NATIONAL ECONOMIC COUNCIL DIRECTOR JEFFREY ZIENTS SURVEYS THE U.S. ECONOMY, JOBS, AND OUTLOOK

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Excerpts from Mr. Zients' Remarks

How did you help turn around the troubled Obamacare website? We put a stake in the ground – this was early October, about a year ago, and we said that by the end of November, the site would work for the vast majority of people. The second thing we did was to bring in a new team of people... a handful of the best talent did join the team – people from the private sector, people from Google and elsewhere. That, along with appointing a general contractor –the project did not have a general contractor, so a firm that's a major division of United Healthcare called Optum stepped up to the plate. The CEO of that $40 billion company spent a third of his time in Washington, D.C., on the project, and a combination of a lot of late nights, a lot of stress – we hit the deadline, and the site, fortunately, is working well.

Were you ever worried that you couldn't get it done? There were scary moments. There were nights where, in the middle of the night, we realized the fixes that we were doing weren't working and we'd have to roll them back. So there were several times when you felt like, oh my goodness, are we going to make this deadline? But thankfully, due to a great team effort and, as I said, a lot of private sector help, we got where we needed to be by November 30th.

How about the economy and jobs? We are optimistic about where the economy is headed, you see it in the jobs numbers – we have 54 straight months now of job growth, over 10 million private-sector jobs created. And this is led by the private sector, the job creation, obviously. GDP was just revised up for the second quarter to 4.6 percent. When you break down the components, consumer balance sheets are in decent shape, you're seeing some pickup in consumer spending. Corporate balance sheets are in terrific shape, and we're starting to see some increased investment there. So when we look at the forecasters we agree that, absent any major surprises, we should have decent growth ahead. Now, there are challenges.

Housing has recovered about two-thirds of the losses, but we are not seeing the type of new home construction that you would normally see at this point in a recovery. If we were on that path we'd have another point, point-and-a-half percent of GDP growth. There's a lot of focus on what can we do on access to credit and other tactics to improve the housing market.

And then there's a couple of areas that are of real concern: long-term unemployed. If you look at our 6.1 percent unemployment rate and unpack that, or disaggregate that between short-term unemployed, less than 26 weeks, that's back to where we were before the recession. However, long-term unemployed, greater than 26 weeks, that's at two times its normal level, just under 2 percent – very elevated.

Will we average 2.5 percent growth for the year? That's consistent with most forecasters. There's more that we can be doing. Infrastructure is a great example....It's a great opportunity for the country to be investing in infrastructure. Interest rates are low. Construction worker unemployment is relatively high. We have a great need.

And it's really a twofer. Most important, it sets us up for long-term competitiveness in an increasingly global market to have strong infrastructure. And it creates jobs in the short term. So it's a great time to be investing in infrastructure that can help our recovery, help create more middle-class, well-paying jobs. That's a piece of business that we're hopeful that we can make progress on in the new Congress.

What can the President or the Administration or Congress do about income inequality? We've had very flat income for the middle class for several decades. So this is a problem that predates even the Great Recession. We've seen a little bit of pickup as unemployment has come down, but we need to really focus on middle-class wages. The minimum wage is something that we believe should get done. That helps those that are earning at the minimum wage and also helps lift others to higher wages.

Increased investment in job training. We've done a thorough scrub of the $18 billion that the Federal Government spends on job training to make sure that we have good metrics, that we're allocating those dollars to the programs that actually work. Secretary Perez, our very strong Secretary of Labor, says we've got to move away from a system of train and then pray for a job at the other end to a system where we're training people for jobs that are available not only now but will be available in a couple, three years. You know, at the same time, when you talk to employers around the country, there's some frustration that you can't find qualified workers, so we need to work very closely with the private sector, because for every dollar that's spent on federal training, $20 is spent in the private sector. So the leverage is really in the private sector, the private sector working with community colleges, creating their own job-training programs.

There's a big movement here that we would have to accelerate to make sure that we have a workforce which is well-positioned to compete in the global economy as technology and automation and other things accelerate change.

Is there any realistic way of getting this budget to balance anytime soon? When the President walked into office, [the annual deficit] was north of 9 percent [of GDP], so very high. In 2013, we were down to about 4 percent. We'll be down around 3 percent, according to the Congressional Budget Office, this year. The President's budget has us just over 2 percent in 2017, so a nice downward-sloping line, which I think is in large part why we're talking less about this right now, David.

The President has accomplished this – or the country has accomplished this – through $3 trillion of deficit reduction, and on top of that a real decrease in health care costs. We see it in our premiums. Premiums are up about 3 percent this year versus 2000 to 2010, when they were growing closer to 6 percent, 7 percent, so cut in half. But the Federal Government benefits because health care is a big piece of the federal budget. And if you look at the 2020 projections now on health care, Medicare and Medicaid spending, we're saving about $200 billion versus what the forecast was just a couple of years ago.

Last word on deficits and debt crises and sequester and all the rest is, when we look at the economy and the progress we've made and the outlook we have, I think it's important to note that we have not had a period recently of self-inflicted crises, you know, debt ceilings or otherwise, and it's important that Washington not get in the way of the recovery by returning to those unnecessary dark clouds.

DAVID RUBENSTEIN: Welcome everyone, welcome members and guests of The Economic Club of Washington to this breakfast event in the Independence Ballroom at the Marriott Marquis Washington, in Washington, DC. I am David Rubenstein, President of The Economic Club of Washington. Welcome to this, our second event of the Economic Club's 28th season.

We're very privileged today to have as our special guest Jeffrey Zients. Jeff is Assistant to the President for Economic Affairs and he is also the Director of the National Economic Council. Prior to assuming these positions, in February of this year, Jeff had several positions in the Obama Administration. At the beginning of the Obama Administration, he was the first Chief Performance Officer of the United States and also Deputy Director of the Office of Management and Budget [OMB]. And on two occasions, he served as Acting Director of OMB, in one case for 16 months. Prior to joining the government, he was a very active businessman in this area. He graduated from Duke University *summa cum laude* and went immediately to Bain. And from Bain, in Boston, he came back to Washington, where he grew up, and he then joined a firm here – a consulting firm, Mercer, but later was recruited away by David Bradley to join the Advisory Board and the Corporate Executive Board and helped run both of those companies for a while and helped take both of them public.

Later, Jeff began to do other things in the private sector, investing his own money, doing a number of philanthropic things, including starting the Urban Alliance Foundation, which has done a very good job in Washington and a number of other cities in helping underprivileged youth get more training about how to act in the professional world. He also was one of the leaders in getting baseball to come to Washington, D.C. and – [applause] – and so, if the Nationals win the World Series this year, he is directly responsible for this. [Laughter.] And so Jeff is a person who has a lot of interests: philanthropic interests, public interest, government interest and we're very pleased that you're here today, Jeff.

JEFF ZIENTS: It's a pleasure to be here.

MR. RUBENSTEIN: So one thing I didn't mention in your bio is this: you were the acting head of OMB for 16 months, and then you left– around April, I guess, of 2013, and later the President announced you were going to come back, more or less at the beginning of this year, as the Economic Advisor to the President and the head of the National Economic Council. So you had some time off. But while you were off, the President called you, I guess, one day and said, by the way, I have a problem. My healthcare website isn't working so well and, although you're not a software expert, can you come in and fix it? So my question is, A, did you expect to get that call? B, did you think if you didn't do a good job you might not get the economic job later and how did you actually fix the healthcare website?

MR. ZIENTS: Well, the Chief of Staff called and asked if I'd come in for a meeting. That meeting led to an announcement a week or so later that I would come in and help lead the turnaround. I think it's fair to say that if he President and the Chief of Staff ask you to do something, if you're in a position to do it – which I was, as you said, I was off at the time – you take on that assignment. It was a hard assignment in that there was, obviously, pressure to create a deadline – which we did, that was one of our first moves, after a quick assessment. We put a stake in the ground – this was early October, so about a year ago, and we said that by the end of November, the site would work for the vast majority of people. As we all know, there's nothing like a deadline to force action, so there was ruthless prioritization.

And the second thing we did, beyond setting the deadline, was to bring in a new team of people. Anyone who's in IT [International Technology] knows that you don't flood with lots of new people, but at the same time, a handful of the best talent did join the team – people from the private sector, people from Google and elsewhere. That, along with appointing a general contractor –the project did not have a general contractor, so a firm that's a major division of United Healthcare called Optum stepped up to the plate. The CEO of that $40 billion company spent a third of his time in Washington, D.C., on the project, and a combination of a lot of late nights, a lot of stress – we hit the deadline, and the site, fortunately, is working well.

MR. RUBENSTEIN: So you never worried that if you couldn't get it done, that the President might say, well, maybe you couldn't become the Economic Advisor? You never worried about that?

MR. ZIENTS: We were so focused on fixing the site that there was not a lot of time for that type of reflection. And, you know, there were scary moments. There were nights where, in the middle of the night, we realized the fixes that we were doing weren't working and we'd have to roll them back. So there were several times when you felt like, oh my goodness, are we going to make this deadline? But thankfully, due to a great team effort and, as I said, a lot of private sector help, we got where we needed to be by November 30th.

MR. RUBENSTEIN: OK. So when you joined the government in the beginning of the Obama Administration, there were a lot of economic problems that were very severe. We were in a very sad situation economically. Now the economy's somewhat better and there seem to be a lot of problems overseas. Do you sometimes feel like the Maytag repairman, that nobody is paying attention to the economy as much and they're paying attention to things overseas? Or are you getting enough attention?

MR. ZIENTS: Well, I think, you know, if you're the CEO of the U.S., which is what the President is, it's like the CEOs in this room, you do a lot of things at once. So yes, the President is focused on international issues and, at the same time, he's very focused on the economy. We are optimistic about where the economy is headed, you see it in the jobs numbers – we have 54 straight months now of job growth, over 10 million private-sector jobs created. And this is led by the private sector, the job creation, obviously. GDP was just revised up for the second quarter to 4.6 percent. When you break down the components, consumer balance sheets are in decent shape, you're seeing some pickup in consumer spending. Corporate balance sheets are in terrific shape and we're starting to see some increased investment there. So when we look at the forecasters we agree that, absent any major surprises, we should have decent growth ahead. Now, there are challenges.

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And then there's a couple of areas that are of real concern: long-term unemployed. If you look at our 6.1 percent unemployment rate and unpack that, or disaggregate that between short-term unemployed, less than 26 weeks, that's back to where we were before the recession. However, long-term unemployed, greater than 26 weeks, that's at two times its normal level, just under 2 percent – very elevated.

And having sat, you know, through a roundtable of long-term unemployed folks, it's really heart-wrenching. These are folks who are very talented, have good experience, relevant experience, but can't even get their foot in the door. What you find is it's the downside of technology, that technology is screening, and it's screening in a way that doesn't allow people who have been long-term unemployed to even get their foot in the door for an interview in many situations, which is clearly unfair.

So a lot of corporations, 300 corporations, have stepped forward and said, we're going to take a look at our HR practices to make sure that we're not discriminating against the long-term unemployed and that we give them their fair shot. And if anyone in this room is interested in signing up for that, that's an important corporate effort to help the long-term unemployed get back to work.

MR. RUBENSTEIN: So today we had 4 percent growth more or less last quarter. Would you expect for the year overall, given the first quarter was relatively weak, that we'll average 2.5 percent for the year?

MR. ZEINTS: You know, I think that's consistent with most forecasters. You know, I think there's more that we can be doing. You know, infrastructure is a great example. We have a short-term patch on infrastructure. It's a great opportunity for the country to be investing in infrastructure. Interest rates are low. Construction worker unemployment is relatively high. We have a great need. You see it when you drive here from any part of town – the potholes, the backups on bridges, the airports, the ports. There's an opportunity for us to do an upgrade.

And it's really a twofer. Most important, it sets us up for long-term competitiveness in an increasingly global market to have strong infrastructure. And then as I just alluded to, it creates jobs in the short term. So it's a great time to be investing in infrastructure that can help our recovery, help create more middle-class, well-paying jobs. That's a piece of business that we're hopeful that we can make progress on in the new Congress.

MR. RUBENSTEIN: Well, there's proposals for infrastructure banks, so-called, and is that likely to get through Congress?

MR. ZEINTS: You know, I think there are two pieces of infrastructure, or three if you will. One is long-term reauthorization of the transportation bill. That's important. There are infrastructure banks that are on the floor, and the President supports an infrastructure bank to leverage private and state and other capital.

And then third is public-private partnerships. If you benchmark various states around the country – if you look at Virginia, for example, they've done a good job on public-private partnerships in the infrastructure space. Other states have done very little. How do you take the best practices for public-private partnerships in the infrastructure space and really scale that form of infrastructure development?

MR. RUBENSTEIN: Now, inflation is not a problem that you're worried about right now, is that right? Inflation will be 2 percent for the year, did you say?

MR. ZEINTS: We leave monetary policy to the Fed. Right now we are focused on jobs and wages, as we talked about earlier.

MR. RUBENSTEIN: But you don't see inflation as a big problem today.

MR. ZEINTS: I think, you know, most forecasts for inflation are relatively moderate.

MR. RUBENSTEIN: OK, now, one of the problems that came out of the recession is income inequality. It seemed to be rising and the gap is bigger. What can the President or the Administration or Congress do about income inequality?

MR. ZEINTS: Well, you're right, David, in that we've had very flat income for the middle class for several decades. So this is a problem that predates even the Great Recession. We've seen a little bit of pickup as unemployment has come down, but we need to really focus on middle-class wages. The minimum wage is something that we believe should get done. That helps those that are earning at the minimum wage and also helps lift others to higher wages.

Increased investment in job training. We've done a thorough scrub of the $18 billion that the Federal Government spends on job training to make sure that we have good metrics, that we're allocating those dollars to the programs that actually work. Secretary Perez, our very strong Secretary of Labor, says we've got to move away from a system of train and then pray for a job at the other end to a system where we're training people for jobs that are available not only now but will be available in a couple, three years. You know, at the same time, when you talk to employers around the country, there's some frustration that you can't find qualified workers, so we need to work very closely with the private sector, because for every dollar that's spent on federal training, $20 is spent in the private sector. So the leverage is really in the private sector, the private sector working with community colleges, creating their own job-training programs.

There's a big movement here that we would have to accelerate to make sure that we have a workforce which is well-positioned to compete in the global economy as technology and automation and other things accelerate change.

MR. RUBENSTEIN: So when the Obama Administration first came in, it inherited a fairly large budget deficit, annual budget deficit, and now the deficit's around, I'd say, $600 billion more or less annually. So it's down from about $1.3 trillion, but no one seems to be talking about the deficit very much. It's still $500 billion to $600 billion. Is there any realistic way of getting this budget to balance anytime soon?

MR. ZEINTS: Just to review the history here, when the President walked into office, the way to measure the deficit is as a percent of the economy or a percent of GDP, and it was north of 9 percent, so very high. In 2013, last year, we were around 4 percent – down to about 4 percent. We'll be down around 3 percent, according to the Congressional Budget Office, this year. The President's budget has us just over 2 percent in 2017, so a nice downward-sloping line, which I think is in large part why we're talking less about this right now, David.

The President has accomplished this – or the country has accomplished this – through $3 trillion of deficit reduction, and on top of that a real decrease in health care costs. We see it in our premiums. Premiums are up about 3 percent this year versus 2000 to 2010, when they were growing closer to 6 percent, 7 percent, so cut in half. But the Federal Government benefits because health care is a big piece of the federal budget. And if you look at the 2020 projections now on health care, Medicare and Medicaid spending, we're saving about $200 billion versus what the forecast was just a couple of years ago.

Last word on deficits and debt crises and sequester and all the rest is, when we look at the economy and the progress we've made and the outlook we have, I think it's important to note that we have not had a period recently of self-inflicted crises, you know, debt ceilings or otherwise, and it's important that Washington not get in the way of the recovery by returning to those unnecessary dark clouds.

MR. RUBENSTEIN: When does the debt ceiling expire, or when are we going to hit the next debt ceiling?

MR. ZEINTS: It's sometime in 2015, mid-2015. There's always the statutory period of time and then there are the extraordinary measures. But again, let's hope that we don't create a crisis around that.

MR. RUBENSTEIN: Do you think over the remaining two-plus years of the Obama Administration it will be possible for the Congress and the President to actually get appropriation bills signed on time and passed and actually have something more than a continuing resolution, or is that unrealistic?

MR. ZEINTS: Well, right now we're operating under a continuing resolution. We are hopeful that in the lame duck session in November, that we can sign an omnibus bill. You know, as we enter the next Congress, there are bipartisan pieces of legislation – I'll focus on the ones that matter most to the economy. I mentioned earlier infrastructure and doing a long-term reauthorization of infrastructure is something that traditionally has bipartisan support.

Corporate tax reform is something that, again, has bipartisan support and we're hopeful we can make significant progress on across the next couple of years. There are trade agreements. We believe we can have good, fair trade agreements that allow us to compete on level playing fields in this global economy. So we're optimistic that we might make some progress on that front.

And then there's smaller things, smaller but important that traditionally have sailed through, like reauthorization of the Ex-Im Bank, which has been reauthorized 16 times, is set to expire now in June, is responsible for a couple hundred-thousand dollars – couple hundred-thousand jobs a year, costs U.S. taxpayers nothing, and importantly, again, allows us to operate on a level playing field with our global competitors.

So there are pieces of business here that we believe can get done that have bipartisan support. And we look forward to working with Congress to have a productive 2015.

MR. RUBENSTEIN: You said bipartisan corporate tax reform. It seems like the Republicans' view of corporate tax reform is that there has to be no enhanced revenues to the government. And the Democratic view seems to be there has to be enhanced revenues to be used for other purposes. So how are you going to square those?

MR. ZIENTS: Let's spend a minute on it. I think there's reason to be optimistic on corporate tax reform. Both the President and Republicans have talked about revenue-neutral corporate tax reform. You can get pretty geeky and technical as to how do you measure revenue neutral versus what baseline, but let's accept that both are looking for revenue-neutral corporate tax reform. The President's framework, which he put forward two years ago is remarkably similar as a framework to what Chairman Camp put forward earlier this summer.

Let me run through the three components. The first is to lower our statutory rate, which is 35 percent. That is too high. It's the highest of OECD countries. The president would take away deductions, loopholes and bring that into the high 20s. Camp, the same thing, probably into the mid-20s. So same basic approach. Different – some difference on level. That's point number one.

The second is, how do you tax overseas earnings? Right now we operate under a global system where that 35 percent rate applies – but it doesn't apply when the earnings are earned, it's when they're brought back to the country. That discourages many companies from repatriating their profits. That's a global system. The other system that some countries deploy is a territorial system, you pay the rate in the country where you're earning the income.

The problem with the territorial system is it creates sort a perverse race to the bottom for the lowest corporate tax rates in the world. What the President proposes is a hybrid, which is to have a minimum tax. So if you're in a country and that tax rate is above that level, somewhere maybe in the high teens or low 20s, then if it's above that level you don't owe any further taxes. If it's below that level you'd pay the gap between what the country's rate is.

Again, same structure as Chairman Camp's. Some differences in where you set the level. Final piece is how do you bring the money back that's overseas right now? Both have a repatriation tax at a lower level than the levels we've talked about. Again, some difference in where Chairman Camp would set it versus where the President's plan would set it.

But that basic three-part structure, that framework is similar – or remarkably overlapping. And that makes me optimistic that we can get something done. Now, there's a lot of negotiation that I alluded to here. And taking away special tax treatment is a hard thing because everyone's tax treatment is represented by some special interest.

MR. RUBENSTEIN: Well, will the Administration actually send legislation to the Hill or will you let Congress develop corporate tax reform themselves?

MR. ZIENTS: We'll see what is most helpful in terms of advancing corporate tax reform in 2015. But we're hopeful, given that overlap in framework, and such bipartisan support – such strong support from the business community to get something done.

MR. RUBENSTEIN: Right. Now, Secretary of the Treasure Lew recently announced some proposed regulations dealing with inversion, which would be related to what you talked about in terms of corporations trying to reduce their taxes by going overseas. Do you think Congress is actually going to pass anything relating to inversion? Would you send legislation to Congress dealing with inversion? Or are you happy with the administrative actions?

MR. ZIENTS: So, you know, clearly the right thing to do is what we just talked about, which is to do comprehensive business tax reform. We have sent legislation to Congress on inversions. It was part of the President's budget that he sent up last winter. So the President sent legislation to change or eliminate these inversions last winter.

Secretary Lew last week did take administrative action, which does impact the economics of inversions – takes away some of the positive economics of this action. At the same time, there's no substitution for legislation like the President's legislation on inversions. But again, the real piece of business here is to do comprehensive business tax reform.

MR. RUBENSTEIN: What Secretary Lew did – I thought it was proposed regulations. Or do they go into effect right away? Or there's no comment period or anything like that?

MR. ZIENTS: No, they go into effect right away. And they apply to deals that have not yet closed.

MR. RUBENSTEIN: OK. And what about personal tax reform. Is there any chance in the latter two years of the Administration that there'll be proposals on personal tax reform?

MR. ZIENTS: Possible, because I think we would all agree that it's way too complicated to do taxes, there's too many – like on the corporate side – too many special interests and loopholes. It's a hard piece of business, you know, in that here the President would propose to raise significant additional revenue from the top 1 percent and the Republican Party is opposed to that. So there's not the revenue neutrality that we talked about on the corporate side.

MR. RUBENSTEIN: Let's talk about Russia. You've been involved in the sanctions on Russia. Do you think they're working?

MR. ZIENTS: I think they're working at the level that they're having a significant impact on the Russian economy. Russia was forecasted to grow by the forecasters 1 or 2 percent before the sanctions. Now forecasts are hovering around 0 percent. Many believe that Russia is headed toward a recession. If you look at those companies, those that are subject to sanctions are having real trouble accessing capital. They've drawn about $50 billion of capital from the Russian reserves.

The difficult thing here is it's hard to draw a straight line between our actions and Putin's behavior, in that his behavior's not necessarily economically rational. I can tell you that we've put a lot of time and energy into crafting those sanctions. Two main areas of focus: One is, how do we maximize the impact on the Russian economy while minimizing the impact on our companies and our allied companies?

And the second is making sure that we work very closely with our allies. We have different sanctions systems, so they're never going to perfectly overlap. But we've been doing everything we can to maintain symmetry, which is important to, again, have maximum impact on the Russian economy, and also to make sure that our companies are treated fairly and are not subject to backfilling by our allies.

MR. RUBENSTEIN: Suppose nothing really happened and Putin's actions continue to be ones that we don't like. Do you have more sanctions in your back pocket that you can do?

MR. ZIENTS: Well, what we really want to have happen is that Putin de-escalate and we can across time remove the sanctions. But if his actions continue to run against what was agreed to in the peace plan in Minsk, then we will have to consider further sanctions in conjunction with our allies.

MR. RUBENSTEIN: Suppose he pulls all of his troops out of Ukraine and basically says, OK, you win. I'll give you everything you want and we'll go back to where we were. But, I'm going to keep Crimea. Would you keep sanctions in place?

MR. ZIENTS: Yeah, I'm not to speculate. That's obviously a decision for the foreign policy team of the President.

MR. RUBENSTEIN: Well, I was trying to see if you wanted to make any foreign policy –

MR. ZIENTS: No. [Laughter.] But you know, clearly he has illegally seized Crimea. And that's unacceptable.

MR. RUBENSTEIN: OK. So today, when you're in your current role, how is it different than being the head of OMB? I mean, which job gives you greater pleasure and which job gives you greater headaches?

MR. ZIENTS: I'd start by saying both jobs are incredibly intense. You talked about the initial public offerings. And some of my advisory board colleagues are here. That period of time in my corporate life, when we took the two companies public, the intensity of getting ready, the team on the road, making that first quarter – those five-, six-month period of time for both companies were as intense as it gets. It's that level of intensity that I and my colleagues operate at all the time. So both are very, very intense. Both were – are tremendous jobs.

OMB is like being a CFO. So you're helping to put the budget together. You are monitoring performance against the budget. You're looking for areas that are working really well that you might invest more in. You're looking for areas where there are inefficiencies that you might figure out how through technology or by spending less to get productivity gains, or eliminate things all together. You also are watching the performance of the government for the President and the Executive Branch.

It's harder to map directly my current job at the NEC to the corporate org chart. When I went to see Bob Rubin, who was the first NEC director as I got ready for the job, I got his advice. And he said, look, your main job is to help set priorities – economic priorities, working with the President's economic Cabinet and getting the President's input and signoff on those priorities. You need to be an honest broker. And – because at times, you know, there'll be differences of opinion on what a priority is or what the right policy is to achieve that priority.

And then the piece that I spend a lot of time on, Rubin coached me to do so, is on implementation, in that implementation or execution is hard in any setting. It's particularly hard in government. And as we all know from business, strategy, or what we call in government "policy," is important, but the great companies or organizations are differentiated by their ability to execute. So we spend a lot of time at the NEC working with Treasury and Commerce and Labor and Transportation and Energy to ensure that we are getting strong execution against the President's priorities.

MR. RUBENSTEIN: So when you're at OMB or in your current job, if a Cabinet officer doesn't agree with you, do they tend to try to go around you and go to the President? Does that usually work? Or how do they do that?

MR. ZIENTS: We minimize that I think by running good process. And I think that that comes back to Rubin's advice around an honest broker. So these are hard issues. And we have very talented Cabinet Secretaries and teams, so we will have differences either on how to achieve a priority or whether something belongs in that handful of priorities. And what NEC does is NEC tees up those options for the President. That's the honest broker function. At the same time we will have a view, so we will present those options. And at the same time we could put our thumb on the scale. Might not impact the President's decision-making, but we will express our views.

MR. RUBENSTEIN: Assume a business person or a nonbusiness person says: I have a view on economic policy or I want to lobby you on something; what's the best thing, to just call you up or just get on your schedule? How would you do that?

MR. ZIENTS: So when I was an adviser to a board, a corporate executive board when we had a problem or we were trying to launch – a problem in sales or in retention or if we were trying to figure out our next new product or market, we would always kick people out the door – go talk to people, go talk to the customers, go talk to potential customers, particularly those who aren't happy. Talk to those folks. That's how you learn.

You are the customers, all of you as business leaders, in terms of growing the economy, in terms of creating jobs, well-paying jobs. So I try to meet one on one with several CEOs a week. I come to forums several times a week of CEOs and other leaders of businesses, small and large, to get feedback. And my question always is, what are we doing well? What are we missing? What are we doing that's getting in the way of you creating jobs and growing the economy? So we learn by understanding what's going on from your perspective.

MR. RUBENSTEIN: Did you find people coming to say, I talked to the President about this, and he wanted me to talk to you about it. Did they ever try that?

MR. ZIENTS: Occasionally – you know, because the President too is doing a fair amount of outreach. And he will pull me aside occasionally and say, I was just meeting with this person or this small group. There were some ideas that came up that I want you to follow up on. There was some feedback, maybe not positive, on some of our policies and what we're doing. Will you follow up? So yes, there is follow-up from the President, or I have individuals calling me to say, I was meeting with the President and he wanted me to follow up on.

MR. RUBENSTEIN: So at OMB you have a gigantic operation, a team of people working for you, thousand people maybe, or something like that. And you've got grand offices in the OMB in the Executive Office Building. Now you have a smaller office in the West Wing, smaller and smaller staff. So which job actually makes you feel more powerful – [laughter] – with a big staff and a big office or the small staff but right in the West Wing?

MR. ZIENTS: Well, first, let me correct the data. I think if I was to describe to you what OMB does, you would say must be a thousand, 2,000, 3,000 people; OMB's about 400 people. It might have been closer to a thousand when you were government, David, but it's been shrunk, which is remarkable given its scale. The West Wing, probably some of you have been in there, it's teeny-tiny. It was built for a different era, and so there are only a handful of offices. Most of my staff is actually in the Old Executive Office Building, and I have a handful of staff in the West Wing. But we're a gang of about 30, and we're lucky to get another 10 or so interns. That's actually a relatively big-scale group for the West Wing.

But you're right, David, it's remarkable, the breadth of terrain. We've talked about some of it today, from sanctions in Russia to infrastructure to the minimum wage that NEC helps to facilitate, which is why we really, our staff, helping to facilitate, helping to set priorities, helping to monitor execution. We are the staff and the line, if you will, for the Treasury Secretary, the Commerce Secretary, the Labor Secretary and their teams who are proposing their policy and executing on policy.

MR. RUBENSTEIN: So we've had a bit of a manufacturing revival in the United States. We're manufacturing more than we did a couple years ago. Why is that? And do you think that will continue?

MR. ZIENTS: Let me, if I could, take a step back because we haven't talked about it, sort of where are we positioned in the global economy. The marketplace is the global economy. Now let's do competitive analysis. We have a very strong position. We have our historical lead in innovation. Thirty percent of the patents worldwide come from the U.S. Fifteen out of the top 25 research universities are here. We are the leaders in R&D. Second, our workforce is the most productive in the world – 30 percent more productive than Germany, two times or more productive than China and South Korea. And then third – and we would not be talking about this a decade ago – is energy. A decade ago we would have said, from a competitive perspective, this is a vulnerability, not a strength. We're now the number one producer of oil and gas in the world. We now produce more than we export on oil. You know, 10 years ago, there was talk of importing gas. We're now exporting or planning to export gas.

All of this helps when it comes to manufacturing. Our manufacturers enjoy a big advantage on energy, about a third of the cost on natural gas here versus our Asian competitors, so that leads to a real cost advantage. So you are seeing a real revival of manufacturing, over 700,000 jobs. There are more manufacturing startups in this country than there have been in two decades, so that's a very encouraging sign. So you have entrepreneurs in manufacturing. If you poll CEOs, global CEOs, as to the number one place to invest in the world, it was China for a long period of time. It's now the U.S., and we're widening our lead. BCG surveyed U.S. manufacturers who had operations overseas. Over half of them, 54 percent, now plan on bringing those facilities back to the U.S. So yes, we're optimistic, David, about our position in the global economy and how that translates to success in manufacturing.

MR. RUBENSTEIN: So let me ask you this. We're producing roughly 11 ½ million barrels of oil a day, an equivalent, in the United States.

MR. ZIENTS: Eight and a half million.

MR. RUBENSTEIN: Eight and a half – with – well, the other equivalent things, it's about 11 ½, but OK, let's say 8 ½, still the second biggest, right? Why don't we export some of the oil we have?

MR. ZIENTS: Well, let me do natural gas first, and then we'll talk about oil. Natural gas. And I think this is a somewhat unknown story. The Department of Energy has approved – additional approval – for 11 billion cubic feet a day of exports. That's about 30 percent of the LNG market today, so that is significant.

MR. RUBENSTEIN: And when will that actually occur?

MR. ZIENTS: The first one comes online in 2015. They are now studying, they announced that they're studying, the impact of going from up to 20 billion cubic feet a day, so they're understanding the potential tradeoffs of allowing exports up to that level. So that's significant. There's a significant amount of activity around LNG exports.

MR. RUBENSTEIN: And you think there'll be more exports of LNG or – the license having been granted by two or three. You think there'll be more?

MR. ZIENTS: Three have received final license, which represents about 4 billion cubic feet of the 11 that I described. And then the other 7 billion or so is working through the process, through the FERC process. And as I said, we're studying up to 20. So yes, I think we will be exporting significant sums of LNG in the future. These are big projects, so they take a few years to come online.

MR. RUBENSTEIN: So if it's good for gas, why not oil?

MR. ZIENTS: So on oil, you know, it is a changing landscape. The 8.5 million figure, that's up 60 percent in the last four or five years, so this is a changing landscape. We do now produce more than we import. At the same time we still import a lot, so we are looking at policy implications of this changing landscape.

MR. RUBENSTEIN: All right. Well, we're doing – so while we're producing all this, do we need a Keystone pipeline? When is that decision going to be made?

MR. ZIENTS: That's something I'll defer to the State Department and the President.

MR. RUBENSTEIN: OK. All right. You don't want to get in trouble or you don't want to say anything about that.

MR. ZIENTS: No.

MR. RUBENSTEIN: OK. [Laughter.] OK. So today what do you see as the biggest economic challenge that's facing this country?

MR. ZIENTS: I talked about it a little earlier. I'll say two, one where we've made a fair amount of progress, which is the long-term unemployment – still unacceptably high, running at about 2 percent, 1.9 percent, down a lot from where it was but unacceptably high. And again, I think we need to not only have some targeted programs in the government to help with training, but we also need the corporate sector to step up and give these folks a shot. The larger systemic issue is wages – middle-class wages, as we talked about – stagnant for a couple of decades now. We're starting to see a little bit of uptick, but nothing nearly significant enough, and we need to focus on that. We need to pass the minimum wage. We need to invest in infrastructure. We need to look at our education system and training and make sure that we're equipping folks to compete in this global economy and earn a decent wage.

MR. RUBENSTEIN: So when you were in the private sector for a while, you created the Urban Alliance Foundation. Tell us what that does.

MR. ZIENTS: So it's a gang of people, led by a good friend named Andrew Plepler, who started the organization about 15 years ago. And the basic insight was, there were a bunch of folks at the time at Anacostia High School – kids who were 17 years old who really had not set foot into one of your corporate environments, and by giving them the opportunity – the paid opportunity to intern during the school year, after school, and then full-time during the summer, that it could be life-changing.

And it started off with just sort of a matchmaking. Let's take this individual student and put them into a law firm. And it's not quite that simple. It requires a lot of mentoring. A lot of training – coaching on basic life skills, but the end result is perfect graduation from high school, and many going on to two- and four-year colleges and being quite successful. There's an alumni network. So we continue to work with students throughout their time in college. My guess is a quarter of the companies in this room have Urban Alliance Interns. The goal is to make that 100 percent of the companies in this room. The Urban Alliance is now also in Chicago with a very big program, because of the size of the corporate community in Chicago – also in Northern Virginia, and also in Baltimore.

MR. RUBENSTEIN: So I presume you're going to stay in your position for the remainder of this Administration, I assume, right?

MR. ZIENTS: If the President prefers that I do, yes, absolutely.

MR. RUBENSTEIN: OK. So would you want to stay – if there was another Democratic Administration, would you go back to the private sector?

MR. ZIENTS: I think it'll be time for a break – a little catch-up with family and my wife, and at that point, I'll lift up and – I do miss the private sector. I loved my time in the private sector. I loved my time in government, but I'll take a little time off.

MR. RUBENSTEIN: So is it easier to get something done in the government or in the private sector, based on your experience?

MR. ZIENTS: I think, as I said earlier, the execution is critical in both sectors. I think the degree of difficulty is even higher in the public sector.

MR. RUBENSTEIN: So when you deal with Members of Congress and try to explain where the economy is going, what is your sense of their understanding of economic issues?

MR. ZIENTS: I think it varies a lot. I mean, if you were to – if Mark Warner – who is someone I talk to on a regular basis – or Senator Bennet – people who have spent time in the private sector and have focused their time in Congress on the economy, it's a discussion like a discussion with any of you in the room, but obviously more policy-focused. What can we do to get infrastructure done? What can we do to advance the minimum wage?

There are other Members of Congress who have different backgrounds – weren't in the private sector or don't focus on economic issues, and they can be, you know, less sophisticated conversations. It depends on the number.

MR. RUBENSTEIN: And the least effective way to influence you, if you're a corporate CEO, is to come in and say what? The least effective way?

MR. ZIENTS: I always start by asking what's going on in the economy, and the questions I ask – what's working, what's not working? I think when someone is in just to talk their own book, you can learn, but that's probably not as fulfilling a conversation as when someone is stepping back, helping us think through the economy as a whole and thinking through the dynamics of their industry as opposed to, simply, their own narrow corporate interests.

MR. RUBENSTEIN: And right now, are you more worried about growth in China or more worried about deflation in Europe as it impacts the U.S. economy?

MR. ZIENTS: I think Europe would probably be our number one area of concern. You know, unemployment across the zone is close to 10 percent. They're still two-and-a-half percent below their pre-recession peak. We are close to 7 percent above, just to show you the delta between the two. You know, they're potentially going to have a triple-dip recession. We believe that, you know, both monetary and fiscal policy are too tight. We're pleased by Draghi's most recent move. You know, there needs to be some fiscal flexibility, and Renzi and Hollande are talking about that to allow some time and space for some of the structural reforms in the labor markets and the pension terrain and the regulatory terrain.

You know, I think, if you step back and think about President Obama's approach with the Recovery Act – I think there's a lesson learned here that you really can't cut your way out of a recession. Not that we've done everything right here, but that directionally, we've had a good approach, and it's resulted in, as I said, us being about 7 percent above our pre-recession peak, whereas Europe is still several percent below.

MR. RUBENSTEIN: And what about technology? Silicon Valley and a lot of technology innovations in our country have been quite remarkable in terms of leading things around the world. What impact on the economy do you think technology innovation has right now?

MR. ZIENTS: Oh, I think very positive. I mean, if you think about our sources of comparative advantage that I talked about earlier, and I started with innovation and technology. And, you know, technology has been very important to improving productivity, and it really does position us well in the world economy. One thing I'll say about technology in the U.S. Government versus the private sector is, if you think about the productivity gains of the private sector – one and a half, two percent a year, year-over-year for several decades, that compounds to quite a significant level.

The Federal Government – there's no perfect metric of productivity, but probably has grown about a third the level. So that's created a big gap – a big productivity gap between how the private sector operates and the public sector. We all know that it's always wrong to lead with technology as the answer. But if you think about those productivity gains, technology has been in the center of those productivity gains. Private sector – it's not that every technology project works. They're hard, but we have a very low hit rate in terms of successful technology projects in the federal sector, so the root cause of that productivity gap is technology. We have to get a lot better at technology and get better fast in this budget-constrained environment that we're in is forcing a hard look at productivity and technology.

And like with healthcare.gov, we've got really strong private sector folks stepping forward to do rotation for six months or join on a full-time basis to help us with technology. So I'm optimistic the Federal Government is finally getting some traction on technology. It's, if you will, a late mover advantage; we can sort of skip some of the prior technology and go right to the leading edge.

MR. RUBENSTEIN: So you have four children. Are they more impressed with your being Economic Adviser to the President or acting head of OMB? What do they respect you more for?

MR. ZIENTS: Well, the caveat that they are ages 19 to 13, I'm not sure respect is high on their list. [Laughter.]

MR. RUBENSTEIN: All right. Well, one final question. I notice your initials are JZ. Has anybody ever thought you might have a career in music because of these?

MR. ZIENTS: If there's one way to get my children to run out of the room, it's for me to either sing or dance. So the answer to that would be no.

MR. RUBENSTEIN: All right. Well, thank you very much for a great conversation.

MR. ZIENTS: Thank you, David.

JEFFREY ZIENTS

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Jeffrey Zients is Director of the National Economic Council and Assistant to the President for Economic Policy. Immediately prior to his appointment, Mr. Zients managed the turnaround of the healthcare.gov website. Mr. Zients twice served as the acting Director of the Office of Management and Budget (OMB) from January 2012 to April 2013, and from June to October 2010. In 2009, he was confirmed by the Senate as Deputy Director for OMB, and was appointed by President Obama to the newly created position of United States Chief Performance Officer.

Prior to joining the Administration, Mr. Zients spent 20 years in the private sector as a CEO, management consultant, and entrepreneur. His expertise in business strategy, process reengineering, and financial management extends across a range of industries and geographies. Mr. Zients served as CEO and Chairman of The Advisory Board Company and Chairman of the Corporate Executive Board, both leading providers of performance benchmarking and best practices across a wide range of industries, assisting senior executives at over 5,000 businesses to improve the efficiency of their operations. Mr. Zients began his career in management consulting where he focused on developing strategies and improving operations of Fortune 1000 companies.

Mr. Zients has previously served as a board member of institutions including Children's National Medical Center, Sirius XM Radio, Revolution Health Group, and Timbuk2 Designs. Mr. Zients is a co-founder of The Urban Alliance Foundation, a nonprofit organization that partners with corporations to provide economically disadvantaged youth with year-round paid internships, adult mentors, and job training. He graduated *summa cum laude* from Duke University.