

THE BROOKINGS INSTITUTION  
THE FORGOTTEN AMERICANS: AN ECONOMIC AGENDA FOR A DIVIDED NATION  
FEATURING A CONVERSATION WITH GOVERNORS  
JOHN HICKENLOOPER AND JOHN KASICH

Washington, D.C.  
Wednesday, October 10, 2018

**Introduction:**

JOHN R. ALLEN  
President, The Brookings Institution

**Discussion:**

RICHARD REEVES, Moderator  
Senior Fellow and Director of the Middle Class Initiative  
The Brookings Institution

THE HONORABLE JOHN HICKENLOOPER  
Governor, State of Colorado

THE HONORABLE JOHN KASICH  
Governor, State of Ohio

**An Economic Agenda for a Divided Nation:**

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**Panel Discussion:**

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## P R O C E E D I N G S

GENERAL ALLEN: Ladies and gentlemen, it is wonderful to see you all this afternoon and welcome to the Brookings Institution. We don't have an extra chair in the house, and there are many standing in the back, so we are very, very grateful for this attendance today.

My name is John Allen. I'm the president of the Brookings Institution, and it really is a pleasure to welcome you all here and to welcome the many of you who will be coming in over our webcasting process today as well.

Today we are going to discuss some of the major economic shifts that have left millions of Americans behind and that have changed what it means and what it feels like to be in the middle class of America.

These shifts which include widening inequality and the loss of jobs to trade and technology have been well documented. But, especially as we move toward the mid-term elections, we take a hard look at the future of our great nation. We at Brookings are looking hard for solutions. During today's event you'll hear from Brookings Senior Fellow Belle Sawhill, one of our greats here at this institution, whose new book launching today, "The Forgotten Americans," puts forward a concrete policy agenda to bridge economic and cultural divides.

The ideas outlined in her books demonstrate not only decades of her experience as one of the country's leading experts on anti-poverty programs, but also the pragmatism needed to make progress in today's divided political environment.

It's an agenda that in her own words mirrors and marries red state values with blue state policies. And so to that end, we also welcome today two honored and distinguished guests, Governor John Kasich from the great state of Ohio, and Governor John Hickenlooper from the great state of Colorado.

These gentlemen to me represent some of the finest examples of American leadership that one could find. They're public servants of the highest caliber

and set in my mind the perfect example for how even in an America that seems often divided, more divided than unified, they embody the virtues of bipartisanship, respect and civility, and these qualities shine through in them all day, every day.

And to that end, the governors are here as well, in Washington, to jointly receive the Publius award. It's an award for bipartisanship in government which is being awarded to them tonight by the Center for the Study of the Presidency and Congress. No two Americans could be more deserving of that award and gentlemen, we congratulate you on behalf of the Brookings family, well done Sirs (applause).

And so for what's next, the governors will kick off today's event by sharing their own valuable perspectives on the critical issues impacting our cherished middle class, and then we'll go out to the audience for Q & A. They'll be interviewed by our very own Richard Reeves, who among other activities of the institution, directs our Future of the Middle Class Initiative and is the co-director of our Center for Children and Families. I'll also highlight the fact that his book, "Dream Hoarders," is still in my opinion, one of the great books on the plight of the middle class that one could read.

So, Ladies and Gentlemen, it's going to be a wonderful discussion and this gathering represents more than anything, the importance of bipartisanship and bipartisan cooperation, and the value that we place on that at this institution and more broadly, in America today. And, one final house-keeping note, this is on the record and it is live. So with that, let me invite the governors and Richard to the stage and thank you gentlemen so much for joining us today (applause).

MR. REEVES: Thank you John, let me add my welcome to all of you here and in particular, to our two distinguished guests. I've already just added a life goal for myself which is the next time I publish a book, I would like not one but two governors to turn up to the book launch.

Belle's setting the bar pretty high, as usual. The governors, as you've heard, have plenty in common. Not least, their commitment to bipartisanship but they are

both coming to the end of the second term as governors; I think sprinting to the end would be a fair summary. They are born in the same year, and so there are a number of similarities but some differences too, as we will discover.

Their states do have some marked differences, of course. Doing a little bit of research this morning, discovered that something like 15% of the residents of Colorado now use marijuana, I don't know if that number has changed, whereas a very high number of people in Ohio regularly drink tomato juice. And, it turns out that tomato juice is in fact the official beverage of the great state of Ohio, which may explain it. So, differences but some similarities.

We will not, I think, be discussing marijuana policy today but who knows where the conversation will take us, so, we are also going to be talking about the group that Belle calls The Forgotten Americans: The Middle Class, but I want to start a little bit broader than that. I want to start by talking about the state of liberal democracy; where we are at this particular juncture, especially, of course, in the US but including in some other countries too. How bad is it? How bad is the challenge, how great is the challenge and do you think that it is primarily an economic challenge, Governor Hickenlooper you've written and spoken a lot about income inequality and wealth inequality; or is it primarily a cultural challenge -- Governor Kasich, in your State of the State this year you highlighted issues of mutual respect and personal responsibility and the kind of culture that supports liberal democracy, so are we looking here at primarily an economic challenge or a cultural one.

Governor Kasich, let's start with you.

GOVERNOR KASICH: Well, it's great to be here with my running mate (applause), and that can be taken a number of ways, okay, here in Washington.

No, I love John, it's always fun to be with him and work with him and our staff --

MR. REEVES: He told me that you were his running mate.

GOVERNOR KASICH: Yeah. If you figure out how to get it all on a bumper sticker we can talk.

So, I think it's both actually. I think there is a cultural side of this. If you look at Bavaria right now and what's happening there and the idea that we want to keep Bavaria pure German and we don't really like the idea of migrants and, you know, I think there is an element of ethnicity or whatever you want to call it, a cultural upheaval about preserving our values, but I think there's also this problem of the division between the Haves and the Have-Nots, and I think both of them really are in play. And, solving them is a great challenge.

Here in the United States, I think we face in many aspects of our society, what I've been talking about recently called the Zero Sum Game where, you know, I win and you lose, and I remember the days when we could win, but give somebody who didn't win something, so that everybody could walk away in a victory. And, the Zero Sum Game whether it's in college athletics or whether it's in politics or business -- you know people say, well we got the quarterly report, well, I mean, yeah if you want to pay attention to that's all you pay attention to, good luck.

You know, I have to win and you didn't, and my earnings are better and it's just -- I don't think life works very well when we operate in a Zero Sum Game so I think these are complicated issues that need to be addressed because if they are not addressed in some significant ways, things are going to resolve in conflict and conflict results in very bad things worldwide, thank you.

MR. REEVES: Governor Hickenlooper you've described trickle-down economics as a fairy tale and you seem worried not that people are winning but that winners are taking so much of the winnings now. I don't know if that's a fair characterization of your views, but --

GOVERNOR HICKENLOOPER: Well, I think it's a -- we are facing a bifurcate world, and I agree with Governor Kasich, who really would be -- if I was ever

going to run with a republican, this would be the one I'd run with.

MR. REEVES: Okay.

GOVERNOR HICKENLOOPER: I think part of its policy. For I don't know, 30 years, 40 years, we've been focusing on narrow implementations of corrections to various inequalities within our form of capitalism and really not addressing some of the larger scale issues, so we've gone through the end of the Industrial Revolution where we really reduced the cost of commodities and reduced the cost of shipping. Again, the ability to concentrate wealth very rapidly, and that led into what we are now seeing, the beginning of Advanced Automation, artificial intelligence, and that's only going to put more jobs at risk, whole professions at risk, and we did nothing.

In the 1980's and the 1990's, as not just individuals lost work but whole professions got decimated through these improvements of productivity, our political system kind of said -- and I know this because I came out to Colorado as a geologist in 1981 and had five great years until the price of oil collapsed and then our company got sold and everyone got laid off and I went through it. They did bupkis in terms of trying to train you or prepare you or help you get to a new career.

They sent you to an unemployment center, they showed you how to write a resume, they gave you a big book of companies that you could apply to; it was almost a joke. We would make jokes about it but I was out of work for almost two years and you see a different person in the mirror.

We did the same thing to millions and millions of people in this country where their -- not just their job but their profession disappeared right out from under them and we had no satisfactory way to give them an opportunity to, you know, recreate their lives.

MR. REEVES: Mm hmm.

GOVERNOR HICKENLOOPER: And it's not that hard when you start looking at what we are going to have to do in the next 10 years, the next 20 years, to

provide skills and really aggressively go after the skills. I remember, you know, I ended up opening a bar, you have to do anything when you're out of work, but I opened up a brew pub in 1988 and I remember in '94 or '95 customers talking about, "well, the guys are losing their jobs in those factories across the Midwest, they can't adapt to the new economy, they can't manage computers". You go hang out with any of those people and look at how well they use a cell phone now, right, and that is, if nothing if not a powerful computer -- we need to be giving the skills that people need to get into the new economy now --

MR. REEVES: Can I ask you to be a bit more specific about that, and I'll ask Governor Kasich to add his view as well, because I wanted to ask about AI, a big new initiative at Brookings as well that we're concerned about and I know General Allen certainly is. There's a sort of spectrum between the people who are hugely enthusiastic about artificial intelligence -- it will liberate us all from the ardors of work and we will be free to do whatever we want, and those who are terrified by it because it will displace increasing numbers of middle skill jobs, and AI is really going to be different from other forms of automation. Where are you on the spectrum of terrified to excited and what specifically does it mean to upgrade the skills when it's so hard to know what skills will be needed in that realm.

GOVERNOR HICKENLOOPER: Right, well you can't --

MR. REEVES: Terrified or enthused, first of all, you sound enthusiastic -

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GOVERNOR HICKENLOOPER: I'm on the enthusiastic side.

MR. REEVES: You are enthusiastic, okay.

GOVERNOR HICKENLOOPER: But I'm very cautious for two things, one is change is occurring so rapidly and all of our processes for decision making, how do we make regulations and create a regulatory framework, they are all based on endless stakeholder investment of time and you around and around -- we've got to get to

a place where we can react much more rapidly to the changes that are taking place in things like AI, and you sit down and talk to someone like Elon Musk and he'll say, we're already so far behind it's becoming impossible to do that kind of regulation.

But I -- we are on a path that, the jobs we've been eliminating, and we will accelerate the elimination of more of those jobs, are the grunt jobs, the jobs that really aren't very satisfying, and what we have to do is retrain a huge chunk of our population and no one is going to get a free ride, right. Everyone is going to have to work hard at learning things, we are going to have to transform our community colleges into you know, free centers of education innovations -- that's all going to have to happen very, very rapidly so that we don't suffer more of this though, I think the nationalism is the natural byproduct of despair and you know, a feeling that you have no future and there's nothing -- no matter what you do, the system is rigged against you.

MR. REEVES: And that's self-perpetuating; Governor Kasich -- first of all, enthusiastic or terrified?

GOVERNOR KASICH: Well I've got this pen and this was worth coming, I needed one.

MR. REEVES: That's brand new. I just bought that.

GOVERNOR KASICH: First of all, when John said something said something here that kind of hit me -- I don't know if you heard it, when you look in the mirror after a while, you see a different person. I mean, I think one of the things that has unfortunately happened in our country is somehow, we've been unwilling to the young people that are here to put ourselves someone in our neighbor's shoes.

Think about what he said, you know, you look in the mirror after a couple of years and you see a different person. That's really, really hard for me and we can't lose that notion that we are our brother's keeper. To me, part of this is faith with only two simple rules: love God, love your neighbor, more than that there is nothing else that really matters.



In regard to this problem, I just went to a connected vehicle demonstration in our state and so we have auto-mechanics, but let me tell you what the story is: you've got one camera up on one light pole, another one over here and there's four of them, okay, four of these cameras. One takes a picture of a car coming, sends a signal to this, it goes into a box, it's right on the street corner which sends a signal to the car. Now, somebody's got to put these cameras up there, someone has to maintain the cameras --

MR. REEVES: Mmm.

GOVERNOR KASICH: Someone has to build the box that the equipment is in and somebody has to make sure that any of the mechanisms that are necessary to transmit this, the sensors, have to be placed and maintained. You don't need to go to MIT to do a lot of this, I mean, I don't know anything about coding but I know we are now teaching coding in the fifth grade.

It doesn't mean that you have to be able to figure out how the trajectory of a rocket ship to the moon in order to engage in some of these activities. I'm going to suggest something here that our education system -- it just simply doesn't work. It doesn't work.

We are not taking young people and putting them in a work environment, stirring up their passions, telling them what it is that they need to know and I don't blame the teachers, but the system is broken.

We are operating a school system based on a bunch of people working in the fields, and everybody learns the same way, and any time you try to disrupt that system, I swear to you it's easier to reform the Pentagon than it is the K-12 system and neither of them, I don't think, are frankly reformable.

MR. REEVES: Hmm.

GOVERNOR KASICH: I think that the k-12 education system, this needs to be dis-intermediated and John mentioned the community college -- the four-year

schools, they continue the way they're doing, they are dead men walking.

MR. REEVES: Mmm.

GOVERNOR KASICH: They are not -- they charge too much, they are not giving people skills. College debt today is over a trillion dollars and yet the people who ring up this debt are not getting the skills they need to get work, and increasingly we find moms and dads in a very difficult position because they have to support, the baby-boomers have to start supporting their kids with subsidies so that they can have a -- so they could live. I mean this is just unbelievable. And yet, the system doesn't change and all we do is root and say oh education, education! But what does that mean?

MR. REEVES: Mmm.

GOVERNOR KASICH: So now you have my buddy, it's a commercial for him I guess, but I don't mean it to be and maybe someday I'll work with him, runs a thing called Udacity. And that is where the companies themselves begin online to train people at low cost for skills that companies need, but his skills are like highfalutin skills.

We need to figure out a way in which we can actually get kids to learn what it is they need to learn and also to teach them how to talk, how to react to one another like Mr. and Mrs. or General Allen, not John, I heard that today in this little room over there, okay, he's General Allen, give him his due, give him his title,.

But, I'm saying is that all these things, all these things matter and I really believe that we are short -- because we can't reform the system we continue to do what we do, what we do, what we do, it's like Afghanistan, over and over and over again and we do what we do today because that's what we do; it's not acceptable. So can we take people and transform them into people that can manage the cameras, that can build the boxes, that can figure out how to do the things in this new world because you know what, the new world is going to give them a better job at a higher salary, because it's going to involve more of their brain.

MR. REEVES: Mm hmm.

GOVERNOR KASICH: It's going to involve less back and less brawn and more brain. But we are not getting there because we are just too darn slow and a tsunami is coming our way. Have I given up hope, NO, we are not giving it up. Hickenlooper and I are not going to give it up. We're the guys that -- we were willing to shake anything from top to bottom to get a result. But this is serious, serious stuff.

MR. REEVES: So, first thing, I need to request for another pen so that I can retrieve my pen back from Governor Kasich,.

GOVERNOR KASICH: Could someone --

MR. REEVES: Could you train your staff to give you a pen, that's a skill. Secondly, just to reassure everyone else in the room, I think it was me that said John Allen.

GOVERNOR KASICH: Yeah, Good

MR. REEVES: There's a lot of junior staff out there right now that are terrified, "was that me, was that me, was that me". I've got it --

GOVERNOR HICKENLOOPER: I don't want your pen, go away.

MR. REEVES: Give me the pen and you can --

GOVERNOR KASICH: It's probably a liberal pen.

MR. REEVES: This is a British pen so --

GOVERNOR HICKENLOOPER: Oh, so who knows where the hell that's going.

MR. REEVES: So, you're both telling a human capital story, an education and training, a skill story in response to the shock. Once response to that would be, we kind of heard this before, we've heard this around trade adjustment, we've heard it since the '90s, we've heard there's going to be changes, trade, AI, automation, but don't worry, we are going to help retrain you for this brave new world so you will benefit, and it feels like that's been on the record for quite a long time, and instead what we are seeing now is people saying, that isn't going to happen, it hasn't worked, we need

massive redistribution. Maybe through tax credits, maybe even through universal basic income of some kind, or we need significantly more regulation of the labor market; higher minimum wages, maybe more power to unions again, because we've been waiting and waiting and waiting for the human capital story to deliver higher income growth for middle class families, so it's not to say that you're wrong, but it is to say that we've heard this for a very long time, why should we think it's different this time, to hear it from you, because it's not that different to the story we heard 20 years ago.

GOVERNOR KASICH: So, first just to finish the education part, because I agree with everything that John said, we could make huge impact on the education system and have kids ready to be in business and to learn skills more rapidly. We have the ability now, and kids -- 25% of our kids aren't learning how to read by the end of third grade and we let them -- we promote them.

MR. REEVES: Yeah.

GOVERNOR KASICH: And we have the technology available now that we can identify that when they are in kindergarten, we can for 80% of them, we can remediate that and fix it for a relatively speaking small amount of cost, right? 20% per year of the kids -- what you are normally using to spend on the education of that kid -- that we don't do that is government malpractice.

The same thing with multiplication, long division, and fractions, if by the time you're in sixth grade --that stuff you have to have to have a real chance in this new life of skills. Now, in terms of redistributing wealth, I mean if you really go out and talk across all the different income groups and different strata of society, it's relatively unpopular. There are a number of people that are very supportive of it. And certainly the increased minimum wage has a stronger sense --

MR. REEVES: Mm hmm.

GOVERNOR KASICH: I like, I mean I look at it -- for all this time we have been disability-incentivizing labor. And, one thing is we have this massive payroll

tax and I think it's worth considering looking at -- Belle and I were talking about this before -- we are the last industrialized country that doesn't have a value added tax at that, and everyone says, well we don't want another new tax.

Okay, I get that -- what if you did a swap? If you said, all right, we're going to get rid of that payroll tax and we're going to let that money go directly to the employees, they get -- it's like a way of raising much more easily everybody's wages, not just the minimum wage, but everybody's hourly wage and then you look at that and then replace it exactly evenly by a VAT.

So that's one and there are a number of things like that, and we we've also done regulations that have helped purposefully eliminate the middle class. And, one of those things is middle managers.

For years and years, you know, there is a limit on how many hours you can work if you make above a certain amount. You can work 50 - 60 hours, you don't have to get overtime -- that number hasn't changed since I think it was 1978, and it's now, it's still a \$28,000 -- so if you're making over \$28,000 you could be making \$29,000 and you could be working 70 hours a week. That has been shanghai'd; they used to raise that level every year.

If we went back and inflation adjusted it for what it is now, it should be \$62,000. So, people should be making \$62,000 otherwise they get paid overtime. That would dramatically transform and that was a way that did transform and eliminate a large chunk of the middle class just over, you know, incremental changes over time.

MR. REEVES: Governor Kasich you said grunt is everything (over-talking) --

GOVERNOR KASICH: Just one thing here about the training, the reason why the training doesn't work is because nobody is interested in changing the training. The reason why the K-12 isn't working is because nobody is interested in -- that's why you might need to have what I call this intermediation.

MR. REEVES: What do you mean by that in K-12 for example?

GOVERNOR KASICH: Well, the horse, okay, got replaced by the car, where the engine, the steam engine got replaced by the car; things can come along that can completely disrupt because if you are just trying to reform -- and the system just does not want to reform, then you are going to have to have something that swoops in that offers a better answer.

Now, I think that part of this is the responsibility of employers, to be engaged in the community, and the other thing is that if you really want to talk about where things get done, you've got to be at the community level. You've got to be right there at the block and we've got to stop fighting about Trump this or Kavanaugh that or whatever, and we have to start focusing more on what exists where we live.

MR. REEVES: Mm hmm.

GOVERNOR KASICH: And little changes that we can bring on our block, in our community, in our school, in our school system, can pay huge results. So if you really want to talk about education reform, if you really want to talk about job training and all that stuff, you've got to get it where people are going to be hands-on, they're going to get their fingernails dirty and we are going to go out there and we're going to grab somebody and we are going to get them moving in the right direction.

We don't do that. We have, you know, some kind of edict from Washington. Come on. They don't know -- they are out to lunch.

MR. REEVES: Yeah, yeah.

GOVERNOR KASICH: But that to me is what you need to do. I like a lot of John's suggestions. I do believe, however, not just in this world, but all over the world -- I just talked to an economist about this, I couldn't get any astrologers on the phone so I went with an economist, and there is a suggestion -- I mean really, what we need to do is we need to give middle and low income people access to equities.

If you really want to -- here's what happens in the country: rich people ride the market up, other people don't have the resources to ride the market up, so the rich get richer and the middle and the poor get -- there's a bigger gulf, maybe not get poorer but they're certainly not growing.

So, one man suggested to me today that we ought to be thinking about how they can use the taxes from sovereign wealth funds to create an opportunity for people to invest. We need to make sure that people who are middle and lower income can have access to a market, a dynamic market that can raise wealth.

I mean, of course, raise the minimum wage and all that, that's fine, but that's so much on the margin. You need a dynamic, dramatic affect in order to begin to change this, so to me, it's kind of a couple of things: one, its education in the real sense.

I'll give you an example, why aren't kids spending just three days a week in school and the other two days not in a classroom. Why don't we do that? Try to go and push that through the DC public schools.

MR. REEVES: Mmm.

GOVERNOR KASICH: Okay, that's where kids are going to get real experience based on what they are excited about and what they can learn. My daughter worked at PINK, she took -- she learned why math and statistics are important. She loves fashion. But now she loves math because now she understands that if you are going to be in fashion you need to know how much to order and how to do it and that's why she loves math now.

It is not complicated and all of you who are here today, who have been successful had somebody or something that you related to when you were young that got you excited about what it is you were interested in.

We need to have more of that, then we need to think about the structural things and when John is talking about structural changes, there shouldn't be anything off the table -- redistribution or socialism means one simple thing: that means that fewer

people have more and everybody else has less, that's the way socialist systems work. It doesn't bring any wealth to the masses, the masses never taste any of the wealth but there have to be some structural changes.

And then finally, did you all see the New York Times -- you probably didn't see it because you live in Washington.

MR. REEVES: Some people read it here.

GOVERNOR KASICH: Yeah, did you see the picture in the New York Times; I think it was a two year old girl --

SPEAKER: Yeah.

GOVERNOR KASICH: Who was on her way to deportation court --are we not upset about this (chatter)? What the hell is happening in America where nobody is -- I don't -- they don't talk about it on television, they don't -- how could they be putting a two-year old in a deportation court where they can't even speak English -- did you read that story?

SPEAKER: Yes (acquiescent chatter).

GOVERNOR KASICH: Where's -- now you want to be outraged? Where's the outrage in our country? For this, John did you see this thing? It's just completely crazy, it goes against everything I've ever learned as an American, that we would do that to people who are just trying to escape either death, or addiction, or gangs, violence, whatever it is, and somehow we don't care. We'd better get back up on the horse again.

MR. REEVES: And who do you hold responsible for that?

GOVERNOR KASICH: All of us. All of us (applause).

MR. REEVES: Each of you, tell us how you think we got to that point.

GOVERNOR KASICH: Well, why don't you call somebody in charge and just tell them that this is not acceptable. Why don't you write your letter, why don't you do something in your community for these people who are here, who are people who are



immigrants.

You know, we opened up an office in Ohio. You know what it is, by the way, if you don't like your immigrants here, send them all to Ohio, we want them all, (applause) we want every last one of them because they are productive, they are hard-working, okay.

MR. REEVES: Right, right.

GOVERNOR KASICH: And we are making it as easy as we can. Look, I don't know what you can do or what your skill is but the idea that I'm waiting on somebody else to come and fix the problems where I live, is like Waiting for Godot.

MR. REEVES: Mmm.

GOVERNOR KASICH: We have to -- I've said enough.

MR. REEVES: Let's -- well, but I think your offer was taken seriously and the passion was taken seriously.

Let's talk about another area where I think you both have disagreements with the current administration which is trade, and trade policy. Governor Hickenlooper, I'll ask you to speak on this first.

It's clear that a non-trivial number of Americans do feel that free trade has hurt them and there is some economic evidence that some Americans have been hurt, at least in the short-term by free trade.

That's nigh been highly politicized, turned into something we didn't think would happen which is that it has become a hugely political issue again, two weeks ago you wrote a joint letter, the two of you, both Governors saying we cannot look backward and close off our markets, we must look forward and connect them in ways that benefit both our workers and the next generation.

How do you think we got here on free trade and how do you think we could fix it, and in particular, answer your own question, how do we connect those trade connections to the well-being of the people who currently feel that free trade is not

helping them.

GOVERNOR KASICH: Sure.

MR. REEVES: Governor Hickenlooper?

GOVERNOR HICKENLOOPER: I think its back to where I started talking about, how do you avoid leaving behind huge segments of the population of these workers, and the disintermediation, as you were describing of schools, happens with adults trying to relearn things as well. There's a guy in France, I'm sure a couple of people out here have run across this guy named Xavier Niel, the type of billionaire who bought a train station, turned it into this big start-up center and they took an old school house -- it's called, you can Google this, it's called 42, it's the name of the school, just the number 42. It's the secret to the universe according to "The Hitchhiker's Guide", but anyway, he lays it out and it's -- capacity is 3,000 students, there are no teachers, so you walk into this old school house on three floors, there are about 2,500 giant screens and people learn 21 different projects on how to learn coding, it's about a three year program if you're working full-time in a job, or you can do it in maybe a year if you're a student full time.

I went there on a Sunday night, and incidentally, there's huge extra credit given for helping some other student, so when you are finishing say the 6th subject, or segment, it will show you exactly who else has just finished the 6th segment, who else is just beginning the 7th, what computer they are on at that moment and we went on a Sunday night and I met a guy who is probably 38 years old, he was working for a trucking company in Marseille, he and three other workers, who I didn't meet but where there, they are the ones who load a tractor trailer, and you put in the stuff first that comes out last but you also have to balance the weight and do -- I mean, there's a certain amount of geography to it and they realized that in 5 to 7 years a robot is going to take over their job so their company in the French government are training them, they've identified that this is a profession that is going to go out of business and so that -- this breakthrough, and we

are talking about disintermediation, this is a way of training people in real time at an affordable cost, that they can -- they are going to be the technicians of those robots.

They are going to be the repair people for those robots --

GOVERNOR KASICH: Beautiful --

GOVERNOR HICKENLOOPER: And here, you're wanting me to talk about being optimistic about the future --

MR. REEVES: Yeah.

GOVERNOR HICKENLOOPER: We have that capacity now.

MR. REEVES: So the answer on trade and automation is human capital

--

GOVERNOR HICKENLOOPER: Well it's --

MR. REEVES: It's training smarter, faster and --

GOVERNOR HICKENLOOPER: Absolutely, so that's a key to making trade have less loss, and make that loss less intense --

MR. REEVES: Right.

GOVERNOR HICKENLOOPER: But in terms of trade, every trade agreement has winners and losers, right?

MR. REEVES: Sure.

GOVERNOR HICKENLOOPER: And what happens is as the time progresses, the system manipulates it so sometimes the losers lose more, sometimes the winners get a lot more, but the self-interest that lobbies Washington, that lobbies Ottawa, lobbies Mexico City, are all really helping the winners win more.

MR. REEVES: Yeah, yeah.

GOVERNOR HICKENLOOPER: And that's why trade agreements that go 25 years without being adjusted generally create some big losers. There are no questions that we should revisit it, but the notion that trade doesn't create wealth is totally mis-gotten. I mean there's probably no better way if we are really going to try to address

income and inequality than figuring out responsible trade.

MR. REEVES: Not least globally, but there are losers, and Governor Kasich in your state there must be some people who have lost out from the free trade agreements and some of that loss has been refracted through political processes.

GOVERNOR KASICH: I mean it's all about a dynamic and change -- look we live in a global environment. We hear about how we have this new great NAFTA deal, okay. If you think that the old NAFTA deal was bad, and that all these jobs are going to be coming back, you ah -- don't check under the pillow tonight for the tooth fairy, it's just -- this is not some new dynamic incredible. You know why? Because the pressures of globalization: supply chains, the ability of people to do things more efficiently, more effectively, really matters.

Now I think that the best trade agreements are the ones where all sides have to lower the barriers. That's exactly what the international trade agreement is all about, lower barriers, not higher barriers.

And there's one other element of trade that's important and we don't want to forget these folks, and I agree with John, we need to -- again, we are back to having human beings really care about other human beings and say, we are going to get you, we are going to lift you, we are going to help you and it has to happen where we live more than it is from Washington, there, it has to happen locally so the more they can send whatever funds they have, with the trillion dollar debt -- trillion dollar? 21 trillion dollar debt, but the more they can get the funds to where we are and get it as local as possible, the better off we're going to be.

But there's another to trade that we sometimes forget. And, let's just take the Pacific partnership that we walked away from. There are all these little countries out there that live in the shadow of China. Now I don't subscribe to China, you know, their rules and their value system, but when we walk away, the Chinese shadow falls on these countries and we are now starting to get alarmed about the influence of China all

over the globe including in South American, most particularly.

So, the question gets to be, if we don't trade then we don't talk and if we don't talk, we don't have the relationships.

MR. REEVES: Mm hmm.

GOVERNOR KASICH: There's a geo-political element to trade that the General will tell you that the more we trade, the more we know somebody, the better off we are going to be in the long-run, but there isn't any question that we just can't walk away from people who do lose their work, but to say we are going to keep your job isn't going to work anyway.

So, consumers pay less, the quality is better and how did we get here on trade? Because those who are free-traders did not make the case for trade and some of them defended trade deals that didn't make any sense, I suppose. So, free trade always has to be defended and we need to tell people -- not to be defended, but we need to be arguing forcibly for it and what it brings to consumers, families, and the ability to progress as humanity, frankly.

MR. REEVES: Let me finish before going to the audience, so please be ready with your questions and I guess there are mikes around, so the mikes are in the back corners, but let me ask, let me finish with the question on politics. It feels as if many of the proposals that you've both been articulating would lie in the sort of middle ground. You both, I think, are against the populism that you are seeing on some of the right, against some of the populism that you're seeing on the left, staying mostly on sort of a middle ground policy. But we don't really have a middle ground politics right now, so the question is do we need a stronger middle ground in our politics, in order to have policies to help the middle class, and if so, how can we get to there from here given the polarization that both of you have written and spoken about so much. Can you see a path from where we are now to more of a middle ground politics to help the American middle class? Governor Hickenlooper?

GOVERNOR HICKENLOOPER: I would say that the label itself is a little bit misleading. Middle ground implies that you're somehow --

MR. REEVES: Like a compromise --

GOVERNOR HICKENLOOPER: Sacrificing something you believe in, and within the democratic party, and I'll let Governor Kasich talk about the -- John's an expert on the republican party at this point -- but I think within our party, you now, I've been saying -- an old friend of mine sent me a clipping I wrote to a newspaper in Middletown Connecticut in 1978 saying, "in the end, I think healthcare, some level of healthcare, should be a right, not a privilege.

So, that's inform -- I've held that view my hold life. You can argue about how much or how little. But, to get into big fights on you know, we need Medicare for all, or we need a single payer system, or you know, some variation that gets us there; I don't think that's -- the key there is not moderate - it's saying that everyone should have some sort of, some level of healthcare, and we might disagree about that. I think the issues come back to -- I think compromise is not a bad thing, it's a good thing. It's what this country used to use as a fuel for growth. You would find ways to compromise with somebody you directly disagreed with. But, I think right now anytime you compromise you're seen as a victim in some way, or a traitor or that you have manipulated your values. But, whether you're talking about healthcare, whether you're talking about education, whether you're talking about any of these things, when you get back to the values that we believe that everybody ought to have the opportunity to create their own version of the American dream, everybody believes in that and I don't think that's moderate. I think that is the way the country was intended and in a funny way, now it's more rare.

MR. REEVES: Right.

GOVERNOR KASICH: Moderate kind of implies that it's kind of this large number of people --

MR. REEVES: For deeper rather than moderate or -- actually Belle's book is built around values of work, family and education, and she starts from there and builds the policy agenda up from those values which she believes to be shared in exactly the same way that you do, Governor Kasich.

GOVERNOR KASICH: Well, the real trick is to figure out how the middle is not boring. I'll tell you why I say it. Because I said some things here that you know, not a big deal provocative or whatever, you know, will get attention. If we just sat here and talked about, well, you know, this academic stuff, no one would care.

I mean we have this tendency today to give attention to that person that screams the loudest. I mean, I went through presidential debates and the whole key was, how can you say something so incendiary that they are forced to cover it the next day, and by the way, when you do that you will say that you did a great job.

So, here I am on a republican debate stage saying we should not rip up the Iran deal, we should be concerned about the minimum wage, I believe we should expand Medicaid, I wonder why -- but I did finish second, you know. And I did win Manhattan, and some say even Trump Tower, but I think John, I think the key is to start with principles.

John and I have -- you wouldn't believe how many governors we couldn't get to work with us. I mean, it's really -- you know, people say, oh count on the governors. You know, really?

Like on healthcare, when they were going through the whole repeal Obamacare.

MR. REEVES: Mm hmm.

GOVERNOR KASICH: There were some things that we established as principles. Anybody that has a pre-existing condition should be able to get healthcare. Who doesn't agree with that, that you know, we can't have a whole bunch of people that have no health insurance. Okay, and forget the Obamacare, whether it's too rich with the

structure, or is it not. What are the principles that we agree upon. It's just like, John, I don't know how many of these things we have done together because we agree on the principles and the details is what you hammer out over time.

Right now I find that we are not talking about the principles so therefore, you can't hammer out the solutions. So, one of the things I suggested the other day on a Supreme Court appointment, if I were president, I would have called Joe Mansion, I would have called the guy over in Delaware, my friend Tom Carper, I would have called Hickenlooper and I'd say, hey, can you come, maybe hide camp, I don't know, let's have a little meeting.

Now, we're going to have a conservative Judge, I mean you know that because I'm the republican president, I'm concerned we have a concern -- who's okay with you? Right, let's go through the process. Who's okay?

So, the other day I did something on guns. I created this group and I said you have to be a second amendment supporter. If you want to repeal the second amendment, you're not going to be in the group. But, if you agree that you're for the second amendment, okay, great. Now let's figure out what the limits of it are, and we got people who were never in a room together in a room figuring out, okay, what is it that we can do and what we can't do and what are the principles.

I think in order to get this done, what would be a principle today? America has too much debt. It does. Now let's wrestle to the ground what we do about it. We have to have a healthcare system that doesn't have massive loss of healthcare, and by the way, I think we can all agree what can we sit down and discuss about these incredible rising costs of pharmaceuticals.

MR. REEVES: Mmm.

GOVERNOR KASICH: I mean, there are ways in which we can think about this, so if you start with common principles, then I think you can build it out. But for all of us like John and I, we have to figure out really, how to make the middle interesting



and not the middle boring.

MR. REEVES: Mm hmm.

GOVERNOR KASICH: And one last thing on that front. Okay, here's a great story, did you hear about this five year old girl, John, I called this little girl, or her mother. She lives I think in Illinois. Her name is Flo. Her full name is Florence. So, she's reading about this hurricane and she's like oh my god, this hurricane, mom, we better get some bandages and things for people and send it to them. Cool story, so then mother goes, yeah that's a great idea Flo.

So, the father takes a picture of this little girl -- and you know how they have the hurricane maps and it shows the storm moving, well, Florence's face was put on the map and she took this and hitched it to a wagon and her three year old brother pulled the wagon through the neighborhood and they collected so much stuff that their garage is bursting with all the supplies that they are now about to send to North Carolina.

So when you start the story: the ravaging of a hurricane, ugly; the hero who intervenes, Flo; and the top of the mountain which is something that makes us all feel good. We have to have better narratives. We have to tell a better story so that people can say yeah, I don't have to live on the extremes and tear people down, I can get excited about something that's really pretty interesting and pretty good. That's kind of the way I look at it.

MR. REEVES: Mmm, find a way to scale up Flo as well, that's the other thing, scale up Flo.

GOVERNOR KASICH: How about Flo, Flo would be -- oh by the way, when I called her she did come to the phone, she said, I got so much attention.

MR. REEVES: Yeah, right in the middle here, there, they do that, here, there, yep. And is there another mic out here somewhere. No I'm sorry, the lady behind you.

MS DANIELS: Thank you, my name is Someria Daniels. I was intrigues

with your point about the K-12 education and I wanted to sort of flip that and suggest that decision making in the federal government and the state level is not going to improve until we take evidence-based policy making much more seriously. And, there are some think tanks that have been pursuing this, and I wondered what you thought about that because you know, most of the decision making is political interest based.

MR. REEVES: Good, thank you for making it a question as well. If everyone could do that or at the very least, have your tone of voice rising towards the end of the sentence. Let's go to the gentleman --

GOVERNOR KASICH: But wait, she wanted an answer; I think she wanted an answer to that --

MR. REEVES: Yes, we are going to take a couple, I'm sorry.

GOVERNOR KASICH: Well, no, let's just take that and we'll be real short. Look Ma'am, I think the problem is this. It's at the school board level. Too many times people get on the school board and then they want to go to the basketball games and they get escorted into the gym and they have a nice court, middle of the court, with their spouse and they're like, isn't this cool, I'm important, I'm on the school board, and there is a tendency to forget what you are there for.

So, you're there to go along and get along not to disrupt. We need to disrupt the system because our children are the ones that are at risk and it's the local schools, the local superintendents, all of that. It's just so frustrating to me, but John, what do you think?

MR. REEVES: And if you could say something about the evidence point too, because I think that's a very strong -- we are promised evidence based policy making but we get policy based evidence making quite a lot of the time, especially in education so --

GOVERNOR HICKENLOOPER: No, you're exactly right.

MR. REEVES: Not from your states, of course, and that's under threat, I

think that whole idea of evidence based policy.

GOVERNOR HICKENLOOPER: We push back -- well just in term of the schools, and I think that's -- I agree completely with what John said, we've got a big apprenticeship program right now that allows kids to get into, when they are 17, they can go work for a company. It's not just a plumber or electrician, they can go work for a bank, insurance company, you name it.

We are now in the third year of the pilot and we've got about 500 kids. So, the first year, they work two days, they go back to a community college for three days. The second year they work three days, third year they work four days, at the end of three years, they are leaving at home, they probably have over \$15,000, they have a years' worth of college credit if they choose to pursue it, but it's that kind of -- they are learning how to make those decisions.

In terms of evidence based decision making throughout government, we did with -- the Buffet Foundation supported us with 5 million dollars a year for about six years, a little over six years, where we provided long active reversible contraception to any young woman who wanted it, regardless of income level. If you had decent income, you paid a small amount of money, but, and for the conservatives, for the social conservatives out there, if a teenager came in we said you are too young to have sex, but don't compound one bad decision with a second.

We provided IUDs, Norplants, things where somewhere in the chaotic life they didn't have to remember exactly which day they took a pill, but we reduced -- I think by the end of this year we will have reduced teenage pregnancy by 60% and teenage abortion by 70% (applause).

MR. REEVES: (off mic).

GOVERNOR HICKENLOOPER: Well, but --

MR. REEVES: Based on the evidence --

GOVERNOR HICKENLOOPER: But the challenge we had, we could not

get funding through our general assembling because the facts where less important than the partisan divide over family planning having value. So, that's I think your question I think expands to that kind of an arena.

GOVERNOR KASICH: You know what, we just need to make sure because the people are going to listen to this.

GOVERNOR HICKENLOOPER: Yeah.

GOVERNOR KASICH: Teachers need to be paid more (applause), they need to be respected. I mean, we know, this is all about money and all that, but the deal is that there is nobody that I'm going to call the bad person in this. It's the system itself that's failing us. The structure fails us.

Nobody in the Pentagon wants to buy a weapons system that has a huge cost overrun. It's the system that drives us to the wrong place.

Now, there are some schools -- John has been a leader on all this stuff with training people, I mean, he's been out -- he's been out in front of everybody as far I'm concerned. The key though is to release our kids to the goodness of the community and get the businesses and everybody together. And I'd start these -- we are starting these programs now in the first grade. We want to tell kids what's a weatherman do, what's a policeman do, what's a teacher do; Get them excited, get them out there but let's say we are all in this together and demonizing anybody in the system does not work. We just have to realize what the evidence is and get them out of that place into something else.

MR. REEVES: And there are now a number of states following Colorado's lead on that including North Carolina, Delaware, etc.

Now, the gentleman there, yes.

MR. MANUS: Hi, I'm David Manus. I actually worked Governor Kasich's campaign last year so this brought back good memories --

GOVERNOR KASICH: Well, you didn't do that great, I didn't win.

GOVERNOR HICKENLOOPER: I wouldn't brag about that.

MR. MANUS: No, I had a question. I'm sorry.

GOVERNOR KASICH: I wouldn't be bragging about that if I'm so amazing.

GOVERNOR HICKENLOOPER: he says you shouldn't be bragging about that.

MR. MANUS: What do you all think about a universal job guarantee?

GOVERNOR KASICH: .

MR. REEVES: Sorry, sorry, say it again.

MR. MANUS: Universal job guarantee, what do you all think?

MR. REEVES: I just don't get it.

MR. MANUS: A universal job guarantee.

MR. REEVES: Oh, job guarantee, very different thing. Universal job guarantee, gaining a lot of traction as you know on the democrat side. There's a debate, which would deal with money or to make sure that everybody can get a job and that it's one thing to say we are going to have conditionality and so one for people who can't get a job so we deal with that by saying everyone can get a job and effectively it makes the government the employer of last resort, if not directly then by funding it. Governor Hickenlooper?

GOVERNOR HICKENLOOPER: So, I shy away from that just because we are not far enough in the curve, the evolutionary curve of all these jobs supposedly disappearing. I think they are going to change but I think there are going to be so many new jobs coming I am inclined toward incentives to make sure that people hire more, like getting rid of the payroll taxes, payroll wages and putting them into a VAT, or some other version of a tax neutral solution provides a dramatic incentive for people to hire more people. It will take some of that penalty off.

MR. REEVES: Okay, thank you, I can squeeze one more in --

GOVERNOR HICKENLOOPER: (Inaudible over-talking) I haven't studied that yet.

MR. REEVES: I'm going to squeeze one more question in; I'm going to give it to Alice Rivlin right here.

GOVERNOR HICKENLOOPER: Alice Rivlin! Give her a round of applause; she's the best (laughter/applause)!

MS. RIVLIN: Thank you. Well, I'm a big fan of both of you and of what you're doing together. But I want to ask you about the role of states and particularly in education because you've talked a lot about K-12. The federal government doesn't really do much there, they meddle a little bit but they don't have a lot, a big role; and even in higher education, that's basically a state thing, so as governors what has been holding you back from doing some of the things in Colorado, in Ohio that you've been talking about?

MR. REEVES: Great question, Governor Kasich?

GOVERNOR KASICH: Well, I mean, we are doing a lot of things. In fact, if a school district fails like 2 - 3 years in a row we can take over the school district and appoint somebody to fix it. We are doing it in Youngstown now, you know about the Cleveland Reform. Look, one of the things I want -- there are two things I wanted to do in my legislature.

The first one is every single school board should have a non-elected business person on the board to help them with curriculum. I couldn't pass it.

Okay the other one was I wanted every teacher to -- whenever they go to renew their contract, to be able to go out and spend you know, a few days with the business, to see what's happening in the business world. I couldn't pass it.

You see what happens is the system. It's like asking me, Alice, it's like asking why did we have 500 dollar hammers in the Pentagon? Well, because we couldn't get enough votes to fix it. Well we did, but -- I mean, I'm just saying to you if you

can't -- when the system shoots back at you and they do around and they blunt you, then it's hard, but we made tremendous gains in many different areas in education, but simply not -- and many of the schools are doing what we are suggesting -- community colleges now are working with schools -- it's a coalition of the willing.

I just wish there were more willing and it's on all of us and not just me, but it's on the community college leaders, it's on the business leaders in the community. So when I was saying earlier, what can you do, what can you do to make a change? Well, go talk to the schools about it. You're worried about the future? Talk to the schools about it. Talk to the Superintendent, say, "what are you going to prepare these kinds for the changing economic environment?"

Don't just leave it to -- what are you doing about this Alice? I mean what are you doing?

I mean why are you asking me, what have you done? Make an accounting of yourself! We need to hear from you!

No, seriously, you see what I'm saying. It's hard because the legislature is political and they are worried that somebody is going to mad at them and --

MR. REEVES: But one solace has been Governor for two terms which I'm sure going to happen. And Governor Hickenlooper, you've got a particular challenge because it's highly decentralized in Colorado --

GOVERNOR HICKENLOOPER: We are, the local municipalities and counties have their own -- we have a174 school districts, many of them very small. It is a challenge, but you can incentivize them, you can't dictate to them, and you could provide them models of things that work.

So, the last 10 years we've had a guy named Tom Boasberg, actually our US senator, Michael Bennet was the superintendent for the first three years and then the last 10 years Tom Boasberg has been there, but they have innovative schools, these scaled schools that were going to be shut down and the teachers' union agreed to work

with the principal, allow him to control schedule.

So, they have a quarter of their teachers come in an hour early and leave an hour early, a quarter of the teachers come in an hour late but leave an hour late, so they went from 6.5 hours a day to 8 hours a day of school time and then they paid everyone a little bit more money and they went from 186 days of school to 205, so longer school day, longer school year and they took one of the worse middle schools in the state and they turned it into one of the top five middle schools.

And I know this for a fact because my son went there just after they had done these changes and it was miraculous that all these kids that come from lower income, chaotic homes where they had a hard time doing their homework; they are doing their homework in school, in study halls before, at the beginning and at the end of school, that kind of change -- when you provide -- so now we've got these things all over the state.

Now I can't mandate it yet --

MR. REEVES: No.

GOVERNOR HICKENLOOPER: But I feel certain that in three or four years we'll have the vast majority of middle schools will be on this type of a model and you know, finding other ways where you can integrate business leaders with the teachers. Just motivate and incentivize the schools that do bring business personnel into the schools to help them. I mean, most principals were very good teachers and they got promoted to be principals. They are not necessarily good principals. They don't know how to manage a big enterprise, they aren't as good with budgets, but you give them a little bit of support and they can get better quickly.

GOVERNOR KASICH: Let me just -- I'm assuming -- to tell you the limits of power, and this could be depressing. I was talking about the gun control stuff, so one of the things we came up with was a red flag law that I think Hickenlooper got enacted in Colorado.



Different state, different group, different sense of -- but here's the thing; if you know of somebody in your family or in the workplace who is unstable and poses a danger to themselves or to others, that you can go to a Judge and if a Judge rules that you are right, that person's gun is taken away until they are stabilized. I. CAN. NOT. PASS. IT.

MR. REEVES: Mmm.

GOVERNOR KASICH: I cannot pass it. Now, would I give up, am I pessimistic, do I not believe in the system? No I don't. It's going to take time, and the frustrating thing with being a leader is that you'd like to snap your fingers and get everything done, but you know maybe it's good that you have to work, you have to strive, you have to push. And -- but there are limits to our ability to persuade, there's limits of our ability to really be fantastic and you know what maybe that's a good thing in the end. It brings about a greater sense of humility.

GOVERNOR HICKENLOOPER: And we didn't get it done either. At the last minute, the votes were blocked.

GOVERNOR KASICH: And you think about that, how frustrating it is, but that -- look folks, the most important message I want to give you is this: there was an article, David Brooks wrote about it today, I read about it on the plane today about the community in South Carolina, it's actually started in Cincinnati where we look, evidence based, we look at a problem, okay -- whether the problem is homelessness, whether the problem is drugs, whether the problem is -- we've got to do it there.

I suggested to Arnie Duncan in Chicago -- get the police, get the community activists, get the university people, get everybody in a room and figure out a strategy to deal with the gang problem and then move, run over the politicians.

We have to do these things -- remember, what is that thing? Think globally, act locally. We've got to get back to believing that we are the heart and soul and the flame of America and not somebody who's elected. We should think about that.

MR. REEVES: I have to take the opportunity to finish with the quote from the philosopher Gerry Cohen who says fairness is made in the thick of daily life, in the thick of daily life rather than in structures, but we do have to bring it to a close.

I'd like to thank all of you for attending this event which may come to be seen as a dress rehearsal for a future presidential debate, or may be an early campaign start on an exciting bipartisan ticket. Either way, it's been really thrilling to have both of you here. Thank you Governor Kasich and Governor Hickenlooper (applause).

MR. REEVES: Next up we are going to get a summary of the book we are launching today, Belle Sawhill's book, "The Forgotten Americans," which speaks to many of the policy issues that we've just been hearing from the governors, so Belle is going to give a summary of the book and then we are going to turn to our expert panel for responses, so, over to Belle Sawhill (applause).

MS. SAWHILL: Thank you Richard, and I found that wonderfully inspiring to hear two governors from two different parties having such a constructive and civil discussion about some real questions.

So, I am going to dive right into my telling you about my book. It seems I'm not an economist after all. I'm an astrologer so you can take everything I say with a grain of salt for that reason.

Why did I write it? I basically woke up on November 9th 2016, in shock. I think many people were surprised about the outcome of the election but I was really stunned. So then I began reading about all of the reasons why we had had this outcome and there was speculation about, well it was Russia, or it was Comey, or it was that people didn't like Hilary, or she didn't run the best campaign, but I think in the end, the most important reason was because people were really frustrated and they wanted change. And, they didn't want incremental change, they wanted big change, they wanted some china broken.

I think they were right to be frustrated. We have got really serious

problems in this country and they've gone unaddressed for far too long, so that has created this pent up demand for some serious movement in a new direction.

I view the election as a kind of wake-up call to try even harder to do something about the Forgotten Americans, I'll come to them in a minute; but in a way that fits these trying times and the values of the electorate. I thought this conversation about first principles get agreement on that was really important.

Let's begin with the problem; let's see -- I do have some slides here, and I think the big problem, as you all know, I don't have to tell you, is that we are very divided as a country. We are not just divided economically; we are divided politically and culturally as well. And I think the reason it's important to talk about all three and not about the economics is because any solution, including on the economic divisions, is going to have to be very sensitive to where we are culturally and politically. I no longer think we can treat these issues in separate silos.

So, what to do? On economics, I focus on work. That means jobs and wages. Why do I focus on that? First of all, I think it's a core American value. We believe very strongly in the US in work. Second, the forgotten Americans, because I've gone out and talked to them and I'll tell you in a minute, is what they want for themselves. If you ask them they say really jobs and wages is what they care about. And finally, I think work provides more than just income. It provides people with a sense of dignity and self-respect and being connected and contributing.

On culture, I'm less optimistic. There isn't a lot that we can do. We've got huge divisions on how people feel about things like abortion, guns, immigration, religion and so forth; but I'm going to suggest at least two ways that we might at least mitigate the cultural divide.

One is to focus again heavily on basic values that we can all agree too, the principles again, and the second is to promote and encourage universal national service, and I'll come back to that.

Politically, one way to characterize my book is that it's an attempt, as Richard said, to move to the center; to marry red state values about education, about work and about family to blue state policies that would actually help people in practical ways to achieve their own goals in of those areas.

Moving to the center would furthermore, I think, recognize, and this is very clear to me, that the electorate is a lot more moderate than the activist wings of both parties. We don't hear about that enough.

Given hyperpolarization, we may also want, as the governor said, to rely more on local and state governments, more on local community efforts, more on individuals and NGO's to improve people's lives. Now, I don't want to go quite as far as I felt they were going to think that that's all it's going to take, but I do think there is something to that.

Simultaneously, we do need to reform our political institutions. I'm not going to have time to talk about them today. I'm hoping that my colleague Elaine might, but we've got to worry about dark money, we've got to worry about voting and gerrymandering and that whole list of political problems.

I call my book *The Forgotten Americans* because that's what Trump called them, and they have indeed been left behind and many of them supported him. So, who are they? Well, there's no one really "right" definition, but in my book I first say they are people that don't have a four year college degrees, I'm not too worried about them. Secondly, they are people who are in the bottom half of the income distribution, and so I'm taking out people who are doing just fine despite having the credential, and that leaves us about 38% of the working age population. When we look at their racial breakdown, a little more than half of them are white and the rest are minority groups of various types.

I think that we now can be ready to turn to their economic problems, and this slide basically tells you what is in about three chapters of my book, and I've just

summarized it here because I think these trends are well known. Upward mobility is declining, inequalities at unprecedented levels, wages have stagnated, especially for the less educated, and labor force attachment is declining, especially among men.

All of these problems were exacerbated by the recession in 2008 but they have been around for far longer than that. I would just stress that the problems are serious and that they have left a lot of people behind, and that inequality is at virtually unprecedented levels.

Now, although I'm focusing on economics, I don't want to leave the impression that what's been happening recently is just an economic story. It's also a story about culture and when Governor Kasich said, it's some of both economics and culture, I agree with that. I see Bill Galston back there and I think he's written a book that I think really gets at a lot of this.

Some of you may have read these two specific books. They do an excellent job at describing the cultural issues affecting just one subgroup of The Forgotten Americans although it's a big subgroup, and that is white -- what is usually called the white working class. Why have these two authors and also myself, spent so much time giving some attention to this group, and I think the central reason is because they voted overwhelmingly for Trump, about 67% of them voted for Trump, only 28% for Clinton, so if we want to understand the populace streak in our politics right now, we have to understand this group.

They feel disrespected. They don't like immigrants, they don't like trade, they think it's destroying their jobs and they are not happy about all the focus on the rights of women and minorities and the LGBTQ community.

Now, it'd be easy to call them a bunch of deplorables, but as Hilary Clinton learned, that would be a mistake. They are a large and diverse group. Not all of them are nativists, misogynists, or racists. In fact the data shows that a significant number of them voted for Obama before they voted for Trump and the swing voters in this

group, I think are pretty focused on economic issues, not some of these more divisive cultural ones.

So one lesson I drew from reading this kind of literature is that it's a good idea to get out and actually talk to people, because that's what these authors did and so I decided to do the same thing myself. And, I hired a firm and went to three communities, Syracuse, New York, Greensboro, North Carolina and St. Louis, Missouri, and I talked to The Forgotten Americans defined in exactly the same way as I define them in my book.

This is what I learned from listening to them, actually this is not what I learned from listening to them, this is the publication that talks about what I learned from listening to them, that is just being released today; Mark, thank you. And, these are some of the take-aways from listening to these groups.

First of all, they really do understand something that the Governors were talking about, that people do need to be better skilled than they are right now if they want to be able to fit into today's labor market, but they are very skeptical of college. As one person said, college, college, college, you know, kind of very dismissively, and they see young people coming in with college degrees and they don't think they really know that much and they don't see them being all that productive as a result.

The other thing they then say is it's not finding a job that's hard, now that may reflect where we are right now economically, it's the wages and to some extent, the benefits. There are plenty of low wage jobs out there but that's not what this group aspires to. They are very big on the idea of personal responsibility. They would not agree with what I hear from a lot of my liberal friends about it's the structure of the system that's systematically making it impossible for them to get ahead. They don't think that at all. They want to be self-supporting and they really feel not just underpaid, but also underappreciated, especially by their employers. This is an issue about respect and about feeling as like you're part of a team as well as your wage or your income level.

So, let's move on then to this last point on this slide, which is they are

enormously cynical about government. They think government doesn't work. They basically think it's a joke. I can't tell you how strongly they say that. And, in case you think this is just a small sample, and it is a small sample and it's not necessarily representative, here is the pew data on trust in government which is way down and is now around 20% and is even lower for some parts of the government, especially the part here in Washington.

Let me turn next to what we might do about the economic grievances of The Forgotten Americans, focusing on jobs and wages. I think the first thing we really need to do is to maintain full employment. I credit Gerry Bernstein for having made me so aware of how much difference that makes to this particular group. Unlike those of us who have professional jobs, this group is very much affected by whether or not the economy is at full employment or not.

Assuming we can maintain full employment, not easy, then the next point is that there are going to be lots of people who can't get jobs because they don't have the right qualifications or skills or because they live in the wrong places, and the Governors talked about that and I think the solution to that is the one that they emphasized, we really need a serious effort to retrain and help people relocate.

The next thing is I think we do need a bold and very direct way that would boost take-home pay. I like Governor Hickenlooper's ideas about this. I have a somewhat similar one which is that we would give a tax credit to everyone whose earning are below about \$40,000 a year, and that tax credit would offset their payroll taxes and bump up their take-home pay. I call it just a worker tax credit. It's similar to the EITC, but simpler, less error prone, more marriage friendly and more expandable to scale.

I also think it would be politically popular. Harvard professor David Elwood used to say if you work, you shouldn't be poor. That's a value statement. It resonated. President Clinton liked it so much that in the administration that he and I both served in, we actually expanded the EITC, I'm looking at Alice because she helped with

that too, so that it was true that you would not be poor if you worked full time.

A worker tax credit would not only put more income in peoples' pockets, I think it would send a signal that government is now on your side. It would be a tax-cut essentially, for the bottom ranks but tied to the value and dignity of work and not a tax-cut once more for the wealthy.

Now, it would be very expensive. I want to be open about that, something like a trillion dollars over a decade. How would we pay for it? I think the best way would be by taxing unearned wealth or very large estates. I discovered in the process of doing my research that the estate tax is actually a kind of a goose that lays a golden egg and if we could just take the estate tax back to the parameters that had at about 2000, we could almost raise almost enough money to pay for my worker tax-credit for everybody earning less than \$40,000 a year. But, as you know, nobody pays a penny of estate tax unless they have more than 22 million dollars per couple.

Finally, because I think government can't be the only solution here, or perhaps even the major solution, given all of the distrust we've talked about and the fact that all the growth and inequality by the way is due to the fact that market incomes are more unequal than they used to, it doesn't have anything to do with our tax and transfer system. So, one way to think about this is we have to then go and look at the income that is earned in the private sector. 85% of jobs in income are in that sector and I think with a small nudge from the tax system, we could change the way corporations treat their workers.

We used to have unions to do that, but they've been seriously weakened. If they can be resurrected, I'm for that but I'm dubious it's going to happen any time soon. In the meantime what I argue for is a more inclusive form of capitalism in which all stake holders, especially workers, benefit when the economy is doing well.

And, I think with the right tax incentives we could nudge American businesses back into training their workers; the amount of corporate training has gone



down, and, also in sharing success with their workers through profit-sharing or through employee ownership. There are companies that do that now. Almost everyone has heard of Patagonia or Ben and Jerry's but many of you may not be aware that even the big three auto companies as well as a lot of the airline industries are doing this kind of profit-sharing as well.

Now, a lot of people, including me as an economist, worry that businesses aren't going to be competitive if they don't stay religiously focused on the bottom line, and I get that argument, but I did a lot of research on this and frankly, I was surprised. It suggests that there is little, if any, trade-off within reason between treating your workers well and making a profit.

Obviously corporate America has to balance the interest of shareholders and those of workers but all of the evidence suggests that right now they are overly focused on their shareholders and their quarterly profits. The new CEO of GE was quoted in the Wall Street Journal yesterday that we get hired and paid a lot because we are responsible through thinking more long term than anybody else that works for the company but if we miss two of our quarterly profits targets we are going to get fired, and he was kind of explaining the dilemma we face right now.

I think this is all about recognizing that operating a business is a team sport and it would be like providing everyone, not just the top executives the equivalent of a performance based stock option when companies were doing well, and it might even boost flagging rates of productivity growth.

Finally, to address our cultural discontents, our tribalism, I propose to expand or even make universal the idea of national service. President Kennedy famously said ask not what your country can do for you, ask what you can do for your country.

Under my version of national service, every young person would be expected to provide a year of service, either military or civilian. There are older, retired

individuals who might want to participate as well. I add a new twist to this somewhat old idea by also suggesting that we ask American families all across the country to open their homes and host a young person during their year of service. My focus group participants, by the way, in the three cities I went to, they loved this idea when I talked about it. They really saw it as a way to reduce cultural gaps and help young people learn new skills while providing needed services at the community level and renewing a shared sense of identity and pride in country. This idea has had bipartisan support in the past but right now our current program is small and very underfunded.

So, let me conclude, I have suggested a set of ideas that I believe have some merit, but if my book does nothing but catalyze a better discussion about what we might do for The Forgotten Americans, I will be happy, and I'm really looking forward to getting reactions from the terrific panel that is now going to talk some more about all of these issues and I want to welcome them up to the stage, and especially our moderator Ruth Marcus from the Washington Post (applause).

MS. MARCUS: Hi, we are short on time so I'm going to be super-efficient here and start to talk while everybody is getting seated. I'm Ruth Marcus from the Washington Post and I am neither an economist nor an astrologer, something even worse, I'm a journalist, which means my prognostications are even less likely to be taken seriously, but that's okay.

I love coming to Brookings because it's a respite for me from the world of incessant tweets and paper partisanship, so being at Brookings in the world of ideas and being at Brookings with two of the most thoughtful and bipartisan governors around, for me is like the journalistic equivalent of a spa day. So, thank you very much to Brookings, I appreciate that, but I also want to say we spent so little time, really, recently, we spend so much time fighting and we spend so little time talking about policy changes that could actually address the needs of these Forgotten Americans.

I think I need to start with a more challenging question than I intended to

start with and I'm going to direct my question, first to Bill Kristol and then to Elaine Kamarck, which is this: is our problem that we have a postivity of the right policy ideas or is our problem that we just have a fundamental broken political system that is incapable of dealing with even the smartest of ideas out there? Bill, that's a nice one for you, take it away.

MR. KRISTOL: Thanks, as the person that knows the least on this panel I get to go first I guess. I mean, both obviously. We have good policy ideas but let's put it this way, if you came down from Mars and someone said, huge globalization in 20 years, really, I think more (inaudible) and quantity and maybe even qualitatively different than previous ways of globalization, you know a billion brokers coming into the world trading system etc., and breakthroughs in automation, obviously especially in communications, technology, that again, I was a skeptic that it was that transformative but I now think it's a pretty big deal. Maybe Industrial Revolution size deal, and then you, just those two, sort of more on the economic front, than throw on a huge amount of cultural and social change, those are hard to deal with.

Leave aside even the cultural stuff, just the -- it's not like it's so easy to know exactly how to help lower, less educated peoples' wages, if you are introducing a huge number of low wage but pretty good workers into the global trading system. You can get rid of the global trading system and if we move into capital, which would have huge costs in other ways, but -- so I think, I do think the problems -- I think the policy ideas are good but the problems are probably of a higher scale or bigger magnitude, greater magnitude than maybe the equivalent problems were in 1960 when the equivalent good ideas were developed which led to various social insurance programs or EITC and 20, 30 years later and so forth.

Having said that, it's very clear the political system is broken. It magnifies divisions instead of moderating them. Political parties is the, how to say a word on this, is the easiest instance because I happen to vaguely look for ten minutes at

this sort of -- I didn't really look at the political science literature, I looked at accounts of the political science literature on parties and the absolutely traditional account of parties, which is mostly correct is that they bring interest group together, force them to compromise within parties that are in government, force them to compromise between parties, and this is a way in which a huge diverse factious society, where it can get some progress and some consensus, it's very clear now that the party system combined with the way congress works, especially at the federal level, exacerbates divisions leads to hyperpolarization and hyper-partisanship, not the opposite.

Some of that may just be things that we can't quite control either, socioeconomic sorting and so forth but some of it is just due to the particular ways some of our institutions work.

I do think the political reform agenda -- fixing, were not going to -- fixing, the right response to automation and globalization, that's complicated and difficult and challenging. Fixing the political problems, the aspects of the system that are just making things worse, that should, in principle, be more doable I think.

MS. MARCUS: Okay, so Elaine, is it?

MS. KAMARCK: Yeah I --

MS. MARCUS: Is it more doable?

MS. KAMARCK: I think it's more doable. I want to focus in on something that Belle brought up. And, Ruth I want to tell you that we *do do* massages and facials upstairs.

MS. MARCUS: I knew that, I knew there was a secret space.

MS. KAMARCK: You knew there was a secret space.

MR. KRISTOL: Confirming everyone's image of Brookings out there in America.

MS. KAMARCK: I want to focus on a subset of the political problem, one that I am very familiar with which is -- which Belle mentioned and showed this graph of

trusting government.

Part of the problem is that there's been the zygite says that the government does everything wrong. The fact couldn't be further from the truth. There are millions of people every month who get their social security check, there are millions of people every month who's medical bills get paid by Medicare. The government is actually working and if you take that trust number and break it apart and you ask people, how do you like Medicare, they love Medicare. Ask people how they love Social Security, they love Social Security. Ask people how they love the United States military, they love it. Ask people how they love the post office, they like the post office, okay.

So, distrust in government is a weird thing which we spend a lot of time breaking down in a project I did at the Kennedy school some years ago, and what it boils down to is there is some sense that what they do in Washington we don't quite understand. And, the way I've always explained it to my students is Washington is a great big ATM machine. You just go like this and money goes and where does it go, it goes to the states and to the localities.

Now, what happens every time we have a government shut-down, is people get it. They say, oh all this government that I do like, it comes from Washington. What a surprise. And then, of course, they quickly forget because everybody spends all their time criticizing Washington. So, I think we've got a big problem here in looking at the system, and at the government, and convincing Americans that actually, you know what, you're getting pretty damn good value for your dollar.

MS. MARCUS: So, I'm sorry, are you saying that what we have here is a messaging failure?

MS. KAMARCK: I think we have a big messaging failure when it comes to what the federal government does. I think we absolutely do. And I can point to that graph Belle showed, between 1994 and 2000 the trust in government numbers went up steadily for those six years. Then there's a peak in 2001 that's the 911, and then they

slide back down.

What was going on then? Bill Clinton and Al Gore were telling people that they were reinventing government and they were fixing it. They were breaking ashtrays, they were talking about all the silly stuff, they were getting rid of it, etc. This is not an insoluble problem but it is a problem that has to be addressed if you want to get to any of the good ideas that are in Belle's book. You have to convince people that there is some level of competence and I think you have to do that in a way that Bill Clinton tried briefly in his administration and nobody's tried before or since.

MS. MARCUS: Okay, so I'll play economist here and we'll assume we fixed government trust in government and insoluble divisions between the political parties, so let's move on to ideas, at least temporarily. Eric and then Jared, I'm giving you a magic wand and I'm allowing you the one best idea, though I will actually give you in your wand, you can have the ability to wave it back at me and to say, that's a really stupid question Ruth, because there is no one best idea, or else it would have already been done and what we need are a series of micro -- or interventions, but I'm asking you my question and you can turn it back on me if you like.

MR. RODRIGUEZ: Fair enough, thank you. Well, first, it's great to be here, I really appreciate the opportunity to be here with this panel, and a part of this conversation. Naturally, I received the book last week, so I said, oh my God, I have a week to read the book and get through this and be prepared for this panel and of course, I started with the conclusion, and then went to the intro, and as I was turning the pages, I kept thinking, oh, this is a great idea, let me read more of this, and before I knew it, there was no page left behind, and forgotten right.

I went right through it because a lot of the things, the proposals, really do ring true to either proposals that have helped all Americans over time, or some pieces of that that we are rebuilding on in some important ways that I think we are crucial to cover. So, I appreciated the breadth. I also have to say that coming from the civil rights

community, I've appreciated the way that Belle really included the notion of race and other communities in the book. We have seen many books come out about inequality and Forgotten Americans where it's kind of in the intro, yes racism matters but we're moving on. But, this I think did justice to at least communicating that this is important and an important part of our understanding about what's happening and I say that because that's important to thinking through how we move from this point further, given the way that our politics have aligned with race in the way that we think about solutions in working together.

So, the proposal that was important to me was the National Service proposal. It was the one proposal that brought together the notion of humanizing communities as well as trying to create a benefit and I say that because I firmly believe at this stage in what we are seeing that racial resentments and racial animists and identity, white identity, the country's identity, are far more important in factoring into our politics than perhaps be give it credit, and that hinders our ability to come together around a common economic agenda, and I think that's important for us to talk about, and I think that's important for us to address the one missing dimension that I felt was important to lift up was not immigration but immigrants, and the fact that we have 5 to 6 million US American children that have an undocumented parent in their household. That is the future of our country and they are living in fear. And the current system that we have in place is undermining the parent's ability to work, undermining the kid's ability to have education and pursue that and threatening to separate them from their families and their parents.

Right, that's happening right now as we think about the future so I think there needs to be more conversation about that because our policy system and our political system has not been created to digest those issues properly.

The thing that I think we could all agree is that if tomorrow we introduced every single proposal in this book, minutes later there would be anti-immigrant

amendments that people would see attached to every one of those proposals. You just can't get around that. That's just, kind of, the reality. So, the one that sticks out for me is the one that addresses the humanization of segments of our community with the interests of the country and that's the only way I believe we are going to be able to move forward together.

MS. MARCUS: All right, now Jared, what's your idea?

MR. BERNSTEIN: First of all thank you Ruth, and thank you Belle for inviting me and for writing such a great book. People sometimes compliment me on my ability to write clearly about complex economics and then I read Belle, and I see how much further I have to go, but --

MS. SAWHILL: (Inaudible) astrologist.

MR. BERNSTEIN: Right, maybe that's it, and the other part of the book that I really commend to you is you really see someone who's got you know a really big brain, but an equally big heart struggling with very hard questions. And, that just really comes off of the page, Belle's earnestness in trying to think about these problems and there are a lot of tony economists at her level that don't bother doing that. So, I am endlessly thankful for her work in that regard.

So let me be somewhat uncharacteristically a bit more positive than some of the other voices we've heard today and starting with some of the things that Bill was just talking about; Bill to my left. What he was talking about regarding trade and technology and then I'll wind up in trying to answer your question.

So, if the notion is that the pace at which labor saving technology is displacing workers in the American labor force, and that the pressures of trade are also having those kinds of impacts due to import competition, it's kind of hard to square with the economy and the labor market that we see right now in front of us. We have an unemployment rate that's almost at a 50 year low, 3.7%

We are creating jobs at a pace that most economists didn't think was



plausible at this late stage in economic expansion, by that I just mean it's an older expansion, I'm not saying that it's going to end any time soon because economists can't really predict recessions and expansions don't really die of old age, so we don't know, but it is year 9, and yet, there's more capacity out there, more room to run as we sometimes here FED chairs say, which actually has bearing on where I'm about to go next.

The problem is job quality and this actually comes right out of Bel's work. People were saying we didn't have so much trouble finding a job but it was the quality of that job and there I take your point about the downward pressure that trade puts on wages. Well, that's something that can handle-y be addressed by policy. And, I'll leave it, unlike many others on the panel including Belle, I'm not really talking about the politics right now, obviously without them we get nowhere. I'm not dismissing that, I'm just saying there are people here more qualified to talk about the politics, but here the policy as Ruth asked, whether it's minimum wage, expanded earned income credit, Belle has an idea to build on top of that, a workers credit; those are all plausible ways to improve the quality of jobs when the quantity is strong, and then you might say well wait a second do we have enough income to do something like that.

Well, we have more wealth per capita than we've ever had; it's just extremely concentrated at the top of the scale. So, yes there will have to be some type of redistribution to make that occur and that is part of Belle's solutions as well.

In terms of the policies, I've already been tagged as an advocate of full employment and I very happily and willing wear that tag, and I think maintaining full employment is key, as I said, we are just now at 3.7% almost a full percentage point below where the Federal Reserve tells us is the lowest unemployment rate sustainable with stable prices so the natural rate of unemployment clearly they peg that too high, so here we are in territory we haven't been at for decades and we haven't seen that much wage pressure. Well, se are starting to see a bit more now, and my prediction, and you can write me nasty tweets if I'm wrong, is that over the next couple of quarters we are

going to --

MS. MARCUS: Nasty tweets?

MR. BERNSTEIN: Yeah, can you imagine?

MS. MARCUS: Hard to believe.

MR. BERNSTEIN: Yeah, hard to imagine, I do have a policy. The minute somebody sends me a nasty tweet I block them so one strike and you're out is the way that I play it but that's neither here nor there.

MS. MARCUS: Hey that must explain something now.

MR. BERNSTEIN: My followers are dwindling. But anyway, my point is that I do believe we are going to start seeing some real wage gains in incoming quarters so I think full employment really does work and I think there are monetary and fiscal policies that can help maintain that. In the interest of time I won't speak to them. I'll just finish with this: Belle talks about the importance of a subsidized employment program. I very much endorse that and would underscore the point that there are numerous ideas that have now been written into legislations on Capitol Hill, all democrats, none of them going anywhere anytime soon. But they exist on a continuum on a very mildly interventionist idea which Belle puts in her book to a guaranteed job that Richard asked about earlier, that is at the other end of the continuum, I think there's actually very good ideas along that continuum. I probably put myself more in the middle of it where Belle is more on the less interventionist side without going all the way to the guaranteed jobs, and I think that is my policy solution.

Maintain full employment but because there are places and people that full employment doesn't reach you need a subsidized employment program as well.

MS. MARCUS: So I want to kind of encourage everybody to jump into the fray here but I didn't want to pigeonhole Elaine and Bill as political types with no policy brains, because they are policy brains as well. So, Belle, do you want to say something really briefly about what you've heard so far and then maybe Elaine and Bill

could maybe jump in --

MS. SAWHILL: No, I think we should continue.

MS. MARCUS: Okay, All right. Elaine, you have the wand.

MS. KAMARCK: Yeah I have the wand.

MS. MARCUS: There you go.

MS. KAMARCK: Thank you, thank you. I think that -- I wanted to say two things about the politics of this okay, first of all

MS. MARCUS: I was asking you about policy. I was giving you the policy opportunity.

MS. KAMARCK: Policy! Oh I didn't hear you.

MS. MARCUS: But you can do politics, whichever you think is --

MS. KAMARCK: let me start with policy; let me start with policy then.

One of the things I love about Belle's book is that she understands and emphasizes the value of work. I really dislike all these policy proposals to have a guaranteed income. It would so undermine our democracy. It would so create too -- we worry about class? Imagine the class system that would develop with those who work and those who don't. That would be just awful and I think what Belle hit on here is a sort of core essential value that sometimes my party loses sight of, which is the psychological value of work and how important that is. And, so I think that is absolutely critical and supporting work through worker tax credits, the EITC. I mean, look the EITC was the biggest increase in poverty spending in the century, in the century.

Nobody gets that right? Absolutely nobody gets that. It started out as a republican idea. The new democrats stole it, okay, blew it up, increased it a lot and now the republicans have turned against it all right. The republicans have turned against the EITC because they say well people don't have a stake in the system if they don't pay income taxes and there's a lot of people who are not paying income taxes.

MS. SAWHILL: So they actually go back and forth. This year CEA report actually calls for an expansion of the EITC.

MS. KAMARCK: Oh Does it.

MS. SAWHILL: Yeah, a small one.

MS. KAMARCK: A small one? Oh, that's good to know. In any event I think that the emphasis on work is critical and we have to keep our eye on that ball in all policy development because it is such a core value and get away from the extreme, and Belle also touches on this, the extreme redistributionist side of it. That doesn't work in America. I don't know how many times democrats have to try it, and fail, to see that it just doesn't work.

So I think those are two, they are almost value and messaging issues that should be at the core of the

MR. BERNSTEIN: So, Elaine, the EITC redistributes about 70 billion dollars a year from high income people to low income people, so why is that okay with you? You know it other words --

MS. KAMARCK: Well --

MR. BERNSTEIN: What do you mean by extreme, what is it you're against?

MR. KRISTOL: I feel like I should get out of the way of this, there's no debate that's nastier between a new democrat and an old democrat you know and I always enjoy them personally, so I feel like.

MR. BERNSTEIN: I'm not at all being --

MR. KRISTOL: I'm just teasing you Jared.

MR. BERNSTEIN: I think she means -- I think you mean something different.

MS. KAMARCK: Well, no, what I mean is the EITC is about work. It's grounded in work, and I think that's the core value that I'm trying to get at here and I think

that's what Belle talks about in the book.

MR. KRISTOL: I'd like to say a word about the policy thing and then we can get back to the class warfare vs. the non-class warfare stuff and everything. I mean, I actually agree with Jared in certain respects, in many respects but I still think the relative disadvantaging of less well educated works in America is something that is very hard to see how you fix with moderate or incremental policy proposals.

You can massively -- you can do as much of the EITC as you can do, you still have the problem of less participation in the workforce, which doesn't really help those -- so the EITC doesn't help those -- unless it drags them in you could argue maybe, but it doesn't directly help those who have stopped participating in the work force, in which pursuant we haven't captured in the unemployment numbers, so I think it's just a big structural challenge which requires fresh thinking and to some respect, it may be something that one goes to as a society as an economy for a decade or to.

It's easy for me to say this and it sounds heartless. No politician would put it this way but you know, there are just macro -- you know, huge economic trends that one can't fully compensate for or deal with.

But I agree with Jared in this way, but coming at it from almost the opposite, in a weird way, I wonder isn't it easier to do big things than small things in public policy.

MS. KAMARCK: I don't know, ask President Obama.

MR. KRISTOL: But he found this too I think in some ways, which is, I'll put it in a -- I mean there's a (inaudible) which is in a way easier to have higher economic growth than to figure out how to allocate the rewards of economic growth in some micro-clever targeted way. That does assume government working better than I think it often does work and it forgets about all the unanticipated consequences of various government policies, and then from a sort of, let's say, conservative (inaudible) I just have a skepticism that government knows how to do these things that well whereas, so this on

the Clinton years, it wasn't messaging.

In the Clinton years, people had more trust in government because their incomes were going up from '95 to 2000. They started to lose trust in government when their incomes stopped going up, middle class incomes, I mean, they kind of interrupted the secular stagnation or decline that has been going on for three decades or so. So, I regard that as just a policy triumph of Clinton. It was not loved by the left; it was not loved by the right. It was a pretty conventional; I think you could argue economic policy.

James Carvel complained that the bottom market was running the country but it turned out that actually having a responsible debt and deficit policies was a good idea and could accommodate obviously some policy initiatives like EITC. You get a huge end of cold war dividend which helps you and then you get a tech bubble and it gets a little complicated but still, I think it's a policy success which suggests that -- I mean I wonder if the system is now too broken to respond to policy successes. That would be an interesting question, or not or whether it can't produce those kinds of policy successes but I think that's actually encouraging in the sense that people aren't just foolish, you know. They really became unhappy again with government when government stopped performing well, so I don't quite agree that government is doing such a great job.

I do think, I mean Bush and Obama, '08, and I'll say against my own interest some of the foreign policy failures of Bush, the crash of '07 - '08 that was not supposed to happen. We had worked that all out. Allen Greenspan, Ben Bernanke, I know Ben Bernanke is a sainted figure and he's probably sitting here or something but you know, if anyone looked at the FED, I mean, I shouldn't say that with economists, but has anyone actually looked at the FED minutes from like '06, '07, '08, they did not know or understand what was going on.

So I do not have such faith that we can figure these things out so wonderfully but I think the citizenry had a way sensible response which was, these experts do not know as much as they claim to know about that they are talking about.

Now, the response they seized upon is very damaging in my view to the country and conceivably to the global economy, and in that respect, final point, I'm sort of slightly hostile to those who we (inaudible) or out of touch, we have to get in touch, we have to listen to people; I'm all for that but if listening to people means actually pursuing policies that make them worse off, which is in my view would be some of the policies on trade, or scapegoating immigrants or not dealing humanely and seriously with the people who are already here, where in my view actually cutting back on more immigration of a certain kind which would probably be a big help for economic growth in a macro level, which would be very good for the country -- I'm not interested in sort of, I understand in politics we have to accommodate but I think it's a little unfair to accuse politicians of like they try to find the right policy -- the republicans, I would say the establishment republicans whom everyone derides, kind of hung on to free trade when no one else was doing it, supported Obama's free trade messages, tried to pass with the democrats an immigration bill in 2013 and they tried in a way, to hang on to what they thought were reasonable policies. It turned out that they were unpopular politically but it's a little hard to criticize them for trying to do what they thought was the kind of right thing for the country.

MR. RODRIGUEZ: So --

MS. KAMARCK: Eric, good, I kind of wanted to bring you in here.

MR. RODRIGUEZ: Yeah, well, I'm not going to react to all of that, but just to say a couple of things that, and there was a lot I agreed with in what you said but a couple of things that I think that Belle's book does touch on is that we did just do something big with the tax cut that we passed and that was enormously tilted in one direction and as long as we continue on that kind of trajectory, we are going to have longer term --

MR. BERNSTEIN: But it's unpopular and the democrats might actually run on that a little more, I think you're on probably on probably with Jared you know, this is actually a good issue for the democrats, as is healthcare. I mean, they sort of should

get back to basics on the left and stop thinking that every culture war fight is an automatic victory for them.

MR. RODRIGUEZ: , but a couple of things that were in the book that I also thought were important, was one, that a part of the solution going forward has to be the private sector. And thinking of you can use the tax code or the corporate tax code to realign incentives and think about training and investments I thought was quite intuitive and makes a lot of sense as we think about the future.

The other was we have to deal with the estate tax right, because what is passing on non-worked earnings to the next generation over and over and over again, over generations and the accumulation of that over time; how do we get more of that to invest in the places that we think is important. So I thought those were two important contributions to this part of the conversation that I didn't want to leave behind.

MS. MARCUS: You know, it's interesting; you've identified two particular pieces of what Belle's talked about. One if the notion of national service and the other is the estate tax and regaining revenue from the estate tax, and I have to say that while I find myself agreeing with both of those instincts and think that America would be a better country if those solutions were implemented, I'm also not at all convinced other than being able to use that estate tax revenue for a better purpose, that either of those in and of themselves would address some of the fundamental Forgotten American issues that we've been talking about; please discuss,, Jared, Elaine?

MR. BERNSTEIN: Well, I find myself having some difficulty wrapping my head around the conversation because it all sounds so large and insolvable in a way; you have to get the politics right, you have to get the communication right, but as Bill said, if you don't want to listen to people who have bad ideas, you want to listen to their good ideas and how much do we really understand about people anyway when we go out and talk to them for a couple of weeks or a few focus groups.

So, I think the best thing to do is to get down to basics and what was a



very elegant aspect of Belle's book is she identifies the basics as family, education and work, and I got to say it just makes a lot of sense to me. And, of those three basics, Belle, you'll correct me if I'm wrong, I have the author right here so; she can do that -- I think work gets a little more heavily weighted of those three.

MS. SAWHILL: In the short run

MR. BERNSTEIN: In the short run, okay. And, so we need to -- so that maybe makes the question here something you could maybe think about and deal with; which is that there are places, and they tend to be as far as you can imagine from you know the corner where you can get a latte macchiato, that where labor demand isn't that strong, even at low unemployment.

So, I'm talking about rural parts of America. I'm talking about parts of America that used to have a manufacturing base that has been significantly diminished, and here is where lots of economists who used to think about the solution for that kind of a problem was for people to move somewhere else.

You know, a politician would never tell you this, well go to some other district, but the economist would say, pick up and go to the city. And, in fact, geographical mobility has diminished. Belle points this out in her book so you can't say that. You have to bring more economic activity to people and I actually think that could be done through a pretty aggressive subsidized employment program. In fact, I would go further than Belle's. She, in my view, kind of nips a little bit around the edges of it by just targeting the people that are most disadvantaged. I would argue that there are places in this country that have great needs, infrastructure needs, human childcare and educational needs, and there just isn't enough investment income, there isn't enough economic activity to pay for that. And, so yeah, if you wanted to do it in a way that would make Ruth Marcus happy and have it be deficit neutral.

MS. MARCUS: I knew that was coming.

MR. BERNSTEIN: Then you'd have to raise some revenue through

some part of the tax code and people like to pick on the wealth tax because it's so egregiously unfair, and, you know, put me down as an advocate of that as well. But, however you do it, or even if you have to, God forbid, put it on the deficit, I think that's the way to go. I think we should bring more economic activity to places where it's not reaching and we should be pretty content that it is reaching a lot of other places as we speak.

MR. Kristol: Maybe I could ask her a question about how we could --.

MS. MARCUS: We are going to lightning-round ourselves here --

MR. Kristol: Okay.

MS. MARCUS: And were going to end the lightning round with a last word from Belle.

MR. Kristol: Okay, so, I'll just ask and you can have in your last word, you can answer or -- so I think you've emphasized as much as anyone family, education and work and the formulations that you and Ron, about getting out of high school and not having kids and staying out of jail and I totally agree with that but the book of course, if heavy on the work side because family has been A, dealt with by other people analytically and B, is extremely --

MS. MARCUS: Belle?

MS. SAWHILL: My next book is going to be on education.

Mr. BERNSTEIN: Family is extremely hard to deal for government, in a free society with a government, and education shouldn't -- well, who knows if it should or shouldn't be -- has been extremely hard to deal with -- education reform in a serious way for 30, 40 years, so work seems like the one one has the biggest lever on because it's more responsive presumably, and much more direct things government is used to doing, like EITC and minimum wage, and whatever and deregulation if you want to look at the you know, encouraging the people who are employing the workers and so forth, but how - - and this is an honest question, how much is the work lever worth, compared to the other

two.

And, I think if Charles Murray or Bob Putnam were sitting here, they would like the book and they would be friendly to it but they would say, compared to these other forces, you're sort of -- there's limited reward for doing all -- even if the political system were fixed, and we did all these good things, how much really would it change the situation we are looking at out there.

MS. KAMARCK: very quickly, what I would say to this is, no we are not going to stop, we can't solve everything. We cannot solve cultural problems from the government. We can't solve long-term structural problems from the government. What can we do, well we can do the sort of things that are in Belle's book. And, in order to do those though, we need to get to a point where the population says, yeah, government can do some things, and I think that's very important and that's been a major impediment.

There are things the government can do and we need to cross that barrier before we can get to then some realistic policy.

MS. MARCUS: Belle?

MS. SAWHILL: Well, to answer Bill's question about work, education and family, in the short run, if you're talking about what would do the most to help the most people over a few years' time, work is it. But if you're talking long term, then a better education system and healthier, stronger families might be more important.

I actually believe it depends upon the time frame where you come out.

MS. MARCUS: All right --

MS. SAWHILL: Can I just --

MS. MARCUS: Oh, I'm sorry --

MS. SAWHILL: Can I just really echo something that Eric brought up that I'm worried is getting lost here. The tax cut act of 2017 gave away, you know we can debate the number, but at least a trillion, and probably more like 2 trillion dollars, and we didn't get anything back for it. It was a giveaway. Now I understand there are

economists who believe that money will be used to increase investment, increase productivity and eventually you'll see a wage effect. We had a wonderful paper here, written by one of our best conservative, and one of our best liberal economists, trying to figure out what the long-term impact over the next 10 years, that tax bill would be. The impact on growth was tiny and they agreed to that.

This is not a liberal/conservative thing, and to me the issue here is not just where are we going to get the money and how are we going to fix our politics, it's couldn't we be a little more sensible about cost benefit here.

This had a huge cost and a very uncertain benefit. And, to go back to Eric's point, we really do need to nudge the private sector in some new directions. We could have used that money, we could now amend this bill, and we could repeal and replace it even.

I hate to use that phrase (applause), but we could and use that money to help workers have more of a stake in the success of the economy. So I'm very big on that idea and I think it hasn't been talked about enough.

MS. MARCUS: So, I think "couldn't we all be a little more sensible here", is the over-arching title of the Isabel Sawhill trilogy. So, we will be back in a few years to talk about education. I really look forward to it.

Thank you to Brookings, to Belle, to this very distinguished panel, and to the audience. Thank you (applause).

MR. REEVES: Let me just add my thanks to Ruth for moderating that panel; please join me in thanking Ruth (applause).

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