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CBS News

FACE THE NATION

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GUESTS: Mr. ROBERT RUBIN
Former Secretary of the Treasury

Ms. CARLY FIORINA
McCain Advisor

Mr. DAVID BROOKS
The New York Times

MODERATOR/PANELIST: Mr. Bob Schieffer – CBS News

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FACE THE NATION - CBS NEWS
(202)-457-4481

BOB SCHIEFFER, host:

Today on FACE THE NATION, what do the presidential candidates plan to do to fix the economy? Unemployment is up, energy costs are up, housing is lagging; all that and a \$480 billion deficit. Will this be a recession election? We'll talk about what to do about it with top economic advisers of both campaigns: former Treasury Secretary Robert Rubin, who's advising Obama; and the former head of Hewlett-Packard Carly Fiorina, now of the McCain campaign. David Brooks of The New York Times is here for a campaign quick check, and I'll have a final word on great expectations for the campaign that could have been.

But first, what to do about the faltering economy, 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 New York, where former secretary of the Treasury Robert Rubin is standing by, now the chairman of Citigroup.

Mr. Rubin, thank you very much for joining us this morning and let's just get right to it. John McCain says he won't raise taxes and he says your candidate will. That's, in fact, true, isn't it?

Mr. ROBERT RUBIN (Former Treasury Secretary): No. What Senator Obama has said is that he'll have a middle tax--middle class tax cut, and that tax cut will go to roughly 95 percent of all the people whose incomes are under \$250,000. For people whose incomes are in excess of \$250,000, their income tax rates will go back to the rates we had under President Clinton. The capital gains rates will go up to some rate less than the rate we had during most of the time President Clinton was in office. Taxes on dividends will go up to the rate that will apply to capital gains, and that will be substantially below the rate that was in place when President Clinton was elected. And, Bob, as you well remember, when President Clinton put a rate structure of that sort in place, his critics said it would undermine the economy. Instead, we had the longest expansion in the history of the United States. We had 22 million, 23 million new jobs. We had rising incomes at all levels. And similarly, I think that Senator Obama has put forth a very sound, very sensible, practical, long-term and short-term program for the economic future of this country.

SCHIEFFER: What--how would you evaluate or sum up the economic situation in this country? Right now some people say we're already in a recession, some say we might be heading toward a depression. How, as a longtime observer of all this, how do you see it, Mr. Rubin?

Mr. RUBIN: I think it's a very important question, Bob. I've been around markets and economic issues for a long, long time and I think this is a very complex, very uncertain time. I think that the current difficulties, the current duress--I think the most likely scenario with respect to all of that is that it will likely to continue for quite some period of time. Could get a little bit worse. There's always some chance that matters could get better more rapidly, but I think that's a very low probability. And there's some chance, and hopefully it's a--it's a low probability, that things could get considerably worse. And I think there's a conclusion you draw from all this, and the conclusion you draw from it is that we need to be highly proactive in doing whatever is sensible to address our economic issues. And in that regard I think Senator Obama was correct in

supporting the housing bill and the Fannie Mae bill, though he said very sensibly on the Fannie Mae bill that he was also concerned about moral hazard, about the risk that we do these sorts of things it may lessen the concern that people have about risk in the future.

And he has a very nuanced sense of the complexities around economic issues. He put out an emergency economic plan last Friday, as you know, with a stimulus and on top of that with rebates to try to compensate for the increase in oil prices. And at the meeting we had last Monday, the meeting he had with his economic advisers--Paul Volcker, Warren Buffett, Larry Summers, Laura Tyson, myself, a bunch of others--what he said was that we need to continue to work to find other measures to address the mortgage problems, housing, oil and the rest.

SCHIEFFER: Let me ask you about one of the things he's now talking about, and that is he has been against offshore drilling, as far as I can tell, for a long time. And now he says, well, he would consider some sort of offshore drilling under very tightly controlled circumstances. The McCain campaign is already saying that's a flip-flop, but clearly he has changed his mind about this. Does he now think that this is the answer?

Mr. RUBIN: No, I don't--I don't--I disagree with you in two respects. I don't think he's changed his mind. I think where Senator Obama is, and I think he's exactly right, is that we have an enormous energy problem in this country and the long-run answer to that problem is alternatives and conservation. And he makes the additional point that if you put in place his program--and he's got about a \$150 billion, 10-year program to stimulate basic research and pilot projects and the rest to make this country the center of a whole new industry around energy--there really is an opportunity to have a major affect with respect to jobs and other areas, while at the same time dealing with energy problems. What he said with respect to offshore drilling is it's going to have no affect on the short term, zero, that it's going to take years for this to come on board. On the other hand, you're referring to the proposal that came up Friday in which offshore drilling was a piece of a much larger piece of legislation. What he basically said as I understand it, and I think this is right, is that there's a lot in there that he thinks could be constructive, and if it means doing something that he has a lot of reservations about in order to accomplish something much larger that's constructive, then that's the way the legislative process should work in a democracy. And I think that he is really very, very good at working in this process to move forward as long as the ultimate proposal is, on balance, highly constructive.

SCHIEFFER: Now...

Mr. RUBIN: And that, by the way, speaks to how he might act as--how he would act as a president, which is to move forward and to work with the people who disagree with him to find measures that he thinks makes sense.

SCHIEFFER: All right. Let me ask you about--he is also proposing another stimulus. The administration has had a stimulus. He wants to give people what, 1,000 bucks, basically, to help with their energy--with their energy costs? He's going to pay for that how, did you say?

Mr. RUBIN: Well, he's going to have two pieces to it, Bob. He wants to have a \$50 billion stimulus, which would really be a short-term stimulus going to states and cities and also to infrastructure. And that would be pure stimulus. Then he had a second proposal, which was very--I think very effectively constructed, because what it did was it provides \$1,000 per working

family, and that's a rebate, and that'll help offset the increase in oil prices and also as a stimulus. But as he said in his announcement and in his proposal--and this is, I think, very, very important--he said we also have to be very focused on fiscal matters, because we must have sound fiscal conditions for the long term. And so what he proposed to do was to pay for this over a five year period. Now, different people may have different views about what the pay for ought to be, but he reflects his deeply internalized sense that we must, for the long term, restore sound fiscal conditions after a current decade in which we've had very unsound fiscal policy with, I think, a very great danger to the future of this country.

SCHIEFFER: You had--when you were there as secretary of the Treasury, we actually saw a surplus for the first time in a long, long time. Last week we had the new deficit figures out, over \$400 billion in the deficit now. Is that going to be that way? Will we ever get back to a balanced budget or to having a surplus, or is this something we're going to have to live with for a--for a while?

Mr. RUBIN: Bob, we could--we could absolutely get back. Sound fiscal conditions were central to the very good economic conditions of the 1990s, including enormous numbers of new jobs and rising wages at all levels. We could have had surpluses during this decade. We started the decade with surpluses and we had good federal revenues. But instead, because of the fiscal policies put in place, we had deficits through all this period. And as you correctly said, the deficit projected for next year is approximately \$500 billion.

What Senator Obama has done--what Senator Obama has said is that he is committed to restoring sound long-term fiscal conditions. I think that's essential if we're going to have a good, strong economy. He said he'll pay for everything he's going to do with respect to Social Security and Medicare. He has proposed approaches to work toward dealing with those very important long-term issues, Medicare particularly, which is at the heart, in many ways, of our long-term problem. He said that what he wants to do is address the expense in the underlying health care system, which that will reflect back into Medicare expenses. So I think we can--I think we could have had it this decade, we didn't because of our fiscal policies. And I think in Senator Obama you have a--well, if he becomes president, you'll have a president with a deeply internalized sense of the importance of doing this and a sound program for getting there.

SCHIEFFER: All right. Well, we're going to have to leave it there, Mr. Rubin. Thank you so much. We'll come back in one minute with McCain adviser Carly Fiorina, in just one minute.

(Announcements)

SCHIEFFER: Back now with Carly Fiorina, who is joining us from San Francisco. She, of course, is the former head of Hewlett-Packard, a major economic adviser for Senator McCain.

Well, you heard what Mr. Rubin just said, Ms. Fiorina, and that is that this economic situation could actually get worse. What is your take on where things are right now and where we go from here?

Ms. CARLY FIORINA (McCain Advisor): Well, I certainly agree with him that the situation could get worse, and there are a couple things that will make it worse. One is to raise taxes, which is what Senator Obama proposes to do. Another is to massively increase government

spending, which is what Senator Obama would propose to do, over a trillion and a half in increased government spending. And the third is to become isolationist and protectionist, which Senator Obama would also propose to do.

Conversely, Senator McCain has proposed a series of tax cuts, including but not limited to giving every family with a dependent a doubling of the exemption for dependents, from \$3500 to \$7,000. He's proposed to leave the capital gains tax right where it is as opposed to doubling it, which is what Barack Obama would do. That impacts 100 million Americans. He has proposed a comprehensive energy plan to wean us from our dependence on foreign oil. And as well, he has proposed a plan to help keep Americans in their homes as we see the credit crisis continuing to get worse. And finally, he is focused on accelerating job creation in this country, and that means helping small businesses form and grow, because small business is the engine of growth in this economy.

SCHIEFFER: Let me just--that all sounds great and there are some good programs in there but, you know, last week the government announced that we have a \$480 billion deficit.

Ms. FIORINA: That's right.

SCHIEFFER: How do you do all of that? I mean, surely, this has to stop somewhere.

Ms. FIORINA: Well, first of all, the deficit is a huge problem and Senator McCain has consistently said that he will make sure that we balance the budget by 2013. How is that possible? Well, a couple things. First, you have to get the economy growing again. That's why small business is so important, that's why job creation is so important. That's why, by the way, a comprehensive proposal for weaning ourselves off of foreign oil is so important. And by the way, Senator Obama has consistently opposed offshore drilling and yet it's clear that offshore drilling is an important part of a comprehensive energy proposal. It's not the only part. And as we are building independence from foreign oil, we're also creating jobs, probably 700,000 jobs in the pursuit of nuclear power alone. Secondly, we have to get government spending under control. John McCain has never asked for an earmark. He has promised he would veto every bill. Barack Obama has voted for bills that are laden with pork, whether it's the 2005 Bush-Cheney energy bill, the 2008 agriculture subsidy bill; both of those John McCain voted against because they were laden with pork, both of those Barack Obama voted for.

SCHIEFFER: All right.

Ms. FIORINA: We have to get government spending under control.

SCHIEFFER: Let me just ask you about that because John McCain, the whole core of his campaign is, 'The other guy's going to raise your taxes and I won't.' And yet last week on ABC, John McCain seemed to back off a bit of that and said, 'Well, when it comes to payroll taxes, saving Social Security, that's just basically a negotiating point. Everything will be on the table.' Let's listen to how he put it here.

(Beginning of excerpt from "ABC This Week" from July 27th, 2008)

Senator JOHN McCAIN: I will say that everything has to be on the table if we're going to reach a bipartisan agreement. I've been in bipartisan negotiations before, I know how you reach a conclusion. We all have to sit down together with everything on the table.

Mr. GEORGE STEPHANOPOULOS: So that means payroll tax increases are on the table as well?

Sen. McCAIN: There is nothing that's off the table. I have my positions and I'll articulate them, but nothing's off the table.

(End of excerpt)

SCHIEFFER: So how do you say, 'I'm not going to raise your taxes,' but then say, 'But nothing is off the table'?

Ms. FIORINA: Yeah. Well, first of all, Senator McCain, with his vast experience in bipartisan discussions, understands that you don't begin a negotiation with an ultimatum. On the other hand, his record is crystal clear. Barack Obama has proposed solving our Social Security problem with an increase in payroll taxes. John McCain has been very explicit in saying he does not support an increase in payroll taxes, particularly because they impact small businesses and sole proprietorships more greatly than any other part of our economy. His record is very clear on that. And he has a number of economists who support his assertion that we can solve the Social Security and Medicare crisis, but particularly Social Security, without raising payroll taxes. As I think he also said in that interview, he'll make his positions very clear, he'll make the positions of economists very clear. He doesn't think it's necessary. But again, you don't start a negotiation with an ultimatum, you start a negotiation with an open mind.

SCHIEFFER: But if that's what you're going to do, then how can you say, 'I promise you I won't raise your taxes'? I mean, it just seems like two totally different things.

Ms. FIORINA: I think he's making his--well, I think he's making his position very clear, which is payroll tax increases are not the solution. He has been consistent in that position for the last many, many months, even as his opponent has proposed increases in payroll taxes. And in this regard he is supported by a number of noted economists, whether those are Marty Feldstein at Harvard or John Taylor at Stanford. There are a whole lot of experts who agree with him that raising payroll taxes may be an easy answer, but it's the wrong answer.

SCHIEFFER: All right. What programs would he cut, specifically?

Ms. FIORINA: Well, one of the things that John McCain has said for many months now is that he would immediately institute a freeze in increases in discretionary spending for one year, and during that year he would subject every single government program to a top to bottom review. That includes, for example, defense procurement spending, it includes civilian programs. And during that top to bottom review he would post the results of those reviews on the Internet for all American citizens to see. Now, I'm a businesswoman and I know that when you create that kind of transparency and accountability you can make a difference. I also know that when federal spending has increased 60 percent in the last seven years, there is a lot of fat and a lot of

opportunity to cut spending without cutting effective programs that make a difference to the American taxpayer.

SCHIEFFER: Carly Fiorina, we want to thank you for coming by this morning.

Ms. FIORINA: My pleasure, Bob.

SCHIEFFER: And hope to see you again.

Back in a moment with David Brooks of The New York Times.

(Announcements)

SCHIEFFER: And joining us now for a campaign quick check: David Brooks, the columnist at The New York Times.

David, thank you for being here. You have written many stories and you have chronicled many John McCain campaigns. You were one of the early writers on the Straight Talk Express back in 2000. Are you surprised by the tone that this campaign seems to have taken?

Mr. DAVID BROOKS (The New York Times): Well, some of us who were on that bus, this is not the campaign we were hoping he would run and, frankly, this is not the campaign he was hoping to be running. They're very open about that. They wanted to run a different campaign. They started this campaign going to Appalachia, trying to give some substantive policy speeches, and in their view--and this is how they explained it--they got no attention. They could not break through. So they decided Obama is the race. And I find that in my own writing. When I write about Barack Obama I get a huge response. When I write about John McCain it's like an arrow into the darkness. People love Obama. They are concerned--this is about Obama. They--who is this guy? Who is this phenomenon? So the McCain people decided, 'Every time we talk, we have to talk about Obama. That's the only way we can get coverage.' And so they ran these ads with Paris Hilton and Britney Spears, which were cheesy and not up to John McCain's standards, but they were effective. If you look at the polls, Obama had a big bump after that Berlin speech, it's--they're--it's gone now.

SCHIEFFER: Well, so what you're saying is the McCain campaign has decided to make this election a referendum on Barack Obama.

Mr. BROOKS: They feel they have no choice, and I think they're sort of right. They're half right about that. In the short term they have to try to define him as someone who thinks he's above everyone else. And in truth, he's a kind of elusive guy. I've been studying Obama for a long time, I have no idea who they are. But this is going to be insufficient for McCain because if the race is somebody is offering change--Obama, who you have doubts about--vs. somebody who's not offering change, well, they'll go with the change, even with the doubts. So McCain has to come out with a much more positive agenda, something that shows he's different from the Republican Party. And they haven't told that story yet particularly well.

SCHIEFFER: Well, let's just look--you know, one of the things the McCain campaign did is they accuse Barack Obama of injecting race into this campaign. And let's look at what they're talking about and why they said that.

Senator BARACK OBAMA: So what they're going to try to do is make you scared of me. `You know, he--oh, he's not patriotic enough. He's got a funny name. You know, he doesn't look like all those other presidents on those dollar bills, you know.'

SCHIEFFER: So, was Barack Obama playing fair there? Was he injecting, in a very subtle way, race into this campaign?

Mr. BROOKS: I think that was an off the cuff remark. I think he was, but I don't think he meant to do it and I don't think it'll be helpful for him to do it. The American people don't like being called racists. And if his polls are down and he says, `It's because I'm race,' or his people around him say, `It's because you were racist, you won't vote for a black guy to be president,' the American people are going to react very negatively to this. I think they consider race a tough and sacred issue which they want touched in an intelligent way. They do not want it touched in the heat of a political campaign. In my view, whoever raises the race issue is going to hurt themselves.

SCHIEFFER: Another very controversial ad you've already talked about that McCain ran was the one with Britney Spears and Paris Hilton in it. Paris Hilton, of course, it turns out her parents were big financial supporters of John McCain. I guess we could call them and see what they thought about it. But the other ad I found interesting, and I think this just ran on the Internet, was one where they basically accuse Barack Obama of having a messiah complex and they actually worked in old Moses, Charlton Heston, into the ad. Look at this.

(Excerpt from political ad)

SCHIEFFER: Now, what about that?

Mr. BROOKS: I thought that was fine, actually. That was funny. When he uses humor--when McCain uses humor, I think that's fine. And to me there's something creepy about some--not Obama himself, some of the adulation around him, the "yes we can" spirit, the "we're the ones we've been waiting for." Why have been--we been waiting if we're the ones we've been waiting for? I mean, it's just a bit too much cultish and people are a little creeped out by that. And the essential--you know, I've said it earlier that this campaign is about Obama, which it really is, and it's about the character of Obama. People like the policies, people want the change, they like the speakers. But the thing about Obama is the guy's written two autobiographies, but it's still hard to find out who he was. My colleague Jodi Kantor of The New York Times said something at the--in The New York Times about his University of Chicago law professorship. He taught at the law school for a lot of years but he was not really of the law school. He went to Trinity Baptist--or Trinity Church, but he was not really of the church. So people are having a tough time attaching him to things and they're having a tough time attaching to him--to things they understand. With McCain, they know he's attached to the military, they understand the military, they get a sense of John McCain. They don't yet get that about Obama.

SCHIEFFER: All right. Thank you very much, David. That's very helpful.

Back with a final word in just a minute.

(Announcements)

SCHIEFFER: Finally today, when it began this was a campaign of great expectations. Two extraordinary candidates: Obama, the son of a Kenyan exchange student, raised by American grandparents; McCain, a true American hero. What a statement it could have been to the world, what a learning and inspiring experience it could have been to us, two such very different people giving us their vision for America. And yet it has come to this: Obama's people trying to denigrate the war hero's military service, McCain's people comparing Obama to a couple of frivolous tarts.

As I watch the latest back and forth over who did or did not inject race into the campaign, I thought back to the political consultant who once told me that he began each political cycle by rereading Machiavelli, who argued the only ethic that should matter to those seeking power was the ethic that benefited them. In other words, the end justified the means. That's where we are in today's politics: do or say whatever it takes to win the daily news cycle, deal with the collateral damage later. And that's the part that bothers me. What comes after this? I can't help but remember what Gandhi once said, 'Ends do not justify the means, they reflect the means.' The government we get generally reflects the campaign that produced it. What kind of government can we expect from this one? This time it could have been so different.

That's it for us. We'll see you next week right here on FACE THE NATION.

