Transcript Q&A

It’s the Economy, Stupid! How Economics Will Determine Who is the Next President of the United States

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Xenia Dormandy:

Great, thank you so much, Bruce. I am going to open up in one second, I will try and catch your eye and put you in a list and I can absolutely guarantee that there will be way more questions than we have time for so we will try to get through as many as we possibly can. I have already caught an eye but I am going to take the liberty of asking the first question because I want to get you to talk very briefly about something else that isn’t directly related to the elections, but is going to be one of the first obstacles that the new president is going to have to deal with, which is something that is actually discussed more here than it is in the United States, and that is the fiscal cliff.

Bruce Stokes:

Which World Series champion –

Xenia Dormandy:

Exactly, who is going to win the Super Bowl. Although, actually on that note, one of the statistics I liked the most when I was living in the States in the last election was, if the Washington Redskins, which is the Washington American football team, wins the last game at home before the elections that means the incumbent is going to win as president. Something like that has been true on all but one occasion in the last 30 years or something, which is such a beautiful statistic, but nevertheless, not one you showed us. Tell us about the fiscal cliff that’s going to hit in December/January and what that really means in terms of Obama versus Romney and whether we will go over the edge.

Bruce Stokes:

Basically, what happened in 2011 is we faced a need to increase the national debt. We have this system where Congress has to vote to increase the national debt periodically. Historically, they have always just done it as a pro forma thing, but especially with the Tea Party and numbers in the House of Representatives it became a big issue. A deal was struck, because they couldn’t come to a solution, that by 1 January 2013, if in fact Congress had not come up with a plan to begin to attack the deficit by reducing the debt by $1.2 trillion over the following ten years, that certain automatic things would happen. One is that defence spending would be
cut by $500 billion. Social welfare spending would be cut by $500 billion and the
tax rates that had been lowered by George [W] Bush would go back to the tax rates
that were paid under Bill Clinton, and a number of other things. The Congressional
Budget Office (CBO) has estimated that if that were to happen – in other words if 1
January comes and there is no compromise to avoid all of this – than the US would
be thrown immediately into a recession. Of course, this is a concern, and should be
a concern for all of you, because if the US goes into a recession, especially with
Europe already in the recession, then we are all going to be in deep doo-doo here,
right?

Congress avoided dealing with this before the election; they have now gone home
to campaign. They will come back in what is called a lame-duck session after the
election. The assumption is that they will then tackle this issue. I think, cynically,
what will happen – and certainly no one knows, but there is a growing belief in
Washington – is that they will further kick the can down the road. They will decide
that they will extend this – by law, they will pass the legislation – and extend this
deadline in to, say, the middle of next year. When you think about it, it’s probably in
the interest of both parties to do that. If the Republicans, if Governor Romney, wins
there is a good chance that the Republicans would gain control of the US Senate,
which is now controlled by the Democrats. Why would they compromise with the
Democrats in December when they could write their own plan and control both
houses of Congress and the White House next year? If President Obama gets re-
elected, I think it is probably safe to assume the Republicans would be in a very
bad mood, because they will have let this thing slip through their fingers when they
were certain a year ago that they could beat this guy. They probably won’t be in a
great mood to compromise and while the president has said that he doesn’t want
Congress to continue to kick this down the road, does he have the courage,
audacity/foolishness – depending on what word you want to use – to push the
economy over this fiscal cliff just to demonstrate to Republicans that they can’t
continue to be obstructionist. And so, there may be an incentive for the Democrats
to also postpone this until next year.

Bear in mind that in this debate, at least in 2011 – we don’t know how they feel
today – there was significant minority in the Republican Party in the House of
Representatives – the Tea Party representatives – who didn’t believe in the fiscal
cliff. They were convinced that this was a manufactured crisis, that in fact it wasn’t
a cliff; it was just a little bump. It is a little hard to hold people’s feet to the fire when
they don’t believe there is a fire there. So, if they continue to believe that, ‘Oh, if we
let all these things happen, then the economy really won’t go into recession – the
CBO is wrong,’ it may be hard to get a compromise.
Ok, we have already too many questions in the 20 minutes we have available to us. I will try to get through them as quickly as we can.

**Question 1:**

On the Republican side, could you tell us what you found in terms of the candidates last year, when you had the primaries, and about Paul Ryan, if the numbers were different between the different potential candidates, as well as the VPs?

**Bruce Stokes:**

I’m not quite sure I understand but, yes, obviously there were differences and it really depended on when we took the poll. Romney was generally ahead in the primaries. He ended up winning the primaries.

**Question 1 (cont’d):**

Would it have been a better bet at the time?

**Bruce Stokes:**

I don’t know that we ran those numbers. I guess your question is: ‘Did we run the numbers, that would Santorum have a better chance against the president than Romney, or Gingrich a better chance against the president?’ We may have done that. I don’t think we did. I wouldn’t have put too much store in that anyway, it was too far away. Especially for people like Santorum, who ended up being the last opponent of Romney, I mean, no one had heard of the guy. Literally when they did these debates – there were nine Republican debates – he was always on the very end because they arranged them based on where they stood in the polls and he was always in the very extreme because everybody thought he was a joke. And yet he had staying power and became the principle obstacle to Romney getting the nomination.

He’s from my hometown, by the way. The irony is – he’s against, basically, government-provided healthcare – his father worked at the Veteran’s [Health]
Administration hospital in my hometown, which is the largest and oldest national health care system in the country.

**Question 2:**

I've found what you said extremely interesting, and personally very comforting, but I wonder if you can tell us what you say happening in the other two sets of elections, the Senate and the House?

**Bruce Stokes:**

As you know, the Republicans have control of the House, held by a fairly substantial margin. If you just go by the pundits and various analyses that are done about which seats are safe Democrat, which are safe Republican and which are toss-ups, there are fewer toss-ups than the Republican margin of control of the House. While it is statistically possible the Democrats could regain control of the House, they would not only have to win all of the toss-up seats, they would have to eat into safe Republican seats. Unless this turns into a rout for the president, and there is just no evidence to suggest that, I find it almost impossible to think that the Democrats could win and control the House. I think that the Republican margin of control of the House will probably shrink a bit.

On the Senate side, the Democrats have a three-vote margin in the Senate, very perilous from their point of view, because there are more Democrats up for re-election. The conventional wisdom up until about a month ago was that the Democrats could not contain control of the Senate. As Obama is doing better, some Senate candidates for the Democrats are doing better. Missouri would be the perfect case. They were going to lose Missouri; then this Republican candidate said these horrible things about rape and all of a sudden, people think that the Democrats might retain that seat. It is going to be very close. Remember in our system, if it is split fifty-fifty, the vice president gets to cast the deciding vote. So, it is conceivable that you can get a fifty-fifty split, but the Democrats retain control because the vice president then gets to vote.

**Question 3:**

Could you please explain the low focus on foreign policy considering that, in the case of the United States, foreign policy, especially wars abroad and sanctions and
this sort of thing, can reflect on the economy, on the debt and on other aspects of the economy?

**Bruce Stokes:**

That’s a great question. We are still engaged in the longest war in our history in Afghanistan and it is almost a non-issue in this campaign. Governor Romney has said he would probably slow the withdrawal from Afghanistan but both candidates basically assume that America is getting out of Afghanistan except for some residual force. It is not a huge issue as, say, the Iraq war was in 2004. There is almost no coverage of Iraq in the American press for example – out of sight, out of mind. China is an issue in this campaign for economic reasons because of that outsourcing number that I mentioned. It is probably the only international issue that gets a lot of resonance with the voter but again it’s for domestic economic reasons.

While you are right, that a lot of what happens around the world could affect the domestic economy and you would think people would be paying more attention and candidates should be paying more attention, when we did a survey in the spring, only 41 per cent of the American public thought the euro crisis could affect them. I think if you took the survey among American economists, 100 per cent of economists would say that the euro crisis could affect Americans. So there is a disconnect. I can’t fully explain it, except that we have a large continental economy with a history of turning our back on the world and I think that it’s just who we are. Periodically, we refocus on the world, but our tradition is not to do that.

**Xenia Dormandy:**

Can I push you a little bit on that because as you say, 100 per cent of economists would say that if the euro crisis actually kind of crisied (sic) than it would affect [America]. What are the two or three issues – the euro crisis would be one of them, maybe Israel going to war with Iran – what are the two or three issues that even if Americans don’t think about their foreign policy issues, but if they happened between now and November you think that would fundamentally change in one way or another?
Bruce Stokes:

It’s Don Rumsfeld’s old ‘unknown unknowns’. I think it would be the euro crisis, clearly, and certainly the president is actually on record having said this. I think people are less worried about the euro crisis today than they were two months ago, but it is definitely the euro crisis. If there would be a war between Israel and Iran – say, if Israel was to attack Iran between now and election day – what’s striking to me is how little discussion there has been in the US about the immediate impact on the economy – let alone, going to war, all the other problems – but that the price of gasoline would go up dramatically overnight, the economy might be thrown into recession as a result. Even in talking to people inside the government… I had lunch the other day with a very senior person in the state department – not my wife, by the way – and I said to this person, ‘Have you guys done any papers about what impact this would have on gas prices?’ And the person said, ‘We can’t because we are sure they would leak and then it would cause market disruption.’ So you can’t even plan for the things that you know would happen if in fact, unfortunately, a war began. The third issue had been, and I think it is less of concern now, is that something untoward would happen in the Chinese economy. That seems to have not been as much of a major issue right now; the Chinese seem to be, at least in an economic sense if not in a political sense, in control of things.

Xenia Dormandy:

And presumably Syria also, but it’s unclear whether that would actually favour Obama or whether it would favour Romney.

Bruce Stokes:

Right. And it would probably not have an economic effect. If you parse the comments on Syria that both candidates have said, they more or less are saying the same thing. Romney would have you believe that he would be more forward-leaning on Syria than the president. That may or may not be true, but when you really parse what they said, neither one has committed themselves to commit US troops or things of that nature.
Question 4:

I was struck in watching the Republican convention by the banner being raised that said, ‘Don’t let fact checkers dictate our policy.’ And I’m also struck by the fact that your September polls essentially indicate that folks who are going to vote are going to vote as many as two months out, and have already made up their mind. If that’s the case then why continue to fundraise and why continue to expend those funds on advertising in the next eight weeks?

Bruce Stokes:

The candidates don’t want to hear you say that. That would dry the well up very fast.

A couple of points: there have been a lot – on both sides – a lot of exaggerations in these political ads especially. We now have – every newspaper and television news programme in the United States has fact checkers, which is actually very useful, since we never used to do that. It doesn’t seem to impair the candidates from continuing. Governor Romney continues to go around and say that the president has apologized for America. And all the fact checkers have said there is no evidence for this, but it resonates with the base, people love to hear that. Of course you don’t want the president apologizing, and the fact that he never has is lost in the shuffle. President Obama’s campaign accused Romney of outsourcing American jobs because he invested in companies that sometimes, maybe… It is a very tenuous charge, but still they make it.

In terms of undecided, our polls show that there’s 22 per cent of the public is either truly undecided or they are leaning one way but could be convinced to go the other way. Some polls show it as low as single digits, like seven or eight per cent, but that’s the truly undecided. It is the same in our poll; there are seven per cent who say, ‘I really don’t know.’ It’s a very small percentage. But there’s the broader number of people who might be swayed, so you’re still fighting over 22 per cent of the votes, so there is some reason to spend money. What is interesting is that, in 2000, it was 33 per cent of the public. We are less undecided now than we have been in the past. But it’s that 22 per cent.

What is a sign of hope for Governor Romney is that, among that 22 per cent who say they are persuadable, on the economics issues, he leads the president two to one. In other words, while the general public is basically saying, ‘Yeah, there’s not a whole lot of difference now in views of Governor Romney or President Obama and how they would handle the economy’, among undecideds, by two to one, they
say Governor Romney would do a better job on the economy than President Obama. So one of the reasons that you would hear Governor Romney continue to hammer on the economy issue is you want to sway that 22 per cent, or at least a significant portion of that 22 per cent who are persuadable on that issue for your guy. So that is why they are spending all this money. And they are spending a lot of money. The last data was $666 million so far and we have a month to go.

Xenia Dormandy:

I'm going to start taking two questions at a time because there are way too many questions.

Question 5:

What's interesting is non-Americans always look at the national polls, but in my conversations with both teams, they are only looking at the privately-commissioned polls. As you know, that shows that it will only come down to five states and probably only eleven counties. Their impression, on both sides, is that it is not nearly as favourable to the president as what you've described. I think the Obama team believe that they are losing at this point and they are very worried about the outcome. The Romney team does not believe they are winning, so both of them have an underdog mentality. I was wondering if you could speak to that in view of the narrowness and the isolated focus.

Second, Chairman [of the Federal Reserve Ben] Bernanke is exhausted and would like to go home and both candidates are already discussing who their replacements would be. I think on the Romney side it's clear it is Marty Feldstein, Glen Hubbard, or Greg Mankiw but could you talk about who Obama might appoint to replace the chairman when his term ends a year from January?

Question 6:

Going back to your figure, I think it was 78 per cent on the outsourcing figure as causes of US unemployment. What impact do you think this will have on the US government's free trade agenda and trade liberalization given the public perception is so far against it?
**Bruce Stokes:**

Briefly on that, no effect before the election, but it is a question going forward after the election. We have this Trans-Pacific Partnership that the current administration is negotiating. It was actually started by the Bush administration. Both Governor Romney and President Obama have pledged to finish that negotiation, but it would have to be approved by Congress. It would pose some hurdles in explaining what has to be done. I think it would pass, but it wouldn’t be simple. The Obama administration is likely to announce in December the initiation of a free trade negotiation with Europe and Governor Romney has said he would want to do that as well. So, I think that would probably be less controversial, although I wouldn’t underestimate that some of the problems you’d get in an EU/US deal would be difficult: agriculture, bio-sanitary standards, things of that nature, all of which are huge. That number, I think, would impair doing much more than that in trade over the next four years, simply because the public is so worried about that. It does presage ongoing tensions with China, because that is all about China, India to a certain extent, but roughly China.

On the Bernanke thing, I really don’t have any good intelligence on that. You are right. I think that it is highly likely that this is closer than the public opinion surveys show, although we can’t underestimate the value of momentum. If in fact a bandwagon is beginning to develop for Obama, if I were the Romney people I would be worried, because people like to vote for winners. On the other hand, just to be fair to the Romney camp, if the Obama supporters see this and say ‘I don’t have to vote because he is going to win anyway’, that could work against them. You are right, it’s going to get down to a few states and maybe a few counties or suburbs in those states and this is where the laws that have been passed in Ohio, Pennsylvania, Florida, various laws that were passed by Republican legislatures that would have the effect of probably making it harder for certain people to vote, who probably would be Democratic voters – you can decide whether that is anti-fraud or voter suppression, both sides have an argument there – it raises the potential if this is really close that on election night we won’t know who won, because there will be court cases saying either ‘they tried to suppress my vote’ or, ‘all these people voted illegally’, which would be very ugly. You as a market person know better than I, that markets are much more fragile today than they were in 2000 and we do have to worry a little about market reaction and a period of uncertainty that might drag on for days or weeks. I do think that the Obama people, what they have to fear right now is complacency and what the Romney people have to fear is that the back-biting that comes after you lose an election starts now and that then demoralizes your people and so they have to fight against that.
Xenia Dormandy:  
I'm going to do one more round of three questions.

**Question 7:**  
Not very long ago, there was a lot of publicity given here to a leak from a speech given some time ago by Romney in which he was basically saying, forget about 47 per cent of the country, they are the down-and-outs, the unemployed, etc. I know as a British Conservative, although I know that most my votes come from owner-occupied people rather than council houses and so forth, I would never dare say that. I would know here that it's political poison. Has that been damaging to Romney, that image?

**Question 8:**  
One of the most depressing slides that you put up was about the ongoing polarization and diversion of opinions within the United States. What do you think that might mean for increasing political dysfunction beyond this presidential election?

**Question 9:**  
I was just wondering if you could slightly unpick the women’s vote and whether it is historically true that they have always voted for Democrat, and if it is, are there some underlying issues or themes that unifies them as a gender, even though we are talking about a huge group of women, and what sort of things do they vote on? Do they vote on the economy or do they care more about the value and sentiment vote?

Bruce Stokes:  
All good questions. The 47 per cent issue is clearly a potentially very damaging thing for Romney. The Gallup tracking poll, which would cover the period after this was said, didn’t seem to show much effect. The other polls, including ours, were done before this happened, so I think we need to wait and see until the New York
Times, Washington Post, Wall Street Journal, Pew and others come out with polls subsequently. Because it’s not just that he said it and it was widely covered – you’ll appreciate this as a politician – one of the problems that it posed for the Romney campaign was literally the evening news on television in the United States, which is still how a plurality of people get their news, led every day for two or three days with this story. And every day the news media was talking about that story and not what Romney wanted them to talk about – the problems with Obama managing the economy, etc. – were a lost day for the Romney campaign. Even if people, at the end of the day, didn’t think more or less about Romney, it hurt their messaging. And there are factual problems with that assessment, because it’s not that 47 per cent of the public doesn’t pay income taxes and oh, by the way, it’s because they are poor people of colour. In fact, it’s seniors who are on social security, it’s some investors who don’t pay income text, it is military people and it’s a lot of people who are potential Republican voters. So, it was untoward thing to say to say the least.

On disfunctionality, I think it underscores that after this election it is highly unlikely that there will be much greater functionality in Washington. I do think that if Governor Romney wins and he carries a Republican majority into the Senate, functionality will become easier, because you will have a control of all the major arms. The Democrats, in theory, could do what the Republicans have done for the last couple of years and block everything in the Senate. But – and I am a registered Democrat – they are just not as disciplined as the Republicans, they aren’t as coherent as the Republicans. It’s inconceivable to me that they would be able to do to the Republicans what the Republicans have done to them. I think you would get greater functionality, and you can debate whether that is good or bad depending on what laws are passed, but I think you would probably have greater functionality. I think for the most part, we’re doomed to continued disfunctionality in Washington whoever wins the election. The president will say he thinks that if he wins then the Republicans will come to their sense and there will be more cooperation, etc. Fine, I am glad he believes that but the data doesn’t seem to suggest that will be the case.

Women have, I think – don’t hold me to this but my sense is that women, at least in more recent times, have been more Democratic than men in terms of their voting patterns. Why that is, I am not a student of that. We do know on economic issues that women tend to be the people who sit around the kitchen table and figure out how to balance the family budget. They are more sensitive to economic issues and they may think that bigger role for government in helping to deal with those problems is something that they want. It may be that they are more worried about income inequality and things of that nature. All of that would make sense.
And there are social issues. Basically, if you watched the Democratic National Convention, there was an attempt to say that Republicans weren’t supportive of female healthcare and contraception and abortion, and these were all issues that women want. Now, not all women vote on that issue in that way, but the Democrats certainly believed that they could appeal to women by appealing to those issues. This data would suggest that they were probably accurate in saying that.

Xenia Dormandy:

So I have to apologize for running us a few minutes over and I also have to apologize because I also know there were lots of questions that we didn’t get to but I would urge everybody to look at the Pew Global Attitudes survey and the other data that Pew does, which is truly excellent in terms of global attitudes and attitudes within the United States. If you want more on the economic issues, take a look at Bruce’s election note that we put out last week on the Chatham House website. With that, thank you all very much for coming and particularly thank you to Bruce for coming today.