Inaugural C. Warren Goldring Annual Lecture on Canada-U.S. Relations

"The Challenge in Washington: Governing by Leadership or Crisis"

Leon Panetta

February 5, 2004

Royal Ontario Museum, Toronto

Thank you very much, ladies and gentlemen. Mr. Ambassador, thank you for the introduction. Allan Gotlieb was one of the truly great ambassadors from Canada to the United States and he did a remarkable job during his tenure.

Mr. Goldring, thank you for sponsoring these lectures and for the leadership that you've provided. I want to express my gratitude and admiration to you for the good work that you do.

I would also like to pay tribute to the directors of the Institutes that are sponsoring this lecture for promoting this dialogue to improve relations between the United States and Canada.

I am honored to be here, honored for several reasons. Although I was born and raised in California, I am the son of Italian immigrants. My father was the 13th in his family to come over to the United States, and he had brothers located throughout the country: one in Sheridan, Wyoming, where he spent some time, and one in California. Fortunately, my father liked the brother in California better and that's why I wound up being born in Monterey. Members of my family also came through Canada and to Toronto, and so I have a particular liking for Toronto. I have to admit that is in large measure because of the Italian population here.

It is a fact that both of our countries are nations of immigrants. I recall asking my parents why they would travel 3,000 miles to a strange land with no language ability, no money in their pockets, and few skills. Although they came from a poor area of Italy in the 1930s, they had the comfort of family nearby. I had the opportunity to visit there as a child, and yes, there was a great deal of poverty, but the presence of family was strong. Why would they leave all of that and travel 3,000 miles to come to this continent? My father always said that there was one reason: my mother and he believed that they could give their children a better life in North America.

I think that is the American dream, as well as the Canadian dream; ultimately we all want to provide better lives for our children. I pay tribute to Canada for the policy that it maintains to encourage that kind of immigration. We are a land of immigrants and we ought to understand and respect that notion, and even encourage it. That diversity goes to the very strength of what Canada and the United States are all about.

I am also honored to be here because as a Member of Congress and as a member of the Clinton administration, I had the opportunity to deal with many Canadians and Canadian leaders, as well as with your ambassador, addressing many issues concerning both of our countries. I was

honored to serve with President Clinton, who had a very good relationship with your prime minister—the president liked to play golf up here and the prime minister liked to play golf down there.

It was great to witness the partnership between our two countries and the personal relationship that I think so often makes a great deal of difference to how world leaders are able to communicate and deal with problems.

I am honored to be here in Canada because I have great respect for the historic relationship that our countries have which has grown out of geography and proximity. It has been encouraged by virtue of the great resources that you have, your great and diverse people, and by virtue of your values, and the common history that we share. We are not just neighbors. We are, in a very real way, part of one family. We are mutually dependent on one another on this American continent we share. Our challenge is to enhance our strengths and to build a strong relationship and strong ties that will keep us close in the future, and, at the same time, we must manage our differences—manage them with understanding and with willingness to listen to one another.

We have seen that democracies, where power is dispersed through separate branches of government, truly demand extraordinary leadership, understanding, communication, and trust. I believe that we govern our democracies through either leadership or crisis. If leaders are willing to take risks, if they are willing to be forthright, if they are willing to exercise the kind of leadership that we must have if we are to avoid crisis, then indeed we can govern by leadership.

Make no mistake about it: in the absence of leadership, we will be governed by crisis. Too often today, we govern by crisis. Crisis surrounds the United States, in issues dealing with Social Security, Medicare, and our elderly. We have crisis in energy, crisis in healthcare, crisis in foreign affairs. Too often we allow crisis to drive policy. That can ultimately result not only in bad policy, but also in poor government. I think both Canada and the United States need to understand this dynamic. Both nations have to understand not only the challenges of leadership, but also the crises that our leaders confront, and must ultimately understand that it is the dynamic of both of these factors that ultimately determines whether or not we resolve our differences or whether we confront each other. Obviously, you have a good sense of that dynamic here in Canada, but what I want to do is to give you a sense of the state of leadership and crisis in the United States. I hope that you will better understand that dynamic when I speak in terms of trying to improve relations with the United States.

Our forefathers in America had the great genius of understanding that they wanted to establish was a form of government that did not centralize power in any one branch of government. They did not want a king, they did not want a parliament, and they did not want a Star Chamber court. They wanted to ensure that power would not be centralized and possibly abused. They established three separate but equal branches of government, each with a check and balance on the other. The problem is, that creates inherent conflict. On one hand they surely wanted to have a strong, new, and dynamic democracy—one of the first to break away from colonial power. Yet, at the same time, they wanted to limit the power of those who would have to govern this new democracy. It is in many ways a perfect formula for gridlock.

The key to breaking that gridlock, in their minds, was leadership. They knew, in fact, that those elected by the people to govern would debate. They would have ideological differences, and indeed they would have very different views about how things ought to be resolved. But ultimately out of that debate, and out of that dialogue, there would emerge a consensus allowing them to resolve issues and to move on, to allow the nation to move forward, to fulfill that dream of improving the lives of our children.

That was the miracle of Philadelphia—that's what they did in Philadelphia. They had very different views about what the government in the United States ought to be, but they were able to resolve those issues and create a process that has encouraged dialogue and resolution for over two hundred years. There have been ups and downs. We have had great leaders and we've had not so great leaders. We have had situations where ultimately the people would have to operate as the final check and ensure that, if leadership did not emerge, the leaders would be changed. That is a strength of our democracy. Even when there is gridlock, even when there's frustration and anger, citizens still have the power to vote.

As I said, for 200 years, we have had that process and we have moved forward. Today, as we embark on this 21st century—a century that has tremendous promise, tremendous opportunity, and at the same time, tremendous challenges—the question is, will we have the capability and the leadership to address the challenges that face us, and to—in many ways—break the conflict?

I attended a conference a few months ago where the question was asked, "What would historians say about this period in history?" How would they identify it in terms of the United States? Some, of course, said this would be identified as the information age. Others said it would be the age of terrorism. Others said it would be the age of new technologies and technological development. There were others who said it was the age of globalization. There was also a futurist there who presented his views.

I don't know if you know what futurists are. They are a strange group individuals that are like modern-day archaeologists. My father, my Italian father, would say that a futurist is somebody who can't get a job in the present, so he talks about the future. Well, this particular futurist said, "We are beyond the information age. We are beyond the age of globalization. This will be known in history as the age of paradox."

Now, this futurist was talking about the paradox of personal behavior. For example on the one hand, we are committed to exercise yet we eat more fast food than ever. We want a clean environment with clean air but we buy gas-guzzling automobiles that create even worse problems for our environment. These were the kind of paradoxes to which he was referring.

When I thought about it, I began to think that there are indeed larger paradoxes we confront today. Military power is certainly a paradox for the United States. We are, without question, the strongest military power in the world today. The United States spends over $400 billion annually on defense. We have the most sophisticated technology of war: stealth bombers, stealth fighters, cruise missiles, satellite targeting, drone airplanes, robotics on the battlefield.

When I was a lieutenant in the Army, we had none of this. The United States has a sophisticated machine for war—the strongest in the world and perhaps the strongest in history.

The paradox is, for all of that military power, we are still having a difficult time achieving stability in Iraq. We are very concerned about the intelligence failures that took place or what happened in terms of the interpretation of that intelligence. For all that power, we still have turmoil in the Middle East. We are still trying to confront the issues of North Korea and other rogue nations. We still have to confront the problems of poverty, the differences in race and religion, problems of disease, problems related to our environment that impact on the world and can create the very seeds that produce conflict in today's world.

For all of our military power, if we fail to exercise world leadership, if we fail to build alliances, if we fail to develop coalitions, if we fail to bring together the family of nations to confront the threats that are out there in today's world, if we fail to understand the complex forces that are at play that create the challenges that we often face and the conflicts that are there and the terrorism that is part of our lives today, then all the military power in the world will not bring peace and will not advance the cause of human rights in the world. I think we've had that kind of balanced approach to foreign policy for 50 years in the post-war era. It has been part of the leadership we have exercised. However, today I think it is confused by the fallacies of pre-emption and first-strike and the idea that somehow we need a permission slip before we go into conflict.

This is not a question of whether or not the United States will do everything possible to protect national security. The question is, how can we best protect our national security? I think we best protect it by exercising world leadership with allies and friends and with other countries that can work with us to confront the challenges that are there. This is an issue that will be strongly debated during this election year. It is an issue that by no means is resolved at the present time and remains very much a paradox.

Our economic power is a paradox. We believe that we have at the present time a very strong economy that is beginning to recover. However, the nature of our economy—its productivity, its creativity, its innovation, and its ability to engage and be competitive in the world market place—is all-important to what a strong economy is all about. The paradox is, at the same time that we have a strong economy, we have a huge and exploding deficit. That deficit, very frankly, threatens to undermine the recovery.

The annual deficit right now is an estimated $500 billion; I think, to be specific, the president's budget says that the United States will see a deficit of $521 billion next year. This is a record annual deficit. We will add to the national debt over the next 10 years somewhere between $4 and $5 trillion. We have gone from a $5.7 trillion surplus and a balanced budget to about a $9 trillion turnaround that now has brought us record deficits and a huge addition to our national debt.

What's happening is obviously partly the result of the war; part of this is also the result of the recent economic recession. Nevertheless, we are, as a country, responsible for exercising a sense of discipline when it comes to our budget. If we want to improve the lives of our

children—if that is the American dream—the last thing we want to do is burden them with another $5 trillion in debt. In addition to that, domestic discretionary spending in the United States has gone up 31% in the last three years. Last year the Congress and the Bush administration passed the largest expansion of an entitlement program estimated last year at $400 billion and now estimated at over $500 billion with the prescription drug program. In addition, obviously, there have been two major tax cuts, which, if extended and made permanent, will add an estimated $2 to $3 trillion to the national debt.

Now, all of this is on borrowed money—this is all on borrowed money! None of this has been paid for. Two of the most important tools we had in the Congress to deal with deficits were caps on discretionary spending and what was called a "pay-go" rule, which we developed in the 1990 budget agreement. The "pay-go" rule basically says that if you want to have a new program, if you want to cut taxes, pay for it. Pay for it. Don't let it be added to the deficit.

Those rules have expired. There is very little fiscal discipline in the Congress. The President has yet to veto any of the spending bills that have been sent to him by the Congress. In addition, we are not being asked to sacrifice. Yes, we are at war. Of course, we're in a war, yet the only ones who are sacrificing are the men and women who are serving on the front lines in Afghanistan and Iraq. The rest of the country has not been asked to bear the responsibility to pay for it, and to accept the share of the sacrifice that we ought to as responsible citizens.

Make no mistake about it. In the end deficits do matter. I'm amused by friends whom I worked with during the 1990s who were constantly criticizing the country for running deficits, who now excuse them. Reality is: deficits do matter. If we run deficits of this size, we will undercut the recovery. The federal government will have to borrow from the private sector, and that in turn will crowd out investment in the private sector. It will increase interest rates, because to sell our bonds and to borrow, we will have to provide attractive interest rates. That will increase rates to consumers on mortgages and on credit cards.

In addition, the deficit creates volatility in our currency because we must continue to borrow from foreign countries. Over a third of our debt is now in the hands of foreign debtors—foreign creditors who have given us that money. This creates concern that if we aren't dealing with the deficit it will undermine the strength of our currency. In addition to that, it limits our resources to invest in needs for the future. Lastly, as I said, it puts an incredible burden on future generations. For those who are concerned about tax increases, the most regressive tax increase is the price our children will have to pay on interest on the debt.

So, for all of those reasons, this is a paradox, and a serious one. Right now there is no leadership to confront that challenge. The president has not presented a plan to deal with the deficit, and in addition to that, there isn't a Democratic candidate out there who has yet presented a credible plan for dealing with that deficit. Why? Because no one wants to take the political risks that are involved. We learned in the 1990s that there are only two ways to deal with deficits: you either cut spending, raise taxes, or do both. Right now, neither party wants to confront those options that challenge. We have a paradox on our hands, and unfortunately, the leadership is not there to confront it.

Let me mention one other paradox, our democracy. Traveling around the world with the president of the United States, there was no question that people believed that we represented what democracy and self-government should be all about—a beacon to the world where, hopefully, future nations can find a model for their own democracy, freedom, and opportunity. The paradox is, while others see us as a model, in the last U.S. presidential election, less than 50% of those qualified to vote turned out at the polls. In the California gubernatorial race, less than a third of those qualified to vote made their voices heard. Part of the reason why there was a recall is that not enough people turned out to express themselves when the election took place.

My greatest concern is the impact that this democratic paradox has on younger generations. It is why my wife and I created our institute. We have commissioned polls on young people's attitudes toward public service and the results are not very encouraging. We've done it over the last five years, both before and after September 11th. Interestingly enough, 73% in those polls have said that they would *never* choose a career in public life—73%! Eighty percent said they had never even had a conversation with an adult about getting involved in public life. Some 94% said they had not participated in an election campaign for any office in the prior election. The reason they give for their disengagement is that they feel that what's happening in Washington, and what's happening in their state capital, is somehow is not relevant to them. Politics has almost become a spectator sport. This is of great concern to those of us who believe that in order for our democracy to be strong there have to be young people willing to participate in the process.

What is the problem that affects both older as well as younger generations? There is too much partisanship in Washington today. Both parties are engaged in virtual trench warfare. Conditions are such that even those who would try to reach out in a bipartisan fashion and try to find solutions are criticized and disciplined by their respective parties. Both parties, in many ways, would rather fight over the issue than resolve it.

In addition, the margin of power both in the House and the Senate is very close, so both parties are struggling to determine whether one or the other can achieve the upper hand. This has become the principal focus, particularly in an election year.

There are now more consultants and pollsters playing a role in elections by developing sound bites and messages that call for more money to be raised. Most of that money, unfortunately, is raised not from the average citizen, but from special interests that then dominate more and more of the issues in Washington. As a result of all of these contributions, leadership is then hesitant to take risks, hesitant to take on the tough issues that must be resolved. Therefore, as I said, we govern much more by crisis than by leadership.

This is a paradox that I hope will ultimately be resolved by the people of the United States as they take on the responsibility of their democracy. I hope that people will engage and be part of this election whether they are Republicans or Democrats. If people are angry and frustrated then it will impact the incumbents at every level. If people are convinced that they are concerned about national security or feel that the economy is doing well, it could be a very different result. No one at this point really knows what will happen. But I think we all understand

that we are facing a very close election, and that ultimately the United States will determine whether or not it can deal with these paradoxes by way of that election.

How then does all of this affect the relationship between the United States and Canada? In many ways, our relationship is also a paradox. On one hand we each have tremendous strengths. We have had very close and strong ties throughout history; we share the largest undefended border in the world. We have common strengths and resources through the proximity of being neighbors, and a shared diversity in our people and in our values. We are mutually dependent in trade and security, from globalization to the economy and the environment, from immigration and transportation to law enforcement.

The relationship between the United States and Canada is one of the largest commercial relationships in the world. It is estimated that some $1.4 billion are exchanged in two-way trade every day. You purchase about 23% of U.S. exports, and we purchase about 86% of yours. It is truly a remarkable economic relationship. The paradox is, for all of that great commercial strength, there continue to be disputes that threaten the trade relationship. Both nations often raise their own sovereignty as a sword and withdraw to their borders when conflict arises.

We are all familiar with the areas of disputes. Whether it's wheat or softwood lumber or energy or mad cow or SARS, Iraq, POWs, solid waste, maritime boundaries—there have been a series of disputes, some of which we have tried to resolve, others which continue. They can be very economically damaging. It's estimated, I think, that Canada has been impacted by more than $1 billion as a result of the mad cow scare. These disputes can be diplomatically disruptive.

Thankfully, we tend to find outlets to try and resolve these differences and issues. We do a lot of good just by recognizing that ultimately the relationship has to remain strong for the security and prosperity of both countries. I understand that there will be differences. This is fundamental to the nature of a relationship between two countries who are competitive, who have their own identity, and who also share the same continent. However, I think we have to be careful that we do not take the relationship for granted or overly test it. Ultimately, the bond can be weakened and broken. The best course would be to restore trust between both nations through an aggressive approach to understanding, communicating, dialogue, and to establishing some kind of stable process that would allow both countries the opportunity to come together and try to avoid crisis in the future.

In the column that was published in today's *Globe and Mail*, I suggested two important ways to do this. One is through effective lobbying with both political parties. Canada can't sit back and hope that one party or the other somehow will succeed, and therefore wait to deal with issues until the election decides which party will be in power. You have to deal with both Democrats and Republicans. It requires a continuing relationship with staff, members of congress, the leaders of both parties and with members of the administration. It cannot be just the occasional reception, dinner, or meeting. It has to be an ongoing relationship. Building long-term relationships is what successful lobbyists do. In many ways, that is what countries like Canada have to do as well.

In addition to that, as a former chief of staff, I've suggested that it would be good to have a process that could bring together, for example, the chiefs of staff of the president of the United States and of the prime minister of Canada, to meet on a periodic basis to discuss the issues. I did that with the chief of staff of Mexico's president during their currency crisis in 1995. We knew it was coming, we knew that there was a problem. We laid the groundwork for action with the president, and the secretary of the Treasury, and were ultimately able to help resolve that crisis. The ability to meet often at that level would cut through the bureaucracy and establish some kind of regular process for communication, dialogue, and hopefully for resolving issues before they become crises.

The 21st century is a time of tremendous opportunity. It is a time of tremendous challenges that we all confront. It is also a time of paradox, and contradictions, that can basically undermine our future strength. The key to breaking through those paradoxes is leadership—leadership from the United States, and from Canada. We can decide to govern either by leadership or crisis. It seems to me we have an obligation as citizens of both countries to ensure that we fight to avoid crisis and provide leadership.

There's a story I often tell of a rabbi and a priest who decided that they would go to events together to understand each other's religion. One evening they went to see a boxing match. Just before the bell rang, one of the boxers made the sign of the cross. The rabbi nudged the priest and he said, "What does that mean?" The priest said, "It doesn't mean a damn thing if he can't fight."

Well, ladies and gentlemen, we can bless ourselves with the hope that somehow the relationship between the United States and Canada will improve regardless of disputes, but it alone doesn't mean a thing unless we're willing to fight to ensure that this happens. If we do fight, I believe we can restore the trust that is important to our historic relationship, that we can develop a process for dialogue and debate to resolve our differences. Most importantly, we can fulfill our mutual dream of improving the lives of our children.

Thank you very much.