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TRANSCRIPT

BOB SCHIEFFER: Today on FACE THE NATION, no big deal but maybe a smaller one on cutting the deficit. Treasury secretary Tim Geithner is in the studio this morning to talk about the impact on jobs and the economy, if Congress and the White House can't come up with a plan to raise the debt ceiling. But as negotiators head back to the White House tonight to try to hammer out a deal, the outlook for agreement is uncertain.

REPRESENTATIVE JOHN BOEHNER: This is a-- a Rubik's Cube that we haven't quite worked out yet.

BOB SCHIEFFER: The President urged Republicans to work toward a grand bargain, a budget plan to save four trillion dollars over the next years.

PRESIDENT BARACK OBAMA: Both sides are going to have to step outside of their comfort zones and make some political sacrifices.

BOB SCHIEFFER: But last night, Speaker Boehner said the President's grand plan was too much. They'd have to settle for something less, but what? We'll ask Senate Republican Jeff Sessions of Alabama and Florida's Democratic Senator Bill Nelson.

It's all ahead 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 the secretary of the Treasury is in the studio with us this morning. Welcome, Mister Secretary. The big news overnight, of course, the President and the Speaker of the House John Boehner were talking last week about what the President called a grand bargain, a budget plan to save four trillion dollars in government spending over the next ten years. Last night though, the speaker said that's not going to be possible without raising taxes, so he said they'd have to work on a smaller plan. So I guess I'm going to ask you to help us out here. Does this make it more or less likely that there's going to be some kind of deal. Because if there's no deal, as you know, the Republicans say they won't raise the debt ceiling which must be done to keep the government from defaulting on its debts, so what happens then?

TIMOTHY GEITHNER (Treasury Secretary): Well, there-- there has to be a deal, Bob. And the-- and the leadership in the Congress understand that, the speaker understands that. Republicans and Democrats understand that. There has to be a deal, failure is not an option. The question is how good a deal is it going to be and what the President wants to do when he's bringing leadership to the White House this evening to keep at it, he wants to do the largest possible deal that's going to do the most for the economy. And it's very hard politically. It's going to take some movement on both sides for that to happen. President's made it clear he's willing to do very difficult political things for him, for his party. But the Republicans are going to have to do some things too.

BOB SCHIEFFER: Well, I have to say, Mister Secretary, you say there has to be a deal and the leaders know and the President knows that, but does the rank and file in the House know that. Because my sense of it is, the reason Mister Boehner said this is because he simply doesn't have the votes to get a deal done right now--

TIMOTHY GEITHNER: Well--

BOB SCHIEFFER: --especially, a large deal if it includes some revenue increases. And basically that's what he's saying. So what happens?

TIMOTHY GEITHNER: Well, there's no doubt, he has a challenging job. But he said it from the beginning, we will not default. He's also said we can't pay-- play politics with this. He's also said we can't take this too close to the edge because that would be irresponsible. So he knows we have to do this and it's tough--it's tough on him, it going to be tough on all the leaders up there. But we have no option except to come together. And the question is again, not whether we're going to have an agreement--we're going to have an agreement. The question is-- is, are we going to have an agreement that's going to be good for the economy?

BOB SCHIEFFER: Well, I-- I-- I take your point. But you have Republicans like Michele Bachmann saying that all this business about doomsday if you don't raise the debt ceiling, saying that that's just scare tactics on your part. And on the other side, on the left, you have Nancy Pelosi saying, look, we are not going to touch Social Security benefits.

TIMOTHY GEITHNER (overlapping): I wouldn't-- I wouldn't have--

BOB SCHIEFFER: And so it--

TIMOTHY GEITHNER (overlapping): --equate those.

BOB SCHIEFFER: It-- it sounds to me--

TIMOTHY GEITHNER (overlapping): Yeah.

BOB SCHIEFFER: --like that there is no deal going to be made here and if not, how do you get the debt ceiling raised?

TIMOTHY GEITHNER: I-- I wouldn't equate those two things, first of all. The people who say that we could take the risk and default, there's no responsible leader that argues that would be a credible path to--

BOB SCHIEFFER: No responsible leader--

TIMOTHY GEITHNER (overlapping): Ab-- absolutely not.

BOB SCHIEFFER: --Mister Secretary, but does that seem to be prevalent view among many Republicans--

TIMOTHY GEITHNER (overlapping): Not-- not-- not prevalent.

BOB SCHIEFFER: --in the House--

TIMOTHY GEITHNER (overlapping): --not prevalent.

BOB SCHIEFFER: --and some Democrats.

TIMOTHY GEITHNER: Again, it's a political moment. People are trying to get attention, they say really amazing things. But there's no credible argument, no responsible leader would say the United States of America-- for the first time in its-- in its history should not pay its bills and meet its obligations. That would be catastrophic for the economy. Everybody understands that. There's just a lot of political theater in this-- in this business. Now on the terms of the agreement, very difficult politically to do and this is what's at stake. The President has said he is prepared to do very difficult, very tough things to reduce savings across the government-- across the government, defense, the rest of government and find a way to get saving out of Medicare and Medicaid overtime. But to do that responsibly, to that way that it's fair, you can't ask middle class Americans, the elderly to bear all of the burden for those savings. And so, he's proposed some totally sensible tax reforms that would eliminate loopholes and ask the wealthiest two percent of Americans to pay a modest additional share of the burden. There's no alternative to doing it that way. And I think that's what the House Republicans demonstrated in their budget. If you try and do this, as the Ryan budget, if you try and do this without revenues, without any tax reforms without revenues, then you are forced to do terribly deep cuts in benefits to Medicare beneficiaries. Remember in that proposal when fully phased in, the average cost of Medicare for the average beneficiary, when fully phasing would go up by sixty-five hundred dollars a year. That's like a sixty-five-hundred-dollar tax increase on elderly Americans. So the only way to do this is in a balanced way. That's the only way you can do it politically because you can't do this with just Republican votes.

BOB SCHIEFFER (overlapping): But aren't you-- aren't you--

TIMOTHY GEITHNER: You-- you need Democratic votes too.

BOB SCHIEFFER: Mister Secretary, aren't the Democrats have-- going to have give-- give a little bit on what you do about Medicare and Medicaid and Social Security? Aren't they going to have to say, look, these programs-- we're going to have to look at reforms because right now Speaker Pel-- or former Speaker Pelosi has said I don't see it--

TIMOTHY GEITHNER (overlapping): I think, it's just--

BOB SCHIEFFER: --there's no way we're going to do that.

TIMOTHY GEITHNER: Former Speaker Pelosi is being very careful in how she says this. What she's saying is we can't ask middle class Americans and elderly Americans to bear the burden of deficit reduction on their own. The President has been clear from the very beginning that to protect these programs, these critical programs for Americans-- and they are absolutely essential to what defines the country--the basic commitment to retirement security and to health care when you retire are basic commitments that define this country. And to preserve those, we have got to find ways, that in a fair way, to find savings in those programs over time. The President is committed to that. It's very difficult for him politically to do that. But the main thing is, if we're going to get--

BOB SCHIEFFER (overlapping): Well, then it's fair to say you haven't found those ways yet, right?

TIMOTHY GEITHNER (overlapping): Oh--

BOB SCHIEFFER: I mean, nobody seems to be coming up with anything, anyone can agree on that?

TIMOTHY GEITHNER (overlapping): Oh, no. No, we have very substantial savings the President put on the table and he's standing by those savings. But we need to-- Republicans to come too. Because, again--

BOB SCHIEFFER (overlapping): Does that mean cutting benefits eventually in Social Security, maybe means testing, maybe raising the age limit?

TIMOTHY GEITHNER: Again, the basic principle is we've got to find a way--

BOB SCHIEFFER (overlapping): Well, I-- I understand what the basic principle is but I'm talking about specifics. Are-- are those what some of what the specifics are, sir?

TIMOTHY GEITHNER: Again, the basic principle is we have to find ways to make these programs stronger and sustainable over the long run. And that is going to require doing hard things, politically difficult things. The President recognized that. He's standing firm. But when you-- Republicans--

BOB SCHIEFFER (overlapping): On things such as raising the age limit on Social Security, maybe the limiting benefits, maybe putting in means tested?

TIMOTHY GEITHNER: Well--

BOB SCHIEFFER: Would those be the hard things that are on the table?

TIMOTHY GEITHNER: Well, Bob, you know-- well, I don't get to negotiate this with you.

BOB SCHIEFFER: Okay.

TIMOTHY GEITHNER: And I can't tell you what's going to be in any deal. What I can tell you is we're not going to do this in a way that leaves the burden all on middle class Americans and on the elderly.

BOB SCHIEFFER (overlapping): But--

TIMOTHY GEITHNER: It's not fair. And you don't-- you can't do it politically that way.

BOB SCHIEFFER: Let me ask you this, Mister Secretary. While these negotiations go on, what about these Republicans who say it's just scare tactics, about doomsday, if we don't raise the debt ceiling? Tell me what happens if you don't raise the debt ceiling.

TIMOTHY GEITHNER: Well, let's start with this, okay. As we go into July, further into July, the world is going to be progressively more concerned about whether this town, this city, Washington, DC, can figure out a way-- a way to solve this problem. So the risk we face starts to happen in July. But then on August 2nd, we're left running on fumes. We have no capacity to borrow. I have to write eighty million checks a month to Americans, including fifty-five million Americans who depend on those-- their Social Security check. We have to make principal payments or roll over five hundred billion dollars in debt in the month of August, about eighty-seven billion in that first week in August. And so for those reasons, we have to act, Congress has to act ahead of that point. If they don't act, then we face catastrophic damage to the American economy. And the leadership to their credit and I mean Republicans and Democrats

fully understand that. And they have been very clear to the President and to me, including last Thursday that they are not going to take that risk.

BOB SCHIEFFER: So-- so is August 2nd the drop-dead date.

TIMOTHY GEITHNER: Oh, absolutely. There is no-- you know, we're-- we've looked at all options, all options my predecessors have looked at, everything past, presents have looked at and there is not feasible option to give Congress more time. And they don't need to take more time.

BOB SCHIEFFER: Well, let me ask you this. Does that mean if August 2nd is the date, does that mean-- because Harry Reid says he's not sure you can there by August 2nd, if you don't get something done this week. Is this week, the drop-dead week, so to speak?

TIMOTHY GEITHNER: I-- I do believe that this week and certainly by the next week, we have to have agreement on the alliance of a package. It has to be clear that the leadership have found a way to solve this and they have a path to get votes for something. That is to happen this week and certainly by the end of next week.

BOB SCHIEFFER: So if you don't get something this week, on August 2nd, you're going to have to maybe not issue those Social Security checks, Veterans benefits, that sort of thing?

TIMOTHY GEITHNER (overlapping): Well--

BOB SCHIEFFER: That's going to happen.

TIMOTHY GEITHNER: I want to say it this way. We-- can't wait until August 2nd. The credit rate-- rating agencies of the world have already made it clear in public that the longer we go into July without a path to resolution the more risks are going to put a cloud over our credit rating. And again, there's no reason why-- the leadership in Congress should let that happen.

BOB SCHIEFFER: So I mean--

TIMOTHY GEITHNER (overlapping): We-- we know that--

BOB SCHIEFFER: --some --some--

TIMOTHY GEITHNER (overlapping): --we all know the choices we have to make.

BOB SCHIEFFER: Yeah, but what-- what some Republicans are saying is that, you know, that, all you have to do is just pay the interest on the debt and then prioritize from there. You're saying you're going to have to stop the Social Security checks if you don't get this done.

TIMOTHY GEITHNER: Mm-Hm.

BOB SCHIEFFER: Again, something has to happen this week.

TIMOTHY GEITHNER: On August 2nd, we lose the capacity to borrow. Right now because of-- what Congress has-- the obligations Congress has put on us, we have to borrow forty cents for every dollar we spend. And it's worse than that because as I said, we have five hundred billion dollars in principal payments coming due in August. So like every other President and every

other secretary of the Treasury have looked at all options, I can say with you-- to you with total confidence, we have no other option to buy more time for Congress. And they don't need more time. They know what it takes to get this done. And I'm very confident, Bob that they're going to do what is necessary, the question is how much progress are we going to make on a long term fiscal--

BOB SCHIEFFER (overlapping): So what you're saying is that today, this morning, August 2nd is the drop-dead date. This week is basically the drop-dead week if they don't get something done this week, you won't be able to make that August 2nd deadline.

TIMOTHY GEITHNER (overlapping): And-- and we have a chance and we have a chance--

BOB SCHIEFFER: Okay.

TIMOTHY GEITHNER: --to do something very good for the country.

BOB SCHIEFFER: What do you think is the hang up here? Why did suddenly Speaker Boehner back away? Because last week, he was talking with the President about this so-called grand bargain, I mean this whole, we're going to save, what, four trillion dollars over ten years. I have-- personally don't have much confidence in these ten year out forecasts but-- but that's-- that's my opinion and I'm not an expert. But what do you think caused him to say, well, we got to go for something smaller.

TIMOTHY GEITHNER: You know, hard for me to speculate because you know small deals are difficult too. Small deals involve-- involve a lot of pain as well.

BOB SCHIEFFER: Mm-Hm.

TIMOTHY GEITHNER: So it's not clear it's easier trying to do less. And as I said the President's going to try to do the largest possible deal we can, I think the key problem just to-- just to be direct about it is-- and the Republicans have been honest about this, is they want to do it just with spending cuts. And as you saw in the Ryan budget, if you try to do it just with spending cuts, you're putting unacceptably deep cuts in benefits for Medicare beneficiaries in the future and you can't do that politically and it's unfair to do it.

BOB SCHIEFFER: If you-- if you had to make a guess or an estimate or whatever right now-- do you think there is going to be some kind of deal?

TIMOTHY GEITHNER: Oh, yeah. I think that-- I'll take the optimistic side of this, Bob. If you listen carefully to the debate in Washington over the last six months, the debate's moved a long way. I think Republicans have moved and Democrats have moved. And I think again, we have a chance to do something that would have been inconceivable six months ago. We're going to try and make it, you know, as good an agreement as possible for the economy, just the question is whether Washington can meet this critical-- critical test. You know, again if you think about what's burdening the country is a whole part of is-- part of it is, is this political system, are the electoral leadership in Washington able to come together and solve the many problems we have as a country. And you cannot deal with these long-term challenges, you can't find a way to invest in the things we need to be stronger in the future unless we get our arms around this fiscal position.

BOB SCHIEFFER: There have been reports which you might be leaving before the President's term is up. What can you tell us about that?

TIMOTHY GEITHNER: You know, Bob I got a lot on my plate as you see we've talked a lot of those things. I love my work. I live for this work. And I'm going to be doing this for the foreseeable future.

BOB SCHIEFFER: There is a foreseeable future. What-- what define foreseeable future?

TIMOTHY GEITHNER: Foreseeable future means the foreseeable future, it means for a while.

BOB SCHIEFFER: Through the President's term.

TIMOTHY GEITHNER: Well, again it's as-- as long as foreseeable.

BOB SCHIEFFER: All right. Thank you, Mister Secretary.

TIMOTHY GEITHNER: Thank you, Bob. Good to be here.

BOB SCHIEFFER: Appreciate you coming by. We'll get some views from the Senate in just a minute.

(ANNOUNCEMENTS)

BOB SCHIEFFER: And welcome back to FACE THE NATION. Senator Jeff Sessions is the ranking Republican on the Budget Committee. He's in the studio with us this morning. Senator Bill Nelson of Florida joins us from Orlando. Well, Senator Sessions, let me start with you. The sec-- secretary of the Treasury says he thinks that there will be a deal. Do you think there's going to be a deal?

SENATOR JEFF SESSIONS (R-Alabama/Ranking Republican, Budget Committee): There needs to be a deal by August 2nd. I assume he's accurate on that date. But will it be a deal that's really good for America? Will it do the things that we need to do? Will it put our Medicare and Social Security on a sustained sound basis for the indefinite future? I doubt it now. The Republican leadership, I have to say, have been open about this asking and pleading with the President. In the last few days he's seemed to open up to the possibility of a long-term debt fix. But it looks like now that that's fallen apart based on demands for higher taxes.

BOB SCHIEFFER: So if they can't get a deal and you seem to be saying because, you know, I-- I would take it. If you think it's a bad deal, I take it you're not going to go for it. If you think there's not going to be a deal here, then what happens? Will they just have to go to one of these short-term things on raising the debt ceiling? In other words, pass something to allow the government to borrow for another month or so--

SENATOR JEFF SESSIONS: Well--

BOB SCHIEFFER: --or six months or something like that?

SENATOR JEFF SESSIONS: I would assume so. Bob, I have been arguing for months that we should be doing this publicly in the constitutional process so the American people could see what's going on. We're not just going to ratify some secret deal even if our good leaders plop it

down on the floor of the Senate. We need at least seven days to review something as historic as this. So I'm really worried about all of that. I really believe we need a national discussion. You know, we had a terrible jobs report this week. This debt is right now pulling the economy down. The Rogoff Reinhart study that Secretary Geithner agrees with said it pulls down our debt-- our debt pulls down our growth by one percent, which is equal to one million jobs. From two percent to three percent, we would have had in growth first quarter except for the debt. So we've got to do something because the crisis is now and the problem is Washington is standing surging spending and we've got to bring that down.

BOB SCHIEFFER: Let-- let me ask you this flat question. Do you think right now that that Republicans have the votes to pass an agreement even if Speaker Boehner comes out and says I've agreed with the President on this? I don't, I'm-- I'm -- I don't know whether Speaker Boehner has the votes amongst the Republicans in the House to pass something like this.

SENATOR JEFF SESSIONS: Well, depending on what their agreement is. That's the answer.

BOB SCHIEFFER: Yeah. Well--

SENATOR JEFF SESSIONS: He-- if he's got tax increases like the Senate budget that just leaked out the Democrats have not made it public but their outline was made public. It has two dollars of tax increases for every one dollar of-- of spending cuts. That's miniscule. And four trillion really is far too little. We're talking about only five percent reduction in the growth of our spending when you cut the spending over ten years four trillion dollars.

BOB SCHIEFFER: You-- you heard what Secretary Geithner said. He says there is no alternative to doing this without some sort of revenue increase. That's not acceptable to you I think.

SENATOR JEFF SESSIONS: That absolutely is not correct. We have increased discretionary non-defense spending twenty-four percent in the last two years. We-- we-- we've been increasing defense spending. We've been increasing Social Security, Medicare and all at seven percent or so a year increases. You can make big reductions in spending without cutting spending, just reducing the growth rate of spending. We're on this idiotic idea that we should judge cuts based on how much it reduces the growth of spending.

BOB SCHIEFFER: All right.

SENATOR JEFF SESSIONS: American people, if we focused on, does it actually increase or reduce spending, we'd have a much more honest approach to the difficulties we face.

BOB SCHIEFFER: I want to get to Senator Nelson who is down in Orlando this morning, a Senator from Florida and a former astronaut.

SENATOR JEFF SESSIONS: Good morning, Bill.

BOB SCHIEFFER: Senator you're hearing what--

SENATOR BILL NELSON (D-Florida/Budget Committee): Good morning.

BOB SCHIEFFER: --Senator Sessions is talking about on-- on cutting spending. But I've got to ask you, it seems to me like that Speaker Pelosi pretty much laid down the law about how

Democrats feel about making any changes in Social Security and the entitlement programs. And a lot of people say unless you get into that, there's no way you can get a realistic deal. How do you feel? Would you vote for a plan if they said we're going to have to reduce Social Security benefits or any of these entitlements?

SENATOR BILL NELSON: Well, Bob, ask the question first. How did we get into this problem of the big deficit? And it's basically a fall off of revenues and an increase in spending.

BOB SCHIEFFER: Mm-Hm.

SENATOR BILL NELSON: So you got to correct that imbalance. Otherwise you're not doing real deficit reduction. And we've got to hit something like four trillion in deficit reduction over the next ten years. And I'm coming to your question in just a second. But I want to lay the predicate. There are lots of ways to get additional revenue by eliminating some of these tax preferences for special interests called tax loopholes. And I want to make an offer to Jeffrey, who is my dear friend that if you took the money that the federal government would save from all of those tax loopholes and instead use that to lower all of the tax levels of the different tax brackets, what you'd have is a revenue neutral position. But because you would simplify the tax code, you would end up raising more revenue because it would spur up the engine of economic growth. And now to your question about Social Security, Bob, you don't have to touch Social Security to do what I just said. And even if you touch Social Security, that's not going to help in this next decade to get the deficit reduction that we need.

BOB SCHIEFFER: Well, quickly, senator--

SENATOR JEFF SESSIONS (overlapping): Yeah.

BOB SCHIEFFER:--what's your response to that?

SENATOR JEFF SESSIONS: Well, it's a great position and I would support that. But that's not what the Democratic Senate budget that has been revealed partially to us does. It increases taxes by reducing these loopholes and increases other taxes and actually spends the money rather than using it to reduce rates. That's not acceptable. And what's happened is that this government has surged spending. The numbers of twenty-four percent increase in spending do not include the-- the stimulus package, of but almost a trillion dollars.

BOB SCHIEFFER: All right.

SENATOR JEFF SESSIONS: And so, they want to now demand the American people pay more money to fund these increasingly high rates of spending. And that's the big difference. American people expect us to bring this spending down--

BOB SCHIEFFER: All right.

SENATOR JEFF SESSIONS: --to reasonable levels before they're asked to pay more taxes.

BOB SCHIEFFER: Let me-- let me I do before he--

SENATOR BILL NELSON: Jeffrey, I-- I just want to say this, Bob. Jeffrey, you have to acknowledge that part of our deficit problem was the huge Bush tax cuts in the early part of the

decade. That accounted by what was handed off to the new administration of over a trillion dollars of annual deficit. That accounted for almost half of it.

SENATOR JEFF SESSIONS (overlapping): No--

SENATOR BILL NELSON: So if you're going to be real about the numbers, you're going to have to address these kinds of things.

SENATOR JEFF SESSIONS: That's not accurate, Bob-- Bill. The revenue went up every single year after those tax cuts were put in. The revenue is down now because of the low economy. You're right about that. And I would agree. So the question is, do we-- well-- it's not because taxes have been cut in recent years. It's because people are not making money and they're not paying as much taxes. So increasing taxes on that weakened economy is not the way to increase revenue at this time. I thought we agreed on that last December.

SENATOR BILL NELSON (overlapping): I didn't-- I didn't say--

SENATOR JEFF SESSIONS: --last December.

BOB SCHIEFFER: Senator, let me-- Senator Nelson--

SENATOR BILL NELSON: Jeffrey, I didn't say raise the taxes. I said eliminate some of those tax giveaways that aren't doing anything. And there's a bunch of cash out there that is stashed overseas that ought to be taxed as income because it's American income.

SENATOR JEFF SESSIONS: Well--

SENATOR BILL NELSON: You do a combination of those things and you can do some real changes here.

SENATOR JEFF SESSIONS: Well, if you use it to lower rates I'm all with you. If you use it as the President suggests say for more spending I'm against it.

BOB SCHIEFFER: All right. Gentlemen, I'm very sorry. The clock has run out here. We have to end the discussion here. Senator Nelson, sorry I didn't get to ask you about the space program because you're-- you're a former astronaut. But we ran out of time. We'll be back in a moment with some final thoughts.

(ANNOUNCEMENTS)

BOB SCHIEFFER: Finally, as you just heard, Washington is now gone back to trying to agree on a little deal budget plan to save two trillion instead of four trillion dollars over the next ten years. My answer to that is whatever. But just keep this part in mind. There will be five more Congresses elected over the next ten years. And each and every one of them can change the agreement in any way they choose, so can whoever is President. What that means is whatever the current Congress and the White House work out it may bear no resemblance to what is in place ten years from now or even four. The important thing is that the agreement will be worth something now because Congress says it won't raise the debt ceiling unless there's an agreement in place. And if Congress can't raise the debt ceiling, the government can't borrow the money it needs to pay its bills. If you think this economy is bad now, wait until the word gets around the world that Uncle Sam has become a debt beat and the phrase has the full backing of

the full faith and credit of the United States of America is no longer the ultimate guarantee for borrowers around the world. That's the bottom line. All that really matters in this argument. If the rest of it, all the predictions and proj-- projections about what the state of the economy will be seven or eight years from now sounds like mumbo-jumbo. Well, that's because that's just what it is.

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

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.