

SPECIAL PRESENTATION

**“AMERICA IN THE WORLD: FORGING A NEW VISION
FOR FOREIGN POLICY AND INTERNATIONAL
SECURITY.”**

“AMERICA AND THE GLOBAL ECONOMY”

MODERATED BY:

**MELODY BARNES, EXECUTIVE VICE PRESIDENT FOR
POLICY, CENTER FOR AMERICAN PROGRESS**

FEATURED PANELISTS:

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CENTER FOR ECONOMIC POLICY STUDIES,
PRINCETON UNIVERSITY**

**JOHN D. PODESTA,
PRESIDENT AND CHIEF EXECUTIVE OFFICER,
CENTER FOR AMERICAN PROGRESS**

**ROBERT RUBIN,
FORMER SECRETARY OF TREASURY**

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MS. MELODY BARNES: If everyone would take their seats, we're going to start the panel in just a minute. Great. This is terrific.

My name is Melody Barnes, and I want to welcome you to the last panel of the day. I'm the executive vice president for policy at the Center for American Progress, and I hope you've enjoyed the day and you're ready to engage with our final panel on "America and the Global Economy."

I think today's conference reminds us that peace and prosperity at home are inextricably linked to creating the same conditions for those abroad. With international security as our goal, transnational threats like terrorism and climate change and the proliferation of weapons require that we come up with progressive solutions like the type that we've discussed today. But I think we all know that any smart discussion about international security also requires a probing conversation about the global economy and America's place in it.

The world economy has grown faster in the past five years than at any point in the past three decades, in fact, faster than in any point in the five-year recorded history – in any five-year recorded history. This growth has created a global marketplace that gives U.S. corporations and individuals astonishing new ways to do business. At the same time, advances in fiber optic technology now allow us to do trading in more goods and services than ever before, and we know that as technology continues to improve that the notion of a tradable good will also continue to shift, but as the world economy grows, so does anxiety at home, and that's nothing that I have to tell you.

Against the backdrop of deficits and borrowing, needed investments in education and healthcare and science and technology go unattended, and individuals in communities have seen job loss and they've seen industries decimated. Their lives have been turned upside down. But in spite of growing economic insecurity and inequality at home, Americans support the concept of globalization. A survey by the Chicago Council on Foreign Relations found that 60 percent think that it's mostly good for the United States, especially, quote: "the increasing connections of our economy with others around the world."

However, while most don't want to stop globalization, they are deeply concerned about the effect on U.S. workers. In the same poll, for example, 60 percent thought that international trade was bad for creating jobs for the country, and 67 percent thought it was bad for American workers' job security. The general public isn't alone with their concerns about globalization. In fact, last fall, former Treasury Secretary Summers wrote in *Financial Times* about the growing disillusionment with globalization, and he pointed to the recognition that, quote, "the vast global middle is not sharing the benefits of the current period of economic growth, and its share of the pie may be shrinking." We've heard similar comments from the AFL-CIO Executive Council in a statement that they put out earlier this fall.

But globalization with its benefits and its challenges is a reality, and we have to find ways to make it a positive force at home and around the globe. The challenge is to

build vibrant middle classes here and help foster them in developing countries seeking engines for sustainable economic growth. We must participate fairly in the global economy while encouraging and empowering others to do the same.

Secretary Rubin, Professor Blinder, and the Center's President John Podesta are here with us today to probe these complexities, those created by globalization and the opportunities created by the global economy. We'll examine American economic competitiveness, international economic policy, and what theory means in reality for millions of people around the world. What will it take to coax widespread economic growth and prosperity out of the world economy?

I'm going to pose a few questions to the panel, then I'm going to open it up to you for Q&A, but first, give me just a few minutes to introduce our really phenomenal panel. Albert Einstein once said, try not to become a man of success but a man of value, and I think each of our panelists has managed to accomplish both.

Robert Rubin practically needs no introduction. After serving as assistant to the president for economic policy and directing the newly created National Economic Council, he was confirmed as the 70th secretary of the treasury. When he stepped down from service, President Clinton said that he was the greatest secretary since Alexander Hamilton. Secretary Rubin is currently a director and chairman of the Executive Committee at Citigroup as well as the founder of the Hamilton Project.

Dr. Alan Blinder is a prolific writer, commentator, and highly regarded scholar who has been on the faculty of Princeton since 1971. From January, 1993, through January, 1996, he also served as a member of President Clinton's original Council of Economic Advisors, and then as vice chairman of the Board of Governors of the Federal Reserve system. Dr. Blinder was an economic advisor to John Kerry during his 2004 presidential campaign.

And last but not least, John Podesta is currently the president and CEO of the Center for American Progress, and he's résumé reflects a deep commitment to public service. John is a veteran of both the executive and legislative branches. He served the Clinton administration in many capacities culminating with his tenure as chief of staff to the president. He also held a number of positions on Capitol Hill, including counsel to the Democratic leader, Senator Tom Daschle; chief counsel to the Senate Agriculture Committee; and counsel on the majority staff of the Senate Judiciary Committee. He's a frequent guest on Sunday shows where he's known for his, quote, "straight talk and acerbic wit," and I can assure you he's known for the same around the halls of the Center for American Progress. (Laughter.) Please join me in welcoming our panelists.

(Applause.)

So I want to start off the panel by kind of laying some groundwork and getting your sense of recent economic trends that serve as a backdrop to the conversation that we want to have about globalization. It seems to me that much of the conversation, much of the debate has happened in the context of the lowest economic growth since the Great

Depression, weak net additions to capital, and slowing productivity growth. I'd like each of you to address a different aspect of that issue.

I'm wondering, Bob, if you can tell us what you see with regard to investment and productivity growth and the trends are that we should expect in coming years. And then, John, I'm going to ask you to talk about what's happening with regard to employment and wages. And then, Alan, if you could tell us what's actually happening to U.S. workers on the ground, the outsourcing trends that you've been writing about, and how those relate to the overall questions with regard to the labor market and their trends. So, Bob, I want to start with you with investment.

MR. ROBERT RUBIN: Well, let me, if I may, respond slightly broader. And I think one reason why what you all are doing today is terrific is I think as a country we're going to have to figure out how to be successful, and I think we can be. I think with the tremendous strengths our country has, I think we can thrive, but it's going to be in a global economy and under global competitive conditions – economic competitive conditions that are, in my judgment at least, transformative in historic terms. I think probably the greatest change in the global economy and global competitive conditions since (the emergence?) of the United States over 100 years ago, I would argue perhaps even since the industrial revolution in some ways.

As I said, I think we can thrive and I think the key to that, Melody, is exactly what you just said: productivity. And part of what we all need to figure out is, how do we take advantage of our enormous strengths, the dynamism of our society, the flexibility of our society, the flexibility of our capital and labor markets, our relative openness to immigration and to trade, our sheer size, our capabilities, the critical mass we have in so many capabilities? How do we take advantage of all this in an environment in which competitive pressures from India, China, and elsewhere are going to be at level that we've not experienced before? And I might add the rise of China and India also create tremendous opportunities, particularly over time, but the most immediate and I think pressing issue is how to deal with all of this as a competitive pressure. And productivity is the absolute key to this.

In terms of productivity, I guess I would say that we've had good productivity growth in the '90s, we've had good productivity growth until recently, although now it's slowed down, Melody, but productivity growth ultimately is driven by investment and it's driven by managerial practices, and it's driven by the capabilities of our workforce. And I think when you come back to it, it comes back to very much the kind of a program that President Clinton talked about in the '90s, albeit adjusted for current circumstances, and I think the imperative for doing it is even greater today than it was then because of these transformative changes taking place.

But I think we need to get our fiscal house back in order. I think that's absolutely imperative. I think we have leave a lot of room in that context for – this is a broader answer than the question you asked but – for public investment, which is absolutely central if we're going to be successful as an economy, and I think we have to have sound international economic policy. Put all that together and I think we have the opportunity

for high productivity growth, and then we have to focus on distributional issues and security, because we've had stagnant median real wages, as you know, and we've had increase in security, and all that undermines us economically as well as being a very serious social problem. Long answer to a short question. (Laughs.)

MS. BARNES: Thank you.

John?

MR. PODESTA: Well, with respect – to kind of follow on to what Bob said – with respect to wages and jobs, I was thinking at the conclusion of the last panel, that Michele said that what's the inheritance that the next president is going to face, and you kind of imagine a white board and you line up assets and debts, and I think particularly on the foreign policy – particularly the military affairs and where we're going in Iraq, on the asset side, the only thing you probably could put up there is no place to go but up. (Laughter.) I think that if you think about the economic performance, particularly for the middle class, there might be a little bit more to add, but it's pretty much no place to go but up.

We've had the weakest job growth during this recovery of any recovery since the Depression. We've had wage growth that's quite low. We have benefits disappearing from the private sector, particularly the loss of healthcare benefits by about four or five points with respect to the private sector. We now have a majority of small businesses that don't offer their employees healthcare. We've had, again, on the pension side, we've had a loss in the workforce of people who receive pension benefits. Family debt, while it was not at an all-time high in the last quarter; it's pretty close to an all-time high. And I could go on. The housing market's slowed. We had in the last quarter of 2006 a kind of record-high number of foreclosures at least going back to 1979. Gas prices are putting the pinch on family budgets, savings have plummeted.

So I think, if you're sitting in the middle of the income spectrum in the United States, things don't look very good. And I guess I would add one thing to what Bob said about productivity, which I generally agreed with, which is that one of the other factors, I think, that really goes into the question of whether this economy will continue to be productive and continue to power on against all this global competition is the question of educational attainment, and that's another place where particularly over the past few years, but over the past 20 years, we've begun to slip. We used to be number one both as a percentage of our workforce that had a high school diploma and a college diploma. We've now slipped back to eight and twelve respectively.

So I think, again, if you're sitting in the middle of the pack here – a study that the Center did relatively recently found that particularly if you're in the mid – we looked at the mid-quintile of the people in America, and their children are more likely to slip into the fourth quintile, the lower quintile, than they are to move up into the second quintile. And maybe that's a statistical anomaly. Alan can correct me I'm wrong about that, but that's certainly not the way Americans kind of think about the world. They think that this is a mobile nation where we're constantly achieving greater levels of economic success,

and I think the public is feeling quite pinched and with good reason, because I think they are quote pinched.

MS. BARNES: Alan?

MR. ALAN BLINDER: Before I join the gloom and doom choir – (laughter) – I want to make two points which I think are important to make. First, the United States of America has the highest consumption standard of living in the world, and I think that's likely to be true for a very long time. Second, contrary to what you hear a lot, our children and our grandchildren will be better off than we are. I guarantee it – on average. That doesn't mean everybody's children and everybody's grand – Steve Schwartzman's (ph) grandchildren probably won't be better off than he is.

MR. : You never know.

MR. BLINDER: I'll bet on that. (Laughs.) But on average, they will be better off. And you only need positive real wage growth on average to do that, and that's why I'm so certain about that. So we are not in decline. Some parts of the rest of the world are on the rise, and are closing the gap with us. That's not such an unnatural process. If you try to think back to the year 1946, you don't have to go to Asia and South America; there are a lot of countries on the other side of the ocean which had an enormous lag behind the United States in standard of living and infrastructure and everything you could think of, and they closed the gap on us substantially. We thought that was a good thing. We were right; it was a good thing. By the way, they haven't caught up yet. We still have a higher standard of living than all of those countries on the other side of the ocean. So I think those are two things that we should never lose sight of. We are, after all, Americans and we're supposed to be optimistic by genetic composition. (Laughter.)

Now, that said – (laughter) – the question –

MR. RUBIN: Now, we get to reality. (Laughter.)

MS. BARNES: Back to the gloom and doom choir.

MR. BLINDER: The question that you posed, Melody, originally was about the situation of working Americans. I think it's conceptually important, although there are obviously – they feel very similar to the people that are experiencing it, to distinguish between two problems that American working people have. One has to do with the level of wages relative to anything else, say profits, or more germane really relative to productivity, which is what Bob was talking about. Average U.S. wages have lagged behind productivity now for years by a cumulatively pretty large amount. That is not true of our history. If you go back many, many decades, wages and productivity track very, very well, and this is a problem. This is a problem of maldistribution between, say, capital and labor.

There's a second problem which has to do with within the category of wages, the increasing dispersion of wages, which you see everywhere. You see it across the board,

you see it in particular occupations, you see it in particular education categories. I'd be willing to bet that graduates of Princeton University 15 years out now have a larger dispersion in their wages than was true 30 years ago, 50 – I don't know that. I haven't seen data on that, but is true of every other group. No matter how well you define – how narrowly you define them, it's getting more and more spread out.

If you put those two together, the average levels not doing so hot, although it is going up, and the dispersion is growing rapidly. Then you see what happens for the bottom half, and the middle it's not looking that great either. Now, to link it to the subject of today, the reasons for that are not entirely clear, but we believe them to be mostly domestic, and international influences have had some effect, but a relatively minor effect. I want to come back to that on the last remark of this round in a second, but it's mostly domestic, and it has to do a lot with what economists antiseptically call skill-biased technical progress. If you haven't heard that term, you can now forget it. (Laughter.) What it means in plain English is that the market system, because of the march of technology, has turned ferociously against the unskilled. They could hardly imagine the worst outcome than they've gotten for the last 25 years, and that's the fundamental factor. Trade is a very small piece of that.

Now, looking forward, I think as the world continues to globalize, as some of the rest of the world starts catching up to us, international influences are likely to become increasingly, not decreasingly, important. I said they haven't been that important, although they've been relevant, for the last generation. I think over the next generation they're likely to be more important. I'm sure we'll come back to this. I just want to – without monopolizing the microphone too much – make just two quick points.

First of all, with the accession – and I think that's not too strong a word – of China, India, and the former Soviet Union to the economic world, the world supply of labor has doubled – by a nice coincidence to almost exact doubling of the world supply in terms of what's actually participating in the world economy. You don't have to know a lot about economics to think that that's probably going to be pretty good for capital and not so good for labor going forward. There's just a lot of labor. And by the way, the world capital, by the way, did not double when those three economic blocs joined.

The second thing is you mentioned, Melody, offshoring, about which I've been writing quite a bit. We've had offshoring in manufacturing for a very, very long time and the share – in case you were wondering – the share of Americans that earn their livings in the manufacturing sector was – depending on exactly what year you picked – something like 33 percent in the 1950, say late 1950s. I don't have the exact – let's suppose it was around 33, 32 percent when Eisenhower was president. It's now 10. So this has had a substantial effect on what Americans do to earn livings. I think there's a coming wave, and you can see it starting, of offshoring in the services, where by the way, five out of six Americans earn their livings. At least those services that can be electronically offshored – a set of services that is sure to grow as we move through time due to the upward march of technology. Let me leave it at that for now.

MS. BARNES: Okay. Well, in an effort to continue to pull us out of the gloom and doom choir, and to think about what next steps given what you talked about, and you all have talked about getting our fiscal house in order, you've talked about the concerns about low job growth, maldistribution, loss of benefits, the concerns raised by offshoring, and certainly there are the trade issues that exist out there as well, so I'm wondering what two or three – thinking specifically – steps must the United States take to remain a global economic leader – the kind of leadership that Alan referred to when he started his comments. What is it that we need to do?

MR. RUBIN: Could I have one quick shot?

MS. BARNES: Sure.

MR. RUBIN: I think that – I'll give you one answer, which is you need a broad-based, multifaceted program consisting of a bunch of pieces. (Laughter.)

MR. BLINDER: You're only allowed two or three.

MR. RUBIN: I don't need two or three. I only need one. (Laughter.) But it has a lot of little hooks hanging on it.

I don't think – Melody, you kept using this term gloom and doom. I don't think it's a gloom-and-doom scenario at all. I think what it is is a view that we have tremendous strength in this country, tremendous comparative advantages in the dynamism of our society, one thing or other, and I think we have a lot of opportunity in a rapidly changing economy, but in order to realize that opportunity it seems to me we have to meet (unusually?) consequential challenges.

I think the risk for – and the other side of the coin is if we don't meet the challenges – although I agree with Alan, I think we're very well positioned and hopefully workers will be better off 10 or 20 years from now – if we don't meet our challenges, I think at some point we could actually lose ground, so I think we have tremendous opportunity, but we've got to do – and I think our single greatest – this goes a little further – the ambit of this – in some ways, but I think it's directly relevant to – I think our greatest single challenge is to get a political system that functions far more effectively than it does today in the willingness to reach across party lines in order to find common ground and the willingness to make politically tough decisions on issues that have huge consequence to the future of our country.

And I think one – I'll say this again – I think one of the reasons that his kind of accession is good, I think you have to create a predicate for that, and a predicate means an understanding in the policy domain, and then hopefully at some point more broadly in the public domain, of these issues so that we in fact are willing to make what are politically very difficult decisions because almost always involve trade-offs and very often there are costs to some for gains to others or there are costs now for gains in the future.

To be more specific, though, what I would do, Melody, I think we have got to reestablish sound fiscal conditions. I think if we don't, I think it's an immense threat to us over time, particularly as entitlements pick up. My recollection is the major entitlements as a percentage of GDP increase by 50 percent over the next 15 years, and that's happening in an economy that today has a de minimis, roughly 2 percent, savings rate as a percent of GDP and an almost unthinkable current account deficit of 7 percent of GDP versus 1.6 percent in the '90s. You've got to reestablish sound fiscal conditions.

At the same time, we have got to leave room for public investment in the many areas that are absolutely critical to our social well-being, but also to our economy, including very much what John referred to with education. I would say healthcare reform is absolutely critical both socially and economically, and there's undoubtedly going to be some money required for that, too. So one of the issues we're going to have to face in the context of what I've just discussed is how are we going to increase revenues as a percentage of GDP, and some of what was going to last five years I think just has to be reversed in my view.

The other thing I guess I would, and I will just add one more if I may, is I think there's a tremendous opportunity for this country in areas like basic research, infrastructure, and then the kind of stuff that Bruce Katz at Brookings has done a lot of work on, which is sort of building around local strengths so that we can – clusters around local strengths, Silicon Valley around Stanford is the most obvious example of building around our great universities, all of which seems to me to catalyze investment. It can catalyze economic activity. It can increase productivity. And above all that, it can increase demand for labor and increase wages. That's a little bit of a – and then I would tie all of that to a policy of trade liberalization, and I would continue to work with other countries around the world to have equilibrium exchange rates.

MS. BARNES: Okay.

Alan? John?

MR. BLINDER: Shall I? I guess I'd like to start with my list of three. First, a little parable, a story that probably all of you know, which is that some years ago, the television industry – and I mean manufacturing them, not the Sopranos – (laughs) – was centered in the United States and many, many people had good manufacturing jobs making televisions. As probably everybody in this room knows, the number of televisions manufactured in the United States is zero today – television sets, not television programs, which is another part of the evolution that I'm referring to. That's also held up as an example of industrial failure. We have to start thinking of it as an example of industrial success. We get there first, pick the low-hanging fruits, innovate, when it becomes a commodity, move on, it goes to another country. It's a mindset.

Now, having said that, that has been the American mindset since the frontier. This is the cowboy image, right? The cowboy comes in, he clears the brush, he makes peace, and he moves on to the next frontier. So America's good at this and we have to

remain good at it. The worst thing we could do is do things that lock us into the current industrial structure. So that's the first obvious point.

Second, related to that, if you're going to have that kind of dynamism and flexibility and change, you really have to do a better job with the social safety net than we do in this country. Not to put too fine a point on it, by world standards – by rich country standards, it's a complete disgrace and embarrassment how little we do for displaced workers in America, whether they're displaced by trade or any other reason. I wouldn't personally distinguish. In fact, you often can't tell whether it was technology or trade.

So this does go to trade adjustment assistance but it goes to UI. It goes to some of the things John was talking about. Americans shouldn't lose their health insurance when they lose their job, and many, many other things like that. So it has to do with maintaining the dynamism.

In the particular context of globalization it has a lot to do with maintaining the liberal trading system. One of the reasons that the liberal trading system is a threat in the United States is that it does in fact generate victims, and we do so little for these victims. We say, you know, gee, that's too bad that happened to you. Okay. Now, try to convince these people that trade is good. You have a hard job. Believe me. We economists have doing that for 200 years, and I can tell you it's a pretty hard –

MR. RUBIN: It's getting harder and harder.

MR. BLINDER: It's been hard, and it's getting harder and harder. So we have, as Bob said, we have to not retreat in any way from the world. When I see forces of protectionism and nativism and know-nothingism rising in America, that's the worst thing we could do, just from an economic point of view, never mind all the other aspects.

And the last think I would just say, and we can come back to this if you'd like, is if you think of the education system as turning out workers – this is the crass way economists think about it; other people think of the education system as doing other things, but we think of it as turning out labor with skills that can be used in the economy. It's high time we got out of the 19th century. America very successfully built a mass education – I'm not talking about the universities, I'm talking about K through 12 education – to provide the labor we needed for the industrial revolution. I'm talking about the one Adam Smith wrote about – that industrial revolution.

It was a long time ago, and as I said a moment ago, the manufacturing jobs amount to 10 percent of employment in the United States. We have not yet really adapted our education system to the second industrial revolution, which is the shift away from manufacturing toward services, and what I'm trying to goad people into doing is think about the third industrial revolution which is the one I alluded to before, the shift away from what I call impersonal services – the services that can be delivered electronically – and towards the personal services where face-to-face contact is important, where that grade on your kindergarten report card – remember that one? – “works and plays well with others,” will become increasingly critical. (Laughter.)

MS. BARNES: John?

MR. PODESTA: We probably agree too much, but I want to flip over and be more of the optimist to Alan's pessimism, which is I think that particularly for the next administration, the strategies that need to be focused on are ones that are going to create more mobility as opposed to worrying excessively about what happens when you crash and burn, although I care about those things. But I think particularly – perhaps I'm thinking about this in terms of trying to sell this kind of an economic program to the American people. I think they want to know more about how they're going to do better rather than what's going to happen when they kind of fall off the cliff.

So what does that mean? I think where we're in strong agreement, I think, is on again, educational attainment. How do you reform K-12 education? How do you invest more in preschool? To pick up on Alan's example, and I think there's a couple of things that we've really focused on, is that kids, particularly poor kids, need more time in school – that the calendar's organized for the end of the 19th century, not the beginning of the 21st century. That doesn't just mean more kind of rote teaching to the exam, but it means that whether it's after school, preschool for young kids, or the long intersession breaks which really do damage to particularly poor kids who don't have very much in the way of other kinds of educational activity over the summer – that needs to be focused on.

The other thing that's really critical is to get better teachers into the classroom, quite frankly. Again, if you look at the literature, it can mean – having a very good teacher versus a very bad teacher could mean up to one year's difference in a child's educational attainment over the course of a year, and yet we don't – there's, I think, legislation now focused on that on Capitol Hill, but we don't spend very much time thinking about how we really produce that result.

If you're – again, I want to pick up on something Alan said with regard to income disparity. If you graduate from college with a technical degree or in math, in science and you go into teaching, on average in 10 years you'll be making at an annual salary \$18,000 less than any other career path that you might choose. Now, that's the value we're placing on teaching the next generation which is supposed to produce in a challenging environment – a third of the kids in public school will be children of immigrants by the year 2015 – a very challenging environment. How we're going to deal with that? It's going to take resources, it's going to take focus and it's going to take I think managerial reform.

The one thing that perhaps where we would disagree is I think we really need, I think, fundamentally, to think through and change and reform the way we tax people particularly in the federal government. We need the resources to make the kind of investments that are going to produce the fiscal discipline that Bob's talking about, but I think we've gone overboard in incentivizing investment at the expense of work. We've shifted the tax code I think particularly over the last – since President Bush came to office, to advantage investment at the expense of work. And if we're living in a century where human capital is really the critical difference between what's going to make this

country productive and great, and money, which can easily flow across the border and into investments in China, in India, overseas, then I think we're making a mistake in the way we're structuring the tax code.

MR. RUBIN: Could I add one thing to that, John?

MS. BARNES: Please.

MR. RUBIN: I've lived this world of markets for decades. It's been my life except when I was in Washington, even then I was involved. I think you're totally right, John. In my own experience, and I'm not an academic, and Alan can comment on what the literature says, I don't think lowering the capital gains tax increased one iota savings – anybody I've ever talked to. I don't think it's increased investment one iota – anybody I ever talked to. And I think you're absolutely right, John. I think there's a mythology about this, and I think the mythology has caused our tax code to be changed in ways that (unintelligible) give or take and round off the nearest whole number is zero – to economic well-being.

And I think we do need to have the resources, the increased revenues, so then we can do the kind of things, John, you and Alan were talking about, which will attract capital. (You have an equipped?) workforce in this country with all its strengths and you have infrastructure and your basic research and you have all the kinds of – the great university systems we have and then built it – clustered one thing another, you'll attract plenty of capital. I think you're exactly right, John.

And also we should take the top two rates in the income tax and put it back where Clinton had them and that would give us some more revenues, lowering – well, forget that – but lowering them contributed nothing. At least in my experience – I'm not an academic, there's literature on all this stuff, but I've never heard anybody say, gee, I want to work more because my tax rate is now 35 percent instead of 39.6 percent. (Laughter.) I just have it.

Now, I didn't go to Princeton because I got rejected, so maybe if I'd gone – (laughter) – no, I'm serious. So if I'd gone, maybe I would be wiser and sounder. I don't know. But that's my view. And have a larger income, though I don't think so. (Laughter.)

MS. BARNES: I want to continue to scratch on this a little bit more, and I do then I want to ask a question about education, but it goes to the question of how do we really get this done? We've been talking a little bit more about taxes, but we talked about getting our fiscal house in order and we've also been talking about investment. But putting that against the political backdrop, how do we really get that done?

Today's story, front page of the *Post* was about the Blue Dogs and their desire to or their plan to introduce legislation instituting the pay-go rules, caps, really tightening up in terms of getting the fiscal house in order, which certainly makes it more difficult in terms of the investment side, or at least that's the perception, so I want to get a sense

from you how do we really go about getting this done, so that we get to the kind of growth that we want to – that we think it's appropriate?

MR. PODESTA: It's about tough choices and I think it's about program. I think that if you look at – one number I always focused on when we served together in government was what are you spending as a percentage of GDP on the federal government? And it might come as a surprise to learn that it's quite a bit higher today than it was then, and yet we found the ability – now, there are new challenges, we have the war in Iraq, we have a military that's expanded, we have some homeland security needs that have been funded, but nevertheless, the percentage of the national income that the federal government is spending is probably close to a 1.5 higher than we were spending at conclusion of the Clinton administration, and yet we had more emphasis on focused investment in the kinds of human capital, in the investments that we were making in science and technology than we have today. So I think it is about making tough choices.

Now, the reason we had a surplus was we also we had taxation at a level that was at higher rates than it is today as a percentage of GDP, but everybody did pretty well. We created 23 million jobs, et cetera. Again, Bob's got – Bob's made the point: there are new sets of challenges, there are new investments that need to be made, new opportunities. It's not the '90s. We've got to look forward, not backwards, but I think that making tough decisions about what revenue you need, who, what's a fair way of paying for it, creating the sorts of incentives that rather than exacerbate the global trends that come from doubling the amount of human capital in the world, tend to ameliorate the impact on the middle and working people by raising the minimum wage, by valuing work, by expanding the EITC – those are all things that I think the country is capable of doing with the right kind of leadership.

MR. BLINDER: You mentioned pay-go, Melody, and I just want to say there's no magic bullet for fixing the fiscal position, but the closest thing is pay-go. It's not quite a magic bullet, but it's close. It worked fantastically when we had it in. I do believe that the budget would look dramatically different today if we had had pay-go throughout the entire Bush administration. I really believe that. It's just a procedural thing, you can say, well, Congress can always change it and so on, which is true, but as soon as we let it off, it was like taking the pot off a boiling kettle, and it's easy to do. A lot of these other things are really hard to do. This takes one vote of Congress, and you have pay-go.

Now, on the broader questions, I think one of the reasons it's hard to do anything about the deficit now, leaving aside the incumbent in the White House, is that we have right now a lull in the urgency about the deficit for two reasons. One is that interest rates have been very low, and so when you try to make the case to people why is it so bad to have a big deficit, it usually starts with high interest rates or interest rates higher than the other ones would be. When interest rates are as low as they've been, it's hard to make that case. Now, they're starting to go up now, and who knows what happens going forward.

Second is tax revenue despite the low rates are pouring in. Why? Because of this maldistribution that we were talking about before. If income moves – not literally, but statistically – from people paying income tax at a 10 or 15 percent rate, the people paying income tax at a 35 percent rate, never mind 39.6, which I would favor also, you'd get more revenue. When the factor distribution shifts towards capital income and capital gains, you get more revenue, and that's been happening. That won't keep up forever. That's a cyclical phenomenon, and I think what's going to happen sometime in the next presidency is that Americans are going to come to realize that nice as it is to have such low taxes, we can't really afford such low taxes given the demands on the budget, and we basically made a mistake in the early part of this decade by cutting taxes permanently. We could have done it transitorily. We could certainly have spared the revenue early on, but in terms of a permanent budget, we couldn't really afford such low tax rates, and we'll wind up putting them back to where they were.

MR. RUBIN: And could I just add one comment, Melody?

MS. BARNES: Sure.

MR. RUBIN: And by going in the direction that Alan's just outlined, at least in my view, what you would do is you'd have a much more robust government in terms of its critical functions with respect to our economy, so you'd have both a market-based economy, which all of us I think believe in, but also government performing its essential roles, and so you'd have stronger growth on sustained basis and greater equity because that would certainly be a prime objective for policy. And I think they're mutually reinforcing, by the way. I think growth – broad (unintelligible) growth are all mutually reinforcing.

And as Alan said, in order to do that, you've got to start with – (unintelligible) (various directions?), but fundamentally you've got greater revenues than you have today, and then you can go from there with pay-go and caps and both reestablish fiscal discipline and leave room to do what you need to do.

When President Clinton became – remember he – as you all well remember, he wanted in a context of an economy that was doing very badly and had vast deficits, and I want you to know that I think would have kept it in relevantly unattractive shape for a long time to come had he not grabbed hold of this, and he started with this economic summit at Little Rock and then he got into office and made the economy and focused on this broad-based economic strategy – multifaceted economic strategy, sort of Manhattan Project kind of environment in our White House, and I think it's got to be done all over again. I really do. I think we need something with the energy and the economic and political seriousness and purpose that I think was sort of the captured in the idea of the Manhattan Project around getting ourselves back in shape and on the right track economically. And if we do, I think as a country we can do very well.

MS. BARNES: I want to ask you a question about education. Alan's alluded to it a couple of time, and in some of your writings you talk about education as being a critical factor in addressing the offshoring problems – the movement you say of potentially 30,

40 million jobs overseas. But as I read it, you're also saying education per se is not the solution, that this isn't going to – the solution doesn't go to the issue of being highly educated, highly skilled versus less educated, low skilled; that in fact the dividing line seems to be along the line of personal versus impersonal services, and that we should gear our education system toward training and educating people so that they are in line to get the kinds of jobs that are going to remain in the United States because they are personal service jobs: being a taxi cab driver or a nurse or a childcare worker versus a radiologist or a telemarketer.

And I want to get a sense from Bob and John if that's also the dividing line that you see, and given the work that the Hamilton Project is doing on education, that the Center is doing on education, that that's the way that we should be moving the ship.

And then from Alan, I want to get a sense from you, if that's correct, then how do we shift the ship right now so that we are moving people in that direction?

MR. RUBIN: Is this starting with me?

MS. BARNES: Yes.

MR. RUBIN: Yes. Alan wrote this extremely important article in *Foreign Affairs* – if you all haven't read it, you should read it – about the potential for electronic – what he said – for electronically (communicable?) services to be moved offshore. But that's what could happen, not necessarily what will happen.

My own view, Melody, if we do the right things in this country, I think a relatively small percentage of that is going to wind up moving offshore. There are tremendous advantages in face-to-face contact with your colleagues, with your customers, with your suppliers. We have, as I said several times and I'll repeat it, tremendous competitive advantage in this country, so I actually I think I don't agree with what you just said. I think Alan's point's very well taken. I don't disagree in one sense, but I think an awful lot of what can be done electronically will remain in this country if we have sensible policies.

Furthermore, it's worth observing – I think I'm right in saying this, Alan – that right now with respect to services, we so to speak export more services that we import.

MR. BLINDER: That's correct.

MR. RUBIN: And there's a reason because there are a lot of reasons – there are a lot of benefits for being in this country and our critical mass gives us tremendous advantages, so I guess I don't tend to agree. I agree with Alan's point that those are important areas of focus, but I think the great preponderance of that which is electronically communicable, I think we could actually keep here, if we create the kind of environment of the kind I've just described.

MS. BARNES: John, do you want to –

MR. PODESTA: Yes. I want to take this off in a slightly different direction and connect this morning's panel to this afternoon's. When I read Alan's work, it struck me that there's a kind – rather than thinking about it as personal versus something that could be communicated electronically, it's kind of place-based versus cyber-based. What are the place-based jobs that are unlikely to leave America or what jobs could be created – low-tech, mid-tech, high-tech – that could be created in the U.S. that are naturally going to happen here, and which ones are likely to be more up for grabs and more into competition.

And when I say I want to connect it to this morning's panel discussion about energy and the environment and Bob's focus on the Manhattan Project, it seems to me one great challenge for the next administration is going to be to create an energy future that decarbonizes the U.S. energy system. A lot of that work is going to be done here. The chips that are installed in the system might be made in China – based on Intel's latest investment probably will be made in China, but they're going to be installed here, the systems are going to be designed here. Efficiencies in buildings are going to happen here.

And I think that gearing both a program that creates the right kind of science and technology investments at the front-end, the right kind of policies at the back-end to be able to meet the challenge of climate change actually is one of the great economic opportunities going forward that will create in the end of the day a more efficient and productive economy as well as one that's more sustainable and livable for the long run, and I think that is a great opportunity for growth that will be place-based and domestically-based.

MS. BARNES: Alan?

MR. BLINDER: Well, I hope that's right, but there's no guarantee that this industry gets concentrated in the United States. Once it's developed and manufactured, we will use a lot of it, and it would be nice if we're the leader, that's sort of one of the things I had in mind when I talked about the television set metaphor, we ought to get there first and do it, and I hope we will. I find it useful – I'd like all of you to think about the following question. I've asked many people this question: who do you think will learn more 25 years ago, your average – I don't mean the very best –

MR. RUBIN: (Off mike.)

MR. BLINDER: What? From now? Did I say ago? I'm sorry. Twenty-five years from now.

MR. RUBIN: I can predict backwards. (Laughter.)

MR. BLINDER: Yes, it would be a lot easier. Twenty-five years from now, I'm sorry – an average computer programmer or an average carpenter? And in case you are thinking computer programmer – I don't know the answer. I'd bet on the carpenter, but I

find most people that I asked this do actually say carpenter. Had you asked that 25 years ago, anyone who would have said carpenter would have thought to have been a lunatic, and was a lunatic because it wasn't close to true. It was fabulous to enter that career.

Now, what's the difference? The difference is the work of a computer programmer can be done anywhere and sent over the internet to anywhere, and if people in India, who are just as good at this job as we are, will do it at one-tenth or one-fifth the price, where do you think the business is going to go? The carpenter has got to come to your house or to your building and do something. It's not going to be offshored, or at least I don't think so, although there are people that imagine electronically controlled tools and robots, things like that, but that's Buck Rogers. I'll leave that aside. That's a metaphor for why I think this distinction is so important and why I refer to a potential third industrial revolution.

I want to clarify something. This number that I have generated that's been gotten a lot of media attention – 30 or 40 million jobs. This is my estimate, and it could be off, of the potentially offshorable – the set of potentially offshorable jobs. Not all those will move offshore. I'm less sanguine about this than Bob because I think a fair number will move offshore, but nobody really knows how many will move offshore, and I offer to help you think about that.

We still have textile workers in the United States after 40 years of offshoring. We still have steel workers. We still have autoworkers, not as many as we used to, but they're here, so we're not going to lose those 30 to 40 million jobs. We will lose some of them, an unknowable – to me, anyway, an unknowable number. But the wages of all of those jobs will be under pressure from foreign competition, just as is true of autoworkers, steel workers, and textile workers and many others today. So you don't have to lose the job to so to speak feel some of the pain.

Now, to your question about specifics on the education. I would love to give you a 12-point – here are the 12 things we have to do with the K through 12 education system to solve this problem. I'm not there yet, I must admit, but a few things I think I know. One, to pick up on where I was before about the 19th century, we have to put less emphasis on rote learning, performing on standardized tests. I think, for example, No Child Left Behind is going in exactly the wrong direction, not because it wants accountability; that's great, but because of the emphasis on the standardized tests and teaching to the test. What you're getting, I think, is dumber students that score better on the standardized tests. You have to let kids play with ideas to feel creativity, to run in different directions and deemphasize rote learning. We will not make the next generation of Americans have better memories than a memory chip, and trying to do that is stupid. (Laughs.) We're not going to out-memorize – Intel will always be ahead of the kids that come out in terms of what they can memorize, and that's just not – it's not important.

Look, I have no memory left at all, and I'm still functioning. (Laughter.) I think I'm still functioning in the world. So I think we need to change that, and we're going in the opposite – the reason I bring up No Child Left Behind is we're marching in the opposite direction on that.

Secondly, and this comes to my computer programmer/carpenter, I think we need to pay more attention to what used to be called – though I think we're not supposed to use this word anymore – vocational education and many of the things that go on in community colleges, training Americans for pretty good jobs. They're not training brain surgeons, but pretty good jobs and jobs that are going to stay. Many of them are going to stay in America, and so I think that's not a full answer to your question, Melody, but I think it's the best I can do right now.

MR. RUBIN: Can I just correct – not correct, but just annotate one thing Alan said. It's the first time in my life I've ever been called sanguine. (Laughter.) No. All I was suggesting, Alan – I'm not sanguine at all. I think we've got – that's why I think we need a Manhattan Project (unintelligible) policy. I guess I would just say maybe we have slightly different views but yours are better educated and better grounded view than mine about the probabilities and odds if we do what we need to do. That was all.

MS. BARNES: I want to squeeze in one more quick question and then I'm going to open the Q&A up to the audience, and this is a question about trade and the recent trade agreement reached between the White House and congressional leaders. And it now includes worker and environmental protections – no child labor, no forced labor, the requirement that environmental agreements be adhered to, et cetera. And I want to get your sense as to whether or not you think – or what role you think this agreement will play in the formation of a coherent international trade structure and strategy for the United States.

John?

MR. PODESTA: Well, as goes Peru. (Laughter.) I think these agreements were relatively – I'm sorry, Dan. (Laughs.) I think these agreements were important in that they got an agreement between the Democrats on Capitol Hill and the administration on something having to do with international economics. The actual dollar amounts of trade are relatively minimal. I think they build on where we kind of ended up, and it was another one of the occasions of application of ABC – anything but Clinton – by the Bush administration, which is if you look back at where we were going down the Jordan Free Trade Agreement, et cetera, building into the core agreement certain labor and environmental protections was the right way to go. I think how one internationalizes that and builds a platform for decent work, how you strengthen the International Labor Organization, you get more commitment to not just the sticks of enforcement under these FTAs but the carrots of trying to lift up labor rights around the world, the ability to organize, the ability to create middle-class jobs in developing economies in particular, what the role of the private sector is, not with respect to their obligations as global citizens, they participate in that rather than to resist it, are challenging questions, but I think this was small, but a small step in the right direction, I guess.

MR. BLINDER: I think – I used to have one of these ridiculous cards on (unintelligible), and I said, well, my final decision is maybe. I think the answer to this is maybe, and it depends – John was saying this really – it depends if this is a template for

bigger and better things. These are very small – to the United States this is very small; it's not small to Peru, but there's a big asymmetry in size there. And if it stops there, the answer will be no, this was nothing. But if it becomes a template that enables us to move forward on a trade agenda, and I think there's at least a fighting chance that it will, then this will be seen, I think, in retrospect as a very big deal indeed.

My own view – the environmental piece is very heterogeneous and it's different everywhere. The labor piece is more focused on the ILO core standards, and as a big believer in trade and someone who's always been worried – all of us economists, as you probably know, are worried that we shouldn't insist that labor all over the world get paid at the level of Germany, otherwise we won't trade with you. That's not what this is about. The ILO standards are not at all about that. There are things that, I think, virtually every country can agree with, and I'd like to see my own country adopt them, frankly. (Laughter.)

MR. RUBIN: I'll give you a more complicated response, Melody. First, I think Charlie Rangel did a great job, and I think it was very important, as John said, the Democrats and the Republicans were able to would get together and move forward on something. I think it depends what you're trying to accomplish. If what you're trying to accomplish is a substantial change from the stagnant median real wage that we've had in this country, the increasing inequality, the key to this is in my judgment is not going to be your labor standards; it's going to be your domestic policy – the kind of initiatives we've been talking about before.

If you have absolutely perfect collective bargaining in every poor country in the world, wages are – where GDP per capita is a small fraction of ours, wages are still going to be a very small fraction of ours, and it's going to have virtually no effect on wages in this country. That's a reality.

If focus on labor agreements distracts us from the very difficult political job of putting in place healthcare reform, portable pensions, education and energy policy – the kind of social safety net that Alan was talking about – then we will not have done what we need to do to turn this into an economy in which (a), we grow, and (b), there's broad participation and we have greatly increased security.

Having said that, if you can get these kinds of labor – I think collective bargaining is very important. If you believe in markets, you should believe in collective bargaining, and that was the whole point of Galbraith's book many decades ago – the countervailing power theory. I believe strongly in the collective bargaining, but I think we operate under an illusion if we think that the labor agreements that I've just described are going to solve the problem that we've been addressing through the rest of this conversation.

If you look at these developing countries, where I think we have an immense self-interest in promoting economic growth and promoting broad-based distribution and growth, once again, the key is going to be, in my judgment, having effective governance that aims at growth and at broad participation in that growth, which in turn will feed back into generating growth. When you have that kind of effective governance, and China and

India are both good examples; they don't have good collective bargaining regimes and they've been immensely successful over the past – well, China since 1978 and India since reform began in 1990–1991, in having growth and lifting vast numbers of people out of poverty.

I think collective bargain is very important. I think it's something we should try to get, but I think we ought to recognize that it is not the answer to the problem either of middle-income wage stagnation in this country, nor having broad-based participation in growth and rising living standards in the developing world.

I think the question then becomes what happens – and it's fine with two small Latin-American countries whether they were willing to engage in the kinds of labor agreements that we eventually worked out, but what do you do when you're negotiating with countries – and I think it's very important that we can get them I think, collective bargaining is extremely important and therefore I think it's a very good thing to have done, but what happens when countries aren't willing to enter into labor agreements?

The reason China and India have been able to pull hundreds of millions of people out of poverty is because combined with the effective governance I've just described, they had access to the markets of developed countries, and we can deny these countries access to the markets of developed countries if we can't work out labor agreements with them. And I think we have to make a judgment as to what we think is in our self-interest and in the interest of these developing countries, and I think it's a very complicated question, not a simple question. That's (unintelligible).

MS. BARNES: Well, I hope that – there are many more questions –

MR. PODESTA: Can I just add one point to that, because I think as – Bob and I probably disagree about how much you want to turn the dial on countries to provide collective bargaining rights in the developing world, but one thing you said which I don't want misinterpreted it is that I actually think that strengthening collective bargaining rights in the United States would in fact help on the middle-class wage.

MR. RUBIN: Oh, I agree with that.

MR. PODESTA: Okay.

MR. RUBIN: But I don't think you're going to do that through trade agreements.

MR. PODESTA: No, no, no. But I just didn't want to leave any confusion about that. I totally agree with that. And I think one of the reasons that we've had – it's not the only reason. In fact, I think there are a lot of reasons – but one of the reasons that we've had this basically stagnation of the medium wages and increasing income equality is because of the decline of collective bargaining, so I agree with that.

MR. PODESTA: There's a current controversy about whether this legislation, the Employee Free Choice Act, will pass and whether Bush will sign it.

MR. RUBIN: Well, that's a different question and the *Washington Post* editorial board came out against that, I think, on this question of whether or not you are concerned about having secret ballots or not having secret ballots and some other questions around that, but – and I don't have a view with the other.

MR. PODESTA: They came out in favor of the war in Iraq, too. (Laughter.) So that's not necessarily a – (laughter).

MR. RUBIN: I was not – yes they did. They've had trouble getting back off that position ever since, but I'm not suggesting they provide prudent guidance on it–

MR. PODESTA: Fred Hyatt, the editorial page editor, and John Hyatt, the general counsel of the AFL-CIO, must have interesting Thanksgiving dinners. (Laughter.)

MR. RUBIN: Yes, I don't have a view on the (legislation?) one way or the other, nothing I've given a lot of thought to. I'm just saying there are issues around that that are separate from the question of: is it important to have greatly improved collective bargaining in this country, and I think the answer to that question is yes.

MS. BARNES: Well, I think that we probably put a lot of food for thought out there. There are certainly a number of other questions I could ask, but I'm not going to, to give you an opportunity to do so. If you'll wait for the microphone and give us your name, organization you're from, that would be terrific. And why don't we start right here?

Q: Hello. This is – I'm Alan Egry (ph) with the EIR. And I had just a question for Robert Rubin, actually. To really put it – you've mentioned John Kenneth Galbraith and there was just recently a forum that was held in Russia on a proposal for a Bering Strait land bridge tunnel.

MR. RUBIN: I'm sorry. For what?

Q: For a Bering Strait land bridge tunnel; that you'd actually have a rail corridor that would connect the Bering Straits. This was actively discussed by the Russian Ministry of Trade, the Russian academicians, academy of sciences, and so forth, and being influenced heavily by Stanislav Menshikov, who is a good friend of John Kenneth Galbraith. Now –

MR. RUBIN: Well, that's unlikely, because Galbraith died. But anyway – go ahead. (Laughter.)

Q: Oh, no. This is. He's –

MS. BARNES: If you could give us your question.

Q: Yes. I was going to say that John Kenneth Galbraith, he – I mean, Stanislav Menshikov is 80 years old, so he was a good friends –

MR. RUBIN: Oh, was. Yes. Okay.

Q: Yes. So now the thing is that what this would actually – this land bridge tunnel – what I was going to ask you is what do you think about the prospect of setting up a separate capital budget with the federal budget to actually fund these great infrastructure programs as what they actually discussed at this forum – was a war avoidance strategy. That they –

MS. BARNES: So you're question is about setting up a capital budget?

Q: Yes. A separate capital budget. (Laughter.)

MR. RUBIN: Okay. I got it. I'll give you – it's a good question and it's a seriously debated issue. I've always been opposed to it because I think it becomes a very slippery slope. If infrastructure is going to be exempted from whatever framework you have around fiscal discipline, why shouldn't education? The return on education might be greater than it is on infrastructure. I think we desperately need healthcare reform in this country for economic as well as social reasons. So I think the problem with it is it's a slippery slope; therefore, I've always been against it though I do think we badly need increased investment in infrastructure.

MS. BARNES: Okay. The woman in the white tee-shirt.

Q: My name is Maria Wells. I'm a software engineer, otherwise known as a computer programmer, Dr. Blinder. (Laughter.) I have a question for Mr. Rubin.

MR. RUBIN: You want to buy a hammer? (Laughter.)

Q: Yes. Actually, my sister-in-law is a carpenter, and I make about five times what she makes currently.

MR. RUBIN: What?

Q: But I have a question for Mr. Rubin. I agree with you 100 percent that if we take these 40 million jobs and ship them overseas, we're going to realize that we lost a whole ton of money because of the synergy that exists between having the people to do the work and the people who need the work done together and talking. And I want to know how we convince people of that, starting perhaps with Dr. Blinder, before we send all these 40 million jobs overseas and then realize we made a huge mistake.

MR. RUBIN: Yes, but we're not really sending jobs overseas. I mean, what you have is a dynamic, market-based economy and people are making individual decisions all the time. And I've seen it. I mean, I live this every day. So I think your point's well-taken. I –

Q: Not at all. I mean, (off mike).

MR. RUBIN: But we're not – well, everybody makes a decision based on what they think makes most sense. But the more attractive we make it to be here, then the more I think people will decide that, with all of our other advantages, that face to face matters and they'll keep – and jobs will stay here.

MR. BLINDER: Let me just jump in on that briefly. The government doesn't decide what jobs remain in America and what jobs move overseas. Millions of private industry decisions do that. And we just have to react to it if there's anything to react to, in the government. Maybe there's nothing to react to. Maybe there's something.

The other thing I want to say is we're not – I want to repeat again – we're not going to lose 40 million jobs. Labor migrations have happened since we left a purely agrarian society from one type of job to another type of job. I mentioned the large decline in the share of Americans that work in manufacturing from the '50s to now – a period of roughly 50 years. That didn't cause massive unemployment. It led to a lot of computer engineers and many, many other new jobs. That's what's going to happen going forward.

MS. BARNES: Are there questions? Why don't we take this woman right here in the tan – in the center.

Q: Hi. Samira (ph) Daniels, Ramsey Decisions. My question relates to what institution you think could govern the global economy, whether you think that that is something that we should be thinking about in lieu of the Asian financial crises? I mean, to me this is like a major issue for me.

MR. RUBIN: You want me to take that?

MR. BLINDER: I thought you would take that, but I'll take it first. Could everyone hear the question? I could barely hear it myself. Yes? You heard? Okay. It's my ears. My answer is none of the above. I don't believe that we're – ever is too long a time, but in my lifetime and my son's lifetime I don't think we're going to see a global economic control or agency or whatever you want – global analogs to the things we have within national borders.

Now, what we do have and what we need to keep and keep strengthening and maybe innovating some new ones, I'm not sure about that – are multinational more than super-national organizations like the IMF, the World Bank, the WTO. The WTO, in particular, is kind of a rule-making – it's like an umpiring association, and that's very important to have. But in terms of world economic governance, I just don't see that happening for a very, very long time, if ever.

MS. BARNES: Okay. We'll take a last question. The gentleman in the back corner.

Q: Hi. My name is Brian Hanlon (ph). I'm a fulltime bureaucrat and part-time student. Secretary Rubin, this question is for you. We've heard from the panel that productivity growth is key to a dynamic and prosperous American economy, but we've also heard that for the past 30 years or so the historic link between growth and our productivity and median wage growth has been severed. And we've also heard that median wages have stagnated over that same time. Is reconnecting this historic link possible and if so, how?

MR. RUBIN: Yes. What you said is roughly right, but my recollection, Alan, is over the last 30 years, except for the last five years of the '90s, median real compensation has grown much more slowly than productivity. The last five years has actually stagnated. One of the interesting things about the last five years of the '90s is that we actually had good income growth at all levels. And I think that – well, not think, but what seems to have happened is that you had sustained growth for long enough and the very high level of job creation that John referred to before and that created demand for labor that brought wages up.

You're saying can it be reestablished? I actually think it's a complicated question because of the forces that we've been discussing here, plus others, including technology, which is, I think, had all kinds of effects. Alan could probably give you a more learned answer than I could. But I think there's an awful lot that we could to create a very substantially better situation than we have today and that's the kinds of programs we've been discussing here. But I think it starts by recognizing that there was a very serious problem around stagnation and around increasing inequality, which are two separate issues – related but separate – and then designing an economic policy agenda in the context of our market-based economic system in which government plays a proactive role to promote growth but also broad-based participation; that is to say, substantial improvement with respect to median real wages.

My instinct would be to think that if we had the kind of policy measures – the kind of policy initiatives of the kind we've been discussing here plus a whole bunch of others, that it could be a lot better than it is today. Yes, I think it can be a lot better than it has been. But whether that link can be one to one, I wouldn't have the foggiest notion because there a lot of pressures operating in the other direction. There's a lot we can do to many things worse, by the way. We've got to avoid doing those as well.

MR. BLINDER: Just to add one second. We're not disagreeing with anything of that. What was unique – what was very different about the late 1990s was the incredibly tight labor markets that we had. So the image you should have in your head is that at that time capital was scrambling for labor – looking for labor everywhere. We don't see that very often. So tight labor markets I think is a crucial ingredient to what we had in the late 1990s. And to me, a big question is whether we're going to – they don't look to be quite that tight now, even though we have an unemployment rate of 4.5 percent. But a big question for me going forward is this thing I mentioned earlier which is the doubling of the worldwide labor force. It's going to be hard, I think, to create that kind of labor scarcity with that much labor around the world.

MR. PODESTA: Just to add one point to what Alan said. The reason why we have a low unemployment rate, but not a tight labor market, is we have a lower labor participation now than we had in the late 1990s, or a lower percentage of people who can work are in the workforce. I think policies that focus on and support wages and work make a difference. Congress just raised the minimum wage, which probably nobody knows about because it was attached to the bill that – the supplemental bill that funded Iraq. So the people who were in favor of raising the minimum wage never took a victory lap. I suspect that will happen when it goes into effect in July.

I think that we've already talked about collective bargaining and the ability to bargain for a bigger share of the growth that comes in a more – and I think that what we've seen historically is just when there's higher labor penetration, it raises not only wages for people who are in unions, but raises wages across the economy. At least that was true in 1950s, '60s, and through the '70s.

And then I think – again, I come back to the tax side. I think we can ameliorate some of the – we can either exacerbate or ameliorate the tendency towards the high-end compensation, and we've chosen one path during the last six and a half years. And I hope that we'll see a different path that, again, expands the EITC, makes the Child Tax Credit fully refundable, fixes the emphasis – the distortion that we have which tends to give greater benefit – doesn't tend to, it does give greater benefit to higher income wage earners with respect to pension benefits and healthcare than to low-wage workers. So these things, I think, are places that can make a real difference in the way people really live their lives in this country.

MR. RUBIN: Could I just add two comments to that, John? Could I with everything you said? I may be wrong with what I'm about to say, but my impression – right now investment is at a much lower rate than you would expect, given what's happened to GDP growth. For some reason, American business is not investing in hiring – as John said, the rate of job increases have been the lowest in any recovery since the Second World War. And yet, we've had this very good GDP growth. And the question is, why? And it may be the global situation, Alan, but I think there's something else, too.

And I may be wrong about this. I'm not sure I'm right. But I think there was a broad sense in American business that we do have these enormous imbalances, that we have a lot of other issues that aren't being addressed, and I think it has sapped confidence. And I think when we had President Clinton there in the 1990s, whether they liked him or didn't like him – and a lot of them did like him I think – but whether they liked him or didn't like him, I think there was tremendous confidence in what he was doing and in his vision and the direction in which he was leading the country with respect to economic issues, and I think that does make a difference. And then you get to the point that Alan was taking about: if there's higher investment and more hiring, that increases the demand for labor and that increases wages.

And secondly: just an awful lot of the micro-things we could do. The NIH is suffering instead of prospering. National Science Foundation grants have actually been reduced. DARPA, which is this great resource we had to do fundamental research, you know, is now operating under a different regime and has suffered as a consequence. There're just innumerable things of this kind and they all contribute to the environment. We have to catalyze it or not catalyze it, whatever the case may be. Investment hiring, therefore demand for labor, and therefore wages. So I think there's a lot we can do.

MS. BARNES: Well, we are now out of time. I hope that you've enjoyed the panel. I know that I have. Please join me in thanking them again.

(Applause.)

(END)