NATIONAL PRESS CLUB LUNCHEON WITH REPRESENTATIVE BARNEY FRANK (D-MA)

SUBJECT: WAGING WAR ON THE MINIMUM WAGE

MODERATOR: JONATHAN SALANT, PRESIDENT OF THE NATIONAL PRESS CLUB

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MR. SALANT: Good afternoon, and welcome to the National Press Club. I'm Jonathan Salant, a reporter for Bloomberg News and president of the Press Club.

I'd like to welcome club members and their guests in the audience today, as well as those of you watching on C-SPAN.

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 hear applause, it is from the guests of the -- and the members of the general public who attend our luncheons, not from the working press.

The video archive of today's luncheon is provided by ConnectLive and is available to members only through the Press Club's website at

www.press.org. Press Club members may also get free transcripts of our luncheons at our website. Nonmembers may buy video tapes, audio tapes and transcripts by calling 1-888-343-1940. For more information about joining the Press Club, please call us, area code 202-662-7511.

Before introducing our head table, I'd like to remind our members of future speakers. On January 9th, Senator Ted Kennedy of

Massachusetts. On January 12th, Former Senator George McGovern, the 1972 Democratic presidential nominee. On January 19th, Terri and Bindi Irwin, the wife and daughter of Steve Irwin, the late crocodile hunter. And on January 26th, Actor Gary Sinise.

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

From your right, Damian Paletta of Dow Jones Newswires; Kevin Drawbaugh from Reuters; Marilyn Geewax, the national economics correspondent for Cox Newspapers; Scott Morris, a senior staff member of the Financial Services Committee; Suzanne Struglinski, Washington correspondent for the Deseret Morning News; David Smith, the new chief economist for the Financial Services Committee; Angela Grieling Keane of Bloomberg News and vice chair of the National Press Club Speakers Committee -- skipping over our speaker for a moment -- Evan Lehmann, the Washington correspondent for the Lowell Sun; Alison Vekshin, Bloomberg banking reporter; Victoria McGrain (sp) of Congressional Quarterly; and Barbara Rehm, the assistant managing editor of American Banker. (Applause.)

Our speaker today is one of the lawmakers that Vice President Dick Cheney warned us about last fall. During the 2006 campaign, the vice president singled out Congressman Barney Frank of Massachusetts as one of the legislators who would begin making policy if the Democrats won control of Congress. They did and he will as the new chairman of the Financial Services Committee. For his part, Congressman Frank said that if his mother was still alive, she would have been the proudest mother in America knowing her son was being attacked by the vice president. (Laughter.)

That's just one of his clips. He has been called the most entertaining speaker in the House by Congressional Quarterly. He once said that conservatives believe that from the standpoint of the federal government life begins at conception and ends at birth. (Laughter.) And he offered this advice: When you're engaged in a political fight, if you're doing something that really, really, really makes you feel good, then it's probably not the best tactics.

Congressman Frank has been engaged in lots of political fights. He fought for his own political survival in 1990 when the Boston Globe

called for his resignation after he was admonished by the House ethics committee.

He has fought for affordable housing, and he has fought for equal rights for gays and lesbians -- no surprise, considering he was the first openly gay member of Congress. As he put it, "I'm used to being in the minority. I'm a left-handed gay Jew. I've never felt automatically a member of any majority."

Now Congressman Frank will be part of the new Democratic majority. As the incoming chairman of one of the most powerful committees on Capitol Hill, he has promised not to be reflexively anti-business, agreeing, for example, to look at reducing some burdens imposed by the Sarbanes-Oxley corporate governance act.

At the same time, he wants to look at what he says is widening economic inequality.

Congressman Frank once said that politicians ought to use the same words as other people. We'll see if he takes his own advice. Let's welcome Congressman Frank to the National Press Club. (Applause.)

REP. FRANK: Thank you. Thank you.

Actually, I did not take Dick Cheney's worry that I might be, as a legislator, making policy too personally, because it's very clear, if you see the vice president's approach, he doesn't think any legislators should be making policy -- members of Congress, conservative, liberal -- given his view of the Constitution. So I wasn't too upset.

I was a little troubled when one of my Republican -- soon to be no longer a colleague -- in his campaign in Indiana said that if the Democrats won, Nancy Pelosi would allow me to implement the radical homosexual agenda. The problem is that he lost -- he was the first Republican declared defeated on Election Day -- and that apparently you have some people expecting me to produce a radical homosexual agenda, and I don't have one. I felt inadequate.

I mean, I do think we should allow gay and lesbian people to serve in the military and get married and have a job. But by tradition of radical standards, being in the military, working for a living and getting married are not the stuff of radicalism. So I'm still looking for a way to satisfy that demand.

What I do want to talk about today is the economy. And it's a problem that we have in America, and it's a problem that is worldwide.

It is the increasing separation of the well-being of the average citizen from overall economic growth. I mean, it has generally been a(n) accepted fact that economic growth is a good thing and that the rising tide will lift all boats.

I will tell you, as an aside, I'm a great believer in free speech. It never occurred to me to tell people not to watch rude and stupid things, if they wanted to do that.

If I was going to limit free speech, I would make it a misdemeanor to use metaphors in a discussion of public policy. They almost always mislead you, especially in foreign policy.

"The rising tide lifts all boats" has always been a problem. If you think about that analogy, the rising tide is a very good idea if you have a boat. But if you are too poor to afford a boat and you are standing tip-toe in the water, the rising tide goes up your nose. And so that's a mistake.

The problem we have is that that used to be something we talked with people at the lower end. We talked about people in poverty, people who were barely making it in our economy, not prospering when the rest of us did.

That's now been reversed. There is now a small segment of the American population that is essentially profiting from economic growth, and the great majority are not.

Now, if I were giving this speech six months ago, I would have spent a lot of time trying to make that point. There was a big debate, we had an argument: Was there an erosion in the real incomes of the average citizen or not. That debate appears to be over. We've given out a handout. One of the things that struck me yesterday when we were putting that together was we got some quotes from various people, from the left, from the right, from the center, about inequality in America. And it struck us, as we looked at them, that we couldn't tell who said what. That's why you've given them as kind of a matching test.

There is now a consensus. The income of 80 to 90 percent of Americans has substantially lagged economic growth. That fight about whether or not it happened is over. The questions, though, are now: One, should we be worried about it; two, if we are worried about it, can we do anything about it; and three, what? Well, there are some, particularly conservatives, who said, "Oh, don't worry about inequality; inequality -- that's just a matter of jealousy. As long as everybody's got something, that's okay."

Well, of course, part of the problem with that is that the definition of what is adequate is not a fixed point. What you believe to be adequate, what your kids believe to be adequate, what you need to live a decent life is an evolving concept. It's also the case that when a handful of people have a lot of money, they may be driving up prices for others. There are people, I guess, who don't care about inequality as a moral issue. I do.

But there is a broader point here about why it matters, and that's the political effect. One of the consequences of this separation between economic growth and the well-being of the great majority of citizens is that an increasing number of citizens don't care about economic growth. Not surprising. Not only do they not benefit, but in many cases they get the short-term disruptive effects. I mean, there was a great concept from Joseph Schumpeter of "creative destruction" in which as the old economic order is destroyed, resources are freed up for the new order. Well, increasingly we have people who see the destruction in their own lives, but don't see that they're going to be part of the new creation.

And so for those who don't care about inequality as a moral issue, or don't care that there are people who are hurting, think about what it does politically. We are now in a situation in which many of the people in the business community are very frustrated

because they cannot get adopted at the national level policies that they think are important for growth. In some cases I agree with them, in some cases I don't.

Let's look at the specifics.

George Bush proposed an immigration policy which had elements that appealed to people who had a humanitarian concern, and also to people in the business community who look ahead and say, "Gee, if we don't have a certain rate of immigration, we have workforce problems." It's certainly hard to see how you solve the Social Security problem 40 years ago -- 40 years from now, not next year or 10 years from now, without the kind of increase in the population that you could get from a sensible immigration policy. But Bush's immigration bill bogged down, bogged down from his own party, but there was opposition elsewhere.

Direct foreign investment is a good thing. That's people putting money into America to make jobs. We can't get a bill through to set the rules to regulate direct foreign investment because of, one, the terrible mistake this administration made by allowing the Dubai Ports situation, and why somebody in the White House didn't say to the people of Dubai: Look, you're nice people and you're our friends, and why don't you buy some shopping malls and why don't you buy some commercial real estate or some movie theaters or even a factory, but please don't buy a port right now, given what's going on.

But the overreaction to that mistake is such that it now jeopardizes our ability to set rules for foreign direct investment.

Trade is an issue. Properly done, trade's a good thing. By "properly done," I mean trade which includes some requirement that the people who want to trade with us pay attention to the environment and work rules.

Let me give you an example of what I think is the disingenuousness of those who say that we should do trade without any regard for the environmental and labor practices of our partners. George Bush says that one of the main reasons we cannot do the Kyoto treaty is that it will not cover India and China, and that will put Americans at a competitive disadvantage because we will be bound by it and they won't be. Many of us say, yeah, you know, you're right. There is a competitive advantage from not following environmental rules when we are. Let's then require of India and China that if they want access to this great market that's the United States that they have to do something about the environment, and we're told, oh, no, you can't do that. That's introducing something that doesn't belong in a trade bill.

Similarly with wages. The World Economic Forum, headquartered in Davos, just put out their CEO survey in which they noted that the Asian exporters -- the most active Asian exporters and the Baltic states pay wages well below what competition would suggest and what productivity would suggest, therefore, according to the Davos report, giving them a competitive advantage in getting people to do business there.

In other words, my conservative friends understand that mistreating your workers and ignoring the environment gives you a competitive advantage; they just don't want us to do anything about it. Historically, I think they haven't wanted us to do anything about it because a lack of those things in those countries becomes a reason not to do them here.

At any rate, we are now stalled. You can't get any progress on trade, on foreign direct investment, on immigration, to some extent on the implementation of productivity. That's why the business community ought to care. Even if inequality doesn't bother them, even if Mr. Nardelli getting $210 million for being fired when other people make seven dollars an hour for working very hard, even people untroubled by that -- and I envy them -- the ease of their consciences; they must

get a lot more sleep than a lot of us do -- if they don't care on those grounds, they ought to recognize that we are in gridlock, that we are unable to go forward with policies that many think are pro-growth because there are so many people who see only the short-term pain that those inflict or even the medium-term pain and don't see any gain. And again, the statistics have borne that out.

So then the question is, well, can we do anything about it? Is this some force of nature? And it is true that the increase in inequality recently has not been somebody's conscious decision to do it; it's been a result of natural forces, including globalization, information technology.

But the fact that there were things that bring about results in the economy doesn't mean that government is helpless to deal with them. And in fact, what we have is a government in power, today in the executive branch and until tomorrow in the legislative branch, that saw the inequality being brought about by increased globalization and technology, and decided that we should increase it on the grounds that increasing the inequality better incentivized the business community, and therefore we'd all be better off.

You know, no matter what you think about the argument for trickle-down, when there's no trickle, it fails on its own terms. You can argue for trickle-down, but the fact is that the way they - there just has been none. There has been this freezing -- erosion of real wages.

I believe it is very clear that this is something that we can affect. During the Clinton administration, I think we showed -- not as effectively as I would have liked, I differed with some pieces of it -- but I think we did show that you could be concerned about increasing inequality through the government and retard it.

Let's be very clear. Inequality is not a bad thing. It's necessary in a capitalist system, and I'm a capitalist. You don't have the incentives -- you don't have the resource allocations without inequality. But you do not have to have a government reinforcing it. You can have a government retarding it. What we are talking about is not whether or not there should be inequality, but where we are today, we have a system which is producing by a combination of natural forces and government policy more inequality than is necessary for efficiency, or than is socially healthy because it produces gridlock.

Now, here's one point about the American economy that my conservative friends not only get wrong, but are very inconsistent. They treat it as if it is some fragile flower -- my God, if you were to raise the minimum wage and pay these people who are working hard at jobs that aren't all that much fun $7.50 an hour, God knows how the American economy could withstand it.

The fact is that the American economy, a vast, sprawling complex combination of people and resources, is much tougher than the conservatives argue. And in fact, it turns out -- and you could see this in the Clinton years -- there is a wide range of public policies which are consistent with economic growth. Bill Clinton raised taxes on the top bracket in 1993, and we had a great deal of economic growth afterwards.

Then George Bush cut the top bracket tax, and we had economic growth, but less than we had under Clinton. I'm not arguing that the Clinton tax cuts caused it, only that there is a much broader range of public policies, particularly those dealing with excessive inequality, that are compatible with our national economic growth. And that fact is that if we do not reverse this trend and begin to reduce inequality, you will continue this gridlock.

By the way, it's an international one as well. One of the great issues right now in the world is whether the democratic left in Latin America will be able to win elections against a somewhat less democratic left. Whether a kind of a radicalism that is not all that crazy about democracy will outwit -- will win elections over the more mainstream people on the left because of a dissatisfaction with the failure of the market to deliver, because to some extent, democracy has been unwisely entangled with a free market economy as a kind of a package deal.

So the question is what to do about it. I think we here in America can do something about it. I've talked about a grand bargain with the business community. Now, it's an interesting fact of life in American politics -- how angry it's gotten -- that at this point, I will report to you that both sides that I have approached in terms of the bargain think it's a bad idea because they think I'm going to sell out to the other one. The degree of confidence Americans have today is fairly low. Fortunately, I've got a pretty safe district, so I can ride out the skepticism until we get to prove it.

But here's what I'm trying to do. I'm trying to show people -- look, I'm available. I'm a strong supporter of the liberal position. I have voted against the trade bills. I have been critical of many aspects of what the business community wanted, partly because I disagree in substance, partly because I will not support policies, even if I might agree with them, if they're going to have short-term negative effects and no long-term benefits.

I disagree strongly with academic opinion. Those of us who have been opposing trade bills from NAFTA on have been characterized as protectionists, we're Luddites, we're selfish, we don't understand poor people overseas, et cetera. When I think about some of my extremely conservative colleagues who start lecturing me about the need to worry about poverty in Africa, it is harder than usual for me to remain civil. But the fact is this: we are opposing, many of us, this set of policies because they are being pursued in a way that is philosophically and morally flawed. Our economics are as good as those who are for an unrestrained free enterprise, and are better morally because we understand that growth that does not pay attention to these inequality trends does more harm than good.

Now as I said, I'd like to win that argument on the merits, but I'll take it on the gridlock situation. I now -- and I've said to my friends in the business community, "I understand your frustrations. But stop blocking unions."

You know, when I was in college, there was a big debate, "Do unions raise wages?" Well, with regard to industrial unions, there were arguments back and forth, international competition. It is now clear, I think, that whether or not you think unions raise wages 50 years ago, the absence of unions and their weakness that is inflicted by anti-union public policy depresses wages. The fact is that people who are not represented in the service industries in particular are the victims of policies which depress their wages.

And I understand -- people say to me, "Well, look. Look at what Wal-Mart does. I mean, look what it does for the consumer." Well, if you can't afford health care for your kid, a cheap T-shirt is not much of a consolation. And this anti-union policy that we have has been a serious problem.

The health care situation in America, we should be -- and this is in business' own interests. It costs more to make a car in Michigan than in Ontario by a significant amount solely because of our health care system. If we were to have a universal single-pay health care system which took health out of the wage system, stopped depressing wages, we encourage people to join unions, and we did other things including in the tax system, we would begin to reverse the inequality.

And there's one very important piece of this, and that's the role of government. Government plays a very important role in achieving the quality of our life and in reducing inequality. That didn't used to be controversial. A guy named Roosevelt got elected four times on that issue. That was the New Deal -- use our collective capacity to work together, not to interfere with the free enterprise system, but to work alongside it so you reduce inequality.

There are things we could do to reduce that. So I am hoping that we could get that kind of cooperation. And if we don't -- let's be very clear -- if people in the business community continue to want to restrain any unionization and fire people who try to organize, and don't improve the health care system, and insist on cutting back on public sector programs - you know, I'm told by some of my conservative friends, "Well, the answer to all these problems with inequality is education." I think they greatly exaggerate the extent to which education will do it.

I know if you're 48 years old and you lose your job in a factory, the extent to which you are going to be successfully retrained to be a dental technician can easily be overrated by people. But in any case, even for younger people, yeah, it'd be nice for them to get education.

But every state is cutting back on its support for its state university. It's a rare state university today that still gets 50 percent of its funding from the government. Community colleges are public. They're being cut back. Pell grants have dwindled in real terms. If you agree with me that we should be reducing -- not doing away with, but reducing inequality -- then the public sector needs to be valued as a partner.

Let me just close with this. I'm ready to talk about all these things, and I talked about wages. And it does appear over the last year that real wages -- take-home pay for workers after inflation -- has been dropping. It's not that it hasn't been keeping up. You've got handouts that show this. Corporate profits as a percentage of the national economy have gone way up in the past five years. God didn't do that. The economy did it, and the government helped. And -- although to some of these people, God and the government are the same thing, but I obviously don't agree with that.

We have now got the beginning, I hope, of an uptick in real wages. But you what's happening? Many of these same business committee leaders and others who complain about they can't get support for trade and they can't get support for immigration and they can't get support for foreign direct investment, they're now worrying about wages going up. Read the financial pages of the papers. There is only one concern about inflation: wages may go up. Wages have significantly lagged growth, they've significantly lagged productivity. And if they even begin, as they have now, to start going up, respected opinion tut-tuts. It says, "Oh, that's a terrible idea. We can't allow that to happen." Ben Bernanke, to his credit, has said, "Well, if wages go up the level of productivity, it's not inflationary."

The fact is, we have a catch-up period for wages. And people are now saying, "Well, you know what? Productivity may be slowing down, things may be getting worse, we'll have to clamp down." Yeah, well, you know what? Everybody else has had a pretty good dinner except the people working for wages. Everybody else ain't a lot of people. But telling the people who work for wages, "Oh, sorry, just as you were about to eat, we're closing the restaurant," do it if you think it's right, but don't surprised when the reaction is this negative one you get.

So when I talk about a bargain, I'm not talking about a negotiation one-for-one. I'm not in a position to do that. I will tell you this, though: The committee that I will be sharing as of tomorrow, it has a -- I don't know, I think it is that our reach exceeds our grasp. Maybe it's our grasp exceeds our reach; I'm never sure of that. But we have a larger jurisdiction to talk and to legislate. We have an oversight jurisdiction over the economy through the Humphrey Hawkins bill and through the World Bank. We intend to have hearings over these next two years. At first I thought we were going to have to document the fact that real wages for most people are failing. That's now accepted. What we're going to talk about is why this happening, what the damage is to our society from it happening, and most importantly what we can do about it.

Now, the committee I chair won't have the ability to do some of these bills; it will on some others. But we are ready to that.

So there are two outcomes possible. One is that we will be stonewalled by people on the conservative side, and they will continue to use their veto power to reject things. Interesting point. People have said to me, "Well, wait a minute. You're saying the conservatives can block these liberal things and the liberals can block these pro-growth things. How can that be? Doesn't one side have the majority?" The answer is, in the American system of government, whoever wants to not do anything starts out with about a 25 percent advantage. So it is possible for each side to have the power to block the other. That's where we are. Either people will join with us in solving the health care problem and getting it out of the employment equation -- which ought to be in everybody's interest -- getting a humane immigration policy, good rules that welcome responsible foreign investment, going forward with trade with reasonable -- not oppressive -- environmental and labor standards, allowing people to join unions, and we will then be able to go forward in a pro-growth way and engage with the rest of the world and implement productivity-enhancing technology; or they'll continue to say no, and they'll use their power so that you won't be able to get into a union, even if you want to in many cases, and the NLRB will continue to be union-busting rather than the welcoming entity it's supposed to be, and you'll continue to have fewer and fewer people having health care while it continues to interfere more and more with the wage pool, and we'll have all these other kinds of problems.

If we do -- and I regret that -- but then people should not be surprised when there is no renewal of trading authority, when you do have resistance to a sensible immigration policy. So that's the choice that has to be made.

It's a big, sprawling thing. Obviously, as I said, it's not a one-for-one. We're not playing Monopoly. But we're not going to have a situation in which people who represent the great majority of people who work for wages are going to continue to sit by and allow their real incomes to erode and their economic positions to erode.

I think we can break out of this, but that's still to be determined. And so, as I said, what you can expect from our committee over the next two years is a documentationism. We'll listen to all sides.

I think, radical as it is, that Franklin Roosevelt essentially got it right; namely, that the best thing you can do for the capitalist system is to create conditions in the economy in which the natural tendency of a capitalist system to promote inequality is restrained, not abolished; in which the government works to help people through painful transitions, works to reduce excesses. And in that context, capitalism will flourish. The alternative is going to be a continuation of the gridlock we have today, and that is clearly not the best outcome.

Thank you. (Applause.)

MR. SALANT: A reminder: If you have questions for our speaker, please write them on the cards provided at your table and pass them up to me.

Our first question. What is your top priority as Financial Services chairman?

REP. FRANK: It is basically what I just talked about. There are specific issues that are important. Affordable housing, legislatively, will be to increase the stock of affordable housing, which fits into what I was talking about, and that includes legislation for Fannie Mae and Freddie Mac and other pieces of affordable housing. But that's what I just talked about in general: getting people in the financial community and in the business community to understand the importance of acknowledging the increasing inequality and our need to break it. That's the single most important issue.

In terms of specifics, reversing a long Republican policy of not doing anything about affordable housing is a real problem. I think the affordable housing crisis -- now, there are other aspects of it. If I -- the single greatest thing I would like to do in American public policy is a universal single-pay health care system. But that is not my jurisdiction, and John Dingell's already worried enough about jurisdiction. John, I'm not trying to get it. Don't worry about it. But in terms of what the legislative jurisdiction of my committee is, the single most important issue would be affordable housing.

MR. SALANT: What concessions do you expect from business regarding unions? Does business have to support the Employee Free Choice Act, which would make it easier to organize, or just not be as hostile as they currently are? And if business refuses to relax its opposition, what will you do?

REP. FRANK: That's a very good question. What I think is necessary -- both because I think it's good public policy and good for the economy and because it would help break the -- (inaudible) -- yes, business should support the Employee Free Choice Act, which includes letting people join unions. Look, we now have a situation where the right that people have statutorily to join unions granted the National Labor Relations Act has become increasingly unavailable. You have a hostile NLRB. You have also had businesses learn, in many cases, that they can fire people who want to organize and stall. And in the end, maybe eight or nine years later, somebody'll get reinstated with back pay, except whatever you made in the interim is deducted.

This -- I have to say to my law-and-order -- self-described law-and-order conservative colleagues, the penalties for violating labor law in America are among the lightest and slightest in the world. You can get away with stiffing people's right to join a union with a -- not even a wrist slap.

So yeah, the Employee Free Choice Act, which allows people to sign (cards ?) -- look, I --unions are a good thing. They have been a good thing historically in America, they are not just good things economically. And let me add to this we're also talking about democracy. One of the things we now have is this notion -- and I got it today; they said, "Well, Wal-Mart's got a new deal where they're going to computerize work schedules, and they're going to be able to change people's work schedules and just key them up to when is the maximum time to sell." Yeah, and if you've got to pick your kid up at school, that's tough. I mean, a world in which we are all running our lives according to the maximum efficiency of retail distribution isn't a world I want to live in. I want to take that into account. I want to -- I don't want it to b the only value.

That's what unions do. Unions help protect people's dignity in the workplace. And not just in the workplace. American politics has been producer politics. Americans tend to organize themselves politically around how they make their living. I wish that weren't always the case because I think the consumer interest is underrepresented. But here's the deal: If you don't have unions, what you do is you have a lot of working people deprived of the institutions around which they can organize their politics as producers, whereas people on the other side of the economic bargaining table have theirs. Reducing, everybody's interest is simply being able to buy things as cheaply as possible. And ignoring concern over the quality of their lives at work, ignoring concern over their ability to organize, that's a recipe for a very unhappy society.   So yeah, the Employee Free Choice Act and a recognition that unions are a good thing and working together with them is the least they can do.

MR. SALANT: Even with the large number of new Democrats that were elected who support unlimited free trade, must free trade agreements, to pass a Democratic-controlled Congress, include those labor and environmental provisions you talked about?

REP. FRANK: Yes. And it's not just Democrats who argue.

Let me go back to my Kyoto example. Here -- well, remember, here's the argument. What we are saying is certainly there are some things that's going to make more sense to make in one part of the world than in another, and there will be competitive advantages for countries that are poorer, et cetera.   But you should not exacerbate those competitive advantages by saying, in addition, having a lower cost of living so you can pay people less, you can have child labor, you can make people work 70 hours a week without adequate compensation, you can ignore the environment, you can have no concern whatsoever for health. And always there is an added element in the ability to exploit people that is not only inhumane, but gives you a competitive advantage.

And again, I want to quote -- read the current report of the World Economic Forum, put out by the World Economic Forum -- the people who do Davos, and they surveyed something like 11,000 CEOs, and they talked about wages.

And they said in Western Europe, by their standards, workers get more in wages than productivity and competition would allow. And in the U.S. and Japan we're at about the right level. But in Asia and in the Baltic tigers, wages are below what rational economics would dictate, and that gives them a competitive advantage. Now, we're not even talking about wages here. We are talking about unions -- although, I have to say, it becomes increasingly embarrassing for me as an American to insist that other countries recognize the right of people to join unions when we don't. And I think that's reciprocal. These are people in America who don't want Americans to be able to join unions, so they like the fact that they can't join unions elsewhere.

But the best example, as I said again, was Kyoto. You could look it up. George Bush cites the exemption for India and China from Kyoto as a major reason why we can't do anything about global warming. And when we then say, okay, let's ask India and China to do something about global warming, we're told, well, that's got nothing to do with trade. In other words, when he doesn't want America to do it, he cites the competitive disadvantage we would be at if we did it and they don't. When we want to put pressure on them to do it, he says it's got nothing to do with competition.

So yes, to get Democratic support -- by the way, again, we're talking about the five basic principles of the International Labor Organization. We're not talking about setting a minimum wage. And we're talking about some environmental differential. But yes, you will not get trade bills through -- you won't get trade authority through, in my judgment -- unless you have both worker rights and environmental rights. By the way, even then it will be controversial. There will be people in both parties who will say it's still a bad deal. I will disagree with them, but -- so the notion that you're going to be able to get majorities without that is just nonexistent.

MR. SALANT: You mentioned using the U.S. leverage to raise environmental standards in China and India. Is that something the Democrats will make a priority? And if so, how do you get it past the administration?

REP. FRANK: By making it a condition of international economic cooperation. Now, if they insist on refusing to do it, then that's the end of progress in trade. I mean, I think that's the -- that's the example.

And by the way, there was a column the other day in The New York Times, Tom Edsall, debating this. And he quoted one more moderate

Democrat as saying, well, if we try to put pressure on China to do that, China will walk away. Yeah, China will walk away from the American market the way Nancy Pelosi plans to walk away from the speakership after all these years. The notion that you would ignore -- I mean, the American market -- let's -- look, we're talking from strength here. The American economy is one of the great wonders of the world. It is strong and it's growing. I'm not talking about sharing misery. The issue for us is, how come when the country as a whole is doing so well so few people are sharing in it? You know, if you're so smart, why aren't you rich? Well, if we're so rich, why aren't more people better off? So the notion that anybody -- certainly China, with its need to keep its people happy -- that they would walk away from the American market, that's just bizarre. So the answer is we have a good deal of that leverage.

Of course, the other thing we do is to do what -- is to want to do it. But yeah, we are saying that we should put leverage on these other countries to join in, and everybody wants access to the American market. There's just no question about that. And we, I think, are too timid -- as they said, I think in many cases my conservative friends underestimate both the strength and the attractiveness of the American market. And quoting, by the way, people -- (inaudible) -- you know, you're going to reduce profitability, people have got to pay more wages, they won't want to invest here. Where do you want to go invest? Russia, so Putin can steal your company? I mean, the fact is that the absolute security you have in America legally and socially is worth a couple of points in your return. America is this wonderfully rich, extraordinarily prosperous market with absolute security for your investment. Nobody's walking away from that.

MR. SALANT: What's going to happen in the new Congress regarding the regulation and oversight of Fannie Mae and Freddie Mac?

REP. FRANK: We will pass a bill, I hope, which we could have passed last year, which will substantially increase the ability of the regulator to oversee Fannie Mae and Freddie Mac. That has never been in question. The bill that passed the House overwhelmingly included a very significant upgrade in the powers of the regulator, equal to if not surpassing what the bank regulators have. What bonked it last year was the insistence on some economic conservative fundamentalists in the Bush administration who, to be honest, don't think there should be a Fannie Mae or a Freddie Mac. You know, Mr. Poole, the head of the Federal Reserve of St. Louis, was intellectually honest about this and said, you know, we shouldn't even have a Fannie Mae and a Freddie Mac, so if we have one, let's have one as small as possible. They wanted -- in addition to giving the regulator all the power, they wanted to, arbitrarily in my judgment, or at least summarily, say and we're going to reduce their size. Once you get an agreement that we are not going to have an arbitrary limit or a pre-set limit on the size of their portfolio, then you can go to regulation.

By the way, you know, arguments for the portfolio, one of the things that many of us are going to be arguing for is some forbearance

by lenders so you don't get excessive foreclosures. If you sell all of this mortgage stuff into the secondary market, forget about forbearance, the secondary market can't do forbearance. Forbearance -- allowing people who are in trouble a little extra time, et cetera -- can only come from an entity that holds those mortgages. I can ask Fannie Mae and Freddie Mac to show forbearance. I can go ask the secondary market to do it and they won't pay any more attention to me than Dick Cheney does.

So the answer is we will increase the regulation of Fannie Mae and Freddie, and we will do one other thing. And this is sort of -- I'll give you two microcosmic examples of the bargain I want to make. I want to keep Fannie Mae and Freddie Mac in business. People said, you know what, they get too many advantages because they can borrow money more cheaply because of various perceptions of their involvement with the government, and the stockholders make too much money; too much profit accrues to them. Let's cut back on their profit. My answer is no. Let's leave them the profit, but let's take a chunk of it and put it into affordable housing. That's what the House did. In other words, that's our bargain. Let's let capitalism flourish. Let the market flourish, but let's take a percentage of this -- 5 percent, not a huge amount of the profits -- and put it into affordable housing.

I'll give you another example of this. The FHA -- the Federal Housing Administration -- insures mortgages, which brings down the cost of your mortgage. It reduces the interest you have to pay if it's insured by the federal government. And that -- they're not supposed to insure luxury housing in America, and they don't insure luxury housing in Nebraska and they don't insure luxury housing in Mississippi and they don't insure luxury housing in Massachusetts or California, and they don't insure any housing in Massachusetts and California because the price that's set at which we decide it's luxury is too low. On the other hand, the FHA said, you know what, we want to lend to poorer people, but some of them aren't going to pay back. So let's lend to poorer people or let's insure poorer people, but let's make the poorer people who we insure pay more than anybody else would to make up for the other poorer people who aren't going to pay back. So that's a big favor to poorer people; we let them subsidize the other poor people.

What I want to propose is -- and I'll bring this bill out -- let's do both. Let's take the cap off what the FHA could do at the one level, let them insure the median house price in Massachusetts, so they won't be doing luxury in Massachusetts, but they'll be doing more. That will make money for the federal government. Let's take the money the federal government will make from the FHA insuring higher-priced houses and use that to subsidize the higher losses to the lower-income people so the lower-income people can get their mortgage insured and pay no more than you or I would -- or than you would, because I live in Massachusetts, so I couldn't get it until we change it.

So -- but that's the answer with Fannie Mae and Freddie Mac. We will increase the regulation. We will not put any absolute limitation on the size. And we'll take a chunk of the money and put it into affordable housing. The first year it will go into Katrina.

MR. SALANT: On affordable housing, is more money the answer, or are there particular other policy changes you'd like to see?

REP. FRANK: Yes. Let me say, first of all, I have -- and I'm not suggesting the president did this, but any time someone denigrates the value of money in solving a problem, I know it's not a problem that he or she cares about. People say, "Oh, you want to throw money at it." Well, when's the last time anybody said we should stop throwing money at the Pentagon or at the -- I mean, you could describe firefighters, I suppose, as throwing water at a fire, but I'm glad they do.

Money is always indispensable. Money is not an abstract commodity; it's a -- it's resources. And yes, we need more money. The Republicans made a grave error, in my judgment, by cutting off virtually all funding for affordable housing. That was not the only problem, but a large part of the problem is public resistance to housing being built anywhere. Let me say again what I've said before:

We politicians leave a lot to be desired. And I know it violates some people's conception of the First Amendment, but you journalists ain't perfect either. Those of us with responsibility make a certain amount of mistakes. But you know, sometimes the voters are no bargain either. And in the case of affordable housing, a big problem is the excessive negative reaction when you try and put affordable housing anywhere.

That's one of the reasons -- by the way, one of the things we're going to do in housing is this. Over the years, the federal government lent money to developers -- private developers -- to build housing that had to remain subsidized for 20 or 40 years in return for very low interest or no interest.

Those laws moved forward, in my judgment, because many of them are now in a period where the grant restriction no longer applies. That is, they borrow the money, build the housing and now they can take the restrictions off. You just saw that with the New York City program with regard to MetLife and Peter Cooper and Stuyestant Village, which could have serious negative implications there.

At the federal level, we have hundreds of thousands of units all over country, at least, which in five to 10 years won't be subsidized -- won't be rent restricted anymore because the restrictions will run out. I want to see what it costs to buy out the right of the owner to take those off the restriction because if you buy out the owner of existing property, you don't have a zoning issue. You don't have to worry -- the housing is already there. So that is one of the issues. One of the issues is the public resistance, and we have to accept the fact that it's there and try and persuade people that they're wrong about it.

MR. SALANT: How does the Federal Reserve fit into your agenda? How do you think the Fed should change, if it should?

REP. FRANK: Well, one, I think we should be able to talk about it more, right? I've always been struck -- and I just have to say I haven't found this to be Alan Greenspan's issue or Ben Bernanke's, but there are people in this country who think that the Fed somehow should be above democracy. I remember talking to some people in the Clinton administration -- oh, we can't discuss interest rates.

I mean, we could debate whether Terry Schiavo's life should be recognized as over, we can debate abortion, we can debate wars in Iraq, we can debate the most fundamental questions in human existence. But God forbid anybody in elected office should talk about whether or not we need a 25 basis point increase in the Fed -- somehow that's sacrosanct. No it isn't, it's public policy.

One, I don't want to change. There are people who have been arguing that the Fed should have its mandate changed; that the Humphrey-Hawkins Act, which says it should deal both with stable prices and maximum appointment, that that should be changed and it should just go to stable prices. That's not going to happen when we're in power, and we can prevent that from happening.

Secondly, though, they have to pay more attention to wages. And

I'm hoping that Ben Bernanke will recognize this. The last report we

got, the Fed comes and testifies before both houses twice a year and they present a report, the Humphrey-Hawkins Report. And the last time I was going through it, as we were getting ready for the hearing, there were 13 sections about this part of the economy, that part of the economy. In 12 of the sections, they talked about the economy in real terms, i.e., adjusted for inflation.

They talked about the real increase in this, the real increase in that. In every single case they adjusted for inflation. Then they got to wages, and wages were not adjusted for inflation. They talked about nominal, i.e., it made wages look bigger than they are. I think the Fed could show a little more social sensitivity, I'm hoping that they will. I mean, I think Mr. Bernanke has been reasonable.

I think -- the danger will be this -- and that is -- and I guess I should go back to what I said before. What I fear is this: wages may now be starting to rise, real wages. One, they've been depressed for so long, there's a natural tendency for that to happen. Inflation, if it stays down, allows real wages to go up some. What I fear is that respected opinion, including the financial pages of some of our liberal newspapers, will start worrying that wages are going up. And, oh, if wages go up that's a bad -- if corporate profits go up, that's a good thing, if wages go up, that's a bad thing. That's the basic perceived wisdom which I'm trying to change.

But what I'm afraid of is that the Fed will join in this and that you will have people in the Fed saying, "Well, geez, wages are going up, we better raise interest rates." That is -- and I talk about war on wages. My fear is that if we look at past practice, the Fed will be tempted to blame real wage increases, which are long overdue and which could be considerable for some time and still not have caught up. And they'll blame that as the reason for cutting back. So that would be my concern.

MR. SALANT: You've said that you would support giving shareholders more power to constrain executive pay. Will you provide some details, please, on how you would do this?

REP. FRANK: We're still working out the details. But yeah -- I have to say boards of directors, I didn't know much about them until I got to be the senior member of our committee.

You read about boards being -- I read about boards of directors in Enron and MCI and elsewhere, and they reminded me -- I guess this is an appropriate journalistic forum to use this metaphor -- the role of the board of directors in all these crises reminded me of something Murray Kempton once said, the great journalist from the New York Post talking about editorial writers. He said the function of editorial writers is to come down from the hills after the battle is over and shoot the wounded. And it seemed to me that's what the board of directors used to do.

Now, some of them have gotten more energetic, and I think Sarbanes-Oxley has helped them do that. But there's one area where the boards of directors do not appear to be much of a check as these (in the same way ?) because they don't stand up to the CEO. They may stand up to the workers -- people say well, if you want to cut the bargaining agreements or the wages to go to shareholders, well, you can count on the board of directors to want to depress what they pay their workers. But with regard to the CEO, in the first place, the CEO picked the board of directors; they picked the CEO. It's a very collusive relationship, and it's clear that boards of directors do not provide any real check on CEOs. And this story gets to the board of directors of Home Depot -- finally decided Mr. Nardelli had to go -- and they put their foot down and gave him $210 million and asked him to please leave. At which point he probably succeeded for the first time in raising the stock price by leaving. But $210 million is an expensive thing for them. So, I plan to have some legislation by which we increase the ability of shareholders to vote. And we're going to try to work out the details of it, including what happens if they were to vote no.

They have that in Britain, by the way. And Britain has become, recently, an example that a lot of American corporate leaders have said well, we like what they have in Britain. We think the Financial Services Authority is more flexible than the Securities and Exchange Commission. Britain does it better, but in Britain, shareholders have much more say. And particularly here, I do not think you can count on boards of directors to be adequate checks.

And by the way, this compensation for CEOs, it's not just a matter of envy. It has reached the point where it has some macro economic significance. People at Harvard -- Lucien Bebchuk and others -- have shown the percentage of the profit of these top 1,500 corporations that goes to compensation for the top three officials has reached almost 10 percent. We're talking now about significant numbers. When Lee Raymond gets $400 million when he leaves ExxonMobil and the pension is shorted -- the pension fund -- we're not just talking about envy. So yeah, we are going to be working on this when it gets to committee, and we'll be dealing with it.

The SEC, I had one small difference with what they did. But the SEC has made some real gains in requiring corporations to be more open about what kind of compensations there are. And that's all compensations: stock options and it's retirement and what happens if there's a change in the corporation.

And by the way, I mean, one of the things that we don't do enough of in this business of ours and yours is to talk about the predictions of doom that didn't happen. We're often beating our breasts because something bad happened, and we didn't predict it. What about all the bad things that we predicted that didn't happen? Two that come to mind to me are same-sex marriage in Massachusetts and expensing stock options. In both cases, enormous negative consequences were predicted and, of course, none have materialized.

I do think it's time to have a hearing. When we voted on preventing the accounting officials from requiring that stock options be expensed, we heard terrible predictions about the negative affects this would have on the valuation, particularly of technology companies. It has not happened. And I got to say -- and I voted against that bill. So yes, I am saying "I told you so." Now, let me say one of the most common lies in human existence is when people say oh, I don't like to say I told you so. I do not know anyone who doesn't like to say "I told you so." (Laughter.) And I have personally found that it is one of the few pleasures that improves with age. (Laughter.) I can say "I told you so" and enjoy it without taking a pill before, during or after the operation. And we told them so about this. So, I think that, again, there's a lot less fragility in this economy than people think.

But yeah, we have got to find some way to give shareholders -- and maybe it's automatic, or maybe it's whatever the shareholders want to, but shareholders have to be the check. And by the way, the shareholders we are talking about now, we're not talking about this or that individual somewhere off in the country. You're talking about a very sophisticated set of institutional investors. You're talking about CalPERS. You're talking about other pension funds run by public officials or by unions. There are entities out there representing groups of shareholders who are sophisticated and thoughtful. And I believe corporations would benefit greatly by their increased participation.

MR. SALANT: What are your reservations on Industrial Loan Corporation applicants; more specifically, the ILC application filed by Wal-Mart? What are your plans for the future of these ILCs?

REP. FRANK: The Industrial Loan Corporation is a historical hangover in which you can become a bank even though you are owned by a manufacturing company, a retailer, et cetera.

Now, I have to say this to the people who think -- well, we have had this policy in America that banking and commerce ought to be separate. That if you are a bank, you cannot also be in the business of selling shoes or making cars or serving meals. The reason, by the way, is very simple. If you want to be a bank, you want to call yourself a bank on your own, go ahead and do it, and lend anybody money you want. But don't come to the Federal Deposit Insurance Corporation and get your loans insured. I mean, if you are an official bank, chartered either federal or state, you have access to the Federal Reserve payment system, to the loan window they have and to deposit insurance. So, to safeguard those, we say we don't want you having other interests. There's also a conflict of interest issue.

And by the way, for me, the most serious one is not Wal-Mart -- it is, to take a company who I may appear to be picking on, but I didn't start this -- Home Depot. Home Depot wants to buy a bank. The bank is called EnerBank. Now, EnerBank has a special relationship with home repair contractors. If you are a home repair contractor, you get qualified by EnerBank, and you get good processing and quick processing on your loans. It's a great advantage if you're a home repair contractor to be with EnerBank.

Now, if EnerBank is owned by Home Depot, Home Depot says oh, by the way, the fact that we own this bank will not have any influence. That is, if you decide to buy all your stuff from Lowe's, we'll still make you one of these valued people. There will be no -- it's a total violation of -- (inaudible). I don't know that they're not telling the truth. But it would be kind of hard to say hey, I'm Home Depot, and I have this thing you really want -- being a special contractor with this bank -- and you can buy nothing from me and all from my competitors, and it will have no affect. Even more, I'm now the homeowner, having gotten the FHA to insure my mortgage after I built (through this ?). And I now want to fix up my home, and I go to a contractor, and it's going to cost me $50,000 in home repair equipment we're going to get, say, from somewhere.

Now, if I go to the contractor who has got this special relationship with EnerBank, and he's going to buy from Home Depot, a, I get a quicker processing of my loan. But here's the other factor: I'm Home Depot. I own a bank. Someone is now coming to borrow money from that bank to spend a lot of money on his or her home repair. And he or she's going to spend that money at Home Depot.

Now, if I am a banker making a loan, I'm supposed to be thinking only about the likelihood of that loan being repaid and the profit I'm going to make when enough of them are repaid, because I've got the deposit insurance system. But if I'm Home Depot, I'm also figuring in the profit that will be made when this person buys stuff from Home Depot. So, maybe I'll take more of a risk on the loan; maybe I'll charge them less interest.

So now, people are saying well, that's not a real problem. Well, if it's not a problem -- I mean, we have six states who are allowed to charter Industrial Loan Corporations, grandfathered in from the 1980s law. And they can grant Industrial Loan Corporations, and they say oh, there's no problem with energy (sic) and commerce. Well, if there isn't, why should only six states be able to do it? If we really believe there's no problem with a totally non-financial entity owning a bank, why have a rule and then this kind of exception, especially since the exception has now gotten bigger and bigger and bigger?

There was an episode of "Are You Being Served" -- the British department store comedy -- and the old lady there, her home was being repaired. So, they let her stay up on the floor of the department store, but she didn't want to just lay in the bed up there, she wanted to make it homelike. So, they put up a fake front for a house with a little door, but there was nothing on either side. So, she was in, and you'd ring the bell, and she would open your door, but you could have walked around the sides. I mean, why have that kind of an operation? If we don't think there should be any restriction, let's not have a fake front; get rid of it altogether.

So I mean, I do not see an argument for the current situation in which six states are allowed to charter major corporations to own banks and nobody else is. I think the restriction against banking and commerce ought to stay. If think it ought to be gotten rid of, let's get rid of it.

And there's one other one, by the way. I am told that Ford wants one now -- GM has one -- and we did not disagree. GM just sold a large chunk of GMAC to the Servus Corporation. And we were told this was important to keep PM alive, and that's important, and it was going to be in business anyway, so we did not object. And whether or not the FDIC took that into account I don't know, but they made that exception for GM.

But now, people are saying well, Ford wants one. Well, Ford wants to own a bank. We're worried about safety and soundness. And I said gee, I'm skeptical -- ILC. They said oh, yeah, but you know, you got a problem, Ford might go bankrupt. Well, isn't that a wonderful reason to give someone a bank? (Laughter.) I mean, if you're worried about protecting the insurance and everything else -- staying out of bankruptcy is not a good reason to charter a bank. So, that's why I don't like the ILCs.

And what we'll do about them? If the FDIC decides that under the law it has no option but to grant full ILC charters, then the House will pass a bill co-sponsored by myself and Congressman Paul Gilmore, Republican of Ohio, to restrict ILCs in the future, or any new power for an existing ILC, to entities that are 85 percent financial. That's the test that we used in the Gramm-Leach-Bliley law that said you could become a kind of bank, securities, et cetera, you had to be at least 85 percent financial. We'll pass that bill, and then there will be a fight about it in the Senate.

MR. SALANT: Congressman Frank, before you leave, I wanted to offer you the official National Press Club coffee mug, suitable for drinking coffee when you're chairing one of those hearings.

REP. FRANK: Well, I appreciate it. And we haven't voted on the ethics bill yet, so I don't even have to ask you how much it cost. (Laughter.) I may send it back on Friday.

MR. SALANT: And of course, a certificate of appreciation. Thank you very much. (Applause.)

I'd like to thank everyone for coming today. I'd also like to thank National Press Club staff members Melinda Cooke, Pat Nelson, Jo Anne Booz and Howard Rothman for organizing today's lunch. And thanks to the Eric Friedheim National Journalism Library at the National Press Club for its research. Research is available to all club members by calling 202-662-7523.

Good afternoon and Happy New Year; we're adjourned. (Sounds gavel.) (Applause.)

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