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WHAT THE MIDTERM ELECTIONS IMPLY FOR THE NEXT TWO YEARS

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P R O C E E D I N G S

MR. MANN: Good morning. Thank you all for coming. I'm Tom Mann, a senior fellow here at Brookings, and there's a rumor going around there was an election of some consequence earlier this week. We're here to determine whether that was true and what is likely to follow as a consequence.

I am really delighted to be joined by four of my colleagues here at Brookings, and one of the really nice things is we've managed to pull together all five of the Brookings research programs. Starting on my right, Kemal Dervis, who is vice president and director of The Global Economy and Development Program. Then from Economic Studies, Ron Haskins, a senior fellow. To my left, Amy Liu, who is deputy director and senior fellow in the Metropolitan Policy program here at Brookings. And, finally, Michael O'Hanlon, a senior fellow in Foreign Policy.

I'm with the Governance Studies Program so listen, folks, this is Brookings. We're bringing you our whole team, and we're delighted to have a chance to reflect with you not so much on the election results and explanations of that. We've had a couple of days to do that in other settings and opportunities, but rather to focus on what is likely to follow and what some of the big sort of policy questions are as we move forward.

Just to briefly recap, to give you the up-to-the-minute status of the race, as Patty Murray's race in Washington has been called, and a one Republican or another, Lisa Murkowski will be elected in Alaska. So we will see a net pickup of six Senate seats for the Republicans leaving us with a 53-seat majority for the Democrats.

The House, of course, had the most dramatic of showings. There are still nine undecided seats, but thus far the Republicans have picked up 60, a net of 60, which is a huge pickup, and that could go to 69; it could get as high as 65. As I look at the nine now and see who's ahead, maybe 62-3 is a more likely predictor.

The national vote swing was about seven percent, which is a little bit higher than it was in 1994, certainly higher than it was in 2006. You really have to go back to 1948 to see a vote-swing of this sort, but what's really significant is that it was that number percentage of vote-shifting proved unusually productive for the Republicans, and garnering then more seats than one would have expected. So they're going to be in a pretty strong position, possibly the strongest since 1946. But I quickly remind you that the following election, 1948, they lost 75 seats in their majority. So sometimes these things are ephemeral and sometimes they're enduring.

On the governors' side, there were four undecided races, and it looks as if all of them will go to the Democrats, in which two are wholes in Illinois and Vermont,

and two in Connecticut and Minnesota are likely to be democratic pickups. If that's the case, we're going to end up with a net pickup of six Republican seats in the governorships moving the Republicans from 23 to 29, Democrats having 20 and one Independent. And always kind of Maine to provide a -- almost always -- an Independent candidate. Republicans did especially well in the state legislatures picking up 19 chambers and over 650 individual seats. So make no mistake about it, this was a Republican wave across the board of some significance.

As I said, we're not going to spend much time on reflecting on the meaning of this. I'll just simply use the prerogatives of the Chair to tell what I think about it, and what I think is that this was a pretty understandable outcome, in general, a bit bigger on the House seat side, but everything else in line with the fact that the Democrats were in power at a midterm election with large numbers of seats at risk because of two previous electoral successes, and during a time of extraordinary economic distress. If you take that in the altered composition from moving from a 60 percent electorate to a 40, you get a pretty good sense of what's going on.

I think it was those swing voters voting against the party in power because things are going very badly; but I believe the endless set of columns most of which cluster in *The Washington Post* from George Will and Charles Krauthammer, and

Kathleen Parker and others that see momentous meaning that we had an extraordinary experiment in extreme liberalism which has been rejected, and the country will now move, you know, to the right of center. I don't think over the last three elections there's been any meaningful change in the electorate in that regard, and I don't think we've had any experiments other than the desperate efforts to deal with an economic crisis.

But that's, you know, that's for another day. The more important question is what in the world is going to happen over the next two years. We first will face a lame duck session, and some things have to be done, namely appropriations. And then I think not allowing tax cuts to expire given the fragility of the economy. I see some possibility of perhaps the only major compromise developing with perhaps temporary extension of all of the Bush tax cuts, '81 and '83, combined with an extension of the Obama Make Work Pay tax cuts in the stimulus, and an extension of unemployment benefits.

Now, maybe I'm just an optimist, but I think there's a chance of something like that happening and in the lame duck. But once we get into the regular session of Congress, I think that both the agenda of the House Republicans, which is focusing on killing or disabling health reform and on immediate cuts in government spending will not be received well -- the latter not received well by Ben Bernanke and

perhaps the level of economic growth in the short term -- but politically by the Senate and the President.

So it will be fascinating to see. I think there are areas of potential compromise in purely substantive terms if the political dynamic of opposition and partisan polarization does not undermine that. But that's what we're going to be talking about in a range, on a range of matters. We're going to begin with this fellow here to my right, Ron Haskins, our colleague in Economic Studies, who, fortunately for all of us, was on the Ways and Means Committee Republican staff after the 1994 Republican takeover of the Congress, and really in a position to observe how that work.

He was around at the time of the budget showdown between President Clinton and the Republican Congress, and in the period following that. So, Ron, the question is are there any parallels between then and now, and what might we learn from whatever parallels exist about the Republican agenda now and how it's likely to be received.

MR. HASKINS: There are a lot of parallels, very fascinating. I think they're instructed for what might happen next, but they're also very substantial interesting differences that could be more important than the parallels.

First the parallels. You have a Democrat president who's a little bit on the ropes, suffered a big defeat, and Republicans are pleased to push him further toward more defeats. You have a Republican Congress, newly elected, in this case -- in '94 both the House and the Senate -- in this case just the House, but if your intent is to stop things, all you need is one of the bodies.

And then you have lots of freshmen, even more this time than the last time. I think the net pickup in seats was 54 the last time, and I think there were 73 total new members in the House the last time. And then you have huge budget and taxations that are pretty much "must solve." Something's got to happen.

Differences. First, there are even more Republicans, new Republicans in the House now, and I think I knew a lot of the members personally in '94-'95. They were a very tough group. They were far to the right of the members that were in the Congress already, maybe not far to the right but definitely to the right, and they had ideas of their own that they were bound and determined to execute, especially having to do with budgets and balanced budgets, and even a constitutional amendment. So, if anything, the group now is, seems to be, even further to the right, although I would say that it's important that many of the incoming group are experienced legislators. And any

experienced legislators know that compromise at some point is really a necessity. So that's going to be an interesting dynamic.

The Tea Party, of course, everybody recognize play a huge role, but we should immediately say that so did Independents. It's not like Republicans won because of the Tea Party; they won also because of the huge shift in Independents. And to some extent those are offsetting if you think of the Tea Party that they seem further right perhaps even than the average Republican in the House now, but Independents are not further right. So Republicans are - if they want to continue their string of victories and they want to win in 2012 and take the presidency - they're going to have to play to the center as well as to the right.

So then another difference, huge differences in the presidents, I think, Clinton, who was a genius all along, showed himself to be a complete genius, completely mastered Republicans, turns on a dime, suddenly he's a moderate like he's been as a governor, and this is a difference I think. I don't think Obama is a moderate. Clinton was a moderate. His whole career was built on moderation, and he turned on a dime, changed his staff, did all the things you're supposed to do, talked about uniforms and had an almost a daily and weekly message about how he was really a centrist president and

understood the American public. Whether Obama can do something like that is, I think, is a real question. I'm not confident he'll be able to do that.

And then a second huge difference, and this is really important, is in the House Republican leadership. Now, I'll bet a lot of people in this room think Newt Gingrich is -- might even think he's a little flaky. He definitely made some huge PR mistakes at that time. I think mistakes were made, as they say, but when push came to shove and the Republicans' closed down the government, which is in offing now -- I mean the Republicans -- the leadership are saying they won't close the government, it's going to be a big deal especially when we get to the debt ceiling in March or April, whenever it comes. There will be a threat I am sure.

At that moment and negotiations fell down, fell apart several times on huge budget issues, and these are really important issues for the future of the country, and at that time Gingrich struck a deal, about the third deal, came back to the Republican caucus and in a fiery speech, very tough, brilliant speech said this is the best deal we're going to get, we're on the ropes, the public is not necessarily on our side, we need to take this deal. And those freshmen were still not convinced. And he finally said: If you don't take this deal, you can find another speaker. That's leadership.

And they took the deal. It was a great deal, was good for the country as everybody here knows. We balanced the budget; it was followed up with another good deal in '97 and balanced the budget.

Whether something like that can happen again and whether the leadership in the House, Boehner, et al, are able to do that kind of thing and exert the control that Gingrich was able to assert is very much up in the air. I think we're going to have a lot of trouble. I don't see how anybody can be optimistic.

MR. MANN: Ron, the one thing you didn't mention in the comparison is the control of the Senate. After 1994 the Republicans controlled both chambers. Now Democrats have some agenda control not in terms of a positive agenda control because of the filibuster and holds and everything else, but a negative one so that they're in a position to keep what the House Republicans managed to get out from even coming to debate. I'd remind you that 328 bills passed by the House in this last Congress were not taken up by the Senate. How do you see that playing out, the difference in political dynamics because Democrats control the Senate?

MR. HOSKINS: They'll certainly be able to stop things. As far as I can tell from what the leadership has said so far, Republicans have a firm understanding that they are not the majority party, they do not control Washington, they're the loyal opposition. What they can do is put down an agenda and that's the part that's going to be tough. That's where you need the leadership in the House. The Republicans are going to establish an agenda, show the nation, show the Tea Party, show the

independents they have an agenda, they're going to move toward it. I assume the number-one thing is something about the deficit, that they'll actually cut spending although if you consider tax cuts as well it's not sure there will be a net impact on the deficit and somebody is bound to point that out, someone like Tom Mann. But I think that's the important thing.

To some extent for the Republicans' major purpose the Senate doesn't matter. Republicans need to have an agenda and show they can pass it and they can be unified in the House. Let me mention one other thing. One of the hallmarks of the Republican control of the House and the Senate to some extent but especially the House was the way the House is set up Jefferson was very wise, the majority controls. A majority cannot be stopped. If they control their votes, they pass whatever they want to and the Republicans did not lose votes in the first 2 years of the 104th Congress. They passed everything because they controlled their votes. Again we go back to leadership. Can they control their votes and show that they have an agenda, they can define it and they're serious? That will be very, very helpful in and of itself for 2012.

MR. MANN: Madison thought he did that for the Senate too, but that was an accident of history that ended up giving us the filibuster, no motion on the previous question in the rules that close of debate but that's another story. One final question. Let's fantasize for a moment and imagine the President's Deficit Commission manages to report something, a set of recommendations. Let's imagine, and from the rumors we're hearing they're going to sort of careful in what they do and don't do, no increase in tax rates but almost certainly a reduction in tax credits, tax expenditures as part of this along with some adjustments in the Social Security program and some other things. Obama will from what he said almost certainly send it up to Congress and to the House and say, guys, go for it. I'm behind this. I want to see you go. What will be the

reaction of the Republicans on the Hill?

MR. HOSKINS: I think most Republicans will regard even tax expenditures, closing loopholes to put it in the most negative way, as tax increases. Almost all of them had signed a tax pledge. Boehner himself in his famous Cleveland speech brought this point up about tax expenditures and he said there are spending programs through the Tax Code which is exactly what they are so why would you call those if you close them tax increases, and yet Grover Norquist was all over it. I think this is really the biggest issue, if Republican can figure out ways to actually raise taxes or increase revenues to put it in neutral way, then I think there's the prospect that there really could be a deal and Boehner himself as said that he regards closing loopholes and I'm sure that's the term he'll use or tax expenditures as legitimate. So there will be a big fight over it and if Boehner wins that fight then I think we really could do something about the deficit.

MR. MANN: A final point. Would you agree with me that health care --?

MR. HOSKINS: No.

MR. MANN: Come on. It's a new beginning, that the effort of the Republicans to repeal, disable, defund, harass the HHS implementers, all of that is largely symbolic policies, that nothing of consequence will happen over the next 2 years?

MR. HOSKINS: Nothing of consequence will happen because Obama and the Senate will make sure it doesn't. But, no, I think Republicans will chip away. I think they'll pass legislation in the House that chips away at Obamacare as they call it. It won't pass. No, it won't pass.

MR. MANN: That's what I'm saying. It's rhetorical in the sense that it will only move through the House when it happens.

MR. HOSKINS: But it's not rhetorical in the sense that I was talking

about previously, that Republicans need an agenda for 2012 and this appears to be very population, the American public is approximately split on whether Obamacare is a good thing and Republicans can put down a marker that we would do this, this and this and look at this, we passed it in the House, give us control, we'll really fix this thing and America will be better off. That's going to be their line and they'll be able to pass things and they will do it I think but they won't become law.

MR. MANN: Amy, if we needed to be reminded of the fact that we have a federal system and the importance of the relationship between the federal government and the states, certainly this economic downturn reinforced that as states because of their balanced budget requirements cut back they became a drag and detracted from whatever stimulus was coming out of Washington. Now as we try to emerge from this and look ahead to the big issues on the table, what will be the consequences of these elections in the statehouses for the possibility of federal-state cooperation on the big issues that confront the country?

MS. LIU: I think that's the right question to ask right now which is how do we govern in the postelection environment. I do think that the bulk of the conversation to date has been about the dynamic between the President and Congress, but as Tom just said, it's also just as important to focus on the federal-state relationship. Washington tends to legislate, but federal agencies and states implement. The federal-state relationship is absolutely critical in delivering on some big-ticket national priorities facing the nation. We saw that through the \$800 billion stimulus package, health care reform and on how they jointly strengthen the core fundamentals that will drive job growth in the short term but also put us on the path to long-term prosperity. All the debates in the states are around pre-K through higher education reform, research and innovation and infrastructure. So going into this next agenda for the President I think it's really to the

President's and even Congress' advantage to work with the states going forward for job growth because that's what's everyone is going to be held accountable for. Interestingly, I think the focus on states for Washington is important just in case nothing really advances in a bipartisan way in Congress in the way folks would like to see so I think for the President it's important to really govern nationally.

Given that, I think there are three considerations that are really important for the President in his collaboration with states going forward given the elections. First is Obama has an opportunity to use the states' fiscal crisis as an opportunity to jointly fundamentally overhaul major programs. As we all know, the states budget crisis is real. In total, states face about a \$140 billion deficit. The shortfall just for this upcoming fiscal year is as high as \$21 billion in California, \$10 billion in Texas to about \$1.5 billion in Michigan. A lot of these new governors may be talking a lot of rhetoric, but they're going to be really shocked at the seriousness of what they're going to inherit once they start to govern. The most pragmatic governors I think will use the fiscal moment not just to cut spending but to fundamentally overhaul the way programs and services are delivered. I think the reality is that most of the easy cuts, most of the things that they can sell and privatize have already been done. The hard work is what has been now facing most of them. So I do think that the governors and their legislatures who now jointly co-own this fiscal crisis are starting to talk seriously about consolidating programs, pushing for cost-sharing arrangements or governance reform particularly between local entities, requiring performance metrics and cost-benefit analyses on some of the big investments they're going to make either on infrastructure or higher ed, shifting spending priorities from programs that don't work to programs or even geographies like metropolitan areas are going to deliver really good return on taxpayer investment. I think that given that mood the President has an opportunity to do what he did with the Race to the Top Funds on K

through 12 education, to continue to use catalytic funds, the few discretionary dollars he does have and start to reward those states that share with him the vision for overhauling the performance of some really critical drivers that will affect our economic prosperity.

The second thing is that I think the President and the new governors are going to be jointly held accountable for job growth. There is no doubt that this is what they're going to be measured for. I think one of the interesting things that the President or this administration has learned with the stimulus package and others is implementation is tricky and at the end of the day when they look at the numbers the economic recovery is highly uneven. In fact, there is only one metropolitan area in the country that has actually restored the jobs that they lost since the recession and that's McAllen, Texas. If we're going to reclaim or grow jobs we have to understand what's holding Detroit back, Pittsburgh, Cleveland, Salt Lake City, and others from growing jobs. What's interesting is this is about empowering regional economies. What we've found is the governor when they talk about job growth don't talk just about tax cuts and tax relief for businesses, there is literally a whole group of pragmatic governors who say we need to empower our major job centers to grow jobs and industry and innovation again. This is something that the President has talked about and they I think jointly can figure out ways to help small and midsize businesses in these metropolitan areas meet the President's goal on doubling exports, connect them to some of the growing consumer markets around the world because domestic consumption here is going to be declining so that we have to hit those growth markets, regional innovation clusters, financing infrastructure is really important for a lot of these states. So there is a way for the fed and the states to work jointly to really empower leaders at the local and regional levels to get to what is holding back job growth and market failures in these individual places.

The last thing I would say that's really important is that we always know

that states innovate and fed does tend to follow. This is going to another one of those moments given the rash of new governors that we have. I think that Washington, both Congress and the President, has an opportunity to observe and learn what this new set of governors will do. I think that with all this talk, the reality is that of the new governors who have come, only two are real Tea Party endorsed candidates. The bulk of them I think are going to be again pragmatic, nonpartisan, non-ideological leaders who are going to have to work realistically to handle these budget deficits and grow jobs. So I think what you're going to see that pension fund reform is going to be a big thing that a couple of states are willing to tackle and that can inform the way Washington tackles entitlement reform. Washington has talked about infrastructure banks, states are looking at public-private mechanisms, state infrastructure banks to pay for the major transportation reforms and infrastructural repairs, ports, freight, logistics, all those things that have not happened in Washington, the unfinished business here, but they're going to try to tackle it, find ways to work with the private sector, try to find ways to finance it and I think that could really inform the debate here. You're going to also see that a lot of the governors talked about the clean tech economy, something that Obama has talked about in terms of part of the equation for job growth in the short and long term, so I think overall this is a really important opportunity for the President both in terms of collaboration but also for learning.

MR. MANN: That's a pretty optimistic observation and it's really very encouraging. Let's take two states where there really has been a lot of effort and where metro, your program, has worked, Pennsylvania and Ohio. Both are seeing a switch from a Democratic to a Republican governor. On the basis of what you know, are those efforts likely to continue or is there such a profound partisan difference that that will overwhelm the inherent need to be pragmatic as chief executive of a state?

MS. LIU: Well, I think that, you know, where I think that most of the bold ideas are going to come from -- and this is not to knock incumbent governors. But I do think where you're going to see a lot of fresh energy is from the new governors.

So let's take Corbett, who is going to be very -- you know, he may have rejected health care reform at the federal level, but at the same time very serious about tax reform and governance reform around the economy. And I think folks think he will be a true change agent in that state, working with business leaders.

I think that if you look at other states, too -- Tennessee, Republican governor, former mayor. You've got Colorado -- these are states who have already, again, very serious about structural reforms, but are not afraid to reinvent government in a way that's going to create job growth in these regional, in these local areas.

Everyone is highly aware of the budget crisis that they're facing, but they're not using it to be draconian in cuts, they're thinking about ways to cut and invest. And that's the kind of dialogue I think we need to continue to have here, as we think about the issues that are before Congress.

MR. MANN: Do you -- should we take the efforts of many of the state Republican attorneys general to challenge the Constitutionality of the individual mandate within the health reform bill as an indicator of how Republican-run state governments will resist the implementation of the health care reform?

MS. LIU: You know, I will -- it's interesting, we looked at some of the ballot referendums from this last, from this election, and there were, I think, some interesting symbolic votes that were made.

And three -- in fact, four states, actually had measures to not require individuals and businesses to purchase health care reform, in sort of a rejection of the federal plan. Three of them passed, one of them did not.

So I think there is still, as Ron said, mixed feelings about what the -- how the public feels about health care reform.

I think the interesting thing in the conversations we have had with some governors is health care reform -- outside of Medicaid, this is not what they are talking about. It may be a campaign issue, but when it comes to governing, they are much more focused on, "How do I reform higher ed -- which is a big investment for us, too -- that's going to deliver results?" Because everywhere they travel on their jobs bus tours, we don't have the right workers who are really fit to meet the jobs of tomorrow.

So there's a lot of focus on how to reform higher ed -- not just K through 12 -- to deliver on the performance and outcomes that we need for the next economy.

There was a lot of talk about how do we really grow jobs in these states. Tennessee, again, knows there's a real difference between Nashville and Memphis and Knoxville.

So I -- you know, what's interesting is I think there will be a lot more focus on health care reform from a focus on how do we change the way we deliver the Medicaid portion of it, as well.

I do think, though, that as the feds and states work together, they are going to find there's no doubt there's a lot of federal barriers to getting a lot of these works done. And health care is one of those big symbolic efforts.

But I do think there's an opportunity to streamline implementation on a whole set of fiscal and economic issues in the next couple of years.

MR. MANN: Thank you very much.

Kemal, the President got a sort of good jobs reports three days after the election -- you know? -- 150,000 new private sector jobs created. But no one imagines that we're out of the woods in any sense.

The Fed has acted -- QE2, right? -- "quantitative easing number 2." Ben Bernanke has taken to the pages of *The Washington Post* to explain it.

I think he's really worried about economic growth and jobs, and would prefer the Congress to do the stimulus. But it's clear they're going to probably do anti-stimulus -- that is, cut spending immediately.

So what -- where does this leave the President? Does he have tools? Diplomatic tools in the broader global system? What are prospects? We have a G20 meeting coming up soon, as well.

MR. DERVIS: Next week.

MR. MANN: Yes.

MR. DERVIS: Just one quick question, because of the overview -- before I answer.

Participation -- how many people voted? How does that compare with the past? Do we have the numbers?

MR. MANN: It looks like it will be about 41 percent of the eligible electorate. It's about the same as in 2006 -- but, of course, as is traditional, down from about 61 percent in the Presidential election.

MR. DERVIS: Sure. I just think it's a relevant point when, you know, when you look at the overall --

MR. MANN: Huge difference in the composition of the electorate.

MR. DERVIS: Right. Yes.

MR. MANN: No question.

MR. DERVIS: Okay.

Now, on the economic side, let me maybe make two points that I think are part of the background or the structure within which one really has to discuss both the tax issues -- which are very important -- the fiscal policy issues and the employment issue -- okay?

As a background to the fiscal issue -- and, clearly, you know, how to extend or not to extend the tax, for whom, and so on -- that's going to be a very immediate issue. And it has international implications. I mean, the world is looking at what the U.S. is going to do -- I'll come back to the QE2 business and all that.

But in that context, I mean, I think one has to realize that there has never been as much income concentration at the top in the U.S. since the 1920s -- okay? We don't -- we have the 2007 numbers, we have some 2008 numbers. We don't yet have '09 and '10. But we have some indications. And it seems that 2010, the income concentration will be even worse -- if you want to use that term -- than in 2007. Okay?

The top 0.1 -- not 1 percent, 0.1 -- of American citizens make about 12 percent, 12 to 13 percent, of total income.

So when you discuss the whole fiscal issue, deficit reduction issue and all that, I mean, that is part of the structure. It wasn't like that in '94. The trend had started. But, you know, it has accelerated tremendously, particularly in this century.

So when you look forward in terms of what kind of tax system, I think this is relevant. This should be relevant, at least, in my view. Okay?

Now, whether -- you know, whether the cutoff point is 250 -- if I had been President Obama, I would have made the cutoff point a million -- okay? -- in terms of the extension --

MR. MANN: It has a ring to it, you know.

MR. DERVIS: Yeah, it has a ring to it. Also, you get a lot of money, actually. Because there are lots of people up there, you know, earning a lot of money. So I think that is one fact that's not to be forgotten, I think, and shouldn't be forgotten in the debate.

On the jobs side -- and clearly, this is the number one issue -- you know, close to 10 percent persistent unemployment, long-term unemployment, ratcheting up in every crisis and now very, very, very persistent. But, you know, in the long run, the issue of skills is crucial. And you said that. The issue of U.S. competitiveness, education and so on.

Nonetheless, there is a macro-demand side to this. It's not just an issue of skills and structure. If it was only an issue of skills, we would see salaries and wages of skilled people shooting up. They're not. Okay? So there's an overall macro problem here of not sufficient demand.

It's not an issue, by the way, of not enough money, profits -- or even the banks now are full of money. It's a matter of people wondering whether they should invest and, I think, wondering whether there will be enough demand out there for the products that they're going to produce. Okay?

So I think these two things are important in terms of the overall economic debate.

Now, internationally, we have a world that's very different from, again, from what it was in '94 -- or from -- it was in the '80s when Volcker, you know, raised interest rates sky high to fight U.S. inflation at the time -- okay? And successfully did it, but in the meantime created a huge crisis in the emerging markets, and in Latin America

particularly, the debt crisis, because countries that had borrowed at variable rates all of a sudden had to pay sky-high rates on their debts -- okay?

Now we see almost the opposite. I mean, the U.S., QE2, the monetary policy, is fighting deflation, or the threat of deflation, and is flooding the emerging markets with money, putting upward pressure on their currencies, and creating a lot of problems around the world with that. The difference, however, is that the world has changed, the structure has changed. The weight of the emerging countries is much larger in the world economy, the role they play in the G20 and the IMF.

So I think the relationship, you know, between the U.S. and the rest of the world is different from what it was 15 or 20 years ago.

I think many of these things require cooperative solutions. What China does is very important for the U.S. What Germany does is as important. You know, everybody focuses on China, but I think Germany, what happens in Europe and all that. What the oil exporters do. And even countries like Brazil and other emerging markets are playing a more important role.

So President Obama is going to head for the G20 next week, after this election. I think there's going to be a lot of debate about currency war, the QE2, U.S. fiscal policy and all that. And I think one worry I have is cooperative solutions -- will cooperative solutions be possible with -- will there be enough support in Congress for cooperative solutions on this? Or will it make it much harder?

There's one bright spot, I think, on the trade side. And Republicans are generally more positive on free trade agreements. And I think definitely the world needs trade as a stimulator of growth. And I think there may be some ways of reaching trade agreements, particularly with Korea, and so on.

But in terms of the overall cooperation on the world economy, the role of U.S. fiscal and monetary policy in a global context -- not just in the U.S. context -- I think there are very big questions.

MR. MANN: I don't mean to put a damper on your one sign of optimism - - that is, trade -- but it is interesting to note that both parties in Congress have been quite aggressive in their rhetoric towards China.

MR. DERVIS: I love those -- I mean, I didn't love them for what they said, but they were amazing, those ads. (Laughter)

MR. MANN: The ads.

MR. DERVIS: Right.

MR. MANN: Exactly. And we know that some of the Tea Party-ers are not traditional, you know, free-trade Republicans. There is -- you know, it's a very mixed --

MR. DERVIS: Yes.

MR. MANN: -- mixed group, with many of them sort of more Rand Paul, sort of pulling back.

I wonder how the politics of that might play out --

MR. MANN: On trade --

MR. MANN: And, Ron, you may want to intervene on that, as well.

MR. DERVIS: I mean, on trade, maybe there will be splits. Maybe it won't be along party lines. Maybe there will be, you know, majorities that form. Which maybe, in itself, perhaps a good thing, because it will show that not everything has to go on party lines.

But there's one other thing on the tax side that I'm intrigued by, and I wonder if maybe Ron -- you know, some Republicans -- including the business tax of

Ryan, you know, in the Roadmap for America -- are actually thinking about some form of -- they don't call it "value-added tax," but it is a value-added tax that's being proposed -- okay?

MR. MANN: Right.

MR. DERVIS: Many, many economists think that to solve the longer-term structural problems in the U.S. economy, reduce the trend towards higher debt, have non-distortive kind of taxes, reward effort and reduce, perhaps, payroll taxes, some kind of sales tax, value-added tax is a good idea. And it also is a tax on consumption, so that it stimulates savings, and the U.S. needs, in the long run, to save more and to invest more for its competitiveness and growth.

So I wonder whether, despite all the partisanship, some kind of movement, some courageous movement, to solve some of these problems by considering some form of value-added tax may be in the cards.

My gut feeling is probably not. But, you know, given the fact that the Roadmap for America actually proposes a value-added tax -- it proposes all kinds of other things, too-and I wonder whether that's an opening for somewhat more radical tax reform.

MR. MANN: I mean, it's promising in substantive terms. And even thinking politically, if you tradeoff, say, corporate tax rates and payroll taxes for --

MR. DERVIS: I would prefer payroll taxes.

MR. MANN: -- you know. But if you're trying to build a sort of coalition, you might reduce both with a value-added tax, and also garner additional revenues as you will need.

What do you think about that, Ron?

MR. HASKINS: I think anything is possible, I mean, in our legislative system. And we've had lots of surprises in the past. But, still, I would tend to say it will -- what we do will be compatible with what we've done in the past.

So that means the biggest possibility for changes in taxes, I think, are a large deal -- like 1986 -- in which rates are lowered, which means that Republicans are so focused on rates, and the base is broadened, and do it in a way that it produces more revenues, so Republicans can say, "Oh, we reduced the rates."

Now, I'm not saying that's going to happen. I think it's unlikely. But I do think that that is much more likely than any kind of new tax.

MR. MANN: You're certainly right --

MR. HASKINS: Economists agree. And I think a lot of Republicans -- they've talked about this in the past, that a value-added tax is way preferable, especially to the kind of income tax system we have. But it's a new tax and I just think the possibility of a new tax is just close to zero, so if we're going to have serious tax reform -- and it would meet a number of criteria you mentioned -- if we broadened the base and lower the rate, all economists think that is the way to do it. We've done it before in '86. We could do it again and it would be good for the economy and we could do it in a way to raise more revenues, which, if we didn't make it too obvious, maybe Republicans could agree to that, and I think that is the only way that we're going to get a lot of money out of the tax system.

Republicans are just so committed on no new taxes and they've almost all signed a tax pledge that this is the only way to do it, I think.

MR. DERVIS: Despite the road map -- the road map is --

MR. HASKINS: Yeah, but -- I mean, the Republicans have been very clear that they don't support the road map. I mean, the leadership is forswearing the

road map many times, so Ryan's going to be influential. Maybe, you know, I said, a lot of things can happen. He's going to have the budget committee and he's deeply respected the party and apparently by the portion of the public that knows about him, so maybe it could happen, but I still think broadening the base, lower the rates, that's the key.

MR. DERVIS: Tom, one other thing on the international front which I think is very -- is going to be important, and that's climate. I mean --

MR. HASKINS: Climate here is pretty bad.

MR. DERVIS: I know -- actually, I like the climate in Washington -- no, because that will really, I think, unless something is found, really isolate the U.S. and have long-term, very long-term, very, I think, very bad consequences also for U.S. industry. I mean, if China becomes the innovator on clean energy and they're investing a lot, I mean, what does that mean for U.S. long-term competitiveness? And I think, you know, there is a huge -- I mean, people disagree on the speed, on exactly what to do, but I think the world as a whole, excluding U.S., really does believe that there is a climate challenge. Okay? And so, you know, now if that's just completely off the agenda, I mean, that really worries me.

MR. MANN: Kemal, what I think is the words are off the agenda. Only one of the Republicans seeking office to the Senate this year believes that human activity contributes substantially to global warming, that's Mark Kirk, and certainly the tea partiers coming into the House feel the same way. And we used to sort of make fun of George Will, but --

SPEAKER: Who did that?

MR. MANN: -- you know, for his climate change denial, but it's becoming -- I mean, it's now moving to be a Republican Party position. I think what the strategy is, is to not emphasize global warming, but to emphasize energy independence and

economic competitiveness, and that means we've got a stake in clean energy. It's the future, and in national security terms, not having to depend on fossil fuel supplies from unstable, unreliable, parts of the globe is an important objective. So the real question is, is will Republicans in Congress who are so set and determined to cut spending now -- will that keep them from moving ahead to try to get a federal investment, a substantial one, on clean energy R&D? Will it let them support a national infrastructure bank where you take the politics out of the distribution, you leverage private funds, and you really tend to these problems? That's the big question I think all of us are saying.

And we'll also see the use of the regulatory process through EPA and negotiations, frankly, with the utilities and others to try to reach some agreements. But the chances of putting a price on carbon over the next two years in the U.S. I consider to be zero, and we're going to have to deal with it. But you're right, it's going to be part of the way the globe views us and they're going to view us not just in the climate area, but on the whole, sort of, fiscal policy and monetary policy as well. I take it we're not real popular around the country right now -- I mean, the globe, in terms of our GE-2 initiative.

MR. DERVIS: Well, let me maybe moderate -- I mean, I think that's true, and there's a lot of perception of unilateralism, on the other hand, the U.S. and Secretary Geithner were very active in brokering the indicators and possible upper bounds on surpluses and deficits of current account and, you know, trade surpluses and deficits in the finance minister's meeting two weeks ago. I mean, the U.S. has actually -- the Administration has done well within the framework of the G-20, I think, you know, within all the difficulties that there are, and is really getting very little credit for it.

MR. MANN: Michael, you're back from a quick trip to India preceding the President by a week.

MR. O'HANLON: Rolling out the red carpet for him, that's what we were

up to.

MR. MANN: He pretty much took care of the Kashmir problem between India and Pakistan and --

MR. O'HANLON: Strobe helped. Strobe helped.

MR. MANN: Strobe helped a little bit, but Afghanistan is just going to roll into place as a consequence, the sort of spillover effects of the breakout of good relations between India and Pakistan. Seriously, you've spent a lot of time in Afghanistan; you have an excellent feel for how current policy is now playing out. You know that Republicans have been generally pleased about the President's decisions, but we also know that broader public opinion, support for the engagement, is declining and Democrats are restless and we know if Obama is to be challenged for denomination it would almost certainly come from his left on Afghanistan.

So, the query is, how much political space from Congress and from the broader political environment does this President have to pursue his policies? And are you anticipating any kind of significant junctures, changes? Will we see the light at the end of the tunnel next year?

MR. O'HANLON: Thanks, Tom. And good morning, everyone. I've been racking my brain to try to make sense of where the outcome of Tuesday's elections could go in terms of affecting Afghanistan policy and I look forward to your reactions too, to what I'm going to say, but I don't see a major impact, that's the bottom line.

And I guess another way to say it is, even though we've all been reading Bob Woodward, not only here, but in New Delhi, it turns out -- it seems like everybody has their own copy -- and Woodward has such a Washington-centric view of the debate, this is one more reason why the outcome of the Afghanistan War really is going to be determined in Afghanistan, not in Washington. Because what I think is that it was already

clear that President Obama views this as an important national security priority, and he campaigned on it, he's tripled combat forces during his first year and a half in office, and yet he also is fearful of a Vietnam-like quagmire and recognizes all the vulnerabilities.

I think his strategic assessment of the stakes and the risks and the right way to go has been very good and very solid up until now, but what that means, I believe, is that he's also aware that come next year, if we're not seeing progress that it makes little sense to sustain a strategy that is not working.

And so I really think this is one of those foreign policy issues where the President really does have the primary call, even more than on most, and frankly, I think Mr. Obama's already charted out, even though he hasn't always found the clearest words to express the way he's thinking about this -- he's already charted out a bit of a choice for himself next year. And he's given July 2011 as a key moment when his policy may adapt to circumstances and when U.S. forces will start to decline over a perhaps gradual, perhaps somewhat less gradual, time period -- we don't really know because he hasn't said.

The bottom line is, I think he is going to look for evidence that the strategy is working, if he has it, and if he has General Petraeus articulating it before the Congress, and if it's fairly unambiguous, then I don't think it really matters if you swing 30 or 40 or 50 or 60 votes in the House of Representatives, because either party would have a hard time opposing sort of a gradual transitioning of more and more of the efforts of the Afghan Security Forces as we gradually phase down our forces over, let's say, a two to four year period if the strategy is clearly working.

So, the question becomes: what if we're in that ambiguous zone? That's where life gets interesting. What if President Obama is convinced that the strategy is starting to show promise, but the overall evidence isn't really clear? And believe me, as

somebody who studies this a lot and has talked to a lot of other strategists who study this kind of thing, there are plenty of cases where the evidence is not clear and I think all of you know that intuitively. But it's certainly possible that in Afghanistan we could see, let's say, the Army getting better, the Afghan Army getting better, the Afghan Police muddling along, but the Karzai inner circle still not making headway against corruption, some of Karzai's ministers doing a good job, others of them being more in it for what they can get out of the system, Pakistan still playing a dual role in the conflict -- in other words, fundamental ambiguity on the trajectory of the conflict and our prospects.

Okay, so what do the elections of this week do for that possible scenario? And I think they do make life a little easier for Obama to make the call he wants to. So again for that hypothetical case where the President has decided that the war is starting to show promise, but the Congress and the public and many of us aren't so sure, then I think it's probably easier to deal with Speaker Boehner than with Speaker Pelosi, and I don't think there's any great wisdom on articulating and making that observation. But I think it's a marginal difference because I really do think that Democrats, hearing their own party's Commander in Chief say that this is his top national security priority would ultimately have a pretty hard time cutting off funding for the war or, let's say more plausibly, mandating a reduction in funding in the fiscal year 2012 budget, and that could be the first opportunity for Congress to do something big.

So, if Pelosi had still been Speaker, if she was adamantly opposed to the war and convinced it was going south, the President wanted to sustain force levels close to where they are today for another year, which is probably what General Petraeus is going to recommend reading his various public comments, in that situation there's a chance that Speaker Pelosi would have said, sorry, President Obama, I disagree. I'm only going to give you 85 percent of the money that you wanted for 2012 and that's the

best you're going to get. It's possible, but it's really not very likely that she would have done that because, again, a President of her party, a party wrestling with the demons of Vietnam, still, 40 years later, still often portrayed as weak on national security, and the President has said that's his top priority. He's got Petraeus saying that it's working, he believes it's working. Going to be pretty hard for Pelosi, in my judgment, to really cut the funding through the power of the purse in the Congress in that scenario.

So that's why I say ultimately, Tom, even though these are all so many hypotheticals that I'm twisting my own mind around trying to think them through, that I just don't see a big impact, and whatever scenario this would be important for, even for that scenario, the effect is probably going to be more at the margin.

MR. MANN: Is it fair to assume that you think it will be in the ambiguous area when it comes to the end of year review?

MR. O'HANLON: Yeah, well, I don't think the December review is going to be all that consequential, I think there will be enough reason to stay hopeful and enough reason to think we're still in relatively early days of the McChrystal-Petraeus strategy that the upcoming two months will not see a major decision point on Afghanistan, but I think by next summer we're in a different place, and, yeah, I think -- it certainly is not going to be fantastic. I mean, I would be very surprised if the improvement of the next eight months in Afghanistan was as dramatic as the improvement that we saw, let's say in the latter half of 2007 in Iraq. For one thing Afghanistan does not start from nearly as bloody of a baseline, so even if you were to have a positive impact on the levels of violence, you're starting from a country that, while it's at war, is not nearly going through the kinds of killing that Iraq suffered.

Now, obviously our troop casualty numbers have troubled all Americans and it would be nice to see a dramatic drop off in those numbers next year and that -- you

know, we can hope for that, but if we see even a 25 percent reduction in American casualties in the first half of 2011, I would consider that fairly substantial progress and so, yeah, to answer your question in brief, I think that the progress is going to be somewhere between, you know, mediocre and modest, and therefore the President's going to have a tough choice.

MR. MANN: Is it going to be possible for him to give Petraeus what he thinks he needs for another year and still deliver on his promise to begin the process of withdrawing American forces? That is, is there some way of meeting both objectives?

MR. O'HANLON: I think so because one of the things we can look to is the comments that Vice President Biden made this summer after we all know what comments he made to Jonathan Alter in the previous kiss and tell Washington book before Woodward when he said that you're going to, in his opinion, see lots of American troops coming out of Afghanistan come July 2011. Well, the Vice President subsequently revised his public statement and was much more guarded and talked about how might only be a couple thousand troops, and so that's technically still a reduction from 100,000 to 98,000 or whatever it might be, and so to satisfy the technical, you know, legalisms or semantic exactitudes of his promise, President Obama could certainly find a way to be consistent with his promise and keep Petraeus happy. Just how much it's going to keep the public and the Congress, the Democratic Caucus happy, is another matter.

I think that there is a good chance that the command in Afghanistan will want to stay close to 100,000 troops for yet another year after July 2011, and then the question becomes, if the President can at least begin draw-downs prior to November 2012, is that good enough?

And you point out the scenario of someone challenging him from the left for the nomination, my guess is he'll worry more about the vulnerabilities he might expose

to his likely Republican opponent if he cuts too fast. And so I would think that the politics of this would push him towards wanting to stick with it, but again, it's going to depend on Afghanistan, not just on what we're saying here inside the Beltway.

MR. MANN: Good, thank you very much. You've been a patient audience. It's time for you to help set the agenda, ask some questions. We have microphones, and let's have short questions and pithy responses given the time. Yes, sir, right here.

MR. HERRIOT: Judd Herriot, documentary filmmaker. We haven't talked that much about cutting federal expenditures. Now, getting back to Ron Haskins' comment about setting the agenda for 2012, we all know that once should exclude entitlements, interest on the national debt, and defense, there isn't much left. So what are the Republicans likely to do as far as setting the agenda for reducing government, reducing expenditures?

MR. HASKINS: First, what Republicans have to do is show that they are serious, and that means they have to make some progress. That doesn't mean it has to pass the Congress, it means it has to pass the House. And I think they have to do two things to do that. The first is Boehner has said he's going to have \$100 billion down payment. This is the point that Tom made, that this is, you know, this is going to hurt the economy and so forth, which is an argument Democrats will make. Really? In a \$14 trillion economy, \$100 billion of government spending is going to, I think -- I don't think that's much of an argument, and I think they'll do it. I think they will pass legislation. They'll probably pass a lot of it. Every week they'll have something, and they'll cut, you know, \$1 billion here, \$5 billion there, and so forth.

And then the second thing I think that they're going to have to do is to put down a plan for cutting a lot more than that. We all know \$100 billion doesn't even -- is

not even a preface to the cutting that we have to have in the long run, and they have to show that they have a plan. Again, it doesn't have to pass; it can't pass. But the budget that the House passes this year -- this is one of the great things about, to me at least as a budget hawk, about Republicans being elected, is they have to put on -- they have to have a budget. I can't imagine not passing a budget. If they don't pass a budget, I think they're just really in a desperate state years from now. So they're going to have to pass a budget, and that's got to show a ten-year plan. CBO will score it. It's going to be very, very interesting, and I think they'll do something serious in that budget, and they'll do something serious about getting to \$100 billion of actual cuts before this year is over. And I would not be surprised that they'll -- even though this is -- how many people have gone wrong predicting this -- that earmarks are going to be a thing of the past. I think they'll try to kill earmarks completely.

MR. MANN: An alternative forecast is that they will not be able to pass a budget resolution, as Democrats have not been able to on occasion, because it will have to lay out very large deficits extending for a period of time and show how little the elimination of earmarks and even \$100 billion cut on domestic discretionary does to the deficit. And so I think there's a chance they do appropriations without any kind of budget resolution. But it will be fascinating to see.

MR. HASKINS: That would be an improvement over our current Congress, though, since we haven't passed any appropriation bills either.

MR. MANN: Exactly.

MR. HASKINS: But I still think if Republicans are serious -- and I don't know if they are -- I think a lot of them are -- but whether they're serious enough to pass a deficit that lays out -- to pass a budget that lays out a ten-year plan and shows serious progress including on entitlements, I think they'll try it. I think Ryan is serious and he'll try

it. Whether they can pass it, you're right, I don't know.

MS. HUTTON: Hi. I'm Jan Hutton from the Australian Embassy. My question is will the President, in the face of a more hostile Congress, increase his focus on foreign policy more generally? I know Michael talked about Afghanistan, but more generally on foreign policy issues? The reason why I ask is I'm hearing two sides of the argument. One side is that in the face of a continuing poor economy, he can ill afford to shift his focus away from that. But then, of course, in the *New York Times* this morning, there was an article arguing the opposite side of the story.

MR. MANN: Mike?

MR. O'HANLON: Yeah, and then I'll invite you, of course, to respond. My instinct is that the Obama team has had its greatest overall successes in foreign policy so far. There's no signature, big, historic accomplishment to be sure, but there's a lot of good, solid, workmanlike progress or at least shaping of good policy. And I think, you know, we can debate specifics, but you've got Bob Gates at the Pentagon, you know, and Obama I think was politically very smart, policy-wise very smart, to keep him.

Secretary Clinton's doing a good job at State, working very hard, very competent, has generally positive, bipartisan, marks for her performance so far. Sure, there's no huge set of big, signature things that Obama can say for the history books -- I've done this already -- but overall what I'm trying to say is I think foreign policy is working okay as it is and there, therefore, isn't that much more reason for Obama to spend even more time on it. It's not as if by working even harder at Iran sanctions, he could increase the likelihood that Ahmadinejad would give up his nuclear program. I mean, he has a fairly reasonable policy in place on that, on how to try to reestablish better relations with Russia, on thinking through some of these G-20 issues, some of the global economic issues, but that's where I think it comes back.

I think the global economic issues are where he can increase his focus as part of an overarching theme of, as you say, focusing more on the American economy in general. And certainly all the preliminary press from India and the U.S. in advance of his arrival there is about the economy. There's very little talk of Afghanistan or even Pakistan. And so I think that's going to be indicative not only of what the Indians are choosing to say about this visit, but what the Obama Administration wants people to hear about this visit and subsequent visits. So that's the one place where I think he can do more on foreign policy, otherwise I think he has to focus on the economy.

MR. DERVIS: I agree with everything you've said, but you know, I think the two key relationships here may well be China and India more than the traditional -- I mean, in Europe -- there would be less happening in Europe. And in Europe climate will be one of the big problems in a sense and would make it hard. But, you know, to show a big success is also going to be tough. I mean, the Middle East, we can hope but it doesn't look like it, and with China it's tough. However, I think within the G-20 framework, enough progress has been made that, you know, it can look reasonably good, hopefully. But the U.S. has to, I think, also in the way it announces things, manage the message better in my view. I mean, you know, the world has become too interdependent and some of those actors out there are too big to allow just unilateral -- I mean, maybe the decision will be unilateral, but it will be very helpful if it was always kind of discussed ahead of time, if others were given the chance to comment, and if it was cast into a multilateral framework. I think that's something that would help a lot.

MR. MANN: I agree with colleagues, but what I would do is define the alternatives a little differently. I'd say sort of congressional versus executive engagement. I think you'll see much less effort placed by the administration in trying to get things passed by Congress. I think there'll be an aggressive economic growth jobs

agenda put on their plates without any expectation that it will actually get passed. It will be the rhetorical response to the Republicans cutting \$100 billion out of the next budget with a very alternative, very different, view of how to get jobs and the economy growing again. But then using executive initiative in a whole host of ways, including diplomacy, and you know, global economic and financial policy, but more broadly. And reaching out, as Amy said, to some governors and mayors, metropolitan areas and looking -- reaching out at the private sector, finding some companies who are really willing to work on an almost informal way to see, you know, how do we get somewhere. I think an effort on the immigration front, to keep foreign students -- give them the opportunity to stay in this country instead of fleeing somewhere else. So I see a lot of executive initiatives with Congress being relegated to a very different arena than it was in the first two years.

Yes, all the way in the back, on the side here, please. We have a mike right here, great.

MR. CLARK: Colin Clark, *DOD Buzz*. Mainly for Michael, but for the rest of the crew as well, Tea Party -- significant influence on national security? Irrelevant? What kind of effect? Spending? Anything?

MR. O'HANLON: I don't want to say it would ever be irrelevant. I think no American political movement with that kind of energy is irrelevant, but I've -- you know, in a sense, you could argue that we've lost some liberals from the Congress, and we've replaced them with some Tea Party folks. And both sides tend to have a willingness to shake the boat on foreign policy. They don't tend to necessarily just support a centrist president because he asks for their vote. I'm not sure I see a whole lot of significance there for it shifting from one side to the other.

Let me be more specific, let me take one example that touches on this question of federal spending. Which side would be more likely to vote for defense budget

reductions as a part of an overall effort to try to restore some balance to -- or at least less deficit -- to the federal budget? And here you probably will have a little harder time on balance with the Tea Party, but perhaps not. You know, on balance, you've got people who are also saying within the Tea Party movement that we want to be fairly equitable in looking at cuts across the whole government. We think the whole system is sort of broken. And we are spending a heck of a lot of money on defense. And so I wouldn't rule out the possibility that some Tea Party individuals could be inclined to look for defense budget cuts as well.

One thing I'm worried about, however, is that it feels premature. I know our colleague, Alice Rivlin -- who in my judgment is just, you know, one of the greatest American public servants we've ever had in this country -- and she and others are working hard on their deficit task forces, and they're coming out with reports in a few weeks. And I'm glad for the input to the debate, but on defense policy, to really expect a vigorous debate about cutting the Pentagon while we're still at war in two places, strikes me as premature by about a year or two. So maybe we can begin to have that debate, but I don't think it's going to go very far until the next presidential term.

MR. MANN: Yes, right here, please.

MR. ALTMAN: Fred Altman. You know, it's pretty clear that Obama and the Democrats lost the message. And over the next two years, is there any chance that they will be able to present their side more effectively?

MR. MANN: There's a lot of talk about the inadequacy of the messaging of this administration, and you can't simply dismiss that or ignore it. But I would argue 90 percent of the effectiveness of the messaging depends on whether the objective conditions and environment in which you're trying to message is working on your behalf or against you. It's really hard to counter the widespread public belief that government

spending for the stimulus has been all wasteful, and it hasn't created any jobs or helped at all, that the financial bailout -- TARP -- was an utter waste of money as was the effort to intervene with the automakers.

What happens, though, is first of all, Obama didn't contest that public view as aggressively as he might have. In his State of the Union, he said "Households feel the need to cut back, and we have to, too." Wrong. John Maynard Keynes, explain this. That's the paradox of the script. No, government has to counter what individual households are doing. But I think his opportunity to do some public education instead of pointing to -- I mean, the public legitimately has the power, but they don't necessarily have the wisdom or the information on each specific initiative -- and thank God, George Bush and his administration didn't follow public instincts and went ahead with TARP and initial stimulus -- sometimes you've got to do that. If the economy starts picking up, then it will be easier to do the messaging. They're certainly thinking about it, but in general, I think the independent role of messaging is oversold. It's hard to cut across the grain of reality and reach people who have a set of beliefs already.

Anyone else care to --

MR. HASKINS: Yeah.

MR. MANN: -- object to that?

MR. HASKINS: Nixon said we're all Keynesians now, and I certainly don't want to appear to be an anti-Keynesian, because Paul Krugman would probably send me nasty mail or something. (Laughter)

MR. MANN: Even Martin Feldstein is a Keynesian.

MR. HASKINS: Well, congratulations to Martin Feldstein. The most recent example of Keynesianism: spending \$900 billion to stimulate the economy that's going to take unemployment down to 7 percent didn't work very well. Now, you can say a

lot of other things happened and so forth, but -- and it should have been 1 -- you know, 1.5 trillion rather than 900 billion, but we're not all Keynesians. There are a lot of people who think it didn't work, including the American public in the polls. So, it's not just messaging.

Now, maybe you can have a message that says well, the stimulus really did work. Gary Burtless here has given a lot of examples of where unemployment would have been higher if it hadn't been for stimulus spending. But there -- you know, there are two sides here. The facts do make some difference in these arguments, and I do agree with you that the administration could have done a better job of explaining, you know, their view of the achievements. I don't know exactly how they do that, but they didn't do it very well, that's for sure. So, I think the base of his question is really correct, that there does need to be some improvement in a communications department at the White House.

MR. MANN: Certainly, they -- if they could take it back, they wouldn't have made absolute forecasts of where the unemployment rate would be with and without the stimulus. That was fatuous. But I think it's fair to say that all of the economic modeling machines, together with CBO, have demonstrated quite persuasively that 2- to 3 million additional job losses would have -- net job losses -- would have been experienced without the stimulus. And the same stimulus, by the way, that occurred in every other G-20 country, together with the financial stabilization, probably saved us from a great depression.

MR. HASKINS: But you're making his point, though. The point is not about whether it worked. The point is why couldn't the White House communicate that it worked better? That's the point here. And they didn't, and look. This idea of lowering expectations -- this is Washington Communications 101. Who in their right mind would

say this is going to work; unemployment's going to go down to, you know, 7 percent or 7-1/2 percent?

MR. MANN: That's what I just said.

MR. HASKINS: I know, but I'm -- (Laughter)

MR. MANN: But you're arguing it.

MR. HASKINS: No, no, I'm -- well, I am arguing with you, because you're making his point. They had a lousy communications operation. They need to make some changes. This is the kind of stuff Clinton did bravely. I mean, he got rid of people and put new people in place, and I think that was important to the turnaround, and that's what Obama's looking for -- is a turnaround, right? I mean, is that right or not?

MR. MANN: No, but we'll argue that some other time.

MR. HASKINS: Republicans are very glad to hear that answer.

MR. MANN: Let's go all the way in the back.

MR. WAFFA: Thank you very much. Hamad Waffa from Middle East Broadcast Network. At some point, the Republicans had some policy towards the Middle East or at least had something to say towards the Middle East. I'm talking about countries like Lebanon, Syria, Egypt, Saudi Arabia. Are we going to see any change in policies concerning these countries and issues like human rights with governance, democratization in the near future? Thank you.

MR. HASKINS: I'll just say a quick word and invite others to chime in, too, of course. Thanks for the question.

You know, there has been speculation with a new incoming congresswoman leading the House Foreign Affairs Committee, who's got relatively highline views, for example, that it might be harder to have some kind of a new outreach towards, for example, Syria, or that there might be a little more pro-Israeli rhetoric coming

out of Washington than had been the case. But I think these are marginal changes at best, because again President Obama I think very quickly pivoted from his campaign rhetoric to the practicalities of governance, and he did it by January 20, 2009, with I thought a very effective phrase that we will be happy to reach out our hand if you -- you, the extreme regimes -- first unclench your fist. And they generally haven't.

And it's not just the Middle East, you know. North Korea welcomed Obama to the White House with a nuclear test. And so -- and Obama's responded in kind with tough actions and fairly effective sanctions policies overall, and there have not been big outreach efforts towards the Venezuelas or Syrias or Irans or North Koreas of the world. So, I don't expect this election to have a big change in that regard.

It won't be too long before we start having a presidential campaign with early soundings -- people looking for vulnerabilities on how Mr. Obama's handled these issues. I think he's handled them carefully enough with that debate in mind already anticipating where that debate would go, and that's going to be more important to him and more consequential than the changes from this election.

MR. MANN: We're going to have time for one last question. How about in the back here.

MR. KLINKS: Thank you. Martin Klinks of the German weekly *Die Zeit*. I have a question about the economy. President Obama said in his press conference the real competition is not between Democrats and Republicans but between the United States and the rest of the world. Could that be the message for the next two years? He tried it already, but it wasn't very well received by the American public, so my question is -- is the GOP also in a denial of the realities on the facts of the ground, you look at the results where they won? They won mostly in areas with huge transitional problems like the Rust Belt.

MR. MANN: Kemal?

MR. DERVIS: Well, I think, you know, the whole -- the global economy is the place where the U.S. has to succeed like everybody else. And while -- you know, while of course politics is very local, I do believe that, you know, American performance in terms of exports, technology, clean energy, trade -- all of this is going to be crucial for President Obama two years from now. So, I think having a world economy that -- luckily that works but that also helps the American economy is critical. For that, as I said a while ago, engaging with the other key players, having a G-20 framework that works is important. Whether he can, you know, he can get congressional support for that, whether the Republican majority in the House -- you know, whether their priority will be to help make that happen for the sake of American jobs, American exports or whether the truly political priority of getting rid of the President is going to prevail I don't know.

MR. MANN: But the formulation seemed -- by Obama seemed to be that we were engaged in a zero sum game with the rest of the world, it's us against them, when, in fact, it needs to be framed as a positive sum game.

MR. DERVIS: It is a positive -- well, maybe if it -- I don't think he wanted to frame it that way. Competition is not a zero sum game whether it's domestic or international.

MR. MANN: Right.

MR. DERVIS: Competing means you've strengthened yourself; others, too. You increased technology, know-how, and you do and the whole world does better. I think that's the way to look at it.

MR. MANN: Yeah.

MR. DERVIS: However, for it to work, you have to have cooperation. You have to have a kind of trading system that works. You have to prevent trade wars,

currency wars. You have to make -- you know, you have to manage the system. And the U.S. is still critical for that, and he does need some congressional support for that.

MR. MANN: Yup. Amy?

MS. LIU: I was just going to channel Jon Stewart for a moment and talk about the need to restore sanity. (Laughter) And this is just a fact that there isn't a one-size-fits-all message that is casting where I think people -- say, the American people -- are. I would say, A, some of the governors who ran in those states that you talked about in their platforms talked aggressively about the need to connect their businesses to global markets, because that's where growth is. A number of them talked about trade assistance. They talked about -- so, I think that this whole message about American competitiveness is not so much a threat as much -- it partly is that, but it is also about an opportunity, and I think some get that.

The second is voters are not opposed to investing in their future, and, you know, there's been so much rhetoric about the need to cut spending, the need to limit no new taxes. But if you look at the ballot referendums, there were a 160 ballot referendums in this election, a vast majority on fiscal and budget issues. In fact, what's interesting -- the first time in an election there were no social ballot issues, no gay marriage, no immigration. In fact, this was a highly economic and fiscal set of issues primarily that went to voters. This was a mixed bag. There were some voters who definitely wanted to limit tax increases like what we saw in Washington. But I have to tell you, a lot -- a lot -- of folks were willing to tax themselves or to give their government borrowing authority for those investments that are going to put them on the path to a much more brighter future. People get that.

So, the initiatives that passed-- you know, Georgia State enabled voters -
- enabled government to borrow from energy efficiency projects. Seventy-five percent of

the ballot measures for transportation infrastructure investments, regional transit, upgrading facilities, building the infrastructure for the future -- 75 percent of those overwhelmingly passed -- people and the bulk of the way they pay for it with increases in property taxes. The second was sales tax increase. And then California imposed a \$10 increase in the vehicle registration fee to pay for those things. Infrastructure still matters for many parts of the country.

And the last is earlier this year Ohio passed a \$700 million ballot referendum for what was called a third frontier innovation fund to invest in entrepreneurship, to invest in new advanced industries, advanced manufacturing. I think this is -- the issue is there is still an appetite to invest in the future so we can compete to really build a platform for the next economy, and I think that there are -- you know, this will be another tool that governors will have -- is the ability to go to voters on those things are really affirmative.

MR. MANN: Hey, how about that? Feeling better? No, once more.

MR. DERVIS: I just want to support Amy on this, because when you think of spending, you know, spending on a transfer payment or on a salary increase for, let's say, an employee of the federal government, you know, doesn't bring in any return, okay? Borrowing at zero real rate or 1 percent real rate on an investment that has maybe a 10 percent return actually improves the balance sheet of the federal government or of the state government. So, I think, you know, what you spend, whether you spend it to build something or whether it's just spending that disappears makes a huge difference.

MR. MANN: Well, listen, I want to thank Mike and Amy and Ron and Kemal. You guys were terrific, and thank you all for coming.

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