

THE ECONOMIC CLUB

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Signature Event

Robert E. Rubin

Speaker

Robert E. Rubin

Former U.S. Treasury Secretary

Co-Chairman, Goldman Sachs

Moderator

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Chairman

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DAVID M. RUBENSTEIN: We now have the pleasure of hearing from Bob Rubin, who is our 70th secretary of the Treasury. And I'll cover his life in the interview, but briefly for those who may not be familiar with his background, Bob is born in New York City. Raised in Miami Beach. Graduate of Harvard, summa cum laude. Attended Harvard Law School for three days, quit – [laughter] – went to London School of Economics. Came back. Went to Yale Law School. Graduated.

Practiced law in New York at Cleary, Gottlieb, and then got a job at Goldman Sachs in the risk arbitrage department. Rose up to head that department, and later became the co-senior partner and co-chairman of Goldman Sachs. And after 26 years there, came to Washington to run the NEC,¹ which he helped to create at the White House under President Clinton. After two years of that, he became secretary of the Treasury. Served for about four-plus years. And during that time –

ROBERT E. RUBIN: Four and a half.

MR. RUBENSTEIN: Four and a half years. [Laughter.] OK. And during that time, we actually had a – as a result of his efforts, among others – a budget surplus. Now, that is when the government of the United States takes in more money – [applause, laughter] – than it spends. So a rare thing. Three years –

MR. RUBIN: You got that down right.

MR. RUBENSTEIN: Right. A rare thing. And then Bob became the chairman of the executive committee of Citi Corp. Did that for a number of years. Now he's a senior counselor to Centerview Partners, which is an investment banking firm in New York. And he was the co-chair of the Council on Foreign Relations with Carla Hills for a number of years, about a decade. And also was the founder of – co-founder of The Hamilton Project. And now he has a new book called "The Yellow Pad."

So what is "The Yellow Pad"? What is the meaning of that title? And why did you now want to write a new book?

MR. RUBIN: [Laughs.] OK. You know, David, about three and a half, four years ago, something like that I was thinking to myself that I've seen a fair bit of life. You know, David just went through the resume. Well, resume is the wrong word, but through the life history. And I felt like reflecting on it, but not to look backward but to look forward. And so I spent about three and a half years, maybe four years actually, writing this book. And I wrote about policy issues that interested me. I wrote about investing, management, all sorts of other things. I spent my whole life around investing.

But underlying it, David, I think – and I think this was the key – underlying it was a view that all issues are about uncertainties. I took a course in philosophy at Harvard sophomore year. A man named Demos – Raphael Demos taught it. And he took us through the great thinkers of the ages, much of which I didn't understand. [Laughs.] But nevertheless, for those of you who

¹ National Economic Council

read those things, you'll know why I didn't understand it. I still got an A in the course, I might add. [Laughter.]

But what occurred to me after a while was he had an underlying purpose. And the underlying purpose was to give us a sense that nothing was provably certain. And if you really – once you reached that conclusion, then it seemed to me – but this was my own extrapolation – that all issues and all decisions are about probabilities. And it's that view, David, that underlies the whole book.

MR. RUBENSTEIN: OK. Well, from reading the book, which I did read and enjoyed, what I took away was –

MR. RUBIN: How many did you buy?

MR. RUBENSTEIN: What? [Laughter.]

MR. RUBIN: How many did you buy? With all that carried interest that you got – [laughter] – what did you do with it? You could have bought a lot of books.

MR. RUBENSTEIN: Well, as I recall, you have a son who was interested in carried interest. He supported it at one point. Didn't you – your son didn't persuade you that carried interest was good?

MR. RUBIN: He still supports it. [Laughter.]

MR. RUBENSTEIN: OK. So Bob is – [laughter] – Bob is not a big fan of carried interest, but we'll put that aside for a moment. [Laughter.]

MR. RUBIN: Oh, I think it's a major national issue. I agree with you about that.

MR. RUBENSTEIN: I think it is important.

MR. RUBIN: It's just – it's just we have different views on it – on that issue.

MR. RUBENSTEIN: So, OK, let's talk about – [laughter] –

MR. RUBIN: No, I want to talk about carried interest.

MR. RUBENSTEIN: Carried interest? [Laughter.] So "The Yellow Pad," essentially what I took away from it is when you have a decision to make, you know, outline the pluses and the minuses of the decision, and look at it in a very careful way. And you've tried to do that in your life, but you point out in the book sometimes you made decisions that were rash where you didn't use the yellow pad approach. And we'll go through that in a moment. But let's take you through your life a bit. I just gave everybody a summary of it. But you grew up in Miami Beach. And so were you a superstar athlete? Were you a great student?

MR. RUBIN: No. I certainly wasn't anything of an athlete. And I liked athletics, but I didn't want to do – you know, they do a lot of running and stuff, they get in condition. I didn't want to do that. So I went out for one of these teams and I thought it was ridiculous, they keep running up and down the field. And I wasn't going to do that. So I stopped. [Laughter.]

MR. RUBENSTEIN: So, all right, so, you must have been a pretty good student. How did you get into Harvard?

MR. RUBIN: You know, I was a pretty good student. I wasn't a great student. And I wasn't going to apply to Harvard. I did well in one kind of thing – the aptitude tests I did well on. But I wasn't a great student. And I wasn't going to apply to Harvard. My father said you should apply to Harvard. And I said it's ridiculous. I'm not going to get in. Why bother applying? So he finally said, apply. And I did.

MR. RUBENSTEIN: And you got in.

MR. RUBIN: And I got admitted. And as you know, I think, because it was in the book – [laughs] – about – I don't know, a few years ago – I was on the Harvard Corporation for 12 years, which is the governing board of Harvard, and then on the financial committee, which you, of course, were on, for eight years. It was 20 years I was in the governance structure of Harvard. I called Bill Fitzsimmons, who was a good friend of mine – well, good friend is an overstatement. But I know – who I know well.

MR. RUBENSTEIN: The dean of admissions

MR. RUBIN: The dean of admissions, yes. The dean of admissions. And I said to Bill, do me a favor, just look back in your records and see how I got in because I don't think – I think it's sort of strange that I got in. But I said one thing you got to promise me if you do this is that you're not going to withdraw the acceptance. [Laughter.] So he called me back about, I don't know, three, four weeks later. And said, you know, I'm not exactly clear you got in. [Laughter.]

MR. RUBENSTEIN: So, well, if you hadn't gotten into Harvard, where were you going to go?

MR. RUBIN: Columbia.

MR. RUBENSTEIN: Columbia? OK. [Applause.] You got into Harvard, but you must –

MR. RUBIN: Yeah, Columbia is a really good place. It is, yeah.

MR. RUBENSTEIN: So you graduated summa cum laude. So how did you do that? It's the top 1 or 2 percent of the class. So what did you major in, economics?

MR. RUBIN: Yeah, about top 2.2 percent, just to be –

MR. RUBENSTEIN: Really?

MR. RUBIN: Not that I paid attention, but – [laughter]. You know, it's strange. I don't know, David, I honestly don't. And I was a pretty good student, but, I must say, I was not one of the people that the professors got friendly with. I wasn't somebody who people looked to and said, gee, there's a great student. And somewhere at the very end, when they added all the pieces up – you know, your grades, and your general exams, and my thesis, and, I don't know, that's where they came out. So they did.

MR. RUBENSTEIN: OK. All right. So you went to Harvard Law School for three days?

MR. RUBIN: Yeah. Yep.

MR. RUBENSTEIN: Why not four days, or why not to finish the first year, at least?

MR. RUBIN: Well, four days would have been 35 percent more than three days.

MR. RUBENSTEIN: OK.

MR. RUBIN: So, no, I went to Harvard Law School, and it was the darndest thing. People were buying textbooks. They were talking about torts and contracts, all kinds of things that I had – and with great intensity and concern. I had no interest in any of that stuff. I thought I got to get out of here. So I called my parents and said: I'd like to go to the London School of Economics for a year. And then I'll come back and do whatever I want to do. And they were OK, which surprised me a little bit, frankly.

But then I went to the dean of admissions at Harvard, because that's what you had to do. And I said – and this was three days. I said I'm withdrawing. He said you can't withdraw. I said, well, I think I kind of can do if I want to. And he said, well, we won't readmit you. So I said, well, you ought to look at my record. Maybe you will. So then he said, OK. He looked at it. He said, if you will go to a psychiatrist and get a letter from a psychiatrist – and I'll send you to somebody – that says this is a rational thing to do, then I'll readmit you. So I went to see the psychiatrist. And when we finished, he said: You're fine, but I think this dean of admissions should see me. [Laughter.]

MR. RUBENSTEIN: OK. So you went to London School of Economics.

MR. RUBIN: Oh, that was a great year, David.

MR. RUBENSTEIN: What did you do there?

MR. RUBIN: Well, I was something they – I don't imagine they have this anymore. But in those days, they had this thing called occasional – no, not occasional – no, it was called occasional students, something like that. I don't know what it was. So I got a little room. And I would go in every morning when I felt like it. And I would look at the list of lectures being given, because that's what – they post them there, David. And I'd go and do what I want to do. So I basically had a year of no responsibility, because I didn't get grades. And did what I wanted to do.

MR. RUBENSTEIN: All right. So when you want to go back to law school, why didn't you go back to Harvard?

MR. RUBIN: Two reasons. One is, I had the impression that Yale was more of a – had a more liberal artsy kind of orientation. And number two, I had an impression that Yale would be easier. [Laughter.]

MR. RUBENSTEIN: OK. All right. So you went to Yale. How did you do there?

MR. RUBIN: Now, let me say, by the way –

MR. RUBENSTEIN: Yes?

MR. RUBIN: For many years now, the relative yields of roughly 82 or 83 percent of the people accepted by both Harvard and Yale Law Schools go to Yale these days. That wasn't true in those days.

MR. RUBENSTEIN: And you had some famous people in your class?

MR. RUBIN: Well, we had two who ran for president, Gary Hart and Jerry Brown.

MR. RUBENSTEIN: Were they better law school students than you, or?

MR. RUBIN: No.

MR. RUBENSTEIN: No? OK. [Laughter.] So you graduated from Yale.

MR. RUBIN: I mean, I wasn't a terrific student either. Well, I was pretty good, actually. But Jerry, who was a terrifically interesting guy, as you know, Jerry was close to the bottom of our class, I think. I may be wrong. Don't – I don't want to get sued for slander. [Laughter.] So maybe – that's a long time ago. I could be wrong. Maybe he was a star, I don't know.

MR. RUBENSTEIN: Jerry Brown, was he at the top of the class, or?

MR. RUBIN: Jerry Brown?

MR. RUBENSTEIN: Yeah.

MR. RUBIN: Only if you'd looked at it with a telescope. [Laughter.]

MR. RUBENSTEIN: OK. So you graduated from Yale Law School and you went to work in New York as a lawyer at Cleary Gottlieb. And did you love the practice of corporate law?

MR. RUBIN: No, but I thought the firm was terrific, David and I still do. Just culturally, I liked it. But I was there for about a year. And I figured, hey, I'll never become a partner. And so it's a

question how long you stay before you leave. And, secondly, I got very friendly with a 44-year-old partner who graduated first in his class from Harvard Law School. Terrific guy. But I watched what he was doing. And I thought to myself, number one, I'll never be him. And, number two, even if I did become him, which I won't, I don't want to do what he was doing. And then I was working on some investment banking project as the junior lawyer, I thought to myself, what they do is a lot more interesting than what we're doing, and they get paid more for it. So if that's the case, why don't I go there?

MR. RUBENSTEIN: Well, was it hard to get a job at Goldman Sachs? You had no finance background. Did you just apply, and they just said, yes?

MR. RUBIN: No, it really was the strangest thing. I did have quite a good resume in college, as David said. So I sent out a letter to all these different firms, figuring they would all offer me jobs, and then I'd decide where I wanted to go. Zero people offered me jobs. [Laughter.] And I don't think this is because they knew me or something, it's just – [laughter] – although maybe they did. Maybe they checked around a bit, and they said, well, who wants this fellow? I don't know. Anyway, nobody offered me a job. I think the reason basically, David, was in those – remember, this was a long time ago. The firms were much smaller and they weren't hiring lawyers, because –

MR. RUBENSTEIN: Right, so how did you get to Goldman, then?

MR. RUBIN: Because I met somebody who, in turn – [laughs] – met a partner – knew a partner at Goldman. And the partner at Goldman, luckily for me – though I had no way of knowing this, obviously – was thinking he really wanted to leave Goldman, but he felt – he had a very special job at Goldman, and he felt he couldn't leave unless he had somebody there that he could train. Develop somebody to take his place within a relatively short order. And he offered me a job to do something called risk arbitrage, which I knew nothing about.

And this was an example of a decision, David, where I didn't do any probabilistic analysis or anything. I just said I want to do this. And I did. And it turned out that temperamentally, I was – it was a high-risk business. This was a business where you were committing the firm's capital, and you could lose a lot. In 1980 – one month in 1980, we lost more money than the whole firm had ever made in a year. So this was a high-risk business. But it turned out that temperamentally, psychologically, I was well suited to it.

MR. RUBENSTEIN: Well, for people that aren't familiar with risk arbitrage, essentially, you're betting on announced mergers, whether they're going to be completed or not. You're not anticipating somebody's going to buy a company and getting there ahead of time, which often involves inside information, and so forth. You wait for a deal to be announced, and you assess the probability that it's going to close. And that's what you were doing?

MR. RUBIN: Yeah, that's what I was doing. But the problem, David, you're assessing those probabilities. And if you turn out – you think the probability is, whatever, it doesn't matter, 70 percent and the 30 percent materializes, you can lose a lot of money. It was a very high-risk business, but it was at the center of the firm's profitability.

MR. RUBENSTEIN: Right, but so you lost a lot of money the year you just referred to. Were you afraid you might get fired?

MR. RUBIN: No, my mind doesn't work that way. The question was, what should the firm do? And I went to the – then we had co-senior partners. I went to the co-senior partners, and I said: Look, we've had these very large losses. But I think what we should do is look at every position – what happened, David, when it was the post-Volcker² period. I'm sorry, not the post—it was the Volcker period, and interest rates went way up. And that changed the environment for everything that was going on – at least most of what was going on. So we really did lose a lot of money.

So I went to the two of them and I said, you know – at that time, I was sort of a lower-middle income – lower-middle level partner. I went to them and I said: Here's what I think we should do. I think we should take every position. I think we should analyze it probabilistically, OK, risks-rewards in terms of current conditions, and decide which ones to sell, which ones to keep, and maybe even – maybe even, in some cases, add positions.

And they had a partners meeting. And none of these people understood arbitrage. They were all investment bankers. And I went through this with them, with the whole partnership. Remember this was their money. We were in partnership. We're in a public company. And at the end of it, they said, OK. I think most firms, as you suggested, David, would either have said, get rid of these positions, we can't live with this, or we'll get rid of these positions and we'll also get rid of you.

MR. RUBENSTEIN: All right. So you headed up the risk arbitrage department. Obviously turned things around, did well. And you rose up to be, with Steve Friedman, the co-CEO of the place. What did you do that deserved to be – make you the co-CEO? Were you a very big profit maker? Or you're just a nice guy, you're a smart person? What is it that led you to be the co-CEO?

MR. RUBIN: Can I choose amongst the three?

MR. RUBENSTEIN: Any of those. It can't be all three.

MR. RUBIN: I'll take nice guy. [Laughter.]

MR. RUBENSTEIN: All right.

MR. RUBIN: No, I think, David, what happened was that it sort of was almost an organic kind of thing. Steve and I actually became the co-COOs, but John Weinberg, who was the CEO, didn't want to deal with managing the firm. He wanted to deal with clients, at which he was extremely good. Yeah, he was – he was extremely good at that. So Steve and I ran the firm for seven years, first as COOs, and then as CEOs. You know, it's just it's funny, David. And I know I've been through a lot of search processes as a company, so I know this is not usually the case.

² Paul Volcker served as the 12th chairman of the Federal Reserve from 1979 to 1987.

This was a case where it was just sort of organic, it was natural. We were there. I was running – by that time, I was really responsible for all the risk activities. And Steve was head of M&A, and basically head of investment banking. And we were the natural people to become the CEOs. And we did.

MR. RUBENSTEIN: OK. All right. So you did that for a while, and you were involved in politics. You were helping fundraise for some Democratic politicians, right? And the reason you were a Democrat, not a Republican is because? A lot of people on Wall Street are Republicans. Not all, of course. But so you were always a Democrat?

MR. RUBIN: Yeah, but I don't think – yes, I was always a Democrat. Initially, it was because my parents were Democrats. My grandfather ran – not for – he didn't earn his living this way. He earned his living as a lawyer. But he ran the most significant political club in Brooklyn, in the days, David, when those political clubs really ran Brooklyn. And so I'd seen this. And I guess whatever psychological or other reasons, it was something I'd always wanted to do.

MR. RUBENSTEIN: Right, so you supported a candidate who was a governor of Arkansas named – what was it – Bill Clinton.

MR. RUBIN: Bill Clinton.

MR. RUBENSTEIN: So you supported this candidate. He wasn't that well known then. And after he got elected did he say to you: Guess what? I'd like you to be something or another? Did you ask him for a job, or he just called you up?

MR. RUBIN: No, it was the strangest thing. I got started in politics in 1972 when I went to Joe Fowler. Joe had come – I don't know if any of you remember Henry Fowler, called Joe. He had been secretary of the Treasury and then he came to Goldman Sachs. And I said to him: I said, I would love to get involved in Democratic politics. You got any ideas? And he said, I will introduce you to Bob Strauss. And I don't know how many of you knew Bob, but he was a remarkable human being. I thought he – the world has changed. You couldn't be a Bob Strauss today. But he was – and David, of course, knew him well.

So I worked with Bob on raising money for Democratic candidates for the Senate and the House. And then as time went on, David, I got more and more involved with different – and then particularly with Fritz Mondale, who I thought was just terrific. I think he was a terrific – you knew him well, because you were in that White House. And then Clinton ran. And what he did is he took about eight people – I didn't raise much money for Clinton, for some reason. But he took about eight people or so, and he used them as outside validators for his economic policies. And since I thought what he was doing was sensible – not in every single instance, but for the most part, I was very happy to do that.

When he won, they called me – Warren Christopher, Chris, the head of the transition, called me and said: Come down. The president-elect wants to meet with you. So I went down. I spent two hours with him, David. And when I got – when I finished I called my wife and I said: It's the damndest thing. I spent two hours with this guy, he's going to be president of the

United States, he didn't ask me anything about economics. He was trying to figure out what I was all about.

MR. RUBENSTEIN: OK. So some people might say that the person who is running Goldman Sachs might be, like Joe Fowler, qualified to be secretary of Treasury. But they offered you a staff job in the White House. So one day you're running Goldman Sachs. You've got thousands of people working for you. And the next day you've got a windowless office in the West Wing on the second floor. Did you ever think twice about taking that job?

MR. RUBIN: Here's another instance where I didn't go through a probabilistic process. [Laughter.] I was asleep at 2:00 a.m. in Germany. I was visiting a client. And the phone rang. And it was Warren Christopher. And I'd known Chris from other things. And he said the president-elect would like you to be head of the new National Economic Council. And I said, OK. I had no idea what this thing was going to be. I had no idea whether one could make it work. When I got home and I told my wife, she said: Don't you think you should have talked to me about this? [Laughter.] And I said, well, I think we did talk about government at some point, didn't we? And she said, yeah, but we didn't talk about you moving to Washington.

But, David, you know, I've thought about this, I didn't go through any probabilistic process. And people like Fritz Mondale told me – well afterwards, not at the beginning – that I was crazy, because how the hell are you going to make something – we set something up. What President Clinton set up was like the NSC. And the Cabinet members were all, in effect, work through the NSC – excuse me – work through the NEC and coordinate, and then bring him whatever sorts of views they had through the NEC. And people said to me, you'll never get it to work. No Cabinet member is going to agree to go through you. But you know something? They did. And it worked, because he supported it, David. If he'd let people go around it, it never would have worked.

MR. RUBENSTEIN: So you took the job. And were people at Goldman surprised that you would leave for a newly created staff job in the White House? Or they said it's a great job?

MR. RUBIN: Oh, I think a lot of people were very surprised, David. As you said, I was – you know, Steve and I were running Goldman Sachs, a pretty significant place. But, you know, I never felt that way about it. In fact, I felt that the – when I went into the White House, OK, on inauguration day, I walked in with Gene Sperling and Sylvia Mathews, now Sylvia Mathews Burwell. And we walked into the White House. I looked at Sylvia and Gene because they were going to be part of my little NEC group. And I said, OK, now we're in the West Wing. What do we do? So I had not the foggiest notion what to do. So I called my parents and I said: I'm in the White House. And that's what I did. But Sylvia and Gene figured it out, and so –

MR. RUBENSTEIN: So after about two years Lloyd Bentsen became secretary of Treasury at what today seems like a young age, then it was considered old, it was 72. [Laughter.] He's too young to run for president at that age, so – [laughter] – so at 72 he decided ultimately to retire, I guess, and maybe run for president later when he was older. So you were offered the job of secretary of Treasury. And did it take you a long time to say yes?

MR. RUBIN: No. [Laughs.] No, what happened, the president never offered me the job.

MR. RUBENSTEIN: How'd you get it then?

MR. RUBIN: Leon Panetta was chief of staff. He called me one day – because, you know, I was always back and forth between the Treasury and the White House. He said, come on over I got something to talk to you about. I said, great. So I came over to the chief of staff's office. And Leon was sitting there. And he said the president would like you to be secretary of the Treasury. So I said, well, OK.

MR. RUBENSTEIN: All right. So you got the job. And you were confirmed 99 to zero.

MR. RUBIN: Well, it was 99 to zero, with one abstention.

MR. RUBENSTEIN: Oh, so one person was –

MR. RUBIN: Jay Rockefeller was out of the country.

MR. RUBENSTEIN: Oh, OK. So it's very unusual to get confirmed that readily today.

MR. RUBIN: [Laughs.] It wouldn't happen today, David.

MR. RUBENSTEIN: So you get the job. And then all of a sudden, you've got some problems on your hands. Mexico is going bankrupt. Did you say, we should bail out Mexico right away?

MR. RUBIN: I'll tell you what happened. I went to the Oval Office with the general counsel of Treasury, my wife, and a few other people. And the president swore me in. Then Larry came – and Larry Summers was there. So then everybody else left, except Larry and me. And Larry, Alan Greenspan, myself, and Stan Fischer at the IMF had been talking about Mexico quite a bit in preparation for whatever we were going to do. So we went to President Clinton and we said: We think we should provide very a substantial financial support program to Mexico, albeit it had to be conditioned on Mexico doing this, that, and the next thing.

And it was very interesting. Remember, he had just gotten killed in the '94 elections. And George Stephanopoulos was there, and somebody else, I've forgotten who. And they said to him, the politics of this are terrible. And even though the politics were terrible, David, he looked at it, he talked about it. We said to him – and we said, this is a matter of probabilities, and there's no guarantee. This could – this could not work. And he looked at it, and he said: This is what we're here to do. And we did it. And he decided to do it.

MR. RUBENSTEIN: All right. And so it worked. You made a – the government made a \$580 million profit, more or less, you know, ultimately.

MR. RUBIN: You know – [laughs] – I don't remember the numbers, but I do remember we made a big profit.

MR. RUBENSTEIN: OK. Well, that's in your book.

MR. RUBIN: That was in my book. [Laughter.] Then it's probably – and then we had two and 20 for it.

MR. RUBENSTEIN: OK. Well, you should have. You should have gotten carried interest on it. [Laughter.] You got to have carried interest.

MR. RUBIN: That's why I'm such a – that's why I have strong views on carried interest.

MR. RUBENSTEIN: All right. [Laughter.] So let me ask you, what – how did you come about – there were budget deficits for a long time. What did you do that helped engineer the budget surplus? I think there were three years in the latter part of the Clinton administration where you had budget surpluses, which were unheard of at the time.

MR. RUBIN: You know, David, it's an interesting story in what it says about today. In '93, we passed the Deficit Reduction Act. And we passed by, if I remember correctly, one vote in the House and I think one vote in the Senate. I may be slightly off on that, but they were very close. We were sitting in the – as you know, there's the Oval Office and then there's that little office right next to it. And the president was in the little office right next to it with a few other people. And I was there. And it was very close. We almost didn't pass it.

That was a totally partisan vote. But in '97, and this is what, I think, is interesting. In '97, the president and Erskine Bowles, who was the chief of staff, were negotiating with basically Trent Lott about what we should do. And we got ready for the final phone call. And I said to them: Mr. President – Mr. President, one thing we cannot do because it does us no good economically and had all kinds of other reasons not to do it, is lower capital gains tax. He said I understand that. We will not lower it. I said, terrific. And then he got on the phone with Trent, and he started talking to Trent Lott. And they were back and forth. And all of a sudden, I heard him say: Well, Trent, you want lower capital gains taxes? And he said, yes. He said, OK, we'll lower them. [Laughter.]

I was sitting there like this. This was the one thing we agreed not to do. But you know something? That reflected extremely well on him. Because what he understood was – the two things he understood about that – well, there were a lot of things, a very bright guy. But the two points were, one, that once again, this was a matter of probabilities. But, secondly, he was willing to engage in the give and take of compromise, do something he didn't want to do, in order to do – achieve what he thought was a bigger purpose. That doesn't happen today, David.

MR. RUBENSTEIN: So do you support the lowering of capital gains anymore?

MR. RUBIN: I'm as negative about it today as I was then.

MR. RUBENSTEIN: Yeah, but today do you generally believe in the lowering of capital gains tax, or you're not a big fan of that?

MR. RUBIN: I think that and carried interest are in the same category. [Laughter.]

MR. RUBENSTEIN: All right. So, OK, so you're secretary of Treasury. And you have – with about two years to go, you step back and you leave the government. Now, a lot of times people at the height of their power, which you had as secretary of Treasury, say: Hey, I'll stay for another two years. Why did you leave two years before the administration was over?

MR. RUBIN: Well, it was a year and a half, actually.

MR. RUBENSTEIN: A year and a half, OK.

MR. RUBIN: Yeah. You know, I had been in government six and a half years. As some of you know, because you've been in government, it is all-consuming. And I will tell you, we had the – we had the Mexican financial crisis, the debt limit – the debt limit fight in 1995, much like it was this time except it went on longer. And we had the shutdown of the government. And we had the Asian crisis. We had a Russian crisis, which had all sorts of geopolitical complexities to it. I was just tired. And finally, when the impeachment thing was over – I was going to leave a little bit earlier, David, but I felt I couldn't – I couldn't leave as long as the Asian financial crisis wasn't resolved and as long as there was an impeachment process going on. But once those two were done, I really needed to get away.

MR. RUBENSTEIN: So when you're secretary of Treasury you get to have your signature on the dollar bills. Was that a fun thing to do? And did you show your parents, here is my signature on the dollar bill? Did you do that? A lot of secretaries of Treasury, I know, they get them printed up and they send them to people.

MR. RUBIN: [Laughs.] They send them to people?

MR. RUBENSTEIN: Yeah, for – well, not for free, though.

MR. RUBIN: Oh, I was going to say, that would be – I wouldn't send a dollar to somebody for nothing. [Laughter.] I mean, I'd sell it to them for a dollar and a half, or something. [Laughter.]

MR. RUBENSTEIN: So when you hand a dollar bill to somebody –

MR. RUBIN: I was at Goldman Sachs for 26 years. Why would I give somebody something for nothing? [Laughter.]

MR. RUBENSTEIN: When you hand a dollar bill to somebody and it has your signature on it, do you ever point that out to them?

MR. RUBIN: No.

MR. RUBENSTEIN: You didn't do that? OK. [Laughter.] All right. You're more modest than some people.

MR. RUBIN: Well, I remember one who carried a big – remember?

MR. RUBENSTEIN: Yes. [Laughter.] So, all right, so you joined – you –

MR. RUBIN: My problem was different, by the way, and this is true. They brought me a big piece of paper and they say, you know, just sign it here and then we'll – the trouble is, my handwriting isn't very good. And they had a very hard time finding a signature they thought could work on the dollar bill. But finally, we got it.

MR. RUBENSTEIN: OK. It worked out. So you left and you became chairman of the executive committee of Citi Corp. And while you were there, Citi Corp. had a problem, as many people did in '07, '08. You point out in your book that Citi didn't really look adequately at the mortgages they were, more or less, agreeing to lend. What was the problem?

MR. RUBIN: You know, I wrote a lot about Citi in the book because I think there's a really important story there. Debt securities were rated AAA. And in those days, there was a pretty much universal view on Wall Street that if something was rated AAA it had, for practical purposes, no credit risk. It might have interest rate risk, but no credit risk. And so they had developed this very large position in the trading areas. And I think the lesson from – which, by the way, nobody else knew about.

And it's not their fault that nobody knew about it. They just – well, I shouldn't say not their fault. But it wasn't that they were trying to hide anything, it's just that they would give a risk report to the senior management, to the board, and then the senior counsel. I was actually senior counsel; was my title at that point. We would get it, but this position was never on it, because they felt as a AAA security it had, for practical purposes, virtually no credit risk. But obviously, once we found out about it, it was too late. You couldn't sell it.

But the lesson from this – and I write about this quite extensively in the book – is that you should never assume anything. And there are no certainties. And if there are no certainties, then there should be no assumptions that you take. So what I suggest in the book – and I sort of – you know, what I suggested in the book was that you should try to figure out what assumptions are you making in whatever it is you do. Whether you're investing or you're doing something else. And then don't take an assumption for granted. Examine it.

MR. RUBENSTEIN: Let's talk about the current situation. The big R, do you think we're going to have a recession anytime in the near future?

MR. RUBIN: Well, the chief economist at Goldman Sachs, who's a very, very capable guy, said yesterday or two days ago, or whatever, he thinks there's a 20 percent probability of a recession. I don't know what number I'd put on it, David, but I talk to a lot of people who – I have some advisory positions that I – for funds. So we talk a lot about this sort of thing. I think the probability of a recession is pretty material. I don't know what number I'd put on it, but you think about it for a moment, David.

The June inflation number, the core CPI number, was 4.8. I know the headline number was 3 percent, but that was – that was a product largely, David, of consumer energy prices going way down. And the core CPI number, which is what economists ordinarily look at, was 4.8 percent, just down slightly. So I think what we have right now is an inflation that we have not yet tamed. And I think – I hope I’m wrong. I hope we have a soft landing. But I think the probability is not – and I think the probability is that we will continue to have an inflation problem. The Fed will have to deal with that.

And then there are a lot of other factors, David. Commercial real estate, the growth in China. But Paul Volcker once said to me, and I’ve never forgotten it. Paul said, albeit in a different context. But Paul said to me, when you get a little bit of inflation it takes on a life of its own, because of psychology. And when you get a little bit of recession, this could also take on a life of its own. For all those reasons I don’t want to put a number on it, because I don’t actually have a – I don’t have a quantitative view of this. But I do think there’s a material chance of recession.

MR. RUBENSTEIN: OK.

MR. RUBIN: And hopefully, there won’t be one.

MR. RUBENSTEIN: All right. So let me ask you, do you think the Fed has done a good job in fighting inflation with these rate increases?

MR. RUBIN: Well, as is I think almost universally recognized now, that they did a not-good job at the beginning. And here you had inflation and, you know, Larry Summers³ wrote about it early on. But forget Larry – I think it was in The Washington Post if I remember correctly. But forgetting Larry’s views at the time, as you looked at what was happened it just seemed to me pretty obvious that when you do a risk-reward kind of analysis, the Fed should have been much quicker and much more aggressive.

Now – then once they got on board I think they did about – at least in my opinion, for whatever it’s worth – I think in my opinion – not I think in my opinion, in my opinion – [laughs] – they did about the right thing. I would not have – I personally would not have done the pause, because I think the pause simply feeds expectations. It runs the risk of extending this inflationary period longer. And until we deal with inflation, it’s going to be a continued threat in terms of slowing down or even recession in the economy, as well as inflation itself having all kinds of negative consequences. And I think we just got to deal with it.

MR. RUBENSTEIN: So talk about –

MR. RUBIN: And the sooner you deal with these things, David – and you know this better than I do – the sooner you deal with inflation, the less harsh you have to be and the less of a cost you’ll pay.

³ Larry Summers served as the 71st U.S. Secretary of the Treasury from 1999 to 2001 and as director of the National Economic Council from 2009 to 2010.

MR. RUBENSTEIN: Talk about the debt. The United States has a staggering amount of debt now, \$32 trillion.

MR. RUBIN: No, it's not \$32 trillion. Everybody keeps saying that.

MR. RUBENSTEIN: You're talking about the internal and external?⁴

MR. RUBIN: Yeah, exactly.

MR. RUBENSTEIN: OK. The external debt is over \$20-some-billion [sic; trillion].

MR. RUBIN: Well, the internal is about – let's see, GDP is \$25 trillion, so the debt must be about \$22 or \$23 [trillion]?

MR. RUBENSTEIN: So the difference between internal and external, but still it's a lot of debt.

MR. RUBIN: It's a lot of debt.

MR. RUBENSTEIN: So how do you solve that problem? Are you ever going to get back to a point where you can get some budget surpluses again?

MR. RUBIN: David, I think our current fiscal trajectory – the CBO, in their last – in their second – no, it was their last projection, actually. The CBO projected that debt to GDP, which is now 98 percent, would go to 118 percent 10 years from now. But almost everybody – not almost – probably just about everybody I know who is serious about fiscal matters and who really is deeply involved in thinking about them, thinks a more realistic estimate might have been 130 percent or 135 percent. That's not according to CBO. They operate under certain constraints. And I think it could be higher than that, given the – and you can see it all over the world now – the geopolitical challenges we're going to face.

So I think we're on a terrible, terrible fiscal trajectory. And I think sooner or later – we're already paying some price for it in inflation and in constraints on public investment, which is a really, really important factor. And I think at some point I think we'll pay a much larger cost for it if we don't do something about it. And I don't know how we reestablish the kind of environment we had at the end of the Clinton years, where there really was basically a political – a broad-based political willingness to deal with our debt, or deficits, rather.

MR. RUBENSTEIN: OK. So let me ask you this. When you were the secretary of Treasury you consulted with Alan Greenspan, the chairman of the Fed, a lot. Do you think it's a good idea for the secretary of the Treasury and the chairman of the Fed, who's supposed to be independent, to be consulting a lot? And do you see much of that these days, or not?

MR. RUBIN: Well, what happened was that Larry Summers, who at that point was deputy secretary – I think he thought he was secretary, but actually he wasn't. [Laughter.] He was

⁴ External debt is the portion of a country's debt that is borrowed from foreign lenders. Internal debt is the opposite, referring to the portion of a country's debt incurred within its borders.

deputy secretary. There was me, and there was Alan. And we would have breakfast once a month. And I think for four and a half years we would have breakfast once a month. And I think they were some of the best times I've had in my entire life. Nothing ever leaked. Four and a half years – and this is Washington, mind you. And nothing ever leaked. And we would discuss everything under the sun – not only economies, but politics and gossip, and whatever we wanted.

The one thing we did not discuss was interest rates. And our theory of the case, David, was that we could discuss GDP – everything that might affect interest rates. But we never discussed interest rates. And our theory of the case was that the Fed's independence, both privately and publicly, should be respected.

MR. RUBENSTEIN: OK. Alan Greenspan, I think, was the chair for, like, 18 years or so. And he had – he talked in what's called Fed-speak. It was hard to understand him. When you were having breakfast with him, could you understand what he was saying? [Laughter.]

MR. RUBIN: That's not an unreasonable question. [Laughs.] Yeah. I mean, if I didn't, I could ask Larry what he meant, and he would tell me. But, yeah. I mean, Alan's an unusual guy. I think he was terrific. He had a good sense of humor. It wasn't always manifest. Yeah. I think so. But I'll tell you what happened once at a hearing we had. We had a hearing, and Alan and I were testifying. There was a Senator who, with all due respect to that Senator, wasn't all that bright. [Laughter.] And he asked Alan a question, and he had no idea what the hell he was talking about. So Alan said, well, am I – is it fair to me to interpret your question as being X?

Well, the Senator had no idea what Alan just said, but he had a terrible choice. If he said no, then he had to explain why. And since he didn't understand what Alan was saying he couldn't do that. And if he said yes, then he was off in some place by himself. So he finally said yes. Then Alan gave a really good answer to his own question. [Laughter.] And then he looked at the Senator and says: Does this satisfy you? And the Senator had no choice – what was he going to say? He hadn't the foggiest idea what Alan had said. [Laughter.] So he said, yes. [Laughs.]

MR. RUBENSTEIN: So on outside activities. You participate in a sport – I guess it's a sport – called bonefishing. Or, I guess you do – fly fishing, right?

MR. RUBIN: Fly fishing, yes.

MR. RUBENSTEIN: Why is that so appealing?

MR. RUBIN: Well, I don't know how many of you fly fish. I know – [laughs] – I just love it. Thirty-five years ago I was exhausted and I went down to a place in the Bahamas. And I was – when I was a kid in Miami Beach, we used to fish with a spinning rod. So I took my spinning rod, my wife and I went down. And I saw some guy with another kind of rod and I said: What's that thing called? And he said it's a fly rod. So I said, let me try that. And I've never had any other kind of rod in my hands since then. And I just love it. I love being on the water. I love being on the water in Montana. I love being down in the Bahamas.

And, David, it's almost like a Zen experience. You sit there and you get caught up in it. And all of a sudden, you started at 8:00, and all of a sudden – people who've done it are nodding their heads – all of a sudden, it's 4:30 or 5:00 and the sun is starting to go down, and it's time to go in.

MR. RUBENSTEIN: Have you ever thought that your brain is this big, and the fish is this little brain, and outsmarting that little fish brain, why is that so hard? [Laughter.]

MR. RUBIN: Well, I've – look, I have the same problem with other things. Where people's brains are about that size. [Laughter.] So remember, I was in Washington for six and a half years. [Laughter.]

MR. RUBENSTEIN: So did you ever consider running for office?

MR. RUBIN: No. I would be a terrible candidate, David. I just – I promise you, I would be just an awful candidate.

MR. RUBENSTEIN: So those people that know you well know that you very frequently say things like, "I don't know much about this," or, "This is one man's opinion," or, "I could be wrong on that." Why don't you say, I'm the secretary of Treasury – or, I was the secretary of Treasury – and I really know what I'm talking about here? How come you never do that?

MR. RUBIN: Because I don't believe that's where any of us are, David. I think we all have a highly imperfect understanding of whatever it is we do. I think we're all highly fallible. And I think it's a pretty good idea to recognize that. And so when I say something like that, David, all I'm trying to say is, look, I have a view but you may have a different view. You may be right. I may be right. And why don't you take my view into consideration as you sift through your own view, but I'll take yours into consideration.

MR. RUBENSTEIN: All right. Two final questions. I didn't mention – you've mentioned your wife twice. You've been married for 60 years, something like that?

MR. RUBIN: Sixty years, that's correct, yeah.

MR. RUBENSTEIN: You should know.

MR. RUBIN: Yeah, but don't – my hesitation was off the record. [Laughter.]

MR. RUBENSTEIN: OK. All right. So 60 years, more or less. And you've got two children and four grandchildren. And any of them want to be secretary of Treasury, or?

MR. RUBIN: [Laughs.] I don't know what they want to be. You know, David, when I was – I never wanted to be secretary of the Treasury. When I was in fourth grade, I had one big ambition, which was to get to fifth grade. And when I was in fifth grade I had another big ambition to get to sixth grade. And I've lived my whole life that way. Just do what's in front of

you, do it as well as you can. And, you know, what'll happen, will happen. I don't know what they want.

MR. RUBENSTEIN: So I think we have a copy for everybody of your book. And my question is, since everybody will have a copy, what should they take away from reading your book? I assume everybody will read the book very carefully today. They'll probably finish it today. What do you hope that people will take out of your book?

MR. RUBIN: I guess if there are two things – well, that's a good – nobody's ever asked me that question. But I guess if there are two things it would be, one, to think – well, one thing by the way, there's no limit on the number of books you can have. So people want to buy more, you certainly can buy more. But I guess, David, it's the uncertainty and the complexity. You know, we live in an age – this is my view. Maybe I'm wrong. But I think that if you look at the short term and the long term, the uncertainties and the complexities are as great as any time in my adult lifetime, on average. Now, in the individual moments, like the Cuban Missile Crisis, which was – but, take away the individual moments, and I think this is the most uncertain period I've been in.

And I think – so the answer to your question is, it's the underlying proposition on my part that everything's – I don't think it's a proposition, I think it's the reality that everything is about uncertainties. Everything is about complexities. And the best way to deal with that is probabilistically. I also think you ought to take into account something, and I write about it in the book, it's very valuable, I think, to have a questioning mindset. And that was sort of the point about Citi. You know, whatever it is that you look at, look under the hood. Try to figure out what it means.

MR. RUBENSTEIN: You're most proud of having done what? In your entire career, you're most proud of having run Goldman Sachs, the Treasury, NEC, Council on Foreign Relations, this interview? What is it you're most proud of? [Laughter.]

MR. RUBIN: I think you got the right idea. Knowing you.

MR. RUBENSTEIN: OK.

MR. RUBIN: No, I don't know, David. You know, my mind doesn't work that way. It really doesn't. I don't – I just kind of do – I try to do – I kind of do what I do, and what happens, happens. And go on to the next thing, and so forth.

MR. RUBENSTEIN: All right. The real final question. The most impressive public official you ever dealt with.

MR. RUBIN: Well, I don't plan to make that many enemies by naming one person. But I must say, I do think Bill Clinton was a remarkable – is still, but as president – was a remarkable person. He understood – first, he's smart as can be. And secondly, despite all the political difficulties which he created for himself, he basically did what he thought was right. I gave you an example. He got killed, as you'll remember, in the midterms in '94. And in '95 – in January

of '95, we went and said: We want you to do this thing. And it's very unpopular politically but we think probabilistically it's right. And he said: This is what we're here for.

And the same thing was true about – you know, when I think about it – on deficit reduction stuff in the '93 Deficit Reduction Act, he said the same thing. He said, sure, we have to raise taxes a little bit. We have to cut some spending. One thing or another, all of which is unpopular, but that's what we're here for. You know, I would say – look, I've known quite a number of people in public life who I have a lot of respect for. But I think I'd probably put President Clinton first.

MR. RUBENSTEIN: OK. Bob, I want to thank you for an interesting conversation. We have a gift for you I'm going to give you right now. [Applause.] Gift, there's a photo here. And we'll send this to your office, OK?

MR. RUBIN: Wow, thank you.

MR. RUBENSTEIN: We'll send it to you. All right? Thanks a lot, Bob.

MR. RUBIN: David, thank you. This was fun. [Applause.]

MR. RUBENSTEIN: Thank you.



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Robert E. Rubin served as the 70th U.S. Treasury Secretary from 1995 to 1999, after serving as the first director of the White House National Economic Council. In these roles, he helped achieve the first federal budget surplus in a generation, address international financial crises, and resolve a debt-ceiling standoff.

He spent 26 years at Goldman Sachs, rising to co-senior partner, and was a senior counselor and board member at Citigroup. He currently serves as co-chairman emeritus of the Council on Foreign Relations. Rubin is a founder of The Hamilton Project at the Brookings Institution. A former member of the Harvard Corporation, he graduated from Harvard University, summa cum laude and from Yale Law School.