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"21ST CENTURY AMERICAN CHALLENGES" - NATIONAL PRESS CLUB, WASHINGTON, DC

The historian, Arnold Toynbee, wrote that the common characteristic of the world's great civilizations has been the creative response to extraordinary challenge. According to Toynbee, civilizations "break down and go to pieces if and when a challenge confronts them which they fail to meet."

That historic cycle of challenge and response has always played to America's strengths. Today, however, we are in danger of failing to meet an extraordinary challenge.....maintaining America's competitive position in the world. America is undermining its vital interests by not paying attention to the big issues.

In Tom Friedman's new book, The World is Flat: A Brief History of the 21st Century, he captures the new challenges facing America's ability to compete in a global marketplace, "it is now possible for more people than ever to collaborate and compete in real time with more other people on more different kinds of work from more different corners of the planet and on a more equal footing than at any previous time in the history of the world - using computers, e-mail, networks, teleconferencing, and dynamic new software."

The post World War II Bretton Woods system, global trade regimes and multi-lateral institutions helped lead the world into an age of global prosperity. Decades of investment in geopolitical security, economic stability, innovation and productivity have resulted in a 21st Century diffusion of economic power. Today, there is no great power competition to paralyze world politics like during the Cold War, nations across the globe are reforming and opening their markets, and the explosion of scientific discovery and new technology is changing every aspect of our global lives.

The scale and rate of this change and global competitiveness is increasing faster than the ability to calibrate it or adjust to it. Just 20 years ago, China, Russia, Eastern Europe and India were not even in the global trading system. World exports have gone from $58 billion in 1948 to almost $6 trillion in 2001. Tariffs went from an average of 40 percent to 4 percent in the same period. Standards of living rose wherever barriers to trade and commerce fell, wherever investments in education and research and development grew.....and technology spread throughout the world. This confluence of progress is unprecedented in the history of man.

To meet the challenge of maintaining America's competitive position in the world will require national leadership that is capable of creating a national consensus. It will require prioritizing our interests and a clear evaluation of our inventory of challenges and plans to fix them. Deficit spending, health care, energy, entitlements, education, savings, trade, immigration, and infrastructure are all difficult and complicated problems that will affect the future of our country and our competitive edge in the world.

If America is to succeed in responding to these 21st Century challenges, our political system cannot continue to bog down in the mire of partisan gamesmanship...appealing to the lowest political common denominator on issue after issue. The race to win the 24 hour news-cycle, to destroy the other party and win at any cost has squeezed out our ability to see beyond the immediate to the larger historically defining challenges of our time. We have allowed government policies and our
democracy to become too often captive to marginalized politics, paralyzing the very system that has helped America prosper and meet the challenges of our time. This is especially dangerous because today's challenges and issues are so large and complicated that there is little margin for error in addressing them. Political leaders must stop this zero-sum game of political destruction. Institutions cannot function without the essential currencies of trust and confidence. We must work to build back that trust and confidence or we will be incapable of any bipartisan effort to provide solutions for America.

Well financed and well organized special interests that threaten, bludgeon, and intimidate are playing increasingly dominant roles in setting America's agenda and priorities. Elected leaders must show courage in fulfilling their constitutional responsibilities for protecting the general interests of our country and all of its citizens. Who lobbies for the general good of America? Who is looking over the horizon and seeing large economic storm clouds gathering? Is our purpose in Washington to win or to govern? Governing requires making tough choices, looking at the big picture and developing a consensus of purpose.

There will always be a legitimate debate over the role of government. This debate is critically important for the vitality and validity of a democracy. However, that debate must be held in an environment that moves America toward a purpose of progress and achievement. Respect for other's opinions, tolerance, fairness and listening are the building blocks for consensus at the end of the day. We will fail our nation if we continue to carelessly and unwisely stay on this current path of political paralysis and destruction. America's next generation will bear a heavy burden and pay a high price for this historic failure. I believe that America will not allow this to happen. Americans will demand that its leaders address their concerns and the nation's challenges. These difficult new issues will require consensus, creative thinking and, committed leadership.

A bipartisan agreement to get control of our run-away spending is the first priority for the President and Congress. Our budget is perilously out of balance. We know that America cannot sustain the current spending trajectory that we are now on. It will weaken our country, diminish our economy and result in a very uncertain future for our children. The Fiscal Year 2005, federal budget deficit may again be over $400 billion. The Congressional Budget Office projects that 62 percent of our Fiscal Year 2006 $2.4 trillion budget will be obligated to mandatory spending. Next year, that number will rise to 64 percent. Most of that amount will be obligated to entitlement programs – Social Security, Medicare, and Medicaid. And $177 billion of our mandatory spending is for interest on our national debt. Last week, appearing before the Senate Budget Committee, Chairman of the Federal Reserve Board Alan Greenspan warned that the federal budget is on an, "unsustainable path." He cautioned that, "At some point, these deficits would cause the economy to stagnate or worse."

Former Treasury Secretary, Robert Rubin, writes, "almost all economists agree that sustained deficits will crowd out private investment, increase interest rates, reduce productivity and reduce growth." And when our economy begins to falter, if our foreign investors lose confidence, we will be headed for a crisis. And he further noted, "a sound fiscal policy, which can engender confidence in U.S. economic policy and the long-term prospects for our economy, is the best antidote."

Our spending habits are adding up. The Federal debt is more than 38 percent of our Gross Domestic Product. According to Former Federal Reserve Chairman Paul Volcker, "what holds it all together is a massive and growing flow of capital from abroad, running to more than two billion dollars every working day, and growing." Fifty-three percent of our publicly held debt is held by foreign investors; half of that by Japan and China. While it is in their interests to continue to lend us this
money, we are putting an immense amount of leverage in the hands of these governments. This is also a matter of national security. We cannot be assured of political and economic stability in these nations, and risk whether they will continue to invest in an American economy with a government unable to impose any discipline on its fiscal policy.

Our current accounts deficit is almost $666 billion – nearly 6 percent of our Gross Domestic Product. America is losing market share in all sectors of trade...and there is a dangerous protectionist streak developing in both of our political parties.

Trade has been the engine of growth, innovation, wealth and job creation for the United States and the world since World War II. Staying competitive in a global economy requires maintaining America's leadership in free trade. Trade is not a guarantee – it is an opportunity. It is clearly in America's interest to strengthen our commitment to free and fair trade. That means supporting multilateral institutions such as the World Trade Organization and initiating Free Trade Agreements. Chairman Greenspan further warned that, "protectionism, some signs of which have emerged in recent years, could significantly erode global flexibility and, hence, undermine the global adjustment process."

America's current accounts deficit, however, is a challenge too big and persistent for a gradual market correction. Chairman Volcker recently wrote, "as a nation, we are consuming and investing about six percent more than we are producing...this seemingly comfortable pattern can't go on indefinitely."

Our continued deficit spending is being compounded by an aging population. America currently has an unfunded entitlements liability of $44 trillion. We have no idea where we are going to get that money to meet future entitlement obligations to our citizens. As columnist Robert Samuleson wrote, "we're mortgaging workers' future pay gains for baby boomers' retirement benefits." The recent report of the Social Security and Medicare Trustees showed that by 2030, the estimated costs of those programs alone could easily consume one-third of future workers' wage and salary increases.

Social Security is not in crisis now, but we need to respond to the underlying structural problems before it gets to the point of crisis. President Bush is right with his urgent focus on reforming Social Security. In March, I introduced the first comprehensive Social Security reform bill in the United States Senate. Medicare and Medicaid both will soon be in crisis if they are not reformed. We must deal with these challenges today so that our children will not be severely burdened when they are competing in a far more competitive world than exists today. To leave future generations in this predicament would be an irresponsible and colossal failure for our generation.

There are other obligations that are bearing down on us. The American Society of Civil Engineers recently put out an annual report card giving our national infrastructure a grade of D. They estimated that over 27 percent of our nation's bridges are deficient or obsolete and that the average commuter spends some 46 hours a year stuck in traffic. The power blackout that hit the Northeast, Midwest, and Canada in 2003 was a serious warning that our electric power grid is obsolete and deficient. This is a systemic problem for all publicly regulated and maintained utilities and infrastructures.

These infrastructure deficiencies will further erode our global competitiveness. But with the federal budget so committed to mandatory spending, it's unclear how we are going to deal with this challenge as we fall further and further behind in addressing these problems.

We need to think creatively. Capital accounts budgeting, for example, is being used by other
countries such as New Zealand and the United Kingdom to bring more accountability and reality to government spending and investment in their public infrastructure. We need to explore these kinds of new initiatives.

Last year, U.S. companies reported to the Department of Commerce that by 2010, as much as 90 percent of their research and development and manufacturing could shift to places such as China and India. The reason? They are having difficulty finding a qualified American workforce.

Tom Friedman said the problem boils down to three "gaps" – an ambition gap, an education gap, and a numbers gap. I believe he is right. Our schools are not turning out enough motivated students with the skills that will prepare them for tomorrow’s global challenges.

A competitive 21st Century workforce must have the education to understand the complexity of today’s markets and the training to stay on the leading edge of a competitive world. According to the Council on Competitiveness, our students are better at math and science than most of their peers in other advanced nations in the 4th grade, but are not competitive by the 12th grade. A sharply declining number of American-born students are taking degrees in engineering, math and science. In 2002, 58 percent of all degrees awarded in China were in engineering and physical sciences; in the U.S., only 17 percent. Shirley Ann Jackson, the President of the American Association for the Advancement of Science, calls this a "quiet crisis." One that could, according to her, "jeopardize the nation’s pre-eminence and well-being."

For leaders, that means we must be out there, visiting schools and students, seeing for ourselves what’s happening and underscoring the importance of a good education. We must ensure that the necessary resources are available for quality education, including inspired teachers and incentives for change and new initiatives. As leaders and parents, we need to be paying attention and sending a message that education is a lifelong endeavor. Everyone who has lost a job in this new global economy knows this. Protectionist measures will not save jobs; enhanced skill levels and the education to qualify for these 21st Century jobs is the real response to this challenge.

In addition to the growing gap in the quality of our workforce, we also have a problem with the quantity of workers. With falling birthrates, it will be increasingly difficult to fill available jobs in this country. Increasing the size of our workforce through immigration has historically given America’s economy and society a positive boost.

Today, however, America is unintentionally working against its own interests with a contradictory and punitive immigration policy that makes no sense. Obviously, border security is critically important for our national security. However, with our current immigration policies, we are saying, "not welcome" to students, professionals, workers, and others of the world’s next generation, and with limited improvement to the security of our borders. I will soon be re-introducing comprehensive immigration reform legislation that will address these issues.

Rule of law, labor, capital, natural resources, and the free market are all basic elements of our flexible economy. But there is also a large intangible that has been a core building block for our prosperity and security, and that is America’s leadership in the world. We have used our leadership to bring together friends and allies in common cause, addressing common challenges with common responses. We’ve built coalitions of common interests. But today, we are widely perceived as turning away from that successful post World-War II multi-lateral approach. If this world perception of America in the early 21st Century becomes permanent in the eyes of a new global generation, it will be very difficult for our nation to remain secure and stay competitive. We will become isolated.
in a complicated and dangerous world.

American leadership is a heavy burden, and one that will give us no quarter in the coming years. But it is also a tremendous opportunity. It will require an enlightened foreign policy of principled realism that is true to our highest ideals and seeks to build coalitions and strengthen alliances. We have no other course, if for no other reason than we will be economically, militarily, and diplomatically incapable of sustaining unilateral policies.

If the world believes America is inclined to go it alone and is absorbed with its own purpose, then we are less likely to get the international cooperation and support we need for important global objectives and actions, when we need it. A renewed commitment to public diplomacy will be required to address this challenge and stop this 21st Century anti-Americanism that has taken hold all over the world. President Bush has said he is committed to this and the Congress will strongly support his efforts and leadership. However, it will be America's deeds and policies rather than our words by which the success of this effort will be measured in the eyes of the world.

And while a lack of international support will affect our ability to achieve our foreign policy goals, it will also add additional burdens to our economy. Acting as the world's policeman is costly: it means spending hundreds of billions of dollars that won't be available to support our economic infrastructure, education, research and development, health care and other national priorities. It means investing human capital in police and military work around the world. For America to remain competitive in the world, it must balance its responsibilities, resources, relationships, and priorities.

American foreign policy must inspire trust in America's purpose. During World War II and the Cold War, there was little question as to which power represented hope and offered freedom and prosperity to mankind. Today, we are living through a dynamic global generational shift. This new generation does not see the world and the U.S. role in it the same way as their parents. We are losing the battle for hearts and minds across the globe, especially in the Islamic world. That means America could lose the future. The world needs to see a 21st Century American purpose worthy of its 21st Century power.

America is not the only nation with burdens and challenges. Nations of Europe and Japan are facing aging populations, low birthrates, high-cost government programs, and other governmental, societal and economic challenges. We are acutely aware of the explosive economic growth of India and China, but they too have heavy burdens to carry. India has a fast-rising middle class, estimated to be more than 200 million people. But it also has more than 300 million people below a very low poverty line. China has a similar population challenge, as well as an authoritarian political system that is fundamentally incompatible with its booming economy.

All nations inventory strengths and weaknesses. One of America's greatest strengths is its flexible economy. That flexibility thrives in a dynamic society. It does set America apart from other nations. We recall in the 1980s, the fears about Japan's economy, productivity and disciplined structure dominating the U.S. As MIT scholar, Richard Lester, noted, "at the beginning of that decade, America's industries were widely thought to be in decline. Yet by the end of the 1990s, not only had the U.S. economy recovered, but it was unarguably the strongest in the world."

The laws of "comparative advantage" and "supply and demand" will always prevail. The U.S. has tended to forget the consequences of those laws or ignore them. They need to be reinserted into our global economic thinking and policy making.
When America has required the best from its people it has harnessed the vitality and innovation of the private sector with the structure and power of government to form public-private partnerships. The World War II Manhattan Project and the recent intelligence review commissions are two examples of these partnerships. As others have said, a Manhattan Project type Commission should be established to address our long term energy challenges. The President and Congress should come together and develop these partnerships by structuring panels to assess, analyze, and provide recommendations on how we fix our long-term problems. President Bush has empaneled a Tax Reform Commission, but I believe we must go further.

Tax reform is just one element of government policy that affects our economy. National Entitlements and Health Care Commissions should be established to assist the President and Congress with the difficult reform decisions that will be required to keep our entitlement programs solvent and health care advancing, accessible and affordable. A wider and deeper review of these problems will be required to legitimately evaluate them and recommend integrated, complete-picture solutions to fix them. We cannot fix long-term economic problems by adjusting or changing only one or two components of the economy.

We must seek to lower the cost of how Americans operate and compete in the world. A complete review of government regulation is long overdue in all economic sectors. America’s instinctive and structured ability to adapt is extraordinary, but that should not make us complacent. We will need every fiber of that adaptability to maintain our competitive advantage in this new and developing global economy.

Economic power is the one power that allows a nation flexibility, options and opportunities. It supports all other powers...it is the power-base of a nation. Jack Welch, the former CEO of General Electric, once said that, "if the rate of change on the outside exceeds the rate of change on the inside, the end is near." That applies to nations as well as businesses. The new global economy, which this country has done so much to build, is both a challenge and an opportunity to our civilization. Now, we must respond......just as Toynbee observed.

The dynamism produced from a free society is the engine of all change. It is part of America’s culture. It is who we are. In his State of the Union address in 1990, President George Herbert Walker Bush said: "America, not just the nation, but an idea [is] alive in the minds of the people, everywhere. As this new world takes shape, America stands at the center of a widening circle of freedom, today, tomorrow and into the next century...But dreams alone won’t get us there. We need to extend our horizon, to commit to the long view." Fifteen years later, the words of President Bush ring like a Churchillian jarring gong with new urgency and meaning.

Today, in the world’s widening circle of freedom, America must commit to taking the long view of its role in the world. That will require strong and imaginative leadership, coherent policies, and responsible politics and government. My generation has enjoyed 60 years of expanding prosperity, security, and national prestige. This was a legacy passed on to us by our parents and every generation of Americans. We owe it to them and to our children to pass on an enhanced inheritance to future generations. This is the 21st Century Toynbee challenge.

Thank you.