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FACE THE NATION

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GUESTS: **Representative NANCY PELOSI (D-CA)**
Speaker of the House

Mr. AUSTAN GOOLSBEE
Obama Chief Economic Adviser

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

BOB SCHIEFFER, host:

Today on FACE THE NATION, the Obama plan to fix the economy. President-elect Obama announced yesterday he is planning a huge stimulus package that would create millions of jobs. He hopes that will revive the faltering economy. But what will happen to the auto companies already teetering on the brink of collapse? How much will this new package cost? And does the deficit matter anymore?

We'll talk first with senior economic adviser to the president-elect Austan Goolsbee; and then House Speaker Nancy Pelosi, who wants the auto executives to come forth with a specific plan on how they'll revive their industry if Congress does bail them out. I'll have a final word on one of the president-elect's best picks.

But first, working on the economy 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. The president-elect is expected to formally name the top members of his economic team tomorrow. As reported, Timothy Geithner will be nominated as Treasury secretary. Larry Summers, a former president of Harvard and Treasury secretary under Bill Clinton, will head the National Economic Council.

Yesterday the president-elect announced he will ask Congress to pass an enormous stimulus packaged designed to create more than 2.5 million jobs. The package calls for middle and lower income tax cuts and a range of public works projects building roads and bridges, similar to the program Roosevelt instituted to bring the country out of the Great Depression of 1932. Here to talk about all this this morning is Austan Goolsbee, University of Chicago economist, longtime friend of Barack Obama, one of the president-elect's closest advisers on economics during the campaign and, as well, now in the transition.

Mr. Goolsbee, thank you very much for coming. Will you be part of the new president's economic team?

Mr. AUSTAN GOOLSBEE (Obama Senior Economic Adviser): I don't know about that. When the president makes announcements on personnel, he makes them, like the--like the ones of Geithner and Summers. You know, you don't get any bigger names than that.

SCHIEFFER: Yeah. Well, let's talk a little bit about this program that he outlined yesterday. He's talking about tax cuts, building roads and bridges. Some people are saying it may have to be something in the neighborhood--I think Senator Schumer this morning said it may be in the neighborhood of 5, 6, $700 billion. Is that the sort of thing--is that the scope we're talking here?

Mr. GOOLSBEE: It's--look, the problem is very, very serious. This is as big of an economic crisis as we've faced in 75 years and we got to do something that's up to the task of confronting that. I don't know what the exact number is, but it's going to be a big number. It has to be. That's--the point is to kind of get people back on track and startle the thing into submission. I mean, we got well over a million people already lost their jobs. Most of the private sector forecasts say we could lose a million more plus. The unemployment rate could reach levels we haven't seen, you know, in decades. And so the thing is we've had a period under this administration where they've resisted the idea of economic recovery. The approach has been let's sort of look the other way and things'll get better. We've tried not having stimulus, we've tried not having a housing plan, we've tried not giving tax cuts to ordinary Americans and it hasn't worked. I mean look out the window, that's where it is. And so that's kind of--that era of dithering is going to end. Starting January 20, Obama's coming in. We're out with the dithering, we're in with a bang. That's what it's got to be.

SCHIEFFER: But you're talking about something in this--in this neighborhood, in this ballpark of...

Mr. GOOLSBEE: It has to be big. In the campaign he was looking at stimulus that was in the 175 billion range, and the economy's gotten substantially worse since then. So I mean, as I say, it's going to be a number big enough that when they spell it out it looks like "ooh," you know, with that many zeroes on it.

SCHIEFFER: This really sounds like a major thing. When can you get these people back to work? Because generally when you talk about these public works programs like this--and certainly the nation's infrastructure needs some serious repair and some serious rebuilding--but how long is it before the jobs start?

Mr. GOOLSBEE: Well, the goal--the task that the president-elect has given to his--to his economic team to come up with this package is to come up with things that will be immediately applicable. So as you say, infrastructure, roads, bridges and investing in the country is important; but that the goal of this is an economic recovery package that will be taking place in the first two years. So there are a lot of infrastructure maintenance, rebuilding schools, things--places we can invest in health care, in broadband, in smart energy as well as the tax cuts, that the goal is to get things moving within that two-year period. That's exactly the goal of the economic recovery package.

SCHIEFFER: And what about tax cuts here? You're going to have some immediate tax cuts...

Mr. GOOLSBEE: Yes.

SCHIEFFER: ...for the middle and lower income people.

Mr. GOOLSBEE: Absolutely. Look, this economic recovery package that he's describing is every bit in keeping with exactly the philosophy he outlined throughout the campaign for pretty much two years. And that is we've got to make investments in the future of this country and we've got to provide relief to ordinary Americans, to 95 percent of workers, and that will be in the package.

SCHIEFFER: Now, of course, the Bush tax cuts are in. He's talked about ending those for higher income people. But there seems to be some talk now within the incoming administration to maybe just let those tax cuts go until 2010, when they--when they will expire. Is that pretty much the way--what do you think's going to happen here?

Mr. GOOLSBEE: I don't exactly know the way the legislative process transpires. I know that Barack Obama outlined in the campaign and in this economic recovery package a tax cut for America, an overall tax cut with substantial tax relief to 95 percent of workers. Now, we know that in the long run we've got to pay for our programs. And as he said in the campaign, the way to do that is just the rates on people making more than a quarter million dollars a year would go back to what they were in the '90s under Clinton. Whether that happens from repealing the tax cuts in '09 or letting them expire in 2010, I don't know how that'll play out.

SCHIEFFER: Well, what would be your sense as an economist of what would be best for the economy, to just let those go on and stay in place until 2010?

Mr. GOOLSBEE: Well, as an economist, what's clearly important is the aggregate rate of taxation relative to the economy. The overall tax rate on all of America. And Obama's program is a tax cut. Now, what he has emphasized repeatedly and is the correct emphasis is that our problems today are rooted in the struggles of ordinary Americans; their income stagnated and their costs rose, and that eliminating the margin of error is what got us into trouble, so they need the tax relief. And so an overall tax cut strikes me as quite important, and in this economic recovery package I think you will see carrying out on his promise in the campaign of tax relief to the vast majority of workers.

SCHIEFFER: This period we're in now, this interim period, how would you describe this period? Some economists say we're in pretty dangerous time here right now.

Mr. GOOLSBEE: I think it is a dangerous time. It's hard to deny that. I mean, we're looking in the face of a serious crisis. We're coming out of a legacy of this administration that I would characterize as waiting for crises to happen, not taking action to prevent them from happening. And now you're in this awkward constitutional phase where we obviously have one president at a time. There is the expectation that Obama's going to come in with a different approach than what we've had in the last eight years. He's outlining his ideas of what he wants to do. But let's remember, no previous administration, as I understand it, has even named a Cabinet member before December.

SCHIEFFER: Yeah.

Mr. GOOLSBEE: And so the president-elect, by naming Tim Geithner, Larry Summers, rolling out the senior names of the economic team, is sending a signal he's taking this very seriously, he's ready to go on day one. January 20, as I say, he's coming in with a bang.

SCHIEFFER: Yeah. Well...

Mr. GOOLSBEE: We're going to try to get a handle on this.

SCHIEFFER: ...I guess what I was driving at, some people are suggesting that maybe he and the--and the president, George Bush, ought to come up with some sort of a joint thing that they might do between now and then. How does that strike you?

Mr. GOOLSBEE: Well, it strikes me that we have repeatedly called on the administration to do things like a stimulus, but the president did not appear to be interested in doing that.

SCHIEFFER: Did you--did you think...

Mr. GOOLSBEE: So I don't know. In theory it could work. But Obama has a vision that he's going to carry out, and if the current administration wants to do that we should do it, because the economy's really hurting. But if he won't, you know, we'll start in January.

SCHIEFFER: Do you think that anything that the current administration has done thus far as actually worked? Sometimes I look at what's happening here...

Mr. GOOLSBEE: In which area? You mean just on the economy, or anything?

SCHIEFFER: Well, I mean on the economy.

Mr. GOOLSBEE: Not especially. Look, they've come from a place--as the president-elect said, this crisis is the final verdict on a philosophy of the last eight years that I think has proven to be a job killer, not a job creator. I think there are--there were components of the Bush tax cuts that went to ordinary Americans. But it's totally clear they did not put nearly enough emphasis on the struggles of ordinary Americans, and that's how we got into this problem. And that's especially true in housing. So in a lot of areas, I think they have been lacking.

SCHIEFFER: What about the auto industries? This is one of the most vexing problems. Can the nation's economy allow these companies to go into bankruptcy, or to fail?

Mr. GOOLSBEE: That's the right question, as opposed--the wrong question is to say, `What do you think about this legislative proposal for a bailout or for a rescue, etc.?' If you take a step back, it's clear that what is happening now is we're in a really quite unprecedented credit crunch. When companies get in trouble they restructure, they try to reform themselves and rebuild with a new business plan. But to do that, you often need a little bridge financing. The credit markets are completely seized up, there is no bridge financing. There is a danger that what would normally be a restructuring effort will turn into liquidation. And the thought of trying to liquidate the entire US auto industry in the middle of this deep recession is quite harrowing, really. It's like the reverse of stimulus. You know, it's kind of like "sulumits" of billions of dollars.

SCHIEFFER: So we can't let that happen.

Mr. GOOLSBEE: I don't think you can let that happen for the sake of the economy. Now, that said, the correct answer is not--the government is not going to get in the business of giving companies an allowance. That's totally improper and not what we need. If the government is going to serve as bridge financing the way an ordinarily functioning credit market would, they need to have a business plan. The fact that these guys flew in private jets to Washington, and it seemed like it was the first they heard of it--`What is your plan to restructure your companies?' and they said, you know, `We'll have to get back to you,' that was crazy. They're--if they need a bridge, it's got to be a bridge to somewhere, not a bridge to nowhere.

SCHIEFFER: All right. Well, we're going to talk to House Speaker Pelosi about that in just a minute. Mr. Goolsbee, thank you so much for being with us.

Mr. GOOLSBEE: Thanks for having me, Bob.

SCHIEFFER: Back in one minute.

(Announcements)

SCHIEFFER: Well, we were just talking about it, but last week in one of the most incongruous scenes ever in the nation's capital, the heads of the Big Three automakers flew to Washington on three private jets and asked Congress for a huge federal bailout they said is needed to save their companies. Congress told them to come back next month, but not until they at least had a plan on how they would spend the money. But do the companies deserve to be saved? Is the bailout just a reward for bad management? Or can the country really afford to let these companies go down without causing serious damage to the economy far beyond Detroit? Those are the questions that we discussed at the Capitol with House Speaker Nancy Pelosi. And one thing for sure, she was not happy with what she's been hearing so far from these auto executives.

Representative NANCY PELOSI (Speaker of the House; Democrat, California): We had hoped that at the hearings this week that the heads of the auto companies would come in and tell us what they would use the money for. We believe the American people need that accountability. We need to know what the money is for, and so that we can find out if they're going to be a viable concern. And that's what we've asked them to do, to come back in 10 days, whatever, to bring us a plan for what they would use the money for, and then we can make a determination of--as to how we go forward. Let's just be very clear: not helping the auto industry is not an option. It's just a question of how we go forward, and if we're going forward, to be pre-eminent in the world. And we think that that opportunity is there.

SCHIEFFER: Let me just put some numbers out here. The head of Toyota makes about a million dollars a year and Toyota made $5 billion this year. The head of Ford makes 21.7 million a year and the company could lose more than 7 billion. The head of GM makes 15.7 million and his company is losing 15.9 billion. Isn't something going to have to be done about this compensation?

Rep. PELOSI: Really, and that's where the accountability comes in. Harry Reid--Senator Reid and I sent a letter the end of this week to the CEOs to say these are the kinds of things we'd like to see in a plan; austerity in terms of dividends and bonuses and compensation and the rest, for sure, on the one hand. And then also, what are doing to innovate? What are you doing to earn this money? For lack of success, you get amply rewarded. Something is wrong with this picture. But what we're saying to Detroit should be very good news to them, and that is we want to be their partners to go forward. We have to subject everything to scrutiny, because why should the taxpayer dollar be put up to bail out poor performance, which is rewarded in the tens of millions of dollars?

SCHIEFFER: Has this reached the point where they should--part of the agreement to get help from Congress might include the management stepping aside?

Rep. PELOSI: At some point that might have to be an option, but let's hope we don't have to get to that point. Let's hope that they have gotten the message. They have received, I think very clearly, a message that what they presented at the hearings the other day was totally inadequate.

Now, somebody at those companies must be working on a business plan. There must be a business model that they work off of. No one would invest in a company without seeing that, nor should taxpayer dollars be invested without seeing that business model and that business plan.

SCHIEFFER: I think Warren Buffet said that maybe these executives ought to start investing in the company themselves so they'd have something up on the line.

Rep. PELOSI: Right. Well, we call it skin in the game. Maybe they should put something in so that they have something at risk. But to lose billions of dollars a year and make millions of dollars of year--a year while you do that is hard to explain to the American people when we're asking them to put taxpayer dollars into these companies.

SCHIEFFER: Well, aren't you going to have to get specific? I mean, $15.7 million for a yearly salary, 21.7 million.

Rep. PELOSI: That's staggering. You know, what they make in a--in a month is what some people make, making the minimum wage, in a lifetime.

SCHIEFFER: Yeah.

Rep. PELOSI: In a lifetime.

SCHIEFFER: But the--but the same people are coming before you and asking the federal government to give them more money. I mean, aren't you going to have to tell them that they just can't do that anymore?

Rep. PELOSI: Exactly.

SCHIEFFER: That...

Rep. PELOSI: No. It--well, if they want--we aren't--the US taxpayer is not willing, nor are their represents in Congress going to vote for an infusion of cash in the company so that these CEOs can be amply rewarded for their lack of success.

SCHIEFFER: Some people are saying that bankruptcy--that maybe--that maybe the Congress should just allow these company to--companies to go into bankruptcy.

Rep. PELOSI: I've heard that, and I think it's a very bad idea. I think it just makes the problem a deeper one to dig out from. That should be good news to Detroit that we're wiling to give them a chance to show what they can do, but thinking in a different way. You know, they all talk about their cost, and we'll say, `Yes. No, we all understand we have to cut costs.' But that's no reason not to have innovated. And that's why they're in the situation they're in now, because they didn't innovate. They didn't want to--you know, they fought CAFE--fuel efficiency standards over the years. And so they're not competitive. They can be. Our workers are the most productive and can be the most innovative workers in the world.

SCHIEFFER: Let me talk to you just about the economy in general. So far the Treasury, I guess, has used 250 billion of the $700 billion financial bailout that passed the Congress, yet the stock market seems to be in free fall. Nobody seems to know what's going on. Do you have confidence in this plan that Secretary Paulson has put forward, and do you have confidence in him generally?

Rep. PELOSI: Well, earlier this week, on Monday the House Democrats called in Secretary Paulson and Chairman Bernanke. We are all busy people. And I said to them, `I know you're busy and you're under pressure. So are we. We want to know what's going on with this rescue plan. It was suppose to instill confidence. We don't see that in the markets.' They maintained matters would be much worse if we had not made that infusion of cash. They--we thought that this money was going to circulate credit, put credit out there so many more people could function in a business sense, and that doesn't seem to be happening. They tell us it will. We were very concerned about the fact that the legislation called very specifically for them to help with mortgage forbearance, to help people stay in their homes. They've done nothing on that score. They testified to that effect the next day in front of all of Congress, and I think they got the word that we want to see some results from this legislation.

SCHIEFFER: Mm-hmm.

Rep. PELOSI: But again, as they say--they say, it would be worse without this. Now we have another, you know, another installment of the money, and I think that Congress is going to demand some real accountability, I know they will, before we can proceed with other monies.

SCHIEFFER: But it appears now that there'll be--nothing can be done until after the new president is sworn in.

Rep. PELOSI: Well, I don't know. I mean, I think that market forces will determine the timing of what is done next, and also the efficacy of what they are proposing. If it's more of the same, well, I think we want to see something different.

SCHIEFFER: As for an overall stimulus package, is the speaker thinking big like the president-elect?

What do you see as the size of the stimulus package? Some people say it may be as big as $300 billion. Is that in the ballpark?

Rep. PELOSI: The sooner we do one, the smaller it can be. I mean, in September 26th we passed in the House a $61 billion initiative, recovery package, which would've helped enormously at that time. Since then--and that was rejected by the Republicans in the Senate and by the White House. Since that time the economy has worsened, and economists tell us we need something in the several hundred billion dollar category. I have to, and members of Congress have to balance the need for the recovery with our concern about fiscal responsibility. Because if we want to do something to grow the economy, we don't want to weight it down...

SCHIEFFER: Mm-hmm.

Rep. PELOSI: ...unless it truly stimulates the economy, brings in revenue, creates jobs, injects demand into the economy so that--so that it has a positive impact on our budget. So again, the calibration is what stimulates the economy, and to what point does it...

SCHIEFFER: But it could be something of that--of that size?

Rep. PELOSI: It could be. It could be. If it also contained a tax cut. Something of several hundred billion dollars would have to be some investments into the future, but creating jobs immediately and a tax cut.

SCHIEFFER: Thank you very much.

Rep. PELOSI: Thank you.

SCHIEFFER: And we'll be back in one minute with my final thought.

(Announcements)

SCHIEFFER: The news that Hillary Clinton will almost certainly be the next secretary of state got the headlines this week, and why not? We new the president-elect liked Doris Kearns Goodwin's book "The Team of Rivals," which told how Lincoln put his political rivals in the Cabinet and made allies out of enemies. But who would've guessed the president-elect would turn to the contemporary team of rivals, the Clinton marriage, for his top Cabinet officer? Not me. But Hillary Clinton does have the credentials and the stature, and she may well be an inspired choice.

Still, the best news I heard this week is a former NATO commander and highly decorated Marine Commandant James L. Jones may become national security adviser, the person who coordinates security, intelligence and diplomatic policy. Jones is a model public servant; served as a platoon commander in Vietnam, learned his way around Capitol Hill as liaison to the Senate Armed Services Committee, and after 40 years in the military handles sensitive diplomatic assignments for the Bush administration. A strong coordinator is key because, as George Bush found out, when you do put strong people in the top jobs, instead of a team of rivals they sometimes becomes rival teams. George Bush could never find anyone with the stature and experience to keep his top people moving in the same direction. With Jim Jones, Obama may have found just the person to do that.

Back in a minute.

(Announcements)

SCHIEFFER: And that's our broadcast. Have a happy Thanksgiving.