Charlie Rose Conversation with Paul Volcker

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DEAN STEINBERG:

Ladies and Gentlemen, we are now getting around to the highlight of the evening, which is the conversation between Charlie and Paul. But before we begin I want to take advantage of this moment and this audience to again join Chancellor Cantor in thanking Bob Menschel for his vision and his commitment to Maxwell, but also just to say a word or two about Paul Volcker and the Volcker Chair.

I can’t think of an individual who better personifies the full range of mission that we seek to pursue at the Maxwell School than Paul Volcker. Paul is, of course, a distinguished thinker whose work on finance and macro-economic policy is nothing less than the point of departure for any serious debate today about national policy. His is also an unparalleled record of public service in five administrations over 30 years, on behalf of presidents of both political parties, including two stints at the Treasury Department, president of the New York Fed and a path-breaking two terms as the chairman of the Federal Reserve. Even out of government, his devotion to the public good is legendary, including his service as the chairman of the Commission on the Public Service, where he focused on his own passion which is attracting, motivating and retaining the best talent for government service. Throughout the years, he has always answered the call of public service, including most recently as the head of President Obama’s Economic Recovery Board. He has not only served our nation but the wider international community as well, for example, in his work he did in connection with the Iraq Oil for Food program on behalf of the UN. He is also, of course, a distinguished scholar and teacher, including serving as the Frederick Schultz Professor of International Economic Policy at Princeton.

There is no better example of Paul’s unique ability to integrate theory and practice than his op-ed this morning in The New York Times, and I thank The New York Times for such a timely placement -- which is in itself a reminder of the unique influence he continues to exert over the national debate. It’s precisely
this blend of sound theory and sensitivity to the exigencies of the real world that we hope to attract in the first holder of the newly created Paul Volcker Chair in Behavioral Economics.

I can’t resist quoting just one sentence from Paul’s enormously pithy, as always, op-ed, in which he says, “Some mathematical models spawned in academic seminars might support this scenario, but all of our economic history says it won’t work that way.” And I sure hope the first holder of the Volcker Chair keeps that very prescient idea in mind. His own work reflected in that op-ed reflects his deep understanding of how human expectations and perceptions can affect economic behavior, even at the macro level, which is exactly what behavioral economics is all about.

Behavioral economics is also inherently interdisciplinary. It’s no accident that the two of its leading theorists who won Nobel prizes in economics weren’t even professional economists. Now it’s clear why this perspective, interdisciplinary blending of theory and practice, is such a natural fit for the Maxwell School. Whether it’s our work on public finance and administration, social policy, environment, health or aging, this core perspective permeates our work both in the academic disciplines and the professional programs. And this new Chair will make it possible for us to attract to the Maxwell School and to Syracuse the kind of influential voice of scholarship and practice that will allow us to sustain our leadership role in the national/international conversation. I am confident that for some of the leading thinkers of today, it will be a signal honor to hold the Paul Volcker Chair.

It’s a very special honor, therefore, to have Paul with us tonight, made even more special by the fact that Charlie Rose is also here to engage in conversation with Paul. For 20 years, Charlie Rose has been the executive editor and host of his nightly PBS program that engages the world’s best thinkers, writers, politicians, business leaders, scientists and other newsmakers. He is known as one of journalism’s premier interviewers, and his show has been called TV’s most addicting talk show. For me, it’s a special pleasure, since Charlie did me the honor of hosting me for my last interview as Deputy Secretary of State, last June. So ladies and gentlemen, please join me in welcoming Paul Volcker and Charlie Rose.

CHARLIE ROSE: Thank you, Jim. Let me just say a few things quickly before I introduce his eminence. I am honored to be here first of all and whatever Bob asks me to do I always do. I will be on Sunday morning at 8 o’clock, I’ll be over at
MOMA doing a lecture on Picasso and you’re all invited. And I am especially thrilled to be here because Paul and I have had important conversations over the years, and we have even traveled together to foreign lands, and he is one of the people that I most admire, and I find that if the word “gravitas” has meaning, he defines it. Someone who by experience and because of wisdom has an influence in a way to certify what is right and wrong, but also he is a very fun companion and I am told that when he enters a stream, fish flee. Because he is a legendary fisherman. And also there is this: Syracuse, welcome to the ACC. I went to Duke and there is a school about 8 miles away called UNC; they are a part of the ACC as well. And so Jim Steinberg and Maxwell, it is appropriate I think for Jim, who had this really wonderful career and has been involved in the public debate, to come to Maxwell and in a sense train another generation of people to be part of the debate.

What’s great about Volcker is that generally, if you read the papers closely, you will probably find that he has been in the paper this week. Today, he was in the paper at least twice. There is his op-ed which we will refer to and there is also a story on the front page of The Financial Times, in which they talk about the Volcker Rule. It is very interesting that there is much discussion today about Volcker Rules and Buffett Rules. And we will talk about both of those things here. But I want to begin with a larger question, before we talk about specific economic policy, but talk about in a general way this idea that you and I have spoken before of, financial engineering and the impact of models as determinative in economic policy.

PAUL VOLCKER: Well, that question is a nice introduction to what I wanted to say anyway. It is, you know, that this award came out of the blue. I was sitting in my office one day and I got an email or something that said, “You are going to be made a professor at the Maxwell School at Syracuse.” I know the Maxwell School and that was very nice. I felt that it came out of nowhere and it was a nice thing to do. They said it was a professorship in economics. I said, “God, I spent all of my career criticizing economics, I read all of these financial engineers. In particular, economics has become for many people a very abstract affair, a mathematical affair that’s lost all connection with the real world, to exaggerate a bit, so you know I said, “What do I do about becoming a professor of economics, having a chair for me as a professor of economics?” And it said behavioral economics. And I have to tell you that is just what economics needs. There has been a lot of beginning recognition in the economics world that it isn’t all
mathematics, not all models, that human beings are involved. That gets me around to your question. This has been an era of very complicated issues....

CHARLIE ROSE: Can I interrupt you for one second? I just want to make sure that everybody can hear clearly? No, really, it’s not your fault, do we have one or two of these? Is that better or not, I don’t want you to have to not hear? Is that better? Then it’s appropriate that you give me a round of applause....

PAUL VOLCKER: There’s some joke about speaking softly. I don’t remember the punch line. But anyway, a whole kind of cult has built up in the last 20 years or so of some very smart and clever people. It goes under the word of engineering. They’re all mathematically trained, by and large. They thought they could apply these statistical and mathematical techniques to the analysis of financial markets and the relationships between A, B and C and how it would be affected by certain events and would make a lot of money by working on these equations and algorithms and abstractions. And a lot of the time it works. But I do think there is a kind of -- fatal may be overstating it -- but without taking account of the human dimensions of financial markets you are going to make some big mistakes because financial markets are not going to follow mathematical algorithms all of the time. The most obvious demonstration of that is a concept called Value at Risk. I don’t want to get too complicated here because I will exceed my own knowledge. But it is basically involved in the notion, well look at what happened in the markets over the last month, or year or ten years, or whatever. We will see the range of fluctuations and everybody that has taken elementary physics or mathematical mathematics knows that things follow normal distribution curves. If you are flipping coins, it follows a normal distribution curve. But applying that to financial markets is going to get you in trouble because financial markets and human behavior is not flipping a penny, or a silver dollar, or whatever. So you get aberrations which aren’t anticipated. And I think that has been a problem -- on the one side, enormous complexity in financial markets and the other side exposing it to some unexpected phenomena and upset a delicate machine.

CHARLIE ROSE: You also apply this to -- you urge that young graduates of college, whether it’s undergraduate or graduate, not rush to Wall Street to be engaged in finance in order to make a lot of money rather than...

PAUL VOLCKER: There is no question; this is a kind of disease or incentive that is going outside of the United States. So many of our most talented young people
with aptitudes for mathematics, they have an aptitude for physics may or may not go to engineering school, they may not be mathematicians. But they are so attracted by the potential gains on Wall Street that are a multiple of what they might get in a scientific laboratory or teaching or whatever. This was drilled into my head and my ignorance, when I first went to Princeton, to do some teaching after I left the Federal Reserve. I had an empty office and I was gratified that somebody knocked on the door, and he said, “Can I talk to you for a few minutes?” and I said, “Sure, come on in and what do you want?” He said, “I want some advice. I want to go to Wall Street and I am deciding what firm I want to go with.” I didn’t know what advice to give him, but I said, “What’s your background?” He said, “I just got a PhD in aeronautical engineering.” I said, “What do you want to go to Wall Street for?” He looked at me like I was a Neanderthal. He said, “Don’t you understand I can go to Boeing?” - now this was 15 years ago – “and I can get a job at Boeing for $50,000 a year. Twenty-five years in there I will be making $90,000 a year and they will give me a gold watch. If I go to Wall Street, I am going to make twice that in year number one. What are you asking me that question for?” But that is just, I think, typical of what has happened with so many young people, including my own grandson.

**CHARLIE ROSE:** All right, let me move to some of the issues that... today the story in *The Financial Times* was that Volcker Rules are being - so many exemptions are coming to - this is in *The Financial Times* - to Volcker Rules which became famous, as you well know, because of the president. Does that concern you? Does that reflect what’s happening to financial regulation?

**PAUL VOLCKER:** I think that the answer to that is, yes it concerns me. It’s symptomatic of the pressures brought against financial regulation, but I think that particular point is overdrawn. I may be kidding myself, but I try to keep in touch with this particular matter since it’s got my name on it. My impression is the legislative language is very strong. It says no propriety trading, period. And there were some loopholes, if that’s the right word, as to hedge funds and equity funds. But it’s pretty restrictive there too. But now the banks would like to get around that. I don’t think, frankly, they are being very successful. And they shouldn’t be very successful. But, you know the press likes to suggest...

**CHARLIE ROSE:** So do you believe Dodd-Frank was as good as you could get and as they begin to articulate, I mean as they begin to make the rules, everything will meet your approval?
PAUL VOLCKER: I think that Dodd-Frank was close to as good as you could get, but it’s nowhere near what we need. You know the basic underlying issue here is this big issue of “too big to fail.” Everybody expects big institutions would be bailed out. That will affect their behavior, they will take more risk, they will make more money. Kind of get the feeling that if push comes to shove, they won’t be hurt, because the government will come in and rescue them and sometimes I think that that is overdrawn, but there is a great deal of truth in it and it’s political anathema in any event. And it’s true we have to get after that. Dodd-Frank has a provision - I think this is the basic provision about Dodd-Frank - that says, “No, we are going to make an arrangement called the resolution authority: that if a big financial firm gets in trouble, we will have the authority superseding normal bankruptcy laws, to intervene as a government. We will seize control, in effect, of the body; we will liquidate that institution, stockholders will be gone, bond holders will be at risk. We may merge it, we may sell pieces of it, but at the end of the day, that institution will no longer exist. Now that’s not what happened, obviously, during the crisis. And that would be pretty striking measures if you agree with it, if you think it’s true. And it’s not unique to the United States. I don’t know any place else that has the legislation spelled out, but in the UK and in Europe generally, this idea of a resolution authority is accepted. But there is great skepticism as to whether, when push comes to shove, it will be enforced. I think that there is more skepticism than the situation deserves.

CHARLIE ROSE: Conventional wisdom is leading into the crisis there was not much enforcement, obviously, on the part of the SEC and others.

PAUL VOLCKER: That’s right and there is a lot of enforcement in a lot of directions, but in this particular point there was none. I mean, people were, with the exception of Lehman, people were saved and people said, “Look at what happened to Lehman. The wall collapsed, so they will never let it happen again.” So you are fighting against a presumption. Presumption was particularly strong for Freddie Mae, Freddie Mac and Fanny Mae. I’ll get it straight. They’re Siamese twins, so it doesn’t make any difference which way the adjectives go. But these are enormous institutions, they dominated the mortgage market, they were called government sponsored enterprises, they were quasi-government, and everybody kind of said (wink and nod), “We know if they get in trouble, the government will rescue them.” And they went on and did, you know, very risky things. They - mortgages with no, close to no - down payment, no credit checking, and all that stuff. And they in effect, facilitated that. And what
happened, they got into trouble and they were rescued. Now how do we change that psychology? And that expectation? I think it can be done. But I just say, if it’s going to be done, we had better get other countries, not just expressing sympathy for the idea, but making complementary regulations, because all of these - the banking institutions - are all big international institutions. So you are going to get the Brits and Europeans and the Japanese on the same page. And they are kind of on the same page intellectually, but they’re not yet on the same page.

CHARLIE ROSE: If you were a professor at the Maxwell School and you were grading the Obama administration on how they have handled the economy after being dealt a bad hand, how would you grade them?

PAUL VOLCKER: While I ordinarily don’t answer these questions, but the one thing I learned at Princeton, is grade inflation is rampant. I once gave a student a C+; I thought I was going to get murdered, for God sakes. That was unacceptable behavior. But look, he’s - we all know he has been struggling in an extremely serious environment economically. This is not an ordinary recession. We are not going to bounce back from it easily. We haven’t bounced back.

CHARLIE ROSE: We are not going to bounce back? Easily?

PAUL VOLCKER: Easily. It’s a slog at best.

CHARLIE ROSE: Is it more because of the political dysfunction or because the economic circumstances that are that intractable?

PAUL VOLCKER: I have so far described the economic circumstances. We had a big financial crisis, we had over-spent, we had over-borrowed, we are over-leveraged all the evidence is in this situation that it’s tough to have a recovery. Now put on top of that, political dysfunction. This man, I don’t recall that we have ever had a president before who said - where the opposition said – “our whole object in life is to get rid of the president.” Now maybe that was true with Franklin Roosevelt, in 1936 or something. But it hasn’t been an ordinary part of our civil - it’s a hard word to use, but our political discussion. Or our political debate. It is very tough on top of a very tough economic situation to develop a coherent policy. Whether he has done it as well as he could, you know, the answer to that problem is no. I mean nobody has.

CHARLIE ROSE: So what do you think of what he announced today?
PAUL VOLCKER: What he announced today?

CHARLIE ROSE: Something, it’s called the Buffett Rule.

PAUL VOLCKER: You see I take a considered view of economic policy; I don’t pay any attention to this day-by-day stuff. Oh, but I am a little jealous; I would like to have a monopoly on rules. I don’t like this… (laughter)

CHARLIE ROSE: If you didn’t read today’s paper, have you read this book by Ron Susskind?

PAUL VOLCKER: No.

CHARLIE ROSE: Are you interested in what’s in it?

PAUL VOLCKER: I read the article in the New York Times this morning.

CHARLIE ROSE: And what did you think of that? I mean it looks like it describes a bunch of economic advisors that are at war with each other.

PAUL VOLCKER: You know, I know it. I was on the edge of it; don’t come to me for the inside.

CHARLIE ROSE: He didn’t come to you, or did he talk to you? Did Susskind talk to you?

PAUL VOLCKER: He talked to me at one point. I am not sure he was set on writing the book at that point, so I was probably being cautious, but the remark that he quoted from me is, I think, actually true. But in context, I mean, he uses it to support a case that everybody was in disarray. Which I don’t think was my story with him.

CHARLIE ROSE: It’s not a fair appraisal? Disarray.

PAUL VOLCKER: I don’t think, from what I saw of it. And look, there were problems, no doubt, there always are always problems. But the degree of disarray that he suggests, I don’t know. That Secretary Geithner was out undercutting, and so forth, I saw no evidence of that.

CHARLIE ROSE: When you look at where the economy is today, and how long it took us to get here, and all of the problems that we have had, and what happened in 2008, and how long it took to develop that amount of leverage in the
economy, how long is it going to take us to get out of this? So that we return... go ahead...

PAUL VOLCKER: Well, we have already had a couple of years and it’s going to take more. But it’s not helped by the fact, of course, that these problems in Europe, still the - I was going to say the second biggest economic unit - but I guess that’s no longer true, I guess. China may have beaten them, but even China has a little hesitation now, so you haven’t got a buoyant environment in the world economy generally.

CHARLIE ROSE: An absence of demand or what?

PAUL VOLCKER: Well, an absence of demand, but it is also everybody is overstretched. Everybody’s gotten over-leveraged, everybody’s gotten incautious, so that, a lot of failures. We spent a decade over-spending, cheap credit, low interest rates, high consumption, spending literally more than we were producing and the Chinese were doing exactly the opposite. And they were lending us a couple of trillion dollars at very low interest rates and that kept our consumer boom going and it kept their economy going, ‘cause they love to export. So when we got in the problem, the housing situation finally exploded, a lot of things came home to roost. Now look at Europe today. What happened in Greece? What happened in Ireland? What happened in Portugal? What happened in Spain to some degree? Same thing. They joined the Euro. Suddenly these countries with more questionable economies could borrow at German interest rates, very low interest rates. They were all part of Euro. So they borrowed away and had a party just the way we did, borrowing from the Chinese. I am over-simplifying, but not by much.

CHARLIE ROSE: Everybody except the Germans.

PAUL VOLCKER: Everybody. The Germans were in the position of the Chinese. They were big and strong and they were exporting. They were in effect sending capital to Greece and these other countries, but the jig is up. And Europe is struggling. Obviously. But it was not a phenomenon limited to the United States.

CHARLIE ROSE: So what happens if Greece defaults?

PAUL VOLCKER: Well, if Greece defaults, and a lot of people are expecting that, I think the challenge is that if Europe gets their act together enough, I think they
can get a little help from abroad, too. I’ll tell you the sad part of this - Europe has got to make sure that their banks are in a position to withstand that. And that it will not lead to a lot of contagion and tax on Spain and Italy. Spain and Italy in a public financial position are really not in as bad shape as Greece or the United States, for that matter. But they will be attacked and are being attacked because they are kind of, “What’s the next candidate?” Greece is a very small country, but Spain is not a small country and Italy is not a small country. So they have got to be in shape to withstand a default in Spain, if it comes, because of contagion. And I don’t think the Europeans have completed that job yet, of making sure their banks, in the first instance, are able to handle the default and that ultimately Spain and Italy and other countries.....

**CHARLIE ROSE:** So if Greece defaults, some banks are in some very bad trouble?

**PAUL VOLCKER:** Well, the banks ought to be able to handle that, if it’s just a Greek default. But a Greek default multiplying with a Portuguese default and an Icelandic default and fears about a Spanish default, I think you got a big problem.

**CHARLIE ROSE:** And what happens here?

**PAUL VOLCKER:** Here? You’ve got a weak, miserable European economic situation and it’s not a great help for us, obviously.

**CHARLIE ROSE:** You wrote today about inflation and the declining dollar and you warned us that inflation is not the solution, even though you quoted Ben Bernanke as talking about putting price stability in the context.

**PAUL VOLCKER:** Well, you know that was meant... I was a little gratified to see it when they made this last statement after the meeting, they said, “Bernanke said we are examining all kinds of things to see what we can do to expand, but it’s got to be in the context of price stability.” And I think that is absolutely correct. But there begins to be, out of frustration, people saying, “My God, maybe we have salvation in inflation.” You know, that’s the end of the game, if you think you’re going to find salvation in inflation, it’s the road to a different direction than salvation. My humble opinion! And you know the people who think, “You know, two percent inflation has been all right; we call that stability, so let’s to go three or four.” And if you deliberately do that, I don’t think it is going to help very much, so you begin saying, “Why don’t we go to five and six?” And once you are there, you’ve got a hell of a problem getting it down again.
CHARLIE ROSE: That’s why we will need you again.

PAUL VOLCKER: I am getting too old, so I want to prevent it. I don’t want to do it again.

CHARLIE ROSE: But, do we have many more policy bullets?

PAUL VOLCKER: No. Well, I mean you got some things you think you can do. But if you ask me, if there is some policy bullet that is suddenly going to take this morass, this sluggishness, this slog, into a vigorous economic expansion in the remaining months of this year and into 2012, I don’t know about that bullet.

CHARLIE ROSE: And is the choice either-or between deficit-fighting and spending cuts versus lowering unemployment and a growth strategy? Is that sometimes the decision by the president and others, is put in that context? That we have to find a balance between something that is pro-growth and pro-deficit-cutting?

PAUL VOLCKER: We’ve got a big deficit problem, and we’ve got one at the moment, but we are in the middle of a recession and it may be appropriate. But you look ahead, we have got deficit problems that, as things stand, are not manageable and we have to manage them. Say you are talking about Social Security, you are talking about Medicare, you’re talking about defense spending. I mean, our defense spending is bigger than the whole economy of Spain. And just to put this in some kind of perspective. And you have to look at a lot of other things. I agree. I am really sorry, just personally, that we didn’t, that Obama and that I – who am I? – that I didn’t convince him to try to do something about Social Security last year. Because that was possible and it didn’t have anything to do with the deficit in the next few years, but has a lot to do with the deficit ten years out.

CHARLIE ROSE: So what would you have had them do two years ago?

PAUL VOLCKER: Well, Social Security is a relatively manageable problem in my opinion; you know you increase the age limit a little more ---

CHARLIE ROSE: Yes everybody says that.

PAUL VOLCKER: You tinker, maybe a little more tinkering with the formula about how the benefits are.

CHARLIE ROSE: But do you also agree that the president needs to step forward and show where he is prepared to do something about Medicare as well as other
entitlements beyond Social Security? That what we are lacking here is a certain political courage here on both sides? A, one to get away from ideology or the Republicans and B, that the president be able to be more willing to face the political.....

PAUL VOLCKER: Well, I think he has said both of those things, he talked about Medicare recently.

CHARLIE ROSE: Yes, he has talked about what he would do....

PAUL VOLCKER: I think his concern is, whether it’s right or wrong, whether it’s wise or not wise - and I am not even sure what I am going to say is his view, but I suspect it is - he says, “Whatever I put out there, they are going to kill me, whatever I say. And they are going to say, whatever I say, ‘God should be in heaven.’ They are going to say, ‘No, God shouldn’t be in heaven.’” And so he feels a bit stymied and I think his natural instinct, and he should be allotted the credit for it, in my view, who knows, that he is basically a conciliator, a compromise kind of guy.

CHARLIE ROSE: Is that good?

PAUL VOLCKER: Well, he thought it was good. I thought it was good when he was running for election. It hasn’t worked, I think that it is fair to say that.

CHARLIE ROSE: Meaning what? So what was the opposite of being a conciliator? What was the opposite to being a conciliator? Looking for a compromise, should he have, for example, as some of the people in his own base are saying, “We want him, we want him to take the argument and be much more forceful - and not so willing to compromise?”

PAUL VOLCKER: Emotionally I may feel that, too, but I am not the President of the United States and he is making some judgment as to how he can best progress in an extremely polarized political situation where you need 60 votes in the Senate to do anything and the majority in the House is disciplined against him, whatever you propose.

CHARLIE ROSE: But you know him, you have been in the room with him. Is this president...?

PAUL VOLCKER: There is a difference between being in the room with him and knowing anybody. (laughter)
CHARLIE ROSE: Were you disappointed to discover that?

PAUL VOLCKER: I discovered that in kindergarten. (laughter)

CHARLIE ROSE: How is it different to be in the room with this president, than with, say, Ronald Reagan?

PAUL VOLCKER: Oh, well. That’s a comment on substance. There aren’t two kinds of personalities that are more different. You couldn’t imagine. Obama is well briefed. I mean he is a very - I can’t tell you how amazing it is that whatever the subject is, he knows more about it than you do. And I don’t know whether he is up all night getting briefed, or whatever, but he is down to details. He is. I mean, he is extremely on top of things. Where President Reagan, it is well known, is kind of above these things. (laughter) Now, Reagan did have some very strong fundamental opinions. I mean I was an enormous, I believe, beneficiary from his kind of simplicity in a very good sense. I think it was not a very happy time when he came into office and interest rates were 20% and so forth, and the Federal Reserve was sitting there, kind of a sitting duck for criticism, and he never personally criticized it. A lot of his people did but he never did himself, and I think it was some kind of an instinctive belief. What he would actually say, “You know, a professor in that little college you went to told me inflation was no good, and I believed him.” Reagan believed him. And he, I think, just took a very simple and direct view that inflation was not good and inflation was a big part of the problem with the economy at that point, and he wasn’t going to go take after the Federal Reserve if they were going to try to do something about inflation. And actually that was an enormous...

CHARLIE ROSE: He was prepared to take the pain now...for the benefit later.

PAUL VOLCKER: That’s right.

CHARLIE ROSE: O.K., I want to wind this down. We are way over here, but I just want to do a couple of things. One, there was a series of questions sent to me, one like: What would be about the impact of the world economy if Greece defaults? We talked about that. How disappointed are you in the policy responses to the crisis by the president? You avoided that... (laughter)

PAUL VOLCKER: Do you always have questions written on your... I thought you knew them all by heart. (laughter)
**CHARLIE ROSE**: What do you think of the “too big to fail” bank model? Is it feasible in this political climate?

**PAUL VOLCKER**: Well, this “too big to fail,” I think I mentioned this, is the heart of the reform question. And we have to try and get it right and there are different approaches that can be taken yet. At the extreme, the people say, “Break up the banks. Make them small enough so that we don’t care if they fail.” Individually, it’s nice to say, but I may be wrong. I don’t think it’s very practicable. I think that the kind of stuff that’s done in Dodd-Frank helps, including the prohibition on proprietary trading. It makes it less likely that they will get into trouble, and if I may just stick in a plug, part of the problem with proprietary trading is not what actually goes on. It’s the risk - it colors the whole culture of the institution, that some young guys in UBS are out there trading in some mysterious way and losing two billion dollars, when they were getting paid some huge amount, is not a good idea. Well, that got me off the subject here. No, I think this is the heart of the problem and is a central issue on reform that has not yet been convincingly settled.

**CHARLIE ROSE**: Business today, I’ve got two last questions: One is that frequently the refrain from business today is that we are sitting on all of this cash. We are not making investments and therefore we are not creating new factories. We are not hiring people because we are not sure about the regulatory climate, so therefore we are not prepared to make an investment. We are not sure about the future. Does that ring true to you?

**PAUL VOLCKER**: It rings overdrawn to me frankly. I think that they are.....

**CHARLIE ROSE**: Imagine my surprise.

**PAUL VOLCKER**: ‘Cause they don’t have much demand primarily. But I understand that they are uncertain about regulations. But I can’t remember much time in the years that I have been in government that they weren’t worried about regulations. And you know, I think a lot of the regulatory stuff is overdrawn and all the rest, and they ought to be concerned about it and they ought to complain about it, but I don’t think it’s the basic reason why the economy is not operating. There is a lack of demand, there is over-leverage...

**CHARLIE ROSE**: People are nervous about the future, so therefore they are not buying things. That’s why there is a lack of demand.
PAUL VOLCKER: Well, they are not buying things so people aren’t investing, but, you know, one of the hopes for the future - talking about the slog - big American corporations are in remarkably good shape. It’s crazy. We’re in this big recession, prolonged recession. Many companies are making record profits and they are sitting on the cash. Now, partly they are making profits because they are making them in other countries.

CHARLIE ROSE: But you just recognized that there is no demand, so why don’t they sit on the cash?

PAUL VOLCKER: Well, maybe they should, but how do you get more demand, is the question?

CHARLIE ROSE: Well, that is the question, so how do you do it? Do you do it by things that the president has recommended in terms of trying to extend benefits or do you do it by -

PAUL VOLCKER: Look, I am not going to defend every particular thing that the president -

CHARLIE ROSE: Tax cuts -

PAUL VOLCKER: But the kind of program that he had seemed to me to be quite reasonable. Now it wasn’t overwhelming. That program is not suddenly going to bring prosperity, because you’re stuck. You are starting with a deficit equal to 10% of the GDP; 40% of the government is financed by debt. I mean, you know, how far can you go with that kind of a system? It’s hard, very hard, to get interest rates below zero. Nobody has figured out how to do that yet.

CHARLIE ROSE: That’s what I am told. (laughter) So that’s why the policy tools are limited. O.K., so this is my last question. This says here: I will phrase this in two ways: One, how close to a full blown depression - please don’t elaborate -- is the question on the card. I sat next to the wonderful Elsa Adenoff, and she said to me, “Do you know what I want to know? Are we going to hell in a hand basket?” So which is it?

PAUL VOLCKER: We are not going to hell in a hand basket, but we are in a slog. A slog.

CHARLIE ROSE: A slog.
PAUL VOLCKER: That’s my favorite work, slog. It applies to a lot of things. You know, we have got a prospect of having much higher unemployment than we like it for too long of a period of time.

CHARLIE ROSE: Did it have to be that way? Would better policies have made it better?

PAUL VOLCKER: It doesn’t have to be that way if you told me what we should have done better ten years ago. And five years ago.

CHARLIE ROSE: O.K., but how about what we should have done with the stimulus program? I am asking. This is not a rhetorical question for reflection. Would a different stimulus program have put us in a different place with respect to unemployment?

PAUL VOLCKER: You are talking about the stimulus program in 2009?

CHARLIE ROSE: Right.

PAUL VOLCKER: I mean, this wasn’t an ideal design of a stimulus program, but it did spend a lot of money -

CHARLIE ROSE: Why is that? Because it was designed by the Congress? Or designed by the White House?

PAUL VOLCKER: I think it was designed substantially by the Congress, but that’s a second order thing. I mean, you could have had more infrastructure, which you should have, and you could have had other things to try and stimulate business around the edges. But would that have made an enormous difference with the same amount of money involved? I don’t think so.

CHARLIE ROSE: So you can’t think of a series of policy recommendations that might have made a difference if they had been enacted?

PAUL VOLCKER: Oh, I would have trimmed around the edges, but no, not a -

CHARLIE ROSE: For example, the argument was made that there was a debate in the White House about a 1.3-trillion dollar stimulus program, but that the judgment was that it was politically not feasible.

PAUL VOLCKER: I frankly do not recall, and I was in a few meetings, anybody vigorously arguing at that point for a trillion three or a trillion two or something like that. Eight hundred billion seemed pretty big to most people at that time.
CHARLIE ROSE: O.K., so here we are sitting here on this September evening as you celebrate the Paul Volcker Chair at the Maxwell School, at the deepest end of your own intelligence and experience, are you….will we come out of this O.K.?

PAUL VOLCKER: Well, we will come, I sure hope we will come out of it O.K., but I think this country....

CHARLIE ROSE: And when?

PAUL VOLCKER: This country has lost a lot in the past ten years, not just economically, but partly, importantly, in the base economy, but our ability to stand out and lead, frankly, the world. I mean, I grew up as - this isn’t the youngest age group I ever addressed (laughter) - and I grew up in the world as many of you, where the United States was in an automatic position of leadership for the world and we thought, or I thought, that this was critical to development of the world economy, to the peace and prosperity and that we were the exemplars of constructive policies. We have not got that kind of authority; people don’t automatically look to us anymore. It’s kind of the saddest story in the press, over the weekend, was that Mr. Geithner went over there at the invitation of the Poles or somebody to talk to the Europeans on what could be done and they said, “Oh, you are an American. Go home. You don’t know what it’s all about.” That would not have happened ten years ago. And the fact is, they need a little leadership, and that is what disturbs me. It’s a different world. China is massively important, Europe’s upset, but we still, I would like to believe, have a more constructive role to play than we are able to play at this point in time and that’s a sad story.

CHARLIE ROSE: Well, as Jim can tell you, that’s true in politics as well as in economics. It’s an honor for me to be with my friend Paul Volcker and to be with you. Thank you for allowing me to share the stage with him and to be here.

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