DEFINING A PROGRESSIVE ECONOMIC STRATEGY FOR AMERICA'S FUTURE

Former Clinton Advisor And Progressive Leader Discuss Contrast Economic Strategies For America's Future

After two consecutive elections in which Democratic candidates failed to turn clear economic advantages into electoral victory, a debate is raging over what the Democrats should do now. Economic Policy Institute founder ***Jeff Faux*** *joined former White House economic advisor* ***Gene Sperling*** *to discuss their differing economic strategies for Democrats and progressives at an event sponsored by the Campaign for America's Future on Thursday, Feb. 23, 2006 at the Economic Policy Institute in Washington, D.C. A transcript of the discussion follows.*

ROGER HICKEY: Please take your seats. There are still a few over here, and we're going to get going. My name is Roger Hickey. I'm co-director of the Campaign for America's Future, and I want to thank everyone who helped build today's crowd. Thank you all for coming, especially the Center for American Progress and the Economic Policy Institute. I want to especially – I want to especially thank EPI for hosting us in their new conference facility here. Thank you, Larry. Thank you, EPI staff.

On behalf of the Campaign for America's Future, I want to welcome you to what we think will be an important discussion about two very important books by two leading thinkers and authors, Gene Sperling and Jeff Faux. These are scholars who are active participants in the work of politics, the ideas of political parties, of social movements and governments. And this is a perfect time for these two books. The wheels are coming off the conservative juggernaut. Americans are increasingly worried about the future of the economy. Declining wages and outsourcing of jobs cut to the heart of the American dream. If we don't see serious change, today's generation of young people will face drastically lowered economic prospects.

You all know that. You come and visit the EPI regularly, I'm sure. The public is looking for alternatives, and this time we had better be ready. These two books contain many points of agreement. They both critique the heedless and immoral wastefulness of the Bush rightwing economic agenda, but they also re-launch a debate I wish we could have had more robustly and in public toward the end of the Reagan years before the Democrats took back the White House. The two books reflect crucial differences bout how to create sustainable economic growth in a globalizing economy, about trade. The Democrats and progressives could have been debating in a more productive way since the early 1990s. We've had that debate, but in a sporadic way.

The titles of their two books make it very clear what's at stake. Gene Sperling's book is called "The Pro-Growth Progressive: An Economic Strategy for Shared Prosperity," Jeff Faux's interceded (?) title – "The Global Class War: How America's Bipartisan Elite Lost Our Future – and What It Will Take to Win It Back." It's a very good thing that they are both addressing a larger audience beyond the Washington elites and the political leaders. They're also reaching out with these books to activists and to voters who will choose our next leaders. We at CAF – at

the Campaign for America's Future – know something about engaging the grass roots, and we want to take this debate out to the country. We're very pleased to have this discussion today. We can't afford to wait until we – the White House changes hands. In fact, if we don't have this discussion, it may be very, very hard to take back the White House or, in fact, to engage the big democratic family and the larger public in the kind of changes that need to happen. So this discussion may determine the success or failure in the elections of '06 and '08.

The ground rules of today's discussion are very simple. We want to foster a dialogue. We're going to have plenty of time. Both Jeff and Gene will have an initial 15 minutes to present the basic thesis of their books. Each of them will then have 10 minutes to respond to each other and pose questions to each other. They can choose to emphasize agreement or disagreement. And then we have five more minutes for each of them to sum up, correct the record. And then we'll open it up for discussion.

Speaking first is Gene Sperling. Everyone knows that Gene Sperling had a leading hand in shaping Bill Clinton's economic policy. He was Clinton's national economic advisor on areas from deficit reduction to Social Security, workforce issues and globalization and trade. Today he is a senior fellow at the Center for American Progress. He's the director of the Center on Universal Education at the Counsel on Foreign Relations, a project that has special focus on education in the Third World, especially Africa. Gene tells me that he and his wife are soon to have a baby, but before this significant change in his life, he was known to take significant risks like famously bungee jumping off a bridge in Australia during a summit and signing up with candidate Bill Clinton in 1992. So I would bet that there's a chance that he will be involved in the next presidential campaign, perhaps in a high level in the next White House. I'm happy to present Gene Sperling.

(Applause.)

GENE SPERLING: Thank you very much, Roger. You know, for anyone who thinks we never win anything, they still haven't passed a balanced budget constitutional amendment so – (laughter). But thank you to – I can't thank all the faces out there, but I do want to say obviously to Bob, who is here, to Larry, Michelle at EPI. You know, I have watched EPI grow the power and the dominance of the state of working America every year, and it's a – you know, it's an honor to be here. It's nice and convenient that you're just down the eight – seven, eight flights from my Center for American Progress office. And, you know, what I said after I bungee jumped in New Zealand was I was a little disturbed to find out that the market rallied as I was falling and then declined as I rose there. I've often – people – forgive me if you've heard this tale before. But I – you know, on the advantages and disadvantages of leaving the White House, consistently –and this is one more case – advantage is that you go to podiums that fit you size wise. In the Clinton White House, of course, we had podiums set up for Bill Clinton and Al Gore, who were 6'2" and 6'3" respectively. And I'm 5'5" and a half. (Laughter.)

In the White House, we actually debated what I should say. The economist thought, of course, I should round up to 5'6". The political folks thought that would lead to a Congressional investigation or special prosecutor. Others thought if we just stayed at 5'5" and a half, it just – if you have to mention the half-inch, it just shows maybe you're a little too worried about it. So

my official White House height was 5'5", which really was not a big problem until I – until I was announced as national economic advisor. And President Clinton announced me, and I came up. We were on live C-SPAN and CNN. And then as I walked up to the podium, the podium was set up at Bill Clinton height. And this was not a problem because we had – another friend of EPI you will know well – a Bob Reich box. (Laughter.) And there I was on national TV, and I looked down. And there was no Bob Reich box to be found, and so I didn't know what to do except kind of get up on my tiptoes as high as I could, which put me to the audience at about like that. (Laughter.) And I thought to myself, you know, it's a little disappointing to barely have your head over the podium on your big day, but just keep going. The audience looked serious, and everything seemed fine except that there were two people who were kind of ruining everything by laughing, joking, and snickering, which was more of a problem because they were sitting behind me.

Bill Clinton and Al Gore thought this was the funniest thing they had ever seen – (laughter) – in their life. And so on live national TV after I had already started the first two sentences of my acceptance speech, the leader of the free world got up, tapped me on the shoulder, told me to step to the side. He then kicked a little button in the podium, and lo and behold, a step came out. The leader of the free world sat back down. I walked up to the microphone. I kind of went like this. I went up here. The crowd clapped. (Laughter.) That was my first 10 seconds of my national economic advisor career.

So many of you will think that that was – some of you will think that was the highlight. Others of you will think that was the low point. Anyways, you can't start my time yet. I have to say one other thing that's on a lot of people's mind right now, which is I can't get up and speak today without saying for all – how much all of us are grieving the loss of Eli Siegel, who was such a friend of so many people in this room. And his funeral yesterday and what his kids said, what Hillary Clinton and Ted Kennedy said – if you ever wanted to see a life defined by family and service, it was Eli Siegel's. And I just want to – I can't get that funeral and service out of mind, and I can't come before so many of his friends and not make note of that.

So with that, let me – let me try to give, you know, my vision with my book. The first page of my book starts by saying that my theme that I always wanted the State of the Union to be was that we as a people will grow together or we will grow apart. I thought this would be a great theme. It never went places. I was going to name my book "Growing Together" too until my wife informed me that that was also the title of many parenting books. So it may not be a particular good title or State of the Union theme, but I do think that one thing that we do agree – everybody up here – is that we don't measure growth and the success of growth by growth per se. We don't measure – we would not celebrate economic growth if all of it went to a royal family and none of it was shared with 99 percent of the public. We celebrate John F. Kennedy's line not as an assumption, but as an aspiration that a rising tide should lift all boats and that, for us, growth is not just shared growth for shared growth's sake, but also that it's essential – the concept of shared growth – for making, keeping alive the values that we think are important to this country.

And in my book, I identify them as that there should be a modicum of economic dignity for those who work, that there should be always the ability to move up in our society, and that, third, that

no child's life should be seriously set back simply by the accident of their birth. And I think that a growing economy or to say that to have – it is easier to have a melting pot if you have a growing pot. And for us, that is how we need to measure growth per se, but whether we're having the type of growth that brings these values to life. And these are – for all the hypocrisy towards Native Americans or African Americans or women in our society, this was the defining vision that actually unified our founders in the best way – a growing economy without a perpetual economic elite or a perpetual underclass, where work and talent or even luck could determine who would rise, and not simply the accident of birth.

This growing middle class that creates greater inclusion and opportunity – this is our goal and purpose, not to pander to middle class voters, but to keep these values alive. And again, I think one thing we would all agree on and I say in the book is that I do believe that the paramount economic challenge of our time and certainly the next 10 years will be not whether globalization and open markets will lead to growth or productivity growth – I think they will – but whether or not it will lead to the type of shared growth that we aspire to – a rising tide lifting all boats.

Now, again the question that many of us fear is that recently we have seen more signs that there is or could be a hollowing out of the middle class, a growth in jobs at the high level and of jobs that require physical location here and not subject to computerization, but a fear in the middle. And I think that a lot of times people will say, well, that fear of a hollowing out of middle class jobs has been raised many times in our history and never come true before in a serious way, that after the Civil War, the North feared all the jobs would go to the South. For those of us who lived in Michigan in the '70s and '80s, Japan was supposed to clean our clock. None of these things have ever materialized. America has tended to rally and come create jobs and products ad services none of us could imagine.

So the question is, why raise the concern right now? And I guess I – I think because I think the fear is strong enough that we should be worried. I say in the book – this upsets people at times – that sometimes I think the discussion is divided between more of a sky is falling party and a don't worry, be happy party, and that I want to start a humility party to acknowledge that we don't know all the answers of what is happening in the economy now. But we should be concerned enough to act. First of all, India and China are not Japan. They make up 40 percent of the global workforce, not 2 or 3 percent. The degree that, through globalization, through technology, that jobs can be contested at such a quick pace is unprecedented in human history. And I think that it is – it does make much more sense to – for us to take very seriously what is happening now. We also, I think, have more evidence that there is concern. In the late '90s, we saw growth. We saw a tremendous period of growth where wages rose across the board, where poverty went down. We now see – and three's a paper by Larry Katz going through this – a greater polarization, a greater fear – the work by Farber, Hacker, others – a greater sense that people losing middle class jobs are falling further, having a more difficult time.

And I think this is the big challenge for us. Now, you know, where I guess maybe perhaps come at things a little differently is that when I look out in the future here, I tend to – and I hear the debate – I tend to hear a debate, which seems to talk either about, on one side, a sense that perhaps that we can secure this growing middle class job primarily through adjusting the pace of globalization, perhaps getting trade agreements we've got wrong right. Those are all good

discussions, but I'm not convinced that slowing down globalization is as possible and that the things that we're debating are as critical to the type of jobs and future we need. On the other hand is what I consider to be the prevalent power in Washington arguing that w should be in a position that less government is always pro-growth. And don't let the spending that goes up in some areas fool you.

This administration is running a starve-the-beast strategy. Their goal is to have the deficit so high. Having now done that, they claim that's off the table and the only possible way to get control is to restrain, cutback the things that we need to do in terms of public investment in our people and R&D.

And so my feeling was – is that there was a dearth of discussion in – I don't want necessarily the middle – but a dearth of discussion in terms of – that both respected the power of markets, that assumed the inevitability of degree of globalization, and yet at the same time believed there was a critical role for stronger government policies to make sure that we are, in fact, having a rising tide that lifts all boats. Now, I talk and I'm sure we'll talk a lot about this. The part of what we should be trying to do is have, if not a new consensus on globalization, trade, then perhaps, to me, a bit more of a straightforward conversation. I do believe that 98 percent of the things written on trade, you know the outcome by the author. I don't think there is enough honest, open assessing of what might be right or wrong. And I can't go into this as much as I would like to here just because I'm not going to have the time, but I'm sure that's where we will – we will have some discussion.

I talk about in the book that there was a tendency in the trade debate, and I was a participant in what I critique as being this kind of divorce court type of discussion where one side simply marshals every argument on their side, and the other does the same. And I think it is often, what I call, the over-blame game versus the discount pain game. And the over-blame game asserts way more causation than is probably likely to bad things that are happening to globalization and trade. The other side that supports this tends to make their arguments by talking at a macro level and discounting the degree of pain that is going on in communities and for workers and how the differential impacts are happening. And so I try to ask for us to try to take a more, I think, hardheaded look at what's working and what's not working.

And I do critique, on our side, not seeing some of the progressive benefits of open markets, not looking at how things could potentially backfire against other workers. But I also try to critique many of the people who supported trade, many of the positions or rhetoric that we've used for not fully recognizing the degree that there is a sense, a loss of economic compact that is at stake when people see hard work and good education not leading or providing any sense of security for good jobs in the future, the fear of falling – how significant this could be in terms of people taking less risk, believing in open markets, believing in competition. And I talk about the fact that part of this is a certain aloofness, I think, to being here, to being in a comfortable think tank, to being removed.

I quote in the book that President Clinton always used to say that – that if somebody said – that his iron law was that if somebody said that a problem had nothing to do with money, you knew they were talking about somebody else's problem. And I think that when we say that, you know,

the market – this is good for the economy as a whole. It will work out for jobs overall, you know you're always talking about somebody else's job because, if it's your job, there's a big difference between sooner and later. And one of my favorite stories I tell in the book is James Carville after we decided to go for NAFTA. And he said, you know, I'm okay for being for NAFTA, he says. But he says, I think we're doing the right thing, but, he says, I am so damn tired of, you know, these elite studies saying, well, it's good for the economy as a whole. And he ponders, I wonder what would happen if we had a trade agreement where the analysis came back that the trade agreement would be good for the economy as a whole. It would only have one negative effect. It would keep half of Washington lawyers form getting their children into private school. And what would be the impact then?

So I talk about the need for greater – a sense of greater cost-sharing. In terms of many of the policies many of us would support the fact that the benefits are maybe more widely shared, but that the – and that embrace them without acknowledging how deep the costs go on people in the wrong place at the wrong time. But I also talk about the act that Americans are never going to be satisfied with a cost-sharing adjustment strategy. After all, adjustment strategies are the pre-nup of public policy. They are the what we're going to do for you after something bad happens. If you tell somebody you've got a great service for them after their wife leaves them for their best – for your best friend, mot people would actually want to stop and figure out how to keep their wife from leaving them for their best friend. Likewise, most workers, when told about the great wage insurance or healthcare between jobs if they loose their jobs, would rather have you tell them how you're going to save their job.

Nonetheless, even though this is difficult, even though it isn't what politicians get all warm, fuzzy response from audiences for, I think it's essential. I think there is no slowing down the volatility and dynamism in our economy, in our markets through technology, open markets. And we have got to have a better and more humane system for helping people between jobs. I think we can do a hell of a lot more to fight for jobs in terms of even low-wage jobs by competing. Two minutes? Can I get a waiver? (Laughter.)

MR. HICKEY: I promised, but you'll get another 10 (minutes). It's coming back.

MR. SPERLING: All right. I have to decide what to even start. I'm sorry. You know, it's funny. When you give most book talks, you either kind of do two minutes or like three minutes or 30 (minutes). This 15 minutes is somewhere kind of in between. So I think these are a lot of the issues that we would talk about, but I do think that those of us who talk – we have to have ultimately a positive, optimistic strategy for how we're creating the new jobs of the future. What are the conditions that we're asking for? And I think we ought to be looking at a lot of the issues that go from the healthcare burden on workers. What's the technology infrastructure? What is the connection with R&D and how new jobs are created? What's the degree that we can fight for lower wage jobs in our – keeping them, even ones that are going to move in our lower wage parts of our country? These are, I think, all part of what should be a strategy with the adjustment being – strategy being a piece of it, but not the lead piece. That is never going to be – burial insurance, as workers call it, is never going to be the lead piece of a strategy.

Let me raise one point that's all I can get in right now, which is to say – to shift over a little on the tax policy side, which is that one of the things that one does see that is a bit more disturbing particularly about the last five years and the previous five or six years is the degree of increasing winner take all, loser lose all outcomes – the degree that workers are taking deeper falls and those who are doing well are doing even better. Now I do not have a simple solution for how to stop those trends. But what we have had in our country is a progressive tax system. And what a progressive tax system does is it says we as the government are going to pay, because we are for free markets and free economy, we can't go around judging whose wealth is due to merit, whose wealth is due to luck, whose wealth is due to good looks. We understand that that's going to – that there's going to be inequities, but what we do – but what we do is that we have a progressive system that insures that those who are fortunate, who benefit from our economy the most, essentially put some of their resources back – a higher share – to give other people a first chance or, who have lost their jobs, second and third chances.

What should be incredibly disturbing to us is that, while we've had a progressive tax system that moderates this, we now have a movement in tax policy that, rather than moderate winner take alls, exacerbates winner take alls. And I always give the example of two twin brothers. One goes to work in 2000 for Google. One goes to work for Lucent, both equally qualified, both make an equally good judgment at that time as to where to work. So Lucent guy, too bad – looses his job, back in the unemployment line training, gets a new job making 60,000 (dollars). But the twin brother – 2 million (dollars) in stock options from Google. Well, that may be life, but now let's look at what happens under the new – where our tax system is now and where people want it to go. If the brother at Google can make $2 million – if he makes just a safe 6 percent on capital gains and dividends, he makes $120,000 sitting back and then pays a 15 percent rate. And if tax reform people here had their way, even some who want progressive consumption tax, they would pay zero rate. The brother who comes back and works at 60,000 (dollars) is probably paying about a 25 percent effective rate.

So we take a system, and we start to move our economy towards a system where, if you can ever attain some capital or wealth, you can accumulate and expand on that simply through passive investment, and, if the administration has its way, pass it on to your heirs tax-free, while those who work and would be struggling to get back for a second or third chance would actually be paying a higher rate. This notion that we are exacerbating the winner take all shows that we should not be disconnecting our tax policy from our globalization discussion. The case for progressive tax policy is greater in the current economic environment, not weaker. And I will, when I come back, say what more positively I think Democrats should be saying about progressive wealth ration. Thank you.

(Applause.)

ROBERT BOROSAGE: Let me introduce someone that you all know – a friend a colleague, a mentor of many of you, Jeff Faux. Jeff was the founder of the Economic Policy Institute in 1986. He directed it as its president for almost 20 years. He built it into the institution that it's become. He is now a distinguished fellow at EPI, which I think means that he can make long distance phone calls here. And he is for many of is a guide to how to think about the political economy. And Jeff has become sort of a leading figure and a leading teacher because of two great traits.

One is that he could always speak political economy in English, and this is very rare and enormously appreciated. And the second is he would constantly tell obvious truths that were both unspeakable and unspoken. EPI made its reputation under Jeff making the argument that America was becoming more unequal, and you had to overcome Brookings and a whole range of scholars who simply didn't believe this was true.

And EPI made its way with working America and others, showing what was really happening to workers. And now Jeff has published a book, which tells the story that there is a global elite that has a very different set of interests than most working people here and there and that is driving globalization, a truth that is both unspeakable and unspoken. So by telling these obvious truths and explaining what they mean, Jeff has educated a whole generation. It's a delight to introduce Jeff Faux.

JEFF FAUX: Thank you. Thank you, Bob. Thank you, Roger. Thank you, Gene, for coming to this sort of opening – opening dialogue at EPI's new quarters. We're not finished unpacking our boxes, but when we do, I'm sure you'll all be invited to a big – a big party shortly. I have the advantage over Gene in that I didn't work in the Clinton administration so I don't have a lot of stories about it. Actually I spent my years of the Clinton administration trying to get Gene Sperling on the phone – (laughter) – which is, believe me, a very uninteresting story. (Laughter.)

I want to start with what, I think we agree on, are the basic trends and try to tease out what the differences are. I think we agree that we have a long-term erosion of real wages, and therefore real living standards and the quality of life for most Americans, that is, most Americans who work for a living. This declining standard of living has been offset to some degree by families putting more people to work and working longer hours. But if you look at the long-term trends with the exception of the lat couple of years of the 1990s, there is a long-term depression in the growth of living standards and quality of life for most Americans. Insecurity on the job has increased. The surveys that have been done of people who work show an enormous growth in the number of people who say they are in constant fear of losing their job.

Now what I understand Gene to be saying is that we've got this new global economy. It's here to stay. I would agree with that. But it's basically productive and basically beneficial. There are some losers, and the losers deserve a cushion for the blow and retraining for their skills. The sort of central idea here is that it's lack of productivity, lack of skills that is the reason why we have this growing inequality in the country. I think there's some truth to this, and I support many of the things that are in Gene's book. But it's like helping someone up a down escalator. It does not solve the basic central problem, which is, why is it increasingly so hard for people to make a living, a decent living, in this richest of all countries?

I put the root cause in the tearing up of the social contract, a social contract hat started in the New Deal and for almost 50 years was nurtured and developed and supported by the Democratic party. Social insurance, progressive taxes, collective bargaining – these were reactions, not to a previous era where government didn't interfere with the economy, but a reaction to the previous era where the government did interfere in the economy on behalf of the rich and powerful. The central notion is that market power produces political power, and governments are always on somebody's side. And what the social contract did was to create institutions that

counterbalanced that natural tendency for market power to be equated with political power in our society. With Ronald Reagan – history is never so precise, but you can roughly date it to Ronald Reagan – the Republican party with the collaboration of many leaders in the Democratic party have been systematically shredding this social contract. The globalization policies that we have pursued over the last 20 years – NAFTA, the WTO, the opening up of the economy to China – have traded off the interests of American workers in favor of the interests of a multinational elite.

I start my book with an anecdote from the debate we had in 1993 over NAFTA. I was in the halls of the Congress in the corridors of the Capitol, and a lobbyist for one of the major multinationals came up to me. And she was exasperated that I was not in support of NAFTA, which is the purpose – the reason she was getting paid. And she said, don't you see? We have to support Salinas. Now Salinas was Carlos Salinas, who was the president of Mexico. We have to support Salinas, she said. He's been to Harvard. He's one of us. Well, it's true I had a nine-month fellowship at the Institute of Politics, but I've never thought of myself as a Harvard man. And it turns out that she hadn't gone there at all. But what she was saying is that she and I and despite the huge social difference between myself and the president of Mexico, that she and I and Carlos Salinas were part of this new global elite, and we had to support each other. She was essentially asking for solidarity.

Now, the problem is not trade. Globalization is a reality. We've bee trading for 200 – we've been trading since we became a colony of England. I buy bananas. I buy coffee. Very little of that is grown in the United States. But it is the form of trade. In effect, what we have done was embraced a global market system without a social contract. And that is the core of what I see is the problem here. The so-called trade agreements have allowed the elites – the financial elite of this country to escape the social contract and essentially, with global – with a mobility of capital, leave what we had in this country behind. And what we had was, as Gene says, the creation of a system in which growth was widely shared and each generation felt like they were going to do better than the next one.

Now we were told at the time that it was just a problem for the unskilled – the person who sweeps out the apparel factory at night. And then it turned out it was the skilled blue collar workers that saw their jobs going. And then it was the people in the new tech services, the call centers, who saw their jobs going. And then it was engineers ad designers and radiologists. NAFTA was the template. It was a Ronald Reagan idea, in case anybody doesn't know that, negotiated by George Bush and delivered by Bill Clinton. Because of that system, which included NAFTA, the WTO, the opening up of China, we now have trade deficits that are out of control, destroying jobs, and undermining our financial stabilities.

Last year our trade deficit was $726 billion. The external debt of the United States – of us – is now $3 trillion. We have been buying more than we have been selling and making it up by borrowing. Now you don't have to be a PhD in economics to know that you cannot continue to do that forever. Market forces at some point will force us to rebalance our trade, which will mean reducing the prices we get paid and paying more for the prices of things that we buy form overseas because there's a whole raft of things that we no longer make in America, undercutting inevitably U.S. living standards.

Now I am, in some sense, of the sky is falling school of this debate. I do think it's falling. Four years ago, I had a – I was on a panel with Warren Buffet. You know who he is. When I raised this question, he said, oh, you know, yeah, it's true. We're going to have a problem at some point. We're going to have a crisis, but it's a long time away. You know, it's like our children or our children's children. In the last two years, Warren Buffet has been sending newsletters to his investors saying the sky is falling. Max Baucus, Democratic senator from Montana and a great believer in free trade, was in China last month telling the Chinese that if they don't voluntarily reduce their imports into the United States – and now I'm quoting – U.S. politics will become unmanageable. Unquote. Now, we can have a long discussion about what Max Baucus meant by unmanageable and who is managing U.S. politics now. But it's clear that we are on a road to a crisis.

The watershed election of 1932 was a reaction to a depression, to what economists call a deflation. The watershed election of 1980 that brought us Ronald Reagan was a reaction to the inflation of the 1970s. Some of you may remember consumer prices going up a 14 percent, interest rates at 19 percent. The next watershed election will be as a result of a reaction to the consequences of globalization. Now, trade agreements are not the only reason for the shredding of the social contract. The right wing media, the cost of campaigns, the obsession with the finance industry of short-term profits, and increasing dependence of the Democratic Party are all elements – increasing dependence of the Democratic Party of Wall Street.

On that last one, how else do you explain that after all the years the Democratic Party as no plan for national health insurance? (Applause.) How do you – how do you explain the indifference of the Democratic Party to the relentless erosion of the American labor movement, the labor movement that provides the money, that provides the person power every two years for their election? How do you explain that other than – (applause) – some kind of gaping political differences in class? And that the Democratic Party eagerly followed the lead of Alan Greenspan to give priority to paying down Ronald Reagan's debts – and then when George Bush the second became president in January 2001, Alan Greenspan turned on a dime and favored and supported George Bush's tax cut? Turns out that Greenspan wasn't concerned about the deficit. All he wanted to do was, as his friend Grover Norquist would say, strangle government – I think he says in the bathtub or someplace like that.

The era of big government was over, we were told. And Americans got the message that you are on your own in this new economy. Government is not going to help you, but the era of big government was not over for Citibank, who used big government and the power of the United States government to open up – used trade agreements to open up opportunities to buy out banks and finance institutions in other countries. It's not over for Halliburton, whose government contract profits went up 250 percent just the last year. It's not over for United Airlines executives, who rush to the big government protection in bankruptcy court while they're giving huge bonuses to themselves and cutting the pensions and health security of their workers.

A few decades ago, the average CEO made something like 25 to 30 times what the average production employee made. Now, depending on how you – how you measure it, it's 325 to 400 times. Does anyone in our universe believe that the average CEO not only started 30 times more productive than the average – the average worker, but has accelerated that efficiency so now he's

400 times as productive? Nobody possibly can believe that skills and productivity are the reason for growing inequality in this country. It's got more to do with how market power translates into political power. I think the task for progressives once again is to assert the need for democratic government, not just to help those who are losers in the global economy, not just to clean up after what corporate America has done, but to be a counterweight to the maldistribution of political power that comes from the misdistribution of income and wealth.

I think we need an agenda that will refashion the social contact. No more trade agreements until we can get our trade deficit under control. That means no WTO round, no new Korea trade agreement, a national health insurance program that guarantees for everyone quality healthcare. I mean, we are spending 15 percent of our GDP now. If we spend 15 percent in a big government program that guaranteed health security for every American, we could have a gold plated healthcare system in this country. (Applause.) We need to support American manufacturing. Manufacturing is something that's in our future, not in our past. And that's not just a bromide. That has to be the case because when we start selling more to the rest of the world than we're buying, what s it that we're going to sell? We're not going to sell laundry services my friends. We're going to sell things that we make. So that's got to be in our future. And to sit and look at the shrinkage – the relentless shrinkage of our industrial base is a crime against our future.

We need investments for education, environment, homeland security, ports. We need $5 billion. They just appropriated something like $50 million. And we shouldn't, I don't think, make balancing the budget a fetish. We have got to be reasonably sensible about budgets, and we certainly need to get down the budget that this president has laid out for us in the future. But there's a moment here when we've got to give priority to investments in these things.

Okay, I'm told I've got to shut up. Finally let me just say one more thing, and that is I think we also need to del with the question of money in campaign financing. This is not just – (applause) – this is not just sort of a social issue. It's not just a political issue. My personal view is that we need a constitutional amendment to allow the Congress to control campaign spending. Now, somebody will say, hey, how can you talk like this in these conservative times? And my answer is, what made these times so conservative? It's because the conservatives for the last 25 years have been raising their expectations about what government can do for them. Liberals have been diminishing their expectations. I think it's time for us to get out from under the shadow of Ronald Reagan. Thank you.

(Applause.)

MR. HICKEY: Ten minutes, Gene.

GENE SPERLING: You know, I – there is no question that there are a lot of things that Jeff and I agree on. I think what frustrates me about the way the discussion like this goes is the, is the centrality that is placed on the potential causes.

As I said in my beginning remarks, I share a lot of the same concerns. I don't share them with the same degree of certainty that Jeff does because I think there is a lot of unknowns out there.

But I do think what I don't quite buy and I guess where I have the – where I worry that it takes us off focus, when Jeff is talking about healthcare, when he is talking about the things that we can do, I wish when we are having a debate like this we were spending far more time on this.

I am not – you know, we talk – you know, Jeff says the template is NAFTA. I mean, I have got to ask you, you know, I am very open to many criticisms of NAFTA and in fact I have become more critical as time has gone on. I am not a free-trade theorist. I try to be a globalization realist, however.

But my question is does anybody really think, does anybody really think that if that agreement had been different the challenges we face today would be different? I don't. I really don't. I think it would have been different for some communities in North Carolina and South Carolina and I think that there is lots that we can talk about NAFTA that is wrong. I don't stand as an apologist on this.

But I think the forces we are dealing with, the technology forces, the forces of – much of what we are dealing with is technology. The outsourcing issues, like it or not, have very little to do with trade agreements.

So my question is I would like to keep our focus on what I believe are the things that we can do. I do not buy that if we can just rearrange the trade agreement focus or if we can slow down globalization that that in and of itself is going to be the central answer to creating the kind of economy that puts the new middle class jobs of the future out there.

I also think that it is just an overly negative view, I just have to say. You know, when you look at NAFTA, you know, one of the really strong and valid criticisms of NAFTA is that we had subsidized agriculture products competing in Mexico and causing great harm to workers there who had very weak if nil safety nets.

But if you look for what is the potential for – when you look for what is the potential for doing something about agriculture subsidies in a way some day that could lift millions of poor farmers around the world out of poverty, does someone else have a better strategy than the Doha Round? Is there anything else out there that could be – that could have a better chance?

I mean, you can say this is all right wing, but you know, this isn't right wing; this is Oxfam, this is data, this are a lot of the global poverty advocates in the world. We should at least acknowledge that there are tensions here that we are dealing – that we are dealing with.

Secondly, I'm just a lot less sure about – (chuckles) – than Jeff, about our ability to do more good than harm when we seek to say that we can slow down or stop what I think is going to be an increasingly global marketplace. So it's not that I am laissez-faire about the effects; I just fear that if we progressives, the Democratic Party, are spending 80 percent of our time still talking about NAFTA, we are going to miss the boat; we are not going to have that progressive agenda.

Jeff, you might have been asleep in 1994 but Bill Clinton put his whole presidency on the line for universal healthcare, so please do not get up there and tell me that the Democratic Party has

not stood for universal healthcare. The reason we probably have a Republican Congress is because he was trying to do something that daring and that bold as to have universal healthcare without stepping down.

And by the way, the USA Accounts that President Clinton proposed with the largest degree would have been the largest effort to do something about wealth and equality in our country.

These are the types of issues that I would rather deal with. Look, I could get up there, and I'm going to do it, but I could get up there and say, you know what, after NAFTA passed and the Doha, and WTO was created, we had the six best years of wage growth in the last 30 years. It was across the board. Poverty went down. Child poverty went down. The lowest 20 percent went up. We had 23 million jobs.

Now, if I were to say that and say that shows our trade policy was right, you would say, well, that is a simple causal analysis. Things are much more complicated that. And you know what, I agree. But there is too much discussion the other way.

Now, I would rather have us focus a little bit more about what we know we can do. You know, I will say if I thought – I think you can have an honorable debate about if you slow down the process of trade and globalization and you had perhaps a little less growth with a bit more equity, would that be a trade off worth taking? I think we could have a good debate about that and maybe the answer might be yes.

I wouldn't pretend it was a simple issue, however. I wouldn't pretend that whatever I think is wrong with China – and there is much with China, and I agonize much about the China trade agreement, but I also do wonder what the reaction might have been to us our bombing of their – accidental bombing of their embassy in Belgrade of the spy plane incident if we did not have a desire to work together economically.

I don't think it is insignificant that the Chinese government lives by WTO agreement. Do I think that is all great with China? No. I supported the AFL-CIO's petition on the abuses of child labor. I thought it was terrible that the USTR did not take that. It is not a simple issue. So don't take me as being one side or the other. But you know what, I'm not unhappy to see the complexity in these issues. There are foreign policy issues; there are global poverty issues. We have to look at all of them in going forward.

But the point I was getting to is I am just not confident it is possible. I am not confident that when you look at the type of competition around the world and when you look at people trying to become part of the global economy that the right focus for us is how we try to slow it down. I just don't know that you can do that.

And I'm afraid that this is going to distract us from the things we should be focusing on which are getting the cost of healthcare off employers and doing something about moving toward universal health coverage, about doing something about the enormous wealth and equality, about asking what type of education, what type of relationships between research and the jobs market would matter.

I am all for changing our tax system so that we can stop giving incentive for companies to move jobs overseas and keep their earnings over there. These are all things that I think are within our grasp, and they are things that I think we can do something about.

Now, I agree with Jeff that we need a greater (?) social compact and let me critique the progressive, even progressive free trade position at times. I think there is a very valid critique that those of us who would argue against trickle-down or supply-side economics in our country at times have said trade will just be good overall, and we have used all of the general macro statistics and studies to show grade trade generally leads growth when we have not been honest enough about the fact that the opening of markets in places where there is enormous inequity, where there is very few safety nets has led to a kind of devastation or immediate inequality at times that we would never accept in our country on the notion that over times things would get better.

And so I join in saying we should be having that discussion. That discussion should include, as Jill Christians (sp) and I work on, universal education in poor countries, eliminating child labor, do something about monitoring on sweat shops, using ombudsman, other things including labor standards, taking a broad and practical approach about what we can be doing.

I think that if we had – I think it is incumbent on those of us who face something like NAFTA again to ask does the country have a significant social compact to deal with the dislocation might had happened anyways but might be accelerated by a trade agreement. I think these are all important issues we should be looking at.

I am one who believes we should use the leverage of our own markets to try to help encourage people adopting core labor standards. But again, I just am not into this marshalling one side, trying to fit a particular worldview where you come in and you say everything is simply about multinational countries controlling things. The world is not so simple; it is much – and if you come in with that prevailing overview, you won't see the complexities.

I think I was on the front lines in trying to support labor standards. It's a lot – you know, one of the things you don't realize when you're here and you're doing is how you do that without looking like the ugly American overseas. We all realize that when it's Iraq, but how do we deal with countries and their fears of our imposition on sovereignty? Not by giving up but perhaps looking more for how we develop system, positive partnerships, how we deal with perhaps using trade agreements to leverage stronger social networks and safety nets overseas as well as here.

These are all some of the discussions that I do believe we should be part of. I am not against – I am not a purist. I would have had we won and I had been in the government. I would have absolutely been using our safeguards to slow down I think what would have been the devastating surge from China. I am on textiles.

I am not, you know, in a theorist point of view. But the difference is I would pretend that these things were going to be what is going to matter most for us creating the value, the high value; the new middle class jobs of the future.

You know, 10, 15 years from now the world could look very different. China and India could have hundreds of millions of new middle class consumers, and we could have a shrinking workforce, and the number one trade issue we may be talking about here is how we are opening up their markets. And we have got to at least take a practical look.

I hate these debates to be honest because they tend to fit, they tend to fit, you know, somebody from the Clinton economic team as somehow against all of these concerns. I share them but I don't think it should be the overriding – I don't think you should believe it's the overriding causal determinant of everything wrong, nor in it lies the fundamental solutions.

There are important things we should do to improve the lives. We can make trade as fair as possible, but let's have an honest, open discussion about its benefits and costs. Let's have – I would prefer us to get off the overarching, the overarching theories of which you try to organize every fact under. That is what a humility party I think would be about in terms of globalization at this moment.

(Applause.)

MR. HICKEY: Jeff, 10 minutes.

MR. FAUX: Okay, I think we start with a difference about what the character of the debate is. Gene thinks the problem of the debate is too simple. Things are always more complicated in life as everyone in this room knows.

But I think the basic, the problem with the basic debate is that it hasn't been a debate and there are things that are just not permitted to be put on the table. I can't tell you how many discussions I have had about trade. And as soon as you mention your objections, the roof comes down. Oh, that is protectionism; that is isolationism. That dominates the political discussion about trade in this town, not that it's too complicated.

Those of us who are on the other side during the trade debate made the point that it was too complicated, that you could not expect that a trade agreement with Mexico would end up as promised by those who are advocates, putting Mexico in the category of China with 6 percent growth, 12 percent growth. Those of us who are on the other side tried in vain to make the case that it was more complicated than that. We were run over by war rooms and politics.

So that is our experience and those who, as they say, do not remember history are condemned to repeat it, and I for one do not want to repeat that history. So I agree it's more complicated. Certainly we have to do things like look hard at the assertion that more trade is always good. We have to look hard at the assertion that trade automatically leads to growth.

Now that is a very common and very simple notion that has driven policies in this area for the last 15 years. And yet, if you look at the numbers, you can't find it. Now, you don't have to be an economist to figure this out. Growth is measured by gross domestic product. The way you

add up gross domestic product is that you add in trade, and when you have a trade deficit you reduce gross domestic product.

So the logic of our experience, not our theory – this is not a theory of multinational – but the logic of our experience and the numbers that we have show that over the last 20 years trade has reduced growth. Now we can have a sensible discussion about that, but one of the things that I would suggest is that when we look deeply at this, when we look at its complexities, it's complex on both sides.

I think we have to understand the problem, and we have to understand the politics of the problem. The language we use misleads us. We talk, for example, about the threat from China. And so we have this image, and the average American who opens up the newspaper or turns on the radio or sees this on television has this image of us against China.

Well, if you look at China, to use Gene's advice, look at it in a more complicated way, it turns out that it's not us against China; it's us against a business partnership in which the Chinese commissars provide the low-wage labor and American and Japanese and European firms provide the investment and technology. So who is it that we are competing against? Is it China or is it something else that we don't yet have the language for?

So I think when we look at these things in a more complex way, it turns out that the conversation should not be stopped. And I think the problem with the debate is that there is not enough debate and that there is – too much goes on in this town that just shuts off the conversation which was blind to the question of power.

And it is no accident that people in this – powerful in this powerful city would rather not talk about power and would rather put that off as some sort of abstract theory on the part of just some people at the margin of politics. I don't think that is true. I think we know that certainly in a market economy it would be odd if concentrations of money did not result in concentrations for political power.

The question that we face – and I'm all for being positive, but I think we can't get ourselves out of where we are unless we look honestly at where we are. How much more leverage do we have in the global economy to do some of the things that Gene has come to realize are important: labor standards, fair trade, currency manipulation?

Back in 1993, in 1994, we had a fair amount of power. We had the power of our market. Much of that has been dissipated. It seems to me looking back and learning from the past that a deal might well have been made to say, well – to the busy community – you can get your free trade; we get national healthcare.

But first we want – with free trade and first we gave away free trade. And as some of the bargainers in this room understand, once you give away your leverage you have very little left, and that is the experience that we had, and it is not marginal to the situation that we are in.

This is the question – the question of re-knitting the social contract is basically a question of how we get people in the United States to raise their expectations once more. The other side has been very good in diminishing the expectations with the majority of people.

As far as our responsibilities and obligations for the world are concerned, I agree with Gene that that is an important factor. We were told that, well, whatever happens to workers in the United States, at the very least with NAFTA, we are helping workers in Mexico. What happened is that workers in rural Mexico got blown out of the water because of subsidized U.S. agribusiness.

We didn't make the deal with the Republicans to say, okay, if we are going to sacrifice part of our industrial base, our political base, you'll need to sacrifice your political base. Look at a map of the United States. Look at red-state America and then look at a map of where agribusiness is. Well, we didn't ask for that and we lost.

And so I think it is important to look at history and support and to understand that what we have done – important to understand that the world is a tough place and the world is a – the world requires tough bargaining, and the world requires us to understand where our interests are and who is we.

And part of the point of my book is that what has happened with globalization, whether you think it's a good idea or a bad idea, but what has happened with globalization – it has changed the we, and that the financial elite of this country – that is a category, financial elite; that is a real category – the financial elite of this country have systematically disconnected themselves from the future of the ordinary American.

(Applause.)

MR. HICKEY: The audience has been very patient. Each of the speakers will have five more minutes. A suggestion that they are free to ignore: What should we – what should our vision to the American people in the next two elections? You can feel free to ignore that. (Laughter.)

MR. SPERLING: I mean, you know the part where I feel very sympathetic with what Jeff is saying – and I think this is a plug to read my book, not buy it – (laughter) –

MR. FAUX: Buy mine.

MR. SPERLING: Buy Jeff. (Laughter.) Just pass mine around. But, you know, I would be surprised if you read the chapters on trade and did not see somebody who is attempting to try to start opening the discussion and it is not a shared defense (?). When Jeff says that there was over-promising in NAFTA, Jeff, you are right, unqualified. You are right.

Now, I don't know what that really changes about our future for the world a bit. And I think you could still debate. You know, you should debate. And honorable people and most of our friends disagree with that and we could go back on that.

So I don't – I don't have a problem with that. I don't have a problem when Jeff says that we shouldn't necessarily assume that all trade agreements are good. I probably do think that trade probably generally leads to growth, but as I said, that to me isn't the end all. It is shared growth. It is growth that lifts people up.

And I have – and I believe over the short to medium term there are many times where you could help entrench an existing elite as opposed to open things up. And I think those are the type of things that we should be doing – that we should be looking at.

But see, but then it goes to – you know, and I realize you do in the book – it's easier; your book will probably be better because you have a more simpler thesis, but is – but you know – can you say that? It's all just the governing elite? I mean, the Chinese elite, the Chinese government is repressive and abusive of labor rights and abusive of press rights. But you can't look at China and India and not think that the openness has not reduced poverty dramatically in those countries.

There is no – as we speak, China is raising minimum wage, workers are being able to compete more using technology to kind of say how much they are getting paid at one plant versus another. Does that make everything good? No. But these are the issues one has to look at. I don't think – you know, I mean, there are inconvenient facts. There are inconvenient facts, which are that countries that are – developing countries that have been more open have tended to reduce poverty more.

Now, here is what I understand: I understand that just using those arguments and saying therefore we should accept NAFTA or therefore we should accept an agreement – I understand; I want to move away from that too, but I don't want to take those complicated things off of the table.

You again mentioned the agribusiness subsidies that hurt farmers in Mexico and hurt poor farmers around the world. But I still ask you, what is the best hope for reducing that? What is the best hope for those African farmers? You can't think that there is another possibility other than at least the potential of a global round. Does that mean you're for everything? No. But I think trying to have things in this kind of all-or-nothing point of view is difficult.

Look, the fact is, you know – you know, the fact is is that our economy, our markets lead to a lot of inequity, but we have also had – the openness in our economy had led four generations to greater growth, productivity growth, innovation. We are a country at the cutting edge. We don't know exactly what the next job is in the next industry. That is a hard fact of our lives. It will always be a hard fact of our lives.

So what we should be for is what is the best way to lay the foundation for those things. So let me tell you those things we're not talking about today, we are not talking about enough. I'll do it quick.

One, the wealth inequality that exists right now is partly fueled by a tax system that is completely upside down for savings that gives an unbelievable amount of our tax expenditures for mortgage and savings to the most well off and does the least for people struggling to save. And we as a

party are overwhelmingly silent on that. I don't get it. I do not get why we have, why we let 95 percent – or 5 percent of the benefit of all of our tax incentives for savings go to the bottom half of our country. It is even worse in the housing mortgage.

So I am out there saying let's have a universal 401(k). Let's give low, moderate income families across the board a chance to save and create wealth. It would show optimism, yes, but it would also help people who are not saving now to get into a culture of saving. It would flatten out our tax system, talking about the way that we are going more to winner-take-all system.

Universal after-school care: That is not just a social issue anymore. We know this is going to be critical for whether or not working parents can stay in the workforce.

We could be championing in this issue. We could be showing – to use the phrase from my book – the number of things that are both pro-growth and progressive, from pre-school for poor children to universal healthcare, to making sure that every child has a place to be after school not only because it is good for them, because it gives their families more choice to have jobs, to allow more talented working parents to stay in the workforce if that is their choice – a real progressive wealth progressive agenda, a real focus on what – hard-headed focus on where we think the opportunities are in terms of what are the type of skills we should be promoting, what is the type of education we should be promoting.

These are the positive and optimistic vision, but it is not optimism for optimisms' sake; these are things I think we have within our power, within our destiny to control. And I fear that the chase to believe that you can stop all of the trade agreements, stop the globalization, that that is going to make the difference.

I mean, folks, come on, what was all of the concern with China, all of the concern with India, all of the concern with outsourcing? Those things aren't affected by whether or not you have NAFTA. I mean, and that doesn't mean NAFTA isn't important; it doesn't mean trying to correct it. But a lot of the anxieties that we are dealing with are not going to be stoppable.

I would rather accept what is inevitable and then try to shape it in a pro-growth and progressive way, in a way that lifts all boats, that raises the tide, and lifts all boats. That I think is our common agenda; that is our common outcome.

I just have – I just to me have a different sense of what is going to help us get there, what – I don't know what the saying is – knowing the difference between what you can do, and what you can't, and having the wisdom to figure out the difference. That I think is where we have to be so that we can focus our progressive agenda on the things that we can control, that we have within our destiny to improve.

(Applause.)

MR. FAUX: Okay, all right, let's make a deal. I think that first let me say that nothing in what I have said suggests that it is all anything. But as a wise journalist once said, what you need to do

is to focus on the places where there is silence. And in our political debate there is silence on the question of power.

And so it's not that multinationals create all of the problems in the world, but there is no real effort in this town to deal with multinational power. It is not that NAFTA, the WTO, and China have created all of the problems of workers in America. But there is universal and known elites in both parties and in the conversation that you read in the newspapers and the conversation that you have in think tanks, there is universal acceptance that these trade agreements are good for growth. So it's not all anything, but it's let's look at the places that we haven't looked at before.

Now, I would like to make a deal. I will support universal pre-school, 0-5, 0-20 – (laughter). I will support tax reform. What I would like Gene to support – the two that I would like to propose is labor reform, labor law reform – (scattered applause) – where workers by a majority of signing cards are allowed to form a union, and something that will –

MR. SPERLING: You have me there. Do you want to shake hands before you get to the – (inaudible, cross talk).

MR. FAUX: No, no, no, no, no, no, no. (Laughter.) You got two; I get two. (Laughter.) And the last one is, all right, let's just stop negotiating these trade agreements that don't have a social contract, and let's stop negotiation these trade agreements until we can get our own trade in balance. So that is my offer.

(Laughter, applause.)

MR. HICKEY: I want to thank both of our speakers. (Applause.) This has been a tremendous discussion. Thank you, Gene; thank you, Jeff. I want everybody to go out and buy both of their books and then spread them around.

We have about 20 minutes, a little more for questions. We would like people to be brief, maybe identify yourselves, and we would like our respondents to be as brief as they can. You can answer either from seating or standing up.

Right here, yes.

Q: My name is Claudia Farris (sp). I'm with Catalyst (?). Thank you.

In the foundation for – in this global knowledge economy, the foundation for growth is education, and the word education has not come up in this debate. You're right about the complexity of the situation we are dealing with, but it's important to realize that that is analytically true and that there aren't linear ways of getting to solutions.

It is important to realize that the scale – that the perspective, the scale of intervention that you take matters in terms of the outcome, that global – I'm sorry that trade is one issue at one scale and social policy is another policy at another scale, that endogenous growth is as much – endogenous growth is as much a source a growth as is trade, and that – I know, wind it up.

But, okay, I guess that is the bottom line, that you cannot – that there are really many sources of growth and that these sources of growth kick at a lot of different levels, and that one of them is endogenous growth and to do that you have got to deal with your domestic infrastructure, both of what you guys are saying is true but you are talking apples and oranges and you're talking at different scales of observation.

MR. SPERLING: Let me say one thing, which is that one of the things I say in the book, which I really think is true for the anxiety, that is increased economic anxiety, is that I do think that President Clinton, when he was speaking in the '90s, I think there was a feeling that we had an economic compact in the country and it just had to be kind of updated – needed to have more life-long learning, you had to have more technology, literacy, and if you did, somehow this compact would still work.

I do think that the degree that people see high-skilled jobs threatened has a deeper psychic impact than people who simply just count up the number of jobs that are outsourced. The sense that even a college education is not necessarily a ticket to economic security I think is one of the reasons that you are seeing more widespread economic anxiety.

However, all of that being said, I still think the answer is education is less of a sure thing, but it's more important than it ever was. I still think the right type of education increases your chances of mobility in the workforce.

There is no question that manufacturing jobs that stay in the U.S. will require a higher level of education. I think that when you look at the growth in the workforce, the native work force, the 25- to 64-year-old workforce – a David Elwin (?) and Aspen study shows it is not going to grow over the next 20 years and it's going to be made up of more minorities, more people who have usually been out of the workforce.

This I think creates a great pro-growth progressive agenda to try to bring more people to aspire to higher education. Claudia knows I'm going to mention GEAR UP, which we have both worked on, but exactly the right thing to reach children at a young age and give them the hope and aspiration of going forward, not just because it's just the right and moral thing, but you're going to have to bring a higher degree of jobs in the workforce.

I also think there is just a lot of interesting things we should be looking at: What type of learning will be better in the future. And, you know, I think Larry Katz and others are thinking about that, and – you know, for example, if you are – I mean, this whole notion of people going out and saying there is an engineering shortage and at the same time there is all of these engineers who got laid off. Why is there so little pickup? These are tough questions.

What are the jobs in the future? Some people are saying the future is going to be more having a strong skill but also kind of problem solving and better people skills so that you can work across countries, that you can manage teams or be part of it. These are the types of things I look at. But I do say education is not – a college education is no longer the sure thing it was but it is still – to me, it still increases your chances. The right type of education still increases the chances of any

individual and will still make the U.S. a greater place for high-value job creation if we have a higher supply of people who have that higher skill and cognitive problem-solving capacities.

MR. HICKEY: Jeff?

MR. FAUX: Just quickly, I think education is important both for competitive reasons but for its own sake as well. But one of the things that has happened to us as a country is that people have a narrower and narrower choices about education in a sense because it is all about how are you going to get that job after you come out of college and you owe all of this money.

And so the deal between the society and the individual has become corrupted, and there are a lot of people out there who have done what they were supposed to do – they got a bachelor's degree, they got a master's degree, they got a Ph.D., and suddenly the dream is not there; what is left is the debts. So that education is not a magic bullet and education ought to be put in the framework of the question, what kind of a society do we want to be?

So we want to be a society where for all of your working life you get a job for two years, you get retrained for a year, you get a job for two years, you go back to school? You are on that treadmill. Or do we want to be a society where there is more room, and I suggest that in order to create more room for individuals, you are going to have a much more active and protective government.

MR. HICKEY: Go ahead.

Q: Go ahead. I have a question. Is it true that under free trade that the WTO agreements that have been made can actually override laws of individual nations to hat instead of an improvement in standards of labor and environment and so on, we are actually seeing that the agreements that have been reached are causing a decline in some of these countries or are they – the agreement overrides what the laws are within those nations? That is what I have heard and that concerns me greatly.

MR. FAUX: It is not so much that the WTO, for example, overrides agreements, but it provides protections for one type of global citizen; that is the investor without protections for the other type of global assist – the global citizen.

NAFTA actually does provide mechanisms where corporations can override laws. For example, the UPS is suing the Canadian government for its monopoly on delivering the mail. We have had cases under what is called Chapter 11 – I'm boring you with all of this – where corporations have had the right to sue countries under NAFTA for doing things that the corporation can claim is undercutting their right to make profits in the future.

This is an extraordinary, extraordinary benefit for corporations and it changes the power relationship very, very dramatically. So it's not a question of forbidden, but it's a question of writing the rules for global competition that favor one party.

MR. SPERLING: I think technically, just for what it's worth, technically the answer is you don't have to change your law but you have to pay a fine that the WTO acknowledges. (Laughter.) But I should say, I should say – and this is important – I am not an expert at all – the environmental cases, but I would tell you that there are places where there has been that dispute; there has been that contention. And I think that is the kind of thing all of us should be against.

But I will say in those particular agreements there are often different views on whether or not something is or isn't. I mean, if something is driving environmental protection down I think that is bad. Now, that doesn't make the WTO bad; that makes that part of the WTO bad. There has also been times where very small countries have been able to use the WTO to challenge the great powers over things that were very protectionist.

So again, I guess I would just say I would look specifically. I don't think that there is – I don't think you would see one story on the environmental issues. I think there have probably been a few cases – and I am not a great expert – where you could make that contention, and I think those of us – you know, I think all of us have an interest in not allowing global trade or global trade agreements to be a source for bringing things down.

On the other hand, I'm glad that we have a place where we can have those debates and have that discussion, and I don't think the world be a better place if we didn't have any global mechanist to even have those debates. And I actually think a lot of smaller countries would lose a lot of power because there are some times – you know, there are a couple of times – I remember we had lost something where we were a little upset but we had a little bit of that feeing of, but, you know, it is a hell of a thing that you have this – that a smaller country can go to court, not war, and debate these things, and, you know, there are ways that I think that is good for overall global governance even if there are flaws that need to be improved.

Q: Let me just clarify, legally, if I could.

MR. HICKEY: Very quickly.

Q: On the WTO – let's take the bird amendment that said the money from the anti-dumping laws should go to the companies injured rather than to the federal government. That was ruled WTO-illegal. The WTO cannot force us to repeal that law, but it could put tariffs on our exports insofar as countries that have complained we have higher tariffs on certain goods to that country, which they picked, which then puts pressure on Congress to repeal the law. That is the way it works.

Q: Actually in fact that happened in the WTO – (inaudible, laughter).

MR. HICKEY: Maybe we could have a trade caucus outside actually.

MR. SPERLING: You know, I'm used to being loud in Topeka where you might actually know the most about the WTO in the room. (Laughter.) That is clearly not this room. (Laugther.)

MR. HICKEY: That is the lawyers here. Tom?

Q: All right, my name is Tom Palley (sp).

Congratulations to both of you Gene and Jeff. You just did a fantastic job for both of your sides, and in fact that is the problem. We need to be able to – when two sides do such a good job, it's tough for people to figure out which is the right one and I think the debate therefore needs to continue and go deeper.

I am going to ask a very specific question. You both mentioned that the China trade deficit is a problem with 200 billion in 2005. That, by the way, is more than the peak trade deficit in the 1980s when we really had a trade deficit debate. A lot of people say that the 200 billion had also has knock-on effects to the extent that Chinese competition forces other East-Asian companies to keep their currencies up. And so that really – the true China deficit taking in those sort of indirect effects is much larger.

Now, coming up in March, the Schumer-Graham Bill is scheduled for discussion again. I want to know what your opinions are on that. Would you advise that the Congress, the Senate vote for it and go with this tariff on China, and if you are against it, what is your proposal, or your proposals for dealing with the China trade deficit?

Q: Tell people what the Schumer-Graham Bill is.

MR. HICKEY: Explain the –

Q: Yeah, the Schumer-Graham bill is a bill that will put a 27.5 percent tariff on imports from China, the logic being that the common estimates of the un-devaluation of the Chinese currency is somewhere between 15 and 40 percent, which averages out at 27.5 percent.

MR. SPERLING: I may not – you may not be completely satisfied by the end of my answer, but let me tell you what I think on general with the trade with China. I think trade – I was part of the Chinese trade negotiation. Anybody who is knows this is fierce, tough negotiators and they respect strength. You know, it's kind of the argument that is always made on the military side was that, you know, if you thought the Republicans were going to be tougher that might actually get more concessions on the military side.

Well, I think that the way – my guess is the Chinese have looked at this, is that the Bush administration was never tough on them until Edwards and Kerry raised the issue in November and December of '03. And the message that sent is: We're not really serious about this; we are being serious about it just for a little while to get through the election. And I think that there has just never been a sense that there would be any repercussion, any consequences.

You know, again, going to the AFL-CIO petition, to accept the investigation, to not even accept the investigation even if you weren't going to go the distance, the sanctioning or tariffs because of labor to have at least accepted it and raised the issue. To not do that, these are the signals it sends.

So I think, you know, you're right – you said encourages other Asian countries to keep them up, but I know you mean pressures, although it be Asian countries to keep things down. I don't know their currency is down. You know, a trade agreement like that, like Schumer-Graham is such a blunt instrument that it is hard for me to want that to be the outcome.

But I do think – I will say when you're in an administration it can be a little helpful at times to be able to say if you don't start showing some results, you know, there is going to be some repercussions. And I think that is the message that administration has to do on China, on trade from day one – respectful, tough, adversaries. But, you know, they saw what happened. They saw all trade enforcement went way down under President Bush and I think we pay a price for that right now – (audio break, tape change) -- memo from Ed Gresser at PPI and Thea Lee at the AFL-CIO on this enforcement issue. So if you want something that actually does bring a lot of the party together, it is this issue.

MR. FAUX: Well, and let's support it. It seems to me that – I mean, if you're asking me, would I support this or not? I would support it. Do I think that we're in a good situation? No. And one of the problems is that, again, free trade was sold as an elixir of itself. You know, some of us pointed out back there in the 1990s when we were having this debate that there are currency issues that we ought to deal with. That should have been as part of these trade agreements, but it wasn't. We were told that trade was enough. And no it turns out that it's not enough. It certainly should have been no surprise to anyone negotiating with China in the late 1990s that they were perfectly capable of manipulating their currency.

MR. HICKEY: Okay, one more back here.

Q: My name is – (inaudible) – Neil (sp), and I've read both of your books hopefully carefully. And my question is to Gene Sperling. I don't need it. The politicization of markets – do I need it? Okay. The politicization of markets in reference to the oil reserve – now I'm not going to argue about our oil reserve – your technical things. Here's your sentence. If investors viewed it as politicization of economic policy, it could raise the costs of borrowing and discourage foreign investment in the United States. For a country that –

MR. SPERLING: I'm sorry. I really don't know what you're –

Q: Yes, I'll get to the point very quickly.

MR. HICKEY: But we need a context. What are you talking about?

Q: The context is the golden straightjacket and the Washington consensus, which are deeply politicized views of proscriptions for countries and economies, and you're saying you were afraid that if you dabbled in our oil reserve, the markets would react against it. And I have a second point that I just ask you to comment on. Is it a fair debate when, in your book and your index, that you don't have any references to John Gray, William Grider, and Joseph Stiglitz, a Nobel prize winner, all on globalization with, I think, slightly different positions than yours?

MR. FAUX: This is a Washington crowd.

(Laughter.)

MR. SPERLING: That is an issue on which the future of the new middle class is going to determine. You know, Jeff only cited me once. I gave him a whole quote. You do the best you can when you write a book. You know, I didn't feel that those were influential. Again, you know, people can read the book themselves. But I actually want to take on the point I mention here because I really do think this is important. The thing that he's referring to is when I – I have a thing at the beginning of the book where I call "Unintended Consequences – Thinking Seven Steps Down the Road," and I talk about silent tradeoffs that happen. I am sorry. I am unapologetic on this point.

You have a responsibility when you're doing public policy to not just think of the immediate impact of what you're doing, but to think of what the potential second and third causal effects are. That is how you answer or try to modify what people think is the law of unintended consequences, to try to think down the road. Now the fact is – the fact is that when you're thinking about doing the strategic petroleum reserve release – in a static world, if you put more – if you put more oil on the market, prices will go down. But, you know, that's not really the way the world works exactly because, if Saudi Arabia thinks that this is, you know, or the other countries in the cartel react negatively against that and imply that they're going to do a constraint more than your supply, then even though the immediate effect would be good, your second or third effect could be negative.

Now, in this example we used, we actually did do a release, but w worked pretty hard to not get a negative reaction that would not have made it a success. I'm not apologetic. The relevance here is I think there are a lot of things that you can do in markets that can have a positive immediate effect. I'm more worried than some other people about what the second, third, or fourth order effects are. For example, if you tell a company that if they locate in the United States, there's going to be a lot of restrictions on which products and inputs they can buy, I am quite sure that you can do that in a way that will help some American workers in some communities. And that is an important benefit to be considered, but it is also possible that you will raise the overall price of their product and make them less competitive and that you will hurt similarly situated workers or that it's even possible that the next company will decide not to locate in the United States. And you'll lose all those jobs.

Will that happen all the time? You know, is that an argument to not do this – to not have any restrictions ever? No. But I don't apologize for the fact that I think that progressives who are going to do thins market-related have an obligation to think down the road. And I think a lot of the times that I disagree or have greater concerns with things that may seem to be more negative toward open markets, I fear that the second or third order effect may be less job location in the U.S. And I don't feel apologetic that I am not certain about that, and those are things I would want to analyze very carefully in each fact-specific case. And I encourage anybody in a public policy position to do that.

MR. HICKEY: Jeff, did you have a response?

MR. FAUX: Well, I don't think there's any doubt that there are many unintended consequences to public policies.

MR. SPERLING: No, I want to know who you cited.

(Laughter.)

MR. FAUX: Oh, I cited Stiglitz. I cited Grider. I cited – (laughter, cross talk). Well, you can buy my book and look at the index. I assure you there's plenty of citations for the Wall Street Journal. But I think, you know, it's also – it's important to worry about the unintended consequences of all policies. But it's also important to learn from the unintended consequences of past policies. I mean, that's what we have. We have our experience. And I think it's just a little bit hard for me to accept, you know, that we ought to just think about things as complex in the future now and not go back and say, what did we do wrong? How did we get to a $3 trillion external debt on a globalization policy that had a myriad of unintended consequences?

And so I think you learn from the past, and I think that I am not so quick to dismiss our experience and say, well, let's get on with the next one. The life is complicated, and things don't turn out the way we want. But I think we ought to learn from the past as well as be cautious about the future.

MR. HICKEY: Okay, one more – one more burning question. Somebody's got – we need a really articulate – all right. (Inaudible) – go ahead.

Q: The argument that you made, Jeff, that globalization has allowed the economic elite to escape the social contract, I think, is a very powerful one. But part of the response to that and something that there really isn't much discussion about from either side is, how do we bring a meaningful social compact to the global marketplace? It doesn't seem to me that there's ever been a serious, sustained effort to do that, that it was at the center of the trade negotiations, as opposed to at the margins. And it also seems that it's not only the U.S. that would have an interest in doing this, but other mature economies in Europe and Japan and all, where workers who are similarly threatened would have an interest in doing it. And I'd like both of you to address your thoughts on how we could do more to bring a social compact to the global marketplace.

MR. FAUX: Yeah, that's a good question. And I don't know – and I don't know what the answer is precisely. I have a view that we ought to start here at home, and that is in North America. I was an opponent of NAFTA, but you can't put the toothpaste back in the tube. NAFTA lacked the social contract. Now, I don't know how to think about a social contract for six-and-a-half billion people in the world, more than 200 countries, half of them at each other's throats. But I can think about it more seriously and in more detail in our own neighborhood.

So one of the things – one of the ways I would like to start this is to develop a social contract in our own home continent – three countries, handlable with some leverage. The United States has got some leverage here on this continent. So I think it would be possible for us to start here. Now, I don't mean just this. I think we should continue – we should not continue. We should

start being serious about labor standards in all of our trade agreements and all of our international agreements. So I think there are ways to join with others, especially progressives in – in all other countries to try to develop labor standards and human rights standards. I mean, it's not just – it's not just about labor.

So in my view – and it's the last chapter of my book – is that, if we here in the United States seriously turned our attention to revising NAFTA and developing a social contract for our continent and put our focus on hw you do it here – I mean, this is a – this is a microcosm of the globe, right? We've got first world country. We've got third world countries. NAFTA clearly did not work as written, as testimony of 500,000 people a year risking their lives to cross the border to get a less than minimum wage job in the United States.

So I think that if we began to develop here a model of a social contract, it would inspire people in Europe who are already struggling with it. They've been struggling for a social Europe for the last, you know, decades and feel alone. I mean, European progressives feel like there's an American model that's being foisted upon them. I think it would help inspire them, and I think it would inspire the countries in the cone of South America who are trying to develop Mercosur. It would begin. If you can start thinking about a global contract not as, you know, here's my contact – all 200 countries sign it – but as a process, that would start at least in a serious way regionally. At least I can think of a way from getting here to there so that, you know, this is not about isolation.

It's not about – it's about protecting ourselves. So you can call me a protectionist in that sense. But it's not about isolation. The global economy is here to stay. I think one of the things that a progressive government would do would be to encourage. First of all strengthen the American labor movement, but also strengthen its ability to make these connections with labor movements across the – across the world. I think that a progressive government in the United States would change NAFTA from what Jorge Castaneda, who became foreign minister of Mexico, said was a deal between the rich and powerful in all three countries to the exclusion of ordinary people. Change that form a deal between people. I think we ought to have a much richer conversation going on between Canadians, Americans, and Mexicans. At any rate, that's the last chapter in my book.

MR. SPERLING: Three thoughts – I think one thing that is important – and my tone will be different from Jeff's so I think it's somewhat – has some similarities – is I think it's important for progressives to have a kind of a sense of a social compact. To me it's a little bit more inclusive of the reality of globalization. But I don't think – you know, trade can be the impetus for some of these things, but it shouldn't be the focus. One of the things that just makes no sense at all is to have so much adjustment assistance or any kind of benefits triggered by trade versus outsourcing or technology. You know, again, I always like to use the twin example. But you know, you have two people who are the same, similarly situated. They're going to suffer the same amount. The idea that you want to help one more or less or go through that causal analysis, I think is ridiculous.

And I think – to be honest, I think people shy away from it because they don't want to have big proposals. But I think the argument that I would make is – (inaudible) – oh, we want trade

adjustments. We want wage insurance, and then it gets limited. It's so narrow. It goes to so few people. It doesn't do anything to deal with economic anxiety because we're in 100 people who know. Even if 10,000 people are eligible, there's not a 100 people who know they're eligible. It's a complex. So to me I think what we should be having is more of a progressive social compact and globalization that talks about helping people deal with the changes and the dislocations.

You know, and Jeff says, do you want a world where people are changing jobs so much? I think the answer is probably no, but I kind of think that is our world. And I think we should try to figure out how we're going to embrace it and make the best of it. I think we should de-link all the assistance from trade so that the focus is, if you're dislocated, you have a set of things that you're for. And I think my argument would be as to – is this just a bunch of progressives talking among ourselves – to how you could sell this is I think that you have to sell to corporate America, to Republicans that if you don't do this there is going to be a backlash, that if there's not the sense that open markets are lifting all boats instead of a race to the bottom, you will lose support and so therefore that there can be a convergence.

And I will tell you. I think that there are people out there who perhaps have much more faith in open markets than Jeff does, who are starting to question the kind of less government is always better approach and see that a broader compact – and I would like to see – you know, I thought it – I thought it was fine, even though I've supported most trade agreements, I thought it was fine to oppose CAFTA because I thought there was no reason to take a step back on labor standards, particularly with the records and histories of those countries. But I would have loved to see the people voting no have a broader and more robust sense of what that compact was.

The second thing is that I do think that part of the compact has to be – and I think it's actually a higher burden on people like myself who are more for probably keeping markets open and advancing and that process – to show that you have an agenda for fighting for jobs and you are willing to try to look at how the tax code works or even do more to shift and encourage job location in the United States. And I think this is going to be a big issue over the next five or 10 years. I probably am a little less pessimistic about the future. I do think the shifts in our workforce and the potential growth overseas might change things, but I think, you know, we could be through a difficult process. And I think we have to think, how can we encourage more job growth here, I think, in ways that maybe have less to do with stopping trade and more to do with taking the burden of healthcare or changing the tax code in ways that encourage more jobs here.

And my last point I just want to say is – and I really encourage people on this issue, which is, in terms of the social compact overseas, one thing I do feel like I know for sure – the discussion – and maybe Jeff would agree with this. We need a – we do need a richer discussion. I mean, the – no, I really do mean this. In the White House, people come in and they talk to you just about labor standards. Both sides – that's all they talk about, which is important. The exact language, the exact sanction – I'm not diminishing these things. I'm proud of the Jordan agreement. I think we should be trying to do more for core labor standards, but it's the only discussion that was there. No one ever talked about – you know, other than Tom Harkin, no one ever came and talked about child labor in countries. No one talked about universal education. Nobody talked

about the monitoring that we could do, how development assistance can be – could be combined, you know.

And understand that, for example, labor standards don't have much to do with many people in the informal economy. It's not that they're wrong. It's not that they're not important. They just may not be actually reaching the people, and I think what we've done is we've kind of decided, let's fight on this. So I agree. We should have strong core labor standards. But let's look for what other tools are in the toolkit. Let's look at how to have more positive incentive programs like we have with, I think, Cambodia, where it's more – where it's approached more as a partnership and perhaps has more of an assistance or an incentive quality. I just think we would all do better. This isn't to be for or against any of the debates. I just think we'd all be better to take a harder look at what actually is mattering in developing countries. And I think people like Karen Tramontano and her group are doing a really great job at just trying to look at what are those kind of positive partnerships that Richard Freeman and other people are, I think, talking about. So I'd say, let's have a richer discussion. Let's look at more tools, and I think we could have a richer agenda than just having that one single debate.

And I just want to say that I am very honored to be here. And whatever Jeff and I disagree on, Jeff's creation and leadership of EPI has been an enormous amount of good for progressive cause. And there's nobody, I think, on the progressive side that doesn't thank him so much for creating this institution and for what this has done to be a true watchdog for the interest of typical workers and their wages and their interests. So whatever disagreements we have on trade, there's no disagreement on that. So thank you.

(Applause.)

MR. HICKEY: Let's thank them both – both of our speakers. And this dialogue will continue. I want to thank both of you for being here today on behalf of Campaign for America's Future.

(END)