

© 2010, CBS Broadcasting Inc. All Rights Reserved.
PLEASE CREDIT ANY QUOTES OR EXCERPTS FROM THIS CBS
TELEVISION PROGRAM TO "CBS NEWS' FACE THE NATION."



September 5, 2010 Transcript

GUESTS: LAURA TYSON
White House Economic Recovery and Advisory Board

MARK ZANDI
Moody's Analytics, Chief Economist

GRETCHEN MORGENSON
The New York Times

NANCY CORDES
CBS News Congressional Correspondent

JIM VANDEHEI
Executive Editor, Politico

MODERATOR/
PANELIST: MR. HARRY SMITH
CBS News

This is a rush transcript provided
for the information and convenience of
the press. Accuracy is not guaranteed.
In case of doubt, please check with
FACE THE NATION - CBS NEWS
(202) 457-4481

TRANSCRIPT

HARRY SMITH: Today on FACE THE NATION, can President Obama fix the lagging economy?

PRESIDENT BARACK OBAMA: We're moving in the right direction. We just have to speed it up.

HARRY SMITH: What actions will he take--a payroll tax holiday, tax brakes for business, a jobs program--will these work? We'll ask economist Laura Tyson, Mark Zandi of Moody's and New York Times business reporter Gretchen Morgenson.

How will the weak economy effect the November elections? We'll get the latest on the election from Jim VandeHei of Politico and Nancy Cordes who covers Congress for CBS News.

But first, fixing the economy on FACE THE NATION.

ANNOUNCER: FACE THE NATION with CBS News chief Washington correspondent Bob Schieffer, and now from Washington, substituting for Bob Schieffer, anchor of THE EARLY SHOW, Harry Smith.

HARRY SMITH: Good morning and welcome to FACE THE NATION. Laura Tyson is a member of the President's Economic Advisory Board. She is in East Hampton, New York. Gretchen Morgenson of the New York Times is in Providence, Rhode Island and Mark Zandi, chief economist for Moody's is here in the studio. Good morning, all.

MARK ZANDI (Chief Economist, Moody's Analytics): Good morning.

LAURA TYSON (White House Economic Recovery and Advisory Board/University of California, Berkeley): Good morning.

GRETCHEN MORGENSON (New York Times): Good morning.

HARRY SMITH: Mark, let me start-- start with you. Among the-- the two very important ideas that are being talked about this week that the President is-- is-- is suspected to be addressing on Wednesday, is this idea of suspending a payroll tax. How much of a boost can that provide and is it enough to help speed the recovery as the President suggests.

MARK ZANDI: Well, I-- I think if we sus-- suspend the payroll tax for businesses that go out and hire additional workers, expand the job tax credit that is in place today, I think that could be effective and be helpful in the next six, twelve months when the recovery really needs it. I think that would be a-- a-- a boost to the economy.

HARRY SMITH: Laura Tyson, how do you feel about it?

LAURA TYSON: I think that's correct. I think that we already have in place the credit. The credit can be extended or could be extended into a partial payroll tax holiday. I think the issue is really going to be for new hires, all new hires. And then, what the size of the firm--should be all firms. But this is an area which I think is really worthy of serious discussion and with the possibility of some action.

HARRY SMITH: And Laura Tyson, I want to continue with the idea, the other thing that's talked about that might come up on Wednesday, is making permanent tax cuts for research and development.

LAURA TYSON: Correct.

HARRY SMITH: Is that not something the President has talked about before?

LAURA TYSON: Yes. The President has been very clear about this issue from the beginning. In fact, you know, the important part of the sometime stimulus that people don't talk about is really the support for continuing research and development. That's where U.S. competitiveness lies in high-technology industries. We know that the R&D tax credit is an important credit that does affect how much R&D spending business done. And business accounts for something like two-thirds of all R&D spending in the United States. So this is important. I don't think this is something that has an immediate, as immediate a job impact as say movement on the current tax credits for the unemployed or extending payroll tax holiday of some sort.

HARRY SMITH: Mm-Hm.

LAURA TYSON: But I think it's very important in terms of job creation over the longer term. So if we're thinking about growth and long-term good jobs--

HARRY SMITH: Right. Right.

LAURA TYSON: --research is important.

HARRY SMITH: Mark Zandi, will either of these things or both of them together be satisfactory to the business community which feels very uncomfortable it seems to me with the White House right now?

MARK ZANDI: Well, I-- I think the business communities on board for the R&D tax credits.

HARRY SMITH: Sure.

MARK ZANDI: I mean that's been in place since 1981.

HARRY SMITH (overlapping): That's easy.

MARK ZANDI: That's easy. The-- the President has to figure out how to pay for it though.

HARRY SMITH: Right.

MARK ZANDI: So he's going to have to take some-- some of the corporate tax benefits away to pay for it, and so it'll be interesting to see how businesses balancing the two.

HARRY SMITH: Yeah, what the trade off is going to be.

MARK ZANDI: Yeah. In terms of the job tax credit, I think they're skeptical. You know, I think some businesses would find it useful but the business community, I think would be skeptical saying is this really going to help me--

HARRY SMITH: Yeah.

MARK ZANDI: --make a decision about buy-- going and hiring a person.

HARRY SMITH: Gretchen, let me ask you this, this whole idea of the President talking about moving in the right direction, wanting to pick up the pace. Is there a predominant idea of what it is that-- that is hindering the economy from catching fire?

GRETCHEN MORGENSON: Definitely. It is debt. We had a debt binge of the likes that we have hardly ever seen before. And frankly, Harry, it just takes a long, long time to get that out of the system. We're still really working down the debt that homeowners took on. And it's a difficult and really excruciating process. You can't do it overnight.

HARRY SMITH: Which brings up the whole idea, Gretchen, of this-- this debate is now the time to continue cutting taxes if there is this overwhelming deficit out there?

GRETCHEN MORGENSON: Well, I think what you have to worry about immediately is job creation. And let's just forget about the deficit for the moment because when you have the unemployment rate where it is now and you have incomes really being stretched, I think that that is the key to any kind of activity and economic activity by consumers is an enormous part of our economy. That is really why we are in such dire straits.

HARRY SMITH: Which is maybe one of the ideas that has to be in play is-- is do we have the wrong model to begin with? I'm going to want to get back to that in a second. First though, I want to talk about the Bush tax cuts--

MARK ZANDI: Right.

HARRY SMITH: --which are due to expire in January. Laura Tyson, should the Bush tax cuts stay in place for the middle class but be rescinded for-- for the top wage earners?

LAURA TYSON: I think-- I think that that is the right thing to do. I think that's the right thing to do economically. We have to worry about the spending power of the majority of the population. The ninety-eight percent of the population for whom we've extended the-- the Bush tax cuts. That's where you're going to get a high level of consumption. That's where incomes are highly under pressure and we need to help people with their incomes and spending. I think for the top two percent, we know that income growth has been very concentrated there. We know they tend to save a lot out of income. We know, therefore, that the demand creating effects of extending those Bush tax cuts are very small. I would say, yeah, let those expire. And if you want to, use the revenue which is thirty-five to fifty billion dollars a year--

HARRY SMITH: Mm-Hm.

LAURA TYSON: --use the revenue to help fund the R&D tax credit. Use the revenue to help fund a partial payroll tax holiday.

HARRY SMITH: Right.

LAURA TYSON: If you're thinking about demand, that's the right thing to do. And then, longer term, you know, we can't afford the trillion dollars over ten years to give tax breaks--

HARRY SMITH: Okay. Right.

LAURA TYSON: --for the top two percent of the population.

HARRY SMITH (overlapping): Can-- can-- yeah, Mark Zandi, would you jump in there.

MARK ZANDI (Overlapping): Yeah. I'd jump in there. Yeah.

HARRY SMITH: Please.

MARK ZANDI: I wouldn't raise anyone's taxes in 2011. I mean, I think the recovery is just too fragile and we can't take that chance. I-- I think Laura is right in a normal economy--

HARRY SMITH: Mm-Hm.

MARK ZANDI: --I don't think high-income taxpayers would respond to this increase in tax rates because it's a small increase.

HARRY SMITH: Right.

MARK ZANDI: But these aren't normal times. And I think high-income households are psychologically very, very fragile. They've seen their nest-- nest egg significantly diminished because of the declining stock and housing values. And I think we're taking a gamble with the recovery if we raise it to--

HARRY SMITH: Did you hear--

MARK ZANDI: --but let me say, I think by 2012 and '13, '14 when the economy is off and running, then let's phase them in and let those tax rates go because we rise back to where they were.

HARRY SMITH: Right.

MARK ZANDI: Because, we do need to address our long-term fiscal problems but not in the near term.

HARRY SMITH: Because you hear small business owners say if you-- if-- if those tax cuts come back, I'm not going to hire a single person. I mean, that's anecdotal. But is that really the predominant feeling among small businessman.

MARK ZANDI: Well, I think small business people--

LAURA TYSON: Those--

MARK ZANDI: I-- I think that argument about small business is overdone. I mean there is some merit to it.

HARRY SMITH: Mm-Hm.

MARK ZANDI: That small-- on the margin some small business people won't hire as aggressively but that is an overdone argument.

HARRY SMITH: Right. And, Laura, what were you going to say? Very quickly.

LAURA TYSON: I-- I was-- absolutely, yeah-- Mark-- Mark made my point.

HARRY SMITH: Okay.

LAURA TYSON: That-- there's only two to three percent of the small business community that would be affected by this. This is not the major reason that they're not hiring.

HARRY SMITH: Hm.

LAURA TYSON: You know one of the things we haven't talked about is the capital market constraints on small businesses. And other thing, the administration has been pushing for it very hard--

HARRY SMITH: Hm.

LAURA TYSON: --is this bill before the Congress to basically help provide capital to small banks that lend to small businesses.

HARRY SMITH: Right.

LAURA TYSON: Ben Bernanke said a week ago, you know the interest rate is low but these small businesses cannot get credit. And we need to do something about that.

HARRY SMITH: All right.

MARK ZANDI: Can we make one more point about the facts-- the tax--

HARRY SMITH: Yeah, real quick.

MARK ZANDI: --the expiring tax cuts. The most important thing is that we need to nail this down quickly, because I-- in my view the reason why businesses aren't hiring--the key reason is because of a lack of confidence. They're just nervous, flat out nervous.

HARRY SMITH: Hm. Mm-Hm.

MARK ZANDI: And we have to provide some certainty in that and we need another--

HARRY SMITH (overlapping): Could that be done before the election?

MARK ZANDI: Certainly. I mean, I-- politically, I don't know.

HARRY SMITH: Right. I'll take that-- right-- yeah, right.

MARK ZANDI: But from an economic perspective the sooner the better.

HARRY SMITH: Gretchen Morgenson, I want to go back to the stimulus because as so many of these Congress folks are going back out of their districts and people complain about the size of government. They're complaining about the deficit. They're complaining about TARP--

GRETCHEN MORGENSON: Ah-huh.

HARRY SMITH: And who knows what all else. In-- as we're standing here looking at it right now just a step away, was the stimulus big enough?

GRETCHEN MORGENSON: The stimulus was not big enough, because you would have seen far greater recovery. The unemployment numbers would be better, I think if you had--if we wanted to think the stimulus was enough. But again, I think that it has to be targeted. And I think that what Laura, the point she made earlier is a good one. That is, let's go for things that will have a more immediate impact like, say, a payroll tax cut holiday or a payroll tax holiday.

HARRY SMITH: Mm-Hm.

GRETCHEN MORGENSON: You know we need something instant, something a little bit quicker. And that is very stimulative. So, I think these people are right. I know that they're working debt load. They're still in a very difficult spot.

HARRY SMITH: Well, one of the things you've written so much about for the Times is the housing mark. And one of the other ideas that's out this week is this notion of giving people whose homes are underwater mortgage holders that are-- whose homes are underwater, the opportunity to get out. People who are paying their mortgages but to get out from underwater and giving-- and basically, handing the federal government the bill. Will-- in-- in the short term or even in the long term, do you-- Gretchen, does that seem like a buyable option. And, oh, by the way, we should say the government's efforts on some of these levels have not been particularly good in the last two years.

GRETCHEN MORGENSON: That's right. I mean, I think that it is-- the devil is in the details. The HAMP program has been a big disappointment. That was the helping homeowners, the initial program that Treasury put out there, has been very disappointing. I think that these matters are so complicated with so many different people and debt--second loans, first loans, it's really very complex. And I just don't see how it's going to provide immediate help.

HARRY SMITH: Hm.

GRETCHEN MORGENSON: The kind that we really need.

HARRY SMITH: So is it-- is it time-- it's crazy to even talk about but there are plenty of economists out there, Mark Zandi, who say what's really needed is a second stimulus. Is-- would you-- could those words cross your lips?

MARK ZANDI: Well, we-- we are talking about other stimulus, right?

HARRY SMITH: Hm.

MARK ZANDI: I mean, an R&D tax credit, payroll tax holiday, job tax credit. You know all these things are different forms of stimulus. In fact, the federal government has provided a couple hundred billions dollars in additional stimulus beyond the recovery act stimulus we put in place a year and a half ago.

HARRY SMITH: Yeah.

MARK ZANDI: So we are doing that. In-- in my view the recovery needs more help. And it would be prudent, I think, to provide some additional help through some of the things that we're talking about. Most--

HARRY SMITH (overlapping): All-- all right. Laura Tyson, what about a-- a-- a-- a more significant stimulus, be-- beyond the things that these, you know, a-- a-- a block here, a block here, a block here, but another say couple hundred billion dollars, what about say something like a new WPA?

LAURA TYSON: Well, I-- I-- I believe that we should look very hard-- we should look at infrastructure because we know before the recession, before the great recession, we know that we were vastly under spending on the nation's infrastructure.

HARRY SMITH: Hm.

LAURA TYSON: You can sort of, therefore, start with the notion that infrastructure spending is terrific in two ways. It creates demand right away when you go out and get the project start and get the worker started--

HARRY SMITH: Yeah.

LAURA TYSON: --and get all-- it also creates the ability to grow and be productive in the future.

HARRY SMITH (overlapping): Although-- although Japan--

LAURA TYSON: So you've got two things going at once.

HARRY SMITH: --Japan, tried that and they don't-- they don't have a lot to show for it.

LAURA TYSON: You know what, I am basically going say let's think about ourselves.

HARRY SMITH: Okay.

LAURA TYSON: Let's think about the fact that before the great recession-- no seriously, we were spending--

HARRY SMITH: Serious--

LAURA TYSON: --we were spending in real dollars about the same amount on infrastructure as we were in 1968. In 1968--

HARRY SMITH: Yeah.

LAURA TYSON: --we were a third-- third smaller as the economy. Let's take an estimate we have two trillion or so dollars of unaddressed infrastructure needs. You want to start with something really big, start with developing a high speed rail system.

HARRY SMITH: Go ahead.

LAURA TYSON: Start with developing, improving our air control, modernizing our air control traffic system for goodness sake.

HARRY SMITH: Wouldn't that be something?

MARK ZANDI (overlapping): But-- but this--

LAURA TYSON: These are things we want to do anyway.

HARRY SMITH: All right. Very quick, Mark.

MARK ZANDI: But this is the-- it's important to realize though that none of this will make a difference in the next year.

HARRY SMITH: Right.

MARK ZANDI: I mean these are projects that are long lived and take a long time. And we have to pay for them. We can't do this until we pay for them.

HARRY SMITH: Okay. And, when going back to paying for--

LAURA TYSON: Of course, I-- I do--

HARRY SMITH: --and deficits. And let's go back to Gretchen Morgenson, real quick. is the threat of a double-digit recession, has that passed?

MARK ZANDI: Double-- double dip.

GRETCHEN MORGENSON: A double-dip.

HARRY SMITH: Double dip. I'm sorry. Double-- double digit-- so--

GRETCHEN MORGENSON: Yeah. No. No-- no problem. I don't think it's passed. I mean we are looking-- scrutinizing all the numbers.

HARRY SMITH: Mm-Hm.

GRETCHEN MORGENSON: Some of them look better than others. But as Mark said earlier, it is very fragile out there.

HARRY SMITH: Yeah.

GRETCHEN MORGENSON: So I'm not willing to say it's passed.

MARK ZANDI: Well, one in three--

HARRY SMITH: Passed?

MARK ZANDI: --one in three probability--Less than even but too high to take a chance.

HARRY SMITH: And Laura Tyson?

LAURA TYSON: Well, one in three is higher than I've heard. But I think we're in a situation where we're bumping along at a slow rate. There's a lot of down side risk. I think all of us agree here we need targeted policies for jobs and right now the deficit is not the major issue. The major issue, slow economy, lack of jobs, twenty-four million people are still looking for full-time work.

HARRY SMITH: Hm.

LAURA TYSON: We really have to get our priorities right and focus on targeted jobs, creation--

HARRY SMITH (overlapping): And if--

LAURA TYSON: --policies.

HARRY SMITH: --any of that is it possible in terms of being passed we'll talk about our next section with our-- with our political folks. Thank you all for a very-spirited discussion this morning.

MARK ZANDI: Thank you.

LAURA TYSON: Well, thank you very much.

(ANNOUNCEMENTS)

HARRY SMITH: We are back to talk about politics and the economy. I am joined by CBS News congressional correspondent Nancy Cordes and Jim VandeHei, executive editor of Politico.

Let's first talk about this midterm election which is coming up really in two months now. I mean, the clock is really flying by in this. Nancy, are House Democrats running away from President Obama?

NANCY CORDES (CBS News Congressional Correspondent): Not only are they running away from President Obama. They're running away from being Democrats in some cases. In some races you actually see the Democratic candidates not really mentioning that they're a Democrat in their campaign ads. And you even see candidates from both parties not even mentioning that they're in the House of Representatives because it's such a bad year to be an incumbent that they-- they tend to downplay that a little bit because everyone wants to look like an outsider.

HARRY SMITH: Jim VandeHei, this whole notion that whether or not the White House likes it, this really does end up being a referendum on-- on the President.

JIM VANDEHEI (Executive Editor, Politico): Right. Right. There's no doubt about that. But you go into a political war with the reality that you have, not the reality that you want. And the reality for this administration stinks--politically and practically when it comes to the economy. You're not going to be able to change that 9.6 percent unemployment figure.

HARRY SMITH: Mm-Hm.

JIM VANDEHEI: You can't get anything through Congress in the next couple of months. Republicans feel-- I think they feel more powerful today than they felt at any point in the last five

or six years. They don't want to do anything to help Democrats. They don't want to do anything to help Obama. And, on top of that, you have this enthusiasm gap that is killing Democrats. If you look at the polling data from Gallup and from others, it shows that Republicans are fired up about this election.

HARRY SMITH: Mm-Hm.

JIM VANDEHEI: And liberal Democrats are not. They're not enthusiastic about it. And when you have races that are decided by a couple of hundred votes in a House that's going to be very, very close--

HARRY SMITH: Mm-Hm.

JIM VANDEHEI: --that matters.

HARRY SMITH: Does the White House get this? Does the White House understand this? Or do you feel any sense of panic or concern or--

JIM VANDEHEI: They get it. There's panic. There's concern. People are not nuts if they think that Obama wants. There's-- there's sort of this theory among some Democrats that Obama wants Republicans to win--

HARRY SMITH: Mm-Hm.

JIM VANDEHEI: --because it's easier to have a divided government. They're nuts. Obama knows you have only so much time to do big things in Congress. And that he needs the power of having Democratic majorities. The problem is there's just not much that you can do. You can have a big money edge.

HARRY SMITH: Mm-Hm.

JIM VANDEHEI: But when you're dealing with the economic reality that we have, it's very difficult.

HARRY SMITH (overlapping): So--

JIM VANDEHEI: People are mad. People want change.

HARRY SMITH: So, the Presi-- so, the President is going to talk on Wednesday, and would talk about these things that we've just had the conversation with-- with-- with our economic panel, this idea of-- of rescinding a payroll-- a payroll-tax holiday for a while. Some of the other issues that are out there.

NANCY CORDES: Mm-Hm.

HARRY SMITH: Any chance the Republicans will play ball with any of this over the next two months?

NANCY CORDES: Well, the Democrats don't think so. They are already saying, well, that's great that he's now unveiling these policies but even if he were to hand us a complete package next week, it takes us time to get that wrapped into legislation, to debate it. Even if the

Republicans wanted to play ball it would be difficult to pass it in the few weeks that we have they have. It's really only a few weeks they'll have when they come back this week, before they're heading out again to campaign.

JIM VANDEHEI: I don't want to send everybody into a funk. But here's like one-big reason to be a little bit depressed right now. There's virtually, no chance that the markets are going to get the certainty that they want. They want to know what's going to happen with the tax cut.

HARRY SMITH: Right. Right.

JIM VANDEHEI: They're not going to know. It's not going to be resolved before the election.

NANCY CORDES: Yeah.

JIM VANDEHEI: There's no way that Obama is going to-- there-- I think at the end of the day, they're going to get extended at least for a year.

HARRY SMITH: Mm-Hm.

JIM VANDEHEI: You heard there Zandi talk about that in the last segment. There's no way that Democrats are going to vote for that before the election because their base would never tolerate it. And I can't see any of these other stimulus measures getting place-- in place quickly.

HARRY SMITH (overlapping): So you basically-- you're saying the clock is-- what were you going to say?

NANCY CORDES: Well, I think the-- the one thing that we will likely see before the elections are-- is this small business jobs bill that's been kind of languishing in the Senate. That's their first order of business. They probably have the votes to pass that in about a week or two. So that's the one thing that Democrats can tout as they head into the elections.

HARRY SMITH: So, okay, let's assume the clock has run out then, which is basically your-- your premise.

JIM VANDEHEI: Mm-Hm.

HARRY SMITH: Do the Democrats lose the House?

NANCY CORDES: Well, that's what all the prognosticators are saying right now. In fact, their margins for how many seats the Republicans will get is just inching higher and higher. We saw a couple of very reliable predictions this week saying that the Republicans will win back forty-five seats in the House, fifty seats in the House. They only need thirty-nine seats. So it's looking more and more like the Republicans have a very comfortable edge in the House and it's now looking like the Senate could go to the de-- Republicans as well.

JIM VANDEHEI: This might be unsatisfying. I have no clue if they're going to win it or lose it. But I tell you that Democrats, today are so much more pessimistic, so much more nervous than they were three or four weeks ago. Because they saw that Gallup poll that showed that Republicans have a ten-point generic edge.

HARRY SMITH: Right.

JIM VANDEHEI: They've been polling for sixty years. And we've not seen--

HARRY SMITH (overlapping): Never seen a number-- exactly--

JIM VANDEHEI: --number like that. And on top of that is the-- is the enthusiasm gap--

HARRY SMITH: Mm-Hm.

JIM VANDEHEI: --which again, like it sounds like, it-- what-- what-- (indistinct) talking about. It matters because you have to have your-- your party has to be fired up to go out there. And you can laugh off the Tea Party Movement. It's for real. These people are going to turn out. They are going to vote their people.

NANCY CORDES: Especially the midterm election--

JIM VANDEHEI: Especially in the midterm election.

NANCY CORDES: --you mentioned the money edge which is big. Democrats do have a money edge this year--

HARRY SMITH: Mm-Hm.

NANCY CORDES: --which is important. But they still can't afford to spread their money around to all of these seats that they're now surprisingly defending.

HARRY SMITH: There have been several pieces written in the last couple of weeks about Democrats the-- the people in charge looking at the races and if they-- if they think they're going to lose they're going to pull the money out and they're going put it in other places where that-- they're at least contestable.

NANCY CORDES: Triage that's the scary word.

HARRY SMITH: So the people have been-- yeah so the people out there have been in-- in office for years--

JIM VANDEHEI: Right.

HARRY SMITH: --who are not going to get the support of the party.

JIM VANDEHEI: They have to do that. They have to make a clear right assessment of what is winnable and not winnable.

HARRY SMITH: Hm.

JIM VANDEHEI: There's nobody in town that thinks Democrats don't lose at least twenty seats. The question is-- is could it be forty, could it be sixty?

HARRY SMITH: Right.

JIM VANDEHEI: Could you have a change of power. In Democrats do have a financial edge. But don't get too carried away thinking that that makes that big of a difference because Republican money from outside through Karl Rove, Eddie Gillespie, all these other groups, they're going to be able to narrow that gap and the money gap has changed dramatically in the last six months because Republicans feel they have the momentum and the money moves with momentum.

HARRY SMITH: But--

NANCY CORDES: The Tea Party is raising a lot of money too and they are throwing money in to these races at the last minute.

HARRY SMITH: Hm.

NANCY CORDES: And they're really becoming a factor, well.

HARRY SMITH: Here's-- here's my other question. Ei-- Either of you from your experience on the Hill, have you heard any Democrats in private conversations say, you know what, we-- we went down the wrong road. We-- we went after health care. We went after-- some of the other things around the Obama agenda as opposed to and in the end of the day, it's all about creating jobs.

NANCY CORDES: Yeah.

HARRY SMITH: And this-- this economy hemorrhaged millions more jobs than I think anybody anticipated.

NANCY CORDES: Not only have we heard that but we've been hearing it for months. We heard it during the health care debate that dragged on for a year when the economy was so bad. Democrats saying, you know, we believe in health care reform but maybe not right now. It looks like what country really cares about is jobs.

HARRY SMITH: Mm-Hm.

NANCY CORDES: And they focused on health care and they focused on financial regulation. And those are two accomplishments that the Democrats can point to in the mid-term elections.

HARRY SMITH: Hard to run on though.

NANCY CORDES: But-- it's hard to run on because Americans don't feel the impact--

HARRY SMITH: Mm—Hm.

NANCY CORDES: --of those pieces of legislation yet.

HARRY SMITH: Right, right.

JIM VANDEHEI: On top of that not a single Democrat has run a-- an ad in support of the health care bill since April.

HARRY SMITH: Yeah.

JIM VANDEHEI: This is the biggest piece of legislation passed by a Democratic Congress arguably since the late 1960s.

HARRY SMITH: Right.

JIM VANDEHEI: And they don't even want to embrace it because it's so political toxic. When people write the history of the-- these two years--

HARRY SMITH: Mm-Hm.

JIM VANDEHEI: --they're going to look back and they are going to look back to last July when they started to talk about the cap-and-trade vote, which was going to take place in the House. And they really started to talk about health care, a trillion-dollars plus being a reality. And you saw right then independents had almost a fifteen-to-twenty-point swing against the Democratic Party that has not changed. And this is a fifty-fifty country. You've got to have the independents.

HARRY SMITH (overlapping): You have to have the middle-- it hasn't though.

JIM VANDEHEI: --that hasn't changed. That hasn't changed.

NANCY CORDES: But I will say that there's a lot of frustration on Capitol Hill among Democrats who feel like the President led them down this path.

HARRY SMITH: Mm-Hm.

NANCY CORDES: They na-- didn't all necessarily want to deal with health care but this was on the President's agenda and then they felt like he kind of hung them out to dry. Now when it comes to the economy, they're very unhappy about this speech that he made from the Oval Office.

HARRY SMITH: Hm.

NANCY CORDES: I think it was what the second Oval Office primetime address--

HARRY SMITH: Right.

NANCY CORDES: --in his presidency and what does he talk about? Not the economy--

HARRY SMITH: Mm-Hm.

NANCY CORDES: --but Iraq. And they say, no, we need to own the economy. If you're going to use the power of your office to give a speech like that--

HARRY SMITH: Right.

JIM VANDEHEI: Right.

NANCY CORDES: --talk about the economy.

HARRY SMITH: Is it too late? Is it too late? You have got two months left which is any eternity in politics.

JIM VANDEHEI: Right.

HARRY SMITH: Is it too late for the President to at least create some sort of a fire that will stir his party enough to hold either the House or the Senate?

JIM VANDEHEI: It's never too late and the-- think about how fickle we are in everything in life now whether it's the cell phone that we choose or what we-- what we think about politics or what we do in our daily life. People are fickle. I still think you can start to pull people back. At the end of the day, it has to be that Obama has to find that magic. How can he get liberals to be as excited about him and about Democratic change as they were two years ago? I don't understand how liberals can sit at home and feel like Obama has not done enough for them. This has been a breath taking activist government--

HARRY SMITH: Hm.

JIM VANDEHEI: --for the last two years. And some day they're going to sit back and go, wow, look at all they did. Yet, they're unhappy. How did that happen?

NANCY CORDES: Exactly.

HARRY SMITH: Jim VandeHei and Nancy Cordes, thank you both very much for being with us.

JIM VANDEHEI: Thank you.

NANCY CORDES: Thank you.

HARRY SMITH: I really do appreciate it. We'll be back in a moment.

(ANNOUNCEMENTS)

HARRY SMITH: That's all the time we have for today. Bob will be back next week. I'll see you tomorrow on THE EARLY SHOW.