THE BROOKINGS INSTITUTION

Brookings Briefing

PREPARING AMERICA TO COMPETE GLOBALLY:

A FORUM ON OFFSHORING

Wednesday, March 3, 2004

1:15 p.m. - 3:00 p.m.

Washington, D.C.

[TRANSCRIPT PREPARED FROM A TAPE RECORDING.]

PRESENTATION:
Senator Max Baucus (D-Mont.)

MODERATOR:
Ron Nessen
Journalist in Residence, Brookings

PANELISTS:

Jared Bernstein
Senior Economist, Economic Policy Institute

Lael Brainard
Senior Fellow, Economic Studies and Foreign Policy Studies, and the New Century Chair, Brookings

William T. Dickens
Senior Fellow, Economic Studies, Brookings

E.J. Dionne, Jr.
Senior Fellow, Governance Studies, Brookings; Columnist, *Washington Post*

Harris Miller
President, Information Technology Association of America

THIS IS AN UNCORRECTED TRANSCRIPT.

P R O C E E D I N G S

MS. BRAINARD: Good afternoon everybody, it's a pleasure to welcome you here to Brookings. This is the second event this year, we're actually holding on this issue of offshoring. At the very beginning of the year Senator Schumer and Paul Craig Roberts, Tom Donohue from the U.S. Chamber of Commerce came over and really put out the bulletin that this issue was going to be a very hot and vexing topic to be dealt with this year. And here we are only two months later and we are welcoming Senator Baucus, who actually has some very serious policy proposals to put on the table.

Let me just say it's an enormous pleasure for Brookings and for me, personally, to welcome Senator Baucus to Brookings. He has served continuously in Congress for three decades now; first as a member of the House of Representatives from Montana, and in the Senate now, since 1978.

He serves as the ranking member on the influential U.S. Senate Finance Committee. And in that position, he has really worked tirelessly to put his own positive and very progressive stamp on the U.S. trade agenda. During my time in the Clinton White House, we worked very, very closely with him, during that economic expansion.

He's one of the leading Democrats who, like President Clinton, I think, sees a critical role for proactively promoting America's ability to compete and win in the international economy, while also legitimately addressing those needs of those workers' communities in the industries that are hurt by trade.

During the debate over the Trade Act of 2002, it was Senator Baucus--with some of his Democratic colleagues--that worked hard to overhaul and importantly expand the Trade Adjustment Assistance Act. During that important period, they made sure that it covered farmers and ranchers for the first time. It was also expanded to cover workers affected by shifts in production and secondary workers. And, for the first time, they added a wage insurance provisions--a longstanding policy proposal here at Brookings.

During that debate, Senator Baucus also pushed very hard for trade adjustment assistance to cover workers. It didn't fail that time around, but I think now, people are beginning to see just how prescient that proposal was.

So, here, I'd like to ask you all to welcome Senator Baucus with me. Thank you very much.

[Applause.]

SENATOR BAUCUS: Thank you everybody and thank you very much, Lael, for your very kind introduction. Isn't Lael great? Let's give her a round of applause, she does a good job.

[Applause.]

And I must say, this is true any time I need advice on international economics, Lael is one of the very first people I call. And this may sound like I'm trying to cozy up to her a little bit, but I do call her because I want to cozy up to a future Cabinet official.

I'd like to talk today about a matter of great concern. It's almost the topic A in the Congress today. And that's the movement of American jobs offshore. I suspect that this discussion is going to be more than a discussion du jour. It's going to be around for weeks and months. And my guess is one of the main topics throughout the next remaining months of this year. And certainly through the election in November.

You open any newspaper these days and you're likely to see a story about a U.S. service job moving overseas--let alone the manufacturing jobs--offshoring has become the issue.

Dramatic improvements in communications technology have allowed workers in India and China to provide services that before had to be provided by workers in America. This has resulted in cost-savings for businesses, but dislocation and anxiety for American working men and women.

Those who support trade have long argued that trade eliminates some jobs, but creates other, better paying jobs. Economists say that we needed to move up the value-added ladder from agricultural to manufacturing, from manufacturing to services.

We did. And it worked. Our economy grew. But now we're losing service jobs. Some wonder whether we have run out of rungs on the ladder. Where will the jobs of the future come from?

I believe the Administration is wholly out of touch with these concerns. It offers no comprehensive approach to cope with the real fear that exists among working American men and women.

Instead, this Administration assures us, grimly, that offshoring is good for the economy and that we should encourage--even accelerate--the movement of U.S. jobs overseas.

In the absence of any Administration strategy to respond to the concerns created by offshoring, some argue for raising trade barriers. They want to make it more difficult for U.S. companies to hire foreign workers.

I have a different vision. I believe in America that remains strong. Not because we have isolated ourselves in the world, but because we have remade ourselves to meet the challenges that arise in an interconnected world.

No nation has ever become stronger through economic isolation. Americans have built the strongest nation in the world by embracing open trade and successfully confronting challenges it brings.

We should respond to offshoring as we have always responded to economic challenges: We should reward innovation; reward risk-taking. We should keep our market open and fight to open new markets for U.S. goods and services. And, perhaps most important, we must prepare our work force to take advantage of the opportunities of the future.

Today, I announced that I will introduce a package of legislative proposals to address the economic challenges that offshoring opposes us.

We must focus on, I think, three broad goals: First, we must advance policies to create new jobs here in the United States.

We must undertake measures designed to keep good-paying jobs in the States.

And, finally, when jobs are lost to trade, we need to retrain people and help them get back into the work force as quickly as we possibly can.

I'll begin with job creation. One of the best ways to help create jobs here at home is to expand the research and development tax credit and make it permanent. It's bothered me immensely the yo-yo effect of the R&D tax credit; on again/off again, it makes absolutely no sense--it should be enacted; it should be a permanent emplacement in the law.

For more than 20 years, this tax credit has helped stimulate innovation. It has kept high-skilled, high-wage jobs in the United States. It rewards precisely the sort of risk-taking and innovation that we should encourage.

This is important. In many information technology companies, for example, as much as 50 percent of revenues come from newly released products and services. We must continue to innovate to succeed.

Much of the most innovative research is done in the U.S. universities and research institutes which attract students from across the globe. But over the past 20 years, federal research funding in the physical sciences and engineering, as a percent of GDP, has actually declined in America by nearly one-third. We should reverse this trend and dramatically increase federal spending on basic research.

The money we spend will come back to us many times over in the creation of new jobs, new industries and making products yet to be invented.

Creating new jobs is critical. We must also make it easier to keep the jobs that we already have. To do that, we must create a better environment for companies operating in the United States. This week, we're taking a critical step--we're passing the Jobs Bill, now in the Senate, I think we'll pass it quickly.

It's a bill that provides a 9 percent tax cut for all--that's a tax deduction--for all companies manufacturing products here in the United States. It also contains a variety of provisions to help American companies compete more effectively. It's going to give a boost to American domestic production.

This will give a very needed boost to alien manufacturers and provide an incentive to keep U.S. manufacturing jobs in the United States.

We must also do something about health care costs. From the smallest family-owned businesses in Montana to the largest multinationals, companies have told me that the rising cost of health coverage is among their greatest concerns.

It's because, in America, not only do employers pay much of the cost of health care, but costs are higher and rising faster, than in other countries. Last year, employers paid an average of nearly $2,900 per single employee coverage and over $6,500 for family coverage.

Employers in America also bear much of the cost for the rising number of uninsured, through cost-shifting by hospital and other health care providers. This places U.S. corporations at a disadvantage to their foreign competitors, whose employees are often covered under a government-sponsored, universal health program.

These costs are a real disincentive for companies to hire more workers. If we want to increase employment in America, we can't ignore this growing problem.

Over the course of the next several months, I will convene a number of briefings with national health care policy experts to explore possible large-scale health reform strategies. I don't know that a lot's going to get done in this Congress. But, certainly, we have to begin and lay the foundation for the necessary changes that are going to be coming on down the road.

But, in the meantime, we certainly can attempt to enact certain incremental reforms that will help address the problem. That includes small-employer tax credits; funding for employer-based group purchasing pools; increased funding for high-risk pools; building on Medicaid; and state children's health insurance program and permitting the Medicare buy-in for the elderly.

But the key solution, though, is going to be a much more frontal assault on inefficiencies in health care, health care delivery and on the quality of health care in America and that is getting at the fundamentals, not just paying more insurance for those who are not covered.

And that's going to be a major effort undertaking of mine. And I know some other senators working jointly the rest of this year and, hopefully beyond.

But these incremental steps I mentioned will help ease the cost of health care for American employers and encourage more hiring in the meantime.

And when people talk about jobs moving overseas, they frequently talk about trade. Too often, the proposed solution is to retreat into isolationism and raise barriers to trade. In my view, that's exactly the wrong approach. Would should engage in more trade, not less.

But we must be smart trade. We must enforce our trade laws and enforce our trade agreements. We must ensure that markets remain open to U.S. companies and that U.S. companies can compete on a level playing field.

We should reject the notion that we must lower standards in this country to compete. Instead, we must look to raise standards in the countries we trade with.

The Trade Act of 2002 made tremendous progress in this regard. We must continue to race to the top.

And when it comes to standards on labor and the environment, the debate in the last three years has been about what this Administration and this Congress, not our trading partners will accept. Our trading partners will accept higher standards. Why? In order to gain access and prestige that a trade agreement with the United States gives them.

But in the meantime, regrettably, we've been negotiating with ourselves instead of with our trading partners. We've got to do--and can do--a lot better.

I also believe we need to refocus our efforts on more enforcement. Should we spend our limited resources negotiating trade agreements with countries with minuscule economies or should we be working to break down tough trade barriers, doing the hard work the tough trade barriers and much bigger markets, like, Japan and India and China.

India, in particular, maintains a variety of trade barriers against U.S. products. You hear a lot about U.S. call centers moving to India, but you don't hear much about U.S. companies increasing sales to India.

And, in fact, last year, we exported to India's 1 billion people only half of what we exported to Switzerland's 7 million people. We've got to do more to open up India and other countries to U.S. products to have a real positive impact there for creating new jobs in America.

Tax incentives, more affordable health care, smarter trade policy--these are the things that can help in the short-term. But creating and keeping jobs in America, also requires a long-term vision.

The most important thing we can do is support education. This is the key to America's continued prosperity, I believe. Education provides the skills necessary to unleash the creativity of our citizens and help prepare them for the jobs of the future.

The education of our working men and women can be America's most powerful competitive advantage. We should improve, consolidate, expand the multitude of education tax incentives that already exist and make them more effective.

Particularly we should increase scholarships in loan forgiveness for engineering students to entice more people to study engineering, and that's just one area.

We train only half as many engineers as does Japan or Europe. We train less than a third as many as China. Engineers play a critical role in the development of new jobs and new industries. America needs more engineers.

We also need to ensure that American students are prepared for college. When states have to slash education spending to balance their budgets, it's not just the students who are hurt, it's all of us--our economy and our future. We should fully fund No Child Left Behind and take other measures to ensure our younger people are fully prepared for college or from whatever else they may choose to do that enhances their position.

For example, like supporting community colleges. Community colleges not only prepare some students for university, they also allow workers to learn new skills and play a critical role in helping to retrain those who lose their job to trade.

This leads to my last point: Changes to the economy due to trade cause real hardship to a lot of people, even if we're all better off in the long-run. We need to help workers re-enter the work force as soon as possible.

There will be jobs lost, we've got to do something about that. We've got to help them re-enter as quickly as we possible can. And that was the impetus behind the expansion of the Trade Adjustment Assistance Program in the Trade Act of 2002. That program has helped thousands of manufacturing workers get retraining, keep their health insurance--no small matter, either--and make a new start.

Despite the obvious benefits of this program, the Administration fought tooth and nail against every penny and against every provision. I fought to extend TAA to service workers, but that provision was struck in the final version of the bill. As you read about service jobs moving overseas, we can now see that that was a mistake.

People should get retraining whether they work in services or manufacturing. Workers, employers and the American economy all benefit if we equip our workers with the skills that they need to fill the jobs in growing industries. And that's why, yesterday, Senator Coleman and I introduced legislation to extend TAA to service workers whose jobs do move overseas. That expansion, I think, is very important.

It's not just an issue of fairness, it's common sense. If we want more people to be employed, we need to get serious--serious about training them for jobs that are available.

Let me conclude with a promise and with a warning: The United States economy is the most flexible, the most vibrant, the most dynamic in the world. There's a reason why people want to come and live in America. There's a reason why people don't want to leave America unless they really have to. Because ours is the most mobile, the most open country with the greatest opportunity.

You all know, Bill Gates would have a hard time making it if he were born and grew up in Sri Lanka. In America, he and the other Bill Gates of the world have a real opportunity and think of all the consequences that flow from that.

We owe that to the ingenuity of the American people and their relentless thirst to create and to innovate. We also owe it to the policies that they have put in place to support innovation that keeps our economy growing to keep on creating jobs. That includes embracing open trade to the world.

I pledge to continue to fight for those policies, including open trade and for the improvements to them that I have discussed here today and many others I'm sure will come up with lots of other of even better idea. That's my pledge.

Now, my warning: Just as jobs can be created by innovation and trade, so, too, can they be destroyed. There's no question that this is a frightening process. In the short-run there'll be losers as well as winners. It is perfectly understandable why workers jobs are lost due to trade. And why they would believe that they're probably worse off because of trade. Perfectly understandable.

In the long-run, all of us are better off--and if we forget that and raise barriers to trade to cope with offshoring, we will only be hurting ourselves. We'll hinder the ability of companies to innovate and our economy to create jobs.

We should act not out of fear, but out of purpose. No country in the world is better positioned to take advantage of the opportunities of the future than is America. With the right policies; with faith in ourselves, America will continue to grow and prosper in the 21st century and beyond.

Thank you very much.

[Applause.]

MS. BRAINARD: The Senator, I think, has some important legislation on the floor of the Senate today, so we're not going to have him for very long. I'm going to take the prerogative of the chair and ask him a question, and then I think he might have to leave after that I don't know if you want to take one more--

SENATOR BAUCUS: One more, yeah.

MS. BRAINARD: And then I just wanted to remind everybody, there's a panel to talk about this offshoring issue that will follow on the Senator's remarks. So I would ask you all to stick around. Several people from Brookings, E.J. Dionne, Bill Dickens, as well as Harris Miller from ITAA and Jared Bernstein from EPI.

And for the question--I'm just wondering about the legislative agenda for the year. What are the prospects? How do you plan to move forward this very ambitious, but incredibly important legislative agenda, you've just put forward? And what are the prospects for some of the other measures that are out there, such as Senator Kerry's call center ID, some of the other notification provisions?

SENATOR BAUCUS: First, thank you very much for the opportunity to speak. And second, I apologize, the jobs bill is on the floor and I'm one of the managers.

The answer to your question, basically, is purposely a step at a time to get some these measures enacted. And I think we're in an environment now where people want to move. You can just feel it. That is move positively. People are beginning to think more thoughtfully about these matters, know they're very complex and know that easily defensive mode, raising barriers may sound good in the short-term, but it doesn't really work. It's not really the right answer.

And, no, really the only answer, in my judgment, this is a bit presumptuous, is something in the area of what I've just been outlining as difficult as that is.

And, finally, that we must do something because we are losing jobs and it is true other countries are losing jobs, too. But that's there problem. Our problem is the jobs were losing in our country.

First, we get the Jobs Bill passed. It will help by no stretch of the imagination is it the silver bullet. No way. It's--but it does help by giving a bit of a boost to domestic manufacturing. And it's WTO legal, it's consistent with the ruling of the WTO. So, that's a start.

I also, will be pushing some amendments to the Jobs Bill. One is the R&D tax credit. It's very expensive to make that permanent, but we're going to come up with as much money to extend it as long a period as we possibly can.

And I mentioned some incremental health provisions to try to address health care costs. But, as I said, nobody has really come up with a measure that's going to make a real difference, yet this year.

I'd like, I am going to try to do what I can to get up a head of steam just so that we're doing more on trade--that is, opening of more markets. I just think we're too passive. We're not sufficiently enforcing our current existing trade agreements. You know that better than I, I get my advice from you about that.

But the point is that it's just keep working at it steadily.

I have two major issues this year in addition to, you know my Montana and responsibilities in the Senate Finance Committee. One is this one, it's jobs. How in the world are we going to address offshoring in a solid, honest, responsible, meaningful way? And I'm holding all kinds of meetings with experts and CEOs and picking their brains and this kind of thing. And on a bipartisan basis, there's no--this is not a partisan issue.

And, second is health care costs in this country because I can just feel that one is going to be a huge one. So, to answer you question a step at a time. Some of se provisions you mentioned, they'll be offered, they'll come up. Some might pass, but this, you know, we're a democracy. We're not--that is different people have different points of view, but even more than that, it sometimes takes a little while for people to kind of come together and kind of realize where the center of gravity is what the right thing is to do.

I strongly believe and so do John Larkson [ph], market place of ideas and focus sunshine on all these ideas and pretty soon something's going to turn out to be--make a little more sense than something else. And some of those that are up now don't make a lot of sense on the surface, but I have faith that, because the problem is so great we'll work ourselves through it. I can take--yeah.

PARTICIPANT: --[off microphone]--people who have lost their jobs to China and to India and they have actually not been able to--they've found out that they can't go to India and do the job that their job that went to India or their job that went to China.

SENATOR BAUCUS: That's right.

PARTICIPANT: Now, and I do feel that when you're talking about, in the long-run, trade is going to be great for everybody, when people are looking at their car payments and their house payments, that's about as useful as saying, in the end, we're all dead.

SENATOR BAUCUS: Right, as did John Maynard Keynes say. But, you're right, there is not enough, I think, developed in Administration, Congress think tanks. How in the world are they going to--what are we going to do about those people who, through no fault of their own have lost their jobs?

PARTICIPANT: If Indians are coming here, why can't our people [inaudible] --

SENATOR BAUCUS: Well, two points: a lot of this is cultural and people want to live in their neighborhoods. They'd rather not move unless they have to, they have to.

PARTICIPANT: But I know people who--

SENATOR BAUCUS: And, second, as it goes to the point I mentioned earlier, it's just--it's barriers to trade and we've got to make sure that it's a two-way street, not just a one-way street.

But I'm hoping that expanding TAA which, you know, also includes, you know, very good health insurance, by the way, to service workers is going to help. It's going to give them some benefit. And the wage insurance was mentioned, that's another possibility here. But, you know, in the interim some help so people at least have an income. And, as you say, still be able to pay the bills, you know, put food on the table, but that's, granted, a short-term solution.

I'm just saying this requires our frontal approach in all these areas and, on the basis of priorities, pick the ones that can give us the greatest bang for our buck. It's a huge opportunity, it's a wonderful opportunity that we have to solve this problem. It's wonderful, I relish it. In all the respects that we've discussed and, essentially, the one you mentioned.

PARTICIPANT: But if people are trying to keep their house and their car, it's hard to feel that this is an opportunity.

SENATOR BAUCUS: Absolutely, but as long as there are, you know, programs or visions that show, that at least for a while they can make ends meet. And, as long as the rest of those, those in Congress and state government, et cetera, you know, are really honest about this problem, and at are showing we're trying to do something about it, that'll at least give them a little hope that at least somebody cares. And the people can buy into that, at least. It'll own happen if it all passes the smell test. We've got to really care. Got to really be doing something, it can't just be superficial, kind of turning the crank for nothing, you know off the wall, it's got to be real. It's got to be real.

Anybody over here? Yeah.

PARTICIPANT: Have you or are you going to do any--have you seen any numbers on delinking health care insurance with one's job and taking a whole new approach to it?

SENATOR BAUCUS: Yeah, there's a lot of literature on this subject now. And wondering if, perhaps, our system which links, you know, health insurance to employment is, perhaps, should be questioned a lot more deeply.

Because it's true, I mean, the more you have a good paying job, you know, and to some degree the better educated, and wealthy you are, the better your health care is going to be. And the opposite is also true.

Some are talking about moving strictly, as you know, to the more private markets, the individual market for health insurance. I think we have to be very careful in all this. I saw an interesting piece a while ago, which kind of runs against the grain. Showing that the more choices people have the default is people don't make choices. Because there's just too much out there, there's just too much information. And so you're going to want to have something that works.

I'm a pragmatist, I'm not an ideologist. My approach is to find something that works--that works both in the short-term and the long-term that's fair to people. So it's--I've seen some data--I only know that there's a lot of questions in this certain area.

PARTICIPANT: New approach.

SENATOR BAUCUS: It's a new approach, that's correct. But, you know, it's the old thing, the grass is always greener on the other side of the fence. Sometimes you cross the fence and you find it's pretty brown when you get there. So you've got to be a little careful before you cross it. Anybody.

PARTICIPANT: I think one of the simplest things we can do to correct our trade problems is to get the exchange rate right. And the first step to do this, I think, is to convince the Chinese to revalue their exchange rate. I don't think they can float, I don't know if they're ready for that, but they can certainly revalue and they probably need to do it by 30 or 40 percent. How do you think--what's your position on this? How do you think we could tackle this?

SENATOR BAUCUS: Well, I'm not privy to the Bush Administration's view--it's--I think it's, clearly, it's an important subject. I've talked to the Chinese about this myself directly a couple times. I'm going to China in two weeks and we'll raise it. They know our concern. They know of the interdependence between the United States and China, I'm quite certain. And you get signals that they appreciate appreciation and who knows what they're going to do.

I've also seen articles that maybe it's not the silver bullet and the panacea that a lot of us would like to think that it is. But, nevertheless, I--my guess--my expectation--it's just a guess--it's just an expectation--whether it's baskets or bans or something, it'll be a little something down the road, but who knows? I can't, that's just me. What do I know? That's just my guess. Yeah.

PARTICIPANT: Senator Baucus, you said that you would hope that the Jobs Bill would move fairly quickly. At the same time, Senator Grassley and Senator

Ashley, yesterday, both said they expected a lot of amendments, not specific to the repeal of Frist ETI to be introduced. Do you have any kind of an agreement to allow some of these amendments to go forward or to beat back some of these amendments? And how much of a discussion do you expect around the Frist Bill to be on outsourcing?

SENATOR BAUCUS: Well, this is not a precise answer--the best I can give. First of all, we all want this bill to pass. Senator Daschle does, I do, Senator Frist does, the majority leader and the minority both want it, as does, I said, Senator Grassley and myself, we all do. Nobody wants this bill not to pass.

Second point, this is the Senate. You know, Senate rules. In the Senate, as you know, the Senate is run for the convenience of one and for the inconvenience of 99. And we just have to get through all this, and we will.

PARTICIPANT: --the word credibility, you mentioned being more aggressive on our--on open trade.

SENATOR BAUCUS: Yes.

PARTICIPANT: It seems like the U.S. suffers a credibility problem among developing countries. Like when we recommend to them to be more compliant with ILO labor standards, they--when we suggest to developing countries that they be more compliant with even their own labor standards and those recommended by the ILO, they come back at us, again because of this lack of credibility and say, well, it's protectionist, we're just saying that because we really do not want to trade with them. So I wonder how you think we should, what we should do, I guess to improve our credibility with the whole open trade issue--especially among developing countries?

SENATOR BAUCUS: Well, first there are lots of ways, one is just, you know on the unilateral free-trade agreements, the best we can--maybe not developing countries, but I--I agree with the President, we should try to pursue a free-trade agreement with the Mid-East, I've got a preference this bill for the Mid-East, at least that'll help a little in that part of the world.

Second, these pieces are somewhat linked is what the United States can do if Europe with respect to agriculture and some other areas, to kind of tee things up so we can deal with developing countries' concerns.

But more than anything else, it's just like most things in life, you just be as straight and as square and just and give compromise and just show that you really mean it. But not let yourself be taken advantage of, either because that engenders disrespect when you let yourself be taken advantage of. I mean, you know, you've got to be smart about it.

My ultimate view, generally, in trade is and this is my view with China. When we first had this question about China. We embraced China, but with eyes wide open. We're a country. China's a country. We have interests, they have interests. We have interests, developing countries have interests. We all live more and more in this world together. We're all more and more interconnected and it's just and taking that as sort of a paradigm or a construct, I know it's awfully vague, you just do the best you can and come up with a few specifics. Because abstraction is cruelty, you've got to come up with some specifics. And then be pragmatic about it. Try something else. If that doesn't work, try something else.

And also question assumptions. Honestly question assumptions because so many people reach misunderstandings based upon a misunderstanding of the assumptions or the premises. And so, it's you know, just being straight. That doesn't always work, but works better than the alternative. Thank you.

[Applause.]

[Break in proceedings.]

MR. NESSEN: I think we'll start. I think Senator Baucus's thoughtful and comprehensive proposal is part of a worldwide debate on international trade issues--particularly the movement of American manufacturing service and information technology jobs to other countries.

And, also, on the effects of growing international trade on consumers, companies, and national economies around the world, these challenges around the world are already being discussed as part of the presidential election campaign.

Our panelists today to pick up on some of the ideas that Senator Baucus talked about, will be Lael Brainard and William Dickens who are senior fellows here at Brookings, E.J. Dionne of Brookings and The Washington Post, Jared Bernstein, the senior economist with the Economic Policy Institute, and Harris Miller, who is president of the Information Technology Association of America.

You'll find detailed biographies of all the panel members, either in your packets or on the table outside. There is a lot more information on this issue. Copies of the text of the Senator's talk, some fact sheets, also on the table outside. And a lot more information on trade issues available on the Brookings Website at brookings.edu.

Lael, I think we will start with you and ask you to put into some kind of context, the national and international economic developments which are both the cause and the effect of offshoring or outsourcing of jobs.

MS. BRAINARD: Well, I think the offshoring debate comes at a time where it's being perceived as something that is completely new and completely different. The reality is that it's really a logical continuation of what we've seen in manufacturing with the business system being decoupled and whatever pieces aren't absolutely critical to the value of the firm, being moved to the lowest-cost locations. Within the United States, we saw that in manufacturing first with a move from the Rust Belt, hence Rust Belt to the Sun Belt and then from there offshore, initially to Southeast Asia, Mexico, and now, of course to China.

Well, the same thing is now happening in the services sector. And what is so different about the services sector, I think is that this has been a sector that's traditionally been seen as nontradable. When you had the big trade jobs of the 1980s and 1990s, a lot of people said, don't worry, Americans are going to move into these higher-value services jobs and be protected from international competition.

What we're learning now is that wage competition is going to reach into all sectors, all jobs categories. And I think that's what's a little bit astonishing about the debate we've had in the wake of Greg Mankiw's statement at the White House. I think Greg Mankiw's statement--Greg is a very fine economist and to economists it may have seemed like a fairly innocuous statement. But it was a supermarket scanner moment for the President, much like for his father 12 years earlier in the sense that there's enormous job insecurity out there; enormous worker anxiety. We're in the middle of a jobless recovery, the likes of which we've never really seen before.

Relative to '91, '92, we've already got two and a half million jobs that have sort of gone missing and the income side, the wage side is even bigger. And, so, the anxiety is already out there, it's palpable. And workers are wondering, well, just what is going on? Explain it to me in a way that makes me feel like my kids have a future; that my education--a master's degree in engineering and science is not, as it turns out, just as subject to competition, low-wage competition from India, as a high-school degree was 20 years ago.

And so, I think that's why this issue comes on top of an enormous amount of worker anxiety out there that really, in many respects, is associated with a whole host of factors; a lot of which would have to do with technology. Some of which have to do with trade. And now, of course, starting to see that having to do with trade in the services sector.

MR. NESSEN: At this point, maybe a good idea would be to hear the views of the industries, the companies that are involved in offshoring or outsourcing. So, we'll ask Harris Miller--one of the points is: Actually, how long has this progressed? I mean, what is the magnitude of this and also, why are companies doing this?

MR. HARRIS: Well, first off, thanks to Lael and Ron for inviting me, it's great to be here today. And it was great to listen to Senator Baucus, his proposals. Because for the past two and a half years, every time the press calls and says what do you think of this legislative proposal or that legislative proposal, I've had to say no, no, no, no, no. And I think that--without having read all the details of Senator Baucus's proposal, we can generally say, yes. Because it is a very positive approach to the global challenge.

To answer your question, specifically Ron: I gave my first speech on offshore competition in 1997, because I've been dealing with many of these companies in India and China for more than 20 years.

Well, to no one's surprise, no one paid attention in 1997. You may remember that was something called the Internet bubble and the telecom bubble and the bubble-bubble. And unemployment and Silicon Valley was a negative 4.7 percent and kids were coming out of college getting free BMWs just for having gotten a degree in something that sounded like computer science. And it was such an unreal world that the fact that this--that there were competitors around the world was really something that people just couldn't understand.

And even though we clearly saw the competition coming from places like India and China and other places around the world; and even though the hardware side of the IT industry, had already gone through this transformation; and the chip sector had gone through some major global, political trade battle in the 1980s and 1990s, somehow we were so arrogant to believe that the software and services side of our sector was immune to this. And the only smart people lived in the United States of America. And it was just pure arrogance.

But clearly this has been coming for some time. Nevertheless, having said that, I think most of what you've read in the press is--no offense to my friends here in the media--is still hyperbolic. And part of that's been fed by some analyst reports which haven't been carefully examined.

Let me give you an example. Gartner put out a report, I mean, Forester put out a report about two years ago that said, that 3.3 million jobs are going offshore the next 15 years. Well, if you read the report, what it really said was 400,000 IT jobs were going offshore in the next 15 years, which is something like 20-some-thousand jobs a year. And the person who wrote that report has been explaining it ever since because the headlines were all 3.3 million IT jobs are going offshore.

And so, there was a great distortion. And there was a headline and cover story in Business Week, about a year ago, I think it was February of 2003 that got people very excited.

And then, of course, we had this fair an unbiased report every night on the Lou Dobbs show where he comes in and gives this nice objective point of view about this issue. And then, last, but not least, is the point that Lael correctly made is that people are uncomfortable. And when people are uncomfortable, guess what? Their elected officials are uncomfortable. And it's on both sides of the aisle, it's Democrats and Republicans, alike. And now we're into the presidential selling season and people are saying all kinds of thing.

Our best estimate--and I admit it's a very, very rough estimate--is that less than 2 percent of IT jobs have gone offshore so far. And our best estimate is, may be at a maximum sometime early in the next decade, it may get up to close to double digits. And why is that?

Well, first of all, most IT jobs--in most IT jobs propinquity still does matter. We can talk about the Internet; we can talk about the death of distance; we can talk about the cuts in costs, but at the end of the day, managing an IT project by remote control, 30 feet away, let alone 3,000 miles, let alone 10,000 miles away is a very difficult exercise. And there's a good article in The Wall Street Journal about this today that you might want to take a look at--an actual case study about this.

And, again, even the analysts who are projecting this movement of work offshore will tell you that doing this is really hard to do. Unlike manufacturing where once you get the cookie-cutter project down--and by the way, most of those manufacturing facilities in development countries--just like manufacturing facilities in the U.S. are run by computers. They're not even very labor intensive anymore. Because once you get the computer set up to turn out the T-shirts or turn out the tennis shoes or turn out whatever it is, you can do that the same in Boston as you can do it Bangalore.

Most of these IT jobs, when you're talking about creativity and ideas that's going offshore, I think it has been dramatically overblown. It's a lot more expensive.

Another misconception, Ron, is the price. People say, well, it costs x to pay someone for hourly wage here in the U.S. and it's 1/6th of x in Bangalore and that means all the jobs are going to go offshore.

But magazines, like CIO magazine, which actually talk to CIOs who manage these projects will tell you the delta is more like 15 or 20 percent. Because it doesn't take into account these management difficulties, language difficulties, telecommunications costs, et cetera, et cetera, it's not free to do these things offshore.

So, I would say, yes, it's a serious issue. People should be concerned, but at the end of the day, it's been overhyped and overblown.

Last point about this: David Elwood, former colleague of Lael's in the Clinton Administration, Tony Caravelli at the Educational Testing Service, have done some wonderful studies about demographics in the IT workforce. And ladies and gentlemen, at the end of this decade, we are in trouble because of baby-boomer retirements.

I mean, we're not talking about people 30 or 50, these aren't long-term demographic projections. We're talking about people who are born in the work force now and trying to match that up with students and we're getting appropriate education to replace them. And David and Tony and others will tell you, that's the real problem.

Yes, we might be going through a short-term dislocation now, but if we're worried about our long-term competitiveness as a country and you look at countries like China and India, and as Senator Baucus said in his remarks, that are turning out many times more engineers and computer scientists than we are, they're getting into the game. They're playing the 21st century game. We're still fighting the 20th century game. And unless we get into the 21st century game and start cranking out more people to get into the work force, we're going to accelerate their competitive edge.

MR. NESSEN: Jared Bernstein, what is your reaction to Harris Miller saying that people, the way people have reacted to what is a relatively small loss of IT jobs is hyperbolic or dramatically overblown, do you agree/

MR. BERNSTEIN: No, I guess I wouldn't agree, although I would--although the magnitude of the job loss is unknowable, I thought Harris' ideas on that are probably about right. So I think that the magnitude of the job loss probably has been a lot smaller than the discussion--popular discussion might lead you to believe.

On the other hand, I don't think the concern and anxiety is at all overhyped and overblown. And, in fact, I want to stress the point that just because the magnitude of the problem is unknowable right now, shouldn't lead us to that conclusion that Harris cited.

Let's talk a little bit about some of the points that Lael raised and I thought eloquently so. I have a handout, I don't know how many people have it, but some of you probably do and maybe you can look over the shoulder of those who have it. It's called The Labor Market Context of the Offshoring Debate. And I want to, just go through these graphs very briefly in the context of my comments.

I, too, provide a context for why I don't think the concern is overblown. So, part of what I'm going to show you, as much as Lael said, maybe put some meat on the bones of some of her comments about the difficulties in the current labor market. And then connect some dots to the offshoring issue.

The first slide has a number in it that we just developed this morning, which is why it says primary data do not cite. We just took that from the current population survey and it's really quite striking.

What you have here are the employment rates of young college graduates. That's college graduates age 25 to 35, the share that are employed. And you have three comparable time periods. Looking from a business cycle peak to three years out. And in each case, you see that the employment rates of young college grads either were, you know, kind of around where they were when the business cycle peaked a bit lower in '92 than '89.

But if you look at that third set of bars, the decline in the employment rates of young college graduates is far more dramatic than you ever would have expected given past patterns. And by the way that's the lowest value on record, since '79--those data go back to '79.

The share of young college graduates who found work in '03, who were employed in '03 was the lowest level on record.

Now this gives some of the sense of anxiety out there that I think one of the questioners was expressing earlier and that Lael was citing, as well. You know, Lael also mentioned the hourly wage--the wage trends.

If you turn to figure 2, you see the real hourly wages of these young college graduates and, you know, over the last couple of years, they've really tanked in real terms. The conversation kind of went, well, it is a tough recovery, but if you kept your job, you did okay; you lost your job, you had a problem.

These are job holders, these are folks who are actually at work and their wages have fallen steeply in real terms. I'll get to the third slide later, if we have time.

Now, you know, that's all true, but what about--to what extent are these trends related to offshoring? Well, that kind of gets to the question of what role is offshoring playing in the jobless recovery itself? There are lots of reason why this recovery's been so exceptional. Just to get the facts, you know, on the table, it's the worst jobs recovery on record since we've been tracking these data starting in 1939.

By this time in every past recovery, we've made back the jobs we've lost, since the recession took hold. But now we're still a couple of million jobs behind. So, you know, what role has offshoring played in that?

That, again, unfortunately, is not knowable and I suspect if you were able to apportion a share to offshoring, it would be a small share. Time magazine recently assigned, you know, less than 10 percent of the job loss to offshoring in the context of the recovery. That strikes me as an upperbound, but, you know, certainly, I mean, it's not implausible.

What is behind the jobless recovery? Most commonly, we talk about the acceleration of productivity growth and it's true, productivity's been rising at about 5 percent a year, for the past couple of years. The economy, itself, over the past couple of years has been expanding at a rate of about 3 1/2 percent. So that right there should get you part of the way there.

The fact is that this recovery is actually, historically weak in GDP terms. Typically GDP grows more like 5 1/2 percent over a recovery. So we're behind on the demand side, it's not just productivity growth.

And in a context like that, employers who--and I'd be interested in Harris' view on this--you know, my read of the evidence is that employers are very, very interested in holding down labor costs right now. And are doing everything they can to avoid permanent domestic hires. To hold down labor costs and boost profit margins. And I'll wind up in a second with that point.

If you go down the menu of options, let's look at what's out there. You can squeeze as much productivity growth as you possible can out of your staff and I think some of that's going on right now. Trend productivity growth accelerated in the latter '90s from 1 1/2 percent to 2 1/2 percent, now, trend productivity growth, not the, you know, 5 percent we've been posting for the last couple of years. But the trend is probably closer to 3 percent and that extra half percent, critically important, may be related to speedup and just squeezing more productivity out of your current work force.

You also can hire temp workers around your core. That's something that didn't use to be on that menu of options, at least not so prominently.

And, finally, there's this relatively--I don't know how new it is, but in terms of its visibility and its presence in the service sector, there's this relatively new item which is offshoring. It's yet another item on the menu of ways in which employers can hold down labor costs in a recovery where the message has gotten out that it's about boosting profit rates, which at this point are squeezing wage growth.

Let me finish my first stab at these comments with the third slide that I have to make this case. This is the change in the labor share of corporate income over the past nine recoveries. If you take national income, the part of it that goes to the corporate sector. You can divide it into the part to goes to compensation and the part that goes to capital. And you'll see that in every recovery we've had that you have these data for, the actual--the compensation share of corporate income actually does compress.

But in this recovery, it's down more than in any past recovery, four percentage points. Far more than in the past. What you see is what growth that is occurring is falling to profits, not into wages. And this, again, creates a level of insecurity about offshoring, a trend that seems, at this point in time to be playing, I think a nontrivial role, one that can't be quantified, but a certain role in boosting profits and holding down labor costs.

So, I don't think concerns are by any means overblown or overhyped.

MR. NESSEN: Thanks, Jared. Bill Dickens, this is a big issue in the public debate right now, but it's actually--outsourcing and offshoring, not actually a new issue, could you talk about that a little bit?

MR. DICKENS: Sure, and I think Lael's already addressed it. In fact, all three speakers, so far have suggested that offshoring are not something new. After all, imports have been growing steadily for a long time. The Internet is not a revolution that happened overnight. I was using e-mail 20 years ago. For 10 years, I've been collaborating with a colleague in New Zealand, using the Internet. And for five years, I've been organizing an international project with people in 15 different countries, using Internet. It's something that's been changing slowly over time.

And you can go back before that. Before the Internet it was the fax machine, it was telecommunications, it was communications satellites. It was container shipping. We've been reducing the real barriers to engaging in international commerce regularly now for a long, long time. This is evolutionary change, not revolutionary change.

The second thing is, this is a very odd period of time to be having this discussion about globalization and outsourcing. I mean, if you take a look at the charts passed around. This top lighter line shows you the percentage growth in imports of both goods and services over different four-year administrations. And you'll see that so far in the three years of the Bush Administration, we have the lowest growth of imports of anytime--since the post-war period.

And you may say, well, you're playing a dirty trick on us here because that three years includes a recession, and we know imports tend not to grow during bad recessions. But even during the last year when output growth has been relatively brisk, it still--import growth has only been about 4 percent. And so, as you can see by looking at that chart, it's relatively low.

So why are we having this debate now? Well, that has to do with the lower line there which is the change in percentage points in the unemployment rate. And you'll note that that's relatively high. And it's the problems in the labor market, not problems having to do with trade so much, but just problems in general. Jared said, he thought that the Time magazine estimate of 10 percent of job losses in the recent period being due to outsourcing was an upper estimate of offshoring.

I looked at a number of different measures of that number and I come up with something more like three percent. Just one comparison that you can do, I had my research assistants go out and find the largest estimate of the number of jobs moved offshore during the recession. And they came up with about 1 million.

If you put that in terms of how many jobs a week that were lost, and then compare that to the minimum number of weekly new claims for unemployment insurance--and we know that not everybody who gets laid off goes out and claims unemployment insurance. You can see what a small fraction of the economic problems that we're having right now are due to trade.

Jared pointed to productivity growth as one of the causes of the slow growth of employment. And if you look at the last chart in the package I handed out, you can see that, in fact, we would have about 2.7 million more people employed today if the rate of productivity growth over the last couple of years had just been at the rate that it was in the late '90s, which was already a good step up from what it had been previously.

But then you note also that employment still wouldn't be higher now than in the fourth quart of 2000 and, as Jared has said, this has been a weak recovery and our GDP growth has been weak.

Some of that has been the start-and-stop nature of the recovery, which has been, in part, due to the uncertainties created by 9/11 and then by the Administration's War in Iraq, we really didn't start this recovery in a wholehearted way until this summer.

And then, for the last six months, we have been seeing what we typically see in the early stages of a recovery, which is a lot of output growth without a lot of growth in employment, because employers tend to expand with their given work force and their given capacity before they start adding workers and capacity.

So, what I think we're seeing is the very beginning of a recover, even though in some sense by National Bureau of Standards, we've been in this recovery for a long, long time.

Now, that said, I would also want to point out that we still have a lot of labor market distress. And one thing that people have been doing which I think is unfair is comparing the 5.6 percent unemployment rate that we have today to the rates of unemployment that we had in the '80s and saying, hey, this isn't so bad. This actually looks pretty good.

There's a number that we unfortunately don't collect in this country that's collected in a number of other countries--that's the vacancy rate. The number of jobs that are available.

What we saw happening during the 1990s, which was absolutely remarkable was just a plummeting of the vacancy rate while unemployment rates were remaining constant. There has been a change in the labor market so that it operates much more efficiently now, so that we can sustain both lower rates of unemployment and lower vacancy rates at the same time. What that means is, that today with a 5.6 percent unemployment rate, the job market, the way it looks to somebody who's out hunting a job is a worse than what it looked like in the 1980s when the unemployment rate was the same.

What do we need to deal with that sort of thing? One thing is we need to increase aggregate demand. We could probably have structured the tax cuts better to do that, but if we want to talk about the general ongoing problem of dislocation in this economy, then se should be talking about not just trade adjustment assistance, but--generally not just those that were dislocated by trade.

A much bigger part of the problem is the dislocation caused by the domestic economy.

MR. NESSEN: E.J. Dionne, last but not least. The only reason I waited until last to call on you was, I thought we'd get some of this factual and historic out before talking about the politics of this issue.

Let me introduce the politics by asking you this: Senator Baucus gave what I thought was a really thoughtful talk. We've had this, so far, civilized and informed discussion. Now, when this issue gets raised on the campaign train, why isn't it thoughtful, civilized and informed?

MR. DIONNE: Well, it may be thoughtful and informed, but not civilized, is probably the answer.

I just wanted to say, when Harris Miller was talking about how great it would be about getting a BMW when you graduated from college. I was looking at my intern, Sierra Ferguson [ph], who smiled, and she wasn't smiling when Jared about how hard it is for people about to graduate from college how hard it will be to get jobs. And I could imagine she was thinking, oh, to have graduated from college five years ago.

And I think that's part of what's going on here is that there is a strong perception of how different the economy is now from what it was five years ago.

Second, I should admit a bias. I grew up--at the risk of sounding like an infinitely less eloquent John Edwards, I grew up in a factory town, called Fall River, Massachusetts, which was, first a textile town, then an apparel time. And we were accustomed to hemorrhaging first to the south and then overseas.

So, I tend to look at these questions from the point of view of places where this whole trade story that you'd typically hear here is not heard in quite the same way. And I think for good reason. And I think that's is wy this debate is so heated.

There was a narrative on trade that was told in the 1990s, and that narrative had a lot of promise in it. And the narrative said that, look, we're going to lose these jobs--the kind of jobs that were lost in my hometown--but everything's going to be okay, because if everybody gets job training, if everybody goes to college, then they will find all these great higher-level jobs that will be secure and that will lead to a higher standard of living.

And a lot of, you know, people--parents who never went to college worked very hard to send their kids to college, because they wanted them to be in these secure jobs.

Suddenly, we are in a circumstance where that narrative is breaking down. And where people and I commend, for example, the Time magazine cover story this week, which I think was a very honest accounting about how this issue is playing out in the country.

Suddenly, you did all those things. You said, oh, my old blue collar job isn't going to work out the way I want. So, I'm going to get retrained, I'm going to go to college and I'm going to go into these other professions.

And then, suddenly, you wake up and discover that, well, those jobs aren't very secure, either. You could have been making $70,000, $80,000, $100,000 a year and there were a lot of really smart people who live in places like India--India in particular--who are ready to do that job for a whole lot less.

So, the whole bargain which was never lived up to in the first place has suddenly broken down for a whole new class of people. And they, it's obviously, you know, you can argue that it's hyped. But I'm not sure it's hyped in this sense. I think there's some questions that need to be answered.

For example, I don't think the issue is just will jobs move. What I'm interested in is in the question of will most of the good new jobs be created somewhere other than here? And how do we understand that? Because it's not just job loss, it's seeing all this investment go abroad and Bill and I have talked about this--and he'll argue about the benefits of foreign investment into the United States.

But that's a very scary prospect. If you're looking down the road and you say, that, well, we have this recovery, but the investment that's promised isn't coming here.

Also, it's the question, and Bill alluded to this of what a strange recovery this is. There was a very good analysis by Goldman Sachs, hardly friends of Marxism, and, you know, Goldman Sachs, I just want to read a passage. It says, "what distinguishes this slump in employment is its length; it took about six months for employment to show significant growth after the trough of the 1981-'82 recession;, about a year after the 1991 recession;" and it goes on to say "2 years for manufacturing; this time around it is almost two years and counting."

And, so, I think that the argument about outsourcing is also an argument about anemic job growth. And that voters, I think, very legitimately are asking why is this happening and how can this anemic job growth--you know, how can anemic job growth be turned into robust job growth?

And the last thing--and we can--I just want to be brief here. The last thing is there is a sense of a fundamental unfairness. The old line, "this is all good for us in the long-run" John Maynard Keynes famous line, "in the long-run, we are all dead."

Who benefits in the long-run and who gets hurt in the short-run? And, again, I admit freely, my forewarned bias. But I think it is a fundamental issue. It's a lot easier when you have tenure at a university to make an argument that, well, this whole complicated robust process is very good for the economy. But you don't have to sit there and worry about losing your job.

I think we really have to address--and some of what Senator Baucus said about health care is important; some of what he said about strengthening community colleges is important. But we really have to address much more directly than we've been willing to, who pays the cost for this transition? Is there an unfairness about the way the costs are being apportioned? And I think there is. Some of it random, some of it not so random. Some of it regional. Is there an unfairness.

How can those who are being hurt by these changes, be fairly compensated? In other words, let's assume for the sake of argument that free traders are right.

Let's assume this whole process is, in the long-run, good for the economy. There are short-term problems and for an individual, a five-year short-term problem is a big chunk of their lives. And I think we really need to start saying, what are we going to do about that? How are we going to address that.

And, lastly, and this is where--I guess I'd close with a question to the learned economist here. I asked to go last because I thought the learned economist should talk before an unlearned noneconomist--You know what is the cost to global growth over time, if we are building a machine that continually pushes down wages?

I mean one of the miracles of the sort of post-New Deal post-World War II economy is that we created economic growth over a very long period of time by increasing the well being and purchasing power of masses of people. It was a kind of, if you will, popular economic growth.

What's going to happen to growth, not only here, but in the rest of the world, if we have actually created a system that is designed to continually push down wages?

And the last point I would make is, you know, when you get into these discussions, there is always a great danger that somebody sounds like a protectionist who wants to keep living standards in the Third World low--we want to preserve those jobs for us.

Well, no, I think the issue here is how do you increase living standards, number one. But number two, it's very easy to sit in the think tank and say this whole process is very good for people who live in India. And I want India's living standard to rise. But, again, at whose cost is that process happening and how do you rectify--how do you create some justice out of what will inevitably be a very dynamic set of economic processes?

MR. NESSEN: Well at this point, I think we want to have a more general discussion among the panelists. And then, also, save some time for audience questions.

To get the panel discussion going: Let me pick up on two questions that E.J. raised and they are, simply: How long is the transition period, if we're in a transition period? And how long is the long-run? Lael?

MS. BRAINARD: Let me just jump in on a few things on that issue. First of all, the issue here, really is one of redistribution. I mean, I think that is what--when you talk about the dark side of the dynamic capitalist system that we live in and the one important distinction that I would make between the questions that E.J.'s asking--where I come at it from is that somehow we tend to segment trade and technological innovation.

But the reality is technological innovation creates as much redistributive chaos and anxiety and transition in people's lives as trade does and it's very difficult.

MR. DIONNE: Not that much, many, many times more.

MS. BRAINARD: It's very, very difficult to disentangle those two things. But the reality is we are in a market capitalist system, which has been described for decades as creative destruction.

It's creative, but it destroys. It destroys the livelihoods of communities, of certain sectors, of certain workers. I mean, we all know that there are far fewer bank tellers today than there were even 15 years ago. Was it because Indians took their jobs? No, it's because technology took their jobs. As Harris was saying, you walk in any factory floor, it's very difficult to find people anymore. The rate of productivity changes has been breathtaking.

And that creates a tremendous amount of dislocation.

But the difficulty I think we have here is we're addressing that dislocation. And, in fact, policy at the national level is going in the opposite direction. The majority in Congress, the folks in the White House, we are, right now at a point where they don't want to extend unemployment insurance, they've been cutting, retraining assistants over time. Community colleges which is where most of that retraining takes place are being cut.

And we are also in a position where our fiscal recklessness is leading to a trade deficit that, in turn, has enormous consequences on the protectionist front.

There is a host of things that we could be doing, which we are not doing. And some of those things are the ones that Senator Baucus put out. He put out a very positive agenda, I thought, both in terms of making sure that our workers have the best environment in the world to compete and succeed in. But, also, in starting to address the social safety net issue. The reality is, our workers don't have the same kind of cushion in this economy that they would have if they were in almost any other developed economy.

And no wonder they're as nervous as they are. They don't just lose their jobs, they lose health care, they may lose their pension benefits, and from what we know about trade-dislocated workers, they often cannot find work at the same wages.

Even if we're not talking about jobs, we are certainly going to be talking about a squeeze on wages.

And just one closing thought on that. If you look again at this recovery--and Jared was alluding to this--one of the other things that sticks out in this recovery is the share of income going to profit is much larger than in any other previous recovery that we can look at. Which suggests, again, that where the squeeze is taking place is on wages. And we don't actually know what offshoring right now means for wages. Is it going to push down the skill premia that have been widening over time? Is it going to lead to greater dispersion within the service sector? This are questions we really don't know right now. But I think it's very important to get out there with a proactive agenda. Because otherwise we're going to try to be putting Band-Aids on a problem that will do much more harm than good.

MR. MILLER: Just a couple of comments. First of all, E.J., I know John Edwards, and you're no John Edwards. I too grew up in a steel town. And I, too, worked my way through college by working in a steel mill. But that was then, and this is now.

A couple of points just in terms of remembering times past. I just finished Bob Ruben's book, Lael's former colleague in the Clinton Administration. His first day in office, he's sworn in the White House. And the first issue he has to deal with is the Mexican problem. The Mexican collapsed economy. And he first calls all the people up on the Hill and says, will you support this bail out after the President says--

and they said, oh, yeah, Mr. Secretary, we're with you, we're with the President. And as soon as the congressmen and the senators get back to their districts and hear how terrible it is that the United States taxpayer should be bailing out Mexico, virtually every single politician turned around and attacked the Secretary and attacked the President. And that was time of a strong economy, low unemployment.

So the idea that there was some golden age of political debate in this country where the American people and the American politicians thought that these issues were not controversial, is simply not true. Even during the height of the economic boom, when we had the debate on H1Bs and I was very involved in that issue. I'd still go up to the Hill and get beaten up by congress people about how we're taking away jobs from Americans, blah, blah, blah. So, I'm not sure, there's ever been a golden age of globalization where somehow in the political rhetoric it didn't get very extreme.

To go to the specific issue that you raised, Ron. Let me talk about short-term and long-term. Just from the IT industry's perspective. I had a retreat with 15 of my companies about a week and a half ago, one of our planning retreats. And for the first time in three and a half--and these are primarily IT services companies. And for the first time in three and a half years, I heard the word good and business in the same sentence.

Now, you know, I don't want to over promise. I'm not talking about macro-level unemployment rates. But companies were telling me--mid-size and larger companies--that they're hiring recruiters and they're hiring more sales people because they think that the customers--and a lot of these are IT staff supplementation firms or project management firms--they think their customers are ready to start spending money.

The IT industry, after three years of really taking it in the shorts, had a good six months at the end of 2003, it looks like we're headed for a good '04.

So at least in the short-term, I think we're seeing some very positive glimmers of hope. And that's both domestically and globally.

But in the long-term, I don't think this is ever going to end. Because IT is transformative. And it's transformative in a positive way. We had these debates 15 years ago. Does IT matter? We had these debates 10 years ago. Does IT matter? Finally, in the mid-'90s, it became clear. IT does matter. IT matters in a fundamental way in terms of transforming our jobs; in terms of transforming how we work; and transforming how we do government; transforming how we educate.

And one of the transformative factors is these productivity increases, which means the jobs, as Lael said, that existed many years ago, simply don't exist today and they're never going to exist again.

So, I don't think it's easy to expect in any medium- or short-term that you can make predictions. Even if, I'm right and in the short-term we still--we start to see unemployment come down and many more jobs created in the IT industry, and I'm very optimistic about that, again, I wouldn't want to be Pollyannaish about it.

There's still going to be these fundamental transformative factors going in. Things like grid computing. It probably doesn't mean a lot to a lot of people in this room, but if you think about grid computing and what it means, which means you use all these hundreds and thousands of computers distributed around and use all their computing power, it means you need a lot less computers. Which means you need a lot less people to make computers. And a lot less people to produce software.

Let me tell you one last point. People worry about call-center jobs going to India. I understand the concern about it. But Congress and the FTC passed the do-not-call list. That eliminated more call-center jobs in the U.S. than will move to India even on the worst-case scenario in the next ten years. And yet everyone in the room stood up and applauded when they passed the do-not-call list, my wife being number one.

So we do make these value trade-offs all the time. No one stood up on the floor of the Senate or floor of the House and said, well, what about all the call-center workers who are going to lose their jobs because they can't call you four times during your meat loaf dinner and ask you if you want to buy insurance or siding. It just wasn't a value that we were willing to consider.

So, we have to consider there are lots of complexities in this. It's not just, gee, India or the Philippines or South Africa.

Final point: Every country in the world wants to compete with us. India's getting all the attention right now. Because, frankly, they've figured it out before anybody else. But at the end of the day, India exported $7 billion of software last year. Big number, IBM did $90 billion worth of business worldwide, one company. And 40 to 50 percent of that business was done outside the U.S.

We need to put all these numbers in a little bit of perspective.

MR. DIONNE: Can I do 30 seconds on something you said?

MR. MILLER: Of course.

MR. DIONNE: Because I just want to agree that trade issues have been a big deal for a very long time. I remember a story of, when Bob Strauss, who was President Carter's trade negotiator became his Middle East negotiator, a New England congressman went up to him and said I hope you do better by the Middle East than you did by the New England shoe industry. So, this is an old problem. But I think it gets aggravated at certain moments. And why does it get aggravated? It gets aggravated when you don't have the job growth. In the '90s, you're right about Mexico, but, in truth, these issues weren't as sharp in the '90s, because people looked around and said there were what, 23 million jobs created in that period. So, people looked and said, there is a trade-off here that might work out okay for me.

What you've got now is a sense of stagnating or declining income combined with an anemic job growth and the process is supposed to create what happened in the '90s, that's the promise, when it doesn't live up to the promise, people challenge the process and I think that is logical and sensible.

MR. NESSEN: Jared, you wanted to say something?

MR. BERNSTEIN: Yeah, I want to say, I mean, respond to your question, Ron. How long is the long-run in this context? I think one of the reasons you've got so much anxiety and why this is such a real problem, is because--and it's been alluded thus far--white collar workers are looking over their shoulders at blue collar workers and observing the kind of experience that they've had.

For blue collar workers displaced from the manufacturing sector, the long-run has been really long. We've been running unbalanced trade deficits now for well over a decade and we've been losing manufacturing jobs over that period at a very accelerated rate only recently.

And here's the key. For blue collar workers, with the exception of a few years in the latter '90s the economy wasn't particularly inviting. So, the long run for them lasted for about 20 years, with a few-year exception when we achieved full employment. Full employment, by the way, that you can potentially connect some of the dots between some of the trade practices at we engaged in; lower prices; the ability to grow more faster; maybe some of the productivity gains that we experienced. But the long-run has been, you know, really that long for some of those workers. And that's why these concerns, I think, are so well-founded.

You know, E.J. asked a question that is really a fair--you know, it sounds like, you know, a regular question. But think about it, you know, he said, will we--you know, one of the big questions here, will we create good new jobs? Well, in the mind--and in the very great and sophisticated mind of Greg Mankiw, when he talked about this, that wasn't a question. Because the assumption in this thinking is that you are at full employment, you are balanced trade, and the jobs that you displace are eventually replaced by better jobs. It's not a question of will you create good new jobs. That's an assumption.

And that's an assumption that many people are not too comfortable with. There's also the case that we've talked about, you know, the winners versus the losers. Now this is a point that EPI's Josh Bivens likes to make and that's that, you know, it's never been the case as part of this somehow trade theory that the winners will--there'll be more winners than losers. That's just simply not what the theory says. That's not what reality shows. What the theory says is that the winnings will be greater than the losses and

I think there's something to that.

But the question is, you know, how will--as Lael alluded to--how will the winnings be distributed?

Now, my contention, and it's a finding from a book that we wrote called "The Benefits of Whole Employment," that when you are not at full employment, the benefits of faster growth are not broadly shared. And we've got a decade and a half of evidence from the late '70s to mid-'90s to prove this. And a half of decade of evidence that it makes it even more the case when we finally achieve the accelerated growth rates and faster productivity growth in the context of full employment in the latter '90s the benefits of growth were broadly shared.

So we can do all the great growth and have all the great trade leading to all the great growth that you want, but in the absence of full employment, it's not going to amount to--it's not going to meet the promises that free traders would like to suggest it does in terms of its distributing.

Now, you know, the point here, then, so what's full employment? I'm very much with Bill Dickens on this. It's much closer to 4 percent than what the congressional budget office tells us 5.2 percent. And so, if we can't achieve full employment, the benefits of growth, I think will continue to plague this debate and hold back living standards of too many of our workers.

MR. NESSEN: Bill did you have something to add?

MR. MILLER: Yeah, actually, four quick things: One, where are the jobs going to come from? This is something we hear over and over again. Where is the sun going to rise? We create 500,000 jobs in this country every week. I mean, that's what those turning numbers mean, that's what that 300,000 layoffs a week means. We're constantly creating new jobs. Are they good jobs or are they bad jobs? I haven't done this exercise recently, but when we did it at the Counsel of Economic Advisors back in the 1990s, actually at the end of the last recession, what we came up with was you had these two contradictory stories. One was, that if you looked at new job creation by industry, it looked like we were creating all the jobs in low-paying industries. If you looked at job creation by occupation, we were creating all the jobs in high-paying occupations.

When you put the two together, it turns out they sort of average out, but it generally tends to be that we're creating most of the jobs in the low-paying industries, which tend to be service industries, but in the higher-paying jobs, the managerial, the professional, the creative jobs in those industries.

It'll be very interesting for somebody to do that study again today. My bet is that we find that the same thing is happening today that was happening back then. Which gets us to this question or gets us to this issue that Jared raised, which is that the problem isn't trade, it's aggregate demand. The problem is that we're not at full employment and we need better policies to get us to full employment and the one thing that I think has been most badly mismanaged in the past Administration has been the fiscal policy.

If we design the tax cuts to do what we want them to do--create more jobs, rather than to put money into the hands of Bush campaign contributors, I think we'd have a much higher level of employment today than we do.

Third thing, I don't want to leave people with the impression that wages are falling in general in this economy or overall that we've had a long-term growth in productivity and historically, wages have followed productivity very, very closely. That link has been broken, as Jared shows, in the last six month, year or so.

MR. BERNSTEIN: Year.

MR. MILLER: Year--but historically and, you know, I'll eat my words if a year from now this we aren't back on track. As soon as we get close to full employment again, I expect to see wages start growing and to catch up with productivity growth.

We've see that over the long-haul, these changes in labor share which would be necessary for this not to happen, tend to be transient and they tend to vary over a very small range. Maybe there's been a big change in the economy, maybe it's the case that labor share is going to be falling now because of these reasons that have been suggested with having to do with trade and changes in the orientation of management, but I doubt it.

This is a long-term, very tight historical relationship. I'd be very surprised to see the change.

One thing that E.J. mentioned, though, that I thought deserved some special comment.

MR. BERNSTEIN: Could I just say, you're talking basically averages right?

MR. MILLER: Yes. There are certainly big distributional issues, I mean, as you guys have, I mean for the big chunk of the '70s and '80s, the people who were seeing those average wage changes were all at the top of the income distribution. And trade played some role in that. I don't think there's any doubt that the change in the distribution of wages had something to do with trade.

And now we may be seeing that going back the other way. We may be seeing the distribution being getting compressed, because if what's going on is increased accomplished in the top. But I--more important, there's one thing that E.J. raised and it actually has--it's something that economists typically have not addressed. And I think they need to. And that is the fact that trade impact is very disproportionate across space.

That we can point to places in South Carolina--and it's not just trade--but, in general, that there are a lot of this creative destruction that the economy creates has geographic impacts. And most economists have considered aimed at geographic areas to be a bad idea because they think you should treat the people and not the areas.

But we've seen consistent poverty in a lot of areas, long lasting. And I think that it's time to start thinking seriously about some geographically-based development policies as part of the package of dealing with this structural adjustment.

MR. NESSEN: Let me throw out one more issue and then we'll save the rest of the time for audience questions.

It seems to me that if you listened to Senator Baucus's speech, listen to this discussion and even listen to the discussion on the campaign trail, it's all about how to ease the plight of the displaced workers during this transition period; how to retrain workers for the jobs of the future and so forth.

You don't hear very much talk about protectionism. You don't hear very much talk about repealing NAFDA or revising WTO treaties and so forth. Is that a misapprehension on my part, or is that right?

MR. MILLER: I think, unfortunately, it's starting to come, Ron. I think you, I mean, when presidential candidates start using terms like Benedict Arnold CEOs and do it day in and day out, I think that shows that the dialogue has gone in the wrong direction and I'm hoping that it will calm down now that the primaries are over and the Democrats aren't trying to prove who's farther to the left. Maybe the debate will come back to the middle.

MR. DIONNE: But Harris, would you agree that Kerry's policies don't really reflect, you know, this Benedict Arnold language?

MR. MILLER: I understand, but it's just that the rhetoric has accelerated. Now the question is what do they actually do in action.

The other point I wanted to make was that several people and E.J. kicked off, where do the jobs come from?

The iron ore of the 21st century economy in the United States is people, it's not something you can touch and feel, it's people. It's their brains, it's their ideas. I don't know whether it's going to be nanotechnology, biotechnology, information technology, better transportation systems. I don't know what that is. But it's all about have the smartest and the best-trained people, both work force and--people in their work force already retraining, people in college, people younger.

When we rank our high-school students against the rest of the world in math and science, we come in 17th. Against countries that--

MR. BERNSTEIN: But that's why a lot of the jobs are going to India. In other words I agree, well, you know, if you want to talk about education and all of that, that's true. The problem is you've got a very different economy in the world now and I think one of the reasons we're having this debate is, you're looking at India, which will have, easily 100 million, really smart, able, well-educated people who are suddenly in competition with our people in a way that did not exist before and that's only India.

The world is going to be full of very smart people, so lots of countries are going to have the same iron ore. And the reason we're having this debate in the United States is that we have not been accustomed--you know, we, you know, there was this, almost, you could say an elitist assumption in the '90s, they'll do all those bad jobs and we'll keep all the good jobs. Well that's not true anymore. And I think that's why this debate is coming upon us. Because people are realizing this really is a different circumstance.

MR. MILLER: Well, it actually helps me in my lobbying. When I go up to the Hill. I used to go up to the Hill, I'd say we need for money for R&D, we need for money for research--we need the R&D tax credit. We need more education and training. And the congress people would pat me on the head and say, what are you talking about? The IT industry's exploding, we're going to help these dying industries. We're going to help the textiles and the steels and agriculture. We're not going to help you guys, you guys are so successful. And I said, well, look about global competition. Don't bother me, Harris, go away, we're fighting today's battles, we're just saving the dying industries.

People like Senator Baucus, what you heard today, I think was, he wants to save our future industries not that he's ignoring the other industries, don't get me wrong. But I think what he's saying is if we constantly focus only on the industries, which we clearly are at a competitive disadvantage, and don't take care of areas where we can compete E.J. and I think we can compete, with these other countries. But we have to be able to compete.

When China and India and Taiwan and Korea put billions of dollars into training their people to compete in a global, intellectual, capital economy and we're spending money subsidizing agriculture and having steel imports, something's gone wrong.

MR. BERNSTEIN: A quick point--oh, go ahead Lael.

MS. BRAINARD: Yeah, I just wanted to come back to Ron's question about the presidential campaign, what we've seen so far because I think it is very interesting. The folks who have been out on the campaign trail, day after day, are meeting people who say, I lost my job; I lost my health care; I'm trying to put my kids through college so that they can have the American dream, and I no longer can even hold that out to them.

And what is remarkable to me, really, is that this issue did not become a more politicized, more ideological issue. I mean you have Senator Kerry out there with a fairly robust, positive agenda. Many of the same things that Senator Baucus was talking about today. But not looking at the quick fixes, not looking to some of the Band-Aids out there that I think many of us think really won't make a big difference. And being thoughtful about the interconnections between health care; what's going on in our tax system, which is taking the tax burden off of capital and moving it onto labor. And seeing how those whole sets of policies are affecting American competitiveness; the American manufacturing sector. And, ultimately the American services sector and jobs in that services sector.

So, what I've been struck by, frankly, having heard the real concerns of people out there, is how restrained this debate has been so far and it'll be interesting to see what will happen as we go into the general election, whether this issue will continue to really push itself onto the candidates as a very pressing issue.

MR. BERNSTEIN: Ron--

MR. DICKENS: I just wanted to say that I'm not so sure the debate has been that restrained, I think that there are some code words that get used which in some contexts are very protectionist. Those who want to require labor standards in trade treaties mean something relatively innocuous, or they can mean enforcing prohibitively high minimum wages on foreign countries such that they won't be able to compete with us.

Talking about renegotiating trade agreements can be something relatively innocuous or it can mean that we're going to put unreasonable demands on people and create an environment in which trade agreements break down and we can revert to protectionist policies.

I think there have been some strains of relatively strong protectionism in some of the Democratic debates, but I don't think--I think that Senator Kerry has set himself apart from that and I hope the debate is moving more away from trade protection as an answer to these problems.

MR. NESSEN: E.J.

MR. DIONNE: I mean, there is a protectionist strain if you think that renegotiating NAFDA is protectionist and there is that talk. But, you know, I just wanted to say briefly and, you know, I think it's about questioning whether the global market looks the same in 2004 as it did in 1994. And I think that's a legitimate question. I think the Benedict Arnold CEOs business goes a lot to what Lael talked about, the shift of the burden--not only the burden in the economy, but literally in the shift in the tax burden from labor to capital.

And the Benedict Arnold CEOs is in large part about people who were artificially offshoring their companies to escape an awful lot of taxation. And so that's one piece of it where I think, again, that's a very legitimate debate to have.

And the second is, whether the tax code provides the same kind of incentives to create jobs at home as abroad and how do you re-examine that. And there's a real debate about how you should do that. But I think it's legitimate to say, maybe there are incentives that we have created that accelerate a process that we don't particularly want to artificially accelerate, which the tax code can do.

MR. NESSEN: Jared.

MR. BERNSTEIN: I'm not worried about protectionism, mostly in the same spirit as other panelists have mentioned, Lael and E.J., in particular. But I do think that there is a strange kind of dissonance around this education and training comments in this discussion.

I very much applauded Senator Baucus's comments. And we've all talked about education and training. But I don't know if people are really wrapping their heads around how high the education and training bar has to be in what we're talking about.

I mean, I think it Mankiw used the example and said, look, if they can do radiology, more cheaply than we can, then we have to do pediatrics because you can't offshore that. Now, that's a very different kind of training debate than what we've typically talked about in these very walls at Brookings, which is let's figure out how we can give people coming off the welfare rolls the soft skills they need to make it into the labor market. And we've had a pretty time, really pushing that agenda very far and have had some success but questionable. So you're talking about a training agenda that is so far beyond anything we've contemplated.

And if you look in the President's '05 budget, what you will see--the closest you'll get to this is see money, $250 million for community colleges, okay? Now, that's not the kind of medicine. I mean that may be a great idea, it may be useful seed money. That's certainly not the kind of medicine that's going to address the problems we're talking about here.

So, I hope that once this economy picks up speed and we start adding jobs that we really stick with developing these ideas in a much bigger way than we have thus far.

MR. NESSEN: All right, last word from Harris and then we'll bring the audience in.

MR. MILLER: I just want to say, I finally found something I can violently agree with Jared about.

You know, I don't want to sound that I'm hard hearted about people coming off welfare getting into the workplace that's a great goal. But what we found over the years is, virtually every one of these programs ends up going almost solely to there.

For example, several years ago ITAA tried actively to get our member companies involved in the work force investment boards, which are the boards at the local level which distribute these training grants.

And we said, go there because you can get some money to help retrain your workers. And our companies would go there and they'd be totally dominated by the hospitality industry and the fast-food industry. And they owned those [inaudible] they made sure the money was used to teach people how to tuck in hospital corners and how to flip hamburgers. And they said well, we need somebody for IT retraining and the [inaudible] said, no, no, no, your people can take care of themselves.

They can't take care of themselves, if you're 35 years old and you've been making a decent living as an IT worker and your company goes belly up for whatever reason, offshoring or whatever, you probably don't have $50,000 or $100,000 sitting in your bank account to go out and get retrained.

And so, our focus for a long time has been, how do we also take care of those--it shouldn't be an either or that you don't take care of people who have very low or no work skills at all. It shouldn't be an either or.

There are literally billions of dollars of taxpayer money out there going from the federal level, as well as money from the state level, but we have to also take care of people with middle skill levels when they get into this turmoil that everyone's been talking about and not just worry about people at the lower end.

MR. NESSEN: All right. We'll bring the audience into our discussion now. Raise your hand and be recognized, and then wait for the microphone to get to you, and if you wouldn't mind identifying yourself. We'll start over here.

PARTICIPANT: Ms. Brainard, this is a question for you. To great fanfare, the Bush administration or President Bush rolled out his initiative for space exploration, and it's been about six weeks, and I haven't heard much about it. I'm not privy to what was inserted in the president's budget for the outyears, but I'm curious, structurally, what those sorts of vision things hold for the economy, for like my children 20, 30 years from now.

Do you see parallels between that, and the late '60s and the space race then? Is there a potential for the vision thing to help build new economies or build new technologies?

MS. BRAINARD: Well, let me, I am not an expert on the manned space program. Maybe Harris can chime in, in a second.

My understanding of the manned space initiative is that it's inspirational, there's a lot of kids out there that want to become astronauts, extraordinarily costly, mind-bogglingly costly, and the benefits, in terms of scientific spillovers to our economy, to our private sector, marginally, over what would be the case with an unmanned space program is absolutely zero. So you're spending a huge amount of additional resources for economic benefits that are marginally no different from a much cheaper, both in terms of blood and treasure.

The other thing that worries me, and this is a more general comment about the fiscal situation. Brookings just put together a report called, "Restoring Fiscal Sanity." Anybody that's interested in the fiscal situation. I really recommend it to you. Belle Sawhill and Alice Rivlin did it together, along with several of us, including myself.

But what it pointed out was just how dire our fiscal situation is becoming and also the extent to which the environment surrounding fiscal discipline has deteriorated. And the manned space program is a perfect example of that. Ten years ago, five years ago, when we still had budget process rules, nobody could have proposed something like that without showing how we were going to pay for it.

And what's going on now in terms of our budget submissions is those rules have gone by the wayside, and as a result we're kind of sort of at a leisurely pace driving off a budgetary cliff, which is really going to hit us in 10 years when the baby boomers start retiring, and we're doing it with our eyes open and with a pretty good sense of ease about it.

So my concern on that is not so much the specifics of the program, which I don't know as much about, but what worries me greatly is that the current budget environment doesn't have that hard-headed cost benefit inserted into it by requirement.

MR. MILLER: Let me come at your question somewhat orthogonally, and this is not an advertisement. On March 22nd, we're having a webcast featuring Dr.

Vince Cerf, now at MCI, but probably, as most of you know, is one of the co-creators of the--one of the real co-creators of the Internet, along with Dr. Robert Kahn.

And Vince has been working for several years, in addition to his responsibilities at MCI, at the JPL on the Mars project in Internet protocols for intergalaxy--not inter--interplanetary communications. And I notice when Vin introduces himself and mentions it to people they laugh because they think he's kidding, and he has to make sure--I said, "Vin, you've got to tell people this is serious."

Well, he's going to do a webcast because this does have terrestrial applications. It is a cutting-edge technology, which will enable the United States perhaps to come up with a new version of the Internet protocols, which will give us global leadership in the next decade. Now, that doesn't relate to the issue of manned versus unmanned, and Lael probably knows a lot more about this economically.

But I do think that programs like that, in terms of creative ideas, when you get people like Vin Cerf, and the Jet Propulsion Laboratory, and the private sector, there may be some spinoffs that have nothing to do with putting a man on Mars at all, but may bring some terrific new opportunities.

PARTICIPANT: For a second, I thought it was going to be a question about outsourcing to Martians.

[Laughter.]

PARTICIPANT: I just want to basically identify with what Lael said. What struck me, I went back and looked, the first President Bush had almost exactly the same proposal on Mars. The rhetoric was excellent. It was very similar to this president's rhetoric, and I'm wondering, I think there are potentially--and I'm like Lael, I don't pretend to know lots about this, but of course there are great potential spin-offs from this sort of investment, and is the massive extra investment to send a person to Mars, as opposed to simply do the exploration worth the money?

And while it would be perfectly nice to have a human being on Mars, I'm not sure it's worth, at this moment, the cost of doing that.

MR. NESSEN: Next question? Gary?

MR. MITCHELL: Thanks. Gary Mitchell from the Mitchell Report.

I think what I want to do is try to frame this question and preface it by saying that on the one level we're here talking about jobs and the performance of the economy. On the other hand, it seems to me, looking at the political side of the equation, the real stuff out there that politicians are dealing with is something much larger than that, for which jobs are, in some respects, really kind of symptomatic, and that is, and I think I'm coming back to E.J.'s question that he asked earlier about not so much where will the jobs come from, but where will the growth come from.

I think that I just wanted to sort of link some things that have been said here today. One observation was people are the iron ore of the 21st century. And in some ways there's an interesting slant on that which is I think that is one of the things that's happening in the job market is I think of iron ore as a commodity, and I think people think of themselves as a commodity these days in the job equation.

Second, Lael talked about tax policies that protect capital and not wages. I would just throw in, at this point, that we are living in a country where the gap between CEO pay and average worker pay just grows unconscionably and is so out of whack with virtually every other country.

All right. Where is this going? It seems to me the question is, on one hand, we could focus and talk about jobs. On the other hand, we could talk about whatever this is that's happening and ask ourselves, the question is larger than what are we going to do about jobs and where is the growth going to come from? It's can we sustain the kind of democracy that we've had if trends of the sort that we're seeing now continue?

MR. NESSEN: Bill?

MR. DICKENS: Well, yeah, at least I don't--because I don't see that the trends that we're seeing right now are any different than the trends we've been seeing for the past 30 or 40 years. The changes that have been taking place in the labor market, if anything, go exactly the opposite of the direction from what you're talking about.

If there was ever a time when labor was a commodity, it was when Charlie Chaplain was working on the assembly line. And those assembly line jobs are gone, and what tends to be happening is the jobs are being turned into jobs that require people to think, and people to do many different things, and people to be creative. That's the direction that the occupational structure has been moving in for the last 100 years.

And is there anything different about what's happening in the last 10 years or 5 years that would make us think that that is not the direction that the United States economy would be going in the future? I don't see it. If there's some Call Center jobs can be moved to India, if some programming jobs can be moved to India, something has still got to be done in this country to pay for that work. We've got to sell them something. And at some point they're going to get tired of taking our Treasury bills, and that's another problem, and that gets back to the deficit issue.

But what are we going to be doing? We're going to be doing what I think we've shown that we can do best: management, marketing, design. Those are the sorts of things that are the growing industries.

PARTICIPANT: Can I ask a question on that which is are we looking at an economy where--and I'm making up these numbers. There is some correct number--where some significant number of Americans, say, two-thirds, will live in the very economy you are describing, but that we will have a growing number of Americans living in, if I may say so, having already referred to Edwards once, the other economy, where you will have a large number of people kind of falling into a situation where they cannot, for various reasons, some of which having to do with discrimination or family circumstance or lack of it, you know, the problems in the education system, where you're actually going to have a gap between that two-thirds and one-third.

So that the majority, some kind of majority of us may do fine, but the number of us who fall into that other economy, who really are still in a position to compete, to use that language as commodities grow, is that an unrealistic fear I guess is what I'm asking.

MR. DICKENS: That's a, no, I would say that that's--and Jared probably is the person more to answer that question than me.

Jared, tell me if I'm wrong--

MR. BERNSTEIN: Yeah--no.

MR. DICKENS: I'd say that it looked, for a good chunk of the post-war period up to about 1970, we'd expect that things were going exactly the opposite direction, that the bottom was being pulled up by the changes that were going on, we were looking like a more and more homogenous society.

From '70 through early '90s, the economy was pulling apart, it looked like there was this underclass that was getting more and more pushed down or held constant while the rest of the society pulled away for a fair amount of time.

In the late part of the '90s, it's weaving back together again, and now I think it's anybody's guess as to whether these new changes aren't going to perhaps push us even more together as opposed to as to pull us more apart.

I mean, if the main impact of all of this is to put more educated labor into competition, then I think that's probably going to push it together.

PARTICIPANT: Could I ask one other question related to that, and I really don't know the answer, but let me look at it from the micro level of my companies and what I hear all of the time, is I certainly believe the data you've got about wages and how they have changed over time.

But what the companies will tell you is the issue that Senator Baucus made, which is a huge difference between now--is health care costs, and particularly for mid-sized firms that are just getting clobbered, and it's becoming a bigger and bigger overall component of their costs.

And so when you look and you match wages to wages, that's nice, but then suddenly your health care provider comes in and says, "15 percent," and if you're an IT staffing company, and you make your money by taking talented people and putting them on assignment at AT&T or IBM or Bank of America or wherever you put them, and they're facing cost pressures, and meanwhile you're health care costs, you're--India is about the, I mean, you've got to think about India because you're really stuck between a rock and a hard place because they don't want to hear about your problem with your health care costs.

They just say, "I can't pay the same labor rates that I used to pay" or "I'll pay the same, but you have to be twice as productive."

So I just ask the economists. I don't know the answer to that, whether in your studies of wages if you also factored in the fact that health care seems to be--this is impressionistic--seems to be getting to be a higher percentage of the overall labor costs, and we're starting to look like Germany, where wages are an important part of the cost component, health--cost component of labor, but beginning to be a smaller and smaller cost for the companies.

PARTICIPANT: And there's no question that health costs have risen, and relative to wage and salary component of compensation they have risen quickly over the past few years. It's probably one of the things that's also dampening hiring. But, you know, it's late in the day here for our meeting, but we've stumbled on a really important question which is will the growth that we're talking about now be equalizing or disequalizing. Will we grow together, as we did, say, the '40s through the '70s, where the incomes of each quintile just about doubled or from '75 to the mid '90s, where the benefits of growth flowed hugely to the top and were very largely concentrated.

Now, one of the things that Lael and Bill both alluded to is quite an interesting wrinkle in all of this. If you lay on a huge supply of skilled labor from other countries, this could actually compress the college-high school wage differential, right? Because it's a supply shock to the wages of college graduates, and so you could perhaps have--

PARTICIPANT: A good thing?

PARTICIPANT: I think that's not the way you'd want to equalize the--

MS. BRAINARD: Reducing inequality from the wrong direction.

[Laughter.]

PARTICIPANT: That's the wrong way to reduce it.

PARTICIPANT: A trudge to the bottom.

PARTICIPANT: But wait, let me finish. Let me finish. Let me get through this because I also want to get to a point that E.J. raised as a big question for the economists, what does this wage strategy do to growth?

See, in the latter '90s, one of the things that contributed to the virtuous cycle that was going on right then was wage-led demand growth. The growth was broadly shared throughout the economy. The bottom quintile was growing just as fast as the middle and maybe a little bit slower than the top, especially the very top, but that's capital gains and bubbly stuff going on up there, but that kind of broad-based demand grow this very healthy for a recovery, and it's one of the reasons why the current recovery is not self-sustaining yet.

This is a recovery that's being fueled by a sugar high coming off tax cuts and mortgage refinancing, nonlabor, I mean, labor income is nowhere to be seen in this recovery if we don't achieve wage-led demand growth of the type that we had close to full employment, I don't think this recovery is going to have many legs at all. So I'm nervous about the prospects you've raised.

PARTICIPANT: Let me throw out, from a myopic view, a redistributed factor that we're in love with in the IT industry, just to get my plug in, which is stock options. I know it's a bad word. I know there are lots of corporate scandals around it, but I just got from another three days in Silicon Valley. For them, it's a religion. This is how they make sure that everybody benefits. And I know it's not popular, and FASB has somehow gone up on Mount Sinai and come down with the Ten Commandments, one of which is get rid of stock options or make them expensive, but I'm telling you, one indication of how important stock options is, is China companies are going to stock options because they want their employees, up and down the line.

Now, the Enzi-Reid bill says the five top employees, the CEO and president, would have to be expensed, and we in the IT community are willing to sign-off on it, but I'd hope that Jared and others worried about redistribution would at least know that in the IT industry, we think stock options is to make sure that everybody wins in the company, and forcing companies to expense stock options is not very helpful. End of political plug.

PARTICIPANT: All right. Just as long as you let your stockholders know what the real costs are, which means expensing stock options.

PARTICIPANT: It's in the footnotes.

PARTICIPANT: It's in the footnotes. Well, put it in the earnings per share that shows up on Yahoo.

PARTICIPANT: I had to try.

PARTICIPANT: Ron is compensating us for being on this panel with Brookings stock options.

[Laughter.]

PARTICIPANT: You know what nonprofit stock options are worth.

MR. MILLER: Mine are worth the same at ITAA.

MR. NESSEN: Lael, we'll give you the last word.

MS. BRAINARD: Well, I think it's been a very good debate, generally. I mean, the one thing that I think we come away with is this is not fundamentally, solely about this narrow set of issues around what's going on in trade. This is really about a broad set of issues about what is going on in the U.S. labor market and with U.S. wages.

And I think that the concerns there are very real, and the questions that people have been raising today are hard questions to answer.

We are just starting to get data on some of these issues. So some of these very difficult challenges out there are things that we don't fully understand yet, but my sense is that as we go into the election, I would be very happy to see a very serious debate about this set of issues and about the distributive issues that have been raised today.

MR. NESSEN: Lael, thank you. Thank you Harris, and Jared, and E.J. and Bill, and thank you for coming. Lots more information on this topic on the website at Brookings.edu.

[Applause.]

[Whereupon, the proceedings were adjourned.]