

CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

**SALON LUNCHEON WITH
FORMER SECRETARY OF STATE
GEORGE SHULTZ**

WELCOME:
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JESSICA MATHEWS: I'm Jessica Mathews, president of the Carnegie Endowment for International Peace.

It's a great pleasure to welcome you here today. We are honored and delighted to welcome Secretary Shultz for a wide-ranging conversation on an array of the challenges that confront us, and I'm doubly delighted because several members of the Carnegie board of trustees are with us today. We've just finished a two-day board meeting, and that makes it even nicer.

Secretary Shultz has had an extraordinary career. Professor at MIT and at the University of Chicago, the director of the Office of Management and Budget, secretary of labor, secretary of the treasury, secretary of state and president of Bechtel. He has also, like a few of our very greatest statesmen, chosen to use his enormous credibility and leadership in a second, or I guess I should probably say, fifth career, addressing one of the preeminent challenges of this age, which is putting the United States on a track to reduce and eventually eliminate nuclear weapons.

This is a cause that is central to our work here at Carnegie, and so we both support and applaud the leadership that Secretary Shultz is providing, along with Henry Kissinger, Sam Nunn and Bill Perry. The four of them create a really almost unique bipartisan – a group of bipartisan weight, credibility, leadership – an unassailable voice when they speak together. And we have seen the power of two op-ed pieces to – in the right hands to change not just an American conversation but a global conversation.

The timing now is just – is critical. We are facing the renegotiation of the START treaty. The chance to – I should say, in my view, the need to ratify the Comprehensive Test-Ban Treaty; the review conference of the Nonproliferation Treaty, which is coming up next spring, which is the first step – could be the first step in leading to a badly needed strengthening of the international nonproliferation regime.

This is only one of the issues that Secretary Shultz is going to talk about today, but it's one on which, as I said, he has been playing a unique and vital role, and one that we are honored to recognize. To begin and lead our conversation is Carnegie senior associate Bob Kagan, who is well-known I think to all of you, and who has the additional honor of having once been Secretary Shultz's speechwriter. So there is a –

MR. SHULTZ: Those were the days, boy. (Laughter.)

MS. MATHEWS: So there's a long history going back here, and let me, without more ado, turn the microphone over to Bob.

MR. KAGAN: Thanks so much, Jessica, and thank you, Secretary Shultz, for taking some time to be with us today. I know you think that I've sandbagged you here, that –

MR. SHULTZ: Bob said – (laughter) – if you're in Washington, why don't you come by and have lunch and we'll have a little conversation? So here I come – (laughter) – and look at this.

MR. KAGAN: Well, the reason is that we were going to have a small group until we found out all the people who simply could not stand the thought of missing the opportunity to see you, including, I might say a hefty number of people who served you in the State Department, and for all

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I know in other capacities. So I'm afraid that the problem is the interest is enormous and the affection is very great, and I think that that's obviously well-deserved on your part.

MR. SHULTZ: Well, I had the privilege of having wonderful, wonderful people to work with when I was secretary of state, and for that matter in other government jobs, and sometimes people ask me if I miss being in Washington, and I say, well, I don't, but I do miss the people, really special, extraordinary people, and I see quite a few of them scattered around here, so it's great to have that reunion.

MR. KAGAN: Well, I'm glad we could arrange this reunion, it's worth it. Well, let's talk about a number of things. First of all, I'm going to start off with a few questions, but we do have such a talented group of people here, including people who ask questions for a living, so I'm going to turn to some of them for a few minutes after I've asked you a few questions, and then we'll open it up to this very prestigious audience, whom we – filled with people who have, as I say, served under you and been your admirers over the years.

I guess I'd like to start with maybe the biggest question, which is, what is the state of America today, especially in terms of its position in the world? This has been the year when people have talked about a post-American world. There's a lot of discussion about American decline, whether America is in decline, whether it has to adjust to new realities of rising powers. But I remember when you were secretary of state, you talked about what power and strength were all about and what a nation has to be, and I'm just wondering now, looking at the situation now, what's your – how would you put the state of America right now?

MR. SHULTZ: Well, underneath it all we're a terrific country. I think you called it a dangerous nation – (laughter) – for the very good reasons that we stand for things that we believe in, and we want to continue to do that and we need to do that. We have the track record of developing a terrific political system that's worked well for a long period, checks and balances works, and we undoubtedly have the most dynamic and creative economy the world has ever seen, and that continues, and we want it to continue to continue. We want it to continue that way.

At the same time, right now I think we're not at our best. We are perhaps seeing a major change in the nature of the relationship between government and our society. We have budget deficits that stretch out into times when it is predicted that our economy is doing well that are breathtaking. They just can't be. Nobody's there to lend that kind of money that long, and why should they? Why can't we get ourselves under control and spend money that we have? Consumers finally are beginning to spend a little less than they earn, and the message is, why don't they get spending again? And I say, no, they're coming to their senses.

And you can run an economy very well when you have a savings rate in the eight-10 percent range; that's what it was in the '80s, and that's good, we save a little bit so we can finance our own investment. We don't have to rely on other people to do it. But at this point, the government has run off with such a gigantic spending program that seems out of control, where – right now, I think we're at a rate of about 26 or seven (27) percent of GDP and federal spending. That's partly because GDP is low. So it comes back, let's say it comes back to 24, that's still a 20 percent increase over what's been going on for a long time, and I don't know what kind of tax – the only kind of tax that's going to handle that is probably a value-added tax, and that's a recipe for a wholly different kind of thing.

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We also seem to be engaging in a much more active government intruding into our affairs. Wage controls by now are creeping in. It wasn't so much that the czar, it was the fed of the whole banking system. And price controls – we're going to control what you can charge for credit, and it's getting more and more. I think it's a bad trend. So we have to get control of ourselves and get back the confidence that we can run ourselves competently. I think something that people have always expected out of America, in addition to our ideals and so on, is competence.

If we decide to do something, okay, we can do it. And people are beginning to question that. And if we can get our house in order again, I think that we don't have to worry – and I don't worry about somebody catching up with us or something, they'll – people will catch up. It's a good thing. China and India are getting their act together, and they have big populations. After all, GDP is a combination of your labor force plus your productivity. And so they'll go, that's fine. But the creative and dynamic parts of the economy come from here and will continue to come from here unless we do things that kill it off.

So I'm confident on the one hand and a little alarmed on the other that you people in Washington are running off with something or other. (Laughter.)

MR. KAGAN: You were just in China not so long ago, I believe. And did you get a sense from the Chinese how they're looking at the United States these days?

MR. SHULTZ: Well, I was there, and Stape Roy was there and anybody who asks me about China, I say, wait, until I ask Stape Roy, because he's my seer on the subject. But we had two days of meetings – so-called high-level dialogue. Our side was Stape and myself and Henry Kissinger, Bill Perry, Sam Nunn, Bob Rubin, Dave O'Reilly and Marty Feldstein, so we had a good team. And they had also a very good team. We had a couple of days, and then we met with Wen Jiabao, and then for me it was particularly interesting, because I received an honorary document from Peking University.

So I went out there, and the man presiding had two degrees from Stanford – (laughter) – and then afterwards I had a meeting with about 50 students that went on for about an hour-and-a-half or so. I noticed one of them sitting there; he had a Stanford sweatshirt on, so I picked on him, and he said, well, he'd just come back from Stanford. He's part of a Stanford-Peking University exchange program. But bright people.

I thought – and I don't know, Stape, what you thought – I thought there was a kind of a subliminal message in a lot of the discussion that was like this: We've arrived. You're still king of the hill, but can't you get your act together? I think people want us to get our act together; they don't want us to be flopping around here wondering where the next dime is going to come from.

MR. KAGAN: People talk a lot about the engagement these days. There's been – sort of the hallmark of the current administration's policies is a new era of engagement, is the phrase that I think Secretary of State Hillary Clinton used in a recent speech.

I would say probably no one knows more about engagement than you do, especially with the Soviet Union, during the 1980s, and I'm wondering whether you might want to share with us some of your own lessons and experiences and advice as we proceed on a course of deeper engagement

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with Iran and perhaps also with Russia. Are there some Shultz lessons of – life lessons that you may want to impart as we move on this course?

MR. SHULTZ: I'm all for engagement. I think it's important to have human contact with people all around. I see Jim Collins is here; he'll tell you more about Russia than anybody. He was our ambassador and we worked together when I was in office. But certainly, you want to engage. The question – the important thing is, you engage on the basis of your strength, and you have something to say that has real guts to it. So it isn't so much just engagements, it's the way you go about engaging that I think is of critical importance.

I remember when I took office as secretary of State, you remember when the Soviets invaded Afghanistan, President Carter cut off everything – no athletes to the Olympics; no Gromyko come to Washington; withdrew a treaty, and so on.

And one of my good friends is Helmut Schmidt; he was finance minister in Germany when I was secretary of Treasury. He came over right after I took office and he said, George, the situation is dangerous. There is no human contact. So I agreed with him. I thought it's important, but just because it's contact doesn't mean you go and have a tea party. You go and you say what you think, and you're candid, and you had some back-and-forth, but you have engagement, which is what we did. And I think it's good to have that kind of thing.

MR. KAGAN: What about the current talks about the deal that's being proposed with regard to Iran and the enriched uranium that is being talked about shipping it out to Russia? Do you have a view on those details?

MR. SHULTZ: Well, I have a view that the discussions with Iran that have been going on have been going on from a weak position on our part. We haven't held any cards. And the result has been they haven't gone anywhere. And Iran, just as North Korea, has used talks as a way of buying time to continue their program.

And our basic problem, obviously, with Iran is to somehow get the Chinese and the Russians to see that the emergence of nuclear weapons in Iran is at least as bad for them as it is for us. They have a big stake in stopping it. We haven't succeeded in that, quite obviously, at this point. So you need to shore up your strength so that you bring that to the party. And I don't think we're in that position yet.

MR. KAGAN: And one of the areas where we may have been weakened over the past years is in the two wars that we're involved in. And I know that the president is now trying to decide what to do about Afghanistan, but you've also, along with the rest of us, watched the past few years in Iraq. And I'm wondering what your views are on what you think the next steps, perhaps in both of those countries, should be for the United States.

MR. SHULTZ: Well, I'm always a little hesitant because I've never been to Afghanistan. I laid eyes on it once from the Khyber Pass and I sort of shook my head – (laughter) – and said, wow, what a forbidding country. And I've never been to Iraq, either.

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So I feel if I were going to really make a judgment that's worthwhile, I should get more of a feel. If I were in office, I would want to have a much better feel of the situation than I can have sitting in California and reading whatever I read.

But I think there are, about Afghanistan, some things that are pretty clear. Number one, it's a highly decentralized country. There are quite a few languages spoken around. The terrain is such that if you haven't spent a lot of money on infrastructure, which they haven't, it's very hard to get from A to B. So that means you have individual groups, tribal groups. And that's the nature of the case. It's not a top-down country; it's a bottoms-up country, if there is all the way up.

As I understand it, before the Soviets invaded, there was a growing stability in Afghanistan as a matter of adding up what was going on in various pockets. And the Soviets disrupted that. They tried to make Kabul a center of power; didn't succeed. As I see it, anyway, we invaded there justifiably, I was in favor of what was done, and we had a brilliant initial success. And you have to ask yourself, how did that happen? Well, at least as I see it, it happened because with a very light footprint, we made common cause with local groups who, as it turned out, wanted the same things we did. So we supported them, and our support was very important for them, and that succeeded.

And then we allowed our mission to morph into creating a country that hadn't existed before, a country with an important central government, with an army. And I've always said to myself, I must be wrong, because everybody says it's so important to build up the Afghan army, so that must be right, but to me, it's counterintuitive. If you say, this is a very decentralized country and the warlords – we call them – I suppose we want to do that because we don't like them, so we call them warlords – but anyway, they're the people who are running things, and if I'm a warlord over an area, do I want a strong army? No, they're a problem for me.

So I think there's – I think what you want to build up, at least in the nature of Afghanistan, is the ability of people in pocket A to defend themselves strongly and eventually to link them up with other such pockets, and you benefit from the trading around. But – and at least as I sense it, that's the strategy the generals are trying to push toward. And we have an understandable preoccupation right now with the election and the importance of trying to get it straight, and I hope that gets itself straightened out.

And we had somebody that can be labeled legitimate, but the idea that we can count on a central government in Kabul to be an effective partner in bringing peace and stability to these outlying areas, I think that doesn't jibe with what we know about Afghanistan. It's got to come from the bottom up, not from the top down. At least that's – as I say, I – if I were in office and I was going to have to help the president make a decision on this, I would want to know a lot more than I know just by reading books about the subject of Afghanistan.

MR. KAGAN: Well, that shows much better judgment than many of us. (Laughter.) You've expressed a number of –

MR. SHULTZ: Bob, when you – if you have ever served in combat, you are very careful when you commit troops. You want to be strong, but you know – and the president must have this on his mind, he's got to, it's important that he does – you make a decision to send these young people into combat, and some of them are going to get killed and some of them are going to lose their legs, and they're going to get – it's tough business, so you've got to be careful.

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In the Reagan period, we used force only three times. People think of us as warlike, but we used force in Grenada to rescue potential hostages there; we were in and out of there quickly, we achieved our mission, got out; we used force to put Qaddafi back in his box by taking out a building from which he had directed attacks against our soldiers; and we used it once in the Persian Gulf.

People say we didn't communicate with Iran, but we did. When Iran was messing around with Kuwaiti shipping, you remember, we re-flagged the Kuwaiti tankers so we could protect them, and when the Iranian president was at the United Nations, giving a speech saying the last thing Iran would do would put a mine in the Persian Gulf, our Navy was taking a picture of them doing it. And then we boarded the ship and we took some mines off for evidence, took the sailors off the ship, sank the ship, took the sailors to Dubai and said to the Iranians, come and get your sailors and cut it out. Now, that was communication. (Laughter.)

But – so those were the three times. The worst day of the Reagan administration, and I agonize to this day, was when our Marines were hit in the bombing of the barracks in Beirut, and being a Marine, that especially hurt. That was not the use of force in the normal sense if you think of it. That was a peace-keeping force, and I've second-guessed myself on that more than any other thing I've ever done. But – so you use force carefully.

MR. KAGAN: I remember one of the issues that you have dealt with, perhaps more than any other secretary of state before September 11th, was the issue of terrorism and how to respond to terrorism. And you gave some very eloquent speeches on that subject as well. And one of the things that – and I have some insight – (laughter) – anyway. One of the things that you talked about was the need to use force, and I just wonder, in the current environment, do you still feel that force is a critical component in fighting terrorism?

MR. SHULTZ: Absolutely, I do, but I think it's a big issue. I made a speech in 1984 saying – calling attention to the problem of terrorism and saying that we had to be willing to strike back and we had to use our intelligence aggressively to find out about things before they happen and take preventive action to keep them from happening. And that speech was reacted to violently, negatively. Only one person was on my side, and that happened to be Ronald Reagan, so I was happy to have him on my side.

But I didn't understand it, what was going on, really, and I don't know that I do now, but I understand it a lot better. And I do think there is a – whatever you want to call it, radical Islam, that is using the weapon of terror and that is a real threat. And we have to take it seriously and continue to take it seriously.

And I think the idea of prevented force is an important idea, because if you see something that's coming at you that's going to cause grave damage, it's practically a no-brainer that you should do something about it. It gets tricky when what you're worried about is further away from you or in some other country, and obviously, the quality of intelligence is extremely important, and your confidence in the ability of your intelligence agencies to supply you well. I think myself, having struggled with this some, there's no substitute for human intelligence. And my impression is that we're now in the process of trying to build that back. But it's been down quite a distance.

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So we've had a little group at the Hoover Institution discussing this question of the use of preventive force. It's a Stanford project; people from all over campus have taken part in it. And we wrote a little pamphlet on our ideas, and we had a conference out there.

And then we thought, people on the West Coast, we're all dingbats out there. People in the East think more; they know more. We should have a conference in the East. Anne-Marie Slaughter was there, so she volunteered to have it at the Woodrow Wilson School. So we had a really eye-opening one there; helped us a lot.

And then we said, let's have one in Europe because Europeans have different ideas. So we went to Bellagio – not a bad place – and had a conference there. And then we had one in Asia.

Asians think very differently about this subject, let me tell you, than anybody else does. So we heard from a wide range of Asian views and we also made a big effort to get Latin American and African views. And we will be publishing a book, a short book, on the subject.

And our basic conclusion is that what you have to work for is legitimacy. Lawyers will drive you nuts on this subject. And what's legal may not really be legitimate; what's legitimate not be technically legal. So you have to look at the legalities. The bigger point is the legitimacy of what you're doing. And we've written down a few tests.

And I would have to say, I wish I had had that book when I was secretary of state because you were often in the position of deciding, should we use force or not? And this will be a little checklist of things you might look at. And that'll be out in a couple of months.

MR. KAGAN: Allow me to pose one more question before I turn it over to our expert question-askers. As Jessica mentioned, you've taken a very big leadership role in the question reducing and eventually eliminating nuclear weapons. But as I'm sure you know even much better than I do, there are obviously people out there that will wonder whether this is really plausible.

It's very easy to get presidents to say that they want to eventually abolish nuclear weapons. Sen. McCain said it in his campaign.

MR. SHULTZ: He also said it more recently on the Senate floor after the election and after President Obama had put it forward in a deliberate effort to say, this is something that is broader than the contentious debates that we've been having.

President Obama invited us in to the White House, the four of us. We had a really good meeting with him; about an hour and a quarter. And I know that's a lot of time on the president's calendar. And it was constructive. He carried the conversation from his side of it totally; didn't rely on his aides. So he's well-informed and a very gracious man. We all had a very impressive time.

Then, he invited the press in and he said it was great this was a bi-partisan effort. And when it came time, my group asked me to be the spokesman, so I said, well, Mr. President, it obviously is bi-partisan, but that's not the way any of us think of it. We think of it as nonpartisan. We think it's something that ought to somehow get itself out of the arena of partisan politics and into some different kind of pattern of discourse.

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And so when John McCain made his speech on the Senate floor, he took the occasion of the day that Ronald Reagan's statue was unveiled in Statutory Hall to reassert his support for Ronald Reagan's dream of a world free of nuclear weapons. Incidentally, there's a book by the Andersons entitled "Reagan's Secret War," that details out the long, deep thinking he did on why it is that he felt that nuclear weapons were bad for the security of the United States, let alone the world.

MR. KAGAN: Okay, well, let me do this in two phases. I have the designated columnists followed by the vast expertise in this room. So let me –

MR. SHULTZ: How come everybody has a tie on except Friedman? (Laughter.)

MR. KAGAN: Right, and therefore Tom is going last in the questioning; I can assure you right now. (Chuckles.) Well, thanks for coming. David Brooks, do you want to take your shot?

Q: Thank you. I had a feeling Bob would ask a lot of foreign policy questions – for those who care for that sort of thing. (Laughter.) So I wanted to ask you a more general question, and ask you to reflect back on your years in Washington versus the Washington of today. And that is, what could Barack Obama learn from the way Ronald Reagan ran his White House, and what could he learn from the way the Nixon administration operated?

MR. SHULTZ: Well, Nixon ran a very tight ship in the White House. But he had an instinct that he wasn't able to deliver on, but which I think deserves careful study. And this got expressed and put before the Congress when I was director of the budget. So it's the kind of issue that the budget director pays a lot of attention to.

He said that we've studied the office of the presidency and it turns out that something like 151 people are supposed to report directly to the president. It's ridiculous. But anytime something important comes along, somebody passes a law and says, this is so important it has to report directly to the president. So that accumulates over the years, and that's what happens. So the result is that they're not reporting directly to the president; they're reporting to somebody on the White House staff. And the White House staff accumulates.

And we thought that was a mistake. So we made the following proposal, which I still think would be a great thing to implement: that you sort of divide things into subject matter – they're natural resources, they're human resources; they're judicial issues; they're national security, foreign policy issues; they're economic issues; maybe one or two more.

And then you say to the members of the Cabinet, associate yourself with these groups and maybe some Cabinet would be part of more than one group. But at any rate, you form those groups. And then you say, over in – I guess what's now called the Eisenhower building – the one right next to the White House – you have some office space there, and you encourage Cabinet officers to have their meetings there; have lunch in the White House Mess once in a while.

In other words, to cause the Cabinet people to be part of the White House and not totally get captured by their departments; and let these be policy forums. And they bring things to the president, and he meets with them on these different subjects.

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So in effect, you get what I think of as legitimate line governance. The president is elected, so he's legitimate – or she. The members of the Cabinet and the sub-Cabinet are all appointed by the president and confirmed by the Senate. They are subject to being called to testify; they appear before the press; they are the accountable, responsible line of authority.

So you run it that way. And no doubt, the president will need some people to organize things in the White House. But basically, that's the way to run the government. And I think one of the things that I see happening that happened in the Bush administration – and I think it's happening even more now but I'm not that sure – is that it seems to be so difficult to appoint somebody to a sub-Cabinet job of some kind and have them confirmed that the White House is appointing all kinds of people all over the place to do this, that and the other thing, and basically run some area.

And these people are not accountable people. They haven't been publicly nominated; they haven't been confirmed by the Senate; if you ask them to testify, they beg off on executive privilege; they appear in the press if they want to but they don't have any regular duty to do that. So I think that's a bad trend and I would go back to what we – what we proposed was starting to get a hearing and then it went down the drain with Watergate.

He actually implemented it in the economic area. When I became director of the budget, President Nixon called me in – this is when they created the Office of Management and Budget – and he said, your predecessor in the budget – a wonderful guy named Bob Mayo, but he was very assertive, he said. He thought it was his budget. And I always thought it was my budget. And we had our problems.

And I want to make it clear that it's my budget, so I am arranging a nice suite of offices for you in the West Wing of the White House. And I want you to hold your meetings there with the budget people. And if your office isn't big enough for the meeting, use the Roosevelt Room. Because, he said, physical arrangements make an impact on people. So that's what I did.

Then, we had this go-around I talked to you about how the Cabinet should be organized. So when I became secretary of Treasury, he said, keep your White House office, and we'll also call you assistant to the president for economic affairs. And when you're having Treasury meetings, have them as a Treasury meeting, but when you're having a meeting involving other departments, have them in your White House set-up.

So that worked very well, and I think most of the people involved would agree that it worked well.

Then, when Bob Rubin became secretary of Treasury, I was staying with Kay Graham – I must say, I come to Washington; I miss Kay Graham, I miss Meg Winfield, I miss Pat Moynihan; it's tough.

But anyway, I was staying with Kay and she said, I want to get Bob Rubin over to have breakfast with you. So Bob came over and he was just nominated, and I said, here is something to think about because you want the secretary of the Treasury to be the principle economic officer for the president.

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And he called me later and he said, that was a very good conversation and I think I constructed what you did in a different way. Because he came from the White House to Treasury, but he said, I'm the only person who sits in on all the early White House meetings, and the economic guy in the White House works for me. So he managed to accomplish that.

But I think that we're drifting off of what I would think of as responsible line management governance by having too much of what you'd have to call staff-people running it who aren't accountable.

In the Reagan period, I saw it mainly through my eyes. And I had my struggles with the White House. I got a system in place where I had a private meeting with the president twice a week. And that got publicized, so everybody knew that I was tracking with the president. But I think somehow you have to assert yourself, and have line management.

It's what people from the State Department here will remember; that that's what I did in the State Department. I didn't have any staff – well, they had the normal ops center and all that. But I had one talented Foreign Service officer, Charlie Hill – first Ray Seitz then Charlie Hill – and that was all.

And if I said I want some staff work done on something in Europe, I get a hold of Roz Ridgway, who was the assistant secretary, and I said, you're my staff and this is what I want. And back and forth, and we met all the time.

And I think – and those of you who manage things will recognize this problem right away – at how important it is to have a strong line management and use them. So my advice would be to start moving in the other direction from what's going on now.

MR. KAGAN: Well, fortunately, tension between the secretary of state and the White House is not the problem anymore. So I don't think they have to worry too much about that. Fred, do you want to pose a question?

Q: Mr. Secretary, thanks for taking the time for this conversation. You mentioned the growing budget deficits. Right now, Congress is debating a new entitlement for universal access to health care.

Some people worry that this is going to add to the debt. President Obama says, on the contrary; not only will it be deficit-neutral but it's an essential prerequisite to fiscal responsibility. And I just wonder how you see the debate as it's unfolding now; what you think should emerge; and what do you think is likely to emerge?

MR. SHULTZ: Oy. Easy, small subjects. What seems to me to be happening are measures that will increase the demand for health services and decrease the supply. The economist in me says, that's heading for trouble.

I believe that the health-care system badly needs to be addressed partly because there are people who are uninsured, but one of the main reasons why they're uninsured is that the costs have been spiraling out of control. So the price gets so high, they're priced out of the market.

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So I think the big issue that needs to be addressed is, why are the costs spiraling out of control, and how can we change the system so that the costs are under control? Every projection that's made – including by Peter Orszag when he was the CBO – he projected Medicare costs would be 20 percent of the GDP by some data. So that's impossible.

So you've got to address that question. You don't address that question by saying, we're going to increase taxes to pay for something or other. That's not controlling cost; that's just trying to cap them in some way. So you've got to get at the inner structure of these things and try to do something about it. I think that's self-evident but it's not – and I don't see any attention to that in this debate at all. Almost zero.

There are some other things that I think are evident and need to be addressed. One is if you look at the demographics, it's perfectly clear that we're going to be spending more money – a bigger piece of the pie, so to speak – the GDP – on people who are elderly – I call them more mature – (laughter) – on their health and their income support and so on.

So it seems to me the first thing you do under those circumstances is to say, how do we make the pie as big as possible? Then you minimize the intergenerational tension that inevitably comes out of putting a lot of money in one place. And there are ways of doing that, and I don't mean just fiscal and monetary policy, which are obviously important. But there are ways of changing the incentives and disincentives for people to stay in the labor force that can make a huge difference.

It's interesting that the amount of increase in our longevity in the last 30 or 40 years has been taken entirely in retirement – entirely in retirement. That can't go on. Otherwise, nobody will be working; everybody will be retired; it won't work.

So increase the size of the pie. Then I think it's clear – every study that's made – and I wrote a book on this subject – it disappointed me; it didn't get reviewed anywhere but I thought it was a pretty good book, but anyway. I invite you to review it. (Laughter.)

Any study shows that the prime determinant of your health is you. What you eat, how you exercise, how you pay attention to yourself. When you get writing on something like this, volunteers come.

So a doctor comes to me from UCSF – that's one of our outstanding Bay Area hospitals – and he says, what I do all day is I treat people who come into the hospital with strokes. That's my thing; I'm the stroke guy. And what really bothers me is that over half of them shouldn't be there. If they would just go to a clinic – any clinic will do; get your blood pressure taken once in a way; and if it's high, there are inexpensive, generic drugs that any clinic can dispense that, in most cases, will take care of it. But nobody can force you to go have your blood pressure taken; you have to have enough sense to do it once in a while.

So this being so important, it seems to me it almost follows that you want to design your health care system to emphasize that point. In other words, to try to put your resources and your choices into the hands of the individual patient; to cause that person to say, somebody else isn't responsible for my health; I'm responsible for my health, and I'm going to do everything I can about that.

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Then, finally, the reason why we're living longer and we're healthier than we have ever been before doesn't really relate to the insurance and all that. That is a result of a breathtaking improvement due to basic research on how the human body works and the emergence out of that of all kinds of pharmaceuticals, medical devices and procedures and so on that have revolutionized the way we're treated. And that's continuous. After all, here's the Salk vaccine – that's an example that has nothing to do with somebody's hospital insurance. That came right out of the research. Penicillin came right out of the research. All of these things.

So a great deal of the basic research is funded from the NIH. And we had a period when that funding was going up pretty fast, and it generated, in the universities and other places – the universities particularly, I think, are good at this – big work in the biological sciences. And young people were floating in with a chance to study something, do some good and so on.

And then, all of a sudden, it was flatlined. And when it's flatlined, it's actually going down, in real terms. So all of a sudden, all these labs that were going, like, strong, they don't have grants for young people anymore, so they don't come. So we've seen a letdown. Now, President Obama, the other day, I read, used some of the stimulus funds to beef up the NIH budget.

I asked one of my friends in the biological sciences – a wonderful woman named Lucy Shapiro who I hope will get a Nobel Prize one of these days, but she's a terrific person. Some of you may know her; Shirley, you probably know her. Anyway, well I said, how about it, Lucy? And she said, well, it's helping but it's like racing toward a cliff because what happens when this money stops? It hasn't been authorized and appropriated in some regular fashion that gives you the sense that this is sustainable. And if it isn't sustainable, it really isn't going to work.

So those are four things that seem to me pretty much self-evident that aren't being paid attention to, and if they were paid attention to, I think we could get a better outcome than we seem to be headed for right now.

MR. KAGAN: Tom?

Q: Mr. Secretary, I want you to put your OMB hat on again. Is it ever legitimate to say, in this thing we call the war on terrorism, we can't afford it? That is, it seems to me we're coming to a moment in the Afghanistan debate where the military has been asked to make a recommendation and they've said well, in effect, in a world of infinite time and infinite money, this is what we would propose for Afghanistan.

It comes at a time when the economy is weak, the dollar is weak, the deficit's going through the roof. Where does the OMB person – the responsible budget person – legitimately enter that debate?

MR. SHULTZ: Well, I think you have to say, what is the role of government? Certainly, the prime role of government that nobody else can do under any circumstances is protect our country and our security. That's its first job. So to the extent that it can be argued that spending money on something is essential for that purpose, then I would say well, then we have to do that. Obviously, you want to be sure that your mission is right and that money is being used carefully – often, it isn't.

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But all of those things having been said, I think if we say we can't afford to look after our security, we've reached a bad situation because basically, we can.

And I'd be looking for other places to try to cut back. I would be trying to get control of health-care costs, which nobody's doing. I would be trying to get a handle on Social Security. I listened to a member of Congress being interviewed, and she was asked about Social Security. She says, oh, we have money there for another 25 years in the trust fund.

There is no trust fund. Doesn't everybody know that? (Laughter.) It's just a pile of IOUs; there's nothing there! So we're about to start paying out more than we are taking in. And that will careen upwards.

And that's a problem that is soluble. It's a financial problem; you can see what's causing it; you can see what the alternatives are to do something about it and do it. And I might say, people seem to be afraid of the – I'm getting off your target a little bit, I know – seem to be afraid of older people.

This is not about older people. It's about younger people and having the system intact for them. Any proposals that I've ever seen on the Social Security guarantee that older people will not have anything changed. So it's really not about them; it's about younger people and maintaining the viability of the system.

So I guess I would say to you, Tom, that security is the first obligation of government. A private sector can't do that in any stretch of the imagination. And if something is really threatening our security, we'd better do something about it. How will we do it? There are all kinds of debates about that. But that would be my OMB answer.

MR. KAGAN: Okay, I'd like to open it up to our distinguished audience, as well. Would you be happy if I took two or three questions, perhaps, or do you want to do one at a time?

MR. SHULTZ: Any way you want to do it. My memory is such that if there are too many questions, I won't remember the first –

MR. KAGAN: Okay, well, that puts a premium question-and-answer as asking pithy questions. Yes, sir, in the back.

MR. SHULTZ: My hearing isn't that great so you may have to help me.

Q: Good morning, Mr. Secretary. Barry Schweid of AP. Would you kindly elaborate a little bit more on your approach – or the approach you would suggest on Afghanistan building from the ground up; building defenses from the ground up? Is it wrong to support a central government? And how do you do it from the ground up, from the local pockets, as you put it? I believe – I'm way back here, it's hard to get every word. But I think you were saying, we envision a country that's never existed before. But you are interested in security; is it part of the war on terrorism to do what we're doing?

MR. SHULTZ: Well, my point was that it's inherently a decentralized country. I think that is a fact. So if you're going to stabilize it or to cause it not to be a place from which people can

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come and plan attacks on us, then you have to address that decentralized fact. And to me, that means as you go to A and you go to B and you go to C, and you try to do everything you can to help the people there get the stability that they want.

Now, that doesn't mean I think Kabul is irrelevant; it obviously is relevant. But I don't think it should – now it's getting all the attention. That's all anybody writes about in Afghanistan; is what's happening to the election and is it fraudulent or how fraudulent is it and so on.

Incidentally, I think elections are turning out to be very interesting devices. And in the Iranian case, I think it's almost like – I'm getting away from your subject, I know. I'm rambling here. But in the Iranian case, it's almost like we have two bookends. 1979 comes the Iranian revolution. And suddenly on the scene is a somewhat messianic Islamic message with a lot of power behind it that has a different view of how the world should work, and is ready to use violence to get their way. That sprouts up in various ways; some connected, some not so disconnected. But the basic message of al-Qaida is essentially that.

Then comes 2009, and they have this election. It is transparently fraudulent, and everybody in Iran knows that. And it's a message that the people of Iran are sending – you haven't governed us well from the standpoint of our interests. We're not using our treasure effectively for our lives. The clerics are arguing with each other, so a messianic ideological movement can't have the clerics arguing. It's a contradiction of terms, practically.

So all of a sudden, the messianic quality has gone out of it. And now it's just another police state. It kind of reminds me as we struggled with the Cold War problems, by the time it got so that they were saying, we pretend to work and they pretend to pay us, you knew it was over ideologically, and now it was just a power struggle. And once it's in that frame, you get somewhere.

So I think this struggle we're in is a great struggle. We see it in Afghanistan. And just out of the sheer – from what I know about Afghanistan – and I said in the beginning – I took out an insurance policy that I don't consider myself expert. But I do think it's clear that it's a very decentralized place, so we need to approach it on that basis. And that isn't to say that it's not a good thing to have a government in Kabul; that's legitimate, and that, you can work with.

MR. KAGAN: Yes, sir, right here? Then I'll come in the far back afterwards.

Q: Mr. Secretary, you emphasized the importance of having a long-term goal of a world free of nuclear weapons. Do you think – we're going to face the next steps in this process in the next year with the Senate ratification of the follow-on to the START-2 treaty and to comprehensive test ban. Do you think it's possible to have the Republican senators look on this as a nonpartisan issue? And what can you do to help see that these treaties are, in fact, ratified?

MR. KAGAN: I forgot to ask people to identify themselves, so just for the sake of consistency –

Q: (Inaudible.)

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MR. SHULTZ: My feeling about it is not to be too patient. They kind of have an impatient sense of going about this carefully, but I hate people saying, this is going to take generations and so on. I think there has to be some urgency in this picture.

There are a number of things, two of which you mentioned, that are on the critical path. The START treaty is one. If that comes here and the Senate declines to ratify it, it's over. The United States is not in the game.

And then you have to say, what are the consequences of a world where we think that nuclear weapons are an essential ingredient to our security? Where does that stop? How do we say, I can have a nuclear weapon and you can't? That two-tier world doesn't sell. No reason why it should. So I think that's the wrong way to go. And we – those of us who have been working on that thing; that's the wrong way to go; that's where we're going.

Sam Nunn has a nice image. He says, think of us on the side of a mountain. At the top of the mountain is a world free of nuclear weapons; we can't see it from where we are but we know it's there. The bottom of the mountain is a world where more and more countries have nuclear weapons; where more and more fissile materials lying around; where it's only a matter of time before some people who don't believe in deterrence – they want to use it – get their hands on fissile material. And if you have that, as I understand it, it's getting the fissile material that's the critical path in making a bomb; not that it's easy, otherwise. So which direction do you want to go?

And I think the START treaty, from what I've heard of people – we had a nice session – Rose Gottemoeller came out to Hoover and gave us a briefing recently. She's a really capable person, I might say. She's taken part in our conferences. So I think there's a reasonable prospect that we'll get something.

Comprehensive test ban treaty is also important. The experience I've had in getting treaties ratified teaches me that you have to go about this with great care. The minute you take a senator for granted, you've lost that senator. Each senator is a big important person; you've got to go one by one; explain; answer every question.

When we finished the INF treaty, we put the entire negotiating record in a secure room in the Senate. We had Mike Glitman, who was the last negotiator, present all the time. And any senator who wanted or any certified staff-person who wanted could come and ask to see the record; everything was open.

And we had an observer group – I wish they had an observer group. At first, I was a little uneasy about it, but then I became of the view that it was a very good thing. We had a Senate group and a House group, for that matter. They would come over to Geneva; they would talk to us; they would talk to the Soviets. They were very good; they didn't undercut us. But by the time we get a result back, they know all about it. It's not news.

We had the same thing in getting the Montreal Protocol. That's the only environmental treaty that worked, and we negotiated that in the Reagan period. And it was easily ratified. And the reason is that we kept people informed as we went along, so it wasn't a surprise. And basically, people had their questions answered.

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So I think you have to go about the START ratification with great care. Don't throw it at the Senate. And the same with the comprehensive test ban treaty. And I think the case is there to be made very strongly. As Sam Nunn puts it – of our little group, we consider Sam our expert on the Senate – but he conceives it very possible for somebody to be right both times. To have been right to vote against it in 1999, I guess it was, and right to vote for it now because of the changes that have been taking place.

In the experience in examining our stockpile of weapons, and having the ability to certify that they're safe and that they're secure and that they're reliable. Science has learned how to do that. And the tools that have now been put at the disposal of the scientists are breathtaking. The computing power is greater than any other place in the world.

And I was telling Jessica about the NIF – Tom wrote a nice article about it. It's just a fantastic thing. It's a two football field-sized thing. It has in it 192 lasers, each one of which is bigger than any other laser in the world. It will be able to produce heat on the order of the sun. In other words, with their computing power in that, they can study and understand what's going on in a nuclear explosion in a way that a test would never enable them to do. They believe – and my physicist friends all say they ain't done it 'till then done it. They believe they will get controlled fusion from the NIF. And then that takes you off into a whole different field, I might say, in the area of energy.

But all of this needs to be brought out. And people need to be exposed. If a senator wants to come out and visit Livermore Nation, be encouraged to do it because it's one thing to have somebody come to your office and brief you; it's another thing to go to the place where the scientists are actually doing the work, and talk to the guys who are doing it. That's digging in.

So I think it's essential to get both of these things done. And I believe to do that, we have to go about it very carefully and thoroughly, and develop the case and make the case, present the case. Because there are people there who have a different point of view, and they're smart and they're well-informed. And they think they're acting in the interests of the security of the United States. And they are – that's their view. And if you go and you try to argue with them, and you don't have your powder dry, you're going to get cleaned because they're smart and they're informed. So you've got to do it well.

Two other things that I think are on our path right now that have to be dealt with, and that's North Korea and Iran. Somebody can say, if you can't prevent a tin-pot country – that's not for quotation – like North Korea from getting a nuclear weapon, come on. So there's that and then there's Iran. And we have to be able to stop this process. I think we got a little bit of encouragement – didn't we, Stape? – from Wen Jiabao – not a lot – about China's attitude towards North Korea. But we'll have to see.

Well, we've lots to be done, and we continue to work at it, and I'm sure Jessica does here; a lot of studies to be made. For instance, we had a very interesting conference based on a book that the guy sitting next to you, Jim Goodby, and Sid Drell wrote on the endgame. And then, what does a post-nuclear weapons world look like? And how can we think of deterrence of a kind of the potential of a nuclear weapon as being a kind of deterrent? And starting to think through our concepts of how a world like that should work. And there are a whole bunch of other things that we're doing.

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And our attitude is, well, it's in the hands of governments now; that's where it has to be. But we can still help by studying developing ideas, identifying people who can work on it, and then we're invited to talk in other countries or go to meetings in other countries, so we go and try to develop ideas elsewhere.

MR. KAGAN: Well, I don't – since you think I sandbagged you already by putting you in front of this big group, I don't want you to feel even more sandbagged by going on –

MR. SHULTZ: Bob, I used to teach at the University of Chicago, and at Chicago, there are no whistles or bells or anything that tells you that the session is over. So you get to be an expert at looking at the people in front of you. (Laughter.) This session is over, so it's over!

But I appreciate the chance to come here and talk to a group like this, and it's especially wonderful to see so many old friends that I haven't seen in a while. We had such great times together, and at least we thought we accomplished something. But, anyway, the people are wonderful, so thank you.

MR. KAGAN: Well, we thank you very much. (Applause.)

(END)