



GEORGE W. BUSH ORAL HISTORY PROJECT

FINAL EDITED TRANSCRIPT

INTERVIEW WITH KEITH HENNESSEY

January 8, 2015
Palo Alto, California

Participants

Rhodes College

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University of California – Santa Barbara

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To cite an interview, please use the following general format: [name of interviewee] Interview, [date of interview], George W. Bush Oral History Project, Miller Center, University of Virginia



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Nelson: This is the Keith Hennessey interview. I am Mike Nelson. I'm here with Steve Weatherford. We're going to be asking the questions. It's January 8, 2015, in Palo Alto, California. We're so grateful for this gift of your time and insight, memory, and talent and everything else. Usually I like to start with some autobiographical material. I know we're meeting on the campus where you not only teach but were an undergraduate, but where did you grow up? Did you get interested in politics, economics during that period? Your family life. Just tell your story.

Hennessey: I grew up in Westport in western Connecticut and came to Stanford as an undergraduate thinking, almost knowing, that I wanted to be a mathematician. I was on a track toward doing math professionally as an academic. I had an open slot freshman year and took a political science class in arms control and disarmament. I was fascinated by that, and so my sophomore year I took a class from a hotshot young political science professor named Condoleezza Rice called "The Role of the Military in Politics."

I remember when she announced toward the end of the quarter that she would be leaving campus to go work for President [George H. W.] Bush 41 on the National Security Council staff. That confused me because here was this smart, dynamic, talented person who is going to work in policy in government. At that point I knew that everyone who was smart and talented either worked in business or academics. What did I know?

So that started to attract me more toward the policy world. I ended up learning more national security policy when I was a student. I ended up double majoring in math and political science. I spent most of my time taking math classes, but my interest at that point in time from a policy standpoint was national security.

I stayed around campus, lived in Palo Alto, and worked doing software design and testing for a couple of years after Stanford at a company called Symantec. This was pre-Web. I knew that I wanted to try my hand at policy, again national security policy, but I didn't know how to do it. I went back to Condi and she said you have to get some sort of graduate training if you want to go be a serious policy person. We talked about it and decided that the Kennedy School made sense.

I went to the Kennedy School, spent two years there getting a master's in public policy. At the Kennedy School is when I pivoted from national security to—I started off with budget and health care policy. That's when I sort of discovered those topics. I interned at the [William J.] Clinton OMB [Office of Management and Budget], so sort of a funny little trivia detail is I was a Bush

administration policy official who actually was a Clinton administration intern. I spent the summer between my first and second years as an intern in OMB. I came out of the—

Nelson: What summer was that?

Hennessey: That was the summer of 1993. My policy paper, my master's thesis roughly was looking at the Clinton health plan, picking that apart, so that's how I started in health policy. I graduated in June of '94, went down to Washington, and got a job as a research assistant on the staff of the Bipartisan Commission on Entitlement and Tax Reform. This was the Bob Kerrey-Jack Danforth co-chaired commission. I built Excel spreadsheets and charts and graphs for the hearings and did research assistant work.

I knew that was a short-term six- or seven-month job. In November is when Republicans took the majority in the House and the Senate, generally referred to as the first Republican revolution. So that is when I shifted from being an unaffiliated staffer without—I mean at that point I knew which way my policy leanings were. That was my first partisan-labeled job. I went to go be a health and retirement staffer for Senator Pete Domenici on the Budget Committee staff. I got involved in the budget battles with the Clinton White House in '95 and '96.

Nelson: Let's hit the pause button here. Why did you make that switch from a focus on national security policy to more domestic economic policies?

Hennessey: The Kennedy School every two years does their new members program, right after Election Day where they invite the freshmen members—elect up to Harvard for a week. You give them little policy intro courses. I was doing grunt staff work for that, making badges and putting together folders. As a result, I got to sit in, back row, in some of the sessions. They were interesting. The members were there and listening, sort of. Some of them were paying attention; some of them not so much.

Then the last session was on the federal budget. Every member was there. They all had their lined pads out. They wrote down every single word the presenter said. The feeling in the room was a feeling I remember from when I was an undergraduate. It was the feeling in the last class of the quarter when the professor is going over what is going to be on the exam. Everybody is tense because they realize that they're in trouble for the exam. I was feeling this from, I don't know, 50, 60, 70 people who were about to be members of Congress.

Nelson: And who had been elected in—

Hennessey: They had been elected in 1992.

Nelson: It was the year of the woman, so to speak.

Hennessey: So they'd been elected. They were writing down every word the guy said because they knew that this budget stuff was really important. They knew they didn't understand what was being presented to them and they were scared as a result of it. I was sitting in the back row saying to myself, *I don't understand it either, but this sounds pretty easy. I know I can figure it out. It actually sounds kind of interesting and fun and I could get a job working for any one of*

these people right now if I understood it. So I came out saying, Maybe I'll look into this budget stuff.

Nelson: When did you decide to become, or realize you were a Republican?

Hennessey: I should have figured it out while I was at the Kennedy School, in that in a lot of the debates in class it would be me and one other student arguing with everybody else. I should have drawn the inferences from that. I didn't figure it out. I knew that I differed with a lot—in the Kennedy School the students and faculty lean left. But it was while I was working on the Entitlement Commission, which the members of the commission—a lot of them were members of the House and Senate and our offices were actually located in one of the Senate office buildings.

So you had the Senate floor on all the time and you were just surrounded by the actions of the Senate. Because I knew I wanted to try and get a job on Capitol Hill I made a specific effort to learn about Senators. I would just listen to their floor speeches and watch their floor speeches and see what they were saying. I was reading their bios. I just started building lists of Senators whom I thought I was simpatico with. Then I went to one or two people and I showed them the list. I showed the list to one person and he said, "Well, you're a Republican."

I looked at him—he was a Republican so he was biased—I said, "But there are half a dozen Democrats on here." He said, "Four of them vote with us all the time on economic issues, and what you care about are the economic issues. Everybody else—" He could, just from looking, infer from the people. He said, "Here's where you are on the policy spectrum." I said, "What about these two Democrats?" He said, "That's a mistake on your part. They don't fit with everybody else."

We just started talking through it. That then just caused me to start focusing more and more on specific people. For me it was ultimately a decision about prioritization of policies. I couldn't have told you at that point in time where those various members stood on social policies. I just wasn't paying attention to it. What I was paying attention to was what they were saying on economics and budgeting and health care and entitlements and all those things. So for me it was not just with which members do I agree, but given the subject matter that is important to me, with which members do I agree.

That led me to—we built a list of half a dozen people and I started knocking on doors and interviewed and got a job on the Budget Committee staff.

Nelson: What did you do with that committee?

Hennessey: I was the health and retirement economist, I think was my title. This was 1995, which was when Republicans—we passed the Balanced Budget Act. We were making major changes to Medicare and Medicaid, and for Senate Republicans I was the numbers staffer for Medicare and Medicaid. I was working closely with the Finance Committee staff and then with their House counterparts to make sure that they were making policy changes that were significant enough to save the amounts of money we needed in Medicare and Medicaid to fit with part of the balanced budget plan.

It just so happened that the subject matter that I was responsible for, Medicare and Medicaid, was the core of the policy and political battle between House and Senate Republicans and the Clinton administration. So as a first-year legislative staffer I was thrown into staffing Pete Domenici and his staff director, Bill Hoagland, and the biggest fights of the year. As a professional matter it was kind of fortunate to be thrown right into the middle of that.

Nelson: Before doing this you had interned at OMB during Clinton's first year. What did you think of his policies? What did you think of him?

Hennessey: I was only indirectly aware of him and his White House staff. I felt like an intern at OMB; I didn't feel like a Clinton White House intern. I never made it over to the West Wing. For me making it from the red building—the new Executive Office Building—to the old building was something I got to do maybe once a week, and that was the big highlight because I got to see the PADs [Program Associate Director] at OMB.

There were political policy officials, but for me they were the senior people, and then the highlight of the summer was getting to sit in on some of the closed-door OMB meetings with Leon Panetta, who was Budget Director at the time. For me Leon Panetta was sort of the apex of the pyramid to which I was exposed. I was incredibly impressed by him and by all the OMB talent. That was just fascinating.

I came out of there having shifted my focus from my dream to be a National Security Council staffer to my dream to be a PAD at OMB. That kind of solidified my shift in the direction toward economic policy. It really started me with the focus on budget issues.

Weatherford: So you weren't, for instance, mapping out alternative policy scenarios that would become Clinton proposals?

Hennessey: Not even close. In fact, when I interviewed for the internship at OMB, I had a few possibilities. I took the internship offer that was the least substantive of the ones that I was offered. That wasn't a judgment on the policies or politics of the Clinton administration; it was that the job and the office in which I took the internship were the ones that compiled the numbers from all the rest of OMB. They were the ones that built the summary spreadsheets. What I was guessing was that that would give me the broadest exposure to as much of OMB as possible. I would rather see lots of OMB, different levels, different parts of it, even if I was doing stuff that was intellectually less challenging, than working on something more substantive but where it would just be me and the highway-spending issues for the whole summer.

From my standpoint that was a good decision because I got to see a lot of the scope of OMB, and it gave me exposure to a lot of things at different levels. I figured out from there, for instance, that my dream was not to be a senior career staffer at OMB, it was to be one of the politically appointed policy staffers supervising that career staff. That was something that I only got to see by seeing the interaction between them. Is this helpful?

Nelson: Yes, very helpful. I don't want you to leave out things because you think we're rushing you through this. So by now you've worked in the executive, you worked on the Hill.

Hennessey: A ten-week internship, a little taste of it.

Nelson: You had experience with Congress. It sounds like your ambition is to get back into the executive.

Hennessey: No, my ambition was to have an impact on policy.

Nelson: OK.

Hennessey: It was neat to have worked in the executive branch, but in retrospect, at least, I'm very happy that I started my substantive policy career on the Hill. I think that the Constitution was structured to put most of the power in economic policy in the legislative branch. I think it is almost impossible to do an executive branch economic policy job well unless you have a feel for how Congress works formally and informally. Because ultimately what the executive branch is trying to do is they're trying to influence Congress. You just don't have that much discretion to do things. What you're really trying to do is convince Congress to change the law.

So I spent six and a half years working for Members of Congress, which significantly improved my ability to do the job from the other end of Pennsylvania Avenue.

Nelson: When you joined the Budget Committee staff, for the first time in a while the Republicans were in the majority, I guess since the [Ronald] Reagan years. The action seems to be over on the House side. What was your sense of what was going on there while you were working?

Hennessey: The House guys were definitely driving things forward and were sort of the aggressive ones.

Nelson: Yes.

Hennessey: The Senate was led more by—we later called them Old Bulls: [Robert] Dole, Domenici, [Theodore] Stevens—actually not even Stevens so much. [Mark] Hatfield, [Robert] Packwood, some of whom had been in the majority before, during the mid-'80s and were not quite as either substantively conservative or legislatively and politically aggressive as some of the folks in the House were, both members and leadership. But that was more a difference in flavor and style I think than anything.

You sort of had to think about how you would interact with your House counterparts and then how you would interact with the Clinton administration, not really thinking about congressional Democrats, House or Senate, that much.

While there were sometimes tensions or differences with House Republicans and in the heat of the moment that could cause frustrations or problems or issues you needed to work through, as 1995 progressed it became much more of a tension and conflict with the Clinton White House. That tended to suppress or paper over or reduce in importance the differences between House and Senate Republicans and among different Senate Republicans for instance, because instead the disagreements with the Clinton administration were even bigger.

Weatherford: The list you had put together of people you might want to work for—did it include any of the Old Bulls, or were you—

Hennessey: I don't really remember the list that well. It wasn't particularly moderate versus conservative. It sort of spanned the whole scope. I was still very new and was learning what was important to me. My education—I mean I was definitely on a steep upslope. I learned a ton from being on the Entitlement Commission. My instincts were in a deficit hawk-type direction coming into that, but six to seven months of working on that, building the graphs and spending time on the spreadsheets just reinforced that. Then working for Domenici further reinforced—it's accumulating over time. It is not as if I came in with a well-defined sense that here's where I am from a policy standpoint.

I mean it certainly evolved in the first six months I was there. It evolved in the two years I was working for Domenici. It evolved after I moved to—it is still evolving.

Nelson: Before we move onto [Trent] Lott, any particular things, memories, about your time with Domenici?

Hennessey: Even more than Domenici would be Bill Hoagland, who was my staff director. Of course we all worked for Domenici, but on the Budget Committee staff, Bill was the staff director, and most of us thought of our jobs as helping Bill help Senator Domenici. I mean Bill is one of the established major figures. So it is at least as much about Bill as it is about Domenici, and in particular there are certain people over the years from whom I learned how to be a policy staffer. Bill was the first one.

You come in and you have a little bit of policy training. You learned a little bit when you were in grad school, but you're in this new kind of job and this new professional environment and you have to figure out what you're supposed to do, how you're supposed to act. How do you interact with members of the House and Senate? How do you interact with other offices? What do you do when a reporter bypasses the press office and calls you directly? All those kinds of things. For me Bill was not just my day-to-day boss and supervisor. He was sort of a role model to say if you do things like Bill is doing you're fitting into a model that you can be comfortable with.

So I was very—pleased isn't strong enough—I mean it was great to have someone like him who was so well regarded and whom I quickly developed respect for. Now in retrospect I'm very glad that I had the ability to learn from him. When in doubt, model yourself after how he acted for some of the Budget Committee hearings on the Domenici mark for the budget resolution. Bill would be at the witness table and then when we would talk about the health section they'd bring me up to answer—they'd turn to the staff and Senators can ask questions about the health section.

I remember Bill saying beforehand, "Look, if a Senator asks you a direct question, even if it's a Senator who you know is going to oppose the budget resolution or you know is trying to undermine what Domenici—no matter what happens, if the Senator asks you a direct question you tell the full truth. You give a straight answer. You do not try to obfuscate; you give a straight-up answer. If that makes things harder for me or for Domenici, we will worry about that. Your job is to be credible, honorable, and straightforward and provide accurate information."

Just having that then relieves you of the burden of having to try and figure out the politics of it and try to do things which frankly at that point you're not well suited to do and you shouldn't do.

Those kinds of behaviors and patterns of actions taught me certain things. They influence how I teach students today in terms of what you're supposed to do to be a responsible policy staffer.

Nelson: In '96 did you have any interest in becoming an advisor on these issues to any of the Presidential candidates, the Republican nominee?

Hennessey: No, it wasn't even the realm of something I might consider.

Nelson: So you really were a policy person.

Hennessey: I was a policy person in the legislative branch.

Nelson: Yes.

Hennessey: I was learning politics by being in the middle of it, but it wasn't election politics, it was politics as it affects the legislative issues that I happened to be working on.

Nelson: This is a time when cynicism in general about the political process was continuing its increase. Did being in that setting enhance your regard for political leaders or change it?

Hennessey: I was starting from almost a blank slate, so for me—because I really wasn't policy or politically aware before I went to the Kennedy School. So I wasn't noticing a dramatic increase in cynicism because I had no basis for comparison. Obviously you couldn't miss the acrimony and the tension and the partisan battles and the inflammatory rhetoric and the conflict. Of course as a new staffer in your mid-20s—that is also exciting to be in the middle of the conflict. It can be frustrating because it gets very negative, just in terms of the rhetoric, but for me it was all just new more than anything.

Nelson: And interesting.

Hennessey: And interesting. It was. It generates a rollercoaster of psychological and emotional reactions, but I think, in my experience at least, any legislative process does that. As you're starting to be successful and you get buoyed and then a deal falls apart or you put your boss out there and recommend he say something and he gets attacked for it, all of that, and then you're down at a low. That psychological rollercoaster is a part of it. It was just more volatile at that point in time so there were more ups and downs to the rollercoaster. But for me, at least, you couldn't miss the conflict and the intensity of the clashes.

What is interesting is when I talk to my students now—my business school students who are in their mid-20s, 25, 26, 27, and most of them have only been politically aware for three or four or five or six at most years, they've never known or they've never been politically aware of a time when people in Washington have cooperated. Their entire experience is the past six years, which has been a time where there hasn't been—two years of significant legislative process during the [Barack] Obama administration, but it was entirely partisan, and then four years of partisan stalemate.

They see the tension and they react very negatively to it. From my standpoint what is unusual about it is not the intensity of the stalemate or the intensity of the conflict, it is just the sustained

duration of the fact that we haven't had intervening periods of cooperation. So the intensity of the conflict in '95 and '96 feels very familiar now. What is different is we had huge fights in '95, huge fights in '96. Clinton crushed us in the '96 election, and then in 1997 we did a budget deal with him.

Then 1998 was Monica Lewinsky, and in 1999 or 2000 we did [William Philip] Gramm-[James] Leach-[Thomas] Bliley. Then in 2000 we had the [Albert, Jr.] Gore-[George W.] Bush recount, and in 2001 there was No Child Left Behind and the Bush tax cut. So from my standpoint when I talk to my students it's conflict, and then you have a period where some people try to get together and sometimes actually do things. So that was what was interesting to me and that is what provides the comparison with today.

Nelson: How did you—Steve, did you—

Weatherford: That's fascinating. I think that is a nice way to think about the history, whether it is a sustained period of acrimony or there are at least brief intervals—No Child Left Behind is a nice example. All those policies that Clinton put out between '96 and 2000, when he knew that the big policies were off the agenda, you can see the agenda change as well as the collaboration between Clinton and—

Hennessey: I have a table that I did for my students and I'm happy to share it with you. It is sort of a timeline and shows conflict and then cooperation, back to conflict, back to cooperation. It shows, from my standpoint, what feels like this semi-regular cycle. That doesn't mean that the cycle is going to turn; I don't think it will turn for another two years, but it is why when my students or current friends or colleagues are dispirited about the current environment. From my standpoint, the current mood isn't any worse than it was in 1998 when we were dealing with the Monica Lewinsky and impeachment. It felt at least as bad then as it does now. So I think the cycle will eventually turn back.

Nelson: Let's get you to Trent Lott's staff. How did that come about?

Hennessey: In mid-'96 Bob Dole stepped down as majority leader to run for President. Lott moved up to be majority leader. Then in early '97, like January of 1997, Lott hired me from Domenici. That came largely because I got to know Lott's senior staff during '95 and '96, because of course Lott was the Whip before that. So his staff were on the floor all the time. Because we were doing lots of budget legislation and I was the health guy, I was on the floor a bunch.

I got to know Dave Hoppe and Alison McSlarrow in particular. They were Lott's two senior staffers. When Lott moved up, about six months after he moved over to the leader, they decided they were going to hire someone to do some budget and health care work, and that was a friendly thing. Domenici was happy that the leader was taking his guy. It was sort of a signal that Domenici had trained me well, now he was placing me in Lott's office, that kind of thing.

Weatherford: Was Lott on your list as somebody who highlighted—

Hennessey: I don't know if he was on my list in late '94. I certainly wanted to work for him.

Weatherford: Because you had met his staffers, or because he was the leader?

Hennessey: Both. I got to know his staffers and I really liked them. Also, because it was a step up, it was an opportunity to work for the leader. Moving from committee staff to a leadership slot is, no question, an increase in your ability to affect policy, and I wanted the opportunity to try it out.

Nelson: In general, I don't want to jump ahead, but I think this will be an exception. When you were in the Bush administration and things went wrong for Lott—he made a comment about Senator [Strom] Thurmond that some considered inappropriate and President Bush was said to have his fingerprints on Lott's removal as party leader. What were your thoughts about that at the time?

Hennessey: I had moved into the White House about three months before that. I was following it closely because it was my old boss. I was exceedingly careful not to have anything to do with it or come anywhere near it. It's not like I would have been invited into any discussions on it anyway, and I don't know how much there were discussions.

I think from where I sat the importance of President Bush and the White House to what happened to Senator Lott was a bit exaggerated in the press. From where I sat it looked like it was mostly a dynamic among Senate Republicans. The accusation is made that President Bush didn't step in to support Senator Lott. I don't know how true or not true that is. My perspective on that is much less the perspective of either a White House staffer or someone who had worked for both men. It was much more what I had seen and learned about how a legislative conference chooses its leaders.

My filter on that is it is much more about Senate Republicans than it is about anybody else, about the accusations from Democrats or outsiders, about the White House. The decisions about who is going to be a leader are very much decisions made by the 50, however many members, and the outside influences on those tend to be way overhyped by people. It is very much sort of the ultimate insider games. My wild guess is that Senator Lott had to step down as leader because of dynamics among his conference, much more so than pressure or lack of pressures from the outside. That's just a guess.

Nelson: Did you take an interest in the 2000 election at any point?

Hennessey: Yes. Bill Hoagland had introduced me to Josh Bolten, who of course was the policy director for the campaign.

Nelson: Was this in—

Hennessey: Mid-'99 probably. I got to know Josh a little bit, and then another guy from the Budget Committee, Marc Sumerlin, went down to work for Josh on the campaign staff, went down to Austin. So I knew Josh and I knew Marc. Marc was the economic and budget guy working for Josh. So through late '99 and 2000 I was on the other end of the phone for calls from either of them as someone to check with as they were thinking about various policy things.

“Hey, Keith, we’re toying with the idea of having Governor Bush propose X on the campaign. Have you dealt with this issue? What’s your reaction to it? How do you think the reaction might be on Capitol Hill, especially among Republicans?” I could help them with a whole lot of those things. Especially by this point—I had worked for Lott for three or four years—three years, I guess. So I knew the Senate Republican world from a broader economic policy standpoint and I had worked on a lot of different issues.

So I could be a good sanity check from a policy—I could say, “Well, you need to make sure that you think about X and Y and Z because we dealt with this before from a policy issue. You’ll get asked the following questions. And oh, by the way, I guarantee you’ll get a negative response from this person and this person. Take it as you will.”

Nelson: Were you becoming a Bush supporter? Or would you have done the same thing if a [John] McCain aide had called you?

Hennessey: I don’t know.

Nelson: I asked you two questions. Does that go for both of them?

Hennessey: No. I was a Bush supporter. I wasn’t publicly a Bush supporter, but I wasn’t in a position where anyone would have cared. It’s not like anyone was asking, “Hey, legislative staffer, who are you supporting for President?” I think Senator Lott at that point was publicly out there supporting Governor Bush. As I look back on it, as far as I remember, what I was doing—I think it felt like it was completely compatible with my boss. Put it this way: If you had said, “Are you supporting George Bush?” I would have said, “Why are you asking me? That’s a question for my boss.”

I believe I remember it as Trent Lott was out there supporting Governor Bush. So my providing informal, occasional help over the phone was consistent.

Nelson: His major rival for the nomination was Senator McCain. Your impressions of him?

Hennessey: Well—

Nelson: You’d had a chance to observe him?

Hennessey: Sure. I’d had a chance to see him in the Senate. The thing about Senator McCain is that I thought of him as a national security guy. He was a major player on anything having to do with foreign policy or national security. Then campaign finance and tobacco were the other big things. The area where he significantly overlapped with the issues that I worked on was he was a big guy going after earmarks and pork projects.

McCain and Phil Gramm were the two attack dogs fighting with the appropriators over ridiculous spending and going after those things on the floor. Those are important issues, but they weren’t issues where the leader had to get involved. So the appropriators are fighting with Gramm and McCain. I had to keep an eye on it and make sure that they were having whatever battles they did, but it didn’t require me to get heavily involved or to engage with McCain or with his staff as a staffer.

So Senator McCain and the policies he was pushing were nowhere nearly as important to the day-to-day work that I was doing as a legislative staffer as Domenici, Phil Gramm, Don Nickles, Olympia Snowe, John Chafee. There were other members who were just more important to my day-to-day—[Toby] Roth, [Charles] Grassley, [Orrin] Hatch—those were the people whose staffs I spent my day working with or sometimes doing battle.

So McCain was over there pushing all of his national security stuff. While I was aware of him, it wasn't a dominant factor in my thinking. My guess is, thinking about George Bush and John McCain, my instincts were derived from where my boss was, from where Trent Lott was. I *think*. Again, this may be revisionist. I may be imposing something on this from the benefit of hindsight. I don't really know.

Nelson: So far you're involved in the Bush campaign and you're taking phone calls.

Hennessey: That's it. It's a once a month kind of—it's occasional.

Nelson: Does it evolve over the course of the campaign?

Hennessey: No, that's it. Some friends and I took a weekend to volunteer and do grunt work in the South Carolina primary. That was Bush versus McCain. That was driving vans and waving signs. It was infinitely less substantive than the occasional phone advice I might give someone.

Weatherford: I'm hearing something between the lines, and I want to check on this. It sounds to me like you were pretty much focused on policy and the legislative process—

Hennessey: Yes.

Weatherford: Working for both Domenici and Lott.

Hennessey: Yes.

Weatherford: But your role in the campaign sounds like it is at once different and more subtle. You said Josh Bolten would call you to think about the potential effects of candidate Bush making a particular announcement. Here you're predicting political effects. You might be telling them about policy, but are you also—

Hennessey: I wouldn't say—

Nelson: —advising about politics?

Hennessey: I did it a little more narrowly. It is more I am predicting particular reactions from specific individuals.

Weatherford: So you're still focused on legislative responses?

Hennessey: No, it's more. A lot of the reaction to something from a candidate will come from members of Congress. So for instance, one of the big decisions that candidate Bush had to make

was they knew he was going to propose Medicare reform plus a prescription drug benefit under Medicare.

One of the discussions that they had in Austin was should the candidate propose a benefit that was only for low income, or should it be a universal benefit? Big question. That was right in my policy wheelhouse. It involved money, it involved health care, it involved Medicare. So I could help a lot with that. Then I could say, if we were having that debate here in Congress I would anticipate that Phil Gramm and Don Nickles would be leading the charge.

First they'd be saying we shouldn't be adding a drug benefit, and then they'd fall down and say and absolutely if we're going to do it, it should be targeted based on income. Then I expect that we would have Senators X and Y and Z who would be arguing the other side, and here's how I would imagine the debate would play out. Would that debate be a public debate, in which case we would label it as political? Would it be a debate on the Senate floor? I'm imagining translating this debate within the campaign into its parallel in Congress.

What I'm really trying to do is give them a sense of here are the different elements of the question and votes to make sure that they're thinking about the question as fully as they can in their own internal discussions. Also it gives them a sense of what kinds of public reactions they might expect if they were to roll out policy experts.

[BREAK]

Nelson: We show you becoming part of the White House staff, Deputy Director of the National Economic Council, in August of '01.

Hennessey: Yes.

Nelson: So take us from where we left off to how that happens.

Hennessey: Can I back up a little bit?

Nelson: Absolutely.

Hennessey: Just a couple of things during the Lott time. One is, just from a personal, professional development standpoint, my first two years working for Domenici I was a policy and numbers guy. My job was to know the numbers backward and forward and to develop some expertise on policy and to help with that segment, health budgeting.

When I went to work for Lott, my job was to help him manage a portion of the legislative process and in particular it became much more of a deal-making role. It was to advise him and then sometimes to become his proxy in terms of negotiations among members. So I had interaction when I was working for Domenici with three or four members on a semi-regular basis. I knew maybe twice that many.

When I moved into Lott's world I was interacting with members as much as I was interacting with staff—that's part of what happens when you work for the leader. Lott delegated a lot of the policy details to the committee chairmen or to staff, and from me he was looking for tactical advice on how do I close this deal or how do I block such-and-such an amendment.

So the nature of what I was doing broadened from policy to include negotiations and legislative tactics. I wouldn't call it politics. Obviously you're aware that it is all operating in a political environment, but it was much more about the legislation itself. It also involved a lot of interactions with members. Because Lott, the way that he operated he was a deal maker. He was a guy who wanted to bring bills to the floor and pass them.

Nelson: So Republicans and Democrats you're interacting with?

Hennessey: Absolutely. Again, this was just fortunate timing. I started working for Senator Lott in January of 1997, and I don't know, two or three weeks into it was when Newt Gingrich and Trent Lott and Bill Clinton decided they were going to try and make a budget deal happen. Now, the deal was negotiated to a large extent by Domenici, the Budget Committee Chairman, and [John] Kasich, the House Budget Committee Chairman. I think it was Panetta for President Clinton, whoever his Budget Director was. But I was helping Lott with that.

The job changed, and now we were no longer in a conflict mode, we were in a try-to-make-a-deal mode. So from my standpoint I just learned a lot. The scope of my responsibilities expanded a lot. I was picking up a lot of new skills. The line I always remember from Senator Lott is, he said, "Keith, you were a math major; I'm going to teach you how to count." *[laughter]* Of course what he meant was how to count votes.

Nelson: Yes.

Hennessey: When you're on a committee you need to lead a certain amendment. How to count where the votes are, how to figure out how to swing votes, how to support him as he then goes and negotiates with the different members to make those deals happen.

The reason I bring this up is because my first two years were focused almost entirely on policy and specific dimensional policy and the numbers. Then the next really five and a half years were policy and legislation and deal-making. Then when I went into the White House I moved back toward a policy role where we had a Legislative Affairs operation that was doing more of the legislation and tactics and deal-making. I was the guy who knew what they were doing and could work very closely with the Legislative Affairs world because I used to do that stuff on the Hill.

But when I was in the White House my job wasn't to be the guy closing the deals. My job was to be the guy making sure that whatever deals are negotiated that we're trying to make happen were consistent with the President's policy.

Nelson: So you always had a sensitivity to what the Legislative Affairs people were having to do?

Hennessey: Yes, but their role was close a deal or block a bad amendment; my job was to make sure that whatever they were doing was consistent with the policy goals that the President wanted. So it was back a bit to the policy side.

Weatherford: Could you talk about the difference it made moving out of the legislative branch into the White House? You've talked about the expansion of Lott's purview across multiple policies when you moved from Domenici to Lott, and now you've—

Hennessey: The substantive scope was basically the same. I was Lott's economics guy. I had all of at least domestic economics. It was sort of the world that we were working in at the Bush NEC [National Economic Council]. The nature of the job changed in that I was close, in lots of conversations with the Bush White House Legislative Affairs guys on the tactics and on the members. But I was rarely the guy who was going up to Capitol Hill to talk to the members. I was not the guy who was closing the deals. I was the guy who the negotiators would call to say, "We can't get the deal that we discussed at the internal meeting. I can get this deal. Is that OK?" Is that getting at what you're asking?

Weatherford: You're clearly making a number of different transitions from the first one from being a math major to starting to understand health policy and economic policy more generally, and then you're moving out toward—

Hennessey: To a negotiating role.

Weatherford: Yes.

Hennessey: And moving back—back may not be the right word, but away from the legislative negotiating team, the negotiating aspect of it.

Weatherford: Did you have a sense that there was a boundary between politics and policy? And you were always the policy—

Hennessey: I think of myself as always having been a policy guy. I never described myself or think of myself as being a political person. I generally think of myself as a policy person operating in an environment constrained by politics generally as expressed through legislative constraints.

So for me politics is two steps removed. It is trying to help my boss get his policies done. How do we get his policies done? We have to get the votes in Congress for it. Can we get the votes in Congress? The members are influenced by broader political questions. So if there is a political effect of a policy, what I really cared about was how does it affect which votes we can get for our amendment or against the amendment we don't like.

You obviously want to be aware of that, but I've never thought of myself as a campaign person or as someone who was principally concerned with a policy. For me it was always a constraint. It was not something that we were trying to optimize either on the Hill or in the White House.

Nelson: OK, let's get you to the White House.

Hennessey: There is one substantive point I do want to hit—the prescription drug benefit—because this is an issue that is discussed ad nauseam as part of the policy history of the Bush administration.

The decision that the campaign made on the low income versus universal was both. As I remember it, what Governor Bush proposed in his campaign was I'm OK doing either one. My instinct would be toward a low-income-only benefit, but the decision from my standpoint was that he was signaling that he was open to a universally subsidized benefit. That was in part influenced by the legislative battles that were going on on Capitol Hill at that point in time.

The question of introducing the prescription drug benefit in Medicare was something that had been initiated by congressional Democrats and I think encouraged by the Clinton administration. So I helped Senator Lott fight amendments to add a universally subsidized prescription drug benefit to Medicare. We won. It was Senator Bob Graham of Florida, and he tried twice and we beat him twice. It was a very significant thing.

House Republicans were in a very different position. They proactively voted to add a universally subsidized drug benefit to Medicare. So while we in the Senate were saying we don't want to add a drug benefit, and if we do it needs to be low-income only, House Republicans went in the other direction. What they said is we're going to add a universally subsidized drug benefit to Medicare and we're going to do it in a different way. So they disagreed with the Democratic plan in the form and the manner in which it was delivered. They did not disagree in the universal nature of the subsidy. I believe that then influenced the decision down in Austin to do both.

The reason this is significant—fast-forward four or five years, when President Bush proposes a universally subsidized benefit and we get Congress to then pass it in 2003. So a lot of blowback from economic and fiscal conservatives, saying George Bush created this massive new entitlement, and in particular he created a drug benefit that was universally subsidized.

From my standpoint the origin of that was actually the House Republican decision in I think 1998. They were the first ones to cross that threshold. That then started the ball rolling toward making that first a question to be debated within the Republican party—I don't think it would have been debated down in Austin had House Republicans not gotten there first. You see what I'm getting at?

Weatherford: Fascinating.

Hennessey: That's not to absolve anyone of responsibility for the later decision. Candidate Bush made that decision to go with a universally subsidized drug benefit. He then decided to propose it in 2003. I helped him with a bunch of others to get Congress to enact it, but when he gets criticized from the right as if this was his whole thing. I point out that, "OK, why are you not then equally upset with [Dennis] Hastert and [Thomas] DeLay in the House, who actually got all House Republicans to vote for it?" It would have been very difficult for any candidate at that point to do something that was more targeted and less substantively generous and frankly politically generous than what House Republicans had already voted for.

Nelson: We're getting ahead of ourselves, but when the vote—the legislative politics of the prescription drugs benefit in 2003—were House Republicans saying they were still championing this, or were they main source of the criticism?

Hennessey: It was a small subset. I think at that point Hastert was leader. He was Speaker at that point, I think.

Nelson: That's right.

Hennessey: Because Hastert and [William] Frist are both health reform conservatives before they are fiscal conservatives. They are guys who, as they look at health policy, their instinct was to figure out the appropriate pro-market way to deliver health care as opposed to someone like a Phil Gramm or a Nickles who would come at it first as a fiscal conservative saying let's spend as little as possible. So having Hastert and Frist as the lead House and Senate Republicans—that fits very well with President George W. Bush pushing the universally subsidized prescription drug benefit. We can talk about that when we get to 2003.

Nelson: Well, are we ready to get you into the White House? How did that come about?

Hennessey: I think the other thing that we should spend five minutes on is the transition team.

Nelson: Yes.

Hennessey: Just a little anecdote. I was on one of the RNC [Republican National Committee] lists to volunteer right after Election Day in case they had recount issues or anything like that. I did get the call, "Will you go down to Florida for the Florida recount?" When I took the call I was literally on the couch recovering from having four wisdom teeth removed, so I ended up not going down for the Florida recount because I was recovering from dental surgery. I consider myself incredibly fortunate to have missed that.

Nelson: What did they ask you to do?

Hennessey: I have no idea—it was pack a bag and go to Florida. It's not as if I was a lawyer, it's not as if I had any useful skills. I probably would have been standing looking over people as they were examining ballots. I'm very fortunate that I missed that. I did join the transition team, and of course that was a five-week transition? A six-week transition? Very short. I was on the budget transition team.

Nelson: How did that come about?

Hennessey: Probably Josh or Josh and Marc Sumerlin is my guess. Marc was the key economic policy guy on the campaign, so he was the key economic policy guy on the transition. So some combination of the two of them. I went to Senator Lott and asked for his permission to take five weeks off and go volunteer for the transition team.

He was very smart. He said, "You may on the condition that you come and talk to me before accepting any job offer from the Bush people." He knew a reason why a lot of us Hill folks wanted to go work for the transition team was to scout around for cool jobs in the new

administration. He made it contingent on you can't take anything without giving me a chance to—

Nelson: Was that in your mind the possibility?

Hennessey: Oh, sure. Absolutely. So I went and volunteered with the Bush transition team, the OMB transition team. There were seven or eight of us helping put together the first budget. Then we were helping support Mitch Daniels when he was selected to be the nominee to be the Budget Director.

I ended up not getting an offer that was more attractive than sticking with Trent Lott. So I decided to stick it out with him, which was tough, because all of my friends—twice a day you'd get emails from the people you've worked with, especially on Capitol Hill, saying what a privilege and pleasure it has been to work for Senator So-and-So or Congressman So-and-So but now they're going into the Bush administration to do X, Y, and Z. So you feel like everybody else is moving on and moving up and here you are in your old job. But I felt like it was the right thing to do. Sure enough, 18 months later to some extent I got lucky—

Nelson: Eighteen months or eight months?

Hennessey: Eighteen months.

Nelson: The bio says 2002.

Hennessey: It was probably June or July, June of 2002 that Marc Sumerlin reached out to me and said, "Hey, let's go to dinner." That job sort of landed in my lap.

Nelson: What was that dinner like and what was this—

Hennessey: Marc said, "I'm leaving my job. Would you be interested in it?" As I said, Marc and I were staffers for Domenici six years prior. He and I had talked a lot. We talked about it at dinner and I said, "Yes, it sounds great. I'd love to be considered." Then he went and worked some magic and had me come in and talk to Larry Lindsey, Josh Bolten, and Andy Card. I got a call that afternoon saying, "All right, we'd like you to start on such-and-such a day." It was by far the easiest job transition process I've ever had. I don't think that was thanks to me. I think it was thanks to Marc. It really just kind of fell into my lap.

Nelson: What was the job?

Hennessey: It was deputy at the National Economic Council and it was to be Larry's deputy, to be Marc's replacement, and it was to help Larry manage the economic policy process.

I knew about that much of it when I took the job. I really didn't understand how things worked. I knew sort of what Marc did, but I didn't actually understand what the job involved day-to-day when I took it. It seemed like a good thing to try to do.

Nelson: Talk about the job.

Hennessey: One other thing I should probably mention just in terms of getting the job and coming into that. I would say that to me it seemed that Senator Lott was very comfortable in 2001 and the first half of 2002 in a new role—he was majority leader for several years, but in a new role of being the field general who would help the new Republican President get his agenda through the Senate. It was just a strong kind of core alliance. My job was to help Trent Lott do that for economic issues and particularly that meant the Bush tax cut, the 2001 tax cut.

There was a significant advantage with respect to the tax cut in that as a candidate then-Governor Bush had released a very specific detailed proposal with numbers to back it up. At least from where I sat, it didn't look to me like they had a lot of internal policy development. They had something ready; Marc had all of the numbers and all the policies. They just had to write it up and hand it to the House guys and to us and say, "This is what we want to do." It's not as if they had to do months of internal decision making.

So it was No Child Left Behind and the Bush tax cut in 2001. My job was to help Senator Lott get the budget resolution through that allowed for that and then actually enact that tax cut. We did it by early June. As a part of that I got to know a lot more of the Bush White House staff. So coming into it I knew Marc and I knew Josh and I knew some of my Hill friends who had moved into the Bush White House. I had known Ari Fleischer for a long time, I had known David Hobbs. But a bunch of the others—I didn't really know Nick Calio that well. I knew him a little bit, but I didn't know a bunch of them. What I started doing, unprovoked, I don't know, some time in that first quarter of 2001 I started writing up an email that was specifically from me to a dozen Bush White House and OMB senior staff.

I just kind of did this on my own. They had leg [legislative] affairs people whose job it was to report back on what was going on. This was to me to some extent supplementing that and e-mailing the people I knew and then some other folks I know who were involved because I wanted to make sure that they knew what I thought about what was going on. I probably did eight or ten or twelve of these over the course of a couple of months. It was how I could help them. I could try to shape their thinking and inform them about what was going on in the internal Senate dynamics.

It was a little more than glorified reporting and analysis. Here is where we stand, here is the struggle that we're dealing with. Here is the question that is going to break in a couple of days; here are the risks that we face. I was sort of presuming, "Hey, we're all on the same team here. I'm going to show you everything that I know right now about what is going on." I would also include my input. "It would be really helpful if you guys could say X and Y and Z, because we're struggling with the following issues."

I would lob those over the transom to them, but I think a part of that then was that that made my input into their internal—of course when they were doing their internal meetings on it, probably 85 to 90 percent of the people who were in their internal administration strategic and tactical discussions about the Bush tax cut were relying on my email for at least one of the sources of information.

It meant that later on when I moved into the White House I was a bit more of a known commodity to a broader group of people. “Oh, yes, you’re the guy who wrote all those helpful emails on the tax cut.”

Weatherford: Was there a precedent for this, or did you just do it on your own?

Hennessey: I have no idea.

Weatherford: You’ve been distinguishing between the legislative branch and the legislative tactics, and clearly this is a great idea; if your party is controlling the administration you want to submit those. But in most of the other stories there has been a mentor, Hoagland or somebody who said, “This is the way we used to do it, and you might do it this way.” This sounds like a really interesting innovation you might have just tried on your own.

Hennessey: I initiated it. I have no idea whether I consulted someone else for advice. I don’t even remember. It is quite possible that the first email I might have sent to five or six people that I knew and then someone said, “Hey, you should add—” It might have been that I built the list up over time to add more people. I don’t know that it was a well-thought-out, strategic, *I’m going to try this new thing*. My guess is that it was just something I thought I should do or I just sort of started doing because I figured it would be helpful.

Weatherford: So Lott didn’t at some point say, “We need continuous touch with the White House.”

Hennessey: He might have been vaguely aware that I was doing it, but this was more staff-to-staff communication. At the time I didn’t think of it as a significant procedural change or strategy or something like that. It’s “Gee, we really need to be coordinating. I might as well tell these people what they know.” In particular, by just writing one email and sending it to a dozen or a dozen and a half of them, it would also be more efficient because then there are fewer individual questions I have to answer. Also I can push my view into lots and lots of people.

Nelson: What was your first day at the White House?

Hennessey: I accepted the job in late July. Larry wanted me to start coming in occasionally in August when I could, but I really couldn’t. I think I might have gone in a couple of times for a couple of hours in August, but that would have just been sort of small. First day would have been the last few days of August. I have no idea. I don’t remember specifics of it.

Nelson: Something we haven’t even talked about is 9/11 and the consequences of that for the Bush Presidency, for relations between the White House and Congress and so on. Do you have anything to say about that?

Hennessey: I was working for Lott at the time. Obviously it was a traumatic day and fundamentally shifted thinking after that. It just changed the mood, among other things.

From my standpoint as an economic guy also it radically restructured the environment within which I was operating. All of a sudden for three or four months we were in an environment where the priorities had radically shifted, and anything that we were doing economically was in

an environment of yes, let's set aside the long-standing ideological battles and just figure out how do we enact legislation on the specific economic aspects that we need to deal with this new environment.

Those things were important, but it was also part of the shift that was going on to where the economic legislation was kind of a supporting role to the broader—national security was now the most important stuff, and then economic guys were working on the aid package for New York and terrorism and—

Nelson: Airlines?

Hennessey: Yes, the airlines, those types of things, all that. So it just changed the environment. All of a sudden everybody is bending over backward to be cooperative and bipartisan. We're setting aside some of the long-standing partisan or intense policy fights. We know that national security stuff takes precedence if the principals need help to keep on top of various things. So those are the main things that come to mind.

Nelson: We'll come back to this maybe when we get to 2008 because in both situations you had these extraordinary and sudden crises that made ordinary policy making something that had to be suspended. You see in 2001—you saw it from the Hill before you saw it in 2008.

When did you first meet President Bush?

Hennessey: It was probably a policy time meeting with him sometime in September. That was my guess.

Nelson: So you had never met him before.

Hennessey: No.

Weatherford: September of 2002.

Hennessey: Yes, 2002. So getting the job, the formal highest-level meeting was with Andy Card, not with President Bush. I believe that he and Josh had gotten President Bush's approval, but the two of them in the Oval Office had some kind of conversation like that. President Bush didn't interview me.

So in the fall of 2002 there are a few things that sort of jump to mind. One is we are finishing up terrorism reinsurance enacting that legislatively. Two, which is the biggest thing that I remember, is the internal debate on whether President Bush should propose another round of tax cuts in early 2003. Three was the West Coast port strike, and then four was the change in the economic team that happened in December. If you want, five is learning the new job.

Nelson: Tell us about the impressions you were forming of President Bush based on personal contact and observation.

Hennessey: Everything was new. So initially my focus—I think my energy and attention in the first couple of months was even more focused on the different members of the economic team,

the advisors even more than the President. I'm talking like September, October, November. In particular, this was the debate about the yes-or-no question: Should President Bush propose a tax cut early in 2003? There was a significant disagreement among the advisors.

Nelson: Who, and on what side?

Hennessey: You had Treasury Secretary Paul O'Neill and Mitch Daniels saying no, the deficit hawk camp. You had Larry Lindsey and Glenn Hubbard saying yes, albeit for different reasons. You had Commerce Secretary Don Evans as the—broker is not the right word, but sort of a balancing force seeing both sides of it.

You had I think Karl [Rove] weighing in later on in the process on the yes side. I don't remember where Karen [Hughes] was. As best I remember, Josh, who was Deputy Chief of Staff, and Andy, at least in the meetings I was in, I don't remember them taking a side one way or another. I thought of them as sort of above the disagreement. Maybe they were giving President Bush advice privately, but I wasn't seeing it in the principals' meetings that we were doing.

From my standpoint I was very much learning the job. We had this big intramural argument among the advisors. My job was to try to navigate and help Larry Lindsey navigate as we had to move forward with advisors on a very big decision. As we then started to move closer to the decision and then once the President made the yes decision, we had to lock down what the policies were. That's when I start focusing much more on President Bush's—First of all, as the decision maker, yes or no, and then everything about that is, "OK, given that we're going to do a tax cut, now we need to tee up the options for what he is going to propose." That is when everything for me starts focusing on what does he need, what the choices he needs to make are. But the first couple of months it is much more about focusing on the lower level on the scrum among the advisors as they're having this big debate.

Weatherford: Were you mostly coordinating other people's views, or did you have some views that you were contributing into the policy process?

Hennessey: The process improved over time. At this point in time it was a bit more of a tussle than a well-structured debate. The advisors at that time were not—it wasn't everybody get around a table and have a civil argument. The elbows were a bit sharp.

My boss, Larry Lindsey, was an advocate in that debate. He and Glenn were both advocates for yes, do a tax cut. One thing I do remember about that is that Larry was focused more on the short-term, on the need for short-term demand side effects. He was worried that we would slip back into a recession in 2003. So he was more focused on that.

Glenn Hubbard was more focused on the long-term supply-side questions and long-term growth. They both—

Weatherford: Those had implications for how the tax cut would be structured.

Hennessey: Correct. They both agreed that President Bush should propose a tax cut in 2003. They ultimately reached agreement on the two components of it, which were accelerating the

rate reductions and the proposal to eliminate the double taxation of dividends. Larry and Glenn both agreed that both of them were good policy. Larry emphasized accelerating the income tax rate reductions. Glenn really drove the dividend tax policy. They both liked both components, but they had different prioritizations.

To some extent those different perspectives on the relative importance those two sorts of approaches to it meant that at least initially Glenn and Larry didn't sound like they were arguing for the same thing because they were arguing ultimately for the same consequence but for different reasons with different prioritizations. At one point Doug Holtz-Eakin, who was Glenn's chief of staff, Doug and I sat down with Larry and Glenn and said, "Look, the two of you guys agree on the outcome, you agree on the policies. Because you're not pulling in the same direction and teaming up here to make arguments and agree with each other more than disagree with each other, you may lose and end up with nothing."

I think as a result of that Larry and Glenn allied more, and I think that helped tip the debate in favor of doing something. I don't know that that was the only reason, but I know it was a bit of a change in terms of how the debate worked.

Nelson: A pretty bold thing for a new guy to be telling his boss.

Hennessey: I don't know. As I remember it, the initial observation came from Doug, who had been there for a lot longer. But yes, and it was pretty obvious as you're in these discussions and you see everybody arguing and you're sitting there saying, "Wait, the two of you. Why are you two arguing with each other? Because you actually both disagree with them more."

Weatherford: Did you ever sit down with O'Neill and Daniels?

Hennessey: No, as I said, the interactions weren't as smooth. They tended to be more individual phone conversations, especially with O'Neill. Mitch had the budget stuff. He was doing his thing. He had a fair degree of autonomy in terms of the spending negotiations with Capitol Hill, but this was a process that we were running, so he was a participant in it. There were a lot more interactions between, say, Larry and Mitch or Glenn and Mitch, whereas O'Neill was a bit off on an island by himself sending angry—I don't know if he was sending angry missives in, but we'd find out O'Neill's view when he came to the meeting. His staff were trying as hard as they could to make things function smoothly. That was a tension at the principal level.

Weatherford: So there was no point at which you sort of step back and try to weigh the claims of the deficit hawks versus the supply side?

Hennessey: No, at that point I was—at least as best I remember it, my memory may be faulty—I believe that I was basically in a supporting role for a principal who was an advocate, a participant in the debate. The role that I played for much of the time starting in 2003 was as the deputy honest broker.

Weatherford: Right.

Hennessey: And deputy process manager.

Nelson: The National Economic Council is still a fairly new institution, right?

Hennessey: It started in '93.

Nelson: It started with Clinton, so this was the first Republican administration that had it.

Hennessey: Correct.

Nelson: By the way, do you have a perspective on why the Bush White House decided to adopt this?

Hennessey: No idea.

Nelson: I can see a first Republican Treasury Secretary thinking, *Why do we have to go through these guys?* Did you get any sense of that? That part of the real problem was a sense of I should be the President's chief economic advisor, unfiltered.

Hennessey: I don't know. The interactions that I had with him were always in a room with lots of other people where I was at least seeing the reflections of his interactions with those other people. So it's very tough for me to infer what his thought process was.

One process detail that gets in that is there was a weekly lunch of the economic team hosted by the Treasury Secretary. It was once a week and it was in his dining room, so it was at Treasury. He hosted it, and probably three or four of his staff and then Larry Lindsey would go over and Mitch Daniels and Don Evans and so on.

When we switched Treasury Secretaries and National Economic Council Directors and then a few months later when we got a new CEA [Council of Economic Advisers] Chairman, one of the changes that Josh Bolten set up as Deputy Chief of Staff for Policy is he told Steve Friedman, the incoming director of the National Economic Council—I don't know if it was Josh's direction or recommendation, but it was to Steve, "You should now host the lunch here at the White House."

So starting in January of 2003, the weekly economic team lunch was held in the little ward room off the White House mess hosted by the head of the NEC. The Treasury Secretary attended that, as did all of the other economic principals. But if you want the symbolic and process elements there, that is a significant symbolic shift in terms of who is hosting.

Nelson: So Josh Bolten's reason for doing this was?

Hennessey: I don't know what his reason was. I know from my perspective part of it was, as I remember one of Josh's reasons—I don't know if it was his reason for helping bring in Steve or part of the initial guidance he gave to Steve. As I understood it, part of Steve Friedman's job was to turn this into a functioning team rather than a bunch of individuals pulling in all sorts of directions. If you want to think about the Friedman era at NEC, that is the big shift. In very short order all the economic advisors were in the same room.

Steve really drove the transformation of the NEC to becoming honest brokers. I mean we still had lots of arguments as an economic team, but they were more structured. They were sort of

everybody in the same room and it became arguments and debates among a group of people, all of whom saw themselves as working for the President rather than what I thought I saw in the preceding few months, which tended to be fights with people pulling in very different directions.

Weatherford: After the election—

Hennessey: The lunch was an important procedural and symbolic element to that.

Nelson: Oh, yes.

Hennessey: We should talk a little bit more about the lunch.

Weatherford: Talk about it.

Hennessey: The lunch was hosted by Steve. The attendees are actually important. So it was Steve, the NEC director. It was the Budget Director, Treasury Secretary, Commerce Secretary, CEA Chairman, Deputy Chief of Staff for Policy, Bolten. Then a standing open invite to the Chief of Staff, Andy Card, who would occasionally drop by.

Nelson: Anybody from the Vice President's office?

Hennessey: Then the Vice President learned about the lunch and asked if he could attend on a regular basis, to which of course we said, "Are you kidding? Absolutely." Then it was the Vice President and his Chief of Staff. So it was VP [Vice President] [Richard] Cheney and [I. Lewis] Scooter Libby, later the VP and David Addington. Then I was the only nonprincipal. The NEC Deputy was the one nonprincipal. Over at Treasury O'Neill would have two or three people in.

Steve set it up so it was Wednesday at noon in the White House Ward Room. He put extra effort into getting his assistant to push very early on on everybody else's assistant, which is please block this time off for the next year, two years, something like that, so that no one ever could claim a scheduling conflict. Importantly, he had a no-proxies rule. Because of course as soon as you allow your proxy to show up, after a month or two you end up with it being the NEC Director and a bunch of deputy secretaries or chiefs of staff or something like that.

Because it was no proxies, because it was in the White House, and because you always had the Deputy Chief of Staff for Policy, Josh, and the Vice President, what it meant was that every other senior player absolutely would rearrange his schedule to be there. There was no way that the Treasury Secretary, the Commerce Secretary, the CEA Chairman was going to miss an opportunity to be in the room to make sure that the Deputy Chief of Staff for Policy, one of the most important jobs in the White House, and the Vice President—you didn't want to miss that conversation.

So I would say that those lunches, starting with Steve, who initiated it and did just a fabulous job, they became I would say the critical sort of informal mechanism of turning it into a team.

Nelson: Who was Steve Friedman before he became the Director?

Hennessey: He was the CEO [chief executive officer] of Goldman Sachs, co-CEO and chair. He was the head of Goldman Sachs. Josh knew him from Goldman days. I don't know if Steve was in semi-retirement at that point, but for Steve in a sense it was very much a public service kind of thing. It was not an ambition thing. It was, "Yes, if my President asks me to do this, I will serve." He was very much coming in as a senior guy with tremendous past experience. For me, when I moved up to the NEC job, it was definitely a big promotion and increase in responsibility. This I thought of at most as a lateral shift for Steve, given what he had done before.

Nelson: What I'm hearing is that Josh felt like the process of the first couple of years was dysfunctional. He wanted an NEC director who would be an honest broker more than an advocate. He wanted the Treasury Secretary to be part of the team rather than thinking of himself as an independent fiefdom. Is that—

Hennessey: I would phrase it a little bit differently than the way you phrased it. I think it is a little too NEC and Treasury-centric. I would say that from my perspective it appeared that we didn't have an economic team that was functioning as an economic team. You have highlighted a couple of parts of it, but as a general matter we had five or six economic principals, each of whom was kind of doing their own thing. They weren't intentionally fighting with each other, but everyone was just sort of going in their own direction. So what I saw was Josh—Steve is the guy doing it—Josh, and I assume that this was guidance coming from the President, but I don't know, basically saying, "OK Steve, your job now is to start to bring everybody together and to turn this into a team."

I think the fact that he had Steve doing it was a big part of the reason for the success just because of how Steve operates. He has so little personal ego involved in things and is so methodical and straightforward and is a straight shooter. He was the guy who I think was particularly—and also he just had the gravitas because of his reputation and just his manner of interacting with people. I think he did a brilliant job at being able to make that happen. I don't know that I recognized how significant of a shift that was at the time, but over time as I just started to see the team functioning that was a big deal.

Nelson: It sounds like if an NEC director is an advocate that the team is going to be a team.

Hennessey: When I talk to my students, it's an interesting question to what extent the Obama economic team may have struggled with this as well, with Larry Summers in the NEC job in the first couple of years. Larry is a brilliant guy; he is also a very strong guy, a strong-willed guy who has opinions as to what is the right thing to do. I teach my students—I say in the policy council jobs you have a role as an advisor and a role as an honest broker. The advisor role is the flashy one; it is the one that people think of as the cool and exciting part of being a senior policy aide to the President.

To some extent the President and certainly the White House structure needs the honest broker role to make the process move more. It is tough, it is really tough to find people and to find an environment into which you can make both work.

Nelson: I asked you earlier about impressions you formed about President Bush. We haven't gotten to that yet. I would think that being in the presence of the President of the United States for the first few times you would be forming impressions constantly.

Hennessey: The one that is most memorable from early on actually has to do with the West Coast port strike. It was the first big project that I thought of as mine. There is one union that represents pretty much all of the dockworkers on the West Coast and only one or two companies that run most of the ports. Every several years they get into a big conflict. This was one of those conflicts. Sometime early in the fall the workers were going on strike. The problem is that an enormous amount of our trade goes out and comes through those ports.

I had no idea how much of our agricultural trade and how much manufactured goods we get, especially from Asia. I don't know if it was September, certainly in October and November, we were actually worried about stuff, gifts, making it to the store shelves for Christmas on time. You realize that you had lead times that were—

Nelson: Six months' lead time.

Hennessey: It was just incredible.

Nelson: There was Walmart sitting with shelves empty waiting for those imports.

Hennessey: Right. Once the process started, we started getting satellite images of cargo tankers literally lined up off the coast of Los Angeles. I mean you can literally see them with all the cargo containers on and they're just stacked up as they were waiting to get in.

Nelson: So the instruction to you is fix it.

Hennessey: The instruction to me was fix it. It was Josh. Josh called me down and said, "OK, this is your baby, push it forward." "Fix it" wasn't you have authority to do things, but it was initially go figure this out. Go figure out what is going on. Go figure out what the policy levers are, and report back quickly.

I don't know if it was later that day or a day later or something like that. For me, that was my first big effort where it was an issue that I was there at the start. I was there from Day One and I had the sanction from Josh to go then—this was also one that wasn't just let's make a bunch of decisions in the White House. This is where you have to reach out to the executive branch, to the different Cabinet agencies.

When I think back, as I teach my students about policy coordination, this was my first effort in policy development and policy coordination within the executive branch.

Nelson: Other than the entities represented on the economic team, what departments did you have to reach out to?

Hennessey: It was Commerce, Transportation, Justice, and Labor.

Nelson: Not only Commerce.

Hennessey: U.S. Trade, USTR [United States Trade Representative] probably. At Commerce it was NOAA, National Oceanic and Atmospheric Administration. The Department of Transportation has jurisdictional responsibility for law enforcement at ports. I think that's right. Something about if there is a riot or a disruption or something in a port then some part of Transportation. Then also there is Transportation.

Justice Department, Labor Department, labor dispute obviously, and then what we ended up using was something called the [Robert A.] Taft-[Fred] Hartley Act. It gives the President the authority to do a onetime 30-day pause to tell the workers, "You are not legally allowed to strike or do a slowdown." We were actually worried as much about a slowdown as a strike. It would tell the manufacturers, "You may not lock the workers out," basically. "You've got to work full time and at full speed and you've got to keep them going to allow—" I don't know—"30 or 45 days for negotiation."

Nelson: Eighty, I think.

Hennessey: Is that what it is?

Nelson: It is checkable.

Hennessey: For a limited time. The hope is of course that that pause would keep things going, but also the President doing that creates additional public attention and public pressure on both sides to reach agreement. The two big strategic decisions were, one: When do you do it? And two: Actually it is really when do you do it.

If you do it too late, you're imposing too much of an economic cost. CEA estimated the economy was losing a billion dollars a day as a result of the strike, so a net GDP [Gross Domestic Product] effect. So every day you wait we lose a billion dollars of GDP.

If you go too early, especially if you're a Republican President, then you were perceived as siding with management over labor. You provoke labor's allies, especially on Capitol Hill, to cry foul, and you make it more likely that labor will dig their heels in because they think they have a political advantage or they can make this into a partisan thing.

Nelson: This was a midterm election season?

Hennessey: Yes. I don't remember that being that much of an element, but I'm sure—

Nelson: This was going on, and the other thing that was going on as a labor issue was the creation of the Department of Homeland Security.

Hennessey: The unionization of TSA [Transportation Security Administration] workers.

Nelson: Yes, so I imagine sensitivity about appearing to be anti-labor was heightened by that.

Hennessey: That would be a big deal. But then the other thing about Taft-Hartley is that you only have one bullet. You only get to do this once, and if you do it too soon or if you do it in a manner that is counterproductive, once that 80-day clock, or however-many-days clock runs out,

you have no more tools to make it happen. So you actually want to wait until the point where you have a pretty high degree of confidence that you're going to get a maximum probability of effectiveness in doing this to bring the deal to a close.

You need Justice there because technically what happens is the President invokes the Taft-Hartley Act, which instructs the Department of Justice to go ask a judge to do this. The order to not strike or slow down and not to lock out comes from the Court, and the administration has to go and do it.

So now I have to coordinate the lawyers—of course I'm not a lawyer—to be ready to actually execute as we're getting all this other information. So for me that was a fascinating project because it involved all of this coordination. Then you have all of the elements. This is also where you have all the different elements in the White House mostly who were listening in. I did this almost entirely over the phone. This was just a series of conference calls, once, sometimes twice a day. Keith is having another conference call on the West Coast port strike. But what you have is the person who did labor issues for Legislative Affairs for the House side and the person who did it for the Senate side, the White House press shop, everybody would be listening in. This is a lot of the coordination process that occurs.

It's really the policy council interacting with the executive branch players to figure out what authority do you need. OK, we'll get the White House Chief of Staff to bless the Secretary, make such-and-such a phone call, whatever. So that coordination—a whole bunch of other people are involved so that they know what is going on so that Ari Fleischer knows what to say if he is asked about it. The whole staff will know what to say if they're asked about it, and so on.

For me, getting back to your question, the execution of this was the first time where I'm doing the interaction directly with President Bush. Larry Lindsey happened to be out of town. The decision had been made to do this, and the execution of it was President Bush was going to go out onto the south lawn there, microphones set up. He had a three-minute statement that he was going to give, he was going to sign the instruction giving the lawyers the authority to do it and make it happen.

Weatherford: Was he involved in any of the iterations that you—

Hennessey: I didn't brief him before that day, never did a policy time meeting on it. I was keeping Josh informed. Josh was keeping Andy and the President in the loop. So I had no interaction with President Bush before the execution of this. I wasn't even aware that that was to some extent unusual at this point. My interaction was—Josh had said a few days earlier, "OK, the President has approved doing this." We talked over would we do it Tuesday or Wednesday. We figured out which day. Then for me the interaction with President Bush was showing up that day when he has his remarks in front of him and I'm there as the policy guy to answer questions.

Nelson: From the press?

Hennessey: No. From him just in the Oval. This is Josh and me and probably Andy and maybe Ari Fleischer. It's five or six people. The staff secretary is there with the instruction, the memo that he has to sign. I'm there for the signing of it. Then the President is looking over his remarks before he goes out and gives them. I'm there. Maybe I spoke for a couple of minutes just to

answer some questions and tell him what—he already knew what he was doing. He had already been briefed by some combination of Josh and Andy. I’m there more at this point for policy support and backup in case there are any questions.

Of course my knees are knocking and I’m very nervous at this point. This is my project. I’m on the line. This is the first time I’m really having to be on the spot and make sure that I can answer questions for him. It was straightforward. I think he may have asked me a couple of straightforward questions. It wasn’t hard, but it is obviously something you always remember.

Nelson: Were you in charge of facilitating some sort of agreement during those 80 days or however many days?

Hennessey: No. Our job was to use the courts to force the parties back in the room together. Part of that process is the President or the Secretary, someone in the administration appoints a mediation board, and so we picked a few people who had mediation experience and they got involved in talking with those folks, but it was very explicit from our standpoint that we were not going to try to be a party to those negotiations.

Weatherford: You know, we’re likely to circle back a couple of times. I just want to circle back briefly to the end of 2002 and this wonderful symbol of the lunch changing venue. Other things happened then. Right after the election, for instance, President Bush called for both Lindsey and O’Neill to resign.

Hennessey: Yes.

Weatherford: Was there a strategy there? Clearly O’Neill was on the outs, but it wasn’t clear that Lindsey was on the outs. Was it a balancing strategy?

Hennessey: I have no idea. It was not just above my pay grade; it was sort of tremors in the firmament above me. I was just sort of—I have no idea, let’s just see what happens.

Weatherford: Do you have any sense—

Hennessey: I don’t know about the thought process. I think I can wildly speculate, but the one thing that I would like to inject into the record here is the thing I remember most vividly about it, the tremendous disparity in the manner in which O’Neill and Larry left. O’Neill I believe faxed over his resignation letter, “I resign.” The story is he got in his convertible and drove back to Pittsburgh that day kind of thing. [makes a whistling sound]

Larry—the word came in I think that first week of December, if I remember correctly. He stayed on until the end of December. I remember him bringing me over to EEOB [Eisenhower Executive Office Building] 450 or 350 to the room to be there for when President Bush introduced his new incoming NEC Director Steve Friedman to the press. The point was for Larry to be there as a show of support. Then most importantly Larry spent a ton of time with Steve over that two- to-three-week period. It was just one-on-one time the two of them. I was in for a little bit of it. But it was Larry doing everything he could to tee up Steve to be successful in the new job.

I just remember from where I sat the O'Neill and Larry news was very traumatic, not just for me but for the White House as a whole. It was a change in senior leadership. By the end of December I don't think Larry's stock could have been any higher within the West Wing in that he was going out with everybody saying, "My gosh, that's the way that you leave an administration." You're being replaced and you bend over backward to make sure your successor is successful. That, especially when combined with the comparison with O'Neill, made a big impact on me and I think a big impact on others as well. I also think it helped Steve.

Weatherford: There was a new Treasury Secretary, and John Snow was a lot different from Paul O'Neill. Yet your story in bringing the economic team together focuses on Friedman and the NEC. Was it—

Hennessey: I think part of it from where I sat was Steve had the sanction from Josh to host the lunch. I inferred that Steve had a broader sanction from Josh and Andy and the President to do more coordination, not just the lunch.

Weatherford: Somebody had told John Snow that this lunch, which used to be in your building, is going to move.

Hennessey: Yes. I have no idea from whom that communication came. The other thing is though, with Snow coming in with all these changes, because you had so many changes, a lot of the slate was wiped clean. So it's not like there were hard feelings left over.

Weatherford: And Snow's personality is so different from—

Hennessey: Very much so. He has much more of a cooperative temperament. He just never came across as a guy who is overly concerned with jurisdiction. It was more, "Hey, I'm on the President's team. It's an honor to be Treasury Secretary." Trying to do the right thing.

When you have him there, when you have Don Evans over at Commerce, when you have Steve coming in with a very different sort of rigorous straight-backed way of doing things, it was just very easy to create a positive environment.

Can I make a comment about Evans?

Nelson: Yes, whom we interviewed, by the way.

Hennessey: He is wonderful. The fascinating thing about watching Secretary Evans in the meetings with President Bush is for me it was a learning experience because so often you would see very important people, very senior people in an administration in a policy meeting with the President. You'd see them jockeying or you'd see them leaning forward, striving and pushing and wanting to do a good job.

They also wanted to make sure they won the argument. They wanted to look good—that isn't the right word—but they were almost overeager and overaggressive in trying to do things. Secretary Evans I think was so much more effective than so many of those others because—I never got the sense that he was trying to prove anything to the President. I assumed that that was because he had this long-standing personal connection with the President.

When I saw him in these meetings it was this is a guy who is confident in a very good way. He doesn't have anything to prove. He's not trying to impress President Bush. He is just trying to give his boss and friend the best advice he possibly can. He's not angling for more power or worried that his opinion is going to be dismissed. It was kind of a quiet self-confidence that just came through.

I think part of it also was Secretary Evans, his personality, his demeanor, I think it made him much more effective than a lot of other principals that I saw because he didn't have these additional concerns of, *Oh, gosh, is the President going to think poorly of me?* He was sort of a guy—*Hey, I'm trying to do the right thing.* That didn't mean that he was laid back, it didn't mean he wasn't a strong advocate, it didn't mean he wasn't pushing. It just felt like he was pushing for all the right reasons. It didn't seem like he had any baggage that some other people might have brought to a meeting, and it was refreshing.

Nelson: While we're on the subject of people in the meeting, how would you characterize Vice President Cheney's participation in the lunches and other meetings?

Hennessey: In the policy time meetings with the President, very quiet. There were only a handful of times in six and a half years that I remember him weighing in with an opinion in the meeting with the President and a whole bunch of advisors. I always assumed that he might be privately counseling the President on some of these questions in one-on-one or other sessions, which is of course his prerogative. Rarely would he show his cards in a meeting with lots of other people in the room.

Most of the times when I remember him speaking up in these meetings it was to ask questions. They were always very good questions; they were always very perceptive questions. I can never remember him asking a question I ever thought of as political. They were always policy questions and in particular sometimes we would state something or maybe someone would make a statement that maybe could be interpreted in a couple of different ways. The Vice President was, "Now, are you asking this, or are you asking that?" He would weigh in in a way to make sure that we clarified something. So 99.9 percent of the time I would think of those as constructive additions to raising the level of the discussion and the debate.

You always kind of knew that his instinct would be to lean toward the economically conservative end of the spectrum of whatever debate we were doing. That was almost never a question. You'd sometimes get that impression, but it wasn't—when we did these meetings I perceived the Vice President to be on a level above everybody else. It was we were presenting to the President and the Vice President. It was not that the advisors, including the Vice President, were presenting to the President. That is a critical distinction.

Nelson: Yes.

Hennessey: We were presenting to the President and the Vice President, where the Vice President was almost always very quiet, but he was a recipient of the presentation and a rare but occasional participant in the thought process about making the decision. He was not on the same level as the Cabinet secretaries or the other senior White House advisors weighing in.

Nelson: I think after lunch I'm going to want to ask you to talk generally about policy time. You mentioned several things earlier, what could have been the longshoremen's strike, the change in transition, and there were three other things you mentioned as items.

Hennessey: The West Coast port strike, the change in the team, the decision to do the 2003 tax cut.

Nelson: We talked about that.

Weatherford: Terrorism insurance.

Hennessey: Yes, terrorism insurance, which was just sort of finishing up stuff we had left over, pretty minor, and then just for me the new job.

Nelson: Mad cow thing?

Hennessey: Oh, God.

Nelson: That struck me as the kind of thing that could have been on nobody's radar screen.

Hennessey: Of course. That was just wonderful. One other point just to tie back to something else. This is sort of personal/professional. I mentioned Bill Hoagland early on as sort of a mentor, but really as a role model. There were a few people in Trent Lott's office—when I got into the White House there was Josh downstairs, who was the Deputy Chief of Staff for Policy, but there was also Jay Lefkowitz across the hall.

Nelson: We interviewed—

Hennessey: I think it is pretty important to understand the geographic layout of that second floor. The DPC [Domestic Policy Council] and the NEC were across the hall from one another. The NEC Director and the DPC Director had offices that faced each other and the two deputies. Jay and I, if we were sitting at our desks we were 15 yards away, but we would literally be facing each other.

Then there was a bullpen outside with four or five desks where our four assistants sat. So of course the four assistants tend to be younger, very energetic. They're all interacting professionally and socially and all that. What it means is that the DPC and NEC really—you develop a good working relationship because they're your neighbors. Also, Jay had been in the job for a while now when I came in. He had my job for DPC and he sat right across from me. You've been around Jay. He is an energetic, go-getting, execution kind of guy. So for me as I was trying to figure out my job, Jay was one of the people I would look to—*OK, how is he doing it?* I assume Jay was aware of it. It's not as if I explicitly sat down and said, "Can you tell me how to do this thing?"

But as you're looking around trying to figure out what you want to do, I would talk to Josh when I needed advice or more explicitly guidance and instructions. I could talk to Larry or Steve, but I would also look across the hall to try to figure out how he was doing things.

A lot of this, especially with the new Steve Friedman and the new instructions to start coordinating this, a lot of this was my responsibility to be the execution guy. Steve's job is to interact with the principals; my job is to make it all happen. So a lot of the mechanics, the logistics of that coordination, fell to me. I had to figure it out, so I'm looking for others who are doing things and learning lessons. For me that was important.

Mad cow disease? Oh, yes, I tell the story in class. I think it was a Monday evening. It was probably three or four days before Christmas, so I was of course just beginning my Christmas shopping. I was arriving at the parking lot for the Tyson's Corner Mall. My cell phone rang and it was Chuck Conner, who was our Special Assistant to the President for Economic Policy. So he was one of the NEC policy staff. He was the agriculture guy.

Chuck's nickname from the President—the President called him “farm boy.” Chuck is actually a very important person in terms of one dimension of the Bush administration on policy. If I had to point to one person more than any who shaped the agricultural policy of eight years in the Bush administration, it would be Chuck Conner. He was the guy within the White House for, I don't know four or five years, and then he was the Deputy Secretary of Agriculture.

The policy person on any particular issue in the White House is very important, is a central player in any discussions of those issues. But on tax policy everybody thinks they know what the right tax policy is—the leg guys, the press guys, the political guys, the lawyers, everyone has an opinion on tax policy. Everybody has an opinion on health policy. Lots of people think they know what we should do on energy policy. Absolutely no one has any idea what they want to do on agricultural policy. If you've got someone as good as Chuck, everyone sort of says, “So what does Chuck want us to do?” I mean more than almost any other issue, people would just defer.

Part of this is just—I can't say enough about how much respect I have and I think everybody had for his knowledge, his gravitas, his temperament, everything about him. So we were all drafted in behind him on anything having to do with these questions.

Chuck called me and said, “Keith, we've got a problem.” “OK, what's the problem?” He said, “BSE.” I said, “OK, what's that?” He said, “It stands for bovine spongiform encephalopathy.” I said, “Chuck, I grew up in Fairfield County, Connecticut. I've never been on a farm or a ranch in my life.” He said, “Have you heard of mad cow disease?” I said, “That I've heard of.” He said, “OK, we've got our first case of it in the United States.” I said, “Oh, God. OK. So what do we do?”

So Chuck and I basically drove things forward that night. This was a good example of how I think the NEC staff worked well, in that there was a division of labor. Chuck was the judgment and my job was to use my chair and title to get the attention of the right people and get the right people on the phone and move the internal policy levers as hard and as fast as they needed to.

I had absolutely no qualifications to make any of the specific judgment calls that needed to be made in those first six hours, the next several hours, but I had the ability to say, “OK, let's set up the conference call and we're going to do it right now. Who do we need on the phone?” Then my assistant could say, “Keith Hennessey is setting up a conference call,” and because I'm the deputy at the NEC I can say, “You really need to be on the call.” So that lends my bureaucratic

strength, the strength of my chair, to making sure that everything happens in the appropriate time.

We spent the next couple of hours maybe on conference calls. It was sort of similar to the West Coast—we had FDA [Federal Drug Authority], we had the other part of HHS [Health and Hospital Services], I can't even remember now. We had the Secretary's office at HHS. We had the U.S. Trade Representative. We had Leg Affairs. I mean we had everybody. We had [Mark B.] McClellan, who was the head of FDA at that point, and who had previously worked in the White House. Then we had people from USDA [United States Department of Agriculture] there.

The immediate question that we had to deal with was a question of disclosure. It turns out that the U.S. and Canadian agricultural beef market is basically one market. The herds move back and forth. There isn't much of a geographic boundary. So they had infected cattle in Canada; one of them had made it here. It was a downer cow, which means it couldn't stand up. They did the initial test out there I think in Washington, and the initial test had come out with a positive for BSE.

Nelson: State of Washington.

Hennessey: State of Washington. The problem is that the initial test has a high false positive error rate. So the cow might not have BSE. It may have just been a false positive. To do the second-level test you have to kill the cow, take a sample of his brain tissue, fly it to Ames, Iowa, and do the test. I think the test takes six hours, twelve hours, some amount of time. So it's going to be the next day before we get the results of the second-level test, which will give us a much more definitive answer and eliminate the possibility of a false positive.

So the question we have to deal with is do we brief the press between now and then? If it is a false positive and you brief—because you know the press is going to report possibly infected beef, mad cow disease, Great Britain. They'll show the images of the piles of cattle being burned, talking about prions in the brain that can cause the cattle to go crazy—this is four days before Christmas when everybody has beef for dinner. The negative consequences of that are pretty bad.

On the other side, it's more than a 50 percent probability that the cow is infected. The false-positive error rate isn't that high. Then you're thinking, *Is this better safe than sorry?* It is better to disclose the information about a possible health risk—By the way, the scientists on the call are all telling us the actual chance of there being another infected cow and the prions getting into beef—Given this one isolated case, you are at so much more risk of getting sick from salmonella from infected chicken. If we look at the actual probabilities of human harm resulting from this limited case, even if it's confirmed, it is hard to justify it from a human health standpoint, but from a good government standpoint your instincts are let's be on the side of disclosing.

Then the other aspect of it is if we go the other way, against our instincts, and decide not to disclose, what is the risk that it won't leak out? Right? The people at the ranch in Washington know.

Weatherford: Did you have somebody on the call who could tell you how widely the news had spread?

Hennessey: We had people from USDA on the call who could describe to us all the steps in the process. The people at the ranch know, the people at their partner ranch in Canada know. Someone has to come and take the brain sample. He's got to fly. There is someone flying with an igloo container of stuff; there are all these sorts of things.

I thought we made the right decision, which was whether or not there is a risk of a leak of the information, the right thing to do is to disclose. I don't even really remember anyone on the call arguing otherwise, but it was part of our job in the policy process to debate that. So that's my job, to push on everybody. We get everybody away and Chuck is sort of the heavy on that.

"So Chuck, based on what you've heard, how would you summarize this?" He'd say, "I think we have a consensus recommendation that we should brief the press tonight." I call on Chuck on the call to summarize that; Chuck says it. I then ask, since I'm chairing the call, "Does anyone want to present a different—" Then, "We're going to brief the Chief of Staff on this. This will be going up to the President. Does anyone want to present a different recommendation? OK, we're presenting that as a consensus recommendation." That is how we then drive these things forward.

Part of it is after the call, then Chuck and I do the write-up on email. I think we got Chuck on the phone with probably Andy Card or Josh Bolten. Then part of the execution—Chuck is in charge of execution. He is then doing additional calls that night with everybody involved to make sure we're executing all the details of it. In particular, Chuck's job was to identify who the right guy or gal was at USDA to brief the press. He'd want to make sure that the person doing the briefing knows their stuff and is calm and is credible and is doing all those things.

I think we executed that pretty well, but then that launched a multi-month process after that as we had to deal with the questions of how does the U.S. have to react now with the fact that this disease exists in the U.S. cattle population. Do we need to change the way that beef processing plants work? And the trade repercussions existed, I don't know, four or five years later, because the Japanese and the South Koreans basically said, "That's it, no American beef," and those negotiations kept going for a long time.

So the West Coast port strike and that were basically two big things that were great examples of policy problems dumped on our doorstep where you have to deal with them and you want to make sure that you can execute the right way to get to a good outcome.

Nelson: I wonder if this would be a good place to break?

[BREAK]

Nelson: Keith, was there anything that you thought of over the lunch break that you want to revisit or fill in for the time we've been covering?

Hennessey: We're up to the end of 2002.

Weatherford: A little bit into 2003.

Nelson: The next thing on my list for 2003 was the Do Not Call Implementation Act.

Hennessey: I think before that the 2003 tax cut is important.

Nelson: OK.

Hennessey: Because that and Medicare were the big economic policy issues of the first half of 2003. That is what he led with at the beginning of 2003. Those were the two—in 2001 it was the tax cut and No Child Left Behind. In 2003 it was accelerate the tax cut, doing dividends, and then the Medicare drug benefit—those were the big initiatives.

Nelson: And all in the context of the wars in Afghanistan and soon to be Iraq.

Hennessey: Correct.

Nelson: So that is going on as well.

Hennessey: Yes. As the economic team we now know that we are operating in a wartime administration or an administration where national security issues are now the defining features of the administration, which doesn't dramatically affect our day-to-day operations, but it sort of changes the overall mindset in that you're always reminded that the issues that you're working on and that you care so passionately about are just a portion of what the President has to think about. He may be going from your meeting on the Medicare drug benefit to a meeting that involves people's lives and wartime strategies. It sort of puts things in a different context.

The 2003 tax cut, as I said, the yes-or-no decision was really made in October or November. The debate was in October, and the decision was made in November. Then the decisions on which policies would be in it and the details were sort of late November and December. The tricky issue there was that's when we were in the process of losing an NEC director and a Treasury Secretary.

We had to finish designing a tax cut at the same point that we were having a transition in the economic team. Actually, now that I think of it, most of those key decisions were made before December, before those changes were made, but the implementation was in that interim. So for me that was the first big policy initiative where I played a big role.

The West Coast port strike and BSE I played a big role in, but both of those were reacting to external events. This was the first President Bush policy where he was going to initiate the discussion of the issue, put forward a proposal, and try to enact legislation. So this was the first thing where I was there on the front end. Moving on into that transition then, since Steve hadn't started and Larry was leaving, basically Josh tasked me with doing a lot of the legwork to make sure that everything was teed up and we'll be ready to go with all the policy details locked down, working with the speechwriters to make sure the speech was drafted, getting all that to happen. None of that work that I was doing was blindingly difficult in retrospect, but for me it was a big deal because it was my first time going through it. So it was a large part.

One word of caution: The only public descriptions that I've seen of that process leading up to that were in the book Ron Suskind wrote.

Nelson: With O'Neill.

Hennessey: —with Paul O'Neill. What I can tell you is at least the parts he wrote about where I'm quoted are complete fabrications. They're totally wrong. There are quotes that are attributed to me and then there are things that are not technically quoted but which are indirectly ascribed to my role in the process and what I was doing and saying that are just wrong. So I just would caution not to believe that.

I actually remember when the book came out somebody emailed me the quote and said, "Hey, this is great that you said this." I looked at it and said, "That's nice, but I didn't say it." It was astonishing to me that that would happen.

Nelson: Did Suskind call you while he was doing research for the book?

Hennessey: No, he talked to somebody else who said, "Here's what Hennessey was doing and saying." It was wrong. That was my most vivid early memory of playing an early role as the honest broker process mechanic guy. It was a lot of my role throughout my time. I was the guy who would make the trains run on time to basically help run the decision-making process.

I described it to my students. I said the policy councils or at least the NEC, we were a manufacturing operation and a service operation. What we did was we manufactured Presidential decisions on economic policy and then we serviced them to make sure that they were being executed to be consistent with what the President had decided. So we were running a manufacturing process and we really sort of thought of it—especially as the years went by, it became not routinized but it became a thing where it was when you initiate a policy process to design policy X or to get answers on policy question Y, and it was almost a machine that we could push and then things would start to happen.

This is my first recollection of really starting to do this in a very structured fashion, and in particular it was a big deal for me because when we did the options meeting with the President right around Thanksgiving, probably a few days before Thanksgiving, that was the one where I did the bulk of the work drafting the memo to the President and building the table with the options. Then that was the first time that I had a big presenting role in that policy time meeting with the President. Basically, it was set up that the principals in the room were all going to argue about which options we should and shouldn't do, and my role was the supporting role of listing the options, describing the options, giving the answers about the options. I was going to make sure the President has all the information he needs while the people above me at the principal level all argue about which of these options he should do.

That role and that structure is something that we really carried through and improved upon as the years went by, which is back to the honest broker point, which is a large part of the NEC's role, especially the NEC deputies and the specials. It was to make sure to serve the President in terms of making sure the President had the information he needed and had a fair and objective and clear presentation of the options and clearly understood the choices. Then we teed up for others to fight over whether he should do option A or option B.

Weatherford: So this period—to go back to the manufacturing and servicing.

Hennessey: This was the manufacturing part.

Weatherford: It is a really interesting analogy. This period must have been a period in which you didn't quite know how to make the product well and you were sort of crafting it. One of the things in the book—

Hennessey: The trick is—

Weatherford: There is a chapter in which he describes where the process got to, and it is almost a perfect public administration story. So you're saying we didn't have—

Hennessey: This was the early stage of the process.

Weatherford: Could you tell us how it evolved? Was it trial and error?

Hennessey: [long sigh]

Weatherford: Were your memos flawed in some way?

Hennessey: I think for that one, the tax cut one, I think Larry wrote a memo. Then I got the memo and I got to do the nth draft of it, mostly to add supporting information. Larry's memo was more of an advocacy memo saying, "Here's what you should do." My job was to add in the tables but then to add in, "Here are other perspectives on it."

What happened in later processes is—now in part this is the difference between Larry and the succeeding bosses I had at the NEC. Larry knew more about economic policy than I did. He had worked in the White House before and he had strong opinions as to where he wanted the policy to go, whereas with Friedman and Hubbard, both of them were somewhat new to the process that we were doing. So each of them relied on me more to do the mechanics of it. Then they would take my drafts and say, "OK, we need to strengthen this part" or "We need to add more here."

So the idea of Larry writing the first draft and then me supplementing it reflects the additional value that he had relative to me, whereas in later versions I would almost always write the first draft of the memo and then my boss, Friedman or Hubbard, would say, "Yes, OK, this is good, but I don't think we're doing X or Y or Z enough here." Then I would do the supplemental work.

In terms of the evolution of the process, yes. I think it was iterative and trial and error with a lot of feedback from the deputy chiefs of staff and their policy assistants, so from Josh and then Kristen Silverberg. Kristen and Joel [Kaplan] were Josh's—

Nelson: Joel Kaplan.

Hennessey: Before Joel became Deputy Director of OMB and the Deputy Chief of Staff, he was one of Josh's two people early on. Joel helped Josh oversee the DPC folks and he really was critical in the creation of DHS [Department of Homeland Security] and that whole thing. Then Kristen's job was to make sure that the NEC people weren't fouling things up too much for Josh.

She kind of kept a watching brief on us. So I would be getting feedback from Josh and Kristen and others, and then Steve Friedman and later Al Hubbard. We just kind of iterated it over time.

Nelson: What you're describing here is the process of creating an environment in which the President will make a decision. How is that like and unlike what has been called in the Bush administration "policy time"? It sounds like it wasn't pointed toward an immediate decision.

Hennessey: Actually, it was.

Nelson: OK, can you clarify that?

Hennessey: I'm going to take a few minutes to do this.

Nelson: Absolutely.

Hennessey: It's a big deal and it's sort of an important process.

Nelson: OK.

Hennessey: I think it arises from—from my standpoint—I think this was the thought process as we were doing it. I don't know how much of this is me retrofitting logic after we've done it, but at least this is how I think about it now. I think this is the thought process. From our standpoint, the most highly constrained resource was the President's time. We were always competing for the President's time, which was always a scarce resource.

There were lots of things that you need to have decided. So on a pretty important issue we might only get a 45-minute meeting with the President or a 60-minute meeting. If it was a big issue, then OK, we'll take 60 minutes. If it was a huge issue, then maybe we'd schedule two 60-minute meetings with him half a week apart or something like that.

But the idea that you can brief the President on the background, give him the options, have discussion and debate among the advisors, answer his questions back and forth in 60 minutes—that requires a tremendously efficient meeting. There were some dangers in things that we saw early on in the administration. You would have people bringing their own facts to the meeting where those facts in some cases were just provably wrong or were technically correct but highly misleading no matter what your perspective was on the underlying policy question.

The other thing you had is arguments were inefficient. It's back to the old joke of everything has been said but not everyone has had a chance to say it. Or what we saw a lot of is you would see principals who would agree on 80 percent of something and then instead of communicating to the President that they agree on the 80 percent, the most important, they'd spend three to four minutes of time bickering between themselves about their long-standing fight on the other 20 percent, which frankly wasn't of Presidential importance to make the decision.

So our process was aimed at basically trying to clarify the information that the President needed and to set up what we called "clean fights." Our job as the policy shop was to establish the baseline facts, and if there was disagreement as to which numbers were the right numbers, then it

was the policy staff's job to hold as many staff meetings as we needed to make sure that we had staff agreement, that the numeric answer to the following question is X, not Y.

Then if any principal said Y, we'd come down on them and we'd say, "Uh-uh. We've done four hours of staff meetings to agree that it is X. You can't tell the President Y. If you do, we're going to say, 'Mr. President, that's wrong.'"

The other thing was to try to narrow the areas of disagreement to the ones that required Presidential decisions, but then to clarify the areas where there was significant disagreement. So we were not trying to paper over differences. In fact, if anything, we would get the two principals together. We would make them argue about something and we'd say, "OK. But you don't actually disagree on the first part of this point and you don't disagree on the underlying premise. Do we agree on what you disagree on? Do we agree that you think X and you think not X and you're OK with Y and Z and W?"

You'd say, "Well, yes, and I think X for the following." "Great, great." We don't want to get into X versus not-X, but we're going to have the policy council staff come in and say, "Mr. President, our two principal proponents agree on Y, Z, and W. Briefly, their disagreement is over—Here is a two-sentence description of X and here is a two-sentence description of not-X. We think why this is important is the following. Now we're going to ask Secretary So-and-So to talk about X and Secretary So-and-So to argue for not-X."

Nelson: Example.

Weatherford: It may have been from the discussions over the 2003 tax cut.

Hennessey: So a particularly interesting one is—we had to do one late in the administration over the space shuttle and over funding for NASA's [National Aeronautics and Space Administration] budget and in particular whether NASA's budget should—because NASA was facing increasingly a constrained budget—to what extent should the priorities be finishing out the last several space shuttle missions versus space science versus working on the CEV [Crew Exploration Vehicle], which is the successor to the shuttle. So three basic directions.

The head of NASA, Michael Griffin, had very strongly held views. He wanted more money, but within any given pot of money he had very specific views as to what should be done. The head of the Office of Science and Technology policy had a different set of recommended priorities. So the head of NASA thinks one thing, the top science advisor in the White House thinks another thing. There are diplomatic considerations because we do a lot of these things with international partners, so we need someone from the State Department.

These different points of view, everybody was butting heads and they were unable to work it out at the principal level, so we had to do a meeting with the President. My job as the deputy was to try to get Griffin and [John] Marburger and the State Department folks and the budget folks to agree. Can we agree on the following presentation of the options? Can we agree that given the following top line here is a fair description of Administrator Griffin's preference and why? Here is a fair description of Marburger's preference and why. Here is a two- or three-sentence description of the diplomatic considerations and that the principle underlying value choice for

the President between Marburger and Griffin is the following. “Yes, yes that’s fair, but I want to be able to say it.” Great.

Then we go into the meeting with the President and I have the big poster chart showing option one, option two, option three. I present the facts; I walk through the numbers on the table. I describe where we think we all agree so now we don’t have to get the principals all saying, “Yes, I agree; yes, I agree.” Nobody objects, and we know that. Now for option one let’s turn to Administrator Griffin, who will make his case; then we’ll turn to Marburger and we’ll turn to [Philip] Zelikow.

What we would do as part of this process and that meeting with the President was the policy time meeting. There was a very important, lengthy, and often painful, laborious process leading up to that to try to get Griffin and Marburger and the other folks to agree on what is the fair presentation, say, for the policy council staffer. So I’m coming in there with almost a written script that has been to some extent negotiated, or at least agreed to tacitly by the various principals so that we can spend 30 of the 45 minutes arguing about whether Griffin’s option or Marburger’s option or the OMB option makes sense rather than spending 30 of the 45 minutes arguing about tangential details.

If that process works well, everybody walks out of the room saying, “We used the President’s time well and I got to make my case. I got to spend five or ten minutes telling the President exactly why my option is better than another adviser’s option and the President had time to ask me the questions. He did ask me the questions.” Everybody walks out saying the President understands the decision that he needs to make.

What it does then is it creates buy-in on the back end because we found that people were very willing to accept whatever decision the President made if they felt like they had a fair shot and the President really understood the decision the way they wanted him to understand it. Then if he went the other way they said, “OK, well, that’s the way it goes.”

So our job is to create the environment and set that process up. I like to say summarizing it so that the President made what were the best and best-informed decisions for him given his value priorities.

Nelson: It sounds like the meeting with the President was like opening night for a new show, and the hours of preparation—

Hennessey: Hundreds of man-hours going into it. So three levels below the policy—

Nelson: I was going to ask.

Hennessey: I’m going backward in time where policy time is the culmination of this. Principals’ meeting leads up to that. So policy time is either done in the Oval Office or the Roosevelt Room, the Roosevelt Room if we have more people, the Oval Office if we have fewer. That is a specific cast of characters. There are people who are invited to every policy time, and then there are others who are there based on the subject matter.

Nelson: Who was invited to every policy time?

Hennessey: White House Chief of Staff, Deputy Chief of Staff for Policy, often one of the Joel or Kristen roles for the Deputy Chief of Staff would be there as well. The Vice President always, the VP's Chief of Staff—the VP always had a plus-one. The NEC Director, NEC Deputy, and then 19 times out of 20, the NEC “special,” the policy person who was responsible for it. Formally if it was an economic policy time, it was the NEC Director's meeting with the President.

So Steve Friedman or Al Hubbard or Larry Lindsey or later me, we were the ones; it was our meeting, it was our job to do all the mechanics and the logistics. We would often have three people there. If it was an ag [agriculture] policy meeting it would be Steve Friedman, me, and then Chuck Conner. Budget Director 99 times out of 100 because there are almost always budget issues, Council of Economic Advisers Chairman almost always, and then the nonpolicy elements in the White House. The White House Counsel almost always has one person there. Press, Legislative Affairs, communications, political, speechwriting—am I leaving anyone out? No, I think that's it for the White House. Then other policy advisors as appropriate.

So if it's a meeting on NASA, we'd have the White House Science and Technology policy person and we'd have the head of NASA. If it's a meeting on tax policy we'd have the Treasury Secretary. The Treasury Secretary is bringing a plus one or plus two. If it's on something having to do with transportation it's a nightmare because you have the Transportation Secretary, you have the EPA [Environmental Protection Agency] administrator. If it's involving oil and gas you have the Secretary of the Interior and the Secretary of Energy and the head of the Council of Environmental Quality. You have two dozen people in the room, each of whom has some sort of formal jurisdiction.

Of course the more people you have in the room, the more important your early meetings are to try to structure it to make sure things work well. So those are all the meetings. Of course everybody wants to bring a plus one to the meeting, in which case you'll end up with 50 people. So we, sometimes getting overridden by the Deputy Chief of Staff for Policy would say, “OK. The Treasury Secretary, yes, he can bring a plus one to a meeting on tax policy.” But if it is Hank Paulson, who really wants to be in a meeting on climate change because he cares a lot about climate change, we're not going to let him bring a plus one on this. We will let the Energy Secretary and the Transportation Secretary because they have more of a formal jurisdiction.

Nelson: It sounds like planning a wedding.

Hennessey: Absolutely. Look, the seating charts, who sits where—but who gets to be in the meeting with the President is important. It matters and can influence the outcome.

Nelson: You said these meetings would be in the Oval Office or the Roosevelt Room. What was the breakpoint? How many could you fit in the Oval Office?

Hennessey: In the Oval it was 18, and 18 was full. Roosevelt Room—if you were above two dozen then it was sort of a—*Oh, God, this is going to feel like a bench seating* kind of thing. And then it loses effectiveness, but sometimes you have to do that just because of the specific issue involved.

So all of those people would be in a meeting with the President. What we would do is we would do a principals' meeting, at least one principals' meeting before the policy time. The principals' meeting would be everybody who was scheduled to be in the policy time except for the President and the Vice President.

Nelson: A real dress rehearsal.

Hennessey: Yes, to some extent it is a dress rehearsal. The White House Chief of Staff might come to half of those meetings, but the Deputy Chief of Staff for Policy would almost always be there. Then leading up to the principals' meeting we would have one or two deputies' meetings, which would be generally chaired by me. Then it would be the deputies or under secretaries or Cabinet chiefs of staff. It would be the close advisor to all of the principals.

Then leading up to the deputies' meetings we would have PCCs, Policy Coordinating Committees, which were run by the Special Assistant to the President, who was really the substantive expert. So on a medium-sized issue they might have three PCC meetings leading up to one or two deputies' meetings leading up to one principals' meeting leading up to a policy time with the President. That is for a relatively straightforward issue.

Nelson: So is the idea that at the earlier meetings—as many issues as can be worked out get worked out there?

Hennessey: Clarify the questions, identify areas where there is likely to be significant disagreement among the principals, negotiate the ones that probably can be negotiated and probably shouldn't be elevated. We're trying to narrow the scope as we move up the org [organization] chart. If my special has done a good job we come into the deputies' meetings and we've got six big questions. The PCC had a dozen or 20 different things that they had to decide, some of which were like you just need to get transportation and EPA to talk and work out some little thing, but some are fairly significant.

My special would boil it down and then would come and say, "OK, Keith, we need you to hold the deputies' meeting. We have six questions at this point. I think at the end of the day we're going to end up with the President deciding question number one and question number four. Your goal is to try and get us down from six questions to those two questions between the deputies' level, the principals' level, and then the meeting with the President."

"OK, great. Which ones do you think we can probably clear out at the deputies' level?" "Well, question number two we really only have resistance from one person, and I think if you go push or you get the NEC Director to call the Cabinet Secretary I think we can take that off the table." You move the process along.

Then we get into the principals' meeting and we're down to four questions. Now it is the NEC Director's job to try to see can we boil down the four questions so we don't have to wrestle with all four with the President. And then, most importantly, can we make sure that we clarify and we agree where we disagree on the one or two or three big questions.

Nelson: Yes.

Weatherford: I'm going to ask just a quick side question because I'm about to draw an inference and I want to make sure it is right. You gave an example about discussing NASA's mission or task. Ordinarily one would have thought this was outside the area of economic policy.

Hennessey: That was a bit of a special case. NASA wouldn't normally be one; it's an example that happened to come to mind here. That was one that would normally happen through the budget process, but frankly—

Weatherford: Then the NEC would not have—

Hennessey: We would have been a participant in a similar sort of process that was run by OMB.

Weatherford: I think where I want to go with this is you are really conscious about how decisions get made and it sounds like you got good at it. I wonder if this had the effect of expanding the actions that the NEC took part in because people would say, "We've got a really big decision. We've got a lot of disagreements. Keith is pretty good about getting people together and orchestrating the information and the argument in a way that's constructive. Let's put that in the NEC's bailiwick." What I'm hearing is the George W. Bush administration may have had an NEC that not only did economic policy narrowly defined, but became the administration's agency for thinking systematically about how decisions get made.

Hennessey: I wouldn't go that far. A few things. I did a bunch of the work, but I was sort of an internal focal point for a lot of this; I never left the West Wing. I was doing lots of memos and hosting lots of meetings and lots of phone calls. I was very much an internal coordinator.

Nelson: That's interesting.

Hennessey: To the extent that we had process successes, while I was involved in all of those it was by no means just me. I would say that we had an NEC operation that was functioning very smoothly, but that was in part because we had really talented specials. Really, really talented specials.

We also built a process that they quickly fit into and adapted to their own use, and then with Friedman and Hubbard we had principals who were very good at leading that, but I don't want to overemphasize my personal impact here, because it wasn't just the deputy who was doing things, it was the PCC meetings that were driving things forward. I do think we built a reputation within the administration of—look, if a problem gets dumped in the NEC's lap we have a high degree of confidence we're going to get to where we need to get to. It may involve a lot of work; it may involve a whole bunch of painful meetings, reading memos, arguments, and all those kinds of things, but once you dump it into that lane there you have a high degree of confidence that you're going to come out on the back end with a decision that is good for the President. I think we did the manufacturing part pretty well.

But as a first-order matter, the subject matter that we worked on was defined just based on the subject matter jurisdictions of the different policy shops. Every policy issue belonged to one of the councils. Those borders were set up by the Chief of Staff's office, by the Deputy Chief of Staff for Policy.

For instance, we didn't do minimum wage. You would think that minimum wage would be an economic issue. But our friends across the hall, the Domestic Policy Council, they had the labor issues. So when the question of a minimum wage increase came up, it was DPC that ran the process, it was DPC that did the meetings, and we were invited as participants in those meetings. It was kind of fun for us because we got to be advocates rather than be honest brokers. So it might have meant that on the margin some more issues might be thrown into us, but a lot of the active policy development and policy management was just because we had a big portfolio and there was a lot of stuff going on. Does that help?

Weatherford: Yes, that's really good, thanks.

Hennessey: Can I do a couple more minutes on this?

Nelson: Absolutely.

Hennessey: I think one of the things that was so important about doing this process and one of the reasons why Steve Friedman and Al Hubbard were so critical to the long-term success of this—I was doing the mechanics. I was drafting memos, reviewing PowerPoint slides. Are you OK with this? Can we do such-and-such footnote? Steve and Al were doing similar sort of management at the principal level with the personalities involved. Just talking on the phone or going to lunch or having coffee with the various Cabinet secretaries, private conversations about how things are moving along, how we're doing this, let me give you a sense of where I think the President might be headed.

While I focused a lot on the day-to-day logistics and paper and emails and meetings and all that, they were creating space within which our process could operate. The biggest benefit of this was that I think in a lot of cases most of the participants in the process trusted the process. The reason why that was so important is they didn't try to work around it. That is the nightmare from a process management standpoint. People say, "Look, I may not like the result, but I've got to get my chance in the principals' meeting. In fact, I may get too much of a chance because I may have to listen to everybody else talk. But I know that I'm going to have my opportunity." So they would participate in that. That meant when you're doing this over two terms it makes it easier as things go along because people say, "We kind of understand how this is going to work."

Nelson: So far you've talked about President Bush in this process as the recipient of presentations and then the decider, but was he an active participant during these presentations?

Hennessey: Oh, yes. One thing I should share with you is an email that I iterated over the course of several years. It was called something like—this is a different email. This is "Keith's tips for presenting to the President," something like that. I got up to version six or version seven.

Often I ended up being the guy who would rehearse the Assistant Secretary or the Under Secretary who is going to be the plus-one for the meeting. So if we're doing a meeting on pensions and we're bringing the Under Secretary for pension stuff to the meeting, well, the Under Secretary for pension stuff and then my special, they're really the only two people in the room who actually understand all the details of this pension stuff, because it's really complicated.

And so Ann Combs—there is a good chance that she is going to end up speaking up and participating and joining in as we’re doing this discussion. Often a plus one is sort of sitting quietly to take notes, but this is one where she may have a presenting role. Ann is one of the world’s leading experts in pension policy. There is no question she knows the substance on this, and she has devoted her career to it, but she’s never been in a meeting with the President before. So it is my job to prepare her to make sure that she can add the value that she needs to in the meeting.

So she is going to present. Steve Friedman and I or Al Hubbard and I would go up to the director’s office several days before and say, “OK, let’s go. Run through your three minutes.” She would run through her part of the presentation and we’d say, “OK, you said the following. That’s not clear.” We’d make sure that it was useful for her. Then I had this email that I would send which was more sort of informal tips for how to present to President Bush, the funniest of which was “Don’t worry, I’ll show you where you sit.” The one thing everybody was nervous about is they didn’t want to sit in the Vice President’s chair. These were things that I learned from having been the presenter a couple of hundred times by that point to President Bush. I figured out how to present to him in ways that I thought would be useful to him.

One was that if you think of your presentation in outline form, Roman numeral one with subheads a, b, c. Then Roman numeral II with a, b, c; Roman numeral III with a, b, c. The way you start off is you say, “Mr. President, Roman numeral I, Roman numeral II, Roman numeral III.” Then you go back to Roman numeral I and then give a, b, c. “Now if you’d like I can go into more details on a, or we can move on.” You don’t go: Count one a, sub 1, little i. You don’t drill all the way down four or five levels into the presentation. You give him the full structure at the top level and then you drill down as needed. In particular, you’re looking to him for cues as to, “Yes, I already know that,” or “No, don’t care about the details on that.”

What you don’t want to do is end up way down on the third or fourth level of your outline and you’re never getting to your third big point.

Another point that I would always say is, “Look, he is incredibly intelligent and he has a mind like a steel trap. I know we briefed him on this three months ago, but he’s going to remember it. So as we’re going through the PowerPoint slide, watch him. When you see the yes, yes, yes, let’s keep going—and it is unmistakable. Then say, ‘When we last met with you three months ago we went over—’ and if you see him impatiently nodding, then say, ‘Why don’t we skip to slide four’ to get to the meat of it.”

It’s not like the visual and verbal cues are hard to miss.

Nelson: From him in particular.

Hennessey: From him in particular. Another thing that I would tell people is this is a dialogue. It is not a presentation. So we would make people rehearse their presentations, but you were briefing the President, it’s the start of a conversation. To some extent there is a little bit of back-and-forth and negotiation between you and him because he may want to take you to topic four on the agenda. Or he may start asking questions about something that you know we’re going to get

to. Part of what you need to figure out is, “Mr. President, we’re going to get to that. If I may, I’d like to hit two more points quickly.”

You’ve got to kind of make a judgment call on the fly. Do I quickly answer this? Do we dive into that part of the discussion, or can I ask for his permission to—“I promise you we’ll get to that in just five minutes, but it’s important that we do one element before we get to that point.”

The two classic mistakes that people would make is they would give too much prefatory material, which is the President would ask a question, and rather than starting your answer with “Can we do X?” the answer is, “Yes we can do X, and here’s why,” or “No, we can’t do X, but we can do Y and here’s why.” That is, rather than, “Let me give you the background of 15 years of all of this and at the end I’ll get to the can we do X.”

Start with the “what” instead of the “why.” He’s a guy who wants to get to the practical aspects. He knows what he’s asking. If he wants the background on it he’ll ask you for the background. If he is asking can we do X, that is actually what he wants to know.

The other big mistake is if you are in a policy role, do not give him political advice. This was something that people talk about, sort of the MBA [master of business administration degree] Presidency and the structure under which the Bush White House operated. One of the things was it was made exceedingly clear to me very early on that I was a policy advisor. My role was to help my principals and help the NEC directors tell the President what we thought the best policy was and what was the best policy advice he was getting from the range of his advisors. The only time that I would ever talk about politics was when I needed to bring it in to refer to a legislative constraint. We’d like to do A, but we don’t think we can get the votes for it because a certain interest group will be able to turn votes against it, something like that.

It was never our job as policy advisors and it was never the Cabinet Secretary’s job or their Under or Assistant Secretary’s job to say you should do X because it is more popular than Y, or I want you to know that the polling data supports option A rather than option B. In fact we would warn new Cabinet Secretaries after a principals’ meeting—We’d sometimes take them aside and say, “Look, I know you brought up the polling data in the principals’ meeting. Don’t do that with the President. He doesn’t want to hear it from you. That’s why he has Karl Rove; that’s why he has Karen Hughes.” Later on it was, “That’s why he has Ed Gillespie.” When he wants political advice, he will either provide it himself or he’ll turn to his political advisors. Our job is explicitly to tell the President what we think is good policy.

Nelson: What about if the Commerce Secretary says, “Well, you know, I’ve been out talking with—I hear from businesspeople all the time.”

Hennessey: Businesspeople are a very different thing. I mostly saw the negative reactions from the President when a Cabinet Secretary would bring up polling.

Nelson: So politics here—

Hennessey: Politics is partisanship, it is elections, it is polls, and it is popularity. Saying, “Look, I spend a lot of my time talking to business leaders and here is what I hear—” that is absolutely useful information. We thought of that and treated that as part of the policy input.

Nelson: Because when you're talking about policy it includes a lot of things I think most people would categorize as politics too, including hearing from various constituencies, including reporting on what you know about, say, the plan on the Hill. A lot of people would say—

Hennessey: We would characterize that as—

Nelson: But it's not electoral politics.

Hennessey: Maybe to be more precise it is not electoral politics, it's not popularity. The idea of going in as a policy advisor saying, "If you do this you'll be less popular" was just something that after a month on the job you'd never even consider doing. Occasionally I'd have to caution someone new, "Don't do that."

Nelson: It's good to have that clarified. One other thing. What kind of homework, if any, would you ask the President to do before a meeting?

Hennessey: We would always send him either a memo or a PowerPoint slide deck or both before the meeting. If we were in good shape it would be two or three days before the meeting. Often it would be the night before.

Nelson: So would you tell people who were going to present, "Look, he will already have this information."

Hennessey: The memo that the President would get or the PowerPoint deck or both would often look like later iterations of materials that the NEC staff had written for the principals' meetings.

Nelson: And he did his homework?

Hennessey: Oh, yes. When we went into those meetings we all had to be on our A game. We would train our policy staff and others to be ready to go two and three levels deep on anything that was raised in either the memo or the presentation.

Nelson: How many meetings like this in a month?

Hennessey: It depends on the time of year. I would say on average one to one and a half a week. Four in a slow month; ten in a really busy month. Ten is *Oh, my God, we're doing three policy times this week* kind of thing.

Nelson: We want to make sure we leave ample time for the financial crisis. We're not in trouble for time, but let me go through some of these other things.

Hennessey: Let me do one process thing.

Nelson: Absolutely.

Hennessey: This is something I am excited about and proud of. It is an innovation that I helped my bosses introduce sometime in the Hubbard era. It was a silly little tool, but it worked great and it was the concept of worksheets. We didn't use them with the President, but we used them

with principals. What we found was that a lot of the questions that we were dealing with were multi-dimensional and complex. We would have five or six decisions, which were interlocking. We had to unpack these; we would always talk about unpacking the problems into the sub-problems and the sub-components.

As I was saying, a lot of what we were trying to do was to try and narrow down the questions that we wanted to bring in to the President. But even with the principals' meetings you don't want to waste the time. If you're doing a 60-minute or 75-minute meeting with four Cabinet secretaries and half a dozen senior White House staff, you don't want to waste their time either; you want it to be efficient because of respect for them and also you want them to show up at future meetings and feel that their time is valuably spent.

So what we started to do is we would send them a briefing memo and a one-page worksheet. The worksheet was—I would joke with our specials and say, “Look, with the worksheet we're going back to middle school here.” The worksheet only has the one-line version of the question and then the answer. Should we accelerate all the rate cuts or all but the top rate? Circle one. Should we do A blah, blah, blah; B blah, blah, blah; or C blah, blah, blah. We'd have a yes-or-no question. We'd literally put the words “yes” and “no” on there.

I was very explicit in that people would then want to put all sorts of background information on the worksheet and I'd say no, no, no, the background information goes in the memo. The worksheet literally is an answer sheet. We'd spend a ton of time working on the wording of it, on the presentation, and having a blank where there is a number that you have to write in. It sounds sort of silly and absurd that we'd spend all of this time, but it worked like a charm. What would happen is—we'd use these for principals' meetings and not for policy time. We'd send out the memo and the worksheet a couple of days before the principals' meeting. You're a Cabinet Secretary who cares a lot about this issue, and this principals' meeting is really where a lot of the issues are going to be wrestled with, so you really want to prepare for it.

So what do you do? The day before the principals' meeting you get your top four staff in your office with the memo and the worksheet and you say to your staff, “OK, so where are we on number one? Where are we on number two? Where are we on number three?”

As the Cabinet Secretary you spend an hour with your staff going through each question on the worksheet, and you, the principal, the Cabinet Secretary, you're making little handwritten notes on the worksheet. Then what do you do? You fold it up; you stick it in your pocket. When you go to the principals' meeting, yes, there is a copy of the blank worksheet there on your seat, but you reach into your inside pocket and you pull it out.

Rather than having to slog through the five- or six-page memo with all of these details that the NEC policy staff did, you have this worksheet with your own handwritten notes for what is important. Then you show up at the meeting and the people running it say, “OK, we're going to spend an hour here working through the worksheet. Let's start with question number one.” The worksheet then became the agenda for the meeting. Everybody knew that the purpose of the meeting was to make it through the worksheet.

Then as we make decisions, everyone is making their own little notes on the worksheet and then the deputy or the principal at the NEC, at the end of it we'd say, "So we have a consensus recommendation on number one that we're going with six. On question number two we have everyone is a yes except for you. You're a no." You can see everybody scribbling this down on it. Now it provides a record of where we stand. It also allows you as a Cabinet Secretary, when you go back you hand your version of your worksheet to your chief of staff who can then go brief your three or four people on what happened so it allows us to communicate the information.

So it's a decision-making tool; it's a tool to drive the agenda. It also allowed us to cut people off during the principals' meetings because somebody is rambling and talking and talking. We'd say we have three more issues to get through on the worksheet here. We've got to cut this short. It became a tool that everybody—look, it sort of became a joke, another NEC worksheet. But it became a tool that again made us more effective and increased the efficiency of the process and allowed us to make better decisions.

Nelson: Anything more on process? My interest in this is bottomless because you're presenting it so intriguingly.

Hennessey: We spent a lot of time on it.

Nelson: On your biographical sheet here at the Graduate School of Business you say that the most popular economic change in President Bush's tenure—

Hennessey: The Do Not Call list.

Nelson: Take it away. What was your role in that?

Hennessey: Mine was a minor process facilitation role. Our telecom guy who was working for us and for OSTP [Office of Science and Technology Policy], a guy named Richard Russell, was the guy who was really driving it. So again I was playing a sort of similar role to what I did with Chuck Conner. I was facilitating Richard's movement through the White House policy process to tee this point up.

You know what the Do Not Call list is, right? This is the list where you can put your phone number on it and the telemarketers can't call you.

Nelson: Changed our lives.

Hennessey: It changed lives. It was an idea that originated at the FTC, the Federal Trade Commission. Tim Muris, the head of it, had had the idea. Then Michael Powell, the head of the FCC [Federal Communications Commission], picked it up and wanted to run with it. Richard identified this as something that could be really interesting, really successful, and also possibly really popular. But it was something that the FTC, which is a semiautonomous agency, and the FCC, which has some degree of autonomy, were each excited about and working on and weren't really coordinating with each other. So Richard's job was to start to corral that and get them to agree to do this, if the President was going to agree to it that we do it as a joint announcement with the President and the FTC chair and the FCC chair. We got parts of it going through both of them.

Richard did a brilliant job of that. If I remember correctly, there is a constitutional question. There is a freedom of speech question in there. Are we limiting the ability of person X to call person Y? The final rule had an exemption for political calls. Somebody is allowed to cold call you for political purposes because we didn't want to be limiting political speech.

But Richard did a brilliant job of navigating the various bureaucracies and teed it up and it was exceedingly popular.

Nelson: Surely this is a time when you're allowed to tell the President that people will really like this.

Hennessey: Yes, but nobody had to. I mean this is one where it's like yes. OK, we got it.
[laughter]

Nelson: Steve, feel free to jump in here at any point.

Weatherford: I'm happy about the Do Not Call list.

Nelson: Here on the timeline put together in the briefing book it says there was a struggle I guess in mid-2003 about whether to do more on behalf of the airline industry, which I guess was still working its way out of the hole from 9/11. Any perspective on that?

Hennessey: I don't even remember that.

Nelson: OK.

Hennessey: It's amazing because I'd think I would, but no.

Nelson: It says there was a division between Secretary Snow and Mitch Daniels, who wanted to sort of let things go.

Hennessey: I must have blocked that one out.

Nelson: When Allan Hubbard becomes—I guess there's an election.

Hennessey: Al started in the beginning of '05.

Nelson: Your work in the White House, is it taking place in heightened awareness that there is an election, or is it going on as it has been?

Hennessey: My work is hardly—unaffected is too strong—it's not that dramatically changed. The principal change is Congress is willing to take a lot fewer risks, so the legislative process slows down basically from some time in the summer until the election. So it just means that we didn't have to do as much support work for the leg team because Congress wasn't moving things.

I think that's—let me go back to process. The policy shops led a lot of the processes from Labor Day until State of the Union. That was policy development time for the next year. Basically, from about the last week in August until the new year is when the policy shops are running all

sorts of meetings and all sorts of decision-making processes ultimately culminating in tons of policy time meetings with the President in October, November, and December for what new initiatives is the President going to propose in the State of the Union address and in his budget for next year. The policy shops are in the lead for that.

Once the policies get rolled out, then we move into the second chair and the Leg Affairs team takes the lead, closely helped by the communications teams and the political teams. Our job then is to back them up and support them and also to provide a check on them—"Whoa, you can't cut that deal because we have to check with the President first." But we're leading, coordinating up front, and then as we shift into late January really up through seven or eight months, then we're at the point of answering questions from everybody else within the administration. What do I say when I'm asked what is the President's policy on X or can we do deal X or can we do deal Y?

Election—there is just less action there on the leg front, but we are still—in the fall we're assuming that the President is going to get reelected, so we're in policy development mode. We are working on policies for the beginning of 2005 hoping that we're going to need them. Then from my standpoint I was occasionally dealing with questions from Gary Edson, who is managing the debate prep team over on the campaign. But there wasn't really that much of that. Gary of course had been in the White House in a very senior policy role. He had almost everything that he needed, but a couple of times a week I'd spend 15 or 20 minutes on the phone with Gary. He'd say, "OK, here are the questions that I need answered," and I'd help him with that.

It was very important, it was going on, it affected the President's travel a lot, so there wasn't as much—we couldn't get a lot of policy times in September or October, but those weren't life changing.

Nelson: Is there any connection at all between what you all do and the writing of the Republican party platform or the President's acceptance speech?

Hennessey: Not that I remember from 2004. I remember there was a lot of interaction between then-Governor Bush's team and the platform stuff in 2000. That was the big case because that's where you have a new about-to-be-nominee coming in who wants to shape the party platform. For instance, there was a little mini-revolt on the platform committee over No Child Left Behind in 2000.

Nelson: Really? Let's go back and fill in that gap. It sounds like it's something you have something to say about.

Hennessey: Yes, so that was in Philadelphia for the convention. Bill Frist, Susan Molinari, and Tommy Thompson were the three people running the platform committee, and all three of them were very solidly George W. Bush people. In addition to that, the platform committee of course has a mind of its own. The individual delegates had specific things that they wanted. I was a staffer for the platform committee.

Nelson: You were?

Hennessey: I worked for Tommy Thompson, Governor Thompson, as a formal matter for that week or four or five days, but I knew the Bush people. So I was one of the sort of behind-the-scenes liaisons between the Bush team and Tommy Thompson and Frist and Molinari as they were doing the subcommittee markups and the full committee markups for the platform. As Thompson, Frist, and Molinari were trying to make sure that the platform ideally reflected but at a minimum didn't conflict with Governor Bush's agenda.

Nelson: The particular issue you referred to, what was it?

Hennessey: No Child Left Behind. I think the education subcommittee removed language that was supportive of No Child Left Behind from the draft of the platform, which was a bit of a problem. So the full committee needed to reinsert it from the Bush team standpoint. I remember the night before the Bush team coming and briefing some of their allies on the platform committee and saying education is important, No Child Left Behind is important, we really need to get this back in.

The meeting broke up and I turned to a friend on the Bush team and said, "OK, we've all agreed that we're right and we need to win, but we haven't talked about how we're actually going to win the vote tomorrow." So I was doing some of the behind-the-scenes interaction, which I'll just leave at that, to work with various members to make sure we had voices the next day during the full committee markup speaking up to try to sway the members to vote to put it back in. That ended up working.

Nelson: I don't want you to leave it at that. For example, what kind of argument—

Hennessey: The funny thing is, the Bush team didn't need to work on their substantive arguments; they needed to work on the logistical mechanics of winning the vote. Most of the members of the platform committee—

Weatherford: So often the story of the platform committee—

Hennessey: Most of the members of the platform committee wanted to be on Governor Bush's team. They wanted him to be successful. You're not going to be a part of that process unless you want your guy to be successful, even if you disagree on some things. I think there are 100 members of the platform committee; there is no obvious way for them to figure out what the Governor wanted them to do.

I was one of the people who was basically getting messages from the Bush team who had to be over at the side. The word that our team got out to the members of the platform committee is if you support Governor Bush, follow Senator Frist's lead. So up on the platform you had Thompson, who was chairing, and then you had Frist and Molinari. Then when something was going on that the Bush team was concerned about, I would help them get word to Senator Frist.

Senator Frist would say something to the platform committee, and then all the delegates who were, "Look, I'm with Bush no matter what"—they'd just follow Senator Frist's lead. It was literally just a way to communicate within this room of a hundred people so that you didn't have people accidentally voting—that was a lot of the problem, people potentially accidentally voting in ways that damaged the candidate when that wasn't their intent.

Nelson: All those years on the Hill came in handy there.

Hennessey: A lot of legislative and markup success is about communication and coordination and interpersonal dynamics. That is the hard part. The policy debates tend to be the easy part. Trent Lott actually used to say this, he'd say, "Look, this Senator and that Senator they want to win the debate, I want to win the vote, and you're going to help me win the vote." That's what Lott was good at, and those are some of the skills that I learned from him.

Nelson: All right. Bush is reelected, it is now 2005, and 10 days before the inauguration he names Allan Hubbard.

Hennessey: Yes.

Nelson: Was Steve Friedman's departure expected? Was it surprising? Desired?

Hennessey: He certainly wasn't pushed out, absolutely the opposite, if anything. No, I think the sense I had was Steve came in and did a two-year stint and it was great, thank you. So no, it was by no means time for a change, anything like that. I didn't know Al. What I knew of Al was that he was a business school buddy of the President. Al was the guy who had been brought in on a short-term basis in the 2000 campaign to corral the campaign economic advisors to put together a tax plan.

Remember how I talked about one of the advantages we had? Candidate Bush actually had a very detailed tax plan. Well, he didn't to start off with. In the middle of the 2000 campaign his advisors were all over the map. Somebody called up Al Hubbard and said, "Al, your job is to get all of these strong-willed, smart, conservative economists advising the candidate on the phone and drive us forward into having a tax plan."

So Al had already done some of that coordination as part of the 2000 campaign and now is being brought in to do it here.

Nelson: Did he bring any changes to your role or to the processes that you'd established?

Hennessey: No, it was just more of a stylistic difference.

Nelson: How so?

Hennessey: Between him and Friedman. Steve is very methodical, very rigorous, very cautious. We were not going to make any mistakes under the Friedman regime. We would triple- and quadruple-check things. After I had double- and triple-checked things, Steve would check me one or two times and would sometimes send me back. "You didn't do enough diligence on this." It was very good, in fact trained me a lot about how to avoid unnecessary significant downside risks. There is almost never a downside to having the lawyer in the room just to make sure that what you're doing is legally appropriate.

I know sometimes it's a hassle to have the lawyer in the room, but the upside of having the reassurance that the lawyer is nodding, saying, "Yes, you're OK, you're on safe ground here," especially when you're operating in the West Wing of the White House. It is those kinds of

things. “Do you know that Cabinet Secretary X is OK with what we’ve got in the memo, with what we’re going to say?” “Oh, yes, I talked to his people and they reassured me.”

“Well, you know what, I’m going to call the Cabinet Secretary before we go in with the President just to make sure.” So it was a thoroughness I did not have on Capitol Hill. This was a big difference between the policy job in the White House and Capitol Hill. We were drilling down four, five, six levels deeper in terms of the substance, in terms of the arguments, in terms of the strategy, than we ever did on Capitol Hill. Part of that was just the administration and the way we did it. A large part of it came from I think Josh and Steve Friedman.

I think they were mutually reinforcing. If you were ever skimming the surface of an issue or sort of fuzzing your way over an issue Josh or Steve would probably suss that out and call you on it. At minimum it would make you feel absolutely terrible that you had shirked your responsibilities and not drilled down another two levels. You wouldn’t make that mistake again. As a result, we all became trained. When you would go in to talk to Steve, when you would go in to talk to Josh, you had your stuff buttoned down. It just raised the professionalism of what we did.

Al comes from—Al’s firm is basically a small business, a private investing firm. So he was much more hands-on, let’s make things happen. Steve was more setting up the process. Steve of course ran Goldman Sachs. So Al with his lined pad, his to-do items, and just [snapping fingers] executing all the time, driving and pushing forward much more aggressively. So the pace accelerated. It meant that I had to make sure that we weren’t dropping any balls because I no longer—I mean Al would rely on me to make sure that we were being sufficiently thorough, whereas before I had Steve as the check to make sure that I wasn’t skimming something over.

Then Al would be pushing to say, “OK, are we being aggressive enough on this? Are we doing it fast enough? Are we getting the leg people what we needed to do?” Al was also just more comfortable with the politics and the legislative nature. Al loved to interact with members on Capitol Hill. He is a very outgoing, gregarious guy. So his personality drove a lot more of the interactions in a very positive way. It just created this energy where we felt like a small-business operation. We worked out a lot of the kinks on how the operation would go, and then we were just sort of pedaling faster.

Nelson: Do you feel that the process lost anything by picking up the pace?

Hennessey: No, I don’t think so, because I think we were getting better at it. We were iterating. The other thing I think Al was more comfortable in than Steve was playing an advisor role, pushing a specific point of view. So often when I would help Steve present at a meeting we’d both be honest brokers. What would often happen is Steve would open the policy time meeting with the President and he’d lay out context for a minute or two. Then he’d turn to me to walk through the slide deck.

Steve would frame it, I’d be walking through the slides, and then Steve would occasionally jump in and add additional points or reinforce things or correct things that I left out. It was sort of an overall CEO/COO [chief operating officer]. I was doing the execution stuff. Al would sometimes say, “Look, I want to come in and I want to join in the debate here because I think Cabinet

Secretary So-and-So is wrong. So Keith, you're going to be the honest broker in the meeting with the President and I'm going to be the advocate."

Nelson: The President was fine with that?

Hennessey: Yes. We would tell people this in the principals' meeting. Al would say, "I care a lot—you all know—" Al was never subtle. You knew when Al felt passionately about something. So he would say, "Look, I'm going to have Keith be the honest broker here and I'm going to weigh in." Everybody knew it and that was the way it worked. Sometimes we'd flip it. Al would say, "OK, Keith, why don't you be the advocate here and I'll be the honest broker." So we would divvy things up differently; sometimes we'd both be honest brokers.

Nelson: So there were times you wanted to advocate, or he would just assign you that?

Hennessey: Sometimes there were times when I wanted to advocate.

Nelson: For example—

Hennessey: Gosh. GSE [government-sponsored enterprise] reform, Fannie Mae/Freddie Mac. That's an issue I've worked on for over a decade and felt passionately about. I think that's one where I probably—I'm guessing. I may be retrofitting it, but I'm guessing that I probably played an advocacy role, just given how passionately I felt about it. I lost. That was one where—Al just knew that I had the depth and the background on it. I also had the reputation internally of being someone who was a hard charger on that. So Al said, "Look, I'll tee this thing up and then you and a couple of other people can slug it out." Knowing, by the way, having the deputy as the advocate means that that position is at a bit of a disadvantage arguing with principals, but I was willing to do that as the case may be.

There was one somewhat funny story having to do with energy policy in late 2006, energy policy development. The 2006 election was the one where we moved into a Democratic majority House and Senate. So now we're going to be working with Speaker [Nancy] Pelosi. Al and Joel Kaplan, who was Deputy Chief of Staff for Policy at the time, the two of them had been talking a lot, saying, "Look, we may need to do something on energy policy. That may be something that we can tee up." They were probably both thinking that it might be an area where we might be able to actually find some common ground with the Democratic majority. That may have been—if we just go push more tax cuts or some other traditionally conservative thing, we're just going to have a stalemate. Let's look for an issue where there is at least a potential of finding some middle ground and getting legislative accomplishment.

We were looking specifically at the fuel and transportation world, specifically should President Bush propose increases to the CAFE [Corporate Average Fuel Economy] standards, and should he propose an expansion of the ethanol mandate? The Renewable Fuel Standard it is called. There are good conservative arguments for it. These arguments have to do with negative externalities from these things, basically national security, environmental externalities from being too dependent on oil. But these are issues that split the right-of-center debate.

You have some people saying there are national security and environmental externalities. It is absolutely appropriate for the government to intervene. It is actually consistent with free market economics to deal with these externalities and so yes, we should do these kinds of things.

There are others who say more government intervention is bad, and by the way the particular mechanisms of CAFE and the Renewable Fuel Standards are horribly distorting; we absolutely should not take these bad policies and make them even worse. That debate was definitely in full force within the Bush team.

What we figured out is we basically had a two-stage decision for the President. The way that we structured it was stage one was yes or no. To put it in economic terms, do these externalities justify additional intervention? Are you concerned enough about the national security effects of getting your oil from Venezuela and the Middle East and/or about the environmental impacts of these that you believe that it is appropriate for us to dial up the tax or regulatory policies that we have for fuel?

If the answer to that is yes, then the question is how should we do that and how much? How much should we dial up the CAFE standards, how much do we dial up the renewable fuels standards mandate? So a two-stage process. We had structured the principals' meetings in the same sort of way and these were almost philosophical debates where we had lots and lots of players involved. Everybody felt very passionately. There was a big intense split among the advisors on yes or no. We teed it up to do two policy times with the President. The first one was simply to have this almost conceptual debate.

Then if the President—then we'd ask him for a decision and if he decided yes then we'd have a second meeting ready to go with him on how and how much. This was in the fall of 2006. So we had spent many weeks developing those options, contingent upon him saying yes. I was of very mixed minds. Depending on the day, sometimes I was yes; sometimes I was no. I was really conflicted. Passionate, yes, versus no debate among the advisors. I mean really aggressive debate. Good passion, but intense.

The morning of the policy time—so Al had teed up three people to argue yes, we're the strongest advocates. Three people are arguing no based on the principals who felt strongly about it. This way we had the full scope of the opinions and the people. The President already knew who cared most about this. Al comes back from senior staff and says, "Oh, by the way, one of our three no's just backed down. He said he is not really sure he wants to present it." Ten minutes later Al says, "Our second no just called me and he'd rather not do it as well." I don't know, 10 or 15 minutes later Al calls me and says, "OK, you're now presenting no."

I think part of what happened is I think that some of the advisors were reading the tea leaves and they pretty much anticipated that the President was already a yes or was leaning very heavily in that direction. They were guessing that and they didn't want to go in and lose. But we still had to give the President the no arguments. So Al said, "Policy time is in half an hour and you're arguing no." So I had to go and prepare to be the no.

We get into policy time. We had the three yes presentations. Then Al says, "OK, Mr. President, we'll have Keith present the no." Somewhat to cover myself and in my defense I said, "Mr.

President, I find myself in the somewhat odd position of having to argue against policies I just spent the past two months helping design.”

But I think this is important. Again, getting back to process, I tried as hard as I could to win that argument. I spent that half-hour—I mean I knew the arguments, obviously. I spent as much effort as I could to really try to convince the President no. I knew I was, or I thought that I was, going to lose, and I did lose because he decided yes. But back to this role of the honest broker. We—Al and I, Josh, and everybody else—thought it was incredibly important that the President get the best, strongest, most forceful arguments on each side of an issue. Even if we already knew that it was going to be a yes, we wanted him to hear the best, most effective presentation for no at a minimum so that when he decides yes and he goes out there and someone makes one of these no arguments later in public he doesn’t turn to his staff and say, “Why didn’t you tell me that in the first place?”

Nelson: Yes.

Hennessey: So it was really important to incorporate these arguments even if we knew the President would reject them.

Nelson: Social Security reform. Were you involved in developing—

Hennessey: Oh, yes. If I could suggest a name for the list, Chuck Blahous. To the extent that Social Security reform is something that the oral history wants to cover, you have to talk to Chuck. As Chuck Conner is to farm policy, Chuck Blahous is to Social Security reform. Charles, but everybody calls him Chuck. Chuck in my view is the leading expert in U.S. Social Security policy in the world. There is no question that he is the leading expert on the right side of the policy spectrum.

Chuck was one of our specials, Special Assistant to the President. Then when I moved up he became my deputy at the NEC. So I thought so highly of him that I put him in that process management role when I moved up to the top slot.

Yes, so Chuck was really the guy driving the policy development process in late ’04 on Social Security, and then I was there pushing for it. Yes, very heavily involved in that; what can I tell you?

Nelson: I take it that this was something that was a leadoff big agenda item of the second term.

Hennessey: Yes, a day or two after he won the election, President Bush did a big press event in room 350. He said something like, “Yes, I’ve earned a lot of political capital” or “I’ve got a lot of political capital and I’m going to spend it on Social Security.”

I was standing in the back of the room—ugh, I didn’t know that. So that’s when I learned it. We had already been talking about Social Security reform, but it was a surprise to me that he was going to send that signal so early on. I mean as a policy guy who cares about entitlement reform there was nothing better. We spent a ton of time developing the policy and a lot of time with strategy. You know that we ended up not getting legislation.

Nelson: Was this a case where the policy process didn't serve the President well, or the President didn't serve the policy process well?

Hennessey: I don't—

Nelson: He starts off with your conclusion, right? Which is we're going to do this. Then you all have to play catch up to come up with—

Hennessey: No, he knew about Social Security's problems. He had campaigned in 2000 on the need to do Social Security reform. Put it this way, the policy development that we had to do in late '04 and early '05 was not starting from a blank slate. We knew where he was headed. We knew the direction. We knew that he wanted both solvency reforms and personal accounts. We just didn't know precisely how to turn the dials to which numbers and which levers. But the shape of the Social Security reform was something we had known since the 2000 campaign. There wasn't really any question about that.

Having said that, there are a lot of dials and levers that you've got to figure out, and then a lot of the question is how do you go out and sell it. A lot of the internal debate was how specific should we be in terms of laying out the details with Congress. Will laying out the details advantage us or disadvantage us? After the fact, there was a lot of public debate about whether President Bush should have put details out on this or should not have put details out on that. I think that is largely secondary.

I don't think that we failed because the policy was wrong or because from a communications standpoint we put out too much or too few details. I think it is basically that we were unable to convince congressional Republicans to join us in taking the political risk. We were unable to find any congressional Democrats who were willing to buck Harry Reid and talk to us.

I joined Al Hubbard in, I don't know, a handful of meetings with moderate Democrats who were possible dance partners whom we might do a deal with. Every single one of them said something to the effect of, "I'd like to do it but I can't because the signals come from my leadership that it is just a line that I can't cross." Then we went to our own side and they said, "You know, we're right behind you. Way behind you." *[laughter]*

So we weren't getting people out there championing it and pushing for it the way frankly that we did have Frist and Hastert right by the President's wings on Medicare in 2003.

Nelson: So what went wrong this time?

Hennessey: I don't know. I don't know why we were unable to get the political support. I don't know.

Nelson: You mentioned that Bush talked about this in 2000. He really didn't talk about it in 2004. He didn't campaign—

Hennessey: No, he didn't campaign on it.

Nelson: So it came as a huge surprise to everybody. It's interesting to hear that it came as a huge surprise to you.

Hennessey: It may not have to Andy and Josh and Karl and Dan Bartlett. They may have known. I didn't. So I don't know. Put it this way: it's not for lack of trying and it's not for lack of public push. I mean the President did countless public events and speeches trying to build up a public echo chamber. You can't ding him for lack of trying or lack of putting in the effort. We were doing our best to win the debates. But what we weren't doing is we weren't getting the allies in Congress and we weren't getting any positive signals. By the way, one big misconception is a lot of folks on the left said Bush put out his plan, was insisting on every single detail, and it was a completely outrageous plan from the first.

Well, when we went and did those private meetings we said, "We want to make sure that you understand the President's plan, and it's a starting point for discussion. We want to hear how you would address the same sorts of problems. We have an end point that we think we need to get to, but we want this to be a beginning of a dialogue." So yes, he was putting out some degree of specifics, but we were sending exactly the opposite signal in private to Democrats whom we wanted to negotiate with us, which is we're not saying it's our way or the highway. We still couldn't get them to play ball.

Nelson: Is this a case where the President's resistance to getting political advice in the policy process served him badly?

Hennessey: I don't know, but I don't think it was about the poll numbers and the public opinion.

Weatherford: But it was about potential legislators.

Hennessey: I think it's a narrower question, which is why were we not able to get House and Senate Republicans to invest the effort into joining us. That may have been the specific House and Senate Republicans who were in charge. One thing I don't know and I don't feel qualified to really talk about is—from my standpoint there was always an ongoing—something you had to think about was that President Bush's interactions with Speaker Hastert involved not just the economic dimension, but also the national security dimension.

To a large extent the impression I had was that Hastert and his team believed that they were carrying a lot of legislative water for the President on national security issues, getting the Iraq resolution, was that just in the Senate? But all the legislation for all of the legal authorities that they needed for terrorism stuff, for DHS, for Iraq, for Afghanistan, for funding for all of those. Part of that interaction was that Hastert and maybe to some extent Frist had things that were important to them and they were asking more from President Bush.

The one area where I know this was the case was the highway bill. It's not an issue that I was central to, but I was very much aware that Hastert had a whole bunch of House Republicans who wanted to spend a whole lot more on highways than did President Bush. The question that President Bush had to deal with was look, how hard do I press on Hastert to insist that the highway funding be down at my level? I have a lot of things that I need to demand of, that I need to ask of Denny Hastert. Where does this rank on the list of them? Hastert is sending the signal back that it is very important on his side. I don't know to what extent those kinds of dynamics

and tensions at that very top level—at the President, Vice President, Hastert, I guess it was the Frist level. To what extent they play into questions on Social Security I just don't know.

Nelson: Steve, do you want to ask anything?

Hennessey: Then there was Katrina and Rita.

Nelson: I was going to say—

Hennessey: They were the punctuation mark. By that point it was pretty obvious that we were pushing on a string—from a legislative standpoint on Social Security reform. We hadn't built any legislative momentum and it appeared unlikely that somehow House and Senate Republicans would all of a sudden announce markups in September, October. Then when Katrina and Rita hit, that obviously changed the focus of the administration. It certainly stopped the public speeches on Social Security. So that became the ending point more by happenstance than anything.

Nelson: How did the administration reaction to Katrina—were you part of that in any way?

Hennessey: Yes, it was rough. I think we, the administration, were stumbling a lot, especially in the early stages. Part of it was just questions as to who was the lead in terms of making decisions.

Nelson: Do you mean intergovernmental?

Hennessey: Intergovernmental within the executive branch. FEMA [Federal Emergency Management Agency], Secretary of Homeland Security, Domestic Policy Council, Homeland Security Council. You had different players—

Weatherford: New players.

Hennessey: Yes, and to some extent new players.

Weatherford: Homeland Security had—

Hennessey: Right. Homeland Security had only been stood up for two years. As you might expect, most of their leadership focus had been on homeland security and not on FEMA and dealing with natural disasters.

Weatherford: FEMA had worked pretty well before, but under Homeland Security it was still finding its way.

Hennessey: It was a new animal. We were on the margins on that. There was one area where we got involved, or I got heavily involved. It turns out that where the hurricanes hit is the hub of a lot of our oil and natural gas production in the United States. The Gulf, especially Louisiana and southeast Texas.

I jumped in and started coordinating conference calls to look at the energy sector recovery and repair that needed to be done. I kind of informally hived that off from everything else that was going on. I basically did it the way I'd done other issues, which is I just started hosting conference calls including various people from Interior and Energy and Transportation and so on. It just started off with sharing information.

A funny anecdote is I think the way that that started if I remember correctly is the Vice President's energy guy came to me, shows up at my office, and he says, "Keith, the Colonial Pipeline is down," breathlessly. I said, "Oh, my God. What's the Colonial Pipeline?" He told me, and it is actually very important. There are two pipelines that basically go from Louisiana all along the Gulf Coast. They go east along the Gulf Coast and then they take a left turn and they go up the eastern seaboard and they end in southern New Jersey. Colonial is the big one; plantation is a little smaller. I think it is oil and natural gas that flow through those pipelines, and most of the southeastern United States gets most of its fuel through those pipelines. They are a critical element of our energy national infrastructure, which I knew nothing about.

Well, they're pipelines. They need electricity to pump liquids through. There wasn't any electricity in Mississippi or Louisiana, so the liquids weren't flowing. What we were looking at was the entire southeastern United States was going to start running out of oil in a matter of days. This is just a fun anecdote. The guys who run the Colonial Pipeline really had their act together. Apparently they already had a long-standing contract to ship in portable generators from out of state, electric generators to hook up wherever they needed to so they could pump their liquids. Kudos to them for having that.

They did that. They trucked in some big huge generator from out of state. They were hooking up to the pipeline and the FEMA guy showed up and said, "We have hospitals that have no power. We need to take your generator because people are going to die." The Colonial guy said OK. So they gave them their generator and took it off to some Mississippi hospitals to keep the power running.

Then I guess the Colonial people called the Vice President's guys and they said, "Look, we had this contract, we had this generator. We shipped it in. The FEMA guys asked for it because there were hospitals that needed it. We gave it. We found another generator and we're ready to sign the contract to bring it in. We don't begrudge the FEMA guys for doing what they did, but we're not in the business of importing generators for FEMA. It doesn't make any logical sense for us to bring another one in unless you can get the FEMA people to promise not to take this one."

Then I have to dive into the bureaucracy. "Can we get FEMA to make this promise?" The FEMA people came back and said, "We might need it because people might be dying." I said, "Well, if you're not willing to make the promise then the generator is never going to show up, so you're never going to end up in that scenario."

It took me, I don't know, half a day to get that commitment from FEMA. Then of course the Colonial guys can get their generator in to get the pipeline back up. But that was what triggered our involvement in the rescue operations. The other thing is, a President from Texas, right? Who happens to know a lot about oil and natural gas, about the whole petroleum sector, and he was

just personally very interested in how was that sector recovering. So I was doing these coordinating conference calls and then got word the President wants to know the details.

Three times a week I was putting together memos that you wouldn't believe. There is literally a table that was listing individual refineries with the status of where they were and how many days they were from opening up and how many barrels they were operating at natural gas processing facilities, the number of consumers without electrical power in this part of Louisiana, and this part because Rita hit Houston. The President was just chewing that material up so that four, five, six, seven days into the crisis he was in there and he knew everything that was going on in the energy sector, which from my standpoint was really fun because he's in the details and wants to know all about it and pushes when necessary to make things happen.

Nelson: Step off the chronological track for a minute. How did you keep from getting burned out? On the one hand you've got these orderly processes culminating in policy time that take forever, painstaking preparation, herding cats and all that. Then you've got time-filling, orderly work, you've got hurricanes and mad cows. How do you keep from getting burned out?

Hennessey: I did burn out at the end; it took me six months to recover after leaving the administration. I'm single, so I didn't have a family to worry about. So I didn't have other commitments, and basically the whole rest of my life was on hold for that time. The other thing is when we hired special assistants, they couldn't believe they were interviewing in the West Wing in the White House and were about to become policy advisors to the President. So I would spend a big part of the time convincing them why they didn't want the job, down-selling them on the job, which of course I knew was going to fail.

One of the things I would say is, "Look. I have way too many demands on me. The number of people who ask things of me all the time is way more than I can handle." The problem is—especially after several years—there were so many people who would look to me for help or information. I wasn't just helping Al Hubbard or Steve Friedman. It was the press secretary or Karl or the leg people or the—I had lots of people who would just say, "Hey, can you help me with one or two—" So my plate was always overflowing. I would tell new staff, "The way that I deal with this is—" because none of them care about my workload— "I don't care about your workload. I will mercilessly dump and offload as much as I can on to you with no regard or concern for your personal life or whatever else you have to do. They're hitting me with it, so I'm going to hit you with it."

Now obviously, when you're in a job interview it's like yes, yes, yes. The other thing though, of course, is when you're actually in the job, if you're a policy person who gets one of those special jobs, you love nothing more than that. There is nothing better than having the NEC Deputy say, "I've got a phone call from a Cabinet Secretary who wants to understand what we're doing on an issue that is not in his direct line. I just don't have time to do it because I've got to do something for the President or for the Chief of Staff. I've talked to the Cabinet Secretary's chief of staff and we've agreed that you're going to brief him 90 minutes from now."

Well, if you're a Special Assistant to the President who does agriculture issues and you get to brief the Secretary of Transportation, that's kind of cool. So they actually liked that. It empowers them. But you also burn out.

Nelson: How many hours a week do you think you worked? I know there is no such thing as an average week, but over the course of a year?

Hennessey: I've tried to do this. The average is 75 to low 80s. Now a lot of that is not physically in the White House complex. A lot of it is email. It's email, email, email. We did so much of our coordination through email that whenever—I mean you get home late at night and it's soup, sandwich, and let's see how many emails we can get through. Then you go to sleep and you wake up in the morning. If you actually wake up early enough you'll spend 45 minutes eating your cereal while you do more email so you're not an additional 200 emails behind when you get to the office, it's only 50. But it's a ton of email coordination.

Two details about that that I didn't realize at the time were unusual, but other people kind of clued me into it. One is that we had running email dialogues that were going on—dialogues is the wrong word—sort of email chains that would get into reply number 80. Any one of them would be between three and eight people, almost all of whom worked at the very senior levels of the White House. This was like my specials, me, my boss, and then a few senior staff. They would be topic specific, but the press secretary would say, "Hey, how am I going to answer?" They would email me, "What do I say about X, because I know I'm going to be asked it in the briefing."

I'd reply and I'd cc Josh or Joel or I'd cc the political guys or I'd cc the leg people, because part of my answer would have something that affected the leg people. Then someone, Joel, would reply, saying, "Are you sure we can say this? Leg guys, are you OK with the second part of what we can say?" Then the leg people might come in and say, "Yes, we're fine, but you should also add X."

We'd have one of those. We might have a dozen emails zip around the horn in 40 minutes. Then that afternoon maybe the press secretary sends something around saying, "OK, here's what I said, and oh, by the way, So-and-So is working on a story. He's talking to—" These email chains would continue.

At any point in time I would be involved in half a dozen to a dozen of these email chains with different groups of people on different topics. This was a lot of how we managed the moment-by-moment flow of information that was going on. As long as you didn't end up with too many people on the email chain it became a very efficient method to coordinate, because a lot of what we were doing was coordinating to make sure that—the leg people would say, "Oh, my God, don't say that." Or "Please don't say that until after the hearing at three P.M."

The related point to that was something Steve Friedman said. He was very complimentary of the White House staff. He said something like the senior White House staff were more impressive than the best he had seen in the private sector. He was really very complimentary, but the thing he specifically referenced, he said the amount of coordination and cooperation among the senior staff, this kind of thing that I'm talking about, he said it was truly impressive and it was just something that he hadn't seen elsewhere. I didn't really know that it was unusual, but I guess it is. But I felt it. I was very happy to be part of it. We were just always talking to one another, and often it was over email.

Nelson: I'm going to guess here that email saved a lot of what otherwise would have been conference calls.

Hennessey: Yes.

Nelson: So it made your work more efficient in addition to clogging up your account.

Hennessey: Yes.

Nelson: Why don't we take a short break here?

Weatherford: Come back and talk about the financial crisis?

Nelson: Anything before that? Anything in '06?

Hennessey: There were lots of things, but we should spend time on the crisis. That's the big one.

[BREAK] [recorder stays on]

Nelson: He ended up losing his U.S. Senate run to Bob Corker. [Harold] Ford is terrific, but Corker turned out very well, I think.

Hennessey: Corker reminds me a bit of some of the legislators I had to deal with in the Senate.

Nelson: I was going to say he seems so old school, even though he is not a Washington guy. Who does he remind you of?

Hennessey: Not so much Domenici. I'm trying to think. He's a deal maker. Let me think about that a bit.

Nelson: It's just idle conversation—

Hennessey: Just somebody who wanted to get to yes. Who wants to get to yes, I should say, and isn't afraid to negotiate on his own behalf. When I worked for Trent Lott we were always looking for the Democratic equivalent of Corker who was willing to say, "I will negotiate with Senator Lott, and if Senator Lott proposes something that I find acceptable, I will accept it." Instead what we always found were Democrats who would say, "If I find it acceptable, I will go back and talk to Senator [Thomas] Daschle and see if I can convince a few of my Democratic colleagues." Can we just find a Democrat who will negotiate for his own vote? *[laughter]*

Nelson: We are back on the record and I'm just glancing here at the other stuff. I don't think anything is as important in terms of our time as the financial crisis. So where does that story begin from the perspective of the first deputy, and then you became NEC Director.

Hennessey: At the very end of December of 2007, the beginning of '08, technically the last couple of weeks of December. The policy story starts in the mid-1990s, but the Bush administration recognition of it begins in the second week of August of 2007. Detour—

Nelson: There was a meeting at Camp David in August of 2006.

Hennessey: Correct. So each—

Nelson: —chaos in the market at some point?

Hennessey: This is the detour. Each summer there was an economic team meeting with President Bush. That was basically a full-day meeting. I remember, I think it was the summer of '03, we went down to the ranch in Crawford for it, which was very funny because this is a bunch of non-Texans trying to figure out what “ranch casual” attire is. *[laughter]* But that was something where again, it was formally an NEC thing, but it was Steve Friedman bringing me in and then bringing our lunch group down to spend a day with the President on big-think, big-picture type stuff, just talking about the economy. Here's where we are, here's where things are headed. It wasn't decisional in any respects, but it was let's get a big view of the big picture.

We did that almost every summer. In '06 we did it at Camp David. I think that was Hank's first time.

Nelson: Yes. In his memoir.

Hennessey: Yes. In '07 we did it at Treasury. We didn't go out elsewhere. The idea was we did it locally, and I think we moved it over to Treasury because we'd get some nice little press, I think, of doing something, checking out the Treasury Building.

Yes. So in '06 there was probably some mention generally of possible turmoil in the markets. I do not remember it as it being something that would have been substantively—

Weatherford: Paulson himself says—

Hennessey: Later and later.

Weatherford: Very general. He didn't mention housing, for instance.

Hennessey: I do know, one thing that I remember pretty heavily, certainly at that point in time in '06, is that Hank was hearing from Tim Geithner, who was at the New York Fed, that Geithner was pretty concerned about derivatives and the possible messy resolution of derivatives if there was some shock to the financial system.

Weatherford: I remember Geithner had actually asked those banks to clean up their back-office operations.

Hennessey: Right. So the idea is there is a shock to the financial system and everybody's derivative contracts get triggered, and it's not clear who pays whom in which order and what happens when one of the players in the chain files bankruptcy and all the lawyers get involved,

and this is all part of what later led to policies to try to push more of these derivative contracts into standardization and being in centralized clearing houses rather than all being over the counter. But in retrospect the thing that I find most interesting is that Geithner, who along with Ben over at the Fed—

Nelson: Ben Bernanke.

Hennessey: Yes. They're the ones institutionally with their fingers on the pulse of the financial system. At least what I was getting indirectly from Paulson and his people, Geithner was putting a lot of effort into mitigating this possible issue of systemic risk. This was a worry that there would be a shock to the financial system that could cause very serious damage.

We on the Bush economic team were very significantly concerned with the possibility of systemic financial risk resulting from Fannie Mae and Freddie Mac having these enormous balance sheets with trillions, literally trillions of dollars of debt that were running basically huge hedge fund operations. We were worried that they were going to screw it up and that because of their central role in the financial system of the economy that that was going to cause a catastrophic shock to the economy.

So both we in the White House and the folks at the New York Fed [Federal Reserve Board] were in fact focusing on low-probability, high-consequence systemic financial risks, which ended up not being the risks that later caused the shock. When I talk to my students about this, one of the really hard parts that I found in these policy jobs is on any given week you have one or two or three very knowledgeable, very smart people who come and tell you there is a black swan event that the federal government needs to start putting a whole lot of effort into mitigating or preparing for. Low consequence, hard to foresee—low probability, high negative consequence if you get it wrong.

But the problem is you're being warned of dozens of those, if not hundreds of them. You can't possibly devote even just your time to prepare for all of those, so you've got to make some educated guesses about how you allocate your resources.

As another example, the Bush administration put a lot of effort into preparing for the possibility of avian flu, H5-N1, coming from birds in Asia flying up over Alaska and then down into the U.S. There was a serious concern that the sick birds could get here and trigger a massive flu epidemic, which could kill Lord knows how many people.

My friends at Homeland Security Council spent tons of time getting the entire federal government ready for the possibility of an avian flu outbreak. It didn't happen. Was that time well spent or poorly spent? Can you say that they shouldn't have spent their time preparing for that? No. Maybe they should have spent their time preparing for it and we just got lucky and it didn't happen. The same sort of thing. Was Geithner wrong to focus on derivatives rather than to be looking for another problem? Were we wrong to be looking at the GSE problems? Maybe we were. I certainly wish we could have seen the shock coming that actually did come, but it is a difficult class of problems to deal with going forward.

Nelson: Was the President involved at this stage?

Hennessey: He was part of the briefing at Camp David, but financial shock was not a major component of that 2006 Camp David briefing.

Nelson: What about 2007?

Hennessey: In August of 2007 when we did the summer briefing over at Treasury, it turns out that that very morning was when there was a first liquidity shock to the financial markets.

Weatherford: The European banks had stopped—

Hennessey: Yes.

Weatherford: —interbank lending.

Hennessey: Right. So we brought it up with the President. Hank or one of his people gave a brief update on what was going on, but it was literally something that was happening that day. So that was the beginning of us starting to pay attention to it because the markets had grabbed us by the lapels and shaken us. The President was obviously very aware of it because it was happening that day and because we spoke briefly about it, but that was really the initiation of a process. That then initiated a focus on the domestic mortgage markets. We spent a lot of time in late August and early September really delving into the U.S. mortgage markets. At the time we were particularly focused on subprime mortgages and subprime adjustable rate mortgages specifically.

Nelson: When you say that led us—

Hennessey: The liquidity shock then caused a deeper examination of why was there the liquidity shock. I don't remember the exact linkage, but there was some trigger. Someone was concerned about the value of the U.S. mortgages that they were holding, which then—my guess is we either asked the Treasury people or the CEA people what happened in the Treasury markets and they said, "Look, there are some underlying problems. There could be some pretty darn serious problems in the mortgage markets and we need to spend some time on it." [snaps fingers] Launch the policy process. OK.

So we're educating the whole economic team on problems in U.S. mortgage markets. The focus is principally subprime, principally adjustable rates. We came up with what in retrospect now appeared to be a pretty modest set of legislative proposals to provide some legislative relief to subprime borrowers with adjustable rate mortgages who might have difficulty making their payments.

Nelson: Let me ask you this. President Bush while he was President and in his memoir talks about his agenda as creating an ownership society. As concerns are being raised about the very vehicles that allow more people to buy homes, are you thinking that is a problem, because here we have a President who is committed to greater home ownership?

Hennessey: From my standpoint I have yet to meet an elected official or be around an elected official who hasn't, in every single case, wanted to vote for every single policy that he or she can claim will increase home ownership.

Nelson: OK.

Hennessey: It's one of these uncapped political instincts. There is—

Nelson: Well put.

Hennessey: There is no limitation on the number of times that members will vote for policies which will incrementally expand home ownership, and that is bipartisan. That is the core of the political logic that led to such broad-based political support for Fannie Mae and Freddie Mac, because they equated their own bottom lines with home ownership. It really was very broadly bipartisan.

Then what happens is, depending on the particular policy, you sometimes get some people who are creeping in and going, “Warning. There are some downsides.” I was one of those people—going back to the mid-’90s on Fannie and Freddie. But you know, I ran into a brick wall with that. From my standpoint, President Bush was no different, in that we spent and he spent a bunch of effort early on in his administration, and it was mostly as the economy—because we really did have a boom from mid-2003 to late 2007. I mean, you look at that GDP growth pattern, it is very strong. One of the things that was going up in that boom was the home ownership rate. It was going to historically high levels.

Yes, we had done some policies. It was my DPC friends who did most of those to expand home ownership. From where I sat, they were correlated but not primarily causative. The huge surge in home ownership was probably not principally the result of policy changes that we had made. I’m sure it was supplemented by it. But it was mostly the result of one: a strong and growing economy, and two: this mortgage bubble and housing bubble that was happening that we really weren’t aware of.

When we start to really recognize and identify the down sides of this—*Uh-oh, this is a bubble, both a housing bubble and a mortgage bubble, and we’re at risk of it starting to burst.* As the economic team educates itself on how severe these consequences can be, it’s not *Wow, we’d better hold off because we don’t want to do anything to blemish our track record on home ownership*, which sounded like what you were getting at in the question. It was more, *OK, we may have to deal with this.*

Nelson: OK.

Hennessey: Knowing we may have to deal with this, we know that we may have to figure out how to reconcile new policies to mitigate some of the upcoming damage in the mortgage market with our past rhetoric, but that is a communications challenge. It’s not a limitation on policy development. Does that make sense?

Weatherford: Yes. You know, as the financial crisis developed, it was pretty clear that this was new. Nobody really knew what to do. The Fed had primary authority. Paulson in his memoirs says he was pretty happy just to let Ben Bernanke deal with it. Could you talk about how the President was seeing it? How involved was he? Did he think that the White House should be taking more assertive action, or was he happy to let Bernanke and Geithner—

Hennessey: A little preface. In fall of 2007, from my standpoint we're principally thinking of this as a housing finance issue. The focus is mostly on a mortgage bubble and in particular on adjustable rate mortgages and subprime adjustable rate mortgages, and we're particularly worried about interest rate resets.

You have a 2/28 mortgage rate, a very low teaser rate from some fly-by-night mortgage broker. What happens when eventually interest rates start to spike, when your interest rate resets upward and you suddenly find that your monthly mortgage payment goes up to a level where you can't afford to pay it, where you don't want to pay it and you default? So in early fall of 2007 we were looking at this. What we're seeing as the problem that is going to happen in 2008 and 2009 is a whole bunch of people may find themselves in a position where they start defaulting on mortgages.

So we're thinking about subprime borrowers, and it's mostly a homeowner problem. It's not really until early 2008 that at least from my standpoint we start to make the connection that it is not just the homeowners who are going to be hit, but who the heck is holding all of these mortgages. Then—excuse my language—oh, my God, we didn't realize that these assets were so tightly concentrated. When I teach on the financial crisis I start with the credit bubble resulting from huge credit surges, especially coming from China and India, the oil countries, contributing to a housing bubble and a mortgage bubble. The two were closely related.

So part one is credit, credit glut, and—

Nelson: Explain that credit glut.

Hennessey: Credit glut is—it used to be the case, sort of pre mid-1990s, that we used the polite terms “developed world” and “developing world,” that rich countries had a lot of income and we wouldn't spend all of it so our savings would flow to poor countries, or politely referred to as “developing economies,” and get invested there to find high-productivity, high-return investments. So capital flowed from the West to the developing East.

What happened starting in about the mid-'90s, the flow reversed. The credit started flowing uphill. Part of this was that China and India—China especially—had a very high savings rate, but as their economy grew, now their high rate started to apply to a much larger base. So all of a sudden there was a lot more savings being generated in China, and also the oil price started going up, so all of a sudden a lot of the sovereign oil fund and big pots of oil money were looking for places to invest. So they were investing in the West, in the U.S. and Western Europe. All of a sudden there was just free money flowing all around the West. It resulted in a credit glut.

There is a big debate between John Taylor and Ben Bernanke as to how much the Fed contributed to this credit glut. I tend to side with Bernanke, it is mostly about capital flows.

Mervyn King is the other important guy from Bank of England, and Andrew Haldane, and they're pointing to these capital imbalances, these consumption savings imbalances between these countries as a principal source of this. The result of this is money is cheap, credit is cheap, and so you see a surge, starting in the late '90s and then continuing into the early 2000s. What you're seeing is a huge surge in mortgages, mortgage debt, but you also see it in consumer debt, you also see it in LBOs [leveraged buyouts] and commercial real estate. There is a huge LBO

surge because anyone who wanted to do a leveraged buyout could just get debt as much as they want.

Nelson: All of which seemed great at the time.

Hennessey: Cheap credit is good. By the way, cheap credit *is* good because it expands access to credit and allows people to do things, allows people to go to universities, things they wouldn't otherwise be able to do. It allows people to buy a car when they otherwise would have to take the bus. It allows people to buy their first home.

Nelson: Start a business.

Hennessey: So all of those things can be very good. In particular, a lot of that money started moving up the risk curve. The quote I like is from I think a German banker who said we had loaned money to all the good risks and we still had money left, so what were we supposed to do? *[laughter]* So the money was being loaned and the price of risk was coming down.

Kevin Warsh likes to say that every risky asset everywhere in the world was underpriced. Some people, John Taylor links this to the Great Moderation to a belief that since we hadn't had a financial shock in a few decades, people got complacent and underestimated the probability that we'd have a negative shock.

But whatever you think, credit was cheap. The analogy I'd like to use is, it's sort of like when you have a historically high tide that floods into a coastal town. If the coastal town has dealt with high tides, the flood might not do that much damage. But if the town hasn't had an extraordinarily high tide for multiple decades, the water will come and find the structural failures in the town and will exploit them. For me, the tide and the water flowing in is the credit glut, and in our case the structural flaws were in the housing finances system. There were failures there that were resulting in this cheap credit not necessarily being channeled to rational, logical, good balance of risk and return, but was being channeled in ways where people who just never should have gotten mortgages were being offered hundreds of thousands of dollars with no income.

Nelson: On the assumption that the price of their house would go up and up and up and they could pay the mortgage out of the—

Hennessey: Absolutely. So from my standpoint as I think about this, it is credit glut, the underlying fundamental cause, exploiting structural flaws and failures in our housing finance system, mortgages. Those two then start to interact to create a—so we have a mortgage bubble, if you will, but they also create a housing bubble. Mortgages are so cheap that builders were just throwing up houses all over the place. That creates a housing bubble later to burst and later to cause problems.

The mortgage problem that you have then leads into the fourth component of this. Credit, mortgages, houses, and then the fourth part is—I like to say, all the big banks made the same bad bet. That is, the largest financial institutions in the world all made highly concentrated, highly correlated investments in housing risk. In particular, the one mistake that they all made was they all assumed that housing prices would never go down. They also assumed that housing prices in different parts of the country were uncorrelated. That, of course, turned out to be wrong.

Nelson: The refrain at this time was, “This time it’s different.”

Weatherford: [Carmen] Reinhart and [Kenneth F.] Rogoff.

Hennessey: Right, that’s their book. There is a very important, very interesting, and I think unresolved question: To what extent did the various financial institutional players understand that they were making this bad bet? To what extent were they making the bad bet unknowingly? I think it differs from one institution and one player to another. Certainly the securitization, the derivatives, made these investments more opaque.

I don’t think any human could possibly have understood what bets CitiGroup was making. They’re just so big and they were doing so many things. It was just impossible for them to manage their risk. I think they were also poorly managed. I think even some of the institutions that were well managed and that do generally have a good reputation for managing their risk—Goldman and JP Morgan are still the two obvious ones. They were still making some of these bets. Were they doing it knowingly, or were they doing it unknowingly? I’m not sure.

But the result of that was then when the housing bubble and the housing mortgage bubbles burst, you had the consequences of that concentrated in these financial institutions, which in a lot of cases were poorly managed. We had structural flaws in that system, which meant that policymakers were unwilling to allow those firms to fail suddenly. Back to your question.

President Bush early on, March really, which is when the Bear Stearns shock happened—

Nelson: March of?

Hennessey: March of ’08.

Nelson: You are now—

Hennessey: I’ve been in the NEC job for three months.

Nelson: Let’s pause on that because I think how that came about is worth talking about.

Hennessey: Al was leaving. My sense was we knew 2008 would be a quiet year so let’s move the deputy up.

Nelson: [*laughter*]

Hennessey: I don’t know what the logic was. You’d have to ask someone else.

Nelson: It was a straightforward transition.

Hennessey: Yes, a very straightforward transition. Al and I had been two peas in the pod. I had been his wingman for three years, had been a part of the team for at that point five years. So smooth transition is an understatement. It was a shame to lose Al because he was such a pleasure to work with, work for. Yes, I’d been in for a few months in that slot.

For Bear Stearns the initial action that was taken was a Fed loan to JP Morgan to facilitate their purchase of Bear Stearns. So the actual mechanical execution of the bailout, if you will, was implemented by the Federal Reserve. Technically, the money probably flowed from the New York Fed, but as a formal matter it is a Bernanke-Geithner decision.

Nelson: And you're watching this and thinking, *That's a relief?*

Hennessey: Well, no. While formally it is a Bernanke-Geithner decision. In reality it is Bernanke, Geithner, and Paulson who are in constant conversation about this. Really the three of them are the key guys spending all the time talking about this and arguing about this and debating this. Then if the three of them reach an agreement and if something is going to be done, it will have to be done by the Fed guys. But Hank can't do that by himself. He's got to get the President to sign off.

Take that model and extend it through January 20 of 2009. What you really have is a three-man group of the key principals, which is Bernanke, Geithner, and Paulson, only one of whom works for President Bush. President Bush grants Paulson a lot of authority to implement policy decisions in specific cases.

Nelson: To make policy decisions?

Hennessey: No, to implement policy decisions.

Nelson: Clarify.

Hennessey: When there was a fundamental question about something to be done or a directional shift or a policy initiative or some fundamental policy choice to be made, Paulson would go to the President and say, "Here is what I want to do. Here is what I recommend you give me the go-ahead to do. Are you OK with it?" Nine times out of ten or 99 times out of 100 President Bush would say yes. I think the key distinction is that from my standpoint there was a pretty clear delineation that we wanted, the President wanted, to try to keep the application of those policy decisions to specific firms outside of the White House.

We didn't want to have the President deciding that this firm would get a loan and that firm would not get a loan. We also didn't want the NEC or the White House Chief of Staff or other people in the White House—to the greatest extent possible he wanted to keep the firm level decisions outside of the White House and in a Cabinet department coordinating closely with the New York Fed and Ben.

I think part of that was because Hank was the guy and the President was going to rely on him. I mean frankly I didn't have the background for it. In addition, the NEC's role is much more important and much more prominent when you're talking about issues that cross jurisdictional bounds and different multiple policy areas within the administration.

Nelson: Right.

Hennessey: When you're talking about something that is solely in one lane, as this is within an executive branch, it makes more sense for the Cabinet Secretary to play a big role. But mostly

this was about—Hank used to run Goldman Sachs and he knows all of the players on a first name basis and he knows a heck of a lot more. He’s got the team over there. So my role throughout all of 2008 is very different with respect to the financial crisis than it was with respect to almost any other issue.

On almost any other issue the NEC Director—Lindsey, Friedman, Hubbard, eventually me—were the ones calling the meeting or the ones coordinating. We’re the quarterback if not the star. We’re often at least the person who is initiating the phone calls. Here Hank is the lead. The President is relying on Hank. My job is much more of a supplementary role to make sure that anything that Hank happened to leave out the last time he talked to the President, I make sure that the President and Josh and Joel get it.

I’m also making sure that the rest of the White House staff knows what is going on. I’m making sure that to the extent we need to coordinate with the Hill if Treasury is not doing it or if there are certain people who it is better not to have Hank talk to but to have the White House Leg Affairs—so I’m sort of a coordinating support role as Hank is out there as the President’s lead guy doing all this and making this happen.

On Bear Stearns—I don’t think anyone thought that it was a good thing that the Fed carried the burden of doing that. I think it was sort of the reality that there is no other legal way to do this. It is: Bear Stearns is failing now and JP Morgan is willing to buy them now. We can’t possibly go get legislative authority, so if something is going to happen, the Fed is the only one with legal authority to do it, so let’s make that happen.

I don’t think there was any, “Whew, isn’t it good that we don’t have to do it?” There were no value aspects to it.

Nelson: I was thinking, *Whew, that problem has been contained.*

Hennessey: No, no, no.

Weatherford: Let me ask you about the coordinating role. Sometime in late summer a couple of things happen. One is it looks like the GSEs need to be taken over—Paulson, late summer of ’08. So Paulson puts together a plan for bailing out Fannie and Freddie or doing something. So the question number one is—

Nelson: Paulson and [James] Lockhart [III] and the Fed guys—

Weatherford: What role does the NEC play in that? The other thing that happens in September is that reading between the lines of that essay that you and Eddie Lazear wrote, there is a transformation from understanding this is dominoes to realizing this is popcorn and we have to have a systemic response.

Hennessey: At that point Paulson puts together an asset relief plan and at the same time Bernanke is getting sort of squishy about wanting to do all this himself. He goes to Paulson and says, “You need Congress to approve your authority.”

I think you've got that all right—I'll get back to the GSE thing in a moment, but I think you've got the transition. I refer to it sort of as an ad hoc ex-post—is that the way we talk? It is we broadly; the administration and the Fed were dealing with financial institutions on ad hoc ex-post basis. Ad hoc not meaning seat of our pants, meaning case by case, more of a traditional formal sense, on a case-by-case approach. It was ex-post, or ex-almost-post, which was, as the institution gets to the point of being days or maybe hours away from failure, then Fed and Treasury make an evaluation as to whether the sudden failure of this firm will have systemic consequences. If so, then they make a decision should we in fact intervene with some sort of subsidized loan transaction.

So the two significant elements here are it is case by case and you're doing it only at the last minute, which leads to a downside, which is these particular efforts end up being inconsistent because they end up being tailor-made, they end up being custom-designed for each particular situation. So you're sending all sorts of mixed signals to the market because we did X with Bear Stearns and they did Y with a different firm. That causes confusion out there.

Then the ex-post or the ex-almost-post means you are to some extent being parsimonious with your resources in that you're not bailing out firms that don't need it because the only firms that you're actually intervening in and placing the Fed's balance sheet at risk are the subset of those firms that are clearly about to fail and which Bernanke, Paulson, and Geithner believe are systemically significant enough that you can't allow them to suddenly fail.

TARP [Troubled Asset Relief Program] and the accompanying actions I would argue is a shift to an ex-anti-systemic approach, which is we are preemptively investing in all of these institutions and we're erring on the other side, which is we're going to inject capital into firms that probably don't need it. See Richard Kovacevich and his complaints.

Here's where I want to differ with the way he presented it. This may be from Eddie's and my paper. The way he described it may be the way we described it. It sounds like it was a shift that was made suddenly within a week or two period, sometime in the late August to early September. This was an ongoing discussion—right? Involving the economic and policy people at Treasury, at CEA, Eddie Lazear, and at the D.C. Fed and New York Fed over four, five, six months.

I wasn't directly involved in that; Eddie Lazear was mostly involved in that as he was talking with Hank and with Hank's people and with Ben's people and with Kevin Warsh. I don't know who was talking with Geithner about—but it was sort of an ongoing conversation of, "Are we doing this the right way?" So the idea of TARP wasn't a let's construct this in mid-September; it was something that Bernanke and Paulson and Geithner, with Lazear occasionally weighing in, had been talking about for months. What happened was the balance of decision making shifted in September to now it is time to do it.

Nelson: There was always a Congressional trigger; you wouldn't need authorization—

Hennessey: This is one of the important questions about to what extent did the Bush and Fed economic teams make a mistake in not making this conceptual shift earlier. Some people would say, "You know what? You guys should have done TARP in June."

Weatherford: Or maybe not educating Congress.

Hennessey: Right, or, “You should have gotten ahead of this. Had you gotten ahead of this, you could have mitigated a lot of the damage that occurred. You could have prevented the negative financial shock from happening.” This is one of the few questions in retrospect that I’m highly confident of, which is had Bernanke, Paulson, and Geithner made a joint decision and then Paulson got the President on board with saying we need to do TARP in May or June—excuse my language—there is not a snowball’s chance in hell we could have gotten Congress to agree to it. No way.

Nelson: There really needed to be a crisis?

Hennessey: Correct. And example number one is—

Weatherford: The first vote on TARP?

Hennessey: We didn’t get TARP even when the financial system was collapsing.

Nelson: What did the Dow go down that day, 800 points?

Hennessey: Six hundred, 800, something like that.

Nelson: That had to happen, right? In order for Congress to—

Hennessey: I think it probably did. I like to characterize it as a kind of rough-and-tumble fashion in that before that first TARP vote there were lots of angry people calling from back home in the district, calling their members’ offices saying, “I don’t care what’s going on. Don’t you dare bail out those greedy bastards on Wall Street, hell no.”

Then after the first TARP vote and after the market plummeted, the same angry people were calling their Congressman’s office saying, “I don’t care what you have to do, you fix my 401(k).” So the politics were just as intense, but over the course of a weekend it flipped. I think that was very significant because what it did was it shifted the political balance of power for a member who probably wanted to vote for TARP the first time but was afraid of the political blowback. In the second time he now has some political cover for it.

But yes, we did make that shift. I was a secondary player in that. On all of these big things it really was Ben, Tim, and Hank jointly coming to a “Here is where we are,” then some combination of those folks going to the President. I would always be in the meeting or would technically set up the meeting, but I’m definitely playing a secondary role.

Eddie and I are there in the “Yes, we agree” kind of thing. We’re not part of the core team that is recommending it. One important detail that is sort of important for the record is we did a couple of these big meetings with President Bush in mid-September. Tim was always up in New York, but it would be Hank and Ben there seated side-by-side, and the two of them would each talk to the President. But we were very careful in that it would be Hank saying, “Mr. President, this is what I want your blessing to do in conjunction with the Fed.”

Then the President would very explicitly say, “Yes, Hank, you’ve got my support to go do that with Ben.” So Bernanke was in the room, but everybody was exceedingly clear that the President was not giving direction to Bernanke, he was giving direction to the guy who worked for him. This goes back to throughout the Bush White House, one of the sort of inviolable rules was, “Thou shalt not talk with the Fed about interest rates or monetary policy.” It was just no, no, no—independent Fed. This was sort of a knock-on effect to that, which was the President wanted—Hank worked for him, Bernanke did not.

Now the two of them are coming in and are presenting a joint recommendation. The President obviously knows that Bernanke agrees with this, but he wanted to, from a formal standpoint, say, “Yes, it is OK to go make that happen.”

Nelson: It is hard to think of the President running this process. It sounds like Paulson would come to the President the way the Prime Minister goes to the Queen. It is a formal act of deference, but realistically there is no way the Queen is going to say, “Don’t do that.” I’m sure that’s overstating it somewhat.

Hennessey: I would say with Bear Stearns that was not the case. In Bear Stearns this was the first case of very significant intervention to save one particular firm. That was sort of—“This is a new thing. We’ve all got to talk this through.” No, they were coming in with a joint recommendation, but it wasn’t necessarily a no-brainer decision.

Nelson: This was so early in the collapse—

Hennessey: That was very early. As you’re talking about then April and May, June and July, sort of mid-level and second-tier firms, and Paulson talking to the President every so often saying, “Here’s what I think we’re going to do.” “OK, fine, that’s a go-ahead.” Yes, this is more of a—the Secretary is out there, he’s got the President’s imprimatur. He is applying it on a case-by-case basis. It’s really only when you get to GSEs in late August and early September, and then TARP and all of the associated actions. That’s when we get to the next big decision points. Those are the ones where it isn’t just—rubber stamp is the wrong phrase, because there really wasn’t any decision for President Bush to make in April to May to June because it was more just Paulson working with the Fed guys to implement previous conceptual approval.

Nelson: Got it.

Hennessey: The conceptual policy choices are, are we going to intervene now and have to do something with Fannie and Freddie, and then are we going to intervene to change directions? Those are ones where it was President Bush’s decision. It was not Paulson’s decision by any means. But in both cases there was no dissent.

Earlier on, a year or two earlier, I was one of a crowd who had a different perspective on how you should be pursuing some of the tactical elements of legislative GSE reform from Secretary Paulson. When we’re here at the crisis where Fannie and Freddie are failing and Paulson and Lockhart and the Fed guys are all coming in saying that this is what we think we need to do, I’m sitting there going, “Yup, makes perfect sense.”

The same was true as we were nearing the brink of collapse in mid-September. You would expect Lazear and me, based on the positions we had taken in other economic policy debates throughout the prior years, to be the skeptics saying, “Whoa. Is this too interventionist? Are we putting too much taxable funds at risk?” And everyone is saying, “No, no, no, you’ve got to do this here.”

So it wasn’t a rubber stamp. It was the President’s decision. It wasn’t a substantively hard decision because there was a consensus among at least everybody we had involved that this made sense to do. So the way I say it is, “It was substantively straightforward.” The only hard part was that the President was taking on a big political risk for it, and the neat thing about it was his treatment of that was, “Look, you guys all think this is the right thing to do. You’ve convinced me that this is the right thing to do. I understand how serious this is and how significant are these policy changes that we’re making. Let’s not worry about the politics. Let’s do the right thing.”

Also, the chatter outside the room is, “Look, his popularity has taken so many political hits for Iraq and other sorts of things, that even reinforces more—you economic guys don’t worry about the politics, just focus on solving the policy problems.”

Nelson: There is an election going on. Obviously President Bush is not on the ballot.

Hennessey: Sorry, can I just interrupt?

Nelson: Sure.

Hennessey: GSE reform—it was Treasury and OFHEO [Office of Federal Housing Enterprise Oversight], Lockhart and the Fed guys, especially OFHEO, Lockhart over there working with Hank’s people on the details of conservatorship. I was there saying yes. So we didn’t design it; Treasury didn’t design it either as a formal matter. We wanted to make pretty sure as well that it was Lockhart who was doing it. In the same way that it was the Fed that was doing it with the Fed transactions.

Obviously Paulson plays a huge role just because he is so powerful and a central presence and is such a driving force. But when you’re actually doing these things it’s pretty important that the execution of it and the formal aspects of it are Lockhart and OFHEO doing it for Fannie and Freddie and the Fed doing it for the Fed transactions.

When we do TARP then Paulson is not just the energy and the driving force, but he is the guy with the formal legal authority to spend the money.

Weatherford: The crisis really does change things.

Hennessey: Yes.

Nelson: Do you have any comments on the McCain call for a meeting?

Hennessey: Oh, sure.

Nelson: Were you at the meeting?

Hennessey: Yes. The circus meeting.

Nelson: First of all, you get word that this request is—

Hennessey: Yes, so I get called down to the Chief of Staff's office. We're given the heads-up that Senator McCain is about to call, or maybe he is on the phone now with the President. McCain is letting the President know that he is publicly calling on the President to host this meeting. McCain is going to suspend his campaign and not go to the debate at Ole Miss. There were a few of us, there was maybe Josh, Joel, and me in Josh's office. What we're talking about is what do we tell the press people to say, because word is going to leak out. As we're—I don't know—a minute into this conversation, Tony Fratto comes in from the press shop and says, "What's this about a meeting?"

Nelson: [*laughing*]

Hennessey: So we realized that we had, I don't know, three or four minutes to figure out what to say. I don't remember what the answer was to the press. President Bush says yes to the meeting. So all of a sudden we're having a meeting a couple of days from now. Oh, God, that meeting. That was the strangest, most surreal meeting I've ever been in in 14 years of doing policy work in Washington. It was just fascinating. Not in a good way. A few things—I remember going up to Capitol Hill beforehand, privately, briefing a couple of the Republican leaders who were going to be in the room to make sure that they understood where things stood, what was going on. That was just substantive briefings with their staff in the room. There wasn't anything nefarious about that. It was just, "Send Keith up to let them know about that."

Nelson: Let them know about—

Hennessey: Just to make sure that they understand the status of where things are.

Nelson: With?

Hennessey: With the TARP, with the legislative process, with all these different things. I think I need to back up. I may be getting the time—

Nelson: Tell the story however you want.

Hennessey: Yes, I need to back up. Can I back up to the Lehman weekend?

Nelson: Oh, yes.

Hennessey: Because it's pretty important. So the New York Fed weekend, the subject of the book and movie *Too Big to Fail*. I was not there for that. I was on the end of phone calls from Jim Wilkinson and again was in my supporting role of passing information through to Josh and Joel. Hank is calling the President and calling Josh. So just sort of feeding information from all of those discussions and negotiations, but then helping with the mechanics of setting up the meetings with the President. We did I think three that week.

The meeting on Monday was basically a status report on here is what they did on the New York Fed. Lehman just filed for bankruptcy last night. Lehman was really, really important, but the amount of press and public attention to Lehman is way out of proportion with the focus on it at the time. I am not discounting the importance of the sudden and unexpected failure of Lehman, but I can say that from my standpoint the financial shock still would have occurred even if Lehman had not failed. At least during that week the focus was not on Lehman, which was the broken china, it was on AIG [American International Group Inc.] going forward and broader signs of panic seeping in.

So it was about Lehman and AIG, and Merrill and B of A [Bank of America] and Goldman and JP [JP Morgan] are worried as well. It was sort of about the whole thing. In particular, that Monday meeting was reporting on what was going on and it was also a heads-up to the President about the Fed. Paulson's principal concern at that point was that they may need to come back to the President in a couple of days and say, "We may need to do something firm-specific with AIG." That was the prospect.

At this point everyone is second-guessing now after the fact. The focus there was very much felt in sort of a—what was the TV show? *MASH*?—triage mode, which is you don't worry about the last patient, you worry about the next patient who is coming in. So it was very much focused on AIG and then on other shocks as everyone is getting phone calls from anyone who knows them from the financial sector saying, "Are you aware of what's going on?"

Meeting a couple of days later, which is we need to do \$85 billion from the Fed for AIG. The President tells Paulson, "Yes, you can work with the Fed guys to do that." Then I think at that point it was a heads-up and, "We think we're going to come back to you and argue for a systemic solution," which was the break-the-glass, which later became known as TARP. Again, that had been developed over the course of months prior.

Then the meeting on Thursday of that week was asking for the President's support to go up to Capitol Hill and propose the TARP. Again, it is sort of side conversations and Paulson's one-on-one phone call with the President. The President knew this was coming, but you still do the big group meetings to have the discussion, formalize it. So from the President's involvement he's not learning about these things anew in these first meetings, but it's still important to have the full discussion in the room, even if Hank has told him two-thirds or 75 percent of it in—

The other thing about Paulson is he's got a lot of strengths; clear, straightforward, easy-to-understand communication is not at the top of the list. So sort of scattershot conversations. It is very helpful to do them in structured fashion to then make sure that we lay everything out for the record so that everybody understands what is going on and the President can say, "Yes, this is what we're going to do."

Where I'm going with this—so the President said yes. I think it was that Thursday night when Paulson and Chris Cox and Ben went up to Capitol Hill and did a nighttime briefing with Pelosi and [John] Boehner and Reid and [Addison Mitchell] McConnell and probably [Christopher] Dodd and [Richard] Shelby and Barney Frank and [Spencer] Bachus [III] and some other folks as well. "Here is the situation. This is really dire. Here is what we're going to propose. We'll be

sending you legislation really soon now. This is really, really significant. We need you at least to give us some preliminary indications of support.”

The press coming out of that and the statements from every single one of those members of Congress in the room was just better than we ever could have hoped for. None of them was committing anything, but they were all leaning forward and sort of saying, “Very serious briefing. We take it very seriously. We want to work with them. We need to understand more about what they’re proposing.” But it was all very constructive and cooperative, sort of a high point.

We had to lock down the details of the legislation for the TARP. This was the three-page proposal, which you’ve probably heard about. That was a legislative strategic decision, right? Which was, it’s much better to tell the Congress the essentials of what we really, really need, understanding that they’re going to want to add all sorts of bells and whistles and limitations to it, than to take our crack at 150 pages of bells and whistles and limitations and have them lose sight of what is important to us.

So the point was, the three pages were the three pages that we were going to fight for. Then we were signaling that we understand that you guys are going to have a whole bunch of codicils that you’re going to want to add to that. That’s OK. But we took a lot of political heat for it. Look at this. They want a \$700 billion blank check, and they really do want a blank check.

One detail of that is, I believe, that the initial approval was for \$500 billion in the Thursday meeting, and then Bernanke and Paulson and Geithner had a subsequent conversation saying, “We’re nervous 500 might not be enough.” So Paulson called the President I believe and said, “Hey, we need to go up to seven.” He said, “Go ahead and do it.” I wasn’t a part of that conversation, but that’s the way it was recounted to me. That’s why we asked for 700.

That then leads into discussions with Congress; briefings of Congress. The first of those that I was a part of was on Tuesday of the next week. It was the House Republican Conference. They invited the administration to send some folks out to explain what the heck was going on, what this TARP proposal was. So they sent the Vice President with Kevin Warsh, Fed Governor and Ben Bernanke’s right-hand man who had worked for us on the National Economic Council, and me. They sent us to brief 220-something House Republicans on the crisis and on the TARP.

The Vice President gets up, and House Republicans love Vice President Cheney. He’s just their man. He gives a great short pitch and says, “Look, sometimes you’ve just got to make hard choices. This is very serious, a very grave scenario. You need to listen to our experts here. I understand that this is going to be hard. You need to treat this with seriousness.” He’s just got gravitas, especially with that crowd.

Kevin gets up, does his thing. I do cleanup. I give my explanation of here is what the problem is, here is what we’re asking for, and why we’re doing it. I had rehearsed it ad nauseam. I was nervous. I don’t think I did a particularly good job. Things end up, the Vice President then apologizes and says, “Sorry, I’ve got to get back to the White House for a meeting with the President.” Kevin says, “Sorry, I’ve got to get back to the Fed for a meeting with the Chairman.”

The Chairman of the House Republican Conference says, “Well, Keith, I’m sure you’ll be happy to stay and answer questions.” Of course I’d be happy to.

I stayed for, I don’t know, an hour, an hour and 20 minutes, something like that, with the members lining up at the two microphones to chew my arm off. And they were *angry*. It was one of the more painful things I have ever had to go through as a policy staffer. They were just chewing me out. It was just one after another after another, and it was terrible.

Nelson: What did they want?

Hennessey: They wanted to not have to deal with this. In particular, the basic thing was, “I don’t think that this is anywhere nearly as bad as you think it is, and therefore what you’re asking us to do is completely absurd. The idea that you want us to write a \$700 billion check to bail out Wall Street offends every free market sensibility I have, and you haven’t convinced me that the world is going to end unless we do this. If you haven’t convinced me of the predicate, that we’re really on the brink of catastrophe, why should I even consider something that seems to so violate everything that I’ve traditionally been for?” So that was miserable.

A day or two later the House Republican Conference did another meeting with Paulson and Bernanke. I had been there for the President, and Kevin had been there for the Fed. Then you go one notch up and have Paulson there for the President and one notch up and have Bernanke there for the Fed, and they did basically the same briefing.

At this point now I’m over on the side. I’m there in sort of a staff role quietly watching. The members were just as angry, but they were angry in a very different way. This was a couple of days later, and what they were all saying—again, this is behind closed doors, but it’s 230-something people. They’re saying, “Well, of course there’s a problem, of course we have to do something to fix it, but your solution is the wrong way to do it.”

So they were attacking Paulson and Bernanke for the particulars of TARP. They were not challenging the predicate of this is a disaster where we’re going to have to do something very significant. I’m standing there on the side saying “Yes. Big victory.” What I did two days ago was worth it because maybe I played some small part in beginning the educational process to get them to start thinking or talking to their outside advisors or calling their old buddy who works on Wall Street to start to raise the educational level. The members are now one step down the logic chain. They’ve acknowledged there is a problem and that they’re going to have to cast votes to fix it. Now we’re just arguing over what is the right way to do it, which was great.

That is all happening now as a prelude to the McCain call. So that meeting is going to occur on a Friday. The first thing I remember about the meeting is when you do a meeting like this where you know you’re going to bring the cameras in, the seating arrangement is something that all the communication staff talk about. Just who is going to be seated next to the President? You do these things in terms of formal precedents. The Speaker sits next to the President, the Senate majority leader on the other side. It’s done in terms of those formal protocol things.

Senator Obama and Senator McCain are going to be in the meeting as well, but from a protocol standpoint they’re like four or five people down the chain, so they’re not going to be seated next to the President. They’re going to be seated at opposite ends of this very long table in the Cabinet

room, which is interesting because it means that the photographers aren't going to be able to get the two of them in one camera shot, which is really important to them.

There are a whole bunch of staff chairs back behind where all these principals—and you knew staff would always be there in the background. Well, the White House staff—someone told us, and we didn't need to be told, we don't want to be in this shot here, the camera shot. So we all packed ourselves down here off to the side when the cameras were coming in, not anticipating that the cameras wanted to get the shot of McCain and Obama and they would all run down to this end so that they could get a long angle shot with McCain in the foreground, Obama in the background, and all the White House staff over here. So we completely failed at that.

Anyway, the President kicks off, "Thank you all for coming." I don't know if the Vice President spoke. The President recognized Secretary Paulson for him to just give a very brief update. Paulson says, "I've spoken with Senator Obama, I spoke with Senator McCain. I've been in regular contact with Speaker Pelosi." Everyone around the room is nodding. "Yes, Hank has been talking to me." This is one of Paulson's great virtues; I mean he is just a machine. He is just dialing, dialing, dialing. He is talking to everybody all the time, so no one could ever complain that they weren't aware of what was going on. He was in these running conversations with everybody. So he does that.

The President then—protocol—says, "Madam Speaker, do you have anything you want to say?" She says, "Mr. President, House and Senate Democrats have decided that Senator Obama will speak for us." I remember sitting back, *Uh-oh*. Right? Because the immediate reaction was *OK, they're coordinated*. The House and Senate Democrats all talked to one another and they've come in with some sort of strategic—at least they've figured out that one person is going to speak for them and it's not the Speaker of the House, it is the candidate.

The thing is this meeting is both the most important event in the short run in the 2008 Presidential campaign and it is the most important short-term juncture point in the potential enactment of the legislation that is needed to prevent a global financial collapse. So it's both of those things intersecting in the West Wing of the White House. I mean the risk here, this is just a tinder keg. So the fact that they were coordinated and that they were having their candidate speak about this means, "Oh, gosh, from their perspective we're going to be getting a message that is going to be shaped by the campaign."

Senator Obama frankly was phenomenal in what he said. I don't remember what he said, but I do remember—it was the first time I had seen him or heard him in close quarters. He was very good, very constructive, very cooperative. "I've been talking with Secretary Paulson. We want to work with people, we want to try and get something done." He tried to get Secretary Paulson to agree with him on some sort of second-tier point where he suspected that Paulson might agree more with the Democrats than with the Republicans. Paulson saw what was coming and sort of deferred and wasn't going to get sucked into that. It was very well done. Senator Obama finishes.

The President says, "OK, John McCain, do you want to say anything?" It kind of makes sense to do that. Senator McCain says, "I'll pass."

Nelson: That's a quotation?

Hennessey: I think those were the words. That's what I remember. I don't know if it is an exact quote.

Weatherford: There are a couple of items on this, I think.

Hennessey: I'm pretty sure he said "I'll pass" or "pass," something very close to that. First of all there was a shock and surprise to me, but in my view what it did was it perfectly encapsulated the tension that existed on the Republican side. There was a question at that point for your average Republican, whether it was Republican leader or a rank-and-file Republican member. At this point the Republican party is starting to have two leaders.

We have a President who is focused on governing and we have a candidate who is trying to win an election. There is no question what the President wants in this context. He wants Republican leaders to support passing a version of the TARP to save the financial system. Right?

What we don't know, what you don't know if you're a Republican leader in the room is does the Republican candidate also want to send a public signal of support for TARP, maybe with some caveats, because of course outside of this room people on the right are split as to whether or not TARP is necessary, whether or not it's a good idea.

Nelson: To some extent, the populist outcry against TARP is so much more intense on the Republican side.

Hennessey: Absolutely. So if you were a Republican Congressional leader, if Senator McCain says, "Yes, Mr. President, I want to work with you to enact the TARP, but I have some very important concerns and they need to be addressed," which would be sort of an obvious thing that he could say, then if you're one of those other senior Republicans in the room you think, *President Bush wants the TARP, Senator McCain wants the TARP with conditions. OK. If I say I want the TARP with conditions too, I'm in a nice safe space because I'm not caught between the two.*

Nelson: Right.

Hennessey: But what if Senator McCain decides that he needs to oppose the TARP or to lean very heavily against the TARP? Then you as a Republican leader have a decision to make, which is, which is more important to you? Lending your own Republican power to the legislative—which you substantively probably think it's important to enact this law, but you don't want to undercut the Republican candidate. By saying "I'll pass," all of those other Republicans in the room are frozen because they don't know if they are going to undercut Senator McCain if they agree with Senator Obama and President Bush that we need to enact the TARP.

Nelson: So what happens after McCain makes his statement?

Hennessey: More discussion going back and forth among the various people.

Weatherford: Does the President call on McConnell or the Republican leaders in the way that he called on Speaker Pelosi?

Hennessey: I think he did. I think he went down the table.

Nelson: So they all passed?

Hennessey: No, I think they spoke up. I don't really remember the order. What I do remember is at one point Spencer Bachus, who was Chairman of the House Financial Services Committee, so the lead substantive guy for House Republicans, speaks up and says, "Mr. President, I've been the point guy for House Republicans in negotiating with Secretary Paulson and House and Senate Democrats and Senate Republicans on some of the details of this. We're still working on it. House Republicans are not yet necessarily committed to supporting a bill." He is leaving his options open. "But what I do want you to know—" and I'm roughly paraphrasing here, but I know I've got the concept right, "—is that if there is a bill we can support, House Republicans will ensure the taxpayers are protected."

What he is doing from my standpoint is he is planting a flag saying if this happens and if we're on board, House Republicans will be the ones who protected the taxpayers. Whatever provisions are in this bill to make sure the taxpayers get paid back, to make sure the money is used efficiently, it will be the result of my effort and the effort of the House Republicans. Speaker Pelosi just erupts. She starts shouting at Spencer Bachus. I mean literally yelling in the Cabinet room. "How dare you say that House Republicans are protecting the taxpayers? House Democrats are protecting the taxpayers," and she just starts yelling.

From my standpoint it appeared to me that she was reacting to that political planting of the flag that House Republicans were claiming that turf, if you will. It was just the outburst, the unprovoked outburst, not waiting to be called on, the fact that she is literally yelling across a ten-foot wide table at another member. Then I think Bachus starts barking back at her. Then within, I don't know, 45 to 60 seconds the whole room just erupts.

It is just voices all over the place. It is just raucous. Then some of the Democratic staff in the back row, they're starting to talk. Then, as a White House staffer in the Bush White House where you don't take off your jacket in the Oval Office, the idea that we can hear staff talking above the din here in a meeting with the President—it was just sort of itself—but it is just a complete fracas.

The President leans back and says, "Well, I think I've lost control of this discussion," or some sort of half-joking thing about how chaotic it was. I guess in retrospect it wasn't that surprising because this was the tinder keg exploding. I don't remember to what extent it was patched back together, but shortly thereafter the meeting is breaking up.

From my standpoint this was the scariest part. It was not the meeting itself, it was as the meeting was breaking up. Several of us all very quickly huddled and then we ended up huddling in the outer Oval with President Bush. There were four or five or six, like Josh and Dan Meyer, Ed Gillespie, Hank Paulson, probably Dana Perino, maybe one other. Because the question is, what we're terrified of—our goal at this point, in helping the bosses, is single-mindedly we've got to get the votes for TARP.

We've proposed the TARP, and the one thing we can't possibly have happen is to propose this big systemic financial rescue and then not get it, right? You want a confidence shock to the

global financial system. It is for the President of the United States to do an address saying the government needs to step in and rescue it and then for the rescue not to happen. We later saw in the short run the first failed bill.

The problem here is that if these leaders from both parties, Congressional leaders, if they transmit to their constituencies and to their members what we just saw in the room here, there is no way we'll be able to get the vote because the vote is going to have to be bipartisan. What will happen is that everyone will retreat to their corners. There will be recriminations. We've got no chance of being able to do this. So how do we do this?

I think Dan Meyer had agreed earlier on that the Democrats who were in this meeting could use the Roosevelt Room before the meeting and after the meeting as a little private room where none of us would intrude, where they could just have whatever discussion they wanted to. So the Democrats had all gone in there.

We're talking to President Bush and the President says, "OK, Hank, go talk to Nancy." This is in Hank's book. So Paulson walks down. This is the famous image of Hank getting down on one knee. Please don't blow this up. She says yes and all that. That is the story of the very dramatic aspect of this.

I think there is another part of this story that I haven't heard told anywhere, which is equally important to Hank. I just love this. I think this is one of the coolest parts of this story from a technical standpoint. It is the role that Ed Gillespie played. Ed of course was now at this point the communications and political advisor. He has both portfolios here. He is the strategy guy. Karl Rove plus Karen Hughes, if you will, at this point.

Ed had talked—I don't know, two days before, one day before, with McCain's campaign manager and Obama's campaign manager, separate conversations with each of them. "Look, we have this big meeting coming up. We know that traditionally what happens is after someone meets with the President, they walk out the front doors of the West Wing, they go to the microphones, and they do something with the press. The problem we have here is we think it's inappropriate for a Presidential candidate to be doing press with the image of the West Wing and the Marine guard in the background. It is just uncouth or inappropriate. It shouldn't happen that way. So if I can get your counterpart on the other campaign to agree, will you agree that any press you do after this meeting will not occur on the White House grounds? You'll just go do it somewhere else so you will have a different image in the background." Both said yes, OK.

Now go to the day of the meeting after everything is broken up. Paulson has Pelosi agree not to blow things up, and I believe that the other aspect of this was that because Senator Obama's campaign had made that commitment, if the Democrats all wanted to do a press event they were going to have to go to Senator Obama's hotel. It would have meant getting into a whole—each of them came in their own car. They would all have to get in their own car, they all had to go to a different hotel, they would have to find a room, they would have to find microphones.

My sense was that combined with the plea from Paulson—you know what? Let's everybody just go back and we'll talk later by phone. I am convinced that Ed Gillespie, who was thinking of this

entirely from the political campaign optics perspective, played a critical role in mitigating the negative press damage that resulted from this explosive meeting.

Nelson: Great story. I was thinking as you were talking about this meeting, after hearing how much preparation and care and rehearsal went into policy time meetings with President Bush, that was sort of the way meetings were supposed to be. Going into this meeting, what did he think this meeting was going to be about?

Hennessey: The problem was that to some extent it wasn't our meeting. It was McCain's meeting.

Weatherford: It really was McCain's meeting.

Hennessey: Right. In addition, the Bush and McCain teams weren't coordinating. By the way, it wasn't clear what McCain's team objective was with this meeting, other than to not be campaigning and from a campaign perspective to change—because this is when McCain's campaign looked like it was in trouble. As an amateur political observer it looked like well, let's throw a Hail Mary and maybe things will come out of this differently. It's time to throw a 30-yard pass type of thing.

But as a result it was—I don't see how we could have structured that meeting. In addition, of course all of the internal White House meetings were all members of the Bush team. This is a legislative meeting. Any meeting that President Bush did with members of Congress was always less structured. It was always—the preparation for it was President Bush meeting with his head of Legislative Affairs in the Oval beforehand with the head of Legislative Affairs saying, “Look, here is what you're going to hear from these people, here is what you're going to hear from those people. Here is the message that we want to deliver, watch out for the following things.” As a policy guy I'm here to answer substantive questions.

This is the same kind of thing, but even more than that, it's not a typical legislative meeting the President would do with members who were working with him on a particular topic. This is with people who are working with him and people who are clearly, shall we say, on a very different side of things from a policy and political standpoint.

Nelson: So he walked into that room wondering what's going to happen?

Hennessey: I think everyone did. No one was surprised that this was a high-risk meeting with potentially disastrous consequences. The particulars of it were surprising and not in a good way. I think once you got that cast of characters in the room in that particular situation it is not surprising to me that something blew.

Nelson: So this meeting is over. The possible damage has been limited. Then what?

Hennessey: Then that weekend is when the TARP deal came together legislatively.

Nelson: That's the 27th and 28th. The first debate was the 26th. It did go ahead.

Weatherford: The 25th was the meeting.

Hennessey: The 25th was the meeting, so lots of staff negotiation. Chuck Blahous, who was my deputy, was sent up as the key guy to negotiate lots of the underbrush, the underbrush being some pretty important underbrush here relative to the big stuff. Then Hank was the President's negotiator on the big stuff. Negotiations in Speaker Pelosi's office starting early, nine o'clock, ten o'clock Saturday morning, something like that, and going until one A.M., two A.M. Sunday, something like that.

This was one of the few times, really, in six and a third years that I actually went up to Capitol Hill and got heavily involved in negotiations. This and the auto bailout were two times when I sort of let go. I remember being back on Capitol Hill. I was there to support Hank. Hank was the principal, but it really was Hank and Dan Meyer. Dan was the head of White House Legislative Affairs. Then Kevin Fromer was Hank's Leg Affairs guy.

So Dan and Kevin were jointly sort of steering Hank toward, "You need to have the following conversation with Barney Frank now to see if we can close out the following issues." Then having me there as a substantive wing man for Hank to suggest, "Hey, maybe—Have you thought of offering X or Y or Z?" Those negotiations started off in the Speaker's office with lots of speeches and very little getting done. After Lord knows how many hours we broke up with the Democrats staying up in the Speaker's office and then Paulson and the administration folks and the House and Senate Republicans going down to one of the House Republican leader's offices. So we were spread across two floors and two different areas.

Then the deal came together over the next five to six hours with shuttle diplomacy. It was mostly Rahm Emanuel, who was of course a House member at that point in time, and John Lawrence, who was Pelosi's chief of staff. So the two of them would come down and then talk with Paulson and then Barney Frank. So the three of them in various ones and twos and threes going back and forth and negotiating with Paulson or negotiating with Dan Meyer.

I ended up doing one pretty big part of the negotiation, which was the TARP funding. We trounced it. We sliced it up into everyone thinks two, but it was technically three slices. So that was Senator Judd Gregg, who was the key guy for Senate Republicans on the budget stuff. Then me for the administration—I knew the budget stuff more than probably any aspect of it. Then I think it might have been Rahm for the Democrats.

The three of us came up. Here is how we'll do the tranches, OK, great, everybody write it up. Paulson and Bernanke working it out at the executive comp, various, and it is just dealing with issue by issue as things are going through. It wasn't quite a floating crap game, but it was much more sort of ad hoc, let's try and work on this part, as opposed to beforehand, where it should have been structure an agenda and absolutely nothing was getting done. Part of this I think was that the Democrats who had been unconstructive up in the room were not the ones who were coming down.

The sense I got was that Speaker Pelosi knew we needed to get to a deal and so I assumed that she was telling Barney Frank and Rahm and John Lawrence, "OK, you guys go down and come back and check with me." It felt like she was the principal and Frank was really a principal. The other ones were brokering before, which made [Charles] Rangel and Chris Dodd and others less important and less likely to dig their heels in on these things.

That deal finally closed at one or two A.M., and it was all the usual pain of putting together an ugly legislative deal, but it came together. Then I don't remember which day the vote was on, but the vote was early the next week. We needed a large bloc of House Republicans and a large bloc of House Democrats and we didn't get them.

Nelson: You got the latter.

Hennessey: We got a lot of House Democrats; we didn't get a lot of House Republicans. A lot of Republicans point to Pelosi's speech right before the vote.

Nelson: Right.

Hennessey: She was one of the last people to speak. I was in the gallery. It was a very partisan, liberal, aggressive speech. It was a speech to convince your own members that you're still with them even while you're taking a tough vote. I buy the logic that that ticked off enough Republicans and that depressed the House Republican vote. I don't know that it was dispositive.

Nelson: This was September 29.

Hennessey: That sounds right. The vote failed; the market tanks. *Oh, God, what do we do now?* Interesting story of what happened after that. We put Humpty Dumpty back together again. That was done in almost exactly the opposite fashion of the way the bill originally came together. It was almost entirely private phone conversations between Josh Bolten, the White House Chief of Staff, and I think mostly Pelosi.

Nelson: Oh, really?

Hennessey: Pelosi, maybe McConnell, maybe Reid, but it was Bolten talking by phone with a few key House and Senate leaders. With Joel and me then advising Josh. From my perspective there were—one of the things was it was all behind the scenes, it was all out of the spotlight. Two was—and I don't know if it was Josh or someone else who made this decision; I don't know if it was someone on the Hill, but we didn't try to win the vote in the House again. Instead we went to the Senate. The vote failed in the House and then the Senate passed it and then the House passed it. I don't know who made that decision. I was in a supporting role to help Josh with the phone calls.

I am convinced—how do I say this in an inoffensive way—that the institutional view that many Senators have of the Senate as the upper body played a significant constructive factor here. I am convinced that a whole lot of Senators, as much as they hated the idea of having to cast this vote, they looked at what had just happened in the House. They looked at the result, the market reaction and the public reaction to what had happened in the House and I think that created a significant sense within the Senate as a body of *Look, however big our differences are, we don't want a repeat of that*. Every House member is regretting what just happened in the House on I guess it was Friday.

I think that created a significant opportunity for people to be constructive and to look for a way to find and reach agreement. In addition, we gave them one specific change, which was to add a

temporary FDIC [Federal Deposit Insurance Corporation] guarantee for transaction accounts, I believe.

There was an FDIC guarantee for the first, I think it was originally 100,000; we raised it to 250,000 in the bill. I believe that was in the House bill. I think in the Senate bill what we did was we also extended that not just to your individual account but to the account that your small business has, because your small business has an account at the bank to manage its payroll. This was an idea—very funny that it sort of gets lobbed in and is a key element—that gets lobbed in from of all people Larry Lindsey, who just wrote it up in one of his daily email missives that he sends to his clients and to Capitol Hill. He says, “Here is a significant problem that the administration and Capitol Hill are not solving that they should.” Everyone started talking about Larry’s idea, do we need to do it. Someone said, “Should we do this?” We said yes and the Hill said yes. So that was the one really significant policy change that the Senate made.

Nelson: Did that give House members cover to say, when they voted the second time—

Hennessey: Yes.

Nelson: “I’m not voting for the bill, I’m—”

Hennessey: It gave both bodies. It gave Senators cover to say, “I’m voting for a different bill.”

Nelson: Right.

Hennessey: And it gave House members cover to say, “This isn’t that horrible bill that I didn’t vote for. This is now protecting small businesses.” Then what we had, and frankly we had Reid and McConnell and Dodd and Shelby, the four key players who were all working very constructively together. There were bumps, but they were all pulling to try and pass this. As a result, then, we got a big vote in the Senate. I don’t remember what it was.

Nelson: Seventy-four to 24.

Hennessey: Yes, it was big and it was very bipartisan. So, big bipartisan vote in the Senate, all the House guys feeling just miserable about what happened in the House and looking at the Senate and saying, “Oof, OK,” which creates genuine legislative momentum as the bill travels back across the rotunda with the ability to say this is a different bill and a better bill for small businesses, and everybody loves small businesses. Plus the combined effect of that with the changed political sentiment with members calling and saying, “Oh, my God, you’ve got to fix the stock market,” or “You’ve got to fix my 401(k).” Then the House voted. It wasn’t that hard—well, relatively speaking.

Nelson: Did President Bush make any calls to bring it along?

Hennessey: I don’t know.

Nelson: Crucial Republicans?

Hennessey: I don’t know.

Weatherford: This is the kind of story where in the Reagan administration Reagan would get on the phone—he was an inveterate phone caller. Your depiction of Hank Paulson is very much like what we heard about Ronald Reagan.

Hennessey: About Reagan, yes.

Weatherford: On the other hand, Bush did seem to be more distant.

Hennessey: In my experience throughout the six plus years, he made any calls that his advisors asked him to make. He was always happy to do it. He wasn't like Paulson, who was sort of—anyone says, “Maybe you should think about calling,” and he is already dialing. “OK, tell me why I'm calling. Tell me why I'm doing it.”

In this case, in the case of the first House vote, we didn't know that we were going to lose. I don't think people knew that the votes were necessary. Then in the case of the Senate vote, we knew we were going to win it. He was making calls for instance in 2003 to pass the Medicare bill. This is after midnight on the phone with individual House Republicans saying, “I need your vote.”

Nelson: I wonder if at this point calls from Cheney to Republicans might have been more effective.

Hennessey: No, I don't think so. I would say if we're now doing counterfactual here—

Nelson: Yes.

Hennessey: At this point the fact that a rock-ribbed conservative would say—you know Dick Cheney is my man—is far outweighed by the power of the Presidency, a phone call from the President. But again, I don't think anyone thought it was really needed in either case. It might have been needed in the first case, but it was recognized in the second and third cases. I don't think it was.

Nelson: So October 1 is when the Senate passed the bill; October 3 is when the House passes it. The President signs it. He is still President and you're still NEC Director for another four months.

Hennessey: We've got a lot of implementation work to do here.

Nelson: Yes.

Weatherford: Including the auto bailout.

Nelson: Yes, I was thinking about—

Weatherford: A sort of resourceful use of the TARP.

Hennessey: Yes, the auto—

Nelson: Let's take a quick break and then drive to the finish line.

[BREAK]

Nelson: Keith, we know the auto bailout is something we want to talk about, and then we want to give you a chance to talk about the blog. Other things?

Hennessey: The auto one is the big one.

Weatherford: The other one sounds really interesting because it looks like the President was involved. It looked as if he tried to do what he thought was the right thing and couldn't do it. So he backed up and resourcefully chose another way to do it. Was the NEC involved in that?

Hennessey: Were we involved? Oh, were we involved. *[laughter]* Yes. It's interesting from an institutional standpoint the different Presidential advisors. I think 2008 was different for a few reasons. I moved up to the top slot in NEC for a year in which there was one overwhelmingly huge issue, which was the one issue where the head of the NEC, and me specifically, moved to a secondary role. I can easily argue I had a much greater actual impact on economic policy in the five years preceding that when I was the deputy. Let me put it this way, at least impact on policy relative to other advisors. I had a big impact in 2008 even though I was sort of a second-tier member of the team in that Hank was playing such an oversized role.

The autos was one where it felt more like the past, the other issues that I was doing in which it was an NEC-run process where Paulson was a participant in it, where NEC and I were not sort of tagalong with Hank making sure that everybody else was drafting in with him. This was one where it was Josh and Joel saying, "OK, Keith, you've got to coordinate what we're doing."

There is one other issue that we should add to the agenda, which is climate change, which probably never appears in any of your press clips.

Nelson: Just barely, a couple. Right.

Hennessey: We should also talk about the G20 [Group of 20] summit with respect to the crisis. That can be brief.

Nelson: This is back in November?

Hennessey: November 2008. OK, autos. In late August, Ziad Ojakli, who was head of government affairs for Ford Motor Company, called me up and said, "I want to come in and talk to you about loans to the big three auto manufacturers." Z had been President Bush's Deputy Head of Legislative Affairs for the Senate side for the first few years and was someone I had known for a long time. So this was a former colleague who is now a lobbyist. He had been out for enough time that he wasn't violating lobbying bans, but this was the first indication in August of 2008 of putting on my radar screen "Detroit wants money."

Now the heads of the auto manufacturers had come in and met with President Bush in '05, '06, something like that. At the time they had principally been complaining about what they thought was currency manipulation by the Japanese. They had been looking for some degree of policy support or some kind of relief from the administration. The President had politely said, "No, we're not going to do that." Here now the autos are coming in and saying, "Look, it's a weak economy. We need help."

It wasn't directly related to a financial crisis at this point, but it was sort of putting it on our radar screen. Specifically, there was a program from an energy bill that created a loan program section 136. This was how you could get subsidized government loans, maybe guaranteed government loans from the Department of Energy to help cover the costs of retooling your assembly line to make more fuel-efficient vehicles.

The auto manufacturers wanted us to expand the scope of that so that they could get the loans for a broader range of purposes. Just wanted more loans. I checked up the food chain and it was OK, we're going to—I checked with probably Joel or Josh or some combination. I said, "OK, we're going to poll people internally and we'll talk about this request from the auto industry. Is this something that we want to support?"

We talked it through and decided no, we didn't. Then financial shocks hit in September of 2008. In early October General Motors comes to us—I don't remember where their initial contact point was within the administration. The word we get from GM is that GM is running out of cash and risks facing a supplier run on the first Monday in November.

Weatherford: Oh, this isn't the day before the election.

Hennessey: Correct. What I wasn't aware of initially is that the way the auto manufacturers work is the first Monday of each month the big auto manufacturers pay all of their suppliers. They write a big check to each of their suppliers to cover the costs of the supplies that they're going to get over the next month. So for the cars I'm going to make in January, I'm writing them a check and you have the cash now to send me the fan belts that I put into the cars. If I don't write you that check, then what I'm going to face is a chance that the suppliers are going to say, "I'm not going to send you parts over the course of the next month." That means that whatever parts of yours I happen to have on hand I can use, but at some point, depending on how much inventory I have, I'm going to run out and I'm going to have to stop the assembly line whenever I run out of some part.

So the run on an auto manufacturer is not actually a cash run, it is a manufacturing input run. It can cause the assembly line at some point to come to a screeching halt. GM says, "We may face a supplier run the first Monday in November. We need a loan from you. Will you give it to us?"

Of course this is an area where we are thinking about the politics, right? In our private discussions a couple of us are thinking, *Ah, they're trying to politically blackmail us*. That's pretty obvious. I don't remember who made this decision. It wasn't me. So the obvious thing to do is say, "Prove it." There was a decision made by—I don't know, maybe the President, maybe Josh, that on the auto issue—well, Hank was the face of the administration in all respects with respect to Wall Street and the financial institutions. With respect to Detroit it was going to be

Carlos Gutierrez, Secretary of Commerce. So he would be the point guy in dealing with Rick Wagoner and anybody else. Then Eddie Lazear, Chairman of the Council of Economic Advisers, was very heavily involved and I was the coordinator again, behind the scenes, making sure everybody is working together.

What we set up was for Lazear and Gutierrez to meet with—I don't know if it was Wagoner or with Wagoner's CFO [chief financial officer]. The basic request was show us your numbers; prove to us that you're going to run out of cash the first Monday in November. If you can demonstrate it to our satisfaction, then we have a question to take to the President. If you don't prove to us that you're going to run out of cash, then we're not going to bother the President with this. He's got plenty of other things on his mind.

I don't know, a couple of days, some point later, Lazear comes back and says, "Yes, they're not going to run out of cash the first Monday in November and we told them that. They didn't argue with us. By the way, they are going to run out of cash sometime in the next few months. So they definitely do have a cash flow problem and it is grave. It is not so grave that we need to do something in the next two, three, four weeks."

Now, this is no longer just Detroit wants flexibility on section 136. It is now at this point where the administration—the President's senior team and the President are aware that Detroit is on the verge as well and we are facing a looming auto industry collapse in addition to the ongoing problems in the financial sector. OK, so what are we going to do about it?

The President makes the decision that we will go to Congress and ask for legislative authority that expands the scope of section 136. So what the auto manufacturers were arguing, they were basically saying you can creatively interpret the law as written to use this existing pot of money for loans. We looked at it and said, "No, we can't. Our lawyers don't think that we can, and by the way, even if our lawyers said we could stretch it, it is a clear violation of what Congress intended with this law. If we're going to do this, we think the appropriate thing is for Congress to say yes. The Constitution gives them the power to make these decisions. So we will go to Congress and we will try to convince them to expand the scope of this authority, maybe even put some more money into it so that we can give you these loans."

OK. So we're working on that. At some point then is when the heads of the U.S. big three fly to Washington to testify. I think this was very early December if I remember correctly, maybe late November. I remember this from the press. They each flew separately on their corporate jet. Right? To ask Congress for money to bail them out. It's just one of those—that's how the political ball bounces. Someone got the bit in their teeth on that point and it just framed the whole set of hearings and just turned Congress really negative.

We had a pretty specific proposal on what we wanted to do with section 136, so then we went up to Capitol Hill to negotiate that with House and Senate Democrats. I mentioned that my accompanying Hank was one of the very few times that I was actually involved in legislative negotiations. This was the other one. This was one where actually I was the policy principal. It was Joel—Joel Kaplan was sort of the senior figure making sure everything was moving, and me, and I think it was Bill Burck from White House Counsel as the substantive guy to negotiate with Barney Franks' staff and with Chris Dodd's staff in Speaker Pelosi's office.

So here we have a Republican Bush White House negotiating with Pelosi's designate and Reid's designate. We had bent over backward to ask Spencer Bachus, the ranking Republican, and Shelby's people. "We'd like to include you in these negotiations. Do you want to be in them?" Both of them said, "Thank you, we'd rather not be included in them." So we said, "That's your choice. We've still got to go do it."

We negotiated an agreement with Barney Frank. His staff were very constructive and it was easier to work with them than with Dodd's team, I think, easier to get to an agreement. That resulted in the House passing the bill that we supported. Final details on those negotiations were closed by some phone calls between Josh Bolten and the Speaker over some energy-efficiency type requirements, fuel-economy type of green stuff. Made that agreement. The House passed the bill.

The bill goes over to the Senate. A few of us go up to the Senate Republican Policy lunch trying to get Republican support for this. The Vice President was there. Eddie Lazear was there. The Vice President made the pitch. I think Eddie stood up and spoke. The Senate Republicans, several of them stood up and said, "We shouldn't bail out Detroit." So we knew that the sentiment of Senate Republicans was turning against us. We knew it was a tough sell. We knew we might get some of them, but it was leaning pretty hard against.

One little dimension to think about here is that if you're a southern Senator—a lot of the Republican Senators are southern Senators—a lot of them have auto manufacturers. A lot of Americans who work live in the South work for the auto industry, for Toyota, for Nissan, for Honda, for foreign, generally Japanese, maybe Korean manufacturers. So bailing out the U.S.-based auto firms actually is a competitive thing. In addition to which a lot of the Republicans are saying, "Look, you already had me vote for something to bail out Wall Street; I think this is even less justified."

Senator Corker became a major player in this in that he was negotiating an amendment to add conditions to the new loans. These new funds will be available—\$10 billion, \$20 billion, I don't remember the exact amount, but the new funds will be available only if the auto manufacturers meet certain conditions. The conditions had to do with reducing the disparity between the compensation paid to U.S. auto workers to be comparable to that paid to the foreign manufacturers. I think it was dealing with some of their unfunded health care liabilities, things driving at the idea that the taxpayer is only going to put his money on the line if the manufacturers and labor will make changes to their practices that will make the industry more competitive.

It wasn't just labor. I think some of it was you had to trim down to your dealer networks, which was a big element of the relative lack of competitiveness of the U.S. auto manufacturers. So these were the Corker conditions. Corker I believe was in some negotiations with the head of UAW [United Auto Workers], which resulted in a floor amendment. I think the amendment was filibustered. I know the underlying bill was filibustered. So ultimately enough Republicans filibustered the bill that the bill died in the Senate.

I don't think the Corker amendment was adopted, but it was sufficiently advanced that it became a part of the substantive debate. But the bill that we had worked with House Democrats on had

died in the Senate due to a Senate Republican filibuster, and we had these new concepts of the Corker conditions that were out there. We internally had been talking a lot about very similar sorts of conditions. We hadn't really gone public with them.

Another detail to this story. We'll talk about my blog. I wrote an excruciatingly detailed blog post on this interaction. We reached out to the Obama transition team, I think it was probably Josh to Rahm, and said, "Hey, we're working on something with respect to the U.S. auto manufacturers." This now comes after the legislation dies.

The legislation died in early November, mid-November. We then reach out to the Obama people and say, "Look, the legislation has died. We have to figure out whether or not we're going to repurpose some of the TARP funds and use that as a big pot of money." We knew we had the legal authority to do it, but the President really didn't want to do that; none of us wanted him to do it. That clearly wasn't the intent of what those funds should be used for, even though it was legally permissible. That was not the way that the President felt it should be. "Look, if we're going to do this, let's get Congress to say, 'Mr. President, you can do this.'"

Congress said no. Now we're at a second-best type option. The phrase we start using at this point is the "bridge to Obama." What we know is that these manufacturers are going to be facing a supplier run sometime between the first Monday in January and maybe mid-February. We know that that is the critical point. We know it is GM and Chrysler. We know it is not Ford.

We think probably in early January these firms may start to face a supplier run, which means that their lines are shutting down in January or February, so sometime in the last few weeks of the Bush administration or the first few weeks of the Obama administration you'll have two of the three auto manufacturers literally stopping and then collapsing.

What we knew needed to be done if the government was going to intervene—again, this is sort of a, "Are you going to intervene? Yes or no, and then if so, how?" What we knew needed to be done was these firms needed some short-term liquidity. They needed some cash and they needed to restructure. Then there was a secondary decision: Should the restructuring be as the result of the bankruptcy process, which is the way that it normally works? Should it be in advance of a bankruptcy process? Should it be through a pre-packaged bankruptcy? All those different variables.

If the federal government is going to be putting cash on the line, should that be debtor-in-possession financing after bankruptcy has been filed? Where does the cash come in that process? But what we knew was that the restructuring could not possibly be completed during the Bush administration. This goes back to a key feature of this; especially GM. GM had not done all of the legal, management, financial, and organizational preparations for even a Chapter XI bankruptcy filing, much less a corporate restructuring that they needed to do.

I was at the time by no means—I mean I knew very little about how corporate restructuring, certainly bankruptcy filing—but at a minimum you need to have your ducks in a row and be ready to go file, and for a company as large and complex as GM, you can't just do it. Was that the result of management incompetence? Or was it a strategic move on the part of GM's leadership to play chicken with the government and to say Chapter XI means Chapter VII

because I haven't done my homework and haven't gotten ready and therefore to increase the pressure on the federal government to bail them out?

I don't know. We'll let someone else figure that out. Certainly the management did not seem particularly competent in any aspect of this, so I'm more than willing to believe that that is a significant driver. But for whatever reason, it was clear that the restructuring could not be done during the Bush administration. So the logic went, if President Bush was going to give a loan, our point was to start the process. The restructuring in whatever legal form and whatever organizational form would have to be completed during the first three to six months of the Obama administration. Our job was to provide sufficient cash to get that process started and to take whatever steps we can take now to maximize the probability of that restructuring in whatever form would be successful in the first several months.

Bridge to Obama. Cash bridge and a process bridge, with the idea being that the original way to do this was section 136 through legislation. Now we can't do this. If the President decides he wants to pull the trigger, then the funds will come from the TARP, so we know where the money is going to come from. We know we can figure out how much money. We've got to make a decision about how much time we want to buy them. Do you want to buy them to January 21, February 1, or March 1 or some date? Those are relatively easy. The hard part is figuring out how do you create the front end of a process that is likely to actually lead to a successful restructuring.

What you don't want to do is throw a couple of tens of billions of dollars at the auto industry and then on the back end have them go, "Well, OK. Thanks for the cash. We're not going to make any changes."

Nelson: Yes.

Hennessey: But the problem here is we're not going to be the ones holding the reins on the back end of this process; it's going to be a new team and a new President. So that is a big part of it. That is what drove the request for the meeting with the Obama team, which is, "Hey, we're going to tell you what we're about to set up. Do you guys want to coordinate with us? We'd like to set up something that at minimum you all are comfortable with, so that when you come in, the first thing you do—we don't want you to be in a position where you feel like you come in and say, 'We've got to throw out what the Bush people did and start from scratch.'

"We're not saying we're going to do everything the way that you want us to do it; but we're happy to tell you how we're going to do it, and if you have constructive suggestions that make you more likely to treat this as the back end of a bridge when you get it, then we'd like to do that. In particular, we think there should be one person within the administration who has the authority to be the principal person interacting with the auto industry, driving this process forward with whatever degree of interactions and whatever role in terms of the negotiations, a 'car czar,' if you will." This was before the term "czar" became laden with all sorts of other baggage.

So we created a whole process. Here are the cash flows. Here are the short-term loans. We're going to put some conditions on those loans. To get this cash the companies are going to have to submit a restructuring plan that does one, two, three, four, five, or six different things.

The person who will evaluate whether the company's plan meets those conditions will be this new official of the executive branch, this new car czar, and will then authorize the release of the funds or they can send the plan back to the company and say, "No, you didn't provide a sufficiently strong plan for how you're going to narrow down your dealer network." And guess what our conditions looked a lot like?

Nelson: Corker.

Hennessey: The Corker conditions. So it was the Corker conditions plus other conditions that we had been talking about. Corker was focused on some of the mid-level important structural things like reducing your dealer network, a change in the labor compensation. For us the principal condition was a company must produce a credible financial plan that shows that the company will be financially viable in the long run after the loans have been paid back. In other words, you've got to get to a net present value greater than zero and a predicted cash flow positive at some point in time after—including the ability to pay back the loans.

You've got to bring the streams together so you're a net-plus and you've got to have a net-positive flow. That was sort of the core condition, and we added on versions of the Corker conditions. So that is what we showed to the Obama people. This was in a quiet meeting that we hosted over at Treasury so that the Obama people could say they hadn't come to the White House—it was very important to them. It was Paulson, Gutierrez, I think Joel, me, Lazear, and Dan Meyer meeting with Larry Summers, Phil Schiliro, who was going to be their head of Leg Affairs, Dan Tarullo, who later became a Fed [Federal Reserve] Governor.

We knew that meeting was one-directional. The point of the meeting was for us to communicate. "Here is what we're thinking about doing. We'd like to get your feedback on it, and if you're interested in private, behind-the-scenes coordination with us, then what we will do is we will float a few names of people we're thinking about for the car czar. If you tell us that you like one of them, then maybe President Bush will appoint that person, with again the idea being that then President-elect Obama says, 'President Bush made a good choice in the car czar,' and now the auto manufacturers know that they can't lobby for a replacement. They're going to be stuck with this person through the last four weeks of the Bush administration and then into the Obama administration."

That's what we pitched. A couple of days later Josh calls Rahm. "Sorry, no feedback." A couple of days later, "Sorry, no feedback." So they never gave us a yes or no. They just basically didn't answer us.

Weatherford: They did hear the information.

Hennessey: They did hear the information. They knew what we were doing. Now, it's not like they just didn't decide. I think they decided, but decided not to communicate back a no. It was just they were communicating a no answer, which then put us in the position of OK, we tried to

coordinate, now we've got to go to the President and have him decide does he want to do this with a bridge to Obama, where we really don't know what they're going to do on the back end.

He decided yes. He gave a speech in late December on a Friday. I think that is important for people who care about this. I think those remarks—it was short, maybe a seven-to-eight-minute speech he gave in the Roosevelt Room. He lays out his rationale for why he intervened, for why he did those loans. I think it really kind of captures this.

The loans were executed December 30 and 31. I'm forgetting his name, the guy who worked for Hank, the financial transactions guy. Phenomenal guy, totally behind the scenes, who did the actual negotiations of the term sheets with GM and Chrysler. He was the guy who locked down all the details for those loans.

I got frustrated early in the Obama administration because the Obama senior officials kept coming out and saying that the Bush administration gave a blank check to the auto manufacturers, whereas we took those conditions and we included them in the term sheet of the loans. We were very explicit that the loans were only going to flow with these conditions. That was an important policy point for us.

So from our standpoint the process that we set up, the bridge to Obama, worked. When we saw what the Obama people did, it worked exactly as we'd wanted. One of the important decisions President Bush made was that the cash was designed to get the auto companies through the end of March with President Obama and his people having the discretion to extend it for another 30 days to get it to the end of April.

I am convinced that a significant part of the reason why President Bush said yes to doing this was because of the timing of it. From my perspective he seemed extremely focused on the challenges that his successor would face in the first weeks in office. That is, the new guy is going to come in. He is going to have to learn the job and is going to be dealing with the war. He is going to be getting all of the detailed terrorism briefings. He is going to have to learn all these things. Let's buy him into March or April so he has time to catch his breath before he has to make this big decision.

Nelson: More generally that is what Obama thanked him for at the start of his inaugural address, for making the transition as good as it could be.

Hennessey: That was two people; it was President Bush and it was Josh. On the transition, if you go back, if you look at President Bush's announcement of the transition—he did the meeting with President Obama, and then President Bush went out there and said, "We had a good meeting with the President-elect. I'm putting my White House Chief of Staff Josh Bolten in charge of the transition, and there will be a smooth transition."

As much as anything, that was a signal to the administration. It is two things. One is the boss is saying there will be a smooth transition, which makes all of us salute sharply and say, "We got it," no games like we inherited from the Clinton people. I wasn't around for that, but the stories are pretty significant. The other thing is putting Josh in charge of it. Which is, if there is any question about just how rigorous and buttoned-up this is going to be it is OK, when Josh is in

charge of something you know that it is going to be executed. Everybody has to be on their A game and straight up and buttoned down and all that. So this was a big part of that.

Nelson: Keith, let's turn to climate change at your suggestion.

Hennessey: There was a big push in '05, '06, big external pressures to do something on climate change. There was a very significant internal debate on whether or not President Bush should propose something in the carbon-pricing world—carbon tax, cap and trade, something like that. There was lot of push from a couple of his advisors, especially from Steve Johnson, EPA administrator; Paulson was very strong on that. I can't remember who else were the big ones, but they were two of the big ones. It was a big debate. Very little of it got out in public, but it was a huge internal discussion. We actually ended up designing policy options.

We designed a cap-and-trade proposal to further debate about whether or not it made sense to do. President Bush decided not to propose something, but a big part of the impetus for this discussion was the Supreme Court decision, *Massachusetts v. EPA*, which is where the Supreme Court basically put EPA on the beginning of a track to where we thought and our lawyers thought they were inevitably going to have to—whether the President wanted it or not—start regulating greenhouse gas emissions from stationary sources, power plants most especially.

So from our standpoint the Supreme Court had sort of boxed in the policy of a future President, not our President. The legal process was going to take years, but at some point EPA was going to start regulating greenhouse gases from stationary sources. So the interesting dynamic here was that it meant that even if you were an opponent of carbon pricing, the question that you would eventually be confronted with was: Is a legislated solution on carbon pricing less damaging to the economy than what EPA is going to end up doing as a result of the Supreme Court law? That is an issue a lot of conservatives still haven't dealt with. But that is a significant thing. I think the other thing that I just mentioned was the G20 meeting.

Nelson: Yes. In '08?

Hennessey: In November of '08. There is a lot of focus from a historic perspective on the domestic actions that the U.S. took. I think there has been insufficient attention paid to the international coordination aspects of it, which I think is a tremendous bright spot in this entire crisis reaction.

Weatherford: And the initiative did come from Bush and the White House, didn't it?

Hennessey: Absolutely. Well, actually the initial impetus came from [Nicolas] Sarkozy. He and [José Manuel] Barroso came over and met with President Bush at Camp David and said, "Mr. President, you need to take charge and bring the world together." Then President Bush did that.

I think that the U.S. rescue efforts were significantly amplified by the international coordination both between our administration and others. I think it was the policy signals that resulted from the G20 summit, sort of the macro-level signals like protectionism is bad, we all need to work together, we need to coordinate our policy actions, we need to keep free trade and capital flowing freely. Those big things. Then it fosters an aura of cooperation among all the bureaucracies. I think that Bernanke was coordinating with the monetary authorities as well.

In particular, a couple of other interesting dimensions of that. That is the first time, I believe, that the G20 ever became a significant economic convening body.

Nelson: As opposed to the—?

Hennessey: The G7 [Group of 7], G8 [Group of 8] is where everything had been done. Here this was a decision to expand the scope of who was being brought together from G7, G8, to G20.

Nelson: A decision by the President?

Hennessey: A decision by the President driven largely by Condi Rice; Steve Hadley; Paulson; his key international guy, Dave McCormick; and then Dan Price within the White House. The G20 statement—when they do a statement they put out the big statement from all the participants—was something that Price and McCormick drove the ball on. I always show it to my students. I think it is just an absolutely phenomenal document and a crowning achievement of international economic diplomacy at a moment of crisis.

You have a statement signed by the leaders being agreed to by the leaders of China and Russia, saying that free markets are a good thing. I mean, all of the signals—it is just amazing that they're doing that. That was Price and McCormick; they just did incredible work on that. President Bush bringing everybody together and then Condi and Hadley making things happen.

From my standpoint, at least the international gang has got their stuff—that is, supplementing—going. There were tensions on all those things, but it was a less-noticed but really important dimension of the policy response.

Nelson: We were talking informally earlier today. You mentioned that while in the White House you started what amounted to a kind of proto-blog, which has become a blog.

Hennessey: I shouldn't call it a blog because it wasn't a blog.

Nelson: I'll let you explain that, but for those reading this interview, I'll expect they'll want to read more of Keith Hennessey on the Bush Presidency and your experience with it, so could you just talk about it?

Hennessey: Yes. An ongoing challenge for the policy shops was always there would be a story in the press that would ding us on some policy point, make some unfounded claim or accusation or bad-mouth the President's policy in some way. The policy people would always want to get out there and say, "That's wrong. We need to get out there and rebut it."

The press shop would sometimes say, "You know what? If you rebut it, then you're just elevating the argument. You're elevating the criticism, and you do more damage than good." This was sort of an ongoing debate that we had over the years. But the policy people—we always wanted to get out there and make arguments. Of course we always thought we could win every argument that we entered into. We probably couldn't, but we had that false sense of confidence.

The communications folks were generally in favor of us putting out more substantive policy communications. I think part of the issue was most of the White House press corps operate at

such a surface level of policy discussions that even when we policy people wanted to put out our wonky, detailed, analytic, sophisticated responses on substantive debate points one or two levels down, the press and communications people knew that almost no one would read it. But they were OK with us figuring out other channels to push out some of our arguments.

One of the things that I started to do was look—I want to take some of the policy arguments—we have all of these very good, smart discussions behind closed doors. We have good things to say. We know that the *Post* and the *Times* and the TV networks aren't going to want to delve into this level of detail, but the Web is being democratized. There are lots of people out there who actually care about this. There are lots of people on Capitol Hill, so how about I start writing things up and pushing things out just through an informal email channel?

So I started writing what in today's environment would be referred to as a blog post, but they were basically long emails, and making our policy arguments at a deeper and more detailed level than we would do in a typical statement by the press secretary or talking points that we were putting out. I did maybe two dozen of these.

Nelson: While you were in the White House?

Hennessey: While I was in the White House. Probably almost all before 2008 because I don't think I had time in 2008. But it was—"Here is what we're going for at the G8 summit." Then afterward, "Here is what we got at the G8 summit. Here is why we feel good about it." "Here is the right way to do climate change. Here is the wrong way to do climate change." "Here is what we just did on issue X."

Most people would look at those and their eyes would glaze over and they would say, "I don't care about all those details." But the people who did care about the details just ate it up because we were providing a lot more substance. We were providing substance and facts and also arguments.

Nelson: Why didn't you do it as a blog?

Hennessey: I think part of it was structural, which is anything that we elevated to that level would have had to go through multiple rounds of vetting, and it just would have slowed everything down. The other thing is that by pushing it out as a less formal email channel it meant that the press and communications operations—the higher level, the TV press and the folks who just do the political stuff, didn't really think that they had to read it because it wasn't coming out officially. They could safely ignore it, so it reduced the burden. It allowed us to target kind of a lower level, in terms of a political and press importance, but a level that cared more about the policy substance.

Nelson: Are those emails available?

Hennessey: After I left, after the administration ended, a few months after that I decided I wanted to create a personal blog and decided that when I was launching it, I would write a few posts but I would also take all of those emails that I had done as a government official and then post them as sort of a historic record. Somewhere on my blog you can find an initial blog post, which says there are two types of content on here. One is me writing as a member of President

Bush's team, where I'm putting out official but informal views representing the opinions of the administration, and then starting in early March or April everything you see is my fault and my fault alone and my opinions.

But what it means is that there are probably two dozen of these policy-argument blog-style emails out there making various arguments on behalf of the administration on some of these policy topics. Then, in addition, from April 1, 2009 on there were various points in time during the Obama administration when something would come up referring back to the Bush administration, so I posted a whole bunch of things saying here's how we waived the Jones Act when there was a question should the Obama—so I wrote something, how to waive the Jones Act based on my experiences there. Or when some Obama administration official said, "Bush wrote a blank check" I wrote a long blog post detailing the meeting with the Obama transition team, laying out all that, or the Corker conditions, those types of things. I'll make sure that you have links to that.

Nelson: What is the—?

Hennessey: Keithhennessey.com.

Nelson: One of those posts I think got an unusual amount of attention, and that was basically you described—and what you told in a class at the Graduate School of Business.

Hennessey: We can close on this.

Nelson: Yes, the valedictory note.

Hennessey: By an order of magnitude the most popular thing I've written was a blog post titled "George W. Bush is smarter than you."

Nelson: We enjoyed reading that.

Hennessey: Good. Thank you. It did arise out of an interaction in class where we were talking about the financial crisis. A student had asked just how involved was President Bush in the details of the financial crisis.

The way the student phrased it the implication was, "Was President Bush smart enough to understand what was going on, or did he delegate all of this to Paulson because he couldn't handle it intellectually?" The student was very gentle and very polite. He was doing it in a very inoffensive way, but I'm pretty good at reading subtexts from something like that. I called the student on it. "So you're basically asking was George Bush smart enough to understand what was going on." The class all got very nervous because here I was exposing the raw nerve.

I looked at them and said, "George W. Bush is smarter than you," and paused for a good 10 seconds. They were expecting me to say, "Naw, I'm just kidding." I didn't. They started to shift in their seats and they got pretty uncomfortable. The blog post is then about me explaining it, about the man's intellect. I think it is the greatest misimpression about him as a President. He is a very intelligent guy with an incredible memory. It was one of the really fun things about working for him, just how smart he was. The blog post goes through certain different dimensions of it.

He wasn't just intelligent in terms of his ability to comprehend things; he is extremely quick in that you'd be walking through some logic and he would often jump a couple of steps ahead. He could see where you were going, so you'd have to accelerate your logic. He would remember things from a presentation I had made to him six or eight weeks earlier where I had had to refresh things. It was just astonishing to me that he was remembering some of those details.

One thing I didn't talk about in the blog post, which is very true—he is incredibly perceptive and just phenomenal at understanding the dynamics of the room, the interpersonal dynamics. When there is a meeting there are some people who are very good at noticing people's body language, hearing the way that people—you kind of get the ebb and flow of a meeting or you can tell when two people are angry with each other, because they're hunched up, they're not looking at each other. They may be saying snippy kinds of things. Early on it was easy to assume—it never crossed my mind that President Bush might be picking up on those nonverbal cues and those dynamics just as I and several other people were. It turned out that he was. He was probably more aware of the interpersonal dynamics among the members of his team and those sorts of people calling EQ [emotional quotient] types of questions in addition to all of the intellectual aspects of it.

One of the most fun aspects of staffing him was when he would do a meeting. Every so often we'd do these meetings at the White House with outside business leaders. We'd bring in a dozen manufacturing CEOs from the Midwest for a meeting or a dozen West Coast business leaders. You'd sort of have a different flavor to it each time. Just to come in and meet with the President and talk with him about the economy. Tell him, "Here's what we're seeing in our business, here is what we're seeing in the economy, here are policy issues we're dealing with." Then to have it go back and forth, just to give him real live exposure to business leaders, sometimes small and medium-sized; sometimes the titans of Wall Street or of a particular industry.

What was really fun, especially in the first couple of years, is after one of those meetings would break up, the President would come into the meeting. He would have no written remarks in front of him, no note cards. He would just sit down and start chatting with them. He would generally start off talking about what he was dealing with on Iraq and Afghanistan, War on Terror, terrorism threats, which of course sets everybody back. You're a Fortune 100 CEO and you think you're pretty important and you're dealing with all these big issues. Now here is a guy coming and talking about terrorist threats and talking about troops in battle. All of a sudden it gives you a perspective of just how grave the problems are that this guy has to deal with.

Then he would start to talk about the economy. He would share, "Here is what I think I'm seeing in the economy. Here is how the data looks to me. Here is what we're dealing with from a policy standpoint. Here are the trends I'm seeing, but I want to hear what you think." He'd be saying that with no notes. It was clearly off the cuff, just doing it off the top of his head. You could see these titans of business thinking, *What the heck is going on here? This is not what I understood to be the case.*

What was particularly fun was when you would see him starting to talk about some economic issue or an economic policy issue and I could see on the faces of some of the CEOs that they were getting uncomfortable because he was saying things that they didn't understand well

enough. Now they're starting to get uncomfortable. *Wait a second. He understands this stuff better and more deeply than I do.*

For me the best part was after the meeting when the President has moved on to something else and the CEOs were sort of milling around, just a little chatter post-meeting. I'd chat with them or I'd get to hear some of the comments and I'd hear some of them saying, "I had no idea that there is that kind of an intellect here. It doesn't comport with the public caricature of him."

That, plus the fact—just my closing comment here—he was a very easy boss to work for on economic policy because there were certain principles that drove a lot of his thinking. I don't want to say principles in the way that I could necessarily write them down on a whiteboard, but there was definitely an intellectual framework, a conceptual framework that drove the philosophy of economic policy. For me as a staffer, I would always try over time to infer what my boss's framework was for thinking about things, what his principles and values were, to try to develop a mental model of here is how the boss would think about this particular question if he were down at this detailed level, because it allows you to better serve him to let you know what you think his instincts are.

If you're good at inferring those kinds of things, over time you can predict with a very high degree of confidence, *OK, here is where I think the boss is going to end up.* He had a very consistent, solid principles approach to policy that made it very good for me because I knew what was important to him and I learned over a couple of years how he would approach things. It also meant that it was easier to design policies for him because I had a good sense of what was important to him and what wasn't. That combined with the intellect meant that it was fun and an honor to work for him because he was making it easy for us to serve him, going back to the policy process.

We knew what kind of information he wanted; we knew what he would think was important. We could anticipate the kinds of questions that he would ask and the questions that he would be wrestling with. It allowed us to tee things up so that we could come out saying, "I might not agree with the decision that he made, but he definitely made what was the right decision for him, based on his values," and you feel good about that.

Nelson: Thank you so much for this day.

Hennessey: Happy to help.