I will structure my presentation around four questions. Will Obama be re-elected, and a larger question is the American political system capable of dealing with this deficit and debt problem? And, third, will the November election make a difference to the answer to the second question? And, fourth, how polarized really is the American electorate?

Will Obama be re-elected? Well, to get the deepest research on this I went on the Internet, which any of you can do. And as of this morning on In-Trade, the argument is 60 percent chance that he’ll be re-elected. That, as you know, is a betting game, and any of you can play it. Obviously, that changes as opinion changes and people change their bets. If you look at the polls, the polls are all over the place. CNN had Obama up 9 points, Reuters had him up 4 points, Fox had him down 3 points with Romney winning, and Gallup had Romney winning by 2 points.

John Zogby, who's a pollster who looks at these things carefully said, "Don't believe any of these polls. It all depends on whether they're polling registered voters and how they weight their samples. Do they weight them in proportion to the members of political parties and also by race?" And if you correct for those factors, says Zogby, Obama is slightly ahead. But, again, I think rather than taking polls seriously this early in the game, I agree with Jane, probably it doesn't really matter until sometime in September.

In the meantime, the best we have to go on is Marty, and I follow Marty's advice quite closely. If Marty says the growth is 2 percent, and I think Marty and I were both at a meeting with Paul Volker a week or so ago and Paul could get that up to about 2-1/2, I think, with as much of a disagreement as he could find. It means that that's a weak economy, and if something hits that economy like an EU crisis, or like a big oil shock growing out of Iran, I think that's goodbye Obama. Obama has a margin, but it's not a big enough
margin to be robust in the face of that kind of a shock. Anyway, that's my guess on will Obama be elected. But, as I said, any of you can play this game, and the odds as of this morning were 60 percent that he will.

The bigger and more important question is, is the American political system capable of dealing with this problem of the deficit and debt? And then as we heard, the Simpson-Bowles Commission came up with a pretty reasonable plan for how to do this, which involved raising taxes, but most of it was cutting expenditures. But what's interesting is, I think, you can make an argument that Obama probably misplayed it. If you remember, at the time of our Washington meeting last spring when we were talking about this, Obama, instead of accepting Simpson-Bowles and making it his own, decided that if he put it forward as his own, it would be like a pinata, and all the opposition would do would be to swing at this piñata, and it was better for him to let the Republicans go first, and then after they'd gone first, then he would try to strike a deal.

As you may remember, he and John Boehner, the Republican leader in the House, came very close to striking a deal which would have been worth about $4 trillion, but the interesting thing is that when Boehner tried to sell it to his back benchers, the Tea Party Republicans who were elected in 2010, they rejected it, so no deal. And the reason was that the deal involved some degree of rise in taxes, and this has become almost a mantra for the Tea Party Republicans that you may not raise any tax ever. And that is, I think, where that stood by the time of the election.

So, the question is will the election in November make a difference. And the answer to that is you have to think really of two elections in November. One is for the president, and the other is for the Congress. It's hard for people in a parliamentary system to realize how strange the American system is. There are only two people in the United States who are elected nationwide, president and vice president. Everybody else has a smaller constituency, and those smaller constituencies often have quite different approaches.

Now, if you look at the question of the presidential election, I think you could say that American public opinion is largely a bell-shaped curve. This argument that Americans are tremendously polarized and can't agree — the public opinion polls show that, in fact, American opinion is normally distributed. It's not bimodal as the pollsters say. That means that in the presidential election the candidates are both going to try to move to the middle to capture the independents, so what you've seen in the primaries is Romney running to the right where he has to deal with primary voters who are at the extreme of the Republican Party. Obama has been spared that, he doesn't have to look to the extreme of the Democratic Party because he's an incumbent and hasn't run in primaries. Romney's job is going to be to try to get back from the right where he's been pulled in the primaries to the center. And this has given rise to the caricature of Romney as the Etch-A-Sketch candidate. Etch-A-Sketch is a child's game in which you first draw a picture, you shake it and then it all vanishes, and you start all over. One of Romney's advisors, when he was asked how you're going to get from this far right where you've gone in the primaries back to the center by November, said, "It'll be like Etch-A-Sketch."
The trouble with that is it's bad for the primaries, but it's actually good for the final. Romney, in my opinion, he was governor of Massachusetts, is a pretty reasonable man. He is a man, I think, of the center, and I think he probably could know how to run the country, so I don't think he's quite the wild man that he's been portrayed as in the primaries where he has to go to get the nomination. So, Romney is going to try to rush back to the center.

Obama is going to play a, I won't call it a trick, he's going to use a political device on Romney related to this tax issue. It's called the Buffet Rule, which is that if you're a billionaire or even a millionaire you should pay the same rate of tax as your secretary. And this is what Warren Buffet has said, that it's too bad or wrong that he, Warren Buffet, pays less tax than his secretary pays. And we know, because Romney's had to declare his income tax, that Romney pays tax at the rate of 15 percent, and the norm is about 25 percent for people in his income bracket without special arrangements. So, Obama is using what he calls the Buffet Rule to say — and he's put this to the Senate, or to the Congress where it's been rejected, but for the purposes of the election it's a useful tool because it's going to push Romney hard against the question of is he willing to raise taxes or not?

This particular political device may actually lead to Romney, who's a natural centrist, agreeing that some type of tax rise might be possible, and without that you're not going to get serious movement on the deficit issue.

When you look at public opinion polls about the country as a whole, not about the people who vote in Republican primaries, the majority of the people do accept a tax rise. So, in that sense there will be an interesting game being played in the November election at the presidential level which is, will increasing taxes remain taboo? If so, then I am very pessimistic that we'll be able to settle much after the election.

If you begin to see that it's possible to have some tax increases perhaps disguised in the form of the types of revisions of the Tax Code that Marty was talking about, then there may be some hope for progress afterwards. But that will depend on the second election. The second election that happens in November is for the Congress. Sometimes people look at the American electorate and say my goodness, how can you have had something where you had Obama getting a good majority and a Democratic Congress in 2008, and only two years later you get extreme swing to this — not just to a Republican majority but a very right wing Republican majority, the so called Tea Party majority, and this is extremely variable. This electorate must be deeply divided. And the answer to that is, no, it's not the same people, it's not the same electorate. The people who vote in the presidential election are brought out by the president, and when they vote for Congress they tend to vote, or have the so-called coattails of the president. So, the people who elected Obama and the Congress in 2008, a good chunk of them, particularly younger people, some African Americans and others just didn't show up in 2010.
Then the big question is where are they going to be in 2012? Will they come back and vote again or not? And the answer to that is going to be partly whether Marty is right about the economy and whether those shocks, those exogenous shocks I mentioned, occur or don't occur.

But that then gets to the question of where is the United States overall, how polarized are we? And the answer, here I agree with Jane, the American people are not nearly as polarized as the image would have you or the results would have you. When you take the primary votes you find that only about 20 percent of the people come out and vote in primaries, so they’re the extreme on each side, the extreme Republicans, the extreme Democrats. The middle isn't doing anything, and that also is true of the Congress.

When you go to the Congress, you'll find that the distribution in the Congress is not a bell-shaped curve. It essentially rewards those people who are more extreme in their parties in their narrower constituencies both on the left and on the right.

The interesting question about what happens after November is, will enough people from the middle come out that you'll begin to restore what Jane called the sort of reasonable middle, people who are willing to make compromises? Without those compromises we're not going to get an agreement on something like Simpson-Bowles or any type of plan to really deal seriously with the deficit.

Now, in the long run it's possible to think of devices that could reduce polarization in the American electorate or in the results of the American electorate. One is to have what's called open primaries. And Jane's state of California is doing this, so now instead of just having the extremes vote in primaries, you can have both parties run in the same primary, so you might wind up with two Republicans, for example, winning and facing each other in November after a primary. This is just starting this year. We don't know whether it will make a difference or not. What it does is it rewards those who come toward the center rather than those who live on the extremes.

The other plan that people talk about is to have a redistricting done by an independent commission, so instead of just having the state legislatures, which are captured or owned by one or the other party, set the districts to favor their party, you might have more competitive districts that will be established, which again creates an incentive to run to the center.

Parts of these problems of the American political system are institutional. They're not so much the structure of opinion of the American people as much as we've got a set of institutional things which actually can be changed far short of anything like a Constitutional amendment, which could begin to reward that group in the center that Jane was talking about. But whatever you might think of that, it's not going to happen in time for this November. So, whether we do get back to the center and get a compromise on the debt and deficit after the November election will depend, going back to Marty, on how robust is that growth and is there exogenous shock or not.