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Brookings Briefing

BUSH V. KERRY:  
THE LONG BATTLE BEGINS

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**QUESTION AND ANSWER SESSION**

## PROCEEDINGS

MR. MANN: Good morning. I am Tom Mann, a senior fellow in the Governance Studies Program, and I am pleased to welcome you to what is the third in a series of briefings and discussions on the 2004 elections. For this session, I am delighted to welcome four of my Brookings colleagues.

I want to point out to you, before we get into this session, for those of you who really can't get enough of politics, that we have a session tomorrow afternoon at 2 o'clock called, "Getting Out the Vote: How to Increase Turnout in 2004," which is built around an interesting new book by Donald Green and Alan Gerber.

Our session today is going to range across the process and substance of the 2004 elections. After I make some very brief introductory remarks, we are going to turn to Tony Corrado, who is a visiting fellow here at Brookings and a professor at Colby College. Tony is an expert on many things, but in this context mainly campaign finance. His most recent book is "Inside the Campaign Finance Debate." He is going to really give us an overview of the playing field of money and resources in the 2004 elections.

After that, we are going to turn to Katie Dunn Tenpas. Katie teaches at the University of Pennsylvania, but is also a visiting fellow with us here at Brookings. She is the author of, "Presidents as Candidates: Inside the White House for the Presidential Campaign," and an article called, "How Incumbent Presidents Run for Reelection." And she is going to give us some sense of how George W. Bush is organizing his campaign from the White House.

We are then going to turn to Ivo Daalder, a senior fellow in the Foreign Policy Program here at Brookings and co-author of a pretty terrific book on foreign policy called, "America Unbound."

MR. DAALDER: For sale in the book store.

[Laughter.]

MR. MANN: Ivo is going to give us a sense of how foreign policy and national security issues will be discussed and framed and what the dynamic of that cluster of issues might be in this long general election campaign.

Then, we will hear from Peter Orszag, a senior fellow in Economics Studies here at Brookings, an author most recently of a book with Peter Diamond called, "Saving Social Security." Peter is going to look at the cluster of economic and domestic issues and do for them what Ivo will do on the foreign policy side.

If all goes according to script, that will leave us plenty of time to respond to your comments and questions.

Now, in many respects, President Bush should be the prohibitive favorite for reelection. And as Peter will tell you, at least one economic forecaster says he is precisely that. Incumbent presidents have substantial advantages in seeking reelection and a rather impressive batting average over the years, an ability to use the Rose Garden and to control the agenda in ways that serve their interest.

It is difficult to find a president who was uncontested for renomination, who then managed to lose that reelection time. It is thought to be an enormous advantage for a president who has kept his own party sufficiently happy that he cruises to renomination.

We have also had healthy economic growth, certainly starting in the third quarter of last year, and all forecasts are that we will enjoy 4- to 5-percent growth throughout the period leading up to the election. At a time of national security threats, which we have experienced in this country, there is a rally-around-the-flag tendency that certainly works to the president's advantage.

I think it's fair to say President Bush has had substantial domestic policy achievements, in spite of extraordinary circumstances of his initial election to the White House: a series of tax cuts, a major education bill--No Child Left Behind--and that Medicare prescription drug bill that Democrats had fought to pass for a good long time.

Then, there is the matter of the money advantage, which Tony will discuss, and the president's personal reputation for decisive leadership, honesty and credibility. Well, you lay out all of those factors, and you figure we might as well go home. But, alas, life turns out to be more complicated and more interesting.

We see the Democrats unified and energized by their nominating process, not divided. Their putative nominee has emerged largely unscathed while the president, running unopposed for renomination, has been the target of all of the Democrats and has been substantially weakened during this period.

On the economy, as Peter will discuss, it looks at best like a mixed referendum. The good news on GDP, inflation and interest rates is, to some extent, neutralized by the disappointing performance on jobs and wages. We have seen a decline in consumer confidence, a growth in budget deficits and now a spike in energy prices, leaving that referendum unlikely to be an unmitigated positive referendum for the president.

Obviously, there are growing doubts about Iraq and the war on terrorism. There has been a less than enthusiastic reaction to the president's domestic policies—tax cuts, the education bill, Medicare. We have had a blow-back on all of them, and we will see that what was once thought to be a massive money advantage may be much less than that.

In recent weeks, the personal strengths of the president have been at least damaged in part by questions of credibility and trust, and with a polarized electorate and a unified and energized Democratic Party, we see that the putative favorite for reelection is indeed in a very, very competitive election, one that has commenced and which will, I think, prove to be quite close for an extended period of time.

Tony, begin by telling us where the candidates and the parties, the campaigns, stand with respect to money.

MR. CORRADO: Certainly. As Tom noted, the policy aspects of this election are much more interesting now than many people thought they would be a few months ago, and that is certainly the case for the strategic and financial aspects of this race. One of the things that I find most interesting is that we have a race now where, in many ways, you can sum up the differences with 2000 and the state of play in 2004 with two brief snapshots.

First, the Kerry picture. John Kerry couldn't raise \$10 million in a quarter before this month. And, in fact, in December his fundraising had become so moribund that an Internet appeal sent out to all of his donors was producing the mind-numbing amounts of only \$60 and \$70 on some days. The campaign had basically ground to a halt. And yet now we find that this month John Kerry will raise over \$20 million in March alone, which is more than any Democrat has ever raised in a single month in any

race, and may end up producing the biggest monthly take we have ever seen in presidential politics, depending on how the other fundraising goes once he reports everything by the end of this month.

He not only raised \$10 million over the Internet in March, he did it twice. He raised over \$10 million in the period after March 4th, after he wrapped up the nomination, and he raised \$10 million over the Internet again in the 10 days leading up to the Democratic Unity Dinner. So John Kerry has now already raised over \$61 million, more than any other Democratic presidential candidate has ever raised, and it looks like he may reach \$100 million before the Democrats convene in July.

That means Kerry is going to be able to continue actively campaigning. It means that Kerry is going to be able to continue to distribute his message. It means that John Kerry is not going to be in the position that Al Gore was in in 2000, that Bob Dole was in in 1996.

Second picture, the Bush picture. In March alone, if industry estimates of some \$22 million in advertising expenditures on the part of the Bush campaign during March are correct, George Bush will likely spend more than \$30 million in March alone, the biggest spending month we have ever seen by a presidential candidate. And what is most interesting about that number is that he still has so much left to spend.

[Laughter.]

MR. CORRADO: This week we are going to see the Bush campaign beginning to celebrate the achievement of their initial goal of \$170 million in money raised for this presidential campaign, a goal I never doubted that they would reach because it's been the history of the Bush campaign to always provide goals that they always know they can reach so that they can always exceed them and impress us.

I do think that we'll now see the president move away from campaign fundraising, start to shift to party fundraising, but the campaign will continue to raise money over the Internet, and through the mail. They will probably try to push on to \$200 million, in large part because, it's my view, that they spent \$22 million on advertising in March that they weren't planning to spend, but decided they needed to spend, and therefore they're going to want to push on to the higher number.

So where we are in 2004 is that George Bush will have in this race the largest financial advantage any presidential candidate has ever had in recent history. In 2000, he outspent Gore during the primaries by \$90 million to \$47 million. In 2004, even under the best-case scenarios, Kerry is going to be outspent by \$70 million to \$100 million. That is quite a dramatic advantage.

I do not think, however, that it is determinative. And if you are looking for historical precedents, in some ways, we can't even give you an historical precedent for this scope of difference between candidates. The best one I could come up with was '72, when Nixon outspent McGovern by essentially \$61 million to about \$33 million, depending on how you count the outside committees, and whether you count the \$3 million the Nixon campaign spent including \$2 million on lawyers defending members of the campaign staff, and the \$900,000 they paid to the Democratic National Committee in a settlement for breaking into their headquarters, which was a campaign expense back then.

[Laughter.]

MR. CORRADO: But even given that, I think what's interesting is that what many thought was going to be a determinative financial advantage is really not proving to be the case, and that is because John Kerry is not in the same position as Al



Gore. John Kerry is a candidate who is not constrained by the spending limits. That is something that the Bush campaign didn't expect when they planned this campaign, and it's a real change in the strategic environment, and it's something I don't think people are giving enough attention to.

If you look at 2000, by this point in the campaign, Al Gore's campaign was basically on hold. He had \$9 million left to spend under the spending cap as of mid-March. He had to put \$2 million aside for the convention. That left him with \$7 million. What that meant was he had enough money to keep the campaign headquarters' lights on. He did no television advertising for months. He had no money to buy satellite time to transmit his message into other television areas when he was out campaigning or making a speech. He had no money to start staffing up for the general election. In fact, he ended up spending \$2 million of general election money in advance just to put some skeleton staffs into general election battleground states because he had no money to start up.

John Kerry doesn't face those constraints. Gore's campaign essentially consisted of \$24 million in soft money-funded ads the DNC did between June and September and the nomination of Joe Lieberman. The Kerry campaign will be very different. He's going to be able to start staffing up early. He's going to be able to do lots of polling and campaign organizational development in these 17 or 18 battleground states throughout the summer. He's going to be able to stay on the air. He won't be able to match Bush dollar-for-dollar, but he's at least going to be able to get his message out in a way that's going to give him much more television than Al Gore ever envisioned.

Second, Kerry has a good head start. I think people aren't giving enough credit to the fact that he's already invested \$40 million in this campaign and invested it

in a way that has much greater effect than we typically see primary spending having. Because it was such an easy nomination contest, because there was not lots of internecine warfare, much of the advertising done in the primaries was directed against George Bush, and Kerry has already done over \$14 million in advertising in targeted general election states. When you add all of the spending the Democrats did beyond Kerry--and, remember, the other Democrats as of the end of February had spent \$150 million. You realize that substantial amounts of television have been done on the part of the Democratic message already:

Iowa, \$11.5 million in TV, general election battleground. Last time around, Gore and Bradley combined did \$700,000 in TV in Iowa.

New Hampshire, \$14.5 million on television by the Democrats. Last time around, the Democrats combined for \$2.6 million in advertising.

So, in a number of these general election battlegrounds, Missouri, Wisconsin, Michigan, where the Democrats were campaigning, Bush started behind. This notion that somehow we start with Kerry at \$2 million and Bush at \$110 million I think reads the race the wrong way.

Third, Kerry's voice will not be alone. As we've already seen, there are a number of nonparty organizations and political groups who are going to be actively involved in the campaign during the course of this interim period between the convention and now. We expected this because we knew that the new campaign finance law basically covered ads that were within 60 days of the general election and 30 days of a primary or convention, and that would create a moment in the summer for other groups to be involved with money that wasn't regulated under the new law.

Surprise. Surprise. Some of these groups are taking that up, and it has been particularly a point of interest to focus on the groups that have been formed by Democrats expressly for the purpose of influencing the presidential election. These include the Media Fund, Americans Coming Together, and America Votes, which are raising money that will in effect supplement what Kerry is doing and what the DNC decides to do.

And we have other groups, MoveOn.org, most notably on the Democratic side; Club For Growth and Citizens United on the Republican side, who will also be engaged in this debate over the next few months.

So far, the spending by these outside groups against Bush, when combined with much of the spending by the Kerry campaign, has more or less diminished the financial advantage that Bush has and in many of the targeted markets actually equaled out the amount of advertising that has been done, and that doesn't even include all of the free advertising Kerry seems to get these days off of various books being published. Hopefully we'll have five or six more of these book deals before the campaign is over.

[Laughter.]

MR. CORRADO: Because, if you look, I imagine Richard Clarke's controversy created more penetration into the electorate last week than the Bush advertising did. So you can't discount that.

The real question will be what role the parties end up playing. Some early work we've done here at Brookings is available out front, in terms of looking at party fundraising under the new campaign finance law. Right now, the Republicans tend to be on their traditional pattern of outraising the Democrats by a sizable amount,

particularly now that we're in a hard-money world. I have no doubts that the Republicans will end up with somewhere near a \$250-million advantage in the party coffers because that's just the normal trajectory they have been on since 1994.

What is impressive, however, is how much money the Democrats have been capable of raising and how much they're able to save for this election year. And just to give you some idea, one of the interesting things about this year is that the Democrats are creating much more money that they will have available to spend in Federal elections than they have in the past.

To give you just a brief glimpse of that, at the end of this month, the Democrats are going to have more than \$25 million in the bank in hard money. In 2002, which was their best fundraising cycle ever, at this point in the race, they had about \$3.75 million in hard money in the bank. In 2000, at this point in the race, they had about \$4 million in the bank. They've done much better at accumulating cash and reserving it for the general election ahead, and that will make them that much more competitive this time around than we might have seen in the past. Furthermore, they are not going to have to be spending money in the summer to bail out the Democratic presidential nominee because he's likely going to be able to carry his own weight, which is the other major strategic difference to keep track of as we move forward in the months ahead.

MR. MANN: Thank you, Tony.

Let's turn to Katie Tenpas now and ask what we have learned so far about how President Bush is running for reelection and how that compares with some of his predecessors.

MS. TENPAS: I first want to thank Tom for having mentioned the book that I wrote called, "President's As Candidates." The good news about that book is that nobody else has ever written about what happens when presidents run for reelection and how the quest for reelection affects the institution of the presidency.

The bad news is it means my research is only relevant every four or every eight years.

[Laughter.]

MS. TENPAS: So I'm very grateful to be here today because it gives me a chance to talk about this.

I basically have three points, as well as a handout that I hope you received in the back of the room.

My first point is simply that the president's reelection campaign did not begin on February 23rd when he made his speech to the National Governors Association, and everybody reported how he's kicking off his reelection campaign. His quest for reelection began on day one after inauguration.

Presidents, since Nixon, have learned how to use the White House to maximize their electoral prospects. They've added a number of outreach-based offices: public liaison, political affairs, intergovernmental affairs. And they've also added a number of constituency-based offices: the Office of Women's Initiatives, Environmental Initiatives, the White House Office of Faith-Based and Community Initiatives.

These are all designed to target various groups. Amongst other things, they are wonderful outreach groups to target and to help the president maintain and expand their electoral coalition over the entire course of their first four years in office.

So the quest for reelection does not begin in year four, but rather begins in year one. And I think one good indicator of what I call campaign-related behavior that starts from the outset is presidential travel. Presidents spend roughly 45 to 50 percent of their time outside Washington, D.C. So where do they spend their time and what factors influence the decision to go to Topeka or to go to Peoria?

I'd like to draw your attention to a handout on presidential travel. Perhaps what is most telling I think about President Bush's travel figures is that President Bush has outraveled and outtargeted President Clinton, a president who many deemed to be the most political of presidents. So, while the trend toward utilizing the White House to maximize your electoral prospects began with President Nixon, I think it's only been strengthened during the Bush administration.

And what I'd like to do is walk you through the handout relatively quickly to draw your attention to some of the key points and findings. Those of you who have it, it's called, "Presidential Travel and the Permanent Campaign."

In the first particular table, Table 1, ranks the states from 1 to 46. There are four states that President Bush did not visit within his first three years in office, and what you find is that he has spent a disproportionate amount of his time in swing states. And we identify swing states as the 16 states where the margin of the election was less than 6 percent.

And so what you find is that if you look at the top 10 rankings, 50 percent of his time has been spent in swing states. If you look at the top 20 rankings, 45 percent of his travel has been spent in swing states.

I think probably a more telling figure is that the top 20 states represent almost 70 percent of the electoral votes. The top 20 states that he's traveled in represent

almost 70 percent of the entire 538 electoral votes. So, clearly, there is some strategy going on in here.

But I think these numbers, by themselves, don't mean much. I think you have to put them in the context of a prior administration. So, if you look at Table 2, what you see is swing state travel by Presidents Clinton and Bush, the first three years in office for both.

In the case of President Clinton, his top 16 states, one of them was the State of Virginia. Virginia is the home of the CIA, the home of the Pentagon, and so that frequently registers at a very high level for presidential travel. You see with President Bush it was his number one traveled state, and the data for President Clinton showed that it was his number two most traveled state.

At any rate, you can see that President Bush has outtargeted President Clinton in two of the three years, but we decided, in Table 3, that since Virginia was somewhat of an outlier because it was the second-most traveled state, we would substitute the next most competitive state, which was Tennessee. In that sense, you have sort of an apples-to-apples comparison in the 16 closest states.

And there you can see that the relationship between Clinton and Bush, that Bush clearly has outtargeted Clinton 16 points in the first year, 20 points in the second year, and 12 points in the third year.

And, finally, the last table, Table 4, shows the number of states visited versus the number of visits. Again, President Bush has outtargeted President Clinton. So that's one measure of looking at the president's reelection.

A second point I want to make is that much of what's happening with the president's reelection campaign is formulaic. I've studied presidential reelection

campaigns from Eisenhower through the present, and there's a lot that happens every four years or every three years that has happened before.

In the case of the Bush administration, they have followed suit, particularly with Ronald Reagan's 1984 reelection campaign. I think the real turning point from Eisenhower through the present was President Nixon in 1972. He was the first president to establish his own independent reelection campaign committee. You might remember the familiar acronym called CREEP. That was the first time a president had done it. Since then, presidents have all followed suit and created this independent committee.

At any rate, there's a lot of things that happen every four years when a president is running for reelection.

One is that, generally speaking, they start their strategic planning after the midterm elections. They look at the midterm elections, analyze the results and think about what they need to do for their forthcoming reelection campaign. They formally file with the Federal Election Commission usually in year three. The Bush team has followed suit.

Now, there are some exceptions, and one major exception is Bush 41. The father delayed campaign planning much, much longer than his predecessors. He also delayed filing with the Federal Election Commission. It's very clear that this president has learned the mistakes of his father. One of the hallmarks of well-run reelection campaigns is that they start their planning early, and this particular president has sort of read the history or Karl Rove has read the history and knows quite well what they need to do.



Another feature that's very familiar is that reelection campaigns are staffed with former White House staff members, as well as refugees from the previous campaign committee or the election in 2000. So Ken Mehlman, who ran the Office of Political Affairs, left the Office of Political Affairs in May of 2003 to run the president's reelection campaign.

A very familiar example is 1984 or actually 1983, when Lee Atwater and Ed Rollins left the Reagan White House Office of Political Affairs, to run the Reagan-Bush reelection campaign in 1983.

You also see people coming back: Karen Hughes, Mark McKinnon, who does the ads, his pollster, Matthew Dowd. I mean all of these people who were involved in 2000, tend to come back again for 2004.

The most senior-level people tend to leave the White House early on. And what you'll see I think in this next coming year are lower-level staff members leaving the White House to go provide assistance with the reelection campaign.

Another feature you'll see is that presidential reelection campaigns heavily involve surrogates. You're going to see the vice president crisscrossing the country campaigning on behalf of the president. The vice president is able to be the sort of "pit bull" of reelection campaigns. He's able to be more negative than the president can be and does so. You'll see the first lady campaign vigorously, the Cabinet members, and other staffers.

Finally, you see presidents mobilizing the party organization. And, again, nobody realizes this, but it actually begins on day one. Because, generally, what happens is when a new president is elected, they appoint a new chairman of the RNC or the DNC, and the party committee tends to be staffed by presidential loyalists, and they

are focused on getting the president reelected three or four years later. So what you see is that the party pays for polling, it pays for other purely political expenses, it's staffed by presidential loyalists, and it works to maximize the president's reelection prospects from day one.

And, finally, what you'll see is presidents cleaning house in terms of staff. So you might recall in December of 2003 when the economic team departed. The president likes to clean staff in 2003 to get out any sort of controversial figures and get ready for reelection--sorry, it was December 2002, when Larry Lindsey and Paul O'Neill left. It's not unusual at all. So these are the things that are formulaic.

What is new and what is unique? How has this Bush reelection campaign been innovative?

The first is that this president has left the Rose Garden much earlier than his predecessors. As Tom noted, when president's don't have an intraparty challenge--meaning someone like Ted Kennedy challenging Jimmy Carter--generally, what they like to do is remain as presidential as possible. You want to stay in the trappings of the White House and not have to bother and get involved in the political fray.

Interestingly, this president left the Rose Garden earlier. Jimmy Carter, in 1980, did not leave the Rose Garden until May of 1980, despite the fact that he had an intraparty challenge. So it's sort of an interesting comparison, and it shows that this president was getting a lot of pressure. His operatives were getting pressure from Republicans saying you really need to respond to the Democrats. So that's the first distinctive feature.

The second, as Tony noted, is that they have just shattered all fundraising records. Clinton did the same thing in 1996, but again this administration has brought it to new heights.

And, third, I think this administration has refined the permanent campaign. When I say "permanent campaign," I mean the notion that you utilize campaign tactics to govern, and that the line between governing and campaigning has essentially eroded. I think they've brought it to new heights.

The White House staff has not lost sight of the president's electoral coalition. And one sort of effort that demonstrates their attention to this is the creation of what's called the Office of Strategic Initiatives. It's a new office. It's staffed by Karl Rove, the president's most senior political adviser. Now, again, this represents a little learning here. His father put his closest strategic adviser, Lee Atwater, at the RNC. This president learned that proximity is important. Not only did he put Karl Rove in the office, but he created a special office so that they could keep track of the electoral coalition.

And if you think about what's happened over the past four years, you can see sort of the art or the work of Karl Rove over time: the steel tariffs, the faith-based initiative, the tax cuts, the constitutional amendment to ban gay marriage. I mean, there's been a lot of key initiatives that reach out to specific constituencies across the country in somewhat of an orchestrated fashion.

And, finally, what have they been doing since January 1st? Bush has attended roughly six or seven fundraisers. They have launched a barrage of campaign ads in battleground states. He has spent about 45 to 50 percent of his time on the road so far.

And they're also doing what other administrations have done, which is the trotting out of small-bore policy initiatives. Last week it was providing high-speed Internet access to everybody by the year 2010. In January, it was Mars, it was immigration reform. And President Clinton did the same thing. There was the V-Chip, there was the school uniforms.

And so you're not going to see anything in the way of sort of grand policy changes, but you will see these sort of small-bore policy initiatives that are designed I think to curry favor with various constituencies and to maximize the reelection prospects.

I think that one former Reagan and Bush staff member sort of captured best what happens in the White House during a reelection year, so I just want to read his quote. He said, "The reality is that the White House pretty much comes to a stop. Nobody cares about anything except reelection. The White House focuses only on those things they have to deal with. Virtually nothing gets done."

On that note, we can't look forward to much more than President Bush crisscrossing the country campaigning for reelection.

MR. MANN: Thanks, Katie.

Let's switch to some substantive policy—foreign policy and national security.

Ivo?

MR. DAALDER: You mean before we had no substance?

[Laughter.]

MR. DAALDER: This is how we work with our Brookings colleagues. Now, for the real thing.

It's well-known that elections begin at home: they turn on domestic economic issues and not about foreign policy. That's probably true as well in this election. However, national security and foreign policy are in general going to play a major role in this election, not least because the president has decided that that is what he is going to run on, and that is significant. It's not just because the world is demanding it, it is that the president has demanded it

As he started off his reelection bid, he announced that he was a "war president." That was a term that didn't just slip out of the tongue in front of Mr. Russert. It was designed for two fundamental purposes:

One, unlike his opponent who was a weak candidate, he was a strong president for these dangerous times. And you have seen the theme of strength versus weakness develop from day one. In fact, they developed it even before John Kerry was the known nominee because they thought Howard Dean was going to be their opposite number. It started with the State of the Union address, one of the most political State of the Union addresses, political in terms of editorial terms, I have at least ever heard a president give.

And it was there are those people--never mentioned--who are weak, who don't take this threat of terrorism seriously, and then there are those like me, who are strong and are willing to deal with this thing.

The second purpose is really to say that we live in a very different time. We live in a period of war. And the message, unstated, though there for everyone to understand, is that dissent really is not done. It's not kosher. It's not how we deal with trying times like these. So that, when there is dissent, you can really go after them in the way that we saw in the last week.

There is an underlying notion that questioning the president and questioning the policy somehow is unpatriotic. That was an explicit theme back in 2002. The president, after all, ran on that issue in the midterm elections to the point that they successfully defeated Max Cleland, the incumbent Senator in Georgia, for not being sufficiently "patriotic" because he happened to believe in union membership for the Homeland Security Department employees. By the way, the same union members who the president puts in his ads along with the firemen.

So that is point one. There is a subtheme, "I am a strong person, and therefore the opposition is both weak, and if they criticize me, they are unpatriotic."

The second reason why foreign policy, and particularly, national security policy is coming to the fore is because 9/11 was a defining moment for this president. David Frum, the former speech writer, writes in his first best-selling book coming out of the Bush administration, called, *The Right Man*, that September 10 was a time when George Bush's presidency had all of the makings of a failed presidency. And September 11th sort of rescued the presidency and the president from almost certain obscurity if not defeat. That is particularly how the president has seen it himself.

There was a wonderful article yesterday in the *New York Times* by Richard Stevenson and Adam Nagourney talking about how 9/11 sort of made this president the strong leader that he is, defined him as a person who rescued the nation out of a terrible tragedy, and through his leadership has demonstrated that we can stand tall and be proud of who we are and conduct the war against terrorism in the manner that he has conducted. And it is unquestioned that, in fact, he is that kind of leader.

So, in order to make 9/11 remind people about what it is that was important, foreign policy has to be at the center of the campaign. It's not a surprise that

the first major ad that they put out had 9/11 right there, as the ad said, "A nation challenged," and all of a sudden a strong leader. It's all designed to emphasize what Bush himself truly feels, which is he is a different person, he is a better leader, he is a stronger leader because he survived 9/11.

And the third, and final, reason why foreign policy and national security policy is going to be important is because he has no domestic agenda.

[Laughter.]

MR. DAALDER: One of the truisms is, and if I were Tim Russert, if Tim Russert ever had the opportunity to ask Mr. Bush another question, is what are you going to do the next four years? Besides making taxes permanent, what is it that you're going to do? Now, it may be on Social Security that we will have surprises, but we're not going to talk about that until after reelection.

The most surprising thing about that State of the Union address is that it had no domestic agenda. It didn't tell us where we were going to go. It couldn't even mention the moon or Mars, whatever it was.

[Laughter.]

MR. DAALDER: In fact, it turns out you have to go to the moon in order to get to Mars. So it's not part of the vocabulary. When the president talks, he has to talk about the economy because he realizes that's what people care about, and he will trumpet the one or two--and Tony just told me that in addition to the two jobs in California he found, there was one in Ohio last week.

[Laughter.]

MR. DAALDER: But what he talks about is strength, leadership, the war on terror, making America safe, the first responsibility of government, and it's not about

here's my social programs. We've done education, we've done Medicare. So he can run on a good record at home, but in terms of what it is that he's going to do in the future, it's not there. It's not what he thinks he should be doing as president. After all, he's a conservative Republican. So government doesn't have a role in those kinds of things. It does have a role in foreign policy, and he is going to run on that.

So, clearly, George Bush is going to play to his strength, and it is a strength. And I think John Kerry knows, and the Democrats ought to know, that Republicans and George Bush have an extraordinary advantage if this is an election about national security. Traditionally, the gap between Democrats and Republicans, when it comes to who do you trust on foreign policy, who do you want to lead, is 20 to 30 points in favor of the Republicans. It's a tremendous gap. It has very little to do with George Bush. It has very little to do with John Kerry. It has everything to do with the post-Vietnam change in which Republicans became the parties of strength and safety, and Democrats became the party of weakness and insecurity.

Terrorism and the war on terror and the leadership that Bush has provided on terrorism has become his single most important asset in office. The gap between Bush and Kerry on questions like, "Who do you have more confidence in on the war on terror? What is your impression of the ability of Mr. Bush versus Mr. Kerry to lead on the war on terror?" again is 20 to 30 points. It's highly significant that, Bush gets 60- to 70-point ratings while Kerry gets 40- to 50-percent ratings, in terms of whether or not you trust John Kerry to run the war on terror and to deal with terrorism.

Another key indicator, "Who do you trust? Who do you have more confidence in when it comes to leading in an international crisis?" Again, the gap is over 20 points, and it has consistently been--it doesn't really matter whether it's Dean or



Kerry or anybody else, it's a Democrat versus a Republican. And even though the Iraq War, in and of itself, is now becoming a problem for Bush, I note that in the *Newsweek* poll released over the weekend, he is down 7 points in terms of favorability ratings; that is, 7 percent more people have an unfavorable view about how he runs the war versus those who have a favorable view.

His ratings on whether the war was worth it is now at the 50-percent mark, down significantly from about 75 percent at the end of the war. As I said, more disapprove of his handling of Iraq than approve. Yet he is able to tie in Iraq, has been up to this point, into the war on terror. Therefore, Iraq and the war on terror are one. Since he still remains regarded as a strong leader on terrorism on 9/11, in general, that is not particularly hurting him--until last Sunday, not this Sunday, but the week before, when Mr. Clarke, who I will admit I worked for, so I may be biased--in fact, I am (in fact, I'm biased in anything I say)--

[Laughter.]

MR. DAALDER: But here's one where I clearly put my cards on the table.

From Mr. Clarke's 40 minutes of fame on "60 Minutes," and the week that followed, the real question is what is Clarke's testimony, Clarke's book, and the fallout that has come from it, doing to this strategy?

Well, one thing it has done is hurt the president's credibility significantly. The *Newsweek* poll shows a 13-point drop in confidence of the president's handling of the war on terror and homeland security, from 70 to 57. Fifty percent of the American people are paying close attention to what Clarke was saying. Another 40 percent have knowledge of and are paying some attention to what he's been saying. That's 9 in 10

Americans knew what was happening last week. This is not an inside-the-beltway phenomenon. And having the issue twice on "60 Minutes," the most watched news program in America, is going to help this story being real.

Now, the debate up to this point has focused on Bush's strength post-9/11, and the problem for Bush is that if his strength on the war on terror goes, then there's nothing left because all of the other numbers are horrendous for him. All of the domestic numbers, his trust on anything that has nothing to do with foreign policy or the war on terror is a real problem. That's the significance of what Clarke has been saying.

The largest part, though, is what Richard Clarke has provided the Democrats, and John Kerry, and the nation is a narrative, a story that provides an alternative explanation of what has happened in the last 3 years. The Bush story is, "We got attacked. I stood up, and I defended the Nation. I am strong, decisive and capable," and it is a very, very powerful story.

The Clarke issue is potentially an opportunity for Kerry. He has certainly taken it up. What Clarke has done is provided another narrative which is, "You became president. You paid no attention to the threat. You didn't do enough. We got attacked, and then you went after the wrong enemy. And because you went after the wrong enemy, terrorism now is a greater threat than it was even on 9/11."

So that the story Condoleezza Rice said, "We are safer now than on September 10," what Clarke has done has said, "No. In fact, we're no safer now than we were on September 11th." That's the potential that is there. "You ignored the threat prior to 9/11, and you mishandled it after 9/11. In fact, you don't understand the threat."

And that's what is happening to this election season in the next 7 months because George Bush is now the hostage to fortune. It depends on what's going to

happen in the world. Another terrorist attack or a major, major problem visibly on TV in Iraq is going to challenge fundamentally the issue on which the president has staked his reelection. And you now have a narrative that explains his weakness, potentially, as opposed to his strength.

Now, which one of those two narratives are going to play out I think depends on what happens in the real world. If there is no more terrorist attack, if Iraq remains more or less the same, I think you're going to have two competing visions--41 percent support on one side and 41 percent supporting the other side, and the election will look basically then as it does today, which is a likely reelection of the president for all of the reasons that Tom mentioned earlier.

But if something happens in the next seven months to raise the Clarke or the alternative narrative, you may find that the president, who is only standing on one leg because he doesn't stand on the domestic policy leg and he only stands on the foreign policy leg, has no leg left to stand on.

So that's how I see the influence of foreign policy in the next seven months. It means that--we all hope nothing bad happens, but when bad things do happen, the political implications may well be different than what we had thought a month or two months or three months ago, which was the notion that anybody would rally around the flag.

We now have an alternative explanation of why things happened. That's what the Spanish election told us a month ago, and it may well be that this is what is happening here today.

MR. MANN: Thank you, Ivo.

Peter, as you now take on the economic domestic issues and agenda, I hope you address the one argument of Ivo that President Bush has no domestic agenda. If I were addressing this, I think I would say it's not highly visible in the campaign, but this president has an enormously ambitious domestic agenda that is built around the idea of an opportunity society, which, if realized, would lead to major reform of social insurance and taxes in the system.

So he has policy ambitions as great as any president, but the question is given the uncertainties of the reelection, whether he feels as if he can lead with those in the campaign or whether they are to be pursued after a reelection earned on other grounds.

Peter?

MR. ORSZAG: Thank you, Tom.

Before I turn to some of the substantive issues that are likely to be the subject of debate, I just want to note that economists do like to invade other areas of social science, including election analysis--

[Laughter.]

MR. ORSZAG: And Professor Ray Fair, of Yale, an economist, has regularly been doing these predictions of election outcomes. His model currently suggests that President Bush will get 59 percent of the popular vote, and that is hugely statistically significant. So, according to his model, the race is basically determined.

I note he has done fairly well in the past. In the 2000 election, he was fairly accurate. In most other elections, he has been fairly accurate, with the one exception of the 1992 race. So he seems to do very well at predicting races, except when a Bush is involved--

[Laughter.]

MR. ORSZAG: And he may well be wrong here. One of the reasons that he may be wrong, and this brings me to the first area of debate, is that his model is based on economic growth. It's not based on the labor market, and there is a puzzling disconnect between what's going on in GDP growth and the economy as a whole and the labor market. Let me follow up on two aspects of that puzzle.

The first is obviously the disconnect between GDP growth, which is up 7 percent in real terms since the beginning of 2001, and employment. Employment is down, according to the more reliable payroll survey, by almost 3 million jobs in the private sector, by 2.2 million jobs overall. Basically, what's happened is manufacturing jobs have fallen by 2.8 million jobs, the rest of the private sector is basically flat, and government employment is up a little bit.

So there's a very puzzling disconnect between employment growth, which appears to be nonexistent, and overall economic activity, which appears to be quite strong.

In addition, there's a second puzzle, which is that, tautologically, when you have fast output growth and slow employment growth, productivity growth is rapid. So, last year, productivity growth amounted to 4 percent, 4.4 percent, which is quite rapid. The puzzle, though, is that is not feeding into wages.

Normally, economists would argue, when you have rapid productivity growth, at least among those people who are employed, they would be experiencing rapid growth in wages. Instead, in 2003, median real wages for full-time workers fell for the first time since 1996. The share of our national output that is going to wages and

salaries fell to 52 percent in the most recent data available. That's down from about 55 percent, on average, over the last three decades.

After-tax corporate profits, in the most recently available data, amounted to 9.6 percent of our national income. That is up from an average of 6.3 percent over the last three decades.

So what you have seen is not only is employment not growing, which is puzzle one, but wages for those who are employed are not keeping pace with productivity growth. Instead, basically, the productivity growth is feeding into an exceptionally high level of corporate profits.

So both of those aspects of the labor market are puzzles for economists, and I think they do pose challenges for both of the major candidates. The real question is, okay, what do we do about it? And when people start to think about what to do about it, they try to focus on what the potential causes of, let's talk about the slow employment growth, what the potential causes are. Well, sometimes people just say it's due to fast productivity growth. But as I've already mentioned, that's a tautology. Yes, that's true, but it doesn't explain anything.

The sources that people have been talking about for slow employment growth, relative to output growth, include things like outsourcing, where, at least according to the aggregate data, it's hard to tell a story that this is a major contributor to the overall employment picture. It may matter in some cases, but in terms of the aggregate data, it's very hard to tell a story where this is a primary cause.

I would note, as an aside on that factor, just for a second, Senator Kerry had a proposal to change the tax treatment of multinational firms, firms that operate both in the United States and abroad. I think that kind of response to the outsourcing debate,

regardless of whether you agree or not with his proposal, is a very health one. We actually face a major debate in the United States over how we tax multinational firms. And whether you agree or disagree with his proposal, that is a good response to the debate over outsourcing, and we basically should be having a more fundamental debate over the structure of the tax system in the U.S.

Another factor that's been mentioned is health care costs as an impediment to rapid employment growth, and that allows the candidates to then talk about their health care plans in some way.

And a final factor, which I actually think is the most important one, is just a general sense of risk aversion among corporate executives.

[Tape change.]

MR. ORSZAG: [Continuing.] --concern that the recovery has not really fully taken hold, and therefore weariness about future employment, concern about the stance of federal policy and whether the course that we are on does make sense, and a variety of other concerns that I will come back to at the very tail end. So that's the first issue of the labor market.

The second issue is the fiscal situation. We face a budget deficit of about \$500 billion this year. Net national saving, that is, national saving net of depreciation on investment goods, is 1.3 percent of our national income--an absurdly low level of national saving. A primary factor in that low level of national saving is the budget deficit. The problem is what do you do about it?

For John Kerry, in particular, he faces a very difficult tradeoff among a sort of "trilemma" of three factors: One is improving the budget deficit; the second is

financing health care coverage; and the third is how much of the Bush tax cuts he's willing to take back.

And the harder you push on one of those, the more trouble you have on the other two. And so what you've seen is the campaign trying to negotiate its way among those three objectives, and I would expect that that will continue to be a source of tension and attention in the debate as we move forward.

Obviously, a big concern or a big question is: How much does the budget deficit issue resonate? On the one hand, do you have the public concerned that we need to get this thing under control and willing to accept pain in exchange for doing so or do you have the classic "Mondale problem," that if you talk too much about the pain, you don't win? So we'll see that playing out.

A third issue which is starting to rise up to the level of making it into the newspapers, and I think will increasingly do so over the summer, is gas prices, as Tom had mentioned. Gas prices are now a little bit over \$1.70 a gallon. There is concern that as the summer demand comes online and as there's a switch from the winter fuels to the summer fuels, that price may actually increase slightly. There are also some ongoing developments with OPEC. The question is how that plays out.

You've already seen some back-and-forth over whether Senator Kerry did or not support a 50-cent increase in the gas tax at some point in the past. The point is just that, as households go to fill up their tanks during the summer and see relatively high gas prices, at least in nominal terms, not really in inflation-adjusted terms, but in nominal terms, what will the response of the two candidates be, it will at least be an issue that's on the table.



Finally, and I do want to also cover Tom's point, but a final issue I think is a general sense of credibility for, frankly, for both candidates, but in particular for the administration. You've seen concerns about the Medicare cost numbers, whether they were revealed or not, concerns about numbers that were published in the Economic Report of the President, as to employment growth, that were then backed away from. By the way, if replacing Glenn Hubbard with Greg Mankiw was cleaning the decks, I think the administration may be rethinking it, despite the fact that Greg Mankiw is a friend of mine.

[Laughter.]

MR. ORSZAG: This Economic Report of the President was one of the most remarked upon reports in recent history. And I will, just as a quick aside, note that in the Clinton administration, in which I served, that Economic Report was subject to an interagency clearing process, and we always used to resent the fact that the National Economic Council would read through very carefully and look for various different potentially troubling-- politically troubling--statements.

I know, for a fact, that a former chief of staff of the Council of Economic Adviser has called one of the people who were in charge of that clearance process and said, "Thank you. Thank you for avoiding the problems that have arisen with regard to this year's Economic Report of the President."

Let me turn, briefly, to Tom's question. I agree that this administration has what I consider to be a quite extensive domestic agenda that it would like to enact, if reelected. It's just not an agenda that it particularly wants to talk about at this point.

And one of the most interesting questions will be, if the administration is reelected, I think it faces a strategic choice in the beginning of 2005. Does it go for

making its tax cuts permanent or does it go for Social Security reform? I think trying to do both will overwhelm the political system and will mean that you probably get neither done.

And so we will see, if this administration is reelected, which of those two alternatives. They are inevitably going to morph into each other, to some degree, because both sides see at least some relationship between the two. But in terms of where the primary emphasis is, I think the only way that you get either of those packages passed is by putting most of your eggs in that basket in early 2005, and I frankly don't know which one they would choose at this point. If Professor Fair is right, I guess we will find out.

MR. MANN: Peter, thank you very much.

We have time for questions. Let me raise one here first with the panel, and whoever would like to can jump in. Ivo, you will see it as a natural for you, but others may want to comment on it as well.

In some sense, as you described it, the president is framing the election as a referendum on his leadership in the war against terror, more broadly, and that is being complicated by an alternative narrative that is coming forward.

But if it were to transfer into a debate about policy choices—and one of the more immediate policy choices coming up is how do we manage the situation in Iraq now that we're there—then it seems to me we get less in the way of, if you will, policy space between the two candidates. That is, we can debate whether Iraq was a wise choice or not, but having made it, we're there, and I don't hear Senator Kerry calling for a withdrawal.

If anything, there seems to be, if you will, a disjunction between the policymakers and the public. That is, the policymakers say we're there. It's going to take years, and a lot of money, and a huge military presence, and it may, in the end, not work out as we want it to. The public, though supportive, is already chafing at the cost, both in financial terms and in terms of loss of life and injury to our troops.

So the question is, is this likely to shape up as a debate of policy alternatives or is it simply going to be about the past and whether the president has done a good job or not a good job?

MR. DAALDER: I think the temptation--and I didn't talk enough about John Kerry--the temptation for Kerry is to make this a policy debate, and I think that would be a mistake. Because if it is a policy debate, he's probably going to lose it because the intricacies of policy is not what is going to determine how people vote. It's basically a sense of does this guy--Kerry--or this guy--the president--have a sense of what it is that we confront? Do they have a sense of how to deal with it?

And the reason why I think the Clarke testimony is so important is it now provides for an alternative narrative, which basically--I mean, the heart of the Clarke critique is, in fact, much, much worse than the way it has been reported. It's not just that the Bush administration did not give a sufficient high priority to terrorism, and that after 9/11 they diverted attention from Iraq.

What Richard Clarke is saying is three years into this, they still don't get it. They don't understand what this threat is about. They somehow think that a bunch of tyrants that are out there are determining what happens, when, in fact, the threat is something new, novel. It's a multinational enterprise that has nothing to do with states.

Now, I hasten to add that John Kerry hasn't made that critique, hasn't been part of the narrative, but it's there now, and it's really not going to be about the future of U.S. policy towards Iraq. It is more about does the president or his challenger have a sense of what it is that is out there and how to deal with it, and that's one question. And the other one is how are they going to respond when we get hit again?

I used to believe, I said here on this podium many times, that if we were going to be hit again, that George Bush would be the beneficiary politically. There would be a rally-around-the-flag phenomenon. And I'm just no longer--well, worse, I am now getting more and more sure that he will be the loser in that because you have an alternative explanation of why it is happening, in the same way that the Spanish electorate got it in 72 hours, that the way it was framed would lead to a response.

And I don't really think that Iraq--Iraq is not the--the issue isn't what do we do in Iraq; the issue is what does Iraq tell us about how this president has led? And, frankly, Iraq also is a--that's why it's a problem for John Kerry because what does Iraq tell us about John Kerry? It tells us that, I mean, here is how the Republicans will phrase it, is that he's voted three times, and he at least two out of the three times was wrong. In '91, he didn't want to go to war, and he would have let Saddam sit in Kuwait. In 2002, he voted in favor of the war, but gave a speech against it, as he voted in favor.

And then, of course, in 2003, he voted against the \$87 billion, which was, I mean, how can you be in favor of staying in Iraq, how can you talk about not enough body armor, and humvees, et cetera, and not vote for the \$87 billion? And it doesn't help to say that I actually was for it before I was against it, which really is the kind of sentence that one does when one is tired, I guess.

[Laughter.]

MR. DAALDER: But, in that sense, I don't think Iraq is the issue. I think the issue is larger. It is about how do we look at the world in which we live in, the dangers that are out there and how do we deal with them.

MR. MANN: Tony?

MR. CORRADO: Yes, I was just going to add a couple of things.

Generally, there's not a lot to be gained from the policy debate, as Ivo noted. I think one reason for that is the fact that Iraq is basically a referendum, first and foremost, on the president, and it's being driven by real-world events.

Generally, the public sees on television every night what's going on in Iraq and will make judgments based on what they see, particularly I think what we see after June 30th. And as a result, they're going to decide whether or not we're going in the right direction or wrong direction. It's very clear that they're moving more and more to the view that we're heading in the wrong direction in Iraq. And that undermines the president's narrative about being a leader in the sense that it undermines the narrative of, "I have a plan. I know where I want to take us."

And to the extent that they're getting television coverage that dictates otherwise, there's not a whole lot for John Kerry to gain by trying to jump into the middle of that.

I think where he does have a possibility of jumping in is in a way that highlights his past military credentials. And there's probably something to be said about developing this argument he has about how he would develop our defense, and some of these arguments about adding a couple of combat divisions, and taking some of the stress off of our military resources. This puts him in the position of siding with the troops, and allows him to highlight the fact that "I have been there" and highlighting his

background. Because every day he talks about his background and military credentials and his bond with the troops is a day he's doing better than George Bush because that's turf George Bush doesn't want to be on, and it's turf that moves Kerry away from talking about the current foreign policy threats, where the public is generally going to side with the president.

Given the choice of the default of being with the president and what he's doing or with a challenger, the public is going to defer to the president. There's this innate sense among the electorate that, well, the president is in charge, and he knows what he's doing, and we've got to be behind the president on this. It pulls on those patriotic strings, and it pulls on what Americans default to when they don't quite understand a foreign policy threat, which is a kind of trust that the government will do the right thing.

And so I think that there are possibilities there for Kerry, but that it's largely going to be a muddled debate, and I think that's a win for Kerry. If it's muddled and you're making the economy more salient, Kerry is in a stronger position.

MR. MANN: The question I raised really has a parallel on a domestic economic side; that is, does the election shape up as a referendum or as a debate between policy choices and alternatives, and what is the burden on the challenger to not simply critique the incumbent record, but to offer sort of credible alternatives.

Peter, what's your sense of that? And, Katie, I'd ask you to weigh in as well.

MR. ORSZAG: Well, I'm not exactly sure how, from a purely political perspective, the offering of substantive alternatives plays against critiques, but I would

say that it sure is, at least for economists, a lot more interesting when there is a substantive debate.

On that note, I had mentioned earlier--and, again, regardless of whether one agrees or disagrees--I do find it striking that Senator Kerry's tax proposal on multinational firms is a major, significant change in how we would tax international corporations. That's not the kind of thing that you normally hear about.

And I'd say it reflects a more fundamental, underlying debate among economists about whether you should tax corporations only on the activities that they undertake within your country or on their global activities. And that is a real debate that economists go back and forth on in the literature and that Senator Kerry has now waded into, and I think it's great that in a presidential election we can actually, hopefully, have a serious debate about the pros and cons of that kind of approach.

On other issues, you clearly see bomb shells being lobbed back and forth. The fiscal discipline one is the most obvious, with both campaigns now going back and forth on who is less fiscally responsible and charges of hundreds of billions or trillions of dollars of tax increases or deficits, respectively, going back and forth. Clearly, something that both sides feel sensitive about and want to demonstrate they're bona fide about.

MR. MANN: Katie?

MS. TENPAS: I would just say that, historically speaking, incumbent campaigns have a tendency of ignoring the challenger because retrospective voting dominates people's minds. Are we better off now than we were four years ago? And in that case what it does is it sort of pushes Kerry to the periphery. In 1980, it was the ABC campaign--Anybody But Carter. And so it wasn't so much what Reagan had to

offer, it was more do we want this guy for another four years. And so I think the idea about policy options and alternatives is less important in an incumbent reelection campaign.

MR. MANN: All right. Let's turn to you all. We'd invite your questions. We have a mike right behind here. A couple here--Findley?

PARTICIPANT: Peter, you talked about the Mondale example in '84, in terms of the deficit as an issue. There is another model, of course, and that's Perot in '92. So I guess the question is whether the deficit has taken on a weight of political critical mass that points in one direction versus another.

MR. ORSZAG: Two or three factors. One is I think there is an important difference relative to the early 1990s. At that point, you had both substantial financial market and corporate concern about the deficit that was playing into what Ross Perot was saying and being supplemented by what Ross Perot was saying.

Now, for whatever reason, and I have my suppositions, but other people can have others, you don't have at least publicly expressed concern of the same magnitude from that credible community, the financial market and corporate one. I think that makes it harder for policymakers to undertake the painful measures that will be necessary to address the problem.

That having been said, it does seem like the issue is getting at least some resonance.

Now, the problem of course is, to say that you're concerned about the deficit and to say that you're worried about a \$500-billion deficit is not to say that you'd be happy with a thousand dollar tax increase. And the tension of moving from the



general concern about, yes, we have a problem to the specific policy measures that are needed to address it is where the rubber hits the road.

And what's interesting there is that Senator Kerry seems to be mimicking the Clinton 1992 kind of an approach, where the revenue increases are concentrated pretty much exclusively. There's some details that still need to be worked out, as far as I understand, and they haven't released all of the information, but at least in the public rhetoric, exclusively on the top 2 percent of the population. So that, for the bulk of the population, Senator Kerry is saying there would be no tax increase or perhaps a tax cut, and for the very highest earners there would be a tax increase. That's very similar to the formulation that Clinton used in 1992.

MR. MANN: It's fascinating, Findley, that we're seeing, at a time in which we've talked about extraordinary unity within each party, we're seeing each party have a bit of a strain over this question of deficits. There's restiveness in Republican ranks, but even on the Democratic side there are voices now being heard that Mr. Kerry may lean too far to the "fiscal responsibility" side and not do enough to excite the electorate with real alternatives. So we'll have to see how that plays out.

My sense is the one segment of the electorate that might resonate here is young people. It was interesting that the first MoveOn.org ad was built around the deficits and the debt and trying to turn it into a moral issue of our children and grandchildren paying for consumption occurring today by us.

MR. ORSZAG: And just to be clear, I don't think that necessarily means it was targeted to the young. It was targeted to the parents and grandparents of those kids--I think very transparently, actually.

MR. MANN: Yes.

Yes, sir, right here.

PARTICIPANT: Thank you very much. [?] of Embassy of Belarus.

Thank you very much for your very interesting comments. Though they were very specific, I would like to put a rather speculative question.

What do you think the coming presidential election, is it another choice between "this or that" variant of doing business as usual or there is something more behind it? In other words, the next president of the United States, whoever he will be, will he face the choices that would determine the future not for another 4 years, but for another 24 years, for example?

Thank you very much.

MR. ORSZAG: Could I give a quick response--

MR. MANN: Yes, Peter?

MR. ORSZAG: --at least from my sort of area of the world?

I think that if the administration is reelected and retains full control of Congress, which the latter part seems likely, that you will see the kinds of changes that determine not just the next three or four years, but a decade or two decades of policy.

In particular, as various Brookings' publications have shown, making the tax cuts permanent imposes such a revenue loss on the federal government that far-reaching changes will be necessary for decades to come to either deal with the consequences or to restrain government spending enough to pay for it, which is a monumental task when you actually--it's easy to say we can pay for the tax cuts. When you actually look at what's required to do that, the changes are very far-reaching.

I would similarly say if, instead of, as I pointed out before, I think a choice will be present between doing that--making the tax cuts permanent--and Social

Security reform. Enacting either, so either making the tax cuts permanent or the type of Social Security reform that the president favors, would be a far-reaching change that would have consequences, I think, for decades to come.

Furthermore, as Tom mentioned, there is a broader agenda here that's not just limited to the tax cuts in Social Security, but has to do with the so-called opportunity society or a more individualistic approach to policy that moves away from joint risk-sharing, social insurance kinds of programs and towards individual ones. You see that in saving account proposals, you see that in health care with individual health care account proposals. These sorts of things may seem like they're not overwhelming, but they would represent a fundamental shift on the order of magnitude of "The Great Society" programs, but obviously another direction.

MR. MANN: Tony?

MR. CORRADO: Another aspect that's very important, and I'm sure we'll hear about more in the general election, is the effect the next administration is likely to have on the federal judiciary, particularly in terms of what are expected as upcoming Supreme Court vacancies and continuing vacancies in the federal district courts.

This next four years will be particularly important I think in determining the future shape of federal court decision-making, particularly because the current Supreme Court is so divided on so many issues on a 5-4 basis, that an appointment or two could really have a fundamental effect for a long period of time on the future direction of Supreme Court decision-making. So, in that regard, there's a potential for a very widespread, long-term effect that will affect many policy areas.

MR. MANN: What I would stress here is that, there really are big differences these days between the two presidential candidates, between the two political parties. There are differences in philosophy, differences in values as striking as are ever presented to the American people.

Now, we have a system of checks and balances and separation of powers, and there is the real-world context in which governments must operate. So their actions are inevitably constrained and policies altered by being forced to confront those realities.

Nonetheless, we have seen now in this environment that this president was able to take basically a dead-heat election and use it as a basis for major departures in domestic and foreign policy. So the old argument that, well, they'll all be constrained and have to work with Congress, and this and that, doesn't hold so well. There really are opportunities for policy departures that can have legacies lasting in decades, not simply in months or years.

MR. MANN: Gary?

MR. MITCHELL: Gary Mitchell, Mitchell Report.

I want to switch subjects a little bit and talk about the thing that's on everybody's mind this week, really, which is the Final Four.

[Laughter.]

MR. MITCHELL: And it occurs to me that, unlike the NCAA, we only have three players. There's a fourth yet to be selected. And given the panel's characterization of the political landscape in spring of 2004, I'd love to hear some observations about the importance of Kerry's choice and whether it should be electoral or expertise driven;

Second, as a consequence, who should be on the short list;

And, third, whether there's a chance that this year, instead of an October surprise, there'll be an August surprise and whether Richard Cheney might decide in August that his heart isn't up to another four years.

MR. MANN: Well, let me start, and then I'll turn to--

PANELIST: We might be happy to have you finish, too.

PANELIST: I was going to say, since Jim Johnson is in charge of Mr. Kerry's vice presidential selection--

MR. MANN: That's right. We should--

MS. TENPAS: He'll pick himself.

PANELIST: And since he's the former chairman of the board of Brookings, we should tread carefully here.

PANELIST: Any selection will be terrific.

PANELIST: Right.

[Laughter.]

MR. MANN: Yes, we're sure he'll do a really great job.

PANELIST: Next question.

[Laughter.]

MR. MANN: Listen, it's almost impossible to forecast the kind of very personal choice that presidents make regarding running mates. They can think geography and a state or region; they can think demography and a particular sort of ethnic or gender or labor market; they can think message, as Clinton did in '92, of reinforcing a kind of "new South," young style of new Democratic leadership.

Each situation calls for its different set of calculations, and quite frankly I've heard people claiming to be on the inside who speak with confidence that Richard

Gephardt will almost certainly be chosen because they have definitive evidence that he will help in Missouri and Ohio, and others say, what are you talking about?

So, frankly, they are looking widely, they're looking at unconventional choices, people from outside elective office, but they could well come back in the end, after doing all of those assessments, to picking the person who was the last to drop out-- John Edwards--which is oftentimes a perfectly reasonable and safe choice.

The first challenge with picking a running mate is do no harm. Do not allow your running mate to displace the public focus on the presidential nominee and on the campaign that he lays out. So it seems to me, given the fact that we all believe there are the makings for a very competitive election, it would be foolish, in my view, to take a chance on a terribly unconventional running mate who hasn't been vetted, who hasn't been through the difficult experience of campaigning for national office. So I think, in the end, after considering a wide range, they will end up making one of the more conventional choices.

Just a final word—I don't think there's a chance (or there is only a vanishing probability) of Dick Cheney not being on the ticket. He is valued by the president and by the Republican Party. He was George Bush's choice originally. He got him to help with governing, not campaigning, because George Bush felt he would take care of the campaigning side. To somehow have Cheney leave now is to admit a mistake in judgment and raises many more questions than it answers.

I think Dick Cheney will be a strong vice presidential running mate for George Bush in this campaign.

I'll pass to my colleagues.

PANELIST: Could I just, on the Cheney issue, because I know nothing about all of the other stuff. I know nothing about Cheney either.

[Laughter.]

PANELIST: But it seems to me there's one scenario where Bush can have a "two-fer," which is if it turns out that a senior Cheney aide, like the chief of staff, was responsible for leaking Joe Wilson's wife's name to Bob Novak, as rumors have been indeed the case, but if you get an indictment of Lewis "Scooter" Libby, you then have the opportunity for the president to do two things: to get rid of Dick Cheney and to do so publicly by saying, "I have lost my confidence in the person who--"

Now, this is not going to happen because that's just not the thing--Bush people don't do that. But it strikes me, if the chief of staff of the vice president is involved in what the government believes to be illegal activity, you have a golden opportunity to move, but it's the only way. Dick Cheney is not going to leave. Even if his heart gives out, he's not going to leave.

[Laughter.]

PANELIST: So you can't count on Dick Cheney. It has to be Bush's decision, and Bush--everything we know about George Bush and the Bushes as such, it makes it very unlikely. But I've always thought getting his chief of staff indicted is one way to get rid of Dick Cheney.

MR. MANN: And the reason it would be unlikely to happen is because President Bush wouldn't see that as a golden opportunity. For him, a golden opportunity is retaining Dick Cheney in a second term because he seems to him a great asset to his team, and governing, and achieving the objectives he has in mind.

Tony?

MR. CORRADO: Well, that's particularly so because a lot of this speculation tends to be driven by the fact that Cheney doesn't have the highest favorability ratings right now. But I think the White House knows that people don't vote for vice president, that Cheney will be an important critic of the Democrats on foreign policy and defense issues. That's going to be the role of the vice presidential candidate in this race. Cheney plays it very well.

I also think that to change horses in midstream promotes a sense of instability, a sense that the president doesn't have a direction for the country, doesn't really know what he wants to do, that reinforces all of the negatives that are out there that the Bush campaign is desperately trying to tamp down, and it would bring all of those into high relief. It would also create further questions on the right about how sincere the Bush administration is about pursuing their agenda. So I don't see a scenario, absent some major controversy or scandal, where we don't have Dick Cheney.

On the Democratic side, I would tend to agree with all of what Tom said, which I think were all of the basic government notions of what you should do in a vice presidential search.

And I would say this: I don't think, just to mention your point, it's going to be as much expertise driven as electorally driven. Given the electoral predominance of this race and the narrowness that everyone expects, I think there's going to be a high priority to a candidate who can certainly bring the ticket to his or her state and can certainly bring the ticket some residual effects.

For that reason, I think that an Edwards is very strong, not simply because he's a Southerner, but because he helps in Missouri, and Southern Ohio, and in West Virginia, as well as in Florida. I think that I wouldn't overlook someone like a



Vilsack in Iowa, who is a good, solid Midwestern governor. They want to play to the Midwest.

One of the real issues, it seems to me, is whether or not they want to look at a Gephardt and run the scenario of trying to really blow up the vote in Pennsylvania, Ohio, Michigan, Illinois and Missouri, and take the strategy of trying to box the Republicans out of those states. I think there is a bigger downside there, in terms of looking more at old Democrat, traditional Democrat doesn't do a lot to excite the ticket. It seems to me that that is really where the first cutoff comes with the other candidates.

Since I'm just a visiting fellow at Brookings, I can go more out on a limb now.

[Laughter.]

MR. CORRADO: They'll get rid of me anyhow, Gary, right?

MR. MANN: All right. We have time for one more question. Right here, please. The mike is coming.

MS. PERLMAN: Thank you. I'm Diane Perlman, co-chair of the Committee on Global Violence and Security for the American Psychological Association, and I've also written about psychology of terrorism.

And I think there's an incredible opportunity to further continue with what Richard Clarke, thankfully, opened up. The debate on the war on terror is based on false belief systems that are completely psychologically incorrect, and he is right that we are creating more terrorism, and counterterrorism is an oxymoron, and that before the war we knew that invading Iraq would increase this.

I think that there is an opportunity for Kerry to I guess package stickier messages on this that are based on more credibility. There are two kinds of experts on

terrorism, the superficial symptom-oriented ones and going after them, and then the deeper ones, in terms of ending cycles of violence and addressing root causes.

Kerry has some ideas. So, if you could just comment on this.

MR. MANN: This links to the jobs program, jobs effort, because this is an effort to hire some psychologists, Ivo, in a new administration.

MR. DAALDER: I think we're worried now about what happens up until November 2nd. What happens afterwards is for other people and another panel to decide.

[Laughter.]

MR. DAALDER: I think that John Kerry can't win the terrorism debate. I just think that George Bush can lose it. And under those circumstances, the less said the better. The best thing that John Kerry ever did was to go ski at the moment that Richard Clarke was going to go out there. They knew Richard Clarke was going to go out there, and he has not said anything, and I think he should just keep it that way.

There is an alternative narrative. It's out there, but if he exploits it, if he does what Howard Dean did--continues to do every single day--and blame George Bush for everything, it's not going to work. Americans don't like to hear that their president is responsible for the death of 585 American soldiers and counting. It's much better to just let this thing ride because the events themselves will determine who is right and who is wrong and which narrative is more likely to win of the two.

This is a referendum on the president. Incumbents, I mean, this is Katie's central point, and challengers don't win elections; incumbents lose them. And you therefore don't have to have a whole program about how we're going to do, and the root causes and everything else. That's fine for when you're governing, but when it comes

from--for the purposes of election, if there is an attack, why did it happen? That's the question that is going to be raised, and now you have a potential to have something other--

If the Bush administration's answer is because there are evil people out there, now you have an alternative, and that's important.

MR. MANN: I'd like to thank my colleagues and thank the audience for coming. We will reconvene at some later point. And remember, "Get Out The Vote," tomorrow afternoon at 2 o'clock.

Thank you.

[Applause.]

[Whereupon, the proceedings were concluded.]