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TELEVISION PROGRAM TO "CBS NEWS' FACE THE NATION."*

CBS News

FACE THE NATION

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GUESTS: Mr. ROBERT RUBIN
Former Treasury Secretary
Senior Economic Advisor, Obama Campaign

Mr. DOUG HOLTZ-EAKIN
Former Director, Congressional Budget Office
Senior Policy Advisor, McCain Campaign

Governor ED RENDELL
Democrat, Virginia

Governor TIM PAWLENTY
Republican, Minnesota

MODERATOR/PANELIST: Mr. Bob Schieffer – CBS News

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BOB SCHIEFFER, host:

Today on FACE THE NATION, governments around the world take radical action but the financial crisis expands. What's next? And how is it affecting the race for president? How bad will this economy get? Could unemployment reach 10 percent? And how many sectors can the government afford to bail out? These are the questions for former Treasury Secretary Robert Rubin, who advises Barack Obama; and former head of the Congressional Budget Office Douglas Holtz-Eakin, who advises John McCain. We'll have a Campaign Quick Check on the state of the race less than two weeks out with Ed Rendell, the Democratic governor of the crucial state of Pennsylvania; and Tim Pawlenty, the Republican governor of Minnesota. I'll have a final word on the endurance contest we call presidential campaigning.

The economy and the race for president 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. Joining us from New York, Robert Rubin, the former Treasury secretary. With us here in the studio, Douglas Holtz-Eakin of the McCain campaign.

We want to begin with Mr. Rubin. Thanks for coming this morning. And let me just begin with this general question. The government passed this huge bailout bill. We've seen governments around the world taking actions to ease the financial crisis. Yet if we look at the stock market, none of it seems to be working or making much difference. Is it just too early to tell, Mr. Rubin, or do other things need to be done?

Mr. ROBERT RUBIN (Former Treasury Secretary; Senior Economic Advisor, Obama Campaign): Bob, I think actually there has been some change. If you look at the credit markets--which is what really is going to determine what happens to our economy, not the stock market--there was quite a bit of improvement over the last week. But most fundamentally, there has been very strong action, as you say, but I think there is a lot more that we need to do. First place, the special program that was put in place, the \$700 billion, has only been partly used. Most of that still remains to be used. Secondly, I think it is imperative that we have a very large fiscal stimulus--though I do think that stimulus needs to be married to a commitment to long-term fiscal discipline so that we don't risk undermining our bond market and our currency market. And I think there's a good deal else we can do. We have to focus on mortgages and mortgage foreclosures and trying to help families. And that's not just a question of families, though that's extremely important, but it's also a question of our financial system, since foreclosures and falling housing prices are central to the problems in our economy and our financial system. So I think there's a lot more to do. But enormous amount has been done, and I think it will take a little time for that to work its way through. My own view is that we're in a perfect storm. We're in extraordinary uncharted waters with respect to our financial markets, one of these very low probability events with huge consequences. But I do think the power of public policy in its entirety, that which has been done plus a large fiscal stimulus and the other kinds of measures we can take, should be able to stem this within a reasonable period of time.

SCHIEFFER: Well, when you talk about a stimulus package, are you talking about some sort of massive public works program like President Roosevelt put into effect during the Great

Depression, or you're talking about something like we've seen recently where you just give people a check, a government check?

Mr. RUBIN: Bob, I would say it's neither of the two in quite the way that you described it. I think what we need to do is to have a very large program, and people have been talking--some of the numbers are around \$150 billion, perhaps more than that, and it should consist of--and Senator Obama's talked a lot about this. In fact, he started talking about it a few months ago and has been strongly advocating, I think rightly so. And it could consist of help for cities and states that are now running into difficulties so they could continue to--with their programs. It could have infrastructure in it, as long as the infrastructure is ready to go right now. Because these have to be programs that give you a very large return in terms of economic demand relative to the cost, and also that go into effect very quickly. But you could do all of that, and it needs to be done, in a very short period of time in order to stimulate economic demand in a time of a weakening economy. As I said a moment ago, it's a--it's a measure that Senator Obama's been calling for for a long time, and I think that you can combine that with the other kinds of measures I have just mentioned. And then an effective use of the remainder, which is the predominant part of that very large program that was put in place a little bit ago, \$700 billion, and I think you have an enormous aggregate of public policy. In addition, continued cooperation around the world is imperative.

SCHIEFFER: Are we going to be--it seems clear that we're in a recession now, or shortly will be in one. Do you think this is going to continue? How long do you think it's going to last, Mr. Rubin?

Mr. RUBIN: I think it goes into two pieces, Bob. By the way, I would in the stimulus also probably include, as Senator Obama has recommended, tax rebates. He recommends \$1,000 per working family, and I think that also is a sound measure because it would get spent quickly.

In terms of the time this is going to continue to go on, in the first place, nobody can predict. But I do think that when you take the totality of public policy that is now in effect, that the crisis part of this--remember, we're really in something more than just a period of economic difficulty, we're in a real crisis of confidence. I think that crisis of confidence can be stemmed within a reasonable period of time if we do all--not only in light of what we've already done, but if we move on the--on the fronts that I've just mentioned.

SCHIEFFER: Well, are you talking about a matter of months...

Mr. RUBIN: But once that...

SCHIEFFER: ...or are you talking about years...

Mr. RUBIN: No, I...

SCHIEFFER: ...when you say a reasonable period of time?

Mr. RUBIN: Well, who knows exactly what it'll be, Bob. But I don't--I think it could be--it--the crisis of confidence itself I think could be stemmed in less than a matter of months. I'm not saying it necessarily will be, but I think it could be. But policy is really, really important, and I

think the one major move--the one major action we have not taken yet is a major fiscal stimulus, and I think that fiscal stimulus, as I said a moment ago, should be married with a long-term commitment to re-establishing sound fiscal conditions; which, by the way, is what Senator Obama proposed some months ago. It's a nuance, but it's a very important nuance.

SCHIEFFER: Well, we now have unemployment, it's 6 percent. Some people are saying it might go as far as 10 percent. Is that your view?

Mr. RUBIN: Well, once you get past the crisis of confidence, Bob, you're still back in the kinds of difficulties we've had over the course of the past year. And I think that that'll go on well into next year. You've had a lot of damage, you've now had very large wealth loss, you've had weakened consumers, weakened financial institutions, problems around the world. There is a great deal that needs to be dealt with, and I do think in that context public policy will be very, very important. I would say almost weekly now Senator Obama has met with his financial advisers--Paul Volcker, Warren Buffett, Larry Summers, Laurie Tyson, myself, Bob Reich and others--and he always--he puts politics aside and he spends half an hour, an hour, whatever it may be, either telephonically or in person, discussing what we need to do. And it is absolutely imperative that we have a highly active public policy approach, and I think he laid out--not I think, he has laid out a very sensible set of measures to take in this respect.

SCHIEFFER: All right.

Mr. RUBIN: But it's going to take very strong presidential leadership.

SCHIEFFER: One final question here. One final question. Do you think it's also going to be necessary to bail out the auto industry?

Mr. RUBIN: Bob, I don't know exactly what the term "bail out" means in the context of any of this. I do think the auto industry is--the auto industry clearly is extremely important to the economy. It now has enormous difficulties. I think we do need to face those difficulties and see if there are ways that public policy can be helpful that make sense. And it's like all of these issues, they're very complex and it's very important to recognize their complexities and then find a way through them that gets us where we want to go without having a whole raft of unintended consequences.

SCHIEFFER: All right. Well, Mr. Rubin, we want to thank you for joining us this morning. We're going to turn now to Douglas Holtz-Eakin, the McCain campaign senior policy adviser.

Let me just start where Mr. Rubin left off. Do you think it's going to be necessary to bail out--give more money to the auto industry?

Mr. DOUG HOLTZ-EAKIN (Former Director, Congressional Budget Office; Senior Policy Advisor, McCain Campaign): Well, I think the top priority, or the one that Senator McCain has endorsed, is to take the \$25 billion that the Congress has already put out there for loans to build facilities for next generation automobiles--the kinds of autos that will not only keep Detroit running but which will keep us from having to import so much oil, expose us to the dangers of international oil markets--that money needs to get out the door. And the top priority should be to get it out quickly, not take 18 months, which seems to be the current plan.

SCHIEFFER: And what about Mr. Rubin's idea that what we need is a big stimulus package, \$150 billion?

Mr. HOLTZ-EAKIN: Well, I think...

SCHIEFFER: Where would McCain come down on that?

Mr. HOLTZ-EAKIN: I think if you step back, the real big difference in this crisis situation is sort of where do you place your faith? Do you place it in the institutions that have failed us, which, quite frankly, are in Washington and in Wall Street? Or do you put the money in the places where we know we can get effective results? And John McCain has not advocated sticking the money into Wall Street banks and the like. Let's put the money into the housing market. That's where this problem started. Let's get people in mortgages they can afford, let's get the bad mortgages off the books so there's cash in those books and banks can make loans, and let's take care of the small businesses.

A remarkable fact is that in this bad economy--and let us stipulate, it's a very bad situation--small businesses have created 331,000 jobs this year. Don't raise taxes on them, don't make their lives harder. And, you know, let's take care of the institutions, the small businesses, the homeowners that have been successful in America. And that's the McCain strategy.

SCHIEFFER: What about this idea, though, of a stimulus? Giving people a government check, some sort of a rebate, or some sort of a public works project?

Mr. HOLTZ-EAKIN: Well, obviously Senator McCain would never take off the table anything that'd be helpful. But the idea that somehow tough economic times are license to spend money on anything you can think of is something you want to look at very carefully. You know, if you go back to what he talked about in getting mortgages off people's backs, that allows you to pay your grocery bills, that allows you to pay your gasoline bill. You can keep pay--making your college tuition payments. There is no greater stimulus than keeping American households spending. They're 70 percent of the economy. And so focusing on them, keeping them in jobs, creating new jobs, that's the greatest stimulus of all. You know, the institution that says, 'Hey, all our problems can be solved in Washington,' that's a mistake. We have to solve our problems out in the field with the American people, the American homeowner.

SCHIEFFER: You talked about jobs. Unemployment now 6 percent, as I just said; some people talking about going to 10 percent. Do you think that's likely?

Mr. HOLTZ-EAKIN: There's no question we'll see unemployment go higher. Senator McCain, you know, as all these candidates, who travels the country, and we know that we're seeing real contraction out there and we'll see a lot more tough times. And so the question will be who can most quickly generate jobs in this economy to keep the unemployment rate from spiking so high? At the heart of that is having comprehensive policies. Not just a tax policy that promises great things, but actual policies that don't spend a trillion dollars--we've seen the mistake in the Bush administration--that don't burden businesses with health mandates, that don't cut off trade--one in five jobs in this economy are trade related--and then have a real energy policy that allow us to grow. I mean, you know, Senator Obama has promised that day one he would enforce the Clean

Air Act, treating carbon dioxide as a pollutant. That runs the economy from the Environmental Protection Agency. It's a draconian regulatory approach. That's not a recipe for jobs. We have to do the things comprehensively that'll help jobs for America.

SCHIEFFER: Do you think what the government has done thus far has helped? You know, if you look at the market, you'd say it looks like it's still very unsettling. Mr. Rubin just said he thinks it has helped in ways we haven't seen yet. Basically, that's what I understood him to say.

Mr. HOLTZ-EAKIN: Well, he did mention the credit markets appear to have loosened up a little bit, and there's evidence of that. That would be entirely beneficially. We're seeing, you know, the dry cleaner and the car dealer unable to get the loans they need to do normal business. But in any of these circumstances you need two things. You need both the money and the resources, and a strategy. And I think what's been missing is comprehensive enunciation of a strategy; who gets money and when, how much and for what purpose. We cannot simply open up the taxpayer to be the lender of last resort to every company in America that's seeing tough times.

SCHIEFFER: How long do you think this is going on? I mean, clearly, it seems to me, that we're in a recession now. How long before this sorts itself out?

Mr. HOLTZ-EAKIN: This is going to take months and months. Hopefully by this time next year you and I are having a conversation that talks about the recovery. It can be done. Effective public policies will help it happen quickly, but those policies have to be really focused on what's good for America in the long run, the families and the small businesses that are the source of the jobs.

SCHIEFFER: Mr. Holtz-Eakins...

Mr. HOLTZ-EAKIN: Thank you.

SCHIEFFER: ...thank you so much for being with us.

When we come back, we'll have a Campaign Quick Check with Governor Tim Pawlenty and Governor Ed Rendell.

(Announcements)

SCHIEFFER: And joining us now for our Campaign Quick Check, Pennsylvania Governor Ed Rendell, Minnesota Governor Tim Pawlenty; governors in two key states this time around.

Governor Rendell, let me start with you. The polls are now showing that Barack Obama has a 10-point lead in your state, but I'm told you're pretty nervous about this. Do you--do you believe these polls?

Governor ED RENDELL (Democrat, Pennsylvania): No, I don't. I don't think we've got a double-digit lead. And I think complacency is our biggest foe in Pennsylvania. I've been agitating to get Senator Obama back. He's coming into Pittsburgh Tuesday, Philly on Wednesday. I think President Clinton's coming in. Senator McCain and Governor Palin have been virtually living in Pennsylvania, and we need to have our candidates there. And Senator Obama's such a great campaigner, everywhere he goes the enthusiasm level goes up dramatically. So we're not taking

anything for granted. We don't have early voting, it's all on Election Day, and we've got to be ready.

SCHIEFFER: Well, it sounds to me like Governor Palin's going to spend most of the rest of this campaign in Pennsylvania. We're told she's starting on an intensive bus tour. Is she making a difference there?

Gov. RENDELL: Well, first of all, we're going to have to start charging her state income tax she's been in Pennsylvania so long. But yeah, is she making a difference? Sure. Anytime candidates show up, they raise the enthusiasm level of their base supporters. I don't think Governor Palin is persuading too many undecideds, but she's certainly raising the enthusiasm level. That isn't necessarily our problem. As long as we can combat complacency, the enthusiasm level for Barack Obama is off the charts. We've got a great field organization, the best I've seen in my 31 years in politics. So I think we're going to be all right. But every governor has got to be a little nervous. Every governor has got to want those candidates in as much as he or she can get them.

SCHIEFFER: Well, let's go to Governor Pawlenty, because a lot of people thought that when John McCain sat down and decided who was going to be his running mate, that the person who finished second on that list was Governor Pawlenty.

You know, I--let me just ask you this question, Governor. Tom Ridge, the former governor of Pennsylvania, said that he thought there would be a different dynamic going, he actually said, had he or someone else be put on the ticket other than Governor Palin. Do you think it would've come out differently, or do you think these polls would've looked better had Governor Palin not been on the ticket?

Governor TIM PAWLENTY (Republican, Minnesota): Well, I think Governor Palin, Bob, has brought a lot of strength to the McCain ticket. She's energized the base, she's had appeal to independent voters and to women voters in ways that Senator McCain was hoping for when he selected her. And as to Governor Ridge's comments, you know, obviously when you have a governor--a former governor from a state that's popular, that may help. But Governor Palin's appeal really transcends any one state in terms of the Republican base, in terms of the voters that Senator McCain was hoping that she'd appeal to. But, you know, you have to look at it as a national perspective, not just any one state in terms of her appeal.

SCHIEFFER: Let me ask you about what Senator McCain said last week to The Washington Times in an interview. He literally lit in to the Bush administration. When asked about what happened during the Bush administration, he said, 'We let things get out of hand.' Then he just gave a litany of policies that he would've handled differently. I'm going to put these quotes up here on the screen. He said, "Spending, the conduct of the war for years, growth of the size of government, larger than any time since the Great Society, laying a \$10 trillion debt on future generations of Americans, owing \$500 billion to China, failure to enforce and modernize the regulatory agencies, failure to address the issues of climate change seriously." How does one run against one's own party, Governor? Because that's clearly what he was doing.

Gov. PAWLENTY: Well, as a--yeah. Well, Bob, as a maverick, Senator McCain's been doing that to some extent for his whole career. And I think it's him trying to show with very specific

examples his concerns, or how he would have been different from the Bush administration-- President Bush's administration. That poignant moment in the debate that you moderated when he said, 'Senator Obama, I'm not President Bush. If you wanted to run against President Bush, you should have run four years ago,' was an expression of him saying, you know, 'My record's different. I'm not the same as that.' And those examples that you pointed were things that he's saying, 'This is a proof, this is evidence that I'm not just a continuation of President Bush's term.' And so it's a very strong statement, but it's one that I think is born in the facts, is based in the facts.

SCHIEFFER: Do you think he shouldn't have said that?

Gov. PAWLENTY: Well, I think, you know, he's been accused throughout this campaign of being just President Bush or just a continuation of the President Bush's term. And so he, I think, felt a responsibility and obligation to differentiate and explain how that's not the case. So he's--a charge or an allegation was made against him, I think it's right for him or appropriate for him to rebut it.

SCHIEFFER: You know, Governor Rendell, one of the points the McCain campaign is making right now is that you're coming on a situation here that he is the only person that stands between Barack Obama, who wants to raise everybody's taxes, and a Democratic-controlled House and Senate that are going to help him in that endeavor. How do you respond to that?

Gov. RENDELL: Well, first if all, let me say that Senator McCain's being very hypocritical criticizing President Bush. He didn't do it during the primaries, and he said--and we've got him on tape saying he agreed with 90 percent of all of the decisions that President Bush made. So this is Johnny-come-lately born out of desperation.

In terms of a Democratic president and a Democratic Congress, first of all, Senator Obama has--and let's make it clear once and for all. For working people who make less than \$250,000, he's not going to cut--raise your taxes, he's going to cut them. And according to bipartisan policy institutes, he's going to cut them three times more than John McCain will. That's number one.

But number two, we have gridlock in Washington. There's no question about that. Governor Pawlenty and I agree on that. The only way to break that gridlock right now and act quickly to meet our challenges is to have a uniform government that can move swiftly and smoothly. But Barack Obama has said he's going to control spending. In the last debate he said he was going to go over every line of the federal budget. So I think we can move quickly, if we have a Democratic Congress and a Democratic president, to meet the challenges we face, and at the same time impose the same type of fiscal responsibility that President Clinton did.

SCHIEFFER: Let me ask Governor Pawlenty this question. David Fromm, who use to work for George Bush and was there through a good part of the Bush administration, suggests that the situation has gotten to the point now that Republicans should begin to shift money away from the presidential campaign and put it into some of these Senate races around the country, because a lot of Republican senators face the possibility of getting beat. Do you think it's reached that point?

Gov. PAWLENTY: Well, Bob, if you look at Senator McCain's life, it's an entire story of coming back from adversity and overcoming adversity. Does Barack Obama have an advantage in the

presidential race right now? Yes. But no one should ever count John McCain out. His--time and time again he has overcome and had comebacks in his life that have been incredible. And I think he'll do it again here with the message being you don't want the entire government run just by the Democrats or liberals. On January 20th, a U-Haul truck, you know, pulling up to the White House unloading a whole truckload of bad ideas, not having the experience and the wisdom to confront what even Joe Biden says is going to be a test of Barack Obama in the first months of his presidency. And then lastly, just making sure we don't put burdens on the economy that will stifle job growth. For most people, their main ticket to opportunity is their job. What Barack Obama is opposing is opposed by most job providers in this country.

SCHIEFFER: All right. Well, gentlemen, I want to thank both of you for coming this morning. I think we've still got some campaigning to go here...

Gov. RENDELL: Absolutely.

SCHIEFFER: ...in this last week. Thanks to both of you. Hope to see you again.

Gov. RENDELL: Thanks, Bob.

SCHIEFFER: All right.

(Announcements)

SCHIEFFER: And finally today, people ask me if I've ever seen a campaign like this one, and the short answer is no. It has been historic for all the reasons we've heard a thousand times now, and we can be proud of that part. But the other part is this has been the longest campaign ever and the most expensive. Remember the primaries? It seems like five or six years ago that we marveled at how Hillary Clinton had managed to raise \$100 million heading into New Hampshire. That's chicken feed when you compare that to the 150 million that Barack Obama raised in one month, September; a feat that probably ended forever any chance at serious campaign finance reform.

Yes, we wound up with two good candidates, but are they any better than the candidates the system once produced in a lot less time and for a lot less money? I've been on the road nonstop since before the Democratic convention back in August, and I'll be honest, I am exhausted. The candidates have been at it for more than two years. How do they do it? Don't ask me. But they are still going strong, and I guess we should be glad for that. The question is, though, are we picking the person best qualified to be president or just holding a contest to see who can go the longest without sleep?

I could give you a whole long list of things we ought to do to correct all this, but frankly, I'm not sure anyone is still listening at this point. And besides, what I really want to do right now is take a nap. We'll be back in a minute.

(Announcements)

SCHIEFFER: And that's our broadcast. Next week we'll be reporting from election headquarters at CBS News in New York. I'm Bob Schieffer. Thanks for watching.

