The Economic Club of New York

The Honorable Paul H. O’Neill
United States Secretary of the Treasury

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Questioners: Robert D. Hormats, Vice Chairman
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CBS MarketWatch.com

Introduction

Chairman William J. McDonough

It may be counterintuitive for the financial center of the world to think that the Secretary of the Treasury should be somebody who has actually had a past of making things that you can feel, that you can set down on, that you can make ships out of...(Recording Issue) moved into the private sector and very soon moved into the position as Chairman and Chief Executive Officer of Alcoa. Alcoa made a lot of aluminum while he was its chairman. But what its Chief Executive Officer did is that which characterizes the American economy and makes it by far the most successful of all the industrialized countries.

He used modern business management techniques, a creative strategy, excellent leadership, to turn a very sleepy company into a model of American industry. For those of us who think in financial terms, he passed the test very well indeed. He took the net worth of the company and, more important, its market value up by ten times in the period that he was Chief Executive Officer. Not very many people can match that.

As President of the Federal Reserve Bank of New York and, therefore, the occupant of the hottest seat in the electrified world, in the electronic world of international finance, I can assure you that I am very happy that we have this extremely distinguished American as Secretary of the Treasury. Ladies and gentlemen, greet the Honorable Paul O'Neill. (Applause)

The Honorable Paul H. O’Neill

United States Secretary of the Treasury

Thank you very much, Bill, and good afternoon to all of you. It’s great to see so many friends. It’s great to be here in my new role as the Secretary of the Treasury. I’ve found there’s some collateral and in some ways unexpected benefits of being the Secretary of the Treasury. For example, I’ve found it’s very easy now to get a reservation at the very best restaurants in New York. (Laughter) I just call the maitre d’ and say this is Paul O’Neill and I would like to have a table for four at 8:00. And the maitre d’ says, that will be fine, Mr. O’Neill. Is there any chance Derek Jeter or Roger Clemens will join you? (Laughter) Okay, so that’s the other Paul O’Neill. He’s got a great life. If he has a 3-for-4 day, the press accounts are wonderful. Lucky for him, he doesn’t have a point of view about whether there’s economic stimulus in the President’s tax reform, or an opinion about global climate change, or foreign exchange rates, or workplace safety. At the same time, the other Paul is very expressive. When he has a particularly bad at-bat, he shares his feelings with the water cooler in the dugout. And I have to tell you, I’ve been thinking about getting a water cooler for my office.

I want to thank you for inviting me to give you some inside perspective on President Bush and his economic agenda. I’m always glad to be invited back to New York because I worked here for ten years and there’s always a certain sense of coming home when I come here. I’ve been in

Washington now for three months, and I've especially enjoyed getting to know George W. Bush. He's a serious man who believes deeply in the goodness of America and what we can achieve. That was clear to me from the day I first with him to discuss joining his Cabinet. We talked about principles and policies and means, beginning with education.

The principle is "No Child Left Behind." I've worked on this subject as a policy analyst in the federal government, as Chairman of George Herbert Walker Bush's Education Policy Advisory Committee, as Chairman of the Pennsylvania State Education Standards Commission, and at the local level as Chairman of an Education Policy Group, and I've come to the same conclusion as President Bush. The first priority for our society should be "No Child Left Behind." I believe it's our obligation to achieve this result and I'm convinced we will achieve it when citizens at the local level commit themselves to the idea that when children get to be ten years old, they will have the foundation skills that they need to have to be lifelong learners. To deliver this result, we need early diagnosis of learning development and individually-tailored interventions for those who are lagging behind. Yes, it takes money, and the President has proposed that. But we need standards and measurement too always focused on the success of individual children, not on statistical aggregations about groups of children or entire schools. And we need to check our progress every three months and change our interventions if we're not making progress.

Now, as we discussed the full spectrum of public policy issues on that December day, I found myself in agreement with all of the important elements of President Bush's vision and that's why abandoned my own plans and signed on for this job. I'm proud to be part of his team, working to foster prosperity in every corner of this nation, and to play a part in fostering what I believe can be a Golden Age of economic prosperity for the world. I'm proud to join the team of a man who believes our society is only on the frontier of its true potential.

Now, as Treasury Secretary, my first priority at the moment is to get the President's tax reform enacted. Think back with me three months and you'll remember the conventional wisdom was that if there was to be any tax reform this year, it would not come before September or October and it certainly would not be more than half the size that President Bush was recommending. The President refused to accept that timetable. The result, the House has already passed several pieces of the President's tax relief plan, and in a vote last week 65 members of the Senate supported a ten-year tax cut of $1.27 billion and $85 billion of immediate tax relief. I believe next week, we will see the House and Senate come together around a tax relief number that is very close to the President's request. That's leadership in action.

You've all seen projections that we're going to have a $5.6 trillion surplus in Washington over the next ten years, and private forecasts are close to the Washington forecast. The President has put together a reasonable budget plan that pays down $2 trillion in publicly-held debt, provides $1.6 trillion for tax reform, and funds all of our budget priorities. Obviously, we've got some work to do convincing the Congress that a 4% increase in spending is enough to cover our needs, but I believe we'll get there.

The slowdown in the economy makes it all the more important that the Congress act on the tax relief quickly. We can put money in people's pockets this year with the knowledge that it is just the first installment of permanent tax relief, and we can re-ignite the spark of economic growth. As soon as we have tax relief in place, we will turn our attention to Social Security. Standing alone against the pundits' advice that he should not say anything about Social Security in his campaign, he championed the cause of long-term reform.

I remember, myself, going before the Senate Appropriations Committee in 1973 with George Shultz, who was the-then Director of the Office of Management and Budget. George told the committee that we needed to fix Social Security before it led to an inter-generational fight between the young and the old because the system could not be sustained as the age balance in our population shifted. That was 28 years ago, and the time to make necessary changes is running out. President Bush is committed to fixing Social Security. In the next few weeks, we will announce the creation of a commission to develop the framework we need in order to put specific legislative recommendations before the Congress. The President will keep us all focused on this issue and, as in tax reform, we will produce a good result for the American people, quicker and better than the naysayers expect.

Further down the track, it is my hope that we can turn our attention to tax code simplification. The code today encompasses 9,500 pages of very small print. While every word in the code has some justification, in its entirety it is an abomination. It imposes $150 billion or more of annual cost on our society with no value creation. We're worthy of better.

I want to turn for a moment to the world outside the United States and say a few words about the international financial institutions. I want to begin with a declaration. I believe the international financial institutions are a necessary and important part of our past, our present, and our future. But I'm concerned that their future will be constrained unless we can work together to reduce the amount of time and money they spend on firefighting. Certainly there will always be unexpected events that we, and the institutions, will have to deal with. But the firefighting should be the exceptional cases for these institutions, not the norm.

In examining some firefighting cases, it seems clear to me that professional economists and financial people knew beforehand that economic conditions were deteriorating. Dealing with such situations before they turn into a contagious disease seems to me to be the preferred policy. In a sense, doing so in advance requires taking more responsibility because you have to stick your neck out and tell people what needs to be done before a crisis forces your hand. But I don't know any other way to fill what I believe is our fiduciary responsibility to the American people. As we, in the finance ministries of the world, talk glibly about billions of dollars of support for policies gone wrong, we need to remember that the money we are entrusted with came from plumbers and carpenters who sent 25% of their $50,000 annual income to us for wise use.

Finally, I want to comment on the challenges that are internal to the Treasury Department and more broadly to the federal government. I can tell from some of the editorial comments that I've seen that some people are mystified as to why I would bother myself with anything that didn't rise to the level of global finance and presidential policymaking. These commentators don't understand my notion of leadership. In a nutshell, that notion is this: excellence is a habit. If your organization is not striving to be the best in the world at everything you do, then you're unlikely to be truly excellent as an organization.

Let me take this down from the lofty to the concrete. In the organization that I left in December, it took us two and a half days to close our financial books at more than 300 locations in 36 countries. I've found on re-entering the government, it takes the federal government five months to close our books and then the auditors give us a qualified opinion. This is not the stuff of excellence.

Let me hasten to add – this is not the fault of the workforce. The federal workforce can deliver what the leadership asks for. I've begun to ask for plenty from the Treasury Department workforce beginning with workplace safety. Parenthetically, I have to tell you I find it odd to be criticized for caring about the health and safety of the 160,000 people who depend on me for leadership. I proved in my previous work life that it's possible to build an organization that is known for excellence based on a foundation of dignity and respect for every individual, and I will continue to do the same in my new work as I strive to give meaning in every way to President Bush's vision. Thank you very much. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN WILLIAM J. MCDONOUGH: Well, you see, guys who make things make sense. I'm sure virtually everybody here, if not everybody, would agree with everything the Secretary said. However, he will get an opportunity to say even more because as is our want, we now have two questioners who will ask the Secretary questions in rotation. He will stand up here and answer them. And in due course, then I will rise and say that we will have one more question from each. Our two questioners today are Robert D. Hormats, the Vice Chairman of Goldman Sachs International, and Marshall Loeb, who is a columnist with CBS MarketWatch.com. We will begin the questions with you, Bob.

ROBERT HORMATS: Thank you very much. First of all, Paul, thank you very much for a very, very thoughtful presentation. I'd like to follow up initially on the point you raised about stimulus, fiscal stimulus. The administration has frequently made the point that its program was similar in terms of concept and goals to the Kennedy program of the early 1960s. The Kennedy program, though, as you recall, had a very stimulative impact in the first year, about 1.5% of GDP. The criticism of this tax cut is that the front-end impact is relatively modest and may not kick in for a while in any case. If you're using the Kennedy tax cut as sort of precedent for what you're trying to do, would it not be useful to take a page out of Kennedy's book and have a much greater front-end stimulus in the way you structure the tax plan?

THE HONORABLE PAUL H. O'NEILL: Thank you Bob. You know, I really, I have to say first, I really enjoy Q&A sessions because you can be sure there's at least one person there who is interested in what you have to say. (Laughter) First of all, I don't, I myself don't think the Kennedy tax reform is the model or standard against which we should think about what it is we're trying to do. The most important part of what the President has recommended is that we make permanent change in the tax code. He formulated these ideas more than two years ago, and I think he's demonstrated that they stand the test of time, that we need to do something about changing the way individuals relate to the tax code especially with regard to marginal tax rates. And for myself, at least, you know I've gotten into some trouble for observing this, as originally crafted, there was not a significant stimulus in what was put forward. In fact, the first year effect would be something on the order of $5 billion which is a small number in a $10 trillion economy. But out of the give and take of a policymaking process, what the budget resolution in the Senate did last week was put in an allowance for up to $85 billion that could go into effect immediately. I must tell you, I view this, now from an economic background, as what I've characterized as an opportunity to have belts and suspenders. The belt for me, is what Alan Greenspan is doing with interest rates. And as a matter of fact, I should probably say to you, it was really nice of Alan to set me up this way. And so I view the belt as interest rate policy and I think Alan, as always, is doing a first-rate job in taking action. And the stimulus, however much we end up with, I think can be useful, but it is not the primary reason to effect these significant changes in individual relationship to the tax code.

MARSHALL LOEB: Mr. Secretary, I wanted to ask you about the national debt. Given that Treasury securities play an important role in the national and international financial markets, and given that if we were to run a budget surplus for any length of time, we would have to buy back a lot of our securities, how then should we determine what should be the size of the outstanding marketable debt? And corollary to that, what are the implications of not maintaining a liquid Treasury market? Don't we, indeed, have to have some Treasury securities, more than a few, out there?

THE HONORABLE PAUL H. O'NEILL: You know I was looking at the figures yesterday and, in fact, on a 12-month basis I think debt held by the public is down about $270 billion or so. And we're looking this year, at this fiscal year, at another $280 billion surplus on a consolidated basis. And so, indeed, just as you say, we are paying down the debt. And as I said in my prepared remarks, over this next ten-year period, most people would agree we're going to have the wherewithal to pay down another $2 trillion worth of debt and that's going to get us into an area that's at least arguably irreducible because of savings bonds that are counted in these numbers and debt that's held by other sovereign nations that they like. And Alan and I suspect, no matter what the interest rates are, they'd like to have them because of the risk-free characteristics of them. And so there is a legitimate question about what do we do as our bountiful economy throws off money that we can use to reduce debt held by the public? And Alan has said that there are other securities that are near-Treasury securities one might look at. And I would say, this is an unsettled question, but another thought that crosses my mind is that it's possible, I think, to have a fully-developed set of maturities across the yield curve to give the world a basis for calibrating risk reinvestment from the safest economy in the world. And then the question is in order to do that, you've got to borrow money. What do you do with the proceeds? You give them back to the people as more tax reduction I think. So it's not inconceivable to me that we can maintain a liquid maturity curve and in effect not have any debt. In fact, many of you are in companies or know of companies that in effect, on a net balance basis, don't have any debt, but they continue to be in the markets in order to provide liquidity in the event that they may need it in the future. And I think the same principles could apply here.

ROBERT D. HORMATS: A moment ago you referred very kindly to Alan Greenspan's and the Fed's recent actions of yesterday. When he testified on January 25, Chairman Greenspan also made the statement that special care must be taken not to conclude that the wraps on fiscal discipline are no longer necessary. Yet, when you looked at the debate in Washington, particularly alluding to the point you made earlier that a 4% ceiling on spending in sufficient, there are a lot of people who don't necessarily agree with that on both sides of the aisle. How do you maintain an environment where you do project these very positive surpluses, this notion of the importance of fiscal discipline? And what happens if fiscal discipline is not exercised to the President's medium-term and longer-term budget objectives?

THE HONORABLE PAUL H. O'NEILL: Well, you know, this is a subject I've labored over, sometimes even, Bob, going back with you, in how we deal with the way the process works now. If you look at what it is that causes spending to go up faster, it's the phenomenon of disaggregated decision-making. What I mean by that is members of Congress, almost without exception, all believe and act on the idea that they were elected to go get something to bring home. And if you ask them as a body to vote for whether they want more than 4% increase in total federal spending, as a body they would say 4% is too high, 3% would be better. But when it comes to their own thing, they don't think they're adding to the total. Unfortunately, we all know that they do. And so in a way the game is not structured in a way to produce a result that we would, I think, consider to be sensible. And, you know, there's been this infatuation, discussion, over the last couple of months about what we need – triggers – and the idea of triggers has been applied to, well, we need triggers that only provide tax relief in the event that the economy produces these surpluses. And it's caused me to imagine a trigger that I would like that goes to this question. My trigger works like this. Let's enact a law that says whenever we run surpluses of more than $25 billion, we'll close the books, hopefully faster than we do now, but by the first of December, we will send back all amounts over $25 billion a year to the people who sent it in and that way maybe create a tension between those who would spend and those who see that probable surplus as a dividend that could come their way. You know, and this may sound pretty far out to you, but this is a really difficult problem of how we maintain some semblance of order when our economy is producing such huge surpluses, that the temptation is to say mine doesn't really matter very much and I need it at home.

MARSHALL LOEB: Mr. Secretary, how would you describe or encapsulate the major differences between the Bush-O'Neill Treasury and the Clinton-Summers and the Clinton-Rubin Treasury?

THE HONORABLE PAUL H. O'NEILL: Any volunteers? (Laughter) This is a very good question, I think. You know, I have said on the record and to many of you privately, I think Bob and Larry did a great job while they were there. You know these jobs are never easy jobs, whatever your political persuasion may be. I think they both operated with distinguished efforts on behalf of the American people. And if I can work at that standard, I'll be very happy. But, of course, there are differences, and some of them I alluded to in what I said to you in my prepared remarks. You know it was not, these are not remarks prepared by the speech-writing department. You know I've tried that. I just can't do it. I mean I love Ray Price and his ability to craft words for other people, and I've sat in his office and watched him draw arrows and cross out words and make things ever better and better. And as good as he is, I don't think he could write for me because I just can't find it in myself to deliver somebody else's ideas no matter how brilliant they may be. And so, you know, I'm going to have to be me and I really do believe it is necessary for us to inculcate the idea of excellence in everything that we do. And I'll give you an example, I went to the Philadelphia Mint last week and there were some photo op kind of things, but I'm seriously interested in how well everything is done. And I know the difference between good and not so good. So when I go into a manufacturing place, I can tell almost instantaneously whether this is one of the world's best or just another also-ran. Again, not to cast dispersions on the people that are doing their best. They don't have, these people don't have the right idea of what excellence is. But I'm going to help them understand what it is, and not to beat them up but to help them excel in a way that gives meaning to their life so that they're proud every day of what they do and they get recognition for being better than anyone else. And I'm going to pay attention to how long it takes us to process goods coming across the border through the Customs Service, and what we're getting for the $700 million a year we're spending on the subject of money laundering. You know, unapologetically, I'm going to hold up the standard of excellence in everything that's in my brief and even some that aren't.

ROBERT HORMATS: Speaking of the difference between good and not so good, let me now turn to the international economy for a moment. As the Fed indicated yesterday, there are risks of a weakening of the global economic outlook. If you look at the U.S. economy today, and you go back to the period of the 1987 stock market crash and the 1990-91 recession, one of the benefits we had then was that there were robust exports. In the current environment, we've had a strengthening dollar for the last several years and a generally weakening global economic environment – Europe's growing a little more rapidly than we are – but by and large it's weakening. That may make it more difficult for us to get out of the current difficulties we face because exports, rather than being robust as in the past, they are a relatively weak feature for at least the next several quarters. How do you see this picture evolving? And particularly, what do you plan to do, if anything, in your discussions with the G7 ministers to help improve the economic outlook? And will it differ from the last administration's way of dealing with that kind of issue?

THE HONORABLE PAUL H. O'NEILL: Okay. I went to Palermo for my first G7 encounter in February, and I was struck by some of the comments that were made that indicated a sense that Europe could have an economic life of its own independent of the United States. You know, and again this may come from working in 36 different countries, I mean really working, not just flying over, but working in 36 different countries. I think we're more advanced with the idea of interconnectedness of the world economy than even most commentators understand. And so when, you know, some Europeans say to me, well, you know, we're really excited about this year, we're going to grow at 3.4% and we're going to show you how to really do it as though somehow it was an independent life, I'm just mystified by that because it's so inconsistent with my own view of how the world works now. So, first of all, I think we're all in this together. And it's one of the reasons early on I started talking about the need to help the Japanese get back onto an appropriate growth curve which they've not been on now for ten years. Because I think in order to realize what I've characterized as the Golden Age of economic prosperity, we need all the cylinders running and that means, in important ways, in an interconnected fashion with a respect for cultural differences and national sovereignty, but never forgetting the interconnectedness and the necessity for us to move forward together and to be concerned about imbalances. It's part of what I was trying to say in my comments about the international financial institutions. I think the idea of letting things kind of happen when we know better is not an acceptable idea anymore. But I do believe, I do believe this, and let me say a little bit more about why we can have a Golden Age of economic prosperity. If you look at the difference between the very best enterprises – and I use that term in the broadest sense – public, private, non-profits – if you look at the value creation capability of the very best and you compare what they do to everyone else, the difference is astounding. And the difference is mostly about the deployment of ideas. It's not about patented, technological monopolistic positions. And so the difference between where we are and where we can be is within the actions of individual human beings and groups of human beings. And there's so much there, if we can weave our way through the dangers of international conflict, there's no reason that the world can't enjoy the level of economic prosperity that we've seen here in this country in the last ten years or so and more than that. And if you have any doubt that we need it, that the world needs it, go and travel around the world and look at the millions of people who, at the moment, have no hope of even one-tenth of our living standard. So the need is real, and I think the prospects are wonderful in front of us.

MARSHALL LOEB: Mr. Secretary, in terms of policy, what are, say your three or four top priorities as Secretary of the Treasury?

THE HONORABLE PAUL H. O'NEILL: Tax reform, Social Security, getting rid of the 9,500 pages. I'd like to make the 9,500 – 95, that would be a good goal. (Laughter) And to contribute as I am asked to and invited to, to the other important policy issues of our day which are, you know, I mentioned a few. I think those are truly the important things.

MARSHALL LOEB: Where on your list of priorities would expanding NAFTA or expanding free trade areas fall?

THE HONORABLE PAUL H. O'NEILL: Yes, Marshall, I'm thankful for the question. You know I have no doubt this President is a free trade President. And, you know, if you want to examine what I've said on the record in, I think 1991, I went and testified for what's called zero for zero. I really believe this as a principle. The world will be better off if we can get to a point where there are no trade and tariff barriers anyplace in the world. It's not an easy thing to do. You know the forces would like to delay economic adjustment, that the world is insisting on and driving us toward our legion and forceful. But there is no doubt about what the policy should be. And it caused me to say this, we have a great person in Bob Zoellick leading the trade office and more generally, you know, this probably sounds like in-flight baseball, I tell you what, it is really a joy to go to work, and for example to sit around the National Security Council table with Vice President Cheney and Condi Rice and Don Rumsfeld and Colin Powell. These are first-rate people and I am very proud to be their colleague.

ROBERT HORMATS: A question on productivity. As you pointed out, the importance of good companies with good practices is a critical element of the productivity success in this country over the last decade or so. One of the concerns that could be facing us down the road is that as investment slows down, as it is now, particularly in the high-tech sector but across the board, that could present medium-term risks to the productivity outlook. I'd be interested in your thoughts on how you see the investment outlook once we get through this current dip or current weakness in the economy. And also does it concern you that if the investment outlook remains relatively weak, we'll suffer the weakness in productivity which could make inflation a bigger problem and could undermine our competitiveness over the medium term as a result?

THE HONORABLE PAUL H. O'NEILL: Well, that's a very good question. And if you use the traditional economic formulations, it's fair to say that capital investment level is decidedly lower than it was. When you disaggregate it, you find an awful lot of the slowness or maybe even non-existence at the moment is in that box-making, computer business. And it is decidedly slow and I think as we hopefully have a foundation and a bottom, it looks like consumer spending is beginning to pick back up and inventory levels, at least in many industries, have been cleaned up. There's a question of how we go forward. I go back to something I said before. You know, a lot of the productivity boom that we've seen, I think, has been attributed to and associated with the traditional formulations of how the economy works, I don't think that's quite right for this reason. I think a substantial part of the productivity boom that we've seen over the last ten years has come from the deployment of ideas. When I first went to Washington in 1961, the first 18 months I went to computer programming school, and even then what we could do with computers was marvelous, but it was, you know, a 1 on a scale of 10,000 compared to where we are now. But over this period of time, we haven't gone from 1 to 10,000 overnight. We've gone through it gradually. And I think many of us who were schooled in information technology thought that we should be getting much greater bang for our dollar with investments in computer technology than we seem to be getting. And I attribute the surge in the last ten years, not so much to the ever-greater speeds at which we can do things, but the ever-greater deployment of technological ideas that have now been around for 30 or 40 years. And so I think we have the seeds of significant productivity growth with the deployment of ideas into a capital base that’s substantially already there. And in fact, I think we might expect to get greater productivity with a lower traditional ratio of physical capital investment than we’ve historically seen for this very reason.

MARSHALL LOEB: ...(audio ends and starts again)...public sector and, of course, in the private sector. Can you share with us some of the things that you’ve experienced and learned in the private sector that can be useful now that you’ve returned to the public sector? Are there any, for example, lessons from Alcoa’s remarkable comeback that can be applied in government?

THE HONORABLE PAUL H. O’NEILL: Well, first, a general proposition that I probably would not have articulated the same way 15 or 20 years ago, but being a CEO of Alcoa and President of International Paper before that, I’ve had occasion to think about what it is that leadership means. And it goes to a foundation set of ideas that my friend, Bill Sapphire, would probably say this is really goo-goo stuff, but it’s what I believe so I have to tell you this. And I think there are no differences between the public sector and the private sector and the non-profit sector in this sense. In a truly great organization the people in that organization can answer three questions, yes, affirmatively, with no reservation every single day. And those three questions are this. Were you treated with dignity and respect today? And secondly, were you encouraged and given the things that you need in order to make a contribution that gives meaning to your life? And the third question that people need to answer affirmatively is did anyone notice? I would say if you can find an organization that people – every person – not some people, every person can say yes, yes, yes, you have found a truly great organization. And I think we need to bring these ideas into play every place, public and private. Now secondly, I believe this, Marshall, that the ideas that people have that somehow a government is fundamentally different than the private sector, I think, are wrong in so many ways. You know people say, well, it's much easier to measure in a private organization and you have profit and loss so you can tell are they winning or losing. In the public sector, you don't have that. But, you know, if that was such a wonderful guide, you have to ask yourself, why is it that so many companies go bankrupt? If it's so easy to measure, why don't we always succeed? And so, in that same sense, I think it is true that there are measurements of excellence, public and private, that are not bottom-line measurements, but they're measurements of how close you're working at the theoretical limit of value creation with resources that you command. And again, I'll give you an example, and it's a hard, physical example, back to my recap of going to the mint. When that operation is operating at the theoretical limit of what could be done, and there are some examples, many examples in the private sector, in effect they will reduce their capital requirement probably by a factor of three. And it tells you something about how much room there is and, you know, at least I ask myself, I would hope you would ask of me, how close are you to getting three times more value out of the capital we've given you as citizens than you're getting today? And if you're not, why not? But I think it's an issue of bringing the right standards to the table and insisting on performance by giving people the freedom to be engaged in everyday improvement.

CHAIRMAN WILLIAM J. MCDONOUGH: Can we have the last two questions please.

ROBERT HORMATS: I'd like to turn to a subject that I know is one you've been interested in for a very long time, and that is the state of American education. Prior to this dip in the economy and the decline of the stock market, one of the major problems that many companies had was the ability to attract and retain skilled management, skilled workers. The worker shortage, the skilled worker shortage has become, was becoming, and still is, a very substantial problem for the economy over the medium and longer term. Aside from the President's program, which I think many people here would support and certainly support the emphasis on education, what do you think the private sector itself, in a broader sense, can do to address this problem which is certainly critical from the point of view of individual businesses and perhaps the most critical factor in the long-term outlook for the economy?

THE HONORABLE PAUL H. O'NEILL: Thank you for the question. And the simple, straightforward answer is you need to get involved. And I don't mean you need to be associated with good-doing, you need to really get involved. You know, I said in my prepared remarks that I really connected with the President on this issue of education because I believe, with him; there is no reason for any child in our society to be left behind. I don't know how many of you know this, but today in this country 20% of the ten-year olds can't read and write and compute. It's not an issue that they can't do it very well, they can't do it. Now I will tell you from my work in working on complex systems that the way you solve this problem is not, first of all, not by bashing the people who are trying to do it. You know if you go into any classroom in America, the teacher can tell you within two weeks which children are not going to make it. But we're not organized to deal with that. You know we've got superficial bumper sticker labeled programs for special education and all the rest of that, but what would you do if you were a teacher and you found out of your 25 children, that 10 of them weren't going to make it? Well, the way our system works, you suck it up and, you know, you do the best you can. But if you had the freedom to change, you would do what I said to you, you would do an individual diagnosis of what's causing this individual child not to succeed, and then you would fashion an intervention that went to the problem – oftentimes, things that go beyond the direct classroom experience. I mean imagine living in a dysfunctional family as an eight-year old and the teacher trying to get you to learn how to read and write when your life is a disaster. Now the way we're organized, you know, we've got these silos of community interests. So we've got some people who are interested in healthcare and some who are interested in nutrition, some who are interested in housing, some people that send cash assistance. We tell the teacher you've got to work with whatever you've got. We're not, we have not taken an integrated approach, and we have not worked on the issue of individual children. Until we do, we're not going to get better. All of you need to get involved on the ground level. And if you don't have time to...(Recording issue)...cannot find a place in America...(Inaudible)...We acknowledge....(Inaudible)....solve this problem from 20,000 feet. This is ground warfare and we must do it.

CHAIRMAN WILLIAM J. MCDONOUGH: Let's have one more question.

MARSHALL LOEB: There is still tremendous volatility in the stock market. Do you plan to take any steps to lead the markets to be more investment markets and less speculative markets? And if you do, what might some of those steps be? (Laughter)

THE HONORABLE PAUL H. O'NEILL: You know I'm just going to take a pass. (Laughter) I'll tell you what; I was delighted when Ray asked me if I would come. He is a great friend. We worked together more than 30 years ago. I've always valued that experience. Many of you in this room, I've had the pleasure of working with and knowing. I will say again, I am really proud to have an opportunity to serve again, and I hope you will invite me back. Thank you very much. (Applause)

CHAIRMAN WILLIAM J. MCDONOUGH: Secretary O'Neill, thank you very much. The business portion of our meeting is adjourned. Enjoy your lunch.