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George Fatemi went to work for a major U.S. steel company when he was 19. He lost that job when big steel couldn't compete with new technology from Japan during the 1970s. He got another job with a glass company, but they laid him off during the 1982 recession. In both cases, he couldn't take his pension benefits with him because he hadn't worked long enough to vest. George then hooked up with a defense contractor making missiles until 1992, when the defense cutbacks axed him. Three jobs and three layoffs. George was left with a minuscule pension and payments of \$460 a month if he wants to continue health coverage for his family.

Five years ago, Mary and Charles Jones lived the American dream in New Jersey. Mary did marketing for AT&T; Charles was a lawyer with IBM. They had a house in the suburbs, two children, and a three-week family vacation every August. Then both of them lost their jobs.

Today Charles works for a small business selling computer software, and Mary consults, but not often. No more vacations, no health benefits from the jobs. Mary's father lost his pension benefits due to an LBO and a loophole in the pension law. The two kids are now in high school, and the oldest wants to go to MIT, but the family can't afford it.

Louise Pearl is a single mother who works as a secretary to the president of a construction firm. The office construction boom of the early 1980s has turned into a construction depression in the '90s, and in the last 18 months, the firm has shrunk from 46 workers to 15. If the company goes under, Louise will need training to get a new job, but she won't have the money to pay for it.

These composite portraits of Louise Pearl, George Fatemi, and the Joneses are not unusual. There are millions of Americans who find economic security an unattainable dream. It is as if Americans are adrift on a gigantic river of economic transformation that carries away everything that

resists the swirling currents of its mighty flow. Americans are being buffeted by new economic forces as surely as the communities along the Mississippi last summer were being hit by a 100-year flood. Not since the age of democratic revolution coincided with the industrial revolution, nearly 200 years ago, has the river of economic change flowed so powerfully. What makes the experience so hard is that we have to cope with four fundamental transformations taking place in the world simultaneously.

The first is the end of the age of ideology. With the fall of Marxist-Leninist communism and the triumph of democratic liberalism, the content of the U.S.-Russian conflict disappears.

Peace doesn't reign. Ask any ethnic or religious warrior in Bosnia, or Georgia, or Tibet, or Northern Ireland. But conflict has a less cataclysmic implication. The garrison state of the Soviet Union, with its missiles aimed at the United States, has evolved into a nationalist Russia whose hopes of meeting human needs take precedence over its bombast in preparing for Armageddon.

With peace breaking out, people feel more secure, and the arsenals of the United States and Russia can be dramatically reduced. But for millions of people who work in the defense sector, peace has an even more personal consequence than freedom from first strike. It has cost them their jobs. In 1987, there were 7.2 million people working in what President Eisenhower called the military-industrial complex. In 1992, it was 6.3 million, and in 1997, it will be 4.4 million. The economic impact of the West's triumph is the downsizing of an entire sector of our economy.

The second transformation is the explosion of world markets. There are three billion more people in the world market today than just ten years ago, and most of them will become our customers by the turn of the century. That means thousands of jobs.

During the last decade, not only have communist societies crumbled and their replacements opened up to the world, but authoritarian and protectionist regimes in Latin America and Asia have also fallen. Instead of billions of people living in closed economies, unwilling to trade and bent on producing everything they need domestically, with a politics that argues over which subsidies go to which monopolists, country after country--Poland, Mexico, Argentina, India, Vietnam--has liberalized economically. They are encouraging exports, accepting imports, and seeking capital worldwide.

A market of three billion more people represents billions of potential sales of computers, cars, Coca-colas,

and CDs, as well as capital goods to electrify a continent, to build more ports and highways, to equip new hospitals, and to build new homes. But it also means a billion more workers ready to challenge our own workers in the production of tradeable goods. Clearly, some American workers will lose their jobs. But far more will be created by a competition that not only provides higher quality and lower prices to consumers, but also demands greater efficiency from our own companies and more complex skills from our work force.

Not since the end of the 19th century has the world economy been as open or the potential for worldwide human betterment through open markets been as great. Since political openness usually follows economic openness, democracy's roots are extending deeper and deeper into more societies than ever before. And yet there are dangers too.

In the early 20th century, ethnic tension and nationalist fervor snuffed out the flame of hope represented by open trade. Both irrational impulses remain alive today. Ethnic tension threatens to engulf more and more nations in costly conflict: witness Bosnia. Nationalistic fervor in its Ross Perot-Pat Buchanan form calls for protection from international competition and advocates trade only with developed countries "like us." Witness the debate over NAFTA.

It's possible that we will close off to this wider market and not accept the challenge, but to do so has consequences: a lower standard of living, a fraying social fabric, and a refusal to lead in a new world.

The third transformation is driven by man's advancing ability to shape his world. It is the knowledge revolution. Through knowledge applied to telecommunications, we communicate without travel. Through knowledge we combine elements in new ways to make materials that don't exist in nature to do jobs with less energy and less assembly. Through knowledge we transform genetic material and worry less about pest control.

For centuries, the determinants of national wealth have been capital, natural resources, and an abundance of labor. Today none of them is as important as knowledge, which has changed the production process and multiplied the types of services available. Applied knowledge can make society cleaner, wealthier, and more humane.

America is further through that revolution than most people imagine. Manufacturing remains essential to our economy. We continue to make things, but we do it with fewer people. When George Fatemi lost his job at the steel company, there were 721,000 steel workers in America, and today there are only 374,000. But those 374,000 are highly

efficient. Partly as a result, imports today supply only 15 percent of the U.S. market. This story is being told over and over again in our economy as companies in order to compete become leaner, producing more with less.

Manual labor serving a machine, whether it's in Detroit or Kuala Lumpur can never produce as efficiently as a computer serving man. It's just that simple. That's why in the future the biggest economic problems will be found in countries where the most unskilled workers live.

To resist the trend toward knowledge-based production is to give the future to those in other countries who capitalize on the inexorable transformation. Yet the challenge to our economy is clear. If we produce the same product with less labor, then there have to be more, not fewer, jobs, producing more new products or serving more new needs.

An exploding knowledge sector built on a sound economic foundation can create these jobs, but the skill requirements will be higher. A worker tomorrow will require a substantial amount of formal knowledge and the capacity and opportunity for continuous learning. Successful work careers will exist only for those who can match what they know to what needs to be done. The days of the 40-year career on the assembly line of one company making one product are over. Sequential jobs with different companies, even sequential careers, will be the norm.

The fourth transformation has to do with the connection between economic growth and debt. America is mired in a five-year period of low growth. After the collapse of 1980s' false optimism, people are reluctant to spend or to invest. Usually a government would jump start an economy out of recession either by lowering interest rates, or by giving a tax cut or spending more money on government projects. But interest rates are at a 30-year low, and increasing the deficit to stimulate the economy risks a no-confidence vote from millions of world-wide investors. In short, the gigantic national debt has robbed us of savings just when we need them most for new investment and new training.

America got hooked on the narcotic of debt in the 1980s. It became our worst addiction. The personal debt held by Americans went from \$608 billion in 1978 to \$3 trillion in 1992. Government debt went from \$800 billion in 1980 to \$4 trillion in 1992. Personal debt began to decrease in the early 1990s as companies and individuals slammed on the brakes. Government kept spending. As 1993 began, the debt over the next five years was expected to go from \$4 trillion to \$5.4 trillion, and even after the 1993 Clinton budget, it will go to \$4.9 trillion. The thing that most appalls me is the public and social policy consequences that these numbers imply. The General Accounting Office told me

that if nothing were done about the debt, by 2020 every American's income would be 40 percent less than it otherwise would be. We will get poorer as we send more and more of our tax dollars to creditors and invest less and less in job-creating, wealth-producing assets. The existence of the debt literally transforms our prospects. It mortgages our children's future and robs them of the expectation that hard work usually yields reward.

So there they are: the end of the cold war, the explosion of world markets, the knowledge revolution, and the gigantic debt. We feel so unprepared, even disoriented, by these four transformations, because no one predicted their cascading impacts on our prospects. No one told us, not even the best of our intelligence analysts, that the Soviet Union would disappear without a whisper and leave us little need for a vast military machine. No one told us that Adam Smith would replace Marx on the third world's best-seller list. No one told us that companies resisting change would stumble even if their names were AT&T or IBM. No one told us that gigantic American budget deficits would be financed gladly by the rich of the world and that Americans would continue merrily and irresponsibly consuming our future. No one told us that we could spend more than anyone else in the world on health care and still have millions with no coverage. No one told us that just as we educated more Americans to college level than any other country, the mediocre quality of many American elementary and high schools would be apparent to all. No one told us that the Japanese would be accepted into ASEAN or that China would be burgeoning forward to become an economic superpower. No one told us that the Europeans of Brussels could not displace the French of Paris, the British of London, and the Germans of Berlin as the centers of tribal action, political and economic drama.

Each of these events has shaped what we produce, how we trade, and pushed us further into uncharted economic waters, with more workers anxious that it will be their job that the swirling river of economic transformation will sweep away next. To survive, we must lighten our load, fix our steering wheel, and get used to living without the certainties of another time. General Motors, General Electric, Dupont no longer assure lifetime jobs. Natural resources won't be decisive in the coming economic competition. Workers can't be seen as simply discardable cogs in a machine. The cheap labor of larger and larger numbers of unskilled workers won't produce economic growth or generate higher productivity any place in the world for long. Military might won't provide substantial benefits for an economy. A democracy in time of peace and in absence of clear threat won't ever spend \$310 billion on defense again. Ethnic and racial tension can't be viewed as irrelevant to the economic potential of our workers or the collective capacity of our citizens.

What we've always assumed about each generation of Americans having a higher standard of living is not guaranteed. New realities can prevail. Our leaders must be honest with us, and we must be honest with ourselves. Above all, we have to resist the temptation to believe that the only course is to hold on to what we have and how we do things now. To hold on means to lose, as individuals, as companies, and as a nation. No matter how good a worker George Fatemi was in his third career, when the missile orders stopped, so did his job. The Joneses who worked for IBM and AT&T couldn't have secure employment when IBM failed to see the technology shift, and AT&T, with deregulation, stood unprepared for worldwide competition. To believe that a labor-intensive apparel shop can compete with a modernized factory is, however well-intentioned, a delusion. The idea that we should trade only with countries "like us" of equivalent living standards ignores that other nations "like us" have absolutely no intention of limiting their trade and economic interaction to us. Underfunded pensions; deficits that can only be financed abroad; educational concepts that presume formal learning ends at 24; personal behavior that leads to skyrocketing health care costs: all of these cannot continue. If we hold onto these misconceptions and destructive patterns, we risk awaking one morning like a town after the river's flood recedes to find our communities broken and the health of our families failing.

For those in the midst of the turmoil, our heart must go out to them. They aren't interested in theories. They have to worry about putting food on the table and a roof over the heads of their families. For too long policy makers have ignored their needs and mistaken their loyalty for indifference. But the morning after, when the tears of compassion dry up, what people want most is a direction to follow that makes sense, a path to take that leads to a job. We must get about the business of dealing with our reality, not hiding from it or denying it or cursing it.

Without minimizing the difficulty, we need to see these transformations as part of a consistent and continuing American saga. We always were a nation suspicious of ideology (as Alexis D'Toqueville said). We always did seek competition to protect liberty (as James Madison stressed). We have always sought to be recognized, not for our muscle, but for our wit and agility and values (as Thomas Jefferson argued). We hate being in debt and desperately want to pay our own way (as Andrew Jackson demanded). These transformations are then "in character" for America (as they are not for much of the world). They are at once fundamental to the American crisis and at the same time a key to America's renewal. We simply have to know where we want to go and to build a platform that can allow us successfully to navigate the currents of our present economic waters.

I believe government has a role in this time of transformation. It must assure all Americans access to an "economic security platform." Given our gigantic national debt, we must build this platform with precision and hard-headedness, conserving our resources at every juncture. As platform designers, we must not respond to the siren calls of political expediency or short-term palliatives; we must steer between too many government interventions, subsidies, and entitlements and too few to liberate Americans from feeling so vulnerable and paralyzed. We must establish a set of initiatives that does not hobble the efficiency of market forces, but liberates our workers so they can realize their potential.

Who among us doesn't believe that Mary and Charles Jones have a lot more to contribute to our economy than their current employment would allow? Can we afford to let a worker like George Fatemi not work? Does any of us believe that our economy should be deprived of Louise Pearl's talents just because she cannot afford to update her 1970s' skills for a 1990s' job?

What specifically do I mean by an economic security platform? My economic security platform has three planks. It consists of, and is limited to, a guarantee of basic health coverage, an opportunity for lifetime education, and a guarantee of pension security.

First is health care. It should be available to all Americans. If any American loses a job, changes a job, grows old, experiences a serious illness or a difficult childbirth, confronts an injury to a spouse, or needs regular checkups, that American should be guaranteed access to quality health care. And we simply must control its costs. We cannot compete economically if we pay a health "tariff" of 4 to 7 percent more of our GNP for health costs than in other developed countries. This premium amounts to a giant health tax on all our goods.

Second is lifetime education. We can't survive with 40 percent of Americans with high wages, 40 percent with low wages, and 20 percent unemployable. The only sure way that America will guarantee its workers higher wages is if they have higher skills. The more American workers with superior talents, the higher productivity will be, and the higher worker productivity, the faster the economy will grow.

Given the demands of a knowledge economy, the opportunity to advance and learn anew must be available for workers at every stage of a career. Lifetime education means counseling, training, and relocation. Counseling means making it clear that sequential careers will be the norm; that changing a job usually won't be the worker's fault and might not even be the company's; that is just in the nature

of things in an economy that rewards innovation during a time of rapid change. Counseling also means deciding on the skill to be obtained and determining where to get it. Training means actually learning a new skill and using government financial assistance to help pay for it. Relocation means finding a new job that employs the newly acquired skills. Access to lifetime education can be assured with income contingent self-reliance loans where any American can get a loan if he or she agrees to pay a small percentage of future income to the government until it's repaid. Other times access amounts simply to assuring adequate information and coordinating the 123 existing education programs so that people know how to apply for them.

Third is pension security. One hallmark of the new age must be labor mobility. That means that when someone works and gets pension benefits, they should be portable. The worker should have his or her benefits guaranteed, companies should fund their pensions adequately, and government should assure that promises of income security for the aged are kept. The trends toward defined contribution plans and stagnating participation levels challenge this promise, as does the state of the Pension Benefit Guarantee Corporation. Greater participation in the system would provide more security and increase our private savings rate.

Our current patchwork pension system is failing large numbers of our workers. Too many are facing uncertainty in their later years. One sharp correction in the stock market, and our current federal insurance program would be in grave danger and the budget deficit would skyrocket. With the lessons of the S&L debacle in mind, we need to strengthen the pension system today rather than wait for it to falter tomorrow. It may take public funds; it will at the very least require government ingenuity. But we must begin.

With an economic security platform, people can live with less anxiety because job loss won't be fraught with the danger of catastrophic health costs or lost pensions, and lifetime education will offer the chance to start anew if you want to work for it. The economic security platform is individual and family focused. It deals with issues that erupt in people's faces. It assumes that failure has some limits and bad luck can't run its full course. It gives the middle class, as well as working people who are poor, a place to stand--a foundation from which they can regroup and then move forward on their own behalf.

But the economic security platform is limited. It is not a slippery slope back to expanded government entitlements. It does not attempt to avoid all risks. It does not guarantee income or prevent failure or oversee how people live. The next level of both security and opportunity

must come from building strong communities where people live and work.

Government programs do not create self-worth; that's what families, neighbors, and communities do. That's why neighborhood leadership and community structures are so important and should be encouraged. This is as true for the problems of rebuilding urban America as it is for the problems of small towns whose factories have closed. Communities are to humane living what markets are to international competition; both work optimally when given the freedom and the incentives to find paths that meet specific needs best.

In this sense, the economic security platform is different from a social safety net. The safety net of government subsidies is where you end up if everything is falling out from under you and you're about to hit bottom. The economic security platform is where you rest before you advance. It gives reassurance before a continued pursuit of success within our national community.

Health care, lifetime education, and pension security. "Is that it?" one asks. "Aren't there hundreds of anecdotes about failed lives that, if only there had been this or that government program, someone could have pursued happiness or someone else could have avoided tragedy?" Perhaps. But the economic security platform is strictly and intentionally limited because of resources--we have a gigantic debt--and because of theory--the market's dynamism must not be lost. I have tried only to build a platform on which a nation can steer through troubled waters. To add a house of additional new programs, mandates, and work rules would create a structure that would not be seaworthy.

What America should not do is emulate Europe. In America, overall wages have been stagnant since 1973. During the 1980s, the knowledge superstars arrived. Vast salaries went to the brightest, and no raises went to the unskilled. In Europe, unemployment has been high. Today it's 11 percent. The joblessness is caused in part because European governments have created a rigid labor market that discourages the hiring of new workers and prevents the shedding of incompetent workers, while at the same time it burdens business with cumbersome work rules even to the point of determining the required number of vacation days. In addition, income-support payments go on forever and fearsome restrictions confront anyone who wants to start a new business. Such over-regulation stifles an economy's ability to adjust to new circumstances. America's challenge is to raise take-home pay and to reduce the disparity of income without creating the disincentives to job creation that exist in Europe. Only a healthy economy that creates jobs will

dampen people's worries. Only an economy that creates new businesses will create new jobs.

Beyond finding a balance between encouraging business and job creation, and providing every American some security in times of transformation, government needs to get its own fundamentals correct.

Government needs to spend less money overall with more of the money it does spend going to public investment in infrastructure, education, and R&D, which stagnated even as our population grew over the last two decades. Less money should go to transfers from one group of taxpayers to another, particularly if those transfers are unrelated to need.

Taxes should not penalize job creation, but rather hit consumption. Payroll taxes should be replaced by consumption taxes. With less tax penalty for hiring, more workers can be hired and wages can rise too.

All government spending programs should be sunsetted--presumed to expire unless reauthorized. The President should have a line-item veto both for appropriations and for special interest tax loopholes, both of which increase the debt.

International markets should stay open and competition fierce so that the highest quality and lowest price can be assured and export jobs can grow. That means assigning absolute priority to approving the North American Free Trade Agreement and completing the GATT round, which reduces barriers to worldwide trade.

I cannot help but see NAFTA as the test case of whether we hold on and lose, or transform and win. To defeat NAFTA will solve none of the problems generated by the four transformations. To pass NAFTA will improve the chances for more jobs in America and a stronger economy to deal with the real threats to American jobs coming from Europe, Japan, and China. To defeat NAFTA will darken the chances for GATT, and the defeat of both will deny America its major source of job creation during the next few years. Ultimately, if world trade expands, everyone can win. To pass NAFTA is to take the challenge head on.

People such as Louise Pearl, George Fatemi, and the Joneses will be helped by the economic security platform. Their children will be helped by keeping the market open and businesses unburdened by excessive regulation. Their children will be helped by more public investment and less transfers. Their children will be helped by reducing payroll taxes and increasing taxes on consumption. Their children will be helped by a major reduction of the national debt.

With an economic security platform to help us navigate the surging river of economic change and a healthy, dynamic market awaiting us at our destination, we all have reason to hope. America is relatively better off than our competition. We've turned transformations to our advantage before. Remember the ages of industrialization and automation. We are more flexible than the rigidified economies of Europe and more ethnically diverse than the economies of Asia. Because of those strengths, we are better able to penetrate markets worldwide with goods that are high quality and reasonably priced. What is needed for us to catch the next wave of growth is national leadership that levels with the people, that tells the hard truths as well as the good news, that guides as well as empathizes, and that sees our path clearly and shows the energy to persevere.

One final image. Odysseus, when he was sailing where the siren songs were sure to be too seductive, plugged the ears of his sailors and had them tie him to the mast so that neither they nor he would plunge into the water and drown. I have painted a picture of turbulent waters where many people on their own, without a security platform, will in fact drown. I have suggested that we cannot fail to get into the middle of this new world of international competition or knowledge production because each promises hope as well as anxiety. I have said that if we heed the siren song of every new idea of what government should do, we will never navigate these waters. If we tie ourselves to the mast of efficient government, which does what has to be done and jettisons the rest, we will not need to plug our ears in order to survive and prosper.

I continue to believe in a strong, intelligent, and caring America--one that sets its compass and pursues a course that can provide leadership by example to the world as well as sustenance and security to ourselves. A national economy free of the burden of debt, populated by educated citizens ready to work and to care for their neighbors must be our goal. A dynamic, market-driven economy that remains open to the world must be our destination. A transformed and transforming America can get beyond the river's turbulent waters with our optimism intact and our future prospects bright.