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"KEEPING THE GOOD TIMES ROLLING:
TECHNOLOGY AND THE GLOBAL ECONOMY"

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MR. MICHAEL ARMACOST: Good morning, everybody. I'm Mike Armacost. It's my privilege to welcome you here this morning to the seventh in our series of programs on issues which the staff at Brookings hopes will grab the attention of American voters during this presidential election campaign.

This morning the focus is on economics, and how the candidates hope to keep the good times rolling. Everyone knows, of course, that we're experiencing extraordinary prosperity in America. Barely, in my lifetime at least, have the statistics been so impressive. Growth is robust, beyond the hopes of most politicians, beyond the expectations, I might add, of our economists three, four, five years ago. The current low level of unemployment is one we haven't seen for more than 30 years. Inflation is extremely modest. Productivity gains haven't been seen like this since the period immediately following the war. The stock market, if volatile, is very buoyant, providing companies with money to invest, and providing investors money to spend.

To be sure, the rate of household savings is very low, and our current account deficits are very high. Therefore, fortuitously foreign direct and portfolio investment in the U.S. offsets the savings decline and provides us means of financing our deficits. So these are really pretty good times.

And there, in fact, is more. The appearance of these budget surpluses allows the U.S. to pay off public debts and to contemplate long-term means of lending solvency and sustainability to our entitlement programs. And we've got the flexibility both in monetary and fiscal policy to deal with speed bumps on the continuing road to further prosperity.

So I think it's little wonder that the debate in the campaign to date has focused less on the conditions in the economy than how to maintain the strong non-inflationary growth while providing equitable access to the fruits of growth. And it's little wonder as well that in this debate the underlying philosophical differences between the parties as to the role of government and managing prosperity should come to the surface.

As in past programs in this series, we're delighted that each of the parties has sent representatives to present the views of the respective campaigns. In this case, distinguished Senator Bob Bennett of Utah, and a very effective Undersecretary of Commerce Bob Shapiro, undersecretary for economic affairs.

In addition, we'll have commentary from two of our own scholars, Alice Rivlin and Bob Litan, and from Jim Glassman from across the way at AEI.

Two administrative notes. If you check our web site shortly after this program is complete, if you want to see it twice you can get a video presentation, along with the full transcript and access to additional information on the issues. Our web site is at www.brookings.edu, and I would alert you to the fact that the eighth and final national issues forum in this Priorities 2000 series will take place a week from tomorrow on October 18th. It will focus on foreign policy questions and will feature our own Richard Haass, Lee Hamilton, Jessica Mathews, Rick Burke among others.

Our program this morning will be moderated by Alan Murray. We're delighted to have him. He is, as you know, the Washington bureau chief of the Wall Street Journal. He's been with the Journal for nearly 20 years, and has been the Washington bureau chief since 1993. You will see him regularly on CNBC. He's a regular also on the PBS program Washington Week in Review. He's co-author of an interesting book, **Showdown at Gucci Gulch: Lawmakers, Lobbyists, and the Unlikely Triumph of Tax Reform**. He has won a number of awards, including an Overseas Press Club Award for his writing on Asia, the Gerald Loeb Award, and John Hancock Award for his coverage of the Federal Reserve. He's a graduate of the University of North Carolina, and has a master's from the London School of Economics. He lives here in Bethesda. We're delighted to have Alan Murray to introduce our speakers and to moderate the program.

Alan.

MR. MURRAY: Thank you very much, Michael Armacost. Thank you, Brookings, for holding this.

I will play the role of the moderator today. I will be moderate. I come from the news side of the Wall Street Journal. You know, it was George Wallace who said, back in 1968, looking at the two major party candidates, who said, there's not a dime's worth of difference between them. Well, I figure this time around we're talk about something like \$4 trillion worth of difference. It's a very interesting election. Probably the most interesting election in decades. Not because of the natural charisma of the two candidates, but because, first of all, they are running neck and neck. The polls over the weekend half of them showed Bush ahead, half of them showed Gore ahead. It's an interesting election because the stakes are so high. I think the odds are extremely high that whoever wins the presidency will take the House of Representatives with them, and certainly whoever wins the presidency will be able to take the Supreme Court with them.

But, most of all, it's an interesting election because the positions they are taking on a wide range of issues are so different. You have a real choice in this election, and we're fortunate today to have two people to present those positions on economic affairs so clearly to us. First of all, Senator Bob Bennett from Utah, who has been in the Senate for the last eight years, has chaired the Senate's High Tech Task Force, and can speak to a variety of the issues that are on the agenda today. I'm going to let Senator Bennett go first, take no more than 15 minutes.

And then I'm going to turn the podium over to Robert Shapiro, who is the undersecretary of commerce for economic affairs, has worked in this area for a long time, and is equally versed and able to speak to the Clinton administration's position, also for no more than 15 minutes.

Then after that, I'll introduce the other panelists, they'll come up here, and we'll get a good discussion going.

So, Senator Bennett, the podium is yours.

SENATOR BENNETT: All right. There's not a clock here, which is always dangerous.

MR. MURRAY: I have a watch.

SENATOR BENNETT: All right. The most terrifying words you hear in the Senate are when a member says, I yield myself such time as I may consume. So, I will try to keep my own watch going, my eye on it, and stay within the limit and not require you to stand up and make signals and say, would you please be quiet.

The topic today is keeping the good times rolling, and of course that raises the question as to what causes the good times in the first instance. If you can know that, it makes a little easier to keep them rolling. Now, out on the campaign trail, of course, the Democrats tell us that the good times are rolling entirely because Bill Clinton was elected president, and that the good times began with the moment he raised his right hand and was sworn in as president. And we had some of that in the debate between the vice president and the governor with the vice president saying it all started with us, and I proudly cast the vote that broke the tie that started the good times to roll.

I think objective economists will all agree that we were, in fact, coming out of the recession at the time the president was elected. The momentum of the recovery had already set in. Unfortunately, the perception of the recovery had not set in enough to help George Bush, Sr., in the election, but the statistical analysis said that President Clinton's being sworn in really didn't have that much to do with it.

We Republicans, of course, insist that the good times began when we took control of the Congress in 1995. And we point out that the increase in the price of the stock market, or the value of the stock market, to which the vice president so glowingly referred in the debate, actually began in '95, not in '93, and of course it was the market's reaction to the fact that the Republicans were now in charge. Those who are skeptical of both parties' claims will say that neither Mr. Clinton nor Mr. Gingrich had anything to do with it and that it was entirely the result of Alan Greenspan's being at the Fed, and that he is responsible for the good times rolling. This, I think, was kind of endorsed by Senator McCain when he said, if I become president I will keep Alan Greenspan at the Fed even if I have to stuff him and prop him up.

Now, my own view is that all of these events, while they had some impact, were probably not responsible for the good times roll. I will concede that the increase in the gasoline tax that was part of the package that President Clinton pushed through in '93, and for which the vice

president voted, probably is contributing to the surplus. I voted against it. Looking back on it, I think probably that was a benign enough increase in federal revenue that contributed to the surplus, and probably did not produce the economic downturn that all of us were predicting in the violent partisan debates at the time.

I do believe that the reaction of the stock market to the election of the Republican Congress was more of a perception thing than a reality thing, but it demonstrated that the markets thought, all right, we're now going to have some freedom. We're now going to be able to move up. I think the defeat of the Clinton healthcare plan probably had more to do with the recovery of the market than the Republican election. As I visited with executives on Wall Street, particularly in the healthcare area, they were all terrified at the way Mrs. Clinton was demonizing prescription drugs and pharmaceutical companies, and they were afraid that it was going to destroy their research effort and reduce them ultimately to generic manufacturers. That there would be no further breakthroughs in the biotech area. With the defeat of the Clinton health plan, they all heaved a sigh of relief, their stock started to recovery, and that was part of the leadership to increased market value.

But I think the real thing, and I'm a great admirer of Alan Greenspan's, and I think that he handled monetary policy extremely well. But I think the real thing that is causing the good times to roll has been the increase in productivity of American workers across the spectrum. We have seen increase in blue collar productivity that's fairly easy to measure with the adding of robotics and technology into the factory. But we're now seeing an increase in white collar productivity, seeing a return on our investment, if you will, as the office has been taken over by technology, and that we are no longer having to replace everything in the office so fast that we do not get a return on investment. For a while there, you would buy a new computer for your office, it would raise your costs. You would just start to amortize the costs and the computer would be obsolete and you would throw it out and buy another one. So you couldn't catch up to return on that investment because you were constantly making new investments.

Now, the transformation of the white collar world into a high tech world, while not complete by any means, has caught up with the investment necessary to increase productivity. So we, as a nation, are increasing both blue collar and white collar productivity at a rate that is unprecedented in history, and that is what is driving the good times.

So, the question is, which campaign will see that kind of thing continue and accelerate, and which campaign, if successful, would see it decelerate. Obviously, I think that the Bush campaign would do the best job in keeping the good times rolling for a variety of reasons. And let me go through some of them.

First, the tax policy. I remember when I was a new senator and newly on the joint economic committee, I went to my first hearing to hear Laura Tyson talk about tax policy. And she said something that sent chills through my businessman entrepreneurial soul. She said, among modern industrialized nations, particularly Europe, we are seriously under-taxed. And while she didn't say it specifically, her testimony then went on to imply, we in the Clinton administration are going to fix that. My own experience was that the years of greed, the decade of greed, as the Democrats chose to call the Reagan years, were, in fact, the years in which we

laid the foundation for the increase in productivity to which I have referred. And that the tax policy was a very significant part of that.

If I can very quickly, in my own life, we started our business in 1984 when the marginal tax rate under an S Corporation was 28 percent. We grew that business from four full-time employees to over 4,000, at a market cap at one point that was close to a billion dollars. Think of the amount of taxes paid into the government in terms of building the surplus out of that kind of growth and success if our top marginal tax rate had been 39 percent, as Clinton has raised it to, we would not have survived. The difference between a marginal tax rate of 28 percent and 39 percent was the difference between survival and extinction for that company. And we are now paying -- I say, we, I have nothing to do with the company anymore. We are now paying millions and millions of dollars in both federal and state taxes, either directly or through the taxes paid to our employees, or the profits and taxes paid by our suppliers, and so on, all of the economic effect of that company. And we would not have been able to do it. We did it with internally generated cash. The difference between 28 percent and 39 percent. There was 11 percent of the money that we generated that we were able to keep in the company and grow the company. And the Gore proposals on taxes would move us away from that particular view.

They can demonize the people who pay big tax bills all they wish, and Gore does that extremely well, but the fact is that the top 1 percent in America is mobile, and fluent, and constantly changing. There was a time when I was in the top 1 percent. I'm not there anymore. I'm now a politician. But, frankly, the speed with which I moved into that, and then moved back out is a demonstration of the fluidity of the American economy. And if we ever have the mind-set that the vice president has displayed, that that is static and, therefore, must be punished with punitive tax policy, we are going to see the good times stop rolling.

Next item that I think people don't think about in terms of the economy, but that is coming to bite us right now, and this has to do with energy costs, and energy prices. Energy has nothing to do with policy, it's all set on the world market. We're at the mercy of OPEC. So, if we just take the oil out of the strategic oil reserve, why, we can solve that. That's at least the mantra that is coming out of the Democratic campaign. It is not true. We can have the ports filled with ships from OPEC with oil ready to be refined, and we still would have higher energy prices this winter than we did last. Reason, because the regulatory policy of the Clinton administration which would become exacerbated under Vice President Gore, given his proclivities with respect to the environment, have lowered America's refining capability.

So oil coming out of the ground in Saudi Arabia is of no value to the people in New England who are looking at huge increases in their home heating oil costs because they can't burn Saudi crude. They burn home heating oil that must be refined from Saudi crude. And the refinery capacity in this country has been pushed down and reduced steadily under the environmental views of the Clinton administration. I see it in my own state where I see refineries driven out of business, and they say to me, Senator, we simply cannot meet the environmental requirements that are laid on us in the name of pure and clean air. In fact, the air in Salt Lake Valley is cleaner than it has been for a long, long time, but that doesn't matter. The ideological determination that anything relating to the energy industry is somehow bad permeates this campaign. You see it in the attempt on the part of the Gore people to demonize

the governor and the secretary because they had some connections "with big oil." Well, if you want heating oil in New England this winter, you're going to have to call oil of some size or other, and it's not going to come with presidential speeches, it's going to come with the building of refineries.

The whole energy issue cuts across the technological world, because you need energy for electric power, you need energy for all of the computers, and here is a campaign that's talking about tearing down dams from which we get the cleanest and most efficient form of energy, which is hydroelectric power. We saw it again in my own state. We have perhaps the world's largest deposit of clean burning, low sulfur coal, none of which we will be able to develop because the president has decided that he wanted to declare it a national monument. I can demonstrate how coal can be mined in a very environmentally sensitive way, but nobody wants to listen to that. So that's another aspect where the good times will not continue to roll.

Finally, let me talk about globalization. One of the reasons they good times is rolling is because we now have the world as our market. And for those who are terrified about bringing down barriers around the world, they must recognize that the meanest, toughest, most effective exporter in the world is the United States of America. And the lowering of tariff barriers is very, very important to the American economy. Well, we've had NAFTA, we've had GATT, we've had PNTR, we didn't get fast track. My time is pretty well gone, so I won't give you all of the who shot John on that, but I just want to leave you with this one last thought with respect to the attitude about globalization.

Both parties have their Luddites. There is no question that those who want to stop globalization are not restricted to either the Republicans or the Democrats. But I would leave you with this one last visual image. Our leading Luddite, that is the Republicans, was sufficiently uncomfortable in the party that he left the party to seek the nomination of the Reform Party. The Democrats' leading Luddite, should they win this election, will be the Speaker of the House of Representatives. Thank you very much.

MR. SHAPIRO: I was feeling so friendly towards Bob until that last crack. Our leading Luddite left the party and is also running on a different party on trade.

I want to thank Brookings. I want to thank Mike Armacost. I want to thank Bob Bennett, it's always a pleasure to discuss issues that really matter to us and matter to the country.

National elections are fought over great issues, and they're fought over their solutions. The candidate and the party which correctly recognizes the essential questions and offers solutions that embody the values of the American people and which can work deserves to win the election, and usually does win the election.

The basic question in economic policy in this election is, what should we do about an economy when the American people are enjoying the best eight-year run in American history. The essential answer is, figure out what we've been doing right, and keep on doing it. There are new conditions and new challenges to be addressed, but we must keep on doing what's produced

the best growth in productivity, the lowest inflation, and the lowest unemployment, the strongest income gains, and the greatest progress against poverty in two generations.

One of those new conditions and challenges is that in the midst of this prosperity market forces have widened inequality, and have made education and healthcare more expensive. What do we do about that? We cut taxes for those grappling with those problems, the middle class and those struggling to join it, and we make education and healthcare more affordable.

The successful economic strategy of the last eight years has rested on four essential pillars, fiscal responsibility, targeted use of resources including spending and tax cuts, promoting technological advance and its spread, and pursuing open trade. There is no difference between our candidates with respect to one of these, that is open trade.

The administration successfully completed approval of the NAFTA, successfully completed negotiation and approval of the Uruguay round, the most comprehensive trade agreement in American history, and successfully negotiated and completed more than 300 bilateral trade agreements. Governor Bush does not criticize these achievements, and has joined Vice President Gore in supporting continued efforts to open foreign markets, and keep our own economy open. That leaves three pillars for difference and debate.

First, I want to lay out the essential elements of Vice President Gore's budget, and then contrast it with Governor Bush's plan. We start with a total projected surplus over the next decade of \$4.56 trillion. First the vice president would save all of the surplus revenues from the Social Security and Medicare contributions. Governor Bush does not save any of the Medicare surplus, and while he says he would like to save the Social Security surplus, we will see that his plans do not accommodate even that.

So the vice president begins with saving \$2.75 trillion from the original \$4.56 trillion. Sorry about all the numbers, but it's hard to talk about the budget without using numbers. Then the vice president sets aside another \$300 billion in a surplus reserve fund in case the original projections fall short. That comes to \$3.05 trillion in debt reduction, or two-thirds of the entire surplus. That leaves \$1.5 trillion for other uses. Roughly \$500 billion goes to targeted tax cuts over ten years. Roughly \$750 billion goes to targeted public investments. Roughly \$250 billion goes to debt service associated with his tax and investment program. Let me repeat, two-thirds of the projected surplus will be saved, that is fiscal responsibility of the kind that has produced the best economy in generations.

Now, let me give you our analysis or my analysis of Governor Bush's plans. Starts with the same budget surplus projection, \$4.56 trillion. His income tax cut comes to \$1.32 trillion. He has proposed other tax cuts which come to \$670 billion. So the total tax cut comes to about \$2 trillion. In addition, he proposes another \$600 billion in additional spending. So that's \$2.6 trillion spent from the \$4.56 trillion surplus. Then there's the governor's Social Security proposal, that would reduce revenues and the surplus by another \$950 billion over ten years. Now, we're at \$3.55 trillion in commitments. Finally, the additional debt services associated with these tax and spending plans comes to another \$800 billion. The total now is \$4.34 trillion. The governor's plan would save \$220 billion out of the \$4.56 trillion surplus, which means that

whatever he would like to do, his program has no room to save even the Social Security surplus, much less more. There's nothing fuzzy about this math.

Al Gore believes that fiscal discipline is essential to maintaining our prosperity. Once again, his program will save \$3.05 trillion, that's \$220 billion on one side, \$3.05 trillion on the other. That's really what the election and economic policy is about. That's why the vice president's program will keep this economy going, and I fear Governor Bush's plan will not.

Let's go very briefly over the two candidates specific tax and spending proposals. Governor Bush's \$2 billion tax program includes, of course, the across the board cuts that we know will deliver the greatest dollar benefits to the wealthiest people in America. Yes, the wealthiest people pay the most taxes. That's what a progressive tax system is all about. We would like everyone to pay less taxes. The question is not whether you would like people to pay less taxes, but what are your priorities, which is more important large tax cuts for those who do not need them at a time when their incomes and wealth have risen faster than at any time in the post-war era, or fiscal responsibility for an economy and prosperity that everyone depends on.

In addition, Governor Bush has pledged to fix the alternative minimum tax, again for higher income people, not high but higher; provide a much larger marriage penalty with most of the additional benefit, as compared to the vice president's proposal on the marriage penalty, going to more affluent couples; and the taxation of Social Security benefits, again, for relatively more affluent seniors; raise the limits on pension contributions which, again, mainly help higher income people; and repeal the telecom excise tax, which guarantees access, telephone access, for lower income people. That adds up to \$670 billion over ten years on top of the \$1.32 trillion for the across the board tax cut. The price tag for all of this is \$2 trillion.

Now, let's look at the vice president's tax program. His guideposts are to conserve budget dollars and boost national savings. Therefore, he believes tax relief should be concentrated on the people who need it to take care of their families. It should be targeted to promote specific national goals and address specific social needs, healthcare, education, saving and the environment. This is a big difference between the candidates. Governor Bush has said repeatedly that the vice president wants to pick and choose, that he wants government to pick and choose who gets tax relief, and that Governor Bush does not. The vice president wants to target tax relief to those parts of the American population which need it and are consistent with the basic values of the American people. That is a very different approach.

The vice president's tax proposals would support efforts to save for retirement by middle class and low income people. It would provide marriage penalty relief for the middle class. And through EITC reforms for low income families. It would provide a tax credit for families purchasing health insurance, credits for businesses to reduce pollution, expand the credit for middle class families who pay college tuition, and provide new tax benefits for families burdened with long-term or child care expenses. The price tags to address these social needs is \$500 billion. That compares to the \$2 trillion in tax cuts from Governor Bush.

Finally, let's look briefly at the two candidates' spending programs. Again, they reveal how these candidates understand the challenges facing the country, and their priorities.

Governor Bush has proposed \$200 billion for a prescription drug plan, which we and many healthcare experts believe will not work very well. He's called for spending \$132 billion for other healthcare efforts; \$42 billion for defense; these numbers all come from the Bush campaign incidentally. Plus, and this does not come from the Bush campaign, anywhere from \$100 to \$200 billion for his missile defense plan, which he has committed to, and that estimate is the experts' estimate of the kind of commitment he's made. That comes to about \$600 billion in additional spending, with very little additional for education, and nothing more for Medicare, training, or cleaning up the environment.

The vice president has different priorities. There's \$255 billion for Medicare, including prescription drugs for seniors. There's another \$120 billion for other healthcare needs. There's \$100 billion in additional spending for national defense, more than twice what Governor Bush has proposed apart from his missile defense plan. There's \$115 billion in additional investments in education and training, and \$120 billion in new investment in the environment and energy. This is a responsible plan to meet the central needs of the country while maintaining the real fiscal responsibility on which the prosperity of the American people depend.

Do I have any more time? Good, okay. Finally, I want to look inside one of the areas of tax and spending changes, and that's the area of technology and innovation. It's appropriate because innovation in all its aspects is the single most important factor which determines a nation's growth rate, accounting for an estimated 40 percent of the growth that the American economy achieved in the 20th Century. We live in an era of great technological advanced centered in information technologies created by scientists, entrepreneurs and workers, and actively supported by the extraordinary economic environment fostered by the administration's policies.

We have seen seven consecutive years of double-digit growth in business investment and plant and equipment. That's a new record. And some three-quarters of that increase has gone to IT. More important, the income of average families have grown now for five consecutive years. That's another record for the American people. For the last seven years, real average incomes have risen 12 percent, that is incomes adjusted for inflation. This is after falling 4 percent in the Bush years, and rising by less than 1 percent a year in the Reagan years.

I hardly need to cite, I believe, Al Gore's record of foresight and leadership in the area of technology. Fighting for the Telecommunications Act of 1996 to promote investment in competition, launching the public-private effort that is connecting every classroom to the Internet, and training every teacher to use IT effectively; helping to convince other governments to adopt a market-led approach to global e-commerce; calling for a new global information infrastructure, which is a network of networks to transmit information at the speed of light to every community in the world.

In the next four years, he will improve and expand the R&D tax credit, making it partially refundable and permanent. He will finish the job of connecting every classroom and library to the Internet, and increasing training for teachers and students; support the development of digital libraries; expand worker training programs. He will ensure that cyber space is a permanent duty free zone, and that other countries do not discriminate against electronic

commerce. His research agenda includes a new level of investment in basic R&D, and in science and technology; a doubling of federal support for biomedical and IT research; expanded support for technologies that can help us develop cleaner sources of energy, improve energy efficiency, and protect the environment. He is committed to bringing innovation to government, and will provide virtually every government service online by the year 2003. He will enact an electronic bill of rights for privacy to protect Americans online, I know a matter that Senator Bennett is very committed to and concerned about as well. The will provide the spectrum for third generation wireless services. And he is committed to bringing every household in the country online by 2005, making the Internet as universal as the telephone.

He can do this because for many years he has understood the revolution in information technologies and its implication for American life in a way that no other public figure has. He can do this because his budget and tax program can vastly expand national saving, which will keep interest rates low and business investment strong.

Governor Bush has a plan for technology, too, even if in my view it is a little thin in this key area for a strong economy. He, too, supports the R&D tax credit. He, too, wants to keep cyber space duty free. And he, too, wants to increase support for biomedical research. But his tax and budget plan will expand consumption through tax cuts instead of saving and private investment. He has no program to bring the Internet to every classroom and every family in America. I respect Governor Bush's motives and intentions, but his plan does not tell us that he truly understands how America has created these extraordinary good times, or how to keep them going. It is all about priorities and prosperity. On all counts, our country cannot afford Governor Bush's plans. Our country needs Al Gore's leadership.

Thank you.

MR. MURRAY: Senator, why don't I get you to come up here on the stage, if you two could sit right here, and let me introduce our other panelists today. We have Alice Rivlin, who you all know is a senior fellow here at the Brookings Institute, former budget director, former director of the Congressional Budget Office. She has seen it from all sides.

Bob Litan, who is the director of economic policy studies here at the Brookings Institute.

And Jim Glassman, who is a quasi-resident fellow at the American Enterprise Institute, and is the host of something called TechCentralStation.com, which for those of you who have high speed connections to the Internet, is a really cool new program.

And let me, while everyone is getting their mikes on, let me take the moderator's prerogative here, and ask our speakers each a question, and Undersecretary Shapiro, if I can, I'll start with you.

You've talked about the importance of fiscal discipline, and Vice President Gore's role in that. You've talked about the importance of technology, and the vice president's role in that. And you've talked about markets. All of these things being part of what's created this remarkable economy that we have. But now, if I understand the Bush position correctly, what he

seems to be saying, perhaps not as eloquently as we sometimes might like, but what he seems to be saying is, let's extend market forces into three big areas that have remained largely immune from that, Medicare, Social Security, reform those two programs, and education, bring a voucher-like program to education. And the vice president is saying, no, stop, let's put up the wall and defend the status quo around those three programs. How can you take that position and claim to be the champion of the new economy?

MR. SHAPIRO: Well, I don't think that Al Gore has said that he wants the status quo in any of these areas. In Social Security, he wants to promote additional private saving and investment through Social Security Plus, that is through new incentives for people to save on their own without endangering the basic benefit of Social Security. He's called for a revolution in education. What he does not want is to shift public funds out of the public school system and into the private school system. And with respect to Medicare, he is very reluctant to let market forces in a sector in which there are enormous market distortions potentially affect the access to healthcare for seniors, particularly on low incomes.

Look, in all of these areas, we support some market dynamics. All of these areas are also areas of market failure. They're recognized by economists as areas of inherent market failure that require government, some public commitment in order to ensure that people have the basic security and education that they need. We have public school systems precisely because there would be a market failure in education, and tens of millions of children would not get educated if we had a privatized, a totally private educational system, which we had for hundreds of years, and that's exactly what happened. That's also true for retirement security. We know that without a system like Social Security, many people will be myopic. Many people will not be sufficiently disciplined, or not have the funds, simply not have the resources to save, and will find themselves in abject poverty when they're elderly.

MR. MURRAY: Senator Bennett, let's stick with this subject for a minute. Particularly Social Security, because I know that's an area you've thought a lot about. Now, Governor Bush has said he wants to reform Social Security. He wants to create private accounts. He has not yet made it clear to us how he intends to pay the high cost of moving the system from an unfunded system, which it now is, where we pay payroll taxes to support the benefits of retirees, to a funded system. He says, higher returns in the market could pay part of that, most people don't think it could pay nearly all of it. So how are we going to pay the rest? Are we going to raise the retirement age? Are we going to cut cost of living adjustments? Or are we just going to pile on debt and get back to the situation that we had in the 1980s?

SENATOR BENNETT: I will get to that, but let me make a first comment. All of the items that have been discussed that have been described as being difficult or problems are government monopolies. Don't we know something about monopolies? They're inefficient, they're very expensive, and they do a lousy job of providing services. And, if I may make this comment about the education system, I come from the private sector. These are real numbers. The average per student expenditure around the country now is about \$7,000. It's less than that in Utah. It's more than that here in the District of Columbia, it's \$10,000 plus in the District of Columbia. Millions of children that are failing and are being damaged by their exposure to the public schools under this expenditure. If someone comes along and says, I will educate that

child for you for \$5000, why is it taking money out of the public schools to say, I'm going to get a \$5000 better result than spending \$7000 on my present bad result. Where I come from you're making two grand. And that's the way the real world works. But, that's not the way bureaucrats view budgets.

All right. Now, Social Security, you say how is Governor Bush going to pay the transition costs, and I'll tell you, I don't know. And I don't think he does either. But, I will tell you this, the longer we put off facing the transition, the higher the transition cost is going to be. The longer we wait to face the demographic pressures that are building on us, saying well, we can't explain exactly how we're going to pay the transition costs, so let's not try, let's just leave the thing the way it is, let's go out and fight another election on the slogan of save Social Security.

And then wake up and say, you know, if we'd only had the guts and the leadership back in the '90s -- and frankly the Social Security thing is too late, we are beyond the time we should have been dealing with this, if we'd only had the guts back in that time to face this issue, and work our way through it, then we'd have a solution now. But, if we just continue to say, let's fund the present system on the grounds that we can't dot every I and cross every T in the transition plan, we're going to have real problems when my children and grandchildren come up for Social Security. I don't have any problem. I'm going to be just fine.

MR.MURRAY: I think you can see there is more than a dime's worth of difference between what these two men are saying. And Undersecretary Shapiro is chomping at the bit here to respond. But, I'm going to keep a little tension here for a minute. I'm going to give our three panelists each a chance to comment on what they've heard so far, starting with Alice Rivlin.

MS. RIVLIN: Well, I'd like to comment, and then pose a couple of questions to both of the very able panelists. I certainly agree with Senator Bennett, and I suspect Rob Shapiro does too, that much of what -- and he said this, much of what is driving our good economy is the acceleration in productivity, and much of that has come from good use of new technology. But, policies have something to do with it. And bringing the deficit down and turning it into a surplus certainly was the right policy, and has put downward pressure on interest rates. And going forward, it would seem to me, if we're going to keep the good thing going, we ought to continue a very responsible fiscal policy.

And I am worried, by both candidates actually, but particularly by Governor Bush, that the surpluses which look so wonderful as you run out the economy on not terribly optimistic assumptions, but they assume that you're going to have continued growth over a whole decade, that especially if we don't think about some of the things like how we would fill the transition hole in Social Security, we may find ourselves with too great spending and not enough taxes coming in, and especially in the short run. My former friends at the Federal Reserve have been raising interest rates to keep the economy on a sustainable growth track. They haven't had to do as much of that as they might otherwise have done, because the federal budget has been so restrictive, and has been helping.

Now, what happens if we have a big tax cut in the near term, putting a lot more spending power into people's hands, and we don't think ahead about how we're going to do something like filling the transition hole in Social Security. We find ourselves with a very loose fiscal policy, and pushed into tighter and tighter monetary policy just to keep things from going off the track.

SEN. BENNETT: Do you want to -- or is it my turn?

MR. MURRAY: He's dying to, but I think she asked you the question, and then we'll give him an opportunity to respond.

SEN. BENNETT: Well, I don't want my previous answer to be so flip as to suggest that the Bush campaign is not looking at the whole question of the transition costs. I'm just going back to my own experience, which says that -- no offense anybody, this is not personal to any of you, but people in government who think that money comes from the budget make serious policy mistakes. The economy is tremendously fluid, the economy is tremendously flexible, there are all kinds of unintended consequences, I gave you my own example of where I think the 28 percent marginal rate is largely responsible for a great deal of the growth that we're having now, because businesses founded during that time are now sending enormous surpluses.

And the surpluses, frankly, have not come because of fiscal discipline. I'm an appropriator, come up and listen to the things that go on in the Appropriations Committee, there isn't anything approaching fiscal discipline going on on the Hill right now. The surpluses are coming because of unusually, unprecedented high tax returns. And one of the sources of those tax revenues has, frankly, been -- back to the question of being able to forecast this, that capital gains realizations are substantially higher than projected at the time the capital gains tax cut was, frankly, forced upon President Clinton as part of the balanced budget agreement between the Republican House and Senate.

I am one who has always said, you cut the capital gains tax rate, you increase the capital gains tax realizations. I'm a business man who says sometimes you cut the prices of your product and you increase the sale, you increase your market, and you increase profits. That's what's happening to the economy. And it's got to continue to happen, we've got to continue to have a tax policy that says the economy continues to grow and tax revenues come in even if tax rates go down. And then we will have enough money to deal with the transition problem.

MR. MURRAY: Let me just get you to follow up on that.

I'm going to get to you, Rob, I promise you. I'll give you plenty of time.

I don't think you've quite answered the question here, don't the voters have a right to know if they have to make the evaluation on the economic effects of the Bush policies, don't they have a right to know whether you're going to finance this transition with massive borrowing, or finance it by raising the retirement age to 73 or 74?

SEN. BENNETT: Of course they do if, in fact you are dealing with a sum zero game of the kind you describe, where the budget is static and it comes from this source or this source, and

it goes this way or that way. If you are dealing with a dynamic economy that has to keep growing and then the projections are that the surpluses will be much higher, then you say we want to go with the guy who is going to keep the economy growing more rapidly.

I asked Alan Greenspan at one of our hearings, are these projections right? And he said no. He said they're either much too low, or they're much too high. He said, I can draw you a scenario that says the surplus will disappear within a year or two, or I can draw you a scenario that says the surplus will be two or three times as big as you're projecting. And the answer to that is what policy will cause the economy to grow the most rapidly. And I think based on history the Bush policies are the ones that will say the economy will grow the most rapidly, and we will have the money. I think that I'm not answering your question directly, because I think the question is framed in the Washington mentality, and not in the reality of the economy as a whole.

MR. MURRAY: Go ahead, Rob.

MR. SHAPIRO: Undersecretaries don't have as much practice talking, I guess, as senators. Look, the fact is Social Security is the single most successful social policy of the 20th Century in America. It has reduced poverty among elderly people from 35 percent to less than 10 percent. In fact, by some measures to less than 5 percent. The notion of taking \$1 trillion in the first 10 years, and \$3 trillion in the first 20 years out of the revenue stream that supports the benefits that maintain America's senior population in basic dignity, without providing any notion of how you're going to pay for that, how you're going to maintain benefits when you take \$1 trillion in resources out of it in 10 years, and \$3 trillion in 20 years, is deeply, deeply troubling to me, and it ought to be troubling to every senior in the country, and everyone approaching retirement age.

Let me tell you what Marty Feldstein, who is Governor Bush's senior advisor on Social Security says about how you would, in fact, make this transition. He says, well, one alternative is to borrow \$3 trillion. He says that part of what will be entailed is that the guaranteed Social Security benefit will be cut, hopefully offset by returns from private accounts. The dimensions of that cut, according to Feldstein, would average 34 percent cut in benefits, and would go as high as 45 percent. Our projections say 54 percent, but it doesn't matter.

The fact is, Governor Bush has not owned up to this other essential element of his Social Security plan which is a cut in the guaranteed benefit of at least a third, and up to 45 percent, according to his own senior Social Security advisor. Marty Feldstein also says that growth will accelerate because of this is plan, and it will double corporate tax revenues and all of that will go into Social Security, something I don't think my friend Bob Bennett will like. He's going to double corporate tax revenues --

SEN. BENNETT: Absolutely.

MR. SHAPIRO: Well, you said the corporate tax had to come down.

SEN. BENNETT: I just the said capital gains tax revenues have gone through the roof, and I think that's wonderful, because we cut the rate.

MR. SHAPIRO: Let me tell you one other interesting provision that Feldstein figured out. He said, in order to make this plan work at a 2 percent diversion, a 2 percent diversion you would have to reclaim the assets in the private accounts when the person dies. He says, in order to allow people to pass on those assets it would not be 2 percentage points, it would be 2.8 percentage points, increasing the drain on revenue, and endangering the Social Security system.

MR. MURRAY: And let's just be clear here, none of the things that Undersecretary Shapiro just said are things that Governor Bush has said he will do. He hasn't told us how he would do this.

MR. SHAPIRO: That's the problem.

MR. MURRAY: At the risk of angering the home team here, let me go to Jim Glassman next, and then come back to you.

MR. RIVLIN: The home team is very docile.

MR. MURRAY: Jim, go ahead.

MR. GLASSMAN: So I don't have to talk about Social Security transition right?

MR. MURRAY: No.

MR. GLASSMAN: Good. You don't know this, but before we came up here there was a pact, Alan Murray said no economist jokes. But I'm breaking the pact. And this is actually not a joke, it's something that Ronald Reagan said. Economists are people who see something work in practice and wonder if it would work in theory. And so what is working in practice, we all agree, is the U.S. economy. The question is why. Rob says, let's keep on doing it, whatever it is we're doing. What are we doing? Well, essentially I think there has been a, if you'll pardon the expression, a supply side revolution, and I don't mean that in the caricatured sense, since it began about 20 years ago.

Part of it has been free trade, part of it has been public policies like cutting marginal tax rates, the deregulation of transportation and to some extent telecommunications. Part of it has been technology. And that's what I want to concentrate on right now. And the effect of all of those has been to increase supply. So that when we had 3.9 percent unemployment, and demand goes up, supply goes up as well, and we don't have outrageous inflation, and having the Fed to crack down. That's what I think the dynamic is that's going on.

But, a key part of it is technology, which increases productivity. Now, Rob says we need to keep on doing what we're doing. Unfortunately, we're not doing what we're doing in technology, which is why I just want to focus quickly, and I want to get the response of the undersecretary and the senator. Starting around March something happened, I think that a great

part of it was the realization by investors, and by people in Silicon Valley, that indeed there was a very good chance that this ill advised antitrust suit against Microsoft, which Milton Friedman calls, this incredible episode, which I think is actually the best characterization of it, may be successful. And Microsoft, really at that point the gem of the American economy, the largest corporation in the world in market cap would be, amazingly enough, broken up into two.

Since then we've seen the market capital of Microsoft drop by \$300 billion, about 20 million Americans own Microsoft, a significant decline in their wealth. But, far more important than that, the NASDAQ is now down by about one-third. Now, it's not just Microsoft. What it is, in my opinion anyway, and this is what I want to hear from the two speakers, is a growing realization in the capital markets that politicians who had generally laid off of high technology, high technology was kind of an enterprise zone, in Jack Kemp's words, suddenly had discovered it. And they were going to get their piece of it, well intended in many cases.

And they had lots of reasons, privacy, let's do something about privacy, let's do something about antitrust, let's do something about the digital divide. Rob at one point said that Bush has no plan to bring the Internet to every family in America. You know who has a plan to do that? Intel, Microsoft, Novell, Sun, Oracle, this is a great plan. It's a terrific plan, it's called free market capitalism. And it actually works, and at this point 50 percent of Americans within a few years have access to the Internet, amazingly enough.

Anyway, we are seeing over and over government intervention in an area that was essentially a free market. So I would like to know from both of you what your candidates are going to do about this kind of intervention. I'm talking about taxing the Internet, rolling back the Telecommunications Act of 1996, holding up mergers like AOL/Time-Warner, that I think are very beneficial. This kind of political intervention, there are hundreds of bills now in Congress to get involved in the Internet. What are you going to do about it?

MR. MURRAY: A very provocative point. Undersecretary Shapiro, why don't you start.

MR. SHAPIRO: Well, the vice president is committed to a bill of rights on privacy, with respect to electronic information. There are -- we all believe in markets, but the vice president believes in the American market economy. So does, I think, everyone in this room. There are certain values, national social values, that the public looks to government to help defend and acquit, because markets don't always acquit those values. Those aren't the values that the market responds to.

Privacy is one example, and we guarantee privacy in many areas of people's lives. We will on the Internet, as well, I hope. Apart from that your concern about -- I don't think there should be a concern about special taxation of the Internet. No one has -- everyone has committed to not imposing special taxes on the Internet. The main issue here with respect to the spread of technology, and I agree, Intel, and Sun, and Microsoft, and many other great corporations have plans to wire as many families in America as possible to the Internet, and the greatest force is the falling price of computers.

There will be pockets which are not connected, and which it is the proper role of government, we believe, to help connect those pockets just as we ensure that everyone has access to a telephone. But, the most important thing is to maintain the economic environment for business investment, and for economic growth. And that depends fundamentally upon continued fiscal responsibility and saving most of the surplus.

MR. MURRAY: Let's talk a little bit about Microsoft, I'm baffled by the fact that neither of these candidates will say anything about this case. And they say, we can't -- it's a case in the antitrust division, we can't talk about it. That's BS. I mean, Teddy Roosevelt ran a whole campaign based on talking about the antitrust laws. Both of these guys could talk about it if they wanted to. What do you think, as the Undersecretary for Economic Affairs of the Commerce Department, what do you think about the Microsoft case, is that a remedy that is good for the American economy or bad for the American economy?

MR. SHAPIRO: As an official of the administration, I have no views other than the official views of the administration.

MR. MURRAY: Which is to not have a view.

MR. SHAPIRO: No, the administration has a very clear view.

MR. MURRAY: All right. So you're supporting the Justice Department?

MR. SHAPIRO: The Justice Department is part of the administration, and the administration has a very clear view. And beyond that I can't speak.

MR. MURRAY: Senator?

SEN. BENNETT: Obviously I've not discussed this with the governor. So I will tell you what I think. I am unburdened with a legal education. If you were to -- I view this through the prism of what is good for the customer. And I have yet to be convinced that the Microsoft suit brought by the government is good for the customer. I have a hard time believing that the customer is going to be better off if, indeed, the efficiencies that have been created by a common operating system are destroyed.

And also, I have a hard time understanding why the customer is damaged when Microsoft gives its product away. Usually a monopoly operates its monopoly power by charging monopoly prices. In a highly competitive situation you charge marginal cost in order to establish market share, and marginal cost for the Internet browser for Microsoft is zero. So they're charging marginal cost by giving it away. I think that's a legitimate market kind of function.

There may be an antitrust thing here that I don't understand, and which if I had gone to law school would be clear to me. But, because I am a business man who thinks in terms of taking care of your customers, I have a hard time understanding why the customer would be benefited by the jihad that has been launched by the Reno Justice Department with respect to

Microsoft. With that having been said I must say in the interest of full disclosure that my senior colleague from the State of Utah holds exactly the opposite position.

MR. GLASSMAN: Senator, I think the real question is not the position you hold, and I agree with the position you hold, but the position that Governor Bush holds. Governor Bush has not really talked about this issue, and it's a very important issue. And let me also add that --

MR. MURRAY: This was going to be brief.

MR. GLASSMAN: Okay. All right. But, let me just say that I think perhaps Vice President Gore's attitude toward this kind of intervention in technology in the broader sense is evidenced also by his attacks on large pharmaceutical companies, which you could argue are, in fact, the most successful high technology companies in America. So two questions, really, in general what do you think the governor's attitude is towards political interventions in high technology. And second, what about the Microsoft case?

SEN. BENNETT: Well, I can answer the first one, I'm sure, very authoritatively. Governor Bush believes in free markets, he believes in allowing the market to operate as much as possible. Look at his tax plan, we can go back to the comment that the undersecretary said. He said, the tax plan will target specific national goals. Governor Bush does not believe in using taxes to target specific national goals. He believes in using taxes to fund the government.

And so you want to raise taxes in a way that's most efficient to fund the government, not to say, well, we will reward a woman who goes to work with a tax break, but we will not reward the same woman if she decides to stay home. So that's why our tax plan is very simple and across the board. I think that illustrative of how he would view the picking and choosing of large corporations.

MR. MURRAY: All right. This is a perfect segue to Bob Litan. And I'm not going to put you on the spot by asking whether you went to law school. And I'm not going to put you on the spot by pointing out that you were a high ranking official in the Clinton Justice Department when all this Microsoft got going. I'm just going to let you talk about whatever you want to talk about.

MR. LITAN: Am I being set up to be Jim's foil on Microsoft? Just two words on Microsoft, or two paragraphs, and then I want to go back to the fuzzy numbers. On Microsoft, it is a basic principle of antitrust law, having been established by judges from the old economy to the new economy, and the judge in this case was appointed by Ronald Reagan, let's remember that, what Microsoft was found to have engaged in was an abuse of its current monopoly power. No question that it acquired its monopoly fair and square, but it engaged in a variety of exclusive practices aimed at Netscape, AOL and others, that basically cemented its position unlawfully in the market.

It is my prediction that regardless of what the Supreme Court, or the Court of Appeals does, Judge Jackson's findings of fact will not be overturned. There will be arguments about what the remedy should be, but the fact that Microsoft violated the law in my opinion, and in

Judge Jackson's opinion, not just Attorney General Reno's opinion, or Joel Klein's opinion, that is crystal clear.

A minor quibble on the stock market that Jim pointed out, it's true that the NASDAQ did fall around the time of the initial determination of a break up of Microsoft. Microsoft also had disappointing earnings at that time. So it's hard to know exactly what was the cause. But I can tell you the most recent event, and that is when the Supreme Court refused to take the Microsoft case on immediate appeal, which was widely claimed by every observer in the field as good news for Microsoft.

In fact, one of my colleagues at GW basically said that the break up is dead now, because it's got to wind its way through the courts. Universally good news, did the Microsoft stock go up at that time? The Microsoft stock continued sinking. So I would argue that forces larger at work are driving the NASDAQ down, mainly the realization that a lot of these tech stocks have been overpriced for some time.

Now, let me get to some more fuzzy numbers, not just the numbers on the stock market. I just want to make a very simple point, and that is that first we have a remarkable level of detail from both candidates in this campaign. I would say, the most detail in my lifetime of any two presidential candidates. In part that's because they've got a surplus to work with, and they can argue how they're spending the money. But, to their credit, we have an incredible set of detailed plans of what each of these candidates would do, which is to, I think, the political system's credit.

Having said that, though, I predict that there will be a realization after the election that things have got to not maybe proceed according to the plans. You know, when President Clinton ran on his putting people first program, he said he was going to spend all these billions of dollars on X, Y, and Z, and so forth. And then essentially Alan Greenspan sat him down for a Dutch uncle talk and said, look, you can't do all this without sending the bond market into a tizzy. And the plans were scaled back.

I predict something similar is going to happen, whether Bush or Gore is elected, for the following reasons. Number one, the surpluses that CBO are now projecting could be, I underscore the word could, could be way overstated. Overstated because for one reason, as President Clinton said last night, and it was quoted in the Washington Post today, the fact is that discretionary spending is projected under the CBO plans to only rise with inflation, when in fact we know it is likely to rise with population growth as well. And also what Senator Bennett said, Congress is busy spending money right now, and inflating the baseline. So we're not going to have, for that reason alone, those surpluses.

In addition, those forecasts do not take account of obligations of the federal pension plans. And we at Brookings have done some analysis here, it's on our web site, which suggests that when you take account of all these factors the so-called \$2 trillion in the non-Social Security surplus maybe lower than \$1 trillion. So neither candidate may have that money to spend.

On the other hand, there is good news. The good news is that the CBO for the last five years has way underestimated the volume of revenues. And they've underestimated it not just because of capital gains realizations, which have been low, but also they projected, like every economist I know including myself, they've projected economic growth rates that have turned out to be much lower than, in fact, have materialized. We've had 4 percent growth for the last five years. Nobody predicted that. We thought it would be maybe 3 percent, or 2/1-2, and now it's four. So it very well could be that over the next four or five years that we get remarkable continued growth, and we get more revenues. And so there's an enormous amount of uncertainty about those CBO projections.

And what I'm going to say is that after the election, that uncertainty will be factored into the next set of CBO projections, and I have a feeling that Alan Greenspan will have another talk with the vice president or Governor Bush, and basically tell him, look, there's an enormous amount of uncertainty out there, and before you go ahead and commit trillions of dollars to all these long-run plans, wouldn't it be wise to be a lot more incrementalist in your views, and sort of take one thing at a time. And so I think we're going to get scaled down versions of both of these plans.

These plans are instructive, because they indicate what priorities the candidates have, for where they'd spend the money if they have it. But, I think the reality will be substantially different come November the 8th.

MR. MURRAY: Senator Bennett?

SEN. BENNETT: That's said better than what I was saying earlier about my conversation with Greenspan. And I think that's accurate. But, we come back to Greenspan's hierarchy. He said his preference would be save it, pay down the debt, but he said, if you can't restrain yourselves, and what's happening on the Hill right now indicates that we can't, he said, I'd prefer that it be given back in a tax cut. The worst thing you could do is spend it. And in my view, what the vice president has said is he wants to commit to a whole series of spending programs and what the governor has said is he wants to commit to giving it back. That's a quick summary of the difference between the two in the situation you've described.

MR. MURRAY: It's the genius of Alan Greenspan that he can make a comment like that, that will be cited by both sides as a complete defense of their position. But, Undersecretary Shapiro, go ahead.

MR. SHAPIRO: Yes, I think Bob Litan is right that whoever is elected, there will be modification of their plans. There has to be, because conditions change, not only economic conditions, but political conditions, as well. Either candidate, if elected, will be dealing with a very closely divided Congress, and will have to seek consensus from both parties, from members of both parties. So their plans will certainly be modified as President Clinton's were, as President Bush's were, as even on the margins President Reagan's were, I suppose, less so.

However, the plans that they offer are very important in order to judge the basic disposition, the basic values, the basic direction that they will take the country, or take the

government within the context of modifications that reflect reality. And there is a basic difference here. The vice president, as Alan Greenspan has endorsed, would save nearly three-quarters of the surplus, and use the rest for spending, a little more spending than Governor Bush, and significantly less tax cuts.

The basic difference, the vice president has proposed \$750 billion in additional spending, the governor has proposed, if you include the missile defense, about \$600 billion in additional spending. They use it differently, and you can make judgments about their priorities. But, that's not the large difference, the chasm. The chasm is between a \$2 trillion tax cut, and a \$500 billion tax cut, and taking \$950 out of Social Security revenue stream and putting it into private accounts, and not doing that. Those are the basic differences. And it is a difference between saving and no saving.

MR. MURRAY: Let's open it up a little bit here. If you folks want to continue this numbers debate, we can do it, I guarantee you. If you want to go someplace else, we can do that as well. So why don't we take questions from the audience, starting right here. Please identify yourself before asking your question, and you can address the whole panel, and even if you don't address the whole panel, there's a danger that they will all respond.

QUESTION: I'm Gil Bamford with Toyota. And I came interested in hearing more about what technology and energy, how the linkage is there. I think we have one outstanding example of where technology and the government has worked together, I refer to a very good article in the New Republic recently, that takes to task the administration over the PNGV, which is the project for new generation vehicle. The article summarizes it and essentially says, this is a failed policy. I'd like everybody's comments as to how government and technology can link up, and how does it work best.

MR. GLASSMAN: Can I respond to that. This PNGV thing is really a great example of the kind of involvements that government shouldn't have in the market. So far \$1.6 billion has been given to the big 3 U.S. auto makers, well, I guess it's big 2 plus Daimler-Chrysler now, to develop cars that get lower gas mileage. And what have they done? Just about nothing. They have not gone anywhere with it. And this has actually been a fairly common thread within the Clinton administration for the last eight years. Part of it is giving out money that has political effects. But, I think the free markets tend to solve these problems a whole lot better than shoveling money, especially at big corporations. And I think that's a mistake.

Now, can I quickly respond to what Bob said, because he said something about my stock market figures?

MR. MURRAY: If I said no, would you stop?

MR. GLASSMAN: No, I wouldn't. It's a very dicey thing to try to say, the stock market went down because of this or because of that. And I don't really intend to be saying that. But, I am saying that a new element has been added, and was added in the spring. And you know what, I think really the damage has already been done.

You know, some people say, and I kind of agree with this, that the most important thing that Ronald Reagan did symbolically, and maybe substantively, that sort of started the ball rolling was the firing of the air traffic controllers. By the same token that sort of began this era, obviously not in substance, but it was a very important thing that he did.

I think in a way that the suit against Microsoft could be sort of the end of this parenthesis. And there certainly is a kind of pressure, an overhang on the markets as a result of that. Whatever happens specifically in the Microsoft suit, and I think it's going to end up being overturned.

MR. MURRAY: Undersecretary Shapiro, do you want to respond to the question, because I do think these sort of programs are pet projects of the vice president, the car program.

MR. SHAPIRO: Well, the vice president has been committed for as long as he has been in public service, and in a very deep way, to improving the environment. And you cannot improve the environment without addressing the automobile. And there are a whole series of approaches to that. One was the support for technological development for next generation car.

More important and really the center of his approach to technology, however, is a significant increase in support for basic research and development, which is a traditional element of government action, again, because it represents a market failure, and expansion and reform of the research and experimentation tax credit, something that the governor also supports.

That's the center of it. The fact is, technological advance has come primarily from the private sector. It often builds on basic research, which has been supported by the public sector. And that's the basic approach that the vice president would follow.

MR. GLASSMAN: I certainly didn't mean to say -- I'm all in favor of basic research, because of market failure. By the way, market failure -- I don't think that education is a good example of market failure. I think education in America today is a good example of government failure. And we need more markets, not fewer markets involved.

MR. MURRAY: But, you were getting ready to say that there is a big difference between funding the kind of research that, after all, gave us the Internet, and funding the car program. Is the line all that clear to you?

SEN. BENNETT: First, I have to say this, I think I'm the only person in the room that owns an ULV, ultra light vehicle. I get 70 miles to the gallon. I tried to buy a Toyota, but Honda was in the market first. I'm sorry. I've got a Honda Insight that gets 70 miles to the gallon. And I didn't do it to make Al Gore happy. As a matter of fact, I paused about buying this car when I thought that it might make Al Gore happy.

Here's what happens with respect to basic research that demonstrates a major difference between the governor and the vice president. Let me take the most obvious place where it happens, and that is in medical research, biotech. I am one of the Republicans that made the commitment, separate and apart from the vice president and the administration, that we were

going to double the budget of NIH over a five-year period. And we're on track to do that. We are spending more money in basic research than the administration asked us to. Now, when you go out to Rockville and the area around NIH, and look at what's happening this is what you find.

You start out with the basic research that is done by the government, pure research that nobody else can afford to do. As I say, we Republicans are doubling that kind of effort. However, once that basic research is done, it goes into the hands of the pharmaceutical companies, and the biotech companies who turn the research into products. And that's an area where the government does not belong. That's an area where you say, okay, you guys understand the market, you understand what the customers need, and you understand how to take the basic research and turn it into a product that will work.

And that's where the governor would say, hands off these companies, let them go, give them the research, and reap the benefits of the products. And that's where this administration, and particularly if I may the first lady running to become a member of the body in which I sit, demonizes these big companies, demonizes their research, demonizes the profits they make, which they plow back into more research, and the vice president has started to do it. You notice that he's attacking big oil, and big pharmacies, and big HMOs, in an effort to scare everybody that if somehow the government makes all of them little oil, and little pharmaceutical companies, and little HMOs, things will get better.

They won't get better. You will not have the kind of scientific breakthroughs if you do not have the accumulated capital that is represented in these companies that are being demonized, and the same thing happens in auto companies. I don't know what Honda did to produce the Insight, but I don't think they got any money from the U.S. government.

MR. MURRAY: Let me just ask if we have anybody here from big pharmaceuticals, big oil, any of the bigs, big polluters?

Is there another question from out here?

QUESTION: Al Millikan, Washington Independent Writers. Has anyone given thought and speculation to what might actually happen if Ralph Nader or Pat Buchanan would gain power? It seems like Ralph Nader's presence in particular is affecting states in the Northwest, which otherwise might not be so much in doubt.

MR. MURRAY: Who would like to grab that one?

MR. LITAN: I'm not giving any thought to either one of them gaining power, because neither one of them will.

MR. SHAPIRO: That's probably the only thing we'll all agree on, in this panel.

MR. MURRAY: All right. Right here.

QUESTION: I'm Bob Hershey, I'm a consulting engineer. One of the issues that's been mentioned is technology and privacy, which brings to mind the export controls on encryption, which had been in effect up until about a year ago. And also, other export that's being restricted, which could be an area for companies to make profits, and get our technology in other countries. And I wonder if people can address that.

SEN. BENNETT: I'm doing too much talking, but I'm the one who pushed through the bill that changed that, so if anybody is interested I'll give you the background on it. That's a paradigm that demonstrates the speed with which the new economy is working. We had export controls on super computers, because we said you could use a super computer to do a fire control system, to do command control in the military, that it's a very important part of national security. And originally you had a two-year waiting period. And then the Clinton administration changed it to six months. My amendment, along with Harry Reid of Nevada, this was a bipartisan kind of thing, changed that to 60 days, and we would have preferred 30.

And for people who said, yes, but you're allowing the Chinese or whatever to get hold of these super computers, I pointed out on the floor that the level that was prohibited under the six month thing was below the level that you could obtain if you went to Toys 'R' Us and bought a Sony Playstation 2.

MR. SHAPIRO: This is certainly a case where your opponents are found in both parties. This is not a very clear partisan issue.

SEN. BENNETT: That's right. But, I'm confident that the Bush administration would go along with intelligent analysis of the export controls, because the numbers are just overwhelmingly obvious here. The Clinton administration backed my amendment. As I say, it was a joint amendment with Harry Reid, the Democratic Whip. And the thing passed overwhelmingly, finally.

Now, for those that get nervous about it, and say gee, you are now in the thousands of MTOPS. I memorized it, it stands for millions of theoretical operations per second, aren't you proud of me that I can remember that. They say, there are thousands of millions of operations per second that are in these computers that you're exporting, and they could be used to do all these things, and aren't we giving away our super computer capability, and yes, you could use a Sony Playstation 2 to do all those kinds of things. There's more computing power on your laptop than there is in the Shuttle. But, the super computers in America's labs are something like 73 million MTOPS. So we still have our edge, and the controls still are there.

MR. SHAPIRO: This is not a partisan issue, it's largely, in fact, a technical issue of weighing national security and technical advance issues and criteria. And as Bob Bennett said, he was joined by the administration. He has joined the administration in other reforms in this area. So I don't see any particular difference. I do want to make one point, and that is with respect to Bob's comment about the development of new products by private industry, and by the market.

That's absolutely correct. The fundamental resource besides genius that they need is access to capital, low interest rates. And the fundamental foundation of low interest rates is fiscal responsibility, saving most of that surplus. Again, it returns to the basic divide between these candidates, and it's role in whether or not we really are going to have prosperity over the next four years.

MR. MURRAY: Just before we leave the technology issue, what is fascinating about so many of these issues is that they don't cut clearly across partisan lines. That's not to say they aren't hugely controversial.

Privacy is a great example. Some of the advocates, the strongest advocates of tough privacy legislation are on the Republican side, Senator Shelby in the Senate, Congressman Barton in the House. You sort of have the libertarian right and the liberal left joining force on many of these issues. We at the Wall Street Journal interviewed Governor Bush and privacy was the one issue where he sounded like he would be in favor of quite tough legislation to protect individual's privacy.

Let me go to Bob Litan.

MR. LITAN: I just have a quick technology point. It goes back to Gil Bamford's question, and this is an area where actually I'm going to agree with you, Jim, back on the PNG, the private car initiative. That was an instance where clearly the private sector, led by Toyota and Honda, basically whipped the government. And both cars now get 70 to 90 miles per gallon, and they're leading the way.

But, let me point out two things. Number one, basic research is like drilling for oil. Not everything you do works out. This is a case, this initiative, where I think they hit a dry hole. But, there are a lot of basic R&D, including biomedical, where you don't succeed. But, you need to put the money there in order to run the experiment. And I believe this is correct, that if you exclude the enormous increase that we have in biomedical and just look at the basic research that we have in the rest of the federal budget, don't count military, look at your hard physics, chemistry and so forth, you will find, based at least on the conversations that I have with scientists, that our support in real dollars measured over the last 10 or 15 years is down, not up. And one reason for that has been the budget deficit. So we haven't had the money.

I think that one of the challenges for the next administration is to put more money into basic R&D that is not necessarily health, because a lot of these fancy benefits we see, of the Internet age were born in laboratories 15 years ago, the satellites, the Internet technology and so forth, that are all now being commercialized. And I worry that we have, essentially a bare shelf up there, going into the next five years, and we need to restock it.

MR. MURRAY: Bob, do have any idea about why that is? I mean, you've had this extraordinary commitment to double the NIH budget, and then Vice President Gore stood up at the contention and said he was going to double it yet again. And you don't get anything like that commitment to deal with electronic technology.

MR. RIVLIN: I think it's because although NIH research is basic, it seems somehow related to health. And the NIH has been actually quite explicit in relating it to health. And everybody gets it. And they don't quite get it with the physical, the chemistry and so forth.

MR. MURRAY: And, Senator, when they come up and say we want to do the same thing with the NSF, or whatever mechanism is going to fund it, are you going to be there behind increasing that funding, as well?

SEN. BENNETT: I remember my fight with Dale Bumpers, whom I considered a very good friend, over the super collider. And this administration said, let's kill the super collider. And it would have been an enormous commitment to very, very basic science on the physics side, and I was voting for it in the midst of a \$200 billion deficit, for exactly the reason that, again, I'm a businessman who says, you solve your deficit problem by growing the business. You don't solve your deficit problem by putting on the green eye shade, you solve your deficit problem by growing the business. Yes, there are areas where you cut spending, and I've certainly voted to do that.

But, again, that's been the history of George W. Bush and his whole attitude, it's not been, let's just put the government in a box and figure all the numbers, it's how can we do things that will make everything grow. And I think the super collider would have been an enormously beneficial return. And I'm sorry the Clinton administration helped kill it.

MR. MURRAY: Alice Rivlin, let me ask you about that point, because one of the extraordinary things about this election is that we have a Democratic candidate who stands up there and the first words out his mouth at the debate are, I'm going to cut the deficit, I'm going to cut the debt, I'm going to eliminate the debt by the year 2012. We at the Wall Street Journal interviewed him about economic policy and said, what are you going to do if we have a recession, he said, I'm going to cut it even more. The recession seems to me the time we should really make the tough choices. So everything we were taught about Keynesian economics through many Democratic administrations seems to have gone out the window. What has happened here?

MR. RIVLIN: I don't know about his answer on the recession, I might not have thought he thought that one through. But, fortunately, we're not in a recession. I think part of the reason that we are not after nine years of growth is that we did look ahead, and make sure that we had a very responsible fiscal policy. It was not obvious in 1992 that cutting the deficit was good short-run policy. The economy was beginning to come out of the recession, as Senator Bennett said. But, there were a great many, many of them Republicans, who said if you pass this Clinton budget that cuts the deficit, you're going to throw the economy back into recession. Fortunately, they didn't win that vote, that very close vote. And the good long-run fiscal policy did prevail.

But, right now there's no question, bringing down the debt is good long-run policy, but it is also good short-run policy. It means that you do have a restraining effect on the economy from the federal budget. And although we all hope the economy can grow faster and faster, there is some limit. And right now it seems very unlikely to me that you could have the economy

growing much faster than it is growing without starting inflation, which is exactly what the Federal Reserve is worried about, and why a loose fiscal policy right now would be a mistake.

MR. MURRAY: But now, if Lawrence Lindsay, the governor's advisor on many of these fiscal affairs, were here right now, what he would say in answer to your point is, well, look, we don't get elected until November, we don't take office until January, it will take the first year to get our tax program in place. The tax cut probably won't happen until January of the year 2002. And who's to say the economy is going to be doing so great then?

MR. RIVLIN: Well, if Lindsay is projecting a recession for 2002, so be it. I don't think that that's likely. And I think the way to ward that off is not to have an irresponsible fiscal policy, either happening or projected.

MR. MURRAY: Let me just ask, and I don't want to dwell on --

SEN. BENNETT: Nobody is in favor of an irresponsible fiscal policy, by definition.

MR. RIVLIN: By definition, but you need to have the numbers add up. And when the governor says he isn't worried about how the transition costs on Social Security are going to be paid for --

SEN. BENNETT: I think he's very worried about it.

MR. RIVLIN: -- and when the numbers don't quite -- well, he hasn't told us. And when the numbers don't quite add up, then I get worried.

MR. MURRAY: Okay. We have another question out here from the audience.

QUESTION: This is for Undersecretary Shapiro. I just wanted to know if I understood you correctly to say that the administration is opposed to repealing the telephone excise tax?

MR. SHAPIRO: Pardon me?

MR. MURRAY: Is the administration opposed to repealing the telephone excise tax? Was that your point?

MR. SHAPIRO: It is not part of the governor's -- it is part of the governor's plan, it's not part of the vice president's plan. So the vice president is opposed to repealing the excise tax.

QUESTION: So, the vice president is opposed to repealing the excise tax?

MR. SHAPIRO: It's not part of his plan, correct.

QUESTION: And did I also understand you to say that it's your understanding that the money from the excise tax goes to help poor people get telephone service?

MR. SHAPIRO: It is part of -- it is my understanding, and if I'm wrong I'll be happy to be corrected on it, but it's my understanding, it's not an area in which I'm an expert, but that it is used as part of providing universal access. If that's not true, I'll stand corrected.

QUESTION: If I could, just for the record, correct you, that it goes into general revenue as do most excise taxes. So, it's not helping poor people get phone service. And, in fact, it's helping them not get phone service by raising their costs.

MR. GLASSMAN: This is the Spanish Civil War -- Spanish-American War, even farther back than the Spanish Civil War, the Spanish-American War tax, and it goes to general revenues. It's that other tax, which some people call the Gore tax, that goes to the e-rate.

MR. SHAPIRO: Right, which goes to provide the access.

MR. MURRAY: You're from the big telecommunications companies, I'll bet.

Anybody else?

MS. RIVLIN: Can I try a question?

MR. MURRAY: Yes. We'll get to you. Go ahead.

MS. RIVLIN: I wanted to bring the conversation to something that nobody has really talked about very much. We're all very excited about this wonderful economy, and it is doing better than anybody expected. But there are a lot of people left out by it and left behind by it, and places left behind by it, centers of cities and rural poverty areas. But particularly over the '70s and '80s, people at the low end of the income distribution were falling behind. Now, they haven't fallen further behind in the '90s because the very tight labor markets have meant that wages have been going up all across the board. But it's not a lot of comfort if you're at the low end of the distribution to say, well, things aren't getting worse for you. They did for a while, but they're not getting worse anymore.

I would like to hear both representatives speak to the question of what their candidate would do to make sure that the good times include more people, and that so many are not left behind.

MR. MURRAY: Undersecretary.

SENATOR BENNETT: Do you want me to go first?

MR. MURRAY: Yes, Senator.

SENATOR BENNETT: Well, the point I made about the top 1 percent is also true about the bottom, that is, it is fluid. You are not locked in the American economy into one quintile or percentile, whatever, the way you are in a more rigid kind of class economy, say, some of the economies in Europe. I've been in the top 1 percent. I've been in the bottom one percent, too.

And within a few years of each other. The reason that someone has a problem in this economy is not because of a government policy. The income gap is a skill gap. The people who are at the bottom are at the bottom because they don't have the skills. The jobs are going begging for people who have the skills. So the challenge of closing that gap is the challenge of closing the skills which brings us to education. And we come now to the question of who has the better education record, and who has the better education plan, and we could spend the rest of the debate time shouting numbers back and forth at each other. But I would obviously turn to the record in Texas of the governor and what has happened under his stewardship of the education system in Texas, particularly with those that are the bottom of the skill gap. And if you look at those at the bottom of the skill gap in Texas, you can say that George W. Bush has been good for them. And I think that's an indication that a George W. Bush presidency would see efforts to close the skill gap on the part of the people who are at the bottom economically, and if the skill gap closes, the income gap will follow.

MR. MURRAY: Undersecretary Shapiro.

MR. SHAPIRO: If there is a skill gap, the skill gap exists not only with respect to children, and both candidates have extensive commitments and extensive programs for affecting access to education and the quality of public education in America with clear differences. But in one area, there is no comparability. The skill gap exists in the current labor force as well. We have to think about the current labor force as well as thinking about children. Of course we have to think about educating and training children. We also have to think about an affirmative effort greater than the market currently provides to close the skill gap among those who are already in the labor force. It exists today in the labor force. The market has been there. It's not been able to fully address it. We know that there are certain areas, certain groups. There are, here I come back with the same concept, it is also recognized classically in economics that there is a market failure in training. It's very easy to understand why, a firm makes an investment in training a worker. That makes it easier for that worker to leave and get another job elsewhere. Consequently, firms have a systematic disincentive to provide as much training as might be profitable for the entire economy. We need, and Vice President Gore has proposed a significantly expanded commitment to provide access in the private sector, not public training programs, but in the private sector, access to skill training across the labor force.

MR. MURRAY: But there is a fundamental difference here. It's all fine for you to tell us you're for education. There is a fundamental difference here on the question of choice in education. Does choice in education help people get off the bottom rung, or does it make the bottom rung an even worse place to be?

MR. SHAPIRO: That's not the divide. The divide is between public school choice, and choice that also involves the private system.

MR. MURRAY: But choice doesn't mean much if it doesn't involve the private sector.

MR. SHAPIRO: That's not true. The charter school movement, which has been a vital part of public school choice, has successes across the country. It has been consistently pushed by this administration and by the vice president. The fundamental issue is whether public funds

should go to support private schools as well as public schools, and on this there is a fundamental difference.

MR. MURRAY: Senator.

SENATOR BENNETT: Repeat again, the numbers, the public schools make \$2,000 every time they get rid of somebody that would normally cost them \$7,000. They get rid of them, get \$5,000. I mean, it's the difference between theory and reality, and let's look at reality. Who is driving the voucher movement in the United States primarily in terms of experience? And the answer is a woman in Milwaukee named Polly Williams, who is a liberal Democrat, member of the state legislature, a woman of color, who says my children are being disadvantaged -- that's a polite word -- damaged by being held captive in the public school system. And she made the fight for allowing an alternative for her children, for black children in the inner city, for disadvantaged children to get an opportunity to go someplace other than the public schools. And there was an enormous outcry. There was all of the arguments that you have made that you're damaging public schools, et cetera, et cetera, et cetera. You run for school board in Milwaukee now, you run for any office, including mayor in Milwaukee, you'd better be in favor of vouchers because the whole community has embraced it. And the people who are the strongest for it are the people in the minorities.

And you look here in the District of Columbia, the polls show that it is the minority parents who are saying, we've got to get our kids something better than they're getting in the public schools. And when you say, no, you don't want to take money out of the public school system and do it for private schools, what did we do with the GI Bill? With the GI Bill, we said, the money follows the student. And we don't care if the student takes his money and goes to Notre Dame and becomes a priest, or goes to Brigham Young University and learns about the Book of Mormon, we don't care. The student makes the choice. We are funding students, and we'll let the students take their money in the free market system. And we now look back on the GI Bill and say, that's the most magnificent thing we did after the Second World War.

Why can't we take the same position with respect to kids, which they're doing in Texas, they're doing it in Arizona, they're doing it in a number of states where they say, the money follows the kid, and they find that when the kid has money, the kid has power, and can then affect the kind of education he gets. When the money goes to the school system, the kid has now power, and he has to put up with whatever happens to him.

MR. SHAPIRO: This is as if the voucher they're going to get is going to be enough to send your kid to St. Alban's, that's not true. The fact is that the vouchers --

SENATOR BENNETT: Go to Milwaukee. They're not going to St. Alban's.

MR. SHAPIRO: -- are not sufficient to send a child to most private schools. There will be some parents who are able to add to that and send their children to private schools, most will not. Our focus ought to be on improving the public school system, and using all the resources that parents and homeowners provide for the public school system in the public school system.

MR. GLASSMAN: I just want to address Alice's question more directly. I mean, I think the education debate is --

MR. MURRAY: It's been a long time. Remind us of the question.

MR. GLASSMAN: Her question was, we've had this prosperity, but are you concerned that it has not been broad. And I think it actually has been pretty broad. I mean, we just saw figures that show that African Americans are the group that's had the biggest increase in income. But, in one area it has not been broad, and really it concerns me as the author of a book about the stock market. It is this, that lots and lots of Americans have zero wealth. They have not participated in this rise in the value in the stock market. They have no wealth at all. They have no assets at all.

And one of the things that George W. Bush has done, I think a very poor job of explaining, one of the many things, is how his Social Security plan not only -- I don't care about this business about saving Social Security, I think it's so complicated, the actuarial details I leave to other people. But he has this neat idea for getting wealth in the hands of people who are poor, who can't afford it right now. He says, you know, take 2 percentage points out of the payroll tax, and use that so you can have your own private account that you own, that's your own wealth, that you can pass on to your kids, or do whatever you want with it.

Now, I also, by the way, like Vice President Gore's idea. The only problem with his idea is, essentially, it's tax subsidies where people who are really poor, or working poor, so-called, are not going to be able to develop, not as much, not anywhere near as much.

MR. SHAPIRO: That's true. They get a positive subsidy, in fact.

MR. GLASSMAN: That's fine. They get a positive subsidy, maybe I don't understand it. I think both of these plans really do something to address a huge problem in America, which is a lack of wealth. And it would be great to see, whoever gets elected, is if one of these two plans were actually enacted. And especially young people in America, who don't have enough money to put away into savings accounts, and investment accounts.

MR. MURRAY: A quick comment, Bob Litan?

MR. LITAN: Yes. We're in a bipartisan mood here. Jim has said that there are two good ideas. I want to go back to education, and I want to suggest rather heretically that maybe we don't have to make an either-or choice between these two plans. Namely, choice --

MS. RIVLIN: Litan for President?

MR. LITAN: Well, no, I'm not running for anything. I'm just suggesting maybe to Senator Bennett's colleagues, that you can have choice, and I fully agree with the arguments you made, especially to people who are locked in the middle of inner cities and have no choice. It's hard for us to deny them that choice. I think, in fact, that makes a good argument, it's immoral for us to deny them choice to improve welfare for their kids.

On the other hand, Bob Shapiro is right that \$2,000 is not enough to effectively get them out. And so, I think work ought to be done to see if we can craft more money to make those choices viable. And, at the same time, I think the vice president is right that, meanwhile, there is a concern about those schools left behind. A lot of them are in terrible condition, and they're here in D.C., just dilapidated condition. And they need to be improved. And so, I think if we could just get off the philosophical divide, and just simply say, let's help our kids, let them out if they have choice, but in the meantime let's commit money to improve our public schools, I think there's a win/win here.

MR. MURRAY: This is what they're learning on the Hill right now, all partisan differences can be bridged with enough money.

SENATOR BENNETT: Let me just quickly, did you read Robert Reich in the Wall Street Journal on this issue? I disagreed with Robert Reich on virtually every issue while he was Secretary of Labor. And I read that piece in the Journal, and I thought, here's a liberal who gets it. And that's the way out that you have just described.

MR. MURRAY: A long, long time ago, I promised this gentleman right here a question. If you can remember what your question was.

QUESTION: I would like to ask a question about trade deficit. It is believed that current account deficit could be a significant threat to the value of the dollar, and then to the economy. What are the positions of each side? Thank you.

MR. SHAPIRO: The trade deficit is too large, very large and too large, is driven primarily by the enormous prosperity of the American economy. That is, U.S. demand for goods, everything we produce and goods that are being produced abroad, and the depressed conditions for many years now improving slightly, somewhat, in our major exporting partners. Fundamental fact behind the trade deficit is that we are growing, we have been growing much faster than our trading partners. And that's what drives the trade deficit.

Having said that, the proper solution to it, there are two fundamental parts, I think. One is to continue to do what we can to promote prosperity abroad, and prosperity in our trading partners. We do this through international institutions. We have done it at times through interest rate policy as well at the time of the Asian financial crisis.

The second is to do everything we can to maintain U.S. national saving. The problem with the trade deficit is not the deficit itself. It's the financing of the trade deficit, and all the funds that we have to borrow from abroad. Part of the funds which are available come from government saving. It brings us back to the fundamental issue in economic policy between these two candidates. And the trade deficit is another very important reason. And the threat to U.S. prosperity that would come from a sharp fall in the value of the dollar, and the Federal Reserve's likely response to that, we must maintain national saving. We cannot do that if we spend over \$2 trillion on tax cuts and another trillion on privatization plans for Social Security.

MR. MURRAY: Senator Bennett.

SENATOR BENNETT: Well, you're assuming that the privatization plan, and I don't like that description of it because we're not privatizing Social Security, we're doing exactly what Jim Glassman was talking about, privatizing Social Security would be abolishing it and saying, here's your money, go do with it what you want. No. We're saying, here is a choice you can make if you feel competent to make it to develop wealth for yourself. And you're assuming that that wealth is not part of savings when you're making your calculations. Of course that's increasing savings. I don't have a savings account, but I've got a lot of stocks and bonds.

MR. MURRAY: And the \$2 trillion tax cut?

SENATOR BENNETT: And the \$2 trillion tax cuts means if I want to still go out and buy some more stocks and thereby increase my wealth in that situation, I can do it, instead of having the government make the decision for me.

MR. MURRAY: Well, thank you very much, both our presenters, it's all very clear now. And thanks to our distinguished panelists, and thanks to all of you for coming here today and sitting through this.

[END OF EVENT.]