NATIONAL PRESS CLUB NEWSMAKER LUNCHEON WITH JOHN SNOW, FORMER SECRETARY OF THE TREASURY

TOPIC: PRIVATE EQUITY AND PRIVATE INVESMENT

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THIS IS A RUSH TRANSCRIPT.

MR. ZREMSKI: Good afternoon, and welcome to the National Press Club. My name is Jerry Zremski, and I'm the Washington bureau chief for The Buffalo News and president of the National Press Club. I'd like to welcome our club members and their guests who are here today, along with the broadcast audience that's watching on us C-SPAN.

We're looking forward to today's speech, and afterwards I'll ask as many questions as I can, time permitting. Please hold your applause during the speech so that we have as much time for questions as possible. For our broadcast audience, I'd like to explain that if you hear applause, it may be from the guests and members of the general public who attend our luncheons and not necessarily from the working press. (Laughter.)

I'd now like to introduce our head table guests and ask them to stand briefly when their names are called. From your right, Harry Stoffer, Washington correspondent for Automotive News; Glenn Somerville, economics correspondent for Reuters; Chris Smith, a consultant for Cerberus Capital Management and a guest of the speaker; Dave Shephardson, Washington correspondent for the Detroit News; Marilyn Geewax, national economics correspondent for Cox Newspapers; Billy Cooper, managing director of Cerberus Capital Management and a guest of the speaker; skipping over the podium, Angela Greiling Keane of Bloomberg News, the chair of the National Press Club Speakers Committee.

Skipping over our guest for just a second, John Hughes of Bloomberg News and the Speakers Committee member who organized today's event; Tim Price, managing director of Cerberus Capital Management and a guest of the speaker; Alison Fitzgerald, Treasury reporter for Bloomberg; Justin Hyde, Washington correspondent for the Detroit Free Press; Hatanaka Kato (sp), chief of the -- the chief Washington correspondent for Nikkei Newspaper; and Brett Ferguson, economics reporter for BNA. (Applause.)

Americans were surprised to wake up one morning in 1998 and learn that Chrysler, the creator of the minivan and the builder of the K-car, was going to be owned by a German company. Nine years later, Chrysler's majority stake is coming back into an American company's hands, and our speaker today has an awful lot to do with that. John Snow is chairman of Cerberus Capital Management, LTD, a New York private equity firm. Two months ago, Cerberus said it agreed to buy an 80 percent stake in the automaker from DaimlerChrysler AG of Stuttgart, Germany. The sale was expected before the end of September. The $7.4 billions that Cerberus is investing for its stake in Chrysler is about a fifth of what Daimler agreed to pay for the carmaker back in 1998.

Of course, here in Washington, we're not yet used to thinking about cars when we hear John Snow's name. We instead tend to think about T-bills. Our speaker was U.S. Treasury secretary for President George W. Bush for more than three years, from 2003 to 2006. He was successful in selling the idea of tax cuts to the Congress, and while he was Treasury secretary the economy grew 4 percent and unemployment fell.

But his greatest challenge may lie ahead of him. Chrysler, once known as part of the Big Three, fell to fourth place in U.S. auto sales last year as Toyota surged ahead. The gap is widening. Last month Chrysler's sales fell 1.4 percent while Toyota's grew 10 percent.

Can John Snow make Chrysler more competitive? He says his company is prepared to invest a lot of money into the carmaker to make it work. He also acknowledges that the course ahead will be difficult. Chrysler has said that it plans to cut 13,000 jobs over the next three years and that it also plans to close a Delaware manufacturing plant.

Our speaker will draw on a long transportation record as he forges ahead. Back in the Gerald Ford administration, Snow worked to deregulate the airline, barge and rail industries as an official in the U.S. Department of Transportation. And before he was Treasury secretary, our speaker spent more than a decade as chairman and chief executive officer of the CSX Corporation railroad.

That means our speaker today could talk about planes, trains, or automobiles -- (laughter) -- but instead he's going to tell us about the role that private equity plays in U.S. manufacturing and the global economy.

Ladies and gentlemen, please welcome John Snow to the National Press Club. (Applause.)

MR. SNOW: Thank you very much, Jerry. Appreciated that nice, warm introduction. In fact, I was enjoying it so much I was just hoping it would go on and on. (Laughter.)

It's good to be back here. I spoke to the National Press Club -- which obviously is one of the great forums of this country to address public policy issues -- I spoke here in 2004, and the subject then was the outlook for the economy and the larger question of American competitiveness and how we fit in with the larger forces of the global economy. I was also here then to talk about the importance of the president's tax cuts -- tax cuts which I think, now that the verdict is in, clearly have led to greater prosperity across America.

So it's good -- good to be back here. it's like a homecoming for me being back at the press club, being back in Washington not far from the Treasury building, to a city that I lived in for many, many, many years and where I have many friends, and to be in effect a unifying force between the two industries I have worked in -- transportation -- and I see many transportation people here today -- and transportation press, and the financial press and people from the world of finance. So I'm delighted -- really delighted to be here and see so many old friends.

When I look at my friends from the financial press who are here who covered the Treasury Department, I'm reminded of something the president said to me as he was about to introduce me to America as his new Treasury secretary nominee. We were sitting next to each other, and he looked over at me and he said, "John, really glad to have you aboard. It's going to be a great experience. The staff's high on you here. They tell me you're a good speaker."

And I said, "Well, thank you, Mr. President. That's a real compliment."

He said, "No, they really are. They're high on you. They say you articulate well and give a good speech and that you do it often, extemporaneously. You do it without notes."

And I says, "Well, thank you, Mr. President." I said, "That's a real compliment."

He says, "Yeah, that's a great skill, John. I admire that skill." He said, "From now on, use notes." (Laughter.) And I think he had members of the financial press very much in mind, Glenn and Alison and Kevin and the rest of everybody, when he offered -- when he offered that observation.

I came to understand the wisdom of the president's advice to me. And I learned the unique form of questions that come to you when you're the Treasury secretary. When I came in -- of course, early '03 -- the economy was still struggling, still reeling from the effects of 9/11 and the recession of March of '01 and the corporate scandals and the meltdown of the equity markets, and those effects were still in the economy. So the growth was anemic. And you can follow the course of an economy by the questions that you get from the financial press. And the first question always was, in those days, "Mr. Secretary, aren't you concerned? Aren't you disappointed? Aren't you worried about the pathetic performance of the American economy, these anemic growth rates? Aren't you worried?"

And I would respond, "Well, no. Look, there's a natural rhythm to an economy. We have automatic adjustment processes. The American economy is very resilient. It will recover and it's going to -- and that recovery is going to be aided by the fact the president is putting into effect these lower taxes. And lower taxes will mean job creation, investment, and lay the foundation for prosperity."

Well, lo and behold, we got the growth. Then the question became, "Mr. Secretary, there's growth in the economy now, but where are the jobs? Aren't you concerned that we don't see any jobs being created?"

And you would say, "Well, look: First you get the economy going, you get investment going, you get business confidence, and then businesses will create jobs." And the jobs came, of course. Now we've got 8 million-plus from those days.

And as the jobs came, there was no more talk of the so-called "jobless recovery" which was much on people's minds back then in '03 and '04. The question became, "Mr. Secretary, the economy's growing now and we see jobs, but what about wages? You know, wages are stuck -- stagnant wages, no improvement in workers' conditions."

And you'd say, "Well, first you do this and then you do that and then as labor markets get stronger, wages pick up."

As I was leaving office I was intrigued to get a new question. "Mr. Secretary, with the rise in wages, aren't you worried about inflation?" (Laughter.)

I kept wondering when I was going to get the question, "Mr. Secretary, aren't you delighted?" (Laughter.) "Aren't you pleased?"

So it's good being here today. As I say, it's like a homecoming for me, seeing so many old friends and being back in the city I know so well and lived in so long.

But we're also celebrating -- Jerry, as you said -- another homecoming, and that's the return of Chrysler to its American roots. This is one of the iconic companies in all of American history. And now it's coming home. We hope to close the Chrysler transaction here in the next -- within the third quarter -- in the next month or so.

And it's an important transaction for the American auto industry, but it's also a milestone event for private equity, private investment. Go back 30 years, when Chrysler was experiencing economic difficulties.

Then Chrysler turned to the government and there was a government, quote, "bail out." Today, as Chrysler faced difficulties, private equity provided the answer. And the question on your mind probably is, what is private equity? What is private investment? What is this all about? Who is Cerberus? And do you have any chance to be successful? And how can you be successful when others haven't?

Well, first the word on private equity. It isn't really all that mysterious. Private investment is not all that mysterious. It wasn't around 30 years ago when Chrysler was first in trouble and when they turned to the government for the rescue. In that intervening 30 years, one of the most important developments in financial markets has been the growth of private investment, private equity. And it's playing a powerful and important role in the way the world of work and business and investment is organized today. It's helping to make public companies more efficient. It's helping to keep public companies on their toes. And it's helping to restore companies that haven't performed well to sustainable profitability. That's really what a firm like Cerberus does. We invest in underperforming companies and make money for our investors by turning them around. Our motto really is to buy and to fix and to hold.

And you say, who are those investors? Well, those investors are the pension plans of American. Those investors are state government retirement plans. They're the endowments of universities. My mother was a schoolteacher in Ohio. And she retired in the '60s -- in the 1960s -- with a retirement then of about $7,200 a year. The most she ever made as a schoolteacher was $10,000. And I sometimes think back to my mother and recall the struggles she had in those days making ends meet on $7,400 a year. How much better off she would have been if the Ohio State Teachers Pension Plan had been invested in private equity, because what private equity does is provide higher rates of return, better retirements for a broad cross section of America.

But for us to do that, for us to achieve that objective -- and it's an objective that we've been successful at, as evidenced by the fact that this fund has grown from a very small amount of dollars invested in 1992 when it was established to a very sizeable number of dollars today -- evidence of the success. We wouldn't be building that fund unless the pension plans and the endowments of wealthy individuals saw an opportunity to do better than they would do in other investments. And we have an obligation to them to do so. We have a fiduciary duty to those investors to do well for them. And we only do well for them -- and this is the critical point -- we only do well for them if the companies we invest in turn around.

So the question is, how do you do that? How do you take underperforming companies and turn them around? Well, basically, we do that by giving these underperforming companies a new environment -- an environment in which the managers of these companies are free from the requirements of the public markets and the quarterly reports and the analyst meetings and meeting a target by a penny a share.

The fact is that American businesses often take time to fix. They can't be turned around on a dime. And they need an environment in which the owners are patient, in which the owners take a long view. And we're patient and we take a long view. We understand the complexity of running businesses and fixing businesses. And we augment the management teams of the companies we invest in with a team of proven experts -- 150 or so proven experts. People who have run major companies. People who have seen virtually every business problem that exists and know how to approach it and fix it. That team of pros -- business pros -- is available to the companies we buy to support them, to augment them and to work closely with them to produce better results.

You know, sometimes fixing a company takes a new pair of glasses. It takes a fresh look. And what we try and do is provide a fresh look. We ask a lot of questions. We're an attentive parent. We pay close attention. But we tell the management teams, look, you're now free from those quarterly reports. You're now free from those analyst meetings. You can focus all of your effort, you can focus all of your energy on running the business. And what a sense of relief that is to people to whom management is a calling, to people who really want to make a business a success. And there are an awful lot of underperforming companies. Companies with good potential that need to invest for the long term, that need to have the freedom to implement those longer-term plans. A freedom that unfortunately because of the all-too-often short-term focus of public markets, they aren't given.

Now, we give the management teams of the companies we invest in that freedom. And it's amazing the energy that creates. It's an amazing thing to watch a company that has not worked well turn itself around and the pride that the management team takes in those results. But we never buy a company with an exit strategy. We've learned that we can reward our investors by fixing companies and holding them, because when you turn around an underperforming company, wonderful things happen. As you become competitive, as you produce better products, as you invest for the long term and the company's results come in, they're the source of a lot of free cash flow. They're the source of a lot of profitability. And that's how we reward investors. So fresh eyes, new environment, long-term focus and patience and this team of really world-class -- world-class managers who come in and help the existing management teams do well.

Our economy is based on the success of our businesses. It's a theme I talked about often as Treasury secretary. Jobs, good jobs, come from well-performing companies. And the key to well-performing companies is to have an alignment of interest between the managers and the owners and we get that in private equity. The key is to continue to invest for the long term, not be shortsighted; and to be patient; and to have really talented people in these enterprises who are committed to the success of the enterprise long term. So strong companies equal job security. We create jobs from competitive companies. Noncompetitive companies don't create a lot of good jobs.

Now, let's turn to Chrysler. The question here is how can you do what others haven't done? How can you make a success of Chrysler? Well, we're investing in Chrysler because we're confident we can make a success of it. We wouldn't be investing in it unless we felt that way. Chrysler has a lot of strengths, enormous strengths. They've got a great product line and good pipeline of new products coming out. I'm glad there are some dealers here that I had a chance to talk to earlier who know those products. It's got a dedicated and committed work force -- proud of that company.

There's a lot of pride in that -- in the workforce of that company. And, of course, we'll augment that management team with this team of people I told you about -- these world-class experts who will be available to the management team at Chrysler.

Basically, we're putting Chrysler in a new environment. Chrysler was an environment before that didn't allow it to achieve its potential. It was a merger with Daimler that looked good -- that had promise -- but didn't realize the full promise, and now Chrysler returning to the United States has a chance to fulfill its promise. We're committed to doing it. We're going to put capital into it. We made a major capital commitment. We made a major resource commitment. We made a major people commitment. And we're not going to rest until we see Chrysler succeeding, and the turnaround a great newsworthy event for all of you who write about the automotive industry.

How can you do it, basically? Well, because it's our job -- it's our job. Carpenters take old homes and rebuild them, right? It's what they do. What we do is take underperforming companies and return them to competitive success. Will it be easy? No, we're not naïve. We know that we face a lot of problems -- global competition, fuel prices, the health care issues -- rising health care costs all have to be addressed and we're committed to addressing them. There's a new challenge we face though. Those of you who cover the automotive industry know about it and that's where Congress will go with this debate on CAFE. It's interesting -- when I think back on my career I'm circling back on myself because in 1976, as the administrator of the National Highway Traffic Safety Administration, I wrote the first CAFE rules, and now we're facing a debate on where we should go with CAFE.

Let me say that -- where we're coming from on that. We understand fully the need to reduce American dependence on Middle Eastern oil. We understand as well the need to reduce tailpipe emissions -- CO_2 emissions. Therefore, we also are committed to a proposal to raise CAFE. Now, I think over the last 30 years the auto industry unfortunately has lost some credibility in this town, and you can't help sense that when you talk to people around Washington. We're not the old automobile industry. We're the fresh eyes on today's problems, and we're committed to trying to find a solution on the Hill that advances the objectives of less dependence on Middle Eastern oil -- less CO_2 -- but does so in a way that sustains this great industry -- that gives this industry the opportunity to continue to be competitive and continue to succeed.

My problem with the Senate bill is that while it pursues the objectives of cleaner air and less dependence on Middle Eastern oil, it does so in a disproportionate way. It visits too much of the answer to those problems on this one industry. This industry accounts for about less than 20 percent of the total use of Middle Eastern oil -- of energy, and yet this legislation visits on this industry a huge portion of the total burden of trying to find answers to CO_2 and fuel economy, and it does so in a way that isn't balanced and really isn't workable. We are supporting a proposal that would very significantly raise auto fuel economy standards -- a large increase, but an increase that while it's a challenge and while it's difficult, we can see our way to doing. Our problem with some of the proposals up there is that given present technology -- given the tastes of consumers and the need for us to produce cars people really want if we're going to succeed the legislation simply isn't workable.

I want to commend a number of people -- too many to mention -- but the authors of H.R. 2927 have a good approach. Congressman Barton has come forward with a good approach. There's a rising, I think, understanding -- increasing understanding -- of the need to get a workable solution here, and what we're committed to doing is to be part of finding that workable solution. Yesterday, the dealers were in town and I'm told of a meeting that many of the dealers had up on the Hill, and some of these dealers were laying out to the Congress the fact that unless we're able to sell cars people want we won't have a very good business. Some of these were minority dealers -- dealers who'd made a great success of their business who were receiving a very sympathetic response when they said, "Congressmen, look. We want to be part of a solution but let's make sure that solution is one that -- that's workable for this industry. That's what we want."

I know a lot of people feel the auto industry has had its head in the sand -- that it's stonewalled for 30 years -- that it has cried wolf -- all those things. I think the auto industry today recognizes that a new age has dawned, a new age is here, and we're committed to being part of what is a solution -- a balanced solution and a workable solution to these issues of overdependence on Middle Eastern oil and CO2.

I thank you very much for the chance to be back here and now look forward to your questions. Thank you. (Applause.)

MR. ZREMSKI: Thank you very much. First, a few questions kind of elaborating on the speech a little bit. You say that Cerberus is in for the long run with Chrysler, but what's the long run? Five years? Ten years? Infinity?

MR. SNOW: Well, we've only been in this private equity business since I think it's 1991 or 1992, and we've sold very few companies. So we don't have a time horizon there. What we will do is continue to use the approach we've used in our other businesses which is invest in the business, invest in the people, bring best technology to bear, free the management team of the burdens of this short term-itis, and let them pursue their plans effectively, and I think that formula's going to work with Chrysler as it's worked in so many other cases.

MR. ZREMSKI: What in particular interests you the most about Chrysler? You mentioned the product line, et cetera, et cetera. Could you just elaborate a little bit on what Chrysler's strengths are?

MR. SNOW: Well, it's got a terrific name. Chrysler -- the name Jeep Grand Cherokee is -- are names that everybody knows and products everybody knows and their products right now are in -- the Chrysler Sebring -- are in strong demand. So good products with strong demand, great name plates, a good pipeline of new products that's coming on, the ability with -- through the relationship with Daimler to be in the forefront of the diesel technology, and that's going to be very important to us going forward. And we will share platforms with

Daimler going forward and R and D technology with Daimler going forward, and Daimler's a recognized leader in this area of new automotive technologies, particularly the diesel. So that's all a plus. But on top of that there's a great dealer network. Some of them are here. Strong dealer network -- loyalty to the company. And the fact -- and this is really the heart of it -- the company has underperformed. It can do better. We know it can do better, and I think we'll create an environment in which it can do better. That's really the short answer. Create an environment in which a company that hasn't done its best can do a lot better.

MR. ZREMSKI: You stressed the importance of long-term investment but what are the benchmarks of success for Chrysler, and how long do you think you need to get there?

MR. SNOW: Chrysler has in place now, developed by the management team, a five-year turnaround plan that will have it returning to profitability over that period of time. In making the acquisition, we looked hard at that plan and became convinced it was a good plan -- it was a doable plan -- it was a plan that had all the elements to return Chrysler to profitability and sustainable profitability.

And then we said to ourselves, in the environment that Cerberus will create we can do even better with these 150 highly skilled executives, with the capital infusions we're making, with the active involvement of a new parent -- we can do even better. So the five-year plan plus is what we see.

Q How important is it that Chrysler be the lead negotiator in the upcoming U.A.W. Big Three contract negotiations? And if Chrysler is the lead negotiator, what would be your primary issue in these negotiations?

MR. SNOW: You know, I spent a lot of years on labor matters, and one of the things I learned in those long years dealing with labor negotiations is you make a mistake if you parachute in and try and put yourself in the middle of something that's as complex as that -- you become a tourist. I'm not going to be a tourist on labor negotiations.

Q Chrysler reportedly has more people who want to take buy-outs than there were buy-outs offered. Do you think Chrysler should accelerate the buy-out program?

MR. SNOW: Again, those issues of that sort are ones for the management team at Chrysler -- which will be discussed with Cerberus, but we don't own Chrysler yet. (Laughter.) You know, we still have a way to go before we become the Chrysler owners, so I'm going to defer on answers to questions like that.

Q Well, one more try -- is Chrysler overstaffed? (Laughter.)

MR. SNOW: Again -- (laughter) -- you know, I think we could run the tape recorder on that prior answer. We're going to work closely with the Chrysler management; we're going to support them and support their plan. Their plan, I think, lays out a pretty good effort to improve productivity. Enhancing productivity is at the center of that five-year plan, and it's a plan that I think is do-able; and it's a plan that returns Chrysler to profitability -- sustainable profitability; and it focuses on productivity and efficiency. So I think that plan's pretty good.

Q Given your focus on the long-term, will the new Chrysler still report monthly sales results?

MR. SNOW: Yes. They will no longer have quarterly public company reports. They'll no longer be subject to the sort of scrutiny from 26-year-old analysts -- (laughter) -- but we'll always know more about the company than the management does -- (laughs) -- but sure, their sales numbers will continue to be public information.

Q Do you think other automakers are nervous about the growing Cerberus holdings?

MR. SNOW: I haven't seen that. Our holdings include many companies in the automotive space. The automotive space has been difficult, but it's created opportunities for a firm like us who believes we can turn things around -- we can fix and hold. But I don't see any concern. We own a number of auto supply companies; you know, we're the controlling shareholder and owner of GMAC, the big automotive finance company. But I think -- I think we've been -- we've been welcomed in the auto industry and we're now on both sides of it. You know, we're on the supply side, we're on the finance side, and we're on the OEM side.

Q Is Cerberus interested in Jaguar and Land Rover -- and would you make an offer for Volvo? (Laughter.)

AUDIENCE MEMBER: At what price -- (laughs).

MR. SNOW: At what price, yes. Well, here's our book. (Laughter.) No, obviously, we can't comment on any transactions one way or another, you know, so our answer to -- is always to questions like that, sorry, we just can't comment.

Q Why do you think U.S. automakers have fared so badly? Is it just labor costs or are there other things that need to be changed?

MR. SNOW: Well, I think it's a whole range of things, there's not any one thing. I think they've suffered a lot from rising health care costs. You know, I think rising health care costs has really had a big effect on all U.S. legacy companies -- the great industrial companies of America on which the industrial framework of America's been built, because they provide good benefits for their employees, right, and traditionally have done so.

And the way the system works, the people who aren't covered end up have -- the cost of the uncovered have to get picked up somewhere. And where do those costs go? Well, they go to the companies that provide good coverage. That's an inequity. That's an inequity that makes our companies less competitive. It's inequity that I hope will be addressed.

I'm pleased that virtually all of the major presidential candidates on both sides are talking about health care, because health care has become a very central issue to the competitiveness of America -- and beyond that, to the long-term fiscal health of our country. I'm pleased to see the attention it's being given. I hope it isn't just campaign rhetoric. I hope it something that will have real legs to it and survive this because this is the issue of both American competitiveness going forward and it's the issue of American fiscal stability going forward.

If you just run the numbers on the unfunded health care liabilities going out -- these unfunded liabilities, what you will see is that in a couple of decades they absorb all of the revenue stream of the United States government. Now that obviously can't be allowed to happen. And dealing with those sorts of issues is very difficult in the highly-charged political environment we have. It takes courage to confront issues like that -- issues like Social Security, issues like Medicare, takes real political courage. And the unfortunate fact is, if one side stands up and says, we have the courage to deal with it, the temptation on the other side is to say they're taking away your benefits. We saw that. We've seen that.

So we have to rise to a new politics. We have to rise to a politics where the substance of the issue is what's debated, rather than the issue becoming an opportunity for political advantage -- and until we reach that point. So I hope the next president of the United States, whoever that might be, will begin their administration by calling for a bipartisan approach on the issue of health care.

There are other issues -- and we obviously need at the bargaining table to address what can be addressed at the bargaining table, but the bargaining table can only get at part of it, it can't get at the biggest piece of it.

Q   What kind of direction would you like this kind of health care reform to go in? What kind of bipartisan solution could there be?

MR. SNOW: Well, the elements of it you can see in the candidates' various proposals. The elements are out there -- more reliance on consumers and consumer choice and markets. Americans are essentially terrific consumers. When we go to buy a car, boy, we really shop, you know. We know all the brands, we know price comparisons, we know quality comparisons, we go to the Internet, we go to the dealer lots, we talk to our son in California or daughter in New York who knows more about cars than we do, we talk to our neighbors, we read the newspapers, and we finally make a purchase. We know a lot about what we're buying.

Contrast that to buying health care. We don't shop, we don't ask many questions, and we don't pay the bill, right -- (chuckles). We've got to get consumers more in the game, which why I continue to support things like these health savings accounts -- high deductible, give people protection in the event of a real risk -- I mean insurance risk, given them protection. But make them think about that visit to the doctor -- (laughs). Make them ask themselves the question, "Do I really need that process or that procedure?" "Do I need that extra examination?

I was making this argument on one of the national talk shows several years ago, and one of the panelists as we're walking out said to me, "Hey, Mr. Secretary, I think you made a good point there." And I said, "Well that's great coming from you. You don't usually credit me with having -- making a lot of good points because you're sort of a critic of all that we're about." He said, "No, on this one, I'm serious. I think you made a good point." And I said, "Well, why do you say that?"

He said, "Well, I went for my annual physical and the doctor, at the end of the physical, said, "You're looking great. You're going to live to be 90. You're terrific. Don't have anything to recommend, just keep doing what you're doing. But, by the way, there are a couple of tests I didn't give you. I don't think they'll amount to anything but, you know, they're available if you want them.

And the fellow said to me, "You know, I thought about that and I said to myself, well, why not get them? They're free." Yeah, they aren't free. Somebody's paying for them. But we act as if health care is free. So I'd say one principle is, let's get consumers in the game. Let's create choice. Let's create markets.

I think you got to deal with the liability issue. And I think an important part of why our health care system operates the way it does and it's -- in some ways the best in the world and in others not anywhere close -- is the tort reform We need liability. We need to fix this system of punitive damages that is chasing doctors out of the business early because of the risks to them of lawsuits.

So there's a lot we need to do. But we'll will never get any of that done without a bipartisan approach and it takes the president of the United States -- the only way to get attention to an issue like this is if the president of the United States says, you know, "We've got to do it and I'm going to call a bipartisan meeting to get it done."

And at that bipartisan meeting -- I wish Senator Moynihan was around because he, you know, chaired some of these commissions. And every commission he chaired he began with the observation, "Look we come here with different values, different parties, different backgrounds, different approaches -- let's park our philosophy and our parties for a while and look at the facts and see if we can't agree on the facts. And then after we agree on the facts, let's come back and resume our philosophical debate." But it would help if we had the facts straight before we got into philosophy. It's a view I share.

MR. ZREMSKI: You were in this administration for three years. Why didn't this president do what you're suggesting?

MR. SNOW: Well, he tried on Social Security. He made a valiant effort on social security -- really did. I think he showed courage and determination on Social Security. He spent a lot of political capital on Social Security. And the country, our political processes weren't ready. But I will always hold the president in enormous regard for that effort, commend him for it. And I think he put the company forward because we'll now put the next debate on Social Security from a higher plateau. He did help educate the country about Social Security. He did get Social Security as a conversation topic on the breakfast and dinner tables and so on.

But he never -- we never got the full engagement that you need in a bipartisan way. And an issue of that significance will only get resolved and can only get resolved when you're touching something as important to America as its Social Security system -- you know the great legacy of FDR -- if it's approached on a bipartisan way. And you can't manufacture bipartisanship. You know, you got to have people on the other side willing to stand up and say, "We want a bipartisanship approach, too."

MR. ZREMSKI: Would it have been better to go for health care reform rather than Social Security reform?

MR. SNOW: Well, I don't know. You can always Monday morning quarterback and these sorts of things. I think the reason to go for Social Security first -- this may sound odd -- is it's a lot easier. It's a heck of a lot easier.

Social Security is really just about arithmetic. And the arithmetic got laid out pretty well. In 1937 when the system got underway, people -- life expectancy was 65 years, right? At that time, we had I think it was 16 workers for every retiree. Today, the life expectancy is many more years so people draw that social security much longer. And, importantly, there are only like 2.8 workers for every retiree. And with the baby boomers now right on the cusp of the baby boomer retirement, it's going to go to two to one.

Well, a system that makes sense based on the premise of people living to be 65 and 16 workers to one paying in and now we're going to two to one and people live 15 years longer, the basic arithmetic doesn't work anymore. So we've got to get to a system that recognizes the realities of longer lives and fewer workers paying into the system.

MR. ZREMSKI: What do you think about criticism of President Bush as being out of touch and what do you think his legacy will be?

MR. SNOW: Oh, I think the president is a person of enormous determination and character. And if he thinks he's right, he's not going to look at the polls and he's not going to be swayed by popular opinion which are the characteristics of a real leader. I think he will go down in history as a man of determination, a man of character and a man of courage who made some tough calls. I mean, that call on Social Security was tough.

The verdict on the Iraq was, you know, probably a verdict as people say will -- history will judge that one 20 years from now or 25 years from now. But I think the verdict on the president will be a man of courage and character, decisive who stood by his guns.

MR. ZREMSKI: Now some questions about private equity. There is a lot of congressional attention on private equity funds and hedge funds these days. What do you see as the risks to the private equity industry's future and what is your message for lawmakers who criticize hedge funds and private equity?

MR. SNOW: Well, I suppose a lot there, Jerry, depends on what they're saying. But taking the question broadly, my answer is look, private equity plays an awfully important role today in the way the American economy works and the way the global economy works. It's clearly been a positive for the U.S. economy and the global economy. There can't be any real question about that.

When I was at Treasury that was a subject that we continued to look into through the president's working group on financial markets. And I developed, I think, a pretty good appreciation of the role of private equity and was a subject that we talked about at the finance ministers' meetings and so on.

Governments need to monitor hedge funds, private equity. They need to understand it. We studied it when I was at Treasury, spent a lot of time on it and concluded that, in the case of hedge funds, a lighter regulatory approach was better. And that's -- I'm pleased to see -- is view that continues to be held by most finance ministries and most finance and central bank governors.

At the same time, government needs to understand this phenomenon and monitor it. I think that's healthy that there is continuing review of the role of private equity. Anything that has such far-reaching, far-flung and important effects on an economy needs to be the subject of governmental attention.

Then the question is, what do you do with it, you know? The idea to tax it more heavily, I think, carries a lot of risks. I think the idea of regulating it a lot more heavily carries a lot of risks that time here won't permit a full discussion of. But keep in mind on the tax side the principle, "You always get less of anything you tax," right? If you raise the taxes on an activity, you'll find that you get less of it.

That was why we -- when I was in the Bush administration -- we wanted to lower the taxes on investment -- reduce dividends and capital gains taxes because if you reduce taxes on capital, you get more capital.

And more capital has a beneficial effect on the economy as a whole, as evidenced by all the good numbers, you know, that we've seen since those tax cuts took effect, including on the revenue side of the U.S Treasury, where we've had a virtual gusher of revenues ever since those tax cuts took effect. Same in private equity. If you tax it more heavily, you'll get less of it. It's important also in this -- it must be the question of carried interest -- that we keep the categories of income straight. If what's being earned is ordinary income, then it should be taxed as ordinary income. But under the code of the United States, what is risk return -- what is return to capital -- gets taxed at the capital gains rates.

That's an awfully important analytical concept. It's also a very important practical concept because millions of Americans have organized their business affairs around the principle of partnerships that bear risks that are taxed as capital gain. And that's virtually every business that gets organized in America. It's the oil and gas joint ventures partnerships and it's the real estate partnerships and it's the small businesses. So that's a very important concept to keep in mind as we think about it. On the regulation side, I think the best regulation is always the market itself and the most effective way to regulate hedge funds -- private equity funds is through the counterparties that today do the monitoring, vetting and policing. And they do a good job.

MR. ZREMSKI: Is the success of private equity firms an indictment of the current state of the U.S. public company? And is the focus on quarterly results ultimately sometimes destructive to overall long-term corporate performance?

MR. SNOW: The public markets are efficient, and they're made more efficient because of private equity. Private equity is always sitting there, watching what's going on in the public markets. If the company underperforms -- and they could underperform for a variety of reasons. Sometimes it's the short term-itis. Sometime the particular company in question is sort of an orphan in the corporate world. It's away from the core mission of the company, the larger company, and it doesn't get the attention it needs.

In circumstances like that, private equity plays a very beneficial role. It allows management to focus on the long term. It allows it to make capital investments that often public markets, in the cases of particular companies, won't allow because the public market would rather have a buyback of shares than they would an investment in the long term. The management would rather take the long view and reward the shareholders -- three, four, five years from now, rather than today, on the theory that the reward three-four-five years from now is a lot bigger than the reward we can pay you today if we can make that investment and turn this situation around. So sure, there are a number of instances where private equity is a better answer.

But it's not a panacea and it's not universal. We're -- I'm not contending here that public companies should all go private. Far from it. There are some that should and many, many, many that should stay the way they are.

MR. ZREMSKI: We're almost out of time, but before I ask the last question, we've got a couple of other important matters to tend to.

First of all, let me remind our members of our future speakers. On Friday, July 20th, General James Conway, the commandant of the U.S. Marine Corps, will with us. On July 23rd, Mel Karmazin, CEO and director of Sirius Satellite Radio, will be here. And our July 24th speech has actually been postponed, so I won't announce it. (Laughter.)

Secondly, we have many traditions here at the National Press Club as you know, having been here before. And we're going to be crowding up your office wall with another plaque.

MR. SNOW: Oh, wonderful. Thank you, thank you.

MR. ZREMSKI: And of course, last but not least --

MR. SNOW: Ah --

MR. ZREMSKI: -- the National Press Club mug.

MR. SNOW: -- thank you, Jerry, very, very much. Thank you. (Applause.)

MR. ZREMSKI: And the last question is a Chrysler Corporation question. And that would be, are there any plans to bring back the K-Car? (Laughter.)

MR. SNOW: I remember that car well, and many, many other Chrysler cars that you all know. My first car was a DeSoto, a 1947

DeSoto. Very few of you were even -- Glenn (sp), you and were around then, but -- (laughter) -- very few others. I can't say -- I can't give a specific answer to that, but I can tell you we are going to be focused on producing really high-quality, good cars that America -- Americans will want to drive.

Thank you, Jerry, very much.

MR. ZREMSKI: Thank you very much. Appreciate it. (Applause.)

I'd like to thank you for coming today. I'd also like to thank National Press Club members Pat Nelson, Joanne Booz and Howard Rothman for organizing today's lunch. Also, thanks to the National Press Club's library for its research. The video archive of today's luncheon is provided by the National Press Club's Broadcast Information -- Broadcast Operations Center. Press club members can also access free transcripts of our luncheons at our website, www.press.org, and non-members may purchase transcripts, audio and videotapes by calling 1-888-343-1940.

Thank you. We're adjourned. (Gavel sound, applause.)

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