Very little of that sense of innovation has crossed into the public sector. We have a government system that was designed for an agrarian era in which the United States was not a dominant world power, and so we need to think differently about our political institutions. We need systems that function, that make decisions, we need more pragmatism, we need less polarization, and we need more civility.

When you think about the IT component in the public sector, the federal government spends nearly $80 billion a year on technology, $20 billion of that goes for hardware, software, and file servers, but yet we have information systems that cannot talk to one another and policymakers have been slow to innovate in education, in healthcare, and in the economy.

The federal government devotes less than 1 percent of its IT budget to cloud computing. In our research, we have found that governments can save 25 to 50 percent just by moving applications to the cloud. So, that's something that has been found to be true in the private sector and some of the local government agencies that are starting to embrace technology, we can use technology to improve communications and deliver more reliable services to citizens and businesses.

Social media offer potential for better performance. It's a way to improve two-way communications in the public sector. It's easier for policymakers to get information out to constituents, but then it's easier for them to get feedback on what's going well and what's not going so well.

We need improvements in data transparency. One of the things the Obama Administration has done has been to put a lot of effort into boosting transparency, putting more information online. Congress just cut the budget and so many of these websites that promote transparency are now being scaled back.

Privacy is a definite problem in this digital world. Citizens are very worried about what both governments and businesses will do with online information. The problem in the consumer area, we see it everyday in the newspaper, people worry about Apple, Google, Facebook, Sony and other companies. As we put more information online, people are worrying more about confidentiality in terms of healthcare, there's going to be more information that is available in peoples' electronic medical records.

In the national security area, people worry about legal rights and unwarranted government access to personal information. So, this is an area where Congress has been slow to legislate even though there are real concerns there. Congress needs to address these privacy issues, the legal issues and some of the cyber security concerns that are out there, in order to balance the various goals that we have.

So, we need a government that is as nimble as are the individual citizens and the businesses that are out there. We need to unleash the entrepreneurial energy in our economy. All of the objectives that we outline in our paper -- rebalancing the budget, facilitating exports, reforming education, making energy more efficient and more innovative -- requires leaders at all levels of government to pursue integrated strategies and coordinated action plans.

In the conclusion of our paper we suggest governments at all levels need to develop business plans for economic growth. We need leaders who wake up every day thinking about how to create jobs and rebuild our international competitiveness. There are lots of dimensions on which the United States is now starting to fall behind, not just in terms of technology innovation, but the manner in which our system operates. So, we need business plans that provide a framework for engaging both business and civic leaders in targeting resources in areas that are going to be most productive.

Governments need to leverage private resources to pursue some of the broader public objectives that many of us feel are important. We think this would help rebuild a stronger economy, that it's possible through a pragmatic caucus, both of citizens and leaders, that we can do a better job. So, at Brookings, we consider this our top priority to bring folks together, discuss some of these problems, and figure out ways to move forward.

Okay, we have a few minutes for questions, so I think there are some microphones around so if you'd just raise your hand and we will get to you.

MR. BAILY: Somebody get us started. Yes?

MR. WEST: Right there.

SPEAKER: Only because you asked for volunteers. On the expert side, I wonder if you could talk a little bit about the relationship between domestic and international markets, because the United States arguably helped the world economy by its deficits in an aggregate macroeconomic standpoint, but it also helped places like Germany and Japan by establishing markets, and so their export-led growth was because they were selling into global markets that were dominated by the U.S.

So, what you're trying to do is kind of turn our situation completely around because it's great to say, let's promote exports, but U.S. companies have thought about exports as an add-on to large domestic markets, and so what you're describing in terms of more of an investment in savings oriented economy means a reduction in domestic markets. So, how do you thread this needle? You can't just tell people to kind of go export, it has to be some greater linkage between domestic markets and global markets.

MR. BAILY: Let me kick that one off, at least. It takes two to tango, so you're right about that. If we're going to have a more balanced economy, then someone else has got to start reducing the surplus that they have and that's what we mean by global rebalancing, and it's particularly tough to do that in a time when the global economy is weak.

I don't want to -- there's a lot of blame that goes to China, particularly across the street where I was before. I don't want to pile on that but I think China is an important part of the solution. It has to make sure its current account surplus, its trade surplus, went down in the recession. It looks like it's starting to grow again, so it has to focus more on domestic demand and not look to exports as much as it has for its growth going forward.

Europe, overall, it's not quite in the same position. Germany is the export powerhouse, but Europe, as a whole, is -- has run trade surpluses, but typically has been somewhat more balanced. Clearly, they have to do more on stimulating domestic demand.

Another piece of this that I didn't mention that I have been accused of is advocating a weak dollar and if I were truthful I'd probably say, yes, I do advocate a weak dollar in the sense that the place where we are at right now looks pretty good to me in terms of the U.S. being competitive, so I think that's one of the reasons we're growing exports.

I don't really advocate a weak dollar, I advocate a dollar which allows U.S. tradable goods industries, manufacturing, and services, to compete globally.

But your point is well taken. We can't do all of this alone. We have been a huge market for the rest of the world. If we are going to slow down that huge market in terms of our imports and increase our exports, we have to have another side to that coin which is more domestic demand in the rest of the world.

MR. KATZ: Let me just add this from a metro perspective. I think this is partly a cultural issue for the United States because unlike many of our competitors, particularly in Europe, we are a growing nation. Okay? So, we're at about 310 million now. We'll hit 400 million in the

2040s and a lot of that is just off of our base and then new immigrants. So, we still have a large domestic market.

Culturally, that has meant that as people think about their metro economies, they're primarily thinking about region serving industries and then perhaps exports within the United States. When we put forward this proposition, going back about two years, that we really needed a different growth model post-recession, I remember going to a session in Chicago with a group of business and civic leaders. And one of the civic leaders got up and said, why export? And by the way, who does Chicago trade with today, you know?

And so what we've had as a narrative -- partly because of our growing domestic market and partly because of the way housing and retail and consumption, more broadly, has dominated so much of the political and economic discourse in the country, we have folks who are really not cognizant of what they export. And obviously the multinationals are very cognizant of what they export, but only 1 percent of American companies export, right? And only about 58 percent of those export to more than one country.

So, we've built up this culture and obviously off of a very large consumerism market backed, frankly, by subsidies from the federal government on down. And we lost -- even though we're the most demographically diverse country in the world, we're the most culturally insular, right? Only 28 percent of Americans have a passport.

So, I think when the President put forward this notion that we should double exports in five years, it partly was a cultural notion of looking outside our borders and really thinking of the rise in urbanization and industrialization of other countries abroad as the potential for American goods and services.

One last thing. If we did a survey today of the American consumer and asked, what does the United States import? I have to -- I guarantee you everyone would be scrambling to tell you what we import, from the clothes we wear to the goods in our homes, et cetera, et cetera, et cetera. They have a fairly good sense, I think, of it.

If we ask them what do we export? I have to say even a lot of sophisticated folks would not be able to answer the question. And so again, I -- we have to change the narrative about the economy in the U.S. And Michael Spence and others have recently done some just phenomenal work about growth in the tradable sectors versus the non-tradable sectors over the last 30 years. We've got to change the narrative. We've got to talk at that level about what kind of economy we want to build so that we can begin to provide the political, you know, environment to make some of the big changes we have to make.

MR. WEST: And this is also an area where we need governance reform, because there are 12 different federal agencies that deal with exports.

MR. KATZ: Absolutely.

MR. WEST: They contradict one another, there's no rationale for that system. So, you know, that's kind of a demonstration of the link between poor governance structures and poor policy outputs. There were -- Steve.

MR. RICHETTI: So, I totally agree with you with regard to this broad cultural change that you just alluded to, Bruce. But it's an enormous task. It starts with our people, it then flows to our government, and it completely reorients us in terms of truly being global.

Yesterday, we discussed that, you know, the residual of the tech bubble was the technology infrastructure that existed around the world. And someone posited that the residual of the credit -- you know, the great recession was globalization. I think that's actually true for the world, with the exception of the United States. And our multinationals are the ones that responded well. But for the vast majority of our businesses that you just alluded to, that has not happened.

So the question I have is, how do we get to throw weight as an institution, Brookings, to affect this enormous change in this country.

MR. KATZ: I could start, and then I'd -- obviously my colleagues can add. I really believe that a lot of the change is going to happen outside of Washington over the next several years, even beyond that. Because I really do believe -- and Darrell said it -- there is a pragmatic caucus out there of corporate, civic, political, environmental, labor leaders, who are -- who put place over party. You know, who really put collaboration over conflict. What they're about is improving their city, their metro, their state. Now some of them act globally, but they also act locally.

And this recession was a wake-up call. Fundamentally a wake up call. And it was a wake-up call in the Sun Belt, which -- you know, talk about housing on steroids, right? That is the part of the country -- and parts of Florida, and parts of Central Valley California that has just been built off of a housing economy. Very little diversification. And part of it was in the industrial heartland, given the numbers -- the brutal numbers that Martin put out.

But I think there is that caucus out there. And you know, we have this, you know, genius of American democracy was when Washington goes on a frolic and a detour, when the town shuts down, you know, and is basically mired in excessive partisanship and polarization, we have a default proposition. We're not the UK, you know? We're not a centralized system. We're a system where power is diffuse, both within the public sector and the private sector.

And I think what we've got to watch over the next three to five years -- and you've already seen it happen on the austerity front -- I think we're going to see it on the economy-building, talent-preparing, place-making front. Where you're going to have mayors, governors, business leaders, university presidents, et cetera, et cetera across both sides of the aisle vying to be the innovator in chief and to be at the vanguard. Who is going to be first on the block and just fill in the missing -- whether it's around clean energy, whether it's around manufacturing, you know, whether it's around place-making?

So, I -- you know, I generally think that that's how we have to take the country back, is from the ground up. And that will require the media to begin to talk more about this innovative potential out in the hinterland, not just about the budget cutting, but the economy shaping. That's going to come first.

MR. BAILY: I think we have Senator Warner waiting to come on, so I don't want to -- do you want to do it?

SPEAKER: Can we take one more question?

MR. BAILY: One more question.

MR. KATZ: Antoine has a question. Sorry, there are lots of questions. We need time for 10 more questions.

MR. BAILY: You'll have to ask Senator Warner a question.

SPEAKER: An eloquent question.

MR. VAN AGTMAEL: Just a very quick question. Do we have an export powerhouse in the United States? I mean, not all of Europe is an export powerhouse. Germany is.

MR. KATZ: Right.

MR. VAN AGTMAEL: And not all of China is an export powerhouse, the coast is. Do we have that? Seattle perhaps, or?

MR. BAILY: Boeing -- Seattle is an export powerhouse, certainly.

I always thought it was kind of an irony when I was in the Clinton Administration, I was sent as a precursor to President Clinton going out there and I was supposed to give a talk about globalization. Part of it got cancelled because they didn't want to hear anything. But the thing that was sort of odd about all that Seattle stuff is the Boeing workers were demonstrating against globalization. And I thought, wait a minute.

MR. WEST: Now that is the --

MR. BAILY: There's something really strange here.

MR. WEST: That is a contradiction in terms.

I think we are out of time on this session. So, thank you very much for your questions. Sorry we did not have more time. But I'd like to introduce Glenn Hutchins, the vice chair of the Brookings Board. And he will have the honor of introducing the senator.

MR. HUTCHINS: Thank you. (Applause)

Wasn't that terrific? The Brookings -- the intellectual content and the people behind it at Brookings is unparalleled. We just finished three days of meetings here, meeting one scholar after another like that. And to have these great minds culminate these three days of meetings is really just very gratifying.

It's my pleasure today to introduce someone who I call a friend, Mark Warner, senator from Virginia. But not only is he a distinguished senator, but before becoming a senator he was a chief executive in both government and business. Before being elected senator in 2008 he was governor of Virginia, as we know, where I was born. And during one of the state's most difficult economic downturns, he made -- worked very hard to make state government effective, which is a subject which we have obviously talked about at great length. And the growth and innovation agenda -- and the left, turning your record budget deficit into a record surplus.

He brought those skills to the United States Senate. Has already had a huge impact, and particularly on the issues that the Growth and Innovation Project has been about. In fact, for our very first meeting Mark came over and met with our group and gave us a lot of input and guidance that had an important impact on our agenda, kind of as we went forward.

You've just heard from Bruce, Martin, and Darrell about the three key areas the Growth of Innovation Initiative has been focused on. Restoring fiscal sanity, driving the innovation economy, and building more effective government. And during his tenure in the Senate, Mark has been a leader in each of these categories.

The first of those efforts, restoring fiscal sanity, is something I think he's going to talk a little bit about today. And I'm sure you've all heard about the heroic effort that he's put on as a member of the Gang of Six, which is now going down to the Gang of Five. And John Thornton, I was going to suggest, if it gets to be a Gang of Four, maybe our China scholars can help him. A joke. (Laughter)

But Mark, we understand that that is truly heroic effort. Doesn’t always pay dividends to do what’s right, and I want to make sure everyone here hears us say how much we appreciate on account of your leadership.

So now, in that connection, I’m going to digress a minute from the agenda and just make a statement which I would like to say, which is I want to make sure everybody in this room understands that it’s my personal belief that defaulting on our nation’s debt would be foolish and would invite a sharply adverse market reaction. Nobody in this town should be under any other illusion than that.

That’s my personal belief, and I know others have disagreed. And instead, attached some probability -- not certainty, but some probability -- only to the prospects for market calamity. Though I disagree with this, I point out to them that it is unwise in the extreme to take any probability of a catastrophic risk on behalf of your country. It’s just a very, very bad idea.

I’ve also heard that the benign market reaction -- the benign market climate with, for instance 10-year Treasuries at about 3 percent -- is a signal from the market that things are sort of okay. My personal view of this is because market participants expect a deal. They expect our government to do the right thing and -- if only on the courthouse steps, but to get it done and that the prospect for a default is not yet priced into the market, and we should all understand that. So, that's my digression for the day.

In addition to his work on fiscal sanity, Mark has done a lot of work on driving innovation. As I said earlier, he was a chief executive also in the private sector. As a director not just of Columbia Capital Corporation, which is a very important venture capital firm, but also as a founder of Nextel, which became one of the most important drivers of the new communications economy. The benefits of which, associated with mobility, we're just beginning to experience as an important part of not only our personal life but our nation's prosperity.

And he has done a lot of work in the Senate on the innovation agenda, along with a bipartisan group of senators, including Senators Klobuchar, Brown, Alexander, Kunz, and perhaps others. They've sponsored the Innovation America Act, which we here at Brookings think is very important.

And finally, he's the chairman of the bipartisan task force on government performance, the subject of which Darrell West has talked about: seeks ways to make government both more efficient and transparent. So there's not a better senator to speak to us today and not a person more closely aligned with what's at the heart of what the Growth Through Innovation agenda is all about.

So, Mark, it's a great pleasure to welcome you here today. (Applause)

SENATOR WARNER: Thank you very much. Well, thank you, Glenn. Thank you for the introduction. Thank you for your leadership in the financial markets. Thank you for your leadership here at Brookings. And I have been looking forward to this session.

Today is going to be a full day. I go from here to the Peterson Institute, where we've got -- Alice, you were probably there last night -- where we've got -- the unbowed and determined gang is going to appear en masse. And you know, I want to spend most of my time talking about that subject.

But I do want to start with a thanks to all of the good work that Brookings has done over the years, has done on this growth and innovation agenda. And how much we're going to need Brookings and the people in this room in this coming and ongoing struggle.

And I'm going to take most of my comments on the subject that I know you have spent a lot of time on already, on debt and deficit. But I want to put some front-end on this, because I do think we cannot cut our way or tax our way alone out of this problem. You've got to have growth. And you have identified a series of subjects, well, kind of macro and micro. And I want to give a little more and at least kind of my two cents' worth on some of those ideas on how we get that growth.

And then how we -- if all of the speakers so far, Glenn's comments today, haven't appropriately frightened you about the debt and deficit crisis this country faces, I want to try to take my crack, Martin, at it, to deal with the immediacy of it.

So, on the front end I want to touch on what I would call kind of low-hanging fruit that doesn't actually cost a lot of money, that, frankly, just takes a little bit of political will and a little more oomph from, you know, thinkers like you all in the room.

I am glad that you put the government effectiveness title in this Growth and Innovation piece. It is often overlooked, it is not sexy. But I want to give a couple specific comments on that.

I'm going to do a short riff on, you know, the kind of macro items that you've talked about because you've heard a lot about it. And frankly, if we don't get our debt and deficit, the ability to make the larger-term macro investments. Then I want to give you a bit of my take on debt and deficit, and leave us plenty of time for questions. So with that, you know, completely well-thought out speech I've got here, I want to do that.

Let's start with some of the low-hanging fruit. That I'm just going to, you know, kind of more or less tick off in the question period if we want to get into greater depth on them. These are things that -- some have been emphasized in your report, some have not been. But they are areas where I think we could take -- you know, not next year, not decade-long, but this year action in terms of moving that innovation and growth agenda along.

First, you know, we have made some strides recently in terms of intellectual property protection and PTO reform. But we have been timid. It should not take three years in the United States to get from idea through a patent process and an IP process. And since this is one of the self-funding pieces of our government, the notion that it has become a revolving door and that we don't end up increasing the capability and speeding up that process is kind of, to my mind, a no-brainer.

A cousin to that and one that my friends in bio and medical tech are familiar with -- but really it continues to make me scratch my head -- is, why we're not looking at also speeding up the process at the FDA. It shouldn't take 13 years and a billion dollars to get an idea from idea into the marketplace. And I believe we can do appropriate things to protect both medical efficacy and patient protection, in a way both from the pharma notions and medical devices in a much speedier process at the FDA.

And the fact that the EU, with even its price controls, has cut that process time in half and is starting to move some of our intellectual capital creation in this -- you know, the great promised area of life sciences, which has been kind of promised for 20 years, yet we still haven't seen the full delivery. It would be an enormous loss. And again, FDA reform, I think, needs to be higher on the agenda.

Somewhat self-serving sounding and -- you know, my good friends like Steve Ricchetti and Nigel Morse, who -- Nigel, great addition to your board -- have heard me do a million times my fact that since I was the co-founder of Nextel, I'm the guy that says leave your cell phones on, even when I'm speaking. (Laughter)

There are a few people who haven't heard that joke, obviously, in this room. But it is the key into the next piece. You know, we have enormous unused assets with spectrum and where we are in terms of getting that spectrum into the marketplace. You know, grappling with our broadcasters in an appropriate way with incentive auctions, trying to catch up to the South Koreas and the Europes, who are much further ahead of us on spectrum deployment and the wonderful opportunities that will allow in terms of mobility, in terms of technology. It's just ridiculous. And again, the FCC's made some progress, but it needs a much greater oomph.

One of the areas that you've talked about as well is the need to have infrastructure. What was forever, to the middle of the 20th century a competitive advantage in our country is now a competitive -- increasingly, a competitive disadvantage. And while we can get to kind of long-term -- you know, funding flows around infrastructure, there are short-term, relatively cheap -- I've got a bill that actually John Kerry has been the lead on. But with Kay Bailey Hutchinson on, you know, a slimmed-down version of the $30 billion plus Obama infrastructure investment bank that would be a $10 billion infrastructure investment bank that would be loans only. You know, in today's climate we can do it. And we ought to be doing it.

Something that's keyed up this year that we need to move forward on is the FTAs. They are there, they are ready, let's move forward on them. Now we ought to make sure the Trade Assistance Act in communities -- we sometimes -- you know, in metropolitan areas see all the benefits of globalization. I can take you, let me assure you, to parts of my state in Southside Virginia that were long textiles, tobacco, and furniture that aren't doing as well. And this transition fund and this ability to move forward on trade but also make sure that we do the TAA is important. And it brings me to my kind of last on the low-hanging fruit.

Is, we really need to have policies in this countries that promote insourcing. The price labor arbitrage and competitive advantages that used to move back office operations -- I know there's India and elsewhere -- are dramatically lowering. And the opportunities in rural Virginia -- and I can give you the numbers on a number of firms that we've taken to Southwest Virginia. That delta has dramatically decreased. And again, if we're going to maintain the support for kind of moving into the global economy, we cannot afford to leave rural communities behind. And with small, little add-ons, Virginia could beat the pants off of New York or California, or even North Carolina on competitive. When we are competing against Koreas and Canadas and others, where there was a federal additional subsidy in terms of in-sourcing of jobs, a little more difficult. I've got some ideas specifically there, that one batch on low-hanging fruit.

Second, government effectiveness. Let me tell you in 30 seconds or no more than a minute about what may be the, I hope, the littlest, most important bill you've never heard of that I was proud to author last year called the GPRA, a monitor of basically government performance modernization act. What it does is it finally for the first time requires all of our government agencies rather than to have what we do in Congress load up 57 different priorities, to actually try to limit those priorities to three to five. Anybody in business knows if you've got 57 priorities, you've got no priorities. But this focuses on a quarterly basis, on a single-source Web site. It's for every government agency both to report its priorities and to limit them to three to five.

Secondarily what it does is -- and this is really where the rubber will hit the road, and we've got to actually push back from the administration -- it will require government agencies to report not only their top-performing programs, but their least-performing programs. You know, everybody wants to be there to announce their new idea, but our ability to kind of clear out the underbrush and eliminate underperforming programs is something that is -- we did some at the state level. It's hard; it's exponentially harder at the federal level. This will give us a tool, number one.

Number two -- and this is something I've actually worked with Tom Coburn on, and I think there's a lot of unplowed ground here -- and that is the GAO study that talks about government duplication. We've all heard the stories, and I may -- the experts here will have the numbers. I cite -- I think it's about 42 different workforce training programs across four or five different Cabinet secretaries. You've been seeing the same thing on food safety. There are areas of savings to be had and confidence to be built if we can consolidate on government duplication.

Third thing -- and this is something that is not announced yet, but there's been papers done, and I'm hopeful and would love to have this group become supportive of it, that the administration may move forward. And that is if we're going to move forward on, as we need to, and the President has called in terms of doubling exports, we've got to rationalize all of our trade-supporting entities within the Commerce Department. How they're spread all across the government. And let's face it, most American businesses for the last 50 years had the luxury of the largest market in the world. They didn't need the exports. But with 95 percent of all the customers in the 21st century being abroad, we have to make sure that there is a rational process for small- and middle-size enterprises to be able to penetrate this impenetrable mass of export support facilities. And then one -- just checked and got a lot of nodding heads -- it's a little more radical that I've been working on is to take a major step forward on regulatory reform. And we have actually -- and Nigel, this pains me to say this, but we've borrowed this from the Brits and the Brits are actually ahead of us on this. And I grew up in the age when we used to point out Britain is the place of the epitome of regulatory morass. I have a proposal that I think we'll be putting forward very shortly called regulatory "pay-go" which realigns the incentives inside of agencies so that you don't have an agency any longer that simply tries to add more regulations with the benefit of getting additional staff and resources, but would put in place something that says as you add a new regulation, you actually have to take one away of kind of equal size and shape. Now you can't do this forever, but as a way to kind of clear out some of the underbrush because we've never gotten incentives in place to try to make sure that you think twice in terms of a regulatory budget. Moving forward, how you get this right is something that we've been working about a year on. And before you say "gosh, Warner, that sounds great, but it couldn't happen," the Brits have actually done it. They call it "one in and one out." And over the last 11 months, ten months, that they've done it, they've seen about a 70 percent decline. They still feel like they're getting effectiveness, but what they end up finding is that if an agency can do it for 70 percent effectiveness and 25 percent of the costs, you get that internal worker who said the agency aligned in a better way than kind of some of the cost-benefit approaches we have right now.

Because I'm going through my time, I will spare you the energy R&D, immigration, and host of other subjects, but I do want to get to the issue now of the kind of main course, which is echoing what Glenn has said, and I'm sure you've heard from others. And I won't give you all of the facts again about the impending debt and debt crisis, but it's wild if we don't act on this -- $14.5 trillion in debt. And, Alice, correct me if I'm wrong, a minimum of $4 billion a day every day that we fail to act that we add to that debt. We are looking at the most predictable financial crisis of our lives. I use the analogy that we are kind of -- anybody here see the movie "Thelma and Louise?" Remember that? Where at the end they jump in the car and go racing towards the cliff? Well, that's what we're doing right now. We are racing towards the cliff and unlike the financial crisis in 2008, we've used all our bullets. We've used monetary policy about as much as you can. We've used fiscal stimulus. We've used financial institution bailout. And the idea as Glenn has said that there are some with the movie analogy again in the House who are acting like the sheriff in "Blazing Saddles" with a gun against their head and saying, "Watch out. If you come any closer, I'm going to shoot." By threatening default is just crazy. And the idea that this somehow can be analogized to previous games is just flat wrong. With a potential growing debt crisis in Europe -- and we'll soon see what the ramifications are of the Spanish elections on Sunday and how much more kind of potential problems there may be there. With the level of a kind of global instability, instability in the commodity prices, we are now going to pick this moment in time with debt approaching that kind of magic -- what is it, 80-90 percent of GDP numbers -- we're going to now threaten that?

What are these people thinking? You think about in a certain macro sense, if we step back for a moment -- I remember two years ago at this point. And Glenn, I don't know what your predictions were, but when the economy was losing 700,000 jobs a month and the Dow was at 6,500 and we'd just lost 6.5 percent of our GDP, I think most of us would have said well, if you can give me spring of 2011 with the Dow at 12.4 or 12.3 and, you know, three, four quarters straight of positive GDP growth and a couple of months straight of about 200,00 job growth, that would be relatively good considering how far down we were, a relatively good recovery. Now, not enough on the job front, but the idea that we would roll the dice on a potential interest right spike coming at the end of QE2 is just irresponsible beyond the pale.

So, what does that mean? It means that we've got to be serious about this, and we've got -- and again, I hate to use the Brits, but the fact that a coalition government in the U.K. has actually bit this bullet and started to go down the path, as imperfect as it is. It's downright un-American that we're going to let the Brits beat us on both regulatory reform and fiscal rationality.

I know you saw Congressman Ryan. I have a lot of respect for Congressman Ryan, a lot of respect for his willingness to put out a plan. But if anything where Congressman Ryan's plan shows -- and we can leave the whole Medicare debate off to the side -- it shows how virtually impossible this job is to get done when you exclude revenues and when you exclude defense. The debate about Congressman Ryan's plan has been about what it does to Medicare and Medicaid. We can have a philosophical debate there. But Brookings has also, and the subject of your project, is growth and innovation. What the part that should be more concerning about Congressman Ryan's plan for us who want to have a growth and innovation agenda is how you take the 12 percent of domestic discretionary spending which includes energy, which includes infrastructure, which includes R&D, which includes education, which includes pre-school, which includes all the things we fight about and take it from 12 percent, depending on how you analyze this budget, to either 6 percent or 4 percent. Tell me what industrial country in the 21st century is going to compete with those kinds of numbers that would be all in infrastructure, energy, R&D, education, in a way that's competitive.

Now we know the problem -- and this is again where both sides have to give -- spend at 25 percent of GDP, all-time high. Revenues, Alice, 15.3, 15.4 right now? Sixty-year low? It doesn't take a Brookings scholar to realize that delta's not sustainable. And the four times, five times we've had it, 19.5-20.5 percent are basically, roughly, revenues and spending. So, starting last year, Saxby Chambliss -- and I have enormous respect for Senator Chambliss -- you know, we started talking about this on the floor. And we decided and came away for about six months and we managed to do it without folks like George Tunis knowing about it that we would start educating our colleagues about the basic components of how we spend and how we raise money. You would be -- this will, can and will be used against me, right, what I'm saying?

Some of you may be surprised at how many colleagues don't understand the basic building blocks of how we raise money or spend money at the federal level. We took then the framework of the Simpson-Bowles report, not perfect, some would say. Rivlin-Domenici would be better, but we took Simpson-Bowles, took the other four Senators who voted for it and said, "Let's use this as a frame," and had been at it for months on end. The press reports of our demise are overrated. The press reports that we couldn't reach agreement on numbers and everything else I don't think reflect what really happened. And are we still continuing to discuss and what we basically have had, and I give a lot more credit to the more senior members who are part of this group. I'm a new guy. I come from the world of business and state government when you actually had to balance your budgets, so it's not a foreign thought to me.

But we have gone through this process in a way that I think has been what the Senate is supposed to have been about, where we have looked at the notion that through tax reform, meaningful tax reform on both the business side and on the individual side, you can make our tax code simpler, lower rates, raise more revenues, and still maintain or improve progressivity. We have recognized that that 15-16 percent of our budget spent on defense can't be excluded. And, you know, as somebody who believes we ought to follow the commanders, well, the Chairman of the Joint Chiefs of Staff, Admiral Mullen, has said the single biggest threat to our country is not the threat of terrorism, but is this debt and deficit crisis. And the fact that America spends more than the next 15 nations in the world, largest nations in the world, on defense combined, means that we can still maintain the world's greatest defense which we should not sacrifice, but we can do it in the more cheap places.

And it does mean that outside that window of domestic discretionary, we do have to take on our entitlement programs. I get a lot of grief on the Democratic side, you know, Social Security doesn't contribute to the deficit. You're right. Anything we should do to make sure Social Security is solvent for 75 years a dollar of it should not go to the deficit. But those who say that we can ignore this problem, I mean it's not the Democrats' or Republicans' fault. Correct me if I'm wrong, the example I always used was that Bismarck was the person who originally set 65 as the retirement age when he was premier in Germany because average life expectancy was in the mid-50s. So if you outlive the actuarial tables, we'll give you a check. It's not a bad deal for the government. You know, Roosevelt in '34 said life expectancy was 62. It's now 80, 17 workers for every one retiree in 1950, now three. It's math.

So the hope that I have and perhaps naïve assumption is that -- again, not to kind of have my Brit focus today -- but to paraphrase Churchill, you can always count on the Americans to do the right thing after they've tried everything else. Well, in our political process, we've tried everything else at this point. We've tried political brinksmanship, and

I personally was embarrassed to be a member of the Congress when we almost shut down the government six or eight weeks ago over basically nothing. But the notion that we're going to do brinksmanship again and the failure -- and I think echoing Glenn's comment of some of the colleagues did not understand that you can't go to the eleventh and a half hour right now before you might spook the bond market -- makes the recognition. And I believe that the only place that this effort can start, and I hope Vice President Biden will be successful, but I think at the end of the day the only way that we can get a real comprehensive plan in place and not one that simply limps us through the debt limit is to start in the Senate in a bipartisan fashion. And if we don't have a plan that makes at least every one of you partially mad, we haven't done our job. And then ask everybody to kind of check their Democrat and Republican hats for a moment and step up as this country's always been willing to do. And this for my generation is our moment of time. The growth and innovation agenda that the scholars have put forward and this Institute has put together is wonderful, but with a maxed-out credit card and an inability to meet basic services and pay our bills, if we can't do that then this growth and innovation agenda becomes kind of one more policy paper that will never get acted on.

So I appreciate the chance to be here. I appreciate the chance to speak to you. We're going to need you more than ever as we get in. You know, I'm chomping at the bit to get into the fray, but we're going to need you not just as thinkers. We're going to need you as pushers, prodders, advocates, to make sure the country steps up and puts this long-term debt and deficit reduction plan in place to make sure that we can focus on the growth and innovation we need. Thank you very much.

MR. HUTCHINS: Not only is it good to have a competitor out of the business, but it's great to have you and what you're doing. Thank you. And I want to echo in particular one thing which Mark said, which is "Let a thousand flowers bloom." Lee and I will not be pleased unless you all are multitasking all through this kind of presentation today because you're using the economy that he and I have tried to help to foster.

I'm going to ask Mark a couple of quick questions and then go to the group here. We have a terrific mix here of Brookings scholars, Brookings trustees, some members of the press, and others here, so we have a great group of folks here to ask questions. So get ready because you'll be called on very shortly.

There's a lot of interest in kind of the dynamics, the inside ballgame of the gang of six. Not being a journalist, I'm going to ask you that question, but you --

SENATOR WARNER: Good, because I'm not going to tell you.

MR. HUTCHINS: Good, that's why I didn't ask it. No, but I want to ask you a related question, if I might, which is that you talked about what people had to learn, your colleagues had to learn, about the budget process. And I'm curious, as you've gotten into this and as you've dealt with the gang of six what you've learned? What's most surprised you and what you didn't know before that you think is most important that you now understand?

SENATOR WARNER: I think, frankly, fully understanding and whether it was Alice's work or Sam Bowles' work, coming to a full understanding of how much we spend on tax expenditures and how that category has kind of been overlooked in all past discussions was one that I've learned a lot about. And how that you can still actually through modifications to those tax expenditures, you really can go ahead and dramatically lower rates and improve progressivity and raise more revenue. I think that one's been helpful to me. I think recognizing -- I kind of knew it and I could have cited you chapter and verse at the state budget level -- but I didn't fully appreciate at the federal level as a percentage of spending, how little we spend on infrastructure, R&D, energy, the small education component piece, all these kinds of -- you know, some of the safety net programs -- I mean it's a smaller -- again, correct me if I'm wrong -- smaller percentage on some of those categories than we spent as a percentage of our GDP in Eisenhower. So it's -- those were a couple of the things that I didn't fully appreciate, how much our federal government has kind of become simply a transfer program to some people need, some people just because of the aging of our society.

MR. HUTCHINS: So let's dig into one piece of this which I think is interesting here you talked about. Regardless of what your deficit reduction target is, whether it's an amount of money -- $4, $6, $8 trillion over ten years -- or whether it's a target on the total amount of debt, do you want it to be the same size as GDP not growing, whatever it might be, so a lot of revenue that's going to have to be raised, a lot of spending that's going to have to be cut in a time period, which is you've emphasized and which the scholars who wrote our growth through innovation strategy paper on focused on, we need investments in a whole variety or parts of our economy to make it competitive. How do you think about -- do you have or have you developed a philosophy or a framework or any guide to thinking about how you make that tradeoff?

SENATOR WARNER: Good point. Well I you've -- a couple of things. As we think about investments, we think about job creation. I believe that while there are things we can still do marginally around the edges government-wise, that we've kind of used our biggest tools in terms of monetary policy and fiscal stimulus, and that the best thing we've got that we haven't unleashed at this point and that we didn't have when the crisis hit in 2008 was we've got the potential of the 2.2-, $2.3 trillion in cash sitting on America corporate balance sheets.

The best thing we can do is give the confidence that we are going to be serious about this debt and deficit reduction plan that I think would loosen up a lot of that private sector capital to come back into the marketplace, and that would be the best job creation we could do.

Number two, I do think, you know, we have, as kind of reserve currency and the size of our economy, we've got some time. I think the most important thing is to show the seriousness of a plan and that it can be phased in over a decade, you know. And we are north now of where Simpson- Bowles are in terms of our peg total of what we get, but you're not going to solve the whole $14-1/2 trillion debt in a 10-year time frame. We've just got to move that curve, you know, both on a percent of GDP and in terms of the overall total (inaudible) GDP back down in the right direction, and so that we cannot -- and again, this is one of my -- I give Congressman Ryan enormous credit, but I think he underestimates that ability to make the kind of, you know, continued necessary investments around the stable energy policy, around R&D, around infrastructure, which you've got to pay for, and, you know, how we rethink some of our education policies.

So I do think we've got a little time, again, it's why I am not as -- I hope and pray that, Steve Ricchetti, all you conventional wisdom people sitting in this room, you know, that we don't just end up with something that kind of buys us through the debt limit and kicks this can down to 2013.

I think the one thing that may have changed is, conventional Washington wisdom is still, that the big plan, the big reform probably wouldn't happen until 2013. You know, I think everybody thought six or eight months ago we had that freedom. You know, I don't know if we've got that flexibility anymore. And even if the probability is only kind of 10 or 20 percent of fiscal crisis happening if we don't put a long-term plan in place, why would we put that -- why would we take that gamble when you come back to the notion of, you know, that -- I never thought I'd say this, but I've become a fan of that debt clock, you know, that you see. I just get haunted by this notion of, you know, $4 billion+ a day, and that's been political fact-checked. You know, this is not a self-correcting problem.

MR. HUTCHINS: If anybody hasn't seen it, the one on the web is really terrific. I know our two reporters here are racing -- no, no, not yet, not yet, hang on guys.

One last question for you. We all know Medicare. We all understand that entitlements have to be reformed, on the one hand, and that that's going to be one of the most important parts of the meeting of the minds in order to get this problem behind us. Paul Ryan, who was here yesterday, took a courageous step and came out and came forward with a proposal, which the Democrats seem to be relishing as a potentially major political mistake, certainly in light of yesterday's election.

And so the question is, you said something which I've heard a lot of people say. We have to -- we can have a debate about the philosophies of Medicare, about the philosophies of the under entitlements, and let's do that. So I'm not going to ask you to take a position. I'm not trying to put you in a bad spot. I'm just curious how you think about the philosophy of that debate.

MR. WARNER: Well, I think Paul Ryan, you know, put out, again, a different vision of Medicare, but the problem of whether you have kind of defined contribution of the defined benefit plan still doesn't get at the core of the issue of lowering health care costs.

Increasing medical technology, aging population, without some ability to limit your financial exposure, you've got fiscal demise under any -- no matter what plan you have. So, you know, we were talking. Again, I've been trying to keep the -- we've been pretty good about keeping our details to ourselves. But, you know, Simpson-Bowles took some tentative steps in this direction, and, you know, we think that we've got to put all that on the table.

And one of the things that -- and one of the reasons why I think some of the plans have not gained much traction yet, there is nothing intellectually better about a bipartisan plan over a partisan plan. The vast majority of Americans -- these numbers are so large, and, frankly, what they do is, they hire us to try to sort this through a little bit. And bipartisanship has become a bit of a code that's -- because I don't think the American public trusts either political party enough to give them a blank check, and bipartisan becomes kind of code that, well, maybe it's in the country's interest.

I think America will step up if they feel like everybody has got some skin in the game. And the portrayals, at least -- not all accurate, whether the President's plan or Mr. Ryan's plan -- is that they were not asking everybody to do their part. They were asking certain segments of society to do a disproportionate amount.

MR. HUTCHINS: So would you mind, I'm going to take the moderator's prerogative here. Would you mind taking a question or two from our members from the press here before we move on to the -- okay. Ruth, you're first.

MS. MARCUS: Senator, a few questions about what you've learned about the political --

MR. WARNER: A few. A few.

MS. MARCUS: -- about the political process through all of this. What have you concluded about its capacity to address problems this large? Are you more or less confident than you were when you started? And if you are confident, because I know you're an optimistic guy, then how do you get out of that blazing saddle scenario? And as a Mel Brooks fan, I like to say I really appreciate --

MR. WARNER: I do hope that, you know, kind of the Blazing Saddles mentality of some folks, that folks can educate them. You know, that default on the debt is -- and if I'm wrong, why would you take that chance when the consequences would be so dire, number one?

Number two, and you've heard this from me before, so this is more for the rest of the audience, you know, I was governor with a state that was 2-to-1 Republican legislature. We had a structural deficit. Everybody said that I was signing a political death warrant by trying to take on that issue. Now, I had some wonderful, wonderful partners in the legislature, Republican partners, but we got it done, and it was good policy, good politics. And I think people are hungering for that right now.

I think one of the greatest -- what's the word I'm looking for? "Tragedy is maybe too strong a word." You know, one of the greatest mistakes made by the potential government shutdown was it not only made us all look bad, but it also kind of re-raised that issue, it was our institution is up to taking on big challenges. And if we rob the American people of that faith, then we have done, you know, we have done such a disservice. I mean, because as important as a debt and deficit issue, if we lose faith in our institutions at the same time, then we are really up the creek.

So, you know, I've had a lot of things in this process that have discouraged me, but I've also had the kind of hours-on-end discussion with members that you could write a book on, people trying to go beyond their comfort zone and say, I get it, we've got to make this happen. And that gives me faith, I mean, you know, and time will tell. You know, what's the alternative, throw in the towel?

MR. HUTCHINS: Jon.

MR. HILSENRATH: Senator, Jon Hilsenrath from the *Wall Street Journal*. You talked about life expectancy and the retirement age at the time of Bismarck. I wonder if we can look forward to 2040, 2050, and if you could tell us what you think the retirement age for Social Security and also for Medicare should be in those years.

MR. WARNER: No, next question. No, but listen, I can't predict, but I also think that, you know, there are ways to think through this, and let's just put it like this to kind of -- we've got some ideas on this, an approach that might be different than some of the other proposals out there. You know, and just --

MR. HUTCHINS: If you won't tell us, will you promise to come back to Brookings when you're ready to talk about it?

MR. WARNER: I can assure you. But I'm just saying that, you know, I just believe that this issue is probably going to have to be revisited on a more regular basis than every 40 or 50 years when there's a crisis.

MR. HILSENRATH: Well, just let me try a gentler way to ask the question. How much of the debt and deficit problem can be addressed by turning that dial, of adjusting retirement as --

MR. WARNER: Well, I think are --

MR. HUTCHINS: Matt, take the microphone away from him. That's his last question.

MR. WARNER: It's one of the factors. You know, listen, if you're putting everything on the table, you put everything on the table. But the thing is anybody that thinks that there is kind of a -- the single silver bullet approach, I think they just thought wrong, and, frankly, naïve.

MR. HUTCHINS: Questions? We have I think 10 more minutes.

SPEAKER: I'm going to go to the opposite end of the spectrum. Ruth asked you a very nuanced question, and I'm going to ask you one that's much more pointed, but along the same lines, and that is, we have leadership, political leadership drawing some very incredibly straight lines in the sand. There will be no tax changes, let alone tax increases and so on. How much of that is posturing? How much of that feeds into the sentiment that you were referring to in terms of creating a sense of the Congress as being unreasonable and willing to take chances on brinksmanship as opposed to statesmanship on this?

MR. WARNER: There's been a lot of things in Washington that haven't been the Virginia way. I hope, you know -- and I don't know how we get out of that. You know, people want to push, you know, one exception, one exception, you know. I don't know how we get out of that, but I don't think we can play to the, you know, to the groups in this town on both sides who basically don't want to see anything happen because the status quo is their livelihood. And, you know, it's why, you know, if and when -- and I emphasize when, you know -- we or someone else puts out something that is a broad and bipartisan an approach that, you know, everybody won't go to the first line of saying let me see what part of Subsection 7-C that spikes my particular -- if there was ever a time when you've got to all be in it together, it is right now. And I think that -- I have yet to be in any audience in Virginia or anywhere else where, you know, the logic of this argument -- and when you put the -- you've just -- you know, the good thing, because this audience, you didn't have to enjoy my PowerPoint, but when you go through the facts, I mean a lot of politics is great, but some of these things are so overwhelming at this point. The idea that you can fix this problem simply on one side of the ledger or the other is -- it just doesn't pass the smell test.

MR. HUTCHINS: One last question. Anybody have --

MR. WARNER: One or two, I mean, I don't --

MR. HUTCHINS: Oh, Strobe, are you waving a hand there?

MR. TALBOTT: As a Virginian.

MR. HUTCHINS: Ah, a Virginian, yes. Greek Hellenic Virginian.

MR. WARNER: We try not to follow the California model or the Greek model.

MR. ANTHOLIS: From Charlottesville --

MR. WARNER: Or the New York state model for that matter.

MR ANTHOLIS: From Charlottesville, where we take advantage of neoclassical architecture.

MR. WARNER: Amen. Amen.

MR. ANTHOLIS: The gang is five or six, I just --

MR. WARNER: Or 64 that signed the letter about 6 weeks ago that didn't get any coverage in any publication, I don't think, but, you know, maybe it got a little note, but --

MR. ANTHOLIS: Five years ago, four years ago, there was a Gang of 14. The number of moderates in the Senate has dwindled. And according to a number of analyses, the most conservative Democrat is to the left of the most liberal Republican, and in the House, it's almost nonexistent the overlap between the Democratic and the Republican Party.

On a retail basis, I can imagine that that's, on the one hand, easier. There are fewer people you have to talk to until you start expanding outside the circle. But on a wholesale basis, how much of a sense that you get is there a public movement of independent voters, moderate voters advocating on behalf of this? And how much of a difference does that make in a political system that doesn't translate into that number of votes on the Hill?

MR. WARNER: I think, you know, I can't speak to the House. You would be -- virtually everyone of you here would be surprised at the members, Democratic and Republican members, who've come up to me, and I know come up to all of my colleagues during this process who have been involved, and say hang in there, keep going, you're our only hope, who fall outside of what you would, you know, define the kind of political moderates.

You know, and part of that may just be the realization that kind of if you dig yourself into these bright-lined holes, put yourself in these foxholes, when you really have this impending crisis with very few tools left, you know, then we could be in a heap of trouble.

And I think that, you know, that -- this is political truism 101, but, you know, kind of loudest voices dominate the market -- I think, you know, the emergence -- somebody who asked people in Virginia, hire me as a bipartisan radical centrist, I mean, one, it's still not an oxymoron. It is hard, but it's not impossible. And I absolutely believe with all my heart that people are yearning for that.

MR. HUTCHINS: We have time for one more --

MR. WARNER: Last bite. Last bite.

MR. HUTCHINS: -- one last question. George.

MR. TSUNIS: Thank you, Senator, wonderful to see you.

MR. WARNER: Great to see you.

MR. TSUNIS: I think it's even worse. You have a trillion-and-a-half-dollar deficit, if you use gap accounting. It's arguably 5 trillion, you know, that's probably 3 or 4 times more than the revenue we're bringing in. We're playing the short end of this curve in terms of how we finance our debt. In Great Britain, you know, their average Treasury is 13 years; here it's 5. We're spending $285 billion a year paying our interest on the debt. At a blended rate of 2.25 percent, historically, it's 5 percent.

It seems to me when the 2-year Treasury stops being at 52 bips and gets back to normal levels, which it will, that's $700 billion a year just to pay our debt. At some point in time, you know, those numbers speak of a once great nation on a very serious decline.

MR. WARNER: Amen. You know, and that portion of the pie, where all the debate has, for the most part, focused right now and then the government shutdown, that domestic discretionary of how much further you can squeeze -- well, you know, what happens is interest totally eats that completely up and everything that Brookings is talking about here today disappears. And your ability then to be that -- I guess this was kind of a, you know, a Greek handoff here, you know, your ability for us to kind of make those continued investments is going to -- that's why I come back to, you know, my premise.

There can be no sacred cows. You've got to have that safety net because there is also part of this that says, you know, many in this room have benefited from globalization, but there are a lot of people in this country that are really hurting. They've got to feel that they've still got that hope and they've still got those aspirations. But it starts with putting a plan that reforms our tax code, takes on our entitlement spending, that takes on our other kind of spending, and has an active and energetic growth in innovation.

And I, you know, just make this appeal to you. It is, you know, a standard line of mine, but you've got to check your Democrat/Republican hats, you know. We're going to need you to do more than sit here once this battle gets even more engaged. And, you know, those of you who never cross the line, I don't care which political party you are, you know, you've got -- you're Democrats in this room and you've got some brave Republicans stepping on this, you need to thank them and support them and vice versa. Because if you sit, chances are -- particularly I'm speaking to the trustees, if you sit on the Trustees Board, you've all done pretty darn well in this country, and it's time for all of us who have done well to step up. Because the alternative, as George has so articulately put out, in terms of kind of the immanency of this problem and the threat to our country is so great.

MR. HUTCHINS: So, Strobe, I think that brings our meetings to a conclusion, right? So I'd like to thank you and Bill and the staff at Brookings for putting on just a couple of great days, both the International Advisory Committee meetings and the Board meetings. And it would appear that we did save the best for last. Thank you very much, Senator, and thanks for coming.

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

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