

'This Week' Transcript: Karzai, Khan and Levitt

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Plus, the 'This Week' roundtable.

AMANPOUR: Good morning. I'm Christiane Amanpour, and at the top of the news this week, the fight for Afghanistan. The U.S.-led surge pushes ahead. As corruption threatens the Afghan government and U.S. support for the war, Afghanistan's president, Hamid Karzai, answers tough questions in an exclusive "This Week" interview. Does he think the U.S. can defeat the Taliban? What kind of deal is he willing to make with them?

And then, the controversy over the Islamic center near ground zero.

(BEGIN VIDEO CLIP)

(UNKNOWN): How is that (inaudible), by building a mosque, an in-your-face mosque at ground zero?

(UNKNOWN): 9/11 was not conducted by Muslims, it was conducted by terrorists.

(END VIDEO CLIP)

AMANPOUR: As the debate rages, the woman behind the Islamic center, Daisy Khan, speaks out exclusively on "This Week."

(BEGIN VIDEO CLIP)

KHAN: When (inaudible) both, we don't understand that.

(END VIDEO CLIP)

AMANPOUR: And she'll be joined by a key adviser on the project, Rabbi Joy Levitt.

Plus, more dismal news on the economy. What happened to the summer of recovery? We'll tackle that and all of the week's politics on our roundtable with George Will, Robert Reich, Judy Woodruff and Al Hunt.

And the Sunday Funnies.

(BEGIN VIDEO CLIP)

STEPHEN COLBERT, TALK SHOW HOST: We're out of Iraq. And best of all, we got out two weeks ahead of schedule. Now, Iraq will always be remembered as the war that ended early.

(END VIDEO CLIP)

AMANPOUR: As the U.S. surge pushes into Afghanistan, Kandahar has become the focus of the effort to root out the Taliban and other insurgent fighters. But with less than one year remaining before the U.S. says at least some of the troops will be withdrawn, brazen Taliban attacks continue. ABC's Miguel Marquez was on the frontlines of the fight at Kandahar and he has this report.

(BEGIN VIDEOTAPE)

MIGUEL MARQUEZ, ABC NEWS: With surge troops in place, success or failure here now in the hands of soldiers like Captain Warren Green (ph) from Columbus, Georgia.

(UNKNOWN): Once we know the population here, if we see different people in the area, we're going to say, hey, you're a stranger.

MARQUEZ: The hardest fight -- separating friends from enemies on a battlefield that has no lines.

(UNKNOWN): You guys live in this area?

MARQUEZ: One minute, soldiers are getting to know their neighbors. The next...

(UNKNOWN): (inaudible), over.

(UNKNOWN): 136, just tell me where you're taking contact (ph) from.

MARQUEZ: ... they're under fire.

The biggest prize in the fight for Afghanistan -- Kandahar. It's the country's second largest city and a rich agricultural area just west of it is Taliban central.

(UNKNOWN): This entire area is very important. And we know that. And we're pushing on all sides.

MARQUEZ: The push here is political as well as military. Kandahar's government is weak and it will be up to power brokers like Ahmed Wali Karzai, the president's brother, a controversial figure, to give control over money and political power back to the government.

(UNKNOWN): I'm willing to work and I'm willing to offer my support for Afghanistan. Success for Afghanistan is my success. If God forbid, if there is a failure, I will be the first person to suffer the most.

MARQUEZ: Before a political settlement can even be contemplated, the Taliban will have to be defeated, and the people here assured they'll never return.

Is there any doubt in your mind that you can't expel the Taliban from your area of operation?

(UNKNOWN): We have no doubt. We will take care of the Taliban and we will return this area back to the people. We have no doubt.

MARQUEZ: No doubt his soldiers can win on the battlefield, but can the coalition and the Afghan government win the war? For This Week, I'm Miguel Marquez, in Sanjuray (ph), Afghanistan.

(END VIDEOTAPE)

AMANPOUR: Joining me now from Kabul is the president of Afghanistan, Hamid Karzai.

Mr. President, thank you for joining us this week.

KARZAI: Happy to be with you.

AMANPOUR: Mr. President, what is the roadmap for your peace talks with the Taliban and how confident are you that you can have some kind of settlement, political settlement with them?

KARZAI: The roadmap is clear. The indications for peace would be that Afghanistan will be ready to talk to those Taliban powers who belong to Afghanistan and who are not part of Al Qaida, who are not part of any other terrorist network, who accept the Afghan constitution and the progress that we have achieved in the past so many years, and who are willing to return to a normal civilian life and who are not connected to any foreign body outside of Afghanistan.

AMANPOUR: How advanced are you in trying to get the Taliban to these talks?

KARZAI: Of course, there are individual contacts with some Taliban elements. That's not yet a formal process.

AMANPOUR: Can I ask you about some of the concerns that people have? For instance, women's groups are very concerned. They say that promises by you to be properly and adequately represented at any peace jirga are faltering, and they are very concerned that any deal with the Taliban leads to their rights, those that they've gained, being -- being eradicated.

KARZAI: They will be part of the High Council For Peace as well. Their representation will be solid and meaningful, substantive. And of course, this is upon us as the right of the Afghan people to make sure that the gains we have made, especially the gains that our women have made in political, social and economic walks of life, not only are kept but are promoted and advanced further.

AMANPOUR: Well, given that pledge you are now making, how concerned are you by, for instance, the stoning of that couple, that young couple in Afghanistan over the last week, the first public stoning since the fall of the Taliban after 9/11?

KARZAI: I was shocked when I heard that. That's a terrible sign. That's -- that's indeed part of our failure, the Afghan government and the international community as well, to give protection to the Afghan people. We are investigating it, but it came to me as a deep, deep shock.

AMANPOUR: Well, let me ask you this, the president of Pakistan recently said that the battle for hearts and minds in Afghanistan is already lost. Do you agree with him, and do you believe that the war in Afghanistan is winnable?

KARZAI: I believe the campaign against terrorism is absolutely winnable. We have to win, but we -- in order for us to do that, we must end the business as usual and we must begin to reexamine whether we are doing everything correctly, whether we are doing the right things, and whether we are having the support of the Afghan people or whether that support is declining. And if it is declining, then there are reasons for it and we must correct those reasons.

AMANPOUR: Specifically, those reasons are what?

KARZAI: Those reasons are that we must provide protection to the Afghan people rather than causing civilian casualties. We must end corruption and corrupt practices in Afghanistan. Stand (ph) by the international community by the way contracts are given. We must end parallel structures to the Afghan government. We must end the security firms who are spending billions of dollars, in the presence of whom Afghanistan would never have developed a police force.

AMANPOUR: Well, let me take a few of those things you've just mentioned. The private contractors. You have called and your office has called for them to be disbanded by the end of this year, in the next four months. That's something like 30,000 private contractors who are providing security. Are you standing by that declaration? You want them out by the end of this year?

KARZAI: Definitely, ma'am. This is a topic that I've been engaging with, with our allies for the last at least four years very intensively. Finally, I began to conclude after a lot of consideration and on a good ground of solid information that the more we wait, the more we lose.

Therefore, we have decided in the Afghan government to bring an end to the presence of these security companies who are running a parallel security structure to the Afghan government, who are not only causing corruption in this country, but who are looting and stealing from the Afghan people, who are causing a lot of harassment to our civilians, who we don't know whether they are security companies at daytime and then some of them turn into terroristic groups at nighttime.

They are wasting billions of dollars of resources, and they are definitely an obstruction, an impediment in a most serious matter to the growth of Afghanistan's security institutions, the police and the army.

AMANPOUR: Do you mean all of them? Do you mean even the ones who protect you, who protect military bases, who protect diplomats as well and aid convoys?

KARZAI: Well, we will -- we will provide a basis for those security companies who are providing protection to embassies and to aid organizations within their compounds and who escort diplomats or representatives of foreign governments in Afghanistan from place to place.

But we will definitely not allow them to be on the roads, in the bazaars, in the streets, on the highways, and we will not allow them to provide protection to supply lines. That is the job of the Afghan government and the Afghan police.

AMANPOUR: Mr. President, the U.S. says the Afghan army and police are nowhere near ready to take over these duties, and that an end of the year deadline is way too ambitious. Why are you doing it so soon?

KARZAI: Exactly the right question. One of the reasons that I want them disbanded and removed by four months from now is exactly because that their presence is preventing the growth and the development of the Afghan security forces, especially the police force, because 40,000, 50,000 people are given more salaries than the Afghan police.

Why would an Afghan young man come to the police if he can get a job in a security firm, have a lot of leeway and without any discipline? So naturally, our security forces will find it difficult to grow. In order for security forces to grow, these groups must be disbanded.

And here, ma'am, through you, I am appealing to the U.S. taxpayer not to allow their hard-earned money to be wasted on groups that are not only providing lots of inconveniences to the Afghan people, but actually are god knows in contract with Mafia-like groups and perhaps also funding militants and insurgents and terrorists through those funds.

AMANPOUR: Are you not concerned that those who you disband, most of them are Afghans after all, will go and join terrorist insurgents or rival warlords?

KARZAI: No. No, that should not be a concern. If these groups are so bad that if disbanded will become members of the Taliban or insurgents, then they should be disbanded tomorrow.

AMANPOUR: Mr. President, let me talk about corruption, which you, yourself, brought up.

There is still so much corruption, so many allegations of corruption. I want to ask you specifically about two U.S.-backed and mentored task forces, anticorruption task forces that you bitterly criticized not so long ago.

Are you still critical or will you allow them to operate to combat corruption in Afghanistan?

KARZAI: The bodies will stay -- the bodies will stay to work, but they should be within the confines of the Afghan law, within the confines of the Afghan penal code, and within respect of human rights and should be sovereign Afghan bodies, not run or paid by any outside entities.

AMANPOUR: Well, let me ask you about a specific case that caused a lot of anxiety, certainly with you. And that is the case of Zia Salehi, who is one of your close aides in the National Security Council. He was, in fact, arrested under a warrant signed by your own attorney general, and he was subsequently released the very same day. They are saying, because you personally called and asked for him to be released, and they did release him.

Is that true? Did you intervene?

KARZAI: Yes. Yes, I -- yes, absolutely, I intervened. Not only I intervened, but I intervened very, very strongly.

This man was taken out of his house in the middle of the night by 30 Kalashnikov-touting (ph) masked men in the name of Afghan law enforcement. This is exactly reminiscent of the days of the Soviet Union, where people were taken away from their homes by armed people in the name of the state and thrown into obscure prisons and some sort of kangaroo courts. It reminds the Afghan people of those days with immense fear.

So I have intervened. As I am the president of this country, I must uphold the constitution and do things legally from

now onwards. Tomorrow, I'll be giving a new instruction to bring these two bodies in accordance with Afghan laws and within the sovereignty of the Afghan state.

AMANPOUR: Will the case against Mr. Salehi be allowed to proceed? And will you allow the arrest and investigation of anybody who is accused of corruption -- he was accused of soliciting a bribe -- even if they're --

KARZAI: Absolutely.

AMANPOUR: -- your friends and allies?

KARZAI: Absolutely. Absolutely, ma'am. That case is already under investigation. Questions are continuing to be asked, the investigation is under way. Corruption should be handled most effectively and dedicatedly and with a lot of pressure, but it has to be across the board and apolitical and without vested foreign interest.

AMANPOUR: Mr. President, thank you very much indeed for joining us.

KARZAI: Good to talk to you.

(END VIDEOTAPE)

AMANPOUR: We turn now to the debate over the proposed Islamic center and mosque near ground zero. Opponents say that it's just too close to the site of the 9/11 attacks, though it cannot be seen from there. It took an ABC News producer two minutes and 45 seconds to walk from ground zero to the site of the proposed center. But the controversy has raised profound questions about religious tolerance and prejudice in the United States. And the backlash against Islam has been seen across the country, with mosques facing protests in California, Wisconsin and Tennessee. And some intelligence experts now say that the backlash could also bolster extremists abroad, who wish to portray the United States as anti-Islam.

And so, this morning we cut through the heated rhetoric and hear directly from one of the leading organizers behind the Islamic center, Daisy Khan, wife of Imam Faisal Abdul Rauf, and also Rabbi Joy Levitt, executive director of the Jewish Community Center in Manhattan, who is an adviser on the project. Thank you both very much for joining me on This Week.

Can I ask you first, Daisy, what has been your reaction? You haven't spoken publicly. What has been your reaction to the last several weeks of this?

KHAN: Well, we've been dialoguing with people. We've started meeting 9/11 families. We've started meeting other groups who have shown some concern. And you know, we've been bridge builders since 9/11, and that's what we do best, and that's what we've decided to do at this very moment.

AMANPOUR: When you say you started to meet them, did you not meet with families as you began to propose this Islamic center?

KHAN: Well, we have already been in touch with 9/11 Families for Peaceful Tomorrows. So, they represent 250 families. We've been working with them since 9/11. And so that group we have already worked with, and several other groups, but since this concern was raised, we've now started meeting with other groups privately.

AMANPOUR: Rabbi Joy Levitt, how did it come about that the two of you were working together on this?

LEVITT: Well, we got a call from Daisy when they began to think about this project, and said we want to build an MCC just like the JCC.

AMANPOUR: A Muslim community center.

LEVITT: That's right. And the JCC in Manhattan was imagined in 1990 and built its building -- actually we opened two days after 9/11. And have been thriving; about 2,500 people walk into our doors every day. We were really

honored to be able to unpack what we've learned, some of the things that we...

AMANPOUR: Well, what was it meant to be, the Islamic center? Is it mosque with a dome and minarets and loud calls to prayer five times a day? What is it?

KHAN: Well, all religions Americanize over time. They go from a place of worship to a place of service, and community centers have been developed by Christian communities like YMCA, and the Jewish community has developed the JCC. And Muslim community is inevitably going to also develop such a center.

So when I visited Joy Levitt and I saw the JCC and I said, this is what we have to do. So it is a community center, but it also has a prayer space within it because it would meet the needs of the Muslim community's need to worship on Fridays.

AMANPOUR: And what about it would be the community center?

KHAN: Well, there will be 500-seat auditorium; there will be a swimming pool; there will be, you know, athletic facilities. There will be cooking classes. There will be schools, you know, small education forums, conferences, and it's basically become a place where ideas can be exchanged, but tolerance, mutual respect can also be extended.

AMANPOUR: Let me ask you both now because obviously it has taken off on a whole different dimension over the last several weeks, and there is a huge amount of anxiety amongst many in the United States about the sensitivity of putting it where it is, particularly among some of the 9/11 families. So I want to play for you something that the governor of New York said in fact on CNN a week ago about the potential of a compromise. Let's listen to what he said.

(BEGIN VIDEO CLIP)

GOV. DAVID A. PATERSON, D-N.Y.: If people put their heads together, maybe we could find a site that's away from the site now but still serves the catchment area. That would be a noble gesture to those who live in the area who have suffered after the attack on this country, and at the same time would probably in many ways change a lot of people's minds about Islam.

(END VIDEO CLIP)

AMANPOUR: So, Daisy, are you prepared to have any plans to meet with him? Does Imam Faisal? Do you plan to try to seek a compromise and move it?

KHAN: Well, what we're doing is we're meeting several stakeholders right now, because we understand the pain and the anguish that has been displayed throughout the country, with the polls that I represented out there. And we indeed want to build bridges. We don't want to create conflict. This is not where we were coming from. So, this is an opportunity for us to really turn this around and make this into something very, very positive. So we will meet and we will do what is right for everyone.

AMANPOUR: Do you have a plan to specifically meet with the governor who has offered state land for this, and do you think that you will decide to move it?

KHAN: We first want to meet with all the stakeholders who matter, who are the New Yorkers. The community board has overwhelmingly supported this, so have all the politicians -- Scott Stringer, Mayor Bloomberg. And we have to be cognizant that we also have a constitutional right. We have the Muslim community around the nation that we have to be concerned about, and we have to worry about the extremists as well, because they are seizing this moment. And so we have to be very careful and deliberate in when we make any major decision like this.

AMANPOUR: I'll pursue that in a second, but so is moving on the table still?

KHAN: We right now -- it's not until we consult with all our stakeholders.

AMANPOUR: Can I ask you, Rabbi Levitt, what -- were there missteps in the beginning in terms of, let's say, some people have suggested there should have been a town hall meeting style, more outreach, more sophisticated public relations? Not talking just to the people who agreed with you but the people who might have the kind of issues that are being shown right now. Should there have been a different way of approaching this?

LEVITT: You know, we can always in hindsight look at these things and think, oh gee, we should have done that. Clearly when the JCC thinks about what we should have done differently -- in fact Daisy, when she came to us, said, what would you have done differently? We unpacked some of that for her. I said to her, there should have been more stroller space. It was actually on that level that we were talking.

KHAN: And we were talking about shoes, because our concern is shoes and her concern is strollers.

(CROSSTALK)

AMANPOUR: (inaudible) to people, should there have been a more organized debate in the community, in the wider area to talk about whether this was -- how this was going to be seen?

LEVITT: I think what's important is it's not too late to do that. We've invited -- the JCC has invited Daisy and the imam to come speak at the JCC in September, and I hope that we'll be able to do that. They've certainly accepted our offer, and I hope that JCCs and other community centers in the Christian and Jewish community and in the secular world will come to do that, because clearly what this whole controversy has unleashed is a tremendous amount of misinformation, lack of knowledge about Islam that we need to address.

AMANPOUR: Well, let me take a few of those sort of in order. There has been a lot of heated rhetoric, as we've been saying. I want to play you something that the former House Speaker Newt Gingrich said about the plans to build this center near ground zero.

(BEGIN VIDEO CLIP)

NEWT GINGRICH, FORMER HOUSE SPEAKER: Nazis don't have the right to put up a site next to the Holocaust Museum in Washington. We would never accept the Japanese putting up a site next to Pearl Harbor. There is no reason for us to accept a mosque next to the World Trade Center.

(END VIDEO CLIP)

AMANPOUR: Let me ask you directly, because he did bring up Nazi imagery there. What do you make of that?

LEVITT: Well, that's terrible imagery. But I think Mr. Gingrich has never been to the JCC and he's never seen, you know, moms taking their babies to our swimming pool, he's never seen teenagers making sandwiches for homeless shelters. He's never seen husbands coming to grieve for their spouses in a bereavement group. That's what goes on in JCCs.

AMANPOUR: And that's what you plan for the Islamic center?

KHAN: Exactly. And he also has never been to Tribeca, to our mosque which has been there for 27 years, only 12 blocks from ground zero. We've been neighbors, and we've been good neighbors. And as neighbors, we feel we want to rebuild our city and our neighborhood.

AMANPOUR: Do you have the plans for it? Do you have the architect? Do you have the funding? Is it something that could happen anytime or is it still a long time off?

KHAN: It is a long time off because the project, you know, was -- has had to go through several processes and civic hurdles, where one of the most important ones, as you know, we had a landmark issue. So we were addressing the landmark issue and we were working with the community board to get their willingness and acceptance and their welcome mat. And that's what we focused on first, and the rest is a process.

AMANPOUR: How much money has been raised and are you prepared to discuss the issue of foreign funding? Let's say there was foreign funding. How would you be able to know exactly where that money was coming from, what other projects elsewhere that they may have given money to?

KHAN: Well, this is where my counselor on my right is helping us, because our funding is going to be pretty much follow the same way that JCC got its fund-raising. First, we have to develop a board. Then the board is going to have a financial committee, fund-raising committee that will be in charge of the fund-raising. And we have promised that we will work with the Charities Bureau, that we will adhere to the highest and the strictest guidelines set forth by the Treasury Department, because there is so much angst about this. But we will follow the lead from Rabbi Joy Levitt.

AMANPOUR: Let me ask you also...

LEVITT: What Daisy means by that is that we went to our neighbors, we said who believes in our vision, who believes in a center of tolerance, who believes in diversity? We went to parlor (ph) meetings in people's houses, and that's how the support for the JCC came about.

AMANPOUR: Let me ask you, because there have been also a lot of questions raised about your husband's political ideas and political views, specifically because of something that he said on "60 Minutes" shortly after 9/11. Let me play that.

(BEGIN VIDEO CLIP)

IMAM FAISAL ABDUL RAUF: I wouldn't say that the United States deserved what happened. But the United States policies were an accessory to the crime that happened.

(END VIDEO CLIP)

AMANPOUR: What do you think he meant by that?

KHAN: It was a longer interview, and in the longer interview, he talked about the CIA support specifically to Osama bin Laden and the Taliban. And...

KHAN: The Soviet Union. And how this was, you know, in CIA terms, a blowback of that. That's what he meant.

AMANPOUR: You talked about the state of Islam in the United States. And then we have this "Time" magazine cover that's being talked about a lot right now. Basically, is America Islamophobic?

Is America Islamophobic? Are you concerned about the long-term relationship between American Muslims and the rest of society here?

KHAN: Yes, I think we are deeply concerned, because this is like a metastasized anti-Semitism. That's what we feel right now. It's not even Islamophobia, it's beyond Islamophobia. It's hate of Muslims. And we are deeply concerned. You know, I have had, yesterday had a council with all religious -- Muslim religious leaders from around the country, and everybody is deeply concerned about what's going on around the nation.

AMANPOUR: Do you agree with what she just said and how she described it?

LEVITT: Well, there is some part of it that feels very familiar, you know. Peter Stuyvesant refused to allow synagogues to be built in New York in the 1600s. It took an act of Congress here in Washington to allow a synagogue to be built. In Connecticut, there were no synagogues allowed to be built in the 1600s and the 1700s. The British wouldn't allow synagogues to be built in New York City. So, we understand some of this pain, and yet we've also experienced a tremendous amount of support in this country, so I think we actually are in a position to both understand and be helpful, to support religious tolerance in this country.

AMANPOUR: The last word, do you think it will go ahead?

KHAN: Of course it has to go ahead. There's so much at stake.

(CROSSTALK)

KHAN: There's too much at stake. We have to go ahead with this project.

AMANPOUR: Daisy Khan, Rabbi Joy Levitt, thank you so much for talking to us.

AMANPOUR: And you can find out more information on Islam in America and how American Muslims view themselves on our web site, abcnews.com/this week. And we will have more on the mosque debate next on our roundtable, with George Will, Robert Reich, Judy Woodruff and Al Hunt.

AMANPOUR: Former Governor Rod Blagojevich found guilty this week on one count of lying to the FBI, and that's just one of the topics for our roundtable with George Will; Robert Reich of the American Prospect; Judy Woodruff of the PBS Newshour, and Bloomberg's Al Hunt. Thank you all for joining us here today.

George, we're going to talk about Rod Blagojevich later on, but first, President Karzai and Afghanistan, basically saying that there is no reconciliation with the Taliban yet, just some informal contacts.

WILL: And what interesting contacts they must be, because what he said to you this morning was that in order to bring the war to a conclusion, he has to convince the Taliban, who come in various sorts -- there are those who are in it for the money, there are those who are in it for the convictions -- he has to bring the Taliban to accept a normal civilian life. Surely, the fighting is about what counts as or should count as a normal civilian life.

When the surge began and with the president's speech last December, he said our task is to destroy the momentum of the Taliban, conceding thereby that they had the momentum. Secretary Gates three Sundays ago talking to you said we must degrade the Taliban to bring them to the table.

Now Karzai says they must come to the table accepting a most un-Taliban sense of what normal civilian life should be.

AMANPOUR: What do you think about that? I mean, clearly, a lot of people believe that the Taliban didn't wage war for all these years against Afghanistan simply to now accept the Afghan constitution, accept women's rights to education and all their other human rights. But certainly, as you heard, many women are very worried about an agreement with the Taliban.

WOODRUFF: That's right. Christiane, I talked just this week, the end of this week with someone who was in the Karzai government who is still advising President Karzai privately, who said, look, we wouldn't be talking to the Taliban if the United States were not -- if we didn't have this looming situation where the U.S. was possibly going to pull out in a serious way starting next year. We have to talk to the Taliban. We've got to be talking to Pakistan and Iran even if we don't want to.

They know that they're in a tough negotiating position when it comes to the Taliban. And touching on what George said, because unless this war goes better and unless they can prove that the Afghan government can run this country and can put the Taliban in a weaker position, they don't have any kind of a negotiating position. And they're very aware of that.

REICH: And, Christiane, corruption is endemic in this country. And everyone knows it, from Karzai on down. He was -- I was very struck by how readily he admitted to you that corruption is endemic. I mean, his support here in the United States is dropping like a lead balloon and will continue to drop because of that endemic corruption. He says he's going to preserve the independence of these units that are anti-corruption units, but everyone knows that he's not going to allow his own aides to be indicted and imprisoned.

AMANPOUR: I mean, I asked him about that, and he said, yes, but of course, everybody as you say is looking for more than just words, they're looking for action. And what do you make of the foreign -- or, rather, no private security contractors? On the one hand, he's right, and the U.S. wants to see this sort of militia system disbanded, but

saying that it's a bit too ambitious to do it all in just four months.

HUNT: Yes. He knows that, too. I think that every indices you look at over there suggests, unfortunately, that George was right a year or so ago, nothing is going right, Christiane. There are supposed to be regional elections. There are really serious questions about whether they can be held, or at least credible elections.

The battle for Kandahar, no one seems to be terribly optimistic at this time. The corruption issue that Bob just talked about.

John Kerry was probably as close to Karzai as almost any American politician, and even John Kerry has started to sour on him.

So I just -- it's hard to find grounds for optimism.

REICH: Also, this business of turning over all of the security to the Afghan -- to the army and the police is bizarre. I mean, they're as corrupt as everyone else. And the opportunity costs, Christiane -- I mean, here we have in Pakistan a food that is devastating that economy, a humanitarian disaster. We can't even devote the resources we need because we're so bogged down right now in Afghanistan.

AMANPOUR: Let's move on to the ground zero Islamic center debate. You heard from Daisy Khan just now. It's the first time she's spoken since this all really exploded over the last several weeks. And you heard from Rabbi Joy Levitt.

I want to put up a poll that was in "Time" magazine. As you know, and I sort of waved it around, they said, is America Islamophobic? But the poll, one of them says, it's talking about views of Muslims. And amongst Democrats, the favorable view is 51 percent, and Republicans, favorable view is 32 percent. Unfavorable view, amongst Democrats polled, 36 percent, and Republicans, 56 percent. That's the view against Muslims.

George, what does this mean? I mean, it's a pretty catastrophic viewpoint, this.

WILL: Well, what it means is that a religion is what its practitioners and followers say and do in any particular era. There have been eras when Christianity featured a lot of hideous behavior, often by Christians against other Christians, and many Americans' understanding of Islam is the fact that while not all adherents of the faith are terrorists, all the terrorists trying to kill us are Islamic. And that I think is what you're seeing.

REICH: But the upsurge in kind of Islamophobia, George, cannot be explained by anything, it seems to me, other than a kind of intolerance that is fed by -- I don't want to say this, don't want to believe it, but it seems to me the same kind of intolerance that is feeding the anti-immigrant fever in the United States. It comes from a deep-seated fear and anxiety in Americans right now that is rooted in turn in the economy.

I mean, people are ready to believe Newt Gingrich when he says that Muslims are like Nazis. That's outrageous.

WOODRUFF: We've come a long way, Christiane, since -- it was just six days after 9/11, that President George W. Bush went to an Islamic center and stood before a group of religious leaders, Muslim religious leaders and said, we need to remember that the acts that were done to this country do not represent all of Islam.

AMANPOUR: He did say that, and his adviser at the time was Karen Hughes, and you saw that she's written an op-ed in the Washington Post and I want to put up what she said about it, because one of her jobs also was at the State Department, in fact outreach to the Muslim world. And she's basically saying that she says, "I believe it is so important that Imam Feisal Abdul Rauf and his congregation make what I fully understand would be a very difficult choice, to locate their mosque elsewhere. Putting the mosque in a different site would demonstrate the uncommon courtesy sometimes required for us to get along in our free and diverse society.

I recognize that I'm asking the imam and his congregation to show a respect that has not always been accorded to them. But what a powerful example that decision would be."

Is that what they should be doing, Al?

HUNT: Well, where? Do they go -- is it three blocks instead of two blocks? Is it eight blocks? Is it another state, another country? I mean, that strikes me as a very sophomoric argument. I mean, you -- this whole thing has been demagogued. And I -- as you pointed out this morning, maybe they didn't lay the groundwork for this as well as they should have.

But this is not on ground zero. This is not a mosque. It's a cultural center that has a prayer area.

And I must say that I was on a show the other day with Bill Cohen, the former defense secretary and senator from Maine, who said we ought to call out and sanction anyone in this country that uses Nazi analogies. I mean, I'm sorry, whatever you think, I think there is some very sincere people who object to this center being there. We can argue that point. But they're not Nazis. This is just outrageous.

AMANPOUR: And how will -- because obviously the big question is, is this being used and will it translate into a mid-term November political rallying point?

REICH: I don't think so, Christiane. The economy is so overwhelming in people's minds. Most people in America are much more concerned about money in their wallets than they are about mosques in Manhattan.

WOODRUFF: And Christiane, even Republicans you talk to say, yes, this is out there but we hope this blows over, because we don't think this helps us in November.

AMANPOUR: George, what do you think? Do you think Republicans are beginning to get a little bit concerned, as Democrats are, by this debate now?

WILL: I think a month from now, people are going to say, what was that all about? This is an August story. It's a slow news time. And you can always tell a fundamentally a weak story because it turns on sensitivity. Is so and so being sensitive to someone else? Sensitivity is overrated. It's the nature of a...

REICH: May I quote you on it?

AMANPOUR: ... pushback from some of the 9/11 families.

WILL: Well, that's too bad. The fact is, when you have an entitlement to have everybody be sensitive to everyone else, that's how you got speech codes on campuses so we would not have speech that would offend somebody. There is no right to go through life without your feelings being hurt.

AMANPOUR: One of the things that I found interesting reading a lot about this was that there's been a study by academics here in the United States, I think affiliated with (inaudible) University of North Carolina, which has found that actually a lot of the mosques that are built around the United States have a counterextremist effect. In other words, they are able to counter any kind of alienation of Muslim youth here. They are able to scrutinize teachers, look at what texts are being put.

So in other words, this study said that mosques and such centers are having a more positive effect.

REICH: Of course. This country is built on a fundamental premise, and that is the more we know about each other, the more we know about minority groups, the more we interact, the more tolerant we are, and tolerance is the cornerstone.

George, I wouldn't call it sensitivity. I would call it tolerance. And tolerance is the cornerstone of this country.

AMANPOUR: Now, you mentioned that a lot of it was because of some of the underlying angst, very serious angst that is abroad here today, and most notably about the economy. We'll put up a graphic of the latest figures, but 500,000 new claims for unemployment insurance were made last week, according to the Department of Labor.

Where is this going? Where is this situation going? This was meant to be the summer of recovery. Is there any idea on how to ameliorate the jobless situation?

REICH: Well, Christiane, it's not the summer of recovery. It's the summer of our discontent. We are, by many measures, heading into a double-dip. But the fact is, many Americans have not even gotten out of the first dip. And the interesting paradox here is that in this town, in Washington, you can't talk about a second stimulus. You can't even talk about stimulus, because people say, oh, that would create a deficit and that would generate inflation. But in fact, the bond markets are not predicting inflation. The bond markets are worried more about deflation. The treasury bill is now -- the yield is what, something like 2.6 percent on a ten-year treasury bill.

WILL: Let's talk about how bad it is, first of all. If, in the last five months, about 1.1 million people had not become so discouraged just to essentially have dropped out of the job market, the real unemployment rate today, if they were still counted, would be 10.4 percent. So too much use of the word Nazi, too much use of the word Herbert Hoover, my friend. You're the one who's constantly saying that the town today is full of people like Herbert Hoover, who don't want to spend money.

REICH: Herbert Hoover is being exhumed, George.

WILL: Let me tell you, Bob, per-capital federal expenditures between 1929 when the stock market crashed and '32, when Hoover had his last full year in office, doubled. He was -- he responded to the coming recession with a gusher of federal spending. It didn't do a lick of good.

REICH: By the way, we can debate history, but by 1932, 1933, the major issue and major proposal on the table coming from Andrew Mellon, his secretary of the treasury, was balancing the budget. And all we heard...

WILL: In Forbes Field in Pittsburgh, in a famous speech, FDR pledged to balance...

REICH: Yes, FDR was -- he was always a deficit hawk.

(CROSSTALK)

HUNT: No, I intend to say -- as they say in the House, I want to yield the balance of my time to the distinguished gentlemen.

There is no question that this economy is in terrible shape. J.P. Morgan the other day just revised their forecast for the next six months. Growth will be an anemic less than 2 percent.

We talk about this often in terms of the context of the midterm election. The die is cast. There's nothing you can do over the next ten weeks that will take effect and affect people's lives by November 2nd, and that is dreadful news for the Democrats.

AMANPOUR: What about for people? I mean, what are they going to be able to look at and get some hope from even after the elections?

WOODRUFF: It's tough, Christiane, because as Bob just said, the forecasts don't look good right now. The -- I guess it was the conference board economist said the other day, he doesn't think we're going into a double-dip recession, but at the very best, we're stuck in neutral and there's no movement people see.

So something has got to -- and today, Christiane, there was a report that people are pulling their money. Ordinary people pulling their money out of the stock market.

Politically, to get back to the politics point, the Democrats are the losers either way, because on the one hand, you've got people saying we need to spend more money, you didn't -- for Main Street. You put all this money into the banks and into the auto companies, what about Main Street? On the other hand, you got people saying, no, we need to worry about the debt, we can't spend another dollar. Democrats are caught in the middle of that.

REICH: This in some way circles back. I think the president must talk only about the economy and jobs. Not the mosque, not money in politics, not anything else, not only between now and the midterm but ideally, ongoing. I mean, this is the number one issue in this country.

AMANPOUR: Let's just move on, because, as you say, it is the No. 1 issue. Everybody is talking about it and rightly so, because it affects each and everyone's lives.

But on a positive note here, not just for the Democrats but also for the world, hopefully, they've announced today that, this week, rather, that there will be talks between the Israelis and the Palestinians, direct talks for the first time in 20 months. Now, that's got to be good, George.

WILL: You can argue that the peace process is the biggest threat to peace in Palestine.

AMANPOUR: You can also argue that process is better than no process.

WILL: That is what I'm precisely arguing against. The fact is, 19 years ago, almost a generation ago, we had a big hullabaloo because in Madrid in 1991, the Palestinians and the Israelis engaged in direct talks. Nineteen years later, we're doing it again.

Here is what we don't agree on. Mr. Abbas has not said that Israel has a right to exist as a Jewish state for the Jewish people.

AMANPOUR: He recognizes Israel's right to exist.

WILL: Not as a Jewish state for the Jewish people. He has been asked dozens of times to say it, and never has, and I suspect never will, partly because he believes in a right of return.

Mr. Netanyahu says the Palestinian refugee problem will be solved outside of Israel. Mr. Abbas wants East Jerusalem as the capital of the Palestinian state. Mr. Netanyahu says Jerusalem is and will remain the undivided capital of Israel. Mr. Netanyahu says a West Bank state, a Palestinian state on the West Bank, must be demilitarized, must be forbidden to have relations with Hamas -- with Hezbollah and Iran, for example, and must have on it an Israeli presence to make sure that weapons do not come in from the eastern borders.

AMANPOUR: Given quite a lot of those positions, and obviously security is primary for the Israelis and certainly for the government of Prime Minister Netanyahu, where do you think this can go? I mean, if any of you are thinking of it, because there were previous parameters. There were the Clinton parameters, there were the talks between Abbas and the previous prime minister, Olmert, which were slightly different than Netanyahu's conditions.

WOODRUFF: And in the spirit of full disclosure, going back even before that, I covered the Camp David negotiations under President Carter with Menachem Begin and Anwar Sadat.

I talked just yesterday with someone involved in those talks who watches this peace process very closely -- very pessimistic about the outcome here, for many of the reasons George just laid out. And yet this individual, again, who watches it closely, says it's at least good that President Obama has put a one-year deadline on this.

AMANPOUR: So did President Bush, put a one-year deadline.

WOODRUFF: And -- and that after December, President Obama may be in a position -- and frankly, Prime Minister Netanyahu -- to change the makeup of his government.

AMANPOUR: One of the big issues is going to be the settlements, if the moratorium on settlement freeze expires on I think it's September 26th, that could collapse the talks before they even had a chance to start.

REICH: But it's much better that they are sitting at a table when that end of the moratorium approaches than they are not sitting at the table.

I completely disagree with George on this. I mean, talking is better than not talking. We get a little bit of momentum out of the troop withdrawal -- the combat troop withdrawal from Iraq, and them sitting down, I think the administration deserves enormous credit getting the parties to sit down at the table again after 20 months. This is necessary.

AMANPOUR: Let's quickly move on, because we're not going to solve the Middle East peace process at this table, unfortunately, to governor, former Governor Blagojevich. You saw what we cut, a little tape up there, you know the story. One count. Was it just business as usual, as he's been saying?

WILL: No, I think three things happened. First of all, they knew Blagojevich to be a blowhard, and so when they listened to the tapes of him bragging about doing this and that, they said that's just him talking. Second, they were given more than 100 pages of jury instructions on 24 counts related like a Rubik's cube. Third, they had just witnessed up on Capitol Hill the Senate debate. People are being -- he's accused of selling a Senate seat. They've seen Senate votes sold in the debate.

WOODRUFF: He -- look, it's a loss for the prosecutor. It's not a win for Rod Blagojevich. The jurors could have found him not guilty on any one of these other counts. They didn't do that.

What we all need to know is that yesterday, he was selling his autograph, \$50 a pop, at a comic book convention in Chicago, putting Hank Aaron -- this is chump change.

AMANPOUR: Got to go. This discussion will continue in the green room at abcnews.com/this week, where you can also find our fact checks in conjunction with Politifact.