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FOR PUBLIC POLICY RESEARCH

"THE DEMOCRATIC PRESIDENTIAL CAMPAIGNS RESPOND
TO THE STATE OF THE UNION"

A Joint Discussion on Economic Policy

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P R O C E E D I N G S

MR. SPERLING: My name is Gene Sperling, and I want to utter six words I never really expected to come out of my mouth, which are: Welcome to the American Enterprise Institute.

[Laughter.]

MR. SPERLING: Of course, well, there are probably some on the left of our party who probably have said that privately many times about the Clinton economic team. But thank you for coming.

This is the first of what Kevin Hassett and I hope to be several policy dialogues that perhaps American Enterprise Institute and the Center for American Progress can co-host. I think it goes without saying that we are--at least for AEI, that we are both nonpartisan research groups, and it should go without saying for AEI that this then does not imply the endorsement of any particular candidate, but it also is the same for Center for American Progress as well.

We invited the six campaigns who were polling over a few percent to send their policy directors or their representatives to come speak this morning and offer them a chance to address the President's State of the Union and to suggest why they believe their candidate and their ideas would be the best for responding to President Bush.

So what we were going to do today was give each of them a chance, hopefully to aim for five minutes apiece, to exactly answer that question: What do they think of the President's speech, and why does their candidate have the best ideas or best message to respond in November to President Bush?

Then after each has had their turn, we will let Kevin Hassett, the distinguished--Kevin, I have everybody's bio except you, but the distinguished leader of economics at the American Enterprise Institute to have a chance to grill them, physically from the left here but probably philosophically from the right, for 15 minutes or so. And then we're going to open it to the floor.

We really thank everybody for coming. Kevin and I know their jobs well. We have both been in their shoes, myself for President Clinton and Kevin for John McCain. And many people may have seen the National Journal article outside by Alexis Simendinger which profiles some of the rising celebrities sitting to the right.

Before I introduce our panelists, our guests, Kevin, do you want to have any words?

MR. HASSETT: I'd like to welcome Gene here, and I hope this is the first of many. We intend to bring in speakers from both the right and the left to these events and expose them to, you know, questions that are meant to be collegial and helpful, the kind of questions that perhaps

too infrequently get asked by the media, who are more concerned with turtleneck sweaters and plaid shirts. And we've got commitments already from future speakers that you'll find very interesting, and I hope you'll keep your eye open for those events. But I think this is a great way to start them off.

MR. SPERLING: So let me introduce who we have with us. Going to my right, first, Sarah Bianchi. Sarah started as a protege to Chris Jennings in health care at the White House and then became Vice President Gore's health advisor, then one of his top policy aides on the Gore campaign, and is now currently the policy director to the recent winner in Iowa, Senator John Kerry from Massachusetts.

To her right is Maria Echaveste. Maria had one of the most distinguished careers in the Clinton administration. She had started as the administrator of the U.S. Department of Labor's Wage and Hour Division, and then went on to be the assistant to the President for public liaison, and then was the deputy chief of staff, handled a number of the most controversial immigration issues that President Clinton dealt with at the end. And so I'm sure she would be having just as much fun with the current administration. And she now has formed her own Nueva Vista Group and is working as a consultant in Washington and is a

senior advisor to former Governor Dean's presidential campaign.

To her right is Dan Gerstein. Dan is the deputy communications director for the Lieberman campaign. Those of you who have worked with Senator Lieberman over the years know that Dan, while often having the title of legislative aide or communications director, has been involved in all policy and strategic issues for Senator Lieberman long before he joined the presidential campaign last July. Again, Dan is currently deputy communications director for the Lieberman campaign.

Then to his right is Robert Gordon. Robert started in the War Room back in '88 in Little Rock and then worked on National Service, and obviously the highlight of his career, working at the National Economic Council for a year. He then went on to do more boring things like clerk for Justice Ginsburg, and he is now the policy director for Senator John Edwards' presidential campaign.

And to his right is Jason Furman, a protege of Greg Manacue (ph)--well, actually not a protege, but was his dissertation advisor. He just received his doctorate in economics at Harvard. He worked before that at the Council of Economic Advisers under Joe Stiglitz in the White House and then also worked as special assistant to the President for economic policy at the National Economic Council, where he was the person who really did all the work on budget and

Social Security and other issues, and then was drafted to join Sarah and Ron Clain (ph) at the Gore campaign in 2000, then went back to academia, and is now the policy director for General Clark's presidential campaign.

So when I told Sarah that she had to go first, she pleaded that she had just got off the plane back from Iowa. I said that it was alphabetical. I asked Dan Gerstein or others whether they would switch with her. They all said, you know, it's a little like golf. The person who came in first on the last hole leads off.

[Laughter.]

MR. SPERLING: So, Sarah, the floor is yours.

MS. BIANCHI: Thank you, Gene.

Well, I actually spent most of the State of the Union on a flight delayed from Houston to Washington, but I did catch some of it in the Houston airport and did have an opportunity to read the coverage and the text when I arrived home in the middle of the night last night.

I'd just say sort of my initial reaction was I really expected there would be a lot more compassionate conservatism in the speech. Obviously, the President touched on a lot of domestic and economic issues, but I really thought going into an election year that the White House Rove machine would have come up with a new--a couple more new ideas on some of the issues where Democrats have such an advantage. And I think this generally applies to a

whole range of areas--the economy, energy, health care. But since at heart I am a health care person, I'll just focus on that. And Jason has promised me that he'll cover any of the real economic issues that I'll miss.

Again, I think the President has a real vulnerability in this election on health care. I think a lot of us who have been out on the campaign trail have found that the American people recognize a lot of flaws with the Medicare bill. A lot of us went up to watch our candidates at the AARP forum right after the bill was passed and were a little bit nervous about, you know, going into a crowd where the organization that supported the bill and thought that we would maybe be pulling some sister (?) moment when we stood up and said that we disagreed with the organization. It turned out not to be a moment of courage because the entire audience stood up and applauded. But I do think there's a lot of recognition among seniors out there that this isn't going to be workable.

And with that in mind, I thought that there may have been a change in strategy on health care. The rising costs of health care for insured Americans is a big anxiety, and the number of uninsured is rising. And then we're seeing in these states--with the deficits that states are facing, we're seeing a lot of cutbacks. So there's a real concern out there, and certainly the President did talk about these issues last night, but the solutions that he

provided were similar to what we've been hearing for some time. One was the health insurance tax credit, which has-- the administration has been carrying since the Bush campaign and hasn't made a big part of the platform of any of their tax bills to date. I assume it will get sort of higher priority this year given the salience of this issue.

But I still think that it's going to be a flawed approach. It's a tax credit to buy into the individual market, which is very difficult for many people to afford. You know, obviously it's good it got mentioned again, but, you know, there's concerns on the policy plus the level of the priorities.

Another thing, again, that we've seen around for some time, associated health plans. A lot of folks in the states and consumers and insurers alike have concerns that it would end up raising costs for most people, that it would attract a pool of healthy individuals into markets and let them out of many of the state regulations and, therefore, leaving other sicker individuals in more traditional plans and raising costs. And CBO and others have said that.

Then there is a new tax credit--or, excuse me, deduction on catastrophic coverage, which, again, I think a lot of Democrats have concerns about whether or not that's really going to make a difference in terms of getting down the number of uninsured. But these are, you know, again, ideas that we've seen out there.

And on the cost containment side, again, I thought that we would see an effort to sort of take a Democratic issue and take some ownership, and certainly medical malpractice was raised, and there was some stuff on electronic prescriptions, and perhaps there will be more details in the days to come. But I do think that it's a real concern out there, the rising health care costs, and I think that most Americans are going to understand that just malpractice issues and in particular when you don't require that any of the savings you may get from malpractice reform would be passed on to consumers, I think that there isn't going to be a lot of resonance. I still think there's a lot of concerns, again, about the Medicare bill, that Medicare is not able to negotiate lower prices. And we've heard a lot about reimportation across the country, but particularly up in New Hampshire. And I just think there's going to be a desire to hear from candidates this year about what they're going to do.

Which brings me to the second part of your question, which is why, of course, John Kerry is the best person to take on George Bush in November. I do think that his plan on health care, which is focused both on addressing coverage--I saw the President said last night that we didn't want any government-run health care plans. A lot of the candidates--in fact, everybody on this stage, I think, has a health care plan that's very much based on--it's not

government run. It's very much based on the employer-based system and allowing individuals to buy into the same plan that Members of Congress get today.

The President talked about that as a model for Medicare coverage, so it seems to me that it should be a logical extension that it would be a good idea for the uninsured. At least it would be hard for them to argue that that's government-run health care. But pretty much there's a lot of, you know, comprehensive plans to address the uninsured on the table among Democrats in the race, all of which have, I think, some unique advantages.

Senator Kerry also has a big focus on cost containment. A lot of the candidates have talked about cutting costs of drugs and medical technology and other things. He has what is a policy that is in need of a good sound bite to describe it, but basically it allows companies to--the government to pay some of the catastrophic costs of health care for companies that offer good-quality health care coverage for all their employees. And we believe that that could really help on premiums, you know, up to \$1,000 off for a family in terms of lowering costs.

In addition, he and a number of other candidates here have approached it that we think is preferable to AHPs in terms of helping small businesses. So I do think that the focus that Kerry has on cost containment will be helpful.

And then just to sort of end on a broader perspective, obviously the President had a lot to say about the war on terrorism last night, Iraq, and all of the difficulties that are going on in the world right now. And I do believe that it's important for a nominee to be able to stand up on national security and foreign policy as well as the economic issues that are troubling so many Americans. And so I do believe that we need to give them a candidate who people can look at and imagine immediately running our country and all that that entails.

MR. SPERLING: Thank you, Sarah.

Maria, you're next in line.

MS. ECHAVESTE: I wish I'd been on a plane not to watch it, but--

[Laughter.]

MS. ECHAVESTE: No, seriously, I managed to put my kids to bed. This was good. They knew this was important.

So what I came--what we think of the President's State of the Union is, number one, it was a kick-off to his re-election. And in some ways, what Sarah has said, that there weren't very many sort of compassionate conservative to soften, what that speech was was a speech that really could have been given at the Republican Convention. That is to say, 80, 85 percent of it was directed to sort of core issues that resonate with that base that supports him. And the themes were really artfully drawn.

For example, I was really struck in the first few minutes in which the job of the President is to defend America, the toughest job is, you know, the war on terrorism, and he defines the war on terrorism as including the domestic and economic agenda, so that if you criticize his economic and domestic policies, you are, in fact, not against terrorism, which I thought was brilliant in terms of rhetoric.

And then when he went on to really talk about those who criticize the PATRIOT Act, if you raise the questions about civil liberties, you're not against terrorism. The tax cuts are part of the war on terrorism. I mean, it was just over and over.

And his call for making permanent the tax cuts and saying nothing about the debt really, in terms of how he was going to reduce it other than saying he was going to cut it in half--and, you know, I'd like to know how he's going to do that with the budget that he's likely to put forward.

The consumer spending, which he says is driving our economy, you know, masks the fact that we have the highest consumer debt, that many people around the country are only a paycheck away from financial ruin, and yet he promised more of the same.

I thought his effort to acknowledge that there were people, millions of people without work was a very weak job training proposal, but it represented at least his

acknowledgment that so far this economy, his economy, has failed to produce jobs and he will have gone down at the President who's lost more jobs along with Herbert Hoover.

His education, again, these are sound bites for the campaign. Anyone who criticized No Child Left Behind is for weaker standards and less accountability. The problem, I think, with many on the progressive side or even center, who many people criticize--are concerned about No Child Left Behind is how do you make those criticisms clear in a 10- or 15-second sound bite. And he's got the sound bite, the same way on Medicare he's got the sound bite. He can go out there and put the ads that will say that he brought prescription drug benefits to our seniors.

And then a couple, I thought, really veiled planks in his platform, if you will, that he can use for various constituencies. So, for example, his immigration proposal which has not received the acclaim that I think Karl Rove had planned, because most Americans understand that while you may have--you have to do something about the eight to nine million people who are here undocumented and are playing a vital role in our economy, simply creating a second-class set of workers with no path to permanence means we are turning our back on our history in terms of welcoming immigrants.

But for many, many undocumented immigrants out there, it represents a hope that they could actually come

out of shadows, even if ultimately they have to be deported back to their home country. As someone once described this initiative, it's the "report to deport" program and benefits most corporate America. It's the Wal-Mart Relief Act so that they continue to have their janitors.

Similarly, in terms of African Americans, the prison re-entry program, this is actually a very, very important idea, one that some of us had kicked around in the Clinton White House; I'd hoped we had done more on as part of the Gore platform. It's very significant, and if I'm George Bush trying to at least show that I've not written off the black vote, which does have a very--and Latinos--very high percentage represented in the prison system, this shows a sign of compassionate conservatism that says we need to do something.

Similarly, the faith-based, which both the very strong African American church--so it was a campaign piece, and he is speaking to the 45 percent who support him and threw in some tidbits for the 5 percent that he needs to win, which is why it's so important to have a candidate who's willing to call him on what he is saying and be able to speak frankly and bluntly, albeit perhaps sometimes too bluntly--

[Laughter.]

MS. ECHAVESTE: You know, one can only--one works with the candidates. But the thing that Howard Dean has

been able to do and why he ended up in the front-runner status to be able to absorb all the slings and arrows of being in the front was the fact that you have to speak clearly against what the President is saying and cut through the words and the language and call it for what it is. And, first and foremost, America is not safer today because of its foreign policy acts, and we need--and Howard Dean has been able to articulate some of those reasons. I think that President Bush's "I don't need"--"we're not going to go get a permission slip to protect America" is a great sound bite, but it's at the same time that Paul Bremer's up there at the UN trying to gain support for rebuilding Iraq.

Someone has to be able to articulate that in this global village, institutions that we may have real concerns about but nonetheless represent efforts to have a world response to key issues need to be supported. President Bush is clearly in the--notwithstanding that he says he's not into empire building, all of his actions speak otherwise.

On the economy, Howard Dean did it in Vermont, and we did it when we had the White House. And fiscal responsibility is absolutely an essential first step to building the kind of country we want. And we have to have a plan for doing that and to make the tough choices.

Frankly, any Democrat--I shouldn't--I don't know if I can--God willing, I will, invoke, we win in November, we'll have an incredibly tough job. And Howard Dean has

made these decisions, and, in fact, many of the folks in Vermont recall some of the tough fights in having to make cuts in order to bring the budget in balance, but which ultimately benefited and built our economy.

This really--the last point I would make is that Howard Dean speaks to the millions of people out there who feel disconnected, even those of us who read voraciously and who try to stay on top of the issues, but feel that their government is representing someone else. And we have to find a way in which the special interests that are running our government in all three branches--it's sad to say about the judicial--that we have to find a way in which to put it back in a more moderate course. And the omnibus bill that is about--I think voted on yesterday? I didn't stay on top of that, but replete with pork that reflects in a very real way the danger of what--of the path we're on. And so I believe that Howard Dean is the candidate who most will be able to articulate what is wrong with the policies this President has not just talked about but implemented and why we need to bring this country together again, and Bush is simply dividing this into those who have and those who have not.

MR. SPERLING: Thank you.

Let me go to Dan, and just let me say for the following three, I think our first two were, you know, probably better than I usually am at keeping within the time

limits, but I will whisper "60 seconds" really quietly, if you're approaching the end.

Dan?

MR. GERSTEIN: Well, I was going to start with a question. How many people here are registered to vote in New Hampshire? Well, then, I'll be very brief. [Laughter.]

I think our take on the State of the Union probably reflects a consensus view here that this President is in a state of denial about the state of our Union. And it was just striking to me and striking to our campaign that the vision he presented and the priorities he presented are completely out of touch and out of whack with the reality of everyday American lives.

And two things really stood out to me about that: he talked more about steroids and baseball than the plight of the American worker. Which is dramatic when you think about the fact that the anxiety that is coursing through this country, particularly through the middle class, it's not just among, you know, the three million people who've lost their jobs. It's among the millions of middle-class workers who are worried that they are going to be next. And to ignore that and just throw out a one-sentence line about job training--which is a great idea, and we're glad we thought of it first. It lifts very much from the manufacturing plan that Lieberman was the first to put out. But just to mention that in one throwaway line and spend the

bulk of your time talking about an economic policy that is really just providing supply-side tax cuts to the wealthiest Americans is very much like Maria talked about. It's speaking to a very small segment of the country and ignoring the rest of it.

The other thing that really stuck out to me was him saying jobs are on the rise. This administration was responsible for an economic policy that led to the creation of 1,000 jobs in December. And I think over the last three months--Gene, correct me if I'm wrong, or Jason--they created approximately 250,000 jobs--or they presided over the creation of 250,000 jobs. That's net total over the last three years. That's the positive job creation. And under the Clinton administration, they created an average, I believe, of 250,000 jobs a month. Again, a striking contrast.

He talked about making the tax cuts permanent. No mention whatsoever of the deficits we're talking about, that if you take away the Social Security trust funds that are being used to mask it, we're talking deficits of--what?--\$700 billion for the next several years, the greatest deficits in the history of organized government. And no realistic plan to deal with it.

You know, we use the line that you have a greater chance of finding aliens on Mars than bringing down the deficit with this plan.

And then the last section talking about values, which Senator Lieberman is very comfortable talking about, thinks is a priority. But, again, what was strikingly absent was this idea of how can you talk about valuing families and family values and ignore the fact that 35 million Americans are living in poverty? Did he even talk about that and have any kind of plan to deal with the real economic hardships, hurdles that people are facing today to get to the middle class? That to me says that there is a real opportunity for a candidate in the Democratic Party to speak to the broad middle of America, all those people that this President is not speaking to, and to show the delusional leadership that he's provided, and present an alternative that will focus on a real plan to create jobs, a real plan to create lasting economic growth, a real plan to restore the fiscal discipline that was the foundation of the Clinton economic success, a real plan to speak to, you know, the pressures and anxieties that the middle class are facing, like Sarah talked about in health care, but also in terms of long-term care for workers who are having to take care of both their kids and aging parents, and, you know, problems like domestic violence, which are kind of left in the shadows and not being discussed by pretty much anyone, particularly this administration, but are real and affect people's lives in multiple ways.

The last thing I'll say about the State of the Union is that in terms of the war on terror, it was, you know, a great big of political stagecraft, but that perhaps was the most striking example of the denial this administration is in. They presented a very rosy scenario of what's going on in Afghanistan and left out the fact that they've not provided much funding at all to deal with the stabilization and the building of democracy there. And their sole solution, which I think was very interesting--our foreign policy expert noted this for us--was that there was a run-up to this and then they were going to promote this millennium challenge fund and a big increase in funding for it. Well, that got dropped out of the State of the Union. And what did they talk about? Doubling funding for the National Endowment for Democracy.

Well, Senator Lieberman is a big fan of the National Endowment for Democracy. Their budget, I believe, is somewhere between \$6 and \$10 million a year. So we're talking about \$20 million to deal with one of the most challenging, unstable environments in the world, and, you know, it just doesn't pass the laugh test.

And then on the situation in Iraq, again, Senator Lieberman was a strong supporter before President Bush came into office of removing Saddam Hussein from power. And I'm not going to revisit that whole debate, but what is remarkable is that there was no mention of the sacrifice and

the loss that we faced of lives in Iraq and the fact that we still don't have a credible plan to stabilize, democratize, and modernize Iraq.

And just to go to the question of, you know, how do we--how does a Democratic candidate beat President Bush? It's to be able to, I think as Sarah says, go toe to toe with him on national security and not be willing to back down and accept that that's his strength so we're just going to talk about domestic issues. And Senator Lieberman has a record on national security and leadership on foreign policy that will allow him to take President Bush on in those areas as well as on the issues of values, and then expose the fraudulent domestic policy he has that, as I said, is leaving out millions of Americans, not speaking to the concerns of middle-class families.

We have an economic plan that is a very aggressive program of policies building on the Clinton legacy to create ten million new jobs. It was ranked by an independent survey of leading economists by the Wall Street Journal as the best plan of any of the Democratic candidates. We have a realistic, responsible health care plan that will provide coverage to 31 million Americans, bring down costs, and unlike any of the other Democratic plans, sets a bold new goal of finding cures for the chronic diseases that afflict 100 million Americans, which in the end is probably the single best thing we can do to reduce the cost of health

care and improve the lives of Americans. He's going to create what we're going to call the American Center for Cures and charge it with finding the--translating the breathtaking research that's going on today into the life-saving cures of tomorrow.

I'm sure we'll have plenty of time to talk about some of the other things, great ideas we have, so I will stop there.

MR. SPERLING: Thank you.

Robert?

MR. GORDON: Thanks, Gene.

I don't have too much to add to Dan indictment of the President's State of the Union except my overriding reaction, which I'll quote something that Senator Edwards said on Sunday, was just when it came to the economy how remarkably out of touch the President seemed. This is something that was said a lot about his father, and I think is proving to be true about the son.

He ticked off a bunch of economic numbers which were sort of, you know, slanted and tilted in various ways, but I think didn't speak at all to the reality that families are facing and that I'm sure all the candidates encounter every day when they are on the campaign trail, which is that families feel remarkable anxiety about their economic situation. Debt levels for families are at historic highs. Savings levels are shrinking. Health care costs, college

costs are rising. People feel like one thing goes wrong and they are in a nightmarish, disastrous situation for their families. You know, paychecks are stagnant. Household income has dropped. This is the reality that families in America are facing today, and I don't think we heard anything at all from the President about what he was going to do to help those families except, you know, getting rid of the estate tax, something that, like, is a tax change in six years from now.

So I think that's the issue that he doesn't speak to at all and that candidates need to speak to and that Senator Edwards has sort of built his entire economic agenda around.

The question of what you do to help those families is an interesting question, and Senator Edwards' approach has been to help them to encourage a whole range of steps. And the centerpiece of those is actually helping families to become owners and to own a piece of the rock.

One of the interesting absences in the speech, I thought, was the notion of the ownership society, which, you know, I think Senator Edwards couldn't disagree more with the President about what the policies are to get there. But I think the general idea that families want and need security and one of the ways they get security is from owning assets is the right idea. And Senator Edwards has built an agenda around achieving that idea in a really

meaningful way that will actually give families security. So he talks about helping families to own homes, with fixing the disparity in our tax code where we give the biggest tax benefits for homeownership to people who are in the top tax brackets and the lowest benefits to families that have the most trouble owning homes.

He talks about creating recruitment savings for families that don't have them right now. You know, right now if you're wealthy, it's incredibly easy to save, and rich families save huge amounts with huge tax benefits. Poor families can't put away anything. So creating incentives for lower- and moderate-income families to save.

Doing something Dan talked about, the poor, helping the poor through both, obviously, increasing the minimum wage and expanding the earned income tax credit so that families that work full-time don't live in poverty.

These are all measures that are aimed at giving families security, which they don't have right now, and enabling them to build the future that they don't have right now.

So to me those are sort of the centerpiece of the economic debate that people want to be having right now and that the President didn't really get into.

The only other thing I would say is that when he does talk about making these tax cuts permanent and you hear this emphasis on the estate tax, on capital gains and

dividends, tax cuts for people in the top brackets, it's interesting what is really going on here. Obviously, Senator Edwards and a lot of the other candidates are supportive of the middle-class tax cuts, want to make sure that families get to keep those, but that's not what the real fight and argument is about here.

And when you ask what is actually going on with the President pushing this agenda, as you've probably heard Senator Edwards say a lot but I'll just speak in a little bit more detail about, what is really going on is an agenda that, you know, some people believe in, which is to shift the tax burden away from wealth and onto working people. And so you see this--you know, it's unlike--there's an argument for a consumption tax that--where you would tax consumption and not tax savings. But, of course, the President isn't for taxing consumption. So what he is for is not taxing massive amounts of unearned income of capital gains and dividends of estates that are held by people who have extraordinary amounts of wealth. And the immediate consequence of this is that the tax burden just shifts on to everyone else, and this is what he's been doing, and it's what he continues to seek to do.

And, you know, you see it in the numbers in terms of where the tax burden falls right now, that increasingly it doesn't fall on the people on the top; it falls on the people in the middle who don't have savings.

So I do think this is one of the underlying parts of the President's agenda that sort of lurks beneath a lot of what he talked about last night, and that frankly will be a huge vulnerability for him moving forward. And it's something that, as you know if you've been following the campaign, Senator Edwards talks about everywhere and that is very resonant.

So I'll leave it there.

MR. SPERLING: Thank you.

Jason, you can wrap it up for General Clark.

MR. FURMAN: I'll also try to follow Robert's example and not use my full six minutes.

As our campaign was preparing for the State of the Union, we were poring through all the news reports and trying to predict what the President would have in it. And we briefed the general and told him it was going to be a bold, major election-year kickoff in which he was going to unveil a vision of an ownership society with universal health insurance on Mars.

[Laughter.]

MR. FURMAN: It turned out that we were completely wrong, and the Martians must be deeply disappointed because none of those three elements were in the speech.

And it was disappointing because we had worked with him on a number of lines that he was going to use last night, and ten minutes before the State of the Union, we got

the ads prepared for delivery and had to delete half of the points that he was going to make last night because the general--because the President didn't talk about any of them.

What I think was most striking about the State of the Union was the President had a bunch of bite-size initiatives that I think Maria did an excellent job taking apart. And the most memorable one for me was steroids. I obviously wasn't paying enough attention because I didn't even know he had an extra \$5 million for democracy in Afghanistan.

But on the key issues that we face, which are health, the economy, education, and terrorism, it was very clear that the President was going to spend this year running on his record. He talked about the benefits of the tax cuts. He talked about the benefits of No Child Left Behind. I'm not exactly sure how he would run on his record on health care, but he seemed to be attempting to at least run on the same proposals he'd made year after year on health care, with one minor new proposal, and then continuing the same approach on terrorism.

I think what any Democrat who's running against the President is going to have to do this year is be able to not just articulate what's wrong with the President's record, but also what they'd do differently, and a compelling new vision and set of policy ideas that get at

these four core issues that the President had virtually no new ideas on.

I think General Clark is someone who has articulated them in all four areas. One of the most compelling is obviously his national security background, and rather than talking about his success strategy for Iraq and his ideas about terrorism, I just recommend that you turn on cable news and our senior foreign policy advisor Jamie Rubin is on TV about once an hour these days, and you can hear him talking about that.

He has ideas on education in terms of universal pre-school, combining the HOPE scholarship and the Pell grant into a universal college grant for the first two years of college, a health plan that would provide coverage for all children and universal and more affordable access, as well as something that General Clark feels very strongly about, which is an emphasis on preventive care and using the latest standards for diagnostic and screening procedures.

But what I want to talk about of these four issues is really focus on the economy, and it's clear that the President is going to make taxes a central issue, talk about his--what he will describe as a very successful tax reform. And I think for a Democrat to run against the President, they are going to have to go straight against that, not by saying we want to repeal part or all of the President's tax cuts, but really take the issue of tax reform and own it for

Democrats, arguing that what the President has done is not tax reform by any meaningful definition of that word, but really tax cuts for the wealthiest Americans under the guise and rhetoric of tax reform.

And General Clark from the very beginning of this campaign said that he was going to make a commitment to tax reform and set out five principles, and I just want to briefly talk about his ideas and how they fit into these five principles, because I think all five set up a tremendous contrast with President Bush.

The first is that the tax system has to be simpler. The President's tax plans have created this complexity in terms of the alternative minimum tax, dividends have increased the complexity, as well as the fact that the Tax Code changes each and every year. On an annual basis, you just need to hire an accountant to understand how it's different this year than it was last year.

Some of the biggest forms of complexity facing the current system are actually low-income families who are eligible for the earned income tax credit, two-thirds of whom have to use a paid preparer because they can't figure out how to do their taxes, and as many as 14 percent of them, although the number's probably lower than that, don't take up the earned income tax credit.

As take-up rates go, that's a lot higher than food stamps, but it's a lot lower than, for instance, the

personal exemption or any other standard feature of the Tax Code.

So one issue is simplicity, and General Clark has a plan to combine the different child tax breaks, the earned income tax credit, the personal exemption, the child tax credit, and the additional child tax credit, into one simple credit, which is \$2,250 per child. Everyone would basically be eligible for the same one. It would, in effect, eliminate taxes for a family of four making \$50,000 a year, provide a tax cut for all families with children making up to \$100,000 a year. And it would be tax reform in the sense of, one, greatly simplifying it in terms of families on the EITC.

Second, it would make the Tax Code fairer. Right now families get different breaks for their children. In fact, a family making \$100,000 a year gets about a \$1,750 tax break for their children. A family making \$50,000 a year gets one that's substantially smaller. Under General Clark's plan, the Tax Code would be fair. If you have a child, your taxes go down by \$2,250 for each child you have. Most families get the same tax breaks for each child. And it's something that's fair.

The third issue that it addresses is the progressivity of the Tax Code. This is something that has worsened substantially over the past decade. The effective federal tax rate for the top 1 percent of families was 29.5

percent in 1979. It's declined to 23.4 percent in 2001 and has declined substantially further since then.

Addressing some of the issues that Robert talked about in terms of middle-class families being squeezed by the economy are only going to be able to be addressed in the context of something that really addresses the income distribution head on and, you know, the increasing regressivity of the Tax Code as a whole. And that's why his plan would create a new tax bracket for families making over \$1 million a year and use that revenue to pay for the tax simplification and tax reform for middle-class families that I was just describing.

The next two elements of tax reform are that it has to be pro-growth, and a substantial number of studies show that the earned income tax credit and other incentives for families to enter the labor force, to leave welfare and go to work has been extremely effective. And General Clark's plan would expand on the earned income tax credit, expand on incentives to work for lower-income families, as well as --[tape ends].

-- that you need if you want to be able to enter the labor force.

And then the last element of tax reform--and I think this is the most dramatic failure of President Bush's tax reform--is that you want it to be deficit neutral. And his plan is paid for, as I said, by raising taxes on those

who have done the best in the economy over the last 30 years and have done the best in terms of the tax changes over the last three years, which is families--the one-tenth of 1 percent of families making over \$1 million a year.

So to summarize, I think any candidate who is running in this election will need to have a compelling set of forward-looking ideas that address some of the fundamental problems we face, and two of those are: one, that families are increasingly nervous, middle-class families in the economy; and, two, that people are still very nervous about terrorism and how to have a success strategy in Iraq. And I think General Clark has an excellent set of ideas and an excellent background to implement those ideas.

MR. SPERLING: All of the presentations were so compelling that Kevin has told me that he agrees with everything and really has no questions at all. [Laughter.]

But he'll bluff it, anyway.

MR. HASSETT: Thanks a lot, Gene. Again, I thank everybody for coming.

The first thing I noticed when I started reading the materials for all the candidates, which I really enjoyed doing, was that it's quite true that competition increases the quality of everything. The fact is that if you go to the websites and look at what the candidates have to offer, there's a great deal more discussion of what they want to

do, how they want to do it, and what will happen if you do what they want to do, than there was between Bradley and Gore in the last primary. And so I commend them for being extremely productive.

I'd also like to thank Gene for coming over and cosponsoring this. The Center for American Progress, I decided that we had to start to form a partnership with them, because being from Massachusetts I noticed they had the same logo as the New England Patriots. [Laughter.]

Minus Elvis. And one other thing about CAP, Gene. You'll notice that I had an article in the Washington Post saying that CAP is evil in killing Africans, but that was the Common Agricultural Policy, not you guys.

MR. SPERLING: And as a Detroit Lions fan, I need somebody's symbol.

MR. HASSETT: So let's jump into the questions. My first one is for Maria, and I promise that we'll come around to everybody. For me, the feeling of the campaign up until now has been everybody's picking on Howard Dean from within the Democratic field. And you might say that partly that was because Howard Dean was up front, and that certainly is part of it. But another thing that I noticed, after reading all the materials, is that it seems to me that if you were to construct a sort of picture of where the candidates are in terms of economic policy, you'd have this sort of cloud of people very close, which is everybody else,

and then Howard Dean, who really has quite a different economic policy on tax in particular. And so people--some of the news analysis said in Iowa that Senator Kerry was running, I guess, a phone campaign talking about the middle-class tax hikes that Howard Dean has and so on. And so I wonder first, do you have the same impression that you're the ones who offered the vision of how to do economic policy that's most different from the others? Because that's my impression. And, you know, what do you think are the arguments in favor of those differences?

MS. ECHAVESTE: I think that Governor Dean--it's unfortunate that many of the other--several of the other candidates call what Governor Dean proposed, which is repealing all of the tax cuts, as increasing middle-class taxes. Because what Howard Dean was saying was what got us into the mess we're in in terms of the deficit are the tax cuts that were passed in 2001; and that if you want to begin to balance the books, you have to go back to where you were and then look at what actually should be done.

Some of the ideas that Jason threw out I think are very creative. I think there's some very important policy decisions that have to be made, but you have to start from where we began and build towards the kind of tax system that represents what's best about America.

One of the things that the Bush proposal and his insistence on tax cuts is he is really walking away or

making Americans forget that we have a common interest, that the purpose of us paying taxes is for the common good. We fight and Congress fights about what that common good is, but when you do what Bush has done, it means that there is no money for the common good. And in a very real way, if Bush gets another four years, they will have effectively defunded government and all you will be able to do come 2008, because the call--suddenly the Republicans will say that the deficit needs to be brought under control, which means cutting all social funding and all you have is national defense and security.

So Howard Dean bluntly said we have to repeal the tax cuts and then build the kind of--make the tough decisions that will allow us to grow the economy, but restore a sense of fairness and common commitment to society.

MR. HASSETT: So would you say the folks that are saying that we should keep the middle-class tax cuts, like Senator Kerry, that they're being irresponsible, that they're not going after the deficit as aggressively as they should? And I will give you a chance to respond.

MR. : Okay.

MS. ECHAVESTE: I won't say irresponsible. I will simply say that they're going for the sound bite that gets them through the next primary, rather than talking honestly about--they're falling into--remember, part of what--Bush

was--Dean started off by saying, look, Democrats voted for the tax cut, and they took a huge victory in saying we cut it from 700 to 350. And all those Democrats up on the Hill were worried about were the ads in their November election instead of making the tough choice and saying: You know what? Making a tax cut here may get you the next election, but it's going to put America on the wrong path. And we need to give many of our colleagues some backbone to say--to stand up for the right thing.

MR. HASSETT: The one (?) point on this is that I believe that Governor Dean said that he favored a cut in the payroll tax, and that once you look at the whole middle-class effect of what he proposes, it will be different from what it looks like now. Is that true? Is there a payroll tax cut coming? And, you know, when and how big?

MS. ECHAVESTE: Well, I'm afraid that I can't speak to that. I don't have that talking point. But we have kicked around the payroll tax, as have many--several Democrats had when we--when the debate was going on in 2001, and which actually would make a huge difference to the working people of America who--that payroll that gets taken out is affecting them, and they would see much more if we did something creative in that arena.

MR. HASSETT: Okay. So my next question is jointly for Robert and Sarah, which is that you two--when I look at your plans, they look very, very similar. And so

suppose that having done so well in the most recent event you become the two that have to fight amongst each other. What would be the one thing in the economic plan that Robert has, Sarah, that you would think is really crazy and you shouldn't do? Or what is the big difference between--or what is the one thing that you're doing that he's not that's so wonderful that they're just missing the point? How would a voter distinguish between the economic plans of the two of you?

MS. BIANCHI: Can I, first of all, just speak real quickly to the Dean thing?

MR. HASSETT: Of course, yes.

MS. BIANCHI: First of all, John Kerry didn't vote for the tax cuts, the Bush tax cuts, ever, and didn't take credit for reducing the size. And I do think that there is a lot of generalization in the Dean campaign about what Washington Democrats have done, and it has been a difficult couple years, I think, for the Democratic Party and not having any control. But he certainly didn't vote for the tax cuts.

And just sort of one comment on an argument that's confused me that Dean has said sort of consistently, is that because families have seen property taxes go up and tuition taxes go up and all of these that, in fact, they got no tax cut. And Senator Kerry's sort of view on that is the last thing--first of all, the last thing that these families

need--we agree with that assessment, that the last thing that people need is a higher tax--higher middle-class taxes. Kerry's approach is he's proposed a state tax relief and education fund, which would actually be stimulus to the states to help with some of the problems that Dean is addressing, is talking about, but we think that that ought to be in addition to maintaining any relief that they did. But he's been consistent about calling for repealing the taxes that go to the highest income.

With regard to Edwards, I had the opportunity to sit in--to observe a caucus on Monday night, and I'll tell you what their answer was to that question, which is less on the economics, which was that Senator Kerry has run for President twice already and has not been successful, and couldn't beat George Bush in his State of Massachusetts, which I thought was an interesting comment from the sunshine campaign. But I think with regard to economics, Kerry would agree that--has said that, you know, there is a lot of agreement--there's probably more agreement than disagreement between the two campaigns, and I'd have to go back and read real solutions to find the explicit differences.

But I think one thing that Kerry does feel strong about is the health care cost containment approach, and I know that Edwards has talked a lot about that issue as well. But I do think the fact that he--that Kerry's really put some real money behind helping out with catastrophic costs

on health care and that would enable lower--you know, them to lower premiums is important. And I'd cite that as one example.

But Kerry said this on "Larry King Live" the other night, that they agree on quite a bit on the economy. So I don't think that if the race goes that way--and who knows what this race is going to do? I don't think that hopefully--I don't think it will be--and maybe Edwards--but I don't think he would view it as, you know, big differences on how to get the economy. I think it would contrast sort of more on national security and other issues.

MR. HASSETT: Robert, do you (?) difference? She was basically unable to come up with the difference, so--which I would have to argue is a real bad strategic move, because if you can't brand your candidate to be different from some other one, then the two of you are going to split the vote, and somebody else is going to rise to the top. So if you want to brand your candidate as being for something that Kerry's not, what is it?

MR. GORDON: I think it would be that he has the most specific and detailed agenda that will help these families, millions of families in America that feel like they are a step away from bankruptcy. And I won't repeat myself, but it's the measures to help families to own, to help them to save. Those are things that I don't think any other candidate--

MR. HASSETT: I actually thought the homeownership thing was very creative. Could you explain to everybody? I don't know if everybody--

MR. GORDON: Yeah, it's a tax credit as opposed to a deduction. So it will have the greatest proportional value to people, and a refundable credit, so it would be fully available to families with low incomes, of up to \$5,000 that will be available either to assist with a down payment or--we haven't worked out all the details--or to assist over time with making monthly mortgage payments. And, you know, it's actually something that President Bush has talked about and has had, I think, a really minuscule proposal on these lines. But it's a real centerpiece for Senator Edwards because homeownership is so important to the American dream, and we don't really--because of the way--as I said, because of the way the mortgage deduction and all homeownership subsidies are structured, we really don't get these subsidies to the people who need them the most.

And so it's just--I think this is the kind of agenda--I think not only is it--does it make economic sense, but it also--it speaks to people's ambitions and their hopes, not just their fears, and what they see sort of a successful life for themselves and for their families will mean. And I think, you know, we do talk about optimism and sunniness, and I do think that's what people ultimately believe about America. And offering an economic agenda that

is optimistic and does speak to people's ambitions--it's something that Republicans actually are good at, and it's something that Democrats need to be good at also.

MR. HASSETT: So, Sarah, what's wrong with a credit to buy a house? You guys don't have that in your plan. Is there something you might add? Or would you oppose it? Would Kerry vote against it if President Edwards--

MS. BIANCHI: No, Kerry would not oppose it. He-- we focused our middle-class tax cut primarily on college, and there is a difference in the two campaigns. Edwards focuses very much on the first year of college, and Senator Kerry thinks that that is a real ticket to the American dream right now, particularly in this economy. And so the vast part of his middle-class tax cut focuses on making-- building on what Bill Clinton did with the HOPE Scholarship and making the first two years of college universal and goes to making four--you know, the idea of making four years of college universally affordable with the tax credit on \$4,000 of tuition, which is a typical tuition cost for a state university. That in addition with the state tax relief and education fund I talked about earlier, which is designed very much to get tuition prices down.

So he spent a lot of the resources on the middle-class tax cut there because he believes that in the 21st

century economy that four years of college more often than not is going to be a necessity.

MR. HASSETT: Okay. Thanks. The next question is for Dan. The folks on the other campaigns have said a lot about deficit reduction and the evils of deficit and the problems we have now are because of the deficit. And while we didn't hear it as the sound bite that led everyone's presentation today--everyone's increasing taxes, that's certainly at the top to address the deficit problem. But these folks at the National Taxpayers Union wrote a piece on the Wall Street Journal that added up the spending for each campaign, and by my own math from their numbers, it looks like Lieberman's the only candidate that actually reduces the deficit if you take the whole thing.

Would you agree with that assessment? And, you know, do you think that the others are spending too much and that they're giving lip service to deficit reduction but not actually accomplishing it and that Lieberman is? And maybe would that be how you would distinguish your candidate from the others?

MR. GERSTEIN: Well, first off, it's--just as it's strange for Gene to be at the--saying "I'm glad to be at AEI," it's strange for me to be saying I agree with the National Taxpayers Union.

[Laughter.]

MR. GERSTEIN: But I do agree with that assessment. But I'd like to step back and address a little bit of some of the discussion here, because we're talking about something that is fundamental to this campaign, fundamental differences between some of the candidates, and that has been obscured by some of this debate about middle-class taxes, which is not unimportant but it glosses over a very critical question, which is: Are we going to build on the Clinton economic policy that helped create 22 million jobs, the longest peacetime expansion? Or are we going to go back? Or are we just going to selectively use some of what got us to that record job growth creation?

And in this case, I think Lieberman and Dean have struck the clearest alternatives. Governor Dean has outlined an agenda which is so angry at the Bush reckless fiscal policy, tilted tax cuts, all of which we agree with, but in their anger have--basically want to take back the limited tax relief, not just for middle-class families but pro-growth tax cuts that were targeted at helping small businesses and spurring investment, which, you know, we all know is critical to job creation. And on top of that has put forward no real plan that would actually grow the economy and create opportunities and jobs, which I think we all agree with. You know, we talk about creating jobs. Well, how do we do that? The government doesn't create

jobs. I mean, we create a climate for growth, but we don't create jobs.

And Senator Lieberman has put forward a very aggressive pro-growth economic agenda which is very different than other candidates here. There are some overlapping similarities, but I would say the biggest difference is focusing on the specific needs of the economy, not just on middle-class families. Obviously we all agree that there is tremendous strain on the middle class. But the best way in the long term to deal with economic security is to create long-term growth, the kind of prosperity we had in the '90s, which, you know, to go back to what I was talking about in terms of the rising poverty numbers, three million people slipped into poverty. Well, under President Clinton, I think it was a number of seven million people left poverty and went into the middle class. That's astounding. And the question we have is: Why would you want to walk away from that record, that philosophy that produced those kind of results?

Now, our economic agenda doesn't just mimic what President Clinton did. It builds on it. Part of it is providing the kind of tax policy that both--as Robert talks about, and Senator Edwards has been very persuasive on this--that rewards work not wealth. And, you know, we share a lot of the same tax policy that is designed to create incentives for savings, creative incentives for job

training, asset building. But one of the biggest differences is and what sets us apart from all the other candidates is we're the only ones proposing fundamental tax reform. And this goes to something Jason talked about. Again, General Clark's plan addresses a major problem, but it's only part of the problem. They leave out 75 percent of the middle class. And our question is: How can you talk about fundamental tax reform when you're leaving out 75 percent of the middle-class taxpayers?

And the second thing is Senator Lieberman is the only candidate that has put forward comprehensive innovation policies and comprehensive manufacturing recovery policies. Again, going beyond just the middle-class squeeze and going beyond the question of government programs, how do we address specific weaknesses in the economy? Our manufacturing sector is hemorrhaging jobs. Just throwing more money in government programs isn't going to solve that. The President has no manufacturing recovery policy. They produced a report where one of the leading ideas to deal with, you know, the loss of manufacturing jobs was tort reform. Give me a break. And--

MR. HASSETT: Let me go on to Jason now.

MR. GERSTEIN: Okay.

MR. HASSETT: Because we don't have a whole lot of time. Jason, I mentioned that everyone was kind of increasing taxes a lot, and I believe that's true. But I

think that by my own reading of the plans, the general has the highest marginal tax rate of anyone because of the surtax on incomes about a million. I think it goes up around 45 percent. Am I--

MR. FURMAN: 44.6.

MR. HASSETT: 44.6, yes, that's right. I guess if we phased out the itemized deductions, we might get above that. But, anyway, so--

MR. FURMAN: [inaudible].

MR. HASSETT: They're gone--well, it depends how many deductions you have. Anyway, so you go to, say, a 45-percent, 44.6-percent marginal tax rate. I get concerned when I see tax rates that high justified by fairness because, remember, the income tax is the top half of the income distribution. The bottom half of the income distribution doesn't pay much income tax. We're moving money around amongst the top half. To the extent that high marginal rates have any effect on the economy--they cause unemployment and things like that--that affects the bottom half.

So, I mean, what analysis is it that has led you to believe that you can increase the rate to that level without causing economic harm and harming people at the bottom? And then, you know, does that analysis say that you should stop at 45? Or why not 60? If we're going to try to

really solve the world's problems by taking money from people who don't need it, then why did you stop at 45?

MR. FURMAN: Well, first of all, I should say, you may not all know this, but General Clark voted for Richard Nixon because of his 70-percent marginal rate at the top.

[Laughter.]

So if his vote for Nixon is indicative of anything, we may be going substantially higher.

MR. HASSETT: [inaudible].

MR. FURMAN: I just wanted to briefly get at one thing that Dan brought up before I answer your question, which is a little bit about what you think tax reform is. I mean, I don't measure the scale of tax reform by the number of people that get tax cuts. General Clark has put forward a set of principles for tax reform, and I guess you want to look at any tax reform by those principles. And if you look at Senator Lieberman's tax reform, he changes two rates and creates a new rate, leaves actually the same number of rates we have now, but doesn't actually simplify the tax system, make it any easier for families to file their taxes, doesn't make it any--solve any fairness problem that I'm aware of in terms of progressivity. A married couple making \$150,000 gets a \$2,800 tax cut from Senator Lieberman's plan. That's on top of the \$4,500 tax cut they already got from 2001. So they're paying \$7,000 a year less taxes than they were. You know, I think that's wonderful. I think everyone should pay

less taxes. But when you have limited resources, General Clark just doesn't feel the biggest priority is a \$2,800 tax cut for a family making \$150,000 a year. And then it is deficit neutral.

So it's just--I think you want to look at tax reform and ask what the problem it is you want to solve and where the sources of complexities that families face, where the sources of unfairness are, which there are substantial unfairnesses surrounding child tax breaks in the current Tax Code, and ask how to remedy those, not just say, you know, oh, we're going to come up with a plan that provides, you know, tax cuts to the largest number of people. That's not really what I think--

MR. HASSETT: That unfairness strikes me as kind of disingenuous, because if we had an 80-percent marginal tax rate and gave someone a deduction for having a child, then it would be even more unfair because the benefit of the deduction would be higher. And so the extent to which, you know, there's this unfairness that has you upset, it's because the wealthy have a higher marginal rate to begin with, and they're getting a deduction that then counts against that high rate. Don't you think?

MR. FURMAN: I think--

MR. HASSETT: So would it be more unfair if the marginal rate were higher?

MR. FURMAN: Yes, it would, and that's why we should be shifting--

MR. HASSETT: Okay.

MR. FURMAN: --from exempt--it depends on what you're trying to do. If you're taking something that--you know, if you're talking about a business and they go out and buy something, you should subtract that from their bottom line and come up with their income and tax them on their income. If you're talking about a family, you want to ask how much it costs to have an extra child, and \$2,250 a year extra tax cut for a family with children compared to the same exact family without children seems like a fair, reasonable, simple way to go about that.

MR. HASSETT: But let's get to--

MR. FURMAN: But I haven't gotten--

MR. HASSETT: --[inaudible] my question. It's the last one I have. So, really, you really think that going to 45 percent has--or 44.6 has no effect on the economy that we need to worry about?

MR. FURMAN: Let's talk about two things. One is what--first of all, marginal rates, you have some of the highest marginal rates in the Tax Code are there, but they're also for low-income families, and you have the EITC phases out at 21.06 for low-income families when you have this Families First tax reform that General Clark talks about, it smooths those phaseouts out, and that awful

picture you did of the Gore tax cuts in 2000 is just not one you could repeat again with these crazy marginal rates going all over the place. It actually substantially rationalizes them. And we have substantial evidence on the EITC about the incentives for work and pro-growth and pro-work for the families that actually need it most in our society, which are people on welfare, people struggling to get by, people who are having a hard time paying the child care, the transportation, the other expenses they need so that they can take a job and contribute to the economy. So in being pro-growth, it's pro-growth for those families that really need it most.

At the upper end, I would say that the circumstantial evidence from the 1990 and 1993 tax increases for the top brackets was that families at the top did perfectly well, worked perfectly hard throughout the '90s, benefited perfectly well from the economy. I mean, I just don't think you saw a substantial disincentive for Bill Gates and a lot of the innovators of the new economy, both the ones that sort of ended up working out and the ones that didn't, from working hard.

And then if you look at the economic research and Austin (?) and a number of other studies, it's that some of those marginal effects are substantially smaller than what Larry Lindsey and Marty Feldstein had found in earlier studies.

So I guess to summarize, the families that need the most incentive to work and that would be most benefited have substantially lower marginal rates for, and for other families the evidence is just a lot weaker.

MR. HASSETT: Okay. Well, let's go to the--

MR. SPERLING: And Kevin's showing great restraint because he would like to come back and have him and Jason go for a while, but I will go first to the distinguished AEI journalist Jim Glassman.

MR. GLASSMAN: I have a very simple question about the economy. I think all of you made very negative comments about the state of the economy and about the President's view of the economy. Dan said the President was in denial. Robert said the President was out of touch and that he used slanted statistics. I think probably Gene would agree with me that--you know, what are the most important statistics about an economy? The unemployment rate, 5.7 percent, down from 6.4 six months ago. GDP, the output of all goods and services, third quarter 8 percent, the highest in 30 years. Consumer confidence, highest in three years. Inflation rate--that's an important one--about 1 percent. Mortgage rates, 5.4 percent.

Now, I don't bring these up to argue with you, but to ask a very simple question. Let's suppose that the economy really is not only good right now but actually gets better in the next few months, which I think is probably at

least a 50/50 scenario. Does any of you have a contingency plan? In other words, what will you say--what will you say if the economy improves? Because if it does--and I'd say the chances actually are better than 50/50--I think you're stuck with a major problem.

So who's got the contingency plan? What are you going to say when the economy does get better? You can't keep telling people that it's terrible.

MR. SPERLING: Robert?

MR. GORDON: Just two thoughts. First of all, it's not going to make up the ground, first of all, for example, on jobs that the President has lost in the last three years, and he is going to be the first President since Herbert Hoover to lose jobs. That's just a reality.

But the second bigger point, I think, is that-- just that Senator Edwards will keep talking about what he's been talking about, which is a long-term--you know, trends that have gotten worse under President Bush, but long-term trends and long-term anxieties facing the middle class and the inability to save, et cetera, which this President has no agenda for and pursues policies that worsen the situation. And I don't think those fundamental realities will change.

MS. BIANCHI: Let me just take a stab at it. I think it really--the question of what the right stats to look at and how do we define the economy, I think one key

area where perhaps if, as you say, the narrower view of the economy continues is the fact that we still have a greater proportion of people's paycheck going to increased health care costs, contributions to health insurance. I mean, we've got, you know, months now, a strike out in California that is not about increased wages but is about the cutbacks in their health care benefits.

So I think that there is a way to pivot should that happen, if necessary, but also as Robert says, for the people out of work, simply saying the economy is getting better, it's like you're looking at the stock market, yes, people are--now the returns seem to be reassuring, but people are still worried about the next paycheck, and companies across the country announcing contraction. And we've got a major economic challenge in this high-tech economy in which manufacturing jobs are leaving, and we need to figure out what we do for our people in this global economy. I think these are very tough challenges.

MS. CHRISTIANSON: I'm Amy Christianson with Environment 2004, and we're having an economic conversation, and I think the President would like us to think that environmental protection comes at the expense of the economy, but his own Office of Management and Budget came out in September with numbers that showed that improvements in the 1990s of environmental protection actually

outweighed--the benefits outweighed the costs by over five times.

So I just wanted to raise the point. In 11 years, a President has not not mentioned the environment in a State of the Union. He did not mention it once. He knows this is a huge vulnerability, and I think what the Democratic candidates have to do better is really link this to the economy, link this to the health impacts on our children, and link it to local issues in the communities. What the Bush administration is doing at the federal level really needs to be localized for voters. And I would just call on all of you, you have some great plans up there on energy, the new energy economy, what we can do with job growth in this area. And I just implore you to really tie this issue to him, to his administration more generally, and to the links to the special corporate interests on whose behalf he's pursuing these efforts to undermine our environmental protection. So I just wanted to raise that issue for you.

And the one sentence he said on the environment was an energy sentence, and he alluded to the fact that if we passed his energy bill that we would save energy and go towards energy independence. And as we all know, that's absolutely not the truth.

So thanks.

MR. SPERLING: I'm going to let--stay with--

MR. HASSETT: We also have an informal rule that I forgot to remind Gene of, which is that your statement should be in the form of a question.

MR. SPERLING: John?

MR. : One issue where the Democrats seem to have changed their positions over past elections has been on the issue of gun control. And I'm just curious. All the Democratic presidential candidates have made strong statements on the Second Amendment saying that they believe it's an individual right to keep and bear arms, though subject to certain, you know, reasonable regulations.

I'm just trying to get an idea of kind of where you draw the line. You know, for example, could you tell me whether your candidates would go and support the types of rules that are in D.C. and Chicago in principle, which essentially ban people being able to own handguns, for example? There was just a Democratic judge who just ruled in the last week or so here in D.C. that said that there's no individual right and that people--they can ban handguns. Would that be something that would fit in there or not? Would that be a reasonable regulation, that type of ban?

MS. ECHAVESTE: I think if we got into a discussion about gun control, the constitutional amendment on marriage, on--you know, to go down the list, we will be fighting on the ground that the other side wants to fight, which is about cultural and social values, sort of social

issues that really don't have as much to do with what people are worried about.

And so it's--there are people who care about that issue, but I certainly wouldn't advocate my candidate to do a huge amount on this particular issue because these--as I like to--I want to go to people and say, a person without a job, so the stands on civil unions is really going to affect your ability to get a job? That's what the other side wants us to fight about because they don't have a domestic agenda, they don't have an agenda that really is for all Americans. And so it's a way of dividing people.

MR. GERSTEIN: I want to answer your question, and then I'll get to something Maria said, which I think is a very important difference among Senator Lieberman and Governor Dean.

Senator Lieberman has not changed his position on gun control. He has been very consistent in saying that he supports the Second Amendment, but there are fundamental responsibilities that go with that fundamental right. And he's supported very reasonable gun safety measures. He's been very up front, working with Senator McCain and working to solve this, you know, stalemate on the gun show loophole because he believes it's just wrong that you should be able to purchase a gun without getting a background check at a gun show when you have to go through this process anywhere else.

But he would oppose an outright ban on handguns, and he's not afraid to say that, and I think that goes to something Maria talked about. You can't have--you can't win an election let alone run against this President if you're afraid to talk about values, because regardless of whether you're talking about the right's values, the left's values, or the broad American middle--mainstream values, that's what people vote on. They want to know that you share their values, that you're in touch with them. And if we cede that playing field to the Republicans, then we've lost, because on issues that people care about, just like Maria talked about, they're not going to listen to you if you aren't going to kind of address their concerns.

And, you know, people--I again have to disagree. People do care about the culture that they're children are being raised in. Does that mean they want censorship? No. But does it mean that they want a President who's going to stand up and say there are things that are right and there are things that are wrong? Yes, I believe that. And I believe absolutely that it goes to your question about the environment. Protecting the environment -- [blank spot on tape] -- mainstream. This President doesn't share that value. We can win that fight by talking about in terms of values.

MS. ECHAVESTE: I just want to be really clear. When I was talking, I was being too superficial and using

shorthand. I totally agree that we cannot cede the ground of values to the other side. I'm talking--but when I say we can't--let's not engage in what--and "fringe" is the wrong word, but the issues that divide, that they use as wedge issues as opposed to really talking about the values that I think are fundamental to all of the candidates and to the American people, which is what kind of society we live in, what kind of world we want, what kind of environment--all those values, I think the progressive community has to not be afraid about talking about what we want for our country and to be able to say what is right and what is wrong.

MR. SPERLING: All right. I'll let them continue that in Manchester. Paul Magnusson (ph)?

MR. MAGNUSSON: Thank you. Paul Magnusson from Business Week. Last night, the President's speech focused several places on terrorism and the fact that there have been no terrorist acts since 9/11 in the United States, but there have been many abroad.

How would you think that either another terrorist act or a heightened terrorist alert close to the election, how would that play out? And how would the candidacies address a problem like that?

MR. : I don't want to speculate about what the politics of another terrorist act was. I just would want to say, though, in terms of whether people really are substantially safer from terrorism today, you can't just

look at whether or not there's been a terrorist attack. It's not like jobs where every month there are millions of jobs created and millions of job lost, so you can sort of reliably track the economy from month to month on the basis of job numbers. Terrorist attacks are something that happen on American soil fortunately very, very infrequently. But what we worry about is a terrorist attack with a weapon of mass destruction that will kill thousands of people or more. And that's not something you can measure by sort of like the Dow Jones Industrial Average, checking each day to see whether there's been a terrorist attack each day. And that's why you really need a homeland security policy, a strategy that both takes the offensive against terrorists rather than diverting your attention in Iraq the way that President Bush has done, and strengthens homeland security here in America by securing our ports and our chemical facilities and nuclear facilities, a number of steps that President Bush has not taken.

So I think what you really want to look at is not sort of job statistics, but the question of are there major steps we can take to make us safer that the President hasn't taken, and the answer on homeland security is clearly yes. And are there steps the President has taken that divert us from the job of making ourselves safer and might even make us less safe, like what he's done in Iraq, and the answer to that is also clearly yes.

MR. : Anybody else?

DR. FROMAN: I'm Dr. Diane Froman (ph). I'm co-chair of the Committee on Global Violence and Security for a division of the American Psychological Association, and I also write about the psychology of terrorism, nuclear proliferation. And as a clinical and political psychologist, I do have a question, but, Dan, you spoke about denial. I think the American public is in denial, but I think there's also a lot of suppression, misrepresentation of the facts, and deliberate use of psychological--of techniques of mystification going on that are important.

In terms of terrorism--and, Jason, you were just talking about it--a lot of what we're doing--you know, there's a law of opposites and unintended--a lot of--a category of unintended consequences are predictable and preventable. And there's a real absence of understanding of the psychology of the enemy.

I was also--one of the most bizarre moments in the speech last night is when he said the terrorist threat will not expire and that got a standing ovation. That was a little weird. And then, you know, he said we will not be intimidated by these thugs, but we don't know that they also won't be intimidated by us. And terrorism is a form of asymmetrical warfare, so we're actually increasing recruitment. I'm extremely concerned about what's going on, and my question is: There are bodies of knowledge on

tension reduction, conflict transformation, and in addition to all the things you just said about, you know, the Nunn-Lugar fissile material, that I think there's a real need to understand the psychology of the other, the psychology of recruitment, and deal with root causes.

We know about this. I haven't heard hardly any-- maybe a little from Kucinich, and I know John Kerry was talking about use of intelligence and police work, which is also very, very important. I agree with him on that. But just dealing with root causes--

MR. SPERLING: And your question is?

DR. FROMAN: Yeah, that--is anybody--

MR. : [inaudible].

DR. FROMAN: Is anybody consulting with experts in this area and for programs on reducing the desire for terrorism, not just the behavior?

MS. BIANCHI: I think Senator Kerry has talked about, you know, ways of dealing with diplomacy, ways of-- you know, from everything to more support for multilateral-- you know, improving our relationship throughout the world, which I think is part of this. He's talked about in terms of some of the implications of how we've treated prisoners of war or Ashcroft's sort of brigade and how that's impacted the hearts and minds of people around the world and their view of Americans and how I think it's been very harmful. He's talked a lot about that and talked about some cultural

awareness and understanding, you know, programs that could help improve, you know, an understanding of where different countries are coming from. So I do think, you know, he is attuned to that.

I think where I thought your question was going, actually, was sort of the psychology of how the State of the Union dealt with terrorism in this country. And I do think that it was indisputable and, you know, it is--you know, it is a challenge to combat. I mean, you know, the war on terrorism is, you know--is the reason we need to support, you know, No Child Left Behind or you're not a patriot is, you know, I think is a challenge for Democrats in this environment. I think you need somebody who has a lot of credibility on those issues to take him on that, but I do think there is also a lot of confusion among the American people that they don't feel safe. I mean, you raise it to Orange Alert and all we hear from local law enforcement, you know, our community doesn't understand what that means, we don't know what to do. You know, so I don't think there is--you know, there's a lot of empirical evidence that they haven't made the country safer. I think there's some underlying anxiety. You know, you don't understand why on Christmas Eve we're raising it to Orange Alert. I think there's a lot of anxiety. I don't think people know what that means. So I think there's stuff there where you can come up with better ideas and proposals that would actually

enhance confidence in the overall mental health of the nation in that way as well.

MR. HASSETT: Well, I will say as one who in another part of my life works on universal education in poor countries and just got back from some of these discussions in Doha, this is a huge, huge issue that you've raised.

I'm going to move on, only because I think it is that large of an issue and is really worthy of a panel of its own. But we're going to take just one final question, and then I'm going to wrap up. I think for geographic diversity, I'm going to take somebody in the way back of the room.

MR. : Okay. The question will be short. Will you increase--

MR. HASSETT: Can you identify yourself, please?

MR. : --or reduce-- (?) , Polish Embassy. Would you reduce or increase current level of agriculture subsidies? And would you resume the talks with underdeveloped countries which failed in Cancun?

MR. HASSETT: Okay. So the question was reduce or increase agriculture subsidies, and would you continue the talks on the Doha--on the new global round, new global trade round that was stalled in Cancun? Everybody, rushing.

[Laughter.]

MR. HASSETT: Dan?

MR. GERSTEIN: I will leave it to our Ph.D. economists to address the question of agriculture subsidies. [Laughter.]

But I would like to address the broader question, which is about trade. And, yes, Senator Lieberman would resume those talks. And I would just like to draw the link, though, between the way this administration has insulted and disrespected and pushed away our allies, and the consequences of that on the economy, not just in terms of national security and foreign policy. It's very hard to engage the world and build trust and make progress in global trade talks when you are on the other side of the coin acting unilaterally, breaking away from agreements like the--you know, or even discussions like Kyoto, the global criminal court, all those things. It has consequences.

And I think Senator Lieberman would pursue a very different foreign policy that would recognize there is this interconnectivity between diplomacy, foreign policy, and the economy.

MR. : Actually, our biggest ally in Cancun was France, okay?

[Laughter.]

MR. : That's kind of a stretch. It was Brazil that defeated Cancun, not France.

MR. GERSTEIN: I understand that, but I think it does have broader implications. And in terms of trade

policy, though, again, this is a fundamental difference between Senator Lieberman and I think most of the other candidates here. We've been the most decisive and consistent in advocating for free trade, free trade agreements, the kind that were central to the creation of jobs and economic growth under the Clinton legacy. And, you know, to varying degrees, I know other candidates have supported some of these free trade agreements, but in the course of this campaign, there has been a lot of pressure from interest groups and folks who are worried about the impact of trade. And Senator Lieberman is not immune to those concerns, and he's been addressing them, particularly in terms of the question of China and currency manipulation and patent stealing and all the other violations of international trade agreements.

However, he has not backed away from his principled support for free trade as a way of not just growing the economy but strengthening global relations. And, you know, that is something that we can have a very good healthy debate with George Bush on.

MR. : I think just to be fair to the questioner, I think, you know, part of the issue is that agriculture subsidies are seen worldwide as something necessary to reduce global poverty -- [tape ends].

-- Republicans is obviously very difficult and painful. Domestic constituency, agriculture issue. If any

of you would like to take on this very difficult topic--I have a hunch there will not be a lot of hands up, but--

MR. : [inaudible] opposed to ethanol subsidies.

[Simultaneous conversation.]

MR. : Let Robert turn the microphone on. We'll let him take the final shot.

MR. GORDON: Just Senator Edwards is opposed and would want to reduce or get rid of ag subsidies for very wealthy farmers, for corporate farmers--for corporate farms, agribusiness. And, you know, obviously he comes from an agriculture state, has always stood up for his family farmers in that state, would stand up for family farmers in the context of an international trade negotiation, but negotiating and being at the bargaining table is obviously a good thing.

MR. SPERLING: Well, I hope everybody recognizes how unusual and difficult it has been for me to be purely ministerial here and never offer a single opinion. But I want to just echo two things Kevin said.

One is while Washington may not always be the most civil place, I think Kevin and I have, you know, very much believed it is really possible to have this kind of debate on issues and hope that we can help to co-host future things, some where we will invite some people from the Bush administration and have a chance to question them as well.

And so I want to echo his support for that kind of discussion.

And, secondly, I do want to say I agree with him, I think competition among these policy directors has been very positive, and I think as one who's been involved in the last--since '88, that this is the--I don't know if any of them have quite stepped up to putting out a full budget, but in fairness, I don't think we attempted that in '92 until the middle of June. But I do think in terms of the details of the proposals that they have put out, I know it's frustrating when it's not what makes the news, but at least you have websites. And I think the competition among them has led to a lot more really serious policy dialogue than in past campaigns. And maybe it suggests that with each and every election cycle, the level of debate on policy-wise might be improving, and I think that's one positive sign.

So thank you very much, everyone, for coming. Some of our panelists are rushing off to New Hampshire. Others of them might have a little time before they catch their planes.

Thank you very much.

[Applause.]

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