CEO COUNCIL

THE JOURNAL REPORT

ADVICE FROM THE TOP

Fix Taxes, Immigration And Education

At The Wall Street Journal CEO Council's annual meeting, business leaders offered their recommendations for tackling the weak economy and other key challenges. Inside, you'll find their wish list—and the reaction from some of the top policy makers in Washington.

'We can stop legislation that's injurious to business from getting across the floor of the House.'

ERIC CANTOR

R8

'We're facing a very consequential debate about some fundamental choices as a country.'

TIMOTHY GEITHNER

R8

MEMBERS OF THE WALL STREET JOURNAL CEO COUNCIL were confronted with daunting analysis of the short-term challenges facing the global economy at their meeting in Washington, D.C., last week. Their briefings dealt with a growing financial crisis in Europe, a political stalemate in Washington and a tricky leadership transition in China.

But the CEOs spent much of their time together looking beyond those sizable short-term challenges to longer-term shifts that will be necessary for ensuring global growth.

THE WALL STREET JOURNAL. CEO COUNCIL

Among the questions they wrestled with:

◆ How can the most important bilateral relationship in today's world—between the U.S. and China—be put on a stronger footing?

◆ How can the innovation necessary for strong growth be both promoted and protected in global commerce?

◆ How can the U.S., whose consumers have powered the global economy in recent decades, shift to more of an export orientation?

◆ How should the global competition for natural resources be managed in the years ahead?

◆ How can the most pressing global health problems be addressed effectively?

The council, which was first convened by the Journal in 2008, meets annually to deliberate on measures that can be taken by both business and government to encourage economic growth and prosperity. Its membership consists mostly of CEOs of large, U.S.-based corporations, and the deliberations reflected that composition.

The top priority of the group was to rewrite the U.S. corporate tax code, lowering the statutory rate and adopting a territorial system that would make it easier for companies to repatriate earnings for investment in their home market.

No. 2 on the list was to change U.S. immigration policies to allow foreign students educated in the U.S. to stay and work in the U.S. And No. 3 was to improve the U.S. education system to support technical careers and export growth.

But the council this year reflected a growing representation of companies based outside the U.S., including three CEOs from companies based in China; three from the U.K.; two each from India, Russia and Canada; and members from Japan, Switzerland, Norway, Germany, Australia, Israel and Italy.

The council's priorities reflected that more global orientation. It called on U.S. authorities to encourage more foreign investment, and it called on U.S. companies to set targets and goals for increasing their participation in foreign markets.

—Alan Murray

'As the CEO, you have an obligation to make sure that women are able to move up the ranks in your company.'

DEBRA LEE

R14

'The investment dollar that always just lands in China is going to be looking for an alternative.'

JON HUNTSMAN

R14

THE CEO COUNCIL'S RECOMMENDATIONS

Forging a Stronger U.S.-China Relationship

TOP PRIORITY

A NEW FRAMEWORK FOR BUILDING TRUST

R4

Building a U.S. Export Economy

TOP PRIORITY

GLOBALIZE ATTITUDES OF U.S. BUSINESS

R4

Encouraging and Protecting Innovation

TOP PRIORITY

TOUGHER PROTECTION OF INNOVATION

R5

Improving Global Health

TOP PRIORITY

TACKLE NONCOMMUNICABLE DISEASES

R6

Managing the Global Competition for Resources

TOP PRIORITY

DRIVE MESSAGE OF ENERGY AS CRUCIAL TO GROWTH

R6

PLUS

Interviews with Paul Ryan on deficit negotiations, Robert Zoellick on Europe's woes, Erskine Bowles and Alan Simpson on the lack of political will, Jack Lew on the reasons for optimism, Alan Krueger on the jobs outlook, Lawrence Summers, Glenn Hubbard and Zhu Min on how much more Europe has to do, and Dick Cheney on the war on terror

The CEOs' Top Priorities

Last week, The Wall Street Journal assembled nearly 100 chief executives of large companies for a day and a half to discuss the policy choices facing business and government, and the effects those choices may have on the global economy.

The CEOs divided into five task forces and debated priorities in the following areas: forging a stronger U.S.-China relationship, building a U.S. export economy, encouraging and protecting innovation, managing the global competition for resources and improving global health. Using an electronic ranking system devised by the Journal, each task force chose five top priorities in its subject area.

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Each task force then reported its priorities back to the full council. The chief executives then ranked all the priorities from the five task forces, in order of their relative urgency and importance.

Here's a look at their top five priorities.

1 CREATE GLOBALLY COMPETITIVE TAX SYSTEM

The U.S. should replace its current world-wide tax system with a territorial system to encourage companies to invest repatriated earnings into long-term investment. The U.S. should also lower the statutory corporate tax rate to globally competitive rates and create certainty around the R&D tax credit.

2 IMMIGRATION POLICIES SHOULD SUPPORT INNOVATION

Visa policy should encourage foreign students educated in the U.S. to stay and should welcome foreign investment to create businesses and jobs.

3 IMPROVE HUMAN CAPITAL

From K-12 through college and advanced-degree programs, the U.S. must improve the skills of workers to aid in export growth. This includes the promotion of technical careers for young people. The U.S. should also encourage the immigration of the best and brightest from around the world.

4 UPGRADE ENERGY INFRASTRUCTURE

The infrastructure built to transport energy has passed its useful life. We need a broad-based, national effort to rebuild the infrastructure, including oil and gas pipelines and the electricity-distribution grid. Government must work with businesses so that planned projects stop being deferred or canceled.

5 INVEST IN R&D

Assure sustained government investment, intelligent legislation and public-private partnership in energy research and development across the range of energy resources, rather than volatile and uncertain funding. For example: carbon sequestration, combined wind/solar/battery technologies, intelligent buildings and innovative transportation. Government investment should focus on basic research and technologies, not companies or players.

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Forging a Stronger U.S.-China Relationship: More Carrot Than Stick

'We have to be patient, take a step-by-step approach.'

DOUGLAS DEVOS, LEFT, WITH JACK MA AND GAIL KELLY

The U.S.-China relationship is widely recognized as the most important bilateral relationship in the world, but it is fraught with imbalances and tensions. The Wall Street Journal's Andrew Browne moderated a task-force discussion aimed at strengthening the working relationship between the world's largest debtor and its largest creditor.

Here are edited excerpts of that conversation:

FORGING A STRONGER U.S.-CHINA RELATIONSHIP CO-CHAIRS

Jack Ma *Chairman, Alibaba Group*

Gail Kelly *CEO and Managing Director, Westpac Banking Corp.*

Douglas DeVos *President and Co-CEO, Amway Corp.*

SUBJECT EXPERT:

Lawrence H. Summers *Former U.S. Treasury Secretary and President Emeritus of Harvard University*

A Gentle Approach

ANDREW BROWNE: *As reporters in China, we are well used to horror stories from foreign businesses operating in the world's second-largest economy. Intellectual-property theft is the No. 1 complaint. Not just that, but forced technology transfer, a lack of access to the judicial system, corruption and so on.*

Our group didn't exactly ignore these problems. Nevertheless, I think it's fair to say that we were quite gentle on China. It was very high-level. It was a lot of discussion about win-win solutions—about collaboration, about learning.

The top policy takeaway was that we needed to establish a greater platform of trust.

DOUGLAS DEVOS: This was based on the world-view perspective that subject expert Larry Summers set out: Either we're going to have tit-for-tat discussions on very short-term issues every time something pops up or we're going to form a long-term harmonious relationship. And the group said we want to go toward the latter.

So we felt the first thing that was needed was a strategic framework. The term "bilateral investment treaty" was brought up, but that's not exactly it. Economic cooperation agreement, perhaps that sort of thing. Something between our two nations, because the World Trade Organization relationship, merely being members of another global organization, isn't the right spot for us to go through issues that are going to be long term and challenging.

The feeling was that there would be some principles that would need to be part of this relationship or agreement, principles that were going to be long term, that were going to go from administration to administration. There need to be dispute-resolution processes contained within it so disputes can get addressed quickly.

We have to be patient, take a step-by-step approach. We're not going to fix everything tomorrow. It has to be rules-based. We have to get to a point where we write it down on paper so we can have discussions about what's written rather than what we thought we heard somebody say.

And then it needs to be actionable. You see in the third recommendation, where we wanted to set targets. We have to be able to follow up, and measure ourselves, if we're going to make step-by-step progress.

JACK MA: My topic is about how the U.S. should attract more Chinese investment. The U.S. should also try to attract a lot of Chinese entrepreneurs with China's characteristics—they move faster and create jobs in tough situations.

When you go to China, you have the same problems with China's government, with China's environment. And the Chinese companies coming to the U.S also have problems. Many private businesses come to the U.S., like I do, and don't know how to deal with the tax issues, policy issues, and what we should do.

So there should be an organization like the Economic Development Board, which helps all the foreign investors who come to Singapore. China also has a very strong organization helping all the foreign investors who come to China. What we suggest is that the U.S. have such an organization to facilitate foreign investors coming to the U.S.

A Win-Win Relationship

GAIL KELLY: The fourth one was around the theme of reciprocity. We discussed that against the framework that Jack outlined a little while ago of building a relationship of trust. So we used the idea of carrots and sticks to start with. But we decided to refine that.

Against this backdrop of building a relationship of trust, we chose to use words such as "win-win" instead. And at the heart of this is both sides recognizing it requires patience. It requires seeking to understand the other's point of view. And certainly a key component of this reciprocity is recognizing that each country being strong is good for the other. In particular, driving a strong consumption-based economy within China, the strengthening of the middle class, driving for more goods and services, is good for the U.S. in terms of its manufacturing and in terms of job creation in the U.S.

The key element of a recommendation out of this reciprocity goes to building out specific industry working groups. There was a view that only so much can get done at the government-to-government level. But as we all know, businesses are more outcome-focused and more practical and pragmatic often in the way in which they tackle issues.

WSJ.com>>
See video excerpts from the CEO Council conference at WSJ.com/Reports.

THE TOP FOUR RECOMMENDATIONS

1 NEW FRAMEWORK FOR BUILDING TRUST
Establish a strategic framework for building trust through an economic-cooperation agreement. Pursue a rules-based, long-term arrangement to address interests in business, education and culture.

2 BUILD AN INVESTOR-FRIENDLY APPROACH
Establish a full-service agency to draw investment to the U.S., creating procedures to help foreign investors navigate the U.S. public and private sectors. The U.S. should study China's investor-friendly approach to attracting capital. The private sector would work closely with governments on practical on-the-ground issues.

3 SET TARGET FOR FOREIGN DIRECT INVESTMENT FROM CHINA
Establish a target for $250 billion annually in foreign direct investment in the U.S. from China.

4 STRESS RECIPROCAL SUCCESS
The U.S. should welcome investment from China, but stress the importance of reciprocity for U.S. companies to emphasize the potential for mutual success. Industry-specific working groups could maintain pressure to ensure changes in both countries. China should expand domestic consumption further to provide a market for U.S. goods. All of this would help defuse short-term tensions around currency valuation, trade access and intellectual-property violations.

Building a U.S. Export Economy: Creating a New Mind-Set

The U.S. faces a tremendous trade gap. What can Washington and the private sector do to fire up the export engines?

The Wall Street Journal's David Wessel moderated the task-force discussion on the topic. Here are edited excerpts of the presentation of its priorities to the CEO Council.

Think Local

DAVID WESSEL: *We had a very good discussion about the obvious need for the U.S. to strengthen its exports of goods and services if we're going to rebalance the world economy.*

FRANCISCO D'SOUZA: Only 1% of U.S. firms today are exporters. In a sense, U.S. firms have never had the export muscle—or to the extent that they had it, that muscle has atrophied over time.

The first recommendation is creating a mind-set within U.S. businesses of the importance of exports and really moving away from the notion that all products and services are created equal. Products need to be tailored for local markets, and U.S. firms need to engage deeply in local markets around the world if they would like to be net exporters.

They should also encourage workers, U.S. citizens, to go spend time around the world. We felt that was necessary in order to truly be able to participate in the local market.

Finally, there was a feeling in the group that small and medium-size businesses particularly in the U.S. just don't have the resources and capability to understand the nuances of local markets around the world. Government can play a role there, to create a support structure and an ecosystem to assist small and medium-size businesses to get their products and services into markets around the world.

ELLEN KULLMAN: The second recommendation is what the U.S. government can do in helping expand trade and hence exports. Two areas that we focused on were intellectual property and transparent trade practices.

Intellectual property, counterfeiting, enforcement are big issues around the world. It is something that we spend a tremendous amount of resources on in my company. Our exports are lower because we are constantly being knocked off by counterfeiters in various countries. There's a lot that can be done, whether it's through the World Trade Organization, trade agreements or investment treaties, to level that playing field and get a standard around intellectual-property protection and enforcement.

The second area is transparent trade practices. Government procurement rules come into play there. Do other governments have transparency when it comes to making their purchases, and should that level playing field be there? That creates more opportunities for companies in the United States to participate there.

The next recommendation we talked about was the U.S. tax system, which creates a disadvantage for U.S. companies that operate on a global basis. We need to have comprehensive tax reform. My competitors, many of your competitors, are increasingly global or foreign and operate under a very different tax regime—a territorial regime.

If we could create one in the United States, that would help U.S. companies bring their offshore earnings back, hopefully to invest in U.S. manufacturing. We believe that is a much more competitive system globally for our companies. We could argue what the rate should be, but it needs to be lower than today. That's something that we think has to be benchmarked globally.

And the complexities have to either go away or we have to create certainty around them. For instance, the R&D tax credit is one that we struggle with. This time last year, it wasn't clear that we were going to get the R&D tax credit for the year 2010. How can we make decisions on what jobs that tax credit could help create or investments we could make if every year it is discussed and decided whether it comes in?

We believe that certainty and the level playing field of a territorial system would go a long way to allow us to compete in the world. We do believe that will help expand exports.

The Human Touch

MR. D'SOUZA: The last recommendation is the issue of human capital. It became clear that where we can be most successful in exports is in high-value, complex manufacturing, high-value goods and services.

The raw material many times behind that is talented people to create these high-value goods and services. We felt that there's a need to look at the whole human-capital chain, starting from K-through-12 education. We need to reform that and create more of an emphasis on STEMs—science, technology, engineering and mathematics—careers.

On the other side, we need to look at reshaping the U.S. immigration system to allow the best and the brightest to come to the United States, build their careers and their lives here.

Ralph Alswang for The Wall Street Journal (3)

'U.S. firms need to engage deeply in local markets around the world.'

FRANCISCO D'SOUZA

'The level playing field of a territorial tax system would...help expand exports.'

ELLEN KULLMAN

BUILDING A U.S. EXPORT ECONOMY CO-CHAIRS

Ellen Kullman *Chairman and CEO, DuPont Co.*

Francisco D'Souza *President and CEO, Cognizant Technology Solutions*

SUBJECT EXPERT:

Deborah Wince-Smith *President and CEO, Council on Competitiveness*

THE TOP FOUR RECOMMENDATIONS

1 GLOBALIZE ATTITUDES OF U.S. BUSINESS
To ensure growth, U.S. businesses should recognize the importance of developing foreign markets, including locally based products and services. They should set targets and goals for increasing participation in foreign markets and encourage more U.S. nationals to live abroad for a period. Government can help by providing support and education to smaller and medium-size businesses to increase their exports.

2 INTELLECTUAL PROPERTY PROTECTIONS/TRANSPARENT TRADE PRACTICES
A key to enhancing U.S. exports is to develop consistent international standards—and international enforcement—for protection of intellectual property through investment treaties, trade agreements, the World Trade Organization and law-enforcement cooperation. A U.S. priority should be to encourage partners such as Brazil, Russia, India and China to comply with government-procurement rules and to initiate a global investment framework to create more transparency and consistency.

3 CREATE GLOBALLY COMPETITIVE TAX SYSTEM
The U.S. should replace its current world-wide tax system with a territorial system to encourage companies to invest repatriated earnings into long-term investment. The U.S. should also lower the statutory corporate tax rate to globally competitive rates, and create certainty around the R&D tax credit.

4 IMPROVE HUMAN CAPITAL
From K-12 through college and advanced-degree programs, the U.S. must improve the skills of workers to aid in export growth. This includes the promotion of technical careers for young people. The U.S. should also encourage the immigration of the best and brightest from around the world.

Encouraging and Protecting Innovation: Think More Broadly

Few people would deny that innovation is one of the keys to economic growth in the modern economy. But the challenge for countries is to both spur more innovation and figure out how to protect the innovation they already have.

The Wall Street Journal's John Bussey moderated the task-force discussion on that topic. Here are edited excerpts of the presentation of their priorities to the CEO Council.

The Cudgel

JOHN BUSSEY: *One thing that struck me at the beginning was that this was about encouraging and protecting innovation, and the group wanted to give equal time to each. It wasn't just about protecting innovation and concern about technology transfer to countries abroad. There was a keen interest in focusing on, "How do you encourage innovation at home?" And so you'll see that reflected in the recommendations that the group made.*

The first one, seeking tougher protection for innovation, was probably the closest thing to kind of a cudgel that emerged in our session. It calls for understanding the policies and practices of countries abroad. It wasn't just China. It was a generalized concern about nations abroad where this is happening, to understand the practices and policies that countries are using to force technology transfer from U.S. companies to their country as a requirement, spoken or unspoken, to get access to their markets. It was about figuring out a response to that, and holding the countries' feet to the fire, most likely through enhancing the abilities of the customs department.

The recommendation was to strengthen U.S. law in this regard and shape the foreign legal environment. That's meant to encourage countries to develop court structures within their own country; one of the biggest problems with China is that there is no recourse now.

The recommendation also calls for encouraging global appreciation of what drives innovation. It's best to have a culture of innovation where intellectual property is protected in your country, and not just a practice of swiping it from other innovators.

KEVIN BURKE: One of the key items in encouraging innovation is looking at the U.S. immigration policy and visa policies. We've had some discussions in the past about how we bring foreign students over to the United States, we train them, and when they finish and get their degree, we tell them, "You can't work here. And in fact, you have to leave the country." We think that's just a bizarre way of encouraging innovation.

We've talked about the engineering schools, the science schools. But it extends beyond that, whether it's in media or in other areas, where you'd want to continue to encourage people to stay here and to innovate.

Another area we looked at was to welcome foreign investment. And in addition to large foreign investment, we're talking about encouraging entrepreneurs to come to the United States. If they can bring some capital, start a small company, get going, get some more jobs for people in the U.S., we think that should be encouraged, too.

> 'The great element of this proposal is the involvement of the population at large.'
>
> VITTORIO COLAO, RIGHT, WITH KEVIN BURKE, LEFT AND JEFFREY BEWKES

Ralph Alswang for The Wall Street Journal

National Pride

VITTORIO COLAO: I have probably the most exciting of all, which is not just about specifying the five national innovation goals, but also much more about creating energy, creating pride.

Things that have been mentioned as goals have involved digital infrastructure or big goals in energy and energy production and clean energy—innovative disruptive technologies to provide solutions to transportation problems, for instance. But again, the great element of this proposal is the involvement of the population at large.

The schools were mentioned as something that really can create a positive feeling. Now, practically speaking, this will imply defining public-private sector contribution. There was a bit of discussion as to whether this implied also defining recipes or whose responsibility things should be. And the answer is, no, not defining the responsibilities, leaving that to the market, but defining how a partnership would work in terms of essential goals, what the private sector can bring, what the public sector can bring.

And again, like those great examples of the moon landing and interstate highways, creating a sense of pride behind something that is long term—and rewards long-term investments.

JEFFREY BEWKES: On the last one—protect tangible and intangible investment—you may wonder, "Well, what exactly are we thinking?" Tangible would basically be infrastructure. Intangible is intellectual property.

We started by recognizing that we already have a huge amount of innovation, certainly in the U.S. but also in the developed countries. How do we keep that going, because it's a high-value employment kind of thing?

There are two main areas to this. Let's do the tangible first. We want to encourage investment in infrastructure—think of energy grids, transportation grids, broadband systems—by aligning and reforming the regulations to support private investment, because most of it should be private investment, and to leverage some amount of public funding. We all remember public funding of the highways, as well as the Internet in the beginning.

So that's essentially having regulation *help* investment in infrastructure rather than undermine it or take it for granted.

Second, on the intangible side, encourage the continued development of intellectual property, particularly in the United States but really in all the developed economies by upholding copyrights and patents.

There are two sides to it. You heard it in the first, which is other countries that don't innovate that plug their gap by taking ours. And the second, really, is new disruptive Internet "technologies" that undermine either the payments for the content or the payments to use the broadband infrastructure that they use to do the disruption.

ENCOURAGING AND PROTECTING INNOVATION CO-CHAIRS

Carlos Ghosn *Chairman, President and CEO, Renault-Nissan Alliance*

Kevin Burke *Chairman, President and CEO, Consolidated Edison Inc.*

Vittorio Colao *CEO, Vodafone Group PLC*

Jeffrey L. Bewkes *Chairman and CEO, Time Warner Inc.*

SUBJECT EXPERT:

Charlene Barshefsky *Partner, WilmerHale*

THE TOP FOUR RECOMMENDATIONS

1 TOUGHER PROTECTION OF INNOVATION
The U.S. should understand policies and practices used by foreign governments to force technology transfer to their countries from U.S. companies and devise a response that reduces this transfer. Strengthen U.S. law, shape foreign legal environments and encourage global appreciation of what drives innovation.

2 IMMIGRATION POLICIES SHOULD SUPPORT INNOVATION
Visa policy should encourage foreign students educated in the U.S. to stay and should welcome foreign investment to create businesses and jobs.

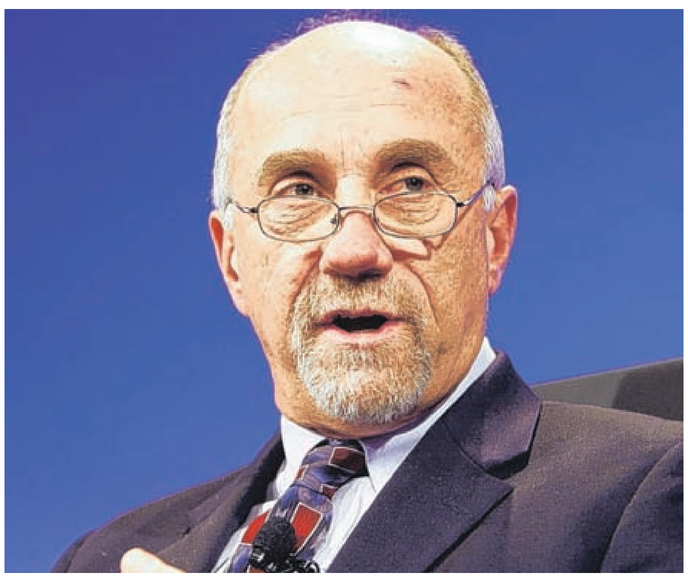
3 SPECIFY FIVE NATIONAL INNOVATION GOALS
Energize and challenge the population and schools toward a national agenda of innovation, in the spirit of John Kennedy and the moon landing and Eisenhower and interstate highways. Define public- and private-sector contributions and encourage public-private partnerships that would achieve these essential goals.

4 PROTECT TANGIBLE AND INTANGIBLE INVESTMENT
Underscore and protect long-term value of tangible and intangible investment in innovation.

Improving Global Health: Focus on Chronic Disease

'We're seeing an explosion of chronic conditions in the developing world.'

GEORGE HALVORSON



'One goal is a collaboration with host countries to build a vaccine infrastructure.'

RENÉ LERER

When it comes to addressing health care, the debate in the U.S. is just a drop in the global bucket. The developing world is facing a host of health-care challenges—whose economic effects reach all the way to America's shores.

The Wall Street Journal's Laura Landro moderated the task-force discussion on global health.

Here are edited excerpts of the presentation of their priorities to the CEO Council.

IMPROVING GLOBAL HEALTH CO-CHAIRS

René Lerer *Chairman and CEO, Magellan Health Services Inc.*

George C. Halvorson *Chairman and CEO, Kaiser Permanente*

SUBJECT EXPERT:

Anthony S. Fauci *Director, National Institute of Allergy and Infectious Diseases*

Not Just a Moral Issue

LAURA LANDRO: *Global health is not just a moral and ethical issue that we should be interested in, but also a leading driver of economic growth and productivity or the lack thereof. The Global Health Initiative at the World Economic Forum recently changed its focus from infectious to noncommunicable diseases. As George Halvorson from Kaiser-Permanente will explain, that came to the top of our list of recommendations.*

GEORGE HALVORSON: Until relatively recently, the developing world mostly suffered from issues of infectious disease. We're now seeing the rest of the world urbanizing. As people move from the countryside into cities, they're going from eating local diets and having a lot of physical activity to cities where they are basically inert and eating white rice, white wheat and different food materials. So, we're seeing an explosion of chronic conditions in the developing world. A majority of deaths are coming from chronic conditions.

We need to do a number of things. One is to facilitate physical activity, because when people are inactive, the body doesn't work well. In order to work at maximum levels, the body needs to move. We have to walk. When we do that, the neurochemistry is better, the physiology is better, the psychology is better, depression levels go down.

We need to pass that information on to the world and create environments where physical activity is safe, possible and encouraged. Rather than solving it at the back end with better treatments, we need to solve it at the front end by having fewer people becoming diabetic.

This feeds into the next recommendation, technology. Technology is significantly underused in health care. We don't have optimal use of information flow. We have a shortage of health-care providers in the world, and a problem getting information about care delivery to patients in major parts of the world.

The only way we're going to solve that problem is by creating a technology flow that will get information out to very basic-level caregivers in those settings, supported by primary-care doctors upstream electronically, supported by specialists, supported by electronic algorithms, supported by care systems.

What we need is a whole infrastructure of care delivery where we have applications that support care delivery. The world right now is full of iPhones. Everybody in the world is now electronically connected. That's an opportunity that we need to take advantage of. If we don't take advantage of that opportunity, we really won't be able to improve care in the world.

Supplying the Cure

MS. LANDRO: *Dr. Lerer is going to talk to us about the third and fourth priorities, starting with vaccine-preventable diseases.*

RENÉ LERER: We know that there are vaccines available for a number of diseases that we see world-wide that could have a material impact. One of the goals, clearly, is an industry-sponsored collaboration with the partner countries and the host countries to build an infrastructure for the development, the access to and then the delivery of the vaccines. By doing so in an aggressive way in partnership with those countries, we can truly make a difference both clinically and economically because of the financial impact of these diseases on the countries.

The last recommendation—and one that probably everyone would have thought would have come first because it's had the greatest exposure when talking about health care—is HIV/AIDS. As we've gone into developing countries and began to provide capabilities to treat patients with HIV/AIDS, we become successful in one country and then we see it pop up in another country. Developing countries begin to move forward in the continuum, and then other countries have similar issues. We know that today HIV/AIDS is one of the leading causes of death in these countries, extremely communicable, obviously.

The issue is not only the treatment of AIDS. Really, the goal is the prevention of AIDS. There are significant opportunities to prevent AIDS by treating those who have it or by educating folks on what it means to be preventative in AIDS.

The second piece was to create an infrastructure within the communities to develop sustainable health systems. Without a health system in a community, the ability to identify and deliver the drug or the treatment or the education becomes extraordinarily difficult. Historically, you spend a lot of time talking about pharmaceuticals, but what we're talking about is building an infrastructure with the country, educating folks on how to prevent a disease, primarily, and then making available to them drugs and to help in the treatment of this disease.

THE TOP FOUR RECOMMENDATIONS

1 TACKLE NONCOMMUNICABLE DISEASES
Chronic diseases including heart, lung, diabetes, mental health and cancer are emerging as a leading threat to economic growth and account for 63% of deaths world-wide. Use technology, workplace wellness programs and health education to help treat and prevent these diseases and the growing global problem of obesity. Focus on "best buys" for prevention: tobacco, alcohol, diet, physical activity.

2 DEVELOP GLOBAL USE OF HEALTH TECHNOLOGY
Encourage the growth of a public-private global health-technology infrastructure. Expand use of electronic medical records, mobile applications for health monitoring, advice and education, wireless devices and telemedicine for diagnosis and treatment, particularly in underserved areas in the developing world.

3 TARGET VACCINE-PREVENTABLE DISEASES
Create industry-sponsored purchase of vaccines and partner with host countries in building infrastructure needed to ensure vaccine delivery. This has the potential to eradicate certain diseases.

4 HALT SPREAD OF GLOBAL HIV/AIDS
Establish a public-private partnership involving a consortium of multisector businesses, nongovernmental organizations and the U.S. government to apply scientifically proven interventions to slow and ultimately end the global HIV/AIDS pandemic. Strengthen sustainable health systems to improve access to preventive programs and pharmaceuticals.

Managing the Global Competition for Resources: Start With a Unified Vision

The world has seven billion people, likely heading to nine billion in the next 30 or 40 years, and an increasing number of those people want to live the lifestyle enjoyed by inhabitants of developed countries. That's putting serious strain on the world's natural resources.

The Wall Street Journal's Matt Murray moderated the task-force discussion on prescriptions for ensuring fair use of those resources. Here are edited excerpts of the presentation of their priorities to the CEO Council.

An Economic Imperative

MATT MURRAY: *There wasn't a lot of argument in the room about the need for energy, for resources, or what kind. There was broader discussion about the best policies to encourage the energy we need.*

We had most types of energy represented in that room and a lot of debate and a little disagreement. We ended up with 15 points and boiled it down to these four.

Ralph Alswang for The Wall Street Journal (3)

'If resources become increasingly stressed, maybe we should be looking to our backyard.'

TOM ALBANESE, CENTER, WITH MIKHAIL SHAMOLIN, LEFT, AND KLAUS KLEINFELD

MIKHAIL SHAMOLIN: The first basic point that all the participants agreed to was that the role of global energy and the vision for global energy needs to be shared and well articulated among industry participants.

The availability of energy is absolutely essential to global economic growth. If we look at various forecasts, we see demand for energy is going to almost double in the next 25 years. That means major threats to global economic development, because if it's not well-managed and well-regulated, this will lead to inevitable shortages, and increases in price. And that could hamper economic growth.

Therefore energy will be needed in all forms, and governments should not be deciding which form should be preferred over the other. There should be a place for gas, for coal, for nuclear, for other forms of energy.

The majority of energy demand will come from countries like China and India. And they will influence the global balance of energy dramatically. So the world needs to think about how the energy demands by those two countries will be accommodated, which technologies and R&D innovations will be used to both supply demand and also ensure global economic growth.

TOM ALBANESE: During the course of our group, we were really focusing on what can be done differently in the United States. So the second recommendation became a domestic issue. And it reminded me of the conversation we heard from Jack Lew [director of the U.S. Office of Management and Budget] this morning, when he said, "You in the audience, you, being industry, you don't have enough confidence in the U.S. economy to create jobs."

And I was thinking to myself, "Well, I just can't get the permits to create jobs." And I think everyone around the group was saying, "We just can't get the permits. Or we've got a lawsuit here. We've got something here, here, or there." There are many, many constraints at the national level, at the local level, at the legal level that actually keep these things from happening.

Now, if we go back a couple decades, when industrial policy in the U.S. was toward manufacturing, there was toward job creation in manufacturing, there was also a sense of needing to make sure that there was some self-sufficiency, whether it was energy resources, mineral resources, etc. It did provide a sense of stability and also created quite a number of new jobs.

Over the past couple decades, we've had the luxury of saying, "We'll rely on somebody else's energy or somebody else's resources as long as it's not in my backyard." And that backyard can be someone's literal backyard or it could be in a state or it could be at the federal level. We've seen policy, we've seen the law moving toward a "not in my backyard" type approach.

If resources become increasingly politicized, increasingly stressed or unavailable, maybe we should be looking again to our backyard. It's there from a geologic perspective. We just have to make it happen. And I think to some extent that would have to do with federal policy and leadership at the top.

The Government and R&D

KLAUS KLEINFELD: The third point was to invest in R&D. There are a lot of things that have happened in the last 20 years with regard to new types of energy, energy efficiency, new technologies. But we feel that we are by no means at the end of the rope.

We also feel that even though a lot of companies are investing in it and have done great things, there are large fish to fry. And it has to be done in a systematic way where the involvement of the government is essential. We need the government almost as a guiding post here to bring the players together from the private sector as well as from academia in large-scale R&D programs, taking care of some of the things that are so critical.

One of the discussions was around coal. The big question is, "How do you come up with clean coal?" There are ways to do that. But nothing is yet at a scale that is competitive in cost. That's just one example.

Let's move on to the next one, upgrading the energy infrastructure. It is no secret that many infrastructure elements, including the energy infrastructure, are archaic. And that's probably the most flattering way to describe it. For instance, take the energy grid here and compare it with the grid in China. I think the latest statistic is that 50% of the households in Long Island have an emergency generator. And they are less than 35 to 45 minutes away from New York. If you would have that in places like China, people would stare at you and would think: What age do you come from? Are you sitting in the Middle Ages? That's the situation we're in.

MANAGING THE GLOBAL COMPETITION FOR RESOURCES CO-CHAIRS

Tom Albanese *CEO, Rio Tinto*

Klaus Kleinfeld *Chairman and CEO, Alcoa*

Mikhail Shamolin *CEO, JSFC Sistema*

SUBJECT EXPERT:

Daniel Yergin *Chairman, IHS Cambridge Energy Research Associates*

THE TOP FOUR RECOMMENDATIONS

1 FORMULATE AND DRIVE JOINT MESSAGE OF ENERGY AS CRUCIAL TO ECONOMIC GROWTH
Economic and job growth will require growth in energy around the globe. Energy companies must work together to disseminate a common, consistent vision across all forms of energy. Industry also can work to encourage efficiency and conservation.

2 CHANGE U.S. ENERGY POLICY TO ENCOURAGE RESPONSIBLE ACCESS RATHER THAN LIMIT IT
Shift the policy emphasis from energy and resource imports to responsible domestic development and self-sufficiency. Streamline the regulatory and legal process top to bottom in a way that promotes responsible regulation without discouraging development.

3 INVEST IN R&D
Assure sustained government investment, intelligent legislation and public/private partnership in energy research and development across the range of energy resources, rather than volatile and uncertain funding. For example: carbon sequestration, combined wind/solar/battery technologies, intelligent buildings and innovative transportation. Government investment should focus on basic research and technologies, not companies or players.

4 UPGRADE ENERGY INFRASTRUCTURE
The infrastructure built to transport energy has passed its useful life. We need a broad-based, national effort to rebuild the infrastructure, including oil and gas pipelines and an electric-distribution grid. Government must work with businesses so that planned projects stop being deferred or canceled.

It's Time to Make Some Choices

Timothy Geithner on the fundamental decisions the country has to start making

Since coming aboard as Treasury secretary, Timothy Geithner has faced wave after wave of crises—and they show no sign of subsiding. What does he see coming in the days ahead, in the U.S. as well as China and the troubled economies of the euro zone?

Mr. Geithner discussed these matters and more with The Wall Street Journal's editor in chief, Robert Thomson. Here are edited excerpts of their dicsussion.

'How do we get more revenues out of the economy, as part of a balanced fiscal plan, without hurting incentives for growth?'
TIMOTHY GEITHNER

A Stronger Position

ROBERT THOMSON: *Has the experience of crises made it any more easy to deal with the current circumstances?*

TIMOTHY GEITHNER: Even with all our challenges, I believe we're in a much stronger position today to deal with what's still a challenging world. We did some very hard things early to put out the worst of the financial fires and force a huge amount of private capital back into our financial system to clean out the weakest parts of our financial system.

We're in a much better position because of those choices than we would be if we had drifted through that period of time, and either hoped the crisis would burn itself out or tried to pretend it didn't exist. I'm sure we didn't get everything right, but we did what this country always does. This country, faced with peril, has a remarkable capacity to act and do hard things.

MR. THOMSON: *Some would argue that the peril hasn't been poignant enough for profound change to really happen.*

MR. GEITHNER: We're facing a very consequential debate about some fundamental choices as a country. Those choices are fundamentally about what role *can* government play and what role can government *not* play and *should not* play in trying to create conditions for stronger growth and better opportunity. And how are we going back to a point where we're living within our means as a country.

Most of the debates we face as a country now are about those two fundamental choices. How do we get more revenues out of the economy, as part of a balanced fiscal plan, without hurting incentives for growth? How do we do that in a way that makes the broader system more fair at the margin? How do we get our commitments on health care and pension funds more sustainable over time? How do we do that while still preserving that basic commitment we make to Americans for retirement security and health security?

We need to keep making progress toward those things, because the confidence in our future as a country depends a lot on demonstrating our political system can do those things.

MR. THOMSON: *Obviously, you're focused on the unemployment rate, but if you were to pick one indicator in the short to medium term that you're focusing on, would it be housing prices?*

MR. GEITHNER: Housing is still very tough. A lot of homeowners are innocent victims of choices made by others. There's a good public-policy case for trying to make sure we reach as many people as we can and give them a chance, if they have hardship, to stay in their home. There's a compelling economic, pragmatic and moral case. But housing now mostly reflects the overall weakness in the economy. Housing is going to be harder longer, until economic growth is stronger and more people have a chance to get a job.

MR. THOMSON: *Which happens first? The economy picks up and housing recovers, or a bottoming and slight recovery in housing helps the economy?*

MR. GEITHNER: You can't engineer a recovery in housing that can lift the broader economy. It has to be the other way around.

MR. THOMSON: *Whatever policies are generated here, to a certain extent, are at the mercy of what's unfolding in Europe.*

MR. GEITHNER: Europe's basic challenge is how to make sure they stabilize their financial system and stabilize the ability of Italy and Spain, in particular, to borrow at affordable interest rates—but at the same time, make sure that there is progress on these reforms to make growth stronger and to resolve the basic fiscal challenges.

I think they're gradually making progress. They have to do what countries always have to do in this context, which is to figure out a way to get enough political support for what has to happen as quickly as possible, so they don't continually fall behind the market.

MR. THOMSON: *How much influence do you think you and the president can have?*

MR. GEITHNER: We have a big stake in helping them get ahead of this problem. We are helping them both directly and indirectly through a range of things you know about, financially. We have a lot of useful lessons from our experience that have some value. There have also been moments where they're trying to use us to help resolve some of the difficulties. But this is Europe's challenge. And fundamentally the resolution of this is going depend on the choices they make going forward.

MR. THOMSON: *Do you think in five years' time that the euro zone members that we have now will be the same? Or that one or two countries may drop out?*

MR. GEITHNER: What I think doesn't matter. Their basic view is that they will do everything they need to and everything they can to hold the thing together.

Looking to China

MR. THOMSON: *How concerned are you about the renminbi? How interested are the Chinese in a gradual appreciation?*

MR. GEITHNER: My sense is the Chinese government believes it's in their interest to continue to allow the currency to appreciate against the dollar. But they want to move more gradually than I think makes sense for them and for us and for the system. I think it would be better for growth prospects everywhere, not just for Chinese inflation risk and other things, for that process to happen more rapidly.

But the exchange rate is not the only thing that matters. China's been running a pretty determined strategy to say, "If you want to sell here, we want you to come produce here. If you are going to come and produce here, we want you to transfer technology, and we want you to serve your broader markets outside China from China."

It's an untenable strategy, long term, for a country as large as China. Our interests as a country are in not just trying to get the exchange rate to move more rapidly, which we're having some success on, but trying to make sure we're getting China to dial back those other very substantial distortions they put into the economy.

MR. THOMSON: *The companies in this room have a lot of cash. There's a lot of cash, but actually, it's not in this room and not in this country. Should there be once-only repatriation tax relief?*

MR. GEITHNER: Not outside the context of corporate tax reform. Repatriating costs money. It costs between $40 and $80 billion. That's a tax cut for American companies. If you're going to spend that money on a tax cut, you have to figure out how to pay for it now. I don't think you'll find the capacity to legislate a tax cut as narrow as that by raising taxes on other businesses or individuals. And it's hard to make the economic case for doing it at a time when we don't have unlimited resources.

I do think there's an overwhelmingly compelling case for broad-based corporate tax reform. The basic imperative is to get the incentives better and the fundamentals better for people creating and building things in the United States. It was our great strength. It's still our great strength in many ways. But we can do better at it. It's hard to do that without looking at the tax system, and you can do it without adding to the burden of individuals or to future deficits.

Budgets, Business and Bernanke

Eric Cantor on what he hopes doesn't happen with the budget, but may

It's been a year of change and budget brinksmanship since the Republicans regained control of the House in the 2010 elections. Majority Leader Eric Cantor talked with The Wall Street Journal's Gerard Baker about the possibility of further fireworks in the two parties' budget battles, what the House can do to encourage job creation, and Ben Bernanke as political football. Here are edited excerpts of their conversation.

Room in the Middle

GERARD BAKER: *In a year of important fiscal deadlines, we are coming up on another one, for the congressional supercommittee to devise a deficit-reduction plan. Can you assure people who fear Washington is simply not capable of rising to this fiscal challenge that it's not so?*

ERIC CANTOR: We'll attempt to. First of all, as far as pyrotechnics is concerned, we're not going to see a repeat of what occurred in August on the credit limit of the country. The reason is we provided for a backstop in case Congress didn't act on time, this so-called sequester that is put into statute at the end of the year, taking effect a year later.

None of us want to see that sequester be put into law. Many of us have huge concerns about the impact on the Pentagon and the ability for this country to defend our interests. That having been said, I remain hopeful that we can muster the will to come together to produce a result.

We're sort of on this dual track because we really want to go about trying to make sure the government stops spending money it doesn't have, and at the same time do some justice to the jobs issue and lack of economic growth that we're facing. But we put on the table the so-called big deal. If you include the war savings that everybody seems to be counting, our savings were over $6 trillion over the 10-year period.

The deficit is being disproportionately driven by health-care entitlements. Every day, 10,000 people turn 65 and become eligible for Medicare. Medicare receives its revenue stream or support from premiums and taxes. Well, the revenue stream only covers a little over 50% of the program. That's your problem. Every day, times 10,000, you are at least 50% in the hole. You can't tax your way out of that, you can't grow your way out of it. Which is why you have to change the architecture of the plan.

We've not gotten anywhere in terms of getting the other side to join us in fixing the problem. So that's a real divide. But there's plenty of room in the middle to try and set differences aside so we can get at least to the statutory charge of the committee, which is $1.2 trillion to $1.5 trillion in deficit reduction.

MR. BAKER: *Your party took control of the House after a couple of years in which a lot of people felt that the Obama administration had pursued an agenda that was quite tough on business. Do you think you've managed to change the environment in a way that is perhaps more friendly toward business and investment?*

REP. CANTOR: One thing we can do for sure: We can stop legislation that's injurious to business from getting across the floor of the House. There's no more mention of card check, there's no more mention of a cap-and-trade type of architecture, there's no more mention of another bill as far-reaching and potentially dangerous as Dodd-Frank.

Our challenge is to try and stop the detrimental things that we believe are going on in the agencies, with what leverage that we have. And our leverage comes to us through the spending process, gaining support from the other side of the Capitol, and the aisle, to effect the kinds of positive change we need for business in this country.

'First up has to be tax reform and lowering our corporate rates.'
ERIC CANTOR

MR. BAKER: *What measures particularly would you like to see passed quickly that would create a more business-friendly environment?*

REP. CANTOR: First up has to be tax reform and lowering our corporate rates. I don't have to tell those of you at the helm of multinational corporations based in America, it's becoming tougher and tougher to justify the domicile location of your headquarters, given our tax code. Both sides of the aisle will say we need to do this. That's probably the best thing we could do right off the bat for jobs.

MR. BAKER: *If I can move on to the Federal Reserve, we're in an unusual position at the moment. We've got a Fed chairman who was appointed by a Republican president, reappointed by a Democratic president, but who now seems to be universally ostracized by the Republican Party. Every single Republican candidate stands up at every debate and says they will hang Ben Bernanke from the highest rooftop when they're given the first opportunity. Is it a healthy thing for the Fed, this incredibly important institution, to have become such a political football?*

REP. CANTOR: No, it's not healthy. I don't think it's healthy to overpoliticize the Fed in either direction. Obviously, a lot of us have some concerns with what is perceived to be loose monetary policy and have expressed that.

MR. BAKER: *Do you think Chairman Bernanke should be reappointed if he asks, if he wants another term?*

REP. CANTOR: Mr. Bernanke is somebody who, there was no secret as to what he had pursued academically throughout his career. I mean, it was all out in the open. So, again, I don't know if I'm prepared to say yes or no. I do have a lot of respect for the man. And although we may from the outside disagree with what appears to be very loose monetary policy, it is something that, if you look back in his writings, it shouldn't be a surprise.

Iran and the Bomb

MR. BAKER: *At the Republican foreign-policy debate, Mitt Romney said a very striking thing about Iran. I'm paraphrasing here, but he said, "If President Obama is re-elected, Iran will have a bomb. If you elect me, Iran won't." Can Iran be stopped from getting a bomb, and will it take more than just electing Mitt Romney to do so?*

REP. CANTOR: I'm going to get in trouble either way with that question. I do think we have got to redouble our effort and focus on the existential threat that Iran poses to our allies in the Middle East, from Israel to some of the other Gulf states as well.

We may reach a point at which the time is too late—and I think that's where a lot of the discussion is focused. Now, when is that? When is the point at which we are going to be dealing with a nuclear Iran, period? I don't think any of us want to get there. So, yes, I do think we're able to intervene. The question is how, who and when.

MR. BAKER: *If Israel decides, as it may well do for its own national security, that it needs to strike Iran, should the United States support Israel in those circumstances?*

REP. CANTOR: I've always said that Israel and the U.S., our interests are very much aligned when it comes to the war that we are in, in fighting the spread of radical Islam and the rest. As we know, Iran has been on the list of the state sponsors of terror more than any other. It is the destabilizer in the region, is one that is still cooperating with the atrocities that are going on in Syria, and has a lot of influence in that region.

My concern right now is that we in America are sending the signal that we're willing and able to stand up with our allies over there. And I'm worried that our allies may come to a point at which they think they've got to take matters into their own hands. And I think that if they do so, and there becomes a proliferation and a nuclear arms race in the region, we've got serious problems. So to your question about Israel and the U.S., as you know, we work in concert very closely with our ally there. And hopefully, we can see our way forward together.

FLASHBACK: CEO COUNCIL, 2008

"I suggested in January—and I think it was a reasonable suggestion at the time—that fiscal stimulus should be timely, targeted and temporary. I frankly think the situation has deteriorated very substantially from that point, and so I would go for speedy, substantial and sustained over a several-year interval. I think we are going to need some impetus to the economy for two to three years."

LAWRENCE SUMMERS
Former Treasury Secretary

Ralph Alswang for The Wall Street Journal (3)

Tackling the Deficit

Paul Ryan on why he thinks Republicans are the adults in the room

When it comes to political debate, the federal deficit is the $14 trillion gorilla. Republicans and Democrats are butting heads about the best way to deal with it—which also means wrangling over ballooning programs like Medicare.

The Wall Street Journal's Gerald Seib spoke with Rep. Paul Ryan, a Wisconsin Republican who heads the House Budget Committee, about the prospects for an agreement and what shape it might take.

Here are edited excerpts of the discussion.

'The other side is basically running against what we've offered, versus offering alternatives.'

PAUL RYAN

A New Coalition?

GERALD SEIB: *Let me first dispose of the deficit question of the day: What's Congress going to do in the next week? In the supercommittee going to have a deal, or are we headed for another disaster?*

PAUL RYAN: I don't know. How's that for your answer?

Our team put together a program with $1.5 trillion in savings, a very serious effort. It was designed with the idea of not offending Democrats. It put revenue on the table, but through base-broadening and getting lower rates. And that was pretty much rejected out of hand. The Democrats have yet to coalesce around a plan, so it's challenging to negotiate with the other side when they are still negotiating with themselves.

No matter what happens, though, we will put out another plan. We will budget in March.

MR. SEIB: *In the months since you put forward a plan in April, what have you learned about the viability of a serious plan?*

REP. RYAN: I feel great about it, actually. I feel, largely because of the infusion of energy from our new freshmen, a little more cause, less career people. We've dramatically moved the center of gravity on this issue, especially within our own caucus, and I see a center-right coalition to fix this problem in the making. It's Erskine Bowles, Alice Rivlin-type Democrats who we agree with on the elements of tax reform, on the elements of entitlement health-care reform, on the basic principles.

The problem is, those aren't the kinds of Democrats running the White House or in charge of the Senate. What that means is we might have to wait for an election, but if the election goes the way we want it to go, I see an opportunity to work with moderate Democrats to form a center-right coalition where we once and for all fix this problem.

The Tax Question

MR. SEIB: *If you want to draw those kinds of people into this exercise, don't you have to make some move in their direction on revenues?*

REP. RYAN: Pat Toomey showed how we would do that with his offer in the supercommittee, which is broaden the base, lower rates for growth. The unique thing about our tax code is the tax base is quite narrow. By broadening that tax base and getting us lower rates, you can deal with revenues that way.

But let's not take our eye off the ball. Spending is slated to go to about 42% of GDP by the time my kids are my age. Revenues still climb as a percentage of GDP, but nowhere near that. What I've learned in my 13 years in Congress is if you first go to the revenue fix, it displaces the need to deal with spending.

So let's get the spending under control, let's get the spending back toward 20% of GDP, and then let's get fundamental tax reform that's pro-growth.

MR. SEIB: *You put on the table, for everybody to see, a premium-support alternative to the current Medicare program. You've either moved the debate, or you've created the campaign ad for every Democrat in the country next year. Maybe both.*

REP. RYAN: This is the plan that Bill Clinton's bipartisan commission to save Medicare recommended in the late '90s. Alice Rivlin and I in the fiscal commission authored this plan. I believe there's a center-right coalition there for the making.

Premium support is, basically, the same thing federal employees and members of Congress have. You get a list of guaranteed coverage options, which works just like Medicare Advantage or Medicare Part D, private plans that are preselected by Medicare competing against each other for our business.

Then Medicare subsidizes our premiums based on who we are. More for the poor, more for the sick and the middle-income person than the higher-income person. Doing it that way, according to the actuaries, according to the Congressional Budget Office, makes the program solvent and wipes out tens of trillions of dollars of unfunded liability, and keeps our debt levels from getting out of control.

It's the right way to go with reform because the alternative is command and control, with price controls that come from an unelected board of 15 bureaucrats.

What Will It Take?

MR. SEIB: *When you step back from the picture that we've been talking about, I'm wondering what you think has really changed in Washington.*

REP. RYAN: I'm a conservative Republican. We don't have partners on the other side of the aisle who have brought plans of equal measure to show how they would do things differently.

We put out a specific plan that keeps the debt from getting above the 60s on GDP and goes down from there. The president gave us a budget that was just a rubber stamp of the baseline. It's been over 900 days since the Senate passed a budget. And with the Budget Control Act, the debt-limit deal, they deem themselves their appropriation numbers, so they won't have to do a budget next year. They've decided, for three years now, don't even offer a budget.

The other side is basically running against what we've offered, versus offering alternatives. The kinds of tax increase you would need to close this gap are huge, if you go down the 50/50 route they were talking about, with 50% tax increases and 50% spending. It's a one-sided adult conversation happening on our side of the aisle. There are moderate Democrats who do talk about these things; they're just not in charge.

We're getting there, and the fact that Democrats are having political downsides from not offering a budget, from not tackling the problem, speaks to the fact that we're beginning to see rewards for actually putting bold, specific plans on the table.

MR. SEIB: *The art of politics is compromise. One of the questions that Democrats raise is whether you could deliver a compromise of any variety given the makeup of your caucus and the Tea Party influence.*

REP. RYAN: It's tough to talk about compromise when they offer nothing in return. They can't even find agreement with themselves in the supercommittee. It's difficult to see where you are going to compromise when you have nothing in the alternative.

MR. SEIB: *Let's open it up to questions from the audience.*

AUDIENCE MEMBER: *You witness the events in Europe where there is significant meltdown. Many of us now doubt that they will even be able to muddle through. What external event would shake people on both sides of the aisle into action in the U.S.?*

REP. RYAN: With the current government, it would probably be a real credit-market crisis. Our hope, and the point we're trying to make with our budget is, let's do fiscal consolidation, entitlement reform, on our terms. But an election is probably going to have to occur to do it the way I just described it.

Our hope is that the credit markets see that and they give us time to have the election to do this. Europe is the big wild card. If we have a real problem and that precipitates a contagion that starts washing up on our shores, that's the fear we have.

The Danger Zone

Robert Zoellick on how it's time for Europe to decide what its future will look like

Europe's debt crisis appeared to take an ominous turn last week as investors dumped the bonds of even the euro zone's healthier economies, raising fears that the growing troubles could rock the global financial system and damage world-wide economic growth.

Against that backdrop, World Bank President Robert Zoellick sat down with The Wall Street Journal's Francesco Guerrera to discuss the global financial crisis, the outlook for resolving it and the implications for the future. Here are edited excerpts of their conversation.

Ralph Alswang for The Wall Street Journal (2)

'There are different ways you can have fiscal union.'

ROBERT ZOELLICK

Power Shift

FRANCESCO GUERRERA: *A while back you said, "The world is in a danger zone." We meet on a day when the situation in Europe seems to have worsened. How are you feeling?*

ROBERT ZOELLICK: We're still in a danger zone. There are three issues that Europe is trying to struggle with at once: competitiveness, the banking system and sovereign debt.

The three are obviously interrelated. But as they try to deal with one problem—for example, debt reduction for Greece—it creates the risk of uncertainty for sovereign debt for Italy and Spain. And the device they put together [European Financial Stability Facility, or EFSF], so as to try give a firewall for Italy and Spain, was clearly the weak link. And so what you're seeing right now is a lack of certainty about Italy's and Spain's ability to roll over the debt. It also reflects something quite interesting, which is that since August you're starting to see markets make judgments about governance.

Three quick implications of this are worth paying attention to. One is emerging markets. The thing to watch is whether this would start to affect consumer and business confidence in those markets, in which case, since emerging markets have been key to global growth, you're in a very different situation.

Second, what the Europeans are still doing is providing liquidity to buy time. I'm not against buying time, but it depends on how you use the time. And underneath this has to be a growth strategy, which Europeans haven't begun to address.

But the third one is that there's some bigger power shifts going on here. I couldn't help but be struck, when I was in that [G-20 meeting in Cannes], seeing the emerging markets around the room watching the Europeans basically be unable to get their act together and thinking, "Well, these are the countries that lectured us. These are the countries that told us what to do." Maybe we'd be willing to try to help, but they've got to figure out how they're going to help themselves first.

If there was one feeling I left with, it's that I never want to see the U.S. in the position that Europe was in at that meeting.

MR. GUERRERA: *And if the Europeans can't get their act together, should someone else do it for them? Is there any other solution other than the European Central Bank becoming the lender of last resort?*

MR. ZOELLICK: Germany is going to be the key to this. But Germany will not be able to do it by itself. It's going to require some careful diplomacy with France, the European Commission and other players.

Germany has a series of positions that individually seem reasonable—they don't want the [European Central Bank] bailing out countries that don't make reforms, they don't want to pour money down a hole with EFSF, etc. The problem is, what the German position comes down to is that others in Europe need to be more like Germany. And while that would be good as an economic matter, it does raise the question of whether it's going to happen and what it means for the euro zone.

MR. GUERRERA: *What does the future look like for the European Union and the euro zone?*

MR. ZOELLICK: On the one hand, there's a feeling among the German public that they don't want to be taken as saps and other people are going to have to strengthen the reform process. But one should not underestimate the German commitment to Europe and the European Union.

I think what Chancellor Angela Merkel is trying to do is to say, "Where is this going? What sort of system are you going to try to create?" There are different ways you can have fiscal union. You could assume the debts for the past, but then allow markets to determine for the future. You can create various types of European structures. I think this is the debate the Germans are now pressing.

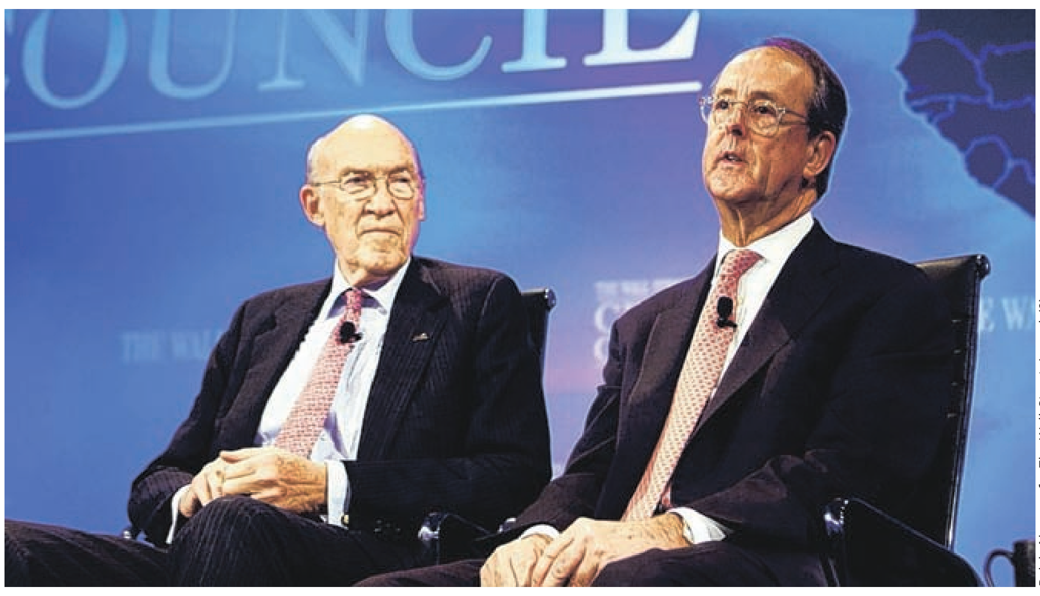
And frankly, I think you're now at a point where Europe is going to have to decide.

MR. GUERRERA: *There was some hope, even among Europeans,*

Please turn to page R12

And Now a Word From The Commissioners

Erskine Bowles and Alan Simpson on whether Congress has the political will it needs to cut the deficit



Ralph Alswang for The Wall Street Journal (2)

'If the heat gets really big, they'll just take the triggers away.'

ALAN SIMPSON, LEFT, WITH ERSKINE BOWLES

The U.S. has the resources to address its fiscal problems. But does it have the political will?

Erskine Bowles and Alan Simpson aren't sure it does. Mr. Bowles, a former White House chief of staff for President Clinton, and Mr. Simpson, a former Republican Senator from Wyoming, were co-chairmen of President Obama's bipartisan deficit-reduction commission. Their 10-year plan got a thumb's-up from 11 of the panel's 18 members.

Messrs. Bowles and Simpson talked to The Wall Street Journal's John Bussey about the country's fiscal dilemma—and the odds of doing something about it. Here are edited excerpts of that conversation.

The Lay of the Land

JOHN BUSSEY: *Can you take a minute to give us a sense of the dimension of the issue now, and whether you think the supercommittee is actually going to have the political will to do something about this.*

ERSKINE BOWLES: I think we face the most predictable economic crisis in history. It's as clear as the nose on my face that the fiscal path they are on here in Washington is not sustainable. And worse yet, I know every member of that fiscal commission knows it, too.

The economics is very clear. The politics, very difficult. I'll give you one little simple arithmetic example. If you take 100% of the revenue that came into the country last year, every single dime of it was consumed by our mandatory spending and interest on the debt. Mandatory spending in English is basically the entitlement programs, Medicare, Medicaid and Social Security. That means every single dollar we spent last year on these two wars, on national defense, homeland security, education, infrastructure, high value-added research—every single dollar was borrowed, and half of it was borrowed from foreign countries.

That's a formula for failure in anybody's book.

And this is not a problem that we can solely grow our way out of. You could have double-digit growth for decades and not solve this problem. It's not a problem that we can solely tax our way out of. And we can't simply cut our way out of it.

That's why Alan and I came up with what I think is a responsible, reasonable plan that takes \$4 trillion out of our deficits—a trillion from revenue, \$3 trillion from spending. The spending has to come before the revenue so we don't get caught in one of those deals that Reagan did back in the '80s. Today, where are we? Obviously, what Alan and I want this group to do is to go big—to be smart and to be bold. And I'm not sure they're going to do any of those three.

ALAN SIMPSON: We say to people if you spend more than you earn, you lose your butt. If you spend a buck and borrow 41 cents of it, you've got to be stupid. And if you are borrowing today \$4.6 billion and doing that today and tomorrow and the next day, you've got to be dull with it. Now, that's where we are.

Deadline Date

MR. BUSSEY: *So Nov. 23rd comes along, and let's say that we don't get a deal. And the triggers fire off—\$1.2 trillion comes out of defense and discretionary spending. Is that an acceptable, painful resolution of this?*

MR. SIMPSON: Well, nobody will get blamed for it because the election will be over. It takes place in 2013, that's why they put this little package together. And don't forget, if the heat gets really big, they'll just go back into session and take the triggers away.

MR. BOWLES: I think it's a travesty if we end up at \$1.2 trillion on these deductions. It doesn't solve a problem by any stretch of imagination. I'm afraid the American people, some of them, will think it solved the problem and it certainly doesn't.

Most people in the world will look at us and they'll think of this debt default fiasco we went through in the summer. And they'll think, well, this proves these guys can't govern. And then, if we put the sequester in and these guys turn around the very next day and try to figure out how they can bust the sequester, then I think they'll really come at us and you could see some really negative effects in the market.

MR. BUSSEY: *So what's going to happen come Nov. 23? No deal? A deal?*

MR. BOWLES: In my opinion, there's probably a 10% chance that these guys will go big. That's about 9% higher than anybody else in town gives it. And I say it's 10% because, remember, all they have to do is get a simple majority. We had to get a supermajority, and we got it.

I think the politics has changed some since last December when we came forward with our report because of what's gone on in Europe—because of that whole debt default fiasco in the summer. I think more people understand the problem.

And lastly, we've got this hammer coming in that makes these across-the-board cuts, and across-the-board cuts are never the smart way to get any budget under control. So, I think we've got about a 10% chance to go big, and by go big I mean, do about \$4 trillion over 10 years.

I think we've got probably a 25% to 30% chance that they'll actually come up with real cuts that add up to \$1.2 trillion or \$1.5 trillion, which is their mandate. And hopefully, those won't all be gimmicks. And that leaves at least a 50% probability that they won't do anything, they'll just completely fail.

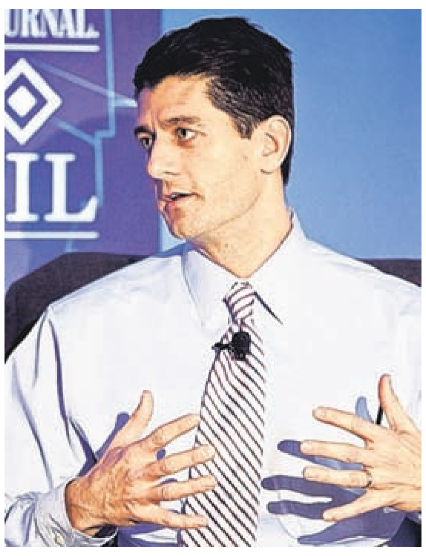
The President's Role

AUDIENCE QUESTION: *Your presidential commission delivered your report in December. How surprised were you that your commission gave the president tremendous coverage to do something, and it wasn't even mentioned in the State of the Union?*

MR. BOWLES: If you think you were surprised, you should have looked at us. I negotiated the budget for President Clinton. And every investment banker will tell you the key to success is knowing your client and defining success up front. So, I knew what success was on his part, and I could go in there and negotiate the deal.

Please turn to page R12

FLASHBACK: CEO COUNCIL, 2009



"If you pile all of this that's being pushed through Congress—health care, cap-and-trade, everything else—what you will basically have accomplished is, this completes the vision of the New Deal. So what I see us doing is, we're practicing 1930s economics right now. We're learning all the wrong lessons from that."

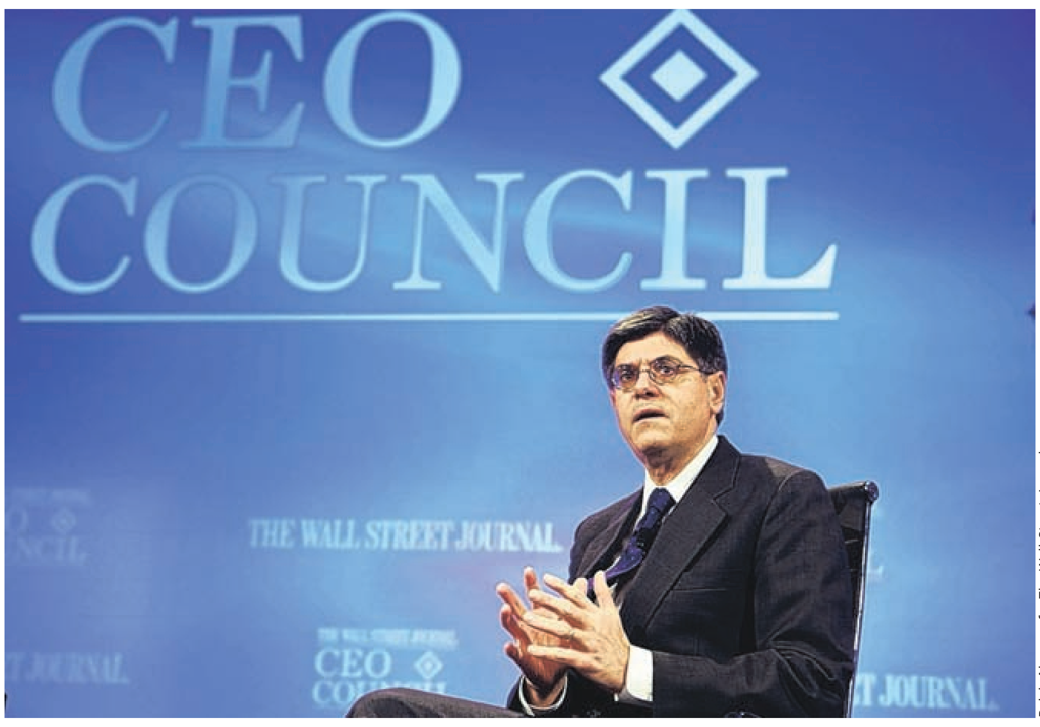
REP. PAUL RYAN, Republican from Wisconsin

It's Crunch Time

Jack Lew on why a budget agreement may have been written off prematurely

President Obama's budget director, Jack Lew, is at the center of the debate over the U.S. budget and how much should be cut in the coming years. A congressional supercommittee is racing to identify at least $1.2 trillion in budget cuts over the next decade. If the committee fails to meet a deadline of this Wednesday, automatic spending cuts could be triggered in 2013.

Mr. Lew spoke with Gerald Seib, The Wall Street Journal's Washington bureau chief, about the prospect for achieving significant reductions in the U.S. budget deficit. Here are edited excepts of their discussion:



Ralph Alswang for The Wall Street Journal

'I've never seen something complicated done before the last minute in Washington.'

JACK LEW

Relative Optimism

GERALD SEIB: *The group just heard from Erskine Bowles and Alan Simpson. I think you've heard at least a variation of their presentation before. And they said things about the federal deficit like "unsustainable path, broken process, inability to get to the heart of the problem."*

And Erskine at one point said, "We'll have a crisis before those guys figure it out." I think by "those guys" he meant everybody in this town. Where I would start, Jack, is simply by asking you, can you offer a more optimistic scenario than that?

JACK LEW: Well, it's not hard to be more optimistic than that. Erskine Bowles and Alan Simpson did an enormously important public service this year in presenting a set of bipartisan recommendations. While it didn't get the job done, it helped shape the debate. And a lot of us are working in a world shaped by the work they did.

I do tend to be a little more optimistic than that. It's a parlor sport in Washington—calling processes "dead" before they've had their final chance. I've never seen something complicated done before the last minute in Washington. So the next few days are critical. Now I'm not going to sit here and say, "I think it's 90% likely that a big deal comes out of the supercommittee."

But I think it's been written off prematurely. If you look at the negotiations that went on this summer, the president and the speaker were this close to a really historic agreement. Now one could take the depressing view that it fell apart and therefore nothing can happen. Or they started to show a way toward working together. The working together is ultimately, either this week or sometime in the future, going to be a balanced package.

As the Bowles-Simpson commission did, it's a package that puts revenue on the table, that puts spending cuts on the table, that gets something big enough done that it inspires confidence. It's not going to be done in a lopsided way.

Over the summer President Obama was willing to do things which were quite painful from the perspective of a Democrat and Democratic president. He was willing to entertain changes in Social Security cost-of-living adjustments. He was willing to entertain changes in the eligibility age for Medicare, put in payments for various services that there's no payment for in Medicare. At the end of the day we hit a wall—I think because ultimately Republicans in the House were unwilling to accept revenues as part of the package.

We put our views before the supercommittee in a quite comprehensive package that the president sent them in September. They're now struggling with the same thing we were struggling with in July: What is the balance between mandatory entitlement savings and revenue savings that's fair, that's balanced, that protects those who are at the most unfortunate position in life? And I'm not sure what the outcome is going to be.

If one can read the tea leaves, they're struggling to get to a revenue number that's large enough to have Democrats go forward for serious entitlement changes. And it's still not clear whether they can sell that in a Republican caucus.

Walking Backward?

MR. SEIB: *But you're describing a situation in the summer in which a deficit-reduction plan of $4 trillion over the next decade was unsustainable. Now, just a few months later, we're talking about whether a deficit-reduction plan of $1.2 trillion is even achievable. That sounds like walking backward to most people.*

MR. LEW: Let's remember what we did over the summer. We did not accomplish $4 trillion as we had hoped, but we did lock in $1 trillion of savings in discretionary spending. That's the annual appropriations. And as somebody who's now putting together a 2013 budget I can tell you those caps have real meaning.

The measure of doing well in an agency will go from, "Did I grow?" to "Did I get frozen at last year's level?" "Frozen" is going to be the new "I won." So we're in a different place than we were discretionary spending.

On defense, we're close to $500 billion of savings. We're working on a strategic review with the Defense Department. These are serious trade-offs.

The president sent a $4 trillion plan. I think the members of this committee are going back and forth as we did over the summer.

In an odd way it's easier to go bigger than smaller because if you're picking just a few sacred cows, it's very hard. If everyone is in it together, in some ways it gets a little bit easier. I think in some ways they're more likely to get a slightly larger number. They may not succeed at all, but they may get a larger number rather than a smaller number.

MR. SEIB: *Are you suggesting that, in its own messy way, Washington has turned the aircraft carrier on the big spending debate? In other words, is it significant that the discussion now is not whether to cut spending but how much and how fast?*

MR. LEW: Well, I think we've started. It's not reasonable to say, "The goal was $4 trillion. We did $1 trillion and we got nothing accomplished." Having the first quarter of it done is significant.

Getting more than halfway there would be a very important step. I've been rooting for success for the supercommittee. I think it would be hugely important for the country and for confidence both to get the policy accomplished and to show that Washington can work.

It was a very bad thing from April to August to have a display of dysfunction in Washington. Look at what the rating agencies have said. We do not have an immediate economic crisis in our deficit. We have a problem that we can see staring us clearly in the face just a few years down the road. We have some time to deal with it.

The reason the downgrade of the U.S. credit rating happened this summer was not because we didn't implement immediate cuts. It was because the rating agencies, as the American people did, saw a Washington that was dysfunctional. That's a very bad thing. And I think breaking through that would be as important as the economic accomplishment.

The Cynical View

MR. SEIB: *The cynical view, though, of the process at the moment is the White House would be more than happy to see failure here because it sets up an election year dynamic of a president who wants to do the right thing against Republicans in Congress who won't budge.*

MR. LEW: I think we've changed the debate from one in the summer where frankly a very small number of extreme members of Congress were able to hold everyone in Washington and the American economy on the edge of a cliff. Would we be willing to default on the bonds of the United States, or would we give in to the kinds of policy changes that were unacceptable to us?

We said "no" to that. We said "no" to that for a good reason. You can't deal on those terms. You cannot capitulate because someone else is willing to drive the car off the cliff.

We're not in that situation right now. The reason it was so important for the economy and for the country, really for the world, for us to get agreement on the debt limit that went beyond the election is we created a window of time to have hopefully a more civil debate. I think there has been that kind of conversation going on in the supercommittee. They are struggling with this. They're not done. They're not there yet.

These are hard decisions. To turn it just into a political issue is a mistake. It would be better for this to be done sooner rather than later. But when it's done it has to be done right. It has to meet the same standard whether it's done now or later. Is it balanced? Is it fair? Is everyone being asked to do their part? And does it get something meaningful done?

The Danger Zone

Continued from page R10

that the Chinese might contribute some money to the rescue package. Do you think they will, and if so, why?

MR. ZOELLICK: To me, it is somewhere between an embarrassment and foolhardy that Europe, where the average per-capita income is about $40,000 a year, should be going to China, where the average per-capita income is about $4,000 a year, with a begging bowl. In a world where I'm trying to connect the economic and power and political relations, that's not a good thing.

Second, it wasn't going to happen. One Chinese official at Cannes said to me, "Well, if Germany isn't so concerned about this, why should I be so worried about bailing it out?" And that's the message you're going to get coming out of East Asia.

Having said that, there will be investments. If people are going to privatize, if there are opportunities, that will come. What I'm talking about is big bailouts.

MR. GUERRERA: *How concerned are you about the Chinese economy?*

MR ZOELLICK: Inflation has been a risk. I think they by and large have it under control, but I don't think it's totally addressed yet.

I believe you'll see some slowdown in the Chinese economy. The best thing, by the way, for China to do for the U.S. and Europe is to keep growing.

But there's something bigger going on. The Chinese are recognizing that they can't depend on export and investment-led growth in the future as they have for the past 30 years.

I am impressed that a country that's grown at 10% a year for 30 years has the presence to say, "Look, we're going to have to change the structure." Because maybe some people in the U.S. and Europe ought to think about changing the structure of their economies, too.

MR. GUERRERA: *Where do you stand on the renminbi situation, and how does that fit into the plans by the Chinese leadership to change the mix of their economy?*

MR. ZOELLICK: It should appreciate, but I'm a practical person who tries to deal with the world as it is. If you bash them head on, I don't think you're necessarily going to get progress.

Many in the U.S. would see currencies as a price signal that would change structural behavior. In China, the view is, "If we have price signals change and the structure hasn't changed, we could have a lot of unemployed people and social unrest."

So that's where trying to work on the structural side, while working on the price side is the most effective means.

MR. GUERRERA: *The U.S.—especially Congress—has been doing a lot of bashing, which hasn't helped at all. Is there a more diplomatic way to work on this?*

MR. ZOELLICK: In diplomacy in general, if you can find points of mutual interest, you're likely to get further than if you just try to overwhelm somebody. And I'm not sure in this case we'll overwhelm them.

So the points of mutual interest are the types of things that we'll be unveiling with the Chinese early next year that focus on some of the sectors that need to be changed, opportunities for service-sector development, opportunities for value-added production development.

And there will be other opportunities. We're starting to work with the Chinese now on the possibility of some of the low-value-added manufacturing moving to third countries, including in sub-Saharan Africa.

That's probably going to be more fruitful, even though it may not be as satisfying for somebody as clubbing people.

But do you want to know the real thing a country has to do? Quit blaming others; clean up your own act. The U.S. needs to fix some things at home. And that will be the most important thing it can do.

A Word From the Commissioners

Continued from page R11

I did not know President Obama, and neither did Alan. So, we spent a tremendous amount of time with him and his economic team up front defining success. And we negotiated a deal that got a majority of Republicans to vote for it, so he had plenty of cover on the other side. It also exceeded every single one of the goals that he had given us.

I fully expected them to grab hold of this. If it had been President Clinton, he would have said, "God, I created this, this is wonderful. It was all my idea."

So we were really surprised. My belief is that most of the members of the economic team strongly supported it. Like every White House, there's a small cabal of people that surround the president that he trusts and works with, and I believe it was those Chicago guys, the political team that convinced him that it would be smarter for him to wait and let Paul Ryan go first, and then he would look like the sensible guy in the game.

We then expected, before the State of the Union, that when he did the stimulus, that that would be a great time to say not only, look, we're going to do this to get the economy moving forward, but we have to do it within the context of long-term fiscal reform and responsibility. And he didn't.

If you remember the State of the Union, he talked about the need for this country to invest in education and infrastructure and high-value-added research to be able to compete in a knowledge-based global economy. And he's right about that. But he left off a part, that we have to do it in a fiscally responsible way. We live in a world of limited resources, and limited resources mean choices and priorities.

MR. SIMPSON: The terrible irony is the mandatory programs are eating a hole through those programs. They are on automatic pilot. They can't be stopped. Every day that they get deeper in their train wreck, it takes it out of the things that President Obama's speaking of. Those things will disappear. They will be squeezed out.

The President's Agenda

Alan Krueger on what's holding back job growth—and what should be done about it

For Alan Krueger, recently confirmed by the Senate to be chairman of the White House Council of Economic Advisers, this is a second tour in the Obama administration. In 2009-10, he served as the Treasury's top economist. Last year he returned to Princeton University, where he is a professor of economics. But President Obama called him back this fall to join his economic team, calling particularly on Mr. Krueger's expertise on labor-market issues at a time of persistently high unemployment.

Mr. Krueger talked with The Wall Street Journal's David Wessel about the nation's economic challenges. Here are edited excerpts of their conversation.

'The fundamental problems' include 'the relatively weak consumer demand in this recovery and weak residential construction.'

ALAN KRUEGER

Where Are the Jobs?

DAVID WESSEL: *Why aren't we getting more hiring now?*

ALAN KRUEGER: The recession ended in the middle of 2009. Job growth started eight months later, which is actually quicker than in the past two recoveries. The pace of job growth has not been as fast as one would like. I think that's mainly because economic growth overall has been so close to trend—in the 2.5% range, plus or minus—each quarter. We need faster growth to get faster job growth.

On top of that, once the Recovery Act support started to phase out for states and local governments, we started to see fairly large cutbacks at the state and local level. I think the important thing is that we sustain the recovery, that we quicken the pace of growth. That will quicken job growth.

MR. WESSEL: *Do you think regulation—from financial regulation to the health-care act—is slowing hiring?*

MR. KRUEGER: We need sensible regulations.What the president has said—we need no more regulations than are required to ensure the safety and health in the American people—is absolutely right. He initiated a process where, administration-wide, we are looking back at regulations to see what is no longer necessary. I don't think a burst of regulations or change in regulatory stance is what created the problems we've seen for job growth.

MR. WESSEL: *But look at everything the administration has tackled—financial regulation, health care, prospects of doing something on energy someday and the tax code. Isn't there a possibility that you add up all these things, and it creates so much uncertainty that the typical businessperson says, "I think I'd rather wait six months before hiring"?*

MR. KRUEGER: I certainly am concerned about that perception. Investment has been strong, profits have been very high. Investment has been impressive, given the pace of growth. So it's hard to square that with fear about uncertainty over regulation and so on.

The fundamental problems are related to the cause of the crisis, the relatively weak consumer demand in this recovery, and weak residential construction. Ordinarily, residential construction fuels recoveries. But because of the housing bubble and concerns about the housing market, we've seen many fewer families purchasing homes. I think those are more fundamental to the weak job growth.

Small-Business Formation

MR. WESSEL: *We're not seeing many small businesses created. Is this a problem going forward?*

MR. KRUEGER: It's a serious problem. It's one of those problems that started even before the recession. I've been concerned that the U.S. economy is becoming less dynamic. It's a little bit related, I think, to the aging of our work force.

Economists have written that, following financial crises, the small-business sector suffers because they're very bank-dependent for financing. Their No. 1 form of collateral is probably an entrepreneur's home. Given the drop in home values, that makes it harder to get credit to start a business. We've tried to support small businesses to get started with Small Business Administration programs, with the new small-business lending fund.

MR. WESSEL: *We have 14 million unemployed and millions more who are on the sidelines of the work force. Yet, particularly from manufacturers, I hear over and over again, "We can't hire."*

MR. KRUEGER: We've had a problem building for a long time in our education and trading systems' not producing workers for the wide range of skills the U.S. economy requires.

But it's not unusual at the beginning of a recovery to see an increase in vacancies relative to unemployment. The short-run challenge is to sustain the recovery. That's why the president proposed the American Jobs Act. If you look at the potential problems coming from Europe and how that might affect demand for American products, the jobs act is the right medicine to support demand: Continue the payroll-tax cut, extend support for unemployment insurance, and invest in infrastructure, to put unemployed construction workers back to work.

The European Threat

MR. WESSEL: *How big a threat is Europe to this slow but steady growth we've seen?*

MR. KRUEGER: The Europeans have the capacity to solve their problems. It's important that they act quickly because it's a threat not only to Europe and to the U.S. but to the world's economy.

MR. WESSEL: *Can we continue to grow 2.5% a year, 150,000 jobs? Can we continue that, as Europe slides into recession?*

MR. KRUEGER: Clearly all of the world economies are linked; 20% of our exports, roughly, go to Europe; 15% to the euro zone.

One of the reasons I think the American Jobs Act is the right medicine now is to provide some insurance against the weakening in demand. And two components, in particular, of the jobs act would help boost demand: the payroll-tax cut and the extended unemployment benefits.

MR. WESSEL: *This is continuing to pay people for up to 99 weeks of unemployment.*

MR. KRUEGER: In addition, the president proposed a broader set of reforms for unemployment insurance, which would include allowing companies to take people who are on unemployment insurance, put them in unpaid internships, and give them some training and some other benefits. Hopefully, that turns into a full-time job. Even if it doesn't, it helps give people experience while they're there, which will help them to find other jobs and learn skills.

States can apply for waivers if they want to experiment with unemployment insurance. They could use some of the funds for wage insurance, where if somebody took a job which entailed a very big wage cut, the unemployment insurance funds would make up some of the wage loss as a bridge back to work.

MR. WESSEL: *What happens if we get to the end of the year and Congress doesn't do the unemployment benefit extension, doesn't do the payroll-tax cut?*

MR. KRUEGER: If they don't extend the payroll-tax cut, it's going to be a tax increase of around $1,000 for the median family. That would be a drag on growth.

A Start in Europe. But Just a Start.

Lawrence Summers, Glenn Hubbard and Zhu Min on avoiding a European debacle

Just how far has Europe come in addressing the debt problems that have roiled financial markets in recent months? Is the broad package of measures agreed to by European leaders last month a foundation for a lasting solution? And what still needs to be done?

Those questions were at the heart of a discussion that The Wall Street Journal's Kelly Evans had with Lawrence Summers, president emeritus of Harvard University and former U.S. Treasury secretary; Glenn Hubbard, dean of Columbia Business School; and Zhu Min, deputy managing director of the International Monetary Fund.

Here are edited excerpts of their conversation.

How Much Concern?

KELLY EVANS: *I'd like to know what role the IMF is going to play here in the European debt situation, especially with regard to Italy.*

ZHU MIN: The whole framework is there. I think it's moving in the right direction. We actually are working very closely with European members. And we are very happy there are new governments in Italy and Greece, so we're looking forward to working with them.

MS. EVANS: *But Italy's 10-year debt is yielding above 7%, the level where in Greece, Portugal and Ireland there were IMF bailouts.*

MR. ZHU: That's very true. But the Italian government is determined to further the deficit cuts. They're determined to do structural reform. I think that's all in the right direction. The only thing is the Italian government has to act, act now. There's room to work on it.

MS. EVANS: *Larry, is there room?*

LAWRENCE SUMMERS: I'm discouraged by what my friend Zhu Min just said. The beginning of having a real solution to this problem is recognizing that the things that have been said before haven't really been right, and have been kinds of denial. And if the IMF is continuing to stand with the October framework, it is continuing to perpetuate the denial that has brought us to this point.

The great concern here is we've seen major changes in government in Greece and Italy. We've seen as much a vow of commitment to fiscal discipline as we are likely to see. From here, it's likely to be erosion, not further building.

In every financial crisis that becomes most serious, there is a moment when people stop worrying about the fundamentals, and they start worrying about the other guys and when they're going to flee. We crossed that point about a week ago.

The prospects for success depend on discontinuous change with respect to the nature of the support to prevent panic. And we just haven't seen anything like that yet. Perhaps we will, from the European Central Bank. Perhaps we will from the IMF or some coalition of countries. But this is not about road shows about your measures on the deficit. This is about incipient panic and whether it will be contained.

Ralph Alswang for The Wall Street Journal (3)

'We're encouraging European governments to move as fast as they can.'

ZHU MIN, RIGHT, WITH GLENN HUBBARD, CENTER, AND LAWRENCE SUMMERS

MR. ZHU: The Europeans recognize the issues. This is obviously a good starting point. But this is a starting point. We at the fund have been pushing for a comprehensive program for years. Now, finally they adopt a program. I think this is absolutely important.

I think that there's room for us to move forward. But obviously, we're always encouraging European governments to move as fast as they can.

MS. EVANS: *Glenn, what's your take?*

GLENN HUBBARD: I share Larry's concern. To me there are two discussions. One is what do we do to wall off the prospect of financial crisis. And that really is about the EFSF (the euro zone rescue fund) and about the European Central Bank's bold actions that haven't yet happened. But there is another conversation, too, about how do we initiate plans that provide growth as well as austerity in peripheral Europe.

Both those conversations need to happen at the same time. This isn't something where half measures get you halfway there. Half measures actually make it worse. We learned that in the U.S.; apparently we haven't learned it yet in Europe.

China's Economy

MS. EVANS: *Underpinning a lot of the caution that investors have on Wall Street about the outlook right now for the U.S., including the debt crisis, is a slowing in China. How severe is that slowing going to be?*

MR. ZHU: I think all the data say China is moving in to a soft landing. We at the fund forecast roughly 9.2% GDP growth for this year and roughly 9% for next year. Obviously, compared to recent Chinese growth, it's a lower level, but compared to the whole world, this is very strong growth.

China is facing a lot of challenges. And the most sensitive is China has been implementing tightening monetary policy, and fiscal policy as well. Whether China will keep tightening or ease, I think this is a big challenge. It's really got to be very careful on that. Particularly, inflation is still very high. So that's quite a big concern.

And the second big concern is investment is too strong. That's really obviously unsustainable. You've got to be very careful. If you're slowing down investments, how do you maintain growth?

But overall we see a pretty safe soft landing in China.

The Need for Urgency

MS. EVANS: *Do you think there's a sense of urgency missing about dealing with the European debt crisis?*

MR. SUMMERS: I wrote in the Financial Times some time ago about how the best analysis of the Vietnam War basically had established that the way the Vietnam War happened was policy makers were presented with three options.

If you do nothing, it'll all collapse in the next month. If you do A, B and C there's a prospect of success in achieving our objectives. And if you do A and a bit of B, you can avoid disaster in the next month, but no one thinks there's a real chance for ultimate success. And again and again, they chose option three—A and a bit of B—and eventually the policy collapsed around them.

That's the process we've been witnessing in Europe for the past two years. And the challenge is to break out of that kind of approach. Pieties about fiscal rectitude have the enormously substantial virtue of being right. There does need to be more fiscal rectitude. But one should not confuse accuracy with sufficiency. And they are not sufficient, given where this situation has gotten, to stabilize the situation.

MR. HUBBARD: I think we have a day of reckoning coming in the U.S. as well. And I think our leadership needs to be as focused on how do you blend austerity and growth, as the sermons we're giving across the Atlantic.

FLASHBACK: CEO COUNCIL, 2010

"The message from the election is that the uncertainty connected with the tax rates was a primary issue. It is something that hopefully we can resolve prior to the end of the year, something that I think the administration understands cannot be done by decoupling the rates for those under $200,000 from those higher earners."

REP. ERIC CANTOR, Republican from Virginia

The High Cost of the Gender Gap

Dominic Barton, Geena Davis and Debra Lee on why CEOs need to focus more on women

'The fact that more women entered the work force was a big driver of GDP growth.'

DOMINIC BARTON

'We are showing kids a really almost '50s version of society.'

GEENA DAVIS

'It's about making sure you have representation on your executive team.'

DEBRA LEE

Women now graduate from college in greater numbers than men and enter the work force at similar rates. Yet at every career stage, men are more likely to advance than women.

In April, The Wall Street Journal convened a group of leaders to examine the causes of this disparity and identify key steps businesses can take to retain and develop female talent.

The Journal's Rebecca Blumenstein sat down with three members of the task force for the conference—actor Geena Davis, founder of the Geena Davis Institute on Gender in Media; Debra Lee, chairman and chief executive of Viacom Inc.'s BET Networks; and Dominic Barton, global managing director of **McKinsey** & Co., the research partner—to further discuss the issue of women and economic competitiveness. Here are edited excerpts of their conversation:

CEO Accountability

REBECCA BLUMENSTEIN: *Dominic, what most surprised you about the research that McKinsey did for the task force on the role of women in the economy?*

DOMINIC BARTON: First of all, this is an economic priority. This isn't about being politically correct. If you look back at our productivity growth, particularly in the U.S. but in other countries as well, from the 1970s until today, the fact that more women entered the work force was a big driver of GDP growth. In a snapshot, the number of women participating in the work force went from about 41% to 56% over a 40-year period. If they didn't join the work force, that would have been a 25% hit to GDP.

But while we've seen a lot of progress over a 40-year period, our sense is that it's begun to plateau. I look at our own firm on that front, where we're trying to find the best talent in the world, and 25% of our intake are women, even though 58% of the college graduates are women. What's going on?

The second thing that struck me was if you look at the corporate world today, about 53% of the workers coming in are women. Then it dwindles. The female participation rate kind of goes 53% at the entry level, and then 37% at the next level up—lower-middle management. Then, at the VP level, it's 28%. And at the executive committee, it's about 14% and then, 3%.

And when you try to find out why, it's interesting to see that some of the barriers are not the traditional ones. There are issues about flexibility, but a lot of the barriers are actually around the mind-sets of senior executives. Can we really risk having a senior woman in this role? What if she leaves? What if she goes and has children? It's never said explicitly, but it's quite implicit in terms of what is happening.

MS. BLUMENSTEIN: *Debra, you were also on the task force last year. Can you share with us some of the recommendations?*

DEBRA LEE: The first is holding the CEO accountable—that as the CEO, you have an obligation to make sure that women are able to move up the ranks in your company, whatever it takes, whether it's through mentoring programs or taking a personal interest in a couple of women executives yourself.

The other is expecting that there's a balance of men and women in the C-suite, and again, holding others at that level accountable.

There was a data point that men are promoted on potential, and women are promoted on performance, which I had never heard of before, but I thought was very interesting.

And so, one of the recommendations is that women should be promoted on potential. If you see a young woman who you know will go far at the company, she should be pushed along. Don't wait for her to do something amazing, which is usually the way it happens with women.

There are corporate boards, which everyone agrees provide an amazing opportunity for women. CEOs should ensure there are women on their boards, but they also should recommend women within their company to serve on other boards.

When I became COO of BET Networks, one of the great training grounds for me was the boards I served on. Being able to see other CEOs in action, and learning from them, and getting exposure outside my own company, and being able to network were very important.

MS. BLUMENSTEIN: *Geena, you are well-known for your movie roles, but you've been very busy these days with the Geena Davis Institute on Gender in Media. Can you share with us what your research has shown about how media shapes the way we all view the world?*

GEENA DAVIS: Everybody knows that in Hollywood, there are fewer interesting parts for women, and female characters are sexualized a lot. But what I didn't know until I had a daughter and started watching G-rated movies with her was that we are showing kids a really almost '50s version of society where there are far fewer female characters, and the ones that are there are highly stereotyped. They don't get to do very much. They're very much hypersexualized.

The first study we did on G-rated movies covered a 15-year span. We found that for every one female character, there are three male characters. In crowd scenes, there's only 17% female characters, which is very strange.

We just completed a study on the occupations in G-rated movies and found that 80% of the jobs are held by male characters. And of the women who hold jobs, there are no scientists, medical professionals, lawyers, politicians, business executives.

Clearly, we're transmitting a very disempowering and negative message about girls to kids.

Choosing Women

MS. BLUMENSTEIN: *Dominic, you just laid out the McKinsey research. How is your company doing on this front?*

MR. BARTON: We're not doing as well as we should be. If you look at the numbers, we're not where we need to be, so we're losing on the talent side. Part of it is the places we go to recruit—

Please turn to page R15

China Has Politics, Too

Jon Huntsman on why 2013 may be the perfect time to engage the Chinese in constructive dialogue

'Our job is to infuse shared values into the relationship that will make it successful.'

JON HUNTSMAN

The economic future of the U.S. is bound up with China. So how should the government manage that relationship—not only to boost the U.S. economy but win over Chinese leaders on key issues like human rights and intellectual property?

The Wall Street Journal's Alan Murray spoke with Jon Huntsman, former U.S. ambassador to China and governor of Utah, and currently a candidate for the Republican presidential nomination. Joining the discussion were Chinese entrepreneur Zhang Xin and Oleg Deripaska, a Russian businessman with extensive experience in China.

Here are edited excerpts of their discussion.

No Need for a Fight

ALAN MURRAY: *Henry Kissinger's book on China raises the prospect of an epic rivalry between the U.S. and China that parallels the rivalry between England and Germany in the 20th century. Do you think that's realistic?*

JON HUNTSMAN: I think it's totally avoidable. As I heard repeatedly serving as U.S. ambassador in Beijing, "We have politics in China, too." To be successful in Chinese politics, you have to have certain key constituencies behind you, and you've got to say certain things in the run-up to the Party Congress that is going to put you in office, just like politics here.

Next year holds elections for the United States. It also holds sweeping changes for China in terms of leadership in the 18th Party Congress. So what do you expect to hear in the run-up? Not that the United States is a reliable, friendly partner, but that we don't like the military presence. We don't like the trading relationship. We don't like the unilateralism, the moralistic attitudes of the Americans, they're hemming us in.

After the 18th Party Congress, Xi Jinping will rise up. After a year of consolidating power, which will put us in 2013 or early 2014, I believe Xi Jinping is going to have three years of run room where we have an opportunity, if we have the right leadership here, that would allow us to begin embarking upon a strategic dialogue with the Chinese.

MR. MURRAY: *But that's a long time to wait.*

MR. HUNTSMAN: That's just the reality of where we are. It means you'll have certain political realities on the trade side. On the security side, getting China's cooperation on Iran or North Korea will become that much more difficult, particularly when you've got candidates in the race who are talking about slapping a unilateral tariff on China for currency manipulation.

MR. MURRAY: *You're referring to Gov. Romney.*

MR. HUNTSMAN: I'm referring to Gov. Romney. There are certain things that could make the situation really bad for this country at a time when we can least afford it. I say the currency issue's going to take care of itself.

MR. MURRAY: *Is currency manipulation a real problem?*

MR. HUNTSMAN: Of course. It's gone on for a long time. The renminbi has appreciated 30% in the last several years. It will continue to at a rate of maybe 5% to 8%.

Because China is driven by its own interests to revalue the renminbi based upon market realities, they will arrive at a point in the years to come where they'll have more of a market-based currency. Whether we tell them to do it or not, they will arrive at that point.

You certainly don't impose tariffs. As a former trade ambassador, I'm not sure how you do it through the World Trade Organization. There's no provision that allows one to do it through the WTO. It's unprecedented.

And then what happens? The Chinese will then take the case to the WTO. Two years are wasted on nonsense. And you've blown through bandwidth that otherwise should've been used on intellectual-property protection, expanding market access for financial services and insurance, and working on regional security issues.

MR. MURRAY: *Do you think anyone will cast their vote based on the candidates' views about China?*

MR. HUNTSMAN: In those town-hall meetings we have, we talk about rebuilding the manufacturing muscle in America. How is that going to happen? We talk about the tax reform that will be necessary, the regulatory fixes to create a more transparent and predictable environment. You talk to folks about rebuilding our manufacturing muscle by taking advantage of the investment that flows in a knee-jerk fashion into the China market and has for a long time.

That's changing. Unemployment's going to spike in China. With unemployment you've got a larger itinerant work force roaming the countryside. That puts pressures on the large eastern cities, and that results in political instability and uncertainty.

And I think the investment dollar that always just lands in China is going to be looking for an alternative. This country would be absolutely nuts if we didn't position ourselves to be that alternative. It's not going to happen overnight, but we can start taking the steps to manufacture here.

MR. MURRAY: *But then you need a strong Chinese market as the recipient.*

MR. HUNTSMAN: Of course. The Chinese market, with the largest consumer class in recent history, is going to be a vacuum for our products.

MR. MURRAY: *How can we do what you're talking about if companies don't feel their intellectual property is safe overseas?*

MR. HUNTSMAN: We can make a more aggressive outreach to the emerging entrepreneurial class of China, saying, "This is not America's issue. This is yours. This is your intellectual property that increasingly you're developing that is viable on the global economic stage." Then you couple that with selective outreach to the municipalities and the provinces that actually want to work with you on it.

Ralph Alswang for The Wall Street Journal (5)

MR. MURRAY: *What about human rights?*

MR. HUNTSMAN: I think there is an opening here. Xi Jinping, who's a fairly pragmatic guy, is going to consolidate power. He's going to have two or three, maybe four years, of run room. Our job then in our U.S.-China relationship is to infuse shared values into the relationship to give it the glue and the staying power that will make it successful in the decades to come.

MR. MURRAY: *On the scale of challenges that the next president of the United States will face, how high is this one?*

MR. HUNTSMAN: I would argue that Iran is the most transcendent foreign-policy challenge, which could take a lot of bandwidth out of the Oval Office. But on a day-to-day management basis, when it comes to economics, security, trade and investment, there's only one relationship that matters in the world. The United States and China are now on the world stage.

Losing Trust?

MR. MURRAY: *Xin, please respond to the governor's vision about where we're headed.*

ZHANG XIN: I think that China will face major challenges in the near term. With every generation of leaders, the power base has become weaker and weaker. When you go on the Chinese blogs, you will see how little credibility the Chinese government has among the Chinese people. I think that will be the major challenge. How do you address a country where the government is losing the trust of the people?

MR. MURRAY: *Oleg, we've seen some things in the last couple of years that might suggest the beginnings of a new Russia/China axis.*

OLEG DERIPASKA: Russia definitely would like to benefit from China's growth and Chinese economic development. We have a huge economy hungry for resources. We have a new opportunity with components developed in China and which are very beneficial for our enterprise. It will be an economic partnership. It wouldn't be a political partnership, just because we're quite different animals.

MR. MURRAY: *Is it possible, given the problems in Europe and the relative stagnation in the U.S., for China to continue to grow at 8%, 9%, 10% or higher?*

MS. ZHANG: If you leave it to the market, yes, no problem. The potential problem is the government. Right now, the government is moving backward from really loving the market to not trusting the market.

FLASHBACK: CEO COUNCIL, 2009

"We'll have differences among us on health care. That's what healthy public-policy debates are about. You cannot control the deficit in this country without dealing with health-care costs. You can't control what happens in your company without getting health-care costs under control. And that's true for the United States government."

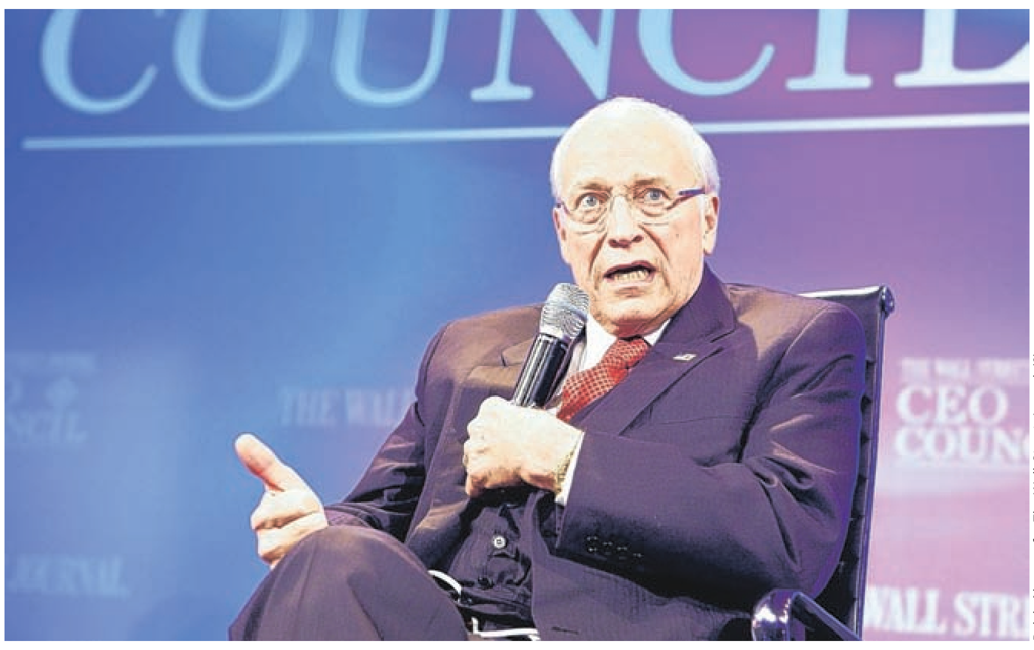
RAHM EMANUEL, then President Obama's chief of staff

Giving the President His Due

Dick Cheney on how the Obama administration has gotten some things right in the war on terror

It's been nearly three years since former Vice President Dick Cheney left office, but the elite Washington insider and longtime defense expert has not come close to leaving the limelight. With a presidential election approaching and security issues still high on the agenda, he will no doubt continue to be a focus of much debate.

Mr. Cheney shared his observations on foreign policy in an interview with Journal Editorial Page Editor Paul Gigot. What follows are edited excerpts of their conversation.



Ralph Alswang for The Wall Street Journal (2)

'There are reasons why we did what we did, and they're still valid.'

DICK CHENEY

Grading the War on Terror

PAUL GIGOT: *What marks would you give this administration in fighting the war on terror?*

DICK CHENEY: Certainly they've done some things right. The death of Bin Laden, for example. The use of drone attacks going after the leaders of al Qaeda, and so forth, with the Predator system that we developed and used originally. I think that's gone reasonably well.

The president had to make a couple of decisions. I don't think they were that difficult. I think we would love to have had the opportunity to do that ourselves.

MR. GIGOT: *You don't think the decision to actually pursue Bin Laden inside Pakistan was a close call?*

MR. CHENEY: No. It clearly needed to be done.

My concern has been I think the Obama administration has inappropriately characterized what they inherited from us. It would have been nice if they'd said, "Yeah, we benefited from what the prior administration did, by way of interrogation and developing these original leads that ultimately put us on Bin Laden's trail." But set that aside, that's politics. The fact of the matter is I think it's been policy.

I was very upset when we had talk by the Justice Department about prosecuting the intelligence professionals who'd carried out our policies in the enhanced-interrogation area. They've backed off that since. That's good.

I worry that we do not have now the capacity to interrogate high-value targets. I think that program's been shut down. If there's been a replacement put in place, I don't know what it is.

One of the ways we always benefited from that program was when we took down a target—Abu Musab al Zarqawi, for example—we were able to capture hard drives and a lot of intelligence that could be quickly exploited to run out several days' worth of effort against the terrorist organization.

'Reluctant Converts'

MR. GIGOT: *Guantanamo's still open, military tribunals of enemy combatants are being pursued. A lot of the things that were very, very contentious in your administration have been maintained. And yet, they're not so controversial now. What do you make of that?*

MR. CHENEY: They campaigned against most of those programs. They're reluctant converts. But I think they've made the right decision with respect to Guantanamo. It's still open.

There are reasons why we did what we did, and they're still valid. And I think they've learned, over time, the benefit of that. And I'll give them credit for the enhanced drone program and the fact that they have been very successful in terms of taking out additional targets.

MR. GIGOT: *You spent a lot of time on Iran and their nuclear program when you were in office. They're back in the news again with the recent U.N. report that they are pursuing a weapons system. Do you have any doubts that they are intent upon getting a bomb?*

MR. CHENEY: I don't. I think they clearly are committed.

MR. GIGOT: *Remember in 2007, the national intelligence estimate which said with high confidence that Iran had abandoned their program in 2003. How do we get from 2007 to now 2011 where the U.N. essentially says, "Yes, they have been pursuing it across this whole period"?*

MR. CHENEY: I remember when the N.I.E. came out, I was actually confronted by friends of the U.S. who suggested that we had arranged for that finding to alleviate any requirement we might have felt to do something about the Iranian nuclear program. That's not what we were doing.

What the N.I.E. process produced was clearly a flawed result. It, in part, flowed out of the continuing legacy, if you will, of the national intelligence estimate on Iraq [weapons of mass destruction] that turned out to be wrong as well. There's a process that had been adhered to. But it produced a flawed result, without question.

MR. GIGOT: *We have news reports that Israel is thinking again about a strike on the Iranian nuclear facilities. You faced a similar situation regarding Syria. From your memoir, I know that the Israeli officials came to you and said, "Here's the intelligence we have about Syria." Tell us how it played out inside the administration.*

MR. CHENEY: This would have been early 2007. We acquired intelligence that said the North Koreans had assisted the Syrians in building a nuclear reactor in eastern Syria. We, I, had great confidence that this was good intelligence. I advocated a course of action that would have involved a military strike by the U.S. to take it out.

It was a target all by itself in the desert. There wasn't likely to be any collateral damage. The reactor had not yet been fueled, so there wasn't likely to be any radioactive fallout. It was a very doable proposition.

The decision was made not to do that. The president was reluctant. Partly, there were doubts about, "How good's the intelligence?" Again, part of the legacy of the earlier failures on Iraq WMD.

The Israelis decided they'd take it out, and they did. It worked perfectly. There was never any word at that time. It was a great opportunity for us to demonstrate to the Iranians that we were prepared to use military force, if necessary, to block proliferation or the acquisition of a terrorist-sponsoring state of nuclear capability. Unfortunately, I lost the argument.

MR. GIGOT: *Do you have any doubt that if the Israelis conclude the U.S. will not act militarily against Iran, they will strike on their own?*

MR. CHENEY: I think there's a very good possibility that the Israelis view this as a fundamental threat to their existence and that they will act.

MR. GIGOT: *If you were president, what would you do to dissuade them?*

MR. CHENEY: I'm not sure I would. If they decide they need to do that, I would like to think that the U.S. would be supportive.

'Head of the Snake'

MR. GIGOT: *Former Secretary of State James Baker says he's convinced Iran will get a nuclear weapon. He argues that it's a containable problem—that if they do get a nuclear weapon, you could put together an alliance and a containment strategy. Do you agree that Iran with a nuclear weapon would be containable?*

MR. CHENEY: I don't. I think it's a mistake to assume that Iran will operate the same way the Soviets did when confronted by the U.S. We followed a policy of mutually assured destruction that led to deterrence, effectively. And both of us were reasonable, responsible, if you will, international actors. And it still was a time of considerable tension, obviously.

With Iran, it's not at all clear to me that mutual assured destruction would have the same deterrent value. They are probably the leading state sponsor of terror in the world today. They are the prime sponsors of Hezbollah and Hamas. The capabilities that they would acquire, were they to build an inventory of nuclear weapons, frankly, are a frightening prospect.

I had the experience of going to Riyadh to visit with the Saudis and to Tel Aviv to visit with the Israelis. And if you closed your eyes and listened to the arguments, you couldn't tell which city you were in. They both were extraordinarily concerned about Iran and the possible development of nuclear capability in Iran. Both used the same analogy. They said, "You've got to cut off the head of the snake."

MR. GIGOT: *But one says it publicly, and one says it privately.*

MR. CHENEY: Yes. There's a fundamental shift under way in that part of the world, in terms of the decline in U.S. power and influence. And it comes in the form of a rush for the exits in Iraq and Afghanistan. The administration failed to follow through on a new status-of-forces agreement with the Iraqis so we could have a stay-behind force there that would help them with their security requirements.

A nuclear-armed Iran is clearly going to be the dominant power in that part of the world. And people that have traditionally and historically been good friends and supporters of the U.S. are going to have serious questions about whether or not they can count on us going forward.

MR. GIGOT: *So if the president did order a military strike against Iran's nuclear facilities, your reaction would be?*

MR. CHENEY: I would be inclined to support him.

MR. GIGOT: *You were famously quoted in the early part of the Bush administration as saying that deficits don't matter. That's when debt as a share of GDP was about 40% or so, and deficits were about 4% of GDP. Now it's 9% of GDP as a deficit and closer to 70% of debt as a share of GDP. Do deficits matter more now?*

MR. CHENEY: I think it's important to put that comment in context. I had, during my 10 years in the House, one of the most conservative voting records. I think my conservative credentials are well-established, in terms of fiscal policy. But this was in the early days of the administration. I was referring to the beginning of the Reagan administration, when he simultaneously cut taxes, reduced revenue and increased defense spending.

He didn't pay a political price for the deficit that resulted. It turned out to be sound policy, both in terms of the military buildup, as well as the change in tax policy and the reduction in rates and so forth. And there are circumstances under which just the deficit per se doesn't have the kind of political consequences that we're faced with now, obviously.

Women

Continued from page R14

there's like 40% women in some of the business schools and so forth. But there's more that we can do, and we have to make it a priority. So if I think about appointments that I would do, if I have a choice between a man and a woman and they're equal in what they'll do, I will defer to the woman.

MS. LEE: Yes, I think one of the important things is to keep focused on it. After I had been COO for four or five years, I looked around my senior staff meeting and it was 95% men. How did I let it get to this point? I had taken my eye off the ball.

And it's not about quotas. It's about making sure you have representation on your executive team, and whether that's minorities or women, whatever it is, you have to retain a focus on it.

So the next several openings I had I just insisted that if there was a female and a male, that we would lean toward the female because I had to rejigger what I was dealing with in terms of an executive team.

I now have at least four or five female executives, and it's really turned the company around in terms of how we deal with each other.

MS. BLUMENSTEIN: *Debra, to be fair, a lot of this has, in the past, been written off to women and childbearing. You have two kids. What role do you think that does or should play in the equation?*

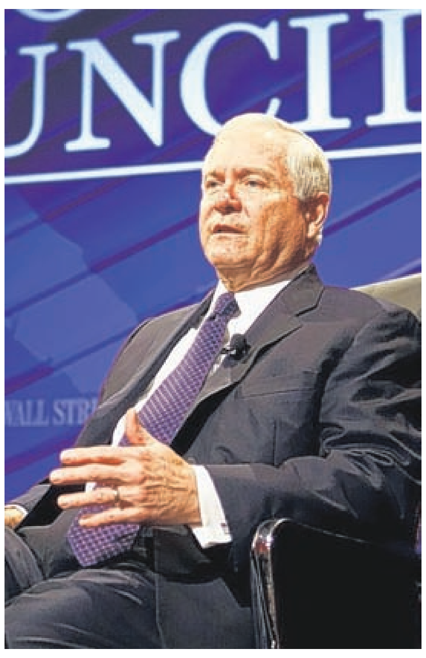
MS. LEE: With technology, you can do your job from anywhere now. And if you're committed to the company, you're going to put forth the effort.

I had two children during my 25 years at BET—my son is 22 years old, my daughter is 18. They were always part of my profession. They went to events with me. They knew what I did. They understood.

As an executive, you usually have flexibility to determine your schedule. If I had to take a red-eye back from Los Angeles to make it to the holiday program to see my son give one line, that's what I would do. You make it work.

The interesting thing I see now is that men are dealing with the same issues because of the rate of divorce, because men are now single fathers. I have male executives coming to me at 3 in the afternoon saying they need to leave for a soccer game. So it's not just women. It's an issue that companies have to deal with in general, and it shouldn't be used as an excuse of why women can't move up the ranks.

FLASHBACK: CEO COUNCIL, 2010



"When it comes to the deficit, the Department of Defense is not the problem. If you cut the defense budget by 10%, which would be catastrophic in terms of force structure, that's \$55 billion on a \$1.4 trillion deficit. And frankly, the idea that defense would take half of the cut in discretionary spending, particularly given what we're trying to do in terms of preserving security, is a problem for me."

ROBERT GATES, then Secretary of Defense