

THE BROOKINGS INSTITUTION

STATE OF THE UNION 2010: A PIVOTAL MOMENT

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PROCEEDINGS

MR. TALBOTT: (in progress) -- a conversation among some Brookings scholars, talking about a timely and important subject which is, of course, the President's State of the Union Address last night.

Now, as we all know, the President's Address had a text and it also had a subtext. And the text, of course, was the economic recovery of the country, particularly with regard to jobs, and also the recovery and the maximization of the country's safety in the face of various sources of threat and vulnerability and instability. The subtext, of course, had to do with political recovery, namely the President's own and that of his party and the extent to which his party is more vulnerable politically as it heads into the midterm elections.

We've got a terrific panel that's going to help us see all this a bit more clearly, look back at the speech of last night, look ahead to the months that await us.

Our moderator, Tom Mann, is somebody who has had quite a bit of experience covering State of the Union Addresses. He covered Woodrow Wilson's first State of the Union Address, which was entirely appropriate since Robert S. Brookings was working for President Wilson at the time.

MR. MANN: Exactly.

MR. TALBOTT: Tom, as I think you all know, is a senior fellow in the W. Averell Harriman Chair in American governance here at Brookings.

Now, because there is such a focus in all of our minds and in the President's speech on the economy, next up will be Karen Dynan, who is the vice president and director of our Economic Studies Program. She came to us after a background at the Federal -- the Fed Board of Governors and also as a senior economist at the Council on Economic Advisors.

Once again, because of the priority issue of jobs in the speech last night, we thought it appropriate to have Rob Puentes from our metro program speak about that

subject in the context of infrastructure, and infrastructure and the building of infrastructure as a way of growing jobs, especially in the metropolitan areas of the country, has been a major theme of the work that he and Bruce Katz and others have been doing through our metro program for some time.

The speech, of course, had an international audience and in order to bring a global dimension to the discussion this afternoon, we have Kemal Derviş with us. He is the vice president and director of our Global Economy and Development Program. He came to us from the chief job at the United Nations Development Program. Before that he was not just a minister of the Turkish government, but was a minister who basically saved the Turkish economy from collapse. He also has a background in the World Bank and he has been helping Secretary General Ban Ki-moon in putting together the G-20 process.

Last on the agenda -- the list of speakers is Martin Indyk, who is the vice president and director of our Foreign Policy Studies Program, a former two-time ambassador to Israel, Assistant Secretary of State, senior director of the National Security Council, and was formerly the director of our Saban Center here at Brookings.

So, Tom, over to you and to your colleagues.

MR. MANN: Thank you very much, Strobe. I actually was going to begin with 20 minutes of reactions to that first State of the Union speech of Wilson, but you know, I thought I'd set that aside.

Well, what will January 27, 2010, be most remembered for: Barack Obama's State of the Union speech or Steven Job's iPad? What do you think? I've been reflecting on the takeaways from the State of the Union speech. I mean, one was certainly the transformation of Congressman Joe Wilson from his famous "You lie" comment to the enthusiastic applause of his President last night. That was a sight to behold.

The second, of course, already running wild on Facebook, was the President's breach of tradition, if not etiquette, in criticizing the decision of the Supreme Court in *Citizens United v. FEC*. Sam Alito is new to the bench and he hasn't learned the stoicism required of Justices. Breyer, you know, maintained the same look throughout the

speech as -- Chief Justice Roberts had a tough time. He kept that sort of smile on his face, but he wasn't smiling inside. But Alito, that's not right. It really was quite stunning, and we have a lively debate now about whether that decision in any way affects the ability of foreign corporations, American subsidiaries of foreign corporations, foreign corporations -- domestic corporations that have a high percentage of foreign shareholders -- it's a very complicated matter.

The third takeaway I have is that we will never again see a setting that Governor Bobby Jindal put himself in last year, alone, walking down the stairs; it was so bad. Now, of course, we have an audience. In this case it was the Assembly of the Virginia Commonwealth with the governor's supporters and colleagues together. So now we have genuinely two competing State of the Union speeches.

A couple of more serious comments before we turn to our real experts here. We give so much attention to State of the Union speeches, especially beforehand then for a couple of days afterward, but we're not exactly sure why. We say the audience is not the Congress, it's the public. But polling evidence over the years suggests that public opinion, ratings of presidents, barely move at all in response to the State of the Union speeches. Only if they happen to coincide with some other set of events and developments do they do so. So if the task was to turn around public anxiety, angst, anger, unhappiness with Washington, the state of the Obama Administration, I think it would almost certainly fail.

Was it Congress itself? It certainly was entertaining as he moved his glance from one side of the chamber to the other. There was no doubt that we have a two-party system and responses accordingly, and yet it's hard to imagine that a single Republican in the chamber was moved to act differently in any fundamental way as a consequence of that speech. Indeed, I would argue this was a speech to the public, but designed for his Democratic colleagues in the House and the Senate.

The Massachusetts earthquake, the special Senate election, has absolutely terrified Democrats in Congress and they are, as he pointed out, running for the hills rather than stiffening their spine and trying to work in a very difficult political environment on a very

tough set of issues. As many gestures as he made to egg on or invite Republicans to join in, it's clear from his first year of experience he expects no such thing. And so this was really very much a matter of stopping the panic on the Democratic side of the aisle.

The speech, we can agree or disagree, I'm sure we'll all have different opinions of it, but I was struck by the self-confidence, the degree of comfort of being up there in very difficult times. I didn't see any panic or apology other than I didn't do a good enough job getting my message across explaining what was going on. I saw no evidence that he's taking up the advice that he's got to swing back to the center.

I think Massachusetts had almost nothing to do with ideology nor did his speech last night show any indication of any change in ideology. It was really much more a matter of reiterating the broader arguments from his campaign and from his first year in office, of trying to tie them together more in what we now call a narrative. But it's hard to take a narrative away from 70 minutes of spoken words, but you will see that be simplified now in the days and weeks and months ahead of time. But, if anything, it was a stay-the-course presentation about we've thought long and hard about this, we believe -- and I believe -- this is what we have to do and we're going to do it.

The one thing I was happy to see him address, all of this -- the failure of "post-partisanship" and breaking down the partisan ideological divides. I have been known to accuse him of being naïve in the campaign and promising to change that, and I notice he said I'm not naïve about what one person can do. Well, you were then and you built it up a lot, and Americans want to see it, but they don't acknowledge why it's -- it can't happen. It's partly because of them and their divisions as much as it is the people in Washington.

One -- sort of one final area that we might not otherwise cover, and I think it would be important, it came I think 33 minutes into the speech, but in my view was the most important part of the speech, namely on health care. Various pundits and analysts have declared health care dead. Various centrists, moderate Democrats in the Senate have said let's set it aside, forget about it, maybe start from scratch with a Republican. Some courageous Democrats in the House said let's just pick the good parts, that is, the popular

parts, and pass those and set aside the rest.

Ah, leadership.

All of that, you know, that possibility was there, but Obama basically stuck to his guns. Yes, he invited Republicans to offer their ideas if they have any that would -- and then he reeled off the list of objectives that have to be addressed, a number of which aren't touched at all in the fairly simple proposals Republicans have put forward: malpractice reform, deregulating insurance companies across state lines, and one or two other small things.

I think, and I will end my comments here, that what he has done is refused to let health care die, but to take it out of the public view for now. The Senate will focus on a jobs program and then financial reform. Negotiations behind the scene will proceed to try to work out an agreement that would effectively modify the Senate bill, not in a combined package, but in a separate package protected by reconciliation, calling only for a simple majority with the Senate acting first and the House, which doesn't trust the Senate, then proceeding to approve both of them with the President signing the underlying Senate bill first to make sure it all works out.

That's the scenario. It had no chance if Obama wasn't strong and forceful last night. Now it has a chance. Is it easy? No. But in the end I think Democrats will realize that failure to pass health reform will effectively consign their President and themselves to the party that can't govern, and that branding damage will hurt much more than a second vote on behalf of health reform.

But the President, of course, began with the economy and jobs. So I put to Karen really the question: He leads with jobs. He has some notion of a program. Can it make any difference? Are additional policies adopted now likely to have any measurable impact on the pace of job creation the rest of this year and into next year?

And he also tried to combine that with an effort to show that he understands the long-term economic problems flowing from high deficits and to that end is beginning to take steps in that regard. Is that a tradeoff he made successfully or did he fail?

MS. DYNAN: Thanks. Yes, I agree with you. That is definitely the tradeoff that he was focused on.

I'll start with a comment about the way he framed it. I thought it was interesting. He was very clear that we need stimulus now, but in the long run we need to achieve fiscal discipline. But he emphasized that it wasn't going to be easy, and I think that's definitely right.

So there are strong arguments, of course, that we need more fiscal stimulus.

We've lost eight million jobs to this recession, and most economists are forecasting a pretty slow recovery by historical norms. And what that means is it's going to take a long time to get back to full employment. So, in fact, the average forecast is that a year from now, although we'll see some job growth over the coming year, we're still going to see an unemployment rate that is not too different from what we're seeing now, maybe 9.5 percent. So there's a strong argument for the fiscal stimulus, but at the same time the fact is that fiscal sustainability is a huge challenge for all policymakers.

So, earlier this week, CBO released a forecast for the deficit. Their baseline was that we would see deficits, and this is after the recession is over. In the long run, 10 years from now, 5, 10 years from now, we would see deficits that are very large but sustainable. Now that was their baseline.

I think the really important point here is that the way CBO has to score these things is they have to do it under current law, and current law has some features that are not really a reasonable forecast of what is actually going to happen. So, most importantly, current law calls for certain tax provisions, certain very important tax provisions, to expire by the end of the year. So this is the Effective Inflation Indexing, the Alternative Minimum Tax. It's the 2001 and 2003 tax cuts. It's the Making Work Pay Tax Credit. So, given the fragile state of the economy, those tax provisions are very unlikely to expire by the end of the year, and even further out it's going to be very unpopular to take them back.

But if you take those away, then over the long run, we're really in a dangerous situation with regard to the deficit. Then we're looking at deficits 5, 10 years from now

that are 6 percent of GDP, and you're looking at a debt to GDP ratio which is just -- it's not stable. It's just heading upwards in a very unsustainable way.

MR. MANN: The President really committed to continuing the middle class tax cuts, didn't he, already? So that was built in.

MS. DYNAN: Yes, so that is an example of the problem.

MR. MANN: Yes.

MS. DYNAN: So, getting on to the practical issues, in terms of what the President proposed for fiscal stimulus, there were really no surprises there. We knew that he was already focused on jobs, that he was focused on small businesses, and he proposed a set of things or he mentioned a set of things that really had been discussed, that are being discussed kind of widely. They're viewed by many people as having a fair amount of bang for the buck.

The one that I think is -- since we're talking about job creation, the one that I'll just make a specific comment on is the New Jobs Tax Credit for small businesses. But many economists say when it comes to small business, I think we need to be careful not to overemphasize their role because I think it was all coming from a desire to address the anger over Main Street recovering more slowly than Wall Street. But I think we need to remember that big businesses -- first of all, big businesses are on Main Street, that they also create jobs, and many of those jobs come with health care and they come with retirement plans.

But, on the small businesses, I do think it is true that they've faced unique challenges in this recession. It is true they're more dependent on banks for credit, and credit is in tight supply at banks. They are facing unique challenges.

As to whether a tax, a New Jobs Tax Credit focused at small businesses will be effective, I think the devil will be in the details. I think if it's a complicated thing to take advantage of that could be problematic because you may need the legal and accounting knowledge to be able to take advantage of that. It's not clear small businesses, all small

businesses have that. But there are easier ways to design it, and we just need to see what comes out.

On the specifics, then turning from stimulus to longer-term policy, on the specifics of deficit reduction, the President proposed four things concretely. He proposed a freeze on non-security discretionary spending. He proposed a commission, or he endorsed a commission, a bipartisan commission on deficit reduction. He proposed a restoration of the Pay As You Go Rules, and he proposed letting the tax cuts for the richest families expire.

These are all small steps. So, for example, they're steps in the right direction. But, for example, the freeze on non-security discretionary spending, that is a pretty small fraction of our spending because you're ruling out entitlements, you're ruling out defense spending and security spending.

So, as best as we can tell, that's going to have a fairly small effect on the deficit, maybe 5 percent over the next 10 years. So it's a small step.

You know that helps in terms of the question of should we be worried that this fiscal restraint is going to hurt the recovery. First of all, the President made it clear that it's really fiscal restraint starting in 2011. It doesn't apply to last year's fiscal stimulus package certainly, nor does it apply to what we're going to see in the next couple of months come out of Congress. And it's small to start. The savings are really backloaded.

So it's a small step which helps on the front of it hurting the recovery, but I do think that the hope is that it will create a culture of fiscal responsibility. It's sort of like the Administration saying we have a lot of vegetables to eat. It's unreasonable for us to expect you guys to start eating first. We're going to eat first.

MR. MANN: All right, thank you.

I noticed, Rob, the President pivoted from the immediate jobs problem to the continuing challenges of building a successful 21st Century economy. He put a lot of emphasis on R&D and infrastructure and building a green economy, to say nothing of

education and health as it fits in. Was he right? Did he get it right? Does he understand that?

It seems to me this was his innovation section, that this was his answer to Tom Friedman, but he's been talking about this for years. Is there substance in what he said last night?

MR. PUENTES: Yes, I think so. Thank you, Tom.

I think that the proposals were generally fine. It did reflect this affirmation of the general direction to connecting the short term with the long term, the long term goals for growth and prosperity. I think this came out clearly with the high-speed rail example, which has gotten a tremendous amount of attention. I think he's announcing it in Tampa right now, as a matter of fact. It's still a small chunk, but that certainly got a lot of attention.

He mentioned very specifically, when it came to in the context of energy, it parallels directly with his connection between innovation and clean energy technology and research in advanced batteries, solar panels, biofuels. He mentioned a couple of these things.

But for both of these, I think it's important to understand these investments are still really actually quite small. The high-speed rail, again, lots of attention to that. Eight billion dollars used to sound like a lot of money. It's really not that much for this extensive system that I think people envision across the country.

When it comes to federal energy R&D, even still right now it's far less than it is for other sectors like pharmaceuticals or IT, as a percent of the overall output of these sectors.

So, if we're really going to use these things to launch the new economy, we're nowhere near where we need to be right now. And, if we're game-changing technologies in both these sectors, I think we have a lot more to do.

But I think it's important to keep in mind too that just increased investment is not really enough right now. The one thing that the Recovery Act is showing us pretty

clearly, anecdotally in some ways, is that the policy apparatus and the partnership apparatus for delivering some of these projects and some of these innovations is broken, or it could use some help on energy. So it's not just a problem of the scale of the R&D that's out there, but a problem of how the work gets done because today when it comes to federal R&D labs it's very insular. It's very compartmentalized. It's not really connected to entrepreneurialism or manufacturing.

So we have a lot of ideas in these research labs across the country. We need to make sure we have ways to get them out, to get them connected, to get them to applications, to get them into the marketplace and to get people employed in these sectors again. I think we have a long way to go on that one.

On infrastructure, again, it's not just enough about investing. We have invested some money in infrastructure over the years. It's a huge part of the recovery package. Take away the tax cuts, at a big general definition, and it's about a quarter of the recovery package. So we're investing some money in infrastructure.

But we have to make sure that we're not just spreading these dollars around the country like peanut butter, which is basically how we do our infrastructure investments. We don't really target them. We had a big announcement about the Florida high-speed rail project today, but there's 31 states getting this money. It really does kind of reinforce this everybody gets something notion that I think people are getting frustrated with.

So the President has, in the past, talked about an idea of a National Infrastructure Bank which is targeted, merit-based investments in specific places for specific purposes. He didn't talk about that last night, but we think that's something that's a good idea, that should come back.

The last point I'll make is that I think all of these great ideas that we've talked about, and we're going to talk about today, really can be undercut if we don't make sure that our metropolitan areas are healthy and functioning places. We really need the connect the President's macro vision of the economy to the reality that our economy

really is made up of these metropolitan areas who are the engines of our national prosperity, just they are in metropolitan areas in countries all across the globe.

So the blunt reality then is that last year's economic crash and the global repercussions worldwide are really now being felt in states and metropolitan areas and localities all across the country. So it's this year's budget crisis that these places are dealing with.

So, when the President talked about job creation and retention, we know that local governments, for example, are responsible for about 10 percent of the metropolitan workforce. It may not be a very popular idea, but direct fiscal assistance to them really should be a critical national strategy. The President mentioned his very strong support for the jobs bill the House has passed there. You have some of this in there for states, but I think there's much more that needs to be done.

When the President talked about doubling exports in five years -- again a very bold, audacious goal -- putting aside the merits of that for a second, the reality is that it's going to have some impacts on freight movement in this country. And our ports, our freight corridors, our global gateways, they're really in bad shape right now. So it's one thing to have a big national vision for that, but this really plays out in states and metropolitan areas all across the country. We need to have a national strategy for moving goods in and out of this country.

So, again, I think that the speech really did lay out, I think, a realistic agenda in connecting this thing of a green economy to the next economy, but I think there's a lot more that we still need to do.

MR. MANN: Thank you, Rob.

Copenhagen was all in our attention, in our sight for many months, and now it seems to have faded. The President, Kemal, did address climate change last night. He certainly hasn't given up on the ambition. On the other hand, it was late and short and kind of overwhelmed by other suggestions about energy and other things. What kind of

international reaction should we expect from the President's leadership on climate change?

And I'd be interested in international reactions to two other aspects of his speech last night that really had to do with trade and exports and international financial matters.

MR. DERVIŞ: Tom, a lot of commentaries is already line and we'll see more of it in the next few days internationally.

On climate, the expectations about Copenhagen, of course, were too high to start with, you know. It was really not a feasible venue to arrive at a treaty, and then these expectations got scaled down. I do believe, however, two things to stress. One is that the President has not given up on climate change and recognizes that this is a long-term challenge for the U.S. and for the world as a whole. That message was pretty clear, and I think that's very positive. And, second, he clearly linked it to the jobs agenda.

And there -- I mean, the message he gave was look -- he didn't say that, but the details of cap and trade, whether, you know, how much of a carbon tax, how you administer -- many of these details need to be worked out, and we're not there yet at all. But there's no doubt that 15, 20 years from now we will need a low-carbon world economy, a low-carbon U.S. economy, and whoever develops the technology, the methodology, the ways of producing things without high-carbon emission is going to be very competitive, and so his message on climate, really, to the U.S. was, we want to be number one -- on competitive technology. So, I find that very compatible with the jobs emphasis and also with the emphasis on infrastructure and green infrastructure. No details. A lot of work to be done. But I think the message is very clear, and it is new in the sense, you know, if you compare it to the messages the last ten years.

Now, on trade, he did set a very ambitious goal -- double U.S. exports in five years. That, if you do the arithmetic, works out to about 15 percent growth per year, which is very tough to achieve. And that will, of course, require -- anything near that will require very competitive U.S. economy, strong infrastructure being part of that, although,

you know, in five years, that's not much time to generate that. And it will also, of course, require strong world economy. You have to have places to export to. If the world economy is in shambles, you know, the U.S. is not going to be able to export. You have to have partners for importing. It does require a free trading system, and I thought it very significant that he did mention that. He did commit himself to Doha, but also to free-trade agreements with particular countries.

And there was no flavor of protectionism really, except maybe one -- that sentence about corporation shipping, you know, shouldn't get special subsidies for shipping jobs abroad. I think definitely they shouldn't. It should be a level playing field. But overall, I think the emphasis on trade, on exports, on an open world economy I think will be received very positively, and I think it's very appropriate.

Now, one thing that -- you haven't asked, Tom, but maybe I can just add because it has -- a lot of it, of course, in the international debate has to do with that -- is the financial sector.

MR. MANN: Right.

MR. DERVIŞ: And there he didn't say that. He did focus on the financial sector. He did say I don't want to punish the banks. You know, that's not what I'm -- I do want to build a stronger financial sector in the future. He gave some details. We don't have time to go into them right now. But there's one element which I thought was kind of missing, and that is these are big multinational institutions these days -- the big banks. You cannot have a regulatory system in the U.S. that's completely different from the regulatory system in Europe or in Japan for that matter or increasingly maybe in the future in China. So, there's much more need to emphasize that in this integrating world economy, particularly in the financial sector, you need harmonization and you need agreement -- not in every detail but on the broad outlines on how we're going to regulate the financial sector.

A lot of the international commentary on his financial sector proposal has to do with that. Not so much, you know, is this the best way to do it or isn't it but we

should work together on it, and I would have welcomed a greater emphasis on the need for the G20, the IMF, the financial stability forum to work together to produce something that can then be implemented worldwide, because if you just implement it here, you know, confusions can go abroad and vice versa. So, that's something that I was missing a little bit.

MR. MANN: Thank you.

Martin, not surprisingly, the speech focused on the economy, domestic policy, and not on foreign affairs. I think someone's count had it between eight and nine minutes out of a 70-minute speech. Is that in and of itself a problem as far as the rest of the world, and what about those eight or nine minutes? What -- did he have something to say of substance and importance, and will it attract the attention of foreign leaders?

MR. INDYK: Thank you, Tom.

I think the brevity was certainly noticeable. But I also think it's understandable. Clearly, the President has to focus on the country's domestic economic problems if he is to sustain America's involvement abroad, and I think foreign leaders who care about American leadership in the world, that is our allies, would understand that and not be too bothered by the lack of attention their issues saved.

However, I think it also -- the speech with its focus on the domestic challenges of job growth also sends a message to all foreign leaders, friends and foe alike, that the U.S. -- that the President himself is focused inward and is -- the United States is struggling with its economic recovery and therefore may not have the time and energy to expend on the world's problems. And I think that's one of the signals that foreign leaders may take away from this speech. Some of them will see it as a further indication of what they sense is referred to as America's decline. And the rising powers -- I think China in particular -- may take heart of that. They may see it as a vindication of what appears to be a growing conviction in Beijing that we need them more than need us, and that could spell trouble ahead in what is probably our most important foreign relationship.

I think the way the President in his speech treated our involvement -- our trip involvement in the Iraq and Afghanistan wars -- could also reinforce that view of an America in decline or retreat. You might have noticed that his emphasis in both his reference to Afghanistan and to Iraq was about how the troops are coming home. And in both cases, he made it clear there was a date certain in the case of Afghanistan for beginning of the process in July of 2011 he said, and the case of Iraq of ending our combat troop commitment by this August. And after he got through that, there was nothing about staying the course or the long struggle, so -- and the pivot was to treating our veterans correctly when they got home.

Since he had so little to say about foreign policy in his speech, I think it's probably proper to focus on some of things he didn't say as well those that he did. At the beginning of the Obama administration, the President had, I think it's fair to say, four signature foreign policy initiatives: engaging Iran; pressing the reset button on relations with Russia; achieving a breakthrough to Arab/Israeli peace; and relatedly improving relations between United States and the Arab and Muslim world, and climate change, which you've already discussed.

Now, on Iran, I think the speech last night really marked a turning point for the President. There was no mention anymore of engagement. Instead there was a promise -- that was the word he used -- to promise one -- if one were an Iranian leader, one could see it as a threat of what he called growing consequences, by which he meant harsher sanctions. And a stronger statement than he's made before about supporting the human rights of women who march in the streets of Iran.

On Russia, he spoke about his far-reaching -- his hope for a far-reaching agreement on reducing nuclear arms. That was supposed to be achieved by the end of last year. Hopefully, it will be achieved fairly soon. But there is a going question mark about whether he's going to be able to get that treaty, once agreed, through the Senate; whether the other signature arms control item, which is getting ratification of the Comprehensive Test Ban Treaty, which wasn't mentioned in his speech last night, is

going to be able to pass through the Senate. And then the reset button itself will be tested in February, next month, when he goes to the U.N. Security Council to try to get these harsher sanctions on Iran. The Russians are pivotal in that, and it's not yet clear that they are going to give us the support that would demonstrate, I think most clearly, the effectiveness of the reset button.

On Arab/Israeli peace, well, in a sense the less said about that the better, which is probably why he didn't mention it. But he has mentioned it in a *Time* interview he did Joe Kline last week in which he basically signaled that he'd not achieved his purposes, and what I read into those remarks was essentially that he was shifting from trying to resolve the conflict to trying to manage it -- a very lowered expectation there.

Finally, on climate change I would just say that again there is this kind of nexus here between the challenge he was trying to address yesterday so clearly, which was the challenge of getting legislation through a dysfunctional Senate and Congress and the way in which that impacts on foreign affairs -- not just per START agreement or CTPT, but obviously the whole issue of cap and trade legislation and climate change. So, there's a real challenge that he faces here in trying to correct the dysfunctionality at home in our legislature in order to be effective abroad.

And that leads me to the final point. There is this question -- two questions out there. One of them is expressed by the French president: Is he weak? And the other, which is increasingly raised by Chinese leaders: Does he have a strategy? And I don't think that the State of the Union really answered those questions, and that's why I think he needs to give another speech. We'd call it the State of the World in which he clarifies those things.

MR. MANN: Thank you, Martin.

The question of is he weak is one certainly raised in the domestic context as well, and I suppose what I took away from the totality of the speech and approach is that in fact he's not; he's really quite prepared to stick with what he thinks is the right way

to go. He's not looking for some other sweet spot politically or ideologically. I noticed an optimism about America. Now, that's standard operating procedure. Ronald Reagan did it especially well, but it certainly was very different from a malaise speech. He acknowledged the seriousness of the problems, but then, Kemal, as you said, set it up in a competitive sense. We don't want to be number two or three; we've got to be number one; we don't quit; I don't quit. It was really, really quite striking.

So, I'd be interested in your reactions, whether they're the same as mine. That is, it was not a deeply confrontational speech, but it was really quite aggressive and insistent and critical of arguments and behavior that he thinks got us into this mess, but also a belief that one way or another we're going to have to pull up our socks and get it done.

MR. DERVIŞ: May I just say something here?

MR. MANN: Please.

MR. DERVIŞ: I mean, if we remember where we were January last year you know. There's quite a bit of gloom and doom and a lot of criticism of the U.S. leadership right now, but when we remember last year, we were in very, very deep trouble in the U.S. and worldwide. Some people thought, you know, this was going to be close to a Great Depression and people close to the financial sector were in an absolute panic that this would be a meltdown. The emerging markets, which are now growing rapidly in Latin American and Asia, there was a fear that they would collapse, that there would be sovereign defaults. So when we look back for one year what has been achieved it's not small. The G-20 got together, the G-20 tripled with the IMF Board support the financial firepower of the IMF. There was no emerging market financial crisis. Even Eastern Europe, which was completely collapsing, or seemed to completely collapse, didn't quite collapse. All this was achieved at some cost, of course: the fiscal stimulus, the financial sector intervention, very unconventional monetary policy, Federal Reserve, European Central Bank, and all that. But I'm a little bit amazed at how quickly, you know, we tend to forget where we were 12 months ago.

And one thing I think he did do very well, President Obama, he reminded people of that, but he moved quickly over that. I mean, if I was in his place and, you know, I was in politics in my own country, I probably would have tried to rub it in a little more, you know. Kind of say, hey -- he did it a little bit, but short and then he moved on to the future. And I think that's a sign of strength and of confidence.

MR. MANN: Any other reactions to that?

MS. DYNAN: Well, first of all, I do agree with Kemal that he did a great job on the reminding us of how much had been accomplished and yet quickly pivoting to feeling the pain of the unemployed and making it clear that he understood just what a terrible state labor markets are in.

You know, on the optimism question, it is a really important thing to instill in people as we're in -- when they recover -- when the economy is in a fragile state like it is right now because the fact is that business spending and consumer spending, they do depend on people's expectations of what's going to happen in the future. You don't want those expectations to be unrealistic; that's what got us into this mess. But on the other hand, you know, by, you know, instilling confidence in people that things are going to get better, it can become self-fulfilling.

And a good example, actually, is with house prices. House prices have fallen a lot. They're now 25 to 30 percent below where they were at their peak. They've fallen so much that really they do seem to be in line with fundamentals and yet many economists are forecasting a further decline. And part of that is weak demand. And a weak demand stems from the fact that people are waiting to jump into the market because they think house prices are going to fall further. So changing people's attitude about that can really make a difference.

MR. MANN: Well, I thought that the -- I mean, the question of leadership -- and I think the President showed his frustration with some of the challenges that they're facing. This isn't -- we're not China, right, even though we keep comparing ourselves to China. We don't have a centralized planning agency; we can't connect infrastructure to

manufacturing and kind of force things down through a central way. So I think that a lot of what we're seeing is the recognition that we are this federalist republic. The federal government does certain things. The infrastructure piece is, again, around federal R&D and around high-speed rail. I mean, these are certain things that the federal government's going to have to do because there's nobody else who's going to do them.

And I thought it was interesting when you -- we heard the response after the speech from Governor McDonnell where he was very critical of kind of what they saw as a wholesale kind of federal engagement in places where, I don't know, where I think they maybe thought it wasn't necessary. But, again, we're going to have to sort out this federal-state-local-metropolitan relationship, and I think the President understands that. And as we go forward through this year and next year, these fiscal challenges on the state level we know are only going to get much, much worse.

So when it comes to leadership, it's not just having the federal government do a whole bunch of things, but laying out a roadmap for how this nation's going to be governed over the next couple years. It's very tough.

MR. INDYK: You know, on foreign policy, I wish he would have dwelled a little bit on the way in which we had staved off global economic disaster, and the United States played a critical leadership role in that regard. And, you know, the rising powers are gaining much more benefit from that than we are at the moment, and that's part of the problem that he has to face in terms of establishing leadership abroad.

But I thought that the body language when he spoke about Iran was an indication of something that I think we may well see more of in President Obama, which is a toughness in dealing with foreign leaders. He hasn't faced a real foreign policy crisis. He's obviously had to reorient the strategy in Afghanistan, but he hasn't yet faced that real crisis. I think we're coming to it on Iran, and I think he wanted to show a little bit of steel there and we may see more of that.

MR. MANN: You know, the conditions in many respects are right for a populist politics. We see with the Tea Partiers, we see it on both the political right and the

political left. We have all kinds of wise pundits who are telling the President he has to be more populist, and I always respond someone cannot be what they are not. And in Obama's case, he just is the antithesis of a populist. That's not how he thinks, how he speaks, how he operates.

Did you notice -- I mean, did he -- was he true to himself or did he try to pump up the populist dimension here? Was he able to be strong, show convictions, be forceful, be empathetic without being angry, and, if I may say, irresponsible in a policy sense? Any reactions on that score?

MS. DYNAN: So I think in terms of the populism concerning the recovery of Wall Street before Main Street, I think in the wake -- in the immediate wake of the Massachusetts election, we actually saw hints that maybe they were moving towards more of a rhetoric that was against Wall Street, more bashing of financial institutions and banks. And I was heartened to see last night that he actually -- he admitted that he -- that nobody liked what they had to do in bailing out some of these financial institutions, but he really wasn't just bashing the financial institutions. And I think that's actually -- I think that's a good move. I think it doesn't make sense to be bashing these institutions, particularly when their health right now is critical to the recovery.

MR. INDYK: I thought we saw something almost the opposite of populism last night, which was this kind of charming cajoling of the Republicans in the chamber that I think went over very well and actually may have gone over much better than a kind of populist approach.

MR. MANN: Populist or angry populist approach, yeah. Yeah. Interesting point.

I have one last question, but I want to forewarn you we're open to your questions. We have some mics, so prepare yourself.

Listen, we've -- it's only weeks away from the almost incomprehensible tragedy in Haiti to which so many people and countries around the world have responded, but in which we see the difficulty of proceeding with the rescue of a country that has no

infrastructure and no set of physical or social bases for allowing this intervention. I'd be interested -- I was waiting and Haiti did come up, but very late in the speech. And did you have any reactions to that? Was -- did he say enough? Was it -- what he said appropriate? Were there important other things to be said about that?

MR. DERVIŞ: Well, I think he did mention it strongly. And, of course, what he did, also, what the U.S. did was forceful. I mean, U.S. acted fast, decisive in a very, very difficult station, of course. And has to balance, you know, the image because the enemies of the U.S. will say this is like -- it looks like an occupation, and some have said it, which, of course, is nonsense. But the point is you have to make sure that at the end Haiti is a country again, and it's not obvious how to achieve that. At this point it's not -- I mean, you say infrastructure, it's not just physical infrastructure. The whole human governance infrastructure, which already was extremely weak, has now totally disappeared. And the U.N., you know, the head of the U.N. was killed, the special envoy of the secretary general. So it's a very, very tough situation. But I think he mentioned it strongly.

He also said, you know, in a more broad development poverty -- fighting poverty context that it's in the interest of the rich countries and of the U.S. to fight poverty, but it's also what is right, and he emphasized that. And I, of course, strongly welcome that. The combination of self-interests, because countries are interrelated and the disease that happens somewhere in the world can quickly reach any other part of the world, but also the moral, ethical imperative of helping others who are in deep trouble. So I think that balance was -- he got it right. He couldn't devote too much more time to that.

Now, what will happen in Haiti now in the next few weeks and months, of course, is going to be critical. And probably it's a good idea, like in any of these events, a strong country has to take the lead, but then one has to multilateralize the effort because then it does become, you know -- you take responsibility as -- for another country and you don't really want to do that. So it is better to have a multilateral structure that manages that.

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MR. CHIN: Yeah, Chia Chin, freelance correspondent.

I would like to suggest the member on the panel to deal with three things, how do you suggest Obama?

First is the trust. I think he has lost the trust of people, but you have said that last night speech he don't have apologetic tone and the second is the deed. Now the biggest problem is climate change. I think all the expertise in the three department he lead: one is Department of Energy, one is department of Commerce, and the EPA. But there so far no, any draft of construct come from them.

You cannot leave this to Congress. Congress don't have no expertise and that's why problem, they cannot come up with climate change policy legislation.

And then, I think I just stop here.

MR. MANN: We'll take two. That gives us enough. Okay, you hear that, Congress. Stay out of this. We got the experts downtown.

Sadly it doesn't work that way. Congress is the first branch of government; they are empowered with a set of constitutional tools and sort of budgetary powers that ensure they will play a dominant role. The great challenge is to somehow get the proper mix of policy understanding expertise with the political skills to build majority and in this case now, in our era, supermajority collations.

So the efforts are underway on both fronts.

Others care to comment on any?

The problem of trust is not a problem of trust in Obama. It's a trust in institutions more broadly.

MR. CHIN: He's the leader.

MR. MANN: It's — he is the leader and, therefore, he suffers from that, but there's little trust in government, there's little trust in financial institutions and large corporations, in labor unions. There's deep skepticism more broadly about people in charge.

There's great doubts about and Obama has not made any headway in restoring that trust. It's one of the obstacles we face and, frankly, it's part of a broader

problem of our political system. We haven't talked much about this, but at the root of all of the difficulties we're dealing with is we now have a party system that's structured almost parliamentary-like, but we have a Congress, not a parliament, and we have a Senate with an extra constitutional supermajority rule. And it's damned hard under those circumstances to govern and I think we're demonstrating that brilliantly.

Okay. Yes. The mic's coming across.

MS. MATTHIESEN: Can you hear me? Is it on?

Yeah, Birgit Matthiesen and I'm the Washington Office for Canadian Manufacturers and Exporters.

I just want to touch on a few things because I have a very specific question about some of the issues you mentioned and thank you for your comments. They were very insightful.

The President did mention in his speech export growth, moving to the 21st century, a green economy, and all of that requires an engagement with the international community. He also mentioned that he supports the jobs bill and, as in the American Recovery and Reinvestment Act, the jobs bill in the House has a very strong protectionist measure in it, which is buy American.

Add to that the original comment at the beginning of this panel where you mentioned the Supreme Court ruling, the dots don't match up, but the underlying issue is the same. When did that Supreme Court ruling have to do with less — had less to do with campaign finance than fear of an international organization or foreign company having undue influence on the Hill?

The question that I have is, are there mixed signals and is this a two or three years ahead of us where almost all things foreign is untrustful, unsafe? Will we see more of whether populist or whatever, more of this trend towards an inward-looking reaction to the challenges ahead? And I will leave it there.

MR. MANN: Boy, that's a good question. Kemal would you like to -- ?

MR. DERVIS: Well, it's a very good question, but I do feel, again, thinking

back 18 months, 12 months, many of us were worried that the degree of protectionism in this crisis would be much larger than it has turned out to be. There has been some, but it hasn't been huge and despite major pressures on jobs everywhere in the world, even in countries that are doing well like China.

So yes, there is some protectionist pressure, but overall the realization worldwide that trade creates jobs, that the dynamic world economy does require trade, and that protectionism is not the answer has turned out to be quite strong.

I do believe part of that, by the way, is related to the fact that the WTO actually functions. It's an institution that functions. There's even legal recourse and sovereign nations have agreed to accept that legal recourse. It's a major achievement, which, you know, as it goes with many achievements, when some things work, the attention goes more to the things that don't work. But the WTO has kept the world going on this in a rather remarkable way.

I'm not saying the battle is won, there are pressures, but I think overall they could have been much worse.

But there is a huge problem, which you kind of alluded to and the previous question also alluded to, and that is how do you negotiate internationally among democracies? You know, in climate change this was one of the big issues. I mean, it was bad enough to have 190 kind of countries, governments congregating in Copenhagen. In terms of actually achieving an agreement can you think of 190 congresses getting together somewhere and trying to negotiate?

So somewhere along the line there has to be an iteration between the Legislative Branch giving some authority within a framework to the Executive branch to negotiate, as happened in trade in the Uruguay round and NAFTA and so on.

And then back to the legislature, there has to be back and forth, but it's going to be very, very hard. And particularly, if partisan politics means that whatever is negotiated by the President or by the Secretary of State automatically gets rejected on a partisan basis in parliaments around the world, it's not just the U.S., then we're -- you know,

we face huge problems.

We have to cooperate. Globalization requires that, climate, trade, even the disease control matters and things of that sort. Nuclear proliferation is another major area. And of course, in democracies the final word has to be with the citizen and with the representatives of the citizens, but they can't negotiate directly. There has to be some authority given to the Executive to negotiate.

MR. MANN: Martin?

MR. INDYK: Kemal knows far more about these issues than I do, but it sounds right.

But the thing that worries me is not the protectionism, which Kemal has dealt with, but the deficit that Karen was pointing to is a looming problem because we're going to have to cut discretionary spending. And that means we're going to have to cut -- at some point we're going to have to cut the Defense Budget because that's the biggest of the discretionary funding.

Now at the moment, the President in the speech last night put a fence around that. National security issues were exempt, but it's very hard to see how that's going to be sustainable as this problem looms larger and larger of how to control the deficit.

And so, then I think we're going to see something else, which I think Obama in his language and inclination is already reflecting, which is a reduction of our commitments abroad because we can't afford it. And so, that's what I'm more concerned about, how we adjust to that, than your concern about protectionism.

MR. MANN: Karen?

MS. DYNAN: I just want to toss in just one last comment on the House jobs bill. And I think I'm kind of getting into Tom's field of expertise here, so I hope he'll forgive me. But I took his support for that really as a conciliatory, trying to be conciliatory. That he was just trying to reach out to the House Democrats and it wasn't so much that he loved every element of it, but the fact is that, you know, he's saying other things that are making people on the left unhappy, like his support for the Bipartisan Deficit Commission

was not -- you know, people on the far left didn't agree with that.

So I didn't actually read too much into -- too much more than that into his support for it.

MR. MANN: One thing I would add is, there really has been a trend in public opinion toward greater isolationism and a bit of xenophobia. It's clearly a consequence of very difficult economic times, but what I would say it's being controlled and managed quite effectively by the Administration, but it requires when you're doing that -- because these public sentiments get reflected in the Congress instantaneously, so for the President the challenge is to manage and control them. And part of the way you do that is showing occasional understanding of those sentiments and keeping the actual damage in Legislation and Executive actions to a minimum.

Gary?

MR. MITCHELL: Thanks, Tom, and to the panel. Gary Mitchell from The Mitchell Report.

I want to try a different take on the speech itself and it's sort of been information and listening to the four of you -- the five of you today sort of brings it together for me, which either means I haven't been listening properly or maybe you'll have some amendments on this.

I was struck by -- one of the things that I am continuously struck by with Obama is he keeps surprising us, in my judgment, in the best sense. Just when, you know, he has to do X, he not only does X, but he does X, Y. And you can look at a number of speeches that he's given where he's done that and I won't detail them.

As I think about last night and listening to the panel today, I was struck by the fact that this may be the only person who was able to sort of string together Reinhold Niebuhr and Jack Welch. And what I mean by that is with Niebuhr it's that God grant me the capability to distinguish between the things that I can impact and those that I can't. There is a sense in which that's the way he goes about agenda setting and picking his fights, et cetera.

To the Jack Welch part, to the chief executive officer, I was struck by three things. Years ago, when Sandy Weill was about to emasculate John Reed, who is the chief executive officer of CitiCorp, Reed was asked, you know, what's the job of a chief executive officer, and he said it's very simple: It's to steer the logic of the corporation.

And I have the feeling that, particularly with a little distance on this speech, there was a lot of steering the logic when you look at things like the need for export growth and the green economy and leadership in technology.

The second thing, which really speaks to Martin's highlighting the things that he didn't talk about, is that years ago, when Peter Drucker was studying successful managers and chief executive officers he said there's one thing they all have in common: they understand the notion of first things first and second things not at all.

So that in the speech there was a lot of those second things, not at all that are hugely important that didn't get in there.

And the third thing is a personal experience, having spent a little time in the private sector in a publicly held corporation where I had a very good first quarter and a disastrous second quarter, but thought I could float and the chairman of the board said to me in more heated language than I will use today: You're as good as your last quarter.

And that seems to me, it speaks to what Kemal was talking about where he said -- Kemal said if it had been me, I might have gloated a little bit more on how much better we have become, you know, how much improvement there's been since January of 2009. But it seems to me he sort of understood that notion of you're as good as your last quarter.

So that's the take I had on the speech and I'm just interested on whether, for those of you who paid more specific and careful attention to it, whether that rings with any familiarity or not? I would be interested.

MR. INDYK: Perhaps this is a different way of saying what you are saying, but I think that if we look back at the first year of the Obama Administration, the President decided early on to try a lot of things simultaneously. There was almost a deliberate

decision not to prioritize or to make everything a priority. And I think the logic of that, and certainly I've heard from some of his people, was you see what works, where the openings are, and you see what doesn't and then you go for the things that you can achieve.

Now, that's why I think certain priorities have dropped off the list now. But what that approach doesn't take account of is the credibility you lose along the way from a willful decision not to prioritize at the beginning leads to a lack of results at the end of the first year, except on the most fundamental ones that we talked about in terms of saving the economy from moving into a depression.

But, you know, on a lot of other things particularly in foreign affairs, the results aren't there yet and that, you know, nothing succeeds like success when you're in the White House. And the fact that he doesn't yet have a real success to point to affects the credibility of these things that now he needs to get done.

MR. MANN: Which makes the achievement of health reform all the more important. Strobe.

MR. TALBOTT: And all the more difficult. A couple of our panelists have got to go onto other events, but I wanted to use the prerogative of the lectern, if I could, to ask Tom to just circle back to the issue of the supermajority. But first I want to note that a newsweekly that I never did work for, i.e., Newsweek, had an article scolding the President for being too intellectual this week. It contained the line that, "Obama seems to think he runs the Brookings Institution and not the country."

And I've been -- I spent the last 48 hours trying to figure out if there is a backhanded compliment in there somewhere. But I think the message was pretty simple and that is that he's got one hell of a lot harder job than, say, mine, which involves hanging out with colleagues like this and learning from them.

But it did call to mind when I read that line that when President Obama was here to speak from this podium on December 8, and he was sort of anticipating what Kemal vividly conjured up for us, and that is the precipice over the edge of which we were all looking a year ago and how we did come back from that precipice. And he was recalling

that he was peering down -- he, President Obama, was peering down into that precipice when he took the oath of office and he sort of whimsically recalled wondering if maybe it was too late still for a recount. Which is to say he can be accused and criticized for many things, but certainly not for thinking that he has a job as easy as running a think tank. He knows he has about the toughest job in the world and one of the reasons it's one of the toughest jobs in the world is because of this damn supermajority, which strikes me as being a kind of a misnomer, Tom.

What it really does is it turns a minority into a superminority. And you've written about the broken branch of the Legislative. Here's a counterfactual: What would we be discussing today if it hadn't been for the supermajority? Would there have been a health care bill by now? Would there be a cap and trade bill by now? Would it be a completely different conversation? And what does it take to fix the problem, especially as you have a majority that can imagine itself wanting to be a superminority?

MR. MANN: Exactly. We certainly would have had a health reform bill passed and the odds are some form of cap and trade with negotiations in coal-producing states and others, but, yeah, we would have. There is no other democracy like ours that has built in this now permanent supermajority requirement.

I mentioned in my initial remarks about Republicans gain a 41 to 59 majority in the House, that is a majority to just say no. And it's true, it's been used by both parties, but now it's come with a vengeance. It's not lodged in our Constitution. It's a consequence of a fateful decision made in the early 1800s to remove from the Senate rules a motion on the previous question, which is a way of stopping debate and proceeding to vote. The House has it; the Senate doesn't.

It didn't cause a great problem early on. Senators frankly thought it was sort of vulgar to have such a motion in a body of great statesmen where they ought to speak, but it was used strategically, very infrequently. But it became serious in the lead up to World War I and Wilson put pressure on the Congress and that's when we got Rule 22, which set up for the first time a means apart from a previous question motion to end debate

and to proceed to vote. It was set up as two-thirds of the members and so it was there under those extraordinary circumstances when a filibuster was used strategically to stop some important action favored by the majority and in the national interest.

But seldom was it used and it used to be a real filibuster. Sort of people had to stand up, but as business — the agenda of Congress increased, by the '60s Mike Mansfield replacing Lyndon Johnson had so many requests from members to hold up something, and that means withholding consent to an Unanimous Consent Agreement to proceed, that he set up two tracks. One track is for all those holes and threats of filibuster and the other is for things you can get agreement to move forward, which then further legitimized the hold and became a basis for the Senate being fundamentally different from the House and individual senators having the power. So that was the first part.

Then it was the change in the party system, which pulled the parties apart ideologically and then tribally as well, such that it became an important part of the strategy of defeating a piece of legislation when you were in the minority. In the 1960s, 10 percent of significant legislation was affected. Now it's closer to 85 or 90 percent. It is routine now and we even build it into regular Unanimous Consent Agreements that you have to have 60 votes for this.

The majority agrees to that because if they can't get 60, they ought to know then, instead of going through the long rigmarole with cloture, and it's now gained credibility. So we're now hearing that if the Senate was to use the budget reconciliation procedures for their adjustments to the Senate bill, that would be a monstrosity, a breach of procedure.

Speaker Pelosi got it right. She said, no, it's the majority. It's called majority rules. In fact, it's absolutely legitimate and appropriate, but they're fairly narrow areas of congressional action where that reconciliation rule applies. It's — Strobe, to change it, it's very difficult.

Some people say, well, just make them filibuster. Call out the mattresses and let them stay there night after night.

MR. TALBOTT: Mr. Smith Goes to Washington.

MR. MANN: Yeah. You would love to see it. I mean, it would be -- a wonderful show. The problem is it's so easy for the minority to keep it going and so difficult for the majority to actually close it down. All you need is minority members, you know, passing off to one another to give long speeches. And to somehow take advantage of stopping it, you need a majority around in full force.

And in many cases, you just couldn't get the public engaged enough to sort of turn it around. You can break with precedent and rules stretching back over a century and say the Senate has a right by simple majority to change its rules. But, in fact, that is a tough decision to make and Congress was never willing to do it and members willing to give up their power. You change the rules by two-thirds majority and I don't see any hope getting that.

It seems to me, Strobe, the only way is to publicly de-legitimize it. That is, to make those who use it to pay a political price, and that's very tricky. You've got to have the right issues, and Obama started that conversation last night. It was very subtle, but it was the beginning because I think a much greater chance than changing the rules for both individual and partisan reasons is to make the case that we are the only democracy in the world that requires a supermajority in a legislative chamber on all matters under dispute.

So in other words, it's a political battle that has to be won. That has a better chance than changing the rules of the game.

MR. TALBOTT: Terrific. Well, I want to thank all of you who participated this afternoon, particularly Gary Mitchell, who by bringing Reinhold Niebuhr and Jack Welch into the conversation proved that not even Brookings is too intellectual.

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