April 25, 2010
Transcript

GUEST: LARRY SUMMERS
Director, National Economic Council

THOMAS FRIEDMAN
The New York Times

MICHAEL LEWIS
Author, "The Big Short"

MODERATOR/
HOST: Mr. BOB SCHIEFFER
CBS News

TRANSCRIPT

BOB SCHIEFFER: Today on FACE THE NATION--will new financial regulations forestall another economic crisis.

PRESIDENT BARACK OBAMA (April 25, 2010): Unless your business model depends on bilking people, there's little-- little to fear from these new rules.

BOB SCHIEFFER: With the news now that Goldman Sachs executives had cheered when housing prices fell, they had apparently bet on them falling, the financial regulation bill in front of Congress seems to have momentum. Will it pass now with any Republican votes? And will it have any effect on the economy? These are the questions for Larry Summers, President Obama’s top economic advisor.

Then we’ll get analysis from best-selling author Michael Lewis, who wrote The Big Short, and columnist Tom Friedman of the New York Times.

I'll have a final thought on sex and the SEC, the Securities and Exchange Commission.

But first, Wall Street and the economy on FACE THE NATION.

ANNOUNCER: FACE THE NATION with CBS News chief Washington correspondent Bob Schieffer. And now from Washington, Bob Schieffer.

BOB SCHIEFFER: And, welcome to FACE THE NATION. Joining us this morning, the President’s top economic advisor Larry Summers.

Doctor Summers, thank you for coming. Let me just start with a basic question. This financial reform bill that’s going to be before the Congress, extremely complicated but it also has far-reaching implications. Let me just ask you this question: if it had been in place in 2007, would it had have prevented the financial crisis that we went through in 2008?

LARRY SUMMERS (Director, National Economic Council): I think so. There wouldn’t have been unregulated subprime mortgages that predated on people and set off a housing bubble. There would have been a procedure for resolving institutions like Lehman Brothers that got in trouble without big taxpayer bailouts. There wouldn’t have been the kind of nontransparent derivatives that we saw at AIG that led to the need for more than a hundred billion dollars of bailout. There would have been much less borrowing and leverage that created the house of cards that led to the financial system. So, if you look at the things the experts have identified as causes, whether it was the subprime mortgages, whether it was the derivatives there, whether it was the concept of too big to fail, they are all addressed by this bill. You know, we passed, going back to the Depression, profoundly important financial regulation legislation. And what happened is, the markets evolved, they evolved in all kinds of ways. We saw innovations, the credit card, innovations in mortgages, innovations in many areas and those innovations had many, many benefits. But our regulatory system didn’t catch up with all that innovation. And then, you had the things that are as old as time--greed, avarice, irresponsibility, hubris without any proper regulation system. That’s what led to this crisis and across the board, that’s what this bill addresses.

BOB SCHIEFFER: Well, of course, some of that deregulation came during the Clinton administration, when you were part of the Clinton team that deregulated a lot of these things.

LARRY SUMMERS (overlapping): Well, you can-- you can debate things that went on in the 1990s. I don’t believe that the decisions made in the 1990s went to the issues that were important in this crisis, unlike a number of decisions that were made in the post-2000 period. For example, to allow the investment banks to double their level of leverage with no regulation. But, you know, it’s much less important to debate and to try to find fault with the past than to put in place a system that will assure that these crises don’t happen again. That’s what this legislation does in the areas I laid out.

BOB SCHIEFFER: Well, let’s-- let's debate the future then because--

LARRY SUMMERS (overlapping): Right.

BOB SCHIEFFER: --Richard Shelby, the ranking Republican on the banking committee said this morning that he need some assurances from the White House that no longer will they say that some institutions are too big to fail. He takes the line that these reforms that are being proposed will encourage bailouts rather than end bailouts.

LARRY SUMMERS: Hardly. Our central objective-- the President talked about this during his campaign, the President talked about it in the first months of his presidency. Secretary Geithner, when he laid out our plans, emphasized we must end too big to fail. We do that by providing for debt for financial institutions that run themselves into the ground, their systematic liquidation, the wiping out of their equity holders, the removal of their managers. That is central to our vision. Secretary-- Senator Shelby knows that that is something that is crucial to the President. And, of course, there’re going to be debates about the precise mechanisms and how best to do it. But let’s be absolutely clear with your listeners. There is no one, certainly no one associated with the White House, who believes that too big to fail is acceptable, who believes that it is acceptable for financial institutions to rely on the prospect of bailout to raise money and who thinks it’s anything other than an absolute imperative to make sure that the days of "heads I win, tails the taxpayer lose" end. That’s why we are-- that’s why it’s such a priority for the President to make sure that the financial institutions bear the cost of what’s just--

BOB SCHIEFFER (overlapping): But--

LARRY SUMMERS: --taken place.

BOB SCHIEFFER (overlapping): I-- I think--

LARRY SUMMERS: That’s why he’s proposed a financial fee to assure that the banking and the financial industry bear the costs of what’s happened.

BOB SCHIEFFER: But I-- I guess, the question that I have is-- is, when did you decide that? Because, clearly, you thought General Motors was too big to fail? You bailed General Motors out. When did you decide these bailouts are not a good thing? I’m not saying they’re good or bad. I’m just asking--

LARRY SUMMERS: Well, let’s take-- let’s take General Motors, Bob. Shareholders, zero; chief executive officer, gone; senior management team, changed; bondholders, largely wiped out. Yes, the President did decide and it took courage because many people opposed it at a moment when the credit markets weren’t working to let General Motors go bankrupt and lend General Motors money. General Motors paid back the loan part of the support this year. The value of General Motors is today much higher than anyone thought likely a year ago. You know, President took an enormous amount of criticism for what he did.

BOB SCHIEFFER: Mm-Hm.

LARRY SUMMERS: But if you look at what is happening, those-- that support has largely come back. It has largely come back with interest. In some of these areas the taxpayers are actually earning a-- earning a profit. And so, it is a very different situation than many suggest--

BOB SCHIEFFER (overlapping): All right. Well, let me--

LARRY SUMMERS: --that it is. There's real accountability in what this President has done, although that's certainly not something we have always had.

BOB SCHIEFFER: Let's talk about the-- the news this morning. Goldman Sachs in the newspapers this morning. E-mails, that people at Goldman Sachs were basically cheering when it looked like the housing market was-- was going down. One-- one executive e-mails to another because they had hedged all this and they were betting against the housing market. One e-- one executive e-mail "sounds like we will make some serious money." And the person he sent that to responds back, "Yes, we're well positioned."

You've been involved in this kind of thing all your professional life, Doctor Summers. How does it make you feel when you read stories like this? Should Goldman Sachs be in the position? Should any of these banks being in the-- be in the position of they make money when the economy is going down?

LARRY SUMMERS: Bob, my background is as a professor, not as an employee, not-- not as a full-time Wall Street person, just so we're-- just to say that at the outset. I don't-- I'm not going to comment on any specific firm or specific enforcement cage.

BOB SCHIEFFER (overlapping): Well, I'm sure you--

LARRY SUMMERS: But I think-- but I will say this: this underscores what is at the center of the President's vision here. The importance of transparency, the importance of things being in the open, the importance of it being known, who's in a position to benefit from what, who's got a stake in success, who's got a stake in failure? We need far more transparency. These off-balance sheet nontransparent vehicles with what people call implicit guarantees invite these kinds of problems and that's why this reform effort is so very, very important.

BOB SCHIEFFER: All right. Let me also ask you about something else. This week, tomorrow I think it was, the administration was scheduled to roll out its big climate control bill. Something that Democrat John Kerry, Independent Joe Lieberman, Republican Lindsey Graham had been working on for months. This is clearly one of the President's priorities. Suddenly they decide, nope, we're going to take up immigration next. Harry Reid decides that he wants to take up the immigration bill. What's going on here? Why-- Lindsey Graham is so infuriated that he's pulled out of the deal. Here's the one Republican what was really working with the administration on something. And he says you're putting it on a backburner for political reasons.

LARRY SUMMERS: Bob, I do economics not politics, but I'll-- I'll say this: Senator Graham has really been an icon of bipartisan cooperation on two issues: on energy and on immigration where he's written op-eds. He's cooperated with Democratic Senators towards the kind of comprehensive approaches that we need and we've welcomed that cooperation from Senator Graham. They are both important. There's no either/or between energy and immigration reform. Senator Reid for whatever reasons-- he has-- will in the Senate choose the legislative calendar, frankly, for our part. What's really overwhelmingly important is that financial reform passed as soon as possible as the next step. But I think there has been-- even though immigration reform and energy reform are both crucial issues for the business community, there has been an enormous back pressure against the kind of bipartisan cooperation that Senator Graham has engaged in and that, perhaps, has made this a more complex situation and more difficult for him than it would otherwise be. But we are prepared to go ahead vigorously with any partner who wants to join us on both energy reform and immigration--

BOB SCHIEFFER (overlapping): All right.

LARRY SUMMERS: --legislation because we think grid-- gridlock needs to end.

BOB SCHIEFFER: Well, we're at the end of our little gridlock here. So, (LAUGHING) we'll be back in minute to talk to Michael Lewis and Tom Friedman. Thank you, Doctor.

LARRY SUMMERS: Thank you.

(ANNOUNCEMENTS)

BOB SCHIEFFER: Welcome back. Now to our FACE THE NATION roundtable. Joining us from Berkeley, California, Michael Lewis, the author of the big bestseller, The Big Short, which chronicles the Wall Street financial collapse and New York Times columnist, our old friend, another best-selling author Tom Friedman, author of Hot, Flat, and Crowded. It’s now out in paperback.

Michael, let me start with you. Larry Summers says that the administration does believe that no institution now is too big to fail. Do you think that’s what they believe?

MICHAEL LEWIS (Author, The Big Short): Well, that’s not true right now. But do I-- do I think they’d believe that after they pass this legislation that would be true? Yes, I do think that. I-- I-- I do believe that. I think that the only, kind of, quibble I have would-- with their position right now is they-- there’s-- they really are squashing talk about the leverage that the-- the big banks are running. I mean that there’s-- there’s a movement to-- to put a hard cap on how-- on-- on how much risk these firms can take. And, the administration doesn’t, for whatever reason, seem to want that. And that’s unfortunate because leverage is the heart of the problem and it’s surprising it isn’t addressed in the bill. But-- but just generally, I think-- I think the bill is a force for good. I mean, we-- we’ve got a financial system that is so radically disconnected from the productive economy. And too big to fail is only really one issue. You-- you want-- you want our financiers to be incentivized to-- to create wealth not to destroy it, and right now they’re incentivized to destroy it.

BOB SCHIEFFER: You know, I think your book--and I’m going to give you a big endorsement here right now, which I don’t know if that helps or hurt your book. But, it does the best job that I have seen thus far of explaining what actually happened. And one of the things that your book points out is that some of these traders who were putting together these-- these packages, these derivatives, they didn't themselves even know what was in it-- in these things. And-- and now we're talking about new legislation but how do you legislate and correct things where the people involved don't even know what they're doing?

MICHAEL LEWIS: Yeah, I know. It is extraordinary, the level of just kind of sheer incompetence at the center of the system. I mean, it-- this is-- I mean the story I tell is a story of a handful of-- of people who kind of saw this coming from back in 2005, and giving light to the many CEOs on Wall Street who would like you to believe that no one could have seen it coming, because some people did, indeed, see it coming, including some traders at Goldman Sachs. But-- but the-- the-- the-- the-- the problem I think-- it-- it-- really to me at the bottom of it all this is-- this last period in-- in our financial history is the story of incentives. That people were incentivized essentially not to see the truth right in front of their eyes that if you-- you pay someone huge sums of money not to see a financial collapse, they won't see a coming financial collapse. If you pay them huge sums of money to-- to sort of-- to-- to-- to lend trillions of dollars to people who will never repay the loans, they'll do-- they'll do it. And so, the-- the-- the question is how you-- how you rejigger the incentives inside the financial system. And the bill does-- it does get at this. You know, it's-- it's-- it's easy to just say no, it's all bad. But it's not all bad. Actually, the bill has got some really important things in it. And-- and there are other important things that are being discussed. And, I think the big thing is the politics of this issue has changed so radically, very fast.

BOB SCHIEFFER: All right.

MICHAEL LEWIS: And-- and the possibilities are now endless.

BOB SCHIEFFER: All right. Well, let's go to Tom Friedman. You are here in Washington, Tom. The paper is full of this stuff from Goldman Sachs, this morning where people at Goldman Sachs, one of our big financial banking institutions, it turns out they are actually betting against the housing market and sending each other high-five telegrams, e-mails when it looks like the housing market is going down. I mean it-- it's-- it's like these banks have become casinos.

THOMAS FRIEDMAN (The New York Times): Well, as Michael points out in-- in his book, Bob, there were a whole host of people doing that from big institutions to small boutique hedge funds. The-- the system was set up to encourage that. Because, basically, underlying the-- the system were-- were two principles they talk about in the world of banking--IBG and YBG--I'll be gone or you'll be gone. So, a-- as-- as Michael said, Moody's and Standard & Poor's--the rating agencies--the people we would count on to say whether this-- this package of bonds is-- is just a bunch of junk, or is-- is really AAA. They were actually incentivized to create models that said it's actually not junk. It's really AAA. And they could do that because they could pass on the responsibility to somebody else. I'll be gone. And, by the way, if you take out a mortgage on your house even though you make peanuts and it's a seven-hundred-fifty-thousand-dollar house and all the bank has asked you, "Can you fug up a knife." If you do that, no problem, you can't pay it off. You'll be gone. So there was a huge ethical breakdown underneath the whole thing because, as Michael said, the incentives were so great the other way.

BOB SCHIEFFER: Why is there so much opposition to this bill? I mean, when we read of these outrages in the paper and yet Republicans say these reforms won't work. Yeah, we need reforms but not these reforms. Why is that?

THOMAS FRIEDMAN: Incentives. The incentives are for both parties to milk Wall Street for massive campaign contributions. And, therefore, they're on this knife edge between the interest of the voters, which is to regulate, bring transparency and-- some kind of limits to this banking system and their own party interests, which are to milk this industry for all they can.

BOB SCHIEFFER: So, Michael, what needs to happen now? I mean, how would you judge the shape of Wall Street right now? We know what happened in 2008. We know about the big bailouts that came and all of that. But how would you-- is Wall Street healthy now?

MICHAEL LEWIS: Oh, god, no. Nothing has changed. In fact-- in fact, it almost built in to the bailout was-- was the assumption that nothing would change for a while because we're now-- we've been in the system for eighteen months now where essentially the government is gifting the banks out of their problem. And so, the last thing it's wanted to do is to attack the-- these firms' revenues with-- with financial reform. If financial reform is done well, we'll reduce the profitability of these enterprises. So-- so, we're-- no-- no-- nothing has changed. Nothing important except-- well-- that's not fair--two things: one is that the-- the traders of big Wall Street firms, who previously were playing with shareholders' money are now playing-- paying with taxpayers' money. So that the-- it's now-- it's now pretty explicitly understood that the gains are-- the gains are privatized and-- and the losses are going to be socialized. But the other thing that's changed is more-- more hopeful is-- is that the relationship of these institutions to the larger society is clearly changed in that there was a-- there was a time not long ago when they were essentially an unquestioned master class. And now they are viewed as almost enemies of the state. And the-- the problem that politicians have that want to stand up, or want to-- want to-- want to stymie reform is nobody wants to stand up and say that's what they want to do.

BOB SCHIEFFER: All right.

MICHAEL LEWIS: There-- there-- there-- so-- so that's a big-- there's-- there's been a big change in public sentiment. It just hasn't found political expression yet.

BOB SCHIEFFER: Tom Friedman, I want to ask you about this business now that the administration has decided to postpone bringing up the climate change bill. I know you write a lot about that. What-- what do you make of--

THOMAS FRIEDMAN (overlapping): This is a disaster, Bob.

BOB SCHIEFFER: --what's going on here?

THOMAS FRIEDMAN: This is a travesty. Basically, we were about to see the first bipartisan legislation for radical move toward more green energy, more green jobs and putting a price on carbon. It's all set up for Monday. We have Lindsey Graham, Kerry, Lieberman, industry was coming down. The administration for its political reasons decided it wants to elevate immigration. Lindsey Graham is completely isolated on the Republican side. I think he freaked out a little bit here at the end. And the result is, Bob, right now in Beijing, they're high-fiving each other. Oh, yeah, baby. This means the Americans are going to be paralyzed on green tech, okay, for another couple of years. China is already leading the world now in wind production. China is already leading the world in solar production. Where the industry goes, okay, research goes. You know, you don't need an immigration bill, Bob, you know.

BOB SCHIEFFER (overlapping): Well-- well, help me here. You say the administration for its political purposes. What political purposes?

THOMAS FRIEDMAN: Well, I think they're worried that Harry Reid is going to lose in Nevada, where you have a big Hispanic vote. Hispanics are very concerned about an immigration bill that will bring legality to illegal immigrants here. Barbara Boxer is vulnerable in California. And so, yeah, the President has done and talked a lot on green energy, but I think there are a lot of people in the White House who prefer to talk about that. Keep us distracted. Shiny object over here, okay. But basically, they're interested in the raw politics of this. Though, raw politics isn't unimportant. I mean--

BOB SCHIEFFER (overlapping): Law--

THOMAS FRIEDMAN: --you're having a vote. Yeah.

BOB SCHIEFFER: Larry Summers says they can do both.

THOMAS FRIEDMAN: You can do both. Well, first of all, good luck. Immigration is probably the most hotly divided issue, you know, in the Senate. And we already had the House pass an energy bill. It was waiting in the Senate. We have an en-- energy Senate bill. There is no immigration bill anywhere. This is about politics on both sides, okay. Lindsey Graham, shame on the Republican Party. There's one Republican for advancing green energy in this country? One Republican Senator dare step out? So he's completely isolated and the Democrats are worried about Harry Reid.

BOB SCHIEFFER (overlapping): All right.

THOMAS FRIEDMAN: Have a nice day.

BOB SCHIEFFER: (LAUGHING) Well, I want to wish both you and Michael Lewis a nice day. I think you're having a nice day out there, Michael. Your book just keeps on selling--the situation being what it is. Thanks to both of you. We'll be back in a minute with some of our final thoughts.

(ANNOUNCEMENTS)

BOB SCHIEFFER: Finally today, when the financial crisis hit in 2008, I wondered where the Securities and Exchange Commission was. That's the watchdog agency that's supposed to keep an eye on Wall Street. Was the agency just asleep at the switch? Well, no. As we found out last week, they were wide awake at the switch. At least, nearly three dozen of them were. They were wide awake downloading pornography from the internet.

Now here's my question: an inspector general's report showed that some people at the SEC were spending as much as eight hours a day watching porn. How many days like that does it take before the boss notices the guy hasn't turned in any work? Does anybody ever ask what's that guy in the corner doing over there?

In a classic bureaucratic response, the agency says that as the media reported back in February, their own investigators were already on this case. In other words, this is all old news. Sorry, I don't think so. And the agency notes those who got caught have already been disciplined or quote, "Are in the process of being disciplined." In other words, they're just now getting around to punishing them? Why is that?

In its press release, the agency also stressed that it won't, quote, "Allow transgressions of the very few to bring discredit to thousands of hardworking colleagues." That's certainly reassuring, which begs another question. Why not just release the names of the guilty and tell us exactly what their punishment was? Then we'd know for sure who the innocent people were. Reading that press release, I'm still not sure the agency gets it at all and won't until some more people get fired over there and not just those people looking at the dirty pictures.

Back in a minute.

(ANNOUNCEMENTS)

BOB SCHIEFFER: Thanks for being with us today. And we'll be here-- right here same place on FACE THE NATION, next week.

ANNOUNCER: This broadcast was produced by CBS News, which is solely responsible for the selection of today's guests and topics. It originated in Washington, DC.