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## **Opening Remarks**

Thank you John for that nice and generous introduction. You know, looking at the agenda and seeing such brilliant substantive people like Alan Blinder and Roger Altman, Laura Tyson and Jackie Combs moderating the discussion, as a political hack I feel a little like the turd in the punchbowl. But I appreciate the opportunity to be here.

After spending the better part of three years talking about how horrible the issue, agenda and circumstances were for Republicans in 2006 and 2007 and 2008, it's a little disorienting to be preaching doom and gloom for Democrats. But I think we've suddenly found ourselves in a situation where the Democratic Party is in some serious trouble quite frankly here. You don't have to look any farther than party identification. Every month the Gallup organization does 30,000 interviews in national surveys. For those of you who are curious, the margin of error on 30,000 interviews is less than six-tenths of one percentage point. The Democratic Party advantage over Republicans in party ID dropped from 17 points in January to 5 points in August. That 12 point drop in just 8 months is one of the sharpest, actually I think it is the sharpest, I have ever seen in such a focused period of time. At the same time just looking at President Obama's numbers, to think that he was in terms of weekly Gallup approval numbers above 60 percent—at or above 60 percent through the end of June and now drifting down into the low 50s, with 52 percent last week, 52 percent through Monday night, the thing to look at or to think about is not necessarily the overall numbers.

In blue America, blue Democratic left-center America, the President's still in great shape. His approval numbers are still in the high 80s. They are done a touch, but nothing to worry about. Red America, they don't like him or anything he or other Democrats are doing. They are a write-off anyway; they don't matter. But it's purple America, independent moderate purple America; those are the people who give the President what Austin Powers would call his mojo, you know that special sauce, that special umph, that special clout that allow you to get things done. For the President, through mid-June, his numbers were up 60 percent among independents, but now since mid-July they've been consistently below 50 percent. Among seniors, a key demographic, ages 65 and older, a key demographic in a midterm election, under 50 percent since mid-July. Among non-Hispanic whites, he was in the high 50s through Labor Day, now below 50—first below 50 and now in the low 40s since August.

So we're looking at a real sea change in attitudes since, say, Memorial Day in terms of the President's numbers and it has sort of robbed him, it stripped him away of a lot of the clout a President needs to get through a strong agenda. And the thing is, while its true it's important not to dwell too much on the President's numbers, while yes his name isn't going to be on the ballot in 2010, but the thing is mid-term elections are about referendum on the party in power, whether it's the party in the White House or the party controlling Congress.

But the thing is, President Obama, at least in purple America among independents, there is a reservoir of good will towards him. They don't necessarily agree with him on policy but they like him and they wish him well which cannot be said in Red America. But the thing about it is, that reservoir of good will for President Obama that does exist in Purple America among independents does not exist for the Democratic Congress. And that's why there's a separation here that is very, very, very important. He has a little protective coating that helps some; they do not have that protective coating. While the President's numbers has resiliency—appears to have resiliency, Congress's do not. So what's happened that's created this enormous shift to occur?

I think last year, while most of the people in my world were fixated on the Presidential race and after Lehman Brothers defaulted yeah we kind of got side tracked on the economic and financial sector, and then we immediately went back to the final run on the Presidential and all of that. I think something big and deep and psychological happened and I don't think a lot of us started to realize until maybe even the middle part of this summer. You know, Americans in the best of times, or I should say . . . Red America, they think all government, except in your bed rooms, they think all government is always bad. In Blue America, they think it's pretty much good all the time. So, I'm sort of focusing my comments more on Purple America.

In the best of times, there's a healthy skepticism about the efficiency and efficacy of the federal government. After Hurricane Katrina, after the first half of the war in Iraq and a lot of the civilian decisions that went into that, it was particularly low. After the regulatory failure, the systemic failure of the system that prevented—that should have prevented the economic debacle from last fall, it was at a particularly low point. And I think that at that point, when I look at it personally, I see it that President Bush, and I know it's not popular to say nice things about President Bush, but it's like he went up to Ben Bernanke and Hank Paulson and said “Guys, this is over my pay grade. You guys figure out what it takes. Whether it's chewing gum or rubber bands or paper clips or trial and error, you do what it takes to prevent our financial system from going off a cliff and I've got your back.” Now I'm convinced he was probably reaching for the Oval Office trash can twice a day to heave for what had to happen. But the thing about it is what happened is in the last four months of that Administration and I would say the first four months of this administration, did in fact keep the US economy from going off a cliff.

And yeah, what really was a success—following a failure—a success of government to prevent a second Great Depression is seen as a failure of regular people and particularly purple America. They look at TARP, bail outs, takeovers. they look at all this with horror when the reality was, it was a success story, albeit an unpleasant one, but it was a success story. And purple America, let alone red America, they see it as this great power grab and the government is expanding in a potentially irrevocable, irreversible way and it's scaring the heck out of them. I'm talking about red and purple America, not blue America.

We're seeing it very clearly in the data. For example, Gallup Organization released about a week ago the question that they have asked for years and years “Some people think the government is trying to do too many things that would be better left to individuals and

businesses. Others think that government should do more to solve our country's problems. Which comes closer to your view?" The view that government is doing too much hit 57 percent a couple weeks ago, the highest in a decade. We saw the same kind of thing in the NBC/ Wall Street Journal poll where they asked a similar question and as recently as July of 2008, 53 percent thought government should do more, 42 percent thought government was doing too many things. Now we have a plurality going the other way. 45 percent think government should do more, 49 percent think government should do less. But a fairly significant shift in just over a year's time. It's not that red America shifted or that blue America shifted, it's that purple America shifted and that's the key point in this election.

I think a mistake the President may have made was maybe if he had come in and said, this kind of benevolent gesture of paying a compliment to President Bush and saying what those folks had to do in the last four months of that administration and what we've had to do in the first few months of ours, no president in their right mind would ever want to do. You would never want to do this, except if that's what it took to keep our financial system from going over the edge. And I think by making that sort of generous gesture we would have been provided that framework because frankly I think the American people don't realize how close we came to going over the edge.

Now, how serious from a political stand point is the situation right now. If you think about the majorities the Democrats built up in 2006 and 2008, think of it as a greenhouse where you would be growing orchids and tropical plants: the soil, the water, the temperature, the sunlight; everything perfect, everything optimal. And if you look at 2006 and 2008, you had a string of scandals; Abramoff, nay, Tom DeLay, Mark Foley to name a few. The war in Iraq was going horribly. The time for change, the six year itch dynamic you normally see in second term midterm elections, it all came together and exploded on Republicans with those independent voters I was talking about siding for Democrats by an 18 point margin. And Democrats pick up 31 seats in the House, 6 seats in the Senate and control both chambers.

And then fast forward to 2008. While the war in Iraq started to get better, the economy was getting worse, the time for change sentiment started to build, doubts about Sarah Palin, the surge of young and minority voters, again it all created optimal conditions for Democrats and they picked up still more seats in the House and Senate. And so you have a majority that is built under absolutely perfect growing conditions and what's happening now on a thematic level, it's as if a big wind had come along and blown that greenhouse away just as winter is about to come. And so it's a difficult, difficult situation. And if you think about it, Democrats in the House, the margin is 40 seats, Democrats have 84 House Democrats, 84 sit in districts that went for either George Bush in 04 or John McCain in 08. 48 of them went for both Bush and for McCain. 54 Democrats sit in seats that were held by Republicans just 4 years ago. When you look at where this intensity, this animosity towards the Democratic Party is most high: in the old Confederacy. There are 22 Democratic seats that are vulnerable or potentially vulnerable just in the Confederacy. That's half their margin in the House of Representatives.

The bottom line is, and I find myself stunned to be saying this, is I think there is at least a one in three—somewhere between a one in three and fifty-fifty chance that the Democrats are going to lose the House of Representatives next November. Now some of you might be thinking “That’s 13 months away! It’s that too far away to be making a hard prediction.” But I’m not making a hard prediction. What I’m saying is that we are on a trajectory to call for a very close call on the majority in the House of Representatives.

Could things get better? Sure they could. You know, the economy could turn around. I think the economy will turn around. But is employment really going to turn around by November of 2010? Well not that much. And even to the extent that the economy gets better, does anyone think that Afghanistan is not going to get worse? Even if you think believe that in the end it’s going to get better, does any body think that? So yeah things could get better in the next 13 months, but they could also snow ball and get a lot worse. And even in the US Senate, the sobering thing for Democrats is once you get back this election where there are 19 Democratic seats up in the Senate and another 19 Republican seats up, in the next two elections, in 2012 and 2014, there are 43 Democratic seats up and only 22 Republican seats up. Democrats thought—had good reason to believe at the beginning of this year with 7 Republican retirements in the Senate, they had good reason to believe that might pick up, add a cushion of 2 or 3 more Senate seats on that they would desperately need in 2012 and 2014.

The thing about now is, with political circumstances having changed so much, I think it’s likely the Democrats are going to lose seats rather than gain a few seats, not that many, but a few seats in the U.S. Senate. Which means they’re going to walk into ‘12 and ‘14 in an even more eroded situation. So this is, could things change? Yeah. This is a very, very serious situation and I think it tracks back to this sort of whole role of government thing. Now if you believe and a lot of my friends in the White House, once the economy turns around, the political fortunes will turn around and things will get better. But if its not, and if you just believe the problems are just related to the state of the economy, then they are right, they are probably right. But if it is something bigger, something larger if these purple Americans see what’s happened over the last year as this dangerous encroachment, as they do, and I think they are crazy, but it doesn’t mean they don’t feel that way.

And let me just close, any of you, any of you who are skeptical about any of this, talk to some of the Democrats that are in tough districts. Find a Democrat in a district that went for John McCain. Find a Democrat that’s in a district that went for George Bush in 04 and ask them, “how are things going?” And the typical thing you’re gonna say, here let me give you an example. This Democratic congressman from the South, never had a difficult race. His married daughter lives in his district. His married daughter and her husband don’t go out to dinner any more. Because when they do they get completely trashed because people know that she’s the daughter of the incumbent Democratic Congressman in that state. I’ve had other members say it’s the worst they’ve seen since 1994. There is a visceral, ugly thing going on. When you listen to those town meetings back in July, granted those people are crazy, no question about it, but listen to them. Once you got past the death panels, once you got past abortion, what you heard was, it wasn’t

against health care, it was about role of government. And these people, it may not be justified at all, it may be crazy, but they think so and they are the people who are going to decide whether Democrats hold onto their majority in 2010 or not. And this is, you know, go out and find a pollster. This is a very, very serious situation. I think the Democrats, at least whether it's rhetoric or substance, one or the other, they've got to be mindful of what has turned a 17 point advantage into a 5 point advantage in such a short period of time and think about it.

Why has this happened? What have we done to trigger this? And what can we do to offset it? And I think that this conference is, from what I can tell—its going to go a way towards sensitizing people that wow, these really are big things. Part of it's budget, part of it's role of government but this is for Democrats, this situation, I think, is as serious as a heart attack. But thank you very much for having me come. Thank you very much. Have a nice day.