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P R O C E E D I N G S

JOHN THORNTON: Good morning, and thank you, Strobe. I'm going to be very brief, but I wanted to make some comments about the Governor, because I've had quite a bit of personal experience with him. And I want to particularly speak to the Brookings people, because obviously, those of you from South Carolina know Mark Sanford at least as well as I do.

But I want to highlight two attributes of Mark's which I think are really admirable and important, and illustrate why he's a very effective Governor. The first is, he ran for Congress in 1994, had no prior political experience, and came in with that '94 class, which we all know about, and said at the time, I don't think people should come to Washington as permanent members of the government, so I'm going to come there, stay a maximum of three terms, and then I'm going to leave, and that's exactly what he did, really sticking to his word and doing what he thought was important to do, and then he came back to South Carolina with no preordained plan as to what he was going to do next, and I know this because he and I sat together for a couple hours one morning in that interregnum as he was thinking through what he was going to do next. So I can genuinely tell you, he came back here with no plan. And then he was, of course, elected Governor in 2002 and again in 2006. And shortly after being elected Governor the first time, he gave me a call one day and he said he wanted to talk about China,

and you can imagine how that peaked my interest.

And I get calls like that from time to time from Chief Executives or from other political figures. And the truth is, many of them have a kind of high level interest, and then when you get into the detail, they sort of tail off, and then when you say to them, listen, this is exactly what you've got to do and it involves a lot of labor intensity and you personally have to be involved, you cannot delegate this, and you've got to get into the detail to really make a difference, you know, the interest wanes and wanes and wanes to the point where it's non-existent.

Now, in contrast to that, I gave Mark my views on what I thought he needed to do, and that he ought to come to China, and sure enough, in very short order, his office was on to me scheduling the event, came to China, came to Tsinghua and talked with me in my class, and took it extremely seriously, and started saying to me and to himself, what's going on in the 21st century is not going to suddenly reverse course, and I, as the leader of this state, intend to make South Carolina part of the 21st century and make a difference. And what he's done for South Carolina and its relationship China I regard as a model.

I can't think of any other single public official who's done a better job in understanding how to deal with this extraordinary event of the rise of China. And South Carolina now is a permanent representative on the

ground there.

I know that because every time I speak at events in China, this nice, young Chinese guy comes up to me and says, Mr. Thornton, I'm so and so, I'm representing South Carolina, you remember, we met at -- and he's doing great work. So it shows a real openness and a real desire to solve real problems in a serious way, and I regard that as extremely admirable, and I just wish that many of our other leaders around the country were as forward looking and as interested in really grappling with 21st century issues. So with that quick set of comments, I turn you over to Mark. Mark, thank you.

MR. SANFORD: That was an incredibly kind introduction, probably an introduction longer than the talk will be. I'll be very, very brief. I think what John was really saying when he said no previous political experience, what he was really saying was that I was totally clueless as I stepped into the political process, which, indeed, I was, and I'm still trying to figure it out.

I would say thank you for picking Charleston and South Carolina for this meeting. I think it's a big deal that you basically had three meetings outside of the North Country, I guess one was Las Vegas, one was the UN, and here you are in Charleston, South Carolina.

So I appreciate you all coming down here for this important meeting, and frankly, for what you're talking about, because this notion of

competitiveness that John is getting at is the it of it issues as you look at '08, and frankly on beyond. I don't think that there is a more important thing given the way that our world has changed.

I do want you to know you're at the center of the earth, you know. If Thomas Friedman talks about a flat world, the obvious question would be, where is its center, and its center happens to be right here in Charleston, South Carolina. The old saying was that the Ashley and the Cooper come together to form the Atlantic Ocean. And Charlestonians and South Carolinians, for a long time, have had that somewhat egocentric viewpoint that the world revolved around this slice of the world, because it's special and because it's unique. And it's a place of just remarkable history. I would beg of you to venture out; I'm sure that when Joe addressed you yesterday, he probably suggested to venture out, make sure that you do so.

I mean I grew up about 60 miles down south of here, and you talk about history. What's referenced in the Chisom family, who owned the place that our family ended up with, reference these Yankee skull drinking cups, because there had been a local skirmish just a little bit off.

His son had actually been killed in the Battle of Bull Run, and he ended up hating -- this is not toward any northern folks right now, but hating the northerners to the extent that he went off up to Little Beeko where there had been this little skirmish, cut the head off of one of the Union

soldiers, actually a couple Union soldiers, took them back home, boiled the heads, and made what he fashioned and called Yankee skull drinking cups.

So a place of just remarkable history. In fact, that place was the dividing line for the first three years of the war, between north and south, I mean amazing history to think that what has happened when you think of a revolutionary war, civil war, slavery and its aftermath, the civil rights movement, remarkable history, so please venture out. Does that work? John had painted this picture verberna. I wanted to go back to Neanderthal southerners, so I'm trying to give you a head fake here.

Here's what I would like to talk about; you know what bugged me with the debate last night? Fred and I were there, and Fred and I came back from -- Fred Mallock and I were there, and his wonderful bride, came down last night, and when I got to the room, I jotted down just three thoughts on what I wish I had heard at the debate last night.

I wish I had heard talk of James Carville and "it's the economy stupid," because in a fleeting and sort of peripheral way, the economy was talked about. But if you watched the Republican debate last night, in any kind of serious form, it was not talked about.

I would say secondly, I wish I had heard real conversation in this notion of globalization; not the war on terror, that, for me, does not count as globalization, but a real conversation on Friedman's notion of a flat world.

You know, where we're coming from is an administration, it's completely buying in to what Thomas Friedman talks about when he talks about a flat world, because his premise is that the world has changed in unimaginable ways to any of us growing up, much less to my father. And for the first time in recorded history, a young kid in Charleston, South Carolina is directly competing with a young kid in Shanghai and New Delhi and Dublin, literally work your way around the world.

I think it is transformative. When you think about the internet and globalization, how it used to be, that if you were born in Burma, from an economics standpoint, I mean you could still love your wife, you could still love your kids, but from an economic standpoint, you were locked out. Unless you got a ticket out of that place, you were forever in second class citizenry with regard to economic prospects.

And it's Friedman's argument that, you know, because of globalization, because of the internet, now for the first time in recorded history, you can plug into the world; if you have a first class intellect, you can plug in from some place that maybe is not first class in terms of its economic structure. There's a way, in essence, to export the value of your intellectual capital in ways that have never before been the case. And what's that do? It sets in motion an incredible competition for jobs, capital, and a way of life across the six and a half billion people that make up Planet Earth. And his

latest thing is not just this big competition from here to China or wherever else, but the big, big competition is what he argues to be between you and your imagination.

And his contention that those societies, those nations, those states, those businesses that free their individual citizenry, to the extent that that individual can act faster and further on their imagination are going to be the places that thrive in the 21st century.

Because if you've got six and a half billion people around Planet Earth, about the time that you come up with a good idea -- and can I just say, Philip, it's really cool to be standing in front of you.

I ran, you know, track and cross country in high school and college, and I had always heard about this, you know, mythical legend of a guy who put a shoe on a waffle iron and, you know, anyway, so I just had to say that, and I apologize.

But about the time he came up with that idea, putting the shoe on the waffle iron, inevitably, in today's world, somebody would be putting a shoe on a waffle iron somewhere on the opposite side of the globe. And unless your society was ordered that you could act relatively quickly on putting the shoe on the waffle iron, you're going to be out of luck, because that other society is going to be able to act on that idea, which would put you in a real problem spot.

I wish in the Republican presidential debate there had been a greater conversation on what that really means for the way that we order our society going forward. I wrote down a third one, and that was overall on the notion of competitiveness, what is it that we're doing on a sustainable basis that you can't do, as well.

Now, Charleston, indeed, was the center of the world for a long time. But its economic order was absolutely not ordered on something that was sustainable, called slavery, much less moral.

But if you look at that notion of competitiveness, what I'm really getting at is, I think that every state out there really needs to think of themselves as a country. Some of you all are probably from Texas, so I guess, you know, it probably comes natural for some of you. But for those of us in South Carolina and those of us in most states, I mean that is not the first thing that comes to mind. So if you look at South Carolina, we're \$150 -- \$160 billion in GDP, and that puts us a little bit below let's say Finland, it put us a little bit below Ireland, it put us a little bit below Venezuela; it put us a little bit above UAE, Dubai, a lot of stuff going on there, it put us above New Zealand, not a lot of stuff going on there, that's not a good example, it put us above Kuwait, it put us above Slovakia.

I mean it put us there as a lonely spot across this pool of six and a half billion people, not competing with Georgia and North Carolina

anymore, but literally competing with somebody on the opposite world.

What that means is a complete paradigm shift from the standpoint of being a policy-maker, because if you're still worried about competing with Georgia and Alabama, you're in real trouble. We've got to look at things differently in ordering things, and that's a real problem in, for instance, our political system, because we have a very inward looking political system.

Veal Keys wrote in 1949 that the distinguishing characteristic of South Carolina governance was what he called localism, and what we've been arguing for quite some time is, guess what, that's still a distinguishing characteristic of South Carolina politics. And that's a real problem spot, because if you're inward-looking in an outward-based world, again, you've got profound problems. And so for a while we focused on this guy, Michael Porter, who's the, you know, competitiveness guru from Harvard.

I've ended up sort of backing away from his state. What Porter argues are these economic clusters, but to a degree what he's arguing is that we need to do sort of what Meitie (?) did, you know, with Japan in the 1970's, which is, these are the ten industries of the future.

And what I said is, no, the marketplace will burn you every time. It didn't work out so well for Japan and with Meitie. You know, China and Korea and a couple other places cleaned their clock because they were

just letting the market evolve.

So we backed away from Porter, and what we said is, all right, indeed, though, he's got a point with regard to economic points of competitiveness that perhaps we can build on. For instance, nobody can export our geography. I mean it can't go to China, you know.

We've got a deep water port here that happens to be one of the best in the United States of America, that's a point of sustainable competitiveness advantage that they didn't change it. Nobody can change our geography from the standpoint of we're a day's drive closer to see your grandkids. So a lot of these folks that leave Ohio or leave New Jersey, they say I'm out of here, I'm tired of the cool climes, I'm headed to Florida, well, it turns out they really do miss their old friends, and they miss their grandkids, and so they -- they're what are known as half backs, they spend a couple years down in Florida, they say I'm out of here, I want a little bit of seasonal change, I don't want cold weather, I think I'm moving to South Carolina, so in droves they're coming here.

A million people are projected to come here between now and 2030, which is right around the corner. Mind you, that's on a population of four million people here in our state. So we're going to be the tenth fastest growing state in the country, in large part, strictly because of geography, reasonable climate, and a day's drive closer to see your grandkids.

So are there things that you can play on and build on from the standpoint of tourism or from the standpoint of retirement. We've got a lot of water. And so, historically, chemical companies have come to our state, because we had a lot of water, and you could just dump the stuff in the river and it was no problem, and it was not the best use of water, but we historically had a lot of water, and we've played on that from an industrial standpoint. We're in the middle of the timber basket. Grant forest products out of Canada just got through making a \$500 million investment because of trees. We are in a forest product hub, if you want to call it that from the standpoint of geography.

We've got an upstate work force that I think is second to none. I'm not belittling people on the coast or the midlands, but if you look at the tradition of the so called land heads, of people who work in a textile plant for the last three generations, many of those textile plants are gone.

You know, we've lost 95,000 direct textile jobs over the last five years as that world gravitated to the Far East. And remember, the textile business was originally based over in England, and then it graduated to the northeast, and then from the northeast, it graduated from the south, and now from the south, it's gone to the Far East. But that work force is still in place.

So you think about Houston and empty office buildings a while back, that turned out to be a point of competitive advantage, we think that

that labor force is a competitive advantage. And going back to what John was alluding to with China, what we've said is, not only is it a present day point of competitive advantage, it's also a present day point of competitive advantage when you think about international economy.

And so -- and I do want to publicly thank John. John has literally helped the people in South Carolina in very direct ways because he's been our mentor, our guider, and a lot of other things with regard to China policy.

But our point was basically this, he said, look, you guys have a political problem, not us, but you guys. And we didn't say it in those terms, because decorum and building of relationships and all those sorts of things are part of the Chinese culture.

But what we said was, you represent about, you know, America represents about 30 percent of your exports, you represent about three percent of ours. We have tremendous protectionist pressures growing from not just our state, but from across the country. This is the home of Roger Milcan, this is the home of, you know, Lindsey Graham, who's a dear friend, I saw him last night at the debate, but he has a little bit different take with regard to what comes next on -- Chuck Schumer from up in New York, a variety of others, and unless you do something about this, these walls go up, they hurt you a lot more than they hurt us. And therefore, if you want to do

something about it, you've got to put jobs back into some of the places where they're being lost.

You can make an investment in Florida, but it will not make you any difference in political terms, because the epicenter of textile job loss is, in fact, been South Carolina. On a per capita basis, more jobs have been lost here than from any other state in the country.

And so, therefore, if you want to, in essence, begin the process of diffusing the bite in political terms that comes with that job loss, you need to look at investment or place --

So in Camden, South Carolina, Hire (?) which is their equivalent of GE, has the largest and -- it was actually the first manufacturer investment of its kind, in little old Camden, South Carolina.

So I won't belabor the point; but we go through a lot of different things, and what we look for is, is there a point of sustainable competitive advantage or could there be. I would also say that we spend a lot of time on globalization 3.0. This whole notion that the giant competition of today is between you and your imagination, and how is it that you free individuals so that, to the maximum extent possible, they can act more quickly on their imagination. So, for us, that's meant a giant debate and conversation about a racist constitution that is the framework from which we operate in South Carolina.

The real fault of our system is an 1895 Constitution. The 1895 Constitution was built around the fear that a black man would be elected governor of South Carolina in reconstruction South Carolina. And so the traditional functions of the executive branch were diffused into the wind such that even if a black man was elected governor in reconstructed South Carolina, it wouldn't matter, because he wouldn't have any responsibilities anyway.

Now, that is an insane paradigm from which to operate in the 21st century, but that's the basic structure. Now, we had a guy named Carol Campbell who began the process of putting the genie back in the bottle, but we've tried to go from there, because he was never able to get constitutional officers. You know, I won't bore you with all the attributes of how the system works, but it is very unusual, and I'll leave it at that. I mean we have a budget and control board; guess how many other states in the country have a budget and control board that handle the administrative functions that are handled by the other 49 governors in this country. And since I said 49, that's probably a fairly easy guess. But we're the only state in the union. And so you go to some of these governor's conferences and you'll say, you're working on this, you know, really, what's it like.

So it is a very unusual structure. And if you really believe in this notion, and what it's all code for is still the plantation model, wherein

minorities can disproportionately influence or control majorities. And our belief is that democracy works, to the maximum extent possible, free individuals, so that they can act on their imagination. And a good part of that lies in changing structure itself.

I would say secondly, spending really matters. And at this point -- unlike a right wing Republican -- but I'm really not. I want you to connect the dots here. If you really buy into Friedman's argument, with your political persuasion, from the left to the right, you would say that one of the things that you've got to do as a society is maximizing change, because the rate of change in the world around us is fast and speedy. So if you really believe that and you want to increase the odds of change or the rate of change in your state, wouldn't you want to maximize the sector of your economy that's in the private sector, not because of a philosophical, you know, bias of, oh, I just hate government, you know, I'm accused of being a libertarian, and I do love liberty, but -- not because you're against government, but because you want to speed the rate of change.

Think about how fast an idea changes in governmental circles. You take it to sub-committee, full committee, full forward in the House, sub-committee, full committee, full forward in the Senate, then over to conference, then to the executive branch office, then back, it is a slow process.

And so you'll talk to somebody and they say, you know, I've been working on this idea for three years now and I'm pretty sure we can get it done in the fourth year, and nobody cracks a smile, because everybody knows that is the rate of change in governmental circles.

So you take that dollar, goes through the sub-committee, full committee, what not, take instead that dollar, put it in the private sector, and if you run in a local hardware store, and you're selling hammers, and hammers aren't selling so well in January, you can decide as a small business person today to quit selling hammers. You can say we're going to wholesale the rest of these, let's end the advertising campaign, this just isn't working.

So we've actually pushed real hard to limit spending, because we think it's all about speeding the rate of change, particularly in South Carolina. We're 137 percent the U.S. average and the cost of our government, because one of the things that goes with legislative dominance is a duplicative system.

If you go through your budget process, and one for you, one for you, one for you, one for you, based on districts, that's a very different look than an executive branch looking state-wide at the different needs of the state. So spending has been a big one for us. Sole conditions, I won't bore you with our laundry list, but there are a lot of things, specifically South

Carolina, that we're working on.

And I think the last one that might interest you in terms of where we're coming from would be on quality of life. You know, I saw Vince Graham over here, I saw -- there's Dan Beach over there, oddly enough, you have this right wing zealot libertarian governor, who, of all things, is very much hooked up and a big fan of what these guys are trying to do in the environment. And the reason is, I believe in what Richard Florida -- not all of what Richard Florida writes, believe me, but a lot of what Richard Florida writes with regard to the creative class.

And his premise is, if you're a smart person, you've got a lot of choices, and that smart people can live in Sydney, Australia, they can live in London, they can live in Charleston, but they do have choices. And if you want to keep or retain your so called creative class, you've got to have an inviting place in which to live.

And so our point has been one of the points of competitive advantage, one of the things that brought me back from New York, one of the things that attracts so many people or keep so many people here, is the different kind of lifestyle or the quality of life that goes with the coast or the midlands or the updated South Carolina.

And so we're right now advocating a \$50 million bump up in the conservation bank for South Carolina because we think it is, in fact, an

economic issue, that if you just let things evolve, it won't be that much longer before we will look not that much different than South Florida or Newark, New Jersey, and in doing that, we will have lost a big point of competitive advantage, because at the end of the day, there will be a bigger airport in Miami and there will be a bigger airport at Newark, but the thing that we did have competitive advantage on we would have lost.

So I think that, in fact, for a Republican or a libertarian or a right wing standpoint, Teddy Roosevelt's notion of conservation and a land -- is important to keeping or retaining the creative people that Richard Florida talks about in his book, *The Creative Class*.

That would be a quick primer as to where we're coming from. I'd open it up for any questions -- wisdom from you all's end. And again, we really appreciate you all coming to South Carolina, and to Charleston in specific. Thanks so much, we appreciate it.

MR. SANFORD: Yes, sir.

QUESTIONER: It was extremely refreshing, Mr. Governor, to hear you talk and to hear your Mayor here in Charleston talk yesterday. And it was so remarkably different from what we heard last night. And I had the feeling that most of them are running for vice president or Ronald Reagan, and we're still very much have fallen asleep in the 20th century. How -- you've clearly dealt and thought about this issue; how do we get presidential

candidates in both parties to focus on this issue of competitiveness that you so clearly focused on?

MR. SANFORD: I'm a little South Carolina boy, and I'm standing before the guy who started -- and so, you know, what do I know? Former head of Goldman Sachs, we can start going down the road. So I'm probably not the best guy to ask. I would say that the currency of politics is, at the end of the day, votes. The competition for next Saturday, at the end of the day, all day, at the end of the day, will be about votes.

That is the capital that's traded in the political circle. And so I would say you have to show them how it is real. And the problem with competitiveness issues is generally, they're one step removed. And so you'll have this simplistic conversation toward or against a tax cut or toward or against sort of the first level, but really competitiveness is about going to the second level.

So I'd say, one, you've got to connect it back up to the fact that this is, at the end of the day, all about what's on voter's mind, what people are thinking, because I can promise you, there is I think a growing economic uncertainty. You know, from my standpoint, you know, you had this whole argument about outsourcing and, you know, plants leave and going to China, Mexico, wherever else, the immigration is just the flip side of the same going. Because, you know, what people are worried about with outsourcing was,

they're going to take my plant away and it's going to go to China.

With immigration, what they're worried about is, well, they're not going to take the plant away, but somebody is going to come from somewhere else to take my job and I'll lose my job just the same.

Been a lot more issues, going back to what James Carville talked about, or fundamentally economic in nature, and that it is the pocketbook issues that really capture peoples' attention.

So I would tie it back to the level of economic unease that's felt generally with a lot of folks out there, particularly as you go from mid-range and down within economic circles, and two, you've got to put it in the currency that people in politics understand, which is votes are political perception. Yes, sir.

MR. SANFORD: We have time for one more question. Someone would like to ask one?

QUESTIONER: Like Antoine, you know, it's refreshing to hear a governor talk about globalization and some of the forces that are sweeping the world, but, you know, you hear nothing about it in the national debate. But a lot of the items that you talked about were static elements. And, in fact, you were talking about rated change being the key element. So I'd be very interested to understand what you've done here in the state of South Carolina to deal with education and some of the things that we need to be

globally competitive in the future.

MR. SANFORD: I would say, you know, when we came in office for the first time in five years, we fully funded the base student cost. I won't get into the mechanics of how we fund education in South Carolina, but that was a pretty big accomplishment from a guy that comes from the right when I had a Democratic predecessor.

I would say we've had a big debate on choice, some people love it, some people hate it. I would say as a consequence of that debate, though, some things, even if you're not a fan of choice, have happened that are positive and -- to the benefit of public education. We were able to get through a charter school bill that is all about customization of the product, if you really want to call it that, that never would have happened without the larger debate on choice. We were able to get through a virtual school bill that's all about, you know, linking some poor kid out in Hampton County with, you know, folks in Columbia or some of our bigger population centers that could maybe draw down more in the way of intellectual talent.

So I'd say we've tried, A, to fully fund, but then to, B, look for innovation within education. I think the point is not simply question of dollars, you know, because in some of these counties, we're spending, you know, \$12 -- \$13,000 a student, well, you're getting on up there to being very competitive with where a bunch of other places are.

The question then is, how do you spend that money. Because at the end of the day, we'll never be able to out spend Connecticut. You look at the per capita wealth of Connecticut, you can't get there from here, if you're in South Carolina and coming from our tax base. You have got to look for more innovative ways to spend the money.

I'd say the same is true in higher ed; you know, what happens with higher ed is, they become -- under themselves. And so we've had something of a, you know, a food fight with some of the bigger institutions pointing out that we have got to see more in the way of collaboration. It can't be just what's best for Clemson, or just what's best for USC; we've got to look collaboratively at our system. But what happens within higher ed circles is, the alumni association wants to watch out just for that one institution, you end up with a lot of real duplication in terms of either physical plan or a curriculum that then prevents us from offering more in the way of higher ed.

So we've had fairly robust debates on both those fronts and a number of other things, but I'll call it quits and say it's a pleasure to be with you. Thanks so much.

JOHN THORNTON: Governor, I cannot imagine a better way for you to get us started today. Just picking up on one phrase you used, you certainly managed to connect the dots between the local and the global, and we're really glad to be in this particular locality, and thanks very largely to

you. After we get the governor off the podium and out the door, Mike O'Hanlon will take over and lead us onto the next part of the program. So thanks, again, governor.

(Recess)

MR. O'HANLON: Please, take your seats. I'm sorry, we're giving you no decent chance for coffee this morning, but believe me, you're not going to care when you start to hear from our panelist, Ken Duberstein and Tom Donilon. I'm Mike O'Hanlon at Brookings. Ken Duberstein and Tom Donilon are two Brookings trustees, they are also the founding members of our Advisory Council for the Opportunity '08 project. As I think you know, Ken Duberstein was Ronald Reagan's Chief of Staff; Tom Donilon was Warren Christopher's Chief of Staff.

They've both been involved in American politics and policy debates for many years. And I think what you'll realize in listening to them is, their expertise really is in both areas. It's the blending of politics and policy that we try to do with this project and that I think you'll hear this morning from them.

Those of you who know Ken and Tom or might have been lucky enough to hear them last night with me or some other occasion may wonder why they even need a moderator; the answer is, they don't. It's a full employment program for Brookings Senior Fellows and I'm delighted to have

the chance to be part of that.

I'm just going to fire off a few early questions on sort of the obvious big issues and big matters in American politics, and then we'll look forward to some of your questions in a few minutes. And so, without further adieu, if I could, and with, again, the same thanks to everyone here in Charleston that we've heard from my colleagues already today, and with appreciation for the Governor, let me start by asking about last night. And we heard the Governor's frustration with the debate in terms of the attention on economics. Let me keep that question on the table, and also simply ask Ken Duberstein, how did it go, who won, how does this set up the next step in the process?

MR. DUBERSTEIN: Thanks, Mike, and it's great to be in Charleston. The clear winner in last night's debate was Ronald Reagan. The clear loser in last night's debate was George W. Bush. Remember, the only mention of the word "Bush" came from the journalists, not from the candidates.

Go through the list; in reality, everybody held their own. John McCain did what he had to do, he was fine. Mitt Romney went after John McCain because he has to beat him in Michigan, let alone hopefully, in Romney's case, beat him in South Carolina.

Mike Huckabee was holding his own. He was making sure

that Fred Thompson didn't make any end roads. Fred Thompson had to take on Huckabee, because his only chance to survive is to beat Mike Huckabee in South Carolina. I've got to admit, I got lost in the debate; no, I didn't turn it off, when we heard Ron Pole talking about the Austrian theory of business cycles. But the conclusion I had last night was, no runs, no hits, no errors, and that everybody continues to fight for the Reagan mantle, period.

MR. O'HANLON: Tom, feel free to comment. I'm also going to ask you about New Hampshire.

MR. DONILON: We can talk about that. I do think that -- I agree with all that, and it's a changed election, you know, and I think that is -- that's reflected in the fact that you don't have candidates stepping forward to be the chief defenders -- defender in chief of the Bush Administration.

Indeed, as we talked about last night in our discussion, John McCain, who has had this amazing come back, really, one of the most extraordinary come backs in politics in recent times, from being declared dead by people, politically dead by people in his party and outside the party six months ago who's now one of the two front runners probably -- two -- nomination of his party, and that come back has largely been due to the fact that he moved from the position of defender in chief of the Bush Administration, of the establishment candidate, of the proxy for Bush in the election, to the most critical of the Bush Administration, of the candidates.

His speech right now contains as tough a critique of the Bush Administration as any of the Democrats at this point. It's a very tough critique on Iraq, the Rumsfeld approach to Iraq, it's a very tough critique on the performance of the government in the last seven years, with a tough shot he takes at performance on Katrina, and I think that indicates that this is a changed election, that the country and the electorate has exhausted the last seven or eight years and they are looking for a new direction.

MR. DUBERSTEIN: In fairness, I overlooked one candidate, Rudy, which says something. You know, nobody is ambivalent about Rudy Giuliani, either you love him or he hates you, and we saw that again last night.

MR. O'HANLON: Tom, I want to talk a little bit about the next couple weeks. But before that, let's spend a minute on New Hampshire. And people have been, of course, debating this a great deal, but what happened, and how much does it matter, and we'll set up to talk about the next couple weeks.

MR. DONILON: Well, hopefully, but I'm not entirely optimistic about this proposition, that it would kind of be a big injection of some humility into the pedantry on the media commentary class as to the certainty of their views, and we'll see how long the lesson is learned. I think what happened in New Hampshire, on the Democratic side -- the Republican side of the

election came in line with the pre-election polls pretty much, and McCain had done at least part of his come back here, a tremendous amount of work in New Hampshire, it's a good state for him.

On the Democratic side, you know, from Iowa, which really had no good news for Senator Clinton when we looked at the results, it was -- a couple of things happened; number one is that I think Senator Clinton really did demonstrate the strength that she has of traditional Democratic voters, and that was clear in New Hampshire in the exit polls and the results.

Secondly, and perhaps more importantly, Senator Clinton lost women in Iowa to Senator Obama by ten points, and won women in New Hampshire by 12 or 13 points. That turn around really was the key.

Women participate in greater numbers in Democratic primary processes than men do. And if you have strength in your candidacy around women, it's just a tremendous asset in the Democratic primary. If you win women in the Democratic primary process by more than your opponent wins men, mathematically you're in very good shape. In an approach to women, the attribute of her candidacy is that being the first woman President of the United States, that they worked on very, very hard, and that candidacy paid off in New Hampshire. Second, of course, you had some key moments leading up to the election.

The debate on Saturday night, where Senator Clinton both

showed a very tough side, but also kind of opened herself up, showed a little bit about herself; and of course, this event on Monday afternoon in the cafe which got covered, I can't imagine what the numbers of gross rating points are, the number of times that people saw that event in New Hampshire and around the country I think had an impact.

She also was the candidate up there who talked the most about the economy, an issue that's becoming much more front. And I think this last issue that I'm going to mention is an important issue, and that is that the Obama campaign came into New Hampshire obviously on a big high, with a tremendous amount of momentum. And there is a sense in New Hampshire that when you're told, you know, this is the candidate, this is going to be the end, right, just do the coronation, there's a resistance in New England to this, you know, to say, well, maybe we should take a closer look here and keep this process going. I think all those things combined to bring about Senator Clinton's victory, which was only by about 6,000 votes in New Hampshire. So, you know, you have multiple factors beating in to producing a 6,000 vote victory, I think those are the key factors. And last, Senator Clinton campaigned in a different way in New Hampshire than she had in Iowa, really campaigned as more of an underdog.

MR. DUBERSTEIN: I would only add to Tom's points that I think the independent vote in New Hampshire certainly determined an awful

lot. You have to look at it, not in isolation, the Republican Party, the Democratic party, but rather, how they operated together.

John McCain did very well among independents, therefore -- thereby, depriving Barack Obama of some of that independent vote. So I think there is a yin and yang that, in fact, played into all the other parts of the equation.

But the bottom line is, this raises absolutely fluid on the Democratic side and chaotic on the Republican side, and that neither one of us know who's going to win. I mean this thing is wide open. You look at the polls in South Carolina, you look at the polls in Nevada, coming up in ten days for the Democrats, you look at Michigan next Tuesday, and everything is virtually within the margin of error. Of course, you can't trust the polls, as we learned. The other thing that I would add to Tom in New Hampshire is that all the polling stopped on Sunday, two days before the New Hampshire primary. And so whether it was the Saturday night strong performance by Mrs. Clinton, or the tears and the glistening in the eyes on Sunday, it was not picked up on Monday, it was not picked up by any of the polling data.

And you look at everybody in the close in those last 36 -- 48 hours, and there was a big movement toward Mrs. Clinton that the pollsters and the pundits never picked up.

MR. O'HANLON: So if we can't predict the next few weeks or

the nominees, what at least are the key factors that are going to shake this up? It strikes me that one factor, and correct me if I'm wrong, but one factor that probably will not be big are all these endorsements.

We saw Bill Bradley go up to New Hampshire on Monday and endorse Barack Obama, and he couldn't compete with Hilary Clinton's tear. I mean Bill Bradley, one tear from Hilary, it's not a fair fight, the tear wins ten to one in terms of impact on the election. If you look at John Kerry coming here yesterday and endorsing Barack Obama, I'm not clear yet on how much that matters. I also don't know how much the Union endorsement matters in Nevada for Barack Obama, or the national Union endorsements for Hilary Clinton. And I don't know if Michael Bloomberg is going to get in and how much his playing around with the idea of the candidacy factors in. So, please, help me understand at least what might determine the outcome, even if we have no way to predict who the nominees will be.

MR. DUBERSTEIN: I know John Kerry and he's no Oprah. When I first heard coming to Charleston that John Kerry was going to endorse Barack Obama, I thought this came out of the game plan of Bill Clinton, and I don't think it will have much impact, if any. The Bill Bradley thing, the same thing, as far as Obama is concerned.

I do think the Union vote in Nevada is a big deal. If I'm not mistaken, the two biggest Unions in Nevada have now endorsed Obama,

and that should give him a competitive edge. But I don't think endorsements are all that much -- are not as important as they're cracked up to be.

MR. DONILON: I agree with that, Ken. And you've got to kind of divide them up, I think, Mike, you know. An endorsement can get you on the evening news on a particular day, right, you know, it's kind of a mechanism by which you can kind of -- it's a hook to get covered in a state and deliver your message, right, so it does that, right. But I think in terms of actual voting impact, typically endorsements don't have that big of a deal. What you have to look to is what the endorsement brings in terms of resources, you know. And there, in fact, you know, I do think the Union endorsements on the Democratic Party side do matter, right, you know, because you really can bring kind of on the ground resources.

And in Nevada, Senator Obama has gotten a couple of important endorsements from the Culinary Workers Union, which has about 60,000 people in the entertainment industry in Nevada, and from the Service Employees Union. And in a caucus, that can have -- I think that's an advantage.

The other thing that endorsements can do, they can be organizing tools, you know. The way that the Obama campaign, for example, used the Oprah Winfrey endorsement was, they got a tremendous amount of publicity, but most importantly, it was a place for them to actually

gather their supporters, get their name, get their telephone number, get their email, you know, as a way to kind of follow up on that, which I think is a big deal. Governor Richardson dropped out of the race yesterday. We've talked about Nevada; that means that he was obviously the first Hispanic running, and there will be a lot of competition for Hispanic leaders and votes in the Nevada caucuses. But generally, I think that endorsements have a pretty limited value, except for the resources they bring and the organizational opportunity they provide.

MR. DUBERSTEIN: I would just throw in that when we were in Nevada in November, everybody that I talked to assured me that Mrs. Clinton was going to win those caucuses. That was less than two months ago. And so you talk about politics not being static, it is absolutely dynamic.

And we have so many lives yet to go in this political cycle, it doesn't happen this way. And things will start moving. And Richardson pulling out may, in fact, open up the Hispanic vote for Mrs. Clinton. Obama, with the Culinary Workers, if they're not divided, if they're united, certainly gives him an upper hand. But less than two months ago, everybody assured us that Mrs. Clinton would win the caucus.

MR. DONILON: It's a strong organization in Nevada; and now, of course, competing against these other organizations brought to bear on behalf of Senator Obama. One endorsement that is hanging out there that

will get a lot of attention, I don't expect that it would happen, would be an endorsement by former Vice President Gore, in the -- process. I haven't seen any signs that he's about to get involved in that, but that would, obviously, be big news.

MR. DUBERSTEIN: And if you looked at the *New York Times* this morning, there is a rumor that Congressman Jim Cliburn of South Carolina is very upset with the Clinton's right now because of the comments that Mrs. Clinton made. That, in fact, could have, I would think, a big play on the South Carolina electorate, but that's yet to be determined.

MR O'HANLON: Let's go to questions. We've got about ten more minutes before Ken and Tom have to catch their airplane. Now, we may have more than ten minutes if the skull cups they've been promised by the governor take a few more minutes to prepare. But, in any --

MR. DUBERSTEIN: I'm out of here.

MR O'HANLON: But, in any event, we look forward very much to your comments and questions, and please have at these two gentlemen, I promise you, they can take it. Fred Malot.

MR. MALOT: Thanks, Ken, thanks, Tom, a very, very learned, very good discussion. If I might, though, I think you missed a couple things in Hilary Clinton's victory. I think older Americans turning out was a big deal, and I think the experience vacuum that people are beginning to see in

Obama. Look, let's face it, this is one of the most powerful orders we've seen in our generation, he is good, he can really light up a crowd, but he really doesn't have the experience, I think people are starting to buy into that.

I think the biggest thing, and I'd like you to comment on this, the biggest thing I've seen, however, in the media and in the electorate as a whole that they're missing is the impact of the momentum of sequential elections.

What impact did Iowa have on New Hampshire? What impact does New Hampshire have on Michigan and South Carolina? For example, before New Hampshire, McCain was running ten and 12 points behind Huckabee. The two polls that were taken on the 9th, the day after, show McCain up by three and McCain up by five over Huckabee.

You have Michigan before South Carolina; what's going to happen in Michigan? In Michigan you have, again, 40 percent of the voters are independents, they're probably not going to vote in the Democratic primary because, why, because it doesn't count and they're not campaigning there, they're kind of boycotting it in a way, so most of those come into the Republicans, does that go for McCain, and if so, does that give him the upper hand in South Carolina? But I think it's this momentum of sequential primaries that's being missed by most people in the media, and it's probably the most powerful thing I've seen, and I wondered if you'd comment on that.

MR. DONILON: Well, why don't I give you a momentum? I'll comment on the -- Fred's comments on Senator Obama and Senator Clinton. I think it's a fair point, that, in fact, part of the reason I think there was a pause in New Hampshire and that Senator Obama's momentum out of Iowa got broken is that, in fact, I think the Clinton campaign has done a pretty effective job of raising issues about the experience factor and getting people to kind of stop, look, and listen and say, all right, we've got a tremendous amount of momentum here, a spectacularly talented candidate in Barack Obama, but there are questions that they've successfully kind of got into the discussion, which is part of the reason I think that the electorate in New Hampshire paused, I think that's exactly right. Senator Clinton does do better with older voters, but I think most importantly does better with more traditional Democratic voters; older voters, but also kind of good on economic scale voters who traditionally vote Democratic, and that will be a strength of hers, a strength of hers going forward. Momentum I think becomes actually more important as you go forward here, because you are going in on February 5th to what's going to be the first national primary in the history of this country.

Twenty-two states are going to vote on February 5th, very large states. And before we get to momentum, I will kind of -- one thing, and I think the story there will be delegates. I think you'll see candidates start to

talk about who has the lead on delegates, who's closer to getting to the 50 percent of the delegates that you need to become nominated as you come out of February 5th.

So I think as you get to that, I think that will be a lot of the discussion. But I think it is fair to say the Clinton campaign has worked fairly hard to start to put out into the ecosystem, into the bloodstream questions about the Obama experience factor.

MR. DUBERSTEIN: I think momentum has an awful lot to do with things in this election cycle. Fred, do you remember the big -- of George Herbert Walker Bush and --

MR. MALOT: How'd that go?

MR. DUBERSTEIN: In 88 it went fine, in '92, not so good. Remember, before Iowa, Mrs. Clinton was winning in double digits in New Hampshire. So he brought down the expectations game to a very, you know, small number. Yes, he took off and all the polls were wrong, but he closed the gap tremendously. I think if John McCain wins Michigan, Mitt Romney is in deep, deep doo-doo, as George Herbert Walker Bush would say. I think that certainly helps John McCain in South Carolina, if, in fact, you're trying to connect the dots.

I think Rudy is in trouble unless he wins Florida. But if McCain wins Michigan and then South Carolina, if he won New Hampshire, he is the

clear front runner in the Republican party. And coming back to your original comment, experience counts. And when it comes to foreign policy and national security, there is nobody, I don't think, on either side of the aisle in this race, who can compare as far as experience with John McCain, that's his upper hand.

On the Democratic side, a friend of mine suggested that the Democratic battle was to paraphrase George Bernard Shaw's famous line, "some people see things as they are and say why", Mrs. Clinton, "and other people dream things that never were and say why not", and that's Obama. That's what's going on in my words, or George Bernard Shaw's words, inside the Democratic Party right now. And the question that Mrs. Clinton has to deal with is, experience counts, but how many people want to go back to the soap opera of the '90's, and that comes with the word experience, and so that's the battle that I think is going on.

MR O'HANLON: Other questions? I'll throw one out while we're waiting for others. If anybody wants to ask a question after mine, feel free. But in the meantime, I'm going to throw this on the table. It's sort of looking quite a bit ahead, knowing that there's no way to predict who will be the Democratic nominee.

But let me just have fun and say, let's say Mrs. Clinton eeks it out; is there any way she could ask Senator Obama to be her running mate?

In other words, the lack of experience might not matter as much, but the message would still be a powerful part of the ticket, or is that just too much to overload the American system with at once the first female president and the first black vice president all on the same ticket, and if they do that, does John McCain have to ask Condi Rice to become his running mate? You see, you better ask questions, otherwise you're going to get more of this from me.

MR. DUBERSTEIN: What's wrong with Mike Bloomberg?

MR. DONILON: My head is still spinning trying to follow the question. Very hard to speculate who you choose as your vice president. A lot goes into this. Obviously, Senator Obama really has, you know, really brought the change dynamic, you know, pretty strongly into the election.

But the VP selection is kind of -- it's a very complicated piece of business, and hard to -- could she ask him to be her running mate? Of course, she could, right, you know. And to the extent that he runs, you know, strongly, you know, he makes a more powerful case for that. But it's hard to speculate at this point as to running mates.

MR. DUBERSTEIN: I would only suggest one cardinal rule, people vote for president, they don't vote for vice president.

MR O'HANLON: Even after the Gore and Cheney

experiences, it's still --

MR. DUBERSTEIN: Correct; you vote for President of the United States, you don't vote for vice president.

MR O'HANLON: Well, I think we're in pretty good shape on the time. I think we will thank Ken and Tom very much, and you'll have about the same two minutes to run to the coffee if you wish, but we're not going to have a coffee break. We do have one question, and then we'll do this transition to our panel on trade and competitiveness; sir.

MR. CRONAN: I would -- I'd like to just kind of ask a quick question. First of all, let me introduce myself. My name is Jason Cronan, I went to the College of Charleston. I grew up in New England originally. I was very interested to hear some of what Governor Sanford had to say. And as someone this summer who had an active role within the Democratic debate when it was here in Charleston, I'd like to hear a little bit of some of your thoughts as to young peoples' role in this election.

As a 27 year old, I see a very strong tie to ideas of the future which Governor Sanford did a pretty good job of hitting upon. I feel that, you know, traditionally, in the past, a lot of young people have been marginalized in this political process. And I think the issues have become more centered on what type of world are young people, such as myself, going to inherit; and part B is, how can we make this for the better?

I think that, you know, a candidate like Barack Obama, who had a tremendous turnout yesterday on the College of Charleston campus, really fostered an idea of coming full circle. A few moments ago you mentioned, you know, Senator Clinton kind of getting out of the soap opera of the '90's. How do we continue to change this old guard political process and address some of these issues such as the environment, health care, and social security? Because I'm 27 years old, and I feel that this is going to be a very difficult world that a lot of us are going to inherit.

MR DUBERSTEIN: One of the things that the Brookings Institution has done as part of Opportunity '08 is, host the Institute of Politics at Harvard in their Youth Survey six weeks ago, where it demonstrated that, contrary to all the beliefs, young people are playing an increasingly important role and an increasingly active role.

I think we saw it in Iowa and we saw it in New Hampshire. Whether you like the result or not, you saw all the young people, so many, and the percentage growing of people being involved.

I happen to be fascinated with how Barack Obama is bringing in the youthful enthusiasm, the George Bernard Shaw second part of that quote. Look, all of these problems that we're talking about, whether it's social security, or trade, Medicare, climate change, are not Republican or Democratic solutions. We've got to figure out ways to go across the aisle.

Who are the candidates for president who are talking about non-partisanship or bipartisanship, or putting together coalitions, rather than going through the poisonous politics of the last ten or 12 years, where we've only talked about governing on this side of the aisle or governing on that side of the aisle.

One of my complaints about the campaign is that it's about the campaign, it should be about who can govern, and what's a governing philosophy and a governing strategy, that's what I want to hear more about, whether it's debates that are upcoming or as we get into a general election shootout.

That's where you get the young people energized. That's where you can make a difference as far as your future, so Social Security is around and viable, or if not, something else. How do we address climate change? And one of the things that I found fascinating is that not all the Republicans think climate change is an issue, but some of them do.

It is interesting, if I am not mistaken, Mike Huckabee and John McCain both talking about climate change. Those are the two candidates in the Republican party who are not defending the President right now; they are the change agents inside the Republican party. Romney, Giuliani, and Fred Thompson all see themselves as the defendants of the Bush record. Let's get past that, let's start figuring out how to govern.

MR DONILON: You know, there's been tremendous increase

just in the first couple of contests and participation, which is a healthy sign, and it really does indicate high interest in the election to date. There's been a greater increase in participation on the Democratic side and on the Republican side, which I think indicates kind of this change dynamic that we're thinking -- that we've been talking about, number one.

Number two, to get elected President of the United States in 2008, you're going to have to talk about the future, not the past. This is -- if I were advising a candidate today, this would be a constant critique of everything he or she said every day. How much is it about the future as opposed to a debate about the past, it's absolutely critical.

And third, I think as Ken was alluding to, given the hyper-partisanship of the last seven or eight, ten years in the United States, I really do think there is kind of a consensus approach developing around a number of key issues, including health care and climate.

MR. O'HANLON: Thank you, Ken and Tom.

MR. DUBERSTEIN: Thank you.

(Recess)

MR. ANTHOLIS: (In progress) -- this is our third board meeting outside of Washington and our sixth Opportunity 08 event, and at all of them we have had panel discussions that have been a combination of Brookings scholars and local voices paying attention to the issues that

the next president will face, and today's panel is similarly structured.

I am going to start introducing folks from my right, your left, and Glenn Hutchins said to me this is probably the first time he has been at the far right of any panel. Glenn Hutchins is Founder and Managing Partner of Silver Lake Capital, is a trustee of the Brookings Institution, and has served on the White House staff.

Bruce Katz is the Vice President and Director of our Metropolitan Studies Program and has just launched the "Blueprint for National Prosperity" which we will try to talk about a little bit here.

Jeff Bader who is, after 27 years in the government in a range of positions from the State Department to the House, to the U.S. Trade Representative's office, is the Director of the John Thornton Center on China at the Brookings Institution and is time zone-wise somewhere over the mid Pacific having just flown back in from China yesterday.

And Dana Beach is the Executive Director of the South Carolina Coastal Conservation League and a partner of Bruce's and a long-time friend of the institution. Welcome to you all.

I want to start with Glenn. Glenn, your business and from your services in government have focused on global competitiveness, but there is so much going on. There is education, there is technology innovation. What are the drivers? What is going on out there? What are

the dynamics as Steve Denning (ph) pointed to before as you see them?

What makes places competitive and what makes nations competitive?

MR. HUTCHINS: In 50 words or less?

MR. ANTHOLIS: Yes.

MR. HUTCHINS: I spend my life in and around the information technology business and have heard a lot of about innovation and productivity, and it is very clear to us who live in that world that the associated investments in research and the associated investments in information technology and the biotechnology related fields are driving a disproportionate share of global economic growth. The IT economy for instance is growing at about two to three times the rate of the rest of the economy as a result of which is really the locomotive pulling economic growth in the world. I am sure that we will hear a little bit about China later, but when I go to China, I heard the governor here talking about the textile industries moved to China and the people I talk to in China have no interest in textile industry, they want to make semiconductors and software. They are focused on technology and not focused on the industries that they regarded in the past. And essentially, competitiveness, one way to think about it is a battle for your national share of that growth. We can come back to a little later on, but I imagined as I was watching the debate last night imagined a Connecticut Yankee in

King Arthur's Court, someone pulled out of one venue and into another and observing this strange behavior. If you took someone who thinks about competitiveness and productivity and watched that debate last night, there was almost nothing that was relevant to any of the issues that are vital to the future growth and productivity gains in our country and wealth creation.

So what is it you ask? There was a study recently by the Information Technology Innovation Foundation called "Digital Prosperity." I recommend people read it. It essentially has broken all this down. There is a long and complicated analysis, but it identified six or seven main things that happen as we have made significant IT investments and generated by the way from 1979 to 2000 a 63 percent increase in productivity in this country which explains all of the wealth gains that we have had. They see investing in flexible supply chains, and we can talk a little bit about this if you would like, generating new jobs, generating higher-quality products and services, developing better decision-making tools, developing new research tools, and building larger and more efficient markets. The result of all that is when you think about the world we have experienced you end up with less severe economic downs. We have experienced in the last 25 years significant -- you have talked about peak to trough in terms of recessions, the National Bureau of Economic

Research has observed that our recessions have gotten less and less bad over the last 25 years as they were before that. Today we are worried about a recession but the technology economy continues to post significant very high single digit gains in growth and there is sort of a divide out there between the financial services economy that people worry about and what the technology economy is doing and the technology economy has always continued to grow to generate a disproportionate share of gains and more jobs. When I was working in the White House we were told in 1992 coming in that you could not have unemployment below 5 percent. That was essentially full employment because beneath that you would generate massive inflation. Today we are worried because unemployment has gone from 4.5 to 4.7 percent. The potential of the economy and the job creation potential of the economy is magnified significantly because of the lower inflation that has come from these productivity gains, massive productivity growth, and terrifically innovative products and services. You have right now or many of us have on our belts more computing power than I think the U.S. Army had when I was in college that we carry around on our belts these days. What that means is, you sum all that up and that is competitiveness, higher per capita real income, higher per capita GDP. That is essentially kind of what is going on.

That is the good news. Maybe I will make one other comment which is that if you look at what has happened in the last 25 years, the other issue or the other thing that was interesting about that debate is there was so much talk about the legacy of Ronald Reagan and that election occurred 28 years ago. Apple and Microsoft had just been started. The microprocessor was just in its early stages of commercialization. I guarantee you Ronald Reagan did not have an email address. The notion of that question of who had Ronald Reagan's legacy is kind of relevant to where we are going to take our country and where we have to take our country to compete. It is a little bit antique in its flavor. But if you look back at what has happened over the last 25 years, we had the desktop PC revolution. The icons of that were probably Apple and Microsoft. That was followed very quickly by the networking revolution where you built the Internet out around the world and the icons of that let's call it Cisco and Google. And my personal belief, and Steve I do not know what you think or others here who are involved in these things, but my personal belief is what is happening right now with on the one hand mobility and wireless which is much, much bigger than the Internet, there are far many more units in people's hands, it has much greater reach, creates much greater productivity gains, it is a huge thing on the one hand, and the work that is being done at the intersection of biology,

chemistry, medicine, and engineering have potential impacts that are far greater than what we experienced in the last 25 years in the PC and Internet and networking revolutions.

The question is how do we compete for our share of this. I think it is every 3 years the OECD does a study, these are the developed countries, of 15-year-olds and their facilities at math and science. In the United States our 15-year-olds rank thirty-fifth in math and thirty-seventh in science. And the average score on a comparable basis are meaningfully statistically significantly lower than those of the other OECD countries; meaningfully statistically significantly lower. It is not just that there are a whole bunch of people that we are tightly grouped with, we are low, and we are meaningfully lower. That is a very big thing.

Our stock of engineers, we are not turning out anywhere near the stock of engineers that we have turned out in the sciences and computer sciences have turned out in the past. We are generating about 200,000 scientists, engineers, and computer scientists a year, India has passed us in that, China is now generating about three times as many as we are on an annual basis. The stock of scientists in our country is growing at about 1 to 3 percent per year. Mexico, Brazil, the East European countries, and Russia, are all growing their engineering stock at 7 to 10 percent per year, about three to four times our growth rate. So the

human capital that we are developing to be competitive is falling increasingly behind.

I was recently at a software development center in Shanghai and I met a wonderful young lady about 40 years who is a graduate of one of their computer sciences programs. She spoke perfect English and had outsourced a job. She was a \$50,000 a year employee outsourcing a \$400,000 a year job in the United States, not a \$2,000 per year employee outsourcing a \$25,000 job in the United States. The ability of the rest of the world to take a share of our competitiveness as a result of developing the human capital necessary to compete is extraordinary.

I will stop there. There are public policy issues about what we do about it. There is the whole political thing about how do you observe what is going on in the political world and what does that tell us. Perhaps we can get to that later on if you would like.

MR. ANTHOLIS: In fact, that's the plan. What I think I would like to do is hear from each of the different perspective what is going on and then we can come back to what to do about it. Bruce, how does it break down nationally and locally? These are big, complicated issues. You've got technology, you've got the innovation that comes from the adaptation of that technology and the workforce, there are the human capital issues, but you can look at national numbers, South Carolina is not

New York, is not San Francisco, is not Cleveland. How should we think about this?

MR. KATZ: I think just to build on Glenn, if we went around the room and we all wrote down on a little piece of paper what really drives prosperity, what really matters to competitiveness in the United States of abroad, I think most of us would focus on the same things, innovation, human capital, infrastructure, and even the governor talked about the quality of place which is of particular interest of Charleston. Those assets do not exist in the abstract. They are not evenly distributed across the landscape of this country or any other country. To some extent we have a paradox now. We have Tom Friedman obviously right saying the world is flat, but in other respects the world has become very, very spiky, because all of those assets, they congregate, they concentrate, they gather and strengthen in real places. The future as predicted 30 years ago, there would be a sort of mass deurbanization in the United States and Europe and actually the opposite has occurred and the big places are getting bigger.

So when we talk about national competitiveness, what we really are talking about is the aggregate of metropolitan competitiveness. Of the top 100 metros, only six or 12 percent of the American landmass, they have two-thirds of our population, they have three-quarters of our

GDP, and more importantly, when you get to these assets like innovation, whether it is patents, whether it is venture capital funding, or human capital, educational and payment infrastructure (inaudible) the air hubs and quality places which are a little more intangible but we obviously know it makes a big difference, these are the places, the metro areas, the top 100 metros, and Charleston is the eighty-fifth, are the ones that really concentrate these assets. Therefore, as we go forward we have to be thinking regionally, state level, nationally, about how to leverage up these strengths.

When you get to a place like Charleston, obviously the challenges and the opportunities are not ubiquitous in the United States. The places start with distinctive clusters, they start with distinctive character. When I think about Charleston and I think about its competitive challenge, I think really about three things. I think about the quality of this place because Charleston is a brand. It is a little like Maine to some extent and some of New England, but there are very few places in the United States where the built environment is part of the competitive edge. So Charleston's ability to compete going forward is very much to preserve what is special and distinctive about this place and so much has been done to do that, but you never can stop because -- real estate markets that could be distorting effects, there can be a decentralization of people in

jobs, so preserving the quality of this place is part of the competitive proposition. It is not a nice thing to do, it is absolutely critical to the future of this economy.

The second piece is the port. This is a logistics hub and that brings some enormous opportunities to connect globally to the world, but it also brings some enormous challenges in terms of how do you expand, how do you remain competitive, how do you deal with the congestion effects of being such a critical sea hub so it does not begin to undermine your quality of place.

The last piece, and this is not just Charleston but I think it is something that we really have to talk about in terms of our competitiveness as a nation, is who will be the future workforce of this country. Right now about 25 percent of our workforce are African-Americans and Hispanics. In several decades it will be upwards of 40 percent. Will that workforce be educated? Will they be skilled? Will they be able to participate in the global economy? Right now, 10 out of every 100 African-Americans or Latinos who enter the ninth grade do not get a postsecondary degree. That cannot continue to happen if we are going to compete as a nation. Again, what used to be considered to be equity issues are now competitive issues and I think Charleston and most other major metros in the United States, because they are the delivery agents

on education, the federal government may set standards and same with the states, but at the end of the day where the rubber hits the road, educating the future workforce of the United States is really in the hands of Charleston and the other top 100 metros.

MR. ANTHOLIS: Jeff, Bruce talks about the world being spiky not flat, and in his map of the world that shows the spikes, there are a lot of them in China.

MR. BADER: Yes.

MR. ANTHOLIS: Charleston is one of the biggest ports on the East Coast of the United States but there are some pretty big ports in China as well and they are built --- as Charleston, but they are also more vertically built, literally. So give us a sense of what is going on, what has been driving this enormous growth, but also what are the challenges that people are feeling on the ground there?

MR. BADER: I think in terms of the success of China in two words, it is openness and privatization. The Chinese understand very well like Governor Sanford was saying about the world being flat. I feel like last night all we heard was everyone was running for the mantle of Ronald Reagan, today I feel we are all running for the mantle of Tom Friedman. This was the most closed economy in the world 25 years ago. I completed the WTO negotiations on China's accession to the WTO and

they accepted the most draconian opening of their market of any country that has ever joined the WTO. This is a country that was the number 30 trading country in the world 25 years, it is now number three -- investment going into China 15 years ago, about 15 to 20 percent of all investment went to Asia and went to China, and now it is at 70 percent. The investment comes not only from people like Phil, but even more from overseas Chinese. That was the genius of Deng Xiaoping that there these Chinese all around Asia and the rest of the world who wanted to put money back into China and that is what has been driving Chinese growth, \$60 billion a year in investment, more than any country in the world.

And privatization. Twenty years ago the contribution of private enterprise to China's total GDP was approximately somewhere between 0 and 1 percent. Now private and foreign direct investment is responsible for over 60 percent of China's GDP. So those are the two obvious open secrets of China's growth. But these -- enormous down sides. The challenges that you mentioned are just huge. The Chinese economy is massively unbalanced. There is too much investment. The investment to GDP ratio is something like 43 to 44 percent. That is orders of magnitude higher than the other Asian Tigers were at their peak and the result of that is that the investment is not rational. They have a financial services sector that does not rationally allocate capital. Interest rates are

not an effective mechanism for determining allocation of capital and basically it is retained earnings by corporations. So particularly export-intensive, export-driven industries are the ones that are getting the capital and they are continuing to grow. The savings to consumption ratio in China is the mirror image opposite of the U.S. The savings rate in China is between 40 and 50 percent, we are somewhere in the people percent range give or take. As to consumption, China has a shockingly low consumption rate for reasons that are obvious, because they have no social safety net. You have one child per family, you have no health care system or no social health care system, no social security system to speak of. When you get old you are on your own, so naturally you are going to save a lot and if you save a lot you are not going to consume and you are not going to import, and the result is that China is running about a \$400 billion trade surplus with the world this year and about \$250 billion with the U.S.

The third factor as I mentioned is energy. The industries that are growing in China in the last years unfortunately are enormously energy intensive, steel, aluminum, construction, cement. In China from 1980 to 2000, energy intensity was declining and it has been going up for the last years. It is enormously energy inefficient. It takes about 8 times as much energy for each unit of GDP growth in China as it does in

Japan. They are importing about 30 percent of the increased demand in oil, and in the last 5 years as this result of Chinese growth, and that pattern is going to continue until at least 2030. They are a very, very heavily coal-based economy. About 68 percent of all energy in China is coal based. The global average is about 28 percent. If you think about global warming for a second, global warming is largely a factor of how much coal you introduce as China. China either has passed us or is about to pass us in terms of emission of greenhouse gases, and that is not about to turn around. They are building about one or two coal-fired power plants per week.

The last point in terms of China's ability to compete, people ought to be very focused on China's competitiveness in labor-intensive industries and that is clearly where their competitive advantage is now. They dominate in textiles, they dominate in footwear, they dominate in particularly low-end electronics, they dominate in computers. The R&D is not Chinese. The R&D is from outside of China. The parts are brought into China where they are assembled. Actually, the biggest import item to the United States from China last year was computers and accessories, but that is not Chinese technology. Chinese labor costs are about 5 percent of American labor costs and it is scary when you think about it until you think of the other half of it which is Chinese productivity results of

that 5 percent of American productivity. I think I will stop there.

MR. ANTHOLIS: Dana, as Jeff was talking about the phrase and thinking about it in China's terms but it also I think applies to Charleston, the phrase that the governor used, sustainable competitive advantage. There is a certain competitive advantage and China clearly is driven by low labor costs, but whether or not it is sustainable is also a question and that question as much applies to Charleston. Give us some sense of that as you look at Charleston's landscape, whether it is the landscape or things like energy, how does this place think about those things and is that vision capable of being carried forward?

MR. BEACH: I think sustainable is a fairly elusive term, but I think it helps to evaluate what we all agree is not sustainable to determine what sustainable might be. Virtually every economic consultant who has come through here in the last 10 years has noted as the governor did and as Bruce has that part of the assets that we have, the asset base of this economy, is the quality of life here. It is the environmental quality, it is experiencing the beauty of the historic city. But if we look at indices over the last 20 to 30 years, it does not look encouraging if we project those into the future. We have been very profligate in our use of land. For example, over the 20-year period between 1973 and 1994 we were consuming land at six times the population growth rate, and for people

who were thinking in terms of acres or numbers, we increased our urban footprint from about 45,000 acres to 160,000 acres of land. The population grew relatively much slower than that, so that is I would say an indication of a lack of sustainability in terms of land consumption and land use.

Transportation is similar. Nationwide for vehicles miles traveled, driving is increasing at 2 to 3 times the rate of population growth. The reason for that is not people preferring to drive more, it is the construction of our cities and metro areas that require people to take an automobile trip for every trip they make. And it is true here too. We are seeing much longer commutes, more frequent driving, and less ability to take other modes of transportation than we did even in the 1970s and before that.

As for energy, South Carolina ranks fourth from the bottom in terms of energy efficiency. We are one of the largest consumers of electricity in the nation, and of course in -- terms that puts us at the very top -- so that is a fascinating statistic about China's consumption of energy compared to Japan. We probably fall closer to the side of China than we do Japan.

Human health is another one. I think when you hear the governor come back from China and talk about the problems that he saw

there in terms of air pollution. And everybody who has been to China, I went 20 years ago and it was a problem then and apparently it is dramatically worse now, we do not think as often I think that we have those same challenges and yet every costal river in South Carolina is contaminated with mercury that creates fish consumption advisories and public health risks for people who consume fish from those rivers. We also are on the verge of approving a new port terminal, as Bruce noted, it is absolutely an integral part of our economy, but this terminal because of the lack of support and infrastructure investment at the local, state, and federal levels will cause I-26 to reach gridlock. It will also cause our air quality to exceed federal standards in terms of particulate matter which is a particularly dangerous pollutant. So I think we could all agree in looking at those indices that we have problems. We are not on a path toward sustainability, we are on a path away from sustainability in Charleston.

Some things have improved. We have done a wonderful job in the region of beginning to preserve landscapes that are important, historic and ecological landscapes. We have a great collaboration among the private and public sector in that regard. I do not think I am being too provincial that we probably even are one of the leaders in the nation in terms of protecting land and using land protection as a region shaping mechanism which is a very I think sophisticated approach to land use.

But we have a lot to do, and part of the problem as Brookings has so well pointed out is the dysfunction at the federal level of the delivery systems for funding for transportation, housing, and other infrastructure, and the obstacles that the federal system places in front of us as a region allows us to exhibit the worst form of behavior, very politically motivated behavior and not big thinking, and it really prevents us from doing the kinds of things that we heard Mayor Riley so eloquently explain that he had done in downtown Charleston over the last 32 years. He gave a great talk and everybody who has heard him, and most people here probably have heard him, know how inspiring his talk is, but it is notable in the sense that everything he did that was significant was done in spite of existing systems and existing delivery systems and existing state and local regulations and conventional views of how housing and transportation should be done. So we have a long way to go and the federal role is key here.

MR. ANTHOLIS: Why don't we do a quick set of questions about what to do next bridging off that, and then we will open it up for the audience, and I want to come back to Glenn. Glenn, you have now heard this landscape of how things apply fairly locally and the kinds of things that you indicated from science and math to what makes innovation and technology work and lead to productivity. If you had to think about a top

lever for competitiveness, where do you go? What is the thing that say the federal government can and should do to think about it? Is it education? Is it providing incentives for companies to invest in innovation? Or is it a diverse portfolio? What do you do?

MR. HUTCHINS: That is another sort of tough question. The answer is there is no simple solution. We have done a terrific job in this country. We have been the leader in new technology since the Industrial Revolution. If you think about it, each wave of technology investment has driven productivity growth and incomes.

But what I would refer you to in that regard, there was a study done called "Rising Above the Gathering Storm." I do not know if people are familiar with it, but it was a study that was done by the National Academy of Sciences, the National Academy of Engineering, and the Institute of Medicine, all scientists thinking about will you do for our future. Here is the best way to think about. Any big complex problem you have to take on does not have a magic bullet solution, cannot be reduced to a bumper sticker or a sound bite in a debate. It just does not happen. So the key recommendations of this panel involved I think three or four main areas. One is K through 12 science and math education, that we really have to invest in that. That takes 20 to 25 years to have a real important to our economy, but it is absolutely central. Scientific and engineering

research, funding for basic research. One of the major things that would go into some of the public policy and political issues here is I am involved in helping Harvard think about investing in its scientists for the future. All of the major research institutions in this country are excepting meaningful declines not just in growth but absolute dollars potentially in research funding from the government largely as a result of the fiscal profligacy that has occurred over the last 7 or 8 years, we just are not going to have the money to invest in research and research is one of the places where as we get to some degree of fiscal sanity is going to have to come out of. So we are seeing significant declines in investments in research, basic research just when we need it of federal research grants. So science and engineering research -- focus on science and engineering education. Interestingly enough in the context of science and engineering education there were six major recommendations three of which involved visas, three of which involved immigration, and the only thing we hear about with respect to immigration on the campaign trail is that it is a bad thing, that we have to keep immigrants out of this country and we have to seal our borders. In fact, we have had terrific long-term benefits over time by reverse brain drain into the United States, bringing the best scientists to this country, training them here, and using them to help grow productivity in our country.

Then with respect to economic and technology policy there are a bunch of things you can do about intellectual policy, protecting -- a whole bunch of series of policy things you can do. The other thing you need to do is leadership. It has passed completely without note that I know of, but I think it was World War II in the FDR administration, I might be wrong, we created a Presidential Science Adviser, a person in the White House who was responsible for science and technology. This is the first administration in which that person since it was created 50 to 60 years ago does not report to the president. The President of the United States does not have somebody directly reporting about him who thinks about and is responsible for our science and technology policy. In fact, I think that job might be two levels below the president now, and this is the first time that has ever happened. I think the tone starts at the top is my point. The people who have been making policy for our country around our economy, not a single one of them except -- I think the treasury secretary comes from an institution, Goldman Sachs, that has had a lot of involvement in funding technology, before that these are people who came from the basic metals industry, the railroad industry. We used to joke that maybe the next treasury secretary is going to be a blacksmith. The people who have run the commerce department have come from the oil industry and the cereal industry. They are people who have made policy

and there is almost nobody who you can go to who is a senior policymaker -- administration who have spent their lives in the innovative science and technology based parts of the economic. I think this involves leadership and the point of view that they have and the experiences they bring and the orientation that they have --

MR. ANTHOLIS: Bruce, when I think about these and I think locally I was struck both in your presentation yesterday in a conversation that I had the other day with the chairman of the College of Charleston and when the governor was speaking is how difficult a challenge it must be for a governor in the name of competitiveness to invest on education particularly primary and early education where the payoffs are not going to be for 15 or 20 years. How do you get at that challenge if you are a governor or a mayor? You want short-term competitiveness but the investments are so long-term.

MR. KATZ: I think this gets to some of what Glenn is talking about, and this is particularly true at the federal level, less true at the state and the local level, is the leadership factor. We had Tom and Ken up here. The public is so hungry for leadership and they understand that there are things that we need to do now to prepare for the long haul. Some of that is to develop in the research and development to prepare the next generation of innovative products, innovative -- and so forth. Some

of it is about the hard work of educating the next generation of workers. Some of it is about make infrastructure for that so that we have a first-class infrastructure and a first-class economy as opposed to what we have now. So it is about leadership, it is about vision, it is about setting both at the national level and at the state level evidence based outcome and goal oriented, and then it is about holding government accountable.

I think the biggest challenge the next administration is going to face whoever gets elected, Republican or Democrat and whatever the Congress looks like, is that the federal government is essentially broken now. It is a legacy government in my view. It is a collection of essentially ossified agencies, compartmentalized agencies, with a lot of bad habits that have occurred and accrued over many, many decades and needs to be fundamentally reinvented. We talked about reinvention in the 1990s. We did not really do it -- the president, key congressional leaders or governors, we have sort of denigrated the public sector of this country for decades even though the public sector is critical to deliver certain goods and services that are critical for our national competitiveness and obviously critical to our national security. So this is about setting vision that the public can buy into that is evidence based and fact driven, but then also getting back to the business of government and that is very much in my view about setting goals and holding ourselves accountable.

Transportation infrastructure is fundamentally critical to this region going forward because of the port, because of our geography, your location. The federal transportation policy at the national level at this point is an accountable free-for-all. There is no strategic vision like Dwight Eisenhower had back in the 1950s with the interstates. We have lost any sense of common purpose. So we need to, again, whether it is the government or whether it is the president, bring back that sense of vision but then govern again. That is easy to say hard to do, but I can point to several states in this country and many cities that are doing this well and they are the laboratories of the sort of bubble-up of the good practices and good ideas.

MR. ANTHOLIS: Jeff, one thing that we hear is that the public may be looking for leadership, but they are also sort of scared of change particularly given by abroad and one of the responses to that is a sort of time out on trade and I am sure people in China might get nervous when they hear that and when they see that. One of the things that you have pointed to is the cheap and dirty energy in China in addition to cheap labor is driving things. So as the Chinese hear on the one hand a time out on trade, on the other hand we might act on global warming but only if you do, what is the reaction likely to be? Are they just going to sort of go off and do their own thing and say you are out of touch or do they start to

recognize these challenges themselves, are they going to have a conversation with us about it? What does that look and feel like?

MR. BADER: Bruce talked about Washington being broken and the irrelevance the community feels about Washington. A few weeks ago I had dinner with a friend who is a Republican governor of a Western state. Governor Sanford mentioned and also maybe John mentioned that Governor Sanford -- this governor told me that he and his people regard Washington, the executive and legislative branches, as so irrelevant/distrusted to the issues that they are concerned about that he has closed his Washington office.

MR. ANTHOLIS: Did he open one in China?

MR. BADER: He had just come back from China.

MR. ANTHOLIS: Exactly.

MR. BADER: Sorry, Bruce, but that really struck me. Global warming. The Chinese of course have resisted the notion that they should accept compulsory caps on emissions. Their attitude is first of all we are only producing about one-fourth or one-fifth as much carbon dioxide emission as you in the United States are. Next of all, our GDP per capita is somewhere around \$1,700 and you are around close to \$40,000. We cannot afford that. They have the Indians backing them up in that position and that is a pretty powerful bloc of 2 to 2-1/2 billion people who do not

want to accept mandatory caps on global emissions, but the political reality here is it is inconceivable that we can have some sort of a global climate change regime going forward that does not in some fashion capture China and India.

The Chinese have gotten I would say half-religion on the subject. The National Development and Reform Commission has come out with a report on global warming which accepts that it is a reality and accepts that human activity is the principal cause of it. It is a pretty good study. About 6 months ago that is something that would not have come out in China or a year or year and a half ago when they were in denial.

MR. ANTHOLIS: It wouldn't have come out from our government a year and a half ago.

MR. BADER: They more or less coincided. You go through this 50 pages of analysis of all of the horrible impact that global warming is going to have on China in spades and then at the end it says what are we going to do about it and it has about four lines that says we are going to keep developing and we are going to have our own environmental policy that protects our people in the same fashion we have had for the last 15 to 20 years, thank you very much, good-bye, exclamation point.

I know a fair number of people including some Brookings scholars who are now trying to develop working relationships with Chinese

counterparts on the global warming issue on the assumption that come 2009 we are going to have a president who is going to take the issue much more seriously than this administration has and that it is a major potential source of friction and tension between our two countries. The Chinese understand this intellectually but they do not know quite how to get from an intellectual understanding to policy implementation. More generally, the Chinese have a great gap between stated intentions on economic policy and implementation, as just mentioned this overinvestment problem, export-driven growth, China does not have much of an R&D sector, all of these things are things that Chinese leaders understand well and are national priorities which they highlight in their functional equivalent of the state of the union message but nothing happens because they do not have the tools to implement.

MR. ANTHOLIS: Dana, you have touched on energy issues before, the fourth-lowest efficient state in the country. Is there a sense of purpose here? Are people focused on it? Give us Washington invaders here a sense of what is going on locally about these issues and when we will open it up to questions.

MR. BEACH: I think energy is the one arena that there is some reason for optimism about the public discussion. I do not recall any issue that has been as fully debated and enthusiastically debated in this

state as energy is now being debated. The formed a Climate Commission. It consists of 31 members and there are working groups that bring another 50 or so people in, and the goal is to develop a state climate plan by July. The city of Charleston has a committee working on climate and energy efficiency. I think we are at a moment in time where if we do this right and we do it intelligently we can make an enormous impact. But the challenge I think is doing it superficially. It is very easy to do it superficially. You have public meetings and you have a plan and the plan sits and is only partially implemented.

Energy seems to me is the one issue around which we can organize a renaissance for our national economy and for our local economies too. I think that is the beauty of it. There is no silver bullet, and I think Glenn mentioned there is no one thing we can do, but to use maybe a Mark Sanford style rural analogy, this is sort of the silver birdshot of the economic arena. Energy, if we do it right and it comes down, I think more than anything is how we finance efficiency and conservation, has the potential to deploy hundreds of billions of dollars which would go back into the economy that are now being lost to the atmosphere and creating the resulting risk that we face especially in this city with global warming when much of the city is between 7 and 10 feet above mean sea level.

Energy efficiency and conservation has a unique ability to

harness market forces and to reinvigorate key sectors of the economy including the financial sector, construction, manufacturing, and to employ people in this country because so much of the efficiency cannot be outsourced and although there are substantial international benefits from it, we have to do efficiency on the ground here. I think that if we can get the financing right, figure out how to scale it up rather than have it dribble out in bits and pieces here and there which it will unless we really focus on it intently, it is the one economic opportunity that has the unique ability to reinvigorate the economy with essentially none of the negative externalities of social and environmental costs that are associated with our conventional construction of economic activity. But it needs federal involvement. A federal role is key in it. It is not large, but it is key. This is mostly a private-sector, private-market initiative.

MR. ANTHOLIS: There is a lot of complementary in the way you talk and the way Bruce talks about that federal and local partnership. I want to open it up now to questions. I know there are a whole lot of people both globally and from the Brookings group that play on these issues and I really welcome your questions. Please let us know who you are.

QUESTIONER: Thank you. My name is (inaudible) and really I have two questions (inaudible). For you Jeff, on China, you're

talking about what's happening there economically, and it's amazing. I would assume there's a growth in the middle class there, and I was wondering, where's the collision between the middle class that's gaining some economic freedom within the confines of a political system that clearly doesn't know how to react? And Jeff, the opposite, we've had this great political freedom in our country and we're broke – what's it going to take to get us moving? Obviously we've got the election, there's gridlock in Washington, clearly it's broken. Is there hope? Thank you.

MR. BADER: I will take the China question and leave the U.S. question for others. That is as we used to say the \$64,000 question for China. The middle class by 2020 is probably going to be somewhere in the 300 to 400 million range, that still leaves another billion people, and they are mostly along the coast in Shanghai, Tianjin, Dalian, Beijing, Guangzhou. They at this point are comfortable with the system. They are beneficiaries of the system. When you have a system and the economy is growing 11 percent a year, that is not tinder for a revolution or for dramatic change in the system. But I think the general pattern of history particularly throughout Asia is that as countries develop middle classes, they expect to participate in the way their society functions and they will not forever accept simply a passive role with a self-chosen elite. I think that is a given.

I think that the main demographic fact that is going to bring about the change that you were implicitly alluding to is migration in China. Right now China is about two-thirds rural, about one-third urban. By 2030 that figure can be reversed. There are about 10 to 13 million people per year moving from the countryside to the cities in China and as people urbanize and join the middle class, their expectations are going to change. How this is going to happen, when this is going to happen, it is impossible to predict as Tom and Ken trying to predict what is going to happen 3 weeks from now in the elections. I just take it as inevitable that we will see within a generation, I will not use the word democracy, but I will use a system that is more participatory, more transparent, and more accountable than what we have now in China.

MR. ANTHOLIS: Bruce, do you want to address the American political system is broken question?

MR. KATZ: I think we may want to separate out why the federal level is broken. I think it is several different things. I personally do not think American governance is broken because I think what has happened in the past 30 years as have pushed responsibility down to the state and local level that there has been a response. That is where the innovation is, there is where the energy is, that is where people are grappling with the challenges of globalization, the challenges of

sustainability. It is the federal level that is broken and I think there are several aspects to this. One is the intense partisanship. I think clearly that is being discussed in this presidential debate on both sides of the aisle of who is going to be the true unifier and who is going to try to deal with the divide.

The second aspect is what I think is sort of a broken circuitry where you have all this innovation happening at the local and metropolitan level, to some extent at the state level, it is not bubbling up. I think what has to happen with that, and this is very much about what our initiative at Brookings is about, is we do need more corporate, civic, and political leaders at the metro level to organize themselves both within metros and across metros to take back the federal government, to instead of allow earmarking and horse trading, not evidence-based policymaking to occur - - to have the metropolitan level collaboration begin to guide and ultimately dictate how the national government operates. We have not seen that in the United States. It is -- every metro basically deals with its own congressional delegation, every metro tries to negotiate its way through the federal labyrinth.

I do think there is a possibility for a very different kind of partnership between the federal level, the state, and the metros but it is going to require for the metropolitan innovative partnership to relate very

differently with the federal government, to be more assertive, to be more focused on structural and systemic things at the national level as opposed to just that one particular piece of the pie.

The last piece why the federal government is broken is the lack of accountability and this is one of the peculiar aspects of devolution where the federal government began to push responsibilities out, block granting of large aspects of domestic programs and policies, but for the most part with a few exceptions like welfare there was never any performance -- of state and local actors and private-sector conduits. I think at a time when we have to deal with these major competitive issues whether it is around innovation, whether it is around human capital, whether it is around sustainability, we do need an adult to some extent at the national level connecting performance to resources. So when we send out hundreds of billions of dollars in infrastructure projects there should not be an attitude in Washington which is as it is now, let's just see what happens. Even worse, let's earmark a large portion of this without any sort of reference to true -- I think we can get back to a point where the federal government is playing a leadership role but in a nuanced way. We are not Britain, we are not France, we are never going to operate from the center, but we do need a national government that can lead and empower and hold states and localities accountable. There is a recipe for this that

we can perfect in the next administration.

MR. ANTHOLIS: Glenn?

MR. HUTCHINS: Let me just say two other things very broadly, and that is a very big question, but two broad things. One is if you are going to make the investments we have talked about, and you have mentioned infrastructure a couple of times and I think it is -- important, we are going to have to get our fiscal house in order because we cannot afford today to spend anything on anything important. So the Republicans and the Democrats are going to have to back to Andrews Air Force Base, they are going to have to do a deal, they are going to have to get revenues, they are going to have to cut spending, they are going to have create -- to get the deficit down, and then we are going to have to be able to get the resources to be able to make these kinds of investments. We cannot do that, we cannot afford to make investments. That is kind of one thing. There is a big fiscal mess that has to be solved.

Two, we have to create a stake on the part of the middle class defined very broadly in what is going on in terms of economic growth. There is a very interesting project that many of us here are a part of at Brookings called the Hamilton Project. Go to the Brookings' website and you can find a lot of materials and thought process about this. Essentially what we have to do is create the means by which the people in

the middle to lower socioeconomic strata get their fair share of the economic growth we generate. There are a whole bunch of issues around that that has to do with health care reform, pension reform, investments in education that we have talked about, changing the way we manage our social -- there are a whole bunch of ways in which we have to think very differently about what government does.

Tom Donilon -- I think said in one of those conversations that -- he described Barack Obama as the first post-partisan candidate. It is very interesting. Then it could be some of the genius of his campaign could be in the notion that some of these debates we have had in the past are kind of irrelevant and we have to start thinking about how we solve these problems together. This election is going to I think say a lot of about what Americans want in terms of how we conceive of these problems together and solve them together or if we fall back into the same kind of partisanship differences and gridlock which you lamented.

QUESTIONER: (inaudible)

MR. ANTHOLIS: And a Nonresident Resident Senior Fellow at Brookings.

QUESTIONER: (inaudible) I think also this is a good time to think about globalization (inaudible). I think that when we talk about globalization, we talk about India and China and their part (inaudible) and

it makes sense. However, the new (inaudible) of globalization buildings that were torn down and so on. So we need something like this really to get -- in China to see the value of preserving those traditions. So I think there are tremendous opportunities to exchange Charleston and other cities in China, and also in terms of tourism. Now many tourists are coming to the U.S. and typically go to New York, Washington, D.C., and so on. But increasingly many of these tourists they want to see something different and I can see Charleston as a perfect place. So there are many of those sorts of things that are complementary things that people can think about.

And also I think there are some common issues that actually the U.S. and China are facing like climate change and so on. So how about the U.S. and China working together to think about ways of how can we tackle the climate change issues, how can we actually deal with coal as the major source of energy? The U.S. also is very much a coal-based energy source. So I think how about we think about some new opportunities that we can actually work together. Thank you.

MR. ANTHOLIS: Jeff?

MR. BADER: Just a brief word on that. I think one thing that we can do on that is the whole issue, and it is a new issue for us, is Chinese investment. The Chinese now have upwards of \$1 trillion in

foreign exchange reserves. That has all happened in the last 5 years. Five years ago it was all U.S. outward investment around the world and when we were negotiating investment treaties we were concerned about protection of U.S. investments, now -- and the question is what kind of an attitude are we going to take toward that. The Chinese have created a sovereign wealth fund capitalized by about \$200 billion. It is not the only one. The United Arab Emirates, the Russians, and the Saudis are looking at a number of them. The question is what is our attitude going to be going forward toward -- investment. I think historically if you go back to the 1980s with Japanese investment in the U.S. there was much hue and cry in Washington in the Congress about how they are taking over, but if you went to localities, people were enthusiastic. If you went down to Kentucky and Tennessee where the Japanese were looking to invest, come on in, and I have a hunch we are going to see the same kind of phenomenon with regard to Chinese investment. The question is is Washington going to get in the way or is Washington going to facilitate?

MR. ANTHOLIS: Glenn, as -- was talking I was thinking about some of the statistics that both of you were talking about, and you had shown me some slides earlier, and when you were particularly talking about computers actually being manufactured and put together in China but the technology and perhaps some of the component parts are made

elsewhere, do you see a lot of actual mind-melding in the technology world between people in different countries or is it essentially segmented and simply set across the high-speed lines? What do you see in terms of technological not just adaptation but collaboration and communication?

MR. HUTCHINS: It was interesting, I heard Tom Friedman talk a couple of years ago about his book *The World is Flat* and he starts his presentation off by saying "While I was out covering post-2001 in Afghanistan and Iraq the world changed" -- and that is a good way of thinking about it because while he was covering Afghanistan and Iraq, the technology people were changing the world. In other words, what he understood was what we did every day so it was not sort of particularly insightful to us because it was kind of what we were doing. So the notion that the world is flat, that the international global broadband infrastructure allows microprocessors being developed all over the world, that is all just now kind of a routine part of what you do. Your intellectual property supply chains are as flexible and as global as your physical asset supply chain and you will develop that technology wherever the talent is to develop the technology that you can be organized to do it. So there really is very, very little difference today increasingly between the technology talent that resides in the major centers around the world, and that is one point.

Two is the half-life. These things move so rapidly that the half-life of technological innovation is about 2 years. So people talk a lot about the PC supply chain being in China and Lenovo bought IBM and all of the things we were talking there, but the PC supply chain is really kind of yesterday's news in terms of technology. That has been optimized, the technology is being improved incrementally, but very little innovation is happening in that space right now. All the innovation -- not all of it, that is overstating it -- the predominant amount of innovation in the IT community is happening in wireless and mobility. The amount of units that people have in their hands is a vast multiple amount of units they have on their desktops. That is where the semiconductor, the software, the content, all of that, is happening, and I think many people know that the Europeans have long been more advanced than the United States has been and that a lot of that is happening outside the United States. The Chinese are adding an RBAC (?) a month equivalent of a regional Bell -- they are building that a month and they are enforcing their own standards and including their own technology so that the technology -- coming out of that part of the world.

You can feel it kind of slipping away already. It is a very good thing in one sense because what people lose track of is the fact that these goods that we have provided, the services and the other associated

technologies, make very, very improvement in our lifestyles because we get a lot more for a lot less. But the rapidity of the change means that the ability of it to migrate where it can be made in the most efficient manner by the cleverest people who are working the hardest is --

MR. ANTHOLIS: Alan?

QUESTIONER: I wanted to make a comment and perhaps a suggestion about an important element of infrastructure and that is energy, and specifically, the context of this comment is specifically electric power. There are a number of scientists, one in particular from MIT, who has calculated using fairly conservative assumptions that if you look at worldwide power requirements, electric power requirements. Between now and the year 2050 there is no way to get there with existing technology, hydroelectric, nuclear, coal, what have you. This individual's particular interest is in solar power and particularly -- that does not exist, but solar power exists, but that methodology does not exist.

There are technologies, and I use that word technologies, that are available for energy production the most important of which certainly for our country as well as many other countries nuclear. I think the nexus between the problems that Glenn is describing, namely the retarded rate at which we are promoting science and science capability as well as the need for infrastructure that Bruce is articulating and the terrible

shape our government capabilities are to deal with this. I want to suggest and perhaps invite a comment that there is a human element here that I have yet to hear and that is a sense of confidence in science. Because of our ill-preparedness in our understanding of scientific advances, we are ill-prepared to place confidence in scientific answers, most specifically Yucca Mountain. The -- problem in nuclear power is the storage of waste. We have a scientific answer but the population, particularly the population in Nevada, does not understand it in a way that is internalized where they have the confidence to allow it to go forward.

So it seems to me that in addition to the particular aspects of federal regulation, particular aspects of scientific advances, we have to deal with the confidence of our population in those advances so that they can make informed public policy decisions. So I would invite a comment to that.

MR. ANTHOLIS: Dana or Bruce? Dana, why don't you give us a local take on how people approach energy in general, the adaptation of technology and nuclear in particular, their local nuclear plants, how do people see that locally but also in the broader context of waste and storage?

MR. BEACH: South Carolina is a heavily nuclear state. We get about 60 percent of our energy from nuclear which is considerably

above the national average. We also bear the burden of nuclear from the nation because the Savannah River site is the de facto storage site and potentially permanent storage site if something does not change for nuclear waste not only in this country but increasingly from other countries. Italy recently proposed shipping nuclear waste through the Port of Charleston to be stored at the Savannah River site. Governor Dick Riley some years ago in the early 1970s or the late 1970s I guess said that the first law of nuclear waste is it stays where it is put, and we have certainly seen that play out in South Carolina. I would just say as a maybe gratuitous remark as a South Carolinian that the argument that Yucca Mountain is not safe because they cannot guarantee 100,000 years of safety is somewhat of a ludicrous assertion when we are looking at an unconsolidated geology that is currently already contaminated by nuclear and hazardous waste on the banks of the Savannah River. So we do not have too much sympathy with 100,000 years of safety.

I do think that your point is right, the issue of how much are willing to put our commitment into science, maybe not so much faith or trust, there is a certain amount of that, but I think commitment is important too. I would say though that in terms of the 2050 time horizon and whether we are able to meet that, I am absolutely certain that what you said is true, that we cannot ramp up our energy production to reach the

trajectory that we predict now, but the U.S. now is half as efficient as Europe roughly and the U.S. on average uses twice as much energy per capita as California does. California has faced some serious challenges with energy and in one year when they had the brownout they were able to reduce their demand-side management with consumption or demand peaking at about 26 percent, so that is a phenomenal result that can be replicated nationwide if we have the will and the commitment to do that. Whether it takes a crisis which we will face or whether it will be forward thinking on the part of the states and the federal government is probably the question, and we certainly hope that it will be the latter. There is no reason in the world that it should not be because of all the reasons that you all know and that I mentioned, the benefits of being more intelligent in our use of energy, working on demand-side management, efficiency, and conservation. It is a national security issue, it is an environmental issue, it is an employment issue, it is an economic development issue, it is a social issue because the people who are most desperately harmed by inefficiency are people who are in poor households, they are in households that are in most cases the least efficient and they also spend the largest percentage of their income on energy. So I think the technology side is key and we need to apply that equally to conservation and efficiency agenda that we do in --

MR. ANTHOLIS: Glenn is the source of the "Doonesbury" cartoon strips that were circulated to everybody's tables and I know he has a thought or two about Americans' approach and view of science and technology. Do you want to talk a minute or two on that, Glenn?

MR. HUTCHINS: I think I have gone over most things I wanted to talk about. When I found that I was trying to imagine what it would be like and I tried to do a little bit of game playing last night, what it would be like for a scientist to observe the debates and the political process in Washington and what that disconnect would be. This is a cartoon that has gone around in the technology and science industries pretty rapidly which gets at the disconnect between what we are debating about with respect to our national priorities and what the scientists see as the reality in the world of medicine and in this case a doctor sees the reality of the world in which he lives and how they clash.

QUESTIONER: I do not mean this as a partisan comment, but Obama indicated when he said "What's the most important thing a President can do?" he indicated "Change the way people think about themselves, the way the American people think about themselves" and that is really a subset of what Alan was indicating a minute ago about science and technology.

To me the most alarming aspect of whether it is last night's

debate where we were going 30 years back when we were talking about Reagan, and then the very refreshing conversation we had this morning with the Governor of South Carolina who was really talking about globalization and talking about today's issues, but when you think about it, the real problems lies in we are not talking about tomorrow's issues, and some of the transformations that China will have to go through, India will have to go through, this country needs to go through. We need to elevate the dialogue, the debate, the discussion, the deliberation, and that has really challenged Brookings to think about how we do that, how we start getting the debate that was -- the discussion we have had somewhat this morning but was absolutely devoid of any content in that area of last night.

We had the majority of the candidates last night basically indicating that the jobs were coming back. We all know for an absolute fact that the jobs are not coming back. There is a different type of job in which America has a huge competitive advantage. We are on the cusp of transitioning from an industrial economy to a knowledge-based economy. There is no better country in the world -- if I am China and I am trying to figure out how do I compete with the United States, we have enormous comparative advantages that we can capitalize upon, but cannot do it without leadership. And to me the closest thing we have to a silver bullet is leadership and that is what we are absolute devoid of I think currently

and frankly with a lot of the candidates. So I challenge Brookings to think about how we think about getting the dialogue into the debate on the real issues.

MR. ANTHOLIS: Thank you. I think we have time for one or two more questions. Let me start here because this gentleman's hand has been up for a while and then maybe Belle Sawhill. Why don't we take two questions at one time and we'll go for final comments from people?

MR. BAYLESS: Thank you. My name is Hamilton Bayless. I work down here in Charleston for the Conservation -- when we talk about the economy and economic growth on the local, national, or global levels, we have to take into consideration that all of these economies are depending on finite resources which provide their foundation. With climate change obviously the discussion has been elevated. When we look at the problems of water quality and water availability, the deterioration of soil conditions in our agricultural lands, the poor -- and rapid loss of biodiversity, these are issues directly tied to the world's economic prosperity, but they are primarily discussed by environmentalists and scientists, they are not being discussed by our politicians and they are not being discussed by economists. How do we bring the environment into this discussion in more than just a tangential way?

MR. ANTHOLIS: Belle?

MS. SAWHILL: I think I was inspired by Steve to talk a little bit more about the issues that are not getting enough attention. Glenn, you mentioned the fiscal mess and I just remind all of us that we have a serious problem of needing to reallocate federal resources if we are going to do any of the things that all of you are correctly talking about. Bear in mind that only about 18 percent of the entire federal budget is allocated to the kinds of issues that you have all been discussing. The rest is interest on the debt, defense, and entitlements, particularly Social Security, Medicare, and Medicaid. None of the politicians, particularly the Democratic politicians, are being honest about the need to either raise taxes to levels that we have never experienced in this country, I am talking about 50 percent higher than anything we have ever paid before, or to completely restructure those entitlement programs. If we do not do one or the other, we are simply going to crowd out spending on science, on research, on education, on energy, on the environment, and that is what is likely to happen unless we have the leadership to change that. It is not being discussed at all right now.

To mention a little bit about what Brookings is trying to do on this front. I think the Hamilton Project is doing a great job in getting the word out about some of these terrific tradeoffs that we face and the need for leadership. As part of my own work -- National Priorities Project, we

have now been to 30 cities to talk to groups like the group in this room about the fiscal challenges facing the country and we get tremendous responses from local leaders. They understand the issue after you explain it to them and they are willing to see entitlement reform and they are willing even to see taxes increase particularly if it can be in the context of a fundamental tax reform. But I really just would submit that unless we have fundamental tax reform and unless we have fundamental entitlement reform, all of this other agenda which is exactly right is going to have very, very great difficulty in being implemented. So any comment?

MR. ANTHOLIS: One quick thing for our guests, Belle and her colleagues at Brookings have done some terrific work in a series -- book is called "Restoring Fiscal Sanity." If you are interested in these issues, I think it is the single best place to go to kind of understand the issues, and we should have mentioned it earlier.

MR. ANTHOLIS: So for closing comments what I would like to do is, what is the one sentence that you would try to capture from this discussion, particularly competitiveness, that you would want people to leave thinking about and knowing about? Is there one sentence that is not a bumper sticker, it is a sentence, that you would have somebody take home and pass to their spouse or their college-age kid or their roommate? Dana, you are on the spot first.

MR. BEACH: My sentence is going to follow the pattern of Senator Joseph Biden -- I would simply say that we have got a nation now that appears to have embraced what I would call a transactional form of political discourse and political activity. It is flat not in the sense that Friedman meant, but it is a flat conversation in Washington where one activity is done in exchange for another one. It is not vision driven. It is not outcome driven. And it happens that way because the population appears to want it to happen that way. We play into the trap of transactional politics whether we are at the local chamber level, at the environmental level, when we demand earmarks for our own special projects without regard to the big picture. I think what we really need is leadership and vision and that to me is the setting in which competitiveness can really take place and flourish.

MR. BADER: I will do one sentence about the way Dana did one sentence, the Biden model. Someone made a comment about the jobs are not coming home and we ought to be confident in our own edge in innovation. I think that is the answer. In looking at China it is exactly right. China, yes, they are training about 10 times as many engineers as we are, but our 10 percent of engineers are an awful lot better than their 100 percent. Our engineers learn to innovate and to think creatively and their engineers learn to copy. And our engineers were better when we did

not have the visa law and we were bringing Asians into our schools and many of them stayed here and became part of our innovative structure. We also get away from the fearfulness that has come in the last few years and go back to relying upon our strengths which is our openness and our innovation.

MR. KATZ: I have a sentence that can also be a bumper sticker. We are a metro nation and it is high time we start acting like one. So when you think about what it is going to take for this country to be globally competitive, to deal with our social divides, to deal with sustainable issues, it is going to really depend on the health and vitality of a relatively small number of places in the United States because that is where our assets are concentrated and that is where the challenges for the most part appear. And I do think in getting to Bell's comment that we have to be very realistic about the ability for large new investment whether it is with regard to infrastructure or housing or other aspects of domestic life, but here is where I think in the 21st century we could have a very different kind of relationship between the national government and ultimately these metro engines of national prosperity. And I would hope irrespective of who gets elected that we get to a point where the national government can literally challenge metropolitan areas with how are you going to reduce greenhouse gas emissions, how are you going to at least

slow the rise in congestion, how are you going to improve and reduce the racial disparities on education and skills. And as metros begin to invest, because they are the investment agents, the national government begins to lower the silos, reduce the barriers, get out of the way, and allow for a much more entrepreneurial public-private partnership to take place in this country.

So my view of the world -- starts from the bottom up, but I think that could inform a very different way forward and a very different way of acting to actually deal with some of the big fiscal challenges that we have.

MR. HUTCHINS: That was one sentence? The way I think about it is when you are running a big complex organization or you are dealing with a set of big complex problems it helps to have a North Star or two that you use as a way you can get perspective on what you are trying to accomplish and try to guide yourself that way. The way I think about this issue is it distills down to very broad things. One is we need to restore the American dream, we need to by which I mean create the means and the opportunity for every American to be successful. We should be thinking hard about how we do that. And we ought to fulfill the generational promise which is what I think you were talking about which is to leave this country and this planet better off for our children than we got

it from our parents. And I think we have largely over the last 10 or 15 years failed very meaningfully on both of those tests and that we ought to get back to having that guidance on how we think about what we do.

MR. ANTHOLIS: With that I really want to thank our panelists, I want to thank our terrific audience for the questions, and all for being here this morning, our partners in putting this event together, and enjoy the rest of the day. For the Brookings folks, we still have one or two small things left, they are mostly a fun lunch discussion and then we are all gathering together this evening for an oyster --

MR O'HANLON: I snuck in behind Bill to say thank you as well to our partners the *Charleston Post and Courier*, the College of Charleston, SCETV, the Thorntons for their hospitality, all of you in Charleston, we have really enjoyed the opportunity that Fred Mallock and Glenn Hutchins and others from our Advisory Council. We are going to as we stream out and before we say thank you to this panel going just to let you know show a little video that summarizes some of what we have been doing with this project. I am sure that all of my coconspirators at Brookings would agree that there has been no greater pleasure and no better conversation we've been able to have here with you today.

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