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



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**Transcript**

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## TRANSCRIPT

SCHIEFFER: Today on "Face the Nation," an exclusive interview with Secretary of the Treasury Tim Geithner. The economy, executive bonuses, the auto bailout and banks -- these are the issues for Tim Geithner, the secretary of the Treasury.

We'll talk about the rest of the week's news, including North Korea's rocket launch last night, with our chief foreign correspondent Lara Logan and Perry Bacon, who covers politics for the Washington Post.

I'll have a final word on a touching moment.

But first, Tim Geithner on "Face the Nation."

And you can see from the pictures the cherry blossoms are out. Good morning again. And joining us in the studio, the Treasury Secretary Tim Geithner.

GEITHNER: Thank you, Bob.

SCHIEFFER: Mr. Secretary, glad to have you with us. I guess last week you could kind of call it the best of times and the worst of times. The stock market performance overall the best since, what, 1933 maybe. But unemployment reached 8.5 percent, and that's the worst in what, 25 years I guess.

The administration began the year forecasting that unemployment might go to 8.9 by the end of the year. We're already at 8.5. Does this mean you're going to have to ask Congress for another stimulus?

GEITHNER: Bob, this recession has caused enormous damage. You've seen 5 million Americans lose their jobs already, millions more had to cut cutting back on hours, millions more living with the fear that they might lose their job going forward.

And that's why it's so important that we do as much as we can to put in place what's the most powerful program of support for jobs and private investments since the second world war, that we work to address this housing crisis to make sure we're fixing our financial system so the credit is flowing again. It's enormously important. A lot of pain and suffering across the country. We need to keep acting as forcefully as we can.

SCHIEFFER: So does this mean you may have to go back to the Congress and ask for more?

GEITHNER: Our first priority now really is to move as quickly as possible to put in place these programs. They are, again, these are very powerful programs.

I think the most encouraging thing is where we've moved, where we've acted, you can start to see some signs. So, for example, mortgage interest rates now are at their lowest point in history. And millions of Americans now are going to be able to refinance their homes, take advantage of lower interest rates. That's cash in the hands of the American people, and that's very powerful. But again, the most important thing is that we keep at it, working with countries around the world, make sure that we're doing as much as necessary to make sure we bring a recovery back in place as quickly as possible.

SCHIEFFER: But I guess the specific question I was asking, do you think you're going to have to ask for more in the way of a stimulus?

GEITHNER: Can't make that judgment at this time. Again, our first priority now is just to move on the programs Congress has passed and to put those in place as quickly as possible.

SCHIEFFER: Will unemployment figures go up? Larry Summers suggests that perhaps they will beyond where they are now.

GEITHNER: The typical pattern of recoveries is that growth recovers, growth starts to turn positive, people start to spend more, people -- businesses hire more, they invest more, before you see unemployment peak. That's the crude reality of recoveries.

SCHIEFFER: It's the lagging indicator.

GEITHNER: It lags. It does.

SCHIEFFER: So do you think it could go as high as 10 percent?

GEITHNER: Well, again, Bob, it depends on how effective we are in moving. And that's why it's so important that we move with countries around the world, like you saw the president this week in London, move with countries around the world to make sure that they're moving with us.

You know, in past recoveries, the world sort of depended on the American consumer to spend the world into recovery. And that's not a healthy, balanced way for us to do this. We need the countries around the world moving with us.

SCHIEFFER: You seem to be suggesting, though, that maybe we are seeing some glimmers of hope here. Does that mean that this basically has bottomed out?

GEITHNER: Well, Bob, what I say is there are encouraging signs. But again, it took us a long time to get here. It is going to take some time for us to work through this. Progress is not going to be even. We're going to have fits and starts. There is going to be a period where it is going to feel very bad still and very uncertain. And that's again why it's so important that we just keep moving.

You know, this week we changed -- last change we changed withholding rates to put in place the make-work-pay tax credits so that 95 percent of Americans will see a reduction in withholding taxes. We're moving as quickly as possible to enact this very powerful program of stimulus.

SCHIEFFER: The big news of last week, of course, was that the president forced out Rick Wagoner as CEO of General Motors, gave the company 60 days to come up with a way to reorganize. But a lot of people that I talked to this week say that General Motors is really being given an impossible task. Aren't you basically trying to force General Motors into some kind of managed bankruptcy here with a government guarantee that on warrantees and things of that sort, and that they'll continue to have the money to keep the business running?

GEITHNER: Bob, General Motors is going to be part of this country's future. The president -- as the president said, we want to see a strong automobile industry emerge from this recession, and that's going to require very substantial restructuring, and we're prepared to help make that process work. We're prepared to explore all options to make that possible, but our test is what's going to work. What's going to allow them to emerge from this strong enough so they can survive without assistance from the government on an ongoing basis?

SCHIEFFER: Well, the new man at GM who took Rick Wagoner's place said this morning, on NBC, that some sort of a managed bankruptcy may very well be the best alternative.

I take it you agree with that?

GEITHNER: Well, there's a range of options that could work. Again, our test is what's going to work. We're open to what's going to work. We're prepared to be helpful and to help that.

And it's going to take more. These guys have made some progress in putting together a restructuring plan, but they're not there yet. We wanted to give them the time to try to get it right.

But, again, our objective is to allow -- is to help these companies emerge stronger in the future so they can survive without government assistance.

SCHIEFFER: Let me just see if I can sum this up in one sentence. You seem to be saying that, if it takes bankruptcy, if it goes to bankruptcy, then that's what you'll have to do but that General Motors is not going away.

GEITHNER: Yes, what we want to see -- again, our test is what's going to work?

What's going to help bring about the kind of restructuring, allow them to emerge stronger and be part of this American economy?

You know, they're a central part -- the automobile industry is a central part of the American dream, of the basic fabric of the American experience. We want them to be part of our future.

SCHIEFFER: Some people continue to say that you're going easier on our financial institutions than you are on the auto industry. And this morning, in the New York Post, the chairman of a congressional watchdog panel that's been appointed to watch over these TARP funds says that, frankly, that unless -- there's no way out of this situation that we're in unless you the people that are running these big banks and these financial institutions.

What's your response to that?

GEITHNER: Bob, this is a very important issue. Let me just start by saying that, you know, we're five quarters into this recession. And if you look back to the beginning of this process, look at the financials that existed before the recession started, we've already seen a substantial number of the largest banks in our country fail or be absorbed by other institutions, no longer existing at independent institutions.

And where the government has acted, like in Fannie and Freddie or like in AIG, where we've had to do exceptional things to stabilize them, we have replaced the management and the board.

And we've done that because we want to make sure that taxpayers' assistance is going to make these companies stronger, make sure there's accountability, make sure it comes with strong conditions. And we'll do that in the future if that is necessary.

It's a single standard, a single principle. And our obligation to the American people is to do what's necessary to try to bring recovery back on track as quickly as possible.

Just one last thing: You know, economies depend on financial systems. They provide the credit that's the oxygen for economies. And recovery requires -- and recovery in the automobile industry requires that we have a financial system that is doing a better job of making credit available on reasonable terms for business and families. And that basic objective has to guide everything we do.

SCHIEFFER: Well, let me take, for example, two of the people your hear a lot about, and one is Citibank and the other is -- is Bank of America.

Should the CEOs of those institutions be worried that they may face the same fate as Rick Wagoner did if their performance does not improve?

GEITHNER: Bob, what I'll say is this. When, in the future -- or I'll just say, if, in the future, banks need exceptional assistance in order to get through this, then we'll make sure that assistance comes with conditions, not just to protect the tax payer but to make sure this is the kind of restructuring necessary for them to emerge stronger.

And where that requires a change of management of the board, we'll do that.

SCHIEFFER: You will do that? GEITHNER: Where that's necessary; where it meets the test; where it's necessary to do what we, here, exist to do, which is to make sure that this financial system supports recovery and the banks emerge stronger.

SCHIEFFER: Let me ask you about this plan you have put together to create these public-private partnerships to buy these toxic assets that these banks owned to get them off these bank books so they - the idea is that, if they can do that, then they can start lending again.

But last week the government did change the accounting rules. So the banks can, in essence, put a different value on those assets. Some people are now saying that, with this in place, the banks may no longer want to sell those toxic assets.

So I guess the question is, can you get the banks to participate in this program?

And do you feel you have the power to force them to sell those toxic assets?

GEITHNER: Bob, banks have a large incentive, now, to clean up their balance sheets, to make it easier for them to go raise equity from the markets, from private investors. So they're going to have significant incentives to clean up their balance sheets. This gives them a way to do that that did not exist before that.

Just as an example, you know, if you had to sell your home tomorrow, in a world where nobody could get a mortgage to buy your home, you'd have to sell at an enormously low price.

You'd reluctant to sell. You might end up keeping your home longer than you want, not moving to some -- to take a new job, where you can earn more money, going forward.

That's part of what's happening to our financial system today.

GEITHNER: So what we try to do is lay out a proposal for how to create a market for these loans, bring in private investors to help protect the government from not overpaying for these assets.

This is just part, though, of a broad set of programs to help address the housing crisis, make sure banks have enough capital to lend even in a deeper recession, make sure we're providing direct lending to help get small business lending going again. It's an important part of this -- part of this (inaudible) program.

SCHIEFFER: Let me ask you this. Do you think you have the power to force them to sell those assets? Or would you? If you thought that was necessary.

GEITHNER: What we need to do is to make sure they're emerging stronger, have the capital they need to get through a deeper recession if that's what we face, that they can lend going forward, that they clean up their balance sheets. And we'll make sure that we encourage that kind of action, that kind of behavior.

SCHIEFFER: But could you force it? I mean, would that be something in the government's power, to force them to sell these assets?

GEITHNER: Maybe I should say this, Bob. We'll do what is necessary to make sure that our banking system emerges out of this stronger. Because, again, you know, economies depend on credit to recover. We want to make sure that they're strong enough that they can lend even if the economy -- even if we go through a longer downturn.

SCHIEFFER: Do you know, Mr. Secretary, how much money has been funneled to these banks? Because some -- you know, there are different estimates. We start out with \$700 billion in this TARP fund. Half of it went out. Some people now say -- I think your people say you have around \$110 billion left to be used now. But the Center for a Responsible Budget says it's actually only \$32 billion. The Dow Jones News Wire says around \$52 billion.

Whatever the estimates are, the outside estimates seem to be much lower than what you're giving as a figure, which makes me wonder, does anybody know where this money is? Or how much has been sent and what's being done with it?

GEITHNER: Absolutely. And we -- we know. And it's in the public domain where every dollar has gone. And we made a bunch of new commitments going forward to how those will be used...

SCHIEFFER: Why is there such disparity with what people say about where this money is?

GEITHNER: I'm not sure, Bob, but my obligation is to make sure that we're clear and transparent to the American people about what resources we have remaining, how we're going to use those.

And let me just say what we've committed to do. Within two weeks of taking office, we made a bunch of important changes to make sure there's transparency and accountability on these programs. Let me just list what these were. We committed to put on our website, [financialstability.gov](http://financialstability.gov), the precise terms and conditions of all the assistance already provided by my predecessor. And of course we'll do that going forward.

Every contract, every precise term, it will be on the Web site so the American people can see what those conditions were.

In addition to that-- and this is very important-- we're requiring the largest banks in the country to report monthly on what's happening to lending with a level of detail people can see how much new lending is being generated to businesses and families across the country. And where we provide new assistance, any dollar of new assistance to a bank will come with the condition that they give us first a commitment for how they're going to expand lending capacity.

You know, every dollar of capital we provide can generate \$8 to \$10 billion -- \$8 to \$10 of additional lending capacity. And that's critically important.

SCHIEFFER: Let me ask you about one more thing. As Will Rogers once said, all I know about this is what I read in the newspapers. But the Washington Post has reported that even after all the outrage about the bonuses at AIG, that the Treasury Department is working out an arrangement now to set up new some sort of entity where they can funnel money to this entity and then it can give the money to these companies and banks that need help. And in doing that, it allows the banks and their executives to evade and go around limits that had been placed on executive compensation by the Congress. Is that right?

GEITHNER: No, that's not true, Bob. Now, our obligation is to apply the laws that Congress just passed on executive comp, and we're going to do that.

Now, we're also going to make sure these programs are as effective as possible in making credit more available to businesses and families across the country. Now, the way the legislative process works is Congress legislates. We have an obligation then to design and put out regulations for applying that. We'll put those out in draft. The American people have the chance to evaluate those and assess and comment on those. We're working with Congress as we do this. And -- but again, our obligation is to apply those laws, and we're going to do that because it is very important to us that every dollar of assistance we provide doesn't -- goes to expand lending.

SCHIEFFER: But are you saying to me -- and we'll close with this -- that every limit that Congress has put on executive compensation, that you're going to see that that's enforced and that these -- there's not going to be a way to get around that?

GEITHNER: Absolutely, because we want the American taxpayers -- this is going to generate greater lending, not providing excess compensation.

SCHIEFFER: All right, Mr. Secretary, thank you so much for being with us this morning.

GEITHNER: Thank you very much.

SCHIEFFER: We'll be back in one minute.

(COMMERCIAL BREAK)

SCHIEFFER: And we're back now with Perry Bacon, national political reporter for The Washington Post and Lara Logan, our CBS News chief foreign correspondent.

To you first, Lara. We wake up this morning and find that the North Koreans have fired, basically, an inter-continental ballistic missile over Japan. They say they're putting a weather satellite into orbit.

President Obama called this a provocative act and urged them not to do it. What happens next?

LOGAN: Well, that's a very good question because there are still sanctions that have yet to be enforced from the last time North Korea did something like this. And, clearly, they're doing this for two different reasons. One is the domestic market and two, internationally.

Domestically, they want -- Kim Jong-Il wants to strengthen his grip on power after rumors of a stroke. And internationally, he wants to strengthen his hand going to the negotiating table, because the talks on North Korea's nuclear program have stalled.

But this is typical of North Korea's actions. The truth is his country is starving. And he -- and he doesn't want to admit this. He doesn't want to let anyone see it. And so he's using this -- concessions on the military side to try and get aid for his country without admitting to it. SCHIEFFER: It's certainly going to -- and there's already caused a lot of consternation in Japan. I mean, people in Japan are even suggesting that maybe the Japanese may have to make a decision to go nuclear.

I mean, this is an inter-continental missile, clearly able to reach their country. These people say they are building a nuclear -- or, you know, already have nuclear weapons.

What do you think -- what will Japan's response to all this be?

LOGAN: Well, you're absolutely right. Japan's response is critical because they're right there in the firing line. They went into a war footing. And there was grave concern about what Japan's actions would be.

They're a close ally of the U.S. President Obama is very aware of that. And Secretary of State Hillary Clinton -- they've both been talking about condemning North Korea in the strongest terms, in order to reassure Japan that they still stand firmly at their side.

But the international community looks somewhat impotent in the face of this. North Korea ignores international law. They ignore international sanctions.

They have, however, said that, if there are more U.N. sanctions imposed after this launch, that they will pull out of the talks.

So they are -- there is some sensitivity there, which suggests maybe a small amount of leverage.

What's perhaps more critical is looking at North Korea's relationship with Iran, which launched a similar missile in February. And of, course, Russia, still being a very firm North Korea ally, says it will block any international sanctions.

SCHIEFFER: We'll get back to that and the Iran part of it in a minute. I want to turn to Perry.

So far, it looks like that the president's trip to Europe -- he's certainly been well received. He didn't get a lot of the things that he wanted at the G-20, number one, encouraging other European countries to do more to stimulate their economies.

But he came off getting pretty good reviews in Europe, didn't he?

BACON: I think, politically, this was a great trip for him. I mean, in terms of the leaders, the foreign leaders, you saw Gordon Brown. I think he wanted Obama's endorsement, if nothing else. I mean, there's a lot of popularity among the leaders who really -- the president of France praised him. He really got a lot of praise from them.

I think that, domestically, that's useful, too, because I spent a lot of time on the campaign trail, the last couple years, and there was some concern among voters that America had lost its respect around the world. And I think Obama, you saw on this trip, that a lot of people abroad and their leaders really liked him a lot.

BACON: But like you said, substantively, he didn't get a lot done in a sense that he wanted more countries to get involved in the economic stimulus and have it to be more of a worldwide stimulus, and that didn't happen. And also, he wanted more troops -- more countries to commit troops to Afghanistan, which also did not happen. So substantively, not, you know, not perfect, but in terms of the politics and in terms of the pictures, I think it was a great trip for him, a great first trip in that sense.

SCHIEFFER: While he was gone, he got his budget through Congress, the biggest budget ever. But again, he got virtually no support from the Republicans. Where does this go, Perry? Is he going to get all the things that are now outlined in this budget? I mean, is he going to get the health care reform he wants? Is he going to get all the stuff for education? I mean, this is just one step in a very long process. How do you see this shaking down?

BACON: The next couple of weeks, Congress is out of session, actually, but the Congress -- the staffers will start working on these conference committees to sort of reconcile the versions of the bill. And I think what you're seeing is that the health care part of it seems like something the Democrats are very committed to doing, to the point where they're talking about and the White House is talking about using this unusual rule to allow passage of a health care bill without needing any Republican votes. So I think the health care part they seem very committed to, to the point where Obama seems not as concerned about making sure Republicans vote for it at all.

They seem to not be pushing as much in the climate change direction, sort of cap-and-trade programs which some of the Senate Democrats are very worried about. But I think...

SCHIEFFER: What about cap-and-trade? This is basically putting a tax on people who produce carbon into the air. Is that going to wind up being a law? What's your sense of it right now?

BACON: My sense is that it's probably not going to happen this year. The Congress is a little more focused on, A, helping the economy, and B, working on some of the big health care initiatives, which of course you will recall such -- was so difficult in the '93- '94 period. The Congress is a little more focused on that.

Some of the votes in the Senate suggested that there is some wariness of getting into -- some of the congressmen in the Midwest particularly are a little wary of what a cap-and-trade bill will look like.

SCHIEFFER: Let me ask you quickly, Lara, because it went almost unnoticed. General Petraeus went to Capitol Hill last week and announced that lo and behold, they may actually need more troops in Afghanistan next year, maybe another 10,000. Where are we going in Afghanistan? Are we getting ready to have the kind of build-up there that we had in Iraq at one point?

LOGAN: Well, it is certainly building in that direction, but it doesn't surprise me to hear that at all, Bob, because this comes down to one central fact -- holding ground in Afghanistan. And that is the problem.

Everybody understands that this is not about just a military solution. There's a civilian component. There's an economic component. That is not a mystery to anyone anymore. But what is the -- what is the most enduring thing, difficulty that they have there is holding the ground that they take. And what U.S. troops are doing is going back over and over and over to the same places, retaking ground, repeatedly. And unless they have troops to hold that ground, that is a cycle that will continue.

SCHIEFFER: All right. Thank you very much, both of you. We'll be back with the final thought in just a second.

(COMMERCIAL BREAK)

SCHIEFFER: Finally, let me just say that personally, I was OK with Michelle Obama touching the queen of England. I thought it was sweet, and I'm assured the queen touched her first.

I believe everyone should be treated with respect, of course, and I love the British and it's their business that they want to have a king and queen. But my views on royalty more or less parallel those of the founders.

How should I say it? I find the royals amusing. And when we were invited to the British embassy last year to see the visiting Elizabeth and Philip, my wife donned a hat as big as a washtub, and we had a fine time. But all this does bring back a memory from years ago, when a member of the royal family visited the Texas legislature, and a protocol officer told some state legislators not to shake hands unless the royal hand was extended first. As the story goes, the legislator responded, fine, but added, "I'll tell you one thing, they couldn't get elected in my district if they didn't shake hands."

You know, I expect he was right. And aren't we glad our founders took care of all that a long time ago?

Back in a minute.

(COMMERCIAL BREAK)

SCHIEFFER: And that's our broadcast. See you next Sunday on "Face the Nation."

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