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TIME TO COMPETE: AN AMERICAN JOBS PLAN

A CONVERSATION WITH JON HUNTSMAN, JR.

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P R O C E E D I N G S

MR. THORNTON: Good afternoon everyone, and welcome to Brookings. Thank you for coming. For those of you who do not know me, I am John Thornton, the chairman of the Board of Trustees of Brookings.

This session will be the first of what we hope is a series in which each of the Republican candidates for the White House comes and has a session like this. We did something like this in 2008 with both Democrats and Republicans when both contests were open.

My guest this afternoon, as you can see, is Governor Jon Huntsman, the former governor of Utah. Today's discussion will focus on the economy, jobs, tax reform, and the budget. Governor Huntsman over the course of the discussion will outline his comprehensive plan to create jobs and revive the economy. It's also a great pleasure to welcome his daughter, Abby, sitting right here, and her husband, Jeff Livingston.

This is the third time Brookings has hosted Governor Huntsman. We had the pleasure twice before when he was Ambassador to China when he participated in our U.S.-China strategic forum on clean energy, once in Beijing and once in Washington. As the 16th governor of Utah, Jon's economic policies were -- his signature policies were tax reduction, reducing government, and growing Utah's economy.

He also has extensive foreign policy experience. As ambassador to China, as deputy U.S. trade representative, and as ambassador to Singapore, having served under four different U.S. presidents. He has argued foreign policy is critical not only for national security but also for economic growth. Jon has been a businessman, a political leader, and a statesman. We're very pleased he's able to join us today.

The session will take the form of a discussion between Ted Gayer, who is sitting to Jon's right. Ted, as most of you know, is the co-director of our economic studies program. Before coming to Brookings he was a professor at Georgetown and he was also -- served in the Bush 43 administration under Hank Paulson of the Treasury Department.

So, please join me in welcoming Governor Huntsman. Thank you. (Applause)

MR. GAYER: Thank you, John, and thank you, Governor, for being here. It's a real honor to have you with us here today.

GOVERNOR HUNTSMAN: Although I approach with great trepidation now, hearing that I'm the first of the candidates to actually show up. (Laughter) There must be a reason nobody else has appeared.

MR. GAYER: They'll get here. So, let's start off with what I think, arguably, is the most pressing problem we face, which is the labor market problem. We've lost nearly 9 million jobs to the great recession. We've had some job gains in the last year, but not even enough to keep open normal job growth, so we are at best treading water. Pretty much been flat at around 9 percent unemployment, 4 percent long-term unemployment. It's really a staggering problem.

One number that one of my colleagues points out is, if we were to get 200,000 per month -- which we haven't been getting -- but if we were to get that month after month after month it would still take 12 years to get back to where we were pre-recession. So just to start off broadly, kind of on your plan and what you envision. What role does the federal government have to kind of help us dig out of this enormous problem. What would you advocate as president?

GOVERNOR HUNTSMAN: What I learned as governor I would apply as president. And that is, a leader through the levers of policymaking can influence a state or a country's level of competitiveness.

So, we did that in the state of Utah, a great state. We made it number one in job creation. We made it the most attractive destination for business. We worked on innovative education policies, job training programs. We looked at what we needed to do in our state to compete in a region -- the Western region of the United States -- in ways that would set us apart from others.

So when you stop to think that, you know, the brainpower leaving your state, which we saw the year that I was -- a lot of people were talking about it -- going somewhere else. You know, if you're a state and your college graduates are leaving, that's a bad sign. That's your intellectual firepower for the future, your intellectual property development.

If your entrepreneurs are not active, if investment is not landing in your marketplace, then it's landing somewhere else. So capital is a coward, you've got to argue, and it will flee wherever it perceives there to be risk in the marketplace. And if it's not landing in your marketplace, it's going somewhere else. It wasn't landing in our marketplace.

So, what to do? You've got to create an environment that speaks to the attraction of brainpower, because it is a fungible market. You've got to create a marketplace that speaks to the attraction of capital, and so we kind of looked at where we wanted to be. You know, Utah is a unique state. It's not California, it's not New York. But you've got natural resources, you have geography, you've got a terrifically well-educated, talented workforce. You have a commitment to the firm, which was what I heard from a lot of people, very loyal people, and you had a real entrepreneurial streak in the population. So, how do you free that up?

So I got together a group in the run-up to our election of 2004. Dozens and dozens of business leaders, stakeholders, academics, to say if you had to choose 10 things to revitalize the economy, what would it be? You know, it can't be 100 things. The bandwidth isn't such that you can get that done as a leader, but it can be 10 things or 5 things or 3 things, and let's prioritize them. So, we did. And I came up with a 10-point plan and we enumerated those 10. We kind of attached the underlying assumptions to them. What it would mean to the marketplace in terms of economic revival, and it kind of started with tax reform.

We had kind of an old-fashioned system. I used to describe it as, you know, a dilapidated anachronistic system from the '50s, kind of a 1955 Chevy traveling on the 21st century superhighway. And if you're going to try to compete with, you know, the likes of Colorado or Idaho or Texas or others, you have got to do better.

So, we came up with a tax reform program. We failed our first time before the legislature. We succeeded the second year, and we delivered essentially a flat tax. We phased out loopholes and deductions. Not in total, wasn't able to get all of them out. That was my going-in position. I wanted all of them gone even though that's politically treacherous, particularly, you know, home interest deduction. You know, nobody wants to talk about that. I said, I don't want it. If you want to buy down the rate, you've got to raise the revenue. You've got to raise the revenue, reinvest it in the code, and get the rate down. Broaden the base, lower the rate, and simplify.

But what we did produce was better than we had before. But what it did, as much as anything else, is it infused a sense of confidence into the marketplace. People talked about us. People started writing about the Utah market. *Forbes*, *Fortune*, you know, people would come out and do articles. Kind of a marketplace on the move. And that kind of had a reinforcing aspect to it. Entrepreneurs become more active, investment begins to flow inward because you're all of a sudden a hot market, and brainpower is attracted to your local university, which we found becomes a more attractive place to be.

Revenues increased. We were able to, you know, triple the rainy day fund. We were able to make investments in our state that up to that point we couldn't think about, we couldn't have afforded, like paying teachers what I thought they were worth, which is far beyond what they're getting today. Putting innovative programs into the classroom, like early childhood development, expanding choice. And then at the higher ed level, coming up with some centers of excellence that would attract brainpower.

I learned serving on the Singapore Economic Development Board in the '90s, their lesson of economic development. Which was, you know, opened the floodgates for brainpower. You've got to lower tariffs and barriers, open the floodgates for brainpower, bring them in, give them something to do, level the playing field, and try to stay a step or two ahead in terms of economic competition, which they've been able to do, you know. In Utah we can stay ahead of the competition, we just have to make sure our environment, our competitive environment, is conducive to attracting the elements that an economy needs for success.

So I say, this is totally applicable nationally, because we need to infuse a sense of confidence into this economy. There's capital, there are great ideas, we've got the most innovative entrepreneurial creative class the world has ever seen. They're still here, they want to be set free, they want to get after it. But there's not a level of confidence today that is compelling companies to unleash capital expenditures into the marketplace, that isn't inspiring folks to hire, to bring people on, which gets to joblessness.

And I say, we must in this country create an environment that speaks to 21st century competitiveness. It's not going to be easy, you can't do it overnight, but I am convinced that we can take some early steps that would move us in that direction. Attracting capital, attracting brainpower.

Now, why is all this important from a macroeconomic standpoint? It is important because I think we have an opening here in terms of rebuilding our manufacturing muscle in this country. A lot of people say those days are gone, can't do it again. Listen, when I was born in 1960 we exported $3 for every $2 we imported. You know, we owned 36 percent of the world's GDP. 25 percent of our GDP was manufacturing, today it's 9. I say, we have an opening here. Why? Because China's GDP is going from 8, 9, 10 percent over 30 years running to what will be more 4, 5, 6 percent in the years to come. And with that will be higher unemployment in China, which always carries with it an element of political uncertainty and instability. Larger itinerant workforce roaming the countryside, coming into the city centers.

And that investment that always just kind of knee-jerk flows into China for manufacturing purposes will be looking for an alternative. And we would be stupid in this country if we didn't say, we're going to be that alternative and we're going to address the defects, the deficiencies in our competitive environment and we're going to win that investment here.

It also assumes that you have a president who can sit down with the manufacturing alliance, the chamber of commerce, the business roundtable and say, folks, I know you've got capital expenditures planned for all corners of the world, but I have a request on behalf of all the people of this country. We want you to do it here. I want you to go back to your boards of directors, I want you to think, again, about where you're going to deploy these capital expenditures, and I want you to do it here because we're going to rebuild our manufacturing muscle.

And in exchange for that, I'm going to fix taxes, I'm going to create a regulatory environment that is conducive to predictability and growth, and we're going to take steps toward energy independence, the three most important engines of growth that I think we have before us in this country.

MR. GAYER: Could I just get -- I want to dig a little bit deeper, because you mentioned tax reform both in your history and in your proposal now. Your plan is essentially endorsing one of the Simpson-Bowles fiscal commissions. They had kind of an array of tax rates you can choose from.

GOVERNOR HUNTSMAN: Right.

MR. GAYER: And getting at this tradeoff that you talked about you could have lower marginal tax rates, but in order to fund it you've got to eliminate some of these tax expenditures. And I think in your plan it's the three brackets, 8 percent, 4 percent, and 23 percent, which is a substantial decrease of marginal tax rates.

I guess the problem is, the frustration is, very frequently you've seen this with these commissions. They come out with -- I can count at least three of these commissions -- all come out with reasonable plans, I have to say, and then they get kind of chewed apart or kind of nibbled on on the edges. And that each one of these tax expenditures has kind of an ingrained constituency, and so you get a lot of political figures say, hey, this is a great idea but not the mortgage interest reduction or not the earned income tax credit, for example.

So, even in the Simpson-Bowles, in order to get those low rates and in order to fund it, they're suggesting that would have to be funded by an elimination of earned income tax credit, child tax credit, full taxation of capital gains at ordinary income. I mean, this is -- I don't know which one of those mortgage interest deduction -- are you dedicated to getting rid of all tax expenditures in order to get those marginal tax rate reductions? Or are we back into kind of picking and choosing and, unfortunately, then that's where the deal sometimes falls apart from a budget point of view.

GOVENROR HUNTSMAN: The Simpson-Bowles plan -- in fact, the work that was done by Simpson-Bowles I laud. I think they did an excellent job, and I think the president made a fundamental tactical error by throwing it in the garbage can. Why? Because it was done in a bipartisan fashion. You know, maybe some of the numbers were a little off from where I would have put them. But on tax reform, you have to assume that this has got to get through Congress.

And that's why I say I look at what my colleagues are doing on the presidential campaign front. 9-9-9 doesn't start anywhere, because who in Congress is going to want to see a 9 percent up-tick in state taxes. Romney kind of nibbles around the edges. Perry has got a flat tax, which we delivered to the people in Utah, but it's an option. It still sort of retains the current code, so if you're gaming the system based on loopholes in the -- you'll continue to game the system.

And I say, all of that is nonsense. We either think big, we're either bold at this time when our nation needs it most, or you don't do it at all. So you say, if you're going to take that step toward a bold proposal, you've got to at least pass the straight face test in terms of what can be done with Congress so it's not laughed out on day one. I say, I'll take something that's been looked at from a bipartisan standpoint. You know, it's got some good bipartisan minds who have looked at it, they've analyzed it, something is there that is to like.

Second of all, you know, I say if the *Wall Street Journal* comes out, the most respected editorial page on economics in the country, maybe the world, and they say Huntsman, that crazy guy. This economic proposal is the best of the bunch. I say, there is an opportunity we have to bring together a necessary coalition, bipartisan coalition. Because in the end, that's how you have to get it done and to move this thing through Congress.

And my going-in position would be, I want all loopholes and deductions gone. Sensitive as some of them might be, and politically treacherous as some of them might be. I say, you know, it's a negotiation. You've got to get the work of the people done. You've got to start someplace, and that -- you know, that's my gripe about today's world. We're not doing the work of the people. We're off camped out in the extreme ends of politics, finger-pointing and engaging in hyper-charged partisan rhetoric. We're not doing the work of the people. So I say, if you're going to do the work of the people, you've got to put something on the table that at least stands a chance.

So my going-in position would be, loopholes, deductions, gone. Now, that'll be a negotiation at some point and that'll be a fierce negotiation, no doubt about it. But you've got to have a position going in that speaks to where you think you want to be. Because in the end, you've got to raise enough revenue through phasing out loopholes and deductions to reinvest it in the code such that you can get the rate down. So, I'd love to, you know -- and the exercise right where I put it on the table, which would be 8, 14, and 23 percent. It doesn't have the sound of 9, 9, 9, I admit, but it’s doable and it’s achievable, and it cleans out the cobwebs, and I think we need a cleaning of house. Absolutely.

MR. GAYER: So, let’s take it at that it’s the beginning of a negotiation, which I think is a proper way to do it. Everyone, these negotiations have started. It’s where they finish that frequently is the problem, and maybe you can clarify and you can speak for the republican position on this. I think one of the challenges, as very frequently the republican candidates or politicians say, well, we don’t want a tax increase, but it’s unclear what is meant by a “tax increase.” Some people say we don’t want a tax rate increase; in fact, we want a lower tax rate, and others on the party would suggest we don’t want any tax revenue increase, which would suggest no elimination of tax expenditures or not enough to make up for the marginal tax rate reduction.

In the negotiation, how far are you willing to go if you're going to do this tradeoff of some of these tax expenditures are going to be added back in, which means you have to increase your rates.

GOVERNOR HUNTSMAN: Right.

MR. GAYER: On that, are you looking for a tax revenue neutrality, are we looking for increases in tax revenues through tax reform? Is it a diehard position one way or another or is that, again, something we negotiate and we compromise?

GOVERNOR HUNTSMAN: You go in with certain principles. We can do it on a revenue-neutral basis. That would be one of the principles that I would abide by.

Second of all, I'm willing to raise revenues that are anathema to some people, both on the individual income side and on the corporate side by phasing out corporate welfare. We can't afford it anymore, and I think it gums up and distorts the system such that we just need to get smart about the 21st Century, phase out subsidies.

And, now, for some going that far is too far, but that would be one of the principles by which I would guide tax reform, reinvest it back into the code and allow that to lower the rate and take it forward in that sense.

But I would also use a bipartisan coalition if you could put one together to help drive it home, such as we saw around the Simpson-Bowles Commission. I would use the business community to help make the arguments about what this means to job creation because I think, in the end, if you can make a valid argument about what tax reform means to re-firing our engines at growth around job creation, that argument's going to carry the day because to prime the pump, we need jobs, we need to expand our economic base, we need to pay the bills, we need to provide more in the way of opportunity. So, that's the theme that must prevail throughout. We're doing this because we haven't touched taxes since 1986, we're doing this because our leading competitor countries, many of which I've lived in before, they've dealt with taxes, they've dealt with market opening measures with trade liberalization. We haven't. We've got to act or we're going to see the end of the American century by 2050, and that's a price too high for anybody to be paying.

MR. GAYER: So, let's say it's tax revenue neutral on a tax reform panel and it has, grant you the economic growth consequences of a lower marginal tax rate, but nonetheless now, we've got an expenditure side problem because if it's revenue-neutral, as we know on the expenditure side, we are increasing at a drastically high rate and the key contributor driver there is going to be a future deficit is going to be the mounting cost of Medicare. We've got increasingly longevity, which of course is a good thing, retirement of the Baby Boomers and the continuing increases in the cost of health care.

So, I'm going to overly simplify and maybe offend both sides of this debate, but my oversimplification is the left looks at this and says we can get this under control if you appoint experts, you give them political independence, they pick what the most cost-effective medical procedures that Medicare should cover, everything else, you have to do out-of-pocket, that's how we're going to actually get sensible restraint on Medicare. And, on the right, again, oversimplifying a bit, we're going to do a voucher, we're going to grow that voucher at a fairly low level, lower than historical trends have been for health care growth, and that's going to keep it under. Again, you don't have to buy my simplification, but broadly, we do have to buy the fact that if we are revenue-neutral on tax reform, we have to do something on the expenditure side, and, undoubtedly, that's on the Medicare as the biggest component of our future growth. What is your vision broadly of reducing expenditure primarily through Medicare?

GOVERNOR HUNTSMAN: First, we have to start with the assumption that all options are on the table, that if you're going to do this, do it right, which is to say target $4 trillion to $6 trillion over 10 years, which you have to do. We have no choice. I mean, to look at the numbers, it's a painful exercise, but you know what, as a country, we have no choice. You hit the wall if you don't do it right, and then by 2020, it's based on current revenue forecasts. You've got Medicare, you've got Social Security, interest payments on the debt, and that's it, you're out of gas.

MR. GAYER: Sure.

GOVERNOR HUNTSMAN: And I say we can't not act, we've got to do something. So, everything on the table, including Medicare, including the Department of Defense, it's got to be there, and I say what Paul Ryan has put on the table for Medicare I think is valid. I think it's a realistic approach, the premium support system, not a voucher that he talks about, the bifurcation at age 55, above which status quo prevails, below which we have a defined contribution marketplace, which I think is where we need to go.

We need to figure out overall how to take costs out of health care. I don't mean to oversimplify it, but when you figure that this is a $3 trillion industry, and any expert will tell you that half of that number, $1.5 trillion, is superfluous, needless spending, that's where you start. You've got to say how do we begin empowering the patients so when they walk into the doctor's office, they know what is available, they know what the costs are, they know what the options are, they're not walking in an office where foreign language is spoken in which they're completely confused because in today's environment, nobody knows what health care costs are; not the patient, not the doctors. So, we somehow have to get our arms around the cost drivers, and this is all kind of a backdrop to Medicare, but totally relevant because over the longer term, I think it all will mean something.

But we also have to recognize that the world in 1965 was different than it is today, and in terms of eligibility age, I think we can move that out. Perhaps, even a means testing component because I would say with Social Security, which in 1935, the average age was 61.7 years or something thereabouts. So, the assumption was you worked for 40 years, you take out 2, that’s a pretty good deal, and today, we’re upside down. You work for 20, you want to take out 40; it doesn't work. The rate of return isn't 8 percent, it’s more 2 to 3 percent return, and you have fewer people paying in than taking out.

Moreover, we’re living longer. I mean, what is the one thing we’ve picked up since 1900, thanks to science and medicine? We’ve picked up three decades of life; somebody born in 1900 versus born today, and I say we’ve got to somehow fix the underlying assumptions on Social Security for inflation and tie it more to real wage growth as opposed to the consumer price index and have a means testing component with maybe the top third wage-earners in the country, where it phases in at a different pace.

I think you can deal with a big part of the problem by doing that. It’s a shared sacrifice. I mean, the president is going to have to call on the nation to step up and recognize that it’ll be a shared sacrifice, and, beyond that, I think you can push out eligibility age to maybe the 80, 90th percentile of the average length of life on a sliding scale. I think between those two, we can save Social Security and we can deliver on the original intent and promise back in 1935.

So, this is all about leadership, it's about political will, but I believe it's the will of the people, the will of the people in this country now to get our debt and our spending in line with that which is sustainable, something more 19 percent of GDP as opposed to 23, 24 percent. It also has to be made into an argument about national security. For me, that's an argument, and that is when your debt becomes 70 percent of GDP, soon to be 80 percent, whatever that number is today, you just don't grow anymore, and when you don't grow, you can't compete. There are some competitive aspects to this that really do make it a national security argument for the American people, and then you look around the bend at where Greece is at 170 percent debt to GDP or Italy, 120 percent, and I remember in my negotiations with Japan 10 years ago, when I was the lead negotiator at USTR, non-performing loans, structural barriers and impediments, the Keiretsu System that made it absolutely impossible to start new enterprise there. Today, they're entering their third decade of loss growth. Third decade. And I say look around the bend, folks, if you don't want to address the debt and spending, you can kind of see where it takes you over time.

MR. GAYER: I wanted to shift gears, just one more question before I open it up, and you obviously have extensive experience in China, so, just a little bit of a change in pace by asking about China. But it is a campaign issue. Governor Romney, as you know, I think he said this would be his first day as president, said he would list China as a currency manipulator and that he would assess duties on Chinese imports if they didn't float their currency, and this is something, a bill went through Senate, I think it passed the Senate, essentially saying the same thing, proposing to impose tariffs on China over exchange rate issues. I'm wondering what do you think of such policies and just broadly speaking, given your experience in China, what is the promise and maybe possible perils of strong economic growth in China for the U.S.?

GOVERNOR HUNTSMAN: Well, first of all, let's call it what it is, it's pandering. It sounds good and you can get an applause out of the group when you say we're going to slap a tariff on China, we're going to go to war with China. The reality is far different. So, you're going to take it to the WTO. What are you going to do with the WTO? There's no provision for a case on currency.

And second of all, you start slapping on a tariff, and the Chinese are going to turn around and they're going to say remember the quantitative easing programs part one and party two? You did the same thing, so, here's a tariff on you guys.

Now, why do I say this? Because I lived through the 421 tires dumping case in China about three years ago, and I thought this is not a good thing, but the president has to do what he wants to do, and, so, what happens after the penalty was assessed at, I don't know what it was, 1.7 or $2 billion, the Chinese came up with a similar analogically valued countermeasure toward our chicken parts, completely disrupting our ag sector, our poultry producers, and that's just the way the game is played these days. So, recognize a reality, and we're back to the United States and China sitting down in a negotiation and grinding it out because it isn't a uni-dimensional relationship, it isn't just about currency. You can't just hit among currency and expect that to be it. It's three-dimensional chess. I mean, you've got North Korea, you've got weaponization in Iran, you've got the Pakistan element, you've got South China Sea, you've got global economic rebalancing, you've got new energy technologies, you've got a whole lot of things that you're trying to carve into a broad-based dialogue with the Chinese.

So, I say like it or not, you're left with a reality that you've got to sit down and grind it out at the negotiating table. Same thing that I think President Reagan discovered. I see Mr. Kalb here, who remembers those days. I went with President Reagan in the early 80s to China. He campaigned in 1980 on I believe it was withdrawing our diplomatic recognition from 1979 and re-recognizing Taiwan, only to find once you become president that even back in those early days to get things done, you've got to factor in the Chinese, and it's a relationship now that will require going forward a dialogue at the presidential level that is consistent, that is uniform, that is done a couple of times a year, not something that's on the margins of APEC, not something that's on the margin of G-20, but a consistent dialogue that lays out our strategic interests in the region and allows us to pull out their strategic interests and have a much deeper dialogue than heretofore we've been able to achieve. That'll be the future of the relationship, and through that, trying somehow, some way to infuse shared values into a relationship that for 40 years has been based on shared interests. We trade, we invest, we do all the economic stuff, a little bit of regional security work, but we need a whole lot more in the way of shared values blended into this to give it the staying power that we're going to need for the first and second largest economies in the world if we're going to make this a relationship it can be, despite all the challenges that inevitably we will have, and that'll be broadening the dialogue on political reform now that the fifth generation is coming to the forefront of the 18th Party Congress next year, along with a more nationalistic, more hubristic view of the world, by the way, which it'll carry some challenges for us. We need to expand it around human rights; we need to expand it around things like the role of the Internet in society, religious liberties.

These are all things that we should be expanding our debate around. Why? Because you've got a whole young generation of folks coming up, 500 million Internet users, 80 million bloggers who are having these discussions anyway. You've got the raw material in China increasingly to have these discussions and to have them picked up and taken seriously like never before because the party is reading the blogs, they don't like what they're reading, clearly, and they know they're going to have to make some accommodations in the years to come to open up and to further liberalize. If not, there's a train wreck in the making. So, there's no reason why we shouldn't be providing a little bit of intellectual context to all of that.

MR. GAYER: Terrific. What do you say we open it up to some questions from the crowd?

GOVERNOR HUNTSMAN: Sure.

MR. GAYER: I think we have mics, also. Right here.

MR. MITCHELL: Thanks. Governor, I'm Garrett Mitchell, and I write the *Mitchell Report*, and I want to ask you a question about the one thing we really haven't talked about today, which is, among others, I guess I should say, you make a very persuasive case about what should be done in the realm of economics and fiscal policy, and your experience at USTR and as governor and ambassador in China, of course, suggests that you bring along to the table on that equation. But if you were to become president, what changes is you come to a town and meet something called the Congress. (Laughter) And we know -- I think it's fair to say, we know for a fact that Rule 22 in the Senate, the stranglehold that the Rules Committee has in the House, the extent to which regular order has become an oxymoron up on the Hill suggests that no matter how well prepared and how thoughtful the next President of the United States is, he or she is going to have to deal with an institution that holds the purse strings and is really in a state that makes it difficult for good governance to take place. I'd be interested in hearing you talk about two things: one, the extent to which you've thought about those structural problems that the Congress deals with; and the second, and more important one, is what role could a president and presidential leadership play in bringing some change so that good governance could have a chance in the country again?

GOVERNOR HUNTSMAN: We have to figure out ways to enhance trust in the system. I don't have an easy answer for you, but when I was reelected -- I see Tommy Burr back here with a great newspaper; he'll remember -- when I was reelected in 2008, we got just shy of 80 percent of the vote. The turnout among the young people was such that I was a little discouraged about the future of our system. And I thought what do you do to enhance believability in our democracy, to get kids, younger generation folks more invested in our future? And what is driving the apathy? Is it campaign financing? Is it the role of lobbyists in society? Is it ethics in government? Is it lack of term limits? Whatever the case might be, and we put some people to the test to kind of gin up a report that would outline maybe some steps that could be taken.

Shortly thereafter, I was taken to China. I don't know whether there was a connection to that report or not, but I think the same thing needs to happen with the next president. I think we first and foremost need to build a level of trust in the system between the people and who they elect. And the fact that we're running on empty today between the people and the institutions of power concerns me greatly. Congress, the Executive Branch, Wall Street -- we're running on empty as it relates to trust, which is a precarious place for this country to find itself in. And I say whatever happens, you know, you can get all the policy stuff right, but how do you build trust in the system? That's got to be a conversation that we have as a people in this country. And if it's fundamental structural changes that we bring about in Congress, you got to look at it to enhance overall trust.

I do believe that when you're elected -- and I understand the structural problems you're talking about, it gives me a headache every time I think about it. Is there a way around it? Well, I think the reality is that a president has about two years in which to get something done, kind of like a governor. There are certain rhythms to political governance and the reality is you've got two years and then the door closes. I think that's where the President finds himself today. It doesn't matter whether he goes to Ohio or Illinois or California to talk jobs, people have tuned out. He had two years and it didn't happen during those two years. The doors closes.

So recognizing that reality, you're elected president, you go right up to Capitol Hill and you say it's a very simple congressional agenda that I've got for you, folks. I've got three things that I want to get done, and I know we've got two years in which to do it. It's the will of the people to make it happen. They've spoken in the election cycle. And I do believe what motivates Congress more than anything else is the will of the people. When they speak out in an election cycle, there is movement. The question is how long is that movement sustained before it kind of drops into, you know, a state of complete paralysis, which is where we find ourselves today. And what do you find in that state of paralysis? Mischief-making on Capitol Hill, nothing getting done. There's no leadership driving the agenda.

So I say for two years, Congress, all I want you to do is to work with me on three things that will fire the engines of growth in this country and it will infuse confidence into the system. It isn't complicated and it's totally doable, and here's the tax proposal I'm putting on the table as we outlined. Here are the regulatory reform measures that I'd like to see done and they will deal with health care, with ObamaCare; they will deal with certain aspects of financial services reform.

We've got a, you know, too big to fail problem in this country with the banking system. I don't even know where to begin there, but other than to recognize that it's lingering out there and we've got to somehow address it.

And third, you know, some simple steps toward energy independence. So step one for me would be looking at somehow dismantling the distribution system that gives preference to one product, oil. You know, they own the system. And so when I drove a natural gas car as governor, I never thought you could drive a natural gas car until somebody came up and introduced the concept. What was a rate-limiting factor for me and anyone else who wants to use an alternative fuel, you don't have -- you're not on the grid. There's no distribution. There's no fill-up station. So if we're going to become energy independent we have to start with the structural problems that underlie it all. So I'd say, Congress, we've got tax reform, we have got some regulatory measures, and then I want to take a couple of steps toward energy independence that will begin to allow this country to build a bridge into the future based upon alternative fuels and things like natural gas.

We all know that in the years ahead we're going to draw from the sun, we're going to draw from the wind. That's where technology's going to take us and science. That's inevitable. But what I'm worried about is this 30-year interregnum. What do we do between now and then in ways that are affordable, in ways that are compatible with market realities, in ways that draw from that which we have in abundance, that are affordable and carry national security implications?

So those are the three things I would put before Congress and say we've got two years, the clock is running. Let's deliver for the American people.

MR. GAYER: Let's get one more question. Right behind you there's someone right there. If we can keep the question kind of short, also.

MR. DEVANEY: Governor, Jeremy Devaney with BB&T Capital Markets. Thank you first off for bringing some pragmatic views to the campaign here, but I wanted to follow up. Earlier you mentioned three-dimensional chess in the foreign policy arena. And my area of expertise is within defense and I'm very concerned about the Budget Control Act cuts coming down the tubes here. And I was wondering if you could give us your perspective on defense funding in the future and how we balance our international foreign policy with our defense spending.

GOVERNOR HUNTSMAN: I have two boys in the Navy, so I think about this from time to time, about what their world is going to look like. What concerns me today and leads me to believe that we've got to shake things up a little bit is we have a bit of an overhang from the Cold War in the second decade of the 21st century: 700 facilities in 60 different countries; we have 50,000 troops in Germany in 20 different installation. I say, folks, the Russians aren't coming anymore. (Laughter)

We have 100,000 in Afghanistan nation-building when our nation needs to be built, when we need to pivot from a counterinsurgency to a counterterror effort there, which doesn't take 100,000 troops. You need tactical intelligence gathering, you need special forces on the ground, some training aspect with the local Afghan National Army. Let's be real about that. But to say longer term as we think about defense and our national security structure, Afghanistan is not our nation's future. Iraq is not our nation's future. Our nation's future is how well prepared we are to compete in the 21st century, and that's economics and that's education and that's the Asia-Pacific region where three-quarters of our trade will flow; where the most significant militaries will rise. And for us not to recognize that I think does us damage in terms of how we position ourselves for the future.

So you have to say if we have foreign policy drivers that will then inform our defense priorities, what should those be? Number one for me would be -- and this is going to sound awfully corny from kind of a foreign policy person, but my first foreign policy priority will be fixing our core. You know, I think Admiral Mullen was right when he said debt is our biggest enemy out there, you know. It's here. Look no further than here at home because when we're not strong, we're not able to project those values of liberty, democracy, human rights, and open markets. I've lived overseas when those values have been projected and it's an awesome thing to behold and it transforms people and it transforms history. We're not projecting today, so that's part of the problem. So I would say job number one is fixing our core from a national security standpoint. That's why the whole jobs thing is so critical because it's a transcendent deal.

Number two is I want a foreign policy aided by a defense structure that puts economics first. So the view from Beijing, you know, where I was the last couple of years is we have 100,000 troops in Afghanistan, we protect the land, the Chinese go in and they take the mining concession. And I say there's something wrong with this picture, you know. We need to be driving foreign policy led first and foremost by economics, what plays back to strengthening our core and creating jobs here at home -- trade alliances, investment relationships, international economic relationships -- far more aggressively than we're doing today.

Third, we can't forget that this asymmetric threat called terror is out there and it will be for as far as the eye can see into the 21st century. So I don't know that we need more carrier battle groups. I don't know that we need more sophisticated, advanced weapons systems. I don't know that we need more to add on to the B-52, B-1, B-2 bomber fleets. What I think we need is a better ability in real time to collect, analyze, and share intelligence, and special forces rapid deployability. Because it will be the network and the subsidiaries of terror, whether that's in Waziristan or whether it's in Luzon, Philippines, that we will be up against.

And then the PACOM AOR, you know, from coast of California to the Indian Ocean, will be a theater that we need to pay some serious attention to. And I believe that that should be driven by a new network of friends and allies. I mean, I said this sort of tongue-in-cheek the other day, but I kind of mean it. You know, I'll consider the job done when we pull the USS Ronald Reagan into Cam Ranh Bay and have a relationship there. We have some new opportunities in the Asia-Pacific region to bolster old alliances, to build new ones, because that's where a lot of the action is going to be.

And so my defense priorities would be built around those realities with I think also an understanding that the Army can probably be taken down from, you know, maybe 485,000, maybe to 450,000, supplemented by National Guard troops -- as a former commander in chief of the National Guard I can kind of see how that would fit in -- but also by purchasing and procurement practices in the Pentagon. So at some point you've got to lift up the hood of the car and say why isn't the machinery running as efficiently as it should be?

And so after World War II if you argue, you know, we had an 1,100-ship Navy, whatever it was, 117 carriers, we had a NAVSEA that numbered 1,000 people, and we were producing 100 ships a year. Today we have a NAVSEA that is considerably larger and we're producing, you know, less than 10 ships a year. There's something there that doesn't look right. You know, the red tape, the systems that are in place that have just bogged us down, and that needs to be looked at and I think seriously reformed.

So the two areas, the strategic concept around defense planning following economics, following counterterrorism with a focus on the Asia-Pacific AOR as being critically important to our longer term, and that is our maritime capability -- submarines would be included in that mix, by the way; we need more in that regard -- and then there would be an aspect of Pentagon reform that would say we've got to be able to do it more efficiently. We've got to be able to, you know, stretch the taxpayer dollar a little better in terms of what we're getting by way of return. And I think you can get some really good minds together that I think would be able to lift up the hood of the car and make some fixes there that would be very important for the American people.

MR. GAYER: Well, Governor, we're at the end of our time, so I just wanted to thank you again for coming.

GOVERNOR HUNTSMAN: It's been a pleasure to be here.

MR. GAYER: It's been a real treat and I really appreciate it.

GOVERNOR HUNTSMAN: Thank you. It's a real honor. Thank you all very much. Thank you. (Applause)

MR. GAYER: I just want to ask that everybody please remain seated while the governor departs and then we're going to open up the doors so everyone can go then, but thanks again, I appreciate it.

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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.

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