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TELEVISION PROGRAM TO "CBS NEWS' FACE THE NATION."



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Transcript

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TRANSCRIPT

BOB SCHIEFFER: Today on FACE THE NATION, Wall Street did better last week, yet there are more startling revelations today about AIG--the huge insurance company--giving employees millions in bonuses while getting billions in bailout funds.

President Obama's top adviser Lawrence Summers said last week that America's economy would improve. The question: when?

And what about these bonuses to the AIG execs? Will they be stopped?

And why are the Chinese suddenly getting nervous about their massive American investments?

We'll ask Summers.

Then we'll get context and analysis on all this from New York Times columnist Tom Friedman.

I will have a final word on the one tiny bright spot in all the bad news.

But first, Lawrence Summers on FACE THE NATION.

ANNOUNCER: FACE THE NATION with CBS News chief Washington correspondent Bob Schieffer. And now from CBS News in Washington, Bob Schieffer.

BOB SCHIEFFER: And joining us now, the National Economic Council Director Lawrence Summers.

Doctor Summers, the headlines this morning tell it all--the problems you're facing. AIG, this company that has received a hundred and seventy billion dollars in taxpayer bailouts, has decided to pay a hundred and sixty five million dollars in bonuses to executives, some of whom are in the very division that brought the company to near collapse.

Now, I heard you earlier this morning on ABC say that this is outrageous, that these companies have to be able to operate, but your bottom line was there's not much we can do about it. I guess, my question is why?

LAWRENCE SUMMERS (Director, National Economic Council): It is outrageous. The whole situation at AIG is outrageous. What taxpayers are being forced to do is outrageous.

But, as the President said in his State of the Union address, we can't govern out of anger. And if we simply throw up our hands, refuse to deal-- refuse to deal with any of this, we'll have the kind of financial catastrophe that we saw after-- after what happened at Lehman Brothers.

Now, it's a very complicated situation, but the essence of it is this: Secretary Geithner has negotiated very forcefully with AIG. And he has done everything that is legally permissible for the government to do to limit the payment of bonuses. But where there are contracts--binding contracts that were entered into long before the government put any money into AIG. We're not a country where contracts just get abrogated willy-nilly. And if we were to start doing that there would be potentially very destabilizing consequences.

You know, everybody talks about how we got to plan with certitude on which people can rely. Unfortunately, it's just not a tenable option to start abrogating contracts. What the lesson of this is, is that we don't really have a satisfactory regulatory regime in place. Not a satisfactory regulatory regime to have prevented something like this, and not-- and this is something Secretary Geithner will be pushing very hard in his discussions with Congress--a so-called resolution regime that will enable, in the event that we see a mess like this again, the government to have the kind of broad legal authorities that would enable a

resolution without the-- some of the kinds of highly problematic payments that we're seeing from a company like AIG.

BOB SCHIEFFER: Well, I take your point. And I understand what you're saying, but I also know that in companies all over America, people are calling-- bosses are calling employees and saying, look, we are not going to be able to give you that raise that you thought you were going to get next year. People are taking pay cuts. And yet we see the person that, in fact, the government more or less installed Mister Liddy to run AIG saying that we've got to pay these bonuses, I believe his words were "to continue to attract and retain the best and the brightest talent."

Well, if that's the best and the brightest, they're the people that got us into this mess. And you're saying they're going to go to work someplace else? I mean, you go to Starbucks in-- in Darien, Connecticut, you'll find at ten o'clock in the morning the place is full of people sitting there with their computers looking for jobs that used to work all over Wall Street. Where is it that these people are going to go?

LAWRENCE SUMMERS: Bob, it's terrible. It-- it is terrible what the situa-- what the situation is, and that we find ourselves in this place. And the judgment that's got to be made is not what will satisfy our anger best. That's easy to figure out. It's what will best protect taxpayers? What will cause those businesses to operate in the way where there will be the smallest hole in the American people's wallet? And Secretary Geithner has used every legal authority he has, with that sole objective.

No one cares about the shareholders of AIG. No one feels the slightest obligation to people who led us into these difficulties, really none. But they do feel an obligation to do what's right for the American people. The easy thing--

BOB SCHIEFFER: (Overlapping) So-- so these guys are going to get their bonuses?

LAWRENCE SUMMERS: The easy thing would be to just say, you know, off with their-- off with their heads; violate the-- violate the-- violate the contracts. But you have to think about the consequences of breaking contracts for the overall system of law, for the overall financial system.

BOB SCHIEFFER: Do you know if anybody asked them to voluntarily give up.

LAWRENCE SUMMERS: Yes, I do. Yes, I absolutely do. And there was an important negotiation between Secretary Geithner and the chief executive officer of AIG. Mister Liddy has made clear that he was using all of his authorities, both legal and moral, to reduce the level of these bonus payments. So--

BOB SCHIEFFER: (Overlapping) So they-- they said no, we want the money.

LAWRENCE SUMMERS: --what can be done is being done.

BOB SCHIEFFER: All right. Let me-- let's turn to this whole situation at the banks. When-- do you know, Doctor Summers, what the banks have done with all of this money that has been funneled to them through these bailouts?

LAWRENCE SUMMERS: We certainly have a picture of what's going on in the banks. And we're getting a much closer and better reading on the situation of the banks through the stress tests that are an integral part of Secretary Geithner's financial plan. And we're certainly monitoring very closely the funds that go into-- the-- all the financial activities of the banks.

The reason I'm hesitating with respect to your question, Bob, is not to be evasive but it's because these banks, in a year, take in a trillion dollars, of which the government's twenty five billion, or ten billion, or whatever it is, is one component. And then they lend out on a very large scale.

So it's not really possible to take a particular dollar that came from the government and say where that particular dollar went.

But what I can say is that it is a crucial focus of what is a very close and intense relationship now between the supervisors and the banks, following these capital infusions, that there be increased lending--that there be increased lending to small businesses; that there be the kind of constructive steps that the President announced, which all the major banks are participating in, to provide mortgage relief for homeowners; that there be enhanced activities with respect to-- with respect to consumer credit. It's going to take-- it's going to take time.

BOB SCHIEFFER: But aren't you, some place down the line, going to have to explain what it is, what the plan is for these banks?

We've funneled all this money. Nick Brady, who used to be secretary of the Treasury, who I think you know, said to me this week, "You can't fix what you can't explain."

Isn't the government going to have to explain what its plan is, here, somewhere down the line?

LAWRENCE SUMMERS: The President and Secretary Geithner have laid out the framework. And I'm very--

BOB SCHIEFFER: (Overlapping) But nobody knows the details.

LAWRENCE SUMMERS: I'm very confident that, before too long, you will see the details of the plan emerge.

As-- on Monday you're going to see the details of one key component of the plan: Financial support and a number of steps that the government is taking to foster cooperation between the Small Business Administration and banks to increase the flow of credit to small business, which is a crucial place where we've been lacking-- where we've been lacking credit. And that's been one of the contributors to unemployment.

You know, seventy percent of jobs come-- come from small business. As the stress testing process proceeds, we will-- the President and Secretary Geithner will provide more clarity with respect to what the strategy is with respect to particular financial institutions.

BOB SCHIEFFER: But-- but isn't that one of the problems here, is this lack of details? I mean, don't people who want to invest-- they want to know what the rules for investing are.

And those details, why is it-- I understand that this is an extremely complex situation. But why has it taken so long to make those details public? Is it because it's hard to explain or because there really is no plan yet?

LAWRENCE SUMMERS: There's a clear plan. The plan has a pillar of support for the capital markets that enables banks to sell their assets to the capital markets. The plan has a pillar that is infusions of capital into banks to enable them to be in a position to lend. The pillar based on what's going to happen in the banking system is based on a careful and rigorous evaluation of the situation in the banks, precisely to overcome that problem of no one knows what's going on that's described. Those are the stress tests. Those stress tests are currently under way.

BOB SCHIEFFER: Some people have said that what finally has to happen is that the government has to create some sort of an entity like the Resolution Trust Corporation to buy up these bad assets--these toxic assets that the banks and these various places have on their books. So far the administration has resisted that. Why? Not a good idea?

LAWRENCE SUMMERS: Well, I don't think there's any question that we're going to need to sell, that there's going to need to be sales, and many of the bankers want to do it in the context of banks, particularly that find themselves in trouble, it will be necessary to sell so-called toxic assets. Whether

those toxic assets should be sold to a single institution, whether they should be sold to several different institutions is a difficult question.

What was best, I think everybody would agree, and what should be the port of first call, it may not be the last resort, but it should be the port of first call, is selling them in a way where they go into private hands. And that's precisely what the investment facilities that Secretary Geithner has spoken of are directed at-- creating a vehicle that will enable banks to sell these assets not to a public owner but to a private owner who may need to receive some kind of government-guaranteed financing. But I think we do want to keep it in the private sector.

You know, Bob, there's a very-- people often sort of make everything be the same. But you really had quite a different situation in the ninety early nineties with the RTC. At that point, you had a large number of closed savings and loans. The government had just closed down. Here, we're, frankly, trying to be preventive and we're trying to help address the problems with the banks before they fail and need to be completely taken over by the government. And that presents somewhat different circumstances. And that's why the private-sector approach that Secretary Geithner has spoken about has such power.

BOB SCHIEFFER: Let me ask you quickly about China. An extraordinary statement by the president of China saying he is worried about China's investment in the United States. They own about, what, a trillion dollars worth of U.S. bonds. And he wants some assurance that those funds are safe. I can't ever recall anybody questioning the safety of U.S. T-bills.

LAWRENCE SUMMERS: There have-- there have been occasional statements of that kind before, but you just have to look--

BOB SCHIEFFER: (Overlapping) What do you make of that?

LAWRENCE SUMMERS: --even in the midst of a financial crisis like this at the way funds are flowing into the United States, that the dollar has strengthened, even in a period of great difficulty for our banking system.

But there's no question that this underscores the importance of what the President has emphasized in connection with the budget, which is that we've got to get this budget deficit way down from where it is. And we've got to clean up the mess in our financial system, because that's obviously something that is important for confidence in our country and in our markets.

BOB SCHIEFFER: Do you think there's any-- I mean, we saw last week that GE lost its AAA credit rating, its long-term credit rating. Do you think there's any chance that U.S. T-bills will lose--

LAWRENCE SUMMERS: No.

BOB SCHIEFFER: You think they'll retain their credit rating?

LAWRENCE SUMMERS: They are the asset of choice for people around the world. And as long as we manage our economy soundly, recognize that there are going to be very difficult moments like this one, but respond-- respond-- respond forcefully, but in a way that is calculated to identify what the problems are and resolve them, I think U.S. financial markets are-- will be-- will work themselves out, albeit with a period of difficulty.

You know, Bob, there's one lesson from the history of financial crises that no one can argue with. They all end. And this one will too. And what we just have to do is put in place the right policies step by step--jobs, housing, small business, credit, the banks. Put in place the right policies, learn the lessons so that something like this will never happen again. Don't panic. Put in place the right kind of regulatory regime. Do everything we can to cushion the impact because this really is disruptive, and we will make it through this.

BOB SCHIEFFER: One final question. And this, you can give a short answer if you choose. Reports that the President may now favor taxing health care benefits, something he said during the campaign he was totally opposed to.

LAWRENCE SUMMERS: That's not-- that's not in the President's proposal. The President's laid out his principles for judging whatever we do to emphasize lower costs and higher quality, to emphasize allowing people who got a good relationship with their employer in terms of health insurance to continue--

BOB SCHIEFFER: (Overlapping) So-- so you're saying flat out--

LAWRENCE SUMMERS: --to continue that relationship. Those are the President's-- those are the President's principles. He's put forth his proposal.

BOB SCHIEFFER: So we don't need to worry about him taxing health care?

LAWRENCE SUMMERS: Those are the President's principles. He's put forth his proposal. There will be-- different things will come out of the Congress, but the President has put forth his proposal and his principles.

BOB SCHIEFFER: Mister Secretary, thank you so much. Or Mister Director, I should say, thank you so much for being with us.

LAWRENCE SUMMERS: Thank you.

(ANNOUNCEMENTS)

BOB SCHIEFFER: And we're back now with Tom Friedman, the op-ed column-- op-ed columnist of the New York Times.

Well, Tom, you heard Larry Summers this morning. As he left the studio this morning, I told him he didn't have the best assignment in the administration this morning, to come out and try to explain this thing with AIG. Basically, he gave the answer that we keep hearing--we have no choice. We had no choice but to help the auto companies. We had no choice but to help the banks that made bad loans. And now he's saying we had no choice here that AIG had these contracts in place for these employees to pay them bonuses, and there's really nothing that the government can do about it. What do you make of that?

THOMAS FRIEDMAN (The New York Times): Well, you know, what Mister Summers really articulated, Bob, is what they see as their central dilemma. On the one hand, fairness isn't on the menu anymore. Fairness has left the building, from their point of view. All that matters is avoiding systemic risks. And one step we took to avoid the system melting down was that we, the taxpayers, you and I, Bob, we own eighty percent of AIG today. And their attitude is, look, if you own it, you want to operate it according to its contracts and make the thing work. Otherwise we're going to have to pay more.

On the other side, you have this really obvious and justifiable anger of people saying, wait a minute, I mean-- as you asked in your question, I gave up part of my raise for next year. You did. Hundreds of thousands, millions of people either lost their job or gave up part of their bonus so their company could survive through this crisis. And I sure wish the administration-- I know they came to Mister Liddy, who's the head of AIG, who in fairness is working for a dollar. He didn't start this problem. The people who caused the problem for AIG, you know, the management team, they're gone, you know.

But at the same time, you wish they could have come to him and said, look, we know that contractually you get these bonuses, but I'm telling you, you better find a way, okay, to dramatically reduce them, postpone them, because there's going to be real outrage by taxpayers.

BOB SCHIEFFER: Do you think there's more coming on this story?

THOMAS FRIEDMAN: On the AIG story? No, but I think there's more coming on the general problem, Bob, in that we're still back where we were at the beginning. We've got this problem of we've got these toxic assets--these subprime, you know, mortgages on the balance sheets of all these institutions. We've got to get them off somehow.

That's one side of it. On the other side of it, Congress, which has already shelled out three hundred fifty billion dollars or more from taxpayers is saying we're not going to give you another dime. Now, that three hundred fifty billion that's already been shelled out that actually just went to prevent the system from melting down. We're going to have to spend a lot more to get those toxic assets resolved. And I think that's the central political dilemma for the administration.

And that's where I keep coming back to this fairness issue. People are so angry at the money that's already been spent, but the money that's already been spent has largely gone to prevent the building from burning down, not for building a new one.

BOB SCHIEFFER: Aren't they going to have to give more details here?

You notice, when I asked Mister Summers this morning, do you know where all this bailout money that has been given to these banks-- do you know where it has gone?

And there was a long pause. And he said, well, the plan will become known soon. But he-- he really gave no details.

THOMAS FRIEDMAN: Well, and this has been the Achilles heel of everything President Obama has done on this issue from the very beginning.

No one-- there's still massive uncertainty, Bob, over what are going to be the rules. And therefore you can't unlock private capital.

You know, there is-- some people estimate \$1 trillion or more of private capital sitting on the side lines, just waiting to come in. You could see it last week in the stock market, just a glimmer of hope in the stock market. No one wants to be late. No one wants to miss this. It's sitting out there. But it's not going to come in until there is some certainty on what the rules of the game are.

And the problem with getting that certainty is two-fold: One, this fairness issue. It's going to be unfair. People who don't deserve to be bailed out are going to be bailed out. That-- that's one problem.

And the other problem is the incredible complexity of the issue. Bob, we've never seen this much leverage, you know, on this much globalization, and it's all over the world, wrapped in this much complexity and started in America. And untangling this incredible Gordian knot that we've created is really going to be difficult.

BOB SCHIEFFER: What about that, the geopolitical aspects of all this? Because, really, none of that has kicked in yet.

THOMAS FRIEDMAN: That's what worries me most, Bob. You see the stories of rioting in Pakistan today. We, the United States government, have put a travel advisory out for Mexico; don't go to Mexico. That's not Pakistan. That's our neighbor.

We've had the luxury, these six months of the financial crisis, these first six months, of really focusing just on the finances. The geopolitical spill out from this crisis, in Eastern Europe and Central Asia hasn't really hit yet. And that's why we've got to get that certainty. We've got to get this tied up because, if the geopolitics starts to kick in, it could really exacerbate all of this.

BOB SCHIEFFER: What about this situation in Pakistan right now, how bad?

THOMAS FRIEDMAN: I think it's really bad. I mean, it's-- it's a failing state. The government there does not have, basically, a monopoly of force over the country. It's one of the two most dangerous places in the world. The other is, watch out for North Korea.

BOB SCHIEFFER: All right. Tom Friedman. Well, we're not ending on a happy note, here, but we're always glad to get your views.

THOMAS FRIEDMAN: Happy just left the building too, I'm afraid, with fairness.

BOB SCHIEFFER: We'll be back in just a moment.

(ANNOUNCEMENTS)

BOB SCHIEFFER: Well, as you just heard this morning, we do need a little good news. And I actually think I've found some, or at least The Washington Post has.

Remember how we've been hearing for years that we're all drowning in our own trash?

Well, we're not anymore. At least, we're holding our own because, yes, if you can call it that, there is one teeny upside to bad times. It's because we can't afford to buy as much as we used to, we're not throwing away as much as we used to.

Post reporter Brigid Schulte reports that waste management officials around here are starting to notice trash dumped at local landfills is down as much as thirty percent.

The trash man is the first to know about a recession, one official told the newspaper. When people stop buying those big boxes, they stop throwing away all that styrofoam and shrink wrap.

The other part is, we're apparently rethinking now how we deal with our possessions. We're repairing more instead of discarding things like power tools and cell phones, one reason that stores that sell batteries are among the few doing a booming business these days.

Here is my hope: The trash decline can't last forever. So, once the economy gets going again, maybe someone can figure out how to sell things without enclosing them in those airtight titanium-strong plastic wrappers. Then we wouldn't have to throw those things away and I wouldn't have to risk ruining my teeth trying to bite them off.

Back in a second.

(ANNOUNCEMENTS)

BOB SCHIEFFER: And that's our broadcast. FACE THE NATION will be back right here, next Sunday.

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