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CBS News

FACE THE NATION

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Secretary of the Treasury

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BOB SCHIEFFER, host:

Today on FACE THE NATION, an exclusive interview with Barack Obama in Afghanistan. Plus, Treasury Secretary Henry Paulson on the economy.

Senator Barack Obama is in Afghanistan this morning and he tells our chief foreign affairs correspondent Lara Logan we must begin planning now to move more troops there because, he says, losing is not an option. We'll begin this morning with that in-depth interview.

Then we'll turn to Treasury Secretary Henry Paulson for the latest on his plan to shore up the faltering economy. How bad is it and how long will it last? Those are the questions.

I'll have a final word on one business that is thriving even in bad times, the cottage industry that has grown up around politics.

But first we'll hear from Barack Obama in Afghanistan 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.

SCHIEFFER: And good morning again. We begin this morning in Afghanistan, where Senator Barack Obama is on the ground. Lara Logan, our chief foreign affairs correspondent, sat down with him for a long interview this morning. We're going first to her. Lara:

LARA LOGAN reporting:

Good morning, Bob. Well, Senator Obama spent his first day in Afghanistan yesterday visiting the troops, talking to soldiers, speaking with their commanders. Today he met privately with President Hamid Karzai of Afghanistan. And he says that after talking to both sides his assessment is that the situation in Afghanistan is both precarious and urgent, and he said that the US has to start planning to put more troops in Afghanistan now.

Senator BARACK OBAMA: I believe US troop levels need to increase, and I've--for at least a year now I've called for two additional brigades, perhaps three. I think it's very important that we unify command more effectively to coordinate our military activities.

But military alone's not going to be enough. The Afghan government needs to do more, but we have to understand that the situation is precarious and urgent here in Afghanistan, and I believe this has to be our central focus, the central front on our battle against terrorism.

LOGAN: Why does it have to be the central front? What is--what is so critical to US interests here?

Sen. OBAMA: This is where they can plan attacks. They have sanctuary here. They are gathering huge amounts of money as a consequence of the drug trade in the region, and so that global network is centered in this area. And I think one of the biggest mistakes we made strategically after 9/11 was to fail to finish the job here, focus our attention here. We got distracted by Iraq. And despite what this--the Bush administration has argued, I don't think there's any doubt that we

were distracted from our efforts not only to hunt down al-Qaeda and the Taliban, but also to rebuild this country so that people had confidence that we were here to stay over the long haul, that we were going to rebuild roads, provide electricity, improve the quality of life for people. And, you know, now we have a chance, I think, to correct some of those errors. They're starting to be a growing consensus that it's time for us to withdraw some of our combat troops out of Iraq, deploy them here in Afghanistan. And I think we have to seize that opportunity. Now is the time for us to do it.

I think it's important for us to do is begin planning for those brigades now. If we wait until the next administration, it could be a year before we get those additional troops on the ground here in Afghanistan, and I think that would be a mistake. I think the situation is getting urgent enough that we've got to start doing something now.

The United States has to take a regional approach to the problem. It--just as we can't be myopic and focus only on Iraq, we also can't think that we can solve the security problems here in Afghanistan without engaging the Pakistan government.

LOGAN: But how do you compel Pakistan to act?

Sen. OBAMA: Well, you know, I think that the--that the US government provides an awful lot of aid to Pakistan, provides a lot of military support to Pakistan. And to send a clear message to Pakistan that this is important to them as well as to us; that, I think, that message has not been sent.

LOGAN: What circumstances would you authorize unilateral US action against targets inside the tribal areas?

Sen. OBAMA: Well, what I've said is that if we had actionable intelligence against high value al-Qaeda targets and the Pakistani government was unwilling to go after those targets, that we should. Now, my hope is, is that it doesn't come to that; that, in fact, the Pakistani government would recognize that if we had Osama bin Laden in our sights that we should fire or we should capture him and seize and dismantle...

LOGAN: Isn't that the case now? I mean, do you...

Sen. OBAMA: Well...

LOGAN: Do you really think that if US forces had Osama bin Laden in their sights and the Pakistanis said no that they wouldn't fire, they wouldn't go after him?

Sen. OBAMA: Oh, no. I think, actually, this is current doctrine. There was some dispute when I said this last August. Both the administration and some of my opponents suggested, 'Well, you know, you shouldn't go around saying that.' But I don't think there's any doubt that that should be our policy and will continue to be our policy.

LOGAN: But it is the current policy?

Sen. OBAMA: I believe it is the current policy.

LOGAN: So there's no change, then.

Sen. OBAMA: I don't think there's going to be a change there. I think that in order for us to be successful it's not going to be enough just to engage in the occasional shot fired. We've got training camps that are growing and multiplying.

LOGAN: Would you take out all those training camps?

Sen. OBAMA: Well, I think that what we'd like to see is the Pakistani government take out those training camps.

LOGAN: And if they won't?

Sen. OBAMA: Well, I think that we've got to work with them so they will.

LOGAN: But would you consider unilateral US action?

Sen. OBAMA: You know, I will push Pakistan very hard to make sure that we go after those training camps. I think it's absolutely vital to the security interests of both the United States and Pakistan.

LOGAN: Because you do have a situation seven years on into this war where Osama bin Laden...

Sen. OBAMA: Yes.

LOGAN: ...and all his lieutenants and all the leaders of the Taliban, they're still there.

Sen. OBAMA: Right.

LOGAN: And they're inside Pakistan.

Sen. OBAMA: It's a huge problem. And first of all, if we hadn't taken our eye off the ball, we might've caught them before they got into Pakistan and were able to reconstitute themselves. So we made a strategic error and it's one that we're going to pay for and, unfortunately, the people of Afghanistan have paid for as well. But we now have an opportunity to correct that problem.

One of the--if you--if you look at what's happening right now in Iraq, Prime Minister Maliki has indicated he wants a timetable for withdrawal. That is the view of the vast majority of Iraqis as well. We've seen a quelling of the violence. We haven't seen as much political progress as needs to be made, but we're starting to see some efforts on the part of the various factions to deal with some of the issues that are out there.

LOGAN: Token efforts at best, though, wouldn't you say?

Sen. OBAMA: They are token efforts at best. But if we have a timetable and they suddenly see an urgency behind the fact that the American troops are going to be leaving and that they need to get their act together, then this is the perfect moment for us to say we are going to shift our

resources. We're going to get a couple of more brigades here into Afghanistan. We're going to-- and it's not just brigades, we're also going to be upping our financial aid to Afghanistan, we're going to be willing to increase our foreign aid to Pakistan. In exchange, we're going to expect that Pakistan takes much more seriously going after al-Qaeda and Taliban base camps on their side of the borders.

LOGAN: What would be mission accomplished for you in Afghanistan?

Sen. OBAMA: Well, mission accomplished would be that we have stabilized Afghanistan, that the Afghan people are experiencing raising--rising standards of living, that we have made sure that we are disabling al-Qaeda and the Taliban so that they can no longer attack Afghanistan, they can no longer engage in attacks against targets in Pakistan and they can't target the United States or its allies.

LOGAN: So losing is not an option.

Sen. OBAMA: Losing is not an option when it comes to al-Qaeda, and it never has been. And that's why the fact that we engaged in a war of choice when we were not yet finished with that task was such a mistake.

LOGAN: Do you believe the war on terror can be won if Osama bin Laden is still alive and if he's still out there?

Sen. OBAMA: I think there would be enormous symbolic value in us capturing or killing bin Laden, because I think he's still a rallying point for Islamic extremists. But I don't think that by itself is sufficient. I think that we are going to have to be vigilant in dismantling these terrorist networks.

LOGAN: OK, last question.

Sen. OBAMA: Mm-hmm.

LOGAN: There is a perception that you lack experience in world affairs.

Sen. OBAMA: Right.

LOGAN: Is this trip partly aimed at overcoming that perception that, you know, there is doubt among some Americans that you could lead a country at war as commander in chief from day one?

Sen. OBAMA: You know, the interesting thing is that the people who are very experienced in foreign affairs I don't think have those doubts. The troops that I've been meeting with over the last several days, they don't seem to have those doubts. So the objective of this trip was to have substantive discussions with people like President Karzai or Prime Minister Maliki or President Sarkozy or others who I expect to be dealing with over the next eight to 10 years. And it's important for me to have a relationship with them early, that I start listening to them now, getting a sense of what their interests and concerns are. Because one of the shifts in foreign policy that I want to execute as president is giving the world a clear message that America intends to continue

to show leadership, but our style of leadership is going to be less unilateral, that we're going to see our role as building partnerships around the world that are of mutual interest to the parties involved. And I think this gives me a head start in that process.

LOGAN: Do you have any doubts?

Sen. OBAMA: Never.

LOGAN: Thank you very much, Senator.

Sen. OBAMA: Thank you. I appreciate it.

SCHIEFFER: And we'll be back in just one minute with Treasury Secretary Henry Paulson to talk about the economy.

(Announcements)

SCHIEFFER: And joining us now, the Treasury secretary, Henry Paulson.

Mr. Paulson, thank you very much for joining us this morning. Well, we have no--plenty of things to talk about: housing problems, unemployment is going up, we see what's happened to these banks. We had kind of some scary pictures this week, people lined up outside that bank in California trying to get their money out. So I want to ask you, just to start, set the stage for us here. Are we in a recession? How long are these bad economic times going to go on and when do you see some light at the end of the tunnel?

Mr. HENRY PAULSON (Treasury Secretary): Bob, first of all, it's good to be here. Yeah, we're going through a challenging time with our economy. This is a tough time. The three big issues that we're facing right now are first, the housing correction, which is at the heart of the slowdown; secondly, turmoil in the capital markets; and thirdly, the high oil prices, which are going to prolong the slowdown. But remember, our economy has got very strong long-term fundamentals. Solid fundamentals. And, you know, your policy makers here, regulators, were being very vigilant.

SCHIEFFER: Are--do you expect this to go on for a while? I mean, a lot of people say we haven't reached the bottom yet on any of this.

Mr. PAULSON: Well, it's going to go on for a while and--but we're going to be in a period of slow growth for a while. There's no doubt about that. But we're making progress in certain areas and in other areas there continue to be challenges, and we're very focused on that.

SCHIEFFER: Well, I mean, are you talking about months or years here?

Mr. PAULSON: Well, I think it's going to be months that we're working our way through this period. Clearly, months. But remember, the long-term fundamentals are very solid.

SCHIEFFER: All right. Well, let's talk about what you did last week. You called a news conference last Sunday to announce a plan to shore up Fannie Mae and Freddie Mac. These are the institutions that most Americans really don't know very much about.

Mr. PAULSON: Yeah.

SCHIEFFER: But basically what they do is make it possible for banks to loan people money and extend credit for home mortgages. You said it--that we just simply have to make sure that these institutions survive. A lot of people in the Congress took exception. They said you're trying to use taxpayer money to bail out people for making errors that are not the fault of the taxpayers. Why was this so important and, basically, what are you trying to do here?

Mr. PAULSON: Bob, first of all, I'm very optimistic that we're going to get what we need from Congress here, because Congress understands how important these institutions are; as you said, first and foremost that they're responsible for funding 70 percent of the mortgages in this country. And a key to getting through this tough economic period is to have the housing correction work its way through quickly and to be able to get housing prices to stabilize. And a key--the key there is to have buyers come into the market. And buyers need financing. So these institutions are very important. And we had a two-part plan: first of all, temporary backstops to stabilize the capital markets and increase confidence in these two institutions; and secondly, to put in place a strong regulator, which a strong, independent regulator which will put us in a much better place to have the discussion and address the risks that these institutions pose to our economy.

SCHIEFFER: What does this mean to the person just sitting out there watching television and watching you on television this morning?

Mr. PAULSON: Well, one thing I will say, you mentioned IndyMac. And I saw those pictures on the TV of people standing in line outside of IndyMac, and I could see why people might have some anxiety. But I need to begin by mentioning that deposits are insured up to \$100,000 and if you have an insured deposit you're not going to lose a penny. No one has lost money on an insured deposit in the 75 years that the Federal Deposit Insurance Corporation was in place, number one. Number two, we have a safe and sound banking system in the United States of America. We have almost 8500 banks. We've had just about--I think it's been five bank failures this year. During the S and L crisis in '82 to '92, we were averaging 250 bank failures a year. We have a sound banking system, our regulators are focused on it and I think--I think people can take confidence in that.

SCHIEFFER: But we do see the number of banks that are listed as troubled banks, that list is growing longer, is it not?

Mr. PAULSON: Of course the list is going to grow longer given the stresses we have in the marketplace, given the housing correction. But again, it's a safe banking system, a sound banking system. Our regulators are on top of it. This is a very manageable situation.

SCHIEFFER: You talked about regulations several times. You're calling for tighter regulations on this plan you have for Fannie Mae...

Mr. PAULSON: I have.

SCHIEFFER: ...and Freddie Mac.

Mr. PAULSON: Yeah. You're very right, Bob. You know, the second part of this is having a strong regulator with real teeth, with real responsibilities and powers. And this is going to be key to putting us in a position where we can address the risks that they--that they pose and that have been focused on. But our first priority today is the stability of the capital markets, the stability of the system. And these institutions have investors all around the world, throughout the US and around the world, and those investors need to know that we in the United States of America understand the importance of these institutions to our capital markets and to our economy and to our housing market.

SCHIEFFER: The New York Times, in a front-page article yesterday, had a very short lead on the story about all this that sort of summed it all up. It said, 'How did the economy come to be such a mess?' What happened here, Mr. Secretary? Things were going along great on a lot of different fronts, and all of a sudden here General Motors is having problems, we see unemployment going up, we see the housing market in the shape that it's in. You yourself told the columnist Paul Ignatius the other day that when you came into office you saw some storm clouds on the horizon there. What happened here?

Mr. PAULSON: Well, Bob, there were excesses building for some time. We had a period of home price appreciation in this country that just wasn't sustainable. In a number of states, states like California and Florida and Nevada and Arizona, home prices went up 100 percent between 2002, you know, and 2006. That's not sustainable. We had excesses in our capital markets, too much leverage in the system, complex financial products. But again, I want to remind people--and I'm not being a Pollyanna, I spent a lot of time outside of this country. And the fundamental strength of the US economy, and I'm talking about the long-term fundamentals, I believe they compare favorably in this country with any other developed industrial nation around the world. We've got challenges and we're focused on those challenges. And it's going to take us awhile to work through this period, but we'll work through it. We always do.

SCHIEFFER: What about this whole idea of the price of energy, \$4 a gallon gasoline and it seems to be going up. Are we going to be paying \$4 a gallon for a while here?

Mr. PAULSON: Well, Bob, this is all about supply and demand. The supply has been relatively constant of oil and oil production capacity in the world over the last 10 years, and the demand has been going up. And there are no short-term easy answers here, but the answers are obvious ones, and that is to invest much more proactively and aggressively in supply. Not just hydrocarbons, but alternative sources of energy, clean energy. And we also need to do more on the demand side in terms of conservation, in terms of efficiency and in terms of doing away with some of the subsidies for oil around the world. But again, I think we know what to do, there just isn't a short-term, easy answer here.

SCHIEFFER: All right. Well, Mr. Secretary, I thank you very much for coming by this morning. We appreciate it. And I know you've got your work cut out for you, so thanks so much for joining us this morning.

Mr. PAULSON: Bob, thank you.

SCHIEFFER: And we'll be back in just a moment.

(Announcements)

SCHIEFFER: And on another subject, we have become so used to the flood of money in modern politics that when Barack Obama's people announced they had raised \$52 million last month it drew little more than a yawn. Oh, sure, it was twice the \$22 million that John McCain raised in June, and that's no small haul. But it wasn't even Obama's best month. He raised \$55 million back in February. And get this: Obama and McCain's people say they will both try to raise \$400 million between now and Election Day. Our presidential campaign has already topped a billion dollars--that is a first--and by Election Day it is expected to top 2 billion, our first ever \$2 billion presidential campaign.

Money's always been a big part of politics, but it has become the overriding factor now. Raise the money and you have a chance to get elected; without it, forget it. The air has gone out of campaign finance reform when voters are going through tough times like now. They don't have time to worry about who's giving what to politicians. But here are a couple of questions: Does the state of the nation now have anything to do with the way we've been electing our politicians? Are campaigns that take longer and cost so much more that the main focus must always be on money, are those campaigns producing a better class of candidates and ultimately more effective government? When it costs \$2 billion to elect a president, is that something a democracy should be proud of? Just a few questions. Back in a moment.

(Announcements)

SCHIEFFER: And that's our broadcast. We'll see you next week right here on FACE THE NATION.

