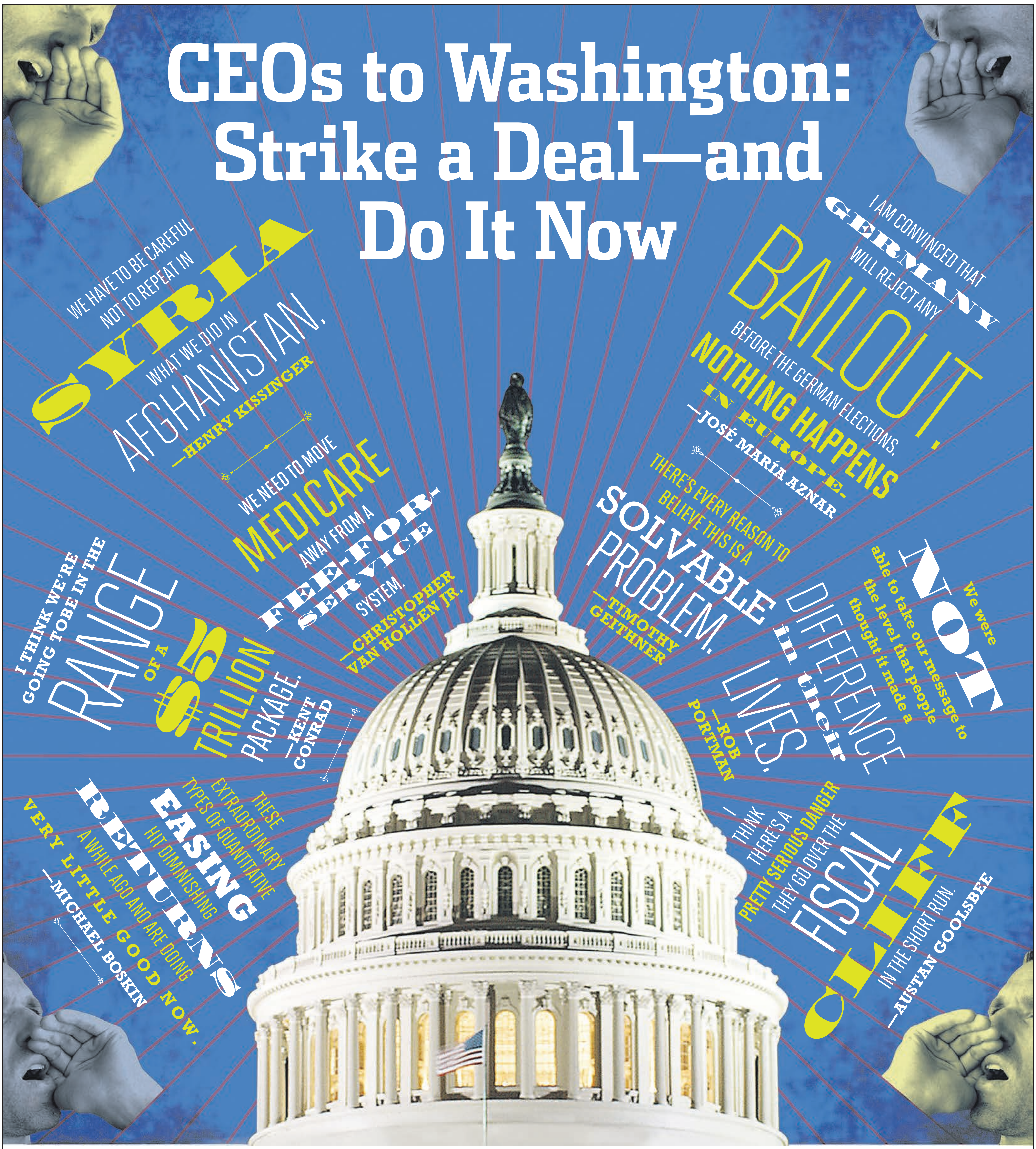
CEO COUNCIL

THE JOURNAL REPORT

THE WALL STREET JOURNAL. Monday, November 19, 2012 | R1

CEOs to Washington: Strike a Deal—and Do It Now



BY ALAN MURRAY

Concerns over falling off the "fiscal cliff" dominated discussions of the fifth annual meeting of The Wall Street Journal's CEO Council last week in Washington, D.C.

Nearly three-quarters of the chief executives attending the event listed the fiscal cliff as their biggest worry on the global landscape—above Europe's financial troubles, a China growth slowdown and uncertainty over conflict in the Middle East. They took little comfort from the comments of a parade of government officials, including Treasury Secretary Tim Geithner and Ohio Republican Sen. Rob Portman, who spoke with them during their meeting.

"Going off the fiscal cliff would create a period of financial and economic instability," the CEOs said in an action item they adopted as their top priority. They urged President Obama and Congress to "take advantage of the chance for a grand bargain" on tax and spending issues "so businesses and consumers can plan for the long term."

Most of the CEOs in attendance had no hesitancy in endorsing higher taxes on affluent people like themselves, provided those tax increases were accompanied by serious and enforceable cuts in government spending.

Ninety percent indicated they would favor a package that included at least one dollar in tax increases for every four dollars in spending cuts.

In their comments, they mostly expressed frustration that political leaders in Washington could not do what needed to be done—even though what needed to be done was so abundantly clear.

The chief executive officers, who represent companies with nearly $2 trillion in revenues and more than five million employees, called for an overhaul of corporate taxes by broadening the tax base, lowering tax rates and adopting a territorial tax system. They called for a comprehensive overhaul of the immigration laws that would remove barriers to immigration of skilled workers and encourage foreign students to stay in the U.S.

They also called for a "closer working relationship" between business and government to encourage the long-term competitiveness of the U.S. economy. And they urged the president to "support oil and gas development to promote energy diversity."

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José María Aznar on what Europeans need to do to pull out of their economic tailspin, **R12**

Jon Leibowitz on giving consumers more control over their personal data, **R12**

Timothy Geithner on why he's optimistic that this time there really will be a budget deal, **R13**

Henry Kissinger on the challenges the U.S. faces in dealing with China, Iran and Syria, **R14**

Kent Conrad on what he believes a fiscal-cliff agreement might look like, **R14**

Rob Portman on what Republicans need to do now, in both style and substance, **R15**

Christopher Van Hollen Jr. on starting with the Simpson-Bowles framework, **R15**

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TOP PRIORITY
Place fiscal policy on a sustainable path, **R4**

Restoring Confidence in Finance
TOP PRIORITY
Balanced deficit reduction, **R6**

Remaking Health Care
TOP PRIORITY
Population health management, **R8**

Big Data: Opportunities and Risks
TOP PRIORITY
Don't restrict the growth potential, **R10**

Toward a New Consensus on Energy
TOP PRIORITY
Set a road map to energy security, **R11**

PLUS Voices from the conference and a look back at the priorities from past CEO Councils

ILLUSTRATION BY JULIE TENINBAUM

The CEOs' Top Priorities

THE WALL STREET JOURNAL. CEO COUNCIL

Last week, The Wall Street Journal assembled more than 100 chief executives of large companies for a day and a half to discuss the most pressing public policy and business issues.

The CEOs divided into five task forces and debated priorities in the following areas: increasing economic growth, restoring confidence in the financial system, remaking health care, dealing with the risks and opportunities of the proliferation of personal data, and working toward a new consensus on energy.

Using an electronic ranking system devised by the Journal, each task force chose four top priorities in its subject area.

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

Here's a look at their top five priorities.

1 BALANCED DEFICIT REDUCTION
The president and Congress must recognize that going off the fiscal cliff would create a period of financial and economic instability. They should take advantage of the chance for a grand bargain so businesses and consumers can plan for the long term. This agreement should be balanced between spending cuts and revenue increases.

2 BUSINESS TAX REFORM
Government should pursue revenue-neutral business tax reform to enhance U.S. competitiveness, including lower marginal tax rates, a broader base and a territorial system.

3 IMMIGRATION REFORM
Government should pursue comprehensive immigration reform that addresses legal and illegal immigration, removes barriers to immigration of skilled workers and encourages foreign students to remain in the U.S.

4 COMPETITIVENESS
A closer working relationship is needed between business and government for the long-term competitiveness of the U.S. economy—including bringing businesspeople into government and creating a better climate for entrepreneurship.

5 PROMOTE SHALE OIL AND GAS
The administration should support oil and gas development to promote energy diversity. It should: 1) support state regulation of drilling, 2) collaborate with industry to bolster public confidence, 3) facilitate leasing on public lands, and 4) facilitate construction of new midstream pipeline systems.

Flashback: *Compare priorities from previous CEO Councils,* R13.

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José María Aznar *President, Foundation for Social Studies and Analysis (FAES); Former Prime Minister of Spain*
Michael J. Boskin *T.M. Friedman Professor of Economics and Hoover Institution Senior Fellow, Stanford University*
Kent Conrad *U.S. Senator (D., N.D.); Chairman, Senate Budget Committee*
Timothy Geithner *Secretary of the Treasury*
Austan Goolsbee *Robert P. Gwinn Professor of Economics, Booth School of Business, University of Chicago; Former Chairman, Council of Economic Advisers*
Henry A. Kissinger *Former Secretary of State*
Jon Leibowitz *Chairman, Federal Trade Commission*
Joseph Lieberman *U.S. Senator (I., Conn.); Former Vice Presidential Nominee*
Trent Lott *Former U.S. Senator (R., Miss.); Former Senate Majority Leader*
Rob Portman *U.S. Senator (R., Ohio)*
David J. Rothkopf *President and CEO, Garten Rothkopf*
James R. Sasser *Former U.S. Senator (D., Tenn.); Former Chairman, Senate Budget Committee*
Mark D. Smith, M.D. *President and CEO, California HealthCare Foundation*
Christopher Van Hollen Jr. *U.S. Representative (D., Md.); Ranking Democrat, House Budget Committee*
Daniel Yergin *Vice Chairman, IHS Inc.*
Mark M. Zandi *Chief Economist, Moody's Analytics Inc.*
Robert B. Zoellick *Senior Fellow, Belfer Center for Science and International Affairs, Harvard University; Former President, World Bank Group*

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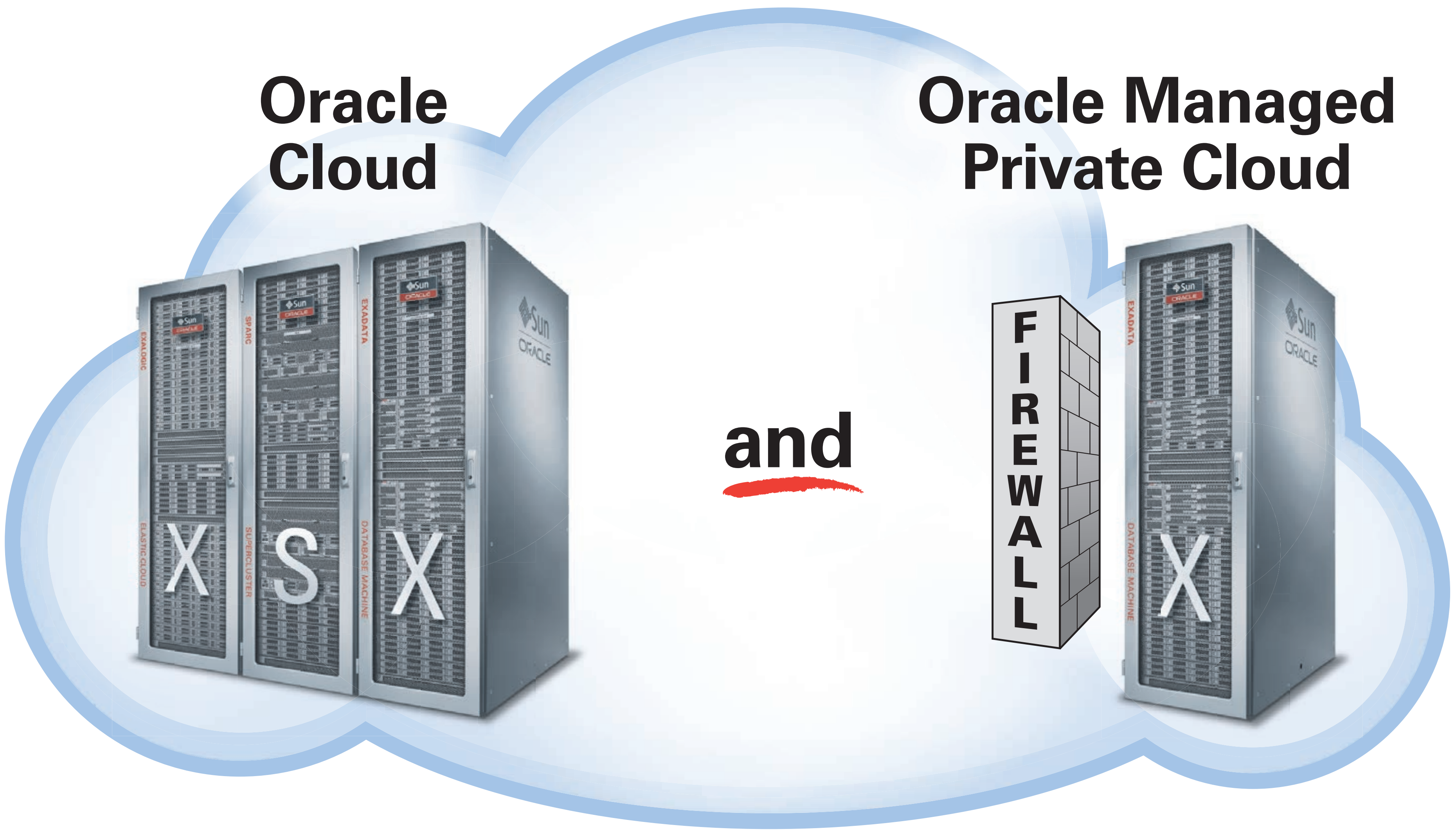

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An Agenda For Growth: Government And Businesses Need to Work Together

Ralph Alswang for The Wall Street Journal

'You have to have a skilled workforce.... There's clearly a skills gap in the U.S.'

FRANCISCO D'SOUZA, CENTER, WITH JEFFREY L. BEWKES, LEFT, AND ROBERT A. MCDONALD

The U.S. has had to contend with anemic growth in recent years as well as a loss of competitiveness in some industries. What can President Obama and Congress do to increase long-term growth and U.S. competitiveness? Can the public and private sectors work together in promoting growth?

AN AGENDA FOR GROWTH CO-CHAIRS

Jeffrey L. Bewkes
President and CEO, Time Warner Inc.

Francisco D'Souza
CEO, Cognizant Technology Solutions

Robert A. McDonald
Chairman, President and CEO, Procter & Gamble Co.

SUBJECT EXPERT

Mark M. Zandi
Chief Economist, Moody's Analytics Inc.

The Wall Street Journal's David Wessel moderated the task-force discussion on generating economic growth. Here are edited excerpts of their presentation of their priorities.

FRANCISCO D'SOUZA: The consensus of the group was that there hadn't been a lot of debate about what fundamentally drives competitiveness and how government and business can work together to further that agenda.

In particular, there was a lot of conversation around the role of small business and what we can do together—between the public and private sectors—to drive the competitiveness of small business. For example, access to global markets, which small business tends to have limited, if any, access to.

There needs to be a greater public-private partnership around the issue of competitiveness so that the public and private sectors working together can further the competitiveness of the U.S.

JEFFREY L. BEWKES: We thought that growth policies wouldn't really work well if we don't have a sustainable fiscal path. If growth is low, then the fiscal path appears less sustainable. And if the fiscal path appears less sustainable, it causes a lot of circular problems on growth.

If it appears that the overall level of debt is going to continue rising or not go down, you'll eventually face one of several alternatives, or all of them together. You're going to have higher interest rates, perhaps dramatically at some point, and that will put more pressure on the whole system. You'll have entitlement programs that become undermined or in question.

If you have high levels of debt and slow growth and tax burdens rising, then the question is who's bearing that burden. If it's a large tax burden due to slow growth, it's going to be borne by the middle class eventually.

We have to have a fiscal path that's sustainable in order to have any growth policies that will work.

ROBERT A. MCDONALD: We thought business tax reform was an important part of competitiveness. Right now the U.S. has the least-competitive tax system in the world, and we have the highest corporate tax rate.

We also have a world-wide system versus a territorial system. A world-wide system means that if you earn money from one country to another or even repatriate it to the U.S. without paying the higher U.S. tax rate in addition to the tax you already paid.

We've got general agreement from both parties and from the legislative and executive branches that we do need to lower the tax rate. To do that we'll need to broaden the base in order to make it as revenue-neutral as possible.

MR. D'SOUZA: We'll wrap up with immigration reform. For competitiveness, we believe you have to have a skilled workforce and an adequate supply.

There's clearly a skills gap in the U.S., particularly in the so-called STEM disciplines—science, technology, engineering and mathematics.

In addition, we are at a point where we have the single largest number of folks who were born outside of the U.S. living in the U.S. on an absolute basis of any time in our history. Approximately 38 million people living here were born outside the U.S.

There's a real human issue around family reunification, about folks who live here being able to bring their families here. And so the suggestion is comprehensive immigration reform that includes temporary visas for skilled individuals and green cards for folks who come here.

Foreign students who come to the U.S. have trouble staying here. We bring them here, we educate them in some of the best universities in the world and then we send them home. We ought to be able to keep them here.

And then finally looking at the folks who are in the U.S. illegally—looking at the issues of a path to citizenship and dealing with the children of folks who are here illegally through issues like the Dream Act.

THE TOP FOUR RECOMMENDATIONS

1 FISCAL POLICY Place federal, state and local fiscal policy on a long-term sustainable path, gradually reducing public debt.

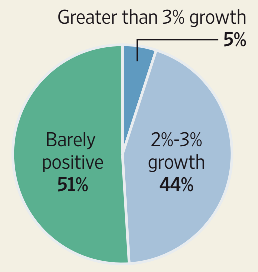
2 BUSINESS TAX REFORM Pursue revenue-neutral business tax reform to enhance U.S. competitiveness, including lower marginal tax rates, a broader base and a territorial system.

3 IMMIGRATION REFORM Pursue comprehensive immigration reform that addresses legal and illegal immigration, removes barriers to immigration of skilled workers and encourages foreign students to remain in the U.S.

4 COMPETITIVENESS Foster a closer working relationship between business and government for the long-term competitiveness of the U.S. economy, including bringing businesspeople into government and creating a better climate for entrepreneurship.

View From the Top

CEO Council participants said the growth rate for the U.S. economy next year will be:



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Restoring Confidence in Finance: Start By Dealing With the Deficit

Ralph Alswang for The Wall Street Journal

'Our group would call on the president and leaders in Congress to tone down the rhetoric.'

JOHN JOHNS, RIGHT, WITH STEPHEN SCHWARZMAN, CENTER, AND ROGER FERGUSON

Four years after the collapse of Lehman Brothers became a symbol of the recent global financial crisis, confidence in the financial system remains shaky. What can the president and Congress do to rebuild that confidence?

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

Avoid the Cliff

FRANCESCO GUERRERA: *I've got to give credit to the CEOs in the room. There wasn't a lot of vested-interest talk, and we came out with some pretty strong recommendations. We'll start with Stephen Schwarzman on our priority No. 1, which is about balanced deficit reduction.*

STEPHEN SCHWARZMAN: What we concluded is that driving off the fiscal cliff just to do it has unpredictable outcomes, few of which could be good. And it's unclear how consumers, markets and other constituencies would react to that, which adds an additional dynamic to trying to get a deal done.

Some would say that instability creates the pressure to get a grand bargain done at some point. But destabilizing the system is probably not the most productive way to approach a negotiation.

So, we're in favor of the next Congress doing things in an orderly way without introducing the kind of uncertainty that probably will occur.

MR. GUERRERA: *The second recommendation was about regulatory clarity.*

ROGER FERGUSON: The kinds of things that we're thinking about have to do with making sure that regulators are clear about their guiding principles.

The regulations themselves are bound to be complex. It might be helpful if a regulator said, "These are the three or four or five things that we really are trying to achieve," so that the industry and consumers know what the goals and objectives are without getting lost in the weeds of the regulations themselves.

We have another concern—that regulators have got to be careful not to create a one-size-fits-all regulatory environment that could lead to instability as opposed to stability. So, recognizing the fundamental differences across industry types—insurance, securities firms, banks, etc.—is very important.

We know that they're struggling with some of the elements. The Volcker rule, for example, comes up—where they have literally hundreds of pages and are asking hundreds of questions to try to sort out the fine distinction between proprietary trading and market making. So there's obviously a great deal of uncertainty that exists in this space.

MR. GUERRERA: *The third point was that the panel feels very strongly that there has to be a recognition by the political arena that finance is a vital part of a healthy economy. And then there was a discussion about what the finance industry would do almost in return for that.*

JOHN JOHNS: On the one hand, our group would call on the president and our leaders in Congress to tone down the rhetoric. To stop the demonization, if you will, of the financial-services industry, and recognize—very publicly and forthrightly—that having a very healthy, robust financial-services industry is critical to job creation and economic growth.

At the same time, we think it would be probably a good idea for them to reach out to leadership in the various segments of financial services and call on them to heal themselves—to look within, to recognize that mistakes were made pre-financial crisis.

And some rethinking and changes are needed in terms of some basic business models to ensure that products and services and strategies are designed not only to maximize shareholder value but also to serve the best interest of consumers, particularly the middle-class and working-class people in this country.

The Small Investor

MR. GUERRERA: *And then the final priority focuses on one of the most pressing problems in financial markets today, which is the flight of the small individual investor.*

MR. FERGUSON: We need a couple of things to restore investor confidence. One is the macro issues where we started. But there are also a number of technical micro fixes that have to take place in the markets to create a more level playing field between professionals and individuals.

And we think regulators and financial-services firms need to introduce some new rules and regulations around self governance—the way markets themselves function, the way market participants function—so that they're a source of stability, not instability, and therefore individuals can trust equity markets in particular with their lifetime savings.

RESTORING CONFIDENCE IN FINANCE CO-CHAIRS

Roger W. Ferguson Jr.
President and CEO, TIAA-CREF

John D. Johns *Chairman, President and CEO, Protective Life Corp.*

Stephen A. Schwarzman
Chairman and CEO, Blackstone Group

SUBJECT EXPERT

Roger C. Altman
Executive Chairman, Evercore Partners

THE TOP FOUR RECOMMENDATIONS

1 BALANCED DEFICIT REDUCTION Recognize that going off the fiscal cliff would create a period of financial and economic instability. Take advantage of the chance for a grand bargain so businesses and consumers can plan for the long term. This agreement should be balanced between spending cuts and revenue increases.

2 REGULATORY CLARITY Simplify and clarify financial regulation. There are too many regulators and too much ambiguity. Make sure the regulatory regime reduces rather than accentuates volatility, avoid rules that inadvertently hamstring firms in times of crisis, and restructure compensation systems to discourage unnecessary risk-taking.

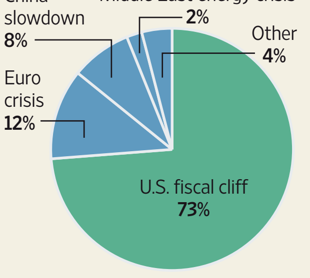
3 RECOGNITION AND HIGHER STANDARDS Washington should recognize the finance industry's importance to the economy. And the industry should raise its standards. Business models must serve the long-term interests of investors and consumers. Products should be simpler, corporate governance improved and compensation more aligned with long-term performance.

4 RESTRUCTURE THE MARKET Individuals have been withdrawing from U.S. equity markets. Make the market more of a level playing field for investors. Both financial leaders and regulators should have a plan for restoring investor confidence through, for example, improved market structure.

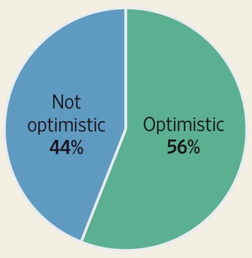
The View From the Top

CEO Council participants said...

◆ What is your biggest worry on the global landscape?



◆ Are you optimistic or not optimistic about your business prospects over the next year?



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Remaking Health Care: Change the Way Providers Are Paid

Ralph Alswang for The Wall Street Journal

'We need a market where people understand what the prices are.'

MARK BERTOLINI, LEFT, WITH LARRY MERLO

In the debate over the nation's finances, health care is one of the biggest items on the agenda. How do we bring down soaring costs as more people get coverage and more baby boomers head into retirement?

The Wall Street Journal's Laura Landro moderated the task-force discussion on remaking health care. Here are edited excerpts of their presentation of priorities to the CEO Council.

REMAKING HEALTH CARE CO-CHAIRS

Mark T. Bertolini
Chairman, President and CEO, Aetna Inc.

Larry J. Merlo
President and CEO, CVS Caremark Corp.

Brent L. Saunders
President and CEO, Bausch & Lomb Inc.

SUBJECT EXPERT

Mark D. Smith, M.D.
President and CEO, California HealthCare Foundation

Eliminate Waste

LAURA LANDRO: *Mark Smith, chief executive of the California Health Care Foundation, gave us some initial proposals. We ended up with some very provocative ideas about national standards for quality and price transparency, even looking at the agricultural subsidies that might contribute to bad habits like smoking and consumption of high-fructose corn syrup. A lot of people are also very concerned about the limited time that we have to get state insurance exchanges. How are we going to get insurance to our employees? Should we be taxing people for health benefits above a certain amount? For our top priorities, I'm going to turn over the first two to Mark Bertolini.*

MARK BERTOLINI: The Institutes of Medicine last year published a report that said we have $750 billion a year of waste in the health-care system. If we solve that problem, over the next 10 years we solve half of the nation's deficit. And if we just get 20% of it, which is a 6% change in health-care costs, we pay for the Affordable Care Act.

What happens in our system is if you get paid by a unit of service, you do more units of service. Our notion was to shift to population management. You assess the disease burden, the demography and the trends in the community and build a system and budget around that. You reward the system for improving the productivity and health of the population they serve.

If we were to say, "Here's the budget you have to take care of all these people. It is yours. You manage it effectively," then the system should organize itself appropriately and look for opportunities to make it better. Seventy-five percent of the next $10 trillion in the nation's debt is Medicare and Medicaid. If we can stem the increase, we can work on the deficit.

The second notion is transparency. We need to have a true market where people understand what the prices are for health care. Today, that's concealed.

Imagine a supermarket where you go in with your cart and pull items off the shelf with no prices on them. You take it up to the counter. It's scanned. The clerk swipes your card and says, "In 30 days you'll get your credit-card bill, and you'll know how much your groceries cost." Would you shop there? But that's how the health-care system works. We need to create transparency in the system so people can understand how much health care costs.

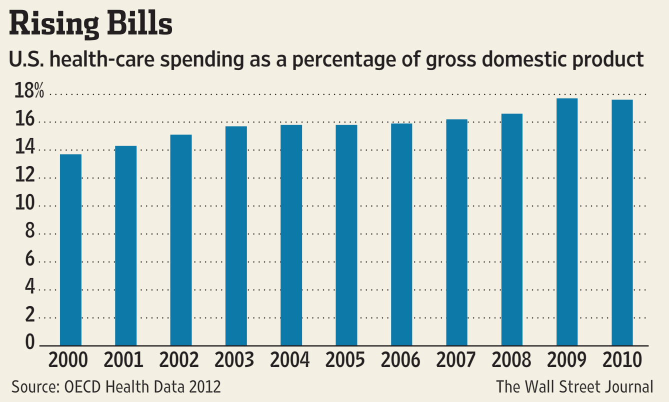
The Role of Care Givers

LARRY MERLO: The third one that we talked about is new delivery models, focusing on the role of licensed health-care professionals such as nurses and pharmacists. This is responding to a shortage of primary-care physicians that exists today and is expected to continue to grow.

What we can do is to harmonize the licenses of health-care professionals to a scope of practice that is based on their education, training and experience versus just the regulations within the state where they practice. At the same time, this would allow for the cross-licensure of these professionals across states. Only 16 states have standardized scope-of-practice regulations to allow nurse practitioners to practice independently and really complement primary-care physicians. At the same time, you look at the ability to expand pharmacist-administered immunizations. It's inconsistent across the states.

The goal is to increase access to care, reduce costs and improve the quality of care. Tied to this is health-care information-technology connectivity. This would enable health-care providers at all points of care to engage patients, to see if they're adhering to prescriptions and having preventative checkups.

The fourth one is primary care, and it picks up on the theme of today's shortage of primary-care physicians. We talked about incentives to improve the balance between specialty and primary-care physicians, like education and emphasizing reimbursement rates. At the same time, there's forgiving medical-school loans. Some of these same principles would also apply to the nursing profession.



Source: OECD Health Data 2012 The Wall Street Journal

THE TOP FOUR RECOMMENDATIONS

1 POPULATION HEALTH MANAGEMENT Explicitly gear our system around population health. Create public-private partnerships to encourage healthy behavior, and identify specialty populations with unique needs, such as the seriously mentally ill. Reshape financial incentives to meet the goal of population health, and build capacity and reimbursement systems to support it. Have the administration clarify how to deal with the huge shift into insurance exchanges.

2 TRANSPARENT STANDARDS The Center for Medicare and Medicaid Services should develop, and require all public-health programs to adopt, uniform standards for health-care service quality, performance and price transparency so consumers can make value choices. And it should encourage states to follow suit.

3 NEW DELIVERY MODELS Use the full continuum of care givers, such as nurses and other professionals. Create uniform standards for licensing care givers across the country, and encourage more care in retail clinics, pharmacies and other sites. Require patients' medical data to be available electronically.

4 PRIMARY CARE Provide incentives to correct the imbalance of specialists to primary-care doctors by changing reimbursement rates, increasing funding for undergraduate and graduate medical education for primary care, and forgiving medical-school loans. Increase focus on advanced nurses and nurse practitioners as care providers.

Big Data: Before You Start Restricting It, Be Aware of All the Opportunities

Companies around the world increasingly collect and process vast amounts of customer data, particularly data tracking consumer behavior on the Web.

It's a phenomenon commonly referred to as Big Data, and it has generated widespread debate over a host of issues. What should companies do with such data? How can it be used profitably? How should it be treated? Should there be laws governing its use? Internationally recognized safeguards for consumer privacy? And how do U.S. companies stay competitive as more countries learn how to process and interpret such data?

The Wall Street Journal's John Bussey moderated a task-force discussion about just such issues. Here are edited excerpts of their presentations to the CEO Council:

Opportunity First

JOHN BUSSEY: *Our group ended up with essentially two principles and two action items. Dominic, if you could take our first, please?*

DOMINIC BARTON: Our group felt very strongly that this is a huge opportunity, and we shouldn't focus on how to protect or regulate Big Data before we recognize how important it is. Companies that use Big Data effectively get about a 6% productivity improvement versus others.

We're at the early stages. It's in every sector. And we all felt it can be the next wave of productivity growth if we use this data effectively.

Depending on how you protect or use data, it can actually lead to a country's competitive advantage. We've got small city-states like Singapore and Abu Dhabi that are allowing, for example, consumer medical information to be publicly available to get innovation.

So let's not lose sight of how important it can be for productivity improvement as we think about the protection.

MR. BUSSEY: *Marcelo, our second principle.*

MARCELO CLAURE: First of all, we had a fascinating group. We had a tremendous amount of interaction. And we quickly realized that all of us live in a hyper-connected world. By that I mean we're passing a huge amount of data every day through a connected car, a connected cellphone, a connected tablet, a connected home.

We see it as a tremendous opportunity, but what is the government role?

Some members of our group argued that government shouldn't be allowed to regulate or do anything related to Big Data. But the rest of the group agreed that we've got to define the basics of what the government is going to do.

And where we came out at the end was, government should have the role of defining what is legal and what is illegal in the use of Big Data. And that's where the government should stop. We think it should be left up to the consumer to define what he or she wants to share and doesn't want to share, what is public and what is private.

Limiting government control to what's legal and illegal will allow the consumer to make more choices. As a consumer, you should be able to determine how much of your **Facebook** profile you want to share, or whether you want to share information about where you shopped last.

Security and Treaty

MR. BUSSEY: *And Tim has our two action items.*

TIM ARMSTRONG: The first one is probably more important than it seems on the surface, especially for private companies. I think we started this as kind of a government conversation, but mostly it's private companies that actually own the infrastructure that makes the company or the country work.

So cybersecurity is something that really needs to be dealt with. And specifically, having standards around this is important in two different directions.

One is standards of what happens when something gets attacked. How do you report it, and what is the infrastructure to help companies with that?

The second piece which is important and which came up in our discussion is when your data lives outside the country, or when you're going to do things with data in other countries. There are groups like CFIUS [the U.S. government's Committee on Foreign Investment in the U.S., which reviews foreign investment deemed to have an effect on national security] which are inside the government, which, if you haven't dealt with them, you will, over these type of data assets. Cybersecurity is really important.

The last action item is coming up with a global data treaty. The U.S. is probably the largest economy involved in Big Data right now, and we think it's important for the U.S. to take a leading role in defining what some of the Big Data policies and standards should be in such a treaty. We would hope that we, the U.S., could define a basic treaty to start off, and then other countries could either adopt or augment the treaty over time.

Ralph Alswang for The Wall Street Journal

'We think it should be left up to the consumer to define what he or she wants to share.'

MARCELO CLAURE, RIGHT, WITH TIM ARMSTRONG, CENTER, AND DOMINIC BARTON

BIG DATA: OPPORTUNITIES AND RISKS CO-CHAIRS

Tim Armstrong
Chairman and CEO, AOL Inc.

Dominic Barton
Global Managing Director, McKinsey & Co.

R. Marcelo Claure *Chairman, President and CEO, Brightstar Corp.*

SUBJECT EXPERT

David J. Rothkopf
President and CEO, Garten Rothkopf

BIG DATA: THE TOP FOUR RECOMMENDATIONS

1 BIG DATA IS OPPORTUNITY Industry already recognizes that the advent of Big Data is a potential engine of significant economic growth. Policy makers must address issues such as security and privacy but not restrict this opportunity. Consumers, government and companies all have a role to play in defining policy. Countries need to recognize that the treatment of data is ultimately an issue of national competitiveness.

2 CREATE RULES OF THE ROAD The government should define which activities concerning data are legal or illegal. For activities that are legal, consumers should then define what is public or private in their own cases through opting in or out in terms of what they choose to reveal about themselves.

3 ENACT CYBERSECURITY STANDARDS The private sector, government, the military and consumers should jointly develop detailed standards and incidence-reporting practices for cybersecurity, building on existing industry best practices.

4 CREATE A GLOBAL DATA TREATY The U.S. should play a leadership role in coordinating with international bodies to pass a treaty to establish clear, universal standards on data privacy and ownership.

Toward a New Consensus on Energy: You Need to Begin With a Road Map

The collapse of global efforts to regulate carbon emissions and the rise of natural-gas production have transformed the energy picture in the U.S.

The Wall Street Journal's Joseph White moderated a task-force discussion aimed at identifying what the U.S.'s main priorities should be in wake of this changing energy landscape. Here are edited excerpts of their presentation to the CEO Council:

Ralph Alswang for The Wall Street Journal

'What is required is support for the development of new energy sources.'

CARLOS GHOSN, RIGHT, WITH DAVID SEATON

A Long-Term Journey

JOSEPH WHITE: *We had a diverse group of people in the room, including energy producers, energy consumers, people involved with technology and people involved with infrastructure. I really do think we reached a consensus on what the priorities should be.*

DAVID SEATON: Priority No. 1 is to create a road map to energy security. That means setting a national, comprehensive energy policy with measurable goals. There are a few aspects I would center on. This is a long-term journey, not a destination. Times are going to change. Markets are going to change. This has to be comprehensive, and it needs to go past the next election, past partisan politics.

MR. WHITE: *The second priority was to encourage diversity.*

CARLOS GHOSN: That's a very important element, which in a certain way ties in to point No. 1, which is that we can't continue to rely too much on very limited sources of energy or specific ways of using energy. We use the example of the car industry, where today almost the entire industry relies on one technology, the combustion engine, and one commodity, oil. Transportation accounts for more than 60% or 70% of all oil use in the world.

This can't continue. There are a lot of technologies available. What is required is support for the development of new energy sources, as well as new ways of using energy. We need to support development of these technologies through tax incentives and public-private association.

MR. WHITE: *Priority three is to promote shale oil and gas. But there is more to it than that.*

MR. SEATON: I would like to talk about shale in a different form, in relation to the free-market system and letting those markets work. If you think about the emergence of shale gas as a commodity, it came upon \$10 to \$12 natural-gas prices. So the free market suggested that if you could punch a hole, you could make money at \$10 to \$12 per million BTU.

The fact is that innovation and investment changed the price forever, in my opinion, down to the \$2, \$3, \$4 range. What that has done is promote the emergence of manufacturing in the U.S. Think about the petrochemical and the gas-to-liquid markets that are being promoted within the Gulf Coast alone. My company is working on somewhere in the neighborhood of \$30 billion worth of investment in the Gulf Coast. And that is due to letting the free-market system work as it relates to shale gas.

Letting Markets Work

MR. WHITE: *The fourth priority was to streamline regulations around energy, but for several people in our group, this was probably the No. 1 priority.*

MR. GHOSN: A lot of members of our team are complaining about the fact that from time to time federal regulation contradicts local and state regulation. So we came to the conclusion that if we really want to do something serious, we need to make sure that they are all consistent. And the only way to ensure consistency ties back to point No. 1, which is that there needs to be some kind of vision and policy about energy that really supersedes all the initiatives that are taking place at the local level.

ENERGY: THE TOP FOUR RECOMMENDATIONS

1 ROAD MAP TO ENERGY SECURITY Set a national road map for a balanced approach to energy security, including long-term measurable goals, through comprehensive energy legislation.

2 ENCOURAGE DIVERSITY The administration should focus on all energy sources to ensure diversity. Promote research and support development across the energy spectrum via tax incentives and regulatory clarity, among other things.

3 PROMOTE SHALE OIL AND GAS The administration should promote shale oil and gas development to foster energy diversity. It can support state regulation of drilling, collaborate with industry to bolster public confidence, facilitate leasing on public lands, and facilitate construction of new midstream pipeline systems.

4 STREAMLINE REGULATION Speed up permitting and regulation to spur energy production. Address regulatory overlap between state and federal governments. Ensure consistency between regulatory entities and the needed comprehensive energy strategy.

TOWARD A NEW CONSENSUS ON ENERGY CO-CHAIRS

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

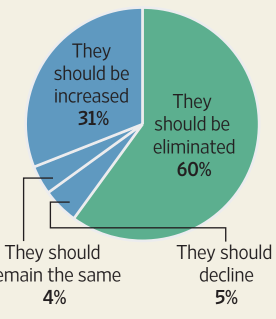
David T. Seaton *Chairman and CEO, Fluor Corp.*

SUBJECT EXPERT

Daniel Yergin *Vice Chairman, IHS Inc.*

No More Help

What should happen to federal subsidies of renewable energy? Most WSJ.com readers in an online poll favor ending them. You can weigh in at WSJ.com/Reports.



The Wall Street Journal

Can Europe Get Its Act Together?

Former Spanish Prime Minister José María Aznar on what Europeans need to do to pull out of their tailspin

As the euro crisis deepens, national economies are on the verge of collapse and the European Union faces the possibility of a split. Can Europe come back from the brink? And what lessons does that struggle hold for the U.S.?

The Wall Street Journal's Gerard Baker spoke with former Spanish Prime Minister José María Aznar about the problems and the prospects. Here are edited excerpts of their conversation.

The Road Ahead

MR. BAKER: *In Washington, much of the discussion is about the fiscal cliff. In Europe, you've already gone over the fiscal cliff. You were prime minister of Spain for eight years before this crisis broke. How serious are Europeans, and what needs to be done to come out of this tailspin?*

MR. AZNAR: The history of the euro during the first decade was a combination of flexibility on one hand and discipline on the other hand. If you combine both, the results are good. If you forget that discipline, you have a problem. You have a very serious cliff.

Ralph Alswang for The Wall Street Journal (3)

'If the euro is an advantage for European countries, you must finish this operation.'

JOSÉ MARÍA AZNAR

MR. BAKER: *Let's look at what's happening in Spain right now. You've got a situation in the past couple of months where there seems to have been some stabilization in the bond market since Mario Draghi [president of the European Central Bank] made his commitment that the ECB will buy up the bonds of Spain and Italy and other countries if there is a bailout.*

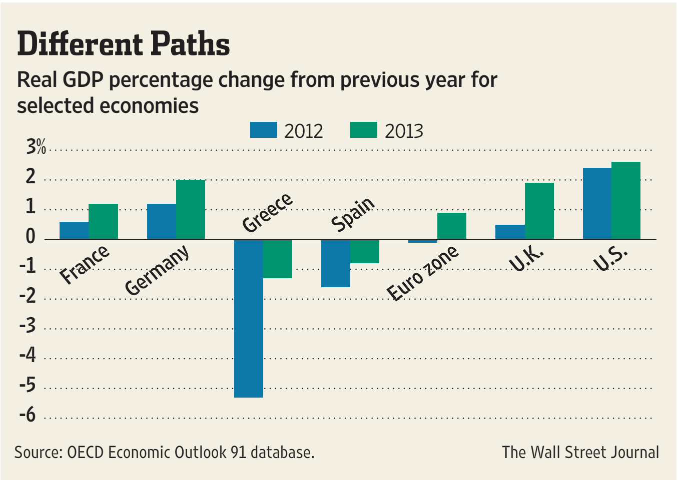
The markets have assumed this is going to happen. And yet, we're still waiting for Mariano Rajoy, your successor as prime minister, to ask for this bailout. He seems to be reluctant to do so. When is he going to bite the bullet so that we can actually start to do things that the markets seem to think are necessary to get Europe on a more stable path?

MR. AZNAR: With bailout or without bailout, Spain needs more reforms. But at this moment I don't consider the bailout suitable for the country. The price that you pay in political terms and economic terms to accept the bailout will be more than the necessities of the country.

Second, the bailout depends not only on the will of the Spanish government, but on the approval of the rest of the governments—in particular, Germany. I am convinced that Germany will reject any bailout. Before the German elections, nothing happens in Europe.

MR. BAKER: *The German elections aren't for another year. That's a long time. The markets are clearly expecting something before then.*

MR. AZNAR: But this is reality. This is one of the reasons we must do a lot of reforms, to regain more credibility. Ten years ago, Spain was a triple-A country, and today it is a triple-B country. These are two different countries.



A Structural Problem

MR. BAKER: *If the Germans are not going to back a bailout, doesn't this point to a fundamental weakness in the structure of the euro? You have fundamentally different economies and fundamentally different political systems, and you don't have the political legitimacy.*

People in Spain don't accept the idea that Germans can tell them how many hours they should work each week, or when they can retire. And the people in Germany don't accept that the Spanish should be able to do what they want to do and expect the Germans, in the end, to bail them out.

MR. AZNAR: The original success for Europe was to make it possible for different countries with different histories to coexist and share objectives. If you create the euro, if the euro is an advantage for European countries, you must finish this operation.

MR. BAKER: *But you've created a situation now where Germany will be peaceably controlling Europe.*

MR. AZNAR: It depends if you can exert influence along the European institutions or if you decide to impose decisions. The problem in Europe today is that there aren't balances. The U.K., for example, is out of the decisions in Europe.

It's extremely important that the U.S. look to Europe. Our feeling in Europe is that this administration is looking only to the Pacific, to Asia. This is a mistake. For instance, we have the opportunity to create in the next months a very important free-trade area between Europe and the U.S. That would send a message of stability to the rest of the world.

The Future of Nationalism

MR. BAKER: *In Spain you're going to have an election in Catalonia in the next couple of weeks. Are the Catalans going to vote for independence?*

MR. AZNAR: No, Catalans are Spanish. We've lived together for the past 500 years now. Nationalism is a problem in Europe. After the fall of the Berlin Wall, the former socialist states ran to become nationalist. What is the result? The Balkans.

MR. BAKER: *But people feel disconnected from their leadership and disempowered. What the euro seems to have created is a system that lacks political legitimacy.*

MR. AZNAR: In some parts of Europe, nationalists and secessionists are looking at the map of Europe and thinking, "Well, the map in the future will be different. This is our opportunity, if we want to be independent."

It is very easy to establish a negative campaign to destroy a country. It is more complicated to establish a good program and good policies to recover the economy or the position of a country. I believe in this policy.

MR. BAKER: *Does Europe have a future? For a thousand years, Europe was the center of civilization. But great civilizations fade away. There's a view in the U.S., perhaps unfairly, that Europe doesn't have dynamism, that it has demographic problems, productivity problems, fiscal problems.*

If you look at the next 50 years, is Europe going to be able to come back and be a significant economic region?

MR. AZNAR: We are still the most important economic area in the world in terms of market. We are the third-largest population in the world after China and India. We have lots of rich countries. It's fantastic living in Europe.

The question is, do we have the will to defend our system of values? Look at the map of the world. Western values continue to be wonderful values in the world. And we're going to defend this.

It is not true that the future is only in the Pacific. If you look at four pillars—Europe, North America, South America and a part of Africa—you can create an Atlantic base. Not against anything, but in favor of the most stability in the world.

A Search for Privacy in a Nonprivate Age

FTC chairman Jon Leibowitz on the effort to give consumers more control over their personal information

'I think companies want to be on the right side of consumers.'

JON LEIBOWITZ

More than anything, Jon Leibowitz, who has been the chairman of the Federal Trade Commission since 2009, has reshaped how American corporations look at their data practices—and in particular online privacy. In recent years, the FTC has charged Google Inc., Facebook Inc. and Twitter Inc. with privacy and data-security violations and won consent decrees governing their future behavior.

Julia Angwin, senior technology editor at The Wall Street Journal, sat down with Mr. Leibowitz to discuss the FTC's push for better privacy practices. Here are edited excerpts of the conversation:

Providing an Out

MS. ANGWIN: *You have been a huge advocate for something called Do Not Track. Could you tell us about the proposal and where it's headed?*

MR. LEIBOWITZ: We try to take a balanced approach to privacy. We recognize the value proposition of the Internet ecosystem, which is funded on free advertising, and no one wants to change that. But we also believe consumers should have some choice about where their data go. And so we have proposed a self-regulatory notion that the business community has generally embraced called Do Not Track, which would allow consumers to opt out of third-party tracking if they want to.

It's a much more moderate approach than, say, the European Union, where they're debating whether to allow any sort of collection of information at all and if so, to do it on an opt-in basis.

MS. ANGWIN: *Everyone had hoped this deal would be done by the end of the year. It's probably fair to say it's faltering a bit. What is your assessment?*

MR. LEIBOWITZ: This has been a process in which we have moved two steps forward and one step back throughout, but we're still making progress. The question is whether Do Not Track is going to allow consumers not to have information collected about them. We're still working through that process.

I think companies want to be on the right side of consumers. And if being on the right side of consumers means allowing some modest opt-out for Americans who don't want their information collected, then I think at the end of the day we'll see more support in the business community.

We already have all of the browser companies—Microsoft and Google and Mozilla and Apple—supporting Do Not Track. And we have a lot of online publishers. So I continue to be optimistic.

MS. ANGWIN: *The advertising community itself isn't in agreement about Do Not Track, right? What if a partial commitment emerges, with some advertisers agreeing to it and others not?*

MR. LEIBOWITZ: I don't think that's a good end point. But again, if industry doesn't give consumers some modest control over where their data go, they risk a legislative backlash that will be much more prescriptive next year.

One of the few issues that isn't partisan in Congress is privacy. So I think it's very possible you'll see privacy legislation going forward if members of Congress aren't satisfied that companies are giving consumers some choice about where their information goes.

Parental Consent

MS. ANGWIN: *You're updating your rules on children's online protection. It has been controversial because it requires parental consent to track children's online behavior, which is actually difficult to implement. Many in the industry have voiced concern. Where does that stand?*

MR. LEIBOWITZ: It's an update of the Children's Online Privacy Protection Act [or COPPA]. We are looking at all of the comments that came in and weighing how to tweak the regulation. We'll finish it up by the end of the year, I'm pretty sure.

Certainly there are people who want to be able to mine the data of children without parental consent, and they're entitled to their views and to stir up a bit of controversy. But for the most part, I think companies that target young children would say COPPA has set the right balance.

It doesn't stop advertisements to children. It only stops particular types of collection of information and selling it to third parties and using it to advertise back to children.

Cop on the Beat

MS. ANGWIN: *You got the largest fine ever from Google, $22.5 million, to settle charges it bypassed the privacy settings of some users of Apple's Safari software. Do companies change their behavior when they see these kinds of fines?*

MR. LEIBOWITZ: The notion that the FTC is engaged here in a fair and balanced way, but that if you violate the law we're going to come after you, is a fairly meaningful one. We like to think that we are a cop on the beat protecting privacy.

But also, we have called for more privacy by design. When you're designing those cool new apps, make sure that you build in privacy protections—more choice and more transparency.

MS. ANGWIN: *The EU has a very different approach to privacy, and there has been concern about whether we're going to move in that direction. What's your view?*

MR. LEIBOWITZ: My sense is you might see Europe moving a little bit more to our approach of allowing some advertising and allowing some collection of data.

VOICES FROM THE CONFERENCE

"I think there's a pretty serious danger they go over the fiscal cliff in the short run, because they're the same people and it's the same dynamic as what happened last summer. One thing I'm pretty confident is not going to happen is the president is not going to agree to something that's going to just kick the can months down the road and put everything back again onto the debt-ceiling negotiations, which still have to come in February or March."

AUSTAN GOOLSBEE, Robert P. Gwinn professor of economics, Booth School of Business, University of Chicago, and former chairman of the Council of Economic Advisers

It's Different This Time

Timothy Geithner on why he is optimistic about a fiscal deal

Washington is gearing up for another battle over fiscal policy. But this time Democrats and Republicans are facing a daunting deadline—the fiscal cliff of potential tax increases and spending cuts.

The Wall Street Journal's David Wessel and Alan Murray spoke to Treasury Secretary Timothy Geithner about what has changed since the last wrangle, and the possibility of compromise. Here are edited excerpts of their discussion.

Signs of Hope

MR. WESSEL: *Do you think we're going to go over the fiscal cliff?*

MR. GEITHNER: There's every reason to believe this is a solvable problem. We have a lot of challenges as a country, but I think there's a lot of support for trying to do things that will help make the economy stronger in the short term. There's obviously universal support for extending the middle-class tax cuts. Doing that would remove the greatest source of anxiety and much of the greatest risk in the fiscal cliff. There's a lot of support for finding bipartisan consensus on other things that would make the economy stronger, like a set of commitments to finance a higher level of public investment in infrastructure and education.

MR. WESSEL: *There's one thing about which there does not appear to be a lot of agreement: Should the Bush tax cuts on the over-$250,000 crowd be extended?*

MR. GEITHNER: The president's position is very simple. Let's extend the middle-class tax cuts, removing probably the greatest source of uncertainty and damage from the fiscal cliff. Let's put in place a balanced set of fiscal reforms that recognize the reality that Republicans now embrace, that the most fortunate 2% of Americans are going to have to pay a modestly larger share of income in taxes.

But he's not prepared to extend the upper-income tax cuts. If you look at the amount of deficit reduction you have to put in place over the next 10 years, if you recognize what's a realistic share of revenues you're going to have to contribute to that, and if you believe as the president does that we shouldn't be asking middle-class Americans to pay more in taxes, then I don't see how you do this without higher rates.

MR. WESSEL: *It's not possible to raise money from upper-income people by closing loopholes, getting rid of deductions, limiting credits and stuff like that?*

MR. GEITHNER: To restore fiscal sustainability, to be careful of what you do to the long-term growth prospects of the country and to make sure we're not adding to the burden on middle-class Americans, you're going have to do so with a mix of higher rates and deductions. I think that's what the political consensus ultimately will be.

A Tough Road

MR. WESSEL: *Are you saying if Republicans don't agree to raise top rates back to where they were when Bill Clinton left office, we're going over the fiscal cliff?*

MR. GEITHNER: I think it's pretty encouraging you've seen Republican leadership recognize that we're going to have to generate modest additional revenues from high-income Americans, and that's a good recognition.

But we're just at the beginning. This is going to be tough, but it's something we have to go through. If we're going to make sure we're supporting things that will improve long-term growth prospects, we have to figure out a way to resolve the divide on these basic questions.

MR. WESSEL: *What happens if we go over the cliff? What happens if Republicans can't bring themselves to raise the top rates?*

MR. GEITHNER: I don't see why they would make that choice. Why would you want to put the economy through that? After conceding that revenues are going to have to go up and conceding that revenues are going to have to go up on the most fortunate Americans, why would you take the economy over the cliff?

MR. WESSEL: *Why should I believe this will end any more positively than the summer of 2011?*

MR. GEITHNER: You have Republican leadership acknowledging they're prepared to agree to an increase in revenues as part of an agreement that helps restore fiscal balance. You have a much greater recognition that the economy would benefit from a carefully designed agreement on fiscal reform. And if you listen carefully to what people in the business community and many politicians are saying, there's a lot of consensus on it.

MR. MURRAY: *Democrats keep citing Clinton-era rates. Why are Clinton-era rates relevant for income-tax rates but not for spending levels or spending as a rate of GDP? I will sign up for Clinton-era income-tax rates if Obama commits to Clinton-era spending levels.*

MR. GEITHNER: You can't repeal the aging of the population. The demographic changes ahead of us, millions and millions of Americans becoming eligible for Medicare and Social Security, are not something you can ignore.

But in the president's budget the levels of spending for nondefense discretionary spending—which are all parts of the government outside defense and Medicare, Medicaid, Social Security—are very low as a share of the economy relative to Clinton.

MR. MURRAY: *Why should we believe an administration that has ballooned the deficit so sharply will, after winning an election so soundly, attack the deficit with any vigor?*

MR. GEITHNER: It's true that the deficits have gone up. They go up significantly because of the costs of the Bush tax cuts and the expansions on spending that we inherited. They go up significantly because of the cost of the crisis and the recession. The people who attribute the increase in deficits to the policies of this president are mistaken.

Ralph Alswang for The Wall Street Journal

'There's universal support for extending the middle-class tax cuts.'
TIMOTHY GEITHNER

FLASHBACK

Priorities From CEO Councils Past

How much have the CEO Council's priorities changed over the past five years? Some, but certain priorities crop up repeatedly. Here's a look at the priorities since 2008.

2008

1. Quickly craft a **fiscal-stimulus** plan.
2. President-elect Obama should ask businesses to take the lead in building a **competitive work force**.
3. The president-elect should establish and communicate his **economic vision**.
4. Pass legislation that starts decarbonizing our economy and creates the most **energy-efficient economy** in the world.
5. Change the **tax code** to encourage employment, job creation and investment.

2009

1. Government should focus on policies that stimulate sustainable **job creation**.
2. Government and business policies must reflect the primary importance of **education**.
3. Change the **tax code**, in a revenue-neutral way, to encourage savings and investment.
4. The U.S. should encourage the diversification of the country's **energy supply**.
5. Address **medical malpractice** by capping awards and legal fees, and creating health courts.

2010

1. Aggressively promote a **global marketplace** that benefits U.S. businesses and consumers.
2. **Presidential leadership** is crucial in creating a healthy business environment.
3. Address **medical-malpractice reform**, as well as larger problem of defensive medicine.
4. Businesses and government should stimulate **long-term investment** in the U.S.
5. The U.S. should reduce its **budget deficit** and sustain increases in private savings.

2011

1. The U.S. should create a globally competitive **tax system**.
2. The country's **immigration policy** should support innovation.
3. The U.S. must improve the **skills of workers** to aid in export growth.
4. National effort is needed to rebuild the country's **energy infrastructure**.
5. Government must offer sustained investment in **basic energy R&D** across the range of energy resources.

A Veteran Diplomat Looks at the World

Henry Kissinger on how the U.S. should deal with challenges posed by China, Iran and Syria

Few names in diplomatic circles are as familiar as that of former Secretary of State Henry Kissinger. His involvement in some of the most pressing global issues of our times, whether in government or more recently as a private consultant, span half a century.

The Wall Street Journal's Gerald Seib spoke with Mr. Kissinger about the challenges America faces today as the reigning superpower, including the rise of China and the potential threat of a nuclear Iran.

Ralph Alswang for The Wall Street Journal (3)

'We must develop a policy where, if we engage ourselves, we prevail.'

HENRY KISSINGER

China's New Leader

MR. SEIB: *What will China's transition in power bring?*

MR. KISSINGER: Stability and instability. We tend to look at transitions in China like transitions in the United States. Somebody comes in and then has the right to give orders, and have an assurance that at least an effort will be made to execute them.

That is not how transitions are now working in China. The power of Xi Jiping is much less than that of the president of the U.S. He has to govern through the consensus of the standing committee. He's the chairman of the board. He is the most powerful person. But he has to form coalitions within that system.

If there is a consensus in China on anything, it's that there has to be more transparency, less corruption, more of a legal system. But it's not clear what form this will take. I would personally assume that the transition 10 years from now will not be conducted by the same methods as the current one.

MR. SEIB: *You have met Xi. Does he strike you as a leader who can be a reformer of corruption?*

MR. KISSINGER: He strikes me as a leader who understands the problem. I've had five or six conversations with him. I think he is strong enough to attempt it. Premier Li Keqiang is another man of considerable intelligence. I don't know whether they can do it. The stability of China will depend on it. I hope so.

MR. SEIB: *What should we watch for to tell us whether corruption is being addressed, whether Xi is fully in charge of the military?*

MR. KISSINGER: He's likely to be more fully in charge of the military because of the background of his family. His father was close to the military. He is familiar with the military.

The strategic doctrine that the military develops publicly is more confrontational than the political doctrine one hears. I think he has a better chance of bringing the two into harmony.

Iranian Challenge

MR. SEIB: *What do you think will happen in Iran? What are the chances for conflict in 2013?*

MR. KISSINGER: American Presidents over 10 years have asserted that the Iranian nuclear military program must be stopped. But there are terms that show different shades of meaning. Some say they must not have a nuclear-weapons capability. Some say the nuclear capability must be stopped.

In the debates between the two candidates, these terms were used interchangeably.

Drawing a line at the weapons—the warhead development—is not a meaningful line, because the jump from enrichment to weapon is so short.

Apparently, negotiations are going on. Where the negotiations seem to be going is to establish some line beyond which enrichment will not take place.

So, the two quick debates are should you negotiate with Iran at all, and secondly, how do you handle the enrichment problem?

Some negotiation has to be attempted, whichever course we go. If we are prepared to go to war, or a blockade, we need to go through this process. But we have a limited time. It has to be done within 2013, or the technological progress in Iran, it's outrunning events.

MR. SEIB: *What's the strategic approach to the Syrian conflict that protects U.S. interests?*

MR. KISSINGER: It is certainly in our national interest that the support of the Shi'a in Lebanon via Syria be interrupted, and that Syria not become a base and a projection of Iranian policy. So from that point of view, an Assad victory would be against the American national interest, and some arming of the rebels is desirable. But we have to be careful not to repeat in Syria what we did in Afghanistan—arming groups which if they achieve total victory could represent a significant threat.

Role of the U.S.

MR. SEIB: *What is the right leadership role for the U.S. today?*

MR. KISSINGER: I have seen and been involved in four wars that we started with great enthusiasm, and which turned into a debate about the speed of withdrawal—with no other outcome.

We must develop a policy where, if we engage ourselves, we prevail. This means a revision of our military strategy, which has so far been based on physically stopping aggression by overwhelming it. It got us into a position where the enemy could control the pace of operations, and the length of the war.

We have to develop a peripheral strategy. When the British fought Napoleon, they did not go into the continent of Europe. The strategy in Spain drained France without putting Britain into a position where it was risking its cohesion and its capabilities. I think we need a strategic concept of that nature.

Right now, when you say "the purpose of foreign policy must be to pursue the national interest," that, in an academic context or even at a New York dinner party, is quite unacceptable.

But you have to begin with that. You can define the national interest broadly. You can say it must have many moral elements. But we need a diplomacy and a strategy in which we can measure what we're attempting to do, and what our resources are in relation to it.

This applies to the outcome of the Arab Spring, and the new energy pattern on the front page of your newspaper today [a forecast by the International Energy Agency that the U.S. will be the world's largest producer of oil by 2020]. It's going to bring about a change of strategic priorities for many countries.

What a Deal Might Look Like

Sen. Kent Conrad predicts what will result from the fiscal-cliff negotiations

One of the key players in the looming fiscal fight thinks we can put together a deal—and keep America away from the fiscal cliff.

North Dakota Democrat Kent Conrad, retiring chairman of the Senate Budget Committee, spoke with The Wall Street Journal's John Bussey about why he's hopeful, and what he thinks a deal could look like.

Here are edited excerpts of their conversation.

'There is a growing momentum that I think will compel my colleagues to act.'

KENT CONRAD

MR. BUSSEY: *You're optimistic that there's going to be a resolution of all this. Could you give us your sense of what that would look like?*

SEN. CONRAD: I think we're going to be in the range of a $5 trillion package. What's been done so far has been all on the discretionary-spending side of the equation, which is less than 20% of the overall budget. It's critically important we move to reforming entitlements and the revenue side of the equation.

There will be additional domestic discretionary savings. There will be additional entitlements other than the main entitlements, Social Security and Medicare. Social Security, I think, will be handled separately, and any savings will be part of extending the solvency of Social Security itself.

MR. BUSSEY: *And that's done how?*

SEN. CONRAD: One of the ways is to extend the cap in terms of what income is exposed for funding Social Security. The age will certainly be extended. You'll also change the so-called bend points. That's a technical way of determining what Social Security payouts are. There will also be an inflation adjustment.

MR. BUSSEY: *Should there be a means test?*

SEN. CONRAD: That goes to the question of bend points and what revenue is used to support this system. But, no, I think people who pay in should certainly be eligible to get something out.

Health and Defense

MR. BUSSEY: *On the Medicare front, what is a resolution likely to look like?*

SEN. CONRAD: I think the most likely resolution is something that slows the growth of spending to the growth of the economy. There are a whole series of steps that can be taken to do that. More copays, going back to providers and asking them to take less of an increase, raising the age of eligibility. I think that's something we could accomplish.

MR. BUSSEY: *What happens to the defense budget?*

SEN. CONRAD: I think the defense budget is going to be asked to take additional savings. Defense has already taken savings approaching $500 billion over 10 years. The sequester would mean another roughly $535 billion of savings, but it's done in a way that really makes almost no sense. It's just across the board. There's no prioritizing.

My own anticipation is that the number will be reduced, but there will still be a request for additional defense savings, probably in the range of $200 billion to $300 billion.

MR. BUSSEY: *Talk to us about process. Here's the fiscal cliff just a few weeks away. What do we get come Dec. 31? And when do we begin to approach a resolution of the sort that you just described?*

SEN. CONRAD: Here's what I've been trying to sell to my colleagues. No. 1, a down payment in the range of $400 billion on the revenue side and on the spending side. Those are things that would be done now that one could be assured are actually going to happen because they'd be passed now.

No. 2, a framework that sets out for the committees of jurisdiction how much money they're to save, how much money they're to raise and what the balance is between the two. Those committees of jurisdiction would then be given six months, something like that, to work out the details and to provide the specifics.

Third, there's a fail-safe that goes into effect if Congress does not produce the savings and the revenue agreed to in the framework.

Reality Sets In

MR. BUSSEY: *We're counting on the cudgel of the markets to beat people into line, right? If this isn't done in a responsible, rational way, the markets are going to step in. Is that a compelling argument within Congress?*

SEN. CONRAD: I think it is hovering over this. But there's a more immediate prod—the reality that is going to confront every member of Congress. These tax cuts from the Bush era are all going to expire. That's in law. The sequester, that's in law. The alternative minimum tax is going to go from affecting 4 or 5 million people to affecting 30 million people. The doctors who treat Medicare patients are going to face a 28% cut.

These aren't somebody's imaginings. They are going to happen. In addition, there's a debt-limit extension that is going to have to be addressed.

MR. BUSSEY: *What exactly is different post-election than pre-election? What has changed that gives you optimism that some deal will be struck now that couldn't have been struck before the election?*

SEN. CONRAD: Well, first of all, the president's re-elected. Had he not been re-elected, you'd clearly have to wait for the new president. Now you don't have to wait.

No. 2, we are days closer to all of these things actually happening. The end of the tax cuts, the alternative minimum tax, the sequester, the automatic spending cuts—all of those things are very close to being upon us. And that doesn't deal with unemployment insurance and the payroll-tax holiday, which are also set to end. So, there is a growing momentum that I think will compel my colleagues to act.

VOICES FROM THE CONFERENCE

"If I were a CEO, what I would be worried about is that these people just talk to each other as opposed to negotiate, and kind of pontificate about their positions, which is what we see now. Then I think the president will be very tempted to say, 'Let the tax cuts expire.' He will think it will give him some different leverage going into next year. Now, that's gutsy given the state of the economy. But I think people need to be prepared for it."

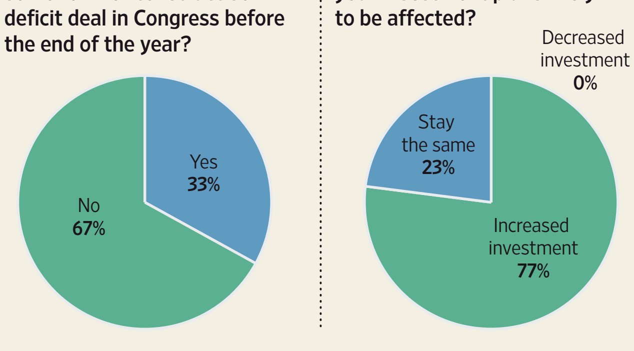
ROBERT B. ZOELLICK, senior fellow, Belfer Center for Science and International Affairs, Harvard University, and former president of the World Bank Group

The View From the Top

CEO Council participants on the outlook for a budget deal and its possible impact

◆ Do you believe there will be some form of constructive deficit deal in Congress before the end of the year?

◆ If there is a deal, how are your investment plans likely to be affected?



The Wall Street Journal

A Republican Looks Back—and Ahead

Sen. Rob Portman on what his party needs to do now, in terms of both policy and tone

As a Republican senator from the electoral battleground of Ohio, Rob Portman was deeply involved in Mitt Romney's presidential bid, chairing the campaign in the state he represents. That gave him a front-row seat for the Republican defeat.

What went wrong, and what does the party need to do now? Sen. Portman discussed those questions with the Journal's Paul Gigot. Here are edited excerpts of their conversation.

A Failure to Communicate

MR. GIGOT: *Our title today is "The Future of the Republican Party." This assumes, of course, it has one. Let's start by talking about the election. We're now seeing reports that the campaign is very surprised by the outcome, because their polls were showing something different. Is that true?*

SEN. PORTMAN: The turnout for Democrats among their base was better than we expected. So they did a better job than we did in getting their voters to the polls.

Second, we were not able to take our message to the level that people thought it made a difference in their lives.

There are certain things we should do in our economy that are growth-oriented, including tax reform, regulatory relief and energy policy, and other things that were talked about in this campaign. But I think we had difficulty convincing independent voters.

MR. GIGOT: *Was that a function of a misguided strategy? Or was that just a failure to articulate it in the right way by the candidate or the overall campaign?*

SEN. PORTMAN: I think it's both. Let me add a third element first: We were outspent, and particularly outspent early on.

But back to your question about how do you take these policy issues and translate them in a way that people care about. It's a huge challenge for us.

There has been a lot of discussion about the Hispanic vote, the African-American vote. I agree with a lot of that discussion. But I think it's part of this larger issue. There's a great opportunity for us to explain this in a way that is more accessible to people, that's more inclusive.

MR. GIGOT: *Just to pursue the minority question, is immigration an issue that the party needs to change on, for example? Or is it the size-of-government question, where these folks are looking for government to play a more active role?*

SEN. PORTMAN: If you look at the exit polling, I don't think it's a size-of-government issue. People are looking for a constructive relationship with government. But it's not they're looking for government to solve their problems.

In terms of Hispanic voters, and probably the drop-off in the Asian vote, immigration's part of it. That's a policy issue that needs to be addressed. But that's just part of it. It's also about who the spokespeople are. It's a matter of outreach that includes having the right people speaking for the Republican Party.

And finally, it's a matter of tone, making people feel that these policies are inclusive, and the way to grow this economy and create more jobs and opportunity for everybody is to have the policies that were enunciated in the five-point plan that Mitt Romney laid out.

MR. GIGOT: *Do you think that the comments by the senatorial candidates Todd Akin and Richard Mourdock mattered? Did they carry through at a national level and affect the polling that you saw for Republicans broadly?*

SEN. PORTMAN: Yes. Hard to measure. But obviously the gender gap that we have on our side persists. It is a challenge we face as Republicans. And I think those comments exacerbated that gender gap.

Dealing With Change

MR. GIGOT: *There was a lot of discussion in the press that you didn't make as many inroads as you would among voters under 29. The president still won about 60% of that vote. Is this partly a cultural-issue message? Is gay marriage, for example, one of those issues now that makes the Republican Party look out of touch with those voters? And do you think you have to change the way Republicans talk about that issue?*

SEN. PORTMAN: Yes.

MR. GIGOT: *That's a very big concession. Because a lot of your colleagues would disagree with that and say, no, it was a close election. Their turnout was better. We don't need to change a thing.*

SEN. PORTMAN: Well, no. It was a close election. But the reality is, a party that gets less than 8% of the African-American vote, less than 30% of the Hispanic vote and less than 40% of the vote of those people who are coming up through the system—this is a party that needs to adjust.

Some of it is policy. A lot of it is tone. A lot of it is just a more inclusive message and figuring out how to take our positions on the economy and growth and opportunity, and translating that in a way that young people, in this case, understand and appreciate.

And then, I think some of these social issues are also very important to that generation. They look at these issues differently than our generation. I think you have to acknowledge that and deal with it.

The Tax Fight

MR. GIGOT: *If the president insists that tax rates go up for those making over $250,000, what would your recommendation then be to the Republican conference in the Senate?*

SEN. PORTMAN: It makes no sense whatsoever to take our existing inefficient code and add more layers on top of it to create this disincentive for small businesses to invest and to be able to create jobs. I would be very concerned about that.

I'm a huge advocate of tax reform. That means that while you lower rates, you do things in terms of the preferences in the code—deductions and credits and exemptions. It makes our code more competitive, and that allocates resources more efficiently.

For us to say, no, instead, we're going to take this current code, this ossified code, this antiquated code, and we're going to allot more taxes on top of it—it makes no sense. So I hope the president will see that.

What we ought to do is say, OK, let's do tax reform. Let's set a date. I think July 4 is a nice day for us to do it.

Let's make a commitment now: We will have the current code in place for six months. At that time, we will have tax reform and entitlement reform to deal with these bigger issues that we have to deal with.

In the meantime, let's make a down payment. The down payment should be spending cuts to deal with the sequester, at least for that six-month period—somewhere between $50 billion and $100 billion.

And the president needs to be part of this process. That would make a huge difference. Without leadership, it's not going to happen.

Ralph Alswang for The Wall Street Journal (3)

'It was a close election. But the reality is, this is a party that needs to adjust.'
ROB PORTMAN

Let's Start With Simpson-Bowles

Christopher Van Hollen Jr. on the deficit-reduction balancing act

'The tax piece gets tougher.'
CHRISTOPHER VAN HOLLEN JR.

As the ranking Democrat on the House Budget Committee, U.S. Rep. Christopher Van Hollen Jr. is the point man for his party on attacking Republican budget plans. But as Washington nears the so-called fiscal cliff, it is also his job to help reach a compromise through which both parties can begin a sustained and orderly effort to balance the budget and ease the deficit.

Mr. Van Hollen spoke with The Wall Street Journal's Alan Murray about what has to happen in the coming weeks for the U.S. to avoid another budgetary crisis and a possible recession. Here are edited excerpts.

Tax and Cut

MR. MURRAY: *Several people have pointed out that Democrats have the advantage in the fiscal cliff. Is there any possibility that you would go over it in order to force action if necessary?*

REP. VAN HOLLEN: Well, there's no desire to. There's always a risk. There are two parts. One is the sequester piece. I believe there's a very decent chance we can resolve that piece, because there's universal agreement that it's a bad idea to have these across-the-board, indiscriminate cuts. If you look at the amount of deficit savings over a year, you're talking about $110 billion—$55 billion defense, $55 billion nondefense—we could come up with an alternative way to achieve that deficit reduction within the budget window.

The tax piece gets tougher, because we also have the objective of beginning to reduce the deficit in a balanced way. I support the framework of Simpson-Bowles in terms of their revenues and cuts, and the ratio of revenue to cuts. And if you look at the Simpson-Bowles framework, their starting point presumes the amount of revenue you would achieve if you allowed the top rate to go back to 39%, the Clinton-era levels.

MR. MURRAY: *Republicans express willingness to see tax revenues from high-income people rise, but a preference to do it by eliminating deductions instead of raising rates.*

REP. VAN HOLLEN: The issue is how do you do tax reform in a way that eliminates preferences and other things but also achieves deficit reduction in a balanced way.

If you look at the deficit-reduction numbers Simpson-Bowles put forward, they assumed this additional revenue that we're talking about. So we should put our heads together and figure out how we get the revenue that is projected to come in through Simpson-Bowles as well as the cuts that they offer.

MR. MURRAY: *Is there a way to get a trillion dollars of deficit reduction from revenues and still bring down tax rates? You're talking about eliminating deductions and raising rates.*

REP. VAN HOLLEN: No. I'm talking about what is our starting point in terms of the rates. And what are we negotiating down from, 35% or 39%?

Reforming Medicare

MR. MURRAY: *What are you willing to do to Medicare?*

REP. VAN HOLLEN: We need to move Medicare away from a fee-for-service system. It contains no incentives to contain costs.

We've begun to put in place the building blocks to get there: accountable-care organizations, bundled payments. We can make significant savings in the area of dual-eligibles: people who are on Medicare and Medicaid. It's a relatively small percentage of the overall Medicare/Medicaid population but a very high percentage of the costs.

MR. MURRAY: *One way to get away from fee-for-service is a premium-support plan. Here's how much money you get, go out there, shop in the marketplace and buy what you can.*

REP. VAN HOLLEN: The nonpartisan Congressional Budget Office looked at that and concluded it does not contain costs, it transfers costs. They concluded it will save Medicare money, but by requiring premiums to go up dramatically on individuals whose median income is $23,000.

MR. MURRAY: *What about raising the retirement age?*

REP. VAN HOLLEN: We should look at ways to create incentives for people to be working longer. That means doing things like increasing the early-retirement penalty, which has the joint beneficial effect of reducing some Social Security costs but also keeping people working longer.

MR. MURRAY: *What do you have to do in the next few weeks?*

REP. VAN HOLLEN: First, come up with at least an alternative mechanism to generate $110 billion in deficit savings. We put together a proposal that combines things like getting rid of some of the bigger agribusiness subsidies. We also had a proposal that said eliminate some tax breaks for oil companies.

MR. MURRAY: *Why not just do it?*

REP. VAN HOLLEN: Well, you have to talk to our Republican colleagues, right? We didn't even get that to a vote.

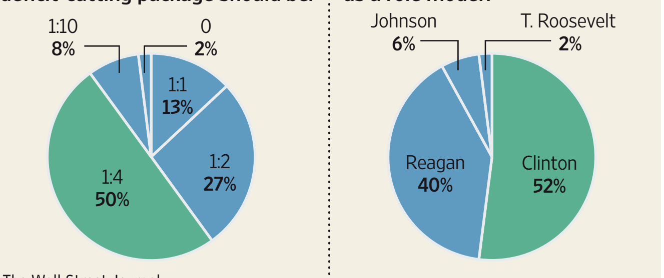
Then you've got to come to an agreement on the tax piece. You've got to create a very clear structure and timeline where you get a grand bargain done over a six- to nine-month period. You need expedited procedures.

The View From the Top

CEO Council participants on the shape of a budget deal and role models for President Obama

◆ The right ratio of tax increases to spending cuts in a U.S. deficit-cutting package should be:

◆ Which president would you recommend Barack Obama use as a role model?



The Wall Street Journal

VOICES FROM THE CONFERENCE

"It certainly appears that these extraordinary types of quantitative easing, nontraditional measures, hit diminishing returns a while ago and are doing very little good now. And the more that's done, the harder the exit strategy will be. The question is whether the complexity of it all and the political pressure will wind up causing serious problems down the road. They're going to be in a situation where they're going to have to be raising interest rates and taking capital losses on their portfolios simultaneously. That's awkward."

MICHAEL BOSKIN, T.M. Friedman professor of economics and Hoover Institution senior fellow, Stanford University


I WANT TO LIVE
HAPPILY EVER AFTER.
FAIR RETIREMENT GUIDANCE.
No one can promise what the future holds, but planning helps you be ready for anything. Get objective guidance from retirement specialists who are salaried, not paid on commission. And be assured that their guidance is based on what's right for you. It's not rocket science, it's just common sense.
Open a new account or roll over an old 401k, and get up to $600.
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