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Stephen A. Schwarzman
Chairman, Chief Executive Officer
and Co-Founder
The Blackstone Group

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Moderator: Marie-Josee Kravis
Chairman, The Economic Club of New York
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Introduction

Chairman Marie-Josee Kravis

I'm sorry to interrupt your conversations, but I'm Marie-Josee Kravis. I'm the Chairman of The Economic Club and a Senior Fellow at the Hudson Institute. And I want to thank everyone for being here today and everyone who supports the Club so actively. Notably, the members of our Centennial Society who ensure the financial stability of the Club and allow us to have the very diverse programming that we have. Many of you are seated in the front of the room and I'd like to thank all of you for your steadfast support.

I'd also like to welcome our attending members of the 2019 Economic Club of New York Class of Fellows – the leaders of the future – and we're always happy that you participate in as many of these conversations as possible. The Club has welcomed – in its history – over 1,200 speakers from a variety of fields and countries, and it's always exciting to be able to expand our program and to have you here.

And it's a particular pleasure today to introduce one of the country's – and I'd say one of the world's – most consequential and influential financiers and philanthropists, Steve Schwarzman, who is the CEO and Co-Founder of Blackstone, one of the world's leading investment firms with $512 billion, Steve, or is it, $545, there you go, $545 billion of assets under management. Steve grew up in the Franklin District of

Pennsylvania. He, at a very young age, worked in his family's firm, Schwarzman Linens. He pitched his father to create, to expand the company into something that could have become the Bed, Bath and Beyond. This was way before Bed, Bath and Beyond had been created or even had been a thought in, I guess, those founders' families. Also negotiated with his grandfather for better pay so Steve started at a very young age with business acumen and creativity. He then went on, of course, to Yale and Harvard Business School and had a brilliant career in the financial world, starting at DLJ, Donaldson, Lufkin & Jenrette and Lehman Brothers before founding Blackstone.

In addition to his financial prowess and success, Steve has been an active philanthropist with a history of supporting education, culture, the arts, and his major gifts have helped establish new centers at the University of Oxford, a new college focusing on artificial intelligence at MIT, a first-of-its-kind student center at Yale, the expansion of the New York Public Library. And, of course, he founded an international fellowship program at Tsinghua University in Beijing.

Steve has been active in many other philanthropies but we have to get on with the program and it would take part of the program to continue listing them all. In addition to being an assiduous member of The Economic Club of New York, Steve participates in The Business Council, The Business Roundtable, The Council on Foreign Relations, The International Business Council of the World Economic Forum. He was a former cochair of the Partnership for New York City and he serves on the board of the Asia Society, New York Presbyterian Hospital, The Advisory Board of the School of Economics and Management at Tsinghua in Beijing.

As a reminder, this event is on the record. There are quite a few representatives from the press who are in the room. And the format today is a conversation, which I look forward to having with Steve. And Steve, if you'd join me, we could begin. (Applause)

Conversation with Stephen A. Schwarzman

MARIE-JOSEE KRAVIS: So, Steve, first of all, as I was listing everything that you do, I have to thank you for just taking the time to be here today.

STEPHEN A. SCHWARZMAN: Yes, it's fine. I've been a member a long time.

MARIE-JOSEE KRAVIS: You've been a member a long time and you've attended very many of our events so I want to thank you for that. But I know your book has just come out. The members have copies of the book on their chairs. I know how busy you are so it's really important that you're here today and I want to thank you. And I mentioned earlier that at a very young age you were out there thinking big, creative, and also negotiating. And one of the things that struck me in your book, and I think I mentioned that to you earlier, is that everything I looked at in this book – whether it be in finance or in philanthropy – there seemed to be two motivating factors. One of them is transformation and the other one is scale. So I wonder if you might maybe try to explain how did that come about? I mean you were, I think, 14 years old when you negotiated with your father. How did these ideas of transformation and scale just develop?

STEPHEN A. SCHWARZMAN: Well, you know, thanks for inviting me to be here. It's good to be here. In terms of Marie-Josee's question, you know, I've always thought about doing things in a way that what could be the best outcome. And if you see something, how big can you make it? Is it worth your time? Because doing little things, you know, can be fine, but then you're fully occupied so you don't have time to do bigger things. So, you know, with our store in Pennsylvania – by the way, I asked my grandfather for a raise, I was getting 10 cents an hour, and I didn't put this in the book – I should have – he said, why do you think you're worth 10 cents? (Laughter) And I thought about it and I realized he was right. I probably wasn't worth 10 cents an hour.

MARIE-JOSEE KRAVIS: But you got 25 cents.

STEPHEN A. SCHWARZMAN: At that point, I just asked for 25. I think with my dad, I mean he was running a store. I was, you know, sort of started as a kid. And there were a lot of people who came into the store. And I was in charge of the handkerchief department so I took linen hankies out in a box and, you know, sort of people would play with them. Sometimes they'd buy them and then I had to put them back in the box and put them into the counter. And this is not, you know, high value-added work. And I sort of was looking around. There were a lot of people all the time. And I said, Dad, why don't you expand the store? He said, what do you mean expand it? I said, well, why don't we take it, you know, all over the country? And I said, it's clear that this works so it should be everywhere.

MARIE-JOSEE KRAVIS: How old were you?

STEPHEN A. SCHWARZMAN: Fourteen. So he said they'll steal from the register if I'm not supervising it. I said, Dad, there's stores all over the country that, you know, it's like a chain and somehow, they've figured out how to protect the register. So then he said, well, I don't think I want to do that. So I said, well, we can expand all over Pennsylvania. That should work. And he said, I don't want to do that. So then I said, okay, let's just open like six or seven stores in Philadelphia. And he said, I don't want to do that either. I said, Dad, this is like a can't miss because all you do is you take the same basic store and it'll work. It's working here. It should work everywhere. And he said, well, I don't really want to do it. So I said, why don't you? He said because I'm a happy person, and I'm happy just the way I am. I have a house. I have two cars. I have enough money to send you and your brothers to college. And I don't aspire for any more. And I sort of was trying to take that in. I'm obviously still trying to take it in. (Laughter) And, you know, the idea that he could just be happy with that. He was always happy. I mean that's one of the wonderful things. You don't pick your parents, but when you have good ones, you know, you get some of that stuff yourself, right? You inherit that – characteristics. And I'm pretty happy. But I can always be happier. (Laughter)

MARIE-JOSEE KRAVIS: But you have a different aspirational gene.

STEPHEN A. SCHWARZMAN: Yeah, you know, I always like to look at things and say what is the most amazing thing that we can do with this idea. And it's got to be pretty amazing to get me to do something. And once you do, if you pursue what I call worthy fantasies, right, and your job is to make them into reality, when you do that, you know, you can bring other people into your dream.

MARIE-JOSEE KRAVIS: So I think one of your first job interviews when I asked you what you wanted to be, you had said a telephone switchboard. So that was the idea of bringing ideas from everywhere...

STEPHEN A. SCHWARZMAN: Yes, that was an unsuccessful interview. I don't recommend you tell anyone you want to be an inanimate object. But I did that in college because I was trying to figure out, like a lot of things I do, how do I want to feel? Or how does somebody want to feel, you know when they're doing something with us? And I wanted the sensation of having a lot of feeds, because I'm not a self-starter in that sense. I respond to like information and data and things that people say. And then, you know, sort of have it all come in, run around your head as a central, you know, computing unit, and then out it goes. And you put that information, once it's processed, into a different place. So apparently, in 1969, this was the wrong idea to be selling to people who were interviewing you. But fortunately for me, that's sort of how my life worked out. You know that's what I sort of do.

MARIE-JOSEE KRAVIS: But you take information from a variety of places. For example, you know, when you were at Yale and you overthrew a, what, 268-year tradition with parietal housing. How did you do that? I know that you did surveys and so on. But how do you get people who think so differently from you to adhere to your vision?

STEPHEN A. SCHWARZMAN: Well, you always try and figure out how a person you're dealing with is, what's on their mind? And if you know what it's like to be them, it's pretty easy to deal with them. They don't have to say much. Right? So, if you're trying to change something that's been around for 268 years with women in the dorms – I went to an all-male school, I was in the last class – then you realize that the administration has a reason they keep turning down people for 268 years. Right? So they're going to think that if you have, you know, sort of women in the dorms at all hours that you're going to be having parties. It's going to be noisy. It's going to be disruptive. Your roommates won't be able to do their studying. And you just think about all the objections that you can have. So I knew if I went and talked to those same administrators, it would be 269 years that they'd turn it down. So the only way to make that change is to defeat those arguments. And the way you do that is you ask every undergraduate in the university for their views. So I designed a survey and we had 11 colleges and I got one person to stand at the dining room when people walked in. They gave them the survey and then there was a little basket when they walked out. This isn't high-tech. And they all filled it out and then I got it and a few of us just tabulated the results. And the results were roughly, I think it was 99.6% of the kids said I don't have any objections, do whatever you want. So then I got a friend of mine who was the number two guy at the newspaper, Reed Hundt, lovely guy, ended up as head of the FCC. And I said, Reedy, we got this survey. Would you print it in the newspaper? He said, sure, I'll put it on the front page. Four days later, 268 years of prohibition was just washed away, because you took away the objections that people had. So things like this, in a way, are just logical. And if you know what somebody's issues are and you can, in effect, defeat that argument, then people mostly give up.

MARIE-JOSEE KRAVIS: Do you think that applies today? I mean we're so divided politically, socially, economically, and we talk a great deal about some of these issues –

inequality notably. But there doesn't seem to be the ability to create that kind of conversation or willingness of putting yourself in the other person's shoes.

STEPHEN A. SCHWARZMAN: Well, it depends whether everybody, anyone's trying to be practical and achieve something or whether they're just stating an ideological position. You know increasingly ideologies are tough to change, you know, and particularly when you use that as a filter for understanding of all facts. And so it is a bit discouraging when you show people, you know, facts that end up in failure that are inconsistent with their ideology, they'll continue to do the same thing and create failure. That's a new concept, you know, for our society. You know Americans historically have been unbelievably practical, you know, solutions-oriented, what's good for everybody. And now those lines, you know, have changed. And I think because it doesn't work well, you know, there will have to be a change back because just at the rate we're accelerating, it's not going to be helpful to society.

MARIE-JOSEE KRAVIS: You're a member of The Business Roundtable and, of course, The Business Roundtable made its quite dramatic statement a few weeks ago talking about the responsibility of business towards a number of social issues. And how do you think that works out, and you're a practical person, in a practical way? If a business decides or a bank decides it has to close the bank in a community, do community interests come before shareholder interest? How are you going to balance, or how do you think business balances these now sometimes conflicting goals going forward?

STEPHEN A. SCHWARZMAN: Yes, this is a challenge for business. And the reason why you have, you know, a statement of the type where instead of just making a profit you have, in that statement, pretty much equal responsibilities to your community, your employees, your suppliers, and there was one other constituency. And part of the reason, I think, why people went ahead with that is because our governmental structure is not providing the solutions for those constituencies. And so, you know, people are looking around, can somebody help with those things. And the business community is very large and substantial resources and so where else are you going to turn? And I think what's interesting is that the business community, certainly the BRT members, the large firms in the country, are already doing all these things. You know if you're running a company, you know, you have to help the communities that you're in. You know we've hired, Blackstone, for example, 75,000 veterans. I thought that was important. You know, we have 80% of our people volunteer time for charitable stuff, you know, on office time. We pay them. So these types of things, sort of being diverse, sort of paying your people well, having sort of lifetime education, these are all things we do as a matter of course. And so I think the large companies, you know, have all bought into this, and I don't regard that in effect as controversial. The BRT statement is a little confusing because it says all five areas are like equal with profit being identified as the last one. I think that's a tough way to manage. You always have to know what your primary consideration is and, you know, sort of I guess Steve Mnuchin came out against signing that and so did the Wall Street Journal, so did Bloomberg, so did The Council of Institutional Investors. We didn't sign it, but that's a side show – signing, not signing. Believing that all these things are important and doing them is what's important.

MARIE-JOSEE KRAVIS: Well, you've certainly been very successful at generating extraordinary and sustained profits and helping pensioners and state pension funds and your investors across the board. But when you started Blackstone, you didn't want to repeat some of the issues that you had encountered, both at DLJ, lack of training, and so on, some of the infighting that occurred at Lehman. So maybe if you could talk about building the Blackstone culture because that's really central to what you did.

STEPHEN A. SCHWARZMAN: So all of us worked at different places and, you know, if you only had one job you have one experience. If you worked at more, you saw that there were other ways to do things. And so, you know, I learned a number of lessons because when I was hired at DLJ, I was 21 years old. I know this sounds a little incredible, I didn't know what stock was. Bonds, I knew, because we had a savings bond, you know, program at my elementary school. So I knew what a bond was. You got some interest. But a stock, I never had anything to do with.

MARIE-JOSEE KRAVIS: You sure learned quickly.

STEPHEN A. SCHWARZMAN: And all the securities in between, you know, I never heard their names. And so, you know, they gave me a desk and I had a secretary of all things, and I had no capability of executing anything. So I was wondering what I was supposed to be doing sitting at that desk. And unfortunately for me somebody walked in with an assignment and they gave me, like an annual report. I didn't know, it could have been Reader's Digest. It was like a short story. And it had all these numbers in it and I'd never had an economics course. And they basically said can you study this and tell us what you think. I mean you want to talk about fear. I mean I wasn't qualified to do anything. And, you know, this particular company, Genesco, issued almost every security that existed so they didn't even make it simple. And, of course, I didn't have an enormous amount intelligently to comment. And so, you know, until I went into the Army, I was like sitting there hoping nobody would recognize me. So when people would walk by, I mean you may have had this experience, you sort of duck, hide behind something so they won't call on you. It's like being unprepared in class. So I realized I could never inflict that on another person and if I were ever in charge of an organization, I just never wanted anyone to have anxiety like that. I mean, why is that helpful? It's not even efficacious. And so when we started Blackstone, you know, I wanted to make sure we had training and everybody knew what they were doing before they were just put at a desk. It was the same thing at Lehman. There was no training when I joined in 1972. There were 30 corporate finance partners, 30 associates, and you just had a desk. And you went, oh, no, again. This time I had been at Harvard Business School so, you know, I wasn't completely hopeless and hapless. But this kind of learning, you know, by throwing people in a pool and see if they drowned, you know, there's enough anxiety in jobs in finance and professional services that you really should put people in the best situation possible. You should be advocates for them. They should be helped. I talked to all the first-year people and I say, look, you don't have to actually rediscover the wheel. You don't have to re-engineer it. It's a wheel. Just use it. If you don't know the answer to something, this isn't like a test. Every group of people, for probably 100 years, has learned this. Ask one of them. Get the answer. Learn how it works. Don't figure it out yourself. There's nothing to be gained. Just like get it done, learn it. And you want a culture that's so open and so supportive that asking is, there's no negative. Asking is a strength because if somebody gives you that answer and you can incorporate it in your thinking from a process perspective, you've just saved, like a half an hour, an hour, a day, a week. And, you know, just learn more things. So, you know, I like to do things, we're helping everybody who works for us and also create a culture where there's basically no politics, a meritocracy culture. It's really important because if you don't tell people that, then the human condition is they think they have to kill somebody off so that they can get promoted. And you don't have to because if you have an organization that just keeps expanding, then, in fact, I had a meeting today around 11:00 with my, I can't even say number two partner because Jon's smarter than me, but with Jon Gray, and we were thinking about something, and we said, who can we put in there that can transform this? And, you know, our scarce resources like, and we've got tons of amazing people, but we can use more.

MARIE-JOSEE KRAVIS: So you talk a lot about that in the book, about, you don't say that but I'll say it, that you have almost a sixth sense in terms of judging talent. You have, you're not only knowledgeable but you have this instinct about talent. So maybe talk to us about the airport test.

STEPHEN A. SCHWARZMAN: Well, you've got to do more than the airport test because that's just somebody who is good at bull-shitting with you. It's really, what you want to do when you're picking somebody, I mean I love interviewing people. It's like an adventure and I love adventures. And you meet a person and you're trying to figure out, you know, what they're like. You know, how smart are they? How flexible is their thinking? Can they track what you're saying? Can they take a dialogue further? Are they timid and are always waiting, you know, for you to ask them something? Or are they comfortable? Can they sort of, what we call it in the trade – everybody in this room would know this – can they hold the table? And if they don't know something, you know, are they comfortable saying, well, geez, I haven't been exposed to that or I really don't have a view on that, can you bring me up to date. Sometimes I walk in and I've had like a great experience on something. I'm excited about it. And I'll just sort of walk in and start talking to them about it. And, you know, the person who basically recoils because I'm not looking at a resume and I'm just talking to them like they're one of the people at the firm, they are the wrong people. Right? Because if somebody comes in and engages you with something, and it's interesting, why wouldn't you want to talk about it? So there are all these ways of figuring out, you know, what somebody is like. I always read resumes really carefully because everybody hides something in their resume, you know, like I was the National Chess Champion at the age of seven. The only reason they put that in is so you'll ask them about it. Right? And everybody has something that's an oddball, they usually put it – by the way – down at the bottom with interests. And I always fall for that because they want me to. And, you know, I'll say, okay, so how did you learn chess? And, you know, how did you beat the whole country at seven? Were you happy about that? It sounds like it's great. And then they'll open up because that's their crutch to have themselves be comfortable. So, okay, fine, if they want that, let's start out being comfortable. And you wander around a little bit and you can see if they're on their game, that, you know, they deal well with stress. And the other little trick is always look at them in the eye because the eye is the window on the soul and people basically give themselves away when you're laser-focused on them. Not in an intimidating way but in an interesting way. So I love doing that part of my job because it doesn't take much prep work and it takes a half an hour so it's sort of fun.

MARIE-JOSEE KRAVIS: Well, let's talk about your secret sauce because you start Blackstone with Pete Peterson. Initially it's more of an M&A firm. You become a private equity firm. But that's not enough. You then expand into other areas – hedge fund of funds, into real estate. Did you have a vision when you started or did that come along iteratively?

STEPHEN A. SCHWARZMAN: No, we had that vision when we started. You know it was very interesting, my partner, Pete Peterson, was very smart. He passed away last year. But Pete was a real great summa thinker, a little different than me. And, you know, he was a great process thinker. And so before we went into business, we basically had breakfast every day at the Mayfair Regent. We were the first people there, the last people to leave. You know I had so much coffee, I think I'm still awake. And, you know, we were usually there two and a half, three hours. And what we talked about is how can we construct something that was different than everyone else was doing. And, as you know, Henry was doing private equity. He was the leader in the world even at that point, 1985. There were only a few people doing private equity relatively compared to now. And so we put together a business plan and we're still doing it. No innovation since 1985. So the first thing is we decided to become an M&A boutique because that's what I knew how to do, plus it required no capital. So you didn't have to take outside money and it's a great business because when you talk to people, they give you millions of dollars. Now, not today, here, but generally, what a business. I mean that's pretty good. Right? So that was going to be our cash flow. As soon as we did that, we were going to go into the, what was then called the LBO business. Now it's private equity. And the third thing we wanted to do was to start what we called in our business plan, affiliates. And what that meant is that we were going to identify other things that were going on in finance where either a market had gone down and there was enormous value or there was a new trend and it was so powerful that even I couldn't screw it up. Right? It was just going to happen. And once you identified that, our plan was to go into that area but we needed two things. The first was a can't miss, as an economic proposition. The second is we had to have somebody who was a ten on a scale of ten to run it. That's where most people make mistakes. And the third is that the area itself had to generate intellectual property, intellectual capital that would improve all of our other existing businesses. So everything was a building block. And what we were doing, I guess before our time, was developing like a huge database, if you will. And, you know, we didn't have algorithms so humans mined that. And the more information you have, the easier it is to see anomalies, to see patterns in changes in the world and so that's what we do. And we wrote this up and sent it to everybody. And it's interesting that nobody followed us. And we sent it to all the people we wanted to do business with and said, hi, you know, it's Pete and Steve, we're starting a new company. There were no M&A boutiques then. That's hard to imagine. Now there are so many, and good ones, including PJT that we spun out of Blackstone. And, you know, that was like a new thing and that had its own problems, I thought we'd be wildly successful. So we sent out about 500 of these letters. Nobody called. You try that one as an entrepreneur. Nobody called. So then we called all of them. You can spend a few weeks calling 500 people. And we managed to get no business. (Laughter) So if you ever start something and you have no business and you have an office, even though we only had three people, it was Pete and me and Pete's secretary. I didn't have a secretary for two years. I answered the door. I answered the phone. Not very grand, this entrepreneur thing.

MARIE-JOSEE KRAVIS: Yes, but one of those knocks on the door that you answered ended up paying off tremendously 20 years later when Sam Zell knocked on your office and you sat on the floor and talked to him about real estate.

STEPHEN A. SCHWARZMAN: Yes, that was pretty weird. So we hadn't set up yet, you know, when you set up an office, usually they deliver a carpet. You know you've got to have some kind of carpet and it comes rolled up. And we didn't have, we didn't have anybody to receive that. So there's a knock on the door, so I opened the door. There's some delivery guy and, you know, he's wearing black leather trousers and a black motorcycle jacket and a little hat. And so he said, is this, is Steve Schwarzman here? I said, I was the only person there out of the three of us, and I said, yes, that's me. I said what are you delivering? And he said, well, I'm not delivering anything. I just wanted to see you because my sister told me I should see you. I said, who are you? He said, my name is Sam Zell. I said, what do you do? He said, I own some real estate in Chicago. And I said, well, why are you dressed up in this outfit? (Laughter) He said, because, you know, I left my motorcycle downstairs. I said, where did you leave your motorcycle? He said, well, I chained it to a hydrant on Park Avenue. And I'm thinking, this is my new career? Is this possible? And I said, well, you know, why don't you come in. I said, by the way, I don't have any furniture so, you know, we're going to have to sit like on this rolled up carpet or lean against the wall. So he was sort of nonplussed about that. I said, you can take your hat off, it's okay. And so I said, so you own some real estate. He said, yeah, I sort of do troubled real estate. Sam ended up, he was the largest real estate owner in the United States, so he owned some real estate. It wasn't just 1985 that he was in that position, but he bought a lot more. And I said, what do you want to know? He said, well, I don't know anything about companies and my sister, who I had been involved hiring at Lehman, who was – I don't know why I do things sometimes – she was so smart. I mean you met her and like, intelligence to burn, knew nothing about finance, nothing. So I figured she's so bright. We ought to be able to train her to do something. So I hired her and she survived and now she's managing a whole bunch of money and she's very gifted, Leah Zell. And so Sam said tell me how companies work and so forth. So we ended up, at the end of the day, buying a company from him in Chicago that did dredging. And, more importantly, we bought his major business which was called EOP. We paid $39 billion for that asset, near the top of the market. We knew it was near the top of the market. So when Sam is selling, you actually do not want to be a buyer. This is like a bad idea.

MARIE-JOSEE KRAVIS: And it was a roll of the dice. I mean you pre-sold part of it, but it was really...

STEPHEN A. SCHWARZMAN: Well, you know, it was a lot of us at the firm, you know, like what are we doing? Because it was a unique group of assets.

MARIE-JOSEE KRAVIS: Just to remind everyone, this was 2006?

STEPHEN A. SCHWARZMAN: No, no, why would we do it in 2006, when we can do it in 2007? (Laughter) And maybe blow ourselves up. So because it was so big – nobody had ever bought and sold $10 billion of real estate in the United States – this was almost $40 billion with just one buy. And so there was a discount, if you will, for that huge size and so we paid something like a 5.5% cap rate. But for individual buildings, if you could just buy one, you know, you might pay 4.5%. So we sort of looked at this and said this deal is dangerous at this scale, at this stage in the economic cycle. But if we sold half of it at a 4.5%, we can take that 5.5% and move it up, it would be much more conservative. And I didn't want to take a minute's exposure because sometimes bad things happen to nice people. We're nice people. But if I got stuck with $39 billion of real estate and the world just turned over, and we had the intention to sell but we couldn't do it, then we could go down with that ship. So basically, we sold half the company the day we bought it. So now you've got $60 billion of real estate moving around in one day. It was like a complete out of body experience. And so we got that done and cleaned up the conference rooms because they sort of had a bad odor, right, because everybody was in these things. Came back in and said, you know, that was so good, why don't we sell the half of what we got left so then we can keep climbing up. And we ended up with, I think, creation, around 7.5% cap rate and a 4.5% market. This is like a huge amount of conservatism. And we sold that within a month and then we ended up making 3.2 times our money on $10 billion, which looks like a small amount but still pretty big, at the top of the market. And we got out with our lives and it's because, you know, if you're in finance, there are no brave, old people in finance. You mostly get wiped out in your 30s or 40s if you're brave. And the bravery sounds good when you're like, you know, sort of talking to yourself or reading a book on some successful person who did one thing well in their life, they were brave. But for those of us who, you know, you live with one, you know, we're not so brave.

MARIE-JOSEE KRAVIS: Well, speaking of brave, the economic environment has become so much more complex and we're going to hear within an hour or so about the Fed decision. Do you have a view on negative interest rates?

STEPHEN A. SCHWARZMAN: Do I think...

MARIE-JOSEE KRAVIS: Do you have a view on negative interest rates and the impact on your business and the economy?

STEPHEN A. SCHWARZMAN: Yes, sure, I have a view. I don't know that my view is right, but I've got a strong view. My strong view is I don't think it makes any sense whatsoever. Why would I take my money and pay somebody to take it? It's hard enough to make it. (Laughter) I really just don't understand the theory behind negative interest rates. It makes it really hard for financial institutions to earn money. If banks have trouble earning money because they don't have a normal interest rate spread, then they can't accumulate capital so they can't expand. So if they can't expand, they can't give credit, extend credit to people and to businesses. So those economies won't grow at any reasonable amount. And so as central banks have forced different countries to be in that position, I think it's a huge handicap. Interest rates going down is basically stimulative until they go too far down. If you have a society where you save money, let's pretend you're older, and you depend on those savings, you know, to live and interest rates are negative, you can't do anything conservative to pay your bills. So I think it punishes, you know, sort of regular people. And as you go deeper and deeper into this sort of negative interest rate territory, you make it harder and harder for your own economy. It seems like low is good, but too low, I don't think is really the right way to go.

MARIE-JOSEE KRAVIS: Do you worry also that as people are searching for higher yields, they will make riskier decisions and mis-allocate capital? And I'm thinking in particular of the retail investor. We had Jay Clayton here last week and one of the things that he emphasized is having more access or providing more access to private markets for retail investors. Is that a good idea?

STEPHEN A. SCHWARZMAN: I think it's a good idea because what's happened is that when you have low interest rates, as you say it makes it harder for people. But private markets which, you know, we're in, that's our business, we have some other businesses too, have turned out to be quite conservative. In other words, you know, we historically have basically not lost money on investments. I don't think we've ever lost money on a fund. People lose money on stocks all the time. So if you have private investments which aren't like buying stocks – when you buy a stock, you buy a stock, so you get the opportunity to watch it go up, stay the same, or go down. It's a passive sport. When you buy private investments, you buy them typically for control. The only reason why you want to control them, because you pay a premium to get them, is if you think you can make that asset grow much faster. And if it grows much faster, one, you'll create more jobs. But when you exit it, people will pay you a higher P/E multiple for something that grows fast as opposed to something that didn't. And then if you put leverage on top of it, if you do a simple mathematical model of that, then instead of what the stock market makes, you should be able to make about twice the stock market. And that's what we've done. It's not that hard. And so why shouldn't regular people have the benefit of that, particularly when Americans have very low savings. So to the extent you need liquidity and you can't do that, you wouldn't put all your assets in that. But to be forbidden basically to do any of that when, you know, the people in this room, you know, probably invest in these asset classes. If not everyone, you know, you probably have 80% of the people. Why are they doing it? Because it's smart. There's low risk and much higher return and control. So, if something goes wrong – because everything doesn't always go right – you can change it. In the stock market, when you make a mistake, you just sell at a loss. Actually, you wait for a while to make sure the loss is worse, and then you get totally discouraged and then you sell it.

MARIE-JOSEE KRAVIS: It's called hope and then desperation.

STEPHEN A. SCHWARZMAN: That's the way the world works. So I think broadening the base for, you know, sort of different Americans with 401Ks and so forth, it depends how they regulate it, who is allowed to do it. You can't have every, you know, sort of person on the street corner say, well, give me some of that money, I can do that too. That's a little bit of a danger. So I think, you know, I wouldn't be surprised if they came up with, you know, some change.

MARIE-JOSEE KRAVIS: But you've been very thoughtful, obviously it's part of the secret sauce of your success. If you look forward, are there areas where you wouldn't invest? Are there sectors that you think are too high risk – whether it be financial or reputational risk? As you think of the future, how do you hedge against some of those risks?

STEPHEN A. SCHWARZMAN: Well, reputational risks are, those are sort of like no-go areas and different people have different views on that. But, you know, we had a chance right at the beginning of our firm to buy The National Enquirer. For some odd reasons, we had an exclusive. And I wouldn't do it. And the reason why I wouldn't do it is because I thought The National Enquirer at that point, besides the two-headed cows and other things, would print stories about people that were just untrue, that were salacious, and I never wanted to ever hurt anybody. So I thought the premise of doing that was wrong. It didn't matter whether you could earn money. Why would you be in money, why would you try and earn money by hurting people? So, you know, I also looked at, you know, smoking cigarettes and some of those things. I mean if the Surgeon General is putting stuff on that this is going to kill people, why would I ever want to be part of killing people? I mean there's certain bright lines where, you know, you just sort of go what are we thinking? And so different people have different points of views on things. But I've always looked at things, you know, would I be proud? Is this consistent with my values? And if it's not, you just don't go there. Now you asked the other question about sort of danger areas. And, you know, the system right now is in quite good shape. The regulators, even though we slowed down the growth for eight years, we've accumulated enough capital now that our banks are the best in the world in terms of their capitalization. So we've really done a great job with that. In terms of markets, we're at record. So whenever you're at a record, you always sort of say to yourself, is this warranted? And the more you ask that question, the more you're answering it. So we're sort of in a, sort of, we're up there. But in terms of, you know, we don't have bubbles in real estate and real estate supply, but where you can see real oddness is in tech private valuations. And, you know, I've been through periods – for those of you who are old enough – around 2000, just 19 years ago, people didn't have revenue, they had eyeballs. Right? You would sort of count eyeballs. I never understood that. What were they counting? I mean how about revenue? How about profits? Things I understand. So that cycle where people were counting eyeballs roughly, I think it was like 99% of the venture deals went busted. And you could see it at the time, I won't even tell you which firm, they held out and then they started underwriting this crap. And I said, why are you doing it, things are going to go bankrupt. And they said, yeah, we know, but we've just lost too much market share. So this is the way finance works. You can hold out for a while and then you play that game. So now, you know, I don't know anything about Uber at all. Nothing. But when it was private and you're talking about these massive valuations with no prospect of profitability, you know subsidizing drivers and all kinds of stuff. Now, I sort of looked and said it seems like a lot of money to me. I didn't really analyze them. It just seemed like an awful lot of money for something that's not supposed to make money for a long time and where the whole setup, you know, has subsidies and odd regulatory things.

MARIE-JOSEE KRAVIS: And WeWork?

STEPHEN A. SCHWARZMAN: Well, I was going to go there, but you just jumped, appropriately. (Laughter) And, you know, WeWork is, I've never studied it. But we did own a similar company that I think was worth, you know, like, I don't know, a few billion dollars. These people were doing the same thing and they were supposed to be worth, what was the number?

MARIE-JOSEE KRAVIS: $47 billion at one point.

STEPHEN A. SCHWARZMAN: And I sort of went, what? How do you get this? It doesn't seem right to me given what they're doing. And there were other issues, you know, in terms of short-term leases and owning them long term. And that's all fine unless the world collapses. Then it's not so fine. Right? So I sort of looked at it and I said this one I just don't understand. Usually when I don't understand something, that's bad for the other side. Right? Because I'm just like a rational person. I don't fall in love with things because it's a moment. So I obviously have a stunted emotional life. And, you know, I sort of looked at that. So, of course, what happens, they file the thing and leave aside the governance and all these other things and so now the whole thing didn't work. Does that surprise me? No. But because tech is so powerful and everything is about to be disrupted, almost everything, that it's gotten such a multiple that as long as, you know, what do they call them, trading sardines instead of eating sardines, you know. And you just keep bidding things up and, you know, you'll have some great companies like Google and remarkable companies. But a lot of the ones that are aspirational, if you stop financing them and they can't get that cheap money, then bad things happen. And that's a sector right now where, you know, it's pretty clear for the last two or three years, that's been the case. On the other hand, if somebody bails you out, you know, then you're a genius. Once the music stops, it's not so good. These are little signs.

MARIE-JOSEE KRAVIS: We could go on and on and on trying to pick your financial wisdom but I really would like to talk about philanthropy and you mentioned technology. You've made a transformational gift to MIT in creating this center that will focus on artificial intelligence. And I'm really happy that Henry Kissinger is here also today. I think he was there when you had the opening of your center. And one of the issues that Henry raised was the fact that we talk a lot about applications of artificial intelligence but not so much about implications. And you've commented on that also. How do you see this center evolving? And what is your objective in creating a center like that?

STEPHEN A. SCHWARZMAN: Yes, well, that's a great question. And, you know, if you're young, you're going to have a great run. The amount of stuff that's going to change because of technology and artificial intelligence is going to impact everybody's life and it's going to impact it in two ways. One, there are going to be all kinds of, like amazing advances, both in the medical field, educational field. It's going to be pervasive and exceptionally high impact. And on the negative side, you know, unless that technology is appropriately regulated by way of the introduction of that technology, then you could have all kinds of excesses, you know, including very large unemployment that happens very quickly. And so I'll give you an example of that and then I'll tell you what Henry is concerned about. He could tell you himself, but I'm concerned about the same things. I had a guy come to my office about two months ago. He said I'm here because I want to save you money. I said, okay, go for it. And he said, well, I've got this technology where I can go into all of your companies and help you get rid of 40% of the people in your HR Department and your Accounting Department. I said, so how do you do this? He said, well, it's pretty easy. You know we set up cameras to video what people do at work. And then we, you know, sort of plug into their computers and we suck everything out so we know what they do and then we just replicate it, you know, with a machine and we don't need the people. So I said, well, how advanced is this technology? He said, well, frankly it's like really simple and we're good to go. And he said, I'm planning on doing this in 80 countries and it's not hard. So I'm sitting there going, okay, what does this do for profits of an enterprise when you get rid of, start getting rid of 40% of the people in individual departments? Like everybody's got an Accounting Department of any scale. Everybody's got an HR Department. And I'm saying what happens to all these people? It's one thing if I were to do this, what happens if this little good salesman/entrepreneur makes this sale to everyone in this room? What happens? And this is just getting started. Right? And it can happen fast. He said this technology is not complex. So I tell you that one little vignette because it gives you just the most primitive idea of what can happen. So the reason, you know, I was involved with MIT is I'm interested in this problem of how do we introduce this sort of, you know, astonishing set of technologies without blowing ourselves up? Because one of the things I've learned from hanging around the tech people is that the people who invented the internet – actually somebody invented it – I mean it was there but you had to like make it work – they all are extremely negative on the internet. I was just shocked. These are famous people. I mean if you know technology, these are the brand names. And they all say the same thing. They said when we thought about basically inventing the internet, we thought it would be cool – connect the world, knowledge moves around. It's all great. They said it never crossed our mind that it would be something like social media. That it would start the abridgement of free speech, would shout people down. It would make it very difficult for governments to function because everything you propose, you know, gets defeated like by a groundswell of people. He said we basically would be happier if this never happened. And I'm sitting there going, geez, I mean I've got my iPad, it seems pretty good and I don't use social media so for me, you know, it's okay. But these are the grown-ups who did this. And they're sort of in the never-again pile. So here we have, and they said, here comes AI. It's super powerful. We have to do something about this rather than just let it happen. And so this is called ethics in artificial intelligence. And so, you know, I care about that because I don't want something to go wrong for our society and I want the good things to happen. And I was also interested in the U.S. competitiveness because we're slipping. Not because we're not smart, but because some other countries are better organized and they're putting more money into things and their government, you know, has a very smart strategic plan and our government didn't have much at all. And so part of doing this gift was a wake-up call for not just the academic areas, because MIT Is going to double its computer science faculty and they'll be the first AI-enabled university in the world. You know if you're Stanford, you look at that and you say, NFW, you know, I've got to do this. And if you're Berkeley, you've got to do this. And if you're Carnegie Mellon, you've got to do this. And so basically pump-priming this industry for competitiveness was important to me and it would be great if the U.S. government can get on board and I'm hopeful that that'll happen. But that's the positive side of joining, you know, sort of a competitiveness race. But on the other side, and this is what Henry has spent a lot of time on and, you know, was up at MIT and spoke and there are certain of us who know what's happening, that it's really meant to be protective for our society and our way of life. And I don't mean sort of finance way of life, I mean on the broadest basis.

MARIE-JOSEE KRAVIS: Steve, we could go on and on and on and I'm sorry we didn't get a chance to talk about China and what you're doing there, both in business and philanthropically but thank you so much for so much of your time. And congratulations on your book. Everyone has a copy, but make sure all your friends buy it, recommend it.

STEPHEN A. SCHWARZMAN: So what I'd say is I knew I was going to get interviewed by Marie-Josee and it's a real privilege because she's like really smart and has had a terrific distinguished career of her own. And so I knew this would be fun. And she also has the competitive advantage of living with someone who is sort of does what I do, or I was a follower, he was a pioneer. And, you know, we all do the same kind of thing so I couldn't imagine somebody who is better qualified to talk with.

MARIE-JOSEE KRAVIS: Thank you Steve. That's very nice. And thank you, all of you, for being here. Thank you. (Applause) Bon Appetit, everyone.