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**TOPIC:** Furor Over the AIG Bonuses

**GUESTS:** **REP. BARNEY FRANK**  
D-Mass.

**SEN. CHARLES GRASSLEY**  
R-Iowa

**AUSTAN GOOLSBEE**  
White House Council of Economic Advisers

**JACKIE CALMES**  
National Correspondent, The New York Times

**JOHN DICKERSON**  
Chief Political Correspondent, Slate magazine

**HOST:** **HARRY SMITH**  
Anchor of **CBS News' *The Early Show***

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# TRANSCRIPT

MODERATED BY HARRY SMITH

SMITH: Welcome again to the broadcast. Bob is off today.

Joining us now from Cedar Falls, Iowa, Senator Charles Grassley, and with us here, Congressman Barney Frank.

Congressman Frank, I want to start with you. You helped push this tax idea through with -- to tax these bonuses on AIG. Do you have any sense you have any support from the White House on this?

FRANK: I believe so. But I should say, Harry, the committee that I chair does not have jurisdiction over taxes. And I've been busy with other aspects of it.

I voted for the bill. I was not a-- a major advocate. I will say that there are a number of routes we ought to take.

I have actually been engaged with the executive branch, trying to push them to do what I think is the best way to deal with this, which is to assert our rights, the United States government, as the owner of that company. We own about 80 percent of the company.

People are worried about taxation being used in this way. People are worried about interfering with contracts. I think the -- one of the things we ought to be doing is suing as a shareholder, saying, look, these are people who were paid bonuses that they weren't entitled to.

If you look at their actual performance, I there was an element, frankly, with some, not all of them, of almost extortion, where they said, we know all what you need to know and we'll quit if you don't bribe us.

So I would like to -- to do that. Also, what's important for us -- and I've been trying to do this, frankly, since 2006 address the whole question of executive compensation and the perverse incentives you get from the way it's structured.

SMITH: We'll talk about that in a second, because that's part of President Obama's idea that will apparently be unveiled later this week, putting government controls on that.

Let's -- I want to talk to Senator Grassley.

You go home every week. What is the sense you get from folks out in Iowa about what's going on with these bonuses to folks at AIG?

GRASSLEY: Outrage on the part of Iowans. They just don't understand how people that make \$20 million a year can drive a corporation into the ground, go suck off the taxpayers for bailouts, and then give out millions of dollars of bonuses.

We believe people ought to be compensated right. But there's a whole different ethic when you have the taxpayers bail you out. There ought to be respect for middle-class taxpayers. There ought to be respect for the fact that you made a mistake. We ought to hear some apology. We ought to hear remorse. We ought to hear contrition. I haven't heard any of that, not only with AIG, but any other corporation that's got bailed out. We've got small business being helped by banks here. We put billions of dollars into Wall Street. And they loan money, \$8 billion to buy -- you know, the people of the Midwest just don't understand how you can run a business that way and expect the taxpayers to -- to keep you going.

SMITH: Senator, is the best way to get this money back with a tax?

Or is there some better way?

GRASSLEY: Well, right now I have to do what I can do. It looks to me like Congress's best leverage is taxes. It's like other things need to be done to make sure that people that are on the dole from the tax payers can't do these sorts of things in the first place.

But in the meantime, tax -- and that's what we're going to do. I hope Leader Reid will schedule it. I'm a little cynical about whether he wants to schedule it, for the reason that he put another bill up, coming Monday, that's not quite as significant as getting back the \$168 million of the tax payers' money into the federal Treasury.

SMITH: And it might turn out to be more like \$200 million if the attorney general in Connecticut is correct.

Listen to this, though. This is part of the blow-back, now, from the financial community. Kenneth Lewis, who is the CEO of Bank of America, says, "The clamp-down on bonuses will have the potential to damage the ability of the government to engineer the economic recovery."

SMITH: Folks in this world say the people inside, who are getting these bonuses, are the only ones who can untangle this mess. Do you believe that to be true, Congressman?

FRANK: No, not at all. And I think you do want to distinguish between bonuses. Some of the people at AIG apparently -- and they weren't all getting \$1 million -- at the working level, selling insurance, not the one who caused the problem. Some of them apparently were getting bonuses in lieu of salaries. They shouldn't be forced to work for nothing.

On the other hand, you had some people who were not the financial -- in the insurance part, but in this razzle-dazzle financial part that caused the problems.

I reject the argument that they're the only ones who know it. And I want to distinguish. A bonus that is paid if you do well, as long as you also forfeit money if you do badly, a legitimate two-way bonus -- which is unknown in most of these areas -- I wouldn't object to. But retention bonuses are, to a great extent, extortion. It is people saying, as you suggested in the question, Harry, I've got the combination to the safe, and if you don't bribe me, I'm going to leave and you'll never be able to open the safe.

I think it is wrong. And let's point out, a lot of very talented people have lost their jobs in this financial crisis. It's not that they wouldn't be able to hire good people to do this.

So I really resent the extortion element of this. And I think that's one of the things that we have to deal with not just with AIG, but going forward, to restrict that.

SMITH: Tim Geithner, the Treasury secretary, has come under a lot of pressure in the last week or two because of these bonuses. He clearly knew about this all the way back to the beginning of March. Senator Grassley, is Tim Geithner up to the job?

GRASSLEY: Well, right now, if you're asking me should he resign, I don't think anybody after two months has been tested enough that I would say he should resign. I think he ought to be given some time.

But on the other hand, I think the reality of it is that we were told a long time ago that Geithner had to be secretary of Treasury because he was the smartest one to handle the job, he had to be on the job right now. He screwed up twice with AIG, when he was president of the Federal Reserve, once now since he's been secretary of the Treasury. I think it raises questions about whether he's got his eye on the ball or not. But I think as corporate America we have got to (inaudible).

(CROSSTALK)

FRANK: I know some of my Republican colleagues believe in creationism, in which the world started 4004 years ago, but I don't think any of us them really want us to believe that it started on January 20th, 2009. Let's remember that the decision to give AIG a big loan came from the Bush administration's top officials, without any congressional input. Yes, Tim Geithner was president of the New York Federal Reserve. He wasn't charged, and he inherited a difficult situation.

So, trying to put the blame on Tim Geithner -- Chuck wasn't doing that. I don't mean to say that. But people who do forget that this is a Bush administration creation that he inherited.

SMITH: Well, President Obama is going to give his longest interview today to "60 Minutes" and Steve Kroft tonight, and in that interview, he defends Tim Geithner and says even if he offered his resignation, he wouldn't accept it. Listen to this.

(BEGIN VIDEO CLIP)

OBAMA: Tim Geithner is as sharp and as skilled a public servant as we have, who has on his plate an unprecedented set of problems, and is under enormous scrutiny and pressure and has been able to handle that scrutiny with grace and good humor.

(END VIDEO CLIP)

SMITH: Let's talk about the toxic asset clean-up plan that is going to come out this week, Senator Grassley. Some of it has been leaked out already. I don't have a lot of time left. From what you've seen of it, what do you think?

GRASSLEY: Well, I think that what we have to do is build confidence. And I think maybe the president's trying to take on too much. You know, he wants to emulate Franklin Roosevelt. Franklin Roosevelt called for a cut in government salaries and spent the first 100 days trying to build confidence. And I'm not sure that this is going to build confidence until we see how it works. It sure didn't work when Secretary Paulson tried to do it. It's a thing that should have been done starting October the 1st, and I hope that they follow through with it, and I hope it works.

SMITH: All right.

FRANK: Well, it's very different than what Secretary Paulson did. What Tim Geithner is proposing-- and I think he's doing a very good job, given the problems he inherited -- he's I think got a very good plan here. And let's not forget, one of the things he did was to put forward -- unlike the Bush administration -- an excellent plan to try and reduce foreclosures. And it's the rush of foreclosures that have been the major problem. And he came up with a plan to reduce foreclosures and to offer significant help to people not facing foreclosure in the middle class.

So if you look at what Tim Geithner has done in two months -- I appreciate the senator saying it's way too early for people to be critical.

SMITH: Congressman, thank you so much. Senator, thank you so much as well. Do appreciate it, gentlemen.

We're going to be back with the White House perspective in just one minute.

(COMMERCIAL BREAK)

SMITH: With us now, Austan Goolsbee, a member of the White House Council of Economic Advisers. Good morning.

GOOLSBEE: Good morning.

SMITH: What's your reaction to the tax, what's the White House reaction to this tax on AIG? And does the White House have any intention of either backing that up, and -- or how is the White House going to get this money back?

GOOLSBEE: Well, the president's been pretty forthright in his, A, anger at what happened with AIG, and the simplest thing is for these guys to give the money back. The president's also been clear we don't want to govern out of anger. He's going to look at what comes out of the House, what comes out of the Senate, see what ideas we have. At the least there is public pressure and there should be public pressure on those people at AIG who aren't being paid for performance, but are being paid for having lost \$170 billion, to give the money back.

SMITH: Does the White House have an understanding of what people beyond the Potomac, beyond the Beltway feel is going on here? There's like a fire hydrant, a cash flowing into Wall Street. And the folks at home feel like, well, there's nobody at the switch.

GOOLSBEE: Well, yes. The White House and the president above all understands that. You know, as he says, it's one thing to be a gambler and to gamble with your own money. But here they're gambling with the retirement accounts of our parents and the college funds of our children, you know, and things like that. So he absolutely understands that. That's the place that he comes from is, let's get out of this bubble, go talk to somebody in Chicago or Iowa or wherever. They're extremely upset. And they have good reason to be upset. These companies would not exist if it weren't for the U.S. government.

Now, that makes them different than some of the other institutions, which I'm sure we'll talk about with the financial rescue. But we can't let our anger over mistakes that happened last year block the fact that we've got to save the economy. I mean, we have to fix this problem.

SMITH: Let's talk about the toxic asset bailout, which is going to be unveiled this week. Just in bare bones, what can you tell me about it?

GOOLSBEE: The announcement itself is going to be tomorrow, and they're going to outline other things as we go through this week.

The basic idea is outlining the details of a public-private partnership so that we leverage money from the government with the private sector, so that the government doesn't get in the business of overpaying for assets and things like that.

SMITH: And you know, there's already grumblings from the private sector that if the federal government is going to be so heavily involved, they don't want anything to do with it.

GOOLSBEE: Well, I know some people have rumored that. You quoted the CEO of Bank of America. Most of the people saying that so far have been people who are on the hook and have received a lot of money from the U.S. government.

What we saw this week and what we have seen in our discussions with people is that if you lay out clear rules that are responsible, people want to participate if there's a business reason to participate. And in this circumstance, where we're trying to encourage the private sector to participate, that's going to be treated totally differently than companies like AIG or Fannie Mae, where they are only in business because the government saved them.

SMITH: Right. One of the other aspects of this whole thing that's going to be talked about this week from the White House is this idea of putting controls on executive compensation. People are going to have their hair on fire talking about this, that the government is somehow going to have its hand in the control of private, private, private enterprise.

GOOLSBEE: I would characterize that as not an accurate description of what the president's policy is. I've seen the article that you're describing.

The president has for more than a year been calling for financial regulatory reform, and the centerpiece of that regulatory reform is to prevent the \$170 billion bailouts of AIG type where a life insurance company morphs into a hedge fund, turns into a huge loss, is too big to fail, and the government has to come in. The point of regulatory reform is to prevent that.

SMITH: All right. There's been a lot of negative press about this thing that hasn't even been unveiled yet. And Paul Krugman, in his blog today, said, "For the private investors, this is an open invitation to play heads I win; tails the taxpayers lose.

GOOLSBEE: I don't think that's an accurate description. I mean, if the government doesn't make money, the private sector doesn't make money, either. I mean, these guys are coming in, in a partnership.

And one of the reasons you want to have the partnership is precisely so that, A, the government doesn't massively overpay for these troubled assets that are on the balance sheets; and, B, so that everybody has got skin in the game and you don't get into situations where you're paying guys for failure.

SMITH: I want to talk about the budget, a little bit, because the Congressional Budget Office came out with a description of the deficit, which is significantly larger than the White House's estimate.

How does this potentially endanger the White House's budget plans?

GOOLSBEE: Well, I would say two things about the CBO report. One, on a technical level, the primary difference between the CBO and, really, most other forecasters is they're much more pessimistic about the long-run strength of the U.S. economy. Seven, eight, 10 years down the road, they believe that the growth rate will be significantly slower than it was, in the long run, in the past.

The government is more in line with the private forecasters. But even in the CBO numbers, you see that the president's goals of cutting the deficit in half, while investing in health care, in the clean energy economy and in the education of our kids...

SMITH: Is there any sense in the White House?

GOOLSBEE: The CBO shows that he is able to do that.

SMITH: That's my -- that's my question. Is there anything in this budget that is expendable if the deficit is so huge, moderates, folks in the middle, just aren't going to be able to go along with it?

GOOLSBEE: The president is committed, as I say, to cutting the deficit in half by the end of his first term. He's going to be working with Congress. He's outlined a budget program, and these principles of making those three key investments and cutting the deficit in half, and I believe he's going to be able to do that.

SMITH: Austan Goolsbee, we thank you for your time.

GOOLSBEE: Great to see you.

SMITH: We do appreciate it. All right. We'll be back in a moment.

(COMMERCIAL BREAK)

SMITH: We're back now with Jackie Calmes, national correspondent for the New York Times and John Dickerson, chief political correspondent for Slate Magazine.

SMITH: Good morning to you both.

CALMES: Good morning, Harry.

SMITH: Is Tim Geithner in trouble?

DICKERSON: He's in trouble. When a president has to say "I stand behind X," you never want to be X. And so, it's bad for the Treasury secretary, but of course the president keeps saying he's got my full faith. Even if he tried to resign, I'd make sure he stayed.

SMITH: Jackie?

CALMES: You know, when Tim Geithner got confirmed, after having some tax lapses that came to light, it was said that he was too big to fail, too much experience, too smart. And...

SMITH: Just like these big banks.

CALMES: Right. And now, despite this, you know, you still have a situation where if you get rid of Tim Geithner, who do you bring in? He doesn't even have his Treasury staffed with senior assistants yet, so who would be Treasury secretary?

SMITH: And how can that be? Why is it here we are, two, you know, however many weeks into this, that these slots are not filled?

CALMES: Well, I think, first, it's a lot to do with President Obama's strictures on not bringing in lobbyists and anybody who has had anything to do with lobbying. So that leaves out a lot of tax lawyers and others who have ever worked for a company and registered to lobby. And second, Tim Geithner's own tax problems when he went through confirmation now has had the administration doubling up on its vetting. And it just makes it hard. And some people who in their private life got bonuses, now bonuses is a four-letter word.

DICKERSON: I was just going to say, the other problem here is confidence. It's not really an economic indicator, but it's -- and Geithner -- not a lot of people have confidence in him. So next week he's going to announce this bank bailout plan, and there will be a lot of questions about, well, there are the merits of the plan itself, but what about him selling it? And is this public-private partnership going to be able to go forward if the man selling it is somebody people don't have confidence in? And that will be debated all next week on a parallel track to the actual merits of the plan. SMITH: I mean, tiny pieces have been leaked out. And already there is this giant blow-back about it already. In this whole economic universe, is the president trying to do too much, as was suggested earlier in this half hour?

DICKERSON: That's an issue. And also another one links up with the AIG bonus mess, which is people are saying this administration doesn't get it. They're still too tied to the Wall Street mentality, that this bank, that this public-private partnership, you know, Mr. Goolsbee said everybody has skin in the game. The arguments are that basically, no, the Wall Street investors won't have enough skin in the game.

SMITH: The taxpayers are the ones with the skin in the game.

DICKERSON: The ones with the skin in the game, and that matches up with the criticism we heard this week with the AIG bonuses, so that -- the problem continues.

CALMES: Well, there are those who say they're trying to do too much, but there are those saying they're doing too little. You mentioned the Paul Krugman column in the New York Times. There are people who just want to nationalize the banks. And, you know, the administration doesn't want to go that far.

SMITH: And one of the other arguments about this toxic -- I want to say waste, but toxic asset bailout this week is that they're not going to spend enough money. That it's a \$3 trillion problem; they're talking about maybe spending \$1 trillion or so.

I want to talk about the budget and the CBO and this notion that there's so much more deficit involved, and a lot of moderates and people who might be inclined to support the president are going to back away from it because it grows the deficit too much. You wrote about this a little bit this week. How is it that the president is going to get health care through this thing if the budget looms as a huge issue?

CALMES: Well, that's a big question. He has been making the argument from the start, with a lot to recommend it, that you need to spend money on health care first in order to get cost savings that ultimately will bring this under control. And health care costs are what's driving the projections of unsustainable deficits going forward. But...

SMITH: And how do we get -- how does the president get that away from the filibuster?

CALMES: Right. The savings are long term. The budget is done a year at a time or five years at most. And so he needs to have savings now.

The filibuster, you know, they're talking about having this arcane reconciliation process, which would just do anything but reconcile the Republicans. It would send them into a fury, because it would in effect take away the filibuster power. SMITH: Which basically just is a majority -- majority rule.

CALMES: Right. But that may be the only way that you can pass the health care bill this year, is with a stricture that says you can get 51 votes, not 60.

SMITH: What do you think?

SMITH: Well, it's a problem, when you came to Washington and say that you're going to create an era of bipartisanship, and you use a tool here that basically removes the Republicans from the conversation.

Judd Gregg, once Commerce secretary in this administration, said these are Chicago rules -- a little hyperbolic, but nevertheless here you have it breaking down on this question of bipartisanship.

SMITH: I got about a minute left, and this is for both of you. This notion that the president has been out, he was on Jay Leno this week, he's done these town meetings and everything else. Has he effectively used the bully pulpit he has in order to communicate his goals and what he's trying to do? Is it time for the fireside chat? Is it time for the Ross Perot pie charts?

DICKERSON: He's done a halfway good job. The problem is, he can't be -- he's not Geithner. He can't fix Geithner himself. But he'll give a press conference Tuesday night.

DICKERSON: He's still got the country behind him. He's still very good at these things. So I don't think he's spread too thin. And I think he'll be able to use the tools.

CALMES: Yes, I think, you know, he still projects a calming influence. He's still got high popularity. But it's come down, and he's got a bad hand dealt, so...

SMITH: Thank you both very much for your time this morning. We do appreciate it.

We'll be right back.

(COMMERCIAL BREAK)

SMITH: That's our broadcast. Bob Schieffer will be back next Sunday. I will see you tomorrow on "The Early Show," where we'll have an exclusive interview with Ford Motor Company CEO Alan Mulally. Thanks for watching "Face the Nation."

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