What I'm going to try to do, very briefly, is to talk first about what I think are the key policy issues that will be affected by the outcome of this election. Second, to say something about how the politics of this election year have affected action on those issues until now. Then bravely say a little bit about what might happen after the election. And then finally talk about the economic outlook that I think will affect the election. So, let's see if I can do that without wearing on the patience of the group and the chairman.

So, what are the key issues? I think there are two related issues. Of course, there are many, many issues, but there are two big related economic issues. And the first of these is the fiscal deficits. We have had a national debt for the last several decades at about 40 percent of GDP. That number is now about 70 percent. You get higher numbers from some sources because they include the debt that the government in one account owes to the government in another account. But if you look just at the debt held by the outside public, including, of course, foreign holders, it's about 70 percent now. And it's projected under quite favorable economic conditions to rise to about 90 percent within the next 10 years.

If you look longer term than that, both the debt and the deficit will rise more rapidly because of the promises that have been implicitly made to future retirees, the Social Security cash pensions and the health care promises to retirees.

So avoiding that increase in the deficits and debt, or very large increases in taxes requires slowing the rise in real benefits, and I emphasize two words, "slowing" and "real." In other words, it's not a matter of cutting benefits from existing levels, it's a matter of slowing the growth, and it's not a matter of slowing the growth of benefits to the point where real benefits would actually fall. Real benefits could go on rising but not as fast as called for under current arrangements.

The second problem is tax reform. The U.S. Tax Code is full of special features, special features
that reduce taxable income relative to total income, and by reducing taxable income they reduce the amount of revenue that the government collects.

The important thing about these special features is that most of them are equivalent to government spending. For example, there are provisions which are designed to encourage the purchase of health insurance, so there are subsidies for health insurance, there are subsidies for home ownership, there are a variety of subsidies for buying fuel-efficient cars and fuel-efficient refrigerators. You name it, we have a tax subsidy for it. So, all of these amount to substantial losses in revenue.

So, it's possible, and the key point is it's possible, to raise revenue without raising marginal tax rates. It's possible to shrink, or cap, or limit in one way or another some of these special features, and in doing that to raise revenue. And, indeed, to do it while actually lowering marginal tax rates. And the Bowles-Simpson Commission that the president appointed and then ignored came up with proposals to do just that. Those are the key issues.

Now, we are in an election year, and I think the fact that we're in an election year has prevented progress on these issues. Congress created something that got nicknamed the Super Committee, consisting of a small number of Republicans and equal number of Democrats, equally divided between the House and the Senate and charged with finding $1.2 trillion of deficit cuts over the next 10 years. That's only about 6 percent of the size of the GDP 10 years out, so it wouldn't even stop the rise. And the idea was to consider both entitlement changes, changes in the Social Security and Medicare programs, and also tax reform.

I spoke to members on both sides, Republicans and Democrats while they were working on this, while this committee was working on it. They took the job very seriously, they considered all kinds of detailed options, and in the end couldn't come up with an agreement. I think the reason for that is that we are in a presidential election year and each side wanted to present to its constituents a very clear image. Republicans wanted to say we're against tax increases. And, yes, we know there are various ways you can eliminate special tax rules, and raise revenue, and lower marginal tax rates, but that's too complicated to get across to the public in the midst of a presidential election, so we would prefer to just do nothing.

Similarly, the Democrats wanted to protect their image as defenders of the entitlement programs and felt that if they were to agree to technical changes in indexing rule, or retirement ages for the Social Security pension program, they would be accused of cutting those benefits. Rather than do that, they stayed with a hard line of let's do nothing. But I think there's hope that once we get past the election, the homework that this group of political leaders did will allow them to reach compromises that they couldn't do during the election year.

What might happen after the election? Well, that depends so much on the outcome, and I agree with Jane that it's at this point too close to call. President Obama has a small lead. The House of Representatives, the lower House, has a very large Republican majority which is likely to remain, and the
Senate is also very hard to call although it looks like it will probably go to the Republicans. So, it's not out of the question that we will see a Democrat in the White House and both Houses of the Congress controlled by Republicans.

In order to stay close to time and to do what a few people asked me to be sure to do while I was up here, let me set aside for the questions what might happen if there is a Romney victory, since I probably have a comparative advantage in commenting on that, and finish by talking about the economic outlook that I think would affect the election.

I think if there is poor performance, at least as judged by the voters, it would be hard to shift the blame from the president. He may say it's because of the recalcitrant Republicans in the House, but I think if the economy isn't doing well, the president historically has been blamed for it. So, what's the current situation?

Well, basically, the economy is limping along with a very weak labor market. We have an unemployment rate of 8.2 percent. It's down from 9 percent a year ago, but about half of that decline is because of a decrease in the number of people looking for work. In the U.S. system, if you're not looking for work in the last four weeks, you don't get counted as unemployed. Some of the people who are not looking for work are young people who've gone back to school, not necessarily a bad thing, but it does show weakness in the labor force.

In addition to that, about 6 percent of the labor force are on involuntary part time, so they're working three day weeks or two days week even though they'd like to work full time. And another 2 percent have stopped looking, so when you add it all up you're talking about 15 percent of the potential labor force that is not doing what they would like to be doing.

As far as growth itself goes, as far as GDP goes, we are just limping along. Last year the economy grew at 1-1/2 percent. In the final quarter of the year, the last period for which we have an official GDP estimate, the growth was a strong, or at least a stronger 3 percent, but the majority of that was just inventory accumulation. If you take out the inventory accumulation, it was 1.1 percent, so even weaker than earlier in the year.

This quarter, the first quarter that's just ended, we'll soon get some numbers. It'll probably be greater than a 2 percent real growth driven by consumer spending, which has been surprisingly strong. We've seen strong retail sales and strong consumer spending more generally. I say surprisingly because incomes have been very weak. Real average weekly earnings are lower now than they were 18 months ago. A broader measure, real disposable, meaning after tax income, is lower now than it was six months ago. And yet real personal consumer expenditures have increased. And how do you square those two? By a decline in the savings rate. So the savings rate has fallen to a remarkably low 3.7 percent. In my judgment, if that number, that estimate by the government continues to hold up, it's very hard to believe that it's going to go on falling
Housing, in addition to that, is in bad shape. House prices have fallen every month for the last year. In real terms, house prices are 7 percent lower than a year ago, so households have lost $1 trillion in wealth from the fall in house prices, and about 25 percent of all homes with mortgages are under water owing more than the value of the house. That combination has led to declining home sales, both new home sales and existing home sales.

And it's not just the household sector that's in weak shape. Industrial production hasn't increased at all for the last two months. The Institute of Supply Management surveys of the service sector also show recent declines. So, my judgment is that we're likely at best to see the economy continuing to limp along between now and the election with GDP growth at less than 2 percent. That is lower than the consensus forecasts. The consensus forecasts are 2-1/2, 3 percent, but I think that's where I believe we will be.

I haven't said anything about monetary policy because I don't think it matters. I think the Fed could do another round of quantitative easing of buying bonds or mortgages. That would have the favorable effect on bond prices, it would lower long-term interest rates, but my sense is that would do very little, if anything, to actually help either the housing sector or the economy more generally. So, I think we are looking at a relatively weak economy for the rest of the year. Thank you.