

NATIONAL PRESS CLUB LUNCHEON WITH SENATOR MAX BAUCUS (D-MT)

SUBJECT: ADVANCING AMERICAN COMPETITIVENESS AND ECONOMIC LEADERSHIP

MODERATOR: JONATHAN SALANT, PRESIDENT, NATIONAL PRESS CLUB

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MR. SALANT: (Gavels.) Good afternoon, and welcome to the National Press Club. I'm Jonathan Salant, a reporter for Bloomberg News and president of the National Press Club. I'd like to welcome club members and their guests in the audience as well as those of you watching today on CSPAN. Please hold your applause during the speech so we have time for as many questions as possible. For our broadcast audience, I'd like to explain that if you do hear applause, it is from the guests who attend our luncheons, not necessarily from the working press. (Laughter.) The video archive of today's luncheon is provided by ConnectLive and is available to members only through the National Press Club website at [www.press.org](http://www.press.org). Press Club members may also get free transcripts of our luncheons at our website. Non-members may buy transcripts, audio tapes and videotapes by calling 1-888-343-1940. For more information about joining the Press Club, please call us at area code 202 662-7511.

Before introducing our head table, I would like to remind our audience of future speakers. On January 26th Senator Richard Durbin, Illinois Democrat and the assistant minority leader, and Representative Nancy Pelosi of California, the House Democratic leader, will deliver a pre-buttal remark to the State of the Union address. And on February 7th the Honorable Douglas Wilder, the mayor of Richmond, Virginia and former governor of the state of -- of the Commonwealth of Virginia and chairman of the Board of the National Slavery Museum, will discuss confronting the issue of slavery, the unexplored chapter of American history. If you have any questions for our speaker, please write them on the cards provided at your table and pass them up to me. I will ask as many as time permits.

I would now like to introduce our head table guests and ask them to stand briefly when their names are called. Please hold your applause until all the guests are introduced.

From your right, Michael Crichtendon (sp), a reporter with Congressional Quarterly; Paul Corzak (sp), a reporter with Copley News Service; Ryan Dunlayer (sp), my colleague at Bloomberg News; Andrew Schneider, reporter with the Kiplinger Letter; Yanis Lazda (sp), international trade specialist and the detailee to the U.S. Senate Finance Committee's Democratic staff and a guest of our speaker; Kathie Scarrah, a freelance reporter and a native of Montana; Bill Dauster, deputy staff director and general counsel of U.S. Senate Finance Committee Democratic staff and a guest of our speaker; Angela Graring King (sp) from Traffic World Magazine and the vice chair of the National Press Club's speakers committee; Mark Wino (sp) from King Federal Systems and the speakers committee member who organized today's luncheon -- Mark, thank you very much for your work; Brian Pomper, chief trade counsel for the U.S. Senate Finance Committee Democratic staff and a guest of our speaker; Dikka Bombarni (sp), McGraw-Hill and chairman of -- chairwoman of the National Press Club events committee; Edward Aldin (sp), Washington bureau chief with Financial Times; Yukio Kashimaya (sic - should be Kashiya), Washington bureau chief for Sankei Shinbun; and Albert Crenshaw, financial reporter with The Washington Post. (Applause.)

In an era of partisan politics, Senator Max Baucus is a throwback to the days when Democrats worked with Republicans and vice versa.

As the top Democrat on the Senate Finance Committee, Senator Baucus crossed party lines and backed President George W. Bush's tax cuts. Critics have noted that since the tax cuts were passed, the budget surplus's obtained under President Bill Clinton have been replaced by record federal deficits.

Senator Baucus was one of only two Democrats, John Breaux was the other, invited to sit in the room when Republicans wrote the prescription drug legislation in 2003, which prohibited the government from negotiating drug companies for lower prices. We'll have some more discussion about the drug plan later on. Senator Baucus led the -- still Senator Baucus led the very successful Democratic effort last year to prevent President Bush from privatizing Social Security, the old-age insurance program. And he voted against the Central American Free Trade Agreement.

First elected to the Senate in 1978, Senator Baucus has tried to steer a middle ground in a state that usually votes Republican. He won with 63 percent of the vote in 2002 just two years after President Bush carried the state by 25 percentage points. Senator Baucus has developed a close working relationship with the Republican chairman of the Senate Finance Committee, Charles Grassley of Iowa. Their staffs meet regularly, and the two senators meet regularly.

Baucus's bipartisanship has drawn brick-bats from several Democrats, but they didn't hurt that much, at least in comparison with what else Senator Baucus has faced recently. He had a motorcycle accident, heart surgery and was seriously injured when he fell during an ultra marathon. Baucus is clearly a survivor, says Congressional Quarterly's Politics in America.

Born in Helena, Montana to ranchers, John and Jean Baucus, Max graduated from Stanford University, both as an undergraduate in 1964 and in 1967 from Stanford's Law School. After working as an attorney for the Security and Exchange Commission here in Washington, he returned to Montana to coordinate the state's constitutional convention and opened a law practice. He won a seat in the state legislature in 1973 and was elected to the House of Representatives two years later, where he served until he was elected to the Senate.

During those rare moments when he is not on the Hill, Senator Baucus likes to hunt, fish, run and even walk the occasional 820-mile hike across Montana. Baucus's fellow Montana senator, Republican Conrad Burns, has received more money from Republican lobbyist Jack Abramoff than -- his associates and clients than any other federal lawmaker. Still, Senator Baucus announced in December that he was returning almost \$19,000 in campaign donations from Abramoff associates and clients. The money included almost \$2,000 for the use of an Abramoff skybox for a 2002 fundraising event that was never reported to the Federal Election Commission.

On behalf of the National Press Club, I welcome Senator Max Baucus, Democrat of Montana. (Applause.)

SEN. BAUCUS: Thank you very much, Jonathan, and thank goodness for the First Amendment! (Laughter, applause.)

And thank you again. Mr. President, I understand you've recently been installed as president. And I must say I very much appreciated the authority with which you brought down the gavel. I understand that that gavel was your mother's when she was head of the PTA in your -- back home. And I know that you fondly remember that and use that. And it certainly struck me -- is how well you use that gavel. (Chuckles.)

Forty-three years old -- excuse me -- 43 years ago, I set off on a trip around the world. It was 1963. I was a student at Stanford University, part of their program in France, but I spent most of my time with other Americans, and as a consequence, I didn't learn very much French. And after six months, I decided to leave France and hitchhike across -- around the world -- one year, August of '62 to August of '63.

The people I met on that trip changed my life. They sparked my interest in public service. They kindled my concern for foreign affairs. They broadened my appetite for the world.

Forty-three years ago, I was in Delhi, at the YMCA. I learned that Prime Minister Nehru met with Americans every second Thursday. So I made an appointment, took out my wrinkled blazer out of my knapsack, smoothed it out the best I could and headed over to the prime minister's office.

I met with Prime Minister Nehru for more than half an hour. Here is a young kid from Montana with the prime minister of India -- young man, student. Here I was, talking with the man who had led India to independence, united his many peoples and steered its economy. It was a life-changing experience.

Last week, 43 years later, I went back to India. This time I went as a United States senator with the delegation of Montana. We traveled to Bangalore and Delhi. We also went to Beijing and Chung Ching in China. We went to learn about the challenges and opportunities presented by the economic rise of India and of China.

Forty-three years ago, I saw Prime Minister Nehru, the Taj Mahal and New Delhi's imposing British architecture. Forty-three years ago, I saw India's history.

Last week, I saw India's future. I saw the future in the faces of competent young engineering students at Delhi's Indian Institute of Technology. They have no doubt that the India of tomorrow will be better than the India their parents left them.

I saw the future in Delhi's super-modern subway that snakes its way beneath the teeming city of almost 14 million people. I saw the future that Bangalore's emphasis, through its futuristic architecture, state-of-the-art technology and commitment to excellence -- par excellence, I might add -- has made it a global technology leader.

I saw the future in the eyes of Indian government leaders who are bent on making the 21st century India the world's engine.

I also saw the future in China. I saw gleaming super-highways burrowing through brightly lit tunnels. I saw robots stacking the shelves of the Chinese company that now produces the IBM ThinkPad. I saw teams of Chinese researchers at Microsoft's Beijing lab determined to discover the next big thing. I saw the new cars that replaced the old cars that only a few short years ago displaced Beijing's bicycles. These are new cars. I saw capitalists and entrepreneurs betting on China's rise. I saw a confident middle class ready for the future.

These sights reinforced what we already know: China and India, with over 2.3 billion people between them, are reawakening civilizations on the march.

After a quarter century of growth, China is set to become the world's largest economy by about 2030 or so. China is already the world's third-largest exporter. China has surpassed America as the largest exporter of information technology products. A steady flow of foreign direct investment seeks opportunity and profit in China. Ninety percent of Chinese exporters are backed by foreign investments, whether clothes, computers or chemicals. The flock of

construction cranes that I saw in Beijing and Chungching hover over investments in real estate and construction.

India is no less impressive. It has developed a higher education system that produces tens of thousands of incredibly gifted students each year. It has created a world-class information technology sector which has grown an astounding 50 percent annually for over 10 years. And with new billion-dollar investments by Microsoft, Cisco and Intel and others, India's IT industry could swell fivefold in just two years.

I went to China and India because I wanted to see these rising economic powers up close. I went to listen to government and business leaders, to students, entrepreneurs, and learn how they see the future. I went to talk with former prime minister of Singapore and elder statesman of Asia, Lee Kuan Yew -- a long conversation with him to understand his perspective for what's happening. With a delegation of Montanans, I went to learn and face the facts.

Here are the facts.

China is singularly focused on restoring its historical economic preeminence. It has already been enormously successful. Its businesses are thriving, exports soaring, investment is booming, and China has every intention of making these successes broader, deeper and enduring.

Technology is getting more sophisticated. Workers are becoming more skilled and productive. China's business leaders have vision and focus, and they know their economy holds enormous promise. These are the facts.

India has a large highly skilled and fiercely ambitious workforce, led by entrepreneurs like K. Dinesh of Infosys, who are fixated on quality and innovation and performance. America's flagship companies are also investing billions in India by not low-skilled work, but high caliber research and development. These are also the facts.

The United States economy is losing some of its competitive advantage. That, too, is a fact. We have lost our preeminence in information technology, falling behind Singapore, Iceland, Finland and Denmark. At the same time, federal support for research and development is in a 30-year decline. While multinationals scramble to tap India's talent pool, we are neglecting our human capital.

When I started in the Senate, America ranked third in the world in the share of young people with a science or engineering degree -- third in the world. Thirty years later, we have slipped to 17th. In global rankings of math, reading and science skills, our 15-year-olds have fallen even further. Rising healthcare costs threaten to cripple many companies, and too often, employees have little or no coverage. The average American spends more than \$5,000 a year on healthcare costs, which is twice as much as the next most-costly country. These are the facts.

The United States is set to wrack up another record current account deficit. We borrow more than 80 percent of the world's savings. Our net foreign debt has not been this high as a

percentage of gross domestic product since Grover Cleveland was in the White House. This is unsustainable, it is costly. And too few think about the day our debts come due.

In international trade over the last few years, we have distanced ourselves from Asia, leaving China to engage the region. Instead, this administration has pursued politically motivated trade agreements with very small countries of little economic significance that create few jobs here at home. By not pushing to open to the world's biggest market, and not explaining the importance of trade, this administration fosters a surging protectionism. These are the facts.

Let me be clear. I did not come here today to declare the end of U.S. global economic preeminence.

On the contrary, I came here to lay out the facts as I see them, both troubling and encouraging, and I come to call for a strategy to face these challenges.

America is capable of overcoming any challenge. America remains the world's economic powerhouse. We lead all major economies in output. Our companies and workers grow more productive each year. At every stop during my trip, whether Beijing, Chongqing, Singapore, Bangalore or Delhi, I've found unwavering admiration for the American economy. When I ask why, no one mentions our growth or our tax system or our productivity. The answer was much more fundamental. Without exception, students, business titans and government ministers gave me one word: innovation.

American innovation drives new industries. American innovation creates new jobs. American innovation brings new and better ways of doing what we do today. Innovation is what Americans do best. Ingenious computers and handy gadgets may be made in China, but the ideas that give them life are made in the U.S.A.

I am confident that America is and must remain economically preeminent, but I'm equally confident that China and India are not going away. They are an increasing part of the world in which live and which we work. As far as I'm concerned, one American job lost to foreign competition is one job too many, but we cannot kid ourselves, we cannot stick our heads in the sand. Our challenge is to learn why some jobs move overseas and work to keep them at home. To do so, we must identify challenges and stand up to them. We must find our weaknesses and overcome them. We must recognize our strengths and multiply them.

Whether we succeed or fail depends on the choices we make. Success requires making the right choices, for example, just look at China and India. China's growing in prosperity as a result of deliberate choice to liberalize its economy and to encourage investments. China chose to join the World Trade Organization and reduce its tariffs to the lowest level of any developing country. China chose to create incentives for foreign investors. China chose to closer trade investment ties with its neighbors and the world.

To be sure, China also faces daunting challenges. When we were in China, pollution dulled the gleaming infrastructure, (labored ?) our lungs, stung our eyes, and by official estimates, 300 million Chinese drink tainted water each year. So China is making choices. China is moving to

dismantle its heavy polluters and initiate green GDP growth. It plans to double its use of cleaner-burning liquefied natural gas -- double it soon. These are China's choices. What will we choose?

India's growth today is a result of its choice to leave behind decades of centralized planning, fiscal chaos and protectionism.

India chose to impose fiscal and monetary discipline. India chose to lower tariffs. There's farther to go, but it's moving in the right direction. India chose to invest in its national technical institutes, invest in them, and they rival our Ivy Leagues.

India, too, faces enormous obstacles. In Bangalore, I heard from entrepreneurs fed up with deteriorating infrastructure, poor sanitation, frequent power failures. Infrastructure is abysmal throughout India.

So India has chosen to invest 40 percent of its government spending to update its infrastructure -- 40 percent -- to meet the demands of modern, international commerce. It is excited to build modern subways in over a dozen of India's cities. Not only New Delhi -- the figure they gave me was up to 19.

These are India's choices. What do we choose? I believe that we must choose a path to greater economic competitiveness. That means taking advantage of opportunities that we see and meeting our challenges head-on.

First, we must see the facts for what they are. We must stop doing the Chinese and the Indian economic successes as a zero-sum game. Their economic gains do not depend on our losses. We can all prosper, we can all grow. Opportunities for America abound and a successful China and India. We are not there taking advantage of them.

India is investing tens of billions of dollars in rebuilding roads and building new parks and airports. Dozens of these infrastructure projects, each worth hundreds of millions of dollars, are open to American companies. But what did we learn? Indian government and business leaders remind me in every meeting in India that American companies are not there. These opportunities are instead going to Malaysian, French, Korean and other investors. We're not showing up.

Likewise in China, where over 100 cities have populations of one million people or more, but foreign investment is concentrated in just a handful of them. I visited Chongqing in the central of China, which has a population of 33 million people, but very little U.S. investment -- other countries, but not U.S. When I met with the few American businessmen there, they told me opportunities for Americans existed in every sector in Chongqing.

Challenge and opportunity -- that's what China and India present to the United States. And to meet the challenge is to take advantage of the opportunity. We should have a comprehensive agenda for a 21st century competitive economy. We have to. We got no choice. We must look inward and scrutinize our own policies thoroughly, comprehensively and honestly.

I have spent of the last year developing such an agenda. In the coming months, I will launch seven individual legislative proposals to address our competitiveness in education, energy, health, savings, research, tax and international trade. I do not pretend to have all the answers, believe me. But we have to start tackling these questions now.

I've realized these proposals as six pillars of competitiveness. These pillars can only stand tall if we first build a solid foundation, and that foundation is education. We must again learn to value education. We must choose to value and honor our teachers and professors.

We must make the priority of life-long learning an inseparable part of American society and American culture. China and India place an enormous premium on education. We need to do likewise.

My education competitiveness legislation would dramatically increase access to the kind of education our economy demands. Specifically, it will encourage more students to go into math and science by funding college scholarships for sciences, providing free tuition for science and engineering students, and creating partnerships with employers and continuing education centers to meet the technology needs of companies.

I also propose legislation to invest in our teachers by raising starting teacher salaries and providing student loan forgiveness for teachers.

Energy is another critical element. With oil and natural gas prices doubling and tripling over the last few years, one needs only to go to the gas pump to see a crisis is imminent. The more China and India thrive, the higher they'll drive energy prices. China and India understand this, so they are investing in nuclear, hydroelectric and natural gas energy sources on a large scale so they become as independent as they possibly can.

We must choose alternate energy sources that will support economic growth and make our economy more competitive. We already have in place tax incentives for alternative energy. We must be bolder and harness America's best innovative minds to secure our energy future.

My energy competitiveness bill would create a new energy agency modeled on the Defense Advanced Research Projects Agency, otherwise known as DARPA, which developed technologies including the Internet and stealth aircraft technologies. This new agency, the Advanced Research Projects Agency - Energy, or ARPA-E, will fund cutting-edge research to break out of the energy squeeze we now face.

We must choose to make affordable health care a reality for all Americans. The problem of health care costs is real. Nearly one- third of American adults were unable to pay for medical care last year, nearly double the rate 30 years ago. Rising health care costs are a burden for American businesses, and our economy's Achilles heel.

There's a lot of talk about health care reform these days, but too much talk is of cutting costs simply, especially Medicare, rather than getting at the heart of the problem. What have we actually done to drive change, besides talking about it? Well, we've got a new prescription drug



benefit rolling. We must now invest in innovation and efficiency. My health legislation does just that.

First, we can improve health care by boosting health information technology. Health IT serves as a litmus test for innovation. New and better IT systems mean patients will get the care they need, and it will save money as paperwork becomes much less necessary.

India and China are strong today because they constantly forge ahead. We must do the same, creating an IT infrastructure linking patients and providers with the best health care America can provide. It will also help reduce costs significantly.

This administration has a goal of creating an electronic health record network this decade, but to realize worthy goals, we need real investment and political will. We need more than good intentions; we need action: grant programs, technical assistance to help providers get on the line, and federal standards to link people together.

Secondly, we must start paying for quality and value in Medicare. More care is not necessarily a better care. It makes no sense to pay all providers -- that is, doctors and hospitals -- the same if some are providing much better quality, or much worse, than others. Realizing pay for performance in Medicare is also important because it will drive sector-wide reforms, and that's because Medicare is by far the largest health care payer.

Last year the pay for performance bill I wrote with Senator Grassley came close to becoming law. But close is not far enough. This year I will work to make Medicare pay for performance a reality.

And finally, in health care we must restructure priorities, especially in the market. Focusing only on the short term means failure in the long term. Changing our focus means subjecting American companies to rigorous standards. It also means investing in independent research to determine which drugs, which treatments and devices give the best results, and paying for them accordingly.

We must choose to create an environment where it is good business to innovate, where companies produce drugs that will make people healthier faster and more affordably. The key to America's future lies in education; the key to America's present lies on the nation's health. We have a long way to go.

With all these challenges facing our economy, we need to invest in education, in technologies, and innovation. We need to invest in the future. As we do so, our nation needs savings. It needs the dollars to do so, which is why my fourth proposal addresses savings competitiveness. America needs more savings, public and private, to invest in its expanding economy.

First, we need to make certain that the federal government spends taxpayer dollars wisely. My legislation does this by restoring pay-as-you-go rules for both spending and tax cuts. These rules are simple. They're the same ones so many American households follow. That is, any new public spending or tax cuts must be paid for up front. If we don't have it, we don't spend it.

Second, we can boost private savings by making it easier for American families to save. We need to create a culture of saving in the home and in the work place. More workers will be automatically enrolled in savings plans with a choice to opt out. If they want to default, they're in. Those Americans who are not eligible for a 401(k) plan today that is more associated with small business will be given new savings options, and we will encourage them by making the savers tax credit permanent.

Innovation is America's greatest asset. I heard that time and again from American business leaders on my trip. My fifth proposal will capitalize on that. That legislation will simplify, improve and make permanent the R&D tax credit. Now, some have rightly claimed that the current research credit is terribly complex and difficult -- that is, to administer. So by simplifying the credit, businesses can more easily utilize it, leading to a boost in U.S.-based research. American businesses rely on this credit to remain competitive in the global market, spur innovation, and provide high-paying research and technology jobs.

But the credit is not enough, especially when it comes to basic research. I believe that more support for private and public research partnerships can be an effective vehicle for basic research. We did this in 1980, when the semiconductor companies and the government collaborated to share risks and leverage discoveries in semiconductor technologies, otherwise known as SemiTech. It worked -- very well. My legislation will encourage such partnerships and boost our nation's basic research capacity.

In addition to providing incentives for American businesses to become more competitive internationally, we could also break down some of the barriers that America's businesses face.

Our corporate international tax laws were written at a time when U.S. businesses were the only players on the block. But in our fast-paced global economy, where consumers can purchase goods or services instantly, from anywhere in the world, U.S. businesses need flexibility in order to compete.

The tax code rightly contains a number of anti-abuse rules, so that companies cannot shelter passive income. We must also allow U.S. businesses to redeploy resources from active foreign corporations, as their competitors already do.

I will review those rules, as well as the transfer pricing rules, cost recovery periods for business assets and the inappropriate use of offshore tax havens, to make sure U.S. businesses are able to compete fairly and on a level playing field with both domestic and foreign competitors.

Finally, our trade and investment in international markets is a challenge that I've asked our companies to embrace. But when American companies embrace these new market opportunities, we must also send them a clear signal. The American government has their back. In other words, when our companies work to invest and trade abroad, we will work to make sure these markets are open and stay open, and that our partners play by the rules. We have to do a much better job doing that.

My legislation would require the USTR to work with Congress to identify priority barriers to trade and investment each year, and to address them expeditiously; also build on Senator Stabenow's idea to create a new Senate-confirmed chief trade prosecutor at the USTR, dedicated to investigating and prosecuting trade enforcement cases.

Our workers must also know that we have their backs. We must do a far better job of taking care of the workers that trade leaves behind. The current Trade Adjustment Assistance is a good start, but it can work a lot better. I already proposed expanding it to cover service workers, and Trade Adjustment Assistance benefits must be more accessible to all trade-displaced workers, including those who lose their jobs due to competition from China or from India.

These seven measures will build six pillars on a solid foundation of education. Together they'll form the structure of a strong, dynamic and competitive economy. But it's only the beginning.

We should not be afraid to think bigger in each of these areas. For example, we should give a lot of thought about establishing national schools for the brightest young American minds, like the enormously successful Indian Institutes of Technology. We could harness our collective creativity by offering multi-million-dollar awards for the solutions to challenging problems, similar to the X PRIZE recently awarded for the first privately funded manned space vehicle.

We can provide health care coverage to all Americans, starting with our nation's children. We must not shy away from bigger challenges.

We certainly face these challenges. They're immense, and we need a far-reaching agenda. But I must say these challenges are only a fraction of those Prime Minister Nehru faced when I met him in 1963.

If we stand up to our challenges, if we make the right choices, America will continue to lead the world for the foreseeable future.

And 43 years from now, in 2049, when some Chinese or Indian student decides to hitchhike her way across this country, she will see an America whose economic leadership continues to inspire the present and define the future.

Thank you very much. (Applause.)

MR. SALANT: We have loads of cards with questions regarding your speech.

SEN. BAUCUS: I see a big stack there, yeah.

MR. SALANT: The first one, though, comes from -- you're a Democrat in a Republican Congress with a Republican administration. Why should we expect your proposals to go anywhere?

SEN. BAUCUS: I believe, frankly, that more of our people are understanding the basic points I'm making. This is American understanding. People across the country, I think, are beginning

slowly to get it. Congress responds to what the people back home want. And I -- even though Congress is -- and Washington, in my judgment, too fixated on the short term in so many areas, it's slowly -- you're beginning to see legislation introduced, more discussion around these problems, more articles written, more people speaking which address them. And because, in my judgment, the problems are so real, it's going to force us to look more at the facts honestly, and we no longer have the luxury of indulging in an ideology of partisanship. This is a huge challenge, and I think that's going to force us to work together, as is being more and more recognized. That's why I'm here today, frankly, to report back what I see, what I sense, what I think, what I feel is a way to try to help get us together in a nonpartisan way and just get the job done.

MR. SALANT: The recent announcement by Ford underlines the difficulty that U.S. auto companies have in competing with Japanese and other foreign automakers. Is there an answer to this? And should it be a federal answer?

SEN. BAUCUS: It's all tied together. I mentioned several points, you know, six pillars on a foundation. We have to work on it all, and the more that happens -- and it's education, it's research and development, technology, it's trade adjustment assistance, healthcare costs -- all together, the more likely there'll be fewer Ford layoffs, if you will, in the future. It's also a culture of:

Hey, we're in this together as Americans and got to stick together as Americans. Get the politics out of this, and putting everything on the table -- nothing's off the table -- and find some solutions. I think -- and the sooner we address that, address the current account deficit and the fiscal deficit, the sooner Ford employees, GM employees, and other American auto employees -- workers can be more confident that their jobs are a little more secure.

I think we spend, in America, still too much on the short term. People have mentioned that many times. And I learned that over in this trip, too, talking to the companies over there. They're able to think more long term -- of course their culture, their financial systems, political systems enable them to do so. Without getting into the reasons why they're better able to do so, the fact is they do it, they do think more longer term. They think more in terms of investment for the future, and more people are willing to sacrifice now for the future, as people in Ireland did -- it helps explain Ireland's economic recovery. And so it's just much more attention the future.

I went over there to learn, to try to get a better sense of what we need to do.

And my job is to as well as I can make sure that no American job is ever lost due to foreign competition. But the answer is complex, and there are realities that we must face.

MR. SALANT: This questioner wants to know, how do unions and the protections they have given American workers hurt or help America? Are we less competitive or more competitive as a result of workplace labor protections?

SEN. BAUCUS: I think that all our institutions, all our organizations are going to have to kind of rethink -- all of us. I mean, it's at all levels. I mean, it is -- sure it's business, it's labor, it's the

press, and it's government, it's those of us in office. It's a whole new paradigm. It's a whole new mindset that we all just kind of start thinking about and get away from the old kneejerk -- previous reactions to situations and the problems, because we can't afford that kneejerking anymore.

And frankly, I see it as very exciting -- really exciting. I can see the day, and it's not too far down the road, where finally something snaps, and we in America, as a critical mass, just gets it. And we start working on it, and it'll be really exciting because it's -- you know, it's America. We've done that in past, whether it's the 30s, the depression, and the wars and Sputnik. You know, we've responded. And I think a lot of -- most Americans sense there's a problem, or they've been frustrated and don't know quite why. But give them the right sort of opportunity and they see something meaningful and real happening and wanted it would very enthusiastically jump on board.

MR. SALANT: Please elaborate on the trade element of your plan. What new steps should the U.S. trade representative in Congress take to tackle trade and investment barriers? And when would you expect to unveil this trade bill?

SEN. BAUCUS: Well, I'll be introducing legislation over the next couple of months. The trade -- the basic tenet if we're going to help encourage American companies to do the right thing, we also got to -- and we pass these trade agreements, whatever they may be, that we're there to make sure that the Americans are not taken advantage of, whether it's IPR, whether it's services, provisions or whatnot, so that countries live up to their obligations that they've signed onto in these agreements.

So one is to create an office in the USTR, it's a chief -- as I mentioned in my remarks -- kind of a chief prosecutor's got to report to Congress, you know, major trade barriers. So at least -- so there's more transparency, so we in the country have a better idea of what the major barriers are. We had something similar in the law not too many years ago. I just -- it gets lapsed. It's not really been utilized, and I think, you know, that would certainly help. And that's one of the -- one trade feature. That's the main one.

MR. SALANT: You mentioned China and India in your speech. We have a couple of questions about those countries. What would you like America's role to be in India's economic development?

SEN. BAUCUS: We need to show up. We need to be there; 80 percent of life is showing up -- just being there. And I'm not saying 80 percent of our time should be in India, but I am saying that we need a much greater presence in India. It is incredible. I mean, you wouldn't believe -- as I mentioned -- every meeting I had over there, lots of different people have said, "Hey, where are you? Where are the Americans? We want you. You're not here." Now, I'm no great expert to know why a lot of companies aren't in India. I only know that other companies and other countries are, and I know that the Indians want us.

And there's a bit of advantage here too because the language is ours, basically, and they want us, and it's just a huge opportunity.

Both India and China are both very similar and both very different. You know, their political systems are so different, it made the trip very, very interesting to be able to juxtapose each country against the other to assess their similarities and their differences.

And in India, as in China -- you might expect the Chinese think their system's superior because it's centrally planned, top down. The Indians think they're superior because they're a democracy and they're working things out democratically. I think both countries have their benefits for where they are and for their stage in history and world development. But essentially, in India we need to show up, get over there, learn it, learn the system, learn the people, find the opportunities, because, boy, they're there.

MR. SALANT: Speaking of China, we have a couple of questions regarding the Chinese government. Do you see any conflict of interest in America's support for China, considering its communist government? And also, would you advocate some sort of sanctions to protest human rights violations in China, or, as this questioner asks, is the country too important a trade partner to risk offending?

SEN. BAUCUS: I take great pride in helping previous administrations, the Clinton administration, work on encouraging China's accession to the World Trade Association and also China getting PNTR status. I remember I was over in the White House and President Clinton invited me up to the residence. We talked a little bit, and he had his putters and he showed me all around upstairs.

And he turned me to me and he said, "Max, what do we do about China?" I looked at him and I said, "We've got to respect China. China is a country, we're a country. China has interests, we have interests. We have to engage China but without illusions, engage with eyes wide open. They're here, they're there; we're here, we're there; and therefore, work with them. But again, eyes wide open. And work with China where we can, explain to China the differences that we have."

When I was over there, I made a big point of explaining to the Chinese government, and especially to Premier Wen Jiabao, how they've got to address the current account trade deficit, and especially the degree to which they peg the RMB. I explained to him you've got to do something to address it quickly, because if you don't, the United States Congress is more likely to pass protections legislation, which probably in the long term is not the best thing in the world.

And that's what we have to do as a country, tell them what we think makes sense, especially provisions that make sense for China, for China's future, as good friends, we just talk together. I'm not saying we're good friends or bad friends, but they're there, we're here, and we've got to work together. We've got to find solutions here, but stand up for our rights, but work to try to find solutions.

MR. SALANT: As part of the effort to improve U.S. competitiveness, does the Commerce Department and State Department need to do more to be educated about and then to promote and help distribute U.S. standards for products, services and certifications?

SEN. BAUCUS: I think we can do a better job showing up, setting standards. A small point, perhaps, but several years ago, I was in Saudi Arabia, and American officials over there were quite alarmed that a German company that was in Saudi Arabia was setting up the specs for the Saudi telephone system. Guess what? The German company even got the contract to put in the telephone system. And where were we? I don't know. American officials (then asked ?) that question, where were we. Yeah, I think we can be -- we must be very aggressive in trying to help countries with standards, et cetera.

In my judgment, China and India both, they're not low-balling it. They're setting very high standards, pollution control standards and the like. Now, they're going to have a question of enforcement, a question of really how quickly they move, but they're not low-balling it. They know they can't. They can't low-ball it. They've got to set high standards. We have -- in fact, I was in -- where was it, Chongqing (sp), because there's terrible air pollution in Chongqing -- I asked the people there what about America's Clean Air Act? They said, "Oh, yeah, we know all about your standards over there.

We're trying to model on your Clean Air Act." So, you know, there's an opportunity for us. The EPA, Commerce Department, you know -- and I think it's like the old saying, "Lots of different levels -- we have to engage." Even engage in military cooperation agreements for both countries. You know, just -- all levels. The more we engage at lots of different levels, the more likely it is we're going to achieve the goals which I think we all share.

MR. SALANT: You've spoken about creating an energy agency and then talked about an energy plan. Would this be a separate agency or part of the Department of Energy? And Congress just passed energy legislation. Is that act efficient, and if so, how?

SEN. BAUCUS: I think the legislation we passed is okay, but it's tepid. It's a modest start. The Incentives for Alternative Energy is good, some of the incentives in there are good, but it doesn't get to the heart of the problem.

My thought is the agency would be separate. It gives it more flexibility, it gives it more of a chance to be effective, not be part of a another department. I'm open to ideas -- or if people have better ideas how make this work better. I only know that we've got to move.

I mean, look at the degree to which we're being held -- pardon the expression -- it's not really a pun -- hostage by other countries due to our dependence on foreign energy. It's incredible. We got to start much more aggressively, be much more independent in energy. There's a whole flood of reasons why we have to do so. We got to start -- and much more than we have.

MR. SALANT: We got a couple of questions about this topic. All of our wonderful ideas, all these wonderful ideas suggest a need for a new revenue source. Would do support a VAT, or Value Added Tax? (Soft laughter.)

SEN. BAUCUS: I'm not getting into that. (Laughter.) You know, that's another issue. I don't think that's central to the concerns that we are now addressing here today. We can address these concerns without a VAT or consumption tax (sic). That's a whole other matter, and I just -- I

just want to keep our eye on the ball as much as we possibly can, given the tax system that we have, because if it's -- it's -- A, it's going to take a long time to make a major change, if it is changed -- and I'm not saying it should or shouldn't -- but there are some things we can do with the current system, where we can address the current competitive problems we have. Let's just keep our eye on the ball.

MR. SALANT: None of the items on your list of 21st century economic agenda items is transportation. Why not?

SEN. BAUCUS: Well, certainly infrastructure's important. And it's not -- it's just highways -- I guess the answer is, you can't do it all. But this is, you know -- it's the old thing in life: you can't let perfection be the enemy of the good. You know, this is not going to be a perfect list, but I think it's a very good list. And I'm wide open. If someone has a good transportation infrastructure thought, whether it's not only just highways, but, you know, Internet and wireless, you know, installation nationwide -- every -- and Broadband connections nationwide -- you know, that's great. In fact, I toyed years ago with some idea to get wireless technology nationwide -- not nationwide -- nationwide based on a pattern a little bit after the interstate highway system. But, you know, that's -- those are just ideas.

But the main thing is is that -- and I hope to do is with the innovation part and the R&D part that -- that might be important.

But I'm -- the basic answer: I'm open.

MR. SALANT: With the House and Senate set to meet soon on pension legislation, what are your thoughts on the role of these and other worker benefits in the evolving economy, since systems like the defined benefit system worked, as we strive to compete against countries with state-sponsored retirement and health systems?

SEN. BAUCUS: Well that's a huge issue. Really.

You know, that's something we have to address. Honestly. It -- it's happening. Those companies are shedding their defined benefit plans and putting the burden on the PBGC. And they're also cutting back on health benefits for some of the same reasons. But I mentioned in my remarks that the more you could sort of boost up (default ?) 401(k)s with an opt-out, that will help a little bit.

It's kind of interesting. The savings rate in China I think is about 40 percent. But why it is so high, the personal savings rate, is because there are no benefits to speak of: no pensions, no health care. So the Chinese people have to save. They have to save to pay the health care bills or for retirement or whatnot. Now, we Americans don't save. We have a negative personal savings rate in our country. Negative. We spend more than we -- we consume more than we earn. And, well, we have kind of a safety net with retirement, with Social Security, and for some people, for most people, health care. But I just think we got to boost up the employee side of 401(k)s, and I mentioned making permanent the Savers Credit Act, which would help smaller business employees have health care for them. But it's all part of the -- it's all -- another -- the pension, the defined benefits question, my advice to you is really an overall part of the whole same basic



problem, is making America more competitive. And the more we're more competitive, the business is really going, and our education is -- boy, it's just aces, we're going to tend to find the jobs, create the jobs, and we'll not as directly be facing the same -- the problems that American business has in this very competitive world by cutting costs, and that's one big way to cut costs. But it's helping companies be more competitive so they don't have to resort so quickly to cutting costs, particularly with short -- such short time horizons that we have in this country.

MR. SALANT: The president is reportedly going to propose a series of new health-related tax changes, including expanded health savings accounts and increase deductibility of unreimbursed medical expenses. What is the feasibility of this initiative, and what concerns or support do you have about it?

SEN. BAUCUS: The good news is, is trying to address health care for people who don't have it. The concern is that those kinds of proposals tend to put a lot more burden on people who can't afford to pay health care today. For example, the HSA's will be -- do not help middle income Americans with high chronic health care costs because they wouldn't meet the deductibility required under HSAs.

So an awful lot of people will not be helped, and especially the people with chronic illnesses will not be helped. And the same with some of the tax credit provisions. And you have to remember, too, it does not increase coverage. People are still going to be paying the bills. It does not increase healthcare coverage at all, HSAs and similar measures, and it assumes that someone has income enough to take advantage of the proposal. That's not always the case, particularly given the current levels of the standard deduction, and so forth.

So I think on the surface they may have some appeal, but if you analyze them, I think that it's not going to really help the basic problem we have, that is lack of sufficient coverage and excessive high costs. And don't forget, we pay -- as I mentioned, we pay twice as much as the next highest country per capita on health care, and we're not twice as healthy. And that's got to be addressed.

MR. SALANT: At a hearing this morning on Capitol Hill, Senator Dick Durbin, your colleague from Illinois, said the prescription drug plan basically was very friendly to the insurance industry and to drug companies. USA Today's headline says that the plan, quote, "fails to help the neediest." Given everything that's gone wrong, do you have second thoughts about your support for the bill? And what would you like, if any, changes to be made to it?

SEN. BAUCUS: I supported the bill because I felt that the time has come for Medicare to provide drug assistance. After all, Medicare was written in '67, before the rise of a lot of modern wonder drugs. And drugs have much more efficacy, utility use today than they did in 1967. And they're also much more expensive and a bigger part of a person's healthcare budget than in 1967. And if we were to write Medicare today, not 1967, clearly it would include healthcare benefits. That's clear. So we needed a healthcare benefit. That's why I supported the bill.

Now, is it the bill I would have written? No. I think it's too complex, and it's helped cause some of the current sign-up problems, especially for dual-eligibles, you know, people on Medicaid, Medicare under Part D. And I met today, as did others in the Finance Committee, with Secretary

Leavitt about all these current problems, and we're hoping to work it out. But we need a drug benefit. It's in the law. We must make it work, do all we can to make it work.

MR. SALANT: Before we ask our last question, I wanted to present you with the coveted National Press Club coffee mug.

SEN. BAUCUS: Thank you. (Laughter.)

MR. SALANT: Suitable for any 8:00 hearing.

SEN. BAUCUS: That's why I came! I was waiting for this! (Laughter.)

MR. SALANT: And also a certificate of appreciation for appearing before us.

SEN. BAUCUS: Well thank you. Thank you very much.

MR. SALANT: The last question. What did you learn from your conversation with Prime Minister Nehru in India that has influenced our law-making, and how exactly has it influenced your career?

SEN. BAUCUS: Well, I'd like to report we discussed weighty, important matters of state -- (chuckles) -- you know, the political future of India, the United States, et cetera. We didn't. It was mostly small-talk, where I'd been in India, where I was going, where I was from in the United States.

But I was struck with how old he looked. It was just after -- during the Indian-Chinese border crisis, and you could feel the burden on his shoulders, you could feel that it was a burden.

I don't know, I just -- for me, it was just the sense of the man.

And I was too young to know what questions to ask. You know, I was just very impressionable -- just soaking all this up.

I did have another meeting, though, with someone else on this trip, another sort of elder statesman, that's Lee Kuan Yew of Singapore. I met him some years ago and very struck with him, and I met with -- (inaudible) -- of India for over an hour-and-a-half we met. And he, you know, he had a very kind of wise view -- an Asian view, sort of Confucian view -- of the world and his thoughts of Asia and so forth, and that means a lot to me. We share -- and generally agreed about things, but what struck me as he has so many different new angles and -- insights into so many -- almost any subject that arose, and it's just wonderful to be able to speak with a very, very wise man who cares so much about service.

So that was -- it's kind of Nehru 43 years later -- different man, different country, but at least I had a little more knowledge, able to ask more intelligent questions. (Laughter.)

MR. SALANT: Thank you very much, Senator Baucus.

SEN. BAUCUS: Thank you. (Applause.)

MR. SALANT: I'd like to thank everyone for coming today. I would also like to thank National Press Club staff members, Melinda Cook, Pat Nelson, Jo Anne Booze and Howard Rothman for organizing today's lunch. And thanks to the National Press Club Library for their research.

We're adjourned.

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