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Deficit Reform: Resolving Uncertainty and Promoting Innovation:

Moderator:

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Chairman, President, and CEO
Procter & Gamble

RALPH SCHLOSSTEIN
President and CEO
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MR. BAILY: All right, should we get started again? Either I'm losing my vision, or that clock is way off. But I'll use my watch.

Okay, so if everybody could come in from coffee and sit down, we'll get started on our second panel. And we're delighted to welcome a really terrific set of panelists: Lew Kaden, Vice Chair of Citi; Maya MacGuineas, who has been one of the most stalwart leaders here in Washington on dealing with debt problems, and is now involved in, or leading the fix-the-debt campaign; Bob McDonald, who is the CEO and President of Procter & Gamble; and Ralph Schlosstein who's the CEO of Evercore -- so, really, terrific, group.

Let me just give a little bit of context, at least while everyone's filing into the room. I'm Martin Baily. I'm with the economic studies program at Brookings.

If we cast our minds back to the 1960s, the 1960s, obviously, was a troubled decade politically, but economically, growth was pretty strong -- productivity growth was strong, economic growth was strong, unemployment was low -- for really almost all of that decade. And then that was followed by, I don't know if you'd say a "lost decade," but much more difficult period economically, in the '70s and the early 1980s. And the thing that hung over the economy at that time was inflation. We just couldn't seem to deal with the inflation problem. And so, we had the deep recession in '74, '75. We had another recession in 1980. We had another recession in 1981, '82 -- so a double-dip recession.

And then, finally, Paul Volcker, who was Chairman of the Federal Reserve, and his colleagues decided the whack the economy over the head really hard, and take the inflation out of the system. And finally it did, although it took awhile -- it wasn't really until the fall in oil prices in '86 -- but we really got rid of the inflation demon and, I think in some ways, laid the groundwork for the period following that in the 1990s, when we had strong productivity growth, we had strong markets really starting in the mid 1980s.

So the analogy in my mind is we have this deficit that's now hanging over us and, for some of the same reasons, it's a really hard problem to solve. It lacks a Federal Reserve, so we don't have the equivalent of an actor like Paul Volcker who can come in and say, "Okay, we're going to tackle this problem. And this is unpopular, but we're going to do it." Instead, we have, obviously, the decision being made by Congress and the administration, and the two different parties, and we're just caught up in the political gridlock trying to deal with this very difficult problem.

Now, even if we had sort of unity of purpose, it still would be a hard problem to solve. We are still in the process of recovering from a really deep recession that was brought about by the financial crisis. There's still a lot of slack in the economy, so from, you know, a standard economics, Keynesian, if you like, we still want to get more demand growth in the economy, and so fiscal consolidation goes in the wrong direction, in terms of getting us back to full employment, but clearly it is necessary over some time-horizon, because the deficit path really is not sustainable that we're on.

So, we need to sort of deal with the deficit but not kill growth.

Now, this panel is part of our Growth through Innovation, as you've heard several times. And I do want to mention one sort of hopeful note along with the problems that I've just outlined.

There are a set of folks -- Bob Gordon, Tyler Cohen, and I think there are others -- who sort of say, "We've seen the end of growth. No more innovation, no more growth. Now we've got just to sort of settle down and deal with the fact that we're not going to have any more growth." And I think the evidence is really strongly against that. There is, in your pack -- and I'm doing a little bit of a plug here -- James Manyika is a senior fellow, external senior fellow here at Brookings, as well as a director at the McKinsey Global Institute, and he and I are working on a project, with the support of others, looking at this question of what are some of the game-changers, what are the ways in which we can get innovation, and, actually, as we get out of this mess on the deficit and the recession, really start to get stronger growth in the economy.

And the thing that's really needed, the thing that we didn't have in even the first seven years of this century was sort of innovation-driven, output-driven growth. We had a lot of restructuring productivity, but we haven't really had, for some years now, real output-driven innovation and growth, and that's part of what we're looking for, and part of what this project at Brookings, and working with the McKinsey Global Institute, is what we're looking for.

So that's my plug. That's in your -- some beginnings of that are in your packet.

All right, now let me turn to the panel. And I'm going to turn to you, Lew, first.

Now, how do the responses to this budget deficit, and the reforms, and what's going on, how do they impact the broader economic policy challenges as you see them from your vantage point, having sort of ridden the roller coaster of this recession?

MR. KADEN: Thank you, Martin. Let me just make two or three points on that.

First of all, it's obvious to anyone who's followed these debates in the last year or so, or watched events in Europe, that political uncertainty is the enemy of economic growth and investment. And we've seen the effects of that on the pace of recovery in the United States, and we've seen it even more, in start relief, during the last year, in Europe.

At the same time, the dynamic qualities of the U.S. economy, also when contrasted with Europe and other parts of the world, suggest -- and demonstrate on a regular basis -- that notwithstanding the political uncertainty, there's a great deal to be optimistic about. There are a good many positives when you look for signs, in terms of the prospect of a faster pace of growth and recovery, if only the political uncertainty were changed by progress on fiscal balance.

And those signs are more apparent every day. If you look at the positive changes in different segments of the housing market and housing finance, notwithstanding remaining challenges, if you look at the pace of recovery in the auto industry, a market with 14-1/2 million unit sales last years, and the prospect for more this year, notwithstanding the overall economic conditions in the country still in a slow recovery, is very encouraging. And I think most important of all, you see the dynamic qualities of the entrepreneurial and venture community in this country, and contrast that with the lack of any counterpart in Europe, you see tremendous benefits, has always been a source of -- the entrepreneurial spirit has always been a source of strength in this country in comparison to others.

And it's in stark relief today, as the venture community spreads from its concentration in California to more and more metropolitan centers around the country, and the strength of the capital markets at every level of private and public capital-raising is very positive. And even in the jobs market, which is the most stubborn negative in the picture of the U.S. market, as you saw in the discussion of the last panel, there's a good deal to be more optimistic about in the revival of manufacturing jobs and the increased productivity, and the re-shoring, and the other issues that were discussed.

But the bottom line is that confidence is everything in patterns of investment, as indeed it is -- as I know only too well -- in international services and banking. And at the moment, confidence levels remain low, and that's a discouragement to certain kinds of investment.

The levels of liquidity or investment standing on the sidelines ready to be put to use are very high across the business community and the financial community in the U.S., and the spotlight is on this town, and whether our political leaders are capable of resolving this.

Now, also on the positive side, I think, while many of us would have preferred a broader framework -- and there will be more discussion about that from the other panelists here, as well as from me -- the practical reality we know, we can dissect why that was, and why they missed an opportunity when it came down to 24 or 48 hours and were able only to deal with the tax issue, but for the most part that's history at this point.

And the fact that they were able to do that is, at least, a step forward. It added, as you know from the summary of the state-of-play that the President gave yesterday in his lengthy press conference, it added $600 million to the billion-four of spending cuts that had previously been enacted and put into effect in the last two years, and the interest savings on top of that come to a total overall of 2-1/2 trillion over the 10-year period that we all have gotten familiar with as the measurement period for deficit reform. And 2-1/2 is not all the way to the target of 4 that almost every independent group has adopted as a reasonable way to stabilize the debt in relation to the growth in the economy -- you can make an argument that a little more, or a good deal more, would be helpful too. But 4 trillion over 10 years is not a bad target, and 2-1/2 is a fair bit there.

And so we move to the next chapter, which promises to be messier, uglier, nastier than the first one. But I think there is some room for optimism, because as we saw the first time around, I think, after the election, both parties at the leadership level recognized and came to a conclusion that it was in their interest -- in their political interest, longer term -- to resolve this.

That doesn't mean that they like each other. It doesn't mean, necessarily, that they communicate effectively every day. It doesn't mean that the process is neat and clean. But it's a fundamentally important starting point. If the politics can be neutralized short term, which is very difficult in our government, I think it remains true that the four or five people who count the most have come to a conclusion that it's in all of their interests to resolve this.

So, my own view is to be a bit on the optimistic side as we go into the next period.

However, to put in the context of broader economic policy challenges, as Martin's question did, I would start with the proposition that necessity does not equal sufficiency. Deficit reform is critical at the moment. We all know that. Everyone talks about it or writes about it on a daily basis. But it's not sufficient to meet the economic challenges we have, because the fact is, we have a fiscal deficit, but we have many other deficits, some of which were discussed in quite effective fashion in the last panel. So I'll just list them for now and we can go back to them later.

We have an education deficit. We have a skill-development deficit that is closely related to education. We have an infrastructure development and repair deficit of enormously important proportions. And you need only look at the experience of other countries coming out of the recession, including countries with very different political systems than ours, to see the close relationship that infrastructure investment and development has on the likelihood and the pace of recovery from a severe global downturn.

We also have, if not a deficit, an important and urgent need to address the issue of energy independence -- an opportunity that more than ever before is sitting right in front of us ready to be advanced in the United States in the next year or two. But, again, it requires leadership and initiative in Washington. And immigration reform -- again, a subject that was discussed before.

One more word, finally, about the process. And for this I kind of go back to a much earlier part of my life as a professor of law at Columbia. And one of the subjects I taught every year was negotiation -- negotiation in a variety of contexts, from international to commercial, from transactional to labor-management disputes. And I came out of that experience, and the practical experiences accompanying it before and after, believing that it's a mistake to keep score on a daily basis in difficult negotiations, especially in the political environment where each participant has multiple constituencies to which they're accountable in some fashion and paying attention to.

And so, you take the last few days, we're clearly in a state of play that involves positioning. And, we can be critical -- it's easy to be critical -- about why. That's kind of the reaction that everybody always has in a labor dispute: "Why can't they just get in a room. They know the range of substantive outcome. It's not a secret, it's not hard to find. Why can't they do it this afternoon?" And similarly, on observing events in the fiscal negotiations, everybody looks at it and says, "Well, why can't the get those four of five people around a table in the Roosevelt Room this afternoon and resolve it?"

The substantive outline has always been there. It's been there in every public and private group. It's been there in every private conversation with small groups of members of Congress from both sides. It's not elusive. The details can be complicated, especially on issues like health care costs, but the broad outlines of a resolution of these problems are not hard to define. And we know that if we look at the results of the discussions in the summer of 2011, or the results of the discussions in December. It was barely 100 or 200 billion dollars over a 10-year period separating the principals, but they couldn't quite bring it to a conclusion.

I think it's preferable not to keep score that way, not to look at "They like talking to each other," or "Why haven't they met more often in the early stages?" -- but, rather, to see this as a messy process that's going to unfold over the next six, eight weeks. And the important thing is whether they get to the finish line this time, not how -- it's unfortunate we have to go through that process. It will take its toll, in terms of economic activity, but the price of not reaching an agreement is far more significant than that process.

So I take some heart, once again, in the fact that in every conversation I have with anyone who matters more than most of us do in this process, they see both political and national interest advantages to their side of the debate in reaching a resolution. One has to hope that they do in a timely fashion.

One final comment, I think probably all of us would agree -- and at some point in the future we'll get a consensus on this in the political process -- that the debt ceiling has no rationale place in this. The President addressed that yesterday. But the fact is, playing Russian roulette with the U.S. economy, and the well-being of our population, has no place in an honest debate about how much spending should be cut, how much investment should be made to address these broader economic and social deficits, and how to resolve this and get on to other parts of the national agenda. Sooner or later, I think, the Congress and the President will agree.

We saw approaches to this in Senator McConnell's comments in the last couple of weeks and, obviously, in the President's. The key control is in the authorization and appropriation process, and the ability to pay those bills, through either revenue sources or borrowing ought to be attached to the decision to spend, not used as a point of leverage in broader and more important negotiations.

MR. BAILY: Thank you, Lew. Can I just follow up -- and I don't know if this is a little bit of a tangent, but I think I just want to ask you, because of your position in the financial sector -- you say that uncertainty is holding back recovery, and I agree with you completely. Do you think funding is also?

I mean, we know that a missing piece of this recovery is business hiring and business investment. The large businesses generally have fairly favorable access to capital markets, but a lot of small and intermediate businesses do not. Do you think lack of funding -- and is this a legacy of the recession? Is this something that's come out of the financial regulation? Or -- do you see that as part of the problem also?

MR. KADEN: Yes, I tend, unlike some of my peers and competitors, not to put much weight on regulatory -- all of us have specific issues, definitions, that we would do differently, and opinions that we voice every day. But the core elements of the regulatory reform that are common around the world, I think were necessary, coming out of the experience we had in the reform, and should not -- so long as the playing field is level the U.S. institutions will be strong and capable of responding to that.

On the funding issue, I think it's a question that has more parts to the answer. Our capital markets are very strong. Those borrowers who have access to them, larger enterprises, have multiple options to choose from in funding investments that they choose to make, assuming they're credit-worthy. And the same is true of bank lending, particularly for larger enterprises. The major banks have stood by their large customers, systematically, through the crisis, and certainly in the recovery period.

The problem comes in, as you go down the chain, through medium and smaller enterprises, and as you get into households, where the experience, particularly in housing finance and consumer finance, we're in a transitional period where we haven't yet figured out what takes the place of the consumer-finance industry, which has been largely destroyed. It's a decent business, and you can see examples that have survived. There are basic decisions to be made about how much it should be regulated, and how much it should be supplied by a shadow financial-service part of the industry.

And in the middle, in smaller business, small and medium-size business enterprises, the financial system is weaker.

MR. BAILY: Yep.

MR. KADEN: There's less capacity coming out of the crisis. There's a credit deficit in the community and some regional banks that, again, is a serious public policy (inaudible) to address in the next couple of years.

MR. BAILY: Thank you.

Maya, we want to get your perspective both on the short run and the long run, but let's start on the short run, because we are right in the middle of this mess -- or at least we've sort of avoided the fiscal cliff. So, how do you see things evolving over the next couple of months? And are these going to play out?

MS. MacGUINEAS: Okay. Well, if anyone knew how things were going to play out, I would be thrilled to know that answer, because it is one of the more confusing moments.

But let me just start by saying, sort of, it's a moment which feels like there's an awful lot of good news and an awful lot of bad news. And I think as your conference today is focusing on the overall economic picture, and the pieces that go into really fueling economic growth and innovation, there is so much good news to be had. There are so many different ideas that we have when you're sitting in a think-tank, where so many of them are developed, about what can help with growth. And our country is in a very good position to use those and really have a very positive outcome.

If, one, the whole fiscal issue sort of feels to me like it's kind of sad to be involved in an issue, feels like this, but it's the issue that feels like it's gumming up the wheels of everything else. And right now, there's basically no oxygen left for any other issues. So as we want to think about education, and immigration, and energy policy -- this one is going to have to get resolved in one way or another before we can kind of go back to the exciting ideas that can lead to the next waves in the economy.

And the other one is the political environment, where we actually -- oh, sorry--

MR. BAILY: Now, I can't blame the audience --

MS. MacGUINEAS: Ignore that. It's really hard to ignore it, but we're going to do it.

So, the other piece of it is the political environment, where we have the ability to fix the situation. We basically know what the fix is. We know that you need a comprehensive debt deal that's big enough to stabilize the debt. And I think we all remember the period when we were actually trying to balance the budget. We're not there. We're not going to be there anytime soon. But you certainly want to make sure the debt's not growing faster than the economy, and that it's actually put on a downward path. And we know that the problem is so big that, to accomplish that, you have to look at every part of the budget. You have to look at defense spending. You have to clearly, and focus on, look at health care costs, which are growing faster than the economy.

We have to fix our Social Security system which makes promises that are bigger than what we can pay out down the road. We have to raise revenues. We've started down that path, but what we haven't done is look at how to do it while overhauling the tax system -- which, when you want to raise revenues, you can do it in a way that's bad for the economy, or you can do it in a way that's good for the economy and helps increase competitiveness, and modernizes our tax system.

So, we kind of know what the answers are. We're going to fight about the specifics of all of them, but we know what a big deal that would fix the problem would look like. But we don't know at what point the political system is going to be willing to make all of those choices which are difficult, compromise on both sides, and sort of put this issue to rest so that we can go back to fighting about all the other things that we're going to fight about.

But I think the fact that you can see what the policy solutions are, and that we're past the era of kind of pretending this doesn't matter, but everybody recognizes the threat it puts out there in the economy, in that you can't possibly imagine real growth coming without a sense of stability that would come from knowing what these changes will be, so that you can have planning, so that you can have investment, so that you can have job creation -- all the necessary pieces of moving the economy forward.

But, you know, the big wild card is when people are going to be willing to make these tough choices, instead of using them to kind of fight in the normal political boxes.

What do I think is going to happen next? It's already off on a different path than I would have thought was the best. If you think about prospect theory, which basically says when you're delivering good news, you want to do it in lots of little pieces -- like, first, you want to tell someone that they've gotten a promotion. Then you want to tell them that they've gotten a raise. Then you want to tell them that they got a bigger office. And each piece of good news is good, and makes people happier.

If you're doing bad news -- and just think, if you're waiting for an airline and it's going to be delayed -- you just want the bad news in one big piece. And that's true of so many things, I think it really applies to a budget deal, which is what we're doing is we're breaking out the way that we're going to fix the budget, and we're doing it in little pieces. We had some savings early on, a couple years ago, in continuing resolutions. We had some savings that came out of the Budget Control Act. We talked about the sequester, which I think is not likely to hit, although it's starting to look like they might leave that in place for awhile. But when the Super Committee failed, sequester was put in place. We just raised tax rates on the well-off.

So, we're sort of doing this in pieces. Each one is a bloody political battle. Each one leaves the parties, instead of kind of declaring victory, more angry at each other than they were before, making it harder to do the remaining harder policy pieces.

So we know what we have left, right? We have to deal with health care costs, which, the truth is, we don't know how to fix the system in its entirety. We're going to have to keep looking at ways to control health care costs to get in control of our costs in our government programs and Medicare. And we're going to have to go back and do this every couple of years. But we have to study what works, and then we have to put more of the policies that are working in place.

We have to deal with our other entitlements. Social Security reform is an incredibly contentious issue in this country. It's always a political tough battle. But the longer we wait to make these changes, the more difficult it is for the people who depend on these programs. There's no question about that.

And we have to go forward with tax reform -- which is great, when you talk about it broadly, because we all the tax code is a disaster. None of us like the tax code. When you talk about the ability to broaden the base, lower the rates, and raise revenues, that's a pretty good system. It's pretty desirable to think about how to reform the tax code. But there are a lot of tough things in there. When you start talking about the specifics, or the fact that we need to deal with the home-mortgage interest deduction, or the health care exclusion, or state and local taxation, then it gets more difficult.

So what we've done is we've done the easiest pieces. Capping discretionary spending is easy. You don't even have to talk about a single specific policy. Taxing the 1 percent is pretty darn easy. Even if you're in the 1 percent, it's not the hardest thing in the world. But it's going to take more than that to fix the problem.

Now what we have left is the hardest parts. And so it's how we're going to unravel those next bits.

So, clearly, the next piece is going to have to focus on entitlement reform. That's the biggest fix that has yet to be addressed. We have three action-forcing moments coming up in the next couple of months: the sequester, which they extended for two months -- and it has broad-based, across-the-board spending cuts, which is just the wrong way to do policy. Some of those spending cuts might need to take place, but you don't want to put them all in place abruptly, because we're dealing with a very tepid recovery. You want to phase in all of these changes gradually. And you want to pick and choose. And you want policy-makers to pick and choose, instead of saying, "This is too hard. We're just going to let an across-the-board cut go in place, and not do our jobs," which really is unforgivable as the way to make these policies.

Second, you have the debt ceiling. It is the wrong thing to hold the country hostage. It is also going to be a play. We know there's going to be fight over the debt ceiling.

In the past, the debt ceiling was kind of a speed bump that reminded folks that we were borrowing too much and we needed to make changes. It could be a useful reminder -- not if it goes as far as where people really start to worry about the faith of the U.S. Government, and it starts to do economic damage, which is what we saw last time.

The third piece is the continuing resolution, the fact that government spending is going to expire.

And the sort of the triple witching hour of these three issues is another kind of fiscal cliff. And the question is, is it going to force action with the hardest pieces that are still remaining? Or, the fact that when it when it came to the fiscal cliff, they still, for all intents and purposes -- listen, it's good we didn't go over the fiscal cliff. It's good we raised some revenues. But we basically punted. We did what we always do in Washington, which was we punted all the hard choices, and they sort of tried to declare a bipartisan victory. But it wasn't there.

And so the question is, what's going to make these next action-forcing moments more effective in getting us to really take on the policies -- and this was part of your question -- that will deal with the necessary savings for the next 10 years. But just as important, or perhaps more, put the policies in place that are going to bring savings down gradually over time in the next 10 years. Because it's the long term that really is a threat to this budget. If you look at any of these charts -- this chart -- I probably should have brought something better than that -- but the (inaudible) spending line --

MR. BAILY: We get the idea.

MS. MacGUINEAS: -- over time, I mean, it's the growth in spending that come from health care, our aging of our population, interest, because we're borrowing too much -- which really blows up the budget. And making gradual changes now, whether it's through fixing the way we measure inflation, or promising to gradually raise the retirement age down the road, those kinds of small savings that compound -- wouldn't save you so much money in the short or medium term, but do an immense amount of good in terms of bringing our long-term imbalances back into place.

And so the question is how you can help the political system, which is not in great shape, be forward-looking enough that it's willing to make a lot of those changes now, which will do a great amount of good down the road.

And I am -- it's hard to be overly optimistic right now. The fiscal cliff deal could have been so much better than it was. I believe these changes will happen because they have to happen. And we are the luckiest country in the world dealing with this, because of the gift that markets give us, as us being a safe-haven, of us having more time to put these changes in place than any other country. We don't have to do them quickly and abruptly. We can say we're going to do them, and start them down the road, which buys us more time for an economic recovery.

We'd be so foolish to walk away from that opportunity to do this in an easier way, by waiting until markets push us to, that I just hope, and I continue to believe, that we wouldn't do that to ourselves or the country. We'll make these choices in a way where they're in advance and they give us some planning room.

But the truth is we've already waited longer than we should have. The political system is willing to focus on whether it's the next election cycle, or partisanship, instead of sort of the public interest, has already taken an economic toll on what could have been. Because the bottom line is, not only do we have to put these kinds of saving policies in place, we have to be thoughtful about how we do them. And when we're talking about spending, we have to think about how we not only bring spending down, but we readjust it, and re-prioritize it. Right now our budget completely emphasizes consumption instead of investment. We need to turn that on its head.

And when we talk about revenues, there's no question that, with an aging population, you're going to have to bring in more revenues than you have in the past. But if you do that in the same outdated, anti-competitive tax system, you're going to choke your economy. And yet, if you used this opportunity and were really bold about the tax reform that we need on both the individual and corporate side, kind of open up our economic system to a globally competitive system, you can do this in a way that's actually good for the economy.

So we have hard choices to make, and we should give ourselves the time and thoughtfulness to actually put the policies in place that both deal with the deficit, but also help, in addition, to adding stability of knowing what's going to happen in terms of promoting economic growth.

MR. BAILY: Let me pick up on one piece of that, around health care. As you know, government spending on health may not be necessarily the biggest cause of the deficit right now, but if you look out 20 years, 30 years, it's the alligator that's going to swallow everything.

I was on a panel last week, and there was a lively argument around should we raise the age for Medicare? Should we just try to change the system and move away from fee-for-service? Has the Obama administration actually done a lot to lower the cost of health care going forward so we don't need to do much more?

What do you guys think is, in practical terms, what needs to be done on health care? Because it's a really unpopular issue. I mean, if you poll people, they say, we don't want to cut Medicare.

So where do we go in dealing with that piece of the puzzle?

MS. MacGUINEAS: Yes, that reminds me how, when I was in graduate school, I went to graduate school to study fiscal policy, and it was right around the time they balanced the budget. And I thought, oh my gosh, now what am I going to do? You know, jump-changed careers, and now the problem is solved. And so I realized the long-term problems were still there, and I had to make a choice whether to study Social Security or health care. And it was easy. Social Security is easy. So I jumped right into becoming Social Security expert, because health care is so hard.

Now, that's not to say that I haven't been studying health care over the past years, because there really is no other issue at the core of all of this. And the problem is that we don't know the answers. And the best thing that we can do right now is to be putting in place as many different attempts to control health care costs and evaluating what works.

So we don't know whether the new health care reforms have worked yet or not. We've seen health care costs coming down, and that could be in anticipation about what's to happen. That could be temporary and it could be permanent. So one of the things in all of this, in fact, is better data, right? Gathering the information, analyzing it, and then figuring out what's working and doing more of it.

I think one of the important things that happened in the changes that we just made were the exchanges on health care. That does give you the room to put in an increase in the Medicare age which you wouldn't have had before. That would have been very devastating to a number of people before. Now, because we have health care exchanges, it certainly makes sense as a policy to think about increasing the retirement age for Medicare so at least it lines up with Social Security.

As we're living longer -- we all know this -- the huge health care costs aren't the biggest one right now because the costs of aging are the biggest costs right now. And it's an incredible cost on society as we're aging as we are, and we need to find productive ways to keep people who can in the workforce longer. So, creating those incentives is certainly an important one.

But I think the bottom line with health care is that the most important area is in the incentive structure, and the cost-sharing structure, and how we set up the delivery system so the incentives in the delivery system, and the incentives for the consumers of health care -- none of them make sense right now from just any basic economic perspective. And we need to switch those.

And you can do that while protecting people who depend on these systems, and not shifting the cost to people who cannot afford it. But if you have a crummy incentive, payment incentive, incentive structure, you're going to have a crummy system. And while that's not going to fix all of it, that's certainly one of the biggest starts.

MR. BAILY: Let me turn to Bob McDonald, who is, as I said, the President and CEO, Chairman and CEO of Procter & Gamble.

Can you tell us a bit -- you have a very successful company. You've got a lot of operations in the U.S. and around the world. What do you see as some of the most important growth-promoting strategies that can be followed here?

MR. McDONALD: Thank you, Martin.

I'd like to talk about two important components that I think are important for economic growth-promoting strategies. The first, which has been discussed already in some length by our panel, is addressing our deficit trajectory so that our public debt doesn't crowd out our private investment. That will require reforming the entitlement programs -- as Maya and Lewis have already talked about -- because they're the primary drivers of the spending growth. And if we don't get them under control, they won't be secure for future generations. So that's critically important.

The second thing -- and I, I think, equally important -- is improving our country's global competitiveness, and doing that through free and fair trade, as well as through a more competitive and comprehensive tax reform, as Maya was referring to.

The recent Congressional action on the fiscal cliff is a short-term fix. It avoided us falling off the cliff and sending the economy into recession, but it really failed to address the larger issues affected the deficit, and also the economic competitiveness of the United States. And those of us who run global companies obviously care very deeply about that.

Preserving the opportunity for comprehensive and revenue-neutral tax reform is critical and very important to creating pro-growth tax law that will enable American companies to compete effectively against companies that are domiciled in other countries around the world. We need a level playing field. We don't have a level playing field today. The United States has the highest corporate tax rate in the world, and also the United States is one of the few countries in the world with a system that is called a "global" tax system, rather than a "territorial" tax system.

During the 113th Congress, we're going to continue to advocate for comprehensive tax reform that broadens the base, that reduces corporate tax rates, and that moves to a competitive territorial system. Procter & Gamble pays income taxes in over a hundred countries around the world. Business tax reform should provide a level playing field, so that each business has the confidence and knowing that it pays roughly the same amount of income tax as its competitors in markets, both and abroad.

In terms of deficit reform, the obvious problem that must be addressed is the fact that currently the United States has been spending at a rate that far exceeds the rate of revenue that we're receiving. This situation often occurs during recessions, as the lagging economy produces less revenue from income and payroll taxes, while government spending programs continue to expand. The longer-term problem isn't related directly to the recent recession, despite the unprecedented amount of fiscal stimulus through new government programs. For example, some economic literature suggests that when a country's debt-to-GDP ratio exceeds 90 percent, the country's long-term GDP growth rate, structurally, slows down. Now, this adversely affects everyone's potential standard of living.

The U.S. deficit now exceeds 100 percent of debt-to-GDP ratio. So we already may be experiencing the initial impacts of extended deficit financing.

The longer-term problem is, to a very large extent, the product of key entitlement programs that are an important part of the nation's safety net for the elderly. Slowing the growth of spending in the nation's entitlement programs can help make these programs secure for current and future workers. And we think that's very important.

By 2035, there will be only two workers per beneficiary. And a typical 65-year-old retiree will have about a 50 percent longer retirement than occurred in 1995. So this is a very serious issue. Currently, the Social Security retirement is a pay-as-you-go system that provides more annual benefits than the payroll tax collects. If left alone, this eventually will lead to insolvency, particularly with the rapidly increasing number of baby boomers who are retiring every day -- as was referred to by Maya and Lewis.

While there's neither the time necessary today, nor do I have the programmatic expertise necessary to suggest specific solutions, it's important that the Congress and the administration analyze acceptable methods to assure that these programs can be available to future retirees. Reforms can and must be adopted that don't undermine the benefits of current retirees or, obviously, they won't be accepted.

Medicare and Social Security retirement programs and benefits must be preserved for the millions of Americans who are now participating in the workforce. It can be done. And if we act sooner rather than later, we'll have an easier chance of getting it done.

In terms of innovation, innovation has been the core to Procter & Gamble's success over our 175 years of doing business. We spend about $2.5 billion a year on research and development. That's 40 percent more than our next largest competitor. We spend about $400 million a year on consumer research, trying to understand the unarticulated consumer needs that we can design products to solve.

Innovation is our lifeblood. It's the primary way that we accomplish our purpose of touching and improving lives. And innovation is what prevents commoditization of categories. It's what helps us reduce cost, it's what helps us deliver products that are affordable for consumers around the world. And we serve over 4 billion consumers every single day.

Over decades, our company has demonstrated the capability to innovate, consistently, reliably, and successfully. We've got a robust multi-year innovation program in our core business, and we've increased our focus on discontinuous innovation -- think of that as innovation of wholly new categories that haven't been thought of before, such as when we introduced Swiffer as a way to quick-clean your floors or blinds. Or think of discontinuous innovation as Tide pods, our new single-use laundry detergent that can be put right in the machine, that's the most concentrated form of laundry detergent available today.

We transfer innovative ideas around the world, and that leads to growth around the world. For example, this pods technology that we've invented, we're now in the process of expanding around the world, and that's leading to jobs overseas, because our plants have to be near the consumers we're trying to serve. We can't export a Papers disposable diaper from Mehoopany, Pennsylvania, to China and make money on it. So we have 150 factories around the world.

But, nevertheless, that business that we do internationally results in jobs in the United States. Twenty percent of our jobs in the United States rely on international business. Forty percent of our jobs in the State of Ohio, our home State, rely on international business. So that international business, and being globally competitive, is incredibly important to the growth of our company, and to the growth of the economy in the United States.

We have the world's best global companies in the United States. But right now we're putting them at a disadvantage with our tax policy, with our fiscal policy, and with many of the things that I've already talked about.

Thank you.

MR. BAILY: Thank you.

I actually agree with you strongly that we have to do a tax reform, and we can't have taxes that make our companies un-competitive. And I agree with you that we've got to reform entitlements, and bring down the cost of entitlements.

But as a leader in the business community, you have a bit of a PR problem, don't you, in selling that message? So I'd like you just to sort of face that a little bit.

How does the business community sort of frame its message to be part of the debate about what to do?

MR. McDONALD: Well, I think any American who knew that we had the highest corporate tax rate in the world -- second to none -- would agree that that's probably not a good idea, particularly since, you know, the American people are the workers in our companies.

It gets back, I think, Martin, to global competitiveness. Having the highest corporate tax rate in the world is not globally competitive. Having a worldwide system that prohibits U.S.-based multinationals -- and we have the best ones -- moving money from one country to the other, or even moving it back to the United States to make an investment here, and having to pay double taxation on it, that's not a level playing field. And I think we want our American companies to have a level playing field with the international companies they compete with.

It's interesting, I was in China not too long ago, and I'm the Chairman of the U.S.-China Business Council, and the government of China was asking our help to help them understand how to create globally competitive companies. And they were asking American companies, American CEOs, to help them create globally competitive companies. I think we need to reform our system to allow our companies to be competitive, before international companies, who have advantages given to them by their government and by their systems, become fierce competitors.

MR. BAILY: I'm involved at the moment in a project on financial regulation, and one of the things we're looking at is do we need to change the architecture with the different numbers of regulators. And I was told that the Chinese are in the process of setting up their regulatory system, and they came to the United States and said, well, should we do it the same was as you do it? And I think we said, no --

MR. McDONALD: No.

MR. BAILY: -- maybe not.

SPEAKER: I'm sure Ralph wants to talk about that one.

MR. BAILY: Ralph, you're really part of a very -- part of a private equity company, investment company. What do you see as the significance of this fiscal debate for innovation in the U.S., and the economic performance here in the U.S.?

MR. SCHLOSSTEIN: Well, I think -- I agree with a lot of what has been said, and I think this whole fiscal issue centers around the competitiveness of American business and American companies, and American production in the global economy. Because we can't go back 10 years or 20 years and hope that, one way or another, through trade protection or other means, we will insulate or protect our businesses or our workers from winning globally.

And so the only path to America winning economically is that we create a regulatory environment, and a tax environment, and a competitive regime here in this country that actually allows our businesses and our workers to win in that global competitive game at the moment.

Now, we have some extraordinary assets in this country. We have a highly educated and motivated work force that, in many respects, outperforms -- not always out-educated, but seems to outperform, from a productivity point of view, workers in virtually every other country.

We have the most efficient capital markets in the world. Our companies have the lowest cost of capital of any companies anywhere around the globe. It was alluded to earlier; we have a spirit of entrepreneurship and innovation, and a capitalist system, and commitment to a capitalist system that is really the envy of virtually every other country in the world. And we also have, increasingly -- it was alluded to in the earlier panel -- and have always had, very strong natural resources, but with shale oil, shale gas, and the incredible strength of our agricultural industry, we have great natural resources, as well.

So there's a lot to be bullish about in this country, in terms of our economic opportunities. But this fiscal deficit, our fiscal policy, is an enormous cloud, or "retardant," on us reaching that potential. You know, I work in the investment banking industry. I used to be in the money management industry. And there's a phrase that sometimes gets applied to companies, and you would say about the company, "Good company, but bad capital structure, and maybe bad management, as well." And that was used to describe a company that had, you know, great products, highly motivated workforce, was winning in the eyes of the consumer or whoever the purchasers of their products were, but they maybe had too much debt, or they had a management team or structure that just didn't take advantage of the enormous opportunities that they had in front of them.

I think we're perilously close, in this country today, to the phrase, "Great country, but with a bad balance sheet and a bad managerial structure." And, you know, that is the core of the fiscal issue that we face here in this country today.

And why is that a concern? Because if we don't address this, we will be effectively prevented -- just like an over-leveraged company is -- from making the investments in, you know, infrastructure, in education, in R&D, that are the key to us winning 10 years from now, 20 years from now, 30 years from now, and which ultimately are critically to sustaining a high level of growth and a high level of employment in this country.

And we'll do a second thing, which is even, in some respects, more venal, we will saddle our children and our grandchildren with the responsibility for paying off or paying down the debts that we incurred because we wanted a level of government, but were not prepared to pay for it, that level of government.

And so this is a really critically important thing. And as I think Maya and Bob said, and Lew as well, I haven't met a single, you know, Democrat, Republican, even Socialist -- we have a couple of those in the Congress, as well -- or Independent who doesn't have a pretty clear idea of how this should -- what the answer is. And it's very frustrating for, I think, many of us who don't spend a lot of our time in Washington, that we're not getting to the point where it's so clearly we need to get.

Because if we don't get this behind us, there are three, you know, massively important issues to addressing our competitiveness: corporate tax reform, individual tax reform, and entitlement reform. And if we don't get a big start at addressing our fiscal issues, I think we're going to miss an enormous opportunity to address all three of those issues.

Let me just close with one comment -- and Lew referred to the importance of confidence in, you know, growth, and investing. And, you know, you run a business, like Bob does, and you have the uncertainty of the fiscal cliff, and the uncertainty about the direction of the economy, it makes you a little bit more cautious about investing, it makes you a little bit more cautious about hiring people, because if we actually do go into a much weaker economy, then you have to reverse course, and you have intense pressure on your earnings.

So, this whole issue of, you know, confidence in our government structure, and confidence in the ability of Washington to address these critically important issues is pretty fundamental to, you know, our economic growth, and to the success of the real economy. And, certainly, it gets reflected very quickly in the capital markets. But we saw in July and August of 2011 that a sloppy job here in Washington has pretty profound effects on the performance of the real economy.

And, you know, hopefully -- I mean, I must say, I look at some of the discussion around the debt ceiling discussion, around the debt ceiling extension, and I share Lew's view that, you know, this is really the height of irresponsibility, that we're sitting here discussing whether the United States should default or not on its debt -- which is debt that has been incurred as a result of spending that has been approved by both bodies of Congress and signed by the President of the United States.

I mean, there are 535 members of Congress. I assure you that not a single one of them, if they were confronted with a credit card bill that they didn't like, would simply say, "I'm not going to pay that," because they know that the implications for their credit rating, the access to future bank loans, would be affected for 10, 15, 20 years. And so it's kind of appalling that we're sitting here discussing whether we would do that with, you know, this country that we're all so incredibly proud of.

MR. BAILY: Let me -- my last question -- try to be a little bit provocative here.

There are folks like Alan Blinder, a very well respected economist, Peter Diamond, Nobel Prize-winning economist, and -- I'm blanking -- the *New York Times* economist Paul Krugman, who is clearly identified on the left but is quite influential. Now, they basically say you're just seeing the problem wrong. We've got to get this economy going again. If we could get the growth, we need demand, we need growth, we need to do something about our infrastructure, we need to spend more on infrastructure. All this worry about the deficit, at least for the next two or three years, is a mistake. And business would respond if we could get that going again.

So what do you say in response to that?

MR. SCHLOSSTEIN: Well, I say, like many things that I don't completely agree with, there's a kernel of truth in it.

MR. BAILY: That's interesting.

MR. SCHLOSSTEIN: I think the answer here is that -- you know, I've said it a number of times -- that I think what we need is the three Bs: It needs to be big, which means 4 trillion or more. It needs to be balanced, which means, you know, I think the consensus is $1.2 trillion of revenues, and $2.8 to $3 trillion of expense reductions. And the third thing is back-end loaded, which is sensitive to the fact that we're still performing well below potential, and that we need to make some investments to stimulate our competitiveness.

I mean, it's embarrassing as a country that we're, you know, somewhere in the 20s in educational achievement. It's embarrassing, you know, the degree to which -- I mean, you go to many other countries that we used to think of as developing countries, and their infrastructure, you know, roads and train systems are better than ours. So, that's the kernel of truth.

But there is no road to a competitive, successful United States, 10, 15, 20, 30 years from now, that does not strongly address the deficit issue that we have.

MR. BAILY: I've shortchanged the audience a little bit, but let me try and remedy that by at least taking one or two questions from the audience.

Yes, can we get a mic there. Could you identify yourself, please?

MR. WILLIAMS: Good morning. I'm Ron Williams, I'm retired Chairman and CEO of Aetna. A couple of comments and questions.

In business, strategy follows your budget. And I'd be interested in comments around getting the strategy right and then getting the budget.

The second question really is a question about alignment. And the question is, is there any combination of structures that make it so if we don't have a budget, and we don't have an approved deficit level, we don't pay Congress or the President? It's pay-for-performance.

(Laughter)

So I'd be interested in your comments on that.

MR. BAILY: Anyone like to tackle that? That's kind of an intriguing thought.

Maya, do you have any comments?

MS. MacGUINEAS: I'll jump in on the first one, because I think it's so important, which is when you think about what we need to do -- and we know, we use "4 trillion" as shorthand. We know that we need a deal around $4 trillion or something that would stabilize the debt and put it on a downward path. And that's really hard to do, but it's not sufficient to fix the problem. And I think you've kind of heard that through this whole panel, and you hear it whenever your hear policy people talking about "It's not enough to get the fiscal situation under control, you also need the right fiscal policies, or the right budgetary policies."

And what's kind of astounding in this country -- well, let's just start with the fact that we don't have a budget, right? The way that the federal government operates without putting a budget in place is beyond any of us.

But the fact that we also don't use it as the opportunity to pick our national priorities -- what are the most important things for the country to do? What are the best ways to do them? Should government do them? Should it be at the federal level, should it be at the state level?

You can tell I went to public policy school: These are the things you do in public policy school, and then you come out and you realize that's not how it works at all. You don't go through this exercise of national priorities, figuring out how to do them, and then, assuming they're important enough to do, you pay for them.

I mean, I think Ralph's point is just so clear that you need to pick priorities that have long-term growth and competitiveness, among other values, that are leading them. And then you need to pay for them. Because it's absolutely unacceptable to, one, pick spending policies that don't even achieve those goals and, two, then hand that bill off to your kids. I keep trying to explain to my kids that's what we're doing, to try to make what I do interesting -- unsuccessfully. But you can't explain it in any way that makes it acceptable.

And just quickly to your second point, you know it's obviously a gimmick, but it sort of feels like this is this moment where we need these gimmicks, where we have such frustration -- and particularly those of you who have run companies, have such frustration that we hired a group of people to come to Washington, and the amount of energy that goes on two teams beating each other up, instead of solving a problem that -- no matter how much we might disagree on the role of government, or the perfect way to solve it -- we all know has to be solved, just seems completely unacceptable. So there are sort of those moments where you need the no-budget-no-pay, or the other kind of gimmicks, if nothing else just to focus attention on: We have to work on this until we get it done.

MR. BAILY: I kind of like this idea: Lower the base pay, and get a bonus that depends upon performance. That's kind of attractive.

Yes.

MR. MITCHELL: I'm Garrett Mitchell, and I write The Mitchell Report. And I want to follow on that with another thought.

Ralph Schlosstein, I think, captured it when he said "Great country, bad balance sheet, bad management" -- i.e., bad governance. And it seems to me that if there's any lesson that we get from this panel, and other discussions, is there is a way to fix the balance sheet. It's not clear that there's a way to fix governance. In the first panel, Mayor Fischer talked about moving at the speed of business.

And so this is a question for Mr. McDonald. In an earlier life, I competed directly against your company in the advertising business, in a category that at that time we were pretty successful at, which was the mouthwash business. But one of the things that I learned about Procter, among many others, is that marketing plans were three pages long.

And it occurred to me that if, arguably, the words largest, most successful consumer products company can direct its product managers to put their annual market plans in three pages, that we might be able to take some of that magic, and instead of having 2,000-some-odd-page health care bill, or other bills of that length that nobody reads, that there's another place where the business community might be able to have some influence on this third problem that Mr. Schlosstein talked about, which is bad management and bad governance.

MR. McDONALD: I think, Gary, you're raising a very interesting point. We spend a lot of time training our new hires in thinking up front so that they can distill their thinking to those one-page, two-page, or three-page memos.

I'm interested in asking Maya what she learned in school about creating policy. Because I almost think that there's some pride taken in the longer and the more complex, the better. I don't know.

But certainly, the longer and the more complex, the less principled, because if you can deal with principle, it can be shorter. You don't have to think about every single executional detail. And I think kind of what we miss -- because as Ron suggested, we don't really have a strategy, and the budget's not following that strategy, we're dealing with execution rather than principle.

So I agree with your point very much. I don't know if Maya would like to comment.

MR. BAILY: I was going to ask Lew to respond to --

MR. KADEN: Well, I guess I would add two points.

First of all, I think more attention to the quality of management, the training and development of public managers in government, especially people who devote a large part of their careers to public service, I think is an important subject. I think some of you may be familiar with Partnership for Public Service, which is devoted to that cause, but is essentially the only organization that I know of that is.

We have many talented career public servants in this government. We happen to have had, in this administration, both the first Treasury Secretary and the nominee to be the second, both of whom have essentially spent, with brief interruptions, their entire career in public service, and match up with the best public servants I think you'll find anywhere in the world in their field. And I would say the same thing about the current Deputy Secretary of State, Bill Burns, who is completing 30 years in public service, who is one of -- when I think of only a couple of career foreign service officers to rise to the rank of deputy secretary.

But we need to put more energy and resources into the development of those public sector careers.

I think the other point, which is more troubling -- and there has been a lot of commentary on this -- is we have to recognize that there have been changes in our political demographics, partly as a result of districting, partly as a result of changes in the country, that have pushed more of our elected legislators toward the extreme ends -- more concern about the challenge coming from them because more and more districts are essentially single-party districts. And so the political threat to an incumbent comes on their right flank or their left flank, depending on the party. And that creates a foundation for the kind of intense partisanship and divisions that we see -- technology, money in politics, the transportation availability, all of that adds to it.

My first job after graduate school was on a Senate staff, and then a presidential campaign that came out of it in 1967, '68 -- it was for Robert Kennedy. And the first thing that Senator Kennedy said to me, on the first day I started, in May of 1967, as the most junior member of the legislative staff, was -- and he was hardly someone who had grown up in the Senate or was devoted to its internal process. But the first thing he said to me was he was going to set up a series of meetings with some people with whom he disagreed about a lot of subjects, but who knew and loved the Senate and its process. And so for that first couple of weeks, I got to spend time on the Democratic side, with Senator Long and Senator Russell, and on the Republican side with Senator Dirksen and Case and

Javits. I think that kind of thing, that kind of experience doesn't happen very much anymore. And it's just one anecdotal indication of the change.

Somehow, we need more people, more thoughtful forums where those kinds of issues that affect our political process are discussed, as well as the substantive issues that we've been discussing today.

MR. BAILY: Yes, at the back there. Let's have one question from the back, and then we'll have to wind it up.

MS. LEE: Thank you. My name is Paulette Lee. I'm a communications and marketing consultant.

And the name of this panel is "Deficit Reform: Resolving Uncertainty and Promoting Innovation." And I've heard a lot of discussion of resolving uncertainty, vis-a-vis what the government's responsibility is, what Congress should be doing, what the President should be doing.

But I haven't heard very much about what business should be doing in terms of innovation. And so I would present that question to the panelists.

Thank you.

MR. BAILY: Well, I'm not sure that's right. I think the panelists have commented on that. But -- so let me go and make this the final words from the panelists.

We'll start at the far end --

MR. SCHLOSSTEIN: Let Bob go first, because he runs a much bigger company.

MR. McDONALD: No, I tried to talk about that, but I couldn't agree with you more, that innovation is, in many ways, the solution to many of our problems.

There was a wonderful book written by a man named Matt Ridley, called *The Rational Optimist*. And Matt is British. And in the book, he talks about innovation really solving the majority of the world's problems, what has gotten us here today. And he reminds us that back in the mid-1800s, those people who lived in the U.K. at the time thought that we were all going to die under heaps of horse manure because of the number of horses we all needed. And, of course, that didn't happen because of the invention of the automobile. And the invention of the automobile has brought other problems.

But I do think innovation is the solution. And it's why we spend so much money trying to improve people's lives through innovation.

The way to get that done is by having the best schools, by having competitive schools. We've got to have competitive education. Most of our international partners are educated in the United States. Some of them would like to stay here but, unfortunately, when they graduate, they can't get the visas to stay, and they have to go back.

So, education and the infrastructure is certainly one thing. And I'll stop there so the other panelists can comment.

MR. SCHLOSSTEIN: Yes, I couldn't agree more with what Bob said, and the gist of your question, too.

At the end of the day, you know, as I said a little earlier, for America to achieve what it is capable of achieving from an economic point of view, it's fundamentally dependent upon our ability to continue to innovate, and to create, and to invent. And I think we want a governmental system, I believe -- and I don't mean that as "business," I mean we should all want that -- that effectively allows business to do that, because ultimately that's how we will create more jobs, and more economic output here in the United States, but that does that in a way that's respectful of the populous as a whole. So we do need the environmental protections, we do need the safety protections, we do need the licensing approval of drugs, because, you know, none of us individually are capable of, you know, ascertaining the safety and soundness of those individual products.

But, having said that, we win as a country if we are using government to play the role as a protector of those things where expertise is required, but that we then allow a more unfettered investment in our people and in our innovations to win. I mean, if you look at the industries where the United States is winning globally, they are almost all industries where, you know, technological or, you know, sensitivity to consumers, deeply researched consumer needs -- I would say our financial industry is an industry where, you know, we are winning globally. And I agree generally with Lew's comments about the regulatory environment, but I think we have to look at that also to make sure that we're not rendering an industry that we're winning in around the world today, to be less competitive.

MR. BAILY: Maya, any last comments?

MS. MacGUINEAS: Sure. So, I was sort of thinking about all the questions that came up, and the comparisons about business, and public sector, and what either could be learning from the other.

And I was thinking about, in the public sector, how we just don't -- back to your first point -- we just don't start with sort of what your objective is. These are all things you would do if you were running a business -- but what your objective is, sort of how you're most efficiently going to achieve it, building an operation that works to achieve it. If you look at how government is organized, it doesn't make sense in so many ways. It's complete compartmentalized on so many issues where we need to be problem-solving -- so, the operations that you use to achieve those goals. And, then, kind of the evaluation piece. We just, we never spend any time figuring out what works and what doesn't, and then using that and funneling back into changing things, or redirecting our resources.

But you don't want to overstate the comparison, right? -- because there's a bottom-line in business, and there's not a similar bottom-line in government. And it's not as though you can run public policy in the exact same way. And these are public-interest things -- non-liable, non-divisible. They're things that the private sector can't do, in many ways.

So, I think there are so many useful lessons about how we can improve government, but you also don't want to overstate them.

But then I was also thinking about the fact that this innovation problem is so true in government, as well. And I think the same broken system in government that is keeping us from solving problems that we know are there -- and I always come back as seeing partisanship as a big part of this problem, the fact that two sides would rather beat each other up than come up with the answers -- also, I think, is affecting our innovationalism in government, which is there are public sector problems which we need to solve. And if we were able to find a way to be more entrepreneurial and innovative in government -- which, again, is a lot of what you do in a think tank -- but to actually have that work in our political system, and have more partnerships with the private sector in solving those problems, this country would be moving forward so much farther, and so much faster.

And so I'll come back to where I started, which is this fiscal problem just seems to me like it's gumming up the wheels of everything, and that there's absolutely no reason it's not okay to disagree on what the priorities are, or how best to get them. But if we are breaking our system that allows government to financially function at all, we will not get to any of those discussions. And shame on us if we end up not, being poised where we are for such a tremendous next couple of decades, and we choose not to make the choices that allow us to go forward with those.

MR. BAILY: Lew, last words?

MR. KADEN: Well, I think the point about the value of investing in innovation, and then I would add talent and talent management to that. Nothing is more important. Procter & Gamble obviously is one of the leaders in the global business community because of the priority Bob and his predecessors have attached to that.

At Citi, coming directly out of the financial crisis, we established innovation centers patterned after the kind of skunk-workers, or a lab that some technology companies have -- one in Palo Alto, and one in Singapore. And although it's only three or four years, we're already seeing an extraordinary value in that.

And the other, I think, lesson of the time I've spent in and around the business world is that every investment you make in talent, at every level of the talent chain, every aspect of talent management is about the best thing you could do with that amount of resources.

MR. BAILY: Thank you.

You've made a great segue, really, that gets us to our last panel, which was you talked a little bit about innovation in government, and improvement government performance, and that's exactly what we're going to talk about, with Darrell's leadership, after lunch. And so we'll look forward to that panel. I'm certainly a big believer you can get productivity gains and efficiency gains in government.

This has been a terrific panel. My thanks to everybody on the panel, and to the audience for coming. (Applause.)

And we'll see you later.

(Recess)

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