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FACE THE NATION

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GUESTS: Senator BARACK OBAMA (D-IL)
Democratic Presidential Candidate

MODERATOR/PANELIST: Mr. Bob Schieffer – CBS News

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BOB SCHIEFFER, host:

Today on FACE THE NATION, an exclusive interview with Senator Barack Obama, the Democratic presidential candidate. The new financial bailout plan, the economy, whether he would meet directly with America's enemies; those issues and more. Where does Barack Obama stand? We'll talk with him for the entire broadcast today. Then, I'll have a final word on a fine day at the University of Mississippi.

But first, Senator Barack Obama, only 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 good morning again. Well, there was major news overnight. House and Senate negotiators have reached agreement on a massive plan to bail out imperiled financial markets. Here to talk about it, in his first interview since his Friday night debate with John McCain, is the Democratic presidential nominee, Barack Obama.

Senator Obama, welcome to the broadcast.

Let me just go over the main points of what this agreement contains. The core remains what the Bush administration proposed last week. But it will include greater congressional oversight, more taxpayer protection and help for homeowners facing possible foreclosure. Some of the highlights: As originally planned, the government will provide \$700 billion so the Treasury Department can buy troubled securities, hold them for a while and then--with the idea of selling them later. But unlike the original plan, the money will be phased in; the Treasury secretary will get \$350 billion in the beginning, Congress will then have to approve further increments down the line. The plan would place limits on executive compensation to prevent officers of these troubled firms from reaping huge bonuses at taxpayer expense. The government will renegotiate bad mortgages to help homeowners and it will encourage the institutions, at the insistence of House Republicans, to buy insurance to cover some of these defaults. It provides congressional oversight. As we say, the government would receive stock warrants in return for bailout relief, which would give taxpayers a chance to share in any future profits by the troubled companies. All this is still very tentative, it's still verbal, but the hope is the House can vote on it Monday with a Senate vote coming later.

Senator, it's still very complicated. We should stress this, it still hasn't even been put down on paper, all of it. But I know you were talking with the negotiators through the night last night. What can you tell us about it, and can you support it?

Senator BARACK OBAMA (Democratic Presidential Candidate): Well, look. First of all, I think we have to understand that this was an urgent situation and is an urgent situation, and by the end of the week I think everybody recognized that something needed to be done. What I'm pleased about is that it appears, at least--and I haven't reviewed the actual language--is that some core principles that I set forth at the beginning of this crisis were incorporated: the issue of making sure that we had strong oversight, the insistence that taxpayers share in the gains if there are any when the market recovers, the insistence that homeowners get additional relief, so that there's some reciprocity. If in fact we're bailing out or helping banks, they in turn have to help rework

mortgages for people who are potentially facing foreclosure. And the final thing, the issue of executive compensation, making sure that taxpayer money is not going to pad bonuses or golden parachutes. It appears that those principles have all been incorporated into the core agreement, and I'm going to be reviewing the language over the next day to make sure that those provisions actually stick.

Ultimately, I believe that we have to get something done. And so if I feel that those are meaningful provisions that provide some constraints on how the Treasury operates, and this is not going to be welfare for Wall Street, then my inclination is to support it because I think Main Street is now at stake. This could affect every sector of the economy. If the credit crisis continues or worsens, then suddenly small business people can't make their payroll, you have large businesses who can't sell corporate debt, which could bring the entire economy to a grinding halt.

The last point I want to make on this is we have to remember how we got here. Not so much to allocate blame as to understand the choices that are going to face the next president. Unless we update our 20th century regulatory framework for a 21st century global financial system, then we are going to continue to be vulnerable to this kind of situation. And I think the next president has to come in with a very strong package of reforms. We're going to have to fight off the lobbyists and the special interests. And finally, we've got to understand that contrary to what John McCain suggested at the beginning of this crisis, the fundamentals of the economy are not strong, and some of the root causes of this crisis had to do with the day-to-day struggles that ordinary people are going through with flat wages and incomes but constantly increasing costs. That puts pressure on them to take out more debt, to use home equity loans, to try to refinance. It created an environment in which this kind of crisis potentially could occur.

SCHIEFFER: So as it stands now...

Sen. OBAMA: Right.

SCHIEFFER: ...from what you understand about it, you will support this?

Sen. OBAMA: As it stands now, if the four principles that I laid out 10 or 12 days ago are, in fact, contained in a meaningful way.

SCHIEFFER: OK.

Sen. OBAMA: The taxpayer protection, the investor participation of taxpayers, the corporate--or the CEO compensation issues...

SCHIEFFER: Mm-hmm.

Sen. OBAMA: ...as well as the homeowner assistance. If those are contained, my inclination would be to vote for it; understanding, I'm not happy about it. We should have never gotten into this place in the first place.

SCHIEFFER: OK. Well...

Sen. OBAMA: And I think this is a final verdict on eight years of failed economic policies.

SCHIEFFER: Well, let's just--let's just talk about this. When the president came on television and said we need this bailout package, he painted it in the most dire terms.

Sen. OBAMA: Right.

SCHIEFFER: How--do you agree with him? How crucial is it that this pass? How bad is this situation right now?

Sen. OBAMA: I think this situation is pretty bad. Look, you're always dealing with probabilities in this kind of situation. You don't know exactly how the market might react. You don't know--since you've got worldwide actors doing all kinds of things. But think about it. I mean, we had the largest bank failure in our history, and it wasn't even the major news that day. It gives you a sense of how fundamentally our financial system is being restructured as we speak. If you have a situation where credit markets lock up, then as I said before, businesses who are making stuff and hiring people and, you know, are--have nothing to do with Wall Street, suddenly they're imperiled.

SCHIEFFER: So it is as serious--you agree with the president's assessment. It's as serious as he said it was?

Sen. OBAMA: I agree that this probably the most serious financial crisis we've faced since the Great Depression. And what we can't do is do nothing. What I absolutely insist on, though, is that the same sense of urgency that we have about Wall Street...

SCHIEFFER: OK.

Sen. OBAMA: ...we have about folks on Main Street who have been struggling for a long time. One of the critical lessons, I think, that have to be learned by this is not only that we have to set up some rules of the road, some regulations that work to keep the system solvent and prevent Wall Street from taking enormous risks with other people's money, figuring that, 'Tails I win, heads you lose,' where they don't have any risk on the downside. But the second thing that we have to learn is, is that if you think about how this all started, subprime lending. You've got homeowners who ultimately could not make payments on their homes, and that's an indication of the degree to which family budgets have been under huge stress for years now. And we haven't been paying much attention about it because the theory has been, well, as long as those at the top are doing well, the prosperity's somehow going to trickle down.

SCHIEFFER: Let me ask you this. You and Senator McCain took very different approaches to this. He suspended his campaign, he called for a big summit meeting in Washington.

Sen. OBAMA: Right.

SCHIEFFER: You stood back a little bit at that point. Now that this--it looks like they've gotten to some agreement, should Senator McCain be getting the credit here for forcing these people back to the negotiating table?

Sen. OBAMA: No. Look, here's--here are the facts. For two weeks I was on the phone every day with Secretary Paulson and the congressional leaders, making sure that the principles that have ultimately been adopted were incorporated into the bill. I mean, if you think about it, those items that you mentioned at the top of the show...

SCHIEFFER: Mm-hmm.

Sen. OBAMA: ...none of those were in the president's provisions. They are identical to the things I called for the day that Secretary Paulson released his package. That, I think, is an indication of the degree to which, when it comes to protecting taxpayers, I was pushing very hard and involved in shaping those provisions. But understand this: The important thing here is making sure that we don't have a photo-op session, because this is serious.

SCHIEFFER: What...

Sen. OBAMA: We should not have been here in the first place. And, you know, I think the critical debate that we're going to have to have between myself and Senator McCain moving forward is how do we prevent this kind of thing from happening again? And you know, the problem with Senator McCain's positions generally have been that, for all his talk about being a maverick and wanting to reform the system, he has supported, on economic policy, George Bush more than 90 percent of the time. His differences on other issues with the president he likes to tout, but they don't have to do with this fundamental economic theory that helped to get us into this mess in the first place. And if we're going to get out, then we've got to fundamentally change course.

SCHIEFFER: This was obviously the first topic, as it should have been, in the debate Friday night. This is your first time to talk about the debate since then. How do you think it went?

Sen. OBAMA: Right. Well, I think that the country had a chance to look at two very contrasting visions about where the country needs to go. Senator McCain, on economic policy, fundamentally agrees with George Bush. I mean, up until this recent crisis, as recently as March, when I was calling for a fundamental over--overhaul of the regulatory system on Wall Street, Senator McCain was saying, 'I'm basically a deregulator.' On taxes, he has wanted to continue Bush's policies, and in fact wants to double down on them. So you've got, essentially, a continuation when it comes to John McCain, of the policies of the last eight years. He'll talk about earmarks, but that's not a fundamental shift in our basic economic theories. What I've said is we've got to completely reverse course. We've got to have economic growth from the bottom up. And that means that my tax cuts, for example, are going to the 95 percent of Americans who are struggling every day...

SCHIEFFER: Mm-hmm.

Sen. OBAMA: ...as opposed to providing additional tax cuts to corporations that are doing very well. So you had a fundamental shift--or contrast in terms of where we need to take the economy. And on foreign policy, likewise, there really wasn't any indication that Senator McCain wanted a significant shift from George Bush's foreign policy. And I think we need to end the war in Iraq, refocus attention on Afghanistan, initiate tough diplomacy; but recognize that on a whole host of issues, from nuclear proliferation to hunting down terrorists, that we've got to enlist and mobilize

the support of the world. So I think what we see is, is that the American people are going to have a very clear choice come November.

SCHIEFFER: All right. We're going to take a break here and come back and talk about some of that in more detail in just a minute.

(Announcements)

SCHIEFFER: And we're back now with Senator Obama.

Senator, it seems to me that the whole debate came down to a couple of questions. You questioned Senator McCain's judgment repeatedly, he repeatedly said you just didn't understand; that you didn't have the knowledge or the understanding to deal with these issues, both the financial issues and foreign policy issues.

Sen. OBAMA: Right. Well, the interesting thing is he kept on asserting I didn't understand, but beyond saying the line never indicated what exactly I didn't understand. It's true I don't understand Senator McCain's positions on a whole host of issues, because given how the Bush administration has created an extraordinary crisis in the economy and considering that we remain bogged down in Iraq--al-Qaeda is resurgent, Iran is developing nuclear weapons--that our foreign policy is, if not in a shambles, then certainly not in a place that I think anybody is comfortable with. Given those facts, what I don't understand is that Senator McCain continues to promote them. There was not one instance where Senator McCain could support his assertions with some indication that, in fact, he had some secret understanding of what the Bush administration was doing that made sense. In fact, he essentially is defending a status quo that is not working for the American people.

SCHIEFFER: Some Democrats said that they thought he was being condescending to you. Did you take it in that way?

Sen. OBAMA: Well, I think it was a--it was a debating trick, which is to essentially just keep on asserting that because of my vast years in Washington, somehow I'm better qualified to be president. And one of the points that I've made consistently in this campaign is that if the length of tenure in Washington is a measure of your wisdom, then people should vote for somebody else. But I think the American people understand that the conventional wisdom in Washington, which John McCain has followed for the last eight years, is exactly what needs to be changed.

SCHIEFFER: One of the most heated points in the debate came when we were talking, or you all were talking about whether or not you would sit down with America's enemies...

Sen. OBAMA: Right. Yes.

SCHIEFFER: ...and under what conditions. Would you, and under what conditions would you talk to, say, somebody like President Ahmadinejad of Iran?

Sen. OBAMA: Right. Well, what I've said repeatedly is that as president of the United States, I would reserve the right to meet with anybody at a time and place of my choosing if I thought it would advance our national interests and make us safer. That is--should be uncontroversial. I

mean, Nixon met with Mao, you know, Kennedy met with Khrushchev, Reagan met with Gorbachev. So you know, we have a tradition of recognizing that diplomacy, even with our enemies, can be an important tool of American power.

SCHIEFFER: Sure...

Sen. OBAMA: Not the only--not the only tool. So what I've said is that with respect to Iran, for example, I think for us to initiate direct diplomacy--not beginning with the presidential level, but initiating diplomacy, opening up a dialog and then being very clear and firm with Iran: "We do not accept your threats against Israel, our ally. We do not accept your development of a nuclear weapon or your funding of Hezbollah, Hamas and other terrorist organizations. We are prepared to really crack down if you continue these practices." But we are willing to listen and we are willing to assist in Iran being a more full part of the international community if they change their behavior. Now, as I said during the debate, it's possible that they don't change their behavior. But we are then in a stronger position to put in place the sanctions that can actually change their behavior. I think that's common sense. The American people understand that.

SCHIEFFER: While we're still on foreign policy, Senator McCain's running mate, Sarah Palin, claimed in an interview that Alaska's proximity to Russia somehow enhances her foreign policy experience and credentials. Do you agree with that?

Sen. OBAMA: I will let the American people make a judgment on that. I think that...

SCHIEFFER: Well, do you believe she's qualified?

Sen. OBAMA: Again, I think it's important for the American people to make a judgment based on what they hear from Sarah Palin herself. More importantly, I think we're electing a president before--alongside a vice president, but the president ultimately is going to be in charge. I think what people have to ask themselves, is John McCain equipped to deal with the 21st century challenges that we have?

SCHIEFFER: But...

Sen. OBAMA: Is he able to look to the future and not to the past?

SCHIEFFER: But don't you think what she says is important?

Sen. OBAMA: Well, I..

SCHIEFFER: I mean, she could be a heartbeat away from the presidency.

Sen. OBAMA: I think it is important, and the--I think that I'm more concerned about the fact that she doesn't seem to have any differences with President Bush when it comes to foreign policy and would continue, as John McCain would, the same policies that we've seen over the last eight years that have, I believe, weakened our position in the world.

SCHIEFFER: Neither you nor Senator McCain would kind of be pinned down on the changes that are obviously going to have to be made because of this financial situation.

Sen. OBAMA: Right.

SCHIEFFER: There are some things that simply we're not going to be able to afford. Senator McCain said one thing he would do would freeze spending.

Sen. OBAMA: Uh-huh.

SCHIEFFER: Freeze all government programs with the exception of entitlements, national defense and veterans' care. Do you think that's feasible?

Sen. OBAMA: As I said in the debate, I think that's a way of punting responsibility. The president has to make choices, and those choices mean that when you deal with a budget you don't take an axe to it, you use a scalpel. There are programs in our government that do not work, and I mentioned one during the debate. We have a program where we subsidize insurance companies to process and run their own Medicare program that's not any better than the Medicare program that comes through the government. That's--costs us \$15 billion a year. It is a straight subsidy to the insurance companies.

SCHIEFFER: But...

Sen. OBAMA: We should put an end to that. Now, what Jim Lehrer asked me about was are there proposals or plans that I've made during the course of this campaign that I would have to alter as a consequence of this financial crisis? And what I said is we don't know yet what the budget's going to look like, so it's hard to gauge the magnitude of the shifts. Most of the proposals that I've made--to provide health care to all Americans, because families are desperate to get some relief there; to have an energy policy that would not only lower gas prices, but strengthen our national security and deal with climate change by freeing ourselves from dependence on foreign oil--some of those things are critical to American families and to the fundamentals of our economy. I think it's important for us to do those. But I will say that some proposals I've made--for example, I'm a strong supporter of foreign aid...

SCHIEFFER: We really have to go.

Sen. OBAMA: ...we may have to delay that a little bit.

SCHIEFFER: All right, Senator, thank you so much. We're just out of time.

Sen. OBAMA: I really enjoyed it. Thank you so much.

SCHIEFFER: Thank you for being with us. Thank you.

Back in a minute.

(Announcements)

SCHIEFFER: And finally, I went back to Oxford, Mississippi, Friday to cover the presidential debate. It was the first time I'd been back on that campus since 1962, when I was sent there as a

young reporter to cover what would be my first big story, the enrollment of James Meredith, the first African-American to attend the university. Of all the stories I've covered, including Vietnam, the most terrifying experience I ever had was that night on the campus of Ole Miss when a riot broke out. Hundreds were injured, two people died as protestors tried to stop a black man from attending a tax-supported state school. Meredith remained under armed guard until he graduated, but his enrollment marked a turning point in the civil rights movement.

Yet, when I came back to the campus Friday, all that seemed long ago and far away. Where the state's governor had once defied federal law and snipers had fired into crowds of journalists and mobs had set fires, black and white students were working together to welcome reporters and official visitors. Mississippi governor Haley Barbour called it a fine day. Ole Miss was hosting a presidential debate that included the first African-American to capture a major party presidential nomination. Everyone had joined hands to ensure it went off perfectly, and it did. We still have a long way to go in this country to ensure that every American is treated fairly, but as I walked across the Ole Miss campus Friday it helped me understand that in less than my lifetime we have also come a very long way. It was a fine debate, but it was so much more. It was a significant moment in American history.

Back in just a moment.

(Announcements)

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

