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CBS News

# FACE THE NATION

Sunday, September 21, 2008

**GUESTS: Secretary HENRY PAULSON  
Treasury Department**

**Representative Barney Frank (D-MA)  
Chairman, House Financial Services  
Committee**

**Senator RICHARD SHELBY (R-AL)  
Ranking Member, Senate Banking  
Committee**

**MODERATOR/PANELIST: Mr. Bob Schieffer – CBS News**

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**FACE THE NATION - CBS NEWS  
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BOB SCHIEFFER, host:

Today on FACE THE NATION, a \$700 billion bailout for the US financial system. The first question we'll ask Treasury Secretary Paulson: Will it work?

The Treasury Department presented the costly bailout plan to Congress this weekend. What will happen if it's not enacted? What caused the Treasury secretary to propose this dramatic action? That's where we'll begin.

Then we'll talk to two key men in Congress dealing with the plan: the chairman of the House Financial Services Committee, Democrat Barney Frank; and the ranking Republican on the Senate Banking Committee, Richard Shelby.

I'll have a final word on a game with no rules. But first, the big bailout on FACE THE NATION.

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

SCHIEFFER: And we begin this morning, of course, with Treasury Secretary Henry Paulson.

Mr. Secretary, thank you very much for coming. Let me just summarize what I understand that you have proposed to the Congress, and that is you want the Treasury to have the authority to buy these bad mortgages and these other financial instruments from financial houses and from banks. You want to hold these instruments for a while, as I understand it, then you will try to sell them. You're saying that this may now cost as much as \$700 billion, which I believe is probably more than we've spent on the Iraq war. It's an unprecedented thing that you are proposed here. I want to ask you first, what did you see in this situation that caused you to conclude that you would have to take this radical and very expensive step?

Mr. HENRY PAULSON (Treasury Secretary): Bob, let me just correct you on one thing. The Iraq war was expenditures. This is purchasing assets, holding assets, reselling assets with money coming back into the Treasury. The taxpayer is clearly at risk, but this puts the taxpayer--the taxpayer was already at risk for what was going on and this, I think, will minimize the risk and the cost to the taxpayer.

Now, what did I see going on? Last week you watched the equity markets, the stock markets, which most people see, drop by 1,000 points then rally by 1,000 points on the news of this program. But underneath the surface, credit markets and capital markets were freezing up. And when the capital markets freeze up, then mainstream American companies have trouble raising money to do their job; farmers will have trouble getting loans, small business people will have trouble getting loans. This would then hurt the broader economy; more difficult to get jobs, people's budgets, family budgets at risk, retirement savings at risk. So this was a situation that we couldn't allow to go on. And this was a situation that had its roots in irresponsible behavior, lending practices, people borrowing money that they shouldn't have borrowed. That, then, a chain reaction to the financial institutions holding these illiquid assets. And then when they get clogged up with illiquid assets, then the financial institutions can't do what they need to do. So what we needed to come in was stabilize the situation. We felt this was the best way to stabilize

the situation, unclog the system so that it can work. And then, of course, we're going to need to address the root causes of this, and the excesses. We're going to need reforms.

SCHIEFFER: Well, let me--let me just go in--let me get that to--back to that in a minute. But what you sound like you're saying is that the whole system was on the verge of collapse.

Mr. PAULSON: I didn't say that. What I--what I said was that the system was clogging up and it was more difficult for companies to raise financing, and that that would have been--that would have been a worse--much worse for the American public and that was a greater risk. The public is at risk, and so you started off talking about the costs and what the downside is. And you know, I hate having to communicate this and I hate the fact that the taxpayer is going to be at risk, but the taxpayer was already at risk. And I think this is going to minimize the cost to the taxpayer. And in terms of the system, let me just say this. We as a people always work through these situations. We will work through this situation. And we have a great country, we will work through it. We will--you know, the markets will stabilize over time and then we will do what we need to do to clean up the mess.

SCHIEFFER: Well, let me go back to this, and you talked about this a little in the beginning. Do you see we have no alternative here? And if that's the case, what happens if this doesn't work?

Mr. PAULSON: Well...

SCHIEFFER: I mean if this--if the Congress doesn't go along?

Mr. PAULSON: But, Bob, this is--this is--this is the least costly path, and I have every confidence that Congress will go along with this because--that doesn't mean everyone in Congress will agree, it doesn't mean that there won't be a healthy debate.

SCHIEFFER: Yeah.

Mr. PAULSON: But I am highly confident that we will get the authorities we need this week, because Congress knows this is about the American people, this is about the economy, and we always come together at times like this.

SCHIEFFER: This is going to send the deficit into uncharted territory, it seems to me.

Mr. PAULSON: Yes.

SCHIEFFER: Is there a chance that the next president is going to have to raise taxes to find the money to run the government?

Mr. PAULSON: Well, the next president is going to have some challenges and--as we have challenges today, because what we're going through is an unprecedented period of time. And there's no doubt that debt issuance by the United States of America is going to go up. And I'm not--I'm not minimizing this, I'm not minimizing it at all, but I want to continually emphasize, because sometimes people get confused, this is different than spending money you know you're never going to get back. This is buying assets, holding assets and then selling assets. And

although I can't tell people now what the cost of that process will be, and there is a risk, the ultimate cost will be determined by how quickly the economy is stabilized and what happens in the housing markets.

SCHIEFFER: You said last week that you thought this would cost \$500 billion, that--or that could be how much you wanted the authority to buy. Now you're saying 700.

Mr. PAULSON: I never...

SCHIEFFER: Is there a chance it could go higher?

Mr. PAULSON: I never said anything about 500. When I talked to Congress, I talked about...

SCHIEFFER: Well, that was the number that was going around.

Mr. PAULSON: Well, it may have been reported. But when I talked to the congressional leaders I said we're talking about hundreds of billions of dollars that is needed, and we will ask for authorities up to a limit. And if that limit is \$700 billion, that doesn't mean we'll go all the way there or it doesn't mean that it--that it will stop there and we won't ask for more. But that is--what we need is something that is big enough to get the job done, and so we will ask for what we think is a right amount to give us plenty of flexibility to get the job done. And remember, the job is buying these illiquid assets to unclog the system and let the credit markets work the way they need to and to restore confidence.

SCHIEFFER: I--let me tell you, some of the people in the system have asked me to ask you this question: How will you determine what these instruments, these bad mortgages, how will you determine what they're worth?

Mr. PAULSON: Well, that is--that is going to not be an easy thing to do, but it's an important thing to do, because right now these mortgages are on the books of financial institutions and, because the system is frozen, there's not a market for them. There's not a market. And so what we need to do is come in at a level, provide a market for them so that the--so that the institutions can do what they need to do and, under the very best circumstances, other private capital will then come in because they will see the market.

SCHIEFFER: Who will be eligible for your purchasing these things? Will it be just US institutions, could it be foreign institutions?

Mr. PAULSON: Well, it should be. We want authorities to deal with financial institutions--all financial institutions that are doing business in the United States, hiring people in the United States, performing their role. Because remember, this is about the people of the United States of America, and it is a distinction without a difference to them whether the bank or the financial institution...

SCHIEFFER: So we could include some foreign institutions? Are you asking other foreign governments to help as well?

Mr. PAULSON: Of course. And Bob, I'm glad you made that point.

SCHIEFFER: Have any told you that they will, though?

Mr. PAULSON: We have--we have--we are urging others to do so. A number have expressed willingness to do so. This is--you know, this is a global financial system. But...

SCHIEFFER: Can you tell us which ones?

Mr. PAULSON: Not at this time. But what we are doing, again, we're taking care of our situation. And I'm not saying anyone is committed to do this yet, but we are--we've started that dialogue. And again, in terms of the United States of America, it is a distinction without a difference in terms of what's best for our citizens as to whether it happens to be owned by a foreign ownership or US ownership.

SCHIEFFER: Mr. Secretary, is this going to fix the situation or is this a Band-Aid, bandage? Is this something that's going to stop it from getting worse?

Mr. PAULSON: Well, Bob, what we're doing now is not going to make the turbulence disappear overnight. There are--this is going to take a while to work through this situation. But this is a very strong step. The markets responded very favorably. This is about doing what's right. It's a major step to restore confidence in the markets and get them working the way they need to work. And I feel very strongly it's the right thing to do.

SCHIEFFER: Mr. Secretary, I hope you're right. Thank you so much for joining us this morning.

Mr. PAULSON: Thank you.

SCHIEFFER: We'll be back to talk to some key congressional figures about this in just a minute.

(Announcements)

SCHIEFFER: And with us now from Portland, Maine, the chairman of the House Financial Services Committee, Congressman Barney Frank. Joining us from Tuscaloosa, the ranking Republican on the Senate Banking Committee, Richard Shelby.

Congressman Frank, to you first. On his way out I asked Mr. Paulson, I said that the Congress may want to add some things to this, maybe a new stimulus package, some limits on executive compensation. Will you be amenable to that? He said we want this passed clean and quick. Do you think that's possible?

Representative BARNEY FRANK (Chairman, House Financial Services Committee): Yes. Secretary Paulson and I have a lot of agreement, but we have a difference on what's clean. We don't think that trying to stimulate the economy--given the six plus percent unemployment--let's not forget other problems as we focus on this one. I don't think that dirties up the bill. As to executive compensation, we're going to be asked to buy up the bad debt that's clogged the system. Some private sector people made some irresponsible decisions because there wasn't adequate regulation. We'll deal with the regulation next year. It would be a grave mistake to say

that we're going to buy up the bad debt that resulted from the bad decisions of these people and then allow them to get millions of dollars on the way out. The American people don't want that to happen and it shouldn't happen. I don't think it slows things down at all. So we also, by the way, want to add some language that will slow down the number of foreclosures. It's kind of hard to tell the average American that we're going to continue to have foreclosures that destabilize neighborhoods and deprive cities of revenues they need, but we're going to buy up the bad paper. I do think we have to buy up the bad paper. I think we have a situation where the failure to regulate adequately has allowed some private sector people to put the economy in a hole, and we have to undo that. That's good for the economy, but it's also a direct benefit to some of the people who made the mistakes.

SCHIEFFER: All right.

Rep. FRANK: To give them some direct benefit and not others would be a grave error.

SCHIEFFER: Let's see what Senator Shelby has to say about that.

Do you think--will you be willing to add some things on to this, Senator?

Senator RICHARD SHELBY (Ranking Member, Senate Banking Committee): I would. I don't know what the atmosphere will be like when we get back to Washington and get to work on this at the first of the week, but I can tell you this, this is not going to be 700 trillion--\$700 billion, it's going to be about \$1 trillion at least. And you ask a good question of the secretary a few minutes ago, Bob, and that is, is this it? Will this be it? And he couldn't answer that it would be. We don't know the endgame in this. And I'll tell you what bothers me about this; that I believe that the chairman of the Fed and the Treasury Secretary Paulson, with all due respect to them, they've been staggering from crisis to crisis and they haven't even said today that this will end the crisis. He said this will lubricate the financial markets if we take the financial sludge, as we call it, off the books of the banks. But as Congressman Frank said, this doesn't do anything for the homeowner. This is doing something for the banks. And if they get any relief, it'd be incidental.

SCHIEFFER: One of the things that I asked the secretary, I said, you know, this is going to send the deficit into uncharted waters here, did he think it would be necessary for the next president to have to raise taxes in order to get the funds that will be needed to run the government? Now, nobody likes to raise taxes in--when economic times are bad, but what about that, Congressman Frank? Do you think we may be facing some new tax challenges, as the secretary said? Because he wouldn't say whether he thought that was going to be necessary.

Rep. FRANK: Bob, when I talked about the need for stimulus being part of this overall approach and reducing foreclosures and reducing compensation, or restricting it, I think I'm speaking for the great majority of people in my party and many in Congress.

Now let me speak individually. I think this strengthens the argument for a surtax on the wealthiest people in this country who are among those who made these mistakes. We are unfortunately in a situation--it's almost as if we let them take the economy hostage by not having appropriate financial regulation. We'll deal with that later. But these are the people--and I agree with the secretary, it's not going to ultimately cost all these hundreds of billions. We'll recover most of it, maybe all of it. But I do think at this point the people making over \$1 million a year, a

surtax on their incomes, that's one way to get the people who made these mistakes to contribute to the cost of undoing it. But I do stress, I'm speaking only for myself here.

SCHIEFFER: All right, Senator Shelby, what about that, as a Republican? You seem to agree with Congressman Frank that this bill is going to have to include more than what the secretary was talking about here. Also, you say that nobody really knows how much this thing is going to cost. Are we looking at more taxes down the road here?

Sen. SHELBY: Well, I'm--as a Republican I'm not a taxer, but I can tell you, Bob, when we add an additional trillion dollars to the debt--in other words, the burden of the taxpayer--sooner or later there's got to be a reckoning, as you allude to. And I don't know what's going to happen. But I can tell you, you add a trillion here and a trillion there, and you've got a lot more debt on the American people, and that's what I'm concerned about. And we've been down this road before, through the thrift bailout. Cost the American taxpayer billions of dollars. This is the mother of all bailouts and we don't see the end in it yet.

SCHIEFFER: What about this idea of executive compensation and putting some limits on it? Congressman Frank thinks that might be pretty important. How do you come down on that?

Sen. SHELBY: Well, I have always said, and I believe this, that it should be up to the board of directors of a private corporation to set the compensation of an executive. It shouldn't be Congress' role. On the other hand, if they're government entities or if they're government-guaranteed entities, that's a different story.

SCHIEFFER: So what about this...

Rep. FRANK: Can I just say...

SCHIEFFER: Yes, go ahead, Congressman.

Rep. FRANK: Well, you say this. We--Senator Shelby and I have some difference on the general principal, though we did agree--by the way, it was specific authority added by the Congress, the administration didn't ask for it, to the bill dealing with Fannie Mae and Freddie Mac that led to the cancelation of those severance packages. That is--and it's on the principal that Senator Shelby said.

Sen. SHELBY: Absolutely.

Rep. FRANK: Congress said, 'No, you have to take this over.'

But I would say this. We're not now talking about a purely private corporation. These are corporations that are offering to us bad debt. They are--they are hoping that we will buy some of that bad debt. I think it's entirely legitimate to say as a condition of buying the bad debt, we want some compensation restrictions. I don't want the federal taxpayer to be at risk for that bad debt, and then the guy who incurred the debt gets tens of millions of dollars on the way out the door.

SCHIEFFER: Let me--let me ask you this question. When the chairman of the Fed, Mr. Bernanke, and when Secretary Paulson came up to the Congress, you had a private meeting. I

know the chairman of the Banking Committee, Chris Dodd, said there was absolute silence for a while there after they told you all what they saw coming down the road. How bad did they tell you it was going to be, Mr. Frank?

Rep. FRANK: Well, first of all, I think we probably ought to commemorate that day when 15 members of Congress sat in absolute silence. You don't get many of those all that often.

What they said was--and the secretary says it's not going to be a collapse and we don't want to unduly panic people, but what we were told--and this is why I'm ready to act--that we had gone beyond the institutions themselves being in trouble. We were reaching the point where people wouldn't be able to get auto loans, where people wouldn't get home loans, where small business wouldn't be able to get the loans to keep their inventory. In other words, what they told us was the contagion here and the depression in the market was such that you were going to see a shutdown of the lending business not just on Wall Street, but people's money market funds would diminish--and that's already started to happen--that their pension plans would be in trouble and their retirement plans. So we were told that there would be very dire consequences. Unfortunately, I think accurately, that again, the scope of the error that the private sector has made, left entirely too much on its own, will reverberate and cause a very substantial reduction in economic activity. And remember, that comes at a time when we already have unemployment over 6 percent...

SCHIEFFER: Senator...

Rep. FRANK: ...even before this crisis. Can I just say...

SCHIEFFER: Yeah.

Rep. FRANK: ...we're on--we're on track to lose over a million private sector jobs this year, and this is going to exacerbate an already bad situation.

SCHIEFFER: Senator Shelby, once we get past this, or while this is in progress, are we going to have to have an overhaul of the rules and regulations governing all this?

Sen. SHELBY: Absolutely, Bob. I'm going to go back to this briefly. What caused this? What's the root cause of all this, where we are today? Greed and lack of regulatory oversight. Let's be honest, the Federal Reserve and the other institutions overlooking our financial system, they didn't know what was going on in these institutions. If they did, we wouldn't be where we were today. And I remember about a year ago the Fed chairman, with all due respect to Chairman Bernanke, he said basically we had this contained. I fear that this is not contained and we will repeat it again if we don't have massive, tough regulatory reform in the next Congress.

SCHIEFFER: All right. Well, gentlemen, I want to thank you very much for...

Rep. FRANK: Can I just say amen to that?

SCHIEFFER: Yes, and we have 20 seconds here.

Rep. FRANK: All right. Let me just say--being Jewish I don't ordinarily do this on a Sunday morning, but I just want to say an amen to Senator Shelby.

SCHIEFFER: All right.

Sen. SHELBY: Thank you, Barney.

SCHIEFFER: Well, thank you. It was worth the extra time to hear you say that, Congressman.

Rep. FRANK: Thank you.

SCHIEFFER: Back in a minute.

(Announcements)

SCHIEFFER: Finally today, here is the part that bothers me about what's happened to our nation's finances, and we heard it underlined this morning by our guests: This is not the work of those who broke the law, it is the work of those operating within the law; those who pushed the law to the limit, making loans the law allowed but common sense dictated should not have been made.

Through Democratic and Republican administrations, deregulation has become all the rage; sweep away the cumbersome rules that make it hard to do business, a worthy goal for the most part. But as we're finding out, we've allowed deregulation to the point that in some cases the only rule left standing is that anything goes, and now we must all pay. I hope this administration's rescue plan is the right way to go. Frankly, I don't have the technical expertise to be sure. What I do know is that if we somehow get past this we must get serious about laws that ensure that it never happens again. Our financial system has come to resemble a ball game where the umpires let the players call the balls and strikes.

In the debate over how much government our new nation needed, one of the founders, James Madison, said, "If men were angels, there would be no need for any laws, much less government." Our free market system remains the best system ever devised, but we're still not angels. Besides, no game works without an umpire.

Back in just a minute.

(Announcements)

SCHIEFFER: And that's our broadcast. We'll see you next week right here on FACE THE NATION.

