



GEORGE W. BUSH ORAL HISTORY PROJECT

FINAL EDITED TRANSCRIPT

INTERVIEW WITH JOHN SNOW AND CHRIS SMITH

May 1–2, 2013
Charlottesville, Virginia

Participants

University of Virginia

Russell Riley, chair

Barbara Perry

Sweet Briar College

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Russell Riley: This is the John Snow oral history interview as part of our George W. Bush Project. We are joined by Chris Smith, who was the Secretary's chief of staff but also had some experience at Treasury, before you came in. One of the things we hope we can spend a few minutes talking about is getting you to set the stage for what things were like at Treasury before John came in.

John Snow: Yes. We'll share with our colleagues.

Riley: Let's go around the table, and if I could get you to just say a couple of words, identify yourself, so that the person transcribing will know who we are. I'm Russell Riley. I'm the chair of the Oral History Program.

Steve Bragaw: I'm Steve Bragaw and I'm a professor at Sweet Briar College.

Barbara Perry: I'm Barbara Perry and I'm a senior fellow here at the Miller Center in the Presidential Oral History Program.

Chris Smith: Chris Smith. I've already been introduced.

Snow: I'm John Snow, the subject.

Riley: Very good.

Smith: The subject of this deposition.

Riley: No, no, that's the problem when you've got a lawyer involved. [*laughter*] That is the natural metaphor for this activity, and the last thing you want is for people to think about this as a deposition.

Snow: It is not a deposition.

Riley: Hearsay is not only admissible, it is encouraged. [*laughter*] Barbara touched on something just a minute ago that I think is really important. That is, we always like to spend some time on autobiography before we get to the main course. It is important for us to know who the people are that populate an administration, what their life experiences are, what their perceptions of politics are before they come in. Let me get you to reflect a little bit, just tell us about your upbringing: where were you born, a little bit about your family, your education, and your early

professional life. This is conversational, as you can tell.

Snow: Ask me questions as we go along then.

Riley: We certainly will.

Snow: I'll try to fill them in. I grew up in the Midwest, in Toledo, Ohio, in the northwest corner of the state on Lake Erie, just south of Detroit. It is an industrial town. It was quite prosperous during the golden age of America after the Second World War. So my experience was a working-class town where people were prosperous. Kids went to high school and studied mathematics and learned to be tool and die makers and became millionaires, because Toledo is just south of Detroit and you had to have the tool and die makers. These bright kids who didn't go to college but went to—They used to call them “vocational schools.” I don't think they have them anymore. It was an industrial middle-class working town.

My dad was a lawyer, an intellectual. My mom was a high school teacher.

Riley: Your family had deep roots in that area?

Snow: Fairly long—I think they came to that area in the 1880s, 1890s or so. My dad was truly gifted, but he was poor-sighted. His father had died when he was three. His mother was a devotee of somebody nobody has heard of anymore called John Dewey, who was the Columbia professor. My dad was the only child. He would spend the summers from the time he was three to sixteen or twenty at Columbia with his mother, who was very close to John Dewey. His were the educational ideas that were, for a time anyway, the dominant views on how we should educate people.

He was advanced a couple of years and he came of college age at sixteen in the Depression. His mom, as a schoolteacher, didn't have a great income. I think he had planned to go to Columbia. There wasn't enough funding to send him to Columbia, so he just went to the local college, the University of Toledo.

While he was at the University of Toledo he entered the national extemporaneous speaking championships and won. He also won some national debate title. That gave him a fellowship or a scholarship of some kind, so he went off to the LSE [London School of Economics] and Oxford and spent some time.

Riley: This was just before World War II?

Snow: This would have been in the '30s, like '33, '34. He was studying under Harold Laski and Joan Robinson, the famous economist who was at LSE then. So he grew up in an intellectual world and ideas were what really counted with him. It was fun sitting around, when I think back on it as a kid. The conversation at dinner was always philosophy and politics and government and history. He wasn't conventional. He thought in a way that was different from most people. He could really argue, so you didn't want to get into an argument with him. He'd bend your ears.

I had a sister who was quite gifted. She went into academic life and is a professor now. In fact, she is one of the leading figures in her field, which is linguistics, language acquisition, and so on.

We were a small family.

Riley: Your sister is older or younger?

Snow: She is a few years younger.

Riley: So you're the firstborn.

Snow: I'm the firstborn. She has gone on to an illustrious, noted academic career. So the family was middle class, but learning and scholarship and all these things were—

Riley: What brought your father back to Ohio?

Snow: He got a scholarship to Ohio State University.

Riley: The law school?

Snow: Yes. He went off and taught for a few years before law school. He went to Hendrix College in Arkansas. Do you know Hendrix College?

Riley: Sure.

Perry: Doug Blackmon, the head of our forums, is a graduate.

Snow: He was an assistant professor at Hendrix in speech or literature in English or something and went to Ohio State University Law School, where his father had gone. So we had two generations of Ohio State graduates there.

Toledo was home, so he came back and set up a practice in Toledo. The practice of law was a way to make a living, but what interested him was this big world of thought and ideas. He got intrigued with a guy named [Ludwig] Wittgenstein, who was at one time a disciple of Bertrand Russell, was studying under Bertrand Russell, and then broke out on his own and created a school of thought based on an intense logic of language. When somebody says something, what can you really be sure they're saying, this whole idea of breaking language down into its core meaning. So if you say this, you can't say that. Logic trees, logic tables, truth tables, and such. He used to love to talk about that. You wonder where I grew up; I grew up in this sort of environment.

Perry: Was he political? Was your father, or your mother, political?

Snow: My dad should have gone into politics, probably. He supported the Democrats and campaigned for them. Mike DiSalle, who was the Governor of Ohio, my dad had campaigned for him. I ran into him one day in Washington and he said, "Your dad should have been in politics. He was the best speaker we had." But he was legally blind. It's tough to practice law and be legally blind. The area he practiced was tax law and doing returns and things for businesses and individuals. That's incredibly eye straining.

I'm convinced some of my sister's success, which has been huge, is that she sat there and took

him on, got beaten down, but learned the art of rhetoric, of coping with adversaries. One of my cute stories on that about her is 20–25 years ago or so, maybe 30 years ago, she was a young whippersnapper at Harvard. There is another—the great linguist of the world, Noam Chomsky. I was having dinner at the Greenbriar, having introduced the then Governor of West Virginia for a speech he was giving to a group I was with.

We started talking with his wife, whose name is Rachael [Worby], and asked her if she was the maestra of the Wheeling Orchestra. The Governor’s wife is. I said, “How did you get into this music business?” She described how she had gone to the Boston Conservatory or something. I asked her how she liked Boston and she said, “Not so well. I particularly didn’t like this guy I worked for.” I said, “Really?”

She said, “His name was Chomsky. I would look after his kids, the house, and so on. The one consolation that I got out of working for him was he would come back from his day at MIT [Massachusetts Institute of Technology] ranting and raving about this young whippersnapper upstart at Harvard who was criticizing his work.” This lady said to me, “You know, I really admire whoever that was.” I said, “Was that Catherine Snow?” [laughter] I figured that’s who it was.

Riley: It’s a very small world.

Snow: Really small.

Riley: At that level, exactly.

Snow: She’s got that quality of just being unintimidatable—

Riley: Sure.

Snow: —whether it is Chomsky or anybody else. So anyway, that’s the sort of family I—They have hardly any ties to Toledo anymore. It was a small family. My dad had cousins. My mom didn’t have—My mother’s father and mother had passed away. I never knew the grandparents. I only knew one grandparent, which was my dad’s mom, who had a couple of sisters. One of the sisters had children and the other didn’t. One of the sisters was the psychologist for the Toledo school system, did the testing for kids and advised kids and the school board on how to test kids.

Then I think his mom became superintendent of schools. So it had sort of an academic flow to it. People don’t even know what they are anymore, but McGuffey Readers were around the house from my grandmother. Of course, if you look at a McGuffey Reader, you wonder what has happened to education. A sixth-grade McGuffey Reader is typical college freshman today.

Riley: [William Holmes] McGuffey was here, right?

Perry: Yes.

Riley: You probably knew this from your time here.

Snow: Yes, he was. My interests were less in academics in those days than in sports.

Riley: Is that right?

Snow: Oh, yes. I loved basketball and tennis and so on and so forth. I always did well in school.

Perry: What was your schooling like? Did you go to public school?

Snow: I went to Central Catholic High School in Toledo, which is a big school. I think my dad when I was a sophomore concluded I was taking more interest in lady friends in school and in basketball than probably I should and he arranged for me to go off to a boy's boarding school in Cleveland, so I went there.

Perry: From there you went to Kenyon?

Snow: I went to Kenyon. My dad was a great guy, but attention to mundane things like paying the bills—So I would get called into the bursar's office. "Where is the tuition money? It isn't here yet." So I'd call my dad and say, "Hey, dad, is there any problem with the tuition money?" "Oh, no, no, no." But after you do that three or four times—But at Kenyon I really—Kenyon is a fine, fine school, and you're 17 years old or so and you find yourself with a professor of literature who is deeply into [John] Milton. You read Milton with him and he expects you to keep up. There was sort of a great books approach to the world. You'd jump right in. That was an experience, going from being a high school kid who was having a good time, and now you're expected to really—

Riley: Read Milton.

Snow: —read *Paradise Lost*. That woke me up. I spent a couple of years—I got introduced to economics there. They had a couple of courses in economics that got me interested in economics. Finally gave me a way to see you can think about the world in an orderly way. You can make some sense, not perfect sense, but you can make some sense of the world you observe every day if you use this discipline, the analytics of economics. I love history too; that was the other thing. So I majored in history and economics. Then when the tuition wasn't coming, I transferred back home to the local college, the University of Toledo, the same one I mentioned that my father went to.

I got a teaching opportunity and coaching opportunity. I was playing basketball and tennis at Kenyon and had a good college undergraduate life. Joined a good fraternity there. The typical sort of stuff you do. I got this opportunity at this boys' school, a military school called Nazareth Hall Military Academy, to teach history to the sixth, seventh, and eighth graders and be the athletic director. So this all fit. Now I had a source of income. I could schedule classes in the morning, do the teaching in the afternoon, and do the sports in the afternoon.

I ended up then spending the next couple of years at the University of Toledo and then going off to Nazareth Hall Military School, which was really a lot of fun. It was outside Toledo on the Maumee River. It is a nice little school in this sort of bucolic countryside but 30 minutes outside of Toledo. I'd finish my classes at 12:30, race off, had to be at Nazareth Hall Military School by like 1:00. I got a few speeding tickets trying to keep that up. I would finish at Nazareth Hall and take a night course in something or other to make sure I got these courses in. I finished that up, I think, in '62. I had applied to various places for graduate school.

Perry: In economics?

Snow: Yes, in economics. One of them was the University of Virginia. One day, maybe like April of 1962, I get a call from somebody I subsequently became very fond of, named G. Warren Nutter, who was then the chairman of the economics department at the University of Virginia. He said, “I’m calling—You haven’t responded—” Back in those days there was something called the National Defense Education Act fellowship. UVA had given me the National Defense Education Act fellowship. He said, “You haven’t responded to our National Defense Education Act scholarship offer. It’s the best we have to offer, the best anybody has to offer. Surprised we haven’t heard from you.”

I said to him, “Well, Professor Nutter, I’m really sorry, but just yesterday I accepted the offer to the economics department at Harvard.” He said, “You couldn’t have made a worse choice.” [laughter] I said, “Really? What do you mean?” He said, “That’s the past. Harvard is the backwater now of economics. Virginia is in the forefront of where the economics profession is going. You don’t want to go to Harvard. That’s the last place you should want to go. There are two places to go, University of Chicago or the University of Virginia. Did you apply to the University of Chicago?”

I said, “No, I’m a Midwesterner. I know about those cold winters and Lake Michigan and Lake Erie. I wanted to get away from that.” He said, “Then you just have to come to the University of Virginia. If you don’t want to go to Chicago, this is the only other place.”

So I ended up here. I let Harvard know. I’m sure they weren’t too disappointed. I ended up having a wonderful four years here, and he was absolutely right. Economics was going through a sea change at that very time. Harvard was hanging on to the old Keynesian ideas, and Chicago and Virginia were in the forefront of the new ideas; they were really being propagated here. I ended up studying under two Nobel Prize winners that had a big impact on me. You had the sense when you were studying at the University of Virginia economics department in the early ’60s that you were really involved in the creation of new knowledge. You were the frontier of economics.

Jim Buchanan, who just died, and got the Nobel Prize, really inculcated that idea. So did Warren Nutter, the chairman, who unfortunately died young. They had six or seven, seven or eight, people there who were world-class and who were taking economics in different directions. Ronald Coase—By the way, he has a book out, Chris, on China. He is 101. It is on the Chinese economy and why it succeeded, which again breaks with the pattern of traditional analysis of why China’s economy is successful. He is saying no, you’ve got it all wrong; it isn’t the central planning, it is the fact that they’re using markets, continuing in that same sort of idea.

At that time there was a dominant point of view in economics, and it basically was that the government is really the engine of making things work right.

Smith: That was then, you say?

Snow: Yes, that was then.

Smith: Déjà vu.

Snow: A little bit of déjà vu. The government was really the essential partner in fixing the failures of markets. There was a term they used then called “market failures,” and everything was a market failure. This grew out of some British economist, a prominent one named [Arthur Cecil] Pigou, who developed this whole construct about how we can put in place incentives and structures to correct the market failures because the market only takes into account private costs and benefits, not public costs and benefits, and therefore would get these externalities, and there are all these effects for market activity that aren’t internalized, so we get the wrong choices being made.

The University of Chicago, the University of Virginia people were saying there are externalities but you can use markets to get externalities dealt with better. Buying the right to pollute, a market price for pollution, all these ideas that are now so commonplace were radical then. The fact that markets could be used to fix the externalities. The fact that regulation might damage economic performance rather than enhance it, which led to the next chapter in my life, becoming a deregulator and applying these ideas essentially to the transportation marketplace, saying, “Wait a minute. Why do we regulate so much? Why don’t we let the markets work? The results we’re getting from the regulatory system don’t seem to be very satisfactory and they don’t rest on a very solid foundation.”

Well, the challenge to the orthodoxy of the regulatory state is really what came out of Chicago and UVA, and challenge to the idea you’ve really got to have the government, the Keynesian notion that the government is really essential to make the economy stay in balance, create stability. Stability comes from the government, not from market forces, which is still a big debate. It is still a big debate, but at that time it was resolved: government is the source of stability.

Riley: Right.

Snow: Now, some people are beginning to wonder whether the government is in itself—and we’ll talk about that or GSEs [government-sponsored enterprise] as in itself the source of an enormous amount of instability and creates incentives to misprice risk and so on.

Riley: Was there something about that approach that you found appealing at the outset? Was your intention in getting a doctorate in economics to become the kind of practitioner that you were, or were you expecting to become a professor?

Snow: I was pretty young and naïve and probably didn’t have very clear-cut expectations. I liked economics. I probably was a liberal when I came here. I probably really bought the idea, which was the orthodox idea, that raising minimum wage rates helps poor people and that Keynesian fiscal policy is an essential component of any well-running macroeconomic system. I was sort of a standard undergraduate in economics. I quickly got challenges on those sorts of ideas when I came here.

Go back and read [Paul] Samuelson’s textbook from 1958 or thereabouts, which I would have read. It is really all about the role of government in making sure the economy works right.

Bragaw: Are there any other books or people or individuals or thinkers that stand out for you in this period, before you got—

Snow: I remember I took a summer and read a lot of the standard economics of the time. A lot of it was [John Kenneth] Galbraith, which sounded sort of good but not quite compelling to me. I wasn't deep enough into economics to really think through why I didn't find it very compelling—*The Affluent Society* and those books he put together—Now I know why I don't find him very compelling. [laughter]

Riley: Sure.

Snow: But at that time, I hadn't analytically progressed far enough, a standard undergraduate who basically reads Samuelson and who is led to believe, *Gosh, you ought to raise minimum wage laws because then people get paid more and they have a higher standard of living*. You're not asking yourself, *What is the other side of that? How many people don't get jobs because you raise minimum wages?* You know, extending unemployment compensation is a good thing because you help the unemployed, you help the unfortunate. Well, you do help some of them, but some you keep on unemployment a lot longer than they otherwise would be. So the counter side.

There was a standard orthodoxy in the 1950s and '60s and it got challenged fundamentally only in two places, Chicago and Virginia. They operated almost like they had workshops together. There was a lot of interaction with [Milton] Friedman, who would come, and [George] Stigler and people like that. [Friedrich] Hayek would be here. Buchanan's PhD was from—Nutter—They were PhDs who studied with Friedman and those guys.

Riley: But had the good sense to know that Charlottesville is more salubrious for their health than Chicago is.

Bragaw: So when you're here you were at some lectures with Hayek?

Snow: Yes, I came. I found this a congenial place. Buchanan and Nutter set up something they called the Thomas Jefferson Center, which probably ought to get celebrated in the lore of the University of Virginia because the Thomas Jefferson Center would bring in people like Hayek and have them spend some time and we'd go to lectures with these people. It was pretty stimulating for a 22-year-old guy whose knowledge of economics was the Samuelson-type textbook.

Perry: John, did you have a standard political view that went along with your standard economic view at the time?

Snow: I was probably instinctively a Republican. I guess my first election when I could vote was probably '60, [John F.] Kennedy and [Richard] Nixon. I was more attracted to Kennedy as a political figure, but I remember, I had talks with my dad about all this stuff, family, and friends. I ended up being for Nixon because I just thought he seemed sounder, had more gravitas, was more substantive, although clearly Kennedy was the more attractive political figure.

Riley: Sure.

Snow: My father had a mixed view on it. He started out as very much a Democrat, liberal. About this time, the mid '50s, late '50s, early '60s he was beginning to have real doubts about where the liberal Democratic orthodoxy was taking us.

Riley: Do you remember on what grounds? Was it foreign policy?

Snow: Foreign policy was less his issue. It was the welfare state. Where are we going with this welfare state? Where is it taking us? Where are these national policies taking us? Then tax rates—He was not an apologist, wasn't wealthy by any means, but tax rates had gotten pretty darn high. He was never wealthy; he had some wealthy clients, I'm sure. His view was basically incentives. He didn't say it quite that way, but incentives—Where he and I had a big difference—We never reconciled it—was he was a strong antitrust proponent. He practiced antitrust law.

Riley: OK.

Snow: He was a big believer that we had to worry about these concentrations of economic power, sort of a Galbraith concept. He was sort of sympathetic to central planning, the stuff you learned at the LSE back in the '30s. Oskar Lange and those socialist economists were there, so he was sort of sympathetic to it. I would argue with him. He wasn't strident about it.

Riley: Were you?

Snow: Yes, I became pretty strident. Central planning can't work. No, no, once I spent two years here, I was convinced central planning can't work. Central planners can't get the right information to make the right decisions and put the right cost and the right value on the inputs to get the right outputs. You could run a mathematical model and show how conceivably you could have as efficient a system through proxies for prices for resources and prices for—or costs for—resources and prices for products. But in fact how do you create the incentives to get the information flowing? The market is in a way an information system. It gathers information about what we as consumers want and then it gathers information about what it costs, then it makes a decision. If what the producer can get in price exceeds the cost, you'll get it in the marketplace; if it doesn't, like the Edsel, it will disappear.

Well, my argument with my dad was they're producing a lot of Edsels over there. He said, "How do you know?" I said, "Because they don't have prices and they can't get the information." I remember telling him, "Dad, the glass factory, the cruise ship went to sea producing chandeliers and they had this quota system. You got rewarded if you rammed the glass factory, the chandelier factory. You got rewarded by the weight of the chandelier. So they produced really big ships. Big efforts. The problem was they didn't have ceilings strong enough to hold the chandeliers." So we'd have those sorts of debates.

I might have made a little progress with him on that, on the need for prices and the information flows that markets just automatically create. I never got him on antitrust. He really believed in antitrust. He believed the natural inclination of businesspeople is to get together and conspire and raise prices. There is no doubt that's true, but the other side of that is businesspeople inherently will chisel. If they think the other guy is going to stick with the agreement, they'll chisel because the profits then go to the price chiseler, not the guy staying in the cartel.

I disagreed with him on the view that—It was really part of his DNA [deoxyribonucleic acid] growing up as sort of a New Deal liberal—that big business can't be trusted at all, and concentration of power in the hands of big business will perpetuate itself. I argued with him.

“No, Dad, it can’t perpetuate itself unless the government—” Again, this is the Virginia point of view that I picked up: The only permanent monopoly is one the government creates. As long as you have markets working, they will erode positions of entrenched economic power because the greater the profits, the greater the lure to destroy the entrenched monopoly position. So we had great go-arounds on that.

Perry: Are your politics evolving in the time that you’re here?

Snow: Absolutely.

Perry: And how are they evolving vis-à-vis what is happening in the Republican Party at the same time with the split between the [Nelson] Rockefeller Republicans and then eventually by ’64 the [Barry] Goldwater Republicans and the Hayek—How important that is to that split?

Snow: I guess I wasn’t highly politically attuned. I was really more into the science of economics than I was the politics of things. But the political implications of the economic ideas were obvious to me. They used to say “free markets and free people.” The idea that less interference in market process is producing better outcomes was something I believed. It was more a Republican idea than a Democratic idea, but it wasn’t absolutely a Republican idea. The parties aren’t pure on these ideologies. There were probably any number of Democrats who were better on those issues than the Republicans were at that time.

I sort of wandered into the Republican Party. I went to Washington because one of the professors told me about a dissertation program where you spend your dissertation year in Washington. I won the dissertation fellowship from the Department of Labor in 1964 or ’65.

Riley: So you went through the program in a short period of time.

Snow: Yes, I did it pretty quickly. I got what they were all about. Something just jelled with me, what this sort of methodology, markets, what they were all about. I felt comfortable with it, so I moved through it in a couple of years. I completed the comps at the end of two years and had the dissertation done at the end of three. But I got help with the dissertation because I won this dissertation fellowship for the Department of Labor. It was phenomenal. The NDEA [National Defense Education Act] was a wonderful fellowship here. It paid your tuition and gave you \$3,600 a year or something like that, which was, my gosh, phenomenal in 1962.

But the dissertation fellowship program in the federal government, the one I got, was pretty highly sought after. It made you a GS11 and paid \$15,000 a year. So I was a pretty well-paid graduate. You got a secretary and you got access to the computers, the computing capacity of the Department of Labor. You got somebody to type your dissertation for you.

Smith: You wrote on auto mechanics.

Snow: Exactly. The Labor Department had a program there to train people in fields that they identified as shortages. So when I went to talk to them about a dissertation, they wanted to test some of their ideas. I said, “Well, where are your shortages? What are you training people?” They said, “We’re training where there are going to be strong labor markets.” I said, “OK, what’s an area? We’ll test it.”

They said the most obvious one was auto mechanics. I thought to myself, *I bet it's not as obvious as they think. I'll do a study and test this hypothesis.* That is basically what I did. It was at a time when the auto industry was changing quite dramatically and going to these modular parts. The modular parts would be sent back to the factory to be repaired, not at the auto shop. Anyway, I went through some analysis. The heart of it was the technological changes occurring in the auto industry are going to reduce, not increase, the demand for auto mechanics, and there are more likely to be labor surpluses than there are labor shortages. The Labor Department buried that study.

Riley: I guess so.

Smith: You're training people for no jobs.

Snow: You were training people for no jobs.

Riley: Did you do a study of the Labor Department when you finished this?

Snow: They weren't very happy with me. It was sort of straightforward; there was nothing really deep about that analysis. It was the sort of thing that Chicago was doing and Virginia was doing, challenging all these orthodoxies. So I did that. But while I was in Washington for the dissertation, I also started taking courses at GW [George Washington] Law School.

I had done some law courses here at UVA and had some experience with it and I saw a possible academic field. I was ahead of my time. It became a big academic field. Ronald Coase was sort of the forefather of it, called "law and economics."

Riley: Right.

Snow: So I went to GW and finished law school a couple of years later.

Riley: You were going to law school full time?

Snow: I was doing the thesis full time and doing law on the side; then I got an assistant professorship. I wanted to finish law school. I figure what do I do, it's best to use the economics and that also would give me the time to go to law school. So I taught economics at the University of Maryland, which had a very good economics department. I was an assistant professor and I taught I think three classes. Two of them were the introductory class to economics at 8 o'clock and 9 o'clock in the morning to an auditorium with 500 young undergrads, freshman, sophomores primarily, or seniors who hadn't gotten their economics requirement. They had to go get that requirement.

I figured out that if you're teaching this, this course was to bring people into economics. The point of Economics 101 was to enlist people's interest in economics, so I put some real thought into how to do that, how to make economics interesting to undergraduates. I must have succeeded, because the classrooms continued to be filled up. They didn't just bring recorders, which was your fear, that they would just bring a recorder, put it down, and then the recording would be spread out with one person in the class and 499 getting a copy of the recording. But the class stayed pretty full.

I was really honored. I got the Teacher of the Year Award at the University of Maryland after being there only a year or two.

Perry: What was your strategy for grabbing their attention and keeping it?

Snow: Showmanship. To make it a show. Why is economics of interest to you? How can economics relate to your opportunity? Opportunity cost is a core idea in economics, so I kept hammering home the idea with simple sorts of examples.

You have this boyfriend and you really like this boyfriend. What is the cost of the boyfriend? Well, the cost of that boyfriend is the boyfriend you don't have. Right? That's economics; that's a big, powerful concept in economics. And on and on. The idea that anything that is worth doing is worth doing well. We all hear that. What if the cost of doing it well is that something else that is even more valuable doesn't get done at all? How do you bring these basic ideas? I would teach these courses Tuesdays and Thursdays. I had one graduate course in industrial organization and I had the two introductory courses in economics. So that kept me pretty busy, especially the first year, getting these—You're teachers, you know. Nobody realizes who doesn't do it.

In teaching, you've got a lot of preparatory work, so my time was pretty well spoken for, going to law school and teaching economics.

I finished law school a couple of years later and continued to teach at the University of Maryland, but went into a law firm, and it was a law firm that specialized in what is called administrative law—the agencies, the FCC [Federal Communications Commission], and the Interstate Commerce Commission and that sort of stuff—so I became an administrative lawyer. I enjoyed it, but I wasn't intellectually charged up about it. Filing protests when somebody wanted to extend a truck route—They had an authority between Atlanta and, say, Akron, to get the government to give them a quote, a certificate of public convenience and necessity to go carry shirts, boxed, between Atlanta and Akron. The application was to give them a back haul; they could fill the truck up coming back with something—electronic goods. The people who were carrying electronic goods from Akron to Atlanta would file protests.

It was a big practice, a huge practice. A lot of lawyers got rich filing applications for these trucking lines to go between A and B and C and opposing the trucking lines going between A and B and C.

It ended up, as we tell this story, I did see the absurdity to all that. I was able to apply that to subsequent time in the government. But I got a call one day from a friend who was in the Department of Transportation, a very gifted lawyer. He is now on the U.S. Court of Appeals. He was with Wilmer Cutler, and Lloyd Cutler had asked him to go to London to be in their London office. He was like me, a young 32-year-old lawyer. He said, "I've got to take this job, but I told the general counsel I wouldn't leave until I got somebody to fill it who I knew would be good, so would you take my spot?" I think it was assistant general counsel for litigation or something.

I thought it might be fun to do that. So I went into the Department of Transportation, which really launched everything that came, because it was a way to bring the economics—By then I had developed some interesting politics, or at least government policy. It was a way to bring interest in economics and law and government together. I had a fairly meteoric rise inside the

Department of Transportation, in part because of Watergate.

Riley: Yes?

Snow: Nixon, when he won his second term, decided he couldn't trust the Cabinet, which is another theme we'll come back to. *[laughter]*

Riley: I'm much looking forward to that.

Snow: This is always inside. He decided he would bring people to the Cabinet who were qualified but who really didn't know a lot about government and replacing the very prominent people who knew a lot about government who were in his first term, like Mitt [Willard] Romney's dad, who was head of HUD [Housing and Urban Development], my then boss, the former Governor of Massachusetts.

Nixon had a lot of, almost a team of rivals of his own, in his first term, prominent people, people of real stature politically, political people. I guess they found them hard to control or something, so for the second term the idea was we'll get some sort of competent, good, smart people, but people who aren't deeply familiar with the levers of power, aren't really in the government. They're managers. We'll have them manage the department at the top level. Then we'll put in White House apparatchiks to really run the place and keep us posted on what is going on.

One of those White House apparatchiks was a guy named Egil "Bud" Krogh [Jr.], who was high up in the "Plumbers." I was in the department in this down-the-line role when Egil "Bud" Krogh came in. He was a good guy, a really very fine guy, just went off track trying to be too loyal to Nixon and [John] Ehrlichman and [Harry Robbins] Haldeman. He came a cropper, of course. He got indicted, and when he got indicted he had to resign. With that resignation there was a whole cascade of moves.

All of a sudden I go from this job worrying about the litigation affecting the department and its agenda with litigation into a policy job. I forget exactly what it was, but it moved me up into a policy role. Shortly thereafter I became something called the Deputy Under Secretary and my role—A new Secretary came in.

Riley: Who was the old Secretary in the Nixon—

Snow: Claude Brineger was the old Secretary, the sort of guy who was the figurehead, competent—He had been president of Union Oil or something like that. But Bud Krogh was supposed to run the department. We bring in a new Secretary. President [Gerald] Ford comes in, President Ford has a program called Whip Inflation Now.

Riley: Right.

Snow: Well, the Whip Inflation Now program had as a component identifying barriers to the improved performance of the American economy, particularly government-imposed or -created barriers, obstacles to better performance. Each Cabinet was supposed to appoint one person to serve on something they called the Domestic Policy Review Group and I got designated to serve on the Domestic Policy Review Group for the Department of Transportation. The mandate was

bring forth your ideas within your area of things that we should be advancing legislatively or through the regulatory side to make the economy more efficient.

They had representatives from every department. Nino [Antonin] Scalia, for one, was the representative from Justice. We'd meet every so often and talk about what could be done. It turned out that transportation was the mother lode of inefficiencies. *[laughter]*

Perry: Transportation as an industry?

Snow: Transportation as an industry, so the things under the Department of Transportation's purview: airline regulations, trucking regulations, railroad, barges, airfreight regulation, all this stuff. It all went back to the New Deal. It was all New Deal sort of stuff. Because of my years here, I had been trained to be a little skeptical of New Deal do-good policies. The one that really had me—I thought trucking regulation was ridiculous because this was an inherently competitive industry. Maybe you can make a case for railroads having some market power, but trucks didn't have any market power. This elaborate system of regulation was weighing the industry down, therefore the shippers and therefore the American economy, with just gross inefficiencies.

In the first Nixon term they tried to take it on. A wonderful economist from Harvard who headed the economics department at Harvard and then head of the Council of Economic Advisers went before the Congress and laid out all the inefficiencies and did econometric studies and so on, was way over the head of—

Bragaw: Was this Arthur Burns?

Snow: No, it wasn't. His name will come to me. He was a very fine economist. He did a good job.

Riley: Not Herb Stein?

Snow: No, no, you probably—This guy has passed away now. Google the Council of Economic Advisers, Nixon, and you'll get him. I think he was the chairman. He may have been the micro guy on the Council. Anyway, the studies were all done. The White House knew how inefficient trucking regulation was.

He went up to sell it and he got murdered because they said to him, "What do you know about trucking?" The old idea of at some level of questioning everybody looks idiotic; you take the question down one more level: How many years were you a truck driver? Where does Route 67 intersect? What is the truck stop? How many truck stops are there out there? And so on. What's the average load? Talking about the inefficiencies, what's the average load of a 40-foot container going down 64 or something? He didn't have any of those sorts of nitty-gritty details.

The trucking industry had this argument that we had the most efficient trucking industry in the world and these efforts to deregulate it were going to destroy the most efficient trucking industry in the world and rural America would fall apart because rural America was getting the benefit of a cross-subsidy for the trucking industry, which would make excess profits on the dense routes and then they would use the earnings on the dense routes to subsidize service to rural America, so rural America got toothpaste and they got food supplies that otherwise they probably wouldn't

get. So we'd have widespread tooth decay and famine in rural America without the benefits of trucking regulation.

The teamsters had this argument that their health and welfare system would fall apart and people wouldn't have pensions and all this stuff. I was a student of politics. I hadn't even met Chris yet, but you didn't have to be a student to figure this out. More complex stuff took him to help me figure it out, but I could figure out that just going up to the Congress with analytical studies and the woes of regulation weren't going to get us. So we had to make it be real.

If you want to make the economy more efficient, you get rid of wasteful regulation. Trucking is just about as wasteful as you can be. There is almost no case, really, to justify it. But to sell it we had to—and this was the fun part. How do you sell it?

We sold it with anecdotes. We developed all these anecdotes about how the guy had the authority to carry—to go back to the shirts. He could carry shirts on hangers, say, from Atlanta to Akron, but on the back haul, he could only go back to Atlanta via Memphis if he was going to carry whatever the product was he had gotten authority to carry. They built in all these circuitous routes and limitations. Then you ask yourself, why shouldn't he just be able to go the direct route? Why could he only carry shirts on hangers? Why couldn't he just carry shirts? Why should lawyers be spending time making distinctions between shirts on hangers and shirts in boxes?

Bragaw: So the same set of skills that you developed to get 500 undergraduates at 8:00 in the morning to understand economics, then you were applying to Members of Congress. You were teaching.

Snow: Yes, teaching, yes. I had a chance when I was out of law school to clerk on the Supreme Court and I was tempted by it. I sometimes think that would have taken me a whole different route if I had done that.

Riley: Sure.

Snow: As I reflect on it, just what you said. I was forced to learn how to talk to people in plain English and hold their interest and catch their interest. What I did at the Department of Transportation, which we tried to do many years later, was an educational job. Public servants, public policy people, Cabinet people, really—Their role is to educate and help change views and so on. So yes, I applied those same sorts of lessons and would sort of step back from being the economist and talking about social welfare loss and all the stuff economists talk about and rather saying, "This is ridiculous." A Congressman gets it when you tell him something is really ridiculous and he can see it, you can show it to him.

Then we went on to airlines. So the Domestic Policy Review Group, we were in the center of it. We sent up proposals, the White House approved them by and large, although there is always struggle with White Houses and Cabinet agencies and who is in charge. Are we putting the President in jeopardy? They were worried about the trucking deregulation proposals. They wouldn't work. It was dangerous ground. The teamsters—

Riley: Who—

Snow: Ford was up for reelection. The teamsters had supported Nixon.

Riley: I forgot.

Snow: They were big, big political supporters of Nixon. The trucking industry was a big contributor to the Republican Party, and boy, the teamsters hated me and they hated a guy named Paul MacAvoy who was on the Council of Economic Advisers, a Yale economist. We teamed up together on this stuff.

I remember being summoned to the White House one day for a meeting with the teamsters, with [Frank] Fitzsimmons. [Jimmy] Hoffa had been knocked off and Fitzsimmons was the head of the teamsters. Paul MacAvoy, the Yale economist who was on the Council, and I were summoned to meet with the teamsters. We're in the Roosevelt Room with the teamsters. They've got these big, burly guys sitting around Fitzsimmons and Fitzsimmons is glowering at me and glowering at MacAvoy, but MacAvoy is the White House, I'm just the Cabinet agency. He takes the lead and tells them how we hope we'll get their support and how these are wonderful proposals.

Fitzsimmons says, "We're never going to support these. These proposals are terrible for our industry. They'll destroy our pensions, they'll destroy our health care system," on and on. He said, "You know, these proposals are designed to destroy the unions in America. The two of you are union busters." He said, "Before coming in here, I met with the Vice President, and the Vice President"—who was Rockefeller—"wanted me to make sure that I came back to him and told him how the meeting went. I don't think the Vice President or the President knows they have two union busters working for them." Right at the time when we've got the election right around the corner.

Paul MacAvoy sees this is not going very well, turns to me and says, "You know, these are Department of Transportation proposals. Would you tell our friends here about your proposals?" This was very tense at the time. I said it about as well as it could be said, why it was in their interest. It really wasn't in their interest and they knew it, but the argument that it was in their interest was that so many companies were going to private trucking to avoid the high cost of teamster-driven trucking rights. So I made that point. "There's a whole market out there for you. Look at where the growth is. It is in the private trucking, to avoid what they perceive as high prices. You can have all that market."

At the end I say to them, "Mr. Fitzsimmons, it sounds like you're not going to be with us on these proposals." He says, "I'll never be with you." I said, "I understand that, but is there anything we could do to ameliorate your concerns? Anything?" He said, "We'll never be with them. These are horrible proposals, they are destructive of America, they'll ruin the trucking industry," blah, blah, blah. "But there is one thing you can do." This is all about free entry. If you let free entry you get lower rates and so on. He said, "If you would require that all the new entrants to the trucking industry use teamster labor and charge teamster labor company rates, we might live with it." What he was saying is we want this inefficient structure, which is built around teamster wage rates that are way out of line with competitive wage rates, to stay in place.

I said, "I appreciate that. We'll see where we can go," and so on and so forth. President Ford—The Miller Center's done the oral history on him—he was on this one just dynamite. Meeting in

the Cabinet room. I went with Secretary [William] Coleman. I was seen as the guy pushing the deregulation. The trucking industry had brought in a battery of prominent people, the Governor of North Carolina. North Carolina is a big trucking state. The Governor of North Carolina was a big advocate of trucking. The treasurer of the Republican Party was the president of the Pennsylvania Trucking Association. This was heavy-duty stuff.

I'll never forget this. President Ford turns to Bill Coleman and says, "Who is opposed to us on this besides the trucking industry?" We said we had a lot of people opposed to it. Labor is opposed to it. He said, "Where are the Interstate Commerce Commission practitioners?" These were the lawyers. Coleman didn't know. He turned to me. He said, "Where are they, John?" I said, "Mr. President, they are 100 percent as vociferous and committed to defeating this bill as the industry is and the teamsters are. The ICC [Interstate Commerce Commission] practitioners association is even more so."

He said, "Must be a mighty good bill." [laughter] I was right in the face of these guys. So we never got that moved very far, but Jimmy Carter picked it up and it got moved. The same thing with airline deregulation; we didn't get it very far. Same logic. But we made a great ally of pushing it, and that was Ted [Edward M.] Kennedy. Ted Kennedy had brought in Steve Breyer from the Harvard Law School to be his brain trust. He was, I forget the exact position, chairman of some subcommittee of judiciary or something that Kennedy was chairman of.

Steve and I started talking about airline deregulation. I think Steve got the whole argument in a minute. He taught this administrative law up in Harvard. He had written on regulation. He was really sound. We ended up having a lot of conversations.

I think he had an agenda with Kennedy that Kennedy ought to get connected to an economic policy issue, not just social policy, but economic policy, get on the right side of some big issue that might help his Presidential aspirations. Airline deregulation became that vehicle because it touches everybody, and airline regulation had the effect of keeping airfares much higher than the market would have taken them. But there were a lot of empty seats. They set the fares high, which meant there were empty seats and you could break even at a high price and a low load factor. The market was really saying we want low prices and high load factors. Steve understood that. I understood that. You couldn't get there unless you deregulated.

If you deregulated—We never had low-cost airlines in the era of the regulated airline. So Steve and I actually conspired to make it—give more reality than may have been the case to the cooperation between Kennedy and the Ford administration. Steve wanted us to send up a bill; we wanted them to schedule hearings. I'd write a letter for the President saying we are working on the bill. "Can you give us any assurance we'll schedule hearings if we get the bill?"

They'd write us saying, "We're looking forward to your bill. If you send the bill up, we'll consider scheduling hearings." Then the letter would come back, "Thank you very much, Mr. President, appreciate your interest in this legislation. Assure you we'll give it every consideration when you send it up." Now that was Breyer and Snow writing these sorts of—That's how government gets done. It's really how things happen, as your oral histories probably unveil in a lot of cases.

We did end up sending a bill up to deregulate the airlines. Another little subchapter on this: Fred Smith, who created FedEx, came to see me and said he wanted to have a bill on airfreight deregulation. I said we're fully in accord with you and actually it is a chapter of our bill; we'll deregulate airfreight. In those days, Chris, the airfreight had to move on little tiny airplanes.

Smith: No such thing as overnight.

Snow: No, no such thing. They couldn't move in big planes. The major airlines wanted to own that business, so you had to get another certificate. You had to fly in one of these little two-engine planes. You couldn't put a lot of freight on them. Fred saw a big market. I agreed with him; it was a good market and it ought to be deregulated, but in the end I was afraid that if we sent his bill up alone, he didn't say—that one would go. His bill, airfreight deregulation, helped make the case for the bigger package.

So I sort of stiffed him and said, "We're going to include you, not let you fly on your own." But then it is very interesting how government works. The successors in interest from Jimmy Carter, I think because of Carter but because of a lady named Mary [Schuman Boies] and David Boies, who succeeded Steve Breyer working for Kennedy, there was a continuity of intellectual interest on this. The case had gotten made, Professor [Hendrik] Houthakker was the guy at Harvard who went up with these proposals. Actually, you can go back and see deregulation proposals in Alan Boyd's days. They just never took shape. But there is a long continuity here in this thinking about this area of public policy. To his credit, Jimmy Carter got it done.

Riley: Alfred Kahn was somebody—

Snow: Alfred Kahn, he was a great figure in all this. Alfred Kahn was the successor to John Robson as the head of the CAB [Civil Aeronautics Board]. Robson had really teed it up. He had gotten the CAB itself to a 5-0 vote to vote for deregulation. Basically, John was a wonderful guy. He ended up in the first Bush administration as Deputy Secretary of the Treasury. I remember talking to him. He was an agnostic when he came in. In fact he wanted me to come over to the CAB and be general counsel of CAB. I turned him down. I was having more fun being—I didn't want to be the regulator, I wanted to be the *deregulator*.

John was agnostic. He was not a deregulator when he went in there, but he became one after a year or so. I remember how he explained it to me. He said, "You know, if we're going to regulate this industry, given the nature of competition, there is no end to it. We set a price on something and say you can't price lower than that, and what do the airlines do? They start giving bigger martinis or they start making plusher seats. They start advertising more. They serve thicker steaks, and there is no stopping that kind of competition. You can't regulate the drinks they serve in the name of stability of the airline industry." So he came to the view over a while that this is an absurdity because you can't regulate rates and entry unless you regulate every single aspect of everything they do. In a stunning show of political leadership, he got a 5-0 vote out of the CAB to go there.

Kahn then came in and cleaned it all up and did it. He was Carter's appointee and actually is a Cornell economics professor, had written the book on regulation. Probably the best, most concise, volumes on regulation are from Kahn.

Riley: In the Carter years you stayed in?

Snow: I had to leave because I was a political appointee. I ended up in a halfway house for unemployed Republicans called the American Enterprise Institute, where Jerry Ford showed up too. He was the big star when he came in there.

Smith: That's right.

Snow: I got involved. I spent six—I went there and then I came to UVA and joined the economics department as a visiting professor, so was on the faculty here for a while, which was fun, and at AEI [American Enterprise Institute]. Then I got recruited to go into the railroad business and that's where I ended up, with what became CSX [result of Chessie System and Seaboard Coast Line Industries merger]. There was a time in there at Yale too. They were just founding the Yale School of Management and I spent three or four years as an adjunct, no, as a distinguished fellow. They pay you with titles.

Bragaw: Not just a plain fellow. *[laughter]*

Snow: No, I became a distinguished fellow.

Perry: Can you tell us a little bit about your time at AEI—because a lot is percolating at AEI in that period of '77 up to the [Ronald] Reagan election in '80—and the people you met there, and again the ideas that are fermenting.

Snow: Sort of the beginning of the neocons, although I didn't realize it. I wasn't on the foreign-policy side. It was the beginning of supply-side economics. Who was the supply-sider journalist, Chris? He hung out over there and Jack Kemp would stop by.

Smith: Arthur Laffer.

Snow: The other guy.

Riley: [Jude] Wanniski?

Smith: Jude. Yes. Jude Wanniski, right.

Snow: Jude was over there. You'd see Laffer, but he wasn't part of that. He was in there on these little dialogues and this networking stuff. So it was the beginning of, in a way—Supply-side stuff was germinating

Perry: What was your response to that? How did you—?

Snow: At that time I was much more interested in microeconomics. I wasn't deep into macroeconomics. I was on the regulatory—They had a group of us—I think Breyer was on it; I think Scalia was on it; MacAvoy was on it. There were 10 of us who had worked in this vineyard of regulatory policy. We'd meet once a month and have a nice dinner and some nice wine. Paul MacAvoy always made sure we had pleasant evenings. This would have been like '77. We were supporting what was going on in the Carter White House.

Paul and I did three books together that were based on the experience. We wanted to help the Carter people, so we compiled essays that we had done, internal memos actually, that we used inside the Ford administration and with the Congress to make the case for deregulation. There are three volumes somewhere, the AEI series on regulation, that are MacAvoy and Snow, where we compiled them, sort of internal workings, internal memos that were making the case inside the Ford administration for the reforms.

There is a good history of it actually. So I stayed connected with them and eventually went on their board when I got into the industry when I made enough money that they thought I could make a contribution. *[laughter]*

Riley: That's the way we nonprofits work.

Snow: They deemed to bring me on the board, no longer interested in my ideas particularly. I'm being facetious. I just put it together now, sort of the germination of these three things, the supply-side economics had taken root and they were the center of it with Jude, and I eventually got into that with the tax commissions and things I had put on. So I had to learn that business.

But it was also the neocons. Who was the tall lady, the Georgetown professor?

Perry: Jeane Kirkpatrick.

Snow: Jeane was a prominent figure there. It was about that time [Robert] Bork showed up on legal studies, constitutional studies. They were big on that strict constructionist sort of view. The neocon views on "America has to be strong," it can't just—The idea of "blame America first"—You remember that?—It was her sort of shorthand for what was wrong with the liberals. Oh, and then there was the Podhurst—

Perry: Podhurst?

Snow: All the—

Perry: [William] Krystol.

Snow: They were all over there. You'd have lunch with them. You'd sit around at these lunches. I was in that world.

Perry: A lot of that movement of neocons had gone from Marxist views of the economy now to this supply-side and much more conservative view. So did you take part in discussions with them?

Snow: Yes, I had seen that same thing with my own father.

Perry: That's what I was thinking.

Snow: He was undoubtedly a Fabian socialist when he was under the influence of Laski—

Riley: Sure.

Snow: —so I had seen that.

Bragaw: There was a lot of looping back with the people from Chicago, the Chicago economists and whatnot.

Snow: In AEI there were a lot of the Chicago people cycling in and out. The guy who was head of the research department, [Thomas F.] Johnson, was a Chicago PhD and I was really fond of—I got recruited there by the founder, whose son succeeded him, who was a dynamo on public policy, who had a sense that they knew how to not just do the research, but to get the research into the hands of—

Perry: Policy makers.

Snow: —media, policy makers. How to frame it, how to have conferences, how to call attention to these ideas. I participated in a lot of their conferences and these roundtable discussions. It was almost an academic community. It had the feel of an academic community to it, a lot of good, sound thinkers who were influential. But I didn't realize I was really in the center of this supply-side movement and these big ideas that were going to have political impact. I knew we would have an impact on the stuff that interested me, which was the market—allowing markets to work, using market principles.

Riley: Some of that was immediate. One of the striking things listening to you talk is you said that you were being supportive of what President Carter was doing at the time.

Snow: Absolutely.

Riley: He was deregulating. And yet, we're not too far away from the Reagan revolution and an era when bipartisanship starts to break down. I'm just struck at this point where—

Snow: The evolution of things.

Bragaw: Were things all that bipartisan with Jimmy Carter?

Snow: No, they never were. This is just one area.

Riley: I noticed that you reacted when I said that.

Snow: Transportation deregulation was not a Republican/Democrat subject. There were people on both sides of the aisle who liked it and people on both sides of the aisle who didn't. Carter pushed it. Carter gets the credit for that; he drove it. He was smart as the dickens. He understood it. It goes back—You know how our personal experiences drive everything in our lives, influence everything? He had been a peanut farmer and he had to go get these licenses to sell peanuts and it irked him damn to hell that he had to get a license to sell the peanuts he grew. This wasn't ideology; this was just the practical effect of living with something that looked to him crazy, and it was.

Riley: All right.

Snow: He got some really good people in there, a lady named Mary Schuman, who had been a Democrat. She was on the Commerce Committee. I lobbied her. She was in the room and a key player, a young lady but influential and smart and effective. They brought her over to the White House to whatever it was called then, the Domestic Policy Group, and she, more so than I ever realized, had really bought these ideas of airline deregulation, truck deregulation, and so on.

She goes to the White House, reads Carter really well. Sees Carter is on that wavelength and that the Treasury Secretary—The Transportation Secretary, Brock [Brockman] Adams, who was the Congressman from Washington—who had been a big, big deal, the biggest deal on transportation issues in the House—becomes Transportation Secretary and he does not like deregulation. Mary Schuman over the course of two years just does him in and gets him fired. He's fired. He's out. They bring in somebody who is on their wavelength, [Neil] Goldschmidt, Mayor Goldschmidt from Portland. Then it really moved; but it was Carter.

I admire him for that. I'm not suggesting there was bipartisanship then. But these transportation issues are a little different than the tax issues.

Riley: That's part of what I was trying to get you to—

Snow: Tax issues are Republican/Democrat. It was a different point of view.

Smith: It wasn't social policy.

Snow: That's right. Transportation is more just straightforward. It's pretty straightforward. You get people on all sides. So anyway, in this saga I'm at AEI. In retrospect, I see that I was part of some gestation of big ideas. Then I sort of wander away from AEI and get involved in the business world, and that's because my new life is the corporate world.

Riley: That's a good transition point. Why don't I give you a break? We're having a lot of fun. I hope you are.

Snow: Yes, this is fine. You're making me dredge up things and put a new spin on it. Until you mentioned it, I hadn't really put it all together, that I was at sort of a focal point of some powerful things that were going to blossom years later.

Riley: Exactly. We like to do that.

[BREAK]

Riley: We're talking about Paul O'Neill. We can stop talking about Paul O'Neill.

Snow: Paul was with me in that administration.

Riley: With Ford.

Snow: I knew a lot of those folks; that's the White House crowd. I was over in the Transportation Department.

Riley: Let's go through and hit the high points of your time in the private sector and the extent to which you're still keeping your profile in the public sector during the intervening period. Did you have an urge to go back in with President Reagan? Were you approached?

Snow: I was. Let's see. With Reagan, I was a member of the Transportation Transition Team and a member of a four-member panel on regulatory policy. A guy named Paul Oreffice, who was the head of Dow [Chemical Company]; Jim Miller, a UVA grad who became—

Smith: OMB [Office of Management and Budget] Director, among other things.

Snow: —and before that was FTC [Federal Trade Commission] head and also head of the group inside of OMB that looks at cost/benefits on regulations; and one other person who went into the Cabinet. We made these recommendations to Reagan on regulatory policy. Up to that point I wasn't into macroeconomics. Then they wanted me—Drew [Andrew, Jr.] Lewis became—That's it, I was the vice chairman of the transition team in Transportation and he became the Secretary of Transportation, a very good one, very effective. He recruited me hard to be the Deputy Secretary of Transportation in 1980, '81.

I had just made the jump in the corporate world and become the senior vice president of this company, CSX, that had just been formed from the merger of the Seaboard Coast Line—a railroad you would know from your life in the South, because it plays a big part in Mississippi and Alabama and Georgia and all the South—and a northern railroad called the C&O [Chesapeake & Ohio] Railroad, which is the line right out here, and they merged. They asked me to be the senior vice president over the law department and government affairs and corporate strategy and all of that.

So Drew was putting the arm on me. He was staying at the Jefferson Hotel in Washington at 16th and M, right across the street actually from AEI's headquarters. He had me in for breakfast one day. He says, "We want you to be the Deputy Secretary. We thought about all the other people; you're the one I want," blah, blah, blah. "I need you to—I'll get the President to call you." I said, "Drew, I just don't think I can do this. I'd love to work with you. I'd love to work with the Reagan administration." I really meant it. He would have been a fabulous guy to work with, the President—all he brought to that office and therefore all the things that flowed out from that.

Riley: Sure.

Snow: He said, "Is it because you just moved?" I had just moved, just sold our house in Washington, just moved to Richmond, had just taken on this new responsibility. It was the first big jump up the corporate ladder. I said, "Boy, I wish circumstances weren't what they are, but my wife—" He asked, "Is your wife going to have a problem with this?" I said, "Yes, she wouldn't go for this." We had a child arriving three months later.

Riley: Your first?

Snow: Yes. I turned him down. That night I come home and Carolyn [Snow] says to me, "Who

is this guy, Drew Lewis?"

That reminds me of just a side story you'll get a kick out of. When I was at AEI, the president of the railroad came to see me and talked to me about joining his firm. I said, "No, I can't do it. I just accepted a position to be the head of a Washington branch office of a big Philadelphia law firm."

He said, "I really want you." I wasn't in a position to go into corporate life and I didn't think I was cut out for corporate life. I said, "I'm a lawyer. You know what lawyers do is piecework. We get an assignment, we take it on, we go think it through, come up with some answers, and then we move on. I'm a piece worker. Corporations are continuity. I'm a piece worker."

This was in the course of several meetings, but the bottom line a couple of meetings later was he said, "Look, I understand what you said." I said to him, "You'll be my first client." "No, no, no," he said, "I don't want you working in a law firm. I want you working here for the company." That's when I said, "Well, I'm not really cut out for that."

He said, "Look, come join us. At your age there aren't many people who are going to be vice presidents of big companies like this. If you don't like it in a couple of years, you can go back and we'll make sure you're taken care of. We'll be a client." So I joined him.

Clock forward three years. You asked me if I stayed involved in public policy. It's like '79 now. This fellow, Hays Watkins, who is the CEO [chief executive officer], calls a meeting of the senior officers in the board room of the company with Chesapeake & Ohio, C&O, "Chessie" they called it, to have me review with the senior management the Carter administration's proposal to deregulate the railroads that I was overseeing for the company.

Railroads were really imbued with regulation. He was more of a forward thinker than most of the team, fortunately for me. So he asked me to review where we are on deregulation: what is going on with these proposals, where are they in the Congress, where is the Carter administration. Then we'd have a discussion on it. I gave him an update. Then he says, "Let's have a vote. Let's see who wants to go for the Carter deregulation bill." He turns to me first and says, "John, where are you on this?"

Sometimes you've just got to say what you feel is right. I said, "Hays, we should go for this. It's not perfect, but we should go for it. We've got to have a seat at the table to frame it. If we aren't for it, we'll be frozen out. In any event, we're not doing that well under this regulatory system. It is sapping the energy from the industry. It is a regulatory system built for another age before we had trucks and barge lines and airfreight and so on. We've got to get in tune with the markets, and we can't be in tune with the markets if we're living inside this regulatory cocoon." Something like that.

Next guy—I'm far and away the junior member of this body, of the senior management team, really junior in age and rank. The next guy says, absolutely opposed, it would be terrible. Around the table, "Absolutely oppose." "Would be terrible." The chief counsel, the general counsel who in two years is reporting to me, says "Unthinkable. What John is talking about is having contracts, and we can't have contracts. We're a common carrier," the old common-carrier law where you can't have contracts. "We'd end up looking at an inconsistent sort of legal framework.

We couldn't operate with that." The pricing guy says, "It would be chaos. We wouldn't know how to set rates without these rate bureaus that have antitrust immunity."

So I'm thinking, *God. It is now nine to one. I hope he remembers what he told me.* [laughter] One other guy voted negative, so now it is ten to one. Then finally he says, "I guess I ought to vote." He says, "I vote with John." Wow, a hush came over that place. Actually, I now know—I learned a couple of years later why he wanted me. He wanted me to be inside the company and to see what needed to be done. Two years later he made me president of the railroad and I actually had to ask most of those people to leave. They were good guys, but they were just trapped inside this old way of thinking. He was farsighted in that way.

If I had been at a law firm, I never would have gotten the culture. I could have maybe done the deregulation part, but I wouldn't have gotten the culture. So I did stay involved in public policy. I continued to work the deregulation issues, then I moved up the corporate ladder and got involved in the bigger issues of the company—tax policy and trade policies. We had an international ocean carrier that operated in a hundred countries, so I was dealing with trade issues and tariff issues and tax issues and so on. Then—

Perry: Can we go back, before we forget, to your wife when you came home said—

Snow: "Who is Drew Lewis?" I said, "He's the guy who wants—" She said, "Not on your life; we're not doing that."

Riley: So you read your homesite right.

Snow: Yes. Actually, later he was saying, "You know, I'm only going to stay a couple of years. You'd be odds-on favorite to be the next Secretary of Transportation." Well, two years later Liddy [Elizabeth] Dole becomes Secretary of Transportation. She calls me up and says, "Can I persuade you to be my Deputy?" I had two shots at being—and her Deputy became the Secretary.

But I was in this side of the company that had the public policy, all the legislative stuff, and this fellow Hays Watkins was really farsighted in a lot of ways for a CEO of that era. He recognized, as few of his era did, that Washington really plays a big role in the life of a company. He wanted to know the Members of Congress. Once a week he and I would go from Richmond to Washington. We'd line up seven or eight congressional visits. We'd leave Richmond at 8:30 or 8:00, have a first visit at 9:30 or 10:00.

Riley: You're not taking the train then.

Snow: We didn't take the train. We eventually took the helicopter, it got so bad, and the helicopter was so fast, but in those days we didn't. We drove the first year.

Riley: That was still doable back then.

Snow: It was still doable. This was '81. You could drive it. We met virtually every Member of Congress, House, and Senate, and every single one inside our territory, inside the eastern half of the country.

Perry: What did you learn from that experience?

Snow: Well, one, the typical Congressman is an affable lady or gentleman and they're easy to approach and they don't give very much away. You have to learn that when you're getting nice responses from a Congressman who is nodding and smiling at you, they're not saying yes. Right, Chris?

Smith: You betcha. *[laughter]*

Riley: We're going to get to you in a while.

Snow: He knows that. The other big lesson is get to know them early; don't get to know them when you're in trouble. Get connected with them. You have a lot more influence with people if you know them. Then you come to the political side of it and you've got to support them if you're going to influence the way public policy functions. It's why all corporations have PACs [political action committees]. The best form of support is to help the Congressperson get reelected. It is all well and good to stop by once in a while and have a coffee with them, but they realize you're not going to be able to stop by and have coffee with them unless they get reelected. The way we do politics, that means financial support.

I learned that Congressmen don't know very much about anything outside of their committee. That is, if you're on the House Ways and Means Committee you probably know almost nothing about aviation policy or railroads, or—But you're going to know a lot about Medicare funding and you're going to know a lot about child tax credits, and you're going to know a lot about unearned tax credits and so on and so forth. Congressmen are specialists. The other big lesson is House Members are more specialists. House Members know their subject matter by and large better, because they're on fewer committees and they concentrate. There are so many lessons. We could write a book on these lessons. The other lesson is, if you want to win a conference vote, get the House guys on your side, because they'll roll the Senate. Chris?

Smith: I would like to think that was the case.

Snow: The House rolls it more often than not. The House guys are just more effective in that. They actually are deeper into their subject matter, isn't that right?

Riley: Chris is nodding.

Snow: They are deeper into the subject matter. I had the chance before going to Treasury to have had 30 years studying, observing Congress. So I had a feel for the place and had the added advantage of people that worked at CSX who knew a lot more about it than I did, like Arnie Havens, who had been in a White House legislative office and ran our legislative office; a guy named Woody [Woodruff M.] Price, who worked on the Hill for years with a number of very influential Members. With these guys I was getting continuous tutorials on how the body works. It interested me. How does Congress work? How do you get things done in this crazy place? So you observe. I spent a lot of time observing how Congress works, the dos and the don'ts, who has influence, who doesn't.

What you find out is Congressmen aren't all born equal, right? You want the Congressman the

other Congressmen defer to. Even if they don't like him, they defer to him. They know who is smart. Why do they follow somebody? Because they won't get me in trouble. If I vote with this guy, I know his constituency isn't that much different from mine. He has thought this through. I won't get tripped up on this one. When I have to go to defend my vote, he'll tell me how to defend it.

Smith: People walk onto the floor, they look up and see how that person voted, and they vote that way. I've seen it.

Riley: How many of those guys are there, or does it differ?

Snow: It depends on the issue.

Smith: It is a network.

Snow: It depends on the issue. There are a handful that the others really follow. What I'm saying is I had an interest in it; my CEO had an interest in it. His interest gave me an opportunity to really get to know Congress better. We had these very superb people who ran our congressional office. They were well connected. We started having a series of events called the CSX Challenge where we—I'm not sure you can do this anymore under the current rules, but we would bring in 10 Congressmen, maybe half and half, House and Senate, for an annual gathering with our clients and customers and have a roundtable with them. You'd play golf and tennis with them; you'd get to know them.

We sponsored annual train trips to the retreats where the Democratic caucus—One of the things they like about these caucuses is they get to bring their wives and their children, who by and large don't know the other Members' wives and children. So these caucuses are an important opportunity for Congressmen to relate to each other. We would provide the train because they were going off to the Greenbrier or the Homestead or someplace and we had train service there, so we'd give them a train ride.

I'd often hop on, so would Hays Watkins. You just get to know them, and by and large you like them. They're by and large likable. They can be contrarian when they have to be, but they're by and large likable when they're not in the midst of some snarly sort of thing.

Riley: But you're talking about getting them in a situation before you get into a snarly mess.

Snow: Absolutely. The first rule for anybody who wants to succeed in dealing with Congress is, get to know them before you go and ask them for something; get them to know you and trust you, like you if possible, but at least know you and trust you. Let them see that you are a friend, you're on their side, you're not going to take advantage of them, screw them, you're not going to put them in harm's way.

One of the other lessons you learn in Washington with people who work well in Congress and those who don't, and administrations that work well, and leaders that work well: The good congressional leader who is at the top of the pecking order doesn't put the person down the line on the line for a vote that is going to really create mischief back home unless it is life and death. The weak leader, the leader that doesn't get the game right, puts them on the line all the time.

Then that leader loses and you lose confidence in that leader because you're not going to win elections. Both parties have districts that are 50/50-type places and districts where the mainstream orthodoxy of the party doesn't fit. You've got to give leeway to them.

Everything I learned that was interesting was traveling around with Chris, actually. We'd go into these congressional districts. I was struck by how much more savvy the typical Congressperson was who was from an unsafe district. They really had to be in fighting shape.

Smith: Razor sharp.

Snow: These people are attuned to everything. They are. They see every side of everything and they have to. But the Congresswoman or Congressman from a 60/40 district, they don't care; they don't have to pay much attention to the 40. If you're 50/50, you're paying a lot of attention.

Riley: But that's a fascinating observation, because you hear all the time about the adverse consequences to the system of these safe districts for partisan cooperation, but you're actually identifying something quite apart from that.

Snow: Substantive, yes. There is a substantive difference. You don't have to think as much.

Smith: But to your point, the 60/40s—You know how they're going to vote.

Snow: Right.

Smith: They don't have trouble taking the tough vote—

Snow: They'll take the tough vote.

Smith: —so it is actually easier to get stuff passed with those votes.

Riley: Yes.

Snow: I had agonizing hours trying to persuade people from the 50/50 states.

Smith: Ohio.

Snow: Maine.

Smith: Connecticut. *[laughter]*

Bragaw: Having been in the executive branch staff at the high level, obviously it is shaping how you deal with the Members in Congress. What about in terms of recognizing the congressional staff?

Snow: That's the other—If you hang around there, much you find out about the staff is enormously important. You don't want to just deal with the Member. The Member defers to the staff on substance and on implementation and getting things done.

Smith: The House Members and the Senate staff.

Snow: House Members and Senate staff, I don't know—Chris was a House staffer, he can't say anything.

Bragaw: Setting the ball up.

Snow: No, staff on both sides are really, really important. Many of them are really, really good, and as you would expect, they have more time to study an issue. The Member comes to trust the ones who are effective and good and defers to them, like we all do in life. You've heard of people who know more than we do and it's just natural that the staff member is going to know more than the Member.

Riley: Sure.

Snow: In most cases. There are a few cases where the Members think they know more than the staff, but by and large, who did Bill Thomas rely on?

Smith: Bill Thomas.

Snow: That was my point.

Smith: But when you needed a budget score, even he—

Snow: Went to the—

Smith: Staff.

Snow: To get anything through, you have to get scored, so you've got to go according to the scoring process. This is sort of fun. It's something I hadn't thought about. Not to say there is a science of dealing with Congress, because it is an art form, but boy, there are a lot of things you ought to know to do and not to do.

Riley: But it's fascinating. Even as somebody who spent a lot of time interviewing people within this administration, going through the briefing book, and knowing something about your past, it doesn't—This facet of your background doesn't leap off the pages. It really helps explain a lot about why you were in the position that you were in and how you devoted your energies once you were Secretary. It is invaluable background to have.

Snow: We'll get to it, but it sort of was a fit in some ways because the predecessors who were good guys probably didn't have the same appreciation of how to work with Congress. Would that be fair?

Smith: An understatement.

Riley: I told you, we're going to come to you in just a little bit.

Snow: Chris has a lot of insights. So, CSX, we're having these congressional events, and I'm spending time on the Hill. We've got legislation we want to get through. I'm working the legislation with our own team. It's not all I'm doing, because I've got a lot of other

responsibilities, but I am working this stuff. Then the fellow who hired me and said we want you in the company and who said if it doesn't work out you've always got—picked me to be his successor. So 10 years after he first made me CEO of the railroad, he made me his successor, CEO of the company, which is involved in a whole lot of things in addition to railroads.

Riley: The timing on those two things?

Snow: I was hired in '77. That conversation was like '79. In '81, in '80 really, they moved me up to the merger, the corporate position. In '85 they made me head of the railroads, which was the biggest subsidiary. Then in '88, president of the company, in '89, CEO and chairman.

Riley: So we're in the [George H. W.] Bush years at this point. Bush 41.

Snow: Yes, we're in the Bush years, 41. Again, I had lots of friends—Sam Skinner, the Transportation Secretary, had been a lawyer when I was general counsel of CSX. He had been a lawyer I hired for some Chicago issues because he was a guy who knew how to get things done in the [Richard] Daley machine. He was actually the guy who sent Otto Kerner to prison when he was the U.S. attorney.

Smith: That's right.

Snow: He was a very competent guy, a prominent lawyer, was with Siddley in Austin. Andy Card was somebody I knew. I knew a lot of them.

Riley: Sure.

Snow: I knew 41. We'll get to it. You have some questions there about knowing 43 [George W. Bush]. I didn't know 43 that well. I knew 41 very well.

Riley: Yes?

Snow: I'd worked closely with him and his team on—Again, how these things interconnect—on the idea of a constitutional budget amendment.

Riley: Really?

Snow: Yes, I was in the forefront of the business community pushing the constitutional amendment.

Bragaw: This was the balanced-budget amendment in the 1980s?

Snow: The balanced-budget amendment. This was Bush, so this would have been '89, '90, '91.

Riley: So when he was President, not Vice President.

Snow: No, he's President. This is '91 probably. Somewhere along the line 41 had taken to this idea—You know where that idea started? At the University of Virginia, under a guy named Jim Buchanan, who developed the School of Public Choice, who said our government is established in a way that there is a perpetual tendency for unbalanced budgets because look at the incentives

Congressmen have.

Bragaw: *Democracy in Deficit*.

Snow: *Democracy in Deficit*, that's it, you've got it. That was Jim Buchanan. So here I am—

Riley: What year are we talking about?

Bragaw: *Democracy in Deficit* was in the '80s.

Snow: In the '80s, yes.

Riley: This wasn't from your '60s?

Snow: No, it wasn't the '60s. In the '60s he wrote *The Calculus of Consent*.

Bragaw: That's the book that got him the Nobel Prize.

Snow: And *The Calculus of Consent* laid out this fundamental idea that America is going to be stuck with deficits because of the incentives in our democratic system. How do you get elected? You get elected by promising the voters lots of good stuff and never telling them what it is going to cost, basically.

Riley: So the argument—

Snow: That's a simplification.

Perry: You said you're among—Is it a few heads of corporations supporting the balanced-budget concept?

Snow: I told you how I was sort of into *microeconomics*. At this time I'm getting into *macroeconomics* and I'm the head—There is a group of CEOs called the Business Roundtable. In that period I was the chairman of the budget and tax committee, I think it was called, of the Business Roundtable. The Business Roundtable was concerned about deficits. It has been sort of a DNA—

Smith: Still is.

Snow: Yes, it is the DNA of the organization. Republicans are for lower taxes and smaller government, and corporate America is for balanced budgets.

Perry: Is it fair to call you a deficit hawk at this time?

Snow: Yes, I'm becoming a hawk, I guess. There are times when deficits make sense and there are times they don't. I guess I'm a hawk when they don't make sense. You shouldn't be running big deficits when you have the economy really strong and growth and so on and the coffers of the federal government are filling up. That's the time you rein back spending and try to build up, if not a surplus, at least you build some margin because your day is going to come when you will be running deficits because the nature of economies are they go up and down, and when they go

down you get deficits almost by definition.

I'm in the forefront here. I'm the chairman of the Budget Committee at the Business Roundtable. I decide—going back to Jim Buchanan, *The Calculus of Consent*—the President is right; we ought to be supporting him on this constitutional amendment. I was going to the White House and would spend time with him; with the Secretary of the Treasury; and with Dick Darman, who was head of OMB at that time; John Robson, who was the Deputy Secretary of the Treasury; with the economic policy team. I ended up being sort of in the forefront of 41's campaign, maybe the lead spokesman of the corporate community for the balanced-budget amendment.

Riley: This was the reelection campaign?

Snow: This was before the reelection. This is governing.

Riley: When you said “campaign,” you meant the campaign for the amendment.

Snow: The campaign for the amendment. Never got it; we got close, but we never could sell it. Paul Simon came over and joined us. I was on panels with Paul Simon on it. It was not quite bipartisan, but there were some Democrats who supported that, quite a few. I don't think Kent Conrad was in the Senate yet, but he is the sort who would have. But there were some fiscal hawks inside the Democratic Party, just as there are some fiscal spendthrifts inside the Republican Party. That didn't get done, but it was an occasion for me to spend a lot of time with the President.

I'd go in and see him once every few months or so on general matters. When this was on the agenda, I was a regular. I would be in there quite a bit. I really loved him. He was just a phenomenal guy, a terrific guy. It was a shame he didn't get another term. He was so competent. He would have except for Ross Perot. It wasn't that [William J.] Clinton beat Bush; it was that Ross Perot and Clinton beat Bush. Bush would have won without Ross Perot, I think. Clinton probably would have been President in '96, which is what he had in mind all along.

Riley: I think you're right.

Snow: Which is why he stumbled the first few months.

Perry: Yet ironically, Perot was for the balanced budget and was calling for far less spending at the time.

Snow: You're right. But there were personal things in the Bush-Perot life that overwhelmed policy views.

Smith: Where were you on Andrews Air Force base and “Read my lips?” Did BRT [Business Roundtable] support that deal?

Snow: I'm sure we did. I'm sure we would have.

Smith: Which is one theory why Bush lost as well.

Snow: Yes, it didn't help him, but he would have won even with that if—Bush was not a—We can go back to that AEI, Wanniski, and Kemp sort of stuff. Bush was not a supply-sider. He was a principled guy, but pragmatic. Give me a problem and we'll solve it, rather than here's a vision for the future of the world and we're going to get there. He was probably much more visionary on foreign policy than he was on domestic policy because it interested him more.

You could tell when you'd sit down with him. He'd have me in with other CEOs, sort of pro forma conversation. How's the economy going? He'd listen and take interest, but then one of us would say to him, "Well, how's the foreign-policy agenda?" How are you doing with whatever it was, with Middle East initiatives or whatever? Then he would just—Boom! The switch went on. He was just into the subject; it was him.

Riley: Sure.

Snow: He was good on domestic stuff, but what interested him, what fascinated him, was foreign policy. So anyway, my development. I'm now starting to work macroeconomic issues.

Riley: Right.

Snow: A year or two later, I become the chairman of the Business Roundtable. At this time Clinton is President. The deficit problem is getting more serious. It is ballooning as a fraction of GDP [gross domestic product] and so on. Clinton is on to it; Clinton is saying we have to do something about the deficit. [Newton Leroy] Gingrich becomes, according to *Time* magazine, Prime Minister.

Riley: You were there, right?

Smith: Yes.

Snow: Just funny how things happen. Gingrich took an interest in me as chairman of the Business Roundtable and we would have regular calls, meetings, and conferences as he is coming in as head of the Congress, as the Speaker. He asked me to set up a series of dinners in the Speaker's office. We would pay for them, of course, but he would host them. As chairman of the Roundtable, I was the host and would bring these people in. Newt is a really interesting study—

Riley: I'm going to ask you to elaborate on that, but continue with your story.

Snow: He would say to me, "John, I really want to meet these people, Jack Welch and Larry Bossidy, these giants of industry who've transformed their companies. I studied about them. I'm a real student of corporate America and of the quality process and zero defects." He had read all these books; he really had. He said, "I want to talk to them and learn from them. I have so much to learn. I want to apply those lessons to government."

I would call these guys up and we would bring in a blue-ribbon group of CEOs. Paul O'Neill was one of the ones I brought in. Bossidy and Jack—The CEOs of the Fortune—Leading companies. Our first dinner with him he went through this pitch about how he's now a CEO and he has very few peers that he can talk to. He now has peers; he wants to use us as a sounding

board. He has a COO [chief operating officer], that's Dick Armev.

Smith: That's right.

Snow: "He's my COO. You all have COOs. I have a COO. I'm a CEO. We can talk as peers here. I want to learn from you." Then for the next three hours he just talked.

Riley: I listened very carefully. You did say he wanted to talk to some CEOs earlier. It sounds like that's what he did, talk to them.

Snow: He wanted to talk with, but it was not with, it was really—Newt has enormous talent, but one of his failings is that he is a better talker than he is a listener.

Perry: How did the real CEOs respond to that?

Snow: He's mesmerizing. In short doses, he's absolutely mesmerizing. In long doses, not so much. Those first meetings when he was in power he was in full stride. He was a powerful, dynamic figure. It went to his head a little bit, being named the Speaker. He gave Clinton the chance to play him, and he played him pretty well and in the end prevailed.

How did they react to him? Fascinated by him. To the extent they had a chance to talk, they gave him terrible advice. These were the guys filled with drive to change their companies, who took the view, "Don't do small things." The biggest mistake I think Jack Welch said I ever made was not pressing harder, not driving for more, not asking more of the organization. Oh, my God. That all played out a couple of years later. *[laughter]*

Smith: The rest is history.

Snow: The rest is history. But he'd call me up and say, "How did I do?" I got to know him pretty well.

Perry: What did you say when he said, "How did I do?" Did you feel that you could be frank with him?

Snow: Oh, yes. He didn't listen, but you could be frank with him. You could be. He is an amazing character. "Yes, sure, I'll do better." Then he is off to his next idea. He is always on to his next idea. He is an absolute font of ideas. What he needs is a brakeman to slow him down, get this thought through a little bit better.

Smith: One of his senior staff once described it to me this way: He has ten ideas, one of which is good.

Snow: You just don't know which one.

Riley: And are they ten different?

Snow: Oh, yes. Get Chris—

Riley: I'd like to hear from Chris because you were working on the Hill at the time. I'm

wondering from your perspective, retrospective, what you were sensing about all of this? Was it such a heady time at that point that you really couldn't see that it was moving maybe a little too—Maybe he was getting too far over his skis, or not?

Snow: That would take too long.

Smith: That's a complicated set of questions.

Snow: The way they answer that in congressional committees is, "That's a great question, Congressman. I'm going to think about it and give you an answer—"

Riley: Maybe we'll come back to you tomorrow morning.

Snow: You ought to give him an answer.

Smith: The short answer is that he was indeed a visionary. He was like Moses coming back into the Promised Land. There was an extreme level of deference to him because he had pulled off the impossible.

Riley: Sure.

Smith: That was the seed of trouble, because people just sort of signed up for the program and they were expected to stay in line at all times. So dissent was not really welcomed.

Perry: Signed up for the Contract with America—

Smith: And with the leader. I think Newt's thought flow was that he did not—He tried to do it all himself. He viewed himself as the Prime Minister. It was not that he didn't listen; he didn't ask.

Snow: Chris, that got brought home to me once. He and I were at a meeting. He wanted to talk. We were talking, and he was telling me just about what you said. He said, "You know, I'm the leader; I'm going to delegate some of these issues. I'm going to hand them off to some people, get them to handle them, but I'm going to keep health care because I'm the only one that can solve health care."

I said, "Really? That's great. How are you going to solve health care?" He said, "Obviously the answer to health care is markets, and we're going to set up market systems that will allow health care." I said, "But you've got Medicare out there. That's a big government program. How are you going to put free enterprise in there?" "Well," he said, "it's doable, and I'm going to construct a way to do it. I'm going to infiltrate markets and market principles into Medicare and into all health care."

I said, "Gosh, that's great if you can do it, but the system is so tilted now with such deep subsidies to use the system as it is. That's a tall order." He said, "You don't believe in the markets enough."

I said, "That's kind of odd. Usually I'm accused of believing in them too much. But let me just

pose a problem for you here, Newt.” A friend of mine was at CSX, retired, vice president, labor relations, a [Lyndon B.] Johnson Democrat, actually, and head of the Appalachian Regional Commission at one point, savvy on politics and government and stuff, skeptical on where the welfare state was going, told me this story that I related to Newt. He went in to get a hip replacement. The bill came for \$17,400, and his share of the \$17,400 was \$400. He thought that was just bizarre that he only had to pay—He’s a wealthy guy, corporate executive, good retirement, built up some wealth. He said, “I should be paying a lot more than \$400 for a \$17,000 operation. The taxpayers are picking up all of that.”

So I said, “Newt, is the free-enterprise system, if applied to health care, so efficient that on an operation that costs \$17,400 and is only charged out at \$400, that you can take \$17,000 out of the cost structure?” He didn’t like that question, but you can—The truth is when people say we’re going to apply private enterprise and change the whole system, the only way to make it really appealing on a free-enterprise system—How does free enterprise work? You get a better deal by being in the marketplace. You go to the place that offers you a better deal. Well, if Medicare offers you a better deal than what you’re going to get—which is the real problem with reforming it, the subsidies are so deep-seated and so on—it is tough for real markets to work.

Anyway, my point there is when he had an idea, whether it made any sense or not, he stuck with it. He ought to be the idea guy next to the President of the United States in a room cooking up ideas. The President then could say, “That’s a good idea. Let’s go make the case for it.” He can make the case for his ideas. He’s very articulate.

Smith: The irony of it all, though, is the ’97 act. The popular wisdom is that was the bliss point in bipartisan American politics in the 20th century. Democrats and Republicans came together and Bill Clinton won, but basically all of Newt’s stuff got done.

Riley: In ’97?

Smith: Eventually.

Snow: That was the budget deal.

Smith: Medicare, welfare reform, tax cut.

Snow: But then he was out shortly thereafter.

Smith: He had issues personally, but his entire agenda actually happened.

Snow: During that period, going back to how I got connected with all this government stuff, I was the chairman of the Business Roundtable and the biggest issue was budget reform and the deficit. I ended up being an intermediary between—I had fairly close ties with Gingrich and was sort of viewed as not an opponent or an enemy by the White House, so I ended up—The Business Roundtable is important to both sides. They both wanted—I ended up being sort of the middleman between Clinton and Gingrich working on the details that produced this package.

Riley: This is the ’97 package.

Snow: Produced the '97 package.

Smith: You did NAFTA [North American Free Trade Association].

Snow: We did NAFTA, so I worked with Clinton—

Riley: You did NAFTA early.

Snow: NAFTA was '94, '95.

Riley: Had the Business Roundtable taken a position on the '93 budget package, which was highly partisan?

Snow: Yes.

Riley: For or against that package?

Snow: Ninety-three? The Clinton package?

Riley: Yes, that was the one that had the tax—

Smith: The largest tax increase in American history?

Riley: Yes, that's the one.

Snow: And that was right before or right after “Hillarycare”?

Riley: Before. He was making the announcement—

Snow: It's coming back to me now. In fact, it's interesting. We were lined up against him on both, but gosh, he was remarkable. He would come in and just wow that crowd. Even though in their heart of hearts they didn't agree with him.

As chairman of the Roundtable, you're always taking people in to see him, see [Albert, Jr.] Gore. [Robert] Rubin was then the—In the White House. Rubin wanted—For the Business Roundtable, he wanted to have the budget people come in and meet and talk about issues that they had on their mind. We spent a lot of time—Every Business Roundtable for a year we'd meet with Rubin, Alexis Herman, and those people. Often Clinton would show up and we'd chat with him as well.

Then there would be these occasions where the CEOs would be invited to go see Clinton, and I always, as the chairman, would lead them in, say hello to him. They would grouse going in; they'd come out saying, “God, isn't that guy fabulous?” Absolutely never failed.

Perry: Tell us about those meetings.

Snow: Never failed.

Smith: And by the way, Gingrich was exactly the same way. He would get on the phone with the

President and he would melt like butter.

Riley: So he was susceptible?

Snow: Everybody is susceptible to that charm, that's just overwhelming charm.

Perry: So tell us—Remember, this is for history. We know what you're talking about, but tell us what that was like to be in that room? What did the President—

Riley: What is he doing to romance them that much?

Snow: He's connecting. He has a laser beam—

Smith: Into your soul.

Snow: He can look at an audience and figure out, what is the contact here? What is the point of contact I can make with this group? You notice when he gives a speech it starts in sort of a meandering way. He wanders around here and around there. You wonder where this is going; this is pretty uninteresting. He picks up the vibes as he goes around, touches this, touches that. Then *boom*. It's all about—

Smith: We were watching him last week at the library.

Riley: At the library. I was just thinking.

Smith: He killed it.

Snow: He was the best performer by far. He made the connection between democracy, which is based on open debate, and Bush's museum, which celebrates open debate. It was brilliant. He's always brilliant. He does make mistakes, though. One time at the Business Council, as I said. He wants to make contact with the audience. He wants to be loved.

Riley: Sounds like he's pretty successful at it.

Snow: Yes.

Riley: I don't want that to be misread.

Snow: I think he craves the affection of the audience and he knows how to get it. One time we were at a Business Council meeting at the—I think I actually again introduced him at the Business Council in maybe '98, after his tax increases. When were his tax increases?

Smith: Ninety-three.

Snow: This may have been '95. No, it was later. They had been in effect three or four years, maybe '97. He's talking about all the good things his administration has done, the 23 million jobs and on the path to balance the budget, on and on, just all these wonderful things that he and his administration had accomplished. Then he stops and he looks at the audience and he says, "But I made some mistakes. I probably raised your tax rates too high."

Riley: I remember that.

Snow: It got out. He had to recant. But he believed it for the moment.

Smith: That was his “47 percent” moment.

Snow: Anyway, getting ready to be appointed to Treasury, this is all background. I dealt with the politicians of the country, the Rubins and the [Larry] Summers and the policy people, the political people, the White House people, on the Democratic side, the Republican side. I was probably viewed as clearly a Republican, but not an intensely partisan Republican.

Perry: You did mention Al Gore’s name in passing. You say you were meeting occasionally with the Vice President?

Snow: Yes.

Perry: Tell us about that.

Snow: He’s a different person than Bill Clinton. He really is very different. One of the things Bill Clinton asked me to do, from the business world, was to help recognize Ron Brown, his Secretary of Commerce. The Republicans had the [Malcolm] Baldrige Award. He called and said, “Wouldn’t it be nice to have—?” It was a few of us, not just me, but he had three or four of us in at the White House. “Wouldn’t it be nice if we had an award for Brown like the Baldrige Award, the quality award, the Commerce Department award?” The Baldrige Award was for corporate responsibility or corporate excellence.

We said, “We’ll think about that, Mr. President.” We put together some funding and set up the Ron Brown Award for Corporate Responsibility. The first year or two the President made the award. We’d have the candidate companies in and a nice little ceremony, tea, and so on. Then the President would come in and he’d move among the companies and then go to the podium and he’d give a little speech and hand out the awards.

This one year, the year we went into Libya, I show up with the Ron Brown Award ceremony. I’m chairman of the Ron Brown Award committee. Yes, I was chairman on the business side. I was the chairman. So I show up in the Blue Room where everybody is assembled and Alexis Herman comes up to me and says, “John, I’m not sure the President is going to be able to make it. There’s something going on. He’s tied up. Maybe the Vice President will fill in for him.”

I said, “That’s fine. Do you think the Vice President wants to make a speech if he shows up like the President?” I was scheduled to call on the President for some comments. She said, “I don’t know, let’s see how this plays out.” Well, about half an hour later she comes in and says the President won’t be able to do it; the Vice President will do it. I said, “Did you check with him? Does he want to make any comments?” She said, “I don’t know.” I said, “We’d better check, don’t you think? I don’t want to stand up there and call on him if he doesn’t want to make some comments.”

So I go over to him and explain, I appreciate his willingness to stand in for the President and the President was going to make some comments. “Can we call on you for some comments? Would

you like to make some comments?” He said, “What do you think? Why am I here? Why do you think I have this speech?”

Yes, he’s not Bill Clinton in any way. That was just—Why do you antagonize somebody? Why do you go out of your way to antagonize? He didn’t like me because back in the Kyoto days, they were getting ready to go off to Kyoto—Maybe you’ve heard these stories. Anyway, they’re getting ready to go off to Kyoto to push the greenhouse gas reductions. They wanted to get the business community to be with them. So they brought in small groups of businesspeople, six or seven of us in a group. I got invited in.

The President opened the meeting; very gracious, so pleased we’re here. This is an important issue and he’s glad to see us engage and so on, much of what you would expect. Then he says, “I’m going to turn this over to the Vice President, because this is primarily his issue, but I’m going to keep on top of it and I hope you’ll be as supportive as you can.”

Gore gives this presentation, sort of turned me off saying you have a moral obligation here, this is a moral issue. There is no doubt about the science, the science is clear. Global warming is occurring. There is no doubt about the ability to solve it, technology. You are the owners of technology; you are the masters of technology. You know how to solve problems. This is a problem that you know how to solve. There is no question about the economics. This is highly advantageous to the economy if we solve this. He went on and on how every conceivable problem had evaporated and there was only left a moral obligation.

The first CEO stands up and says, “Mr. Vice President, thanks for having us here. It’s great to be with you. Understand where you’re coming from, but I’m not so sure that the cost/benefit works out on this. If you don’t get China in, how can this really make any sense?”

The next guys say, “Well, Mr. Vice President, I understand you say the science is resolved, but I’ve seen some studies here that really question whether global warming is going the way you say it’s going. Maybe this is just a natural phenomenon coming out of the fact that we were in an Ice Age for a long time and an Ice Age is followed by—” Everybody had their own little spiel.

So it comes to me; I’m the last one. What do you add to all this? Every argument we can think of has been made. I looked at him and I said, “Mr. Vice President, your sincerity is obvious on this issue, your dedication to what you think is right. Now let me just say I don’t agree with you, but I do admire your conviction and your sincerity. But if I were you and I felt the way you did and I believed what you believed; I’d want to be honest with the American people. I’d want to take this to the American people in a way that is honest and tells them that while it should be done, it comes with a cost.”

Larry Summers was in the room. I said, “You’re trying to reduce greenhouse emission, energy use, by about a third, I think. Larry, isn’t the price elasticity of energy about 0.3, meaning you’d have to double the prices of energy to get a one-third reduction?” He said, “Yes, it’s about that, John.” I said, “Mr. Vice President, are you prepared to tell the American people you’ve got to double energy prices? That’s the courageous thing to do here. The courageous thing is to go out there and make the solid, factual, analytical public policy case to raise gas taxes.”

Oh, my God, he looked at me with daggers. He didn’t want to hear this. I had now taken the

moral high ground. He didn't like that; *he's* got the moral high ground. Then I said, "Beyond that, Mr. Vice President, probably the real long-term solution to this is nuclear power, and you should make the case to the American people for nuclear power. If I believed what you believe about the risks of—and I don't—but if I believed about those risks, I'd make the case for doubling the gas tax and state sponsorship of nuclear power." End of the meeting.

Bragaw: Do you feel that your time spent earlier in your career, having to push for very unpopular things, really taught you about when you get to this later point how to advocate and how to build coalitions better?

Snow: Yes, I probably had to. You probably had to pick up something by osmosis. I was spending time with people who were the most successful in the world at this sort of thing. We had close observation of guys who were in this business: Trent Lott, John Breaux, Tommy Boggs [Sr.]. These were the pros. One way or another I spent a lot of time with all these folks. John Breaux, John Boehner, Mike Oxley, all these people who were powerhouses in the Congress. I'd had a chance to work with them and their predecessors back 25 years.

So I probably had a better vantage point on Congress than most people who get into those Cabinet jobs and probably a better vantage point on executive branch, White House interactions, than most people, so I shouldn't have been naïve going in.

Riley: I want to ask a question about the factual condition of the budget situation by the end of the Clinton Presidency and how that gets interpreted. He leaves office and there is—or somebody who was focused very much on the condition of the federal budget says you've got—a surplus. What was your reading about how that came about and were there any lessons to be drawn from that experience?

Snow: There were just tremendous lessons, Russell, to be drawn from that. The first one is, don't place much confidence in budget estimates. That surplus really was a chimera. It was terrible forecasting. How did we get it? We got it because—Remember back in the '80s and early '90s there was this enormous effort on the part of the corporate community to lower costs and become more efficient, and there were massive investments in computers, in technology, massive. We kept asking ourselves, those people who were doing these, following productivity trends, where's the productivity? We're not getting anything. This actually went back even into the '70s. There was enormous belief that we'll get huge payoffs from big investments in IT [information technology]. Productivity took a dip in the '70s. It had stayed down until '94. All of a sudden, almost miraculously, productivity picked up.

Well, when productivity picks up, first there is a big return to capital as a share of GDP, so capital rates go up, profits from productivity, lower costs, more profits. Return to capital goes up. Then labor gets its share with a lag. In the meantime, that higher productivity creates a surge of government revenues. The system is rigged so that when profitability goes up, more people are working. The economy was taking off in the mid-'90s. You get more people working and you get much higher profits, higher returns on capital, higher wage rates, boom. The tax system just sucks in huge amounts of revenue.

Then we had the dot-com boom. How were those dot-commers being paid? Stock options. For

the first time ever, the Treasury started seeing just unbelievable inflows as people cashed in stock options on these horribly inflated evaluations of these companies. Before we had the housing bubble, we had the stock bubble.

Smith: The dot-com bubble.

Snow: The dot-com bubble in its own way was as phenomenal as the housing. It didn't have quite the far-reaching implications, because there weren't that many people who held stock options. But if your compensation was stock options in the mid-'90s and you were in a dot-com, by 2000 or 1999 you were sitting on a lot of money and you cashed it in. Well, all that lift to the economy translated into lift to the Treasury. Treasury numbers just shot up like crazy. The mistake that was made was projecting that sort of revenue flow for the indefinite—going out into the future.

Riley: OK.

Snow: Then what happened of course was, even people like—I don't mean to sound really critical here, because even people as smart as Alan Greenspan got taken in by this. Remember his musings? I remember talking to him about it. He was another one of the people we'd have into the Business Roundtable regularly. I got to know Alan well. He would regularly muse with us at the Business Roundtable, Business Council meetings about the fact that the surplus was going to complicate doing monetary policy because how do you do monetary policy? You buy Treasuries. Well, the Treasury isn't issuing paper. How do we do monetary policy?

So the capacity to do monetary policy was coming into question. Concern about the deflationary effects of all this, no budget surplus, and so on. Three years later I'm the Treasury Secretary and people are saying, "What did you do to destroy this surplus?" [*laughter*] Well, it's in the papers even; my response was that surplus was never real. It wasn't. The folks who were looking at those numbers and acted as if they were real sort of had a little temporary cognitive dissonance I think, don't you, Chris?

Smith: You always got asked about the revenue estimates.

Snow: Right.

Smith: Where did the money go?

Snow: Exactly.

Smith: It was never there.

Snow: That was really my answer. It was a temporary blip, not a structural surplus.

Riley: So the fiscal policies adopted during the Clinton years are immaterial to this?

Snow: No, they were good; I supported them. I was one of those people embracing the fact that we were getting the budget under control, but the budget was getting under control for reasons that weren't Clinton's or Gingrich's doing. They had had the budget agreement. But the real

story isn't the budget agreement, important as it might have been. The real thing here is the surge in revenues.

Riley: The swamping effects—

Snow: Of the agreements. When productivity goes up, just fabulous, wonderful things happen. Profits go up, wages go up, employment goes up.

Riley: Sure.

Snow: We had these special circumstances with the dot-coms that, for some reason, the world just went crazy—It was our tulip mania—and that alone produced just staggering inflows. But the budget agreement was something I remember applauding, saying it's a good deal we should do. Actually, Gingrich slipped in some things that were—

Smith: Capital gains.

Riley: There were some decisions taken in the '90 budget agreement that actually were favorable, like caps and categories and so forth.

Snow: When was [William Philip] Gramm-[Warren] Rudman?

Smith: That was in the '80s.

Snow: The '80s. So the Gramm-Rudman had sort of run out by the time I was doing budget stuff. There were efforts to reimpose Gramm-Rudman in the '90s and it wasn't done.

Smith: Well, '90 was Andrews Air Force base, which was just basically a tax increase to get the deficit back in order. Then when Clinton got in in '93 the deficits were definitely structural—

Snow: Were shooting up.

Smith: They tried to bring them down. But then as you recall, basically it was still deficits as far as you and I could see.

Snow: That was the phrase.

Smith: Then in '97 the deal got done. But to John's point, what happened after '97 was revenues were high as a percentage of GDP and spending was down here. So the whole rationale for the Bush Tax Cut in 2001—

Riley: Is to get the revenue back—

Smith: —was to basically just give people back their money, because we were collecting too much of it. But to John's point, that turned out to be a temporary phenomenon, not a permanent phenomenon.

Snow: Also, the other rationale for the Bush tax cuts was they started in '01 and then we finished them up in '03, the last installment. The economy was wobbling.

Smith: Well, 9/11 happened. That was the intervening event.

Snow: And the collapse of the dot-coms that produced the '01 recession.

Bragaw: One question, back to this time period in the late '90s, before the dot-com collapse and the world of the Business Roundtable and the policy discussions: the collapse of long-term capital management. A lot of people are writing retrospectively about the too-big-to-fail idea who look back to the collapse of long-term capital management in '98. Do you remember any discussions in that time period, in the intersection between business leaders and government officials, where the concept of we need to bail this fund out because it is—the beginning of this idea of too big to fail?

Snow: I don't. I know it occupied the attention of the New York Fed primarily, and the Treasury to some extent, but it wasn't that big a deal.

Smith: It had no macroeconomic—

Snow: It wasn't systemic. I tried to inquire into it and study it and so on, since some economists and Nobel Prize winners were in it. It had one lesson for me, and a lesson that probably was replayed in 2007 and '08, building up over the intervening period. That is, any set of arrangements will collapse if there is too much risk inherent in them. Anything. You can have the smartest people in the world. You can have the people who developed the efficient market theory managing the portfolios, but if they put too much risk in, it will eventually collapse.

The difference with long-term capital and what happened 10 years later is that this time it was systemic because we had Fannie [Federal National Mortgage Association] and Freddie [Federal Home Loan Mortgage Corporation] and they just were overwhelmingly significant institutions in terms of the structure of the whole American economy. That's the difference. Maybe we should have been more on alert because of that. The same lesson is what happened later. You take on too much risk and you fail, well, that's just the way capitalism works. Too much risk, you fail. If you're a bank or a financial institution, take on too much risk and you fail. The problem is, you're in partnership with the government and the taxpayers. We never did—We haven't yet—It frustrates me, and sometime Chris and I will sit down and get this figured out. We have not yet solved this problem of inherent partnership of financial institutions and the taxpayers, where the taxpayers are on the short end of the stick.

Riley: We're getting pretty close to our closing time and we're actually at a good stopping point.

Snow: Very good.

Riley: Why don't we go ahead and pull the plug today? This is terrific. It really is greatly illuminating to have this background. We're at the point where we can start talking about 2000 and 2001 first thing tomorrow. Again, I want to emphasize, Chris, we'd like to hear from you a bit about what was going on at Treasury the first couple of years, and particularly your relationship with the Secretary at that point and setting the stage for the movement into the new Secretary's period. We've got a lot of work tomorrow, but we've got the full day. We're scheduled to start at 9:30. Is that OK with you?

Snow: That's perfect. We're on time? We've covered what we should cover today?

Riley: Absolutely. You never know when you get started on these things. Again, we never exhaust every possible topic, but this has been an exceptional predicate.

Snow: Teed it up for the rest.

Riley: Given your length of service and the amount of time we've got, we're in terrific shape.

Snow: Super. See you tomorrow here at 9:30.

May 2, 2013

Riley: The way I always start the second day of these interviews is to ask did anything occur to you last night or when you were shaving this morning and you thought, *Oh, I forgot to deal with this?*

Snow: No, nothing really. You have the bio stuff. We didn't cover all the bio.

Riley: No, no.

Snow: Being a regulator at one time as head of the Highway Traffic Safety Administration with Bill Coleman as the Secretary, that was interesting, caught between Ralph Nader and the auto industry.

Riley: That's a day and a half there.

Smith: That's another oral history.

Riley: I'm guessing, based on the tone of your presentation yesterday about your experiences with Vice President Gore, that going into 2000 you weren't going to be an Al Gore supporter.

Snow: You've got it.

Riley: So my question is, were there people in the Republican Party during your years in the private sector that you had particularly become friendly with and cultivated who were Presidential timber? Anybody that you were thinking about as 2000 was approaching that you might have supported?

Snow: Yes. One of the ironies of my being in the Bush administration is that I supported his principal opponent, [John] McCain, in 2000.

Riley: Is that right? Did I know that? Is that in the briefing book?

Perry: I don't think I saw that.

Riley: Can you tell us a little bit, then, about how you got to know John McCain, and then we'll get you transitioned into—

Snow: I'd been around Republican politics, was fairly close to Bob Dole, and was probably one of the more prominent businesspeople close to Dole and his campaign. We talked about 41, were fairly close to him. Reagan, not personally, but ideologically, and dealt with his Cabinet, his people. Got to know Jack Kemp well, who was a Presidential hopeful. Got to know Gingrich well, who is a perpetual Presidential hopeful. So I knew the people who were the major figures on the Republican side.

I got to know McCain fairly well as he was chairman of the Senate Commerce Committee. Of course, being a transportation company, we had issues with the Commerce Committee.

Riley: Of course.

Snow: His former chief of staff was somebody I hired into CSX, so that created a real link to him. So I got to know him. We were not intimate, but we knew each other and we were well acquainted with each other. In 2000 I didn't know W., Governor Bush, very well. It just seemed natural to support McCain. I knew him better, liked him, thought he stood for some things that were—He was principled too, like Bush. I did some work for him, maybe some papers or analyses or something for him, tried to raise some money for him.

Perry: You offered yesterday very interesting personal profiles of these major political figures, including Presidents. Can you do the same for John McCain?

Snow: Sure, but McCain is at his best when he has a moral issue that makes him mad. He projects his anger; it revs him up and gets him driving forward. Then he is a big figure. On smaller issues he is sort of bored. It's hard to get his attention on standard legislative issues. But you get some big issue like campaign finance reform, which is moral—If I wrote his profile, it is highly energized on issues that can be interpreted as moral issues. He may interpret something as a moral issue that other people would not find the same moral turpitude in. He has a great ear or eye for moral turpitude, but when he finds it, boy, he gets going.

We ought to get Chris talking about this. He's seen these guys in action.

Smith: I saw him on the big telecom act. He was chairman of the Commerce Committee, but he was not as much of a driving force. Obviously he shepherded the legislation, but Trent Lott was the driving force, the leader. Like John said, it was not a moral issue.

Riley: Exactly.

Perry: What kind of President did you envision him being?

Snow: I thought he would be a very principled President. He would have been more principled. He gets some idea in mind, like you've got to be in Syria. He'd have us in Syria. There's no doubt we'd be in Syria. We'd have been in Libya. We would certainly have been in Iraq. We

might have been in Iraq sooner than Bush. As I've matured in my own thinking about these things, we possibly need a more deliberative President who doesn't just react over some moral outrage, but rather figures out what we do about it that makes sense.

Riley: This pushes us a little bit ahead of where I want to go right now, but since we're on the subject, how would you compare that with the President that we did get, that you did work with, President Bush?

Snow: Bush is a much more controlled and contained figure, channels his feelings more effectively, with more balance.

Riley: Chris, did he hire well? Did he have the people working around him—

Smith: I didn't have a lot of interaction with his staff. As a general matter, they were not a well-known group in the Congress.

Snow: He wasn't a legislator.

Smith: He has causes.

Snow: That's a good way to put it. He's not interested in humdrum. What does a typical Senator or Congressman do? They worry about a product, which is the legislation that is in their committee that they want to see get through or see get defeated, see get amended. They get up in the morning thinking, *How do I affect this legislative package?* I don't think he did.

He got up in the morning thinking, *What is the cause and how do I get on television and talk about this cause?*

Riley: OK, he liked the attention.

Snow: He still does. But you've got to respect his life story.

Riley: Of course.

Snow: He has an incredible life story.

Riley: You said that you hadn't had much exposure to George W. Bush. Do you recall your earliest encounters with him?

Snow: Let's see. I remember I supported McCain. McCain in about March decides to back out. Then the obvious candidate was Bush. Some friends of Bush and some friends of mine said, "You guys ought to get together." So they got us together somewhere at somebody's house up in northern Virginia, maybe April. He was up there for one of these meet/greet fund-raiser type things. They got me some private time with him. Actually, it was a little bit awkward because a couple of days earlier, a couple of weeks earlier, I had been at a Republican function, that annual big Republican function in Washington, and they put me next to his dad. I sat right next to 41 and next to me was Lynne Cheney and next to her was Dick Cheney. We had this little string of people.

Riley: Please do tell.

Perry: And?

Snow: This was the time—It wasn't certain, but it was pretty clear that W., with McCain out, was going to get it. This may have been, I don't know, April, May. I was talking to 41, nice conversation about how things were going, the campaign, what was he doing. He made an observation to me—I asked him, “You've been the candidate; now you're the father of the candidate. What's it like?” “Oh, it's a lot tougher being the father of the candidate. I'd much rather be in the arena myself rather than being in this role.” I remember that. He also talked to me about the nonlinear progress of young George.

Perry: How did he put it?

Snow: Just about like that. *[laughter]* We had our issues. Now he has a chance to be President of the United States. But he was a handful, everybody knows that.

Riley: Sure.

Snow: So he wasn't telling me anything you didn't know, but you could see he felt that, *We had our problems, Barbara [Bush] and I. We had our issues.* He makes this observation about how it's a lot easier to be the candidate than the father of the candidate. He is obviously proud of the Governor, really proud of him, but he is just reminiscing about life growing up with him and the ups and downs and so on.

So I meet W., the Governor. We said something and I remember observing that I would like him to know I was with his dad just a couple of days earlier. So I said, “I was with your dad recently, just a couple of days ago. He's sure proud of you, but he said it is a lot easier being the candidate than being the father of the candidate.” W. sort of bristled with something to the effect of he ought to keep those ideas to himself.

Riley: So you're off to a good start.

Snow: Off to a good start, right. There will be a lot of people to do this; historians over time who make literary analogies will look at 41 and look at 43 and think about Henry IV and Henry V, where Henry IV is very disciplined about how to govern, how to rule, putting in place the structure of statecraft for his monarchy and his son doesn't get with the game and is off at the Boar's Head with Falstaff and company and who emerges eventually as a great leader. The question is was he using that time that was interpreted by his father and others as frivolity, really as a magnificent learning experience that made his huge successes at Agincourt possible.

Perry: What is your answer to that?

Snow: Life is full of analogies, and you can make analogies to almost anything. I'm not going to delve into pop psychology, but there is a pop psychology thing at work. There is a father-son relationship there that is unmistakable—love and friction, love and the idea, *Do I measure up to my father? Do I measure up to his expectations? How do I show that I do?* Then people take it to lengths that probably the evidence doesn't suggest, but—Iraq. *Saddam tried to knock off my old*

man. Who knows? But those ideas are clearly out there. Was this an effort—I'm not engaging in that. I'm not a pop psychologist.

You ask me, there is clearly—As people write about this President, you won't get the story unless you somehow wrestle with the relationship to his father.

Riley: Interesting. Did you—

Snow: And his mother.

Smith: Unfinished business.

Snow: Unfinished business, yes. It could well be.

Riley: Is there anything else you want to say about the meeting beyond this exchange?

Snow: We had a nice exchange. There was this bristly, prickly moment, which is why I gave you the Henry IV and V, because Henry V didn't take to his father calling him in and reading him the riot act about how you conduct your life.

Riley: Did you leave that encounter wondering if this was going to be a problem for this person who was running for office?

Snow: No, no. I just figured each family has its own set of dynamics and I just witnessed some sort of dynamic.

Riley: The reason I ask is that, there was and still is in the popular image of this President that component of his sort of bristling. The question for those of us on the outside is figuring out—Would it be such a prominent feature of his character and personality that it swamps some of the other factors, the more favorable factors, if you consider bristling unfavorable.

Snow: I don't think his bristling was a major flaw.

Riley: Gotcha. OK.

Snow: No, it wasn't. It was part of his personality, a little bit of swagger, the quick reaction to things, which is who he is, inseparable from who he is; was and is, I'd say. No, I don't think it is a big deal, but it's part of his personality. What you see is what you get. He reacts.

Perry: Did you have any positive feelings? Many people who speak of meeting him one-to-one or in a small circle will say that he is charismatic and articulate and actually warm. Did you have any positive feelings that you came away with from that first meeting?

Snow: Yes, sure. He's hard not to like. He is a likable person. I liked what he said. He gave a good speech on a theme that was important to him. He had a good phrase. It was on education and the people being left behind. Chris, you probably remember the phrase he used, but it was soft tolerance—

Riley: "Soft bigotry of low expectations."

Snow: The “soft bigotry,” that was the first time I’d heard that. The soft bigotry of low expectations, which really captures something.

Riley: Yes, it is a well-turned phrase.

Snow: It is a wonderful term. He used that. He talked about how lots of promising young people are being left behind because of this soft bigotry. He wanted to address it. He gave a very good—No notes, just stand-up talking, which he could do. In fact, I several times urged him just to do that. He got stiff when he spoke to the country. He froze up. But when he just sat in a room like this, he could be mesmerizing. He was as good as Clinton at that. He was as good as anybody.

Riley: So you’re leaving this encounter enthusiastic about the prospect—

Snow: I’m not enthusiastic; I’ve just gotten to know him. He looks like he is going to be the candidate. I sure prefer him to Gore.

Riley: I think we’ve got enough testimony on that.

Snow: I’m not carrying banners at this point; I’ve only gotten to know him. I know people who know him who say he is really a good guy; you ought to get to know him. He has been an effective Governor, gotten elected twice now. He is the future of the party. That was sort of in the wind then. McCain was gone, still sort of lurking around, but clearly anybody who knew politics knew he was gone. He hadn’t conceded yet. He didn’t concede until late.

On the Republican side, and I wear that label—If the Republicans are going to win, we’re going to win with Bush. So yes, from then on I was really—But I can’t say I was on the inside. I was just somebody who got to know him. Then we met a few other times. Then he had me down with a handful of CEOs, I think it was to Austin, in December, right after—I think it was December. He had just named a few of his Cabinet—

Riley: So it is after the Court resolved—

Snow: After the Supreme Court, but shortly after. He had a group of CEO types down for a half-day conference and lunch: meet in the morning, have lunch, continue on in the afternoon for these discussions. I could see he was getting ready to be President, had given a lot of thought to things. He’d already named, designated, four or five people for the Cabinet, and I happened to have known them, including my predecessor.

I’ll tell you a little story that is revealing on that. Each of these CEOs was asked to offer some thoughts for the incoming President: What should I be worried about? Being in the transportation business, which is a leading indicator, you see things before most other industries. I could see our car loadings and ship loadings, barge loadings, and truck loading were coming down pretty fast. When it came to me, I said, “Mr. President, or Governor, or President-elect, I don’t want to throw cold water on the party, but you’re inheriting a recession.” Of course that was prophetic. That did throw a little cold water on the event.

Riley: Sure.

Perry: What was his response when you said that?

Snow: He took it in. He didn't say, "Oh, you're wrong." Larry Lindsey was there, sort of the lead economist. Larry probably agreed with me. I said, "You ought to be thinking about dealing with fiscal policy response to this, because you're inheriting a recession." The euphoria about the Clinton economy and all that was coming to an end. Just a few months later we had the recession. Then we had it deepened by 9/11. But we gather for this, the luncheon, and I find myself with Governor Bush and I'm just making casual conversation with him and I say, "You've got some great choices for your Cabinet." We talked about some of the people. He said, "Yes, they're great people. We're going to really do a lot of good things together."

I said, "Governor, I'd love to be a fly on the wall when you and your Treasury Secretary talk about tax policy." Now I saw the real Bush, the *real* Bush. Sort of like the Bush I saw mentioning his dad. He really bristled. He got stern and said, "He's going to be *my* Treasury Secretary and *my* policy is lower marginal tax rates. His policy will be lower marginal tax rates." In other words, no debate. That's sort of where the friction came later. He made it clear. He came in with strong views on the things, and one of the strong views was we're going to have lower marginal tax rates.

Riley: Exactly.

Snow: One of the reasons he wanted to do that is he had very much in his mind the '92 election, when his father appeared to be disengaged from the economy. I think he resolved, *If I ever get to be President, I learned a big lesson: don't ever get disengaged from the economy.* Foreign policy you deal with, but you get elected and you stay in office by how you manage the economy. The most important thing in the economy is jobs.

Riley: You know this because of the substance of the conversations you had with him, or—

Snow: I learned that from conversations with him, absolutely. But I'm saying I think before he'd had the conversations with me that revealed his thinking, he had come to these conclusions.

Riley: OK. I wanted to ask about your noting to him that we were on the verge of a recession. The tax issue had been very prominent during the course of the campaign. As I recall, a part of the argument about the taxes at that time, though, was because there was a surplus. The Governor said, "We've got to give the money back to the American people," which, what, three-quarters of the country agreed with. Democrats and Republicans agreed with that. Your observation about a recession, did he take that as threatening because it could undermine the argument that he was making about taxes?

Snow: I didn't get a strong reaction to this. There were so many of us; there were eight or ten of us. His job is to listen and move on and make sure everybody feels they got—This is somewhat pro forma, these sessions. They're camera opportunities. I don't think we were called there to give him deep input.

Perry: Had the Transportation Secretary been selected at that point? And if not, did you think you were being considered?

Snow: No.

Perry: You said yesterday you'd been considered for Deputy—

Snow: Many years earlier.

Perry: Did you picture yourself at this point in your career going into the Cabinet?

Snow: No, I didn't have any thought of going back into government; I'd done that. I'd turned down opportunities that probably would have led to being in the Cabinet earlier. No, I didn't have any thought really of going into the Cabinet. You don't in those meetings get a big interchange; those are for the purpose of building friendships and relationships. They're for the purpose of cameras and so on. Then you go out after the meeting and the President says he's met with these folks and so on. We're going to pull together and move America forward.

Smith: It is interesting though, perhaps by coincidence, that "inherited a recession" became the standard term. It was in every speech, the State of the Union speech.

Snow: Was it? I didn't—

Smith: It became the mantra soon thereafter.

Riley: But if I'm not mistaken it changes the rhetoric about taxes, right? Because the campaign rhetoric was, "Give the American people back their money." Then the tax cut, the justification for the tax cut, becomes stimulative when the recession hits. I can't remember the sequencing on this. Chris, you may recall.

Smith: It was pretty quick, because the Members of Congress became very interested in the recession.

Snow: It became pretty visible. It wasn't long after I said this, within a month or two, everybody knew there was a recession coming. By the time he took office a month later, certainly by February, March, it was pretty clear.

Riley: Did you go to the inauguration?

Snow: Yes, I did. Absolutely. I sat right next to Jack Welch.

Riley: No kidding.

Snow: And [Jeffrey] Immelt. Yes. I ended up being pretty active for Bush. I got pretty engaged with him during that six months after I first met him, on the campaign. I was engaged, trying to be helpful.

Riley: You had known Paul O'Neill for—

Snow: Forever. I knew him back when we both looked like that.

Riley: Referring to the picture in the hallway from the Ford administration.

Snow: Yes, when we were both in the Ford administration. Always admired him. Very crisp, very bright thinker. We sort of followed similar paths. After government, he got into industry, I got into industry. We both moved up about the same time, became CEOs, and were active in the Business Roundtable, in the Business Council. Sort of the public policy side of corporate life, we were both engaged in, played some leadership roles.

Riley: I wonder if we could turn to Chris for a few minutes. You come into the administration from Day One—

Smith: I was there in November-December, through the transition office.

Riley: In the transition office. Help us set the stage for what is happening in Treasury. What are the big things that are going on pre-9/11 and then after 9/11? There must be some major adjustments.

Smith: Yes, the parallels are interesting because the tax bill was 110 percent of what everybody was working on from, as I said, from November, before even we were officially in. That bill got done by Memorial Day. When John came in in '03, from Day One until Memorial Day, it was a 110 percent tax bill. The parallels were fascinating. But it was very quickly apparent that the initial set of advisors, to John's fly-on-the-wall comment, just did not get along with each other.

Riley: Is that right?

Smith: Just from the beginning. Paul was just a very independent-minded person and it was clear in retrospect that he never signed on to—

Snow: Lower marginal tax rates.

Riley: Is that right?

Smith: To the President's instruction that these are my policies. Paul was just a very independent-minded person.

Riley: And his rationale was deficit attention?

Smith: He was a good soldier to sell the first tax bill and advocate it and do everything that was necessary because the economy was going south so quickly. To John's remark, O'Neill always used to talk about looking at the order books. Coming from industry, you knew that from the rail cars. O'Neill would look at the Visa receipts and call his colleagues in the BRT and ask them, "How do your order books look?" and it did not look good. Don't get me wrong. He signed on for the tax cut as a way to deal with the recession, but thereafter became very concerned about the fiscal situation.

Riley: I see, so it was after the Memorial Day adoption of that first tax cut that the tensions begin to grow.

Smith: The tensions were interpersonal in nature and started almost immediately.

Riley: They were between O'Neill, and who were the other—

Smith: Larry Lindsey and Glenn Hubbard. They just never got along.

Riley: That's atypical of economics?

Smith: Case of first impression to me. But to John's point, these are all people who had been in administrations before and knew the nature of those processes and were engaged in working the process to try to get their point of view across. Because they were all well experienced, the gloves quickly came off.

Riley: Exactly. Was it then after Memorial Day that you begin to see or that O'Neill begins to find the friction or—

Smith: Paul was just not one who—We talked about John's experience from a lifetime of working with policy and legislative process talking to Members of Congress, understanding how they tick. Paul did not have that experience, nor did he have a great interest in it. He was focused on solutions, intellectually thinking through a problem, not the dance of legislation. He did not have a strong affinity for the dance of legislation.

Riley: One of the things that shows up in the briefing book that seems to be a factor later in your tenure is the relatively large number of vacancies in Treasury that some have suggested impaired the smooth functioning of policy making. I'm reading your facial expressions and assuming that that was not an issue when you were there.

Smith: That was an issue when we were there with the Cuba issue, just getting people through. It is an annoyance.

Snow: We ran into some—

Smith: That was later on, a lot later on.

Riley: Because I haven't seen anything on this at Treasury during the O'Neill period, my assumption is it wasn't a problem.

Smith: We were full up. The beginning of any administration you get your people through, there were no hang-ups. But I think the issue with Paul and Glenn and Larry was that the nature of what is called the NEC, the National Economic Council, it was never, ever sorted out who was in charge of that, who was the President's chief economic advisor. All three of those people thought they were that. That was never resolved.

Riley: That was a wrinkle. You said that people had been in the government, but a Republican administration never had that NEC.

Smith: That's exactly right. It didn't exist.

Riley: So the presence of that new force throws everything else out of whack.

Smith: It was never sorted out.

Riley: Is there anything else about the pre-9/11 period that is relevant for our purposes or that we ought to get on the table?

Smith: I don't think so. It was all the tax cut, then sort of a brief summer respite.

Riley: Are you trying to figure out what is the next thing on the agenda?

Smith: It was all the economy. Then Paul was involved in international—the G8 issues and dustup over Argentina—which you've all probably read about. Paul was not enamored, didn't have a lot of patience for the international diplomacy and the lack of straightforward—It was the opposite of being straightforward.

Perry: I just want to go back for another player in the administration, and that is back to your dinner with George H. W. Bush in which you talk about his son and you said you were seated in a grouping with Lynne Cheney and Dick Cheney. Had you known the Cheneys for a long time?

Snow: Oh, yes, sure. They go back to that picture there. He was in the Ford administration with me.

Perry: Can you talk about him and his becoming Vice President and what that meant to you and for you?

Snow: Well, I guess if you want to be Vice President, you ought to get the job of picking who the Vice President is going to be. He is an able guy and performed well in all his jobs. He performed well in—He was [Donald H.] Rumsfeld's guy, really. Rumsfeld always wanted to be President of the United States. He had a rival named George Herbert Walker Bush. They're both working for Ford. Rummy becomes head of the Small Business Administration or something under Nixon and then Ford brings him in; he'd been a Congressman. Then he became head of the small—

Riley: OEO [Office of Economic Opportunity]?

Snow: Small business? One of those White House office jobs. It is while he is Chief of Staff that George H. W. Bush gets sent out of the mainstream off to I think China, rep to China and he becomes Secretary of Defense. Now which job is more likely to lead you to the Presidency?

Riley: All right.

Snow: There is a clear rivalry that goes back between Rumsfeld and W.'s dad. Cheney was in on that somehow. He was in on Rumsfeld going to become Secretary of Defense, because he became Chief of Staff. They're moving, changing chairs. Then 41 all the while is being sent off to these jobs that don't look like they create a clear path to high political office. Of course they did, because of Ronald Reagan.

Anyway, so those are interesting sidelights on the interconnections between these people. But Rumsfeld was clearly the dominant figure when I knew the two of them back in the Ford

administration. He was the powerhouse. Cheney was a good, competent operator. Chief of Staff is the gatekeeper. He decides who gets in and out the door. He watches the President's schedule. He makes sure the President is using his time well. Dick would have been terrific at that. Then he went off and ran for the House seat in Wyoming. I'd see him from time to time in the Congress. He had a good career in the Congress ahead of him. He might have become Speaker one day if he had stayed in the House. No assurance, but he probably had as good a chance as anybody of his generation to be Speaker one day.

Again, who suggested that he should be the person to help find the Vice President? It was his dad. Use Cheney. He's the right guy to help you find out who this would be. Cheney is a very talented guy. He is a pro at government. I never felt he was comfortable in private life. He functioned well and all that, but he was really comfortable—His life was government. His comparative advantage was government, not business.

Perry: So how did you see the two personalities working together, when you knew that Dick Cheney would be on the ticket and then when they were elected? You'd known him for a long time, you knew now the President less so, but how did you think they would work together?

Snow: I thought it would be a good partnership. W. was clearly much better at retail politics by orders of magnitude. That's not Dick's job, retail politics. Bush is terrific at retail politics and of politics of every kind, small-room politics. Cheney never seemed to like politics; Bush loved politics. But Bush didn't have the international experience and Cheney had the international experience. It looked like a good fit.

Riley: John, are you involved with the administration and contacted? Are you being consulted during the period before you become Treasury Secretary, the first couple of years?

Snow: Yes, to some extent. You know the people there. But not, "Help us think through" doing this or that. But you know the people and you see them socially and things like that. But no, I wouldn't say I had any role, in fact I had less role on this transition, as I think about it, than I did with Reagan, where I was quite engaged, or with 41, when I was active in the transition process. On this one, I don't recall playing much of a role on the transition.

Smith: By contrast, Glenn Hubbard was deeply involved in the transition. Larry had been in the campaign and was deeply involved in the transition. Paul O'Neill came later. So the two legs of the three-legged stool were just way, way ahead.

Riley: Now, after 9/11, were you brought in to consult with the White House on the condition of the economy?

Snow: Sure, not only after, but before. I'd come in. Larry Lindsey's little office up there became Steve Friedman's little office, had been Bob Rubin's little office. Yes, I had any number of visits to that little office.

Smith: Did the BRT go in?

Snow: Sure.

Smith: Were you still doing BRT?

Snow: Oh, yes, I was still doing BRT stuff. I'd given up the chairmanship, but yes, I was—They'd call. What they'd do is they'd call you in and want to get soundings, just taking soundings. They just wanted to make sure they're covering all their bases, that there isn't something out there that they aren't seeing or hearing. So that would happen periodically.

Riley: OK.

Snow: It happened after 9/11 for sure. They were really worried after 9/11. I got involved with them on Homeland Security, which wasn't called Homeland Security yet, but this effort, transportation. We were in the ports business, ocean containers, big source of potential risks. The railroads—My great fear was that somebody puts a bomb on one of our trains going through the center of Chicago and you knock out half of Chicago.

So the White House got very energized. It was about then they brought in [Thomas] Ridge, or shortly thereafter, and set up liaison with industry. I was active in that industry liaison stuff. The focus then was all, not the economy, the terror consequences for the economy, and how to mitigate it and how to deal with it and so on. They had lots of conferences; they had hotlines or something where you would—very confidential, to the extent you could be confidential with a hundred companies or two hundred companies, but they had all the big companies on this special network. There were lots of exchanges of data, information, and so on. This was after 9/11.

Riley: The network that you're talking about, the purpose was to—

Snow: Exchange information.

Riley: They could keep their finger on the pulse of the economy or—

Snow: No, no, this is all terror.

Riley: This is security.

Smith: Supply chain.

Snow: They quickly changed focus. The focus was how could they disrupt us? What could they do next? There was a lot of thought I'm sure going into scenarios. If they want to really disrupt the American way of life and the American economy and do us real damage, where do they do it? So they started thinking about energy plants and water systems.

Smith: Critical infrastructure.

Riley: Treasury is in the lead on this?

Smith: It was all hands on deck. Ironically, O'Neill—We had still Customs under Treasury at that time. O'Neill was deeply involved in the supply chain question and the movement of containers and even the ideas of creating DHS [Department of Homeland Security].

Snow: Mind-boggling problem. We hadn't had to think about it before.

Smith: How do you know what's in those boxes?

Snow: Hundreds of thousands of containers are coming into us every week and they originate all around the world, everywhere. How do you know somebody hasn't put something in there? How do you detect it? How do you protect yourself against some malevolent folks who see containers as a way? Didn't Paul play a big role—

Smith: He did.

Snow: —in trying to figure out how to cope with that?

Smith: There was a movement on the Hill to require that you look in every container.

Snow: Which we resisted. The cost—I remember this one—would have killed the industry; it would have killed trade. The cost of inspecting every container would have meant the rate at which containers could move through the economy would be cut by 50 percent or something.

Smith: Of course, even early on after 9/11 there were some political overtones to these things, because who would get to open up all those containers and look in them? Teamsters and customs inspectors. You'd have to hire a lot more of them.

Snow: A jobs bill.

Smith: Paul took the more scientific approach, which is no, control the supply chain so you don't have to look at them. Look at them in Rotterdam rather than in Newark and also be selective about it and analyze the risk.

Riley: So you sample.

Smith: That was sort of second nature for Paul. That was his kind of thing.

Riley: So that is an area where his imprint was very favorable.

Smith: Yes.

Snow: We never went to the option that would have been the jobs bill for longshoremen. We avoided it. If we'd ever gone there—Paul saw the implications for trade, commerce; it would have just slowed everything down.

Smith: The border with Canada was closed for almost a week. It almost brought the economy to its knees.

Snow: Yes, these measures were really threatening to the economy. Anyway, you asked me my involvement. My involvement at that point was being called in every once in a while with a few others to talk about some economic policy. There were a couple of issues that I initiated with the White House and went in to see him on. A couple of them took some time. I was in there periodically.

Then there was a lot of interaction on the containers and the freight trains, the critical infrastructure issues.

Riley: How do you explain why we haven't had a rail attack?

Snow: Good luck is probably as important as anything. If you're a terrorist you have so many options. Railroads are only one of many, many options. There is a lot of inspection of trains. Train safety is a huge issue with trains. Trains are always being inspected. It is just part of the way you run a railroad network. There are continuous inspections. That probably is something of an antidote. But why haven't we seen bombs go off in 50 state capitals on a given day? Why haven't we seen helicopters flying in dropping toxic materials into water supplies? The possibilities are endless for terrorists and all they need is one hit. The answer is I don't know. Nobody knows. Why didn't the Rotunda blow up?

The thing that is wonderful about a free society is that we don't have security guards around everything. People move around. You get back to leading your life. But America survived as America after the terrorist attacks in large part because we didn't adopt some sort of far-reaching measures that changed the way Americans lead their lives. If we'd done that, you could argue we'd be safer in some sense, but we wouldn't be America; we'd be some other place.

Smith: Also a segue to what we worked on, after an initial focus on defense, was offense, to dismantle the people who were going to try to do this.

Riley: Financial networks.

Snow: We'll talk about it.

Riley: Let's hurry in that direction. O'Neill is—How soon is there talk of him being on his way out?

Smith: Well, he had a proclivity to speak his mind on the record. He did not have good relationships with key Members of Congress and within the administration. There was this constant friction. I think after 9/11 happened and the response had taken hold, it started to bubble up. It was just in some sense a matter of time.

Riley: Are you approached earlier than—I guess O'Neill resigns on the 6th of December in 2002. Are they having conversations with you before then about doing anything with the administration?

Snow: Yes. I had a couple of conversations with them. It probably would have been late October or November.

Riley: About Treasury, or about other things?

Snow: They were guarded. They had a Treasury Secretary.

Riley: All right.

Snow: I went into the White House somewhere in there. I don't have a calendar to give you the dates, but sometime in there. I got a call. I was over in London working on some corporate governance issues as part of this roundtable I was chairing on corporate governance.

Riley: Right.

Snow: A blue-ribbon taskforce on corporate governance. The Brits were adopting a policy in their highest corporate governance circles to mandate separation of the CEO role and the chairman role. Of course in the United States it is fused. Most companies have a CEO who is also the chairman. At that time, most American CEOs were appalled at the idea that they wouldn't be both chairman and CEO. You can make a case that they're different jobs or at least they ought to be separate jobs.

So I'm over there meeting with the good and the great of corporate governance in the UK [United Kingdom] and I got a call from I can't remember who. It may have been Andy. I forget who. Would I be able to come in and talk to him in the White House? I've had those calls many times, obviously. I said, "Sure, but I'm in London. I can't do it now." I could sense a little urgency to this. "When you come back, as soon as you come back, would you?" I said sure, like a week later. I wasn't rushing. I had stuff to get done in London and in Europe.

A week or so later I showed up at the White House. I was sort of surprised that when I showed up I was greeted by the personnel office. I was really surprised. *What am I doing in the personnel office?* The personnel office asked about actually very odd things, peculiar things, as if I were interested in something. I was trying to make it clear I was really not interested in government service. They said what about the SEC [Security and Exchange Commission]? Would the SEC—? I said, "No, absolutely not. I have no interest in the SEC." Why not? "That's just not me. I'm in the corporate world. You don't want to pick somebody like me to be head of the SEC." I think the SEC had just been vacant or was about to be vacant.

Smith: Harvey Pitt.

Snow: He was either out or clearly on the way out. I said no, no, no. I was pretty firm about that. Somebody comes in and escorts me down to the office. I think it was the Deputy Chief of Staff. We engage in a nice conversation for a while, sort of rambling, not really going anywhere. The room starts to fill up. It's got now the Chief of Staff in it, it has got Karl Rove, and it has two or three other people. It's pretty clear to me there is something going on here. They ask me some questions that were sort of odd to ask somebody on the outside. Like, "What do you think of our economic policy team?" I remember kidding them. I said, "Are there recorders on?"

Riley: I hope they said yes, for history.

Snow: Unfortunately, you've got a monopoly on those. But I was kidding. You know your economic policy team. You know what's going on, why are you asking me? They persist. I said, "They're all competent people. They're all intelligent. They're all able, but they don't get along, and it's obvious and it's hurting economically. It's hurting how economic policy is getting made." So we talked a little bit about that. I stressed they were all very able, but everybody knew they weren't working together. That was common knowledge. Anybody who took any interest in Washington knew that.

So they said, “What about our policies?” I said, “By and large, I like your policies. You’ve got good economic policies. Lower tax rates seem to me to make sense.” We talked about a few other things.

Riley: Was there a deficit concern on your part at this point or not, since that had been an issue on your agenda?

Snow: The President talked about wanting to be a strong—On paper he had good rhetoric on deficits. The deficit wasn’t a big issue. At that time we still had surpluses. At that point, the deficit simply was not—Everybody was more worried about, as I mentioned yesterday, how to conduct monetary policy in a world where the Treasury isn’t issuing any bonds. So what’s the flip side of it?

Riley: OK.

Snow: I forget what else we talked about, but I said to them, “I know why you did your steel tariff, but as soon as you can get out of that, you ought to get out of it.” This was a very visible open break with good policy. Other than that they were pretty good on trade and pretty much everything else, as I recall. I didn’t have any big issues to raise with them; that one I raised as a miscue.

Then somebody says, “What about the SEC?” I went through it again. “No thanks, not interested.” But I was getting a sense that the SEC was secondary. I could read between the lines; this wasn’t about the SEC. But they asked.

Then after a while—This was a fairly long meeting, 45 minutes or so—I get escorted down to the Oval, where I’m in with the President, just W. and me. He greets me. By now we’ve known each other and are friendly. He says, “I guess you don’t want to go to the SEC, huh? I guess you don’t want to be SEC chairman.” So I took him through why I didn’t think that was a very good idea.

We just had an amiable conversation, got into one substantive subject because that day in the *Washington Post*, which I’d read coming up to Washington from Richmond, was a major article on the Bush administration’s tax policy and the debate within the administration. The principal point of the debate was whether there should be a complete elimination of the tax on dividends or some middle ground, reduce it to 50 percent of where the tax rate was. Just making talk with the President, I said, “I see you have a real debate going on here inside, according to the *Post*, among your executives, your advisors. You’re going to have to resolve it pretty soon on taxes.” He says, “Well, what do you think about that? Where do you come down?”

I said to him, “Well, look, Mr. President, there is a principle in tax policy that you should tax something once but only once. I’ve never heard of a policy that suggests you should tax something one and a half times.” “Oh,” he said, “really? That’s interesting, that’s interesting. That’s the principle?” I said, “Yes, that’s a principle of tax policy.” He said, “Hmm, that’s good. I always like to fight from principle. I always feel better when I fight from principle.”

I thought to myself, *He’s going for a 100 percent reduction. That’s where he is going to end up.* Well, at the end of this conversation, either this time or the next time, he says to me something like, “You’re looking at us and we’re looking at you.” Only he said it in more Texas style,

“You’re sniffing us and we’re sniffing you.” I don’t remember if that was the first time or the second, but then I came back. Nobody mentioned the Treasury that time.

Then I came back, had another visit with the White House people, and it was pretty obvious that it was Treasury. We’re sometime in November now. I meet with the President again and they ask me about my views on economics a little bit. He’s intrigued that I’ve got a PhD [doctor of philosophy degree] in economics. He asked me did I know, did I have much interaction with, finance ministers. I said some, but frankly, not an awful lot. He said that didn’t matter too much, they come and go anyway. They come and go all the time.

Smith: Clairvoyant comment.

Snow: They’re always coming and going. Then some sort of witty comment about he is probing this economics and background and experience and knowledge of economics. He says, “That’s really good. They think I’m the dumbest man on earth. I want to make sure they don’t think my Treasury Secretary is a duplicate of me,” something like that, sort of self-deprecating. He was good at that. He carried it too far, actually. He even carried it too far at the library ceremony. It probably worked when he was running for Governor or something, but I wish he hadn’t. I wish he’d get off that schtick, because it is unbecoming and it isn’t him. He really is a very intelligent guy. He is not going to be a university professor, but he is really quick on the uptake. He gets things fast. He’s got a good mind. He would perpetuate this caricature of himself as a dumbbell. It is a misrepresentation. That’s not who he is.

Riley: It’s a Texas thing to some extent. You don’t want to put on airs.

Snow: Maybe that’s it.

Riley: It may be difficult for somebody whose family line is Bush’s family line, growing up in Texas, trying not to put on airs. I would think that breeds that kind of self-deprecation.

Snow: It could well. Here he is, the intellectual elite don’t like him because they think he has turned his back on Andover and Philips Academy or whatever it was, Yale, Harvard, and the best schools. He ought to be an intellectual like us. Well, he’s pretty damn smart, probably as smart or smarter than most of you, but he doesn’t want to wear it on his sleeve.

Riley: Sure, OK. So he is talking to you about something.

Snow: It was pretty obvious.

Riley: It’s obvious it is Treasury at this point.

Snow: He’s not saying Treasury and I’m not saying Treasury.

Riley: Are you amenable to this?

Snow: He’s still talking about—Actually he is still using the code word, which is the SEC. It’s the code word.

Smith: Because Paul is still there, right?

Snow: He's still talking code word. It's code. I read that code. I think it was at the end of this meeting that he says, "You're sniffing. We're sniffing. Let's just close by saying you're sniffing us and we're sniffing you." Those were his words.

It wasn't but three or four days—We're now into December—that I get a call from Andy, whom I had known well over the years and primarily from 41's administration, where he had been Deputy Chief of Staff in that administration and then Secretary of Transportation. He continued to joke. He said, "I guess you don't want to be SEC chairman." I said, "No, we're over that." He said, "We've got it. What about Treasury Secretary?" I said, "I'd have to think about that one." I had been thinking about it, because I knew where they were headed. He said, "You'd better think fast, because you're getting a call in an hour from the President." I said, "OK."

They don't call you unless they think you're going to say yes. Andy's job was to make sure it would be yes. Presidents never get told no. Somebody else gets told no. So that was that. That was maybe the day after or the day of Paul's leaving, announcing his resignation. It was right after the Bono [Paul Hewson] trip, right?

Smith: No, it was right after he went to Afghanistan.

Snow: Afghanistan, OK.

Smith: It was after the Bono trip. The key inflection point for Paul—You asked about this—was a remark he made on a trip to West Virginia after the tax bill had been done, where he referred to the Congressional committees as "show business."

Riley: All right.

Smith: That what was going on up there was just "all show business," which is what he really believed. "I'm for *substance*; that's show business." It was all an offhand remark and the national press ran with it. Just thinking back to your question, that was the moment where it was just clearly going to be over.

Snow: I had forgotten that.

Smith: We never got out from under that.

Snow: I'd been in to see him not too long before all this, because he periodically would have some businesspeople in that big conference room.

Smith: Yes.

Snow: I was in there a couple of times with him, going around the table, talking about the economy post-9/11. Then I'd go over and see Larry Lindsey in the White House. They all wanted to make sure they knew more than the other one.

Smith: Larry was the one who secured the Visa credit card information Paul endeavored to see

in order to—There was actually a moment of cooperation, because that was one of the best pieces we looked at, best pieces of data going. It is an instant barometer of the economy.

Riley: The billing?

Smith: Transactions.

Riley: No kidding.

Snow: Visa transactions. It tells you what is going on on the consumer side of the economy.

Riley: But that's not easily accessible information?

Smith: They did it as a courtesy. It is an aggregate. We looked at that stuff all the time.

Riley: The proper term for O'Neill's departure is "resignation," or he was fired?

Snow: He resigned.

Smith: I think history shows he was asked to resign.

Riley: Thank you. Actually, if you go back and look, it's pretty clear what happened.

Smith: In the book. In "O'Neill's" book, written by the other fellow, it is depicted that way. He had also offered to resign on numerous occasions previously.

Riley: But they didn't accept before then.

Smith: Right.

Riley: Why don't we take two or three minutes? We're making good progress. We'll come back.

[BREAK]

Smith: We want to make sure that we cover everything you want to cover. We found this guide that you put together to be really good, the questions that you guys did. I know we're bouncing around on different things, but I think John has some things that he wants to make sure you get.

Riley: Let's go straight to that then.

Smith: We're sort of getting there.

Perry: Oftentimes we'll have people say chronology is fine, but can we make sure—We can always come to chronology.

Smith: This was excellent. You guys provided everything; it was actually very helpful.

Riley: We've got him in the office now, so we can handle this however he prefers to handle it. Let's get started.

Perry: We have an hour until lunch and then three and a half—

Smith: I was suggesting, John, that we look at their set of questions, which was so well done, and make sure we hit them all.

Snow: Yes, that's probably a good idea. You hit some of them, like how did you get to know Bush. Did you know anything about economics when you took the job? Did you have any Washington experience before you came in? We hit some of those.

Smith: One thing that we were just talking about O'Neill, which may be indicative, was the fact that he was a major part of the Ford administration—Nixon and Ford—while the government was sort of paralyzed.

Snow: Watergate.

Smith: It may account for his lack of experience or affinity for the legislative process, because they were really hunkered down running the government while everything was paralyzed. He wasn't involved in a lot of big legislative battles; they were just running things.

Riley: Exactly.

Smith: It might explain a little bit of his background.

Snow: If you want a really humorous engagement between a Cabinet minister and a Member of Congress, Google—If it's still on Google; it's somewhere—the hearing where Bob Byrd, West Virginia, chairman of Appropriations, powerhouse, is chairing the committee, and Paul O'Neill is the witness. Somehow this devolves into a debate about who came from more straitened beginnings, whose claim to poverty roots was deeper.

Smith: I was sitting right behind Paul and the hair on the back of his neck was sticking out. The genesis of it—Quickly, in the President's budget, Mitch Daniels was the Budget Director. He was a humorous and witty guy. I hope you talk to him for this project, but basically it was a complaint about all the restrictions that Congress puts on the administration in terms of earmarks and set-asides and carve-outs. He included in the President's official budget a cartoon from *Gulliver's Travels*, of Gulliver being tied down by the Lilliputians as a metaphor for what Congress has done to the government.

Bob Byrd is the chairman of the Appropriations Committee and he was effectively being compared to a Lilliputian. Paul just happened to be the first guy that Byrd had in the witness chair after this thing came out. He came into the room loaded for bear and excoriated Paul over this. One approach to that would have been to say, "Mr. Chairman, I respect you, no disrespect was intended. This was the Budget Director's budget. I'm sure we can clear this up." But no. Byrd had gone at Paul as the messenger, but Paul received it as a direct personal attack on his

integrity.

Paul then launched into the, “Well, I come from humble origins.” Byrd said something about how wealthy O’Neill was and he was out of touch and a high-paid executive. Paul shot back, “I grew up in a log cabin.”

Riley: Right.

Smith: Then Byrd went back, “I grew up in a mud hut.”

Snow: “I didn’t have running water and we had to use an outdoor latrine.”

Smith: It just went from there. Then after the hearing we were walking down the hallway and O’Neill turns around and looks at me and said, “I probably shouldn’t have done that.” That’s a metaphor for Paul.

Riley: I noticed in the briefing notes it is emphasized that you’re talking with what, 20 Members of Congress on the day that you’re nominated, right?

Snow: Yes.

Riley: On the 10th was nominated. “Snow to replace O’Neill. By midday Snow has reached out to at least 20 Members of Congress.” That is according to a *New York Times* article.

Snow: The White House gives you somebody to help you. It is important that you get up and get seen and talk to these people. We had this wonderful guy, Zee, Ziad Ojakli, fabulous guy, just a fabulous guy.

Smith: He’s the 51st Senator.

Riley: Is that right?

Smith: Serious.

Snow: He was the White House guy. They give you somebody and take you through the process. He says, “We’ve got to get on with this. They want to get you in there quickly. Let’s make the contacts. I’ll introduce you to these people.” I said, “Well, give me your list. Who do you have?” He gave me this list. I said, “I know them all.” He said, “Really?” I said, “Yes, I know them all.” He says, “Then you don’t have to go see them. Just call them.” He was sort of surprised. So I called them.

Some of it was funny. I called Don Nickles. He says, “I’m going to oppose you.” He’s a good friend, the Senator from Oklahoma. “I’m going to oppose you.” I said, “Really? Why are you going to oppose me?” He says, “I’ll tell you why I’m going to oppose you.” He said I had to give up Augusta. He said, “Anybody who is dumb enough to give up Augusta isn’t smart enough to be Treasury Secretary.” *[laughter]* But no, I probably knew most of the people on the Finance Committee and Banking Committee. In fact, I knew most of the people in the Senate on the Republican side and knew an awful lot of Democrats, because Maryland is a big place for us,

CSX, and Barbara Mikulski is from there, Paul Sarbanes is from there.

Riley: Right.

Snow: Up and down, we had operations all over the West Coast. You got to know them. Like I told you, our strategy was to get to know people before you needed to know them. So Zee was sort of surprised. He was a star. I'll tell you, when he left it hurt. When David Hobbs left, it hurt. They were powerhouses on the legislative side. They were the anti—the other side of Paul O'Neill. They were what Paul O'Neill needed.

Paul O'Neill is a really talented guy, just super talented, an operations research sort of brain. Everything gets organized and pointed toward an outcome. The outcome is good; it isn't just "let's make sure we do well here," it is "let's do absolutely the best that can be done, that anybody has ever done."

Smith: There were the cubicles.

Snow: Tell them that story. I had to undo a few things when I got there.

Smith: Paul was a proponent of what they call, the euphemism is, "management by walking around." When he got into the Treasury building, he would actually walk the hallways and talk to people and look in their offices and ask them what they were doing. He was a real CEO.

We were on the second floor. He walked up to the third floor one day and looked in someone's office—It was one of these sort of rabbit holes of paper—and talked to this fellow and said, "Your office is a disaster. You need to clean this place up." The fellow was startled. He said, "You're the first Treasury Secretary to ever come up here." One of Paul's things as a management issue was to get rid of people in separate little offices and have open seating so there was collaboration. This is a big thing in corporate America.

Snow: It is the Alcoa way.

Smith: So he set upon to install that in the Treasury Department to people who had for years risen up through the ranks to acquire these Civil War-era offices of great splendor and importance and Paul was going to just get rid of it all. They ordered up these cubicles and set about this project to install them. There was a staff revolt. We started to read about it in the *Washington Post*, where people were complaining about it. John inherited this mess.

Snow: So we quietly undid the cubicles. Really, the Treasury is one of the finest, if not the best, classical buildings in Washington.

Smith: From an architectural standpoint.

Snow: That's what I mean, from an architectural standpoint. The career people there, as Chris was saying, one of the ways you get compensated and incentivized is that one day you might have one of those really nice offices. Some of them are actually like this. You reach the point where you're entitled to—You're an office director, you get an office like this. Then you're told you've got 17 people in here with you in little cubicles. You don't like it.

Smith: Everyone gets to listen to everyone else's phone calls.

Riley: Exactly.

Snow: What I didn't like about it was it destroyed the architectural integrity of this masterpiece building. That offended me.

Smith: We ended up sending that furniture back.

Snow: Anyway, Paul—The point of all this is—Here was a really talented guy who was sort of miscast in this role. Talented guy. What do you do when you're Treasury Secretary? You spend a lot of time trying to sell the President's program in the financial trade economic arena to the Congress and to the media and to your counterparts at the IMF [International Monetary Fund] and the World Bank and the G20 [Group of 20] and the G7s [Groups of 7] and so on. Well, if you don't really think those people are worthy of being talked to, they're beneath, and it isn't your job to talk to them, you're not going to—

I didn't appreciate it until I got there how public that Treasury job is. Next to Secretary of State, or Secretary of Defense and a war, it is the most public job in the Cabinet. You're just inherently before the cameras and before the Congress and taking a lead role in the international conferences and so on and so forth. Somebody who doesn't like doing that sort of stuff is miscast.

Smith: Why don't you tell them the "use the notes" story?

Snow: I'm sitting with the President in December as he is about to introduce me as Paul's successor. We're in the Oval Office chatting away, 10 minutes to go before they're going to go before the cameras and he is going to tell the world that I'm his nominee. So he says to me, "You know, John, it's going to be great to have you over here. The White House folks, the staff, are really enthusiastic about your coming over." I said, "That's great." He said, "They really are. We need good communications over here and they say you're a good communicator; you know how to communicate with people."

I said, "Well, thanks, Mr. President." He said, "No, I mean it. Sometimes they say you even talk without notes. You don't use notes, you just speak extemporaneously." I said, "Yes, I learned to do that as a young college professor to hold the interest of the students." He says, "Gosh, that's a great skill. That's a wonderful skill. I really admire that skill." Then he looked at me sort of sternly. He says, "In this job, use notes." Meaning you're on message.

Riley: Exactly.

Snow: Not literally use notes, but you're on message, we're not winging it. You don't say things like, "Going up to Congress is show business." Or you don't say—What was the famous thing he said? There were headlines in the papers about the Argentinians? The Argentinians had a debt that they were short on.

Smith: They were in default.

Snow: They were in default on this debt and Paul made some comment like, “That’s just like them; they take your money and then put it in Swiss vaults,” or something.

Smith: The Argentinian national basketball team had just defeated the United States in some international contest and the newspapers in Argentina ran a picture of the Argentinian basketball player dunking the ball and Paul O’Neill’s face was superimposed with the USA uniform as Paul O’Neill. That happened after his trip to Argentina.

Snow: He ticked off the Argentinians big, big, big time. “Why should we give these people money? They squander it. They’re all thieves and they put the money in Swiss bank accounts.” Something like that.

Smith: That’s a pretty close quote.

Snow: I read that and I’m thinking, *Oh, my God, that isn’t going to go down well.* The President was giving me real advice there. He understood. I do think his Presidency is both misrepresented and marred some by his allowing the notion to gain circulation that the brains of the operation was Cheney or the brains of the operation was Rove. The real fact is that the brains of the operation was Bush, really. I saw that repeatedly, where he pushed Rove back into the corner, “Enough of you.”

Perry: Can you think of specific examples?

Snow: Oh, yes. Talking about support for the airlines. The airlines came in to see us early on because after 9/11 they were hit hard. They continued to be hit hard and there were real cash-flow problems. There was talk of bankruptcies and the collapse of the U.S. airline industry. In one of these meetings, the President called a group in to talk about airlines and ask us what we wanted to hear and what our view was and heard us out. Rove kept piping up with a point of view that he said, and said it enough. The President finally says, “Enough. I don’t want to hear from you on this anymore.” Cheney—The President was in charge. I hope when you write your oral history it comes through that he was not anybody’s puppet. Nobody was pulling the strings on him; he was “the decider.” Not the most apt phrase, but if you want to talk about who is calling the shots, he’s calling the shots.

This is sort of a humorous one. We were sitting—Korea was this void, North Korea, this black box. And they were always doing bad things. We knew they were doing bad things. They were counterfeiting our currency, they were sending out weapons of mass destruction, and we had very little ability to do anything except maybe the Treasury sanctions that we put on them. But there wasn’t much militarily.

There was frustration about all this, and Cheney suggested maybe some sort of military action would be called for. The President was sort of bemused by this, deflected it. We passed. The next day, the next morning, we had another meeting of the National Security Council. So he looked at Rumsfeld, didn’t look at Cheney, and he said, “Well, Dick, are we ready to go to war with North Korea now? You got the war plans made?” He was telling Cheney, “We’re not going to war. Get off that kick.”

Smith: One piece of history that is not well known is that Bush was the first President to put

Treasury on the National Security Council. Treasury was not on the National Security Council.

Riley: Was that before 9/11?

Smith: It was right at the beginning of the administration.

Snow: I'm reading this book on [Dwight D.] Eisenhower, what was the name? Eisenhower's bargain or something.

Perry: *Ike's Bluff*.

Snow: Yes, *Ike's Bluff*. Is he connected here with the university? In there they were describing the National Security Council and Treasury was on it back in the '50s.

Smith: There might have been an interregnum.

Snow: There was. It was a big interregnum.

Smith: Because they were not on during Clinton, and that was right from the beginning.

Perry: Evan [Thomas] went to the UVA Law School and he passes through the Miller Center pretty frequently. In fact, he spoke on the book at a forum recently.

Snow: That book is getting—In fact, I'm hosting a little dinner for the Miller Center in Richmond where Gerry [Baliles] has this sort of standard set of questions: The last hundred years, any President you could ask a question to and have your dinner with, who would it be and why. I'm reading this book, which is well written and very interesting. I said, "You're going to get a question on Eisenhower. Somebody is going to say Ike because of the book." Gerry's reading it too. Have you read it?

Perry: I haven't, but I was here for the forum.

Snow: It's good. Ike is a much more—we'll get off that, but he is a much more complex guy than given credit for, sort of like Bush. Much more statecraft in him that wasn't visible, that he hid. Bush had that too.

Riley: Chris, let me ask you, because we were talking coming out of the break about how we might proceed. We certainly want to deal with the things that you consider to be of greatest interest and importance. Can you help us with the topics?

Smith: I've got your list. I think John is ready to go.

Snow: We've looked at your list.

Smith: It's a good list.

Riley: We talked about your appointment. Did you have any understanding with the President about your portfolio? Appointments or issues?

Snow: I knew what he wanted. We had a good conversation on what he had in mind for the Treasury. He wanted to get his tax bill passed, one, two, three, four, five, six, seven, eight, nine, ten. That's my objective, get this tax bill—

Smith: Your first priority is one, two, three, four—That's exactly right.

Snow: That was clear. The economy was faltering with anemic recovery, very weak recovery. When you're President of the United States and you're as shrewd as he is about political things, you have that on your mind. I mean, '04 wasn't that far away, less than two years away at that point. You asked me how I knew he had that on his mind. Within a day or two of coming into the job, he asked me to join him for a forum over in Fairfax with Chuck Schwab and with some local businesspeople. He liked forums with local businesses, with small-business people.

I was in the limousine with him, just he and I. We're chatting about this and that. That morning in the paper was an announcement about John Kerry having prostate surgery, prostate issues. Somehow the President talked about Kerry. He'd known him from Yale; they'd been undergrads together. I remember him saying, "If I've got to run against somebody, I wouldn't mind running against him." An "I know I can beat him" sort of thing.

He got into this thing about his dad losing. It affected him. It was always on his mind that his father lost in '92. It affected him; he shouldn't have lost. He made it clear. Nobody was ever going to take him on for being disconnected. You get elected because of jobs; he knew it. We talked about that. We've got to get this tax bill because the tax bill will hopefully create jobs, but it will show we're on the job. It shows we're focused on the right thing. So he always knew that the domestic agenda, even though he was a war President and talked about being a war President, he knew that in terms of continuing in office it was the domestic issues, and there was only one domestic issue of surpassing importance and that was jobs and showing people you cared about their livelihood. So that's how he confirmed it.

Riley: You touched on this a little bit, but the next question on the list is about Bush's own engagement in the policy-making process. He is—

Snow: On the tax bill, he campaigned on it; it was his bill. Social Security, he campaigned on it. It was his policy. I'll tell you a little story that perfectly captures the reality. This is from George Shultz, and I hope he goes and sees every Secretary of Treasury and every Secretary of State with this.

He came in within a week or so of my getting the post, very pleasant. We're having a cup of coffee and he says, "You're going to get asked, John, often, 'Mr. Secretary, what is your policy on so-and-so? What is your policy on the IMF gold reserves?'" I think that was the one he used. "Or 'What's your policy on the dollar' or 'What's your policy on taxes?' Boy, that's tempting. There's your chance to light up the world and lay out what your policy is. Let me tell you what the answer is. The answer is, whatever the question, 'You know, I'm really honored to be in this President's Cabinet. I'm honored to be the spokesman on economic policy for the administration. I'm pleased to have the opportunity to counsel the President and offer my advice, but these are the President's policies. They are not my policies.'"

The logic of that is just compelling in any administration. If you have a Secretary of whatever,

Secretary of Interior with a policy on use of federal lands and you have a White House with a different policy on the use of federal lands, it won't hold. Even more so, if you get a Treasury Secretary with a set of policies on the economy and the White House is right across the alley there with another, or State Department, it doesn't work.

So what he was saying is, all policy emanates from the President, the White House, the President. It was as true with Bush as it was with any other President. It's the President's policies. He knew his policies. He knew the tax bill. He knew the Social Security. He knew the Medicare Part D proposal and why he did it, what was in it and why he did it. Those were his policies. He was deeply engaged. Immigration, he knew that. CAFTA, he knew that, the Central American Free Trade Agreement. The yuan, China engagement, he knew. We talked a lot about how to engage China. He was deeply involved. It was his policy. We became instruments of it. But you're the instrument of the policy; you're not the originator of the policy.

That's the advantage of being a Congressman; you can be the originator of your own policy, but the chance you're going to get anything passed is pretty low. The advantage of being in the White House, in the Cabinet, you really are engaged in something that probably has some chance of having an effect.

Riley: Let me pose a question based on the earlier discussion about Paul O'Neill's problems and an environment in which you have two other strong personalities involved in economic policy. How do you deal with that when you come in? Do you have an understanding with the President about who is going to be first among—

Snow: The President said, "I want you to be out front for the administration. Your job is Congress and Wall Street and Main Street and international." So we had four big constituencies. I think he saw that Treasury had not been able to do what a Treasury should do with all this conflict. This was reset. This was starting over. The people were picked to do the reset. You've got a very gifted economist without a big ego named Greg Mankiw, to come in as head of the Council.

Riley: So that improves that dimension.

Smith: This was a package deal.

Snow: It was a package deal. You get a management type, Steve Friedman, who comes to his job with clear understanding that he is going to be the honest broker. He is going to represent Treasury and he is going to represent State and he is going to represent the Council of Economic Advisers in the options papers that go. He doesn't view himself as advancing his own ideas through his options papers. He was an honest broker.

Larry is a great friend, but anybody who was close to that process would say that Larry was advancing his own ideas in the options papers that were supposed to reflect everyone's views. Steve really took seriously giving the President the alternative views and always made sure that Treasury's views and whoever else was involved in the particular issue, those views were represented in the memo. Then you'd go in and have policy time with the President.

I don't ever recall—In fact I talked to Steve sometime recently and he agreed. I don't ever recall

a time where I felt the options paper didn't reflect what we wanted where I had to take exception. Never had to go screaming into the White House saying, "Mr. President, our view isn't getting properly presented here." Steve was very careful to present it fairly. So we had three very different people, but who understood their roles. Mankiw was the master teacher and—

Smith: Explainer.

Snow: The master explainer. He'd sit down with the President—In fact, I talked to him sometime recently, too, just reflecting on things. He's chairman of the economics department at Harvard now. He's got the best-selling textbook in economics. I said, "I remember well those sessions with the President when you were teacher-in-chief to the President." He was very skillful, really a master teacher. These little memos that would explain why the deficit was connected to the value of the dollar, connected to interest rates, connected to our being net buyers from China because the dollar was lower than it otherwise would have been, and so on. He could frame these issues really beautifully, but he wasn't the policy guy.

I remember Laski saying economists should be experts, should be on tap but not on top. *[laughter]* Well, he was a Laski-ite. Steve was meticulous in making sure that the policy memos were objective and that everybody got a fair shot at it. We'd spend hours, more hours than I care to reflect on, over there at the Larry Lindsey—That was Robert Rubin's little corner office.

Smith: Gene Sperling's office.

Snow: Gene Sperling's office, Larry Summer's office, where so much gets done on economic policy. Debating, refining, analyzing, thinking. So the President got well served by the economic policy process that was put in place for the second wave of economic policy advisors. Probably, if you think about it, far better than on the defense, security side.

Riley: Who was responsible? You said it was a package deal, so I'm assuming the package must have been put together as you were coming in before you were a piece of it, or—

Smith: Larry left soon after.

Snow: They all left.

Smith: All three positions changed pretty much contemporaneously.

Riley: I guess my question is whether you were consulted on these other slots.

Snow: I was consulted on the CEA [Council of Economic Advisers]. I interviewed the various CEA candidates. Steve had already been picked. Steve and I were already collaborating on things like the tax bill. It was going up before we were official. We were in regular conversations in December and January. I interviewed Greg and three or four—Eddie Lazear was one of them. We interviewed a bunch of them at the CSX office that was right across Pennsylvania Avenue from the Treasury Department.

I remember John Taylor, who was the famous Taylor Rule professor from Stanford who was at Treasury as an Under Secretary. I was just getting to know John and was getting briefed by these

people. The staff would come over to my offices. One day John was over to brief me. We finish up and he's walking out and who is sitting in the outer office but Greg Mankiw. Now here are two of the maybe five leading macroeconomists in the world who have competing textbooks.

John is sort of looking at Greg. What's going on? You can see his face—But Greg was really terrific. It was harmonious, the three of us. I don't remember any harsh words ever. We would have different points of view on things, but it was all very collegial; it was a collegial group.

Smith: Make it work, that was the deal. Make it work.

Snow: We all knew why we were there, because this is to reset how we do economic policy.

Riley: Did you have a right of refusal on these people? Could you have said—

Snow: I'm not sure. I didn't want to force that. But Steve was in. They'd picked Steve. He and I were already picked. The Council job was open, so I interviewed four or five different people for that job and really we hit a home run with Greg Mankiw, a real home run.

Riley: I'm just trying to get a sense of about where the—Because by your comments it's clear that this—We went from a dysfunctional environment to an environment that seems to be highly functioning. Where does the responsibility and credit go for that?

Snow: The President. This was the President's decision. He decided the three prior ones should go; that's why they go. They all work for him. He decided we'll get a new team and he picked the new team.

Riley: Members of the Cabinet, other members of the Cabinet, you're getting along well?

Snow: Oh, yes, [William] Cohen was somebody I'd known well for some time. Spence [Spencer] Abraham, the Energy Secretary, I knew him when he was the Michigan Senator and liked him a lot. I think Norm [Norman] Mineta was there then: He was an old friend. He had been chairman of the House Public Works, which was a committee that if you're in the transportation business you know the Public Works Committee. So I knew him from Public Works, knew him well.

Tommy Thompson, I didn't really know Tommy well. Rummy [Rumsfeld] of course, knew him from a long time back. Who else was there? There was Ag [Agriculture] I knew [Ann] Veneman, just around-town sort of stuff. She had been Under Secretary or Assistant Secretary in a prior administration. I knew her, liked her. Tom Ridge I knew when he was Governor. We'd done a lot together in Pennsylvania when he was Governor. I worked well with Tom. When I first came in, he wasn't yet Secretary because we didn't yet have a Homeland Security Department. But it is contemporaneous; he's overseeing that function in the White House and then they create the Cabinet agency. So he's in probably a month or two after I am, maybe almost contemporaneously.

One of my first impressions at Treasury is going to these ceremonies with John Ashcroft. I knew John because he was a Senator from Missouri. I knew him from his Senate days. We were handing off some agency, Secret Service, to Homeland Security. Customs was the legal—

Smith: The whole thing. ATF [Alcohol, Tobacco and Firearms].

Snow: We were handing them off to Justice. We'd have these ceremonies. I didn't know any of these people; I had just gotten there and I'm saying goodbye to them, but you had to honor their service and what they'd meant to Treasury, so you'd give a little speech and say how important you've been for the hundred years you've been part of the Treasury.

Smith: Two hundred.

Snow: For some of them. I was thinking Secret Service was [Abraham] Lincoln.

Smith: Customs was 1789.

Snow: But Secret Service was Lincoln. Now Paul O'Neill's view was this was the best thing that could happen to Treasury, because it allowed Treasury—and there is truth in this—It allowed Treasury to become a truly coherent—go from a conglomerate to a single focus, economic policy, finance policy, so on, rather than this conglomerate where you're getting pulled off into all sorts of things. Treasury gets pulled off an awful lot because of the IRS [Internal Revenue Service].

When you're in Chris's job as chief of staff, you've always got IRS issues that are bubbling up and have to be managed. Double, triple that if you've got Customs, because Customs is always screwing up somewhere, creating a problem. It always—

Smith: Somebody gets pulled over at the border.

Snow: It might be a Senator's wife who happens to be a federal judge, which happened to me with Arlen Specter and his wife. These things are always happening; that's a real true mess. The Alcohol and Tobacco stuff is not really a finance, economic policy function.

Smith: Extremely controversial.

Snow: So Paul was privately very pleased because we now were going to create—And we did, Treasury was much a more coherent body with a clear mission rather than this sort of scattered mission, which created more focus on the things that the Finance Minister should be doing. But boy, there were any number of these ceremonies, and Tom Ridge would come and welcome the new people and John Ashcroft would come and welcome the new people. I'd wish them well as they went out the door and say we would always treasure and remember them for their service to the country.

Smith: There was a real morale issue there.

Riley: They did not want to go?

Smith: Not so much that, but it just looked like the place was being dismantled.

Snow: Treasury had a morale issue.

Smith: It was a morale issue. Everything was leaving. One of the things that John did so well was make sense of it, and that gets us to TFI [Terrorism and Financial Intelligence]. It ended up being a huge positive, but it had to be managed through.

Snow: Out of all this, of course, Treasury had a real role to play in the antiterrorism finance stuff. We had the tools. We had the [USA] PATRIOT Act [Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act] and the Bank Secrecy Act [Currency and Foreign Transactions Reporting Act] and stuff, which were powerful legal authorities to deal with terrorism and to get the attention of the banks and to use the banks as the first screen to identify flows through the system and hold the banks accountable.

We didn't have our own intelligence capacity, so we were dependent on all the other—we, FBI [Federal Bureau of Investigation], CIA [Central Intelligence Agency], NSA [National Security Agency], and so on. Some folks in the Congress and some folks in Treasury recognized this before I got there. But when I got there, we got this opportunity with some legislation to create our own intelligence, which is well written up in a lot of things. They can give you the history of that. But we took it; we seized it. Didn't want to get that issue, Treasury's intelligence capacity, before some intergovernmental review process, because obviously the people who had the intelligence functions then would have at least raised some roadblocks. Legislation was moving and it would have taken time, and we sort of seized the moment and told the chairman of the committee we'll go with it. This was '04.

Smith: It was early.

Snow: Yes, early, end of '03, I think. So Treasury got the intelligence function, augmented our antiterrorist functions. We set up the Office of Terrorism and Financial Intelligence. We knew we had an issue there with Justice that guarded their role with the FBI and law enforcement jealously, and knew we had to have somebody from Justice who was really respected by the FBI and by the Attorney General.

I called up John Ashcroft—You ask about Cabinet relations, and they're important. I told him that we had this new responsibility and there was a very able person in Justice that I thought perfectly suited the bill, was the best person, checked it out. His name was Stuart Levey. He said, "Oh, no. Not Stuart, you're not going to take him, are you?" I said, "He's the best guy for this job." He said, "He's my right arm. This is the most talented guy we've got."

I said, "Well, John, we really need him. He's just perfect for this. He knows Justice, he knows CIA, he knows the law enforcement world. He's a brilliant lawyer. He'll respect the law enforcement, your functions." So John relented and he came over and really did a phenomenal job. He is now the general counsel—

Smith: HSBC [Hong Kong and Shanghai Banking Corporation].

Snow: Really a brilliant, able guy. He stayed there through the first couple of years and was deeply respected by everybody. We put this function in place, and as we did it we recognized we had to institutionalize this on a global basis. We were the first finance department to have an antiterrorist official function with an intelligence capacity to go with it, broad intelligence capacity to go with the enforcement capacity. I would take Stuart to the G7 meetings and talk to

the other G7s, G8s, about the need for them to have counterpart capabilities. You can't go after the terrorists alone. They're everywhere. You need a collaborative global effort.

We got tremendous cooperation from the G7, G8, G20, IMF, World Bank, and institutionalized this idea that finance agencies are on the frontline of the War on Terror. We talk about things that we got done; that's got to be high up on that list. Well, you can't say for sure, but one reason is this offensive program to go after the flows of the money, which give you tracers into the terrorism cells. What we would do through this—As you watch the money, you watch where it's coming from and who is getting it. Then the intelligence community can put together, by triangulating these flows, things that are likely to happen.

The program really saved lives. I don't want to talk about specifics, but it did save lives.

Riley: Your authorizations for that—

Smith: Just one comment on this. There was a concern that Treasury is just rebuilding an empire that they had just devolved. You just sent everyone with a gun and a badge to DHS, and so there was some concern that you were just sort of re-creating that. John was brilliant in defusing that by choosing—by Nixon going to China. You get the top person from the Justice Department, which had the biggest concern, to run the program and the top person from the CIA to run it, so basically they were made part of the process and it completely defused it.

Snow: We had a woman who was very well thought of by the CIA folks who was working closely with us. I called the head of the CIA with the same exact conversation. That was easier because she was already working with Treasury. They liked that.

I think it was Porter Goss by then. I called Porter, who had been the Congressman from Florida. I had known him from his Florida congressional days. He took an interest in railroads because the railroad went through his district. Porter, I think, had been chair of Intelligence.

Smith: He was chairman of the Intelligence Committee.

Snow: I went over and saw him and sat down. So they were delighted to have somebody head the intelligence function. They knew it would be consistent with what they were doing. Justice was a harder sell because FBI, the Assistant Attorney General for Criminal—These people held these same functions close in hand. There was a lot of rivalry. We found it after 9/11 with the silos.

Smith: The lack of sharing.

Snow: The NID was set up, the National Intelligence Directory, to deal with that very problem. I would say this: I feel really good about what we did, the Treasury team, in putting together this function and then globalizing the function through other Treasury departments and the IMF and the World Bank that developed counterpart capabilities. Stuart really worked hard talking to the finance ministries of the world to get them to build, and showing them how to build this capacity.

Smith: North Korea, Iraq, this is the tip of the spear right now.

Riley: The authorizations for this were in legislation?

Snow: In intelligence legislation.

Smith: Intelligence Authorization Act of—

Snow: Of '04.

Riley: Which were your most important inter-Cabinet relations? You talked about your personal relationships with the other Secretaries—

Snow: Don Evans was very important on the tax bill. He played a big role. He was a very good colleague, an excellent, superb colleague, collegial, very savvy. Of course he was the President's friend, which was a huge plus. He had a wonderful way about him, not to pretend to know what he didn't know. He knew Treasury; he knew the tax issue. He wasn't trying to play the lead on the substance of the stuff, but he played a huge role in selling it. He is a wonderful communicator, wonderful in building relationships. He is a relationship guy. The opposite of O'Neill. O'Neill was the nonrelationship guy, all substance, all analysis. Evans is plenty smart, but he is all relationships. If you could have merged those two—Isn't that right?

Smith: Myers-Briggs.

Snow: Exactly.

Smith: They were different quadrants on the Myers-Briggs.

Snow: They were the opposite quadrants. That was a very close relationship. We had a very good, strong Deputy over there named Sam Bodman [III], who had been his Deputy. He was looking for a Deputy. He came over to see me and recommended Sam. It was a very good choice. Sam went on to be the Energy Secretary in the second term.

Spence Abraham was a good colleague for a lot of energy issues that kept popping up. You always have tax issues in energy. You've always got the political issue of gas prices, where they're going. We all recognized that rising gas prices were a matter of real concern; we had some spikes in there. There were then debates about whether to open up the Strategic Petroleum Reserve or not, lots of meetings on that. Most of us concluded no and we never did it. A lot of interactions with Spence. We saw the energy issues as really core economic policy issues. We were trying to get lower tax rates so people would have more disposable income. That's what lower tax rates are all about; you have more money in your pocket at the end of the day.

Well, low gas prices or high gas prices play the same thing. If gas prices go up, you have less money in your pocket. We were very conscious of the importance of high gas prices to affect consumption and also to affect the political equation. People don't like high gas prices. I think we thought—Was it four dollars? In our day, three dollars was the tipping point; now it's four. But in our day the political calculus was you get these gas prices going over three dollars a gallon and you're going to have problems. So Spence was very good, interacted with him on a lot of things.

The Interior Department—I don't think we did too much there.

Smith: State.

Snow: State was big. I was thinking Tommy Thompson—

Smith: [Larry] Levitt.

Snow: Health and Human Services. The President had in mind health care was something he was going to have to confront. We talked about his political antenna; Democrats had lots of health care proposals, lots of highly costly health care proposals that probably wouldn't have been very effective in dealing with what was in the media, the major problem: 40 million people without insurance. So that became the focal point of health care policy. How do we deal with the 40 million people who didn't have health care insurance? Then we had endless meetings to break down the 40. How many of the 40 were really people who were very healthy and under 35 who didn't have health care insurance because they didn't want it. They were making a decision. They weren't being deprived of health care; they made the conscious decision not to get it.

Then you break it down, there were like 10 buckets here. You break it down and you find it is really about 9 million people who want it who don't have it. The problem was being mischaracterized, misdiagnosed, and the answers were dealing with the 40 million rather than the—So the answers that were coming out of the Congress, the proposals in the Congress, were gigantic relative to the problem.

We knew we had to deal with it; the President knew he had to deal with it. We knew we had to come up with something. Out of the endless meetings over there in Steve Friedman's office and in the Roosevelt Room and in the Cabinet Room on health care, the President ended up with Medicare Part D. I must say a lot of us weren't enamored of it, because we saw a big price tag on it. We were wrong. As it turns out, the price tag has really been a lot lower, but the President, it was really his decision. Medicare Part D was really his decision with a lot of close dissent, a lot of naysaying on the part of a lot of people around the table. But he persisted.

I remember him saying, I think it was on the Medicare Part D issue, in one of our meetings, that we're only here for a short time and we ought to use that time to do the big things and do the right things.

I must say I was personally skeptical on Part D. I didn't like these entitlements that could run up. We'd seen present-value analysis on this that was pretty significant, that was way out there. Fortunately, they haven't materialized; the President got this one right. There was a lot more competition out there to hold the prices down once you structured it the way Part D was structured to get the pharmaceuticals really competing against each other. CBO's [Congressional Budget Office] estimates were about double the rate at which costs—Look at CBO cost squares, they're about 50 percent higher than what we're actually getting.

Smith: Way under budget.

Snow: Way under budget. And some of us were thinking, *CBO has underestimated this; it is really going to be double CBO*. Well, the President wanted to do it because it was right. He also

realized that this was going to be his issue in the election. Health care was going to be a big issue. The 40 million don't have health care. That was one where he really made the decision. What was his role in policy? It was his policy.

Riley: Good example.

Snow: He was given lots of options. I remember in one of these health care meetings I didn't endear myself to him. A number of proposals were on the table, but they were to me not particularly well conceived. I didn't have a better one.

I knew where we should go. We should get the people acting more like consumers, rather than this third-party system, which shields people from the real costs. We go out and buy a car and we shop. We price compare. We go on the Internet, we go to the used-car lots, we go to the new dealer lots. We check Nissan versus Honda versus Chrysler versus GM and on and on. We're good consumers. Americans make good choices. They work hard at getting value, except in health care. What we needed to get was a system that inverted it so we'd start to get people acting like real consumers. Then the question is how do you get there.

The way you get there was these HSAs [health saving accounts] that Treasury was pushing. We were going to pay for them. But they were too small to deal with the whole range of people in the health care system. They would deal with a piece of it, but not all of it. So the end objective was pretty clear. You wanted to get people who were consuming health care confronting the true costs of what they were consuming, and they couldn't see it because somebody else was paying for it.

Well, there were some ways to deal with that. You could give people vouchers for health care and let them build up accounts and make sure they use that money to buy their own health care and have high deductibles, which in miniature is what HSAs were all about. But if you're going to create vouchers for everybody, you break the bank at the beginning. It is very costly, so we didn't want to do that.

So we were going around the table and Tommy Thompson had this proposal that wasn't selling very well, and other people took up proposals and they didn't sell very well. The President looked at me and said, "What do you think of all this?" I said, "Mr. President, none of these look to me to be very good options." He said, "Well, what's your option?" I said, "Here's my philosophy, but I don't know how to do it. You've got health care experts here. We're in a fix because we don't have any really good options, none of them."

He says to me, "The Democrats are going to have options." This was, I think, subsequent. "They're going to have options; we've got to have some option." Out of that mix was where Medicare D came. But it ends up being an apparently good policy despite my reservations, despite the reservations of Steve Friedman and the rest of us. We all had some reservations. But the President was right. What he said to me on that, and I think Steve was there too, "If we don't do this, they're going to do it and they're going to do it in a way that is less effective and more costly, so what should we do?" And they would have done it.

Riley: Interesting.

Snow: They were going to do it. He had to push it on his own—

Smith: It was a heavy lift.

Snow: He had to push it on the Republicans. They didn't like it.

Smith: They didn't want to do it.

Snow: [Dennis] Hastert and company did not like this. The President—Here's an example, when you evaluate him, of sizing things up. He's principled, but sizing up reality and looking at the old idea of opportunity costs.

Riley: Taken full circle. I have to intervene because we have lunch set up downstairs. I think we're making good progress.

Smith: We're getting there.

Riley: We'll come back, and as you suggested we'll keep going down the page.

[BREAK]

Riley: Again, tracking through the questions in the briefing book, there are a couple still from that first group that I want to pick up on, and Chris, again, I'm looking to you. If there are bits and pieces of this that you know that are important—I'm going through and getting the highlights, but you help me—

Snow: Fill in the blanks.

Riley: Right. One of them is we talked a little bit about your relationship with the other key economic team.

Snow: You asked me also about—I want to go back to it: the other Cabinet. We didn't talk about State.

Riley: Let's do State now, then.

Snow: Because State was important to us. Treasury and State have fairly close connections because we both touch—Treasury is the foreign policy and finance basically, the economics. So you overlap them. They have an Under Secretary for Economics, then you have the Trade Representative. Treasury is always involved in these treaties on trade, trade treaties, tax treaties, and the finance side of trade. Treasury has the lead on the financial issues in trade. Trade agreements almost always have a finance side to them. On global economic policy we interacted with State, on the trade stuff with the Trade Representative.

Of course, since the Iraq war is the 800-pound elephant and always in the room, and the

reconstruction of Iraq and the debt financing on Iraq, Colin [Powell] and I got the assignment from the President to lead the effort on the debt forgiveness. Iraq had a level of debt coming out of the war that was unsustainable. They could never become a freestanding economy without massive debt forgiveness. So we together took on that role. The President later brought in Jim [James Addison, III] Baker to talk to the heads of state. Colin was talking to the Foreign Affairs Ministers and I was talking to—

But it ended up being Treasury that did it, when you get right down to it, because debt forgiveness is a *Finance* Minister's role, not a *Foreign* Minister's role. Colin and Jim Baker could help create a climate, but when it came right down to it, who was going to write the cancelation notice? It was the Finance Minister in Germany or France or Spain. So we coordinated with Colin and State on that a lot. That was a lot of time, a lot of effort. The whole reconstruction of Iraq had a big, big Treasury role. We were probably more important in the reconstruction of Iraq than anybody in the sense that they had to have a currency. Where did the currency come from? Well, Treasury took charge of eradicating the Saddam dinars and substituting dollars for a while and then coming back with a new dinar—

Riley: Right.

Snow: —organizing the printing presses to get that done, setting up the Central Bank, setting up the Finance Ministry, setting up the budgets and the accounts. We sent a team over there that for all purposes was the economic policy government of Iraq and put in place the principles for that country going forward that emphasized Bush administration ideas on trade and rule of law and transparency and independent central bank and so on and so forth.

Riley: How much of your time was spent on the front end, before the Iraq invasion, on the planning aspects of post—

Snow: Almost none for me. I arrived at the beginning of February or end of January and middle of March, I think, is when the war started. But I didn't know before I got there. They didn't even know there was going to be a war. You sensed there was going to be a war, but it wasn't official.

Riley: Right.

Snow: The average reader of the *Washington Post* sensed there was going to be a war at some point, but there wasn't a declared war. I think it was the middle of March.

Riley: The 19th of March.

Snow: So I don't think there was much of that. But as soon as the war came, as soon as the victory came, there was recognition there was going to be a big reconstruction project and Treasury was fully engaged in the reconstruction project and really took over the economic management of the country. We sent a big team of people over there. They were embedded. They were there. They lived in the green zone. We had regular communications with them. A couple of these people were in effect economic czars of Iraq for a period of a year or two until their own government got set up. In fact, the Finance Minister of Iraq, somebody I got to know very well, Ali Alawi was his name, his uncle was the Prime Minister.

After I left office and he left office, I was having dinner with him in London one time and he said to me, “John, Treasury was far and away the most important agency helping the reconstruction of Iraq. Nobody did as much for Iraq as your agency did, as Treasury did.” Not just the debt forgiveness. That was big. It was the biggest debt forgiveness up to that time for any one country relative to its GDP.

Riley: Are you yourself having to do some of the heavy lifting on this?

Snow: Oh, yes, sure, God almighty, yes! Remember, nobody liked the Iraq War.

Riley: I remember that.

Snow: I’m talking to these Finance Ministers. We didn’t have many allies during the Iraq war.

Riley: So tell us about it.

Snow: At the first Finance Ministers’ meeting, there’s just a chill in the air over this Iraq war. The rest of the world, France, and Germany were just appalled that we had gone to war.

Riley: Sure.

Snow: The UK was with us, but other than that, we didn’t have a lot of support. There was resentment; there was a lot of anger. It wasn’t just *We’re sorry you did it*; it was *How in the hell could you have done such a goddamn stupid thing?* That was sort of the attitude. *What in the world are you all thinking about? What’s going on in that administration of yours?*

Riley: So how do you bring them around?

Snow: On the debt thing, my approach was to say, “Look, we’ve had our differences on the war itself, but can’t we agree bygones are bygones? We have to look forward. We’ve got to look out. I know you don’t agree with what was done, but you could agree that we want to see an Iraq that can stand on its own two feet, that can be a stable source of stability. We can create stability in the region that has a functioning economy. You can’t have a functioning economy with the debt load that it has. It will be a failed state from Day One, and that’s not in your interest or our interest.”

There were a lot of conversations with people to build this appreciation of this point of view. It took a couple of years to get this done. We had to get the World Bank involved and IMF involved and using their powers and authorities.

Smith: The Paris Club.

Snow: We got the Paris Club to function on this. The Paris Club is the official sort of gathering that forgives debts. Germany was—France was never going to go along with us. I sort of sensed that, so I talked with Hans Eichel, who was the Finance Minister of Germany, a very powerful and influential guy, figuring if we got Germany, we could get France. Finally persuaded Eichel, who was hard to persuade, I must say. It didn’t come easily. Finally got him to agree.

The Under Secretary for International Affairs, John Taylor—We talked about him earlier, the economist—was very effective in that job dealing with his counterparts. He had done a lot of work as well on the technical side of debt forgiveness. I was dealing with the policy, strategic, geopolitical side of the issue, why we should do this. I think, Chris, it was the '05 G7 meeting in Berlin—

Smith: G20.

Snow: The G20 meeting in Berlin, where he and I went off in a room and came out and he said he'd agree to this. Then of course France and the rest of them fell like dominos. They came. But it was absolutely a necessary condition for Iraq to have any chance to go forward. Then I remember as chairman of the G8 bringing the Iraqi leaders to meet with the G20 and the G8 people. We were trying to get them into the network and use them to help us make the case why the debt forgiveness should occur. We'd script—You had to actually script them, how you talk about this stuff. That didn't come real easy. I remember having to pull aside the fellow who was their spokesman, [Adil Abdul] Mahdi, the Finance Minister, and having a little heart-to-heart with him. "That's not the way to do this." He was going off script and not making the case that was going to be essential to make. So this Mahdi was before or after, I forget.

Anyway, you asked the question, Was there a lot of effort? The answer is yes, absolutely; a huge amount of effort, every day. Every single day this was on the agenda with regular calls over to the folks in Iraq, regular reports to the National Security Council on how the reconstruction was going. It was always on the National Security Council agenda. It was always on Condi's [Condoleezza Rice] mind at NSC [National Security Council]. How is this going? Are we making any progress, debt forgiveness, reconstruction, and so on? Those were big. How are you coming building the coalition, and support for this?

We were trying to get Iraq really accepted in the league of nations, make it a part of the world order. Of course this was at a time when many people saw Iraq not having legitimacy, not having sovereignty, really an American puppet, remember? So here we're trying to get the Iraqis to stand up and speak for themselves and there is a lot of suspicion that America really just wants to dominate this place and that this is a puppet state. That is a phrase they used to use, that Iraq was a puppet state.

We had all these issues, the National Security Council, how to do the hand off. This is not my area of direct expertise, but I was party to it. How do you set up the elections? How do you structure the electoral process? How do you minimize the divisions in the country as you set up the electoral process? I forget all the details of it now, but there was a lot of time on Iraq. Iraq dominated the National Security Council.

Smith: What is underappreciated is if you wanted to do a pie chart of the Secretary's time.

Riley: Which is what I wanted to do, so please.

Smith: It is easy to forget we had a war going on and we were right in the middle of it. Everything he just said, which was on top of the day job. Then you needed to be in Berlin and in Beijing and all these places. The international piece was actually huge. Then the day job was the economy, everything else going on here. So it was sort of a three-headed assignment. There were

a lot of balls in the air at the same time.

Snow: The Iraq reconstruction effort was a major preoccupation of ours. It was full time, always there. It was always taking attention, always requiring attention, and very unsettled. The whole postvictory experience of the Bush administration with Iraq was, to put it mildly, far less than a home run. It was a difficult, complex, in many ways an unsettling and unsatisfactory experience. We weren't greeted as saviors and heroes.

Riley: Right.

Snow: It didn't become a freedom-loving, peaceful place waving flags, honoring the Americans who liberated them from the dictator. It had the Sunnis' and the Shiites' divisions, creating civil war. We ended up having a civil war on our hands and massacres of people and brutal, horrible, lawless behavior. We had little ability to get our arms around it. People will be second-guessing the management. The headline is we won the war, we defeated Saddam Hussein militarily, but managing the postvictory stuff was problematic.

Riley: That was part of the reason I asked about the lead time. You were at a disadvantage to comment on that because you came in fresh there.

Snow: Chris might know. There wasn't any lead time on that.

Smith: I wasn't involved directly, but my observation was that actually there was a considerable amount of stuff done.

Snow: Was there?

Smith: My predecessor, John Taylor, and others were very deeply part of the—

Snow: Back in '02.

Smith: Absolutely. That's my impression.

Riley: Let me pose this question to you about the management of the country afterward. Was it your sense that there were clear lines of authority with respect to the American presence over there? You've indicated that Treasury clearly had the lead on debt forgiveness and economic reconstruction, but was there a coordinating authority or—

Snow: We appointed a czar, remember? We appointed—

Smith: [Paul] Bremer.

Snow: Yes, Bremer. We appointed a regent.

Riley: So you were working under Bremer's authority?

Snow: Technically our team was under Ambassador Bremer. We had him over at Treasury and we'd talk about our side of the whole proposition. Bremer was—What is the term the Brits used for the guys they sent off to India?

Smith: Viceroy.

Snow: He was the viceroy.

Smith: Olin [Wethington] and George Wolfe.

Snow: Yes, two guys that we had over there as our lead who technically reported to him but were really the economic czars in the country.

Riley: Was your experience with Bremer positive, or was it a tangle?

Snow: It wasn't particularly substantive. He was deferring to the Treasury people. We didn't have any conflict with him.

Smith: He was thrilled to have our team.

Riley: Sure.

Snow: There was no conflict with Bremer at all on our side. I think he had conflict with Condi and conflict with Rummy and conflict with the President himself and Colin, but Treasury activities were not a source of friction.

Riley: That is what I'm trying to get at, because of course the conventional story line on this is that the planning didn't survive very well. Maybe plans never survive wars very well and that's a matter for history to judge. But then the questions have arisen about the unity of command, the coherence of the postwar activity in country. What you seem to be indicating to us is that as it relates to Treasury, you felt that there was a kind of coherence. Maybe that didn't lapse over to other places, which naturally leads me to the question why.

Snow: The lack of coherence had to do essentially with how to create stability in this place. That's the whole issue. It's military.

Smith: It was the military issue.

Snow: We didn't have stability. The generals kept reporting back it's around the corner, [William] Westmoreland, you know. I kept wondering, *Well, you said that two weeks ago; you said that four weeks ago; you said that a month ago. Why isn't anybody here in the National Security Council raising the question: General, are we really making progress? Are we really further along in this effort to create stability, at least further than we were six months ago, when you told us it was two weeks off?*

No, the issues weren't on our side of the table. They were entirely on the national security side of the table.

Riley: Now let me ask you, because you've already said you were a member of the National Security Council. Can you tell us about your own recollections of the National Security Council meetings, how those were going as Iraq is unfolding? Is there patience? Is there tension? Are people getting along well? Is the chaos in Iraq getting communicated back into Washington?

Snow: We know there's chaos, but we're getting happy talk from the people responsible for this, that we're on the right path, we're on the right course, the situation is improving. Eventually that just became untenable because it was so counterfactual. The people in the room, particularly the President, wanted to hear good news and wanted to be encouraging of the people in the field, wanted to bolster their morale like a good coach would do with a team.

Riley: Sure.

Snow: Maybe you're losing, but by God, we're going to win this thing. We've got our critics. There are people up there in those stands booing us, the *New York Times* section of the stands. They're booing us, but we're not going to let them deter us. We're going to continue, we're going to prevail, we're going to win.

Well, in that sort of setting you realize what this is about. This is about bolstering morale, the generals who were calling in from Iraq and so on, Fallujah and these various places. They'd be piped into the National Security Council meetings. It really wasn't a time to debate whether we were succeeding. It was a time to talk about well, here's where we want to get. We've got the generals out there working hard.

Maybe there were other National Security Council group meetings that I wasn't in, but I was in all the ones that were official, at least all the ones that Condi Rice called. There may have been some shadow National Security Council where things really got discussed. I assume there was. I'm sure. I'm told that there was sort of a shadow—You ought to probe into this—a shadow National Security Council that Cheney ran with Rumsfeld and where they undoubtedly got in a lot more to the reality that this isn't going very well and what do we do about it.

But with the President it was at a pretty high level of objectives. We've got our critics. We're going to persevere. How are we doing with this? How are we doing with that? Always a positive note. The President was the leader and he wanted everybody to know that we were on the same team, we were trying to get results. It wasn't an environment to invite a lot of dissent on how well are we doing or are we on the right course.

I never heard anybody say, "Mr. President, should we rethink what we're doing to create stability in Iraq? These rebel forces seem to be becoming more unruly rather than less unruly. Do we have the right strategy to deal with them?" There must have been meetings where that went on, but that did not go on in the National Security Council meetings where I was.

Riley: The two main Treasury people that are in country there, they're reporting also back to you, or they're just reporting back to Rumsfeld?

Snow: Oh, no, they're not talking to Rummy. They're talking to us. They're actually talking primarily to the Under Secretary for International Affairs, because they came out of the—We worked that through the Under Secretary.

Smith: There was an entire Iraq department, Larry [William] McDonald.

Riley: Within Treasury.

Snow: Under the Under Secretary.

Riley: I guess what I'm trying to hear from you is what kinds of reports are you getting back from them. Is it the same? Are you getting happy talk back?

Snow: No, no. We know how little is working from the inside, but things they were doing, we did get that, we did withdraw the Saddam dollars. We did transport and get circulated a new currency, the U.S. dollar. We did get the printing presses orchestrated to create the new dinar that replaced, eventually, the dollar. We did get the central bank set up. We got a pretty good guy appointed head of the central bank. We worked closely with the Finance Ministry in going after some of the big problems inside the economy, which were subsidies. They were buying oil on the open market and turning around and refining it and selling it at a 95 percent discount. They had a big budget problem growing out of buying oil on the open market and turning around and giving it away.

They had a similar sort of thing with food we wrestled with, getting in many conversations with the Finance Minister about, "Got to ease out of these subsidies." We were pushing easing out. There was a lot of pushback. We were pushing to get out faster. They were very reluctant to do it, because politically it was very hard and any number—In the end we're funding Iraq. What is our money going for? Not the reconstruction of Iraq, but subsidizing fuel purchases and food purchases, not rebuilding the country. So there were lots of internal problems.

We were trying to get the oil exports going. The problem with getting the oil exports going is that the Sunnis or the Shiites or whoever were blowing up the pipeline all the time. We'd send the military out to guard the pipeline and it turns out the military is infiltrated by the people who want to blow up the pipeline. This is all coming—We know it's a hellhole; we know it is just plain not working; and it is not working because there is nobody really in charge. There is no real authority to make this place work. It's a jungle. It is a chaotic jungle.

So to go the National Security Council and hear how things are, "We're making such progress, it won't be long now and we're turning the corner and—" blah, blah, blah, which you know is just far from the truth—You've got the truth coming in from the people who are on the ground. I would raise that with Colin privately. He knew it.

Riley: You think the President—

Snow: Would talk to Bremer. Bremer was the viceroy. He was dealing with setting up the government. He and Condi, their job was setting up this democratic state, dealing with all the internal politics of setting up the democratic state in a place that had very little knowledge of what a democratically functioning government would be like, what a government was like, really, because after all, this had been a dictatorship in which none of them had had any governing role. The military had been disbanded. Saddam, who had been the Sunni side of the world in a majority Shiite place, the Shiites wanted their authority, and yet we were saying—Condi was in the middle of this, and I guess Bremer probably was—If you're going to have a functioning government, you've got to share.

Well, trying to get to "share with the people you hate who killed your brother and sister" is a tall order. Trying to create a functioning place with the rule of law in a world where Saddam had

killed anybody who dissented and where Shiites had killed the Sunnis and the Sunnis had killed the Shiites and there was deep-seated resentment and hatred even—It was tough bridging all that.

Riley: We were sending massive amounts of currency there too. Our currency?

Snow: That's right, that's what I said. The President—

Riley: Basically, using the American dollar as a bridge.

Snow: Yes, we shipped over planeloads of dollars. The incredible thing was the logistics.

Riley: That's sort of what I'm getting at. How hard was it—

Smith: It was Herculean.

Snow: It was a Herculean task, yes.

Smith: C-5s.

Snow: C-5s coming in had to have security. Then of course there's no truck big enough to handle, so you had huge logistics on the other end to move these military trucks. Remember, Chris, we had an award ceremony for the general and the people who had managed this. Incredible logistics process.

Smith: It was so well executed that folks really have no appreciation for how big it was or how much could have gone wrong. It was actually like ballet.

Bragaw: I'm guessing part of the formula for that has been the denominational mix. You couldn't just send over all twenties.

Smith: John Taylor was the godfather of this, but it was a massive effort.

Snow: It was all the currency. You had to have everything. You can't run an economy just on hundred-dollar bills. Some things only costs a buck.

Riley: Does it mean the printing presses—

Bragaw: Exactly.

Smith: It was a massive supply chain. Then you have to have the right amount of currency so you didn't set off hyperinflation.

Bragaw: Exactly.

Smith: It was a big job.

Snow: It is sort of the untold story. It was a really impressive effort. The coordination between Treasury—And really it was, I forget the general's name and what we saw, the on-the-ground logistics, the logistics there, but there was a big, big coordination project. It started with John

Taylor figuring out, OK, we're starting up from scratch. I'm Alexander Hamilton. We've got a new country. What should our currency look like, and what sort of denominations and what quantity? So in effect, John Taylor became the Alexander Hamilton of Iraq.

Perry: Two questions, related. The first one relates to the sending of the currency, not to mention the expenditures that are happening to rebuild this country from the ground up, not to mention the military expenditure. Plus we haven't even mentioned Afghanistan and the general War on Terror. At any point do you begin to worry, as a person who looks at the bottom line, about a deficit and about the tax cuts and the impact of these two things, fighting two wars, the tax cuts, and the impact that will have on the deficit?

Snow: Obviously we took that into account, but the numbers indicated fairly clearly that this was manageable. We weren't setting off alarm bells on deficits or debt to GDP. We were actually quite low by historical standards. I testified any number of times before Congress. Of course the people who didn't like the war would always come at me with this, "You've got two wars. You have a tax bill here. This is irresponsible budgeting."

I would basically come back and say, "What is the measure of an irresponsible budgetary policy? It is one that produces very high levels of debt to GDP or deficits to GDP. We're at the low end of the range on this; we're watching it." Deficits matter. They have to be on the matter of the policy concerns, people who are running economic policy, but we're running deficits that are at the low end of the historic range. Then when we had the tax cuts we saw tax revenues just really rise. We had a bonanza for the Treasury.

As I said yesterday, when you get the economy working, humming, which started in the spring of '03 and carried on for the next years I was there, that whole period, the economy was on an upward march. Go back and look at the Treasury receipts; Treasury receipts were on a strong, strong, upward course. As a result, of course, the deficits stayed well within healthy ranges, so we never had the sort of deficits you see today or debt to GDP you see today, far from it. We were at the other end of it.

Smith: The Maastricht story.

Snow: That's sort of funny. When I first went to Treasury, the first meeting, I think it was Paris of the G8.

Perry: February '03.

Snow: I go. There is general antipathy toward the United States and their Finance Minister because you're associated with the administration that went into this war, or there is talking about this war at that time, but clearly we were heading to the war and they all knew it. They didn't like Bush very well. Bush was not popular with his counterparts except Tony Blair and [José Maria] Aznar in Spain. They're critical of the United States for our lack of concern about deficits. The deficit had gone up to something like 3.5 or 4 percent of GDP during that period of the recession. It always happens during a recession, that the deficit goes up.

Then, as I said, we got into the next phase. The economy was getting strong and the deficits come down because the tax revenues go up. You don't have all these side payments that are

countercyclical payments, what the government does during a downturn. Anyway, there is this attitude on the part of the Finance Ministers of Europe that America is profligate, spendthrift, isn't tightly disciplined on our deficit.

I had to tell them why we were doing it. They didn't like our taxes, tax reform, because they thought that would create even larger and more unmanageable deficits. My job there was to talk them through why we were doing it and not in a confrontational way, but they had an interest in having a strong American economy. After all, where do they sell their exports to but the United States? If we could get the American economy going, it's going to help you with your jobs and your growth, and isn't that in your interest? Don't we really have a common interest here? These tax cuts. I told them why I thought they would work to put more money in people's pockets. With more money in their pockets, they'd spend more. Part of that would go to purchasing goods from you, Germany; or you, France; or you, Italy.

We took a lot of flak. About a year later the Germans and the French violated, gave up on the Maastricht Treaty. They said if you're going to be a member of the EU [European Union] currency club, you should have a deficit of no more than 3 percent. That was the maximum. Well, in that next year with our rising revenues, recession's over, improving economy and so on, our deficit is coming down sharply and theirs are going up because they had weak economies and they were using spending measures to stimulate their economies.

So by '04 I'm able to tease them a little bit by saying, "I'm looking around the table here, and by my reckoning the United States is the only country that is a good member of the Maastricht Treaty today. We're the only one eligible for membership." I think they took it good naturedly. [laughter]

Riley: I'm surprised.

Smith: That is a very important historical marker, because that's one of the things that leads to Europe's problems now.

Snow: Yes, it is, absolutely. When Germany and France at the top of setting the order for Europe violate their own internal agreements, what message does that send Portugal and Spain?

Bragaw: Greece.

Snow: Greece. Exactly, Steve, that's a very good point.

Riley: You spend a lot of time going to summits when you're Treasury Secretary, right? You've got G-somethings.

Snow: A lot of Gs.

Riley: Are those useful exercises, or just necessary?

Snow: They are useful and serve a very important purpose in terms of building understanding and support for actions on the big issues of the global economy. We used them fairly effectively to avoid a return to administered currencies. There was a lot of support for going back to the old

administered currency deal, where the Finance Ministers would sit around and decide what the exchange rates should be among the currencies of the world. I was deathly opposed to that and so was anybody who came out of the market approach to currencies and had studied the experience with the administered currencies they had back in the '80s, Jim Baker's era.

There was concern that the U.S. was pursuing a weak-dollar policy, and despite our protestations we were for a strong dollar. There were concerns that our dollar, the lower dollar—The dollar had come down during this period—was hurting Europe's ability to be competitive. They were unhappy about this, so there was continuous conversation at the G7 meetings, G8—G7 really, about how do we contain currency movements? How do we avoid these currency movements that can be destabilizing? We finally resolved it with some pretty good language that I think—Chris, that was the '05 meeting, '04 was it?

Smith: Boca.

Snow: Oh, Boca meeting, '04. Things were really heating up in '04 about the currency question, a lot of pressure within the G7 community to set some boundaries on currency. They couldn't go up or down more than this. In the meetings leading up to this one it had been the topic for three or four of these meetings. What do we do about these currency movements? Do we go back to the administered currency system of the '80s?

Coming into this meeting we were able to put that to rest by getting a statement adopted that everybody could sign onto saying that excessive—That was the key phrase, “excessive movements” in currency evaluations were to be avoided.

Smith: Volatility.

Snow: Excessive volatility was unwelcome. Well, excessive virtue is probably unwelcome too. What? Where do you embrace excess? But anyway, that was the way to get this thing resolved, this wordsmithing. So we signed onto a statement that we would not support excessive volatility in currency markets.

Riley: How many days did it take for you to figure that out?

Snow: I enlisted the Governor of the bank—We're talking—This was a long-running debate about currencies, how do you deal with them. We were for floating exchange rates, where rates were set in open competitive markets. Obviously nobody can devalue their way to prosperity. But there was a lot of sentiment—I think the Italians were in the forefront of this, the French, that we ought to be stronger on this. These volatile currencies are destabilizing. I think they were thinking of the United States as a source of volatility.

I think what I did was to get the Governor of the Bank of England, Mervyn King, who was respected by everybody, and maybe David Dodge, who was Governor of the Bank of Canada, and John Taylor, the preeminent monetary policy guy, to go off and think about how we should approach this question of currencies and their role in the global economy. What kind of statement could we all make that would be satisfactory to the group? John Taylor ended up coming back with this ingenious approach of saying we're all opposed to excessive volatility. That satisfied the French—Some of this was directed against the Japanese, too, who had a

currency that somebody might say was manipulated. They were intervening on their currency.

Part of it was the Chinese had a currency that looked to us like it was lower than it should be in a properly functioning currency market. But this language against excess volatility satisfied a lot of interests and carried the day. After that, I don't think that issue—

Smith: Defused the issue completely.

Riley: Part of the purpose globally was they felt they might have been setting a trap for the U.S. by agreeing to that language?

Snow: They had a trap for us. They had other language that they wanted, which was really directed at reining in the role of markets in setting currencies. We didn't want to get in that trap. That's going back to the administered currency regimes, which were really anti the policy of the administration. But we could live with "excess volatility." As I say, I'm not in favor of any excesses.

Bragaw: This is the point at which the Euro had sort of settled in at a band about 30 percent higher than the dollar, and as originally conceived it was going to float equally.

Snow: That's it. That's what concerned them. And what was on our mind at the same time was Japan. We were strongly opposed to Japan's interventions and the yuan, which we thought was a source of instability in the global economy because it was too low. The Germans and the Europeans thought their currency was rising too fast.

Our long-term objective in all this was to preserve the freely fluctuating exchange rates and to bring China more and more into that world. That was really our purpose. You say what purpose does this serve? One of the agenda items that we continually came back to was the need for China to move to more flexible exchange rates. The G7, G8, G20, were a way for us to continue to talk about that in a way that built some support for it and got the other countries supporting it and using their governors on the IMF to get the IMF more engaged in that.

The other thing that was helpful through these instruments, these international gatherings—When I went to the first G7, I was really struck by the fact that we talked about global instability, we talked about growth, we talked about trade flows, we talked about capital flows, and so on and so forth. It dawned on me that we've got the wrong people in the room. If you want to talk about trade flows, you need to talk about the people who are the source of all the trade: the Chinese and the Indians and the Brazilians. If you want to talk about growth, why don't we get the people who are the engines of growth in here? Same ones.

If you want to talk about imbalances in the global economy, you've got the United States here. We're one side of the imbalance. The other side of the imbalance is across the Pacific. They ought to be in this room. I guess the next meeting of the G7 I was the chairman. It was in the United States and I was the chairman. I invited the Chinese minister and his Central Bank Governor, and the Indian, and I think the—Brazilian, was it, Chris?

Smith: You brought the BRICS [term coined to mean the economies of Brazil, Russia, India, China, and South Africa] into the room.

Snow: We brought the BRICS into the room. The BRICS have been there ever since.

Smith: It became a permanent feature.

Snow: It became a permanent feature, and the dialogue—

Riley: Did the G number change?

Snow: No, what happened is interesting. This is a longer story, but what happened is there was growing dissatisfaction, and appropriately so, on the part of nonvoice or nonrepresentation, what was the word they used, Chris?

Smith: Voice.

Snow: We began to give voice to the people who didn't have voice but had economic size and power and significance. That pretty much made inevitable a transmogrification of the G7 into something that gave voice to these people on more equal terms. That became the G20. So within a couple of years the G7 had been replaced as the central global body for coordinating international activities of finance ministries, and it became the G20. But in a major way it started there with having—We brought South Africa in, we brought China in, we brought India in, we brought Brazil in.

Smith: And Russia was already there.

Snow: Russia was there, so we had the BRICS. This gave us the BRICS, that's right. Russia was there already on a part-time basis. They would come and go on the 8; they weren't a permanent member, but they were there often.

After this started, it continued. Because China was in the room with us, we began to have much more effective—Governor Zhou [Xiaochuan], head of the bank there, got to know everybody in a much more intimate way than he would have otherwise, and I had many conversations with him about the currency. I would take him out and play tennis. We became friends. We were able to use the Gs and the IMF and World Bank, because you meet twice a year with the IMF governors and the World Bank governors.

Smith: Plus the G meeting.

Snow: Then you have six or seven G7 meetings and you have two or three G20 meetings and there are a lot of Gs and IMFs and World Banks.

Riley: So your calendar is pretty well set at the beginning of the year.

Snow: Oh, yes, then you have Congressional testimonies. Who goes up to defend the budget but the Treasury Department? So you've got probably six testimonies there. You've got the Budget Committees in the House and the Senate, and you've got the Finance Committee. You've got the Ways and Means.

Smith: You have Appropriations hearings, not to mention 60 cities in 60 days.

Snow: Oh, and twice a year you go testify on the currencies, because Congress passed a law demanding that the Treasury Secretary give a report twice a year on currency manipulators though they never quite defined what a manipulator is. They want to know: Why don't you name China a currency manipulator? Why don't you name Japan a currency manipulator? So a lot of time. Actually, we spend a lot of time with Steve Friedman and those folks in the White House because it is politically charged to name somebody a currency manipulator.

Smith: So when was it that the President sent you on your mission to China?

Snow: September and October of '03. We met in Crawford—

Riley: September '03. He called you to Crawford? The President—

Snow: Every year the President had a gathering of the economic team.

Riley: Oh, yes?

Snow: In Crawford, in the summer.

Riley: That's pleasant—

Snow: We all look forward to that, [*laughter*] being in Crawford in August. It was always August. You'd go down there and spend a day with him. It was going through the economic agenda. This particular meeting in August '03, one of the items on the agenda he wanted to be briefed on, and became a subject for a lot of discussion, was China, our strategic relationship with China and the currency issue and the trade issues with China. This was at a time when China was felt to be the source of a lot of job destruction in the United States.

Smith: Outsourcing.

Snow: Outsourcing. That's right, it was outsourcing. American jobs were going over to China; we were outsourcing our jobs. We were sensitive—It was a political issue embraced there. We weren't sufficiently tough on outsourcing. The head of the Council of Economic Advisers, who was this wonderful economist, had made some observation about how outsourcing is just the market at work.

Smith: He said outsourcing is good.

Snow: Yes, outsourcing is good.

Smith: On CNN [Cable News Network].

Riley: Who was this?

Snow: This is Greg Mankiw. He's absolutely right as an economist. Resources ought to flow where the market directs them. If you get your textiles produced cheaper in China than you can in the United States, from an economist's point of view that's fabulous, because then that frees up resources that aren't so valuable and we'll get them to go do other things where they're more

valuable and we'll get our textiles brought in at a lower price and that will have positive income effects on the United States and our standard of living will go up—not thinking about the human-consequences side of this, all these former textile workers that now don't have a job.

Of course people in political life are a lot more sensitive to the lives of those people who get displaced. That created a little furor for us. We had to be sensitive on outsourcing. But we all knew that trade was the order of the day and we were going to support trade. What you have to do in those situations is find a way to stick to your guns, do the right thing, and yet do it in a way that makes the activity politically viable. We were going to embrace trade, and trade meant outsourcing, but you don't embrace outsourcing. You embrace jobs in America and policies that create jobs in America and taking actions that will level the playing field, which is a phrase everybody uses all the time.

Part of leveling the playing field was to make sure that currencies aren't being used to *unlevel* the playing field, tilt the playing field. So we started talking about how China had to play by the rules. One of the rules was you don't manipulate your currency, knowing that that was not going to end outsourcing.

Smith: So you went to Beijing—

Snow: I think it was September, October—

Riley: September '03.

Snow: —with clear understanding that the President wanted a substantive discussion on these things that were bothering us, cheating on expropriating our properties, our intellectual property, which was a big issue. Flooding the market with these goods—The property rights were not in China; they were in the United States and all that stuff. Unfair trade practice was a big part of it, but the biggest subject was currency. It would have big implications if we could ever get China to get on a path to move where over time the currency floated up to a level that was appropriate to its inherent evaluation.

We weren't going to be very effective going over to China and saying, "Boy, oh boy, the way you're holding your currency down it is really making it tough on our manufactures. We're losing a lot of jobs and we can't compete against you. That's a political problem for us. We really demand you raise your currency."

You had to find a way to talk to them about it in a way they saw it play into their own objectives. We decided that the best way to do it was a straightforward conversation, sort of Economics 101 on currencies. Now, what happens if you hold your currency down? Well, the standard of living of the people in your country is reduced, because everything costs more. A consequence of an artificially low currency is a lower standard of living for your citizens.

It also means that your Central Bank has to continuously go into the market and buy dollars or another currency, whatever you're pegging it against, and keep that other currency up. What happens when the Central Bank's primary function is not price stability or growth, but maintaining a particular predetermined exchange rate? You're flooding the market with yuan. What happens when you flood the market with yuan?

Well, when you flood the market with yuan, you get inflationary pressures. You're always seeing that aren't you, Mr. President? What do you do to avoid the inflationary pressures? You issue bonds to soak up the excess yuan. Aren't you issuing a lot of bonds to soak up the—Aren't you having issues getting people to buy those bonds? Aren't you having to raise the interest rates to get people to buy your bonds? How can you have an independent Central Bank monetary policy when it is pursuing goals that are independent of inflation and growth? And, by the way, as I look at this, you're importing an awful lot, because what their economy was based on was importing and then repackaging and then sending out. All your imports are a lot more expensive because of that. You've got to worry if you undervalue your currency that you're going to overbuild your export sector at the expense of your domestic sector.

As I look at this I would think, *Mr. President, the Prime Minister*—we had separate meetings—you ought to think about whether you shouldn't move into a regime of a currency that is allowed to move in response to market forces. So I just gave them Economics 101, basically, on why China would be better off if they had a currency that better reflected the underlying values that would allow their domestic economy to grow faster. They were overdeveloping their export sector was really what was going on here, underdeveloping the consumer sector of their country, and penalizing their citizens by making things more expensive and immobilizing monetary policy, so a few things they should think about.

I didn't get much reaction, actually. You sit across the table, he's about over there, and in between us is this big plant. I just kept peeking around the plant to see if you can see him and there is a big, big room—

Smith: A lot of tea.

Snow: A lot of tea, continuously serving tea. And his interpreters. So what should be a 20-minute conversation is a 40-minute conversation. They got engaged. They did raise some questions with me, and I'd been allotted an hour and was there more, an hour and a half or something for both these sessions. But you didn't get much response. I got a few questions, but nothing that caused me to think I was really making any impact. Until six months later or so, when President Bush invited President Hu Jintao or Wen Jiabao, I forget which one it was, to the first state visit or semi-state visit.

I was invited to the dinner, so it would have been '04, because Colin was still Secretary. I sat down and introduced myself to the fellow who was the Secretary of the State Council. He says, "I know who you are. We all know who you are." I said, "Really? How's that?" He says, "You're famous. Don't you remember you met with the President and the Prime Minister?" I said, "Yes, sure." "You remember what you talked about?" I said, "Yes, we talked about currency." He said, "You know what they did after that? They called a meeting of the State Council and for three hours took us through what you had to say and asked us for our reaction to it." So they were listening.

Then a couple of years later, in July of '05 I think it was, they made the first big step to say we're going to go to a flexible currency. In small steps—The currency moved 2–3 percent on a given day or something. Now, seven years later, the total movement is something like 40 percent. The irony is, [Charles] Schumer and [Lindsey] Graham, who were threatening this legislation,

wanted a 40 percent increase. They were going to put a tariff of 40 percent on Chinese goods coming into the United States unless we could get the Chinese to raise the value of their currency by that amount.

Of course we fought them on that. They thought they were being helpful to us by threatening the Chinese. What they didn't realize is the Chinese don't respond to threats. You don't get anywhere threatening them. In fact, that really hurts you. They aren't going to—They absolutely are opposed to being seen to respond to threats. I kept trying to explain to Schumer and Graham this is not helpful. Then behind Schumer and Graham, this was really destructive trade policy.

“Can you imagine what would happen,” I said to them, “if this ever passed? Everybody else in the world adopts policies like this?” A lot of other people are upset about outsourcing from—All of Latin America was upset about outsourcing. Everybody was losing jobs to China. “We’re going to have trade wars and trade tariffs put up everywhere and trade barriers and we’re going to have a terrible effect on the global economy if we ever let this genie out of the bottle.”

It’s interesting to think about this. We were talking visibly, openly, about the currency, but what we were really concerned about—We wanted China to move their currency, but what we really wanted was to avoid a trade war that Graham and Schumer could have precipitated. So the Chinese moved, and now they had currency—I haven’t studied the numbers for a while, but whether it is where it should be, it is certainly a lot closer to where it should be.

Smith: What did Greenspan say to Schumer and Graham?

Snow: I called Greenspan and told him I was going to invite Schumer and Graham to dinner and I wanted him to come. I thought I’d have some fun with this. There was a Chinese restaurant called Mr. K’s on K Street. I got a private room; all came in through the back door. I said, “Alan, we’ve got to stop this.” They were building momentum for this. “We’ve got to give them a way to back down from this because they are way out on a limb here. They’ve got to understand that they’re really playing with fire. This is dangerous stuff. I don’t think they realize it. So I want you to be the bad cop. I’m going to ask you what the consequences would be if Schumer-Graham became law. Think about it and I want you to give an answer that is going to make them want to not be the authors of Graham-Schumer.”

So we had the dinner at the Chinese restaurant. Had the Chinese finger food and all that stuff around. Finally we get to this point where we’re talking about China and the U.S. and the currencies and stuff and I say, “Alan, you know the Senators seem committed to this policy of theirs moving forward. In your mind, what would the consequences be if their legislation ever passed?”

He said, “We’ll rue that day. It will be the collapse of the equity markets, the collapse of the bond markets. It would send shivers through the financial markets around the world. One of you will go down in history as [Reed] Smoot and one of you will go down in history as [Willis C.] Hawley.” *[laughter]*

I realized we had to do something to give these fellows a little face, so we arranged a trip for them to China to meet Governor Zhou and Minister Jin [Renqing] and the leaders. We arranged it through—I’d appointed a Treasury representative with diplomatic status to focus on this issue

of the yuan and exchange rates. Olin, wasn't it?

Smith: Olin Wethington.

Snow: Paul was over there for a while and then Olin became the official guy.

Smith: Olin was the guy.

Snow: Olin Wethington. He was a very sophisticated fellow, had a huge role in getting the Chinese to agreement. I asked Olin to escort Governor Zhou and Minister Jin to make sure Schumer and Graham got well received over there. Schumer had never been to China, hadn't even been out of the country maybe.

He went over there, so they could say, "We're going over." Took a little steam out of things for a while. They came back, wanted to give me a report on it. Remember this?

Smith: Yes.

Snow: Politicians, you've just got to understand, they're different from other people. They look at things differently.

Smith: They're politicians.

Snow: Right. So Schumer calls me and says, "I'd like to get together and give you a briefing on the China trip." I said, "Well, terrific, be delighted to do it. Now this is just us, isn't it? This isn't media or press conference is it? It's just us?" He said, "Yes. I think Senator Graham will be there with us." I said, "Well, fine, that's good. It's just going to be us now, isn't it?" "Sure, it's just going to be us."

So I show up and go into his office and we're having our conversation; Graham is in there. All of a sudden the doors open up, in come the cameras, in come the press crews, and we have a big photo op.

Riley: Oh, boy. What's the old line? The most dangerous place in Washington is between Chuck Schumer and a camera?

Snow: Anyway, Lindsey and he, I do think they cooperated to the extent—They were out on a limb. They had a lot of signatures on their bill. They had enough signatures almost to pass it. They did. They did pull back some. That was statesmanlike, actually, on their part to pull back. We had done some good in convincing them. Part of my pitch to them is there is progress being made here. Don't upset this progress. Let us try—We called it "quiet financial diplomacy." Of course, in the hearings they ridiculed quiet diplomacy, really ridiculed it. "Getting nowhere, never get anywhere. The only way you can deal with them is with force," and so on and so forth. "You're attacking them with a wet noodle," rhetoric like that.

But in the end they were more cooperative, I would say, than the record would show. They did pull back at a time when they really could have—We would have vetoed it, but they probably could have moved the legislation.

Smith: But your approach was to pull those guys in.

Snow: Oh, yes, get them on our side. Get them in the tent. That's why the trip. That's why introducing them to the Chinese authority.

Riley: Did you have to prep the Chinese that this wasn't a hostile act on your part?

Snow: Oh, yes, we worked with the Chinese. Absolutely. That was part of what we did.

Smith: It could have been a setup.

Riley: Of course.

Snow: I would say we built some trust with the Chinese, built a lot of trust. I kept telling them, when I meet with the Chinese leaders, "We have a sensitive issue. We have to manage it. Some give on your part is going to help us manage it." That was always my pitch.

Riley: Good.

Snow: Some give on your part, and also it is in your interest. Clearly the President here is running interference in a way, stopping bad stuff, negative stuff for China. Give them a break and give us a break, show a little movement.

Riley: Did you personally have experience with the Chinese before you became Treasury Secretary?

Snow: Yes, I had some.

Riley: Where did that come from?

Snow: It came from the shipping company, Sea-Land. It had seven or eight offices throughout China. We called on big operations up the Pearl River, Hong Kong. I even got an award that 41 had gotten a couple of years earlier, called the Marco Polo Award, which is given to an American who is seen to be promoting close ties with China.

Riley: This is before you became Treasury Secretary?

Snow: This was probably about 2000, 1999. We had to get permission from the government to open sales offices and things. I made a number of trips over there. We had customers who were shipping out of China and into China. Yes, I had gotten—I had some time, not an intimate—had a lot of dealings. I'd been over there two or three times to meet with the mayors of these cities where we were looking to open ports. Shanghai was one. I went to Shanghai maybe in '94 or '95, when Shanghai was looking to bring in some new shipping companies to operate in the ports there. So I spent a couple of days with the mayor of Shanghai.

Riley: So clearly you weren't a novice in dealing with them. That merits attention for the record because it could be that is an area where you could get yourself in some trouble early on if you didn't have a feel for it.

Snow: I do not pretend to be an expert on China, but I had the sort of familiarity you get with doing business in the country.

Riley: Of course.

Snow: And meeting a lot of the government officials, because getting approvals on these ports was a governmental function. Everything was a governmental function. On the railroad side of CSX we were working on some venture with the Chinese railways. I had an advisory role with them. I had gone over, met with the Secretary of Railroads. They don't have a transportation minister. They have a railroad minister.

I remember talking with the head of the Railroad Ministry. CSX was a big railroad; it had 50,000 employees or something, a big system. So I was talking to him about their railroads. Well, we've got, I think he said, seven million. I said, "Do you really need that many people?" He hadn't run into Paul O'Neill yet and downsizing.

Smith: That's what you call a state-owned enterprise.

Snow: I'd probably been to China between '87, '88 and 2000, 2002, at least once a year, maybe twice a year.

Riley: Good.

Snow: I'd traveled China.

Riley: On a related topic, I wanted to ask you—I'm not an expert on this, but it is always a mystery when I'm talking with Treasury Secretaries—what exactly is a Treasury Secretary's job when it comes to the value of the dollar?

Snow: I think it is to make sure—The Treasury Secretary is the official spokesman on the dollar. That is established protocol. Nobody else is supposed to talk about the dollar. That is usually respected. When it isn't, somebody in the White House calls up whoever has strayed and says to get back on the path. That happens in every administration, because somebody wanders into it and starts talking about it and invariably just gets it all—

Smith: And the markets are listening.

Snow: And the markets are listening, so you're the spokesman on the dollar. But if you're from an administration like the one I was in, you want the dollar to be set in open, competitive currency markets. You don't want it rigged. You don't want to set it; you don't want anybody to think you're setting it. You don't want anybody to think you're trying to set it. It's not your job to set the rate. It is your job to monitor it.

If something goes haywire on it, you have to be on the alert. So you monitor it, you're the spokesman on it. The less said the better, actually. The less said the better. The fewer times you've got to answer the question, "What is your dollar policy?" the better. As I looked at it, you need to be the champion of policies that allow the dollar to function well. So the strong dollar is a way of saying we're not going to devalue. It is not a way of saying the higher the evaluation of

the dollar, the better. Who could think that? So the trap of talking about the strong dollar is, well, is the dollar strong enough yet? How strong should the dollar be?

If the dollar is up 10 percent, Mr. Secretary, is that strong enough? Is it 20 percent? Where, Mr. Secretary, do we get a strong dollar? Part of what you're trying to do is deflect actually from the focus on the level to focus on the strong economy. The dollar reflects a strong economy and the dollar should be set in open, competitive, currency markets and devaluation should be avoided.

Riley: On another very broad question, can you tell us a little bit about the relationship between the Treasury Secretary and the head of the Federal Reserve?

Snow: It is close and intimate. I can't speak for others, but in my day it was very close. Alan Greenspan and I met at least once a week. The standard procedure was alternate lunch at the Treasury, it could be breakfast or lunch, at the Fed. They actually had a better dining room. I preferred going over there.

Smith: If there was a meeting on the schedule that was never, ever canceled, it was that meeting.

Snow: Yes, the Secretary and the Fed Chairman, sacrosanct. Because it is critically important to coordinate monetary and fiscal policy to get the macroeconomics right. It is critically important to be seen to be working together, not at cross-purposes. There have been times when Treasury and the Fed have been seen to be working at cross-purposes, and that complicated—There was a time in 41 where the Treasury Secretary and the Fed Chairman were at odds with each other. The Treasury Secretary thought the Fed Chairman was holding interest rates too high and was openly complaining about it.

There was a long period in American history where the Fed was subservient to the Treasury objective of having low interest rates to keep the deficits down. In '51 they got an accord, the famous accord of '51, that ended that obligation on the part of the Fed to support the Treasury bond sales. But the Fed does monetary policy through Treasuries; it is the instrument that they use, so there is continuous coordination. Treasury is really part of monetary policy in a very significant way in that sense. You're continuously coordinating, keeping—No surprises.

It isn't that you make big decisions at each of these meetings. You don't. But you talk about the state of the financial system, you talk about the state of the economy, you talk about the deficit. You spend a lot of time on the issues that are going to be coming up before the President's policy, the committee on—

Smith: The working group.

Snow: The President's working group on financial markets that came out of that '87 crash, which is the Fed Chairman, the head of the SEC, the head of the Commodities Future Trading, and the Treasury Secretary. They talk about financial markets. There are always issues coming up there, capital market regulation issues.

Bragaw: This regular meeting between the Fed Chair and the Treasury, did this start with Alan Greenspan?

Snow: I don't know the history of it, Steve. It probably goes back forever, but we were religious about it. I think Bob Rubin was religious about it. I think Paul O'Neill probably was religious about it. A very important part of what you do every week is exchange ideas with the Fed Chairman and make sure you're coordinated and you're going in the same direction.

Riley: This is just one-on-one?

Snow: Just one-on-one, no records of this. It was through meetings like that that enlisted the help of Alan on the Graham-Schumer. You develop understandings of what are the important issues you ought to be coordinating on, focusing on, and budget is always one. Trade issues are important to focus on.

Riley: I'm asking this as an observer at a remove. Is there an issue about Fed independence?

Snow: Oh, yes, you always respect it, absolutely. In none of these meetings do you tell the Fed what they should do. You go to great lengths to make it clear that—You avoid any suggestion that the Treasury is dictating to the Fed. Also, when you do the G7s and you do the G20s, the IMF meetings, World Bank meetings, Treasury is the principal representative of the United States accompanied by the Central Bank Governor. So in all those meetings you've got the Central Bank Governor with you and so does every other Finance Ministry, so they're seen as a team.

I'd say Alan and I were a good team; we worked closely together. He was a good team with Paul. They were close personal friends too. But there is no doubt about the Fed. We're not telling—In fact I never discussed interest rates. I never said to Alan, "I think interest rates are getting too high." I would say, "I think the economy is growing at this—and what do we do about that? We need a little lift in the economy." We engaged him on taxes. In a sense, in macroeconomics everything is interconnected, so some amount of monetary stimulus will substitute for some amount of fiscal stimulus. Some amount of monetary drag can be offset by some amount of fiscal stimulus.

You're working on the same page on this, or if you get at cross-purposes, the Fed can cancel out the effects of lower taxes or higher taxes. They can counterweight—Monetary policy can offset fiscal policy and fiscal policy can offset monetary policy.

Perry: Can we circle back to the President a little bit and talk about the 2004 election and the part that you played in that?

Snow: My role wasn't political, so I didn't really have a direct role in the reelection. We were working hard to make sure the story was told that the President's economic policies were working. I'm sure if you check the record I would have been out giving a lot of speeches, driving around the country talking about the economic policy and meeting with constituent voter groups in the financial business arena, chambers of commerce, and things like that.

Perry: Who coordinated that, and how did you choose?

Riley: You're pointing at Chris, let the record reflect.

Snow: Yes, Chris coordinated that, the chief of staff.

Smith: We went everywhere. I'll let him answer.

Riley: Why don't we take a break?

Snow: You've got the right man right there.

[BREAK]

Riley: We're back on. We were coming to you, the chief of staff role.

Snow: Asking who organized these, the Treasury Secretary's schedule, just like the President's schedule, it is set by the chief of staff.

Perry: But particularly leading up to the election of '04, the reelection campaign.

Smith: John mentioned this story. One of the things that John did early on was to build bridges with the White House, had all their senior staff come over to the Treasury one-on-one, individually to meet with our whole team. Andy Card was the first one. So Andy Card came over for an hour and just talked about what his job was like and all sorts of things. But one of the things that was memorable about that was describing his role as Chief of Staff to the President. He described it as managing wants versus needs. His job was to make sure that the President was getting and doing what he needed to do. If he wasn't doing that, he was going to be an ineffective President. But also giving the President what he wanted. If he didn't give the President enough of what he wanted, he was going to be an unhappy President, and an unhappy President is an ineffective President.

It was a constant balancing act between wants and needs. You might want to go to an Orioles' baseball game tonight, but you might need to do the state dinner that night. It was that sort of thing. When you put these schedules together—What do you want to do? What do you need to do? For us there was a constant stream of requests from outside groups, from Members of Congress, from committees, from organizations, people having their national meeting on—the realtors, the bankers, the you name it.

One of the shocks to you when you came in was that there were literally thousands and thousands of requests to come talk to us. They came in from the outside, they came from Capitol Hill, they came from the White House. The White House would get—Think, if there are thousands for the Secretary, there were x times that for the President. The President can't be everywhere at all times. We would often get asked, but the President can't give the keynote address to the realtors. Would you go? The totality of that was our in-box. We would try to put together something coherent so that you were in Berlin for the G-whatever and you had to be in these places, and also you had to be talking to the country. There were a number of instances, for example, where a bus trip was organized for the Secretary of Labor, Secretary of Treasury,

Secretary of Commerce, to go out and—

Snow: Travel the country.

Smith: Travel the country and talk about—Social Security was one of the big ones; the tax bill was another big one. The issues of the day, those things were organized. Katrina—We actually took a plane and toured the region on that one. So that’s how these things got put together.

There were themes. We did something called Portland to Portland. I think that was for Social Security, if I recall.

Snow: I think it was.

Smith: We went from Portland, Maine, to Portland, Oregon, literally covered the entire country.

Snow: Started out, I think, with Olympia Snowe in Portland, Maine, and ended up with our friend the Senator—

Smith: Gordon Smith.

Snow: Gordon Smith in—

Smith: You went to Montana with Max Baucus and you went to—

Snow: All over.

Smith: You were all over. It’s a big country to cover. The typical approach was to go somewhere with an elected Member of Congress, House, or Senate, to talk to them. You talked to the Chamber of Commerce, the Rotary Club.

Snow: Local businesses.

Smith: All open mic, on the record, open press. Then you’d talk to the newspaper editorial board, talk to the TV station, radio shows.

Snow: It’s a wonder you have any voice left.

Smith: Exactly. So it was just out there. We did that on a regular basis.

Snow: I was saying goodbye to a young lady from Georgetown who was taking, I think, a summer as an intern with us and she was working in the office that coordinated the schedules. I was saying goodbye to her and asked her how her work was going, what she did, and so on. She said, “I coordinated replies to your invitations.” I said, “Do I get a lot of invitations to do things?” I never see it. She said, “Yes, you get an awful lot. So far this year you’ve had 6,780 invitations and we’ve accepted 10 or something.”

Smith: It’s a big funnel.

Snow: It’s a huge funnel. As Chris is saying, the White House uses the Cabinet Secretary like

Commerce or Treasury to talk to their star audiences that the President can't get to. Often I'd get these calls 45 minutes before. "The President can't make it." So you'd hustle up and give a talk.

Smith: Likewise with us, the Secretary got called to meet with the President, he couldn't do the speech to the realtors, so the Deputy Secretary would go, or as the case may be. It was a cascading system.

But to your point, if you've got an invitation to address the Chicago Mercantile Exchange, if you're going to use the taxpayers' dollars to fly all the way to Chicago, then you stop in Milwaukee and you stop in—

Snow: Somewhere along the way, Indianapolis.

Smith: You make sense out of it just to get value for the money, because we were required to fly commercial coach. That was uncomfortable many times, but that's what we did. There were no political events, there were town hall meetings where you'd have just a gym full of people.

Snow: Remember going out, Chris, on issues like health care and going to medical complexes and medical centers and going out on education?

Smith: Going to hospice.

Snow: Then going out to community colleges.

Smith: The big one on jobs—The big venue on jobs and education was community colleges. If we went to one community college we went to 25.

Perry: What did you learn on those and what did you take back to the President when you could?

Snow: We identified with community colleges because part of the narrative of the American economy was that it is going through lots of changes. There are technological changes occurring and people are getting displaced and they need new skills. Community colleges are an effective place to give people the skills that they need, and community colleges are part of the fabric of working with local industry to create the pool of skilled workers that they need to be competitive. So part of it was the how-do-you-keep-America-competitive theme. Another part of it was how do you make sure people have the skills they need to have the jobs that are available. Another part of it was this dynamic of the innovation and creativity of the community colleges that were adapting to the needs of the local community. This was innovation and adaptation in action.

Smith: Tell the taxi driver story from Ohio, not Columbus. It was in Cincinnati, Ohio. It was the community college where they told us about the taxi driver—

Snow: —who really remade his life because the local community college had given him the opportunity to get some skills. They made him employable. You hear that all the time. The community college presidents would introduce you to people like this, then they would tell you about their funding needs and what their—The business community would tell us how they

worked with the community colleges and the community colleges would tell us about how they reached out to the businesses and this cooperative interrelationship. This would be a good subject for somebody to write about, because it is a part of what goes on in America that is not widely understood. The community colleges play a critical role here in making the American economy function.

Smith: It became for us a metaphor for how to talk about moving from an old economy to a new economy. You're in North Carolina and you needed to talk about China and you needed to talk about the textile workers and you needed to talk about the President's economic program. You stand at the community college, which is training people for biotech who used to work in the textile industry. Bingo. We did that—

Snow: Who was the Congressman in North Carolina? We went down there—

Smith: Robin [Robert] Hayes.

Snow: Right, Robin Hayes. We had a great day with him. He was a Congressman. He was Republican in a textile district who was for free trade and having a hard—looking for ways to justify the vote. So we went down and helped frame the issue of trade, China, jobs, skills, changing world, and so on in ways that—

Part of what you do in those jobs—Treasury probably is the lead on the economic side of it—is tell a narrative. You tell the story.

Smith: It is the economic narrative.

Snow: We were always working on—Chris was the centerpiece of this, but we had a running economic narrative.

Smith: Every time there was a statistic or a fact that came in, the Secretary would have the group come in and map out what it meant. Not just what the chart was, how did it fit into some coherent picture, so that when the Secretary was called to testify or brief—

Snow: —the President or something—

Smith: —one of the caucuses up on the Hill, you had, at every moment, a coherent story about what was going on. We did that every single day.

Perry: You mentioned that sometimes you'd be prepared to go out and speak or you'd be going to a speech and then you'd get this call, you had to meet with the President. How often did that happen? In other words, how often were you called in, even aside from having to miss a speech, how often were you called to meet the President?

Snow: Regularly.

Smith: Constantly.

Snow: It's a regular part of the job.

Smith: It is why the building is at 1500 Pennsylvania.

Perry: That would be one-to-one, just you and the President?

Snow: It would be one-to-one sometimes. It would just depend. It might be a small group meeting. There would be one-on-ones, there would be a filled Cabinet room. You never knew. It was just—You can't plan for what your day is going to be because your day is never what you think it is going to be.

Smith: There was a regular schedule of activities, weekly breakfast or lunch with the Fed Chairman, what was called the econ team luncheon, which you also did religiously. You never missed that.

Snow: I viewed that as sacrosanct, yes.

Smith: That was the White House economic team.

Snow: With the Vice President, yes.

Smith: What were the other regular ones?

Snow: There were the testimonies that were regular. The G7 and the IMF and the World Bank. There was a rhythm to the life of a Treasury Secretary. Then there were constant interruptions by whatever the issue of the day was that demanded attention. You knew you had your regular testimonies.

Perry: Back to the President. You're about halfway through what will become your tenure with him, and by your description earlier yesterday and today you did not know him well as you came in. So how are you seeing him and how he functions as President and how you brief him? How does he prefer to be briefed? What are his responses to your briefings and your discussions with him? Do you see him changing or growing or developing into this job in any way?

Snow: Iraq clearly had a massive impact on this President. I think it changed him in a deep way. He was never the same after that, not that I knew him well before it. It was a continuous reference to the fact he is a war President. This was really on his mind. Keeping the country safe was just the overriding consideration. It was the issue of his Presidency, national security, Homeland Security. That was first and foremost, really first and foremost in his mind.

In terms of growing, I think he clearly was maturing as President over that period, but I think he never really changed who he was. There was a constancy to George Bush. He was learning more, he was getting more adept, and so on, but he was always fundamentally the same. There wasn't any epiphany. He didn't become some different person in the fifth year than he was in the first year. There was a constancy to him, for good and for bad. Who he *was* was who he *was*. He got wiser and so on, but—

His view was, let's do big things, take on Social Security, even though it looked—It was a difficult sell, but it was the right thing to do.

Perry: Can we talk about that, as long as you're broaching that?

Riley: Actually, there are a couple of issue areas. We can deal with them serially. If there's anything you want to talk about, fine, if not we can go on. The first one is the tax cut. You come in with a tax cut on the agenda. I'm assuming that must have been a big part of your early time.

Snow: All-consuming from January—

Riley: From Memorial Day, right?

Snow: It was all time consuming; it was *the* thing. As I told you, when he told me what he was focused on, what he wanted me to be focused on, it was the tax bill.

Riley: Any particular stories out of that? Is there a narrative or a development out of that? Chris has one, I can see.

Smith: There is one.

Snow: The tax bill that the President had sent up had run into a lot of trouble in the Senate and been cut back roughly in half in terms of the amount. He started with \$650 or \$690 billion in tax relief, and the Senate was going to support a much smaller package, I think \$350 or \$325 billion. We were having a really hard time on the Senate side with some of the dividends, the 100 percent no taxation on total deductivity, exemption of dividends from taxation, which had been the centerpiece of the bill.

Riley: Right.

Snow: Gosh, we had these—There was constant conversation with the President on this, constant, almost every day. There was a meeting with the legislative people. There was a team of—We had a morning call every morning on this, reports in from the legislative people and who they visited and what there was coming back to them, assignments. You should go up and see this person and that person. Don Evans needs to go see this person, that person. Tight coordination with lots of follow-up throughout the day. This was really a tightly—This was a war effort. It was managed like a war effort with central control and lots of reporting back and forth and continuous updates and so on.

We were making less progress than we wanted. It was looking not as good as it should be. The President called a meeting—I think it was in April; I've probably got in our notes there somewhere—of his key team. He invited me and he invited Steve Friedman and he invited the Vice President and he invited a guy named David Hobbs, who was head of the legislative office, somebody you ought to interview some time.

Riley: He was here. He came in with Nick Calio in a group.

Snow: Calio had left by the time I got there and David was running the show on the legislative side. So we get this call to meet in the White House for the meeting on the balcony one evening with the Republican House and Senate leaders. Bill Frist was the majority leader; Mitch [Addison Mitchell] McConnell was the Whip, number two on the Senate side. It was Denny

Hastert, the Speaker; and I think [Thomas] DeLay was the leader, he came. Then Chuck Grassley, the Chairman of the Finance Committee, where things were getting held up; and Bill Thomas, Chairman of the House Ways and Means Committee, where things weren't going our way in terms of selling the dividend. We couldn't sell it to them in the House; they had other ideas. They liked cap [capital] gains better than dividends and so on.

So it was clear we needed to break the logjam. The President sees that and calls us all in. Some historian, maybe you guys, will write this up, because it is a seminal meeting in terms of the history of the tax act and it showed the President—When somebody writes the biography on the President, this is an anecdote that shows him as he is.

He invites us all in. We're having a beer and nice, pleasant conversation. Then he says, "Let's go to the balcony and see what we can get done." So we all go out to the balcony. You're looking out toward the Potomac River there and the monuments, beautiful view. Very nice evening, pleasant April evening. The President says, "I'm really anxious to get this tax bill going. I want to get a tax bill before the July 4th recess. If we don't get it before July 4th, we won't get it. It's time to settle down and get this thing done." He charges them up.

After that he turns to the Speaker and he says, "Mr. Speaker, let's go by protocol. I'll ask you to respond first. What can we do to get this legislation moving?"

Well, the Speaker had had a bad—maybe not history, but a recent—bad encounter with the Senate side. He held Grassley, the Senator from Iowa, responsible. He looked over the President—I was right there, seeing them all, a bird's-eye view of all of this. He looks at Grassley and he says, "I can't deal with a liar, and he's a liar." Man. He goes on to say something about how we had a deal and you cut the deal out from under me and I can't ever do anything with you. I have no trust in you, no confidence in you. Not a really auspicious start. *[laughter]*

The next ranking person is Bill Frist, so he turns to Bill Frist and Bill Frist sort of punts, doesn't say much, "Mr. President, we'll do what we can, but this is a heavy lift and I'm not sure we're getting very far."

Mitch McConnell: "Mr. President, you know we'd like to be with you. We're working hard on it. Don't want to promise you something we can't deliver. We'll do what we can. We understand the importance." Blah, blah, blah, nothing.

Turns to Grassley, the Chairman of the powerful Senate Finance Committee. Grassley, of course, he's working; he supports the 100 percent reduction of taxes on dividends. No taxes on dividends. He thinks he can get it, but he's not sure. He's trying to think what he can do to move it. He has sort of a wishy-washy response. "We'd like to get it done, but I can't promise you, Mr. President, that I can get this 100 percent thing done."

The President, he's got nothing out of this so far. He turns to—DeLay popped up, said something along the line, but not very encouraging. He turned to Bill Thomas, who was the Chairman of the Ways and Means Committee. Thomas has a unique way of—He's sui generis; there's nobody like him. He says to the President, "Well, Mr. President, I can't do your package as you packaged it. I can't do that, but if you give me the room, I think I can get most of your package

done. It won't look exactly like your package, but it will be the essence of your package. Can't do those dividends, though. I can't get those dividends, but I'll get you something on those dividends. Give me the room to work and I'll get something done, but not exactly what you have in mind."

We're walking out and I'm next to the President. He says, "What do you think?" I said, "Mr. President, if you want to get a bill by July, you've got only one place to turn, and that's Bill Thomas." Rove or somebody was there who was sort of keeper of the flame on the 100 percent and argued, "No, we've got to stick with Grassley; we've got to support them and get the 100 percent." I again said, "Mr. President, I think if we stick with the Senate we'll get nothing, nothing; it's not going anywhere, can't sell it. I know Thomas has always been difficult to deal with and a lot of strained relations with him, but I'd bet on him. If you really want a tax bill, you'd better bet on him, because that's the only way I see you getting it done."

The next morning is a National Security Council meeting and he asked me to step out at the end of the meeting and meet with him. I step out and he has invited David Hobbs. We reviewed the bidding from last night. I agree, Hobbs agrees, to go with Thomas. So we decided let's put the ball in Thomas's hands and let him run with it.

We did that knowing you're dealing with a prickly character here. Once you put the ball in his hands, by God, it's going to be in his hands, not yours, and he'll run the show for you. You can hope to steer it a little bit. I ended up after that, Chris, as you know, spending a lot of time with Bill Thomas. I became the Bill Thomas liaison.

What Bill Thomas did was, as he told us one day in his little conference room, he's now dealing with half the dollar package. He shrunk the package.

Smith: The Senate shrunk it in half, said we can't pass that big package.

Snow: So Thomas said to us, "Our trick here is going to be to put ten pounds of sugar in a five-pound bag." He was a legislative genius. He played the game to put in the package the essence of what we wanted, and with timing on—I think it was 10 years on the stuff we really wanted, lower rates, lower dividends, capital gains. He added capital gains in, which was really better than our original bill.

Smith: It was brilliant.

Snow: It was better than our original bill because we got cap gains, and cap gains came down from 25 percent to 15 and dividends came—the high ends of dividends, the highest marginal tax rate, which was then 39.6, came down to 15. He delivered a heck of a package. He put in all the things the Democrats wanted, child credits and EITC [Earned Income Tax Credit] and all the stuff the Democrats really valued and gave it a two-year life. So all that stuff expired in two years. Now what is this all about?

Well, what it is about is we get our stuff for ten years; they get their stuff for two years, and they'll all pass it because they know that in two years they'll come back and pass all that too, all their child credits, and we created a new 10 percent tax—

Smith: Actually ended up being a bigger bill—

Snow: Costly bill.

Smith: —than we originally asked for. He also ignited the Republicans. They had been tepid, lukewarm. By putting the capital gains in, overnight they were cheering; he ignited the whole thing.

Snow: The dividend thing is sort of odd in a way; it was not what the political people in the Republican Party would have designed. But the Republicans love low capital gains. That's sort of the religion of the House Republicans. That's the religion. They never warmed to this idea of dividends. That never meant much to them. So Thomas, he just knew the House. He knew his Members and he knew the Democratic Members. He put together this brilliant package, which gave us what we wanted and actually more. We got capital gains and we got the size of the package we wanted. Really the package now priced out at \$750 or something versus the initial \$650. We could get it done because he put in the stuff the Democrats wanted.

Riley: Sure.

Snow: But that got priced out at a much lower evaluation because it only had a two-year life to it. It was brilliant. He was a master craftsman. Chris and I had many tutorials. My first meeting with him—He talks in riddles and metaphors and so on; he doesn't speak in standard prose. He hasn't got a standard prose style. It takes a while to interpret him. You're sitting there listening to this. It sounds like rigamarole.

Anyway, in my first meeting with him, Steve, he says to me after a few pleasantries and so on, "By gosh, don't let that White House send me battleships. They keep sending me battleships." I'm thinking, *Why is he talking about these battleships?* He says, "You know what's wrong with a battleship?" I don't try to answer that one. I have no idea what he's talking about. [laughter] I said, "No, Mr. Chairman, what—"

"Those battleships you send us," he said, "don't you know what happens to battleships? They're a sitting target. They get blown up. I want you to go back there and make sure during your time at Treasury you send us canoes. I want a thousand canoes. Send me a thousand canoes and then half of them will come across."

Bragaw: Asymmetric legislation style.

Snow: Yes, that was Bill Thomas. Everything was convoluted and complex and hard to follow. But he had a scheme in his mind and his scheme when you really got down to it was picking off votes. So it sounded convoluted and it sounded sort of jerry-rigged, and I guess it was, but it was all designed to pick off votes, so you stick little things in here and little things over here, something over here. He had a memory or made notes. At some point some Democratic Congressman or some Republican Congressman introduced a bill to do *x*. It may have been 10 years ago. He'd grab that and stick it in.

Riley: Well, David Hobbs must have known this. David was from that—

Snow: David was the master himself. David was really a master. Chris, you watched that up close. But the prior chairman, he watched that up close. As I started yesterday telling you, this is a different world, these people who master the black arts of legislative process.

Smith: And there are folks who either have participated in that closely from the inside or the outside, and you have an appreciation for the mores and the mannerisms, or as I refer to it, the “dance of legislation.” Then there are folks who just from personal experience have never really dealt with that. That is a theme and a fault line in terms of how people behave in all these issues. If you are in tune to that, you understand. You see the brilliance of the general, the field marshal on the field putting the canoes across. But if you didn’t live that, you could think it was actually opposed to the President’s wishes. So where you stood is where you sat on those questions.

Snow: There is sort of an irony in closing the circle. Remember I told you how I met the President, one of those first visits, told him about reading in the *Washington Post* the debate on the dividends and the principle of tax things once, but not one and a half. He said, “I like principles. That’s great, John, That’s helpful to me.” Now circle back. It’s nine months later or six, seven months later, and I had given him the counsel on principle, which would not produce results because we couldn’t get the most principled outcome and counseling him maybe we take a different route here, preserve as much of that principle as we can, but get legislation, get a victory.

Bush was very good at reading. He was talented, gifted at seeing through that quickly, making a quick decision. *I’ve got it. I’ve got the principle. I understand what is at stake here, got to get something passed. We’ve got to go with Thomas.* It didn’t take him long to figure that out. Boom, boom.

Riley: Let’s circle back then to Barbara’s question, which was about Social Security. What is different when you get to this issue later?

Snow: Here are a number of things that are different on Social Security. There were no Democrats that we could pull across the line. The Democrats froze us out 100 percent. We didn’t have stuff we could dangle in front of them. Thomas dangled child credits and EITC and the 10 percent tax bracket and all that. In that tax bill of ’03 we took something like six million people off the tax rolls. We didn’t have—

Riley: The carrots.

Snow: We didn’t have the carrots to dangle. The Democrats saw a winning issue, which was, “We protected your Social Security from those Republicans who wanted to take it away.” We would probably have been better served, as I think about it now, if we hadn’t tied the personal accounts in with the Social Security, because that gave them a chance to really hammer home the point, “They want to take away Social Security. They want to privatize it.” Now of course nobody wanted to privatize it, but it allowed them to demagogue the issue and get the sound bite. “We’re saving Social Security. They’re privatizing it. What would you rather do, save Social Security or privatize it? Vote with us.”

They were going to use that in the ’06 election. It was as clear as the nose on your face. It was going to be their legislative issue. Nancy Pelosi got one Democrat from Florida—

Smith: Boyd.

Snow: Yes, Alan Boyd.

Smith: *Alan* Boyd.

Snow: —the first Transportation Secretary, Alan Boyd, no relation—Boyd was the only Democrat in the House who saw any merit in this and agreed to be with us; every other one was closed down. The closest we got in the Senate was the Senator from Nebraska. Nebraska is a 50/50 state. He said, “Well, I’ll keep an open mind.” So the closest we got on the Senate side was one Senator saying, “I’ll keep an open mind,” and the same calculus applied there. They locked him down and they were building an issue for the next election. It was a good one. In a way we played into their hands by putting the accounts in there.

Perry: In retrospect, this was in February ’07. You said if you had layered that on top of the existing system—but did no one think of that at the time? No one on the Hill said, “What if we tried this?”

Snow: I think people thought of it. There were two ideas here. One is sufficiency, putting the system on a path to save it.

Smith: Solvency.

Snow: Solvency, yes. The numbers all indicated it was going to become insolvent. Just arithmetic. It was going to become insolvent in 20 years or so. By the early ’30s it was going to become insolvent. The other school of thought—and there were a lot of conservative Republicans—was man, this is a chance to promote private savings and to give people an opportunity to get higher rates of return out of the money that they’re putting into Social Security.

We probably could have, in my view, had some success with the personal accounts if they had come as part of the debate on Social Security down the line rather than leading with it. The HSAs were something that came out of the Medicare Part D legislative process down the line; we didn’t lead with them. They worked them into the legislation as it moved through the legislative process. I think by leading with personal accounts we just made ourselves very vulnerable. Personal accounts, I don’t think in the President’s mind, were the be-all and end-all. He would have liked to have gotten them. He was really focused on solvency of the system. The system is not solvent. Bill Clinton in 1996 had said this system is not sustainable. Here we were nearly a decade later and I was quoting Clinton all the time. I was going around quoting Clinton, and that was 10 years ago. Now we’re 10 years closer to it.

Perry: One of the most vociferous opponents was Ted Kennedy, and yesterday you talked about him being an ally on deregulation. We know that he was an ally with the President on No Child Left Behind. Did you or anyone else attempt to reach out to him and try to find somewhere where there could have been common ground?

Snow: Oh, sure. We were not short on trying with everybody. What I discovered, and I probably should have known it, but I didn’t, is that Social Security was a great achievement of a

Democratic President. It was not welfare. You worked, you paid in, you got out your appropriate whatever. It is an actuarial formula.

Smith: It is an earned benefit.

Snow: That's it. It is an earned benefit. I talked to Kennedy about it. I talked to other liberal Democrats about it. They thought that what we were proposing would erode the fundamental citizen-government compact and Social Security would become a welfare system rather than—and as a welfare system it would lose its legitimacy. They really saw this as a great accomplishment, the Social Security system of the '30s, [Franklin] Roosevelt, and it was structured in a way that people got a return on what they put in. They earned the benefit they got.

Now, Roosevelt initially intended to put a synching fund in to help fund it, because it wasn't properly funded from the start. But they never got around to putting the synching fund in. So this inevitably—an aging population, fewer people working, fewer people contributing, more people drawing it—was going to create an arithmetic problem. You try to explain that to the Democrats and they sort of understood. Joe Lieberman, I spent hours with him on this, almost had him, I thought. In the end couldn't—But with Kennedy—With Lieberman it was different, but Kennedy was the old-line liberal who didn't want this system, this great New Deal system, to turn into a welfare system, because it would lose legitimacy and wouldn't have the support. It was important. He was irreconcilable on this.

Smith: In terms of barnstorming the country, the opinion surveys showed that the country became convinced that Social Security was a problem and was going insolvent, but they never took to the proposed solution. We cemented that problem.

Snow: We sold the idea that it is not on a strong foundation. Bush sold that. He won that part of the argument with the country. He didn't win the argument about what to do about it.

Riley: Let me ask about one of the other big initiatives in the second term, or possible initiatives, which was tax reform. You had a role in the creation of the commission.

Snow: Exactly.

Riley: Walk us through your account of that.

Snow: Basically, it was the administration's—We've done countless hours of work on tax reform. The case for tax reform, at least at 40,000 feet, is overwhelming. This is a terrible tax system. It is costly to administer, it's not fair, and it doesn't promote growth. I used to kid, saying as I travel around the country here, that I've never had anybody come up to me and say, "Mr. Secretary, by God, whatever you do, don't tinker with that tax code. You keep that tax code just the way it is." It's easy to point out the flaws; they're manifest in the tax system.

When it turns to how to fix it, it gets really, really politically complicated, especially when you use what you have to, a revenue neutral—It means you're taking from some and giving to others under the modifications of the tax code. So you're robbing from Peter to pay Paul. Paul gets richer. Peter gets poorer. Peter doesn't like it. Paul is delighted. The Peters are going to make sure you have trouble. That's the reality of any tax reform. I was a big advocate of tax reform,

but we didn't have the political capital to get tax reform done. The war had worn down our political capital.

Riley: So there generally was not a sense that this was going to produce ideas that you could benefit from?

Snow: We already had—The fact of the matter is the ideas were there; the ideas that got incorporated on that commission were ideas that had really been in the Treasury Department for a long time.

Smith: It would give them airing and—

Snow: It would propagate them.

Riley: The question is, were you trying to catch lightning in a bottle on the possibility that you might actually get a bill, or are the President and the Cabinet saying, "We don't think this is going to happen in the second term. We'd like to tee it up"?

Snow: Basically, Russell, we wanted to bring attention to the issue of tax reform. We didn't think the country or the Congress was ready for us to bring forward a bill at that time. We thought that maybe this could be an impetus for it and would help move along, create momentum for tax reform, knowing that in reality tax reform is a five- or six-year process. If you're going to do tax reform—Reagan started with tax reform in 1980, '81; he campaigned on it. He didn't get it until when?

Riley: Eighty-seven.

Snow: We had gone through that whole history. I told the President, "If you want to do tax reform, we've got the tax reform proposal. We can give you a proposal tomorrow." The Treasury tax staff is just the best in the world. They have thought about this from every single angle. They wore me out with seminars. We knew that there was a chance we would be asked to put up a tax bill and the President would decide to go with taxation as a major initiative in the second term. We had done our homework. We were ready. We were absolutely—

Smith: We had every expert who was living.

Snow: Yes, anybody.

Smith: Everybody who was anybody.

Riley: This was in '04?

Snow: In '03 and '04. These seminars started almost the day I got in there. After we got tax reform done—

Smith: Right, after that bill got done, we started in.

Snow: It was a natural thing that the President would want to go—He talked about tax reform. It

was on his—

Smith: The next logical thing.

Snow: I talked with him about it. I said, “If you want to do it, we can do it. My own personal advice is don’t do it. The country is not ready. Congress isn’t ready. You’ll have a bloody fight on your hands, but if you want to do it, we’ll give you the case for it, we can make the case.” That was also the sentiment of Steve Friedman. Mankiw wanted to jump into that fight. I forget who all the other players were.

Smith: But also recall the Bill Thomas comment about the battleship, “Don’t send me another battleship.” This would have been the mother of all battleships.

Snow: The commission was an effort to keep the spotlight on tax reform. We had a terrific—I spent a lot of time recruiting those people. Some of the best people in the country, John Breaux was the chairman, the former Senator from Louisiana. Connie Mack [III] was the cochairman. We had—

Smith: Abby [Abigail Johnson] from Fidelity.

Snow: [James] Poterba from MIT.

Smith: Bill Frenzel.

Snow: Yes, Bill Frenzel, former Congressman from Minnesota. It was a terrific team and it was a great report; and it incorporated the thinking of the Treasury Department.

Smith: They were independent, but—

Snow: The Treasury Department gave them options. They weren’t deep into the tax code. The Treasury Department became the staff, gave them the options. So obviously they were going to have to adopt something that had been thought through at Treasury.

Smith: If you pick up what the joint tax committee is doing right as we speak for Dave Camp and for Max Baucus, that body of work looks an awful lot like the Treasury Tax Reform Commission.

Snow: It does.

Smith: These things are additive.

Snow: What the administration chose—Anything was pretty vague because the President had campaigned on Social Security reform. The administration would pick Social Security as their major legislative initiative for the second term. The President probably would have been better served with a campaign that had as its slogan “Let’s save Social Security” and taken that to the country. Let’s save Social Security. This personal account side of it was a great complication. It really was.

Smith: Carve-out.

Riley: Who was pushing that then? If Treasury is not pushing it, who is pushing it?

Snow: It had a lot of supporters in conservative Republicans. It was a conservative Republican idea.

Smith: There was a commission, the Social Security Commission, in the first term.

Riley: I see.

Smith: That was very early in the first term.

Riley: So people had bought into that already as a result.

Smith: There was a long tail on this.

Snow: It went way back. The basic idea was we'll let people take the funds they would contribute to Social Security and put it in these accounts. The accounts will grow at a rate that is approximately the equity markets, which is faster than the rate at which their interest will grow on their accounts in Social Security, and therefore they'll have additional capacity when they retire 20, 30, 40 years from now to support themselves in their retirement.

There was the philosophical problem that from the Kennedy point of view, that was a big departure. There was the reality that to do that you had to fill in the gap in Social Security in the interim, and the only way to do that was to borrow, and the sums that had to be borrowed were fairly large.

Smith: If there was one editorial board, there were 25 who eventually asked you, "Mr. Secretary, explain to me how taking money out of Social Security will save Social Security." Right?

Snow: And the answer was we've run the numbers here. It is going to give the Social Security participants the ability to retire on even better terms, and the reduction in their claims will annuitize at a rate that reduces the Social Security obligation so it is a smaller Social Security obligation out there in the future. These people aren't drawing on it; they've given up their right to draw on it. They'll substitute that amount of money they would have gotten from Social Security and they'll use their personal accounts. We couldn't say "private accounts" because that was a no-no. Everybody slipped and said it from time to time. But anyway it was a hard sell. It was not an easy sell.

The Vice President sort of gave the game away one day when he was questioned on this somewhere, I forget where. They asked him what is this carve-out going to cost? How much do you have to borrow? He dodged around a little bit and finally they said, "Can you put a dollar number on it?" He said trillions, trillions, and trillions.

Smith: He was on one of the Sunday shows when he said that.

Snow: He was, yes. Trillions and trillions. Oh, my God, we'd been careful never to put a number

on it, so that blew—If you had to do it over again, I admire the President for doing it and he gets credit for doing it. He took to the American people a critically important issue that will get resolved someday. When it gets solved, it will draw on the Bush initiative. But “Let’s save Social Security” as a simple compact message that is clearly understandable, we’d have been better off if we just stuck with that.

On the other hand, you couldn’t. The administration had made a commitment from the first term to do something to satisfy the commission.

Smith: The commission launched personal accounts. It was baked in the cake.

Snow: But even if we hadn’t had that in there, Democrats were going to find a way to characterize what we did as depriving people of their Social Security. I had a lot of Republicans come to me and say, “Why are you doing this?” Republicans, our people. “Why are you doing this, for Heaven’s sake? Don’t you know that I’ve been running for years against the charge that I wanted to privatize Social Security? My opponents on the Democratic side keep saying I want to privatize Social Security. Now you’re making it true.” *[laughter]* “Now you’re proving them right.”

Riley: I was just going to ask if Karl Rove was in these conversations in the White House. I might have expected Rove not to have been an enthusiast for it.

Snow: I forget where he was on this. He would go back to whatever part he played in that commission in the first—when I wasn’t around. I don’t know. He probably would have reflected the views of the conservative Republicans. That’s where he always came from. He was the torch carrier for the conservative Republican point of view.

Smith: It eventually became a legislative issue, and the legislative barriers—

Riley: You mean the tax?

Snow: No, Social Security. The legislative barriers to it ever moving became painfully obvious. Some realized that sooner than others.

Riley: I want to be sure to ask you about major developments in the economy in the year or two after you leave.

Snow: Right.

Riley: In retrospect, were there signals that you were beginning to pick up during your time at Treasury that something ominous was on the horizon, or were there forebodings about developments in the economy, with an eye toward a more general question about whether there were missed opportunities or things that might have been done earlier that could have avoided some of the problems later on?

Snow: Well, as early as ’03, from the stuff you’ve compiled, I was saying better watch out for these GSEs. They’re going to blow up on us.

Riley: Yes.

Snow: They're creating a mispricing in the housing markets, holding mortgage rates below competitive levels, market levels. They're getting so big that if they ever blow up, they're going to do a lot of collateral damage to everybody. But more importantly, they are fueling risk-taking in the mortgage markets that is unhealthy, buying up all these mortgages in unhealthy markets. The reason they were so dangerous is they could borrow at just a few basis points more than the U.S. Treasuries. That was deeply troubling to me, because if you can borrow at rates that are almost U.S. Treasury, one, it looks like you are the government. The market is treating you like you're the government. Secondly, if you can do that, you've got an incentive to go out and blow out your balance sheet and buy limitless amounts of other financial obligations, assets, because on anything other than Treasuries you can make a spread.

As we looked at this, they were becoming hedge funds, arbitraging their lower borrowing rates, more than they were a housing entity. They were a hedge fund. And they were a hedge fund that in order to protect the risks inherent in the way they did business, they were doing hedges, massive hedges. They had more complicated hedges out there than anybody, and the hedges were concentrated in a few banks in New York. If this ever turned bad, we have a calamity. That's the calamity you're talking about. That's the calamity that happened.

The single biggest obligation of the U.S. taxpayer is to whom out of the calamity? Fannie and Freddie, by far. So without upsetting the housing markets—This is delicate—without forecasting a calamity, we were trying to point out that there were some risks here that could be dealt with if we had a strong regulator, somebody who would come in and look at these entities and limit their ability to create these exposures. In effect, limit their ability to continue to go out and borrow and buy, borrow and buy, borrow and buy.

Riley: Right.

Snow: We began to make that case to the Congress and in speeches and to other Treasury people. We were out making this case. What we found was that Fannie and Freddie had just one hell of a lobby. They were the 800-pound gorilla on the Hill. We continued to make the case, continued to say they needed a strong regulator. We developed legislation that we sent to the Congress to rein them in, put in place a strong regulator. I remember testifying, "They're world-class organizations, they need a world-class regulator." Remember that, the language we used, sort of euphemistic language?

Smith: Absolutely.

Snow: You just couldn't make much progress. You ran into these barriers all the time.

Smith: You ran into the "housing-industrial complex."

Snow: It was, it really is, a housing-industrial complex, because the housing industry and the big banks were all benefiting enormously from this housing-industrial complex. So you ask the question, "Did you see anything coming?" Well, I saw a risk there, we did. Treasury saw a risk there. Secondly, we began to raise questions about these exotic mortgages that were getting—California was the center of them.

Smith: Nevada.

Snow: Nevada, the negative-amortization mortgages, that sort of stuff—no-down-payment mortgages, hadn't yet heard about "liar loans"—but there was a sense that something was going on in the mortgage business that wasn't quite right.

Then there was the fact that we knew in Treasury that housing prices had risen, were rising, and that if they ever stopped rising there could be problems. We never had housing prices fall, so we weren't saying let's worry about housing prices falling. But we worried if, with all the debt out there behind houses, if housing prices start to level off, come down, we're going to have problems with the collateral. Remember, people were using their houses as ATMs [automatic teller machine] and borrowing and so on and had obligations that were really collateralized by their house. They would use their house to live on, so if the houses ever leveled off, this game was going to be up and then you'd have collateral issues.

So we took an interest in it, a huge interest. I think it was in early '05 I called in all the regulators, all of them. Unprecedented. Congress has really gone to great lengths to tell Treasury, "Keep your hands off the regulators. We don't want you influencing regulators." That came out of the S&L [savings and loan] crisis, I think.

Smith: Yes, it is a direct legacy of the S&L crisis.

Snow: We had within Treasury two bank regulators and we could barely talk to them.

Smith: Couldn't talk to them.

Snow: You could talk to them about the time of day or weather.

Bragaw: Was this part of when you're having the regular meeting with Alan Greenspan, breakfast or lunch? Is this type of question—

Snow: Yes, I'm telling Alan this and I'm telling Alan I'm getting worried and I'm going to call in the regulators.

Smith: And the Fed was one of the regulators.

Snow: The Fed was a regulator. I said, "Alan, I've got these concerns. It seems to me there is something going on in the mortgage markets we need to understand better." I think I put it on the President's working group agenda as well. I called in the regulators. This was all sort of orchestrated through the Under Secretary for Financial Affairs, a guy named Randy [Randal K.] Quarles, who was very able, very good.

He set up the meetings and I preside, go around the table and get the head of the OCC [Office of the Comptroller of the Currency] or the head of the Thrift Agency or the representative of the Fed. There were about 14 regulators, the credit agencies' regulators—

Smith: OFHEO [Office of Federal Housing Enterprise Oversight].

Snow: —OFHEO regulator, a lot of regulators. I said to them, “Are you troubled by anything you’re seeing? I hear reports that there are developments in the mortgage markets that are troubling. Do you see it? You people regulate the mortgage markets. Right here in this room are the regulators of the mortgage markets.” They basically said, “No, we don’t see anything that troubles us. Default rates are low. Of course in a rising housing market you’re going to have that. Delinquencies are low. There may be some troubles, but we don’t see it. Not in my area, not in what I’m looking at. Maybe in some other area.” Well, everybody was in one room and they didn’t see anything troubling in their area.

Bragaw: Was anyone at all? Because this is around early 2005.

Snow: Yes, February, March ’05.

Bragaw: So this is probably around the point or a couple of months after the CDOs, the collateralized debt obligations, started to be sold in larger numbers and the credit default swaps on the CDOs and none of that is popping out to any—No one is noticing—

Snow: No.

Smith: Way too early.

Snow: No transparency. Steve, one of the problems we now know is lack of transparency. The regulators didn’t really see this. They didn’t know. What I was saying to them is, “Why don’t you take a look at your guidance, at your regulatees, as to what they’re doing? Could you tighten up the guidance?” Well, I think they began to do that.

Smith: They did. A year later they tightened up mortgage lending standards.

Snow: A year later they began to do it. But what came out of this to me and to Randy Quarles and to Chris sitting around looking at all this was the dysfunction of the financial regulatory—We had a dysfunctional regulatory system where the left hand didn’t know what the right hand was doing. We were operating under conflicting mandates.

Bragaw: Pre-9/11 intelligence firewall, right?

Snow: Exactly. That’s a good analogy. We contemplated what we were seeing—

Smith: That’s a very good analogy.

Snow: We say, “By gosh, we need a new blueprint for the financial regulatory system. We ought to consolidate these things.” I remember talking to Alan Greenspan about that. “Alan, your regulatory function probably would be better served if it were in somewhere else. Your monetary authority—I don’t think you’re spending all that much time on regulatory functions.” He didn’t want to give up his regulatory function. He said it was critical to understanding what was going to get the market data out of the banks.

I said, “Look, we’ll get the banks to give you the market data if you can’t. We’ll get you the data. Wouldn’t it make more sense for you to focus on monetary policy and end this massive

bifurcation of regulatory responsibilities?” We were going to put the OCC together with the thrift regulators and we were going to put the SEC’s function—

Smith: CFTC [Commodity Futures Trade Commission].

Snow: CFTC, because they had a huge overlapping of jurisdictions, always in conflict. So we put that in our blueprint. Randy Quarles and his team put together a blueprint, which we were going to take up to the Congress.

Smith: [Henry] Paulson issued the blueprint.

Snow: So did I. Your question is, were there things that were of concern to us? Yes, there were. But you can only manage what you can see. We could see the GSEs. We saw that. Went after that pretty well. We’re vindicated on that one. I remember testifying a couple of years later. I was out of office, maybe the end of ’08 after the election, before the Oversight Committee, being asked about, “Why didn’t you get this?” The guy who was asking me was somebody I’d approached on the GSEs years earlier. I said, “Congressman, do you remember me coming up to see you?”

Riley: That was my next question, whether you had gotten resistance on the Hill or maybe more likely just a lack of interest at that point.

Snow: It was absolute opposition. This was a ferocious fight. The GSEs knew that if they got regulated, this implied guarantee of the government would go away.

Riley: Sure.

Snow: That was the job. What the regulator would do was take it away.

Smith: The game would be up.

Snow: Then the spreads would go out. Then the capitalized value would come down. It’s interesting. When we were making traction on the legislation, the spread started to widen and the stock value started to come down. We were clearly on the right track. So three years later, when I was testifying before Congress, “Why didn’t you do anything?” I’m able to say, “Congressman, you may recall I called on you, testified before your committee, made the case for a strong regulator. We might not be here now if you’d acted.” They didn’t like that.

Riley: The GSEs to my knowledge had a very heavy representation of Democrats. Was there also heavy representation of Republicans?

Snow: Both.

Smith: They had everyone.

Riley: I haven’t gone—

Smith: If the GSEs didn’t have them, the realtors did, and if the realtors didn’t have them, the

homebuilders did, and if the homebuilders didn't, the mortgage lenders did, and if the mortgage lenders didn't, the insurers did.

Snow: The mortgage insurers. This was—

Bragaw: This was a creation of a national housing market that had never existed before. You had regional classes, but never a national class.

Snow: Alan Greenspan as late as '06 was saying that these housing markets are different; they're all local. You can't have a national collapse of the housing market; you'll get regional, but you won't get a national. We know now that what we're living with now is the result, to bake it right down to the simplest elements, of a housing bubble. Fannie and Freddie were at the very center of creating a housing bubble.

The mistake that both parties made, administration after administration, was promoting home ownership without asking the consequences of this bipartisan consensus that everybody ought to own a home whether they can afford it or not, and then rigging the finance system to produce financing for people who couldn't afford homes, in the process driving up housing prices, holding mortgage interest rates down, which drives up housing prices. We built over a long period of time—This wasn't just a four-year period; this was a 25-year period—this infrastructure, this—What did you call it?

Smith: The housing-industrial complex.

Snow: That captures it. This was a powerful complex. In the end it took us to the bubble.

Perry: When it all goes bad, how does it impact your thoughts from your days at UVA and your days at working to deregulate? Does it make you rethink it?

Snow: That's good.

Perry: The concept of free markets.

Snow: Well, it's a misconception to think financial markets are free markets. No. Markets are more an entanglement of government incentives and structures and private business. In financial markets, the taxpayers and the enterprises are joint ventures. The taxpayers are on the short end of the joint venture because the enterprises get the profits when the profits exist. The taxpayers get the bill when the collapse inevitably occurs.

One of the themes in this oversight committee—Here you are, a deregulator. Do you still believe in deregulation? Well, I was a regulator of GSEs; I wasn't a deregulator. I wanted more regulation there because the incentives that had been set up, the structure of this thing, was unworkable. It wasn't a private enterprise. It was a government enterprise. It was working on a government guarantee, an implied government guarantee. We had to break the government guarantee, had to get a regulator to drive out the perception that there was this guarantee there.

The world of finance and the world of free markets don't mix easily because we don't have free markets in banks. "Too big to fail" is just part and parcel of the world that banks have become,

which is anathema to the notion of markets. Markets are you do something well, you produce a good product at a good cost, you make profits, you get those profits; times change, the market doesn't, substitutes for your product come along, technological changes make somebody else with a better product, at lower cost, your market value collapses, your products can't be sold, you go. No tears shed; you go.

Banks? You make huge profits during the times you're taking all these risks that you really shouldn't be allowed to take because you're playing with the taxpayers' money; you pay yourself lots of money in the interim, and do some good things too. I'm being a little facetious here, but when the music stops, you've still got a chair to sit in; the taxpayers have a big bill. That is what is really fundamentally wrong.

I'm for free markets. Where we've got free markets, let them work; but when we don't have free markets, let's recognize that we've got something that is a departure from free markets and then apply whatever the rules are. Banks have to be regulated. They inherently need regulation. They are hard to regulate, but they'll never be regulated appropriately as long as they can't be dissolved and fail. You're going to have to let them fail, have to let them dissolve.

The problem we have now is they're so big that if you let them fail, they have the collateral damage wreckage all over the system. So the big question we have isn't at all addressed by the legislation that came out. It is how do we disengage from this world of "too big to fail"? If we had Teddy Roosevelt as President, he'd know what to do. You wouldn't have—As George Shultz said, "If they're too big to fail, they're too big."

Bragaw: Except he wasn't all that helpful during the panic of 1907.

Snow: That's right. That's when private sector banks were big enough relative to the market that they could make a difference. I don't see a contradiction. My view is if there is a participant, an industry whose existence makes it a joint venture with taxpayers, which is what FDIC [Federal Deposit Insurance Corporation] does and deposit insurance and too big to fail and all that, then boy, you'd better watch them real close. You don't want financial institutions using money that comes to them from depositors that is guaranteed, which means the Treasury is behind it, which means the rate of return on it is 2 percent going out and earning 20 percent on equity. There is just a disconnect there.

Riley: Sure.

Snow: That doesn't work. It's a fair point, but I'm a regulator for financial institutions and I don't think we regulate them right yet. I don't think we figured out how to fix the fundamental problems with financial institutions.

Riley: The debate over executive compensation was something that came largely after you left office. Had you taken a position on that?

Snow: It wasn't a front-and-center issue.

Smith: It was more of an Enron-era issue.

Riley: So that would have been much earlier.

Perry: Some questions came up, according to the briefing book, when you were nominated.

Snow: Oh, about my compensation.

Smith: You were on the Commission on Corporate Governance.

Snow: I was cochair of the Corporate Governance Commission right after, right in the wake of Enron. My view on compensation is really the government shouldn't—Unless you're a bank and the government really is backing you—If you're a government enterprise, then of course the taxpayer should, but other than that, I'd rather trust the marketplace to set corporate compensation than the SEC or Congress. But it is perfectly legitimate for the government to take an interest in the compensation that is being paid by taxpayers to entities that are owned by or supported by the taxpayers.

Riley: Chris, we're getting close to our appointed hour and I think remarkably, we've done—

Smith: Pretty much hit everything.

Riley: There are one or two bits and pieces if you have the patience to continue.

Snow: Yes, let's keep going.

Riley: You mentioned [Hurricane] Katrina, that you had had some piece of that. I wonder, from your perspective—The conventional wisdom is that that was an administrative failure on the part of the administration. Is that too harsh?

Snow: The President would have been better served if he had put that plane down and gotten on the ground rather than peered out the window and had that awful photograph that will forever haunt him.

Riley: That's a communications issue rather than—

Smith: Set the tone.

Snow: Never got back on top of that issue. We got thrown into it in a big-time way because there were all these people you want to give relief to and what's a quick way to give them relief? Give them tax relief. We worked with the IRS and got them checks. We sped up the process through which they got their refunds, just a massive effort.

We also intervened. As I said at one point here, one of the most important things you do in government is not seen; it is what you stop. There were proposals for all sorts of funding for Katrina, not tied to anything except just feeling good about putting money out, including putting Treasury guarantees on New Orleans city bonds. We had to be Dr. No on that because that's a horrible precedent. There are going to be floods and there are going to be hurricanes and there are going to be all sorts of things. If wherever that happens the Treasury gets opened up and becomes liable, contingent liable on that, it is "Katy, bar the door!"

Treasury's role was important, but targeted on how do we quickly help get money in people's hands who don't have jobs, whose homes have blown away, who are living under miserable circumstances. I went down there a couple of times. Chris, you probably went with me. We talked about what we were doing, consoled the people, let them know we were on the watch. What happened there of course is—The perception was we weren't on the watch, weren't attentive enough, and didn't get into it enough. Then we rushed in, jumped in, and almost in an overreaction to be shown to be sympathetic and doing the appropriate things, which is where you get in trouble, because you haven't thought through what you're going to do. You waste a lot of money.

What Treasury really does is watch taxpayers' money, if you want to get right down to it. It sells the President's economic policy, hopefully it helps coordinate the policy development, and it watches taxpayer money. It is the guardian of moral hazard. It is the home of the—You see more proponents of good causes that are fraught with moral hazard than any other agency.

Riley: Is that on your sweatshirts? “Guardians of moral hazard”?

Smith: It is “The Department of No.”

Riley: Known as such within the government?

Snow: Oh, yes, sure. Absolutely.

Smith: Democrat or Republican administration, really if you wanted to be fair, it is the Department of Moral Hazard and No.

Snow: It is the one place in the government that has taxpayers as its clientele. If you're the Transportation Department, you want to build bridges and airports. If you're in the Defense Department, you want to build a strong defense department. If you're in the Park Service, you want to strengthen the parks system. If you're in the Agriculture Department, you want to help farmers prosper and get their subsidy payments and all that. If you're in the Treasury Department, your constituency is the taxpayer. That's a great idea, how do we fund it? How do we pay for this? What is the cost/benefit on this thing?

Smith: To your point about Fannie and Freddie, everyone wants access to the full faith and credit of the United States. That's the greatest deal going.

Riley: Sure.

Smith: All sorts of schemes to tap into the bond market.

Snow: Two very prominent United States Senators called me one day. I won't name them, but they're very prominent champions of fiscal rectitude who had failed to get some funding bill through the Congress to fund some projects that were important to them. They were imploring me to support making full faith and credit available so they could set up a borrowing plan to fund the thing they couldn't sell to their fellow Members as a straight-up funding proposal.

I sort of laughed at them a little bit and reminded them of their moral fiscal rectitude. It's fun

being Treasury Secretary with all these conversations you get into.

Riley: I bet. One of the things I've always wanted to ask a Treasury Secretary about is signing the money. What do you do?

Snow: Well, I'll tell you, countless hours in the basement of the Treasury. *[laughter]*

Bragaw: The question I always wanted to ask the Treasury Secretary: Did anyone ever ask you for ID [identification] and you pull it out and say, "There it is."

Smith: You go through a lot of pens.

Riley: What do you do? Is it just a regular autopen?

Snow: They do it over at the Bureau of Engraving. You sign a whole bunch of these plates for them.

Riley: So they come over and give you the plates?

Snow: Oh, yes. You sign something; they get it put onto the plate. Then you pick one of these 25 signatures that you put out there.

Riley: Whichever one you like best. I wish I had started when I was doing interviews for this project, bringing in currency so I could get somebody to double sign it. Do people get you to sign money?

Snow: All the time. They send me dollars or stuff. I'll tell you one of the great things signing that currency does: it really elevates you in the eyes of your grandchildren. *[laughter]*

Bragaw: Grandfather knows the tooth fairy.

Perry: May 2003 it says in the timeline here that you wrote to top lawmakers asking Congress to increase the debt limit—

Snow: Right.

Perry: —the ceiling of the debt limit. I just wondered if you could talk about that in light of how partisan that has become in recent times.

Snow: If it is a Republican President, it is a wonderful opportunity for Democrats to excoriate the Republican President. If it is a Democratic President, it is a wonderful opportunity for Republicans to excoriate the wasteful practices of the Democratic administration, and it is just too attractive a target to pass it up. It is a rain dance that is going to go on. The reality is this is all about prior commitments. This isn't about the future; it is about the past. We're already on the hook for this stuff, these obligations.

So in the end the Treasury Secretary will go up to the Members who are Republican or Democrat and remind them that ever since Alexander Hamilton, the cornerstone of America's prosperity and standing in the world is the full faith and credit of the United States. We cannot lose that.

Then they'll say, "Well, you can—It can take us another month or two with your fiscal ledgerdomain that you have up there." You say, "It has run out; it has run its course. We've moved the money from this fund to that fund. We can't move any more." In the end, always up until now, and I hope it always prevails, despite the *Sturm und Drang*, cooler heads prevail and the budget ceiling gets raised. It really is unthinkable to ever not do that. It is really unthinkable to forfeit one of the most valuable assets the United States has, this full faith and credit.

Riley: Chris, are you finding anything?

Smith: No, we're good.

Riley: I always say at this juncture that we never completely exhaust all the possible topics, but we do a pretty good job of exhausting the person we're interviewing. This has been a real privilege for us. Thank you.