

# **The Economic Club of New York**

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**99<sup>th</sup> Year**

**387<sup>th</sup> Meeting**

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**Tranon Ballroom  
New York Hilton  
New York**

# **Program**

## **GUEST OF HONOR**

**THE HONORABLE JOHN MCCAIN**

*United States Senator from Arizona*

## **PRESIDING OFFICER**

**BARBARA HACKMAN FRANKLIN**

*Chairman of the Club*

## **QUESTIONERS**

**Paul A. Gigot**

*Editorial Page Editor*

*Wall Street Journal*

**Charles E. M. Kolb**

*President*

*Committee for Economic Development*

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**Barbara Hackman Franklin – Presiding Officer:**

Good afternoon. I'm Barbara Hackman Franklin, Chairman of the Economic Club of New York. It's my great pleasure to welcome each and every one of you, our members and guests, to this, the 387<sup>th</sup> meeting in the 99<sup>th</sup> year of this esteemed club. We're delighted to welcome, as our guest of honor today, the Honorable John McCain, Senior Senator from Arizona. It's a great privilege to have him with us. I know we all look forward to hearing from him, which will happen in just a few minutes. For today's program, we will first hear from Senator McCain, then have our usual question period, where two of our members, one on either side of the dais, take turns asking question of our speaker. After the speaking program, your lunch will be served. We'll get right to the program. John McCain has served our country for nearly 50 years. First in uniform, and for the past 24 years in the U.S. Congress. During his time in office, he has become well known and admired for his straight talk and independent views on a wide variety of issues. His is one of the most respected voices in the Congress on national defense and foreign policy matter. He is a proponent of lower taxes, deregulation and free trade, while being opposed to wasteful federal spending. He currently chairs the Senate Committee of Indian Affairs and serves on the Armed Services Committee and the Commerce, Science and Transportation Committee. Senator McCain is the son and grandson of prominent Navy admirals. He is a graduate of the U.S. Navel Academy and served 22 years as a naval aviator.

He was shot down over Vietnam in 1967. When the North Vietnamese discovered he was the son of the Pacific Command Admiral, he was given relatively privileged status. When offered early release, which he saw as a public relations stunt by his captors, he refused. Instead, he followed the orders of the senior POWs that none would go home unless all went home. He remained a prisoner of war in Hanoi for 5 ½ years. He was released in 1973, continued to serve in the Navy and retired with many honors in 1981. Soon thereafter, John McCain found another way to serve. In 1982 he won a seat in the House, representing Arizona's First District. In 1986, he was elected to succeed Barry Goldwater in the United States Senate. He is a can-do Senator, who often reaches across party lines to achieve success. He sponsored campaign finance reform legislation with Senator Russ Feingold, was part of the Gang of 14, which restored reason to the judicial appointment process last year, and worked with Senator Ted Kennedy on the recently passed immigration legislation. In 2000, Senator McCain was a spirited and serious contender for the Republican presidential nomination. He is the author of four books. My personal favorite is his family memoir, Face of my Fathers, which spend 24 weeks on the New York Times Best Seller List. Please join me in welcoming to this podium a genuine American hero and one of our nations foremost leaders, Senator John McCain.

**Senator John McCain:**

Thank you Barbara. Thank you. Thank you very much. Thank you. Thank you. Thank you Barbara. Thank you for that kind introduction. It's far nicer then the one I received at the Scottsdale Rotary Club last week, where the guy said, here's the latest dope from Washington,

Senator John McCain. Thank you, Barbara, for that. Recently I was at a fundraiser with Governor Schwarzenegger of California. He and I share a lot of the same attributes. There was a bunch of protesters outside, one of them carrying a sign walked by and said, hey, anybody tell you, you look a lot like Senator John McCain? I said, yeah. He said, doesn't it just make you mad as hell? I thank you, Barbara, for your kind introduction here today. It's wonderful to see, not only so many old friends, but also so many people who I have the utmost respect and appreciation for, especially on the issues, which I'd like to address with you today. I wouldn't let the moment pass without acknowledging the presence of my dear friend, Senator Phil Gramm, a former Senator from the State of Texas, who did so much for so long on behalf of physical restraint for physical sanity for our efforts to restore and sound and maintain a sound economy in the United States of American, who I unashamedly tell you, in many respects, was my leader and mentor on many economic as well as other issues. Thank you, Phil, for being here today. Phil used to have the joke about the Gramm-Rudman Bill, unfortunately for our friend, Senator Warren Rudman, many people in New Hampshire thought his first name was Gramm. They all got over that. My friends, more than 25 years after Ronald Reagan rededicated our national energies to the principles of personal, political and economic freedom, his legacy has helped to change the world profoundly. We have proven that empowering free markets and free people is the bulwark of liberty and the surest means to prosperity. We have helped other countries embrace our free market principles and they have flourished beyond their wildest imaginations. The United States remains the most prosperous country on earth. Ronald Reagan's generation, the "greatest generation", fought the evils of despotism and bequeathed to

us, at tremendous cost, a country free and secure. We have honored the sacrifices of our forebears by nurturing and protecting our inheritance, taking up the responsibilities of freedom and building a nation and an economy that is the envy of the world. While the world is freer, it is still dangerous. While it is more prosperous, there is still much that threatens the progress we have made, both at home and abroad. America's national security and economic prosperity have always gone hand-in-hand. Fulfilling the promise of American greatness in a global economy rests on our ability to provide a safe and stable environment for working men and women, for innovators and entrepreneurs and for our children, on whom the world will soon depend, as they have depended on us to advance the glorious cause of human freedom. What would our parents, who fought and died in Europe and the Pacific to defeat totalitarianism, say about the challenges we face? They would answer, as it has been from the day we declared our independence, our peace and prosperity rest on our faithfulness to our ideals and our courage. We have much to be hopeful about. The great promise of participating in the prosperous world economy has led nations to move forward toward freer and more open systems. Our success in building a world where people compete as entrepreneurs in the marketplace rather than as adversaries on the battlefields rests on the free world's ability to maintain peace and stability, secure the global common good for the exercise of liberty and provide for the free flow of ideas and services. These goals are a central part of our nation's security, defense and military strategies. No security strategy can succeed without a firm economic foundation. My friends, we know that in war there is no substitute for victory. In peace, there is no substitute for growth. All nations hold a stake in our economic progress. End growth in America and the lights go out all over the

world. Even so, America's greatness makes it a primary target for those who oppose the spread of the principles we cherish. Democracy, freedom, security and prosperity are the four pillars of human progress. The strength of each depends greatly on that of the others. The enemies of liberty know that very well. Looking back to the events of 9/11, we cannot rid from our memories the terrible human tragedies that occurred, the loss of life, devastation and the destruction. However, it is easy to forget the economic dimensions of that horrible day. Our enemies targeted the American economy and made the disruption of our financial markets one of their primary goals. The economy was, we know now, already in recession. Financial markets tumbled. Analysts worried that the risk taking and entrepreneurship that have been the engine of our prosperity would be hampered by fear and uncertainty. For many, the only question was how far the economy would sink. Yet, a tremendous thing happened. As our nation rose to confront our enemies, American workers and entrepreneurs resumed their productivity with renewed confidence. Who in the world thought back then that the years ahead would deliver high growth, millions of new jobs and soaring wealth? Americans did, my friends, Americans. Our government must stand up resolutely for our ideals, as the American people have whenever they have been tested, not only to discourage and defeat those who would attack us and challenge the cause of freedom, but to further empower Americans to take the risks and make the investments that will make our country stronger. Fulfilling our security responsibilities requires a sober and honest assessment of the threats to our security reaching across boundaries to engage allies in our cause and strategic thinking that anticipate the dangers posed in today's world and tomorrow's. Just as we must anticipate and confront outside threats using all instruments of our

national power, we must face the very real threats emanating from home that endanger our prosperity. Even in a world of political stability, our current economic policies will undermine our economic well being. I want to repeat, even in a world of political stability, our current economic policies will undermine our economic well being. A tsunami of entitlement spending is threatening our economy while providing no real security to retirees. We have made promises that we cannot keep. Under moderately optimistic scenarios, Social Security, Medicare and Medicaid will, in the decades to come, grow as large as the entire government is today. Someday the government will be forced to make drastic cuts in these programs or crippling increases in taxes on workers or both. The longer we wait to make the hard choices necessary to repair these programs the harder the problem becomes. My children and their children will not receive the benefits we will enjoy. That is an inescapable act. Any politician who tells you otherwise, Democrat or Republican, is lying. It is hardly statesmanship to ignore the obvious imperative of reducing the growth of spending for retiree income support, healthcare and long-term care. Yet, year after year our government fails to act. This failure has a real and distressing cost. Our workers make their retirement plans based on promised benefits that cannot be paid, even if we burden our children with crippling taxes. If we fix the system now, people will have time to plan accordingly, to ensure they still have a comfortable retirement. If we wait, we make the problem worse and, in effect, lie to Americans who are encouraged to put their trust in a broken system. I have long supported supplementing the current Social Security system with personal accounts, not as a substitute for addressing benefit promises that cannot be kept. People of good faith in both parties agree, we must make the hard decisions to restore solvency to these



programs and that personal accounts can ease the impact of slower benefit growth. Too often, we prefer to nurture our own ambitions rather than defend the public interest. It is long past time for our two parties, our two parties, to sit down together and fix our pressing entitlement problems. While it is a smaller program than healthcare, we should start with Social Security because the fix is obvious, in comparison, and much simpler. While booming entitlement spending threatens us in the long run, our short-term fiscal situation is terrible, as well. In the past six years, government spending has gone from irresponsible to utterly indefensible. The numbers should shock us and government's indifference to them should shame us. According to the latest figures, spending in the 2005 fiscal year was \$683 billion higher than it was in the year 2000. If we had simply held spending growth in check we would not have a budget deficit today. Some of this money has necessarily been spent on the war on terror that was unexpected and has been obviously and hugely expensive. While at the same time, we know we must focus most of our defense spending on tomorrow's threats not yesterdays. When Ronald Reagan increased defense spending to win the cold war, he slowed non-defense spending growth at the same time. This time, we have fallen again for that most alluring delusion, we have tried to have our cake and eat it too. Non-defense spending, often on the most unnecessary projects, is out of control. Legislators pass pork filled bills without the fear of public retribution or presidential veto. Federal spending and the special interest earmarks that destroy the budget process and waste taxpayer's dollars by the billions continues at a breakneck pace. Sadly, we haven't reformed the bankrupt tax and spend policies decried by Ronald Reagan. We have, it is now evident, merely replaced them with a new and even more insidious scheme of borrow and spend.

We are fooling no one, my friends. Inevitably, the bill will come due. In the mean time, we rack up big debts. With those debts come higher and higher interest payments each year. Instead of spending the tax payers' dollars on real priorities, more and more of them will be devoted simply to keeping the bill collectors at bay. Bills that perpetuate wasteful spending should be vetoed, not some of them, all of them. I have always believed in the power of the American people and the importance of keeping marginal tax rates low. Tax cuts work best when accompanied by lower spending. In recent years, I have opposed some Republican fiscal initiatives out of concern for the absence of spending restraint and the higher deficits they cause, which hamstring our ability to respond to future crises. The answer to these deficits is not to raise new taxes or repeal tax cuts but to restrain our spending habits. If the federal government can't be funded with current revenues, we must reduce its size. Higher taxes and greater spending discourage entrepreneurship, foster wasteful tax planning and slow long-term growth. Intelligently formulated tax cuts and sensible tax reform will deliver much higher growth when they are accompanied by lower spending. When the government's budget is tighter, the family budget won't have to be. If the government is forced to make more hard choices, our families will be forced to make fewer. Recent events have also made it clear that rising energy costs and our dangerous dependence on an unreliable supply from unstable parts of the world is potentially crippling to our economy. When Wall Street wants to limit risk, it diversifies. The obvious approach to resolve our energy problem is to increase and diversify our sources of power and look for ways to reduce our demand. We have promising technologies in development, but also proven alternatives at hand, the most obvious of which is nuclear. Genuine improvement in our

energy security must respect markets and avoid the temptations of nearsighted politics. While it is tempting to assail windfall profits and executive compensation, it is not a substitute for a viable and long-term energy strategy. We will never be fully independent of global energy markets. We must work for the day that energy supply volatility no longer imperils our economy and our security. A global rising tide of protectionism and a retreat from market-based economic policy is threatening the entrepreneurs of developed and developing countries, alike. Free trade is the key to global economic growth and a key to U.S. economic success. We need to stand up for free trade with no ifs and/or buts about it. We let trade and globalization be politicized at our own peril. Today, despite all the defeatist rhetoric, America is the world's biggest exporter, importer, producer, saver, investor, manufacturer and innovator. Americans do not shy from the challenge of competition; they welcome it. Because of that, we attract foreign investment from all over the world. Our government should welcome competition as the people do and not resort to mindless protectionism. While we embrace free trade, it is important to recognize that trade can lead to painful dislocations for some individuals. We must remain committed to education, retraining and help for displaced workers, all the while reminding ourselves that our ability to change is a great strength of our nation. We cannot let fear and the appeals of protectionists lead us backward. My friends, in the course of my lifetime our economy has undergone unbelievable changes. When I was a kid our economy grew by producing more and more of the same. We now have an ideas economy where growth comes from making new things, not larger quantities of the old things. If you walked into my house when I was 20 years old, my parents would have proudly displayed the same appliances they had when I was 10 years old. Today, I walk into my

own house and am awestruck by the marvels my family uses, flash drives, IPODS and TIVOS, things we never could have dreamed of have become part of our everyday lives. Our economy is like that now. Advances in information technology have made us better at discovery, quicker to find the new idea that works. In this world, America has succeeded because we have been more willing to embrace and encourage change than our competitors. We have opened our doors to the best and brightest from other countries to seek the American dream. The transformation has been dramatic. Today, American firms spend more money each year researching new ideas and processes than they do on new buildings and machines. As our economy has changed, too often Washington has not kept pace. The business community understands the borderless world of the global economy far better than most policymakers. Washington has much to learn from you. Today, old industries dominate the trade debate, even while the intellectual property rights of our most innovative firms are ignored by some of our trading partners. An effective government must evolve with the economy, protect our ideas and keep the new economy free of bureaucratic interference, restrictive red tape and unnecessary regulations. The challenges are great, the costs of failure even greater. We now accept that the world where a worker can expect to stay with one employer, making one product for the rest of his life is gone forever. That willingness to change has brought us great wealth. It has produced anxiety, as well. While the economy is booming, surveys suggest that Americans are much more anxious about our future economic, political and physical security. Some of that anxiety is perhaps justified. Change can cause dislocation and fear. The opportunities of economic growth are not always apparent to all Americans. These anxieties are exacerbated when those elected to govern spend more of our

time on our own ambitions than their concerns. We face serious challenges. Many Americans worry that their government cannot be relied on to face them forthrightly. We have given them cause for that concern. America's strength has always resided in its people, in their industry, courage and imagination. A government accountable to such a people can not forever ignore their priorities, burden their industry, impede their progress. It is a wonderful thing to be elected to high office in this great and good republic. It is a shameful thing to cherish that office more than you value the public good. The times we live in pose difficult, but no greater challenges to us than we have faced in the past. Americans will meet them as they always have, confident that a nation conceived in liberty will prove stronger, more decent and more enduring than any nation ordered to exalt the few at the expense of the many or made from a common race or culture or to preserve traditions that have no greater attribute than longevity. Those of us privileged to serve such a people must prove an equal faith in the strength and righteousness of our ideals, confident that we hold a greater privilege than a high office, that we have the honorable distinction of being part of a people living as one nation, in a kinship of ideals, who are making of our power and wealth a civilization for the ages, a civilization in which all people might share in the blessings and responsibilities of freedom. Thank you for having me today.

**Barbara Hackman Franklin:** Thank you. You have inspired us. We appreciate the lucid straight talk. That's what we thought we were going to get, that's what we got—about the economy, about trade, about what our government should be doing differently. We thank you. We need to hear those things. Now, we have two distinguished questioners for you. On this side

of the dais, Paul Gigot, Wall Street Journal Editorial Page Editor. On this side of the dais, Charles Kolb, who is President of the Committee for Economic Development. The first question will come from you, Paul.

**Paul A. Gigot:** Thank you, Barbara. Senator, welcome to New York. Thank you very much for your remarks. I wanted to see if I could push you a little bit more on taxes. Since the investment tax cuts of 2003 passed Congress, the U.S. economy has grown by a little under four percent a year, the strongest performance in the industrial world. You voted against those tax cuts in 2003, although this year you voted to extend the 15 percent rate on capital gains and dividends, the lower rate, for another two years, to 2010. What's your view now, three years later, about the role those tax cuts have played in sustaining and promoting this expansion? Are you telling us, today, in your remarks, I think you might have, I want it to be clear, if we can, do you support making those lower tax rates permanent?

**Senator John McCain:** I support making those tax rates permanent. I voted, as you mentioned, against them in the earlier round because I was deeply concerned about there not being any restraint on spending. I was very deeply concerned about that and that we would then be amassing a very large federal deficit, even though, as you stated, the tax cuts have resulted in increased revenue, dramatically increased revenues. Spending just completely lurched out of control. I would have very much wanted to see some kind of spending restraint accompanying those. Yes, I would now support making those tax cuts permanent for a couple of reasons. One,

I have never voted for a tax increase since I have been in office, with the exception of a tax increase on tobacco in an over all global settlement, which failed. One of my other failures. Also, because if I now voted not to make them permanent, it would have, as we all know, obviously, the impact of a tax increase. For those reasons, I would vote and I have voted to make them permanent.

**Charles E. M. Kolb:** Senator, you spoke about the need to make hard choices, difficult choices and pointed out that the government, our government sometimes fails to act to make those choices, when George W. Bush campaigned for the White House in 2000, he pledged he would be a uniter and not a divider. He said he would change Washington for the better, change the atmosphere in Washington. Some observers think that hasn't happened. Some actually believe the political climate in Washington may actually have gotten worse. You have a history of working with the other party on issues such as campaign finance reform and immigration, if you were to become President how would Washington be different?

**Senator John McCain:** First of all, could I also give President Bush credit on the no child left behind act, which was a landmark, in my view, piece of education legislation. He worked with Senator Kennedy on a number of issues. He has attempted, I think, with sincerity to reach across the aisle. Let me mention one event I think is descriptive of how unfortunate the partisanship is in Washington. You may remember the President, at the State of the Union message, said I regret we were unable to reform Social Security. The Democrats stood up and cheered. I don't

understand that. I don't understand why we would cheer at our failure not to come together on a bipartisan basis, as Ronald Reagan and Tip O'Neil did in 1984. We all know, everyone knows the system is broken and, as I said in my remarks, the longer we wait the worse the problem gets and the more draconian the cure has to be. It's a very, very difficult situation, Charlie, in Washington. Some of it is going to have to be left to the voters. I think, over time, we have obscured the difference between working together on issues of common national interest, national security, reform of entitlement programs, other issues that require us to work together and those that deservedly deserve partisan debate and discussion. I'll go to the floor at any time and argue with my Democrat colleagues about the need for less regulation, smaller government, stronger national security, staying the course in Iraq, etc. Those are legitimate subjects of debate. What I think we Americans, and one reason why we're so low in the polls, recently I saw, I think we're down as low as 22 percent, you get that low, it's paid staffers and blood relatives. That is because I think they are disappointed we have failed to discriminate between those issues, which are of legitimate, philosophical, fundamental, two-party differences and those that deserve us to work together and solve. I would argue that Social Security and Medicare are those issues, two of the issues that are going to require us to sit down together and work out together. I would argue, if I may, with you, immigration reform is going to require a bipartisan approach. There is strong disagreement in American about a solution to the problem. There is no disagreement that this is a product of 40 or 50 years of failed government policy. The status quo is not acceptable.



**Paul A. Gigot:** Senator, you were very forthright and passionate in saying again, just now, the need for Social Security reform. President Bush made a major reform effort last year that found very little support in Congress. You watched that debate. You saw it unfold. I wondered if there were any political or policy lessons you have drawn from that failed experience for what a new President with a new mandate could do differently to make that more successful? Just to pick two specific policy points, do you still believe that personal, private Social Security accounts have to be part of any long-term Social Security solution? Would you rule out a payroll tax increase as part of any deal?

**Senator John McCain:** First of all, after I lost to President Bush in South Carolina I slept like a baby. Sleep two hours, wake up and cry, sleep two hours, wake up and cry.[laughter] I strongly applaud, Paul, and appreciate the President's efforts, as he said, you accumulate political capital to spend it on Social Security reform. I think it was exactly the right thing to do because, one reason why, I mentioned in my remarks why we should address it first, it's because it is fairly understandable to the American people, as opposed to Medicare, which is far more complex. I stood fifth in the bottom of my class at the Naval Academy, even I, with one chart, can show the American people how much is coming in, how much is going out, when there is more going out than coming in and when there is nothing left. We've got to ask the American people, do you want to wait until there is more going out or coming in? Do you want to wait until there's nothing left? Obviously, the American people don't want that. I strongly support the private savings accounts or personal savings account. I think it's a great bridge to the future for any

young working American. I think it's a very important part. Paul, I would begin by framing the debate about the system being broken and saying we've got to fix it. That is one of the fixes that will help young working Americans have a far, far better, frankly, if they had been than present Social Security benefits. I would have to say, as I approach the other side of the aisle and the American people, everything is on the table. There's nothing off the table. I would lean much more on the side of reform to the system rather than seeing another increase in taxes on the American people. I'm not saying I would outright reject anything. As you know, many Americans today are paying, working Americans, low income Americans are paying a great deal of their paycheck into the system already. Laying another tax burden on the American people, I don't think it would be appropriate for me to go into any debate and say this is off the table. I would emphasize, already low income Americans are paying a significant portion of their income already in withholding taxes. I would be reluctant to increase that burden on working Americans.

**Charles E. M. Kolb:** Although the economy appears buoyant now, there are nonetheless concerns on the horizon about our economic future. The skittish stock markets reacts to uncertain Federal Reserve actions. Our energy costs keep rising. We face enormous challenges from our triple deficits, mainly budget, savings and trade. Our spending habits are underwritten primarily by foreign capital, much of it coming from China and/or Japan. Many experts, Senator, worry about the value of the U.S. dollar. At the same time, we have serious and expensive issues that will cost money to address here at home. Things like healthcare reform,

Social Security and Medicare reform, tax reform, environmental issues, such as global warming and, of course, the ongoing cost of international terrorism. How would you begin to address these matters without worsening the deficits and weakening the dollar? What would your priorities be?

**Senator John McCain:** In the words of Chairman Mao, it's always darkest before it's totally black. Is that what you're saying? It would take a whole lecture to answer your question adequately. Let me just say, as briefly as possible, the transcendent issue, my dear friends, that is going to be with us as long as everyone in this room is alive is the war on terror. The role of radical Islamic Fundamentalists in the world will be a challenge we must face. It's a battle of ideal. It's a battle of freedom versus oppression, good versus evil. You saw recently in Canada, we now face different iterations of this radical Islamic Fundamentalism, which is going to be our greatest challenge. Of course, we have other challenges in a very unstable world. This is a very unstable world, whether it be the Iranian nuclear program, whether it be threats to our oil supplies in Venezuela, in Nigeria, other places in the world, we have a lot to end. Of course, the role of China in the world is still not clear. I think we have to anticipate that China, as it becomes a world super power, will, hopefully, enter the world stage in a peaceful and non-aggressive fashion. We can't be positive about it. We have to be, obviously, militarily and security-wise prepared. I won't go through a long litany, we may look back on the period of time between the fall of the Berlin wall and just a couple of years ago, actually 9/11, as a very golden era in the world. We face very significant challenges there. The overriding one is

obvious. On energy, I would like to repeat, again, my dear friends if the French can generate 80 percent of their electricity through nuclear power, can't we go back to a clear technology? I love the French.[laughter] Don't get me wrong. Ethanol, at \$10.00 a barrel doesn't make much sense when oil is \$10.00 a barrel. When it goes over \$40.00 a barrel, ethanol makes a lot of sense. Those two are existing technologies. I'm all for hydrogen. I'm all for a whole lot of the future technologies. We've got to make use, immediately, of existing technologies. Again, one of them is nuclear power, which is a NIMBY problem and a psychological problem, far more than a technological problem. On the issue of domestic, as you mentioned and I'll try to be very brief, I believe that the first thing we have to do is eliminate this wasteful earmark spending. In the overall scheme of the budget deficit, it's not a lot of money. It sends the wrong message to the American people. If we're going to ask them to make some sacrifices, which, by the way, Americans always will when asked, shouldn't we go to them with clean hands? Should we be spending \$3 million to study the DNA of bear in Montana? I don't know if that's a paternity issue or a criminal issue, you know what this earmarking does to us, my dear friends? It makes good people do bad things. It makes good people do bad things. It makes bad people do bad things. Mr. Cunningham was, I can't tell you how humiliated I was. The first question you ask yourself is, why would someone betray their oath of office and the trust of their constituents? The second question is, how? How does one Congressman and one lobbyist divert tens of millions of dollars? It's a broken system. It's a broken system. It must be fixed. The first thing I would do is, do what's necessary, by the way, we can pass the line item veto, I'm for that, two year budget and all of that. It's a matter of will, it's a matter of will as much as it is, look, here's

the guy that was the architect of Gramm-Rudman. Gramm-Rudman was effective for several years. Then guess what? He'll be the first to tell you, we lost our way. We didn't repeal Gramm-Rudman, we didn't have the tenacity of purpose to stick with it. I would fix the wasteful spending problem so I can go to the American people with clean hands and say, now we're going to join together, we Americans, we're going to have a great debate. We're going to fix Social Security and then we're going to attack this massive Medicare problem. With Medicare, as you know, it's over \$40 trillion, "t", trillion dollars in unfunded liability. We have an obligation. We have an obligation. Now, let me just say, there are people that say, well, Social Security was really designed as a supplement to retirement income. It was designed that way, it's not that way now. That's not what seniors think of it now. It's a safety net. We're going to have to preserve these. We're going to have to sit down together and have a national debate and a national dialogue and come to a conclusion so we can preserve these programs for future generations. On foreign policy, Charlie, I would work a little harder on trying to get multi-lateralism into our approach to foreign policy. I would stick with a very strong defense. I would understand the overwhelming challenge of the war on terror, then other significant challenges we have through the world, including in our own hemisphere. Then I would try to think we would need to address the safety net problems, which, I think, are what are compelling issues so if we do what we really are required to do, not take care of ourselves but our children and grandchildren.

**Paul A. Gigot:** I'll make it an easy one. International subject, in the wake of the Dubai ports uproar, we've had a lot of debate about foreign investment. Some Republicans in Washington

are pushing for a stronger role for Congress in improving foreign investment in the United States due to national security concerns. One specific idea would ban any foreign purchase of an American asset that could be described as “critical infrastructure”. Do you favor that kind of restriction? Do you support a greater role for Congress in getting and approving foreign investment?

**Senator John McCain:** I think that proposal was crazy. I really do. I think it was crazy or is crazy, in all due respect to my friends and colleagues. My friends, I was really embarrassed when this Dubai hysteria took place because Dubai is a strong ally of ours, and a great friend. Do you know, two weeks after this whole Dubai-thing erupted, do you know what ship was in port in Dubai? The USS Ronald Reagan. There’s a certain irony there. Do you know, there is more American port ship visits to Dubai than any other port outside the United States of America? If you talk to any of the men and women who serve in the military, under top conditions it’s pretty hot out there on the Persian Gulf. It’s tough work being at sea on a ship for weeks and months at a time. They’re happy. They’re treated very hospitably by the people of the United Arab Emirates. I was embarrassed when I saw this hysteria take place. I might remind you, it really had very little to do with port security, the port security is taken care of by our government agencies. What I worry, more than anything else about, Paul, is, this is kind of a symptom of this protectionist sentiment that continues to bubble up in the Congress and about America. What about this proposal that, unless the Chinese devalue their currency, we were going to take some kind of draconian action? Who gets hurt there? I clearly oppose that

proposal. I think we need more free trade agreements. We need to continue the progress this administration has made, including NAFTA and others. I worry a great deal about this tide that seems to be pushing back, which is a degree of protectionism, which I think is dangerous. As I mentioned to you, I am a student of history. I could make a case to you, as any historian could, every time in our history where there has been a tide of protectionism, there has been a tremendous economic cost that followed it. I think we should remember the old dictum about those who ignore the lessons of history are doomed to repeat them. I really believe when you look, for example, I hate to go on and on, NAFTA, NAFTA has been the best thing that has ever happened to Mexico, the United States and Canada, when you look at the dramatic increase in trade between our countries, when you look at where economic growth is taking place in Mexico, it's in northern Mexico, that's not by accident. That's where the greatest benefits of our trade have taken place. I don't want to launch into my tirade about immigration. I would like to seize this 30 seconds to say, my friends, I believe we are a nation of immigrants and, of course, we must enforce our borders. Of course, we must. It's a matter of national security. I strongly feel that we need, as the President, I believe, as so eloquently stated, we need a comprehensive approach, which means a guest worker program that works and also a way of giving the 11 million people who are already here in this country a chance to earn their citizenship. I want to emphasize not amnesty but a change to earn their citizenship through a very tough row to hoe. This is one of these seminal issues, in my view, that kind of define what kind of a nation we are. There's a lady that holds her lamp beside the golden door, I think we have a tradition and the great vitality and strength of America is directly related to the wave after wave of fresh blood

and vitality that is poured into this country and has accounted for us being the most successful nation in history. I thank you. I thank you for the questions.

**Barbara Hackman Franklin:** Thank you very much Senator McCain. We are honored by your presence. We appreciate your service these many years to our country. We wish you well in your work. Thank you very much. Please give a round of applause to our two fine questioners, Paul and Charlie. This concludes the formal part of our program. Now your luncheon, you're main course will be served. Please enjoy your lunch and your table companions. Thank you for coming.