

Civil Discourse and A Grand Bargain  
Lee Hamilton Lecture Series with  
The Honorable James A. Baker, III

Jane Harman:

Right on time. Good afternoon. I'm Jane Harman, president and CEO of the Wilson Center. I got back at 3:00 a.m. this morning from the foreign policy debate at Lynn University in Boca Raton. Did any of you not watch it?

[laughter]

It was, in my view, the best of the three debates: substantive, firm, but civil and not a game of political gotcha, at last. One of the key points that both candidates made, and I think we all understand this, is that our fiscal health is not only a domestic concern, but also a huge foreign policy issue. So let's think of this discussion as the foreign policy debate sequel. And it just so happens that one of the most qualified people to put our economy in this larger context is today's speaker, my friend, Jim Baker. In a moment, Jim will talk about a subject he knows a lot about, the pressing need for civil discourse and a grand bargain. The link between our economy and our role in the world is a topic I'm personally passionate about. As a Blue Dog, the group of Democrats in Congress that strongly believe in fiscal responsibility, I made the tough vote in the '90s that led to a balanced budget and five years of prosperity. Sadly, at its height there were 54 Blue Dogs. There are now 24, and going down.

Both Jim and I are also part of a bipartisan group co-chaired by former senators Sam Nunn and Pete Domenici called "Strengthening of America," which seeks to raise public consciousness of the country's growing and unsustainable debt. It's great that Jim, who is one of the shrewdest negotiators in U.S. history, is taking on this critical issue. My colleague, our colleague, Aaron David Miller, the guy in the -- in the green shirt right here, who has worked with many secretaries of state, describes Jim as the best negotiator and the most effective top diplomat since Henry Kissinger, whom Aaron didn't work for. When Baker walked into the room, Aaron says, people were poised at the edge of their chairs. So, are you poised, everybody? Are you at the edge of your chairs? Aaron?

Jim's long and impressive career in public service -- I'm not sure when it began, but in 1975 he was the undersecretary of commerce under President Ford. And by the way, two years later my husband, Sidney Harman, held that job. Under President Ronald Regan, Jim served both as White House chief of staff and secretary of the treasury. And under George H. Bush he was secretary of state, and White House chief of staff, and senior counselor. I think I've left a few things out. Over the past two decades, he also has held a variety of other public roles including envoy of U.N. Secretary General Kofi Annan to the conflict over Western Sahara, senior presidential envoy for President George W. Bush on Iraq, co-chair of the Iraq Study Group with my predecessor, Lee Hamilton.

Jim just told us that he spent a lot of time in the office I now occupy, and I thought that -- as a member of Congress at the time that the Iraq Study Group report was sobering, very important, and enormously influential in Congress. Jim also was co-chair of the National War Powers Commission with the late Secretary of State Warren Christopher in 2008. Chris was someone I knew well, too, as a citizen of California. Jim -- finally, Jim is part of the Wilson Center family. He and our current board chairman, Joe Gildenhorn, Ambassador Joe Gildenhorn, who's here with wife Alma Gildenhorn, a member of our council, is one of two people outside our staff who have done the most for this place, period. Jim served on our board for 11 years. He thinks maybe it was more, but I have here from 1977 to -- it's a lot more than 11 years -- to 1998.

[laughter]

Jim Baker:

I thought that was more than 11.

Jane Harman:

We don't do math very well here. Whoops. Who wrote this? I think this makes him the oldest man in history.

[laughter]

The longest-serving member, and he was the only person who served in every position on the Wilson Board, which is a presidentially-appointed board. In 2000, he was the recipient of our award for public service and, in 2002, the dinner chair of our Houston Awards Dinner. Here is a

little story about his negotiating skills that relates to me. I ran into him at the alfalfa dinner last year in 2011. And he pulled me aside and he said, "Jane, you really need to take the Wilson job." So, I said, "Jim, guess what? I've already decided to accept it."

[laughter]

The convening space of the Wilson Center is a lot different from the campaign trail or the Hill, where there is currently, to paraphrase President Wilson, a greater supply of heat than light. There are very few people who can rise about the heat and shine light like Jim. His talent is legendary and we are so excited that he's once again back home at the Wilson Center. Please join me in welcoming Secretary Jim Baker.

[applause]

Jim Baker:

Well, thank you very much, Jane. And thank you, ladies and gentlemen. It's good to be back home at the Wilson Center and I do think that that time period, 1977 to 1998, is almost 22 years. I may be wrong. Anyway, it's a pleasure to be here. And thank you too, Jane, for continuing and building upon the thoughtful and energetic work that Lee Hamilton displayed for so many years here as head of the Center. I don't have to tell this audience that this Center is one of the preeminent institutions for meaningful discussion in our country. And it's a particular pleasure for me to take part in this lecture series which is named for Lee, who of course was a genuine American statesman. I think that Lee's record of public service symbolizes the constructive dialogue and the title of this series, Democracy and Civil Discourse. Few people that I'm aware of have advanced the cause of consensus building with both common-sense words and practical deeds as Lee Hamilton did, and I witnessed this firsthand when he was leading a Foreign Affairs Committee of the House, and I was a cabinet member for both President Ronald Reagan and George H.W. Bush. And I later witnessed that dedication when we worked together on those commissions that Jane cited in her introduction.

Lee, I found, always focuses on the big-picture goal of solving problems rather than allowing himself to get caught up in the zero-sum game of brand politics that seems to

rule our government today. And that bipartisan approach, I think, was quite evident when we co-chaired the Iraq Study Group. At the height -- that was the very height of a very difficult period of our involvement in that country, 2006, 2007. And it was a very diverse group of people, when you consider that we had Ed Meese on the right and Vernon Jordan on the left. But political ideology never divided us. Lee's leadership, I think, was critical to the group's ability to reach a final consensus on the way forward for Iraq. And that way forward, by the way, was the only way forward that had any bipartisan support at the time, or since. Six years later -- I want to share with you a little secret -- despite the enormous challenges that confronted the Iraq Study Group, we were able to reach some rather difficult compromises that the entire panel supported. We never had a vote in which we had anybody dissent. There was not one single minority opinion in that entire report.

We came damn close to not ever getting a report because it was very, very tough, but we didn't have any conclusion that drew a minority report. But toward the end, there was one big disagreement, between Lee and me, that had to be decided by a coin flip. When it came time to publish the final report after it had been edited and agreed upon by all the group members, we had an irresolvable conflict. The question was what section of the report were we going to put first? As you might expect, I was pushing for the section that I had largely authored, which was an external approach that focused on building international consensus to support the way forward in Iraq. And Lee of course was pushing for the section that he largely wrote, which was an internal approach that would require helping the Iraqis help themselves. Now, with a deadline approaching, we couldn't get agreement on this and so we flipped the coin. My external approach was put first, and that doesn't prove much except it's better to lucky than good.

[laughter]

Now, let me say as difficult as that Iraq problem was for us six years ago, we face, I think, even greater challenges today, and this audience is quite aware of those: reducing unemployment, restoring our national economy, addressing that tremendous, difficult, and dangerous, ticking debt bomb that's out there. And I'm going to be speaking to you today more -- I was telling Aaron at -- we were having a

bite of lunch, earlier. I'm going to be speaking to you more today as a former White House chief of staff and Treasury secretary than I am as a former secretary of state. Solving the problems that confront this country today is going to require a hell of a lot more than a coin toss because if we don't get it right our country's future could be -- could be dark, and could be plenty dark. And so, I want to in a moment discuss what I think the principles should be, and the need for -- principles should be of a grand bargain, and the need for a grand bargain between the parties because I don't see any other way out. But before I do that, I want to mention something that I think is even more -- an even more grave problem for the country than that -- than this economic and fiscal dysfunction we have, and that's our political dysfunction.

We don't function, in my opinion, the way the Founders intended, anymore. We sure don't function the way we did in the 12 years that I was up here in Washington or even the 14 years if you count the service to Jerry Ford. And I think it's really important that we somehow find a way to restore comity -- that's C-O-M-I-T-Y, not C-O-M-E-D-Y. We got plenty of the latter, but we need to restore comity to our political debate. Many of us here today understand that politics is a contact sport. Jane's played it, I've played it. We've played it and we've got the bruises to show for it. But in recent years, driven by that 24/7 news cycle that thrives on controversy, Washington has become a place where "bipartisanship" and "compromise" are dirty words. Now, that's tragic because that's not the way the Founders intended that we would govern. Bipartisanship remains as critical as ever. Why do I say that? Because bipartisanship facilitates the passage of politically difficult, but necessary, legislation. And bipartisanship fosters continuity of government, by reducing the chance that policies will be reversed when the other party comes to power.

Historically, Americans have embraced bipartisanship. Historically, Americans have put aside many of their political differences, and come together to resolve difficult issues. That's the way the Framers of our constitution intended the system to work. After all, when you look at the creation of the Congress, compromise was at the very heart of that. The establishment of a Senate with equal representation among the states, and a House with proportion representation based on a state's population,

all of that was a grand bargain. It was a grand bargain between the agrarian states and the urban states, or between the big states and the small states. Since then, we've tended to work -- America has tended to work best when its leaders reach across the aisle to build support for consensus. I'd like to take you back for one minute to a time when I was secretary of state -- 1989. February, 1989, I had just come into office and I think we saw an example of bipartisanship, back there in the early months of the George H.W. Bush administration that would serve us well to remember today. Lee, by the way, was very supportive of what we worked out. He was at the time, I think either chairman of House Foreign Affairs or close to being -- becoming chairman. But the newly elected President Bush wanted to establish a better working relationship with Congress. And one place where he thought he could end the acrimony between Republicans and Democrats was in the nation's approach to the problems of Central America.

Those of you who were around at that time may remember that the Central American wars, Nicaragua and El Salvador, were the Holy Grail for the left in this country and the Holy Grail for the right in this country. We felt that if we could take this issue out of domestic politics, we could easily solve for the foreign policy problems that were involved. So what did we do? Well, we went up to the Hill and we expressed an interested in trying to negotiate some sort of a solution, some sort of a grand bargain, if you will, to the problems of Central America. And we got an agreement between Republicans and Democrats calling for an election in Nicaragua that both sides agreed they would respect. When the Sandinistas were voted out of power much to their surprise, and frankly also to our surprise, they honored the election results in large part thanks to the effort of former President Jimmy Carter, with whom our Republican administration was working very closely at the time. In the aftermath, those international disputes were taken out of our domestic American politics, and that allowed us to work on other, more important issues. I've often told people that my first real negotiation as secretary of state was not with a foreign power. It was with the Congress of the United States.

[laughter]

And that happens day after day in this town if governing is going as -- according to the way it should go. History is full of examples of the American system, I think, working as it was intended to work. And again, over a bite of lunch, Jane and I were talking about how Ronald Regan and Tip O'Neill used to work together. They didn't agree on anything. On -- from a policy standpoint, they fought like hell all day long. But they would get to -- you know, most people, when he came into office, thought Ronald Reagan was a right-wing nut, a conservative ideologue who was -- who just didn't have any give at all. Guess what? He was one of the most pragmatic people you have ever known, even though he did hold his convictions as strongly as any politician I've ever seen. But he understood that history judges our presidents by their achievements. Yes, words do matter, but results are what really matter. And I can't tell you how many times I would be sitting there in the Oval with President Reagan, just the two of us, in the four years-plus that I was his chief of staff. And he would say, "Jim, I'd rather get 80 percent of what I want than go over the cliff with my flag flying." That was the rigid ideologue that we elected president of the United States.

And he was a damn good negotiator. He'd learned his negotiating skills as president of the Screen Actors Guild in Hollywood. And so, he worked closely with O'Neill to strike agreements that both sides of the aisle could live with. After fighting like hell all day long, then they would retire for a drink in the evening. They'd have a, I guess, Irish whiskey. I don't know. But they'd tell a lot of Irish jokes. I know that. And they got along, sharing that stiff drink and a good laugh. Then, they'd pick up the fight again the next morning. Now, I hope you don't think I'm reciting this story just because I yearn for the good ol' days, although I do yearn for the good ol' days.

[laughter]

I say this -- I recite this story because I believe that examples like this can be instructive. I think it's really important that all Americans find a way to do what we can to press our elected officials to make the compromises, however painful, that are necessary if we're going to set our country on a sustainable fiscal path. I say that because the alternative is dire. It's grim. It's catastrophic. We're looking at permanent political gridlock if we don't do this. We're looking at a lower

standard of living for our citizens. And lastly, and most importantly maybe, we're looking at a much-diminished place for the United States in the international arena. And all of that is simply unacceptable.

Now, left uncorrected, this big debt bomb we got out there -- and, by the way, it's 100 percent of GDP today, or getting right up to it -- programmed to become -- stay at 100 percent or more for the next five years absent policy changes. And if we don't correct this, we don't deal with this debt, it's going to imperil the traditional role of the United States dollar as the world reserve currency. That in turn would increase instability in international markets. That would dampen global growth, and that would constrain the ability of our government to pursue an independent monetary and fiscal policy. And if that should occur, of course, our role as a global leader could diminish at a very critical point in world history when our leadership is greatly needed.

At the same time, if that happens there will be, not could be, but there will be increasing and understandable calls to reduce our expenditures on defense and diplomacy, constraining our ability to respond to a world where both threats and opportunities abound. In the final analysis, of course, our strength abroad depends upon our strength here at home. You can't be strong militarily, diplomatically, and politically if you're not strong economically. And our fiscal crisis threatens all of that. So we should begin telling our leaders to start doing what they've been unable to do so far. Do what our leaders have done throughout history, come together and hammer out a grand bargain that will navigate our fiscal Titanic away from the looming debt iceberg.

So, you say, "Okay. Well, that's very simple. What should a grand bargain look like?" Well, let me put on those old hats of White House chief of staff and Treasury secretary and tell you the way, if I was running a Mitt Romney administration, I would approach this idea of a grand bargain. First of all, I'm going to suggest a few broad principles, there are going to be six of them. And these principles, I have come up with based on the experience I had through the years of negotiating these kind of deals with people on the other side of the aisle, and based on my knowledge of the constraints upon we Republicans, with respect to raising revenues to a Congress that's going to



put those revenues in their pocket and raise more and spend more. As Ronald Reagan used to say, "The American people are not under-taxed. We overspend." There shouldn't be any argument about that. We've got spending the GDP today of about 24 or 25 percent. Historically, it should be down -- has been down around 20 or 21.

So, you say, "Okay, what are those six principles?" Well, first of all, you need to have a plan that is realistic. Okay? The idea, for instance, that we're going to solve our budgetary problems simply by raising taxes on the affluent is of course a total fantasy. The so-called Buffet Tax, for instance, is projected to raise less than \$50 billion over 10 years. That's a fraction of one percent of total expenditures over the period. Number two, any plan should strike a pro-growth balance between revenue increases and spending. The Simpson-Bowles plan with a ratio of expenditure cuts to revenue increases of roughly three to one could be a plausible starting point for discussion as far as I'm concerned. My own preference would be for a plan that was more weighted towards cuts, but you could negotiate those things.

Number three, any plan must include upfront expenditure cuts. Why do I say that? I say that because over the years we Republicans have agreed to raise taxes in exchange for spending cuts, and then we don't see the spending cuts. So you got to have an upfront payment of expenditure cuts. I am really cognizant of the importance of avoiding a fiscal contraction during a period of weak economic performance. Nonetheless, it is quite critical if you expect to bring Republicans to the table to negotiate this, that there be a substantial down payment in terms of expenditure cuts. Otherwise, we will once again risk raising taxes while indefinitely deferring tough decisions on spending, and we'll never see the agreed-upon spending cuts. It's always easy to justify spending. If you can't justify it economically, there are always plenty of good political reasons to justify it.

Number four, any plan should have an expenditure cap. What do I mean by that? Well, I mentioned a minute ago, our high government expenditure-to-GDP ratio today of 24 percent is -- I'll admit that it's at least in part a result of the economic downturn. But we need an expenditure cap to bring this number down to a sustainable level as the economy recovers. Simpson-Bowles, for

instance, suggests a medium-term goal of 21 percent of GDP. Now, this is okay as a starting point for discussion in my personal opinion but, again, I would prefer a lower number. Number five -- and this is really important -- any plan should ensure, should include, an enforcement mechanism so that when you -- when you ask these people, who think we're -- don't think we're under-taxed but that we spend too much, to come to the table and talk about revenue increases, that they know that, if they agree to them, they're going to get the spending cuts that they're agreed to in exchange.

I happen to believe that a balanced-budget amendment to the Constitution would be a good thing for this country, provided it had a tax limitation provision on the ratio of overall taxes to GDP. Then, you could I think support a balanced-budget amendment to the Constitution. But given political realities, we're not going to get an amendment to the Constitution, so forget that. We have to be satisfied with a legislative approach. Almost all of the deficit-reduction plans that are out there now, grand-bargain type suggestions including Simpson-Bowles and Domenici-Rivlin, include some sort of enforcement mechanism.

So, what am I talking about? Well, let me say first of all I would err on the side of stringency to make sure that you do have an enforceable enforcement mechanism. Across the board expenditure cuts if targets are missed will be necessary to reduce the ability of future congresses to renege on earlier commitments. And so will super majority requirements, to waive the expenditure targets in case of emergencies such as war or recession. All too often, we pass this legislation, give the executive branch the ability to waive it for an emergency or something, and they waive it and sometimes it's not really an emergency. They waive it because it's a politically easy thing to do. I would never, ever, ever agree to including automatic tax increases as part of an enforcement mechanism. To my mind, this is an open invitation to a cycle of ever-higher spending and taxes. And ever-higher spending and taxes is the last thing we need if we're going to cure our economy.

Sixth and last, any effort to raise revenue should focus on broadening the tax base rather than raising marginal rates. Now, I realize that comprehensive tax reform may be a bridge too far in the current political environment. And I speak as someone who remembers very, very well the

difficulties that we faced in forging bipartisan support for even the revenue-neutral tax reform of 1986. And that's the last time -- that was the first time in many, many years that we were able to get tax reform, and it's been the last time that we got tax reform. But what did we do? Well, Ronald Regan was prescient enough, and wise enough, and dedicated enough to understand that there's something in tax reform for both parties.

Republicans love to see lower marginal rates because we think it increases economic growth. Democrats love to eliminate loopholes and deductions. So, we lowered marginal rates, we eliminated a lot of loopholes in deduction, and we had the Tax Reform Act of 1986. That act, ladies and gentlemen, was passed with Democratic votes. The Republican House was not too keen on it, but Ronald Reagan said, "[negative], this is in the national interest of the United States. It's what we're going to do. It's my number one domestic priority." And we did it. Now, if our objective is to reduce our ratio of debt-to-GDP and restore growth to our economy, any revenue we raise should be raised by closing loopholes rather than increasing marginal rates.

Now, having said all that, telling you what I think if I were -- if I was running the Romney campaign, I would -- that's what I would have in my playbook as a way maybe to get there. Let me be very frank, given the polarization of American politics today, I am far, far from certain that we will even have a grand bargain, that one will even be struck. Now, why do I say that? I say that because I've seen what happens when you have this divided government, and when you have this divided government in the midst of this very, very angry, zero-sum political environment we're in. And I think it's quite possible that what -- that what might result from this election is another period of divided government. I, for one, feel sure we're going to keep the House. We Republicans will keep the House of Representatives. So if Democrats keep the Senate and/or the White House, then we'll have divided government.

But I think it's critical, having said that, to remember one thing. If we're going to push for a grand bargain -- and I really think that our debt, the ticking debt bomb out there, requires that we do so -- if we're going to push for a grand bargain, and I think that we should and must, we're going to have to include both spending cuts and revenue

increases, but do so with the six safeguards that I've outlined out there so that when you ask somebody to support the idea of raising revenue, you know you're going to get a hell of a lot more spending cuts than revenue raised. And you know you're going to get your spending cuts and you're not going to raise the revenue and be left holding the bag. So only with the six safeguards do I say we need to do both spending cuts and revenue increases.

Now, let me close my remarks today by reciting something that Lee Hamilton said eight years ago during a speech he gave here in Washington at American University. After reviewing the 9/11 terrorist attack, and the corporate scandals that were sweeping the country, and the wars in Iraq and Afghanistan, Lee told the audience that events often move faster than our ability to comprehend them. Despite that breathtaking pace, he said, he remained confident in the capacity of our democracy to meet those challenges. In the end he said, quote, "Our government usually, not unfailingly, not always, is responsive to the people. And it will usually, not always, try to do what's right." Since then, ladies and gentlemen, the severity of the challenges facing America seems to be accelerating at an even faster pace, leaving many people wondering if our best days are in the rear-view mirror.

I don't believe that. I think America's best days are ahead of us. Yes, we are facing a really tough economic and fiscal situation. And yes, we got to find a way to cure this political dysfunction. And yes, there are a myriad of other daunting challenges that will require consensus building, from the environment to K-12 education, from the proliferation of weapons of mass destruction to the war on terror. But in the end, like my friend Lee Hamilton, I believe in the enduring quality of democracy and of the American spirit. In short, we Americans are a pragmatic people. We are problem solvers. We will try to do what's right. And we are a people in the final analysis who do not back down from challenges. In fact, we welcome them. Now, if we remember that, if we remember that and if we remember that democracy requires hard work, that it requires deliberation, consensus building, and accommodation of different points of view in our large and diverse nation, then we can meet the problems that confront us and those that inevitably will arise in this complex world of ours. Thank you all, very, very much.

Jane Harman:

Well, I thought that was masterful, and sets up a couple of things. One, shameless self-promotion of the Wilson Center -- we care about this. Woodrow Wilson, were he alive today, would care about this and might give the same speech. And we try to use our platforms to put on discussions of the tough issues, like this issue. And surely, Jim, the grand bargain on our fiscal problems is one of those toughest issues. We had Efraim Halevy here last week, former head of Mossad in Israel, who was talking about a grand bargain for the Middle East, which was an interesting idea. Not just Iran only, but Iran plus Syria, plus Russia as a partner, plus a lot of other things and countries in the region that are friendly to this. Maybe could --

Jim Baker:

What's the enforcement mechanism?

[laughter]

Jane Harman:

We'd have you work that out. At any rate, I want to ask you a few questions and then we'll have audience questions. You said that history judges our presidents by their achievements. I agree. This president has had a very tough go working with Congress. Congress is broken. I would argue that Congress can't fix itself, that the decimation of the middle -- not just the Blue Dogs on the Democratic side, but the loss by moderates on the Republican side -- ensures that the leadership of Congress in both parties will represent their bases. And their bases are the more -- I don't -- adamant. I wasn't going to say "extreme." The more adamant members of the Democratic party and the more adamant members of the Republican party.

Jim Baker:

[affirmative]

Jane Harman:

So, that leadership has a hard time, by itself, making deals agreeing to grand bargains. My proposition is that to fix this in the next four years will require sustained leadership by our next president. I don't think we've had that in a long time, focused on this problem. I think a president who did it masterfully was LBJ. You don't have

to like everything that he did, but the way he worked with Congress was masterful.

Jim Baker:  
Yeah.

Jane Harman:  
And Robert Caro has written a brilliant fourth volume biography of Johnson. So, my question is, do you agree and what do you -- what do you -- how do you handicap the chances of the next president sustaining leadership, focusing on the things that Lyndon Johnson did, which were to build relationships? He already had some. Neither this president nor Governor Romney has the depth of relationships with Congress that LBJ, he -- because he'd served there so long. But what do you think are the chances that either Romney or Obama will make that investment, build those relationships and work Congress?

Jim Baker:  
Well, they -- I agree with you. They have to do it, in order for it to -- if we're going to -- if we're going to cure the problem. There has to be presidential leadership, and you start -- you start that by, if I may say, doing what Reagan did when he first came in. And that's sending up your own program and going to the moderate Democrats -- in those days, we called them, the Boll Weevils -- and saying, "Hey, look, what change do you need in this program in order for you to vote -- bring it -- take it home to your district and vote with us?" And we'd tweak the programs. That's the main thing. That was one of the main mistakes, I think, President Obama made.

Jane Harman:  
But you had moderates in those days, and there have been fewer and fewer.

Jim Baker:  
Well, yeah. But -- well, you have fewer and fewer, but there are people up there that you can appeal to.

Jane Harman:  
I agree.

Jim Baker:  
They're -- you know, it's always a shifting scale. But it's not going to happen without presidential leadership.

I agree with that. And the next president, whoever he is, has got to -- has got to start off understanding that. You know, you don't get anything done in this town unless you can work with the Congress, and with the bureaucracy, and with the press. You've got to be able to do it -- do it all. And so, we need the next president to keep that in mind, and set out from the very start of his administration seeking to do that. What I'd laid out here with these principles is what I happen to believe as a Republican who served both Ronald Reagan and George H.W. Bush, who got -- both of whom got a lot done. This is what I think is reasonable and responsible. A way to approach the Republicans and say, "Hey, look, we know you don't want to raise revenues. And we agree with you that we're not under-taxed, we overspend. But suppose you got this -- proportion more spending. So, if you had these safeguards, aren't you then -- don't you then realize that the greater good and the national interest requires this grand bargain?"

Jane Harman:

So, second question. I listened carefully to you, and you did not say anywhere that I heard that the defense budget should be off limits, should be out of this grand bargain.

Jim Baker:

I haven't -- I didn't say anything should be off limits.

Jane Harman:

Right. And last night in the debate, there was a lot of discussion about defense expenditures and an argument made by President Obama that Governor Romney would increase them by \$2 trillion, that on top of tax increases or tax cuts that would cost us \$5 trillion. And he argued, you can't balance the budget. It was in the late Bush 43 administration that the cost of wars was put on budget. Before that, we used to fight our -- call our wars emergency expenses and not include them in the budget, although they're included in the deficit. I'm just pleased to hear you say, because I agree with it -- despite the fact that I represented the aerospace center of California, for nine terms and believe strongly that we need a robust defense industrial base, I still think we have to consider defense expenditures along with all other expenditures as we rationalize our budget.

Jim Baker:

You have to consider every -- I don't think anything ought to be exempt. Once you start saying, "Well, this is exempt and that's exempt," then you're right back into the situation we're in now. You got to have entitlements on -- everything has to be on the table. And the grand bargain has to be just that, a grand bargain.

Jane Harman:

Final question. This we didn't discuss, but it is another part of your resume. You were the counsel for the Bush campaign in the Bush v. Gore wars of 2000. Most of us remember those. And people are imagining that, in this election, that circumstance could occur again.

Jim Baker:

It might.

Jane Harman:

That's what I wanted to ask you. What do you think are the chances of that, and are you ready to sign up for duty as counsel?

Jim Baker:

Now listen, Jane, I want to tell you something. There are two views of that 37 days in Florida. A lot of people come up to me and they say, "Boy oh boy, you've done such great things for this country." I said, "Thank you. I was the last Cold War secretary of state." They say, "No, no. We're not talking about that. We're talking about Florida."

[laughter]

And I say, "Well, wait a minute, that was -- that was --" And then another group will come up to me -- come up and say, "You are the sorriest so-and-so I've ever known."

[laughter]

"You stole that election. Went down there and stole that election." I said, "Wait a minute, we preserved an election." We never did fall behind in the counts, so we were preserving an election, not stealing one. But take it any way you want it. I think it's entirely possible. And I'll tell you this, the campaigns this year are very well aware that this is likely to be a really close election in a few states. And both campaigns are making plans. When I



got to Florida after Governor Bush called me the night after the election and said, "Vice President Gore has asked Warren Christopher to go down and lead his effort tin Florida. Would you go lead mine?" I said, "Sure." I walked into the headquarters of the Florida Republican Party. There were six local lawyers sitting -- that's all we had. At the end of the 37 days, I was running the biggest law firm in the -- in the country.

[laughter]

We had everybody. Both sides brought a lot of lawyers. But this time, I think both campaigns have researched the laws of the states that are likely to be close.

Jane Harman:

And, an epitaph on that, however you -- whatever you think of the result, eight years later Jim and Chris, who became great friends -- I know this from you, and I know this from him -- Warren Christopher died last year, sadly -- worked together on this commission on presidential power.

Jim Baker:

That's right.

Jane Harman:

And remain friends.

Jim Baker:

And, by the way, I have since -- a commercial here, say we also supported voter IDs in that presidential commission on federal election reform with President Carter. And all but two, I think, of the Democrats on the panel supporting the idea of voter IDs. President Carter's thinking and mine is -- "Well," was, "look, voter IDs don't discriminate against minorities." That if you walk into a polling place and you have an official, government-issued photo ID, a voting registrar is going to be a lot less likely to tell you you can't vote. And I think that's sensible, and I'm sorry to see what's going on out there because I think there's a lot of politicization of that issue.

Jane Harman:

It's a -- I think it's a very difficult subject, and it harks back to the Jim Crow laws and a lot of other things in our country. And it gets many people upset. And in this election, from what I've been reading it seems like

some of these issues have been raised but settled in advance of voting, which I think is a good outcome. Now, for your questions. There is a microphone. Please identify yourself and ask your question. Short questions would be appreciated, so we can get around. Right here?

Bill Jones:

Yes, Mr. Secretary, Bill Jones from Executive Intelligence Review. One of the last issues that there was bipartisan support for in both the Congress and the Senate was an attempt to reinstate the Glass-Steagall legislation. Sabotaged by the White House, didn't want it, so the Democrats backed off. But there were 70 supporters for it in the House, both Democrat and Republican.

Jane Harman:

Why don't you explain what it does, Glass-Steagall?

Bill Jones:

It would separate commercial banks --

Jim Baker:

It separates commercial banking and investment banking.

Bill Jones:

-- from investment banking. It would save our -- help to save our commercial banking system, relieve them a lot of the debt that had been a result of the gambling that went on when the investment banks took over, and would reestablish some sanity in the system. Because commercial banking is so important for the economy, isn't it necessary that this might be an item around which we can get that bipartisan support with a Romney administration, perhaps?

Jim Baker:

Well, I'm not sure. I think Governor Romney is opposed to -- I'm not sure. I shouldn't speak for him, because I'm not positive about that. About reinstituting Glass-Steagall, I think it would be a great idea. Of course, I was Treasury secretary when Glass-Steagall was in a -- was force. And we didn't have the big -- now, you know, you -- we got this too-big-to-fail problem. It hadn't been cured. It's still out there. And taxpayers ought not to be -- not to be asked again to pick up these bills for financial institutions that gamble in the markets and lose. And so, I would very much like to see -- and so would Paul Volcker, by the way -- a reinstitution of Glass-Steagall which says,

"If you're a commercial bank, you do commercial banking. You don't do investment banking."

Jane Harman:

Yes. More questions. Oh, come on. Yes, in the back?

Jane Kirby-Zaki:

Hi, I'm Jane Kirby-Zaki. I work at the World Bank and I recently -- Secretary Baker, you alluded to the fact that the dollar is reserve currency on a global basis. And I've heard that the U.S.'s ability to run up debts of this size and so forth is referred to as a "safe haven curse." That's a term from Ian Bremmer. I wanted to ask you if you think this is a sustainable thing. It's not only the fact that we're a reserve currency. There's no investment alternative right now. Do we have a significantly longer horizon for that type of curse/blessing that will let us, you know, further dither on these -- on these important fiscal cliff issue? Or do we have to --

Jim Baker:

Well, yeah. I think we do have a further time because when you -- if you take a look at what happens in times of crisis, everybody comes to the dollar. But that's a function of the fact that we are the de facto reserve currency of the world. But it's also a function of our political system. You know, we routinely transfer power peacefully in this country. We have a stable political system, and even with all of our economic problems we still represent 25 percent of the total global GDP of the world. So, I don't think we're in -- at risk, in the near term, of losing the dollar. But sovereign debt crises can strike -- can strike suddenly. The markets get -- tend to get you after a while. And I mean, you know, we're fortunate now we're paying very, very low interest rates to people who are buying our bonds. But that isn't going to continue forever. And we could find ourselves in extremist -- maybe not to the point of losing the dollar, because as you point out right now there is no alternative. People are not going to -- not going to go to the Euro. You know, six years -- five, six, or eight years ago people were talking about settlement for oil transactions in Euros. Well, you don't hear any of that anymore because Europe is in worse shape than we are. [laughs] So I think we got a while. But the risk of dithering on this big debt bomb out there is that sooner or later it's going to affect all of our -- standard of living of all Americans, and our role in the

world.

Jane Harman:  
Over there?

Richard Kitterman:

Hi, my name is Richard Kitterman and I'm a scholar intern here at the Wilson Center. And my question for you, Secretary Baker, is you said earlier that, when looking at cutting government expenditure, that there would be nothing off the table, nothing exempt from budget cuts. Was that the case? So, what -- in your opinion, what should be the first target? What government expenditure should be the first on the chopping block, first on the scrap heap?

Jim Baker:

Well, you've got right now -- so, you've got a sequester the -- you've got a fiscal cliff that we're facing at the end of the year, if we don't do anything, where you're going to have massive cuts in defense which are -- will really be catastrophic for our defense establishment. I don't think the fiscal cliff -- I don't think we're going to fall off the fiscal cliff. If Romney's elected, I think there will be -- there will be a period of time they'll kick the can down the road for maybe six months or so to see if the new Congress and the new president can get together and work something out to avoid the fiscal cliff. Maybe, likely, the same thing might happen if Obama is reelected. But in terms of what's the -- what's the first -- where you cut first? [laughs] There are plenty of places to look, okay? Look across the board. Why should anything be exempt when we're in this kind of a basket case economic situation with spending? We've got to figure out a -- you know, revenues today are 20 percent, I think, of GDP -- maybe 19 -- 18 to 21 percent of GDP. Spending is 24 to 25 percent of GDP. We can't keep doing this. If we didn't have the dollar, we'd be Greece. We would be. Greece's debt-to-GDP is only about 150, I think.

Jane Harman:

Thank you. Yes, over here? Did one of you have a hand up? You did, okay.

Donald Burns:

My name is Donald Burns [spelled phonetically], from Guangxi University in China. In the Ming Dynasty, which lasted a long time, there came a time when the advisors to

the emperor got themselves politicized, we would say today. And they got themselves in a situation where they were so convinced that their side had the heavenly mandate, that they could no longer negotiate. In today's world, do we find ourselves with people having almost a religious conviction about their position that makes it morally impossible for them to find compromise?

Jim Baker:

I don't know the answer to that. I mean -- we sure have our -- we sure find ourselves in a difficult situation, politically, where we don't seem to be able to reach agreement anymore. Why is that? I mean, is that -- I can't tell you whether that's religious or not. I don't think it is. I think it's -- I think it's driven by power, and the desire to be reelected and stay in office. But, you know, we used to send people up here to do the nation's business. And now, we send them up here and they don't do the nation's business and we send them back. Pitiful.

Jane Harman:

I would just add to that that the political paradigm that works best now is to blame the other side for not solving the problem. If you work with the other side, they get some of the credit. And this is a -- on both sides, this is a scorched earth kind of approach. And you can see that in the way campaigns have been playing out this whole year. I think voters are sick of it. And, you know, my advice to any voter who's sick of it is vote for somebody else. But I certainly got sick of it, serving in the Congress. And what Jim Baker is talking about is the old paradigm, which hopefully will become the new paradigm where people work together and actually resolve things. Over here? And we're going to have -- our final two questions are in the front row. Last question is our chairman of our board, Joe Gildenhorn. Yeah?

Female Speaker:

Secretary, my name is Simbal Khan. I'm Pakistan Scholar at the Woodrow Wilson Center, here. I -- you mentioned polarization in the Congress several times in your lecture. And you feel that there was less polarization, say, during Ronald Reagan's time than it is today. Could you give just offhand about a couple of reasons when -- in your mind are the most important reasons for this today? Thank you.

Jim Baker:

Yeah. I think the reasons -- I mentioned the 24/7 news cycle, which wasn't that way before. You know, when I was up here, we -- you would have to react to breaking news. You'd react in hours, maybe, but not in minutes. And that's one thing. So you got that 24/7 news cycle that thrives on controversy. You have the Internet. We didn't use to have the Internet. The Internet is a very divisive phenomenon because anybody can write whatever they want, throw it up there, and see what sticks. And something will stick, and then the mainstream press or somebody will come along and they'll ride off of it. Internet is very, very divisive. I'm not saying it's not a good thing, but it contributing to this. Redistricting, the congressional redistricting process which is constitutional -- and you don't change that without a constitutional amendment. Except, as Jane pointed out during our lunch, states can change it. In California, they've -- you've got -- they redistrict through --

Jane Harman:  
California is always ahead.

[laughter]

Jim Baker:  
-- through an objective -- they do a lot of things we don't do in other states.

[laughter]

Thank God. Thank God. But they -- but they've changed their redistricting to be objective commissions kind of thing. Well, that's good, but I don't see other states doing it. And then -- and then lastly, maybe, the country is so evenly divided and has been during the period of time that this phenomenon has crept into our politics here in Washington. And divided government would be the last reason -- last thing, I would say.

Jane Harman:  
Last question, Joe Gildenhorn.

Joseph Gildenhorn:  
Well, actually, I have two questions. How do you handle the Norquist tax pledge, you know, not to raise taxes? And in trying to resolve cutting expenditures, would you put a

cap on deductions whether it's charitable, or mortgage, or whatever, just -- and just go across the board?

Jim Baker:

Well, one thing that Governor Romney suggested maybe in terms of the way you get at the elimination deductions loopholes is to cap them. And you can cap them in a progressive way, or you can just cap them generally. I mean, you can cap them in a means-tested way. Another thing I happen to believe, frankly, is that we need to means test some of these entitlement programs. Medicare, they're not -- you know, I've had some medical issues in the last year or so. And I go to the hospital, I don't pay anything. Nothing, not a dime. Well, you know, you're paying for that. I'm not sure -- well, you should, Joe, but not --

[laughter]

I'm not sure everybody else ought to pay for my -- for my health care, to that extent. Same thing with Social Security. With respect to the pledge, I've just given you a formula that I think is a reasonable approach to this problem. I've also told you that in my view and in the view of the presidents I serve, we're not under-taxed, we overspend. But other -- you know, we made -- we made good-faith efforts in 41's administration to come up with a -- with a grand bargain. We never got spending cuts. We did that to some extent in the first term of the Reagan administration. We never saw -- if you -- if you knew you were going to get those spending cuts, and you could lock them in -- and that's why the formula I gave you is oriented toward that concept -- then, I think, it's -- if you say, "Well, we're not going to do anything to get out of this hole on the revenue side," that then you're being unreasonable. And I think the American people would agree with that when they see the safeguards.

Jane Harman:

Jim, thank you very much. We're delighted that you came home and shared these views with your family at the Wilson Center.

Jim Baker:

Thank you, Jane. Thank you.

[applause]

Thank you very much, Jane.

[end of transcript]