

EMA — Special Report

Kim Schoenholtz
(212) 816-9866
kim.schoenholtz@citigroup.com
New York

Talking With Secretary Robert Rubin

This report continues a series of discussions with leading academicians, market practitioners, and policy makers about their market and economic perspectives. Although their views are neither mine nor Citigroup's, their judgments may be of interest in forming investment decisions.

Robert E. Rubin served as the 70th Secretary of the Treasury of the United States from January 1995 until July 1999. He joined the Clinton Administration in 1993, serving in the White House as Assistant to the President for Economic Policy and the first Director of the National Economic Council.

Mr. Rubin joined Citigroup in October 1999 as Director and Chairman of the Executive Committee and also serves as Chairman of the Board of the Local Initiatives Support Corporation (LISC), the nation's leading community development support organization. He also serves on the board of trustees of Mount Sinai-NYU Health and is a member of the Harvard Corporation. In October 2003 he was named Vice Chairman of the Council on Foreign Relations. He also is a member of the advisory board of Insight Venture Partners, a New York-based private-equity investment firm that specializes in e-commerce business-to-business companies.

Mr. Rubin is the author (with Jacob Weisberg) of *In An Uncertain World: Tough Choices from Wall Street to Washington*, which was a *New York Times* bestseller and named one of *Business Week's* ten best business books of 2003.

The discussion occurred on September 7, 2006.

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Interview With Robert Rubin

KS: Secretary Rubin, thank you very much for joining us for this conversation. Let's start by highlighting some of the big picture issues facing us today. In the course of your work, you meet often with leading policy makers and investors. What do you see as their chief concerns about the global economy and about markets?

RR: I think there is a broad-based feeling of complexity and uncertainty that serious policy makers around the world share right now. In the last six months I was invited to several forums, including a meeting with Gordon Brown's colleagues at the UK Treasury and a group of MP's, a meeting with Peer Steinbrück [Finance Minister of Germany] and members of the Social Democratic Party, and a meeting at the European Central Bank where I delivered a speech. These policy makers are reaching out, they're looking to find people to talk through the policy challenges, because all of them sense that there's a great deal of change going on, and a lot of uncertainty, and they're trying to think through how best to address all of this, including the rise of China (although they're less focused on that in Europe than we are) and the enormous external and fiscal imbalances in the United States.

How large does Asia loom in these policy makers' assessments of economic prospects?

I think it depends on whom you speak to. If I recollect correctly, in the two hours I spent in that meeting in Germany, I think only one question arose with respect to Asia. But, if you have a discussion of this kind in the United States about all of the uncertainties, the complexities, what's happening economically, what's going to affect us, some reasonable portion of the discussion will relate to China, India, so-called outsourcing, and all these related issues.

Are policy makers and large investors worried about the US external imbalances leading to market or economic disruption, or do they see a gradual, long-term adjustment process?

I think views vary tremendously. I met this morning with a very well-known American investor and business person who was born in India and just spent eight weeks in India. And he said to me that the imbalances are an enormous problem, but also a problem whose cost probably won't be paid for years to come, so that the imbalances could go on for many years.

On the other hand, Sandy Weill made a good comment to me. Sandy said that nobody's going to ring a bell to tell you, but some day you may wake up and find that these risks have materialized. You're not going to know when it's going to happen.

Most people seem to think that the problem is somewhere down the road. I think the markets are remarkably complacent.

That brings me to a key question. Do markets reflect the uncertainties that you hear from leading policy makers?

I don't think so. And then you could ask, "What is the reason?" Perhaps I put more emphasis on the imbalances than I should. I may be over-emphasizing the probability of difficulty.

Another possibility is — as the manager of one major New York hedge fund said to me the other day — that an awful lot of people in the markets today are doing their expected value calculation against very short time horizons. And he says that a lot of them would say that, on a long-run basis, the expected value is negative or at least uncertain. And then you'll ask, but why are they fully invested? Well, because that's not their time horizon in calculating an expected value. Also, some assume that they can get off before the music stops and, you know, not everybody is going to get off before the music stops. There also is the opportunity cost of cash, if the risks don't materialize for some years.

There are some thoughtful people who think the odds are pretty high that we can muddle through this. And I know other thoughtful people who agree with Paul Volcker when he said there's a 75 percent chance of a financial crisis in the next five years.

Now, if the probability of economic or market disruption is not zero . . .

. . . and not de minimis . . .

. . . does that mean that there's a role for international policy coordination to address these imbalances?

Well, I don't think there's a mechanism for international policy coordination. I really don't. It's a very good question actually that has come up in a lot of conversations. I may be wrong, but based on my experience, I would say that there's no mechanism for international policy coordination. There's a pretty good mechanism for telling a small poor developing country what to do. But there's no policy mechanism for bringing together the countries that really matter in the global economy.

History tells us that when the biggest country behaves in a way that threatens international financial or economic arrangements, there's not much you can do to stop it.

Right. Or even beyond that, just think about it. There's no way right now to prompt the Europeans to deal with structural reform. Or to motivate Japanese policy makers to address their challenges more aggressively. There's no way to promote effectively the various things we need to do.

That sounds a little bit downbeat.

We may do it on our own initiative out of the wisdom of our leaders, but I don't think there's a mechanism for furthering it.

If there isn't an international policy coordination mechanism, is there a domestic mechanism?

You mean with our own system, the United States?

In the following sense: What kinds of pressures might develop that prompt change here?

Well, I sort of agree with what Chairman Bernanke said a couple of weeks ago: If anything, the tide here seems to be toward protectionism. And it seems to be in opposition to immigration, even though immigration plays such an important beneficial role in our economy.

I don't think the normal political processes are going to address a lot of the issues that we need to address. In addition to reducing our imbalances, we also need to have a healthcare system. We need to have an energy policy. That's a bipartisan comment. I don't see a lot of willingness on either side of the aisle to make the very tough decisions that are required to deal with these issues.

If you look at market prices, they don't seem to be applying discipline to prompt policy changes.

Gerard Baker recently wrote a very good piece in *The Times* of London (August 22). Well, I thought it was good because it said nice things about me. The first sentence was, "Robert Rubin of sainted memory." The memory part I didn't like so much, but the rest of it was fine. He even referred to me later as "Saint Bob," so I thought this was clearly a thoughtful author!

What he said about the bond market is summarized in the headline: "Have the Bond Vigilantes Dozed Off?" The basic idea was the bond market was no longer performing any disciplinary function.

Well, you've already picked up on a couple of other things I wanted to raise. You mentioned that China and India are always in discussions here in the United States about the future of the global economy. China has begun to change policy a bit over the last year. For example, they've begun to allow some flexibility with the exchange rate. How do you see their policies evolving over the next few years and beyond?

I think that all of us should try to learn a lot more about how Chinese policy is developing right now. Some people with whom I have spoken in the last couple of months about China seem to think that the political system is having a more difficult time making decisions and may even be moving somewhat away from some of the momentum toward continued market-based economic reform. I don't know if that's right or not right, but there's a lot of uncertainty.

As far as the exchange rate is concerned, I think the same way I've always thought about this based on my own experience. I think the Chinese will adjust this at a slower rate than we would like. But, we

should be careful about what we want, because as we all know, if you move the exchange rate too quickly, that could have some unpleasant consequences, too. I think the whole focus of Chinese policy makers is so much on protecting their stability that they're likely to do this in a very gradual kind of way.

Going beyond the exchange-rate perspective, what do you see as the major issues that arise from the emergence of China and India as major economies on the global stage?

First, there is this very important question which we just alluded to: Will they continue on a market-based reform path or will they have more difficulty? As I just mentioned, there are people who are very thoughtful about China who think there's more difficulty in their political process right now than there has been for quite a while in terms of making decisions and moving forward.

Regarding India, I saw that Prime Minister Manmohan Singh gave a speech a few weeks ago in which he talked in a very concerned fashion about all of the issues that they have, and about the questions around the ability of their political processes to function effectively and respond to those issues. Obviously, India's growth rate has been very impressive since 1990. And certainly they are moving forward in a lot of different ways. But on the other hand, I was in India recently. You don't have to be there very long to see the immense amount that needs to be done in so many different areas and how difficult it is for their political process to move forward.

So, I think both countries have issues of their own. Having said that, I still think the odds are high that they'll continue on their trajectory and that is leading to enormous change in the global competitiveness environment. This seems to be like what Chairman Bernanke said the other day.

And that has profound ramifications, including a lot of uncertainties and complexities that are far from totally understood. I know a lot of the economists say: "We have our models and we'll tell you what's going to happen." But, while I'm not an economist, there are a lot of assumptions underlying economic models that are not being met. You have these

massive trade imbalances. You have what may well be disequilibrium exchange rates and wages. You have the vast scale that China has today. You have the massive extension of the range of goods and services that are tradable. So, maybe we could have consequences that are different than the ones that our models tell us — not just regarding income distribution or security where, I think, everybody agrees there are a lot of issues — but also with regard to national income itself. While it may not capture everything, I'm using national income as a proxy for our economic well being.

So, you're raising the question whether the rise of very large competitor economies like China and India might have negative effects on the US economy through trade or other mechanisms.

Well, I'm no expert on this, but I've talked to enough specialists, so I'm comfortable now with my own feeling. But nobody really fully understands what all this means. So I think there's a lot of uncertainty about all this.

Having said all that, I think we're a lot better off with trade liberalization than without it. And if we ever turn to a protectionist mode, I think it has the potential to be truly threatening, I mean, really deeply threatening.

You've mentioned it earlier and just warned about it: Are the forces of protection gathering strength? And what does that imply?

I think the politics of trade are getting worse and worse, and I don't think we know yet what the 2008 presidential elections will look like, but it's going to be very interesting to see how this plays in that election. There was a Pew poll a few months ago: 55 percent of the American people thought that their kids will be worse off economically than they are; 35 percent expected a better outcome; and 10 percent had no view.

A lot of people see their economic anxieties through a trade prism. So, I don't think it would be hard for this issue to take on real substance. And don't forget the labor negotiations in the auto industry next year. The contract expires in September, and there's going to be some focus on off-shoring and trade and all that stuff.

So, I think you could — I'm not saying you will, but you could — see a lot of protectionist rhetoric in the 2008 election.

Would you argue that the most powerful driver of protectionist forces is the rise of income inequality?

I think it's a combination of things. In addition to inequality, it's also that median real wages are stagnant. And, according to Jacob Hacker, a political scientist at Yale, the level of Americans' job insecurity has increased by some very large percentage since the 1970s. It's a combination of these factors.

So, if you were asked the question, "What can one do to support the long-term trend towards globalization?," what would you advise policy makers?

Do you mean politically or as a matter of policy?

Both.

Many things you need to do are very hard politically. As a matter of policy, I think we've got to do all the things that are necessary to enable our economy to grow at a high potential rate — as rapidly as can be sustained — and we're surely not on the right path now. I'm talking about the fiscal imbalances, entitlements, education, healthcare, energy, and so forth. Litigation or tort reform, cost-benefit discipline in our regulations, etc. That's one set of things we've got to do.

I think we also need to have better social safety nets, and you've got to try to design them in such a way that they minimize the adverse effect on the incentive to work. And we need to invest more in infrastructure — because that can have a multiplier effect in catalyzing economic activity — and in basic research.

That's some of it. I think we should be — as I believe we have been — very strongly advocating flexible exchange rates, recognizing, however, that that's got to be done with care. Because if you had dramatic changes, you could have dramatic effects here that we wouldn't like.

Beyond all that, I think there's tremendous need for new thought. We really do need a lot of innovative

thought as to how to best promote our own growth in this environment and how to best promote a broader distribution of the benefits from growth.

You've just mentioned another set of important issues — the fiscal prospects. As a former secretary of the Treasury, you have been a long-term advocate of fiscal prudence. How do you see the fiscal picture going forward? What needs to be done? What can be done?

Well, it's obviously a serious problem. The question is what you do about it. If the 2001 and 2003 tax cuts were made permanent, you've got substantial fiscal deficits over the intermediate term, say, into the next decade. And then, starting in the early part of the next decade, as you know, you start to have a much more rapid increase in the rate of growth of entitlements.

What do you do about it? I don't think you can solve this through the normal sort of processes, except perhaps in response to a crisis or at least a serious difficulty. So, I think what you need to do is to have some special process where the president and the leaders of both parties in both houses get together and take joint responsibility for very difficult decisions that are going to require action not only on spending but on revenue as well. You can't solve this totally on the spending side even if you wanted to.

How would you form a consensus at the political center, given the nature of US politics today, to get that kind of process going?

I don't know. I think it's very difficult. I really do. I don't know if there is any window for doing it. Maybe after the 2006 elections, you can try to do something, but I don't know how you're going to do it, because you can't do this unless everybody is willing to put everything on the table.

You were present in previous episodes when the government made some progress in this direction.

There was a lot of progress in 1993, but you have to remember the circumstances. You had a recession, you had 12 years during which the public debt of the federal government quadrupled or something like that. You had a political

environment in which people were very dissatisfied economically and there was a broad-based public sentiment that the deficits which had been incurred over those 12 years had some fair bit to do with their problems.

And so you had a political environment in which several Democratic presidential candidates (including Bill Clinton) all ran on deficit reduction. The political environment lent itself to that. I don't think you have that kind of environment today. Also, the reality is that the political system has deteriorated since then in terms of its harshness.

It has become more partisan?

Yes, I think more polarized.

So, would it be hard to imagine an approach like the Greenspan Commission of 1982 that addressed Social Security?

I don't know if a commission can work. It's complicated. Ideally, if you have a commission, it should be a commission that's appointed by the leaders of both houses, the leaders of both parties, and the president. Whether that could ever happen, I don't know. But that would then have been anointed by the political establishment.

To establish legitimacy?

Yes, at least as to the existence of the commission and its membership. If you can't do that, I suppose you could have some kind of a commission that is appointed differently, by Congress or by the president or whoever. But it would need to have bipartisan membership to give it legitimacy, to use your term. I think it would be very hard to accomplish. I don't think it could work unless its mandate is to put everything on the table, and that means everything. So, people who say they will never vote for a revenue increase are going to have to put revenues on the table. And the people who say, "I will never vote for entitlement constraint," will have to put entitlements on the table. And that's something very difficult to accomplish. I don't think it's impossible, but very difficult.

When you express your perceptions and expectations to market participants, do they react by worrying about whether market prices reflect these concerns?

I see market participants of all kinds, for example, through dinners at which a variety of investors participate. On such occasions, most people agree that these are big problems, that the situation is not sustainable over the long term, that the changes in the competitive environment are tremendously important, that we have to do something about the public education system, etc.

And then I ask, how many people think the stock market is going to go up in the next six months? And most of their hands go up. I think people just have this feeling that, while these are all big problems, they're distant in time. It's not part of our current horizon. Or, there's a moral hazard issue. They know that on occasions when the market collapsed (as on October 19, 1987), it's always come right back, so they expect it to come right back again.

There's a moral hazard here in the sense that people are willing to rely on the ability of, say, the Federal Reserve to provide liquidity and counteract a crisis. I think that people have a highly over-inflated view of the powers of the Fed. It doesn't mean they're not very important. They are important. But they're only one of many influences on economic developments.

You know, it's funny about moral hazard. I think it's a feeling that if things go really wrong, policy makers will make it right, whoever they may be. One of those instances occurred when I was in Washington — during the Russian financial crisis, which was very stressful. The bonds went way down but smart people on Wall Street kept buying the bonds because they said we had to support Russia because we couldn't let it go. At the time, I said to then-Deputy Secretary of the Treasury Larry Summers, we've got to make the right judgment on this thing, but there's a tremendous moral hazard problem here. We didn't support it as you know. They did default and people had tremendous losses. Many very smart people made very costly investment decisions.

There is this feeling that policy makers will set things right if they start to go wrong.

So that leaves you concerned that there's a broad myopia?

I think a kind of complacency or myopia, yes. All this can be way off in timing. I could also be wrong. Who knows?

On a narrower matter, we have US elections coming up. How are the 2006 elections likely to affect policy prospects going forward?

It depends what happens in the elections.

Let's assume for the moment that consensus expectations are realized, so that Democrats win the House but not the Senate.

I have a feeling that it's going to be very hard no matter what happens in these elections to get major policy actions in the next two years. I think we need major policy actions, but whether the Democrats have control over one house, or both houses remain Republican, we'll have tremendous difficulty doing anything. The margins in the legislature are almost surely going to narrow even if the Democrats don't get control. And then you're going to be looking toward 2008 elections that incumbents are going to be very nervous about. The consequence probably is that you have a president who — unless something changes dramatically — is not in as strong a position as he used to be. So it's a long shot to get major policy action.

If that's right, the next president (elected in 2008), who will preside when the first baby boomers actually retire, will be the president who has to start addressing the issue of baby boomer entitlements?

I think that's right. It's possible, but unlikely that you get a commission process of the kind that you referred to before. For reasons mentioned earlier, I think that would be very difficult to do.

You've hinted at this, but there seems to be a divergence between the community of economists, who tend to be comparatively sanguine about the future, and the community of defense and security experts, who seem to be much more concerned about the way the world has evolved over the last several years. You are in contact with people from both communities. How do you see that?

Well, this is curious to me. I think you said it right. It's curious to me that economists, with an exception here or there, are as sanguine as they seem to be. They talk about a cooling off or a soft landing or whatever it may be, but generally seem to attach very low probabilities to really serious adverse developments.

Most of the people I know in the national security world, and there are many, seem deeply troubled about a variety of matters: nuclear proliferation, Islamic radicalism, the endgame in Iraq, instability in countries that mean a great deal to us in the Middle East, what's going to happen in Pakistan, and many other issues as well. And the markets do not reflect this, except I have the impression that people who know a lot about oil think there's a big risk premium in oil.

The oil risk premium is for security-related reasons?

Yes, political instability and security. But I don't think that you see it in the stock market. You sure don't see it in corporate (and some other bond market) spreads versus Treasuries.

There is a relatively wide equity risk premium: bond yields are low compared to the historically based expected return on stocks.

The bond market's more optimistic than the stock market. The question is, which one's wrong? And I think there's been a curious phenomenon in the equity markets at least in the last few months: When there is news that the US economy is slowing, the market often gets stronger because investors figure the Fed will stop raising rates or maybe lower rates — or maybe they think bond yields will decline. For some reason, they don't seem to say to themselves that earnings may be lower. I think it's very strange.

I'm not sure I have a better answer. I read something the other day (probably from *The Economist*) that — if it were not for the inflows of capital from abroad — our long-term interest rates could be as much as 200 basis points higher. I don't know who did that work or how accurate that is. But you may have a distortion of the bond market by these vast inflows.

Related to that, we've had episodes in the last year where investors have begun to wonder whether the United States would continue to welcome foreign direct investment. I'm thinking of cases like the Dubai ports example. Does that concern you?

That is a big question. The port case is a peculiar situation because of the national security dimension to it. But what's going to be very interesting is the first time that you get a non-US buyer of a household name American company. We've been preaching for 50 years that this is an open capital market. But when somebody comes to buy one or many of our household name companies, how are we going to react? Especially if the somebody is from a country for which some people (not me) have less enthusiasm than for some other countries. I'm very interested to see what happens. I think it could be a big political issue.

We had a discussion in July with Professor Jeremy Siegel about the future of US asset prices, and he emphasized that it's going to depend greatly on the accessibility of US assets to foreign buyers.

Yes, I read that piece. I thought he had a good point. It's part of the question of globalization. If you live in New York, you live in a very globalized environment and mindset. I don't think that's true if you go across America. I think it's a much more insular nation than we who live here tend to think.

A moment ago, you mentioned one of the crises that you faced in your years at Treasury. You could make a fairly lengthy list of such crises. In recent years, however, there have been fewer crises. Do you think that that's a trend, or do you expect that we will return to a period of volatility and challenges in the emerging world?

I'm not so sure it'll be the emerging world. As Lew Alexander [Citigroup's chief economist] has said to me on numerous occasions, reserve positions have improved enormously in many of these countries, policy regimes have improved, and there have been structural reforms. So it's not clear where we'll have a crisis. Maybe we'll never have another crisis, but economic history suggests that that's not too likely.

After Goldman had gotten through one of its really serious problems, I asked its then-co-chief John Whitehead what are you going to do to protect yourself from it happening again. He answered that it will happen again, but it won't come from the same place. It will come from someplace else that we won't be looking at. So, in this case, I think that while a crisis could come from the emerging market world, Lew is basically right. Most of these countries are in much better shape than they were. So, the odds are it will come from someplace else.

We've had two trends that have been helping to reduce volatility: (1) Low inflation, which is usually associated with low volatility; and (2) globalization, which has helped spread risks more broadly and possibly reduce the importance of certain local shocks. If these trends were threatened, you could see a risk of substantially higher volatility.

I agree with that, and I think Chairman Bernanke was right in his Jackson Hole speech to say that there's a real political issue here around the support in this country for globalization. So that's one possibility, but you could think of many other possibilities, including the enormous US current account imbalance related to our low savings rate and our fiscal imbalances, and the geopolitical issues you mentioned before. As another example, I heard a deeply troubling presentation some months ago in Europe about avian flu.

If you were an investor who wanted to manage exposure to some of those risks, or if you were advising an investor wanting to manage exposure, what would you recommend?

I don't know. I am an investor. Let me paraphrase comments made to me by shrewd observers that capture what I've tried to do for myself: Number one, find money managers with whom you have the greatest comfort. Try to get the best risk-adjusted rates of return you can. Number two, even if they all claim the things they're doing are uncorrelated with the general market, the fact is that they can become correlated under stressful market conditions. So, have enough cash or cash equivalents, so if things go really bad and you have to mark the assets down a lot you still have adequate resources.

And three, we live in a globalized environment and in a country which has enormous fiscal and external deficits. So you have to figure out some way — which I have not done I might add — to protect yourself if we should have a real currency problem here. I'm not saying what the odds are. I have no idea. Maybe the odds are very low, but that is one concern.

But that's hard to do. In terms of protecting yourself with the currency piece, I said to someone with whom I've been involved that you need to find nondollar portfolio managers. He didn't agree. He said, what you should do is find the best risk-adjusted returns you can get, and then hedge that in the currency market.

... separating the asset and the currency positions ...

Right, but it's actually very hard to implement, so I don't agree with him, except in a pure conceptual sense.

Let me turn to regulatory policy. It's now more than five years since the elimination of Glass-Steagall restrictions in the United States and there's been a significant evolution. How do you view that process and where are we going?

I think that financial modernization, as we called it, was the right thing to do. The vast globalized economy has tremendous needs for capital, for expertise, and so forth. These needs are better served or can be better served by very large global institutions. I thought that when I was still at Treasury. I don't say it because I'm at Citigroup.

On the other hand, it's a very hard strategy to execute because you have to run very large institutions on a multinational basis. I think it's doable, but how to do it takes a lot of serious thought, which we do on an ongoing basis. And since I think that that approach better serves the needs that exist, I also think we'll continue to have global consolidation. But it doesn't mean that everybody's going to pull it off. Also, there is a counter-tendency right now in some emerging market countries to create regulatory structures that make it very difficult for large international institutions to get embedded in various aspects of the

economy, so I don't know how well that's going to play out.

Well, let's turn to a slightly different part of regulatory policy. The Sarbanes-Oxley law has contributed to the cost of monitoring and oversight at both financial and nonfinancial companies. How do you view that reform and do we need to modify the law?

Well, I'm no expert on Sarbanes-Oxley. Certainly, a series of issues needed to be addressed both in a regulatory and enforcement sense. I think there's enough evidence now to suggest that there should be a very careful examination of whether the reaction was proportionate, and whether on a cost-benefit basis the regulatory change has put us in the right place. Or whether in some respect, the reaction went too far and will need to correct back to optimize from a cost-benefit perspective.

More generally, the question that you just raised goes to a very deeply troubling question about our economy. Our greatest comparative advantage in the United States is our dynamism and our adaptability or flexibility in embracing change. And I think that runs head on into what looks to me like an ever-increasing tendency to want to minimize or even eliminate all risk in our society. So I think we badly need some cost-benefit discipline in our regulatory structures and regulations. We also need to have tort reform. But that's politically very hard to do.

I'd like to take you back to explore the entitlements issue in slightly more detail. How do you distinguish the prospects for Social Security, on the one hand, and Medicare and Medicaid, on the other?

On Social Security, people have modeled out all the possibilities of what you need to do to make political decisions. With regard to Medicare, nothing that I know of suggests anything like this degree of agreement or even what the cost and benefits of specific changes would be. What you do with Medicare would be best done in the context of reforming healthcare more generally, but there is not even remote agreement on what the healthcare system ought to be like. So this is complicated stuff.

Let me conclude with the following question. You've had an extraordinarily successful career both in the private sector and the public sector. That's an exceedingly rare combination. How do those two perspectives influence your vision?

When I went to Washington, two things struck me about my prior experience. One was that I really did know something about markets. I lived with them, I had a feel for them, and I think I had a feel for the participants. I thought a lot about economic issues from the perspective of what I used to do in running trading operations and things of that sort. And so I thought that I brought a pretty good understanding from that perspective of these various issues.

Once in Washington, I was absolutely astounded about how much I didn't know about the very same issues from the policy perspective. And I quickly realized when we started talking about the federal budget right in the very beginning of our administration — in fact, it was in the transition — that I faced an enormous learning curve, despite having spent all that time around these kinds of issues.

Later, I was also struck in Washington by how, in some very real sense, I lost my sense of immediacy about what was happening in the economy. I could hear all the data in the world and, you know, if you're in Treasury or in the White House, you can

get people to come and have lunch or dinner with you, and call people whenever you want. Even so, you don't have the same feel as you do sitting here in the private sector.

So, I guess my answer would be, what you learn inside each of these sectors is very valuable in the other, but you need to know what you don't know and then try to bring it to the other side.

There is a large gap between these two worlds, and the lack of mutual understanding creates a lot of dysfunctionality. Even in the private sector, I had been around political campaigns for 20 years, so I thought I understood Washington pretty well. Once I got there, I realized how much I didn't know, not just about the policies but about the political process. Conversely, we've talked to people in Washington about how Wall Street, markets, and business in general work. Unless they've been in business or where the markets are, I think there's an awful lot that they don't realize or understand.

Yet, compared to Europe's system, the US system allows people to move more readily back and forth between the public and private sectors. While there can be conflicts, I think it does have the advantage of getting people with both perspectives.

Secretary Rubin, thank you very much for this conversation.

Disclosures

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