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The Honorable Robert E. Rubin
U.S. Secretary of the Treasury

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Questioners: Marshall Loeb
Editor-at-Large of Fortune Magazine

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Introduction

John M. Hennessy, Chairman

Welcome to the 344th meeting in the 88th year of the Economic Club of New York. Before we start, one brief reminder. Tonight's dinner with the Secretary of the Treasury will be followed in less than three weeks by one of the other top policymakers in the U.S., Fed Chairman Alan Greenspan, so that will be on the night of June 20th. Please mark your calendars.

For Secretary Rubin, tonight is a homecoming. And we're absolutely delighted to welcome him back here in New York. It's always good to see a hometown boy make good. Bob was born in New York, right in the city I understand. And before going to Washington he spent 26 years at the firm of Goldman Sachs, starting as an associate and working his way right to the top as co-chairman. And he led it during a period of its greatest expansion and success when Goldman became and is one of the leading international investment banks.

Before Goldman Sachs he racked up an equally impressive record in academia – Summa Cum Laude from Harvard University with a degree in Economics, a law degree from Yale, and then additional study at the London School of Economics.

This is probably the only Secretary of the Treasury in the long 200-plus years of this country that really understands markets. He cut his teeth on not only currency desks and bond trading but options and equity. He knows it all, and I'm sure that gives Bill McDonough a few second thoughts when he has to intervene in these markets.

He also, from his banking days, understands not only the impact on the U.S. economy but economies around the world of any action that the U.S. government takes, and that also I think is very comforting to us. Oftentimes we've taken actions not understanding the ramifications for the other economies or the other nations around the world.

When President Clinton chose Bob as the first head of the newly created National Economic Council, this appointment was warmly welcomed by all of his friends here on Wall Street. And then when the president named him to succeed the retiring Lloyd Bentsen, that choice was applauded around the world.

In the few months he's been at the Treasury, he's had rather a full plate. His baptism of fire was the Mexican Crisis, from almost the very first day he took office, a crisis which he handled extremely well. The dollar has been very unruly. The Glass-Steagall reform is well underway and he's been deeply involved, of course, in the budget battles. But through it all, the Secretary has kept the calm he's been known for on Wall Street and also now in Washington. But more importantly, he's kept his sense of humor.

In the midst of the Mexican Crisis, no less than the Republican Chairman of House Banking Committee, Jim Leach, commented, and I'd like to quote from Jim Leach. "Bob Rubin brought to a very political town a fine sense of the outside world, with a manner that is competent and quiet, without being arrogant. And almost overnight he has become the preeminent Cabinet member."

So it's with very great pleasure, a personal pleasure, and an honor for me to present to you this evening, the Secretary of the Treasury, Robert Rubin.

The Honorable Robert E. Rubin

U.S. Secretary of the Treasury

Thank you Jack. I was at, as Jack said, I was at Goldman Sachs for 26 years, and I used to hear from time to time Jack's comments about me. They didn't quite sound that way. (Laughter) But I guess life goes on and things change. I can remember when I was at Goldman Sachs arguing that there were two foundation stones of Western Civilization, the Magna Carta and Glass-Steagall. Once again, life has changed. (Laughter) In any case, thank you and good evening. I'm delighted to be with you all.

If you open any serious newspaper or listen to any broadcast in the last few months, there are stories on the budget, taxes, government programs under attack in Washington, Russia, Mexico, India, Japan, foreign aid, tragically Oklahoma City, Waco, and a long list of light matters. These may seem disparate subjects, but as I thought about my comments here tonight, it came to me that underlying them are three great debates that will affect the future of our country in the years and decades ahead. The Treasury is deeply involved in all three. Let me start by expressing my strong beliefs about each issue.

Firstly, we must, in my view and much more importantly, in the president's view, continue forceful deficit reduction and bring that to budget balance. But, and the but is extremely important, on a path determined by a thoughtful weighing of the tradeoffs among all the factors involved in creating a healthy economy, not on the basis of arbitrary dates and arbitrary cuts. Secondly, we must engage with the global economy, rather than turn inward. Thirdly, we must support law enforcement rather than undermined it.

Before I talk about these choices, let me very briefly set the scene if I may. I speak to a lot of government officials these days and I speak to a lot of business people here and abroad. I would say that virtually all believe that the United States is better positioned in the global economy today than it has been for at least the past 25 years.

Government officials and business people I talk to, both here and abroad, feel that our private sector has substantially improved its global competition position over the past decade. And our public policy has changed dramatically during the past two and a half years. Most notably, by reversing a 20-year history of rising deficits and bringing the deficit down substantially. At the same time, we have put education, training, and the other public investments critical to our economic future, at the center of the Federal budget.

The statistics of the past two and a half years versus the prior four years are worth just a moment of notice – 3.5% growth versus 1.4% during the prior four years, inflation under 3% versus over 4%, unemployment 5.7% now versus 7.1% at the end of the prior four years, 6 million new jobs created in two and a half years versus 2.4 million new jobs, almost all in the public sector, created in the prior four years. And the deficit which was 5% of GDP at the time we took office is now estimated to be 2.7% of GDP this year, and under the current budget to go to 2.1% of GDP in the year 2000.

Having said that, the key now is to focus with great intensity on positioning our economy for the future and focusing with equal intensity on our social fabric. And let me pause for a moment if I may to discuss social fabric. One of the shrewdest people that I know in Washington, somebody I met years ago but has been in the White House from the time that I was there, came by the other day. And he was saying that it was his view that Americans have an anger and an alienation that is different now than the anger and alienation that has existed in the 30s with Father Coughlin and other periods in our history. We talked a little a bit about why that was so. It was a very interesting discussion and there were a lot of contributing factors, but let me just focus on one at the moment.

Polls and focus groups show that many, and probably most, Americans do not feel the economic progress I've just discussed. A poll that I saw about six months ago said that roughly 60% of the American people still thought we were in a recession. Many, and it's probably most, Americans feel that the American dream is not real for them anymore. Hardworking Americans worry about their families, college, retirement, wages, job security, and foreign competition. They worry about their personal safety. Worst of all, they believe that nobody cares.

One cause of these fears is the increasing inequality in income levels. In the 1950s, 60s, and early 70s, all income levels rose about the same percentage. Everybody shared in the prosperity about equally, by income quintiles. Since then, those with the lowest 60% of incomes have seen real incomes fall, and in many cases fall substantially. And only the upper 40% have had rising real incomes. This widening gap feeds anger and alienation. People lose hope. People come to resent international economic engagement. They become more fearful and less tolerant of their neighbors.

I don't think that there's any question that we must provide those many who are anxious and angry an effective response, not just to their fears, but as the president said the other day in a speech, to their hopes and dreams for a better life. What is at stake is not only a healthy economy, though that surely is at stake, but also our social fabric. Each of the three imperatives I described a moment ago is central to that task.

Let me start with the debate over the budget. The outcome of that debate is critical with respect to whether or not we improve standards of living in the United States. The choice, and it is a dramatically important choice, is between a process of going to budget balance – because there is no argument about the question of whether we should go to budget balance – with a path based on the policy tradeoffs that will best promote our economic objectives, or building a budget to meet an arbitrary balanced budget date.

The president's February budget message and his oft stated commitment since is to continue forceful deficit reduction to bring the deficit to zero while at the same time making the public investments absolutely critical for the nation's economic future – investments in education and training, apprenticeship programs, child nutrition and the like. And he has made it clear for two and a half years that key to achieving a balanced budget is controlling Federal health care expenditures. That is the factor, as those of you who know the Federal budget know, that is driving the deficit, particularly in the outer years. But again, in a sensible fashion and in the context of broader healthcare reform, rather than through arbitrary cuts that will result in severe beneficiary impacts, cost shifting, and other distortions. So once again, the differences between building a budget that goes to balance based on policy choices and building a budget that goes to balance on an arbitrary date, regardless of the policy effects. With this latter approach, education, training in the inner cities will of necessity suffer substantially and that just does not make economic sense.

I was interviewed about eight months ago by one of the leading, well; probably it is the leading magazine in Europe. And it was very interesting, at the end of the interview, the interviewer said to me, you know, your economy is doing very well right now, but ten years from now you will be a second tier economy. And I said, why is that? He said, you won't be equipped to compete in the global economy. Look at your public schools and their deterioration and look at your inner cities.

Education is vital in reducing income disparity and promoting economic growth. In 1979, college graduates on average earned roughly 40% more each year than those with a high school diploma. By 1993, that disparity had reached 80%. In a global economy with an information revolution changing the workplace and placing greater demands on the workforce, in our judgment – my judgment, and again much more importantly, the president's judgment – it makes no economic sense to balance the budget by cutting student loans, apprenticeship programs, worker training, school nutrition programs, and incentives for education, and educational reform.

About six weeks ago I was in Indonesia for a meeting of the Finance Ministers of 18 Asian and Pacific nations, including the United States. I looked around the table and it occurred to me that most of these nations were impoverished 15 or 20 years ago and today have economies that are vastly improved and growing rapidly. It is truly a remarkable success story. One thing these countries have in common is an intense focus on education.

Congress is proposing the very different approach I've already described – to take the deficit to zero by an arbitrary date with all of the arbitrary non-policy-driven cuts that must of necessity be made. The House proposal exacerbates this problem because the requirement for deficit reduction is larger in order to absorb the cost of enormous tax cuts that in our judgment are economically unwise and most certainly will be replacing programs that are far more important to this economy.

Those of you who own or run a business wouldn't set arbitrary goals for your companies all based on one of the many variables that will affect the fortunes of your company. We shouldn't do it for our country.

The second debate over the direction of this nation, the second choice to be made, is on the extent of our international economic engagement. Growing economic links and competition from foreign companies have left some Americans behind and have increased anxiety for many more. Just as there was a great divide over how to approach going to a balanced budget, so too there was a great divide about whether and how much America should be engaged and lead in the world economy.

The president strongly believes, and I think absolutely rightly, that aggressive engagement with the global economy is imperative for America's economic and national security interests. There are three key elements in international economic engagement. Promoting open markets and free trade, promoting economic reform and development in the developing and transitioning nations, like Russia, Ukraine, and the others, and leading in dealing with problems in global markets that can undermine our economic and national security interests such as the problems that developed in Mexico.

There is without question a new economic isolationism with great power in this anxious age. And in our view, it must be aggressively countered. You will recall how difficult it was to get the trade treaties through Congress. But let me dwell for a moment about an issue you might not have considered recently – support for reform and growth in developing countries. The World Bank, the Development Banks, and the IMF are playing a key role in promoting economic reform and economic growth in the developing countries, the countries of the former Soviet Union. That role and that reform and that growth are enormously in our country's economic and national security interests. Forty percent of our exports go to developing countries. That's about $190 billion a year. And our largest potential markets are developing countries like China and India.

Take the case of India. In 1991, with the assistance of the IMF, India began a dramatic economic transformation. It is reaching out to the world and changing within. The results are obvious. India is growing, last year at about 5%, and our exports to India are rising. The World Bank is also enormously involved in India. I visited the village of Udaipur in Northwest India where the World Bank is supporting a watershed development project. With simple soil conservation techniques, people who live in deep poverty are taking control of their lives, improving their living standards, and making a better life for their children. And as those villages do better, and India does better, India becomes a better market for us.

There is an extensive effort to assist in the transformation of the economies of Eastern Europe and the former Soviet Union. I was in Russia and in Ukraine with President Clinton last month. We discussed with the Russian economic leadership the need to stay focused on privatizing, investment and trade, and strong banking system, and independent central bank, on enforcing serious laws of contract, ensuring stockholders their names won't vanish from stock registration books, opening up to foreign banks, and similar measures. I can absolutely assure you that government officials and business people in Russia and Ukraine view the World Bank and the other Development Banks as critical to continued reform and economic growth. Reducing or eliminating our support for the IMF, the World Banks, and the other Development Banks is, in my judgment, in our judgment, totally nonsensical in terms of our interests. But there is legislation making its way through both houses right now which would do exactly that and which would in effect either greatly reduce or even eliminate American support for the World Bank and the other Development Banks. That should not and cannot be allowed to happen. You may have noticed the other day that Secretary Christopher, Secretary Perry, Ambassador Albright and I had recommended to the president that legislation of this kind, if passed, be vetoed.

The third element in international economic engagement, as I mentioned, is dealing with problems that may arise in global financial markets that threaten our economic interests and national security. That also takes leadership, the kind shown by the president in moving aggressively in our self-interest to assist Mexico – both because of Mexico and to prevent a spillover into the other developing economies.

International economic engagement is critical to better jobs and better living standards for Americans. That's a message that needs spreading far and wide in this country. The president, members of the Cabinet, myself, will be doing everything we can at every opportunity we have to spread that message. And I would urge you, the members of this very influential group, to do the same.

The president called me, oh, about four or five weeks ago, we were talking about a totally different subject. At the end of the conversation, he asked what's going on in Mexico, and I said, well, Mr. President, I think things are doing better. I really and truly do. And he reminded me that the night that we made the decision to commit to the $20 billion ESF Program, I told him that the Los Angeles Times had printed a poll – I think it was the Los Angeles Times – anyway, a poll had been printed showing that 80% of the American public was against our getting involved with Mexico. And he said, you know, I thought a lot about that poll. He said, I couldn't have slept if we hadn't done what we did. But that poll makes an important point. Actually it makes a good point about President Clinton and his commitment to doing what makes sense and is right, but it also makes a very important point about the American public. There is a desperate need for education about our vital stake in being engaged in the global economy.

Finally, there is a third area, where contrary to the way we ordinarily think about our society, there is also a debate underway, critical to our future and our social fabric – crime. Despite the seeming agreement on law and order, there are powerful forces at work undermining the Federal law enforcement effort and in our view this must forcefully countered. Crime from handgun violence to drugs, counterfeiting and fraud, money laundering, takes an enormous emotional toll feeding the anger, the anxiety, and the insecurity I referred to a few moments ago, undermining our social fabric, and also a tremendous financial toll as well.

Economically, look at crime in terms of the hospital bills, the cost of prisons, the bill for security guards, for employees. Look at it in terms of children affected by drugs. Look at it in terms of additional costs and burdens on our businesses and financial institutions. All of this puts us at a productivity disadvantage relative to the many nations which do not have similar problems.

I knew about the financial and policy side of Treasury's work and also its reputation of excellence from my many years at Goldman Sachs and then my two years in the White House. But in the past five months I've also learned a great deal about the other side of Treasury's portfolio – law enforcement. Treasury has the second largest law enforcement operation in the Federal government including the Secret Service, the Customs Service, the Bureau of Alcohol, Tobacco, and Firearms, the ATF, the enforcement side of the IRS – some of you may know them – and if you don't, I'd be happy to make an introduction – the Financial Crimes Enforcement

Network, and the Federal Law Enforcement Training Center.

A subject that the president, people in the White House, myself, some other members of the Cabinet have spent a lot of time talking about in the last month or so, is the issue of Federal law enforcement and how it is being undermined in a very dangerous way. Some have suggested that the Oklahoma City terrorist bombing is justified by Waco or some other occurrences. I went to the memorial service that Sunday in Oklahoma City and met with the families of the six Secret Service and two Customs employees who were killed there.

Any attempt to link that bombing with any alleged justification is truly outrageous. But that link has gained at least some resonance even beyond fringe extremists. This resonance is grounded in the alienation and anger I've already discussed. Beyond that, law enforcement officers are being portrayed as representatives of an oppressive Federal government. The NRA, as you know, put out a fund raising letter referring to them as jack-booted thugs.

That effort is especially evident in the effort to oppose gun control. This is being used to promote repeal of the Brady Bill, to promote repeal of the ban on semi-automatic assault weapons, and to oppose requiring explosive materials to contain information that would facilitate identification of terrorists. Federal law enforcement officers have difficult and dangerous jobs. They need and deserve our full support and respect. When there are problem as there will inevitably be in any organization, they should and will be dealt with, but none of that should detract from the overriding importance of support and respect for people whose difficult and dangerous jobs are central to protecting the rest of us.

In conclusion, I have outlined the approaches I believe we must take with respect to three critically important debates if our economy and our nation are to be healthy in the 21st century. The Treasury is deeply involved in each of these areas and we are doing everything within our power to advance the objectives I have advocated this evening. But every voice must be heard as these critical decisions are made.

Here tonight are many, many high influential people who can have a real impact on the outcome of these struggles and there is too much at stake for the future of our country for anyone who can have an effect to remain silent. So I would urge that each of you here this evening determine how you can help by supporting political candidates – as long as they're the right ones – by working with media, by speaking in public forums, and any other way available to you. Thank you.

QUESTION AND ANSWER PERIOD

JOHN M. HENNESSY, CHAIRMAN: Secretary Rubin, thank you very much for that extremely interesting and provocative speech. Now it's our custom to turn the program over to two questioners. Tonight's questioners are Marshall Loeb, Editor-at-Large of Fortune Magazine, and Kenneth Lipper, Chairman of Lipper and Company. Marshall, do you want to ask the first question?

MARSHALL LOEB: Thank you very much. Is this microphone working all right? Can you hear? Good. Mr. Secretary, we'd appreciate some of your comments, your analysis of the state and future of the U.S. economy. Are we getting the long hoped-for soft landing? On the other hand, what is the degree of danger that the Federal Reserve may have become too fixated on inflation and may not cut interest rates soon enough to keep the expansion going? Finally, what contingency plans does the Administration have if indeed the economy should start to drop?

THE HONORABLE ROBERT E. RUBIN: I'm going to respond to part of that and obfuscate another part of it. Marshall, as I think you know because we've discussed this before, we've had a policy for two and a half years of not commenting on the Fed, and I think it's stood us in good stead. We have enormous respect for the independence of the Fed and I think that that has helped us and I think it's also helped with respect to the credibility of our markets. My own instinct, and many of you are probably better qualified – well, some of you are better qualified – I looked around the room, I sort of changed my mind...(Laughter)...maybe it's many, I don't know – in any event, each of you will have your own opinion, my view is, and has been for a while, that we probably are going to have a rather considerable slowdown for a while and then we'll pick up again. And this may strike you as being Pollyannaish but I really believe if you look at all the data, and much more importantly from my point of view, just talk to large numbers of people involved in things all over the world, that there's a pretty good chance that we'll slow down and then we'll start to pick up again, and 1996 will actually be quite a good year. I just mention that as a random year. (Laughter)

As far as interest rates are concerned, I think that what we did in 1993, and I know most of you probably don't agree with the way we did it, but I think what we did was seminal in terms of its importance – I think that's the right word – in the importance of this economy. But I think that by bringing the deficit down and creating credibility in the markets, that in fact we are on a deficit reduction path for the first time in at least 15 years. I guess probably longer, 20 years maybe. I think we took most of – not all – but most of the deficit premium out of long-term rates so that now the long-term rates come down when the economy gets softer and they go up when it gets stronger and the system works the way it should. So my instinct is to – forget what the Fed's going to do, I don't really want to comment on that and you can ask Alan when he comes, he'll tell you – but I do think that medium and long-term rates will fluctuate as the economy is doing and I think that gives us a very good chance that if the economy softens as I kind of think it will for a while, but nevertheless continues growing, that it'll correct itself rather quickly, or with some reasonable speed and we'll do pretty well.

KENNETH LIPPER: Mr. Secretary, you spoke of not falling victim to an arbitrary date for budget balance. Nevertheless, the president did give a specific date of ten years.

THE HONORABLE ROBERT E. RUBIN: Ah, but not an arbitrary date.

KENNETH LIPPER: That's what we're getting at.

THE HONORABLE ROBERT E. RUBIN: Let us not lose sight of that distinction which I would be delighted to expand on if you would like.

KENNETH LIPPER: How fundamental is it that you have a fixed date and a specific plan for budgetary balance? And secondly, you enumerated a certain number of issues that you disagree with the Congress on as far as budget cuts – education, training – where are the areas of agreement and where are the areas of likely compromise with the Congress as far as the budget cuts are concerned? And finally, is this ambivalence about a fixed date having a negative impact on the dollar's value?

THE HONORABLE ROBERT E. RUBIN: Let me remember the parts I feel like answering and not the other parts. Again, what the president said, if you looked it in the Friday night when he broadcast to New Hampshire and then Tuesday when he spoke, wherever he was he spoke, I've forgotten now, what he said was that he didn't start with an arbitrary date and then figure out what kind of cuts he had to make, but rather that what he has been thinking about, and we spent a ton of time with him the last couple of weeks, is the tradeoffs to be made. If you cut the deficit by another billion dollars, but you do it by cutting courthouses that's one thing, if you get education that's another thing. So you go through all those tradeoffs, but with a very heavy emphasis on deficit reduction – he took enormous heat in 1993 in order to do what he did to the deficit – he obviously believes very strongly in deficit reduction. When you go through that process, it leads you to some sort of a deficit reduction path. And as he said, Ken, as you correctly cited him as saying, he felt that it could be done within the parameters that he set forward and the tradeoffs that he believes in within ten years and that was his statement on this subject. I think that in terms of where the compromises will lie with Congress, I think it's a little early to know where Congress is. These two budget resolutions, although similar in many respects, have an enormous difference in the tax area, and I think we have to sort of see how that works itself out. As the president has said on a lot of occasions, his priorities are education, training, the kinds of investments in human resources that he thinks are essential if we're going to be competitive five, ten, fifteen years from now. Those are things he will not compromise on. There are many, many other areas of the budget where we're simply going to have to cut in order to get the money we need for deficit reduction. I think I forgot one piece and I remember what the piece was....

KENNETH LIPPER: I get it. You don't speak about the Fed or anything...

THE HONORABLE ROBERT E. RUBIN: That's right, and it will remain forgotten.

MARSHALL LOEB: Mr. Secretary, could you address some comments please to the dollar. Why did we join with a dozen nations on Wednesday to intervene in world currency markets and buy billions of dollars? What prompted what appeared to be a rather sudden change in policy? And what consequences do you think this rather massive intervention will have?

THE HONORABLE ROBERT E. RUBIN: Well, I have had a, having spent 26 years on Wall Street and, as Jack said some fair number of them having some responsibility for currency trading operation, one of the lessons I took away from that experience is Secretaries of the Treasury ought not to comment on tactics and strategies with respect to the dollar because it can get to be a little bit unnerving to markets. Let me say, though – and that is where we are – let me say without question, without reservation, although I know there are skeptics, we believe a stronger dollar is very much in the interest of this country, number one. And number two, despite the enormous trade problems we are having with Japan, and that's something a lot of us feel very, very strongly about, we have not, we are not, and we will not use the dollar as an instrument of trade policy. The decision we made to intervene on Wednesday was made because, without commenting, and I will not comment on tactics, I shouldn't, but I have two things I will say. When the G7 met in Washington in late April, I guess it was, they put out a little statement at the end and most people sort of laughed it off and said it didn't mean anything. I said at a press conference that people were wrong, that it did mean something. What it said was that, in fact, I thought it meant a lot, what it said was that the Fed governors...I'm sorry, the G7 central bank governors, the G7 finance ministers had sat around for a day and it all had the same conclusion which is that the dollar was weak relative to the fundamentals and other currencies were overvalued relative to the fundamentals compared to the dollar. Once you have a common framework, Marshall, then you can sort of decide tactically what, if anything, you want to do as you go along, and we decided Wednesday was an appropriate time to intervene and therefore did. And the next time we decide it's appropriate, we also will. If we decide it's not appropriate, we won't. And that's not a change of policy because our policy is we intervene when it's appropriate. I'm probably giving away more than I should. (Laughter) If I say anything wrong, Bill will report me to Alan Greenspan and I'll get in trouble, so I have to be very, very careful.

KENNETH LIPPER: Secretary, you said you didn't wish to comment on tactics or strategy, can you perhaps explain a bit more, then what is our policy toward the dollar? You indicate that, as I interpret it, that the dollar is weaker than it should be. Is our policy to strengthen the dollar? And let me give you the opportunity just to answer some skeptics or critics. Some people have said that the dollar's day as the world's dominant currency has passed. Do you think there's any danger of that or any truth to that? And if so, what consequences might it have?

THE HONORABLE ROBERT E. RUBIN: I think we have an overwhelmingly strong self-interest in maintaining the dollar as the currency of the world. I really do. We can fund our debt in dollar-denominated securities or do other strange kinds of things like yen-denominated bonds or something like that. Oil is denominated in dollars. Other commodities are denominated in dollars. I think it helps our trade. There are a lot of advantages to having the dollar as the reserve currency of the world, and I don't think that's something that we should give up. And I think it's something that we should take very, very seriously, and we do. I think the most important thing we can do with respect to the long-term behavior and price action of the dollar is to focus on the fundamentals of the economy because I think if we do that, and if we have a healthy economy, a healthy fiscal situation, over the long run, I think we'll have a healthy dollar. I also think – that's one item – I think we also, I was going to say something else but it goes beyond the border that I want to cross. I'll stay with that.

MARSHALL LOEB: I just was hoping that you might midway come out with part of that sentence that you were about to...

THE HONORABLE ROBERT E. RUBIN: No, I really do think that...I'm going to stick with what I was saying. I think that if we focus on the fundamentals, the next administration, whoever it may be, us, four more years hopefully than somebody else, Gore or somebody...(Laughter)... if they focus on the fundamentals, and if we're successful at that, then I think over time the dollar will take care of itself.

MARSHALL LOEB: But the fundamentals have been strong for a couple of years now and the dollar has been weak for a while, 10% net production I think over the last year, how long is it going to take for the world to recognize these fundamentals or for these fundamentals to kick in?

THE HONORABLE ROBERT E. RUBIN: Marshall, I think that's one of the problems we have with economic policy in this country. Two years is a very short period of time. It really is. And I think that is one of the very serious problems we have in this country. Having said that, the dollar – well, you know this as well as I do – the dollar on a trade-weighted basis is, I think, down 4% or something like that in the last year. I may be a little bit off, but I think it's about that, isn't it Bill? About 4% in the last year. It's really a Yen, Deutsche Mark, Dollar triangular problem with some very minor currencies sort of playing around the sides.

MARSHALL LOEB: I want to be sure I'm understanding you correctly. Ultimately eventually the fundamentals will come through and the dollar the will rise to what should...

THE HONORABLE ROBERT E. RUBIN: I think if the fundamentals, my view, I think if the fundamentals are strong, then in the fullness of time the dollar will reflect the fundamentals. That's my view.

KENNETH LIPPER: Bob, we'd like to explore the conceptual building blocks of tax reform. Specifically, there have been a number of proposals like the flat tax, a value added, or other consumption type of taxes, and even some proposals that investment and savings should be exempted from taxation. What is the Administration's point of view on these basic building blocks, number one? And secondly, on a specific basis, is the President committed to vetoing a tax bill that contains capital gains tax reduction or is that an area of possible compromise?

THE HONORABLE ROBERT E. RUBIN: Let me start by saying that the tax proposal that has the most currency, at least politically, at the current moment, is Dick Armey's flat tax. I think, Ken – I actually was on Brinkley once with him on this thing, we sort of debated a little bit, sequentially, we debated sequentially – I think that when you look at the flat tax, it has a kind of appeal on the surface. The more you get into it, in my view, the more that you see what it has are inherent contradictions that cannot be solved. I do not think there's a prayer that the American people are going to want to have a flat tax once they really understand it. Treasury has estimated, although Armey doesn't accept our estimates, but that's because he's wrong...(Laughter) Treasury has estimated that his flat tax is about $180 billion a year short of deficit neutral. Now you can get back to deficit neutral, that's not a problem. But to do that you have to bring the rates up to about 22%, 23%. At that point, most Americans are going to be paying more than they pay today. That stands to reason because if a flat tax is going to reduce the taxes, as it will, of the most affluent and you're going to keep the same amount of money coming in, somebody else has to pay more, and the somebody else is going to be everybody else. I don't think that, that can possibly stand the test of real exposure. Beyond that there are a lot of very interesting ideas around. Sam Nunn and Pete Domenici have the Nunn-Domenici Tax Bill. It is thoughtful. It is carefully crafted. It is quite complex. We're in the process of evaluating it right now. My own instinct is to think that it is a very real contribution to the debate, but that it has just enormous issues attached to it that need to be explored. We have been spending a fair bit of time looking at all the proposals that are around, processing them, giving thought to things that we think are worth thinking about. I think that this whole area lends itself to over-simplification, and it's much more difficult to find things that actually work on analysis than sound appealing on the surface. Having said that, you know, we may or may not choose at some point to say something or not say something. As far as the capital gains tax cut is concerned, what the President has said is that there's a lot of ideology on both sides and that he would prefer to be a pragmatist. So he has the following criteria. He wants to test it by what effect it has on jobs, the standard of living, what affect on the economic growth, what effect it has on fairness, income distribution, particularly after 15 years of greater disparity in incomes. Is it fully paid for? And even if it is fully paid for, to go back to my first point, are you getting a benefit that is substantially in excess of what you're paying for? By that test, the capital gains tax proposal in the House contract, in our judgment at least, clearly fails. It's also kind of interesting, if you look at the academic literature, on the other hand, the targeted capital gains tax proposal in 1993, which favored, which provided capital gains reductions for companies, investments in companies that had a market value of $50 million or less, if you kept the investment for five years or more, patient capital in medium-sized, small companies, that was a proposal that we came up with, and the President pushed. And, as you know, it was adopted. So I think it just depends on the proposal, Ken. Let me just make one more comment if I may. If you look at the academic literature on capital gains tax cuts, it's kind of interesting. Because if you look, if you put aside those who were ideological and you just look at the people who were serious academics, they virtually all say the same thing which is that a capital gains tax cut is unlikely to produce significant increases in savings or investment which is contrary to the views of most business people. It doesn't necessarily mean the academics are right, but it at least should give people pause to think when they start to think about capital gains tax cuts.

MARSHALL LOEB: Trade relations have been under terrible strain. Might we be able to moderate our policy in such a way as to alleviate the tensions and perhaps lead the negotiations to a successful conclusion? Put another way, how can the difficult be resolved without igniting a trade war?

THE HONORABLE ROBERT E. RUBIN: Marshall, I have a copy of a 1971 Fortune Magazine. Have I told you that before? No, okay, maybe you remember seeing it. A 1971 Fortune Magazine article and it lists the leading foreign policy problems in the United States in that year. And I don't remember exactly how it was framed, but one of them was the Japanese, our trade deficit with Japan and their unwillingness to provide access to their markets. That's 1971; this is 1995, 24 years. The President came into office with a strong, strong commitment to opening markets and NAFTA was the best example of it because that certainly was not to his political, well, it helped him a little bit in the polls temporarily, but basically it meant going against the advice of his traditional political allies. But he is strongly, strongly committed to opening markets. He also came into office strongly committed to dealing with the question of access to Japan for two reasons. One, if you believe as he does conceptually in open markets, then it is very troubling to think of the loss of benefit that all of the major trading nations suffer because the second largest economy in the world refused to play by the same rules as all the other major trading nations. Secondly, he had the view, and I think rightly, that it's going to become more and more difficult politically to sustain free trade in open markets around the world when the second largest economy in the world is basically providing substantially less access than the other major trading nations. You asked before about something with respect to a two-year perspective. I don't think we can deal with this if we're going to change our policy every three months or six months. I think we need to be committed, and I hope and trust, that the successor to this administration, hopefully five years, five and a half years from now, whatever it is, or if it's Gore for eight more years, is still persisting with this thing because I think it's going to take a long term effort. And it's in the interest of the Japanese and it's in the interest of the other major trading nations of the world for access in Japan to become, roughly speaking, comparable to access in the other countries of the world. The autos are a symptom of it, auto parts are a symptom of it, but it's just a small piece of a much bigger problem.

KENNETH LIPPER: Turning to Mexico, what milestones and time lines should we observe in trying to estimate whether Mexico is on the revival, economic revival trail? And secondly, do you believe that any further financial assistance from the United States might be required?

THE HONORABLE ROBERT E. RUBIN: Well, the commitment we – let me answer both parts of that, but the second part first – the commitment we made, as you know, was $20 billion over the course of one year from the Exchange Stabilization Fund, and the commitment the IMF made $17.8 billion. We've put up $10 billion so far. They've put up $7.8 billion so far. We put out an announcement earlier this week – I've forgotten what day – saying that Mexico is doing things that we think they need to do. And our $10 billion, our second $10 billion is available beginning on July 1 which is when the second set of transfers are supposed to be done if needed. So it is absolutely available, assuming they continue to do what they're supposed to do. The IMF is in the process right now of reviewing what's going on in Mexico and I don't want to pre-judge what they will say or do. But I think it's fair to say that – well, no, actually I can say this – Camdessus, who is Head of the IMF, did say a few weeks ago that he was quite satisfied with what he had seen going on in Mexico. Ken, we monitor it every day. They now have timely transparency in the international markets, but with us they have it on a daily basis. We actually monitor the Central Bank and the relevant statistics every single day. And I speak to the Finance Minister once every week or two. I don't want to get too technical, but for those of you who are familiar with this problem, one of the big components was something called tesobonos, which were Mexican securities convertible basically into dollars. And the question was how would those, what would happen to those as we went through this process? And the answer is many more of them are being redeemed for pesos than for dollars which is very good. In the recent auction of 28-day paper, there was a lot of demand which is why interest rates came down as much as they did – rates have since gone up a little bit – but they came down a lot. So I think there are a lot of healthy signs, and I don't think it's so much of time lines, because we watch every day as a time line. And our view is that Mexico must persist in the set of policies that they themselves decided upon, this very, very rigorous and I think politically very courageous set of policies, and I think the things that somebody should watch are the tesobonos, the real money supply. The real money supply is down. The trade position, their trade position is now in surplus. The fiscal position, their fiscal position is now in surplus. And I think those are the things you have to keep watching. The banking area, as you know the banking system is a real problem. I think they're approaching it in a very sensible and thoughtful fashion, but clearly one has to watch that and see that that continues to get worked out. And then politically, politically can they sustain the recession and falling real wages that they are now experiencing and will continue to experience for quite some time as they work through this period of financial stringency to regain acceptability in the global financial markets.

MARSHALL LOEB: Mr. Secretary, you've had an extraordinary view from the inside of the public sector and the private sector. How would you define the differences between working as a leader and a policymaker in the private sector, as you did for so many years, and on the public sector? What are the major distinctions between these two roles? And I might add to that, what surprised you?

THE HONORABLE ROBERT E. RUBIN: What has surprised me? I guess that, let me answer the surprise and the differences in the same, and some things are surprisingly similar. Somebody asked me earlier this evening whether the people that I've worked with in the Federal government are comparable in quality to the people that I worked with in the private sector. And the answer is we have an extraordinary – I have been really overwhelmed...overwhelmed is not correct, but I have been extraordinarily impressed by the caliber of people that we have in the Administration. At the NEC we had a staff of about 20 professionals, that was the National Economic Council. I think we had 1.6 Rhodes Scholars, I think over half our people had graduated from college summa cum laude. Not that it means anything; I don't have any great brief one way or the other for academic credentials other than to say that was the case. All of them had had, well, all but me I guess, had had political experience. There are a lot of very, very good people who want to serve in government at least for short periods, you know, for some period of time. So I have been extraordinarily impressed by the political appointees, the people who have come in with the President. And I suspect that's probably true in every administration. The other thing that has struck me is how many very, very good people there are on the career staff at Treasury. When we first started in this, I thought to myself that if the White House was going to be riven with internecine warfare as so many others have been, I probably wouldn't have stayed very long. Instead what we've had, and this has been a great surprise for me and a very gratifying surprise, without which I don't think I would have stayed, we have had a remarkably supportive and mutually cooperative environment in this administration which I think probably is relatively atypical for Washington. A major difference between what I'm doing now and what I used to do in the private sector is the role of the media. I mean obviously if you know something about public life, you know the media is going to be playing a major role. But I don't think it's possible to appreciate how extraordinarily integral they are to your way of life until you actually get into government. And it's not just a question of being on the defensive, as it used to be at Goldman Sachs, we were happy if we were never in the media. But, you know, they liked to say things about us we didn't like so then we would get, we would go on the defense and we would try to minimize that. Maybe you planted some of them, Jack, I don't know. (Laughter) But here it's a whole different ball game because you're only going to be effective as an administration if you can get your message out to the American people. I think Ed Koch is sitting back there, I suspect he wouldn't disagree with it. So that I spend part of every day, and often it's a really remarkable part of every day, in some way or other working with the media, not for my benefit, because I really have no overwhelming desire for any more profile than I need to have to do my job, but to get our message out to the American people. Another difference is resource constraint. I thought being in the White House, I would have access to all the resources in the world. It is much, much harder to get the resources you need to do serious things. I think the people in the government are extraordinary. I really do. I have two special assistants right now at Treasury. Both of them are Rhodes Scholars. And it's not untypical of the kind of people we have around us. But in the private sector, if you've got a big problem, you need resources, you spend the money, you hire the consultants. You do what you need to do. Here, you are constrained by this extraordinary labyrinth of; if that's the right word, labyrinth of...it's not the right word as a matter of fact...this extraordinary overlay of regulations and rules and all the rest. And there really is a paucity of resources relative to what I was accustomed to in the private sector.

MARSHALL LOEB: Let me have one brief followup and that is speaking of the media, those who know him, including some who like and admire him very much, and some who like and admire him rather less than others, say that there's quite a distinction between the image of the President and the real Bill Clinton, as one encounters him. Do you agree that there's a difference between the public image and the real person? And would you care to give us a few insights?

THE HONORABLE ROBERT E. RUBIN: Yes. No, I would very much agree...let me just go back to your other question, then I'll answer this. One more comment on the other question. The processes of government – and those of you who have been in government know this, I know Jack was in for four years, Dick has done public work, Bill's in, a lot of people here probably have done this – the processes are remarkably different from the processes of the private sector. And I think what you've got to do if you're going to be effective in government is you've got to go into it with a lot of, with a very open mind and learn how those processes work and then work in the context of those processes rather than bring with you the modes of behavior and the modes of operating that you were accustomed to in the private sector. Yes, I think the President, it's funny, I've gotten to know him quite well. I worked two years in the White House and I saw him all the time. And even now, although I'm in a different building and I'm running Treasury and all the rest, I see a fair bit of him. Let me just give you one little example, Marshall, my impression is that in the public domain he is viewed as being, having a tendency to waffle somewhat, as being somewhat irresolute from time to time. If you sit where I sit, I think you'd have a totally different impression. He is a guy who loves to process information. If you go to him with a question, he wants to know everything. He wants to know the pluses. He wants to know the minuses. He's one of the easiest people to speak with and work I have ever, ever dealt with. If he thinks, it's interesting, I was in a meeting with him, a long meeting actually, two days ago, and he looked over and he saw somebody who was just sort of leaning eagerly across the table, wasn't saying a word, and you could see there was something on the guy's mind. And he said, you know, why don't you agree? He just wanted to see, was there something else he needed to know. I think when the American public sees that, and unfortunately he does it in public so they do see some of it, I think they get a sense of irresolution or indecision. I think that is totally absolutely wrong. I wrote an Op-Ed piece in the New York Times in which I said I thought he was as good as any decision maker I had ever worked with in the private sector. We went to Mexico, Alan Greenspan and I went to Mexico on a Monday night when the Congressional effort had failed, the peso was at a record low, we felt that Mexico would default within two days. And we said, Mr. President, and this is when we said 80% of the American people do not want you to intervene in Mexico. Here are the facts. Here's our analysis. If you don't intervene, default, spillover effect, all these problems. If you do intervene, 80% of the American people think you're wrong. He went through it. That was also the night I got sworn in actually. When we heard I had gotten the vote on the Senate floor, a lawyer came in, swore me in, went out again, we went back to work. And it took him about, I don't know, a half hour, forty-five minutes, he said let's go. So I'd say that the public image of him in many respects, Marshall, is in my judgment, different than the reality. And the reality, I think, is most extraordinarily impressive. I think he probably also has one of the best minds I've ever encountered any place. He has an amazing analytic ability and he must have something close to a photographic memory. He knows, and this is really true, he knows more facts about the stuff that I'm involved with, for the most part, than I do, and I'm involved with only my stuff. He's involved with everything. So, yes, I would say that...he is also very substantively oriented. At the end of the budget process we were arguing with him about something – I don't remember what it was anymore – and one of the people from the White House said, you know, Mr. President, if you do that, it's going to be politically murderous and all the rest. And he's a politician, a very good politician. He turned to this guy and he said, look, you know, we've got to make decisions on all kinds of basis, but he said, basically we've to got to figure out what's going to work for this country, and if we do that, then that will work for us politically. And that really is kind of the way he operates. So, yes, I think that the image of him is quite, in certain respects is quite at variance with what I think is a most, most impressive reality.

KENNETH LIPPER: The Administration has supported raising the minimum wage by up to $1.00. In light of the economic slowdown, is this still a priority with the Administration? And in your opinion, how will this affect those workers who are most vulnerable in an economic decline?

THE HONORABLE ROBERT E. RUBIN: Ken, I'm no great expert in the minimum wage but I was part of this decision making process, and there were two studies that had been done in the relatively recent past. And I apologize, I've forgotten the names of the people who had done them, but they're both by very respectable academics, one of whom had been in the Clinton Administration and one of them had not been. And they both reached the conclusion that a moderate increase in the minimum wage, and if I remember correctly, I think I'm right in this, I think they said a increase of a dollar or less or something like that, would have either little or no effect on employment in their opinion. Yes, I think it's something that we should do. I don't think, assuming that their view is right; the answer is it should have very little effect on unemployment. I really do think we should do it. I think people at the bottom of the economic ladder have virtually no bargaining power. The market doesn't really work for them in an effective fashion. And I think we have a terrible problem in this country. We have this enormously increased disparity in incomes. People who are at the bottom of the scale in many cases are better off on welfare than they are working. And I think a combination of increasing the minimum wage and maintaining the earned income tax credit – I don't know how many of you are familiar with the earned income tax credit, but the earned income tax credit is a credit that goes to people, tax credit, it goes to people who earn less than $28,000 a year. I happen to know quite a bit about this. I've learned about it since I've gotten into this job. It is a real incentive for people to work rather than to be on welfare. And I think that it is very important that we both increase the minimum wage and not reduce, as the Senate Budget Resolution seeks to do, the earned income tax credit.

JOHN M. HENNESSY, CHAIRMAN: I think we have time for one more question, Marshall.

MARSHALL LOEB: Well, I was going to ask you about Social Security and what your ideas are about reforming Social Security so it won't go bankrupt or run into trouble. And you can answer that question, but I can't resist asking you another...and take your choice really...and that is you talked about crime and you're the second biggest crime fighting office in the U.S. Government. What can you tell us, what do you know now that perhaps you didn't know two and a half years ago when you went to Washington this time about what people in this audience, what all of us can do to make this a better and safer community than it may be now?

THE HONORABLE ROBERT E. RUBIN: Let me take the second question, if I may. I mean I would take any question other than Social Security, but the second question also happens to interest me. Some of you may not agree with what I'm about to say but, I think that there are things that we can do legislatively that could have a real impact, and they go into at least two categories that come to my mind. In the crime bill last year, what we tried to do was to put in as much as possible that dealt with what I would call the causes of crime rather than punishment of crime. I'm going to the South Bronx tomorrow. I'm going to spend two and a half hours in the South Bronx to look at some of the things that have happened as a result of CRA and the CDCs and CDFIs, and these various other programs that brought – actually a lot of good things have happened in the South Bronx. I think it is desperately important for the economic and social future of this country that we deal with our inner cities and that we address the causes of crime and not just punish crime. So I think one thing people can do, and I suspect it may go against the politics of a lot of people in this room, is I think we should be strongly supportive of programs like Head Start, Job Corp, school lunches, summer jobs for kids, and all of these programs that have been shown to have a beneficial impact with respect to the problems of the inner city. The second thing I think we should do is to support gun control in all of its forms. The Brady Bill was a very limited measure when you look at it but it was the best we could do, it was the most that could be done, and it was important, I'm not saying it wasn't. It was very important. But it was the most you could do in Congress. It is hard to imagine why people have to have assault weapons. I don't hunt, but I still think if I did, I'd hunt with a rifle, not with an assault weapon. Nevertheless, there is an enormous effort right now to overcome or to repeal our ban on assault weapons. There's a little thing called a taggant. You put it in fertilizer and you really can trace back fertilizer that is used, as that fertilizer was used in Oklahoma, to create an explosive. People in law enforcement, Treasury, think it can make a real difference in terms of dealing with terrorism. NRA and others are strongly opposed to taggants. So I think that people can, whatever their politics, can enlist in the effort to deal with gun control. And the third thing, and it's coming up now, hard and heavy, is I think people can be supportive of Federal law enforcement efforts and I think that they can work with the political people they know and people in Congress to oppose the efforts to undermine the Federal law enforcement effort. There is going to be a hearing starting in the middle of...well, I've forgotten when it is, but in a month or month and a half, that's going to focus on Waco and Ruby Ridge and the like. There clearly were problems a Waco and there clearly were decisions that were made by Federal law enforcement officers that could have and should have been made otherwise. The top people at the ATF lost their jobs over it. None of that – but every organization has problems, when they have problems, they should be dealt with — but none of that, in my view, has one scintilla of basis for denigrating law enforcement officers, for undermining law enforcement officers, or for attacking law enforcement officers. It's also worth remembering in Waco that there was a search warrant that had been properly obtained, that there were 46 machine guns in Waco. There were hand grenades. And there were boxes to make assault weapons. This was not an innocent religious group who had gathered around to engage in whatever their religious practices were. But it is being misrepresented and distorted; (a) to justify what happened in Oklahoma, which as I said before is outrageous, and (b) to attack the Federal law enforcement establishment. And I think one thing people can do, Marshall, is to tell their elected officials that that is just absolutely outrageous and dangerous.

(Applause)

JOHN M. HENNESSY, CHAIRMAN: Thank you, Bob Rubin, for an absolutely terrific performance. Welcome home! Marshall, thank you, and Ken as well. I declare the evening adjourned.