



**CAN THE ECONOMY BE SAVED?**

**How We Got Here and What We Must Do Now**

**FELIX ROHATYN, NOURIEL ROUBINI, JEFFREY SACHS**

**Moderated by CHARLIE ROSE**

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Celeste Bartos Forum

**LIVE from the New York Public Library**

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**PAUL HOLDENGRÄBER:** Good evening. My name is Paul Holdengräber and I'm the director of Public Programs at the New York Public Library, known now as LIVE from the New York Public Library. Our new motto is Expect Wasabi—you'll be glad to hear we no longer say

that we're making the lions roar. Last night I had the pleasure of moderating an amusing conversation with Ann Wroe, the outstanding and soulful obituary editor for the *Economist*, as well as Daniel Okrent, the first Public Editor of the *New York Times* and Marilyn Johnson, author of *Dead Beat*, a book about the pleasures of obituaries. Naturally the evening was entitled "Live from the New York Public Library presents Dead from the New York Public Library."

**(laughter)**

Tonight's upbeat title, as you know, is "Can the Economy Be Saved?" One wonders is this an obituary of sorts, to what exactly? Let's hope for some enlightenment. I for one would like to know why we found ourselves in quite such a big mess. Are we foolish to be hopeful? Should we just say, as Kafka did, "there is hope, but not for us"? I thought you might be interested to know how we came upon making this event tonight. I got a call from Jeffrey Sachs, who was walking to his office. All good thoughts come to Jeffrey Sachs as he's walking to his office. And he said to me, "I remember that you said that Nimble is your middle name. Would you like to do an event about the economy?" I said, "Absolutely, as long as we do it before the election." So we put this together in a matter of a couple of weeks and I'm delighted that tonight we have these extremely distinguished people to enlighten us.

I went back to Brussels to celebrate my father's ninetieth birthday—seventy years of a working life and sixty-five years of marriage—and my father just said to me, "Paul, please listen to Felix Rohatyn, please. It's all about the WPA, the infrastructure. I know you don't want to listen to me"—during that time I said nothing, but my father said, "I know you don't want to listen to me but listen to Felix Rohatyn." So tonight I'm delighted to be able to listen to him.

A few quick words about LIVE from the New York Public Library and the upcoming events. First of all, let me encourage you all to join the New York Public Library. Consider in these times of crisis what it is that you hold dear. Discussions such as the one you're about to witness, your numbers alone tonight demonstrate that you do. Become a Friend of the New York Public Library for as little as forty dollars a year. You will find information on the tables on your way out—please consider joining. Also join our e-mail list to find out what is coming up. Tomorrow, for instance, an evening copresented with *Wired* magazine featuring Grant Achatz, day after tomorrow A Night with Dracula featuring Lesley Klinger and Zoe Caldwell. In November a tribute to Rust Hills and Carol Shields, a postpartum or -mortem assessment of the election a week after on November 10, with Joan Didion, Gary Wills, and others—a tribute really to the forty-five years of continuous excellence you find twice a week—twice a month, in the *New York Review of Books*. Chapeau bas to Robert Silvers. The November 10<sup>th</sup> event is copresented with the Cullman Center for Scholars and Writers here at the New York Public Library and in December, a conversation of Avraham Burg, author of *The Holocaust is Over* and Omer Bartov, author of *Hitler's Army*. Our season ends with Zadie Smith on December 5<sup>th</sup> and on December 9<sup>th</sup> I will hold a conversation with the pianist and conductor Daniel Barenboim. Please sign up for our e-mail list so that you may remain informed.

I am very pleased to acknowledge the presence of over seventy-five students of Nouriel Roubini's class. I know that they have to be here to get credit, but still it is wonderful and I hope that this will start a long romance, a lifelong romance, I hope for them with this extraordinary institution. Now I would like to particularly thank, with my voice that's breaking because we've

had four events this week and I simply can't stop talking, I would like to particularly thank Thomson Reuters for being our sponsor tonight. In these dire times, as we will hear tonight, no doubt, having sponsors who support us couldn't be more significant, one might even say timely. Thomson Reuters is a leading source of intelligent information for businesses and professionals, powered by the world's most trusted news organization. Thomson Reuters understands the importance of conversation and collaboration and insight from experts. All I can say is let this understanding and collaboration between them and LIVE from the New York Public Library deepen, let this, too, be the start of a lifelong, if not just maybe a long romance, I'd be happy. I would like to thank Thomson Reuters' CEO, present tonight, Tom Glocer for his support. **(applause)** As well as Marcy Simon for her stewardship with this project. Please a big round of applause for Thomson Reuters. **(applause)**

Now the rundown of the evening, after the conversation led by Charlie Rose which will last about as long as a generous psychoanalytical session, expect somewhere around seventy-five minutes, so it's, you know, when your shrink doesn't look at the time it goes over a bit then there will be a Q & A period, which I will monitor, for some twenty-five minutes. I will select a few questions and read them out to the speakers and the moderators, so please write legibly and concision is really appreciated. And now, ladies and gentlemen, hoping that the answer may be affirmative, although the solution may require some real change, to discuss whether the economy can be saved, it is my pleasure and honor to welcome to this stage at the New York Public Library in this glorious room, Felix Rohatyn, Nouriel Roubini, Jeffrey Sachs, and Charlie Rose.

**(applause)**

**CHARLIE ROSE:** Jeffrey, this is for you. First of all, welcome, I am pleased to be here. I've been in this room so many times since I've been in New York and to be here in such august company gives me great pleasure and by that I mean *you*, then there is the panel that we have here this evening. The subject is a subject that is on everybody's mind. We clearly are all wondering "What next?", "Where are we going?" "What in the hell is happening?," and "Who has a better idea to give some direction to all of the factors that have come to us?" I'm going to quote here at the beginning before I open this up. This comes from Nouriel Roubini, who has been probably the most-quoted person I've seen on this crisis other than Ben Bernanke and Henry Paulson. He's become a whirlwind of commentary because he was prescient in talking about the crisis we face. But he not alone, I have your quote from Felix in 2002 which I'll read in a moment. On my show, here is what Professor Roubini said: "The crisis was caused by the largest leveraged asset bubble and credit bubble in the history of humanity, where excessive leveraging and bubble were not limited to housing in the U.S. but also to housing in other countries and excessive borrowing by financial institutions and in some segments of the corporate sector and of the public sector in many different economies: the housing bubble, a mortgage bubble, an equity bubble, a bond bubble, a credit bubble, a commodity bubble, a private equity bubble, a hedge-fund bubble are all now bursting at once in the biggest real sector and financial sector deleveraging since the Great Depression." Who better? You said that.

Let me—if you don't know, and Paul and I agree that we shouldn't have to introduce these remarkable people, Felix Rohatyn has been part of the landscape of New York for a long, long time as an investment banker, as this country's—he helped save New York, he and Governor

Carey, at a time before, as our ambassador to France, and now back in the private sector, but no one in the private sector has been more public-spirited than he has. Sitting to his right is the aforementioned Nouriel Roubini, professor at NYU, New York University, who early on was prescient about this and has been on my show a number of times and on other programs and by looking at his byline he's traveling around the world. And then there is Jeffrey Sachs, who is a man of many, many accomplishments, coming up with a brilliant career at Harvard and now at Columbia, and involved with the UN in the Millennium Project, a person who has spoke eloquently about poverty and written eloquently about poverty in the world and what I love about Jeffrey is as much as Nouriel has been wise about problems that lie ahead, Jeffrey has been determined about what can be done and that if in fact we have the resources and the tools and if we have the will, we can find our way to the future in which all of humankind will be better and our environment will be better and we will make some progress in being the people around the world that we would hope to be.

And so having said that about this distinguished panel and about you, I would like to start by asking Felix, who is senior on this panel, in a sense, tell me how you see this. Where are we now?

**FELIX ROHATYN:** I don't know, my fear is [technical difficulties with microphone]

**CHARLIE ROSE:** While they come, we'll start with—I'll come back to Felix while they fix his and can you hear Jeffrey? Jeffrey, speak up.

**JEFFREY SACHS:** Can you hear me?

**CHARLIE ROSE:** All right, so we'll start with Jeffrey and we'll fix Felix. Where are we?

**JEFFREY SACHS:** We're in the middle of a mess. And we're still in the middle of it. We may feel a bit different in a week's time. I'm feeling that there's a way out of this mess, because politics *can* play a major role in this. We are not only in an economic dead zone in the way that's been described already, but we're also in a political interregnum, a failed government not yet gone and a new one not yet arrived and that makes everything feel far more uncertain than we may feel in just a short period of time. Of course, I'll tip my hand. If one candidate wins, I think we'll feel better. **(laughter)** If another candidate wins, I think we're in the biggest confusion imaginable, actually. I'll let you guess, or I'll tell you if you ask, but we're a little bit—

**CHARLIE ROSE:** Here's what I'll ask. Tell me if the candidate that you would like to see win, wins, what would he and his team do?

**JEFFREY SACHS:** Well, remember in the middle of a panic a sense of direction and purpose by itself gets a lot of headroom and the most important economic statement of the twentieth century was “we have nothing to fear but fear itself.” A *sentence* played a large role in actually saving the United States. Why? That's so odd. It didn't change a single resource, didn't cost a penny to say and yet it changed the mood of a country in a feeling of freefall and panic. Right now we have no one that can say that. We have uncertainty, we have no leadership, we have a president despised and maligned leaving office with the worst approval ratings in history,

perhaps he would rival Hoover in the Great Depression itself and we may just feel better because of leadership. Now, of course, the other point to make is that when Roosevelt said “we have nothing to fear but fear itself” it enabled us to get the banks open, but we were still in the middle of the Depression, and we will be in a deep recession, not a depression, but we’ll be in a recession in 2009, and it will hurt, and unemployment will be rising, and the job market will be miserable and consumers will be worried, but we may feel that there’s a direction out of what is now a mess that seems simply to reverberate without any clarity at all.

**CHARLIE ROSE:** Using that mic, go to the question of where you see us, the context you see us in today and pick up on what you said about you don’t know.

**FELIX ROHATYN:** I don’t know because so much of this doesn’t make sense.

**CHARLIE ROSE:** Can you hear him now?

**FELIX ROHATYN:** And one day the stock market goes down a thousand points and then two days later it goes up a thousand points, without any visible reason for one or the other being dominant at that particular time. And mostly what troubles me is that I was involved in the crisis of New York City, I was involved in the crisis on the New York Stock Exchange ten years earlier, and there was always a time when you felt, you know, “if we do so and so, and if we require such and such sacrifices, such and such action, then over time it may work.” And then at the same time you knew that in order to start that momentum there were groups of people who had influence, whether they were mayors, whether they were governors, whether they were



chairmen of the Fed, and that if they just stepped forward and told us what their policy is, which is what we did with New York City, because I think the most important thing in a crisis is to have people feel that somewhere somebody knows what he's doing and that it's logical, even if it's painful, I think people prefer being told than having this come upon them. But there isn't such a—I mean until the next president hopefully gets elected, there isn't anybody of political stature to tell us where we're going and why and what the result will be and is it going to be fair, is it going to work?

**CHARLIE ROSE:** Okay, but let me ask you this. Would you know—suppose a president came to you, a president in waiting, the election is now a week away, a week away and said to you, “Felix, give me a plan to get out of this.” Would you know what to say, would you have a sense of a scenario for us?

**FELIX ROHATYN:** Probably not, probably not, other than going to the Chinese and saying, “lend us five trillion dollars,” **(laughter)** you know.

**CHARLIE ROSE:** And they say, “pay us back the first part you borrowed first.”

**FELIX ROHATYN:** But you know we've got—we're in this position partly because of a previous set of ideologies that unhappily destroyed us. I mean, we have a fiscal and economic condition that is if you were talking about medicine it would be very, very high fever, and it is because of these ideological convictions which don't give in to reason and ultimately you do have to have reason to have the balance of sacrifice and growth and how you do it and who pays

for it and at this point I couldn't tell you, you know, if should you raise taxes, should you lower taxes, which taxes, sure, we've got to have our own energy sources, but how are we going to do that? First of all, we don't know how to do that other than begging the Saudis to sell a little more oil. What are we going to do about General Motors? Do we want to save the automotive business? Do we want to be leaders in manufacturing? What about our schools, what do we teach our children here, and in the last analysis, who are our friends? And by that I mean who are our allies, who really having after what we've done to most of them over the last fifteen, twenty years, it's amazing they still talk to us. **(laughter)** So, you know, it takes time, it takes people, it takes people who understand each other.

**CHARLIE ROSE:** The past fifteen, twenty years, would go back over two administrations.

**FELIX ROHATYN:** Yes, but, you know, when New York City was in a terrible time, we had Republicans and Democrats working together. I never knew who was a Republican or a Democrat on the Board and Hugh Carey couldn't care less.

**CHARLIE ROSE:** We'll get to some ideas about global cooperation but let me going to Nouriel. I don't know if there is anyone more celebrated, except some people who've made a ton of money, about what was going to happen, but what was it, tell me how beyond what I just said that caused us to be where we are, and what you saw that was so glaring to you and not apparent to others.

**NOURIEL ROUBINI:** Well, I think the reasons for this financial mess and economic disaster are many. You know, it started with the bursting of the tech bubble, when the Fed, during the last recession, aggressively cut the Fed funds rate down from 6 ½ down to 1 percent and I think there is now a consensus that the Fed kept the fed funds rates too low for too long all the way through 2004 and that started to create the housing bubble.

The second thing that happened was that there was an ideology in Washington that essentially, regulators were asleep at the wheel. You know, the ideology in Washington for the last few years has been one of self-regulation of financial market, it means no regulation, of relying on market discipline, but when there is euphoria, mania, and irrational exuberance, there is really no market discipline, overreliance on these internal risk management models, but as the previous CEO of Citigroup, Chuck Prince, said, “When the music is playing you’ve got to dance,” and nobody is listening to the internal risk managers and everybody is taking too much risk and then reliance on rating agencies that had major conflicts of interests because they were being paid by those people they were supposed to be rating.

So there was a major lapse of supervision and regulation, you know, this underwriting of toxic mortgages, you know, zero down payment, no verification of the income, assets, and jobs, these liar loans, interest-rate-only mortgages, negative amortization mortgages, teaser rates, all this kind of toxic underwriting was occurring for subprime, for near prime, for Alt-A, for prime, for jumbo, for piggyback loans, for home equity loans, this was what was going on. So you had the Fed easing too much, regulators being asleep at the wheel, greed and arrogance and excessive risk taking on Wall Street because of these distorted incentives coming from securitization, no

incentive to monitor the quality of the underwriting, because you were repackaging this stuff, making a fee, and then transferring the risk to somebody else and then the rating agency also had these conflicts of interest.

So there are many culprits, and we created this huge asset and credit bubble, it was mortgages, it was commercial real estate, it was credit cards, auto loans, student loans, leveraged loans that financed IPOs that should have never occurred, corporate loans, excessive amounts of issuance of junk bonds. So people talk about the subprime mortgage problem, the reality that we are in a subprime financial system where a huge amount of excesses occurred because of the many policy and other mistakes of other people and we created this huge asset and credit bubble that now has gone bust. I think that's part of it, you know.

We are all in favor of some degree, for example, of financial innovation, that may be good. But when it becomes excessive, when you take a mortgage and then you convert it to a mortgage-backed security, MBS, and then you convert that MBS into a CDO and that CDO becomes a CDO, a CDO, and then a CDO, a CDO, a CDO cubed, the greater financial system is not transparent, where you have new instruments, they are new, exotic, complex, illiquid, marked-to-model and rated or better misrated by ratings agencies, and there is no way to price this thing. So you have created the equivalent of you know a financial monster, this is freak finance, or Frankenfinance, this is not what finance is supposed to be, **(laughter)** so you really created a disorderly financial system that today has become dysfunctional—I think that is part of the problem.

**CHARLIE ROSE:** You've also suggested that policymakers are not in control.

**NOURIEL ROUBINI:** They're not in control in the sense that right now in the last few weeks there have been more and more aggressive policy actions, in my view, in the right direction like backstopping the financial system, guarantees, recapitalizing the banks, but there is a growing disconnect between what the policymakers are doing and the market response. And I'll give you an example, you know, when the bailout of the creditors of Bear Stearns occurred in March there was a rally in the market. Equity market, credit spreads narrowed, money market spreads narrowed, it lasted for about eight weeks, April and May, and then when Hank Paulson went to Congress in July and asked for authorization to bail out Fannie and Freddie, again there was a rally in the market it lasted four weeks and then when Paulson had to use the bazooka and bail out actually Fannie and Freddy and nationalize them there was a rally and it lasted for one day and then the next day there was a panic about Lehman and then when the next week you had the bailout eighty-five million dollars for AIG, there was not even a single-day rally, the market fell for five percent.

When the TARP legislation was passed, you didn't even have a rally, on that Thursday and Friday after the senate and the house passed the bill, the markets actually fell on that Thursday and Friday. The same thing after the G7 meetings, at the G7 meetings, major policy action, you have a rally for a day, and then markets for the last two weeks have been falling day after day after day. Now, today they went up by 10 percent, but, again, what were the good news today? The good news today was that consumer confidence is down to the level 38 that we have not seen since the Great Depression, and that home prices are still falling after having fallen 25

percent from the peak, they are still falling at the annualized rate of 16 percent, and the market was up by 10 percent. This is a dysfunctional market. It can go a thousand points a day, it can fall two thousand points the next day, so there is really a disconnect between the fact that the policymakers are starting to do some of the right things, but there is a lack of credibility, maybe it is because there has to be a change in administration. The markets have lost essentially belief in the ability of these policymakers to do the right thing, but there is a real great disconnect right now.

**CHARLIE ROSE:** What would create, Felix, confidence today so that we would see some loosening of liquidity and would see the beginning of a capacity to believe in the future, other than confidence, which Jeffrey said?

**FELIX ROHATYN:** You just heard about what kind of financial instruments are being created here. We've created a system that, except for a couple of atomic scientists, nobody can understand. I have yet to see a derivative that I understand. Warren Buffet has said that they were financial time bombs. And it's true. When we grew up in a different time and it was relatively simple to study a company or to study a policy and have it both fair and understandable. I've given up because I can't understand. So I try to understand what some political leader is saying, or financial leader, and see if that makes sense in terms of where this country might go if it does things right or where it's going to go if it doesn't.

**CHARLIE ROSE:** This was all made possible because money was so easy, interest rates were going down, and there was no regulation to prevent after Glass-Steagall was changed in 1999.

**FELIX ROHATYN:** When money is cheap what do you do, you borrow it and you spend it and you spend it half the time by doing something very stupid. And if it means buying a condominium that you can't afford or going on a trip or whatever, the creation of cheap money is a terrible thing, and we've spread this and what we've been doing is contagious, it's all over the world now. So that whatever we do for ourselves is going to have to have to fit into some overall cooperation, which started with the British, but again it's too bad that we had to give the leadership of this exercise—

**CHARLIE ROSE:** The recapitalization began by Gordon Brown. How much do you blame Alan Greenspan?

**FELIX ROHATYN:** Alan Greenspan is a friend of mine. I refuse to answer that question.

**(laughter)**

**CHARLIE ROSE:** That is one of the best answers I've ever heard. Jeffrey, Alan Greenspan?

**JEFFREY SACHS:** He also used to be a friend. **(laughter)** But he blew it big time, no question about it, and I think that it's important to appreciate that while all of this financial complexity adds to the opaqueness of the markets, there are some basic things that were evident and were wrong and this bubble that's burst is the third of three bubbles that have burst in a decade, and the Fed reacted the same way before and after each time, so we had the Asian crisis, we had the

dot-com bubble, and we had the housing crisis and each time we learned that the Fed would expand money aggressively to try to prevent a downturn and it was even called the “Greenspan put,” that there be the option to sell because if the market seemed to turn down, Greenspan would pump up the money supply, put down the interest rates, and try to keep things going.

So the Fed failed in its most fundamental role, which is to keep a moderate course of monetary policy. The most famous line in modern monetary theory is that the job of the Fed chairman is to take away the punchbowl when the party gets going, precisely to be able to stop the exuberance. That was not done. More than that, of course, were Alan’s repeated insistences that this was a new economy filled with miracles and that he didn’t really, other than the one famous expression about irrational exuberance, most of the time he was saying, “Don’t worry about this, don’t worry about this,” to the point of saying “You can’t even have a housing bubble, really, it’s not the kind of asset that can support a bubble.”

So that I think while Nouriel gets all the kudos for having focused attention on this and to a lot of consternation and a lot of skeptics, Greenspan could and should have known that he was—and the Fed was *not* doing its core job and the problem is—if I could just without filibustering. We have an economy that has cycles, but they tried to write the business cycle out of the economy completely and it created, in my view, what is called in the economics tradition “instrument instability,” which means you have to take ever more dramatic actions to try to target something you don’t really have control over. You want to stop all business cycles, you’ve got to put those interest rates all the way down to 1 percent, you have got to turn aside when crazy amounts of lending are going on, whereas if we had had a mild downturn at any point after ’97 instead of the



dot-com bubble, or a little bit longer in the early years of this decade, or credit had been tightened in 2003, 2004, I think he played politics, frankly. Also unrealistic about what the Fed could do, but then politics for his own—

**CHARLIE ROSE:** Or having a firm belief that markets would take care of themselves.

**JEFFREY SACHS:** I think that's right, of course, he said he has now discovered the flaw, or a flaw, he says.

**CHARLIE ROSE:** But he hadn't discovered it, apparently, at the time that he was chairman of the Fed.

**JEFFREY SACHS:** Right, and so I think the point is it's not only the exotic nature of this crisis, it's the fact that we saw as a country, we were borrowing 5 percent of our national income every year from China, mainly, and from others, and while many of us thought the crisis would end in a different way as a balance-of-payments crisis, not as a financial meltdown, so that eventually the foreign lenders would get tired of lending to us and that's how I thought this would tighten up, not the way it did. You could still see this is a little bit reckless, fighting wars, cutting taxes, pumping up the money supply, what good end can come to that? The way it came was much worse, more dramatic, and more panic-filled and with such an incompetent and weakened leadership that it's all exacerbated the sense of indirection as well.

**CHARLIE ROSE:** How bad is it going to get?

**NOURIEL ROUBINI:** In my view, pretty bad.

**JEFFREY SACHS:** Just to cheer us all up.

**CHARLIE ROSE:** Cheer us all up.

**NOURIEL ROUBINI:** In the following sense, the last two years' recession were relatively short and shallow, 1991 and 2001, they lasted only about eight months, but take even the 2001 recession, it was over by November of 2001 but job losses continued all the way through August of 2003 for a cumulative fall in employment of five million jobs, so it felt like a recession even after it was technically over. This time around and I'm not going to go through the detail of it, I think that the macroeconomic and financial fundamentals are much worse than they were in 1991 and 2001. For example, in the 1991 recession, home prices fell only five percent, cumulatively today they've already fallen 25 percent from the peak. They're going to fall another 15 percent, for a cumulative fall of 40 percent. This is the worst housing recession since the Great Depression.

Second difference, in 2001 this was just a corporate-sector recession, capital spending after the tech bubble went bust, but capital spending by the corporate sector was only 10 percent of GDP. Today it's the housing sector is in trouble, the U.S. consumer is shopped out, saving less, debt burdened. Private real consumption is 72 percent of GDP. Therefore, a very sharp fall in consumption like the one we're observing today is going to have a more serious effect on

markets. How serious is the recession going to be? In my view it's going to last at least eighteen months, maybe twenty-four months, it's going to be two to three times longer and more protracted than the previous two.

And the worst part of it right now is that it's not just anymore the United States. Six months ago it looked like just the U.S. was entering a recession, but data from the second quarter of this year suggests that the Eurozone is entering in a recession, UK is entering a recession, other European countries are entering a recession, New Zealand and Australia are entering a recession, Japan is going back into a recession, Canada's going into a recession. About 60 percent of global GDP, the one accounted by the advanced economy, was already contracting in the second quarter of this year, when this severe financial shock we are observing right now in September and October had not yet occurred and these severe financial strains imply that the liquidity and the credit crunch is now becoming even more severe for the U.S., for Europe, and the advanced economies, and unfortunately what's happening right now in the emerging market. Is the rest of the world emerging market economies are tightly linked to the rest of the world. Trade links, financial links, commodity links, currency links, confidence links, so instead of this need of a decoupling of emerging market, there's been a recoupling, financial sector recoupling, stock prices in emerging markets have fallen as much if not more than the advanced economies and now these trade and financial channel imply that many of these emerging market economies are on the verge of a financial crisis, a financial crisis by the way which has not been caused by their own mistake but because of a significant policy mistakes and financial shocks at the center of the global financial system—United States, Europe, UK, so they are now paying the price for the policy mistakes made by the United States and Europe and UK and therefore there is a

meaningful probability of a significant hard landing in these emerging markets and while when [there is] in the United States a recession—

**CHARLIE ROSE:** Can you talk about India, China, Brazil, Russia—

**NOURIEL ROUBINI:** India, China, Brazil, Russia, emerging markets, not just those, those in Asia, in Latin America, in Africa, in emerging Europe. And the trouble is when there is a severe recession in the United States, it's painful in U.S., people lose jobs, but you have unemployment benefit, you have a welfare net, but if there is a severe recession in Africa, that's a difference between being able to live and starve, so the economic and social consequences of a severe recession at the global level would be a really massive and disruptive for the parts of the world that are poor and I think that some of the suggestions that Jeff has done this morning are very important, apparently about trying to help emerging market economies to avoid a severe financial crisis, economic crisis, are very important because now at this point it's not just an advance economies recession, and become a global recession and be extremely painful.

**CHARLIE ROSE:** Was there anything that could have been done in terms of after Bear Stearns that you now look back at 20-20 hindsight and say should—should for example, Lehman Brothers, where you were an advisor, should they not have allowed Lehman Brothers to fail?

**FELIX ROHATYN:** Here we are. I told Charlie I don't think it's appropriate for me to talk about Lehman Brothers, which furthermore, I was advising them on foreign things, which were

not necessarily the problem. But I think overall you had a totally undercapitalized banking sector.

**CHARLIE ROSE:** Leverage was out of control.

**FELIX ROHATYN:** Leverage was out of control, the accounting systems were not truthful, as was said the auditors were doing God knows what.

**CHARLIE ROSE:** Credit rating.

**FELIX ROHATYN:** The rating agencies are probably one of the worst in this whole thing. So it was way too late because for year after year this was going on because you could make a lot of money, because you could make it easily, because everybody would buy anything, so this was a culture that had already grown into the system. Now, for fifteen or twenty years, I've been pushing the notion that we ought to rebuild this country because it's fallen into pieces. I think we should started ten, fifteen years ago, I still think we should start now. I think that if ever there was a time to start a major, massive investment program, public investment program, public-private, public-public, and to put a couple of million people to work over the next couple of years. Sure, we'll have to borrow to do it, but I'd rather borrow to build something than borrow money to buy junk bonds.

**CHARLIE ROSE:** Let me just stop you there because I think there's something—

**(applause)**

**CHARLIE ROSE:** —in terms of a stimulus program between now and the end of the Bush term?

**FELIX ROHATYN:** Sure, why not, do you agree with that and you even have a dollar figure on that—don't you, something like 400 billion dollars.

**NOURIEL ROUBINI:** Yeah, absolutely, I think that right now that we're in a situation in which private demand, consumption demand is in free fall, capital spending by the corporate sector is also sharply falling, because any corporation that had cap-expanding plans for next season are going to stay on hold—there is no credit, it's too expensive, people are worried, and therefore you have a risk of having a recession that's going to become even more severe than otherwise because you can have these self-fulfilling animus spirits that lead consumers to cut back on consumption, firms to cut back on capital spending, if that happens then you'll have a really severe recession, even more severe than I expect. So if private demand is right now falling, the only agent in the economy that can increase government spending is the public sector, and as was suggested by Felix, we have just an economy where infrastructures are crumbling—I mean, roads, bridges, other infrastructure, public schools, broadband, there is so much important investment in alternative energy we can do, so we can take this one as an opportunity, too, a significant increase in government spending in productive infrastructure is going to be beneficial in terms of building the kind of infrastructure that's going to make workers more productive over

the medium term and at the same time is going to boost demand, in the situation which private demand is right now collapsing.

Traditionally, we think of central banks, for example, as being the lenders of last resort, but today since nobody's lending among the banks, nobody's lending in the corporate sector, central banks, the Fed have become the lender of first and only resort. Traditionally we think of demand coming from the private sector, but right now there is such a panic among consumers and firms that no one is spending, it becomes a vicious, self-fulfilling kind of recession, therefore, you need treasuries and finance ministries and governments to start spending as a way to boost aggregate demand. If we try to essentially bail out Wall Street and we don't do anything for Main Street, six months from now anything we can do to essentially repair the financial system is going to be undone by a collapse of demand and production and employment and income is going to make those credit losses from the financial system even bigger. So on one side we have to fix the problems on Wall Street, on the other side we have to do something also for Main Street. If we do the two things together, it's going to be still a severe recession, but we're going to get out of it faster and better than otherwise.

**CHARLIE ROSE:** You also believe that they need to almost double the recapitalization of the banks.

**NOURIEL ROUBINI:** Yes, you know, if you do the math—

**CHARLIE ROSE:** Seven hundred billion now.

**NOURIEL ROUBINI:** Right now the Tarp legislation allows you to use seven hundred billion dollars either to buy toxic assets or to recapitalize the banks. I think that buying toxic assets was a bit of a silly idea—if the banks don't have capital, they're not going to be able to lend. And you're going to end up like Japan where you had a bunch of zombie banks they were kept alive and they could not provide credit and therefore the corporate could not spend and the consumers could not spend, therefore it's crucial to recapitalize the banks with a partial effect of nationalization on a temporary basis of a financial system; they're talking about 250 billion dollar I think that given the size of the credit losses in the financial system, we're speaking about a minimum of a trillion dollar, most likely something closer to two trillion dollar, we're going to need more like six, seven hundred billion dollar of public money to recapitalize the banks. So most of this TARP money will have to be used actually to recapitalize the banking system. It's going to imply that unfortunately part of the financial system is going to be nationalized, let's be frank about it. That's happened in U.S., it's happened in UK, it's happened in Germany, it's happened around the world.

**CHARLIE ROSE:** Is this a permanent thing or just as a temporary thing?

**NOURIEL ROUBINI:** No, you know, the Swedish model is an appropriate one. They took aggressive action early on in their own banking crisis. Most of the banks were nationalized on a temporary basis, and once the problems were resolved, they were sold back to the private sector. We certainly don't want to have a financial system that's controlled over the long run by the government, but on a short-term basis, unfortunately, we're going to get to that point. And



paradoxically, the thing that's most interesting about what has happened in the last few years, has been that this administration was so much free-market, laissez-faire, market fundamentalists, they did not even believe in prudential regulation and supervision of the financial sector as necessarily that they caused the biggest financial crisis since the Great Depression, now they've gone to the other extreme, where we look almost like the Soviet Union.

There's been more intervention in the economy in terms of government intervention, bailouts, taking over stuff, restrictive regulation than we've seen in the last seventy years. It suggests that, you know, being so extremely ideological on one side causes such a big wreck that now you're going to the other extreme. If the policies had been more pragmatic, more sensible in terms of regulating and supervising prudently a financial system we would not have this big mess right now and we would not have these huge amount of now necessary but unfortunate government intervention in economic affairs.

**FELIX ROHATYN:** Which is also why being a Roosevelt Democrat is something that's coming back into fashion.

**CHARLIE ROSE:** So the Democratic Party will look like the party of Roosevelt.

**FELIX ROHATYN:** I hope so.

**CHARLIE ROSE:** All right. There is clear— **(applause)** There is clear global dimension to this in terms of it's a global recession, Jeffrey. How will we have global cooperation and from that kind of cooperation does the world pull itself out of this recession?

**JEFFREY SACHS:** I think, Charlie, it's important to go back one month, a question you were asking just a minute ago about Lehman Brothers and the follow-up, because I think it's important to understand that there really is a new phase to this crisis that is different from the building of a bubble and the bursting of a bubble and that is the outright panic that has enveloped the markets since Lehman Brothers went into bankruptcy, and that is what all of the drama of the last month has been about and the point is that when Lehman filed for Chapter 11 on September 15 and several hundred billion dollars of debts went into—of Lehman's own debts—went into default and that spilled over into the money markets and the famous case of the money market fund that broke the buck and the supposedly one-dollar safe par value of the money market was devalued and the money markets from that moment stopped financing commercial paper, stopped financing banks, banks stopped lending to each other.

We've been in a different circumstance from a bubble rising and a bubble bursting and demand falling. We've been in an outright financial panic, which is a different phenomenon. It's closely related—it would not have happened but for the overleveraging and the bubble and so forth. But we're in a financial panic right now—a financial panic means the self-fulfilling drama of every normal lender feeling that they can't afford to make a loan even to a safe business for fear that no other lenders are going to be making those loans and indeed going to be withdrawing those credits. And it becomes rational to panic when everybody else is panicking. That's the basic idea.

You don't lend to a bank that everybody else is withdrawing the funds from. You don't lend even to a blue-chip company from which everybody else is withdrawing the short-term credits. And that's what ensued starting on September 15.

Now, without revisiting that decision about whether there was a better way to let Lehman go down, my guess is that there was a better way. Paulson says no, that they didn't have the power to do it the other way. Let's put that aside. We're in a panic right now. What's happened in this very, very dark self-fulfilling moment is that the Fed and the European Central Bank and the Bank of Japan have thrown a cordon around our banking sectors in the last month because this self-fulfilling ripping apart of the banking system was taking place at a dramatic rate not seen since the Great Depression although seen in many, many other countries over time—this is what happened in Asia in 1997, for example.

Now, the irony is that when pessimism is really determined to be pessimistic, when that cordon has been thrown around the banks, the attitude has not been—this is what Nouriel was saying—“Ah, thank God, they're stepping up to this.” The market has said, “Okay, what is not protected now that we can wreck?” In other words, “If all of the G7 banks are protected, we better take money out of the non-G7 banks because they're not yet protected,” and we've seen this remarkable ricochet in the last month that every day or two there's been a new discovery of something that can be brought down in a self-fulfilling panic, whether it's the emerging markets as being the number-one target in different parts of the world by the realization that actually the protection of the banks has made all of the nonfinancial sector and the non-G7 world look relatively more dangerous, thereby shifting funds out of places where creditors were perfectly

happy to be rolling over credit up till a month ago, two months ago, where the word was “Brazil’s been very well managed, thank you, during the Lula presidency,” where these have been up-and-coming emerging markets, not objects of terror and panic.

And so this means that we face a—and the point about the meltdown, just to finish the thought—is that the difference of a downturn of spending and a meltdown of liquidity—of an end of liquidity, I should say, is the difference of the U.S. economy falling 2 or 3 percent next year, which is a drama, from falling 10 or 15 percent, which is a depression, and the fight is to stop the much bigger fall. When Indonesia collapsed by 15 percent of GNP in 1998 it wasn’t because demand declined; it was because there was no liquidity. The banking sector had closed up lock, stock, and barrel, and the reason was, by the way, that the advice that Washington gave them was to do everything the opposite of what Washington’s doing right now—that’s just a little footnote. They got everything a 100 percent wrong because everything they prescribed fed the panic rather than stop the panic—it fed the illiquidity rather than stopped it.

Now, for us it matters, the rest of the world, believe it or not—a basic little point forgotten in the last decade—matters in a lot of ways—but one way it matters is that if the rest of the world tumbles into an utter catastrophe, just in a most narrow sense not only will it make the world vastly more dangerous in a thousand ways, we also won’t be able to sell our exports and that was one of the ways we would compensate for the decline of our domestic consumption and that’s what happened in the second quarter, for example. But if China’s going into collapse, if other countries are going into collapse, then you get not a compensation, you get what economists call a multiplier, it just keeps churning, where our decline leads to greater decline there, which leads

to greater decline here. It's not necessarily never-ending, but it amplifies tremendously our own shortfall.

So what one would say in such a circumstance is first we need to stop the panic in the places where the panic has not yet even stopped. There are ways to do that. Basically, the Fed and the European Central Bank and the Bank of Japan should make clear to the central bank of Brazil, to the central bank in Korea, to other places—"you've got a backstop; if you need to borrow dollars, you need to borrow yen, you need to borrow Euros, you've got it." The IMF, notionally, in the textbooks, plays that role, but it doesn't have the liquidity, it doesn't have the speed, it doesn't have the agility to do it, but our central banks do, so that would be number one, probably number one, two, and three actually.

**CHARLIE ROSE:** Is this going to take place at some world summit of central banks and heads of state . . .

**JEFFREY SACHS:** Well, this should take place in conversations between central bank leaders on a minute-to-minute, day-to-day basis. You don't need a summit for that, you need smart policymaking right now, where Bernanke talks to his counterparts, as he did with the European central bank, but does it now with these emerging markets, which have been left out in the cold, inadvertently by the protection thrown around our own banking sectors. So that would be a place to start. A more interesting, longer-term measure that's vital is for Asia, flush with trillions of dollars of reserves, presumably good for something, to have their own stimulus now, to say, "Okay, you guys go into recession. You had a bubble, you blew it, you're getting a recession, but

we are not going to tumble just because our export earnings are going to go down with the United States.” China has even more infrastructure to build than the United States. It’s a growing, vast economy.

**CHARLIE ROSE:** So they will be create demand in their own domestic demand.

**JEFFREY SACHS:** Exactly right and if China, Japan, Korea, got together to do that, that’s a lot of purchasing power, a lot of dollar reserves that they’ve accumulated, that would enable them safely to do that, that would make us feel a lot better.

**CHARLIE ROSE:** But why don’t they do that on their own, anyway?

**JEFFREY SACHS:** They should, and you know what’s interesting by the way? Remember, three months ago our crisis was oil prices, right? You know, we got a crisis a day. It was oil at a hundred forty dollars. China was fighting inflation up to three months ago, overheating, so it takes a lot of agility to change course in a huge economy when the last year was spent trying to stop overheating. Now you have a collapse of your exports, you don’t know how to gauge it exactly, and you have to change direction in a vast country of 1.3 billion. They will do it because they’re pretty fleet-footed about this, but they haven’t done it yet.

**CHARLIE ROSE:** Let me come to that. There is this sense, and you have said on my program and elsewhere—we may be watching the decline—this may be marking the decline of the American empire—you said that.

**JEFFREY SACHS:** Yeah.

**CHARLIE ROSE:** Secondly, there is this idea that whatever comes out of this, America will be a different place. How do you see that, and what does that mean for all of us?

**NOURIEL ROUBINI:** Well, on the issue of the decline of the American empire, the beginning of the decline. I think that the world is changing and it would have changed even if we had not made the major policy mistakes, fiscal, external imbalances, this bubble that we did because we are in a global economy where a number of countries are large and are growing faster than the U.S., the Brits, Brazil, Russia, India, China, and the emergence of the European Union and therefore that particular unipolar moment of the U.S. when after the collapse of the Soviet Union there was only one superpower in the world, or actually one hyperpower, will have changed and I think it's actually good and healthy that there will be rising economic, financial, trading, and even political powers. And we'll have to deal with the fact that Russia's going to be a big player, that China's going to be a big player, then India, then Brazil, then Europe.

**CHARLIE ROSE:** You think that even with the price of oil going way down Russia will still be a big player.

**NOURIEL ROUBINI:** Right now, oil prices are falling, but once we get out of this recession, actually I think that oil prices are going to rise even more because demand is going to be rising and supply is being constrained by the fact that a lot of new investment has to be made over the

next few years in order to have more supplies. So, you know, there are cycles in all crises, but I think that there is a change in the global economy with rising economic and financial powers and with rising economic and financial power, there is also rising geopolitical power, you know, the G7 have been for a long time already obsolete because to deal with the major global economic problems like global imbalances, energy security, global climate change, there is no way you can resolve this problem by having only U.S., Europe, and Japan at the table. You need China, you need Russia, you need India, you need Brazil, you need African countries, you need all the major players at the table so the entire system of global economic and political governance has to change over time.

Now this would have changed, but I think that the major policy mistakes were made by the United States, huge fiscal deficits, large current-account deficits, this financial disaster that now has led to a severe financial bank and economic crisis means that a relative fall in the economic, financial, and geopolitical power of the U.S. has accelerated, and even the reserve role of the dollar over time is going to shrink. You know, take an example: you know, major empires tend to be counted on to be net creditors and net lenders, they're on current account surpluses while the United States has become now the biggest net borrower and the biggest net debtor in the world. The decline of the British Empire started in World War II when Britain was running large fiscal and current account deficits and was subject to the kindness of strangers.

We had that twin deficits in the eighties, but our creditors at that time were our friends and allies—Europe, Germany, Japan—but today we have twin deficits and the ones that are lending us money are not our friends and allies, but our strategic rivals like China, Russia, or a bunch of



unstable petrostates in the Middle East. So we're subject now to this balance of financial terror. Now we're going to have next year a budget deficit of a trillion dollars, the next year another trillion dollars, we're going back, China, Russia, and Gulf States and other creditors of the United States are lending us this money. So this financial imbalance has also political and geopolitical implications. So it's really a radical change in global economic power and governance is occurring right now.

**CHARLIE ROSE:** So how do we create this international cooperation, I mean other than the discussion between central banks that ought to take place and reassuring them that we'll be there for them?

**FELIX ROHATYN:** Well, first of all I think we have to show the rest of the world that we're not dying, that we're not collapsing, that we're going to be around and we're going to be very strong because we're going to do the things that have to be done and then—hopefully, again, with a new administration—we're going to have policies of cooperation with these countries, respectful cooperation but cooperation, and try to have the the world grow, rather than just our competing with each other to beggar thy neighbor, if you will. I think that what was said here, there is a decline in the power of this country, unfortunately. There is also a decline in the respect that other people have for this country. And if that continues, we're going to stop having respect of ourselves, which will be the final blow. So we have to be what we used to be, which is a country that's free and that's growing and that's responsible and that is a help to the rest of the world and not a burden, which is what we've become.

**CHARLIE ROSE:** A question about laws about this. This is what Felix said to me in 2002 about regulation, if I can find it. He said, “You know, credit comes from the Latin to believe, credit is not a science and credit is at the basis of the securities market. You have to believe that they’re fair, you have to believe that they’re transparent, and you have to believe that the system is fair. Now that cannot happen by itself—that requires a rather sophisticated regulatory system in what I might call a very developed sense a Protestant ethics, I mean, I think moralizing, but I think that really the way it is and I think we do have the best system in the world and it’s a huge national asset to us, to finance our growth, to finance our wealth, etcetera, but we’re not taking care of it, and by deregulation, you know, we make this mantra of deregulation. Deregulation is not an answer, deregulation can only happen within a framework where there is a regulatory system. Then maybe you can let the market be the dominant factor, but you can’t totally deregulate any more than you can deregulate.” So what happens to this system? Do we find a new sort of—where is the balance in terms of the regulation that comes out of this crisis?

**FELIX ROHATYN:** Well, I think that this crisis is so much a result of the lack of regulation or the lack of a regulatory system that actually *believes* in regulation that we’re going to have to start from scratch on this issue. I mean, I would hope that the next administration, one of the earliest things they’ll do is take a look at our regulatory system, because without it it can’t be done. And I still think that we have the means to do things, not overnight, that it will take time. And we should invest in our country, we should invest in our physical and our intellectual infrastructure, and if that means running big deficits for a few years, well, so be it, we’ll do that.

**CHARLIE ROSE:** How is the economic system—if we have to fix the economic system, Jeffrey, and all in terms of the way the world works, what kind of financial system are we going to create?

**JEFFREY SACHS:** I think again with a little perspective. It's helpful to think about our situation as being the end game of nearly a thirty-year period. I view it as the end of the Reagan era that we're living through right now. Since the early 1980s, we've had a philosophy of government that pretty much went right through all the administrations—including the Clinton administration—which was small government, don't do too much, don't take on big goals, deregulate, leave things to the market. Didn't really change very much from administration to administration and the philosophy has had all sorts of wearing problems for us. We went from bubble to bubble to bigger bubble to bigger bubble until finally the biggest of all bubbles bursts.

But we had general view, leave things alone, we don't have to pay taxes, we don't have to look after our infrastructure, we don't have to look after our poor, we don't have to look after our health system, so it's not completely a coincidence that we face big problems in so many areas, not only the financial markets. This isn't a fine-tuned financial problem alone. It showed up as an explosion in finance for the reasons we've been discussing, but a new philosophy is going to, in my view, require a pretty dramatic change of how we view what we're doing in this country.

And for example, you know, we've had a interesting debate in the last few weeks. Is it patriotic to pay taxes? Yeah. I think so. **(applause)** and yet we have become as a country, you know this remains the number-one issue of the last week of this campaign and the country's completely

polarized, because, you know, for thirty years we've been going on a myth that's just as big as the subprime myth—"You don't have to pay for anything," you know. "We can run wars, we can do this, we can have our housing bubble. We don't have to pay for anything." It's the same philosophy, that where is the shared responsibility, and so I think that we are—I hope we'll wake up to a whole different sense of what this country is really about as a society, because I think it's actually nothing less than that—that's not a technical.

**CHARLIE ROSE:** It's going to be a redefinition of what?

**FELIX ROHATYN:** I think it's a redefinition of the fact that we're not just grabbing whatever we can, wherever we can, by ourselves and everyone else be damned, whether it's the rest of the world, whether it's the poor, whether it's the person down the block, whether it's the red states or the blue states, the idea that there's some shared commitment in this country to some shared goals, and I don't think we've had this for quite a long time, actually. We were told in the middle of the worst disaster we faced, "Go out and shop." That was the definition and I don't think it was—

**CHARLIE ROSE:** After 9/11.

**FELIX ROHATYN:** Exactly. I think it was weird then, it looks even weirder now that this is how we view these things but we're not quite over this yet, because we're still debating some pretty basic points at least until next Tuesday.

**CHARLIE ROSE:** Do you think, then, that the presidential candidate should be going to the country and saying, “Not only am I going to lower taxes for the middle class, but I’m going to raise taxes for everybody, because we are in a situation in which we have gotta engage in massive spending for infrastructure.”

**FELIX ROHATYN:** Not if they want to win an election they shouldn’t say that.

**CHARLIE ROSE:** That’s my point.

**JEFFREY SACHS:** Exactly. But in terms of where our country needs to be we’ve got an aging population and rising entitlements, a broken infrastructure, a health care crisis, a borrowing from the rest of the world. A government—interestingly if you do the arithmetic, here’s how weird it is. We’re collecting about 17 percent of GNP now at the federal level. It was 18 percent, it’s going to go down to maybe 16 percent in this crisis. And what are we doing? We’re spending 4 ½ percent of GNP on Social Security, 4 ½ percent on Medicare/Medicaid. We’re spending 4 point something on defense, we’re spending 2 percent on interest, that’s already before we touch anything in government, we’re already up to 16 percent. It’s not a matter of waste, it’s a matter of we’re not paying our way for the most basic things. We’ve got the lowest tax collection of all of the rich world and we have a politics that’s completely on the other side, that’s just how it is.

**CHARLIE ROSE:** Taxes.

**JEFFREY SACHS:** What a favorite subject, huh?

**NOURIEL ROUBINI:** I agree with Jeff. I mean I think that actually to put things also in the context of globalization. Right now there are major economies in the world, China and India, that are integrating the global economy and, like them, and other emerging markets. That's going to imply major economic dislocation in advanced economies, you know. Initially it was blue-collar workers who were maybe losing jobs, now with offshore outsourcing, even middle-class white-collar jobs are at risk now. I think that one of the things economists agree about is that the benefits from trade and integration. We cannot essentially close barriers to trade, because that's going to be negative for us, and it's not going to give an opportunity to China, India, and all these other emerging markets, in Africa, to emerge.

So we have to live in a world of globalization, and in order to make it work for everybody you need to have economic policy so that everybody has an opportunity to be able to deal with globalization. So, paradoxically, if we want to make markets more flexible, we have to have a social safety net. If people are going to be losing jobs because they have to transfer from declining sector to other new sectors, they have to have health insurance they can bring with themselves. There has to be education and skill and increase in the human capital, there has to be retraining of workers.

So, paradoxically, in order to make market economy work better you need a basic social safety net. Education, health care, social security benefits for the poor, unemployment benefits, so that people can be more flexible and adjust to this changing global economy, so, paradoxically, the greater government intervention, greater government spending, to make sure that we can live and

cope with globalization and that means raising taxes. Means that we need the revenues, you cannot run deficit forever. If these public goods have to be provided so that our young, our workers are going to be flexible enough to deal with these changes that are coming from the integration of China, India, and other countries, you need the protection, you need the government role, you to finance it, that's going to imply more taxes for everybody, it's beneficial, however.

**CHARLIE ROSE:** It truly is the end of the Reagan Revolution.

**FELIX ROHATYN:** I think also that we have to teach people that there is a difference between investment and spending. That investment, you're building something, whether it's a house, whether it's a factory, whether it's an airplane, you have an asset which remains, which means that on a regular basis, and on a reasonable basis, you can borrow for that, you don't have to raise taxes, to build a bridge, necessarily. You can borrow to build a bridge and pay it off with tolls. We haven't quite made that clear, I don't think, to people all that much, because first of all people who didn't like that idea, and secondly because it's simpler, it's not easy to determine what's an—how an investment should be amortized, as opposed to how to you just expense it. The other issue that I think we have to get pretty soon is what industries do we want to protect? Do we want to just protect the banks? Are we going to protect the automobile industry?

**CHARLIE ROSE:** Well what do you think? Should we protect the automobile industry?

**FELIX ROHATYN:** Not necessarily automatically. But I think that if somebody comes up with a plan that involves the unions and the management and the financial institutions that shows that we can compete with an automotive industry that's competitive, having made a number of sacrifices by the unions and by the management I think that we should consider it, but not if it's just throwing more money away in order to shut these companies down two years from now. But I may be—

**CHARLIE ROSE:** But if you protect the automobile industry, then somebody would come in and say, "Well, why are they more important than we are?"

**FELIX ROHATYN:** Well, we've already saved the banks, so you know.

**CHARLIE ROSE:** So once you've saved the banks you've gotta save everybody?

**FELIX ROHATYN:** No, but you've got to save what you think is important. And that's worth a national dialogue. I think we should instead of letting General Motors go broke next week or six months from now or a year from now, we ought to decide whether we think that's a good idea, or if in order to keep General Motors alive and another hundred thousand jobs, we're ready to do a, b, or c. Doesn't seem to me to be that complicated.

**CHARLIE ROSE:** It seems to me—and really I'm anxious to hear from the audience at some point I know we'll do that. It seems to me if your candidate is elected and your candidate is elected and I assume your candidate too without knowing, **(laughter)** it seems to me, it seems to



me that that the challenges facing the next president of the United States are as great as Franklin Roosevelt or Abraham Lincoln because of the demand to do something, because of the crisis we find ourselves in and because as the country faces this crisis, the world around it has changed as well, and there is on top of it the crisis that comes from, as Jeffrey has talked about, you know, in terms of our responsibility for dealing with nutrition and poverty and especially energy and climate control and those questions you wonder what is the—are we at a place where we simply have to rethink the nature of the country and its responsibilities?

**JEFFREY SACHS:** Can I say something optimistic?

**CHARLIE ROSE:** Yes, please.

**JEFFREY SACHS:** It's been a while.

**CHARLIE ROSE:** I introduced you as a person I introduced you as a person who believed that if we had this will.

**JEFFREY SACHS:** All of this pessimism is building my optimism, I have to say. I think that two things are important to emphasize. One is we remain, by far, the most productive and flexible and technologically advanced economy in the world. This housing bubble didn't end that. The mismanagement of this miserable administration didn't end that. The lack of focus of what we ought to be doing on climate change and all the rest. We invented hybrid technology;

Japan capitalized on it. We invented so many of the technologies that will be needed for the future that we're not deploying right now because we have no strategy.

**CHARLIE ROSE:** Including the Internet.

**JEFFREY SACHS:** Of course. So the point is that nothing is lost right now for the long term. We have gone through this boom and bust in not looking after ourselves and the future and not taking care of the country in many, many—in our shared social responsibilities in many ways, but the strengths are tremendous. We're not in a Great Depression. We're not going to be in a Great Depression, also, I believe, we're going to be in a serious recession, which is going to feel miserable, but it's a lot different from 25 percent unemployment in the sense of helplessness. We're going to have a lot of clear things that we need to tackle. We need to tackle energy. We need to tackle climate change. We need to tackle the challenges of poverty in the world because those are the root causes of the insecurity and instability that we face in so many parts of the world.

So the next president, I would say, doesn't come in with the burden that Roosevelt faced but comes in with a very complex leadership, leadership puzzle, challenge, and opportunity. It's not that the country will be like it was in 1933 with one-third ill-fed, one-third ill-clothed, one third—please help me—one third ill-housed. Thank you. We're not in that situation and we never have to be in that situation with some leadership, but what we do need is a leader who can help to lead a new direction for the country, so the challenge is enormous. **(applause)** Now who could that be? **(noise from audience)** You betcha! **(laughter/applause)**

**CHARLIE ROSE:** Quoting you, “I believe the threats that I defined, climate change, water scarcity, biodiversity, conservation, rapid population growth, extreme poverty can be diagnosed, their drivers and mechanisms understood, key intervention points can be found, and the actual solutions to these are not only within reach of our societies but actually aren’t very expensive at all. So it doesn’t take a lot, as share of our income, to be able to make massive investments to poverty reduction and the like, we’re just choosing not to do it,” and by definition you believe that this is the choice we’re making in this election and you have confidence that the new leadership not only understands that but in fact has a plan and the capacity to bring the talent together to reach it.

**JEFFREY SACHS:** I’ll tell you what I have a lot of confidence in—that the generation that’s going to elect President Obama understands this and that I’ve seen more energy and coherence among young people on the campuses, and the sense of a new purpose than I’ve seen in thirty years of teaching and so I think that there’s something—

**CHARLIE ROSE:** Why do you think that is?

**JEFFREY SACHS:** I think it’s the collapse—

**CHARLIE ROSE:** That it’s got so bad—

**JEFFREY SACHS:** I think it's the collapse of this miserable ideology that really has brought us not on our backs but to our knees right now. And young people know that this is not the kind of world that they want to grow up or that they want to raise their families in.

**CHARLIE ROSE:** So does he convince you that we're not in decline and that we can turn it around?

**NOURIEL ROUBINI:** In my view, it's a question of relative decline. Certainly, actually I believe that the emergence of other economic and financial powers is going to be good for the global economy because for too long we believed that we knew all the right solutions to all the right problems and we were quite arrogant about it.

**CHARLIE ROSE:** Arrogant and didn't need to listen to anybody else.

**NOURIEL ROUBINI:** Yeah. Exactly. So I think a world in which we can sit down, not only with our allies in Europe and in Japan but also with China, with India, with Russia, with South Africa, with Brazil, and with other emerging market economies, sit down and discuss together how to resolve this financial crisis, how to resolve this economic crisis, how we make sure that the global climate change is not going to destroy, you know, the world, how we're going to deal with a food crisis, with energy security issues, with a whole series of things that have global economic externalities. No country alone can resolve these global economic problems. We have to sit down together and realize we have a common planet with common resources and either we resolve together these problems or we're going to sink together (**applause**) and that's why we

need to deal with these in a cooperative way and unfortunately we spent the last eight years with an attitude towards economic, geopolitical, defense, and other issues that was always unilateral—we do what we think is right, we don't care about the rest of the world, and everybody has to follow us. This is not the world we live in right now. It's a world in which there are other powers, we have to listen, we have to learn, if we sit down together we can cooperate. And I'm optimistic. I think that, you know, while I'm a believer that this is going to be a very severe recession, I don't think that there's going to be—

**CHARLIE ROSE:** But not a depression.

**NOURIEL ROUBINI:** No, no, I've never spoken about a depression and I've said actually that over the medium term the integration of 2.2 billion Chindians in the global economy is going to be a major source of global economic growth. It's going to really radically change the issues of poverty in this part of the world, it's going to change radically what is going on in Africa and in other parts of the world. We have to do it together because globalization is going to lead to lots of disruptions, sectors that are falling, others that are emerging, dislocation of people, migration, capital flows, all these global externalities coming from pollution, from climate change, from diseases, and so on. We're in a common world. We can do it together, but we have to realize we cannot go alone.

**CHARLIE ROSE:** In the current issue of *Newsweek* magazine, Mayor Bloomberg, who is frequently mentioned as possible secretary of the treasury—is that a good idea? Because it would take Mayor Bloomberg away from New York. I'm just asking.

**FELIX ROHATYN:** I don't think that's a good idea because I'd rather see him as mayor of New York.

**CHARLIE ROSE:** He said that one of the mistakes that the next president could make would be to try to do too much in the first one hundred days. Is there something to be said for that or is the Roosevelt model the appropriate model to follow?

**FELIX ROHATYN:** I don't think that you come in with—you know, knowing that you're only going to do something in the first hundred days or that you're going to do 80 percent of the work in a hundred days, I think you come in with a plan and with a philosophy, hopefully with some good people around the president, and you go to work and you see how far it takes you. You know, I'm a refugee, so I came to this country in 1942, and the country's been very good to me even though it's sometimes it's a little disappointing and you lose faith. I think we're going to make it, but I think it's going to be a close thing. I don't think it's an open-and-shut answer that we're going to conquer our own weakness.

**CHARLIE ROSE:** And if we don't make it, what does that mean?

**FELIX ROHATYN:** That means we're going to have a weak government, that means we're going to have a falling standard of living, that means that we're going to be fighting stupid wars, that's what it means, it means that we're not—

**CHARLIE ROSE:** that we lose confidence in ourselves.

**FELIX ROHATYN:** Absolutely. But I don't think that will happen, but I think that's the risk and I was always told not to take a risk I couldn't afford to lose.

**CHARLIE ROSE:** Where is Paul? What comes out of this for me, you know, is starting with Jeffrey, and it is a question, I didn't know why Jeffrey wanted to hold this before the election, but now I think I do. **(laughter)** It comes down to leadership, and leaders give people around the world, not just within the place that they represent, a sense of confidence and belief in themselves, that things are worth and things are possible if people are willing to appreciate the mission, understand the sacrifice, demand accountability, and also adhere to a certain sense of transparency and respect for the people who are in the boat with you.

**JEFFREY SACHS:** The core of leadership is to show what's possible, and this is the essence of it, to shape a common hope and a common direction.

**CHARLIE ROSE:** And finally, I'll let this interview end and say anything that you want to say, but it is in an interesting way and the reason that I have so much confidence in the country and not a—I'm a moderator, not a member of the panel, the reason I have so much confidence in the country is that at appropriate times, this country has found leadership, or leadership has come and the country has recognized it. I mean, I think it happened certainly with Roosevelt and it happened with Lincoln, and, in a sense, when there were the most peril people have stepped by and the country—and I believe that power comes from below—and the country recognizes that it

has come too perilously close to a very bad place and knows that it has to reach for something greater than it has been and that is in fact what will serve us best, and at the same time all those things that have made us that way, having to do with the nature of the system that allowed Felix to come here and me, and become and do all the things that I never dreamed of and Nouriel now to be what he represents in terms of intellectual thought in America says a lot of very good things about who we are. That's a longwinded way of saying thank you all very much.

**(applause)**

**PAUL HOLDENGRÄBER:** I would like us to turn on the house lights. Charlie I'd like you to step back a little bit so that you don't have to turn around to see me, I'm sparing your neck and I'm also going to tell you that I'm going to spare you the hundred and seven questions I got but that in a sense gives you a sense of just how urgent this topic is that a hundred and seven people asked and wrote a question. Had we continued throughout the evening we might have had two hundred and twenty. A first question, and these questions except for a couple that will be addressed to Felix Rohatyn, I think mostly as thank-you notes, are addressed to everyone. That includes you, Charlie.

What are the behavioral changes that you foresee as a result of these current crises and how will these behavioral changes affect the future of the economy? I guess that assumes that there will be behavioral changes.



**NOURIEL ROUBINI:** I think that the behavioral changes that are occurring right now it's a great sense of uncertainty. You know, if you are a householder, a consumer, now you're worried about losing your jobs, the value of your home is falling, you might actually lose your home and end up in foreclosure, the value of your 401k and your investment is falling fifty percent. There is a lot of uncertainty about the future and I think there is a huge amount of uncertainty that now in financial market has been reflected into panic and once you get in a situation of panic, then things can get really disorderly. That's why, going back to the point of leadership, we need something that's going to show that there is somebody in charge right now, that there is a plan that is constructive, systematic, that can address this problem because otherwise this condition of nervousness, of uncertainty, of panic, is going to have very negatively effects both on financial markets and the real economy so we will need it more cohesion, we need leadership with a sense of direction and a change in policy. That's going to be important and luckily we have an election coming up and therefore there's going to be a change in leadership, there might be on the optimistic side a sense that things are changing, they are not as rotten as they could be, because this uncertainty is really right now very destructive.

**PAUL HOLDENGRÄBER:** Anybody else want to chime in on this question?

**FELIX ROHATYN:** I think it's—I think it's important that this next summit meeting of the twenty take place soon and take place with the participation of our next president. I think we have to show motion in terms of connecting with our allies and talking to the people who don't like us and I think the sooner we do that—I mean, that's where I would put the accelerator when we say a first hundred days, I would like to be able to say, “well, our new president, our elected

president has talked to the leaders of forty-seven countries in the first hundred days and here is what comes out of it, these are the things that we're going to try to do."

**PAUL HOLDENGRÄBER:** And that he actually knows where those countries are. **(laughter)**

There seems to be a quite a few questions that use a word that I didn't really hear any of you pronounce tonight, maybe it's because we have many students in the audience, I'm not sure, but there are at least seven or eight questions, and I'll ask the shortest one and the longest one and I'll ask them together. Is this the death of capitalism? Do you expect that after this mess is cleared up that capitalism will essentially be the same as it was before or will it change? And how will it change? Jeffrey, you seem to be nodding. Maybe these are your students.

**JEFFREY SACHS:** Capitalism comes in many flavors and with a tremendous amount of success in some of them, and capitalism is not ending. A market economy makes a lot of sense and it has great strengths, but this kind of fundamentalist market economy is ending in this country and will go back, I believe—back and forward, will go back to the idea of a mixed economy again, of mutual responsibility—I think we'll go forward to a new kind of economy, also, that is more networked and more public/private partnerships, new innovative ways to do things, build things, connect people, network people, so I don't think that we're going back to top-down, old-style big government programs in the old way because in the age of social networking we have better and new ways to do that but the idea that it's just you're on your own and all the rest we've talked about, not to belabor the point, that's finished.

And I think it's important for also of us to understand, this city there's no doubt about it, but in our country there is a lot of mistake—we've been told such nonsense for so long in this country about what happens if you charge taxes or if you have public health care or if you do other things, which is falsified every day in societies all over the world, and so the terrible truth is that, because of this slide, the U.S. now ranks twenty-fifth in the world in life expectancy and infant mortality rates. Can you imagine what we have allowed to happen here, this kind of slide, whereas countries like Sweden or Norway or Denmark, which happen to be mind personal favorites in terms of mixing different ways of doing things, have vibrant market economies, but they take care of their babies so they don't die. And that's very straightforward to do, because the technologies are quite wonderful if people are protected and have a way to do that.

So I think that capitalism is—should not be understood for this extremist version that we've taken here. This is not how it's done in many other very nicely run civilized parts of the world, thank you.

**FELIX ROHATYN:** I think that capitalism can only survive—and I say that having thought about it a great deal—if the question of fairness becomes part of the equation (**applause**) and our system now seems to have forgotten the question of fairness or thinks that it's not important and I think that we ought to have a new capitalism, a capitalism that's fair, a capitalism that's also very, very eager to see the country grow but to do it in a way that is fair and from its to all Americans to get the benefit of our scientific possibilities, of our education, etcetera, but if we don't do that, the system won't survive, and it shouldn't.

**CHARLIE ROSE:** It's a subject that I ask people about all the time and I'm going to do a whole hour about this and Felix will remember that when I came over to talk to him when he was ambassador to France and it was a great debate in France about capitalism with a human face and capitalism as barbarism and all of that—those notions go back about ten years. My strong feeling, from lots of the people that I've talked to, is that certainly this is not the death of capitalism and that certainly there has to be a renewal of this sense, and I think the most interesting thing about coming out of this, ought to come, is the necessity of government, not the government as part of the problem, but as part of the solution, but that capitalism and government in a public-private way, you know, are essential. In an interesting way what's happened to us is that I think this system of government has been corrupted by some of the qualities that—by money, and that's been a bigger problem than sort of capitalism per se.

And that therefore because of the power of money in the public process there began a kind of deregulation so that these derivatives that we were talking about had nothing to do with, you know, the private sector financing companies to go out and build things or provide jobs. It was a betting mechanism. Derivatives were about betting, they were securities that were about betting, not about funding companies to go do things and create jobs. I think that we have to be very careful, though, that we understand the kinds of things that have made the country great, having first to do with the people but secondly, you know, akin to democracy, as Churchill said, it may not be the best system but it's much better than whatever is next, and I say that about capitalism.

**JEFFREY SACHS:** I think that what you're saying is really important and shows also how close we've come and we're not yet also past this risk yet, to this terrible corruption of the basic

democratic values, because we've been on a spiral obviously where this approach to life that started with the attack on government as the problem, the attack on notions of fairness as, you know, weak-kneed and something inappropriate contributed to this massive inequity and inequality that has developed here and that then circled back to corrupt the political process with campaign contributions and all the rest. The amazing thing about the Obama campaign, I think, from that point of view is this unbelievable mobilization of small contributions by millions of people—it's been a way to finance the campaign *not* through the incredibly heavy dependence on huge money. If it works, it is a way almost to rescue us from this self-feeding frenzy of more inequality, more money flushing through this system, and seemingly no brake on it by democratizing the financing of this particular campaign. I hope it works. But this is how close we came because it's so much money flowing through the system, so corrupted right now, that to grab it back is going to take very good luck for us.

**CHARLIE ROSE:** Finally, one the country was made great because of sacrifices of a whole range of people but we should not ever forget what it was that made this the place that so many people wanted to come. Whether it had to do with our economic system where people could come, you know, and could make a difference and could do things they couldn't do anywhere else had something to do with our economic system, a lot to do with our values, and a lot to do with our system of government. Things can become corrupted, but at their core they were crucial to who we were, I mean, who we are and who we can become. And so you don't want to—to use a patented phrase—throw out the baby with the bathwater.

**PAUL HOLDENGRÄBER:** What changes to the financial industry regulatory structure would you recommend to prevent future failures such as the one we are currently experiencing?

**FELIX ROHATYN:** I don't think you can ever guarantee against failure. I think disclosure is 90 percent of the problem. I think equity is part of the problem, but mostly I think disclosure and lack of eliminating the conflicts of interests between the rating agencies, for instance, and the issuers. I think those would be the main things. I would also merge the CFTC with the SEC, but now that's another question. But I think we have the basis to recapture our position—we just have to make it easier for people to do the right thing.

**PAUL HOLDENGRÄBER:** You've spoken a lot about cooperation, but will the effects of this crisis lead to increased xenophobia?

**FELIX ROHATYN:** You're asking me?

**PAUL HOLDENGRÄBER:** Why not?

**FELIX ROHATYN:** Why not? Xenophobia, no, I don't think so. I think people are worried, people are very worried, and that's where the question of fairness of the system comes into play, I think, much more because in bad times you really ought to make sure you're getting at least a fair shake in terms of what you're doing. You always have questions of xenophobia or of anti-Semitism or of stereotypes and discrimination—you can't do away with them. You can try to do

away with them. But the spirit of the country, I think, is strong enough and the ethic is strong enough so that it should not happen.

**PAUL HOLDENGRÄBER:** Especially for Jeffrey Sachs. What does this U.S. economic crisis mean for Africa in terms of fund-raising and meeting the Millennium goals?

**JEFFREY SACHS:** Well, this is like a game where they're trying to throw every possible challenge in the way of doing something straightforward. You know, every bit of progress we seem to put in new obstacles whenever we focus on the issue, a new war, a new crisis, and so on. Obviously the channels of influence from our crisis to the world's poor include the lower prices that poorer countries will get for their commodities. We see tea and coffee and cotton prices falling sharply as the depression, or the recession I should say, the downturn I meant to say, accelerates. We see remittance income drying up, because that actually is one of the ways that income flows from rich to poor countries. On the other side, the poorest of the poor have not lost their pensions and they haven't had bank runs because they don't have banks and they don't have pensions and so there's a certain point that also should be recognized that it's more the middle-income countries that are in the direct line than even the poorest countries which face the challenges of disease, isolation, neglect, hunger, and so on.

I think the issue for the extreme poor is really when we're going to realize that their fate and our fate are intertwined, not through a financial crisis but through our common security and this is going to require a different vision of how the world fits together that I think can come soon and quickly and is absolutely vital. We're never going to solve Afghanistan by a surge or more

troops. Or the Pakistan challenge, which is a huge challenge for our security, by giving more weapons or the things we've been doing. These are poor, hungry places. They need an approach which is an approach that builds security through a sense of hope and peaceful development and that's the real change of direction that makes sense for our foreign policy, where instead of spending seven hundred billion dollars on the military and five billion dollars on aid for eight hundred million Africans in the midst of all of this crisis, we actually rebalance this a little bit in our foreign policy so we approach security through long-term development. And when we do that we're going to find out that even through this crisis the Millennium development goals can be achieved because they're practical, straightforward things that should be done, can be done, to make a world of difference.

**(applause)**

**PAUL HOLDENGRÄBER:** There were too many questions about this and Felix Rohatyn, you do not need to answer this question, but it's been asked five or six times and I'll read a couple of questions quickly that are related. Do you think it's right to blame Alan Greenspan alone when there are twelve directors who decide interest rates by voting? Do you think that the Bush administration forced him to keep interest low? Is it not evident with the benefit of hindsight that Greenspan made mistakes? Did any of the panelists foresee the consequences of his policies during his tenure, when he was so revered? Felix?

**FELIX ROHATYN:** No, I'm not going to answer that.



**PAUL HOLDENGRÄBER:** I know, I know. **(laughter)** It was a tease and meant as such.

**CHARLIE ROSE:** My impression is he had, while it is true, the reference to the way the Fed works, Alan Greenspan was probably the most powerful chairman of the Fed and Paul Volcker, who's been on my program recently and who I revere, Alan Greenspan was probably the most powerful chairman of the Fed we've had in a long, long time and I don't know whether he succumbed. I think that my—I don't know him, I read his book, I interviewed him and know him. I don't think he was—I think he pretty much acted based on the principles he believed in. Whether they were wrong or not. He has gone before Congress and said they were, so, you know, I mean, I suspect that that was what he believed rather than some coercion from somebody else, but politics is a strange force. Does that draw you into the conversation?

**NOURIEL ROUBINI:** I think at this point it's quite recognized that he made a number of mistakes, you know. He believed that markets are always self-regulating. He didn't believe that asset bubbles can occur or that the Fed can control them. You know, he worried in the nineties about irrational exuberance and he did nothing about it and therefore then the tech bubble went higher and higher, then bust. Once it went bust, he cut aggressively interest rates and kept them too low for too long and in addition to that—the Fed he had more power to regulate more properly mortgages and credit creation and his view was that the self-interest of financial institutions was going to lead them to behave themselves and now we realize that the incentive problems and irrational exuberance lead to excessive risk taking.

So I think that in his last Congressional testimony he realized that he made a mistake. He believed that really markets always are efficient, that they always work, that they always self-regulate, that they are always stable, and instead we've realized there is inefficiency, there is instabilities, there is panic and manias and booms and busts and things of that sort and that recognition hopefully is going to lead us to a different system of supervision, regulation of financial institutions, because these bubbles are becoming more frequent, more virulent and the real economic costs—there is a recession—the financial costs and the fiscal costs are becoming extreme.

We cannot afford anymore to have a huge boom and bubble like this go bust. This happened three times already in the last twenty years. We had a real estate bubble in the eighties went bust and we had a nasty recession in 1991, a severe banking crisis, then there was the Internet bubble went bust and we had a nasty recession in 2001 and now we've created a housing bubble. This is an economy that has been growing fast only in times of economic bubbles. We have to start thinking about how we're going to create an economy where you have longer-term, more sustainable economic growth. Otherwise, these things are becoming more and more dangerous and more and more costly.

**PAUL HOLDENGRÄBER:** Winding down, now, with there have been many, many, I think tributes and really love letters to you, Mr. Rohatyn. I will read one of them, well, not a love letter, but an homage to you. Mr. Rohatyn, belated thanks to you for saving New York thirty-three years ago. Can you do it again? **(laughter/applause)** And the answer is?

**FELIX ROHATYN:** The answer is lots of people saved New York. I happened to work with some of them and it was a great privilege. It was probably the best, greatest experience in my life, professionally and personally, but there was an outstanding governor, there were outstanding people working for him, and the spirit of the city was fantastic and I think 80 percent of what we did was only possible because the spirit of New Yorkers during that time was extraordinary and we knew who our enemies were.

**PAUL HOLDENGRÄBER:** Jeffrey Sachs offered us some words of optimism and there have been quite a few—what one would imagine it at an evening such as this one which could be seen as devoted to gloom and doom. There have been quite a few questions about optimism, and Jeffrey has already spoken but maybe will want to add something to this question. Is there anything that would make you more optimistic about the next government, whatever that government may be?

**JEFFREY SACHS:** I'm going to be very—feel very good with President Obama's inaugural address, because we're at a new beginning, I think in this country, we're almost there, and I think there will be actually tremendous, tremendous reason for optimism. This will be our thirteenth recession and that means it will be our thirteenth recovery also. So we've been through this—this will be a bigger one than we've had, but this is not the end of times, and this is not the end of the world, this is not the end of America, and it's certainly not the end of hope.

**PAUL HOLDENGRÄBER:** Nouriel Roubini. Hope. Optimism. Try.

**(laughter)**

**NOURIEL ROUBINI:** I am hopeful. I do believe that the financial damage that has been caused by the mistakes of the last few years unfortunately is going to lead to a severe recession in the U.S., and this recession is going to become global, but things don't spin downwards without any bottom. There is always a peak in the business cycle, there is always contraction, and there is policy action is taken to get us out of this mess. So this time around is going to be more severe than otherwise, the costs are going to be larger, but I think that's probably going to give greater, especially with a change administration, a purpose and stimulus to do the right things, to do the economic policy changes, are going to change in the direction that the economy's taking, and the faster this change can be done, the faster we're going to get out of the slump.

So from that point of view, yeah, we're going to have a recession, and, as Jeff says, after every recession there is a recovery, so I think actually the changes in technology, the integration of many countries in the global economy is going to be a very powerful force for change in a good direction, you know. Billions of very poor and starving Chinese and Indians are right now having an increase in their kind of income standards. This is a radical change, this is a revolution in what's happening to humanity. The same things can happen in Africa as have happened in Asia. There is no reason why that cannot happen. We have to make sure that that happens. That's important, it's the right policy are going to lead us in that direction.

**PAUL HOLDENGRÄBER:** Charlie?

**CHARLIE ROSE:** I just have a huge faith and I'm an optimist and to have lived my life experience, you have to be an optimist, and I have huge faith in the country and our capacity to rise to the occasion, as I have said. It's tough and it's difficult and we live in a different and more complex world, but I believe in the power of the individual as well as the power of the community, so I'm optimistic.

**PAUL HOLDENGRÄBER:** Felix, you have the last word.

**FELIX ROHATYN:** I believe very much that we're going to have a new kind of capitalism, that that capitalism is going to be fair, that the benefits to more people are going to be widespread and that this country will continue to stand for freedom, for the ability to create wealth, and for fairness in a democracy.

**PAUL HOLDENGRÄBER:** You knew, when the panelists came onstage, we played the funeral march of Chopin, now I feel we should play maybe Willie Nelson, "On the Road Again."

**(laughter)** I would like to thank Felix Rohatyn, Nouriel Roubini, Jeffrey Sachs, and Charlie Rose. Thank you very much!

**(applause)**