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

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FACE THE NATION

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FACE THE NATION - CBS NEWS
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JOHN ROBERTS, host:

Today on FACE THE NATION, how long will gas prices stay as high as they are? And what will they do to the economy? With gas prices hovering around \$2.70, the cost of fuel is hurting everyone from vacationers to truck drivers to airlines. How are the high prices affecting the overall economy? Could a recession be looming? We'll ask two economists: Glenn Hubbard, former chairman of President Bush's Council of Economic Advisers, and Robert Reich who served as Labor secretary for President Bill Clinton. Then we'll turn to the rest of the week's news and talk with Mike Allen who covers politics for The Washington Post and Anne Kornblut who writes for The New York Times. But first, gas prices. How high will they go?

Announcer: FACE THE NATION with chief Washington correspondent Bob Schieffer, and now from Washington substituting for Bob Schieffer, CBS News chief White House correspondent John Roberts.

ROBERTS: And good morning and welcome again to FACE THE NATION. Bob Schieffer is off this morning.

Joining us now from Easton, Massachusetts, former Labor Secretary Robert Reich. He is currently professor of social and economic policy at Brandeis University, and with us from New York, Glenn Hubbard. He is the former chairman of President Bush's Council of Economic Advisers. He is now the dean of Columbia University School of Business.

Good morning to both of you.

And, Glenn Hubbard, let me start with you by asking the question that many Americans are asking this morning, and that is: How high are gasoline prices going to go?

Mr. GLENN HUBBARD (Former Chairman, White House Council of Economic Advisers; Dean, Columbia University Business School): Well, I think we've seen quite a significant run-up in crude oil prices and gas prices and I think it's quite likely that we'll see continued upward pressure on oil prices and gas prices because of global demand. Having said that after a few months, I think we'll see some break in the price pressure and I think the economic effects will be muted.

ROBERTS: Robert Reich, a recent AP poll, two-thirds of people who were asked say that fuel costs will cause them financial hardship. When do you believe this begins to have a serious effect on the economy?

Former Secretary ROBERT REICH (Labor Department; Professor, Brandeis University): John, it's already beginning to have an effect on the economy. Wal-Mart, for example, which is kind of a barometer for the economy, reported very disappointing earnings in part because people are paying so much more at the gas pump. The average American this year assuming that gas prices don't go down--and I don't think that we can assume that they will--will pay about \$300 more for gas. Heating oil and natural gas will actually increase that tab to about \$500 to \$700 per family. And that for a lot of families, that means--that's a hole in their pockets.

ROBERTS: All right. Glenn Hubbard, Robert Reich just mentioned the Wal-Mart statement last week which I think if memory serves me correctly drove the Dow to a 120-point loss the day that that was announced. I mean, are we seeing a potential slowing in the economy here because of rising oil prices?

Mr. HUBBARD: Well, I think what we're going to see, John, is more of a rotation. In fact, we've seen the play before. In the first few months of 2004, we had a big run-up in oil and gas prices. Consumer spending slowed. The business investment took up the slack. I think that's what we're now seeing. I believe we will see consumer spending slow in August and September but a boom in capital goods and durable goods orders to cushion the blow.

ROBERTS: Right. But, I mean, how do you prevent this, though, or how does this not become far more widespread in the economy as Robert Reich suggested it will?

Mr. HUBBARD: I think the chances of a recession from this are remote. In fact, the third quarter for the US is likely to be a blowout with real GDP growth above 4 percent. I do think we'll slow in part because of higher energy prices after that but still the modest growth.

ROBERTS: Do you agree with that, Robert Reich?

Prof. REICH: Well, the economy clearly is growing, John. There are three storm clouds on the horizon, one of which is oil prices. The other of which is a potential housing market bubble that bursts. And the third is the deficit, the federal deficit and also the Americans' inability to save. All three of those are not right now jeopardizing the economy in terms of heading into a recession, but any one of those could cause a potential recession, sure.

ROBERTS: I want to come to the housing bubble in just a couple of minutes, but let me stay on energy just for a few more moments if I could. Robert Reich, everybody, when it comes to high gasoline prices, loves to find somebody to blame. Is it the oil companies who are responsible? Is it the president who's to blame? Who if anybody is to blame for these high oil prices?

Prof. REICH: Well, it's our propensity to consume a lot, and also rising demand all over the world, John--China is also increasing their demand dramatically for fuel, for energy, for oil. And there's a limited amount of oil around. So, as undramatic as it may sound, I think politicians like to blame somebody. The fact is it's supply and demand. It's just the market working as we expect the market to work, driving oil prices up. And I don't see any let-up over the next several years. The demand is still going to be rising. China is going to be using a lot of oil, a lot of energy and demand, and supply is going to be limited. I mean, there's just a limited amount of oil we can get from out of the ground.

ROBERTS: So is there anything, Robert Reich, that anybody can do at present to try to mitigate these increasing energy costs? A lot of your Democratic colleagues are again raising the idea of tapping the Strategic Petroleum Reserve.

Prof. REICH: I don't think that's a good idea, John. The Strategic Petroleum Reserve is intended as an emergency device for really major cutoffs, very emergency--dangerous cutoffs in supply. We don't want to tap that. And even if we did tap it as, for example, Bill Clinton tried to tap it in 2000 because of the heating oil concerns, it had very little effect. I think heating oil prices went down by about a nickel and then bounced right back up again. You're dealing with a world oil market. It has very, very little effect. I think the only thing that we can do in the short term is try to mitigate some of the effects, particularly for low- and moderate-income people, perhaps expanding the Earned Income Tax Credit, which is a refundable tax credit by about \$300 to \$500, so a lot of those people who are getting caught in the downdraft, given all of the increases of energy prices, can basically live OK, maybe make up for this tax break for them by increasing maybe a windfall profit tax on the oil companies...

ROBERTS: Right.

Prof. REICH: ...just to even things out a little bit.

ROBERTS: So basically, nothing you can do to get the price of oil down, but you could maybe help people defray the costs somehow. Glenn Hubbard--right.

Prof. REICH: Exactly.

ROBERTS: Glenn Hubbard, whenever we asked President Bush or any of his aides before the energy bill was passed, 'What can you do about the price of gasoline?', he always would say, 'Congress has to pass the energy bill.' Well, Congress has passed the energy bill. Energy prices are still going through the roof. Is it possible for this president to have any kind of an effect on oil prices?

Mr. HUBBARD: Well, I think the answer to that is yes. I mean, first of all, oil prices are determined, as Bob said, in a world market, and we do have global demand growing very rapidly. I think what we can do is to try to facilitate substitution to other energy sources and to make sure that energy markets and refining markets inside the US work very well. That's what policy can do.

ROBERTS: But by and large, this energy bill finds new sources of fossil fuel, as opposed to going to the alternative sources of fuel, alternative sources of transportation.

Mr. HUBBARD: Well, new sources of fossil fuel, of course, will add to world supply and will help, all other things equal, bring prices down, but in the long term, the real response the markets will produce themselves is new sources, new types of energy.

ROBERTS: Every once in a while somebody raises the idea, Mr. Hubbard, of cutting the federal 18.4-cent-a-gallon tax on gasoline. I think Trent Lott was the last person to try it in the year 2000. Is that even within the realm of possibility, I mean, particularly considering the size of the highway bill that is in Congress?

Mr. HUBBARD: Well, I can't comment on the political possibility, but as an economic matter I see nothing that would suggest that's a policy worth doing right now.

ROBERTS: Right. And for what reason?

Mr. HUBBARD: Well, again, we have gasoline taxes for a very good reason, both to raise money in a dedicated way and to mitigate consumption.

ROBERTS: Right. All right.

Let's move on to the idea of inflation. The indicators are pointing upwards in terms of inflation. It seems to be out there on the horizon. Alan Greenspan certainly seems to be concerned about it. He's ticking up the fed funds rate whenever he can. He seems to be softly putting the brakes on the economy. Robert Reich, how worried are you about inflation looming out there, particularly given that--the recent increases in energy and food prices?

Prof. REICH: Well, certainly energy and food are worrying but, John, overall there is no inflationary pressure at all. Alan Greenspan and company are worried about inflation. I

understand that, but I would suggest, to the extent that they're listening to this program, that they stop worrying. In fact, the wages of most American workers, as we know from the Bureau of Labor Statistics in July, actually went down, adjusted for inflation. There is no price pressure from consumers at all, and if we keep on raising short-term interest rates and slowing the economy down, it's going to hurt a lot of people.

ROBERTS: Some people are--believe that what Greenspan is doing is he's trying to gently prick the housing bubble. Robert Reich, do you agree with that?

Prof. REICH: Well, I don't think it's the Fed's responsibility to prick any bubbles. The Fed's responsibility is to tame inflation and, to the extent that they can possibly do it, also maintain relatively full employment. It's speculative. You know, you don't want to cave in to speculators. And the Fed--to the extent that we have a housing bubble, the Fed I think doesn't want to simply raise interest rates to try to prevent it.

ROBERTS: Glenn Hubbard, what's the danger of this housing bubble bursting? In 53 cities across the nation now, houses--single-family homes are said to be extremely overvalued.

Mr. HUBBARD: Well, first, if I could just go back, I disagree mildly with Bob. I think the Fed always has to worry about inflation. That's its job. And I think that's why inflationary expectations are under control. I think we do have a great deal of froth in housing markets. There's no doubt about it. I don't think we're likely to see a large nominal price collapse, that is largely falling house prices, but I think we'll see much slower rates of growth in house prices after 2005. For the rest of this year, it looks like the housing market is actually quite strong with starts in construction.

ROBERTS: Right.

Mr. HUBBARD: But after that, I would worry.

ROBERTS: But--yeah, in terms of...

Prof. REICH: Look, if I could just i...

ROBERTS: Go ahead, Robert.

Prof. REICH: Well, I just wanted to make sure that everybody understood. The problem right now is that although we are coming out of a recession, a very long and prolonged recession, and it seems to be a pretty good recovery right now, there are still many people who are unemployed. Long-term unemployment is very, very--a very high level of long-term unemployment, and wages and benefits are still stuck in the mud. We don't want to do anything that slows this economy down by raising interest rates further.

ROBERTS: Robert Reich, let me ask you, Glenn Hubbard seemed to paint a fairly benign picture of, you know, what might happen with the housing bubble. Do you agree with that? I mean, I've been talking to a lot of people who say if interest rates go up a little bit more, all of these people who have taken these adjustable-rate mortgages and some of them reverse adjustable-rate mortgages are suddenly going to be left with a bill that they can't pay and housing prices could collapse.

Prof. REICH: John, I think it is a problem in certain markets where housing prices have soared. I'm talking about New York and the Northeast generally, on the West Coast, in the

Bay area and Los Angeles. But overall, the country is not suffering from a dangerous bubble right now. It could be. Now when you have long-term interest rates, mortgage rates starting to move up, undoubtedly, some people with variable rate mortgages are going to be in trouble.

ROBERTS: Right.

Prof. REICH: But I don't think it's going to be a national calamity.

ROBERTS: And another question that's going on--and, Glenn Hubbard, perhaps you can speak to this. In terms of investment for the future, what's the better investment: stocks and bonds or real estate?

Mr. HUBBARD: Well, in a balanced portfolio, people should have investments in all major asset classes. Over the long haul, stocks have returned better, but I think responsible portfolio allocation is to look at a broad range of assets and always ask your investment adviser.

ROBERTS: Right, right. And you heard Robert Reich say earlier he doesn't believe that there's much of a real chance of a recession. But almost every postwar recession that this country has experienced has been preceded by a spike in energy prices. Do you believe that we're out of the woods in terms of another recession?

Mr. HUBBARD: Well, first on the spike in energy prices, until this episode, most of those spikes have been associated with supply shocks that had other consequences for the economy. This is a demand shock. I do think we'll see moderating growth. As I said, it's not that there's a zero effect. In fact, we could be seeing as much as a full percentage point off the current rate of growth. Having said that, that's not anywhere near a recession. We'll see modest and quite robust growth.

ROBERTS: All right. Well, let's hope that we do see that growth.

Prof. REICH: Nothing can be done in the short term, I don't think, about oil prices and the effect on the economy, John, but over the long term, I think the energy bill was a big disappointment. Much more emphasis has to be placed on developing alternative sources of energy and conservation. And this country can do it if we put our mind to it, but we haven't put our mind to it yet.

ROBERTS: All right. Well, gentlemen, we're going to leave it there. Robert Reich from Brandeis University and Glenn Hubbard from Columbia, thanks very much for being with us this morning. Appreciate your time.

Prof. REICH: Thanks very much, John.

Mr. HUBBARD: Thank you.

ROBERTS: And we'll be back in a moment with our Roundtable discussion. Stay with us.

(Announcements)

ROBERTS: And with us now to talk about the rest of the week's news is Mike Allen of The Washington Post. He joins us now from Crawford, Texas, where he's following President Bush on vacation. And here in the studio Anne Kornblut of The New York Times.

Good morning to both of you.

Ms. ANNE KORNBLUT (The New York Times): How are you?

Mr. MIKE ALLEN (The Washington Post): Morning, John.

ROBERTS: Good, very good.

Let's start with you, Mike, because you're down there in Crawford. Cindy Sheehan, who left Crawford recently after being camped out there for a couple of weeks, what kind of an effect is she having on the anti-war sentiment across the country? Is it, in fact, becoming a movement or is this more of an anecdotal showing of sympathy for her particular cause?

Mr. ALLEN: Well, John, you put your finger on the dilemma that's facing the White House. If it's just about Cindy Sheehan, they're not very worried. The White House believes that she's discredited herself with some of the over-the-top statements she made. She came out on television, she said that President Bush killed her son. I think even the most partisan Democrat will tell you that's not accurate, that's a ridiculous statement. She came out, she linked her cause to that of the Palestinians, said that she wasn't going to pay taxes. And she's not just a random, grieving mother. One of the reasons they did not agree to that meeting, the president had met with her before, and in June, she'd been on Capitol Hill at a Democratic event about the Downing Street memo.

However, Cindy Sheehan's gone but the camp up here is even bigger. More and more people are coming from around the country. They now have this enormous setup, Camp Casey. Used to be a couple pup tents, now it's this enormous--we call it the Cirque du Soleil tent with eight spikes, catered meals, a Cindy shuttle, a peace shuttle that takes people up and down the mountain. Right now it's PETA, hippies, Naderites. The question is, if it becomes the Little League dads, Pop Warner moms, then the White House has a big problem.

ROBERTS: So, Anne Kornblut, what's your feeling at this point? Is this about Cindy Sheehan solely or is this about more than that?

Ms. KORNBLUT: Well, it certainly is about the two divisions that we haven't seen since the election. You know, without her--I think it's interesting that even without her presence in Crawford there's still a presence there. And I also think it's telling that she's become something of a household name. For the first few weeks of this story we referred to her as 'protest mom,' the first few days anyway. Now Cindy Sheehan actually means something. But again, I think it's too soon to tell. We've made a lot--we've talked a lot about how this is really an August story. Once the Roberts confirmation hearings begin in September, you know, I think we'll see then whether she--this takes on more of a life of its own or whether it's really coming to an end.

ROBERTS: There's a lot of money behind her now. Democratic organizations are putting together anti-war advertisements. They tried to air one on an ABC station in Salt Lake City, which is where President Bush will be appearing tomorrow. That station refused to air it. But it does look as though someone is trying, at the very least, to turn this into a nationwide movement and affect the president with it.

Ms. KORNBLUT: Well, certainly, and this is what Democrats have looked for and the anti-war movement has really looked for sometime. It's some way to humanize the story, to bring some credibility to their message, to make it not seem like a throwback to the '60s, somebody

who's actually a part of the current debate with some credibility is on their side. Republicans have used that organization, the sort of semi-professional element of it, to try and discredit her, and the counterargument from the Democrats is, well, Republicans are very well-organized. Their grassroots efforts are very well-financed too.

ROBERTS: Right.

Mike Allen, President Bush refused to meet with Cindy Sheehan. Is there some second-guessing among White House aides and Republicans on that strategy?

Mr. ALLEN: We've seen a couple Republican senators that say the compassionate thing to do would be to meet with her. It also may have been the politically smart thing to do. The unintended consequence of not meeting with her is it's provided the biggest platform for the left since Michael Moore's "Fahrenheit 9/11" movie came out. You're starting to see them push back. Across from Camp Casey now you have supporter of the president who are calling theirs Camp Reality, and they're saying that freedom is not free.

But the president going to--next week is going to give three speeches over two weeks in military settings, and the challenge here for him is to be able to say, to look behind Cindy Sheehan and show that he understands the chord that she's touched. Joe Klein has a column in the new Time magazine...

ROBERTS: Right.

Mr. ALLEN: ...saying that the president's inability to show that he senses this grief has been a failure of leadership.

ROBERTS: Right. Anne, I assume it's too late for him to meet with her now.

Ms. KORNBLUT: Oh, and I don't think that's even up for debate at this point.

ROBERTS: Right.

Ms. KORNBLUT: It's certainly not. No.

ROBERTS: Let's move on to the John Roberts nomination, the other John Roberts, the judge who's look at a Supreme Court position. His confirmation hearings will start early September. You've been going through a lot of the earlier documents on his career.

Ms. KORNBLUT: Starting to, yeah.

ROBERTS: From what you've been able to glean of this fellow, is there going to be much of a fight when it comes to the confirmation hearings?

Ms. KORNBLUT: I'm sure there will be a big debate. Whether there's actually a real fight--I mean, I think we've seen so far Democrats essentially saying, no, they're not actually going to put a stop to it. What's been interesting going through all these documents or at least starting to--I mean, 50,000--you know, it's years worth of memos; everything he did in the White House is there documented--is getting a sense of his personality which I don't know how it will play when he actually gets up there in front of members of Congress. But at least in his writing, he has this very sort of lively personality and wit and an obsession with grammar and

language that has been at least for us, you know, sitting there in the Archives reading it, has been interesting.

ROBERTS: You know, we never think of Supreme Court judges as having much of a personality. And then we're often surprised to find out when we see them in private settings but we do. Sandra Day O'Connor had a terrific personality on that part, yeah.

Ms. KORNBLUT: Well, yes, absolutely. And then I think, too, he's been seen as one of the more--because he's been described as sort of moderate and having such a clean background he's thought of as being a little boring, but, you know, in his memos, at one point, he was advising President Reagan not to meet with Michael Jackson and give him an award. He referred to Michael Jackson as the mono-gloved. And he really sort of had a dry wit about this pop icon at the time, even then advising against having him meet with Michael Jackson.

ROBERTS: Yeah. And I remember further in that memo, he said, 'Well, there's this other artist that young people are now associating themselves with, this fellow called Prince. Do we have to write him a letter as well?'

Ms. KORNBLUT: He's very hip, yeah.

ROBERTS: So, Mike Allen, what are you expecting when the confirmation hearings start?

Mr. ALLEN: Well, John, I can tell you that Republicans are relieved that as Americans come back from Labor Day, the debate is likely to be about John Roberts and about the Reagan administration rather than Iraq. They are convinced that the more Democrats talk about what happened 20 years ago, the better off Republicans are going to be.

Now Republicans have set sort of a trap for Democrats. Democrats are in the tough spot of having to show that they have spine and yet not be obstructionists. And so you'll see Republicans out there saying, 'We put out 60,000 pages of documents,' and Anne was talking about some of the great stuff in there. There's one where he corrects President Reagan's conversion of Fahrenheit to Celsius. So you get a little behind-the-scenes look at the staffing process there, but the problem for Democrats is: How much bad money do they throw after good? No one thinks that he's going to get less than 70 votes. Republicans think it might be more than 80. So how much do you go out on a limb to pacify your liberal base, the groups that are trying to raise money off this?

ROBERTS: Well, I dare say he'll probably have to correct me on my conversion between Fahrenheit and Celsius as well. Let's move on quickly because we don't have too much time. Anne Kornblut, on gas prices--Glenn Hubbard seemed to suggest there that, yes, there is something the president can do to effect the price of gas and that's typically something that the White House has shied away from and admitted.

Ms. KORNBLUT: Yeah, that struck me as a little bit off political message in any case, however, economically correct it may be. President Bush has spent the last four or five years responding to high gas prices by saying, 'Congress needs to pass an energy bill.' Well, Congress has finally passed an energy bill and he's signed it into law and gas prices remain high. So I think the trick now is going to be for the White House to continue showing that they care, continuing to show they're aware of how high the prices are while at the same time not being able to do anything immediate about it. The Senate's going to hold hearings to investigate the reason why. I think everyone knows it's basic law of supply and demand. And President Bush, we've noticed in the last few weeks, will talk about the price of gas at the pump.

He uses that phrase over and over in an effort to show that he's aware of it, but their general message is not what Glenn Hubbard said which is that they can actually affect it.

ROBERTS: Right. And do you think the president is going to take a lot of blame for this? You know, White House aides acknowledge that it's affecting his numbers, but as Robert Reich said, 'Well, you can't really blame him.'

Ms. KORNBLUT: Well, exactly, and I think that that will continue to be their argument...

ROBERTS: Right.

Ms. KORNBLUT: ...as long as he does message 'I care,' I don't think they really expect...

ROBERTS: All right.

Ms. KORNBLUT: ...that he can do more.

ROBERTS: Well, Anne Kornblut from The New York Times here in Washington, thanks very much, and to you, Mike Allen, in Crawford, stay cool. I know it's pretty hot down there. Thanks very much for being with us today. Appreciate it.

Mr. ALLEN: We've got a chicken-fried steak for you out here.

ROBERTS: All right. I look forward to it.

I'll be right back with a final word. Stay right with us.

(Announcements)

ROBERTS: And that's our broadcast for this morning. Bob Schieffer will be back again next week. Thanks for watching FACE THE NATION.