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KEYNOTE SPEAKERS:
FORMER UNITED STATES
SECRETARY OF STATE
HILLARY RODHAM CLINTON and
LLOYD BLANKFEIN

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Before Patricia T. Morrison, Registered
Professional Reporter and Notary Public of the
State of South Carolina.

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MS. CLINTON: Let's start with the chairman.

MR. BLANKFEIN: China. We're used to the economic team in China. We go there all the time. The regulations -- and then every once in a while you hear about South China, the military side.

How do you from the state department point of view -- less familiar to us -- think about China, the rise of China, and what that forebodes for the next couple of decades?

MS. CLINTON: Well, you start off with an easy question, but first let me thank you. Thanks for having me here and giving me an opportunity both to answer your questions and maybe later on some of the questions that some of the audience may have.

I think it's a good news/maybe not so good news story about what is going on right now in China. On the good news side I think the new leadership -- and we'll see more of that when Xi Jinping gets here in the United States after having gone to Latin America. He's a more sophisticated, more effective public leader than Hu Jintao was.

He is political in the kind of generic sense of that word. You can see him work a room, which I have watched him do. You can have him make small talk with you, which he has done with me.

His experience as a young man coming to the United States in the 1980s -- going to Iowa, spending time there, living with a family -- was a very important part of his own development.

MR. BLANKFEIN: His daughter is at Harvard?

MS. CLINTON: Yes. They don't like you

to know that, but most of the Chinese leadership children are at American universities or have been.

I said to one very, very high ranking Chinese official about a year, year and a half ago -- I said: I understand your daughter went to Wellesley. He said: Who told you? I said: Okay. I don't have to punish the person then.

So I think that the leadership -- and for me that's important, because you've seen the clever moves that he's made already. He not only went to Russia on the first trip, he went to Africa and then to South Africa. Now in Latin America.

Some of it is the same old commodity hunt, but some of it is trying to put a different phase on that and to try to assuage some of the doubts and some of the concerns that have been bubbling up over the last couple of years about Chinese practices, both governmental and commercial.

So he's someone who you at least have the impression is a more worldly, somewhat more experienced politician. And I say that as a term of praise, because he understands the different levers and the constituencies that he has to work with internally and externally. That's especially important because of the recent moves he's making to consolidate power over the military.

One of the biggest concerns I had over the last four years was the concern that was manifested several different ways that the PLA, the People's Liberation Army, was acting somewhat independently; that it wasn't just a good cop/bad cop routine when we would see some of the moves and some of the rhetoric coming out of the PLA, but that in effect that were making some foreign

policy. And Hu Jintao, unlike Jiang Zemin before him, never really captured the authority over the PLA that is essential for any government, whether it's a civilian government in our country or a communist party government in China.

So President Xi is doing much more to try to assert his authority, and I think that is also good news.

Thirdly, they seem to -- and you all are the experts on this. They seem to be coming to grips with some of the structural economic problems that they are now facing. And look, they have them. There are limits to what enterprises can do, limits to forcing down wages to be competitive, all of which is coming to the forefront; limits to a real estate bubble. All of the cyclical business issues that they're going to have to confront like every other economy, and they seem to be making steps to do so.

On the not so good side there is a resurgence of nationalism inside China that is being at least condoned, if not actively pushed by the new Chinese government. You know, Xi Jinping talks about the Chinese dream, which he means to be kind of the Chinese version of the American dream. There has been a stoking of residual anti-Japanese feelings inside China, not only in the leadership but in the populace. It's ostensibly over the dispute that is ongoing, but it's deeper than that and it is something that bears very careful watching. Because in my last year, year and a half of meetings with the highest officials in China the rhetoric about the Japanese was vicious, and I had high Chinese officials in their 60s and 50s say to me: We all know somebody who was killed by the

Japanese during the war. We cannot let them resume their nationalistic ways. You Americans are naive. You don't see what is happening below the surface of Japan society.

Riots that were not oppressed by the police against Japanese factories, against the Japanese ambassador's car -- those kinds of actions that were acting out in the sense of nationalism, which could well be a tool that the new government uses to try to manage some of the economic changes. Divert people's attention. Get them upset at the Japanese. Not upset the party.

We're a little concerned about that.

MR. BLANKFEIN: Does it make any of the other Asian countries nervous and therefore gravitate closer to the US?

MS. CLINTON: There is a lot of anxiety, but it's a schizophrenic, I guess is the way I put it. On the one hand, no nation wants to be viewed as hostile to China. That's not in their interests. They have -- if you're Japan or South Korea in particular, you have a lot of business that you have to do. So you're going to want to keep the relationship on an even keel at the same time this assertiveness, which we first saw most particularly around the South China seas starting in 2010, kind of ended the charm offensive that Chinese were conducting with all of their neighbors in Southeast Asia and the assertion of control over the entire sea.

If you Goggle up what the Chinese claim is, it's the entire South China sea. And I would have these arguments with the state counselor, Dai Bingguo, with the foreign minister, Yang Jiechi, and I would say: You know, if you believe this,

take it to arbitration.

MR. BLANKFEIN: An unfortunate name.

MS. CLINTON: Which one?

MR. BLANKFEIN: The South China sea.

MS. CLINTON: Yes, it is. And there are a lot of people who refuse to call it that anymore. The Filipinos now call it the Filipino sea and the East China Sea is called the Japanese Sea.

So yeah. We've got all these geographic and historic challenges that are coming to the forefront, which seems a little strange when you think about the economic development and growth that has gone on in the last 30 years, to be harkening back to the 1930s and the second world war at a time when you've surpassed Japan.

You're now the second biggest economy in the world. It really does raise questions about what is going on in the calculus of the leadership that would encourage them to pursue this kind of approach. Nationalism, of course. Sovereignty, of course. And if you want to go into it there is -- I can give you their side of the question on what the Japanese called the -- you know, you can go into why they are so agitated about it. But the fact is, they have bigger fish to fry in the South China Sea and elsewhere.

So why are they intent upon picking this fight and asserting this at this time? Why are they slamming into Filipino fishing vessels? You know, a poor country that is just desperately trying to get its growth rate up and making some progress in doing that. So it bears watching, and obviously it matters to all of us.

MR. BLANKFEIN: The Japanese -- I was

more surprised that it wasn't like that when you think of -- all these different things. It's such a part of who they are, their response to Japan. If you bump into the Filipino fishing boats, then I think you really -- while we're in the neighborhood, the Chinese is going to help us or help themselves -- what is helping themselves? North Korea? On the one hand they wouldn't want -- they don't want to unify Korea, but they can't really like a nutty nuclear power on their border.

What is their interests and what are they going to help us do?

MS. CLINTON: Well, I think their traditional policy has been close to what you've described. We don't want a unified Korean peninsula, because if there were one South Korea would be dominant for the obvious economic and political reasons.

We don't want the North Koreans to cause more trouble than the system can absorb. So we've got a pretty good thing going with the previous North Korean leaders. And then along comes the new young leader, and he proceeds to insult the Chinese. He refuses to accept delegations coming from them. He engages in all kinds of both public and private rhetoric, which seems to suggest that he is preparing himself to stand against not only the South Koreans and the Japanese and the Americans, but also the Chinese.

So the new leadership basically calls him on the carpet. And a high ranking North Korean military official has just finished a visit in Beijing and basically told: Cut it out. Just stop it. Who do you think you are? And you are dependent on us, and you know it. And we expect

you to demonstrate the respect that your father and your grandfather showed toward us, and there will be a price to pay if you do not.

Now, that looks back to an important connection of what I said before. The biggest supporters of a provocative North Korea has been the PLA. The deep connections between the military leadership in China and in North Korea has really been the mainstay of the relationship. So now all of a sudden new leadership with Xi and his team, and they're saying to the North Koreans -- and by extension to the PLA -- no. It is not acceptable. We don't need this right now. We've got other things going on. So you're going to have to pull back from your provocative actions, start talking to South Koreans again about the free trade zones, the business zones on the border, and get back to regular order and do it quickly.

Now, we don't care if you occasionally shoot off a missile. That's good. That upsets the Americans and causes them heartburn, but you can't keep going down a path that is unpredictable. We don't like that. That is not acceptable to us.

So I think they're trying to reign Kim Jong in. I think they're trying to send a clear message to the North Korean military. They also have a very significant trade relationship with Seoul and they're trying to reassure Seoul that, you know, we're now on the case. We couldn't pay much attention in the last year. We've got our own leadership transition. But we're back focused and we're going to try to ensure that this doesn't get all the rails.

So they want to keep North Korea within their orbit. They want to keep it predictable in

their view. They have made some rather significant statements recently that they would very much like to see the North Koreans pull back from their nuclear program. Because I and everybody else -- and I know you had Leon Panetta here this morning. You know, we all have told the Chinese if they continue to develop this missile program and they get an ICBM that has the capacity to carry a small nuclear weapon on it, which is what they're aiming to do, we cannot abide that. Because they could not only do damage to our treaty allies, namely Japan and South Korea, but they could actually reach Hawaii and the west coast theoretically, and we're going to ring China with missile defense. We're going to put more of our fleet in the area.

So China, come on. You either control them or we're going to have to defend against them.

MR. BLANKFEIN: Wouldn't Japan -- I mean, isn't the thinking now what is going to happen? But why wouldn't Japan at that point want to have a nuclear capability?

MS. CLINTON: Well, that's the problem with these arms races.

MR. BLANKFEIN: Nuclear technology --

MS. CLINTON: But they don't have a military. They have a currently somewhat questionable and partially defunct civilian nuclear industry. So they would have to make a huge investment, which based on our assessments they don't want to have to make.

You know, there is talk in Japan about maybe we need to up our economic commitments to our military forces. Maybe we have to move from basically a self-defense force to a real military again, which would just light up the sky in terms

of reactions in China and elsewhere.

So the Japanese have not -- and with Abe trying to focus on the economy and deal with the political problems with the structural reforms, he doesn't want to have to do that. But there are nationalistic pressures and leaders under the surface in governorship and mayor positions who are quite far out there in what they're saying about what Japan should be doing. And part of the reason we're in the mess on the Senkakians is because it had been privately owned. And then the governor of Tokyo wanted to buy them, which would have been a direct provocation to China because it was kind of like: You don't do anything. We don't do anything. Just leave them where they are and don't pay much attention to them. And the prior government in Japan decided: Oh, my gosh. We can't let the governor of Tokyo do this, so we should buy them as the national government.

And I watched the most amazing argument -- you know, Hu Jintao was always so impassive in public, especially around us. And I was in Vladivostok last September representing the president at the APEC meeting, and they had the leaders in a holding room, and we were all in there waiting to go out to some event. And you had Hu Jintao in a corner screaming at them, and we all were listening because their interpreters could translate from Chinese to English to English to Japanese and vice versa. So we got to hear the whole thing. And so we tried to prevent the problem. That's why we bought it. That is unacceptable. We never should have done it. The national government should never own these things. But we can control it better. It wouldn't be in

the hands of a nationalist.
I don't care. This is breaking the -- it was
really fascinating.

You can actually have four translators
in your home. This is something that most
families --

MR. BLANKFEIN: The next area which I think is actually literally closer to home but where American lives have been at risk is the Middle East, I think is one topic. What seems to be the ambivalence or the lack of a clear set of goals -- maybe that ambivalence comes from not knowing what outcome we want or who is our friend or what a better world is for the United States and of Syria, and then ultimately on the Iranian side if you think of the Korean bomb as far away and just the Tehran death spot, the Iranians are more calculated in a hotter area with -- where does that go? And I tell you, I couldn't -- I couldn't myself tell -- you know how we would like things to work out, but it's not discernable to me what the policy of the United States is towards an outcome either in Syria or where we get to in Iran.

MS. CLINTON: Well, part of it is it's a wicked problem, and it's a wicked problem that is very hard to unpack in part because as you just said, Lloyd, it's not clear what the outcome is going to be and how we could influence either that outcome or a different outcome.

So let's just take a step back and look at the situation that we currently have in Syria. When -- before the uprising started in Syria it was clear that you had a minority government running with the Alawites in lead with mostly the other minority groups -- Christians, the Druze, some

significant Sunni business leaders. But it was clearly a minority that sat on top of a majority. And the uprisings when they began were fairly mild in terms of what they were asking for, and Assad very well could have in my view bought them off with some cosmetic changes that would not have resulted in what we have seen over the now two years and the hundred thousand deaths and the destabilization that is going on in Lebanon, in Jordan, even in Turkey, and the threat throwing to Israel and the kind of pitched battle in Iran well supported by Russia, Saudi, Jordanians and others trying to equip the majority Sunni fighters.

I think that we have tried very hard over the last two years to use the diplomatic tools that were available to us and to try to convince, first of all, the Russians that they were helping to create a situation that could not help but become more chaotic, because the longer Assad was able to hold out and then to move offensively against the rebels, the more likely it was that the rebels would turn into what Assad has called them, terrorists, and well equipped and bringing in Al-Qaeda and its affiliates.

The Russian's view of this is very different. I mean, who conceives Syria as the same way he sees Chechnya? You know, you have to support toughness and absolute merciless reactions in order to drive the opposition down to be strangled, and you can't give an inch to them and you have to be willing to do what Assad basically has been willing to do.

That has been their position. It pretty much remains their position, and it is a position that has led to the restocking of

sophisticated weapon systems all through this. The Russians' view is that if we provide enough weapons to Assad and if Assad is able to maintain control over most of the country, including the coastal areas where our naval base is, that's fine with us. Because you will have internal fighting still with the Kurds and with the Sunnis on the spectrum of extremism. But if we can keep our base and we can keep Assad in the titular position of running the country, that reflects well on us because we will demonstrate that we are back in the Middle East. Maybe in a ruthless way, but a way that from their perspective, the Russian perspective, Arabs will understand.

So the problem for the US and the Europeans has been from the very beginning: What is it you -- who is it you are going to try to arm? And you probably read in the papers my view was we should try to find some of the groups that were there that we thought we could build relationships with and develop some covert connections that might then at least give us some insight into what is going on inside Syria.

But the other side of the argument was a very -- it was a very good one, which is we don't know what will happen. We can't see down the road. We just need to stay out of it. The problem now is that you've got Iran in heavily. You've got probably at least 50,000 fighters inside working to support, protect and sustain Assad. And like any war, at least the wars that I have followed, the hard guys who are the best fighters move to the forefront.

So the free Syrian Army and a lot of the local rebel militias that were made up of

pharmacists and business people and attorneys and teachers -- they're no match for these imported toughened Iraqi, Jordanian, Libyan, Indonesian, Egyptian, Chechen, Uzbek, Pakistani fighters that are now in there and have learned through more than a decade of very firsthand experience what it takes in terms of ruthlessness and military capacity.

So we now have what everybody warned we would have, and I am very concerned about the spillover effects. And there is still an argument that goes on inside the administration and inside our friends at NATO and the Europeans. How do we intervene -- my view was you intervene as covertly as is possible for Americans to intervene. We used to be much better at this than we are now. Now, you know, everybody can't help themselves. They have to go out and tell their friendly reporters and somebody else: Look what we're doing and I want credit for it, and all the rest of it.

So we're not as good as we used to be, but we still -- we can still deliver, and we should have in my view been trying to do that so we would have better insight. But the idea that we would have like a no fly zone -- Syria, of course, did have when it started the fourth biggest Army in the world. It had very sophisticated air defense systems. They're getting more sophisticated thanks to Russian imports.

To have a no fly zone you have to take out all of the air defense, many of which are located in populated areas. So our missiles, even if they are standoff missiles so we're not putting our pilots at risk -- you're going to kill a lot of Syrians. So all of a sudden this intervention that people talk about so glibly becomes an American and

NATO involvement where you take a lot of civilians.

In Libya we didn't have that problem. It's a huge place. The air defenses were not that sophisticated and there wasn't very -- in fact, there were very few civilian casualties. That wouldn't be the case. And then you add on to it a lot of the air defenses are not only in civilian population centers but near some of their chemical stockpiles. You do not want a missile hitting a chemical stockpile.

We have a big set of issues about what is going to happen with those storehouses of chemicals since a lot want their hands on them. The Al-Qaeda affiliates want their hands on them, and we're trying to work with the Turks and the Jordanians and NATO to try to figure out how we're going to prevent that. The Israelis are --

MR. BLANKFEIN: Israel cares about it.

MS. CLINTON: Israel cares a lot about it. Israel, as you know, carried out two raids that were aimed at convoys of weapons and maybe some other stuff, but there was clearly weapons. Part of the tradeoff that the Iranians negotiated with Assad.

So I mean, I've described the problem. I haven't given you a solution for it, but I think that the complexity of it speaks to what we're going to be facing in this region, and that leads me to Iran.

Our policy -- and President Obama has been very clear about this. Our policy is prevention, not containment. What that means is that they have to be prevented from getting a nuclear weapon.

Now, the definition of that is debated.

I have a very simple definition. If they can produce the pieces of it and quickly assemble it, that's a nuclear weapon, even if they keep three different parts of it in different containers somewhere. If they do that it goes back to Lloyd's first point. The Saudis are not going to stand by. They're already trying to figure out how they will get their own nuclear weapons. Then the Emirates are not going to let the Saudis have their own nuclear weapons, and then the Egyptians are going to say: What are we? We're the most important Arab country in the world. We're going to have to have our own nuclear weapons. And then the race is off and we are going to face even worse problems in the region than we currently do today.

MR. BLANKFEIN: What do you -- I've always assumed we're not going to go to war, a real war, for a hypothetical. So I just assumed that we would just back ourselves into some mutually assured destruction kind of -- you know, we get used to it. That it's hard to imagine going to war over that principle when you're not otherwise being threatened.

So I don't see the outcome. The rhetoric is there, prevention, but I can't see us paying that kind of a price, especially what the president has shown. We're essentially withdrawing from Iraq and withdrawing from Afghanistan. It's hard to imagine going into something as open ended and uncontrollable as the occupation of Iran. How else can you stop them from doing something they committed to doing?

MS. CLINTON: Well, you up the pain that they have to endure by not in any way occupying or invading them but by bombing their

facilities. I mean, that is the option. It is not as, we like to say these days, boots on the ground.

MR. BLANKFEIN: Has it ever worked in the history of a war? Did it work in London during the blitz or --

MS. CLINTON: No. It didn't work to break the spirit of the people of London, but London was a democracy. London was a free country. London was united in their opposition to Nazi Germany and was willing to bear what was a terrible price for so long with the blitz and the bombings.

Everybody says that Iran, you know, has united --

MR. BLANKFEIN: Many -- they held out for an awful --

MS. CLINTON: They wanted -- yeah. But I mean, people will fight for themselves. They will fight for themselves, but this is fighting for a program. I mean, the calculation is exactly as you described it. It's a very hard one, which is why when people just pontificate that, you know, we have no choice. We have to bomb the facilities. They act as though there would be no consequences either predicted or unpredicted. Of course there would be, and you already are dealing with a regime that is the principal funder and supplier of terrorism in the world today.

If we had a map up behind us you would be able to see Iranian sponsored terrorism directly delivered by Iranians themselves, mostly through the Revolutionary Guard Corps, the operatives, or through Islah or other proxies from to Latin American to Southeast Asia. They were caught in Bulgaria. They were caught in Cyprus. They were caught in Thailand. They were caught in Kenya. So

it's not just against the United States, although they did have that ridiculous plot of finding what they thought was a drug dealer to murder the Saudi ambassador.

They really are after the sort of targets of anyone they believe they can terrorize or sort of make pay a price because of policies. So the fact is that there is no good alternative. I mean, people will say, as you do, mutually assured destruction, but that will require the gulf states doing something that so far they've been unwilling to do, which is being part of a missile defense umbrella and being willing to share their defense so that if the best place for radar is somewhere that can then protect the Saudis and the Emirates, the Saudis would have to accept that. That is not likely to happen.

So mutually assured destruction as we had with Europe in the '40s, '50s, '60s, '70s, '80s until the fall of the Soviet Union is much harder to do with the gulf states and it will be unlikely to occur because they will think that they have to defend themselves. And they will get into the business of nuclear weapons, and these are -- the Saudis in particular are not necessarily the stablest regimes that you can find on the planet. So it's fraught with all kinds of problems.

Now, the Israelis, as you know, have looked at this very closely for a number of years. The Israelis' estimate is even if we set their program back for just a couple of years it's worth doing and whatever their reaction might be is absorbable. That has been up until this recent government, the prior government, their position. But they couldn't do much damage themselves.

We now have a weapon that is quite a serious one, and it can do a lot of damage and damage that would --

MR. BLANKFEIN: Two miles before it blows up or something?

MS. CLINTON: Yes. It's a penetrator. Because if you can't get through the hardened covering over these plants into where the centrifuges are you can't set them back. So you have to be able to drop what is a very large precision-guided weapon.

Nobody wants either of these outcomes. That's the problem. And the supreme leader, Khamenei, keeps going around saying: We don't believe in nuclear weapons. We think they are anti-Islam. But the fine print is: We may not assemble them, but we'll have the parts to them. That's why we keep testing missiles. That's why we keep spinning centrifuges. That's why we are constantly looking on the open market to steal or buy what we need to keep our process going.

So that's what you get paid all these big bucks for being in positions like I was just in trying to sort it out and figure out what is the smartest approach for the United States and our allies can take that would result in the least amount of danger to ourselves and our allies going forward, a contained Iran or an attacked Iran in the name of prevention? And if it were easy somebody else would have figured it out, but it's not. It's a very tough question.

MR. BLANKFEIN: Isn't it amazing that we can go through and think of Europe as an afterthought?

MS. CLINTON: Our allies?

MR. BLANKFEIN: Our allies. The US is now oriented towards the Pacific and looking that way. It's another surprise, having grown up as we did, that our attention would be so focused on Asia. But I guess we have a training issue with the EU.

MS. CLINTON: Yes.

MR. BLANKFEIN: Of course everybody here in the financial service industry is very focused on trying to harmonize different -- but from our point of view what is incomprehensible is the governance of Europe and the consequences of Brussels and the single currency that no one has any account of, and the fact is they may not be as important if they don't get their economy in shape and they don't grow over the course of the next -- any observations there?

MS. CLINTON: Well, certainly we are always looking to Europe as our allies of first resort. Our common values, our common history. All of that is really just baked into the DNA of how we think about our future, and NATO remains the most important and really remarkable military alliance, I think, in human history.

So there is a lot that we are still very attentive to and working on. There is no doubt that Europe is going through -- you know better than I -- some serious readjustments. Where they will come out I don't think any of us are in a position yet to predict. It may be in Europe what Winston Churchill used to say about us: The Americans will finally get to the right answer after trying nearly everything else, and maybe they will stumble and work their way toward more accommodation in recognizing the realities of what

it means to have a common currency without a common system to back up that currency.

So I would certainly not count the Europeans out, but I think they have a lot of work to do. And I'm actually more concerned from another perspective. I think that unless the national leaders and the European union and Eurozone leaders get their act together, you will see some pretty unpredictable leaders and political parties coming to the forefront in a lot of countries.

You'll see a lot of nationalism. You will see a lot of chauvinism. You'll see UK parties that is -- winning elections in UK is going to push Cameron and his coalition government to the right as it moves towards an election -- I think in 2015. What does that mean for Europe? What does that mean for our relationship?

You've got the NATO military alliance already being starved of necessary funds because of all the budgets, and most of the European countries have been so decimated. So I think that -- it's not clear to me where it's going to come out yet. They have to take a lot of really unpleasant medicines, and some are more willing to do that than others and see whether or not they have the political will to make these hard decisions individually and collectively, and right now I think the jury is out.

But on the trade and regulatory harmonization, we are very serious about that and something that I strongly supported. The discussions are ongoing. It will come down, as it often does, to agriculture, particularly French agriculture, and we'll just have to see how much we

can get done by that process. And there is no doubt that if we can make progress on the trade regulatory front it would be good for the Europeans. It would be good for us. And I would like to see us go as far as we possibly can with a real agreement, not a phony agreement. You know, the EU signs agreements all the time with nearly everybody, but they don't change anything. They just kind of sign them and see what comes of it.

I think we have an opportunity to really actually save money in our respective regulatory schemes, increase trade not only between ourselves but also be more effective in helping to keep the world on a better track for a rural spaced global trading system by having us kind of set the standards for that, along with the TPC, which we didn't mention when we talked about Asia, which I think is also still proceeding.

MR. BLANKFEIN: I think we need to open it up to some questions now, and if there is a pregnant pause I know what to follow up with.

PARTICIPANT: One question for you.

MR. BLANKFEIN: Do me a favor? Why don't we introduce ourselves to the secretary when you ask a question.

PARTICIPANT: Secretary, Jeff Gordon with Diverse Technologies.

As you examine the global situation, if you were to turn back toward the domestic side and look here at the US and after the 2012 elections and give your own kind of third-party assessment of what do we have to do on each side of the aisle to get America back to a functional government. Because we've heard a lot even today that the government has really gotten to a point of

dysfunctionality that may be almost unprecedented.

So just stepping back a little while and just saying: What do you think? What is your perspective on where the parties are and what we have to do to kind of solve the problems here domestically so that we can come up with a unified approach?

MS. CLINTON: I know -- I heard Leon was here and was his usual shy and reluctant self to express an opinion and certainly never to use any colorful language, but I'm sure "dysfunctional" was probably the best of the words he used to describe what is going on in Washington.

Look, I think there is a couple of things. One, I talk a lot about it, and I talked about it when I was a senator. I talked about it as Secretary. I'm talking about it now.

You know, we have to get back to at least trying to make evidence based decisions. I know that sounds so simplistic, but the ideological partisan position on all sides -- because there are people who refuse to look at facts and deal with them, coming from many different perspectives -- really undermines confidence in the people. The American people are smart. They may not be living and breathing politics, but they're looking and they're thinking: Come on, guys. Get it together. You ought to be able to make a deal of some sort.

You know, when my husband spoke at the the Democratic Convention he basically touted the virtues of arithmetic. Can you imagine a major speech having to be made about how arithmetic needs to be used as the basis for budgetary discussions? But in fact, we do need more of an outcry and

pressure from the rest of the American system, not just the politicians but business leaders and others who are saying: Let's try to figure out how we're going to move forward based on as near an evidence-based foundation as we possibly can manage.

Secondly, you know, people get rewarded for being partisan, and that's on both sides. The biggest threat that Democrats and Republicans face today, largely because of gerrymandering in the House, is getting a primary opponent from either the far right or the far left.

You know, there is no reason you would have noticed this, but there was a woman in the Senate -- and I think it was Kentucky -- recently who had an A plus rating from the NRA. A plus rating. She was a country legislator, highly regarded, and she was a chairman of a committee in the state legislature. And somebody introduced a bill with -- you know, it's not too much exaggeration to say that you should have your gun in your car at all times and it should be visible. And she said: Let's table it for a minute and think about the consequences.

So the NRA recruited an opponent for her who beat her. They put a lot of money into it and basically: You couldn't be reasonable. You couldn't say let's try to reason this out together. You had to tow the line, and whether it's a financial line or gun control line or whatever the line might be. But people let that happen. Voters let that happen.

I mean, the number of people who ask me questions very similar to what you asked I'm sure is representative of millions of people who feel

the same way. If you look at the polling and all the rest of it that's clear. But you need people who will stand up and say: I want somebody who exercises some judgment. I want somebody who is not just a mouthpiece for one point of view or another. I may have my own opinions, but let's have a debate here. That's what we were always good at in the past.

MR. BLANKFEIN: Wasn't it a virtue compromise at one point?

MS. CLINTON: Yes.

MR. BLANKFEIN: A compromise --

MS. CLINTON: Because in a democracy, especially as diverse as this one, which is not a theocracy or an autocracy. We don't think anybody or any party or any interest group has a lock on the truth. We actually think people bring their experience, their ability to think to the table, and then you hammer it out. And the compromise may not be perfect. In fact, it rarely is, but it represents the big thinking and the political will that is currently available in order to make a decision.

And I was in Hong Kong in the summer of 2011 and I had a preexisting program with a big business group there, and before we had a reception and there were about a hundred business leaders, many of them based in Hong Kong, some of them from mainland China, some of them from Singapore and elsewhere. They were lining up and saying to me: Is it true that the American Congress might default on America's full faith and credit, their standing, that you won't pay your bills?

And you know I'm sitting there I'm representing all of you. I said: Oh, no. No.

No. That's just politics. We'll work it through. And I'm sitting there: Oh, boy. I hope that is the case.

So for all of their efforts to take advantage of whatever mistake we might make or whatever problem we might have, they know right now at least in 2013, the beginning of this century, the United States isn't strong at home and abroad. They've got problems, and it is for me pretty simple. If we don't get our political house in order and demonstrate that we can start making decisions again -- and that takes hard work. I mean, don't -- I've served. I've been an elected official, an appointed official. There is nothing easy about working toward a compromise. I give a lot of credit to the eight senators, four Republicans and four Democrats in the Senate. You go from very conservative to what we would call very liberal. And they have sat down and they hammered out a compromise, and then they made a pledge they would stick to it as it went through the regular order of the committee hearing. How unusual. That used to be what we did in Congress. You know, people would get together and they would have hearings and then they would introduce bills and then they would mark them up, and you would win some and you would lose some, and then you go to the floor. And we need to get back to doing that, but the American people need to demand that that is what is expected.

And I don't care if you're a liberal icon or a conservative icon. If you are not willing to be active in your democracy and do what is necessary to deal with our problems, I think you should be voted out. I think you should just be

voted out, and I would like to see more people saying that.

PARTICIPANT: Secretary, Ann Chow from Houston, Texas. I have had the honor to raise money for you when you were running for president in Texas.

MS. CLINTON: You are the smartest people.

PARTICIPANT: I think you actually called me on my cell phone, too. I talked to you afterwards.

I think the biggest question in this room is: Do you think you're going to run for president again?

MR. BLANKFEIN: I was going to bet that wouldn't come up.

MS. CLINTON: I don't believe you.

Well, look. I don't know. I'm certainly not planning it. I've been out of the state department for what, four months? Four months.

MR. BLANKFEIN: You look like you are ready to get back.

MS. CLINTON: I am ready to continue to kind of think through what I'm doing and what I want to do. So I haven't made any decision and I'm not prepared to make any decision. I mean, on the one hand, as you could probably tell from my answers, I feel very strongly about our country and what is happening, and for me it just defies reason that we are in this paralysis at a time when we've got so much going for us and we could be so strong again and we could deal with so many of our problems.

We were talking at dinner. I mean, the

energy revolution in the United States is just a gift, and we're able to exploit it and use it and it's going to make us independent. We can have a North American energy system that will be unbelievably powerful. If we have enough of it we can be exporting and supporting a lot of our friends and allies. And there are other ways that we can put ourselves on a better footing, like passing a decent immigration law and dealing with our budget and being smart about it and realizing there is two sides to the equation. You've got to have spending restraints and you've got to have some revenues in order to stimulate growth.

I happen to think that part of the reason we are coming out of where we were a few years ago in part is because we did do that, unlike some of the choices the Europeans made. So I mean, we have teed up well if we just keep going and make these hard political decisions.

And so I very much want to watch and see what happens in the next couple of years before I make any decision. Because honestly, it's kind of nice being on my own schedule. It's kind of nice living in my own house.

MR. BLANKFEIN: In South Carolina?

MS. CLINTON: Yeah. Right. Here in South Carolina. Just traveling around. It's the first time I've been traveling in my own country for four years. It's kind of nice.

So I'm just taking it kind of easy, but thank for what you did for me in two 2008.

MR. BLANKFEIN: Just as a hypothetical, if someone were going to eventually have an entry in this and given that people line up and other people test the waters and people put their hat in

and start to raise money but they wouldn't want to do the impossible or intervene -- you know, at what point would somebody -- not you, but would somebody have to manifest some interest? Or would it start to become clear or would the observer start to say: This was some critical moment we see what she did here. For example, our very own governor declared that he was going to wait. You can't let people wait forever.

MS. CLINTON: You think not?

MR. BLANKFEIN: In his case it might be the best thing to wait.

MS. CLINTON: Well, this is just hypothetical and not about me.

MR. BLANKFEIN: I'm saying for myself.

MS. CLINTON: If you were going to run here is what I would tell you to do --

MR. BLANKFEIN: Very hypothetical.

MS. CLINTON: I think you would leave Goldman Sachs and start running a soup kitchen somewhere.

MR. BLANKFEIN: For one thing the stock would go up.

MS. CLINTON: Then you could be a legend in your own time both when you were there and when you left.

MR. BLANKFEIN: Enough about me.

MS. CLINTON: Look, I am of the mind that we cannot have endless campaigns. It is bad for the candidates. It's bad for the country. I mean, part of the reason why it's difficult to govern is because an election ends and then the next day people start jockeying for the next -- do your job. Get up and do the job you were elected to do. I believe that doing your job actually is

the right thing to do.

So I mean, I am constantly amazed at how attention deficit disordered the political punditry is. Because there is a lot to cover. There is so much that you could actually be educating people about. The difference that I experienced from running for the Senate, being in the Senate, running for president and being Secretary of State is that the press which covered me in the state department were really interested in the issues. I mean, they would drill them. They would have asked a hundred more questions about everything Lloyd has asked in the time that they had with me because they really cared about what I thought, what the US government was doing in these issues.

Our political press has just been captured by trivia. I mean, to me. And so you don't want to give them any more time to trivialize the importance of the issues than you have to give them. You want to be able to wait as long as possible, because hopefully we will actually see some progress on immigration, for example. Maybe circumstances will force some kind of budget deal. It doesn't look too promising, but stranger things have happened.

So let's give some space and some attention to these issues instead of who is going to run and what they're going to do and: Oh, my gosh. What is happening tomorrow? But if someone were going to run, given the process of raising money, given the -- you know, for better or worse I apparently have about a hundred percent name recognition. Most of it my mother would say is not true, but I live with it.

So for me it might be slightly different than for somebody else, but you certainly would have to be in raising money sometime next year or early the following year.

MR. BLANKFEIN: It's like the traffic in New York. No rush hour.

MS. CLINTON: Well, you know, I really admire Peter King. He's a Republican representative from Long Island. He and I did a lot of work together after 9/11 on terrorism and all of that. But when the vote on Sandy came up -- and a lot of Republicans voted against aid for New York and New Jersey, Peter King said to the New York funders: Don't give any of them any money because somehow you have to get their attention. So I thought it was pretty clever. I know what it's like. I mean, everybody is New York on Mondays.

MR. BLANKFEIN: All the senators declined to give aid to New York.

MS. CLINTON: Which ones?

MR. BLANKFEIN: The senator from Oklahoma.

MS. CLINTON: Yeah, I know, but that's what I mean. Peter King said: Don't give any of them money.

Emergency aid used to be off what was called off budget. You would go in with an appropriations request for a hurricane, like hurricane Andrew, I remember, back in '92 or whatever. You would have floods in the midwest and you would have tornadoes and you would have forest fires and on and on. And there are some people who as a matter of principle say: We shouldn't do it like that. We should not do it off budget. But

it's very hard to budget for disasters. I mean, you can fund FEMA, you can have a pool of money, but given what we're going through right now with one thing after another it's a difficult challenge.

So I think that we're going to have to take seriously how we fund disasters, but I think Peter's point was a larger one, which is -- you know, New York is kind of an ATM machine for both Democrats and Republicans, and people come up and they visit with many of you and they ask for money, and often they're given -- if they're coming they're going to get it. And at some point the American public -- and particularly political givers -- have to say: Here -- and it's not just about me. It's not just about my personal standings. Here are things I want you to do for the country and be part of that debate about the country.

MR. BLANKFEIN: I have to say we Republicans -- we obviously reach out to both sets. To a person -- a person regarded as someone who may be expected to be more partisan and has spent so much time is is very, very well liked by the Republicans.

PARTICIPANT: First off I would like to thank you for all the years. Of course, I'm on the other side.

MS. CLINTON: The dark side?

PARTICIPANT: It's the dark side right now, but otherwise the sun does come through. You have to be an optimist. But you have to put a great, great effort, and I commend you for it. But I would like two things. No. 1, you just talked about Sandy. And since you were First Lady and a senator -- forget the Secretary. But what is wrong

with our politicians -- I served in the Corps of Engineers. Whether it's in Iraq, Iran -- anyplace outside the US you can build bridges overnight. You could have gone into Sandy. You could have gone into New Orleans.

The actual problem is the law from the 1800s. No military, which is the only force, not the National Guard. They don't have crap. It's the military. Like down in New Orleans. If we would just change the dumb law -- because it hasn't been changed because politicians have no say once the president declares it martial law. Put the military up. They would have cleaned up that coast. You wouldn't have the frigging mess you have today. But we can do it for everybody else in the world, but we don't do it because the state judges don't have no authority. The mayor don't have no authority, because you're going to put a military officer in charge. That's one question why you haven't looked at --

MR. BLANKFEIN: They did that in New Orleans.

PARTICIPANT: Forget the -- the second thing you mentioned about Afghanistan. Most people don't realize the Russians were there before us for ten years and whatever, and we supported Tannenbaum to beat the hell out of them. A lot of our problems is because we have a competition with the Russians. If we would -- the Russians by nature hate the Chinese, but forget that.

If we were more or less kind of like forget that superpower, superpower, and work with them -- two superpowers equal a hell of a lot more in the world. You wouldn't have an Iranian problem, we wouldn't have the Syrian problem, and

why don't we just cut Israel loose? Give them the frigging bomb and just blow the thing up. That's my question to you.

MS. CLINTON: Those are interesting questions for sure.

First, I think you're referring to the posse comitatus, which has been actually in existence -- if not from the end of the 18th century, the very beginning, as you said, of the 19th century. And it is a law that really limits what the military, the US military, can do on our soil, and it has been supported all these years in part because there is a great suspicion by many of US government power -- and there is no more obvious evidence of that than the US military.

However, we do call out the National Guard, which is under the control, as you know, of the governor and the adjutant general. But it is clearly in the line of command as well from the Pentagon. So although it took some difficulties with Katrina we did get the National Guard out. With Sandy we got the National Guard out. But you're right, that if you were to want to have the military, the actual US military involved in disaster recovery, you would have to change the law. And it's something that would be a big fight in Congress because a lot of people would not vote to change a law that would give any additional authority to any president, Republican or democratic, to order the US military to go anywhere in the United States.

We kid about it, but I used to see it all the time when I was a senator. There is this great fear that the US military is going to show up and take away your guns and confiscate your

property. I think it's --

MR. BLANKFEIN: Was the last time that happened with Eisenhower?

MS. CLINTON: Yes. That was to enforce a court order.

MR. BLANKFEIN: It was shocking, jarring.

MS. CLINTON: It was. Wasn't it the 82nd? I mean, they flew through to desegregate the central high school, and it was viewed as a very provocative action.

PARTICIPANT: The fact is it proved what was right. Not what the politicians think. It's a case of sometimes the politicians, which includes --

MS. CLINTON: The politicians for more than 200 years have been united on this issue. There was a posse comitatus law before that. But the sensitivity about it was heightened and new regulations were put in after the Civil War, but --

PARTICIPANT: No disrespect, but if you were right you could not have had Illinois, Oklahoma, California join you. You had governors that were appointed there. Military law.

MS. CLINTON: Well, you can declare martial law. You can declare martial law.

PARTICIPANT: Military was always --

MS. CLINTON: Well, I personally could not favor turning control over to the United States military as much as I respect the United States military. I guess I'm on the other side of this with you.

I think that the civilian rule has served us well, and I don't want to do anything that upsets it even though I have a very personal

experience. You remember when Castro opened the prisons and sent all the criminals to the United States?

MR. BLANKFEIN: The --

MS. CLINTON: A lot of those prisoners were ordered to go to a fort in Ft. Smith, Arkansas, Ft. Chaffee, and my husband was governor of Arkansas at the time. It was a military fort, so the United States military ran it. So if you were on the fort you were under US military authority, but if you stepped off the fort you were not. And the result was there was a riot where prisoners were breaking through the gates, and the US military would not stop them.

So my husband as governor had to call out the state police. So you had the military inside basically saying under the law we can't do anything even to stop prisoners from Cuba. So it is complicated, but it's complicated in part for a reason, because we do not ever want to turn over to our military the kind of civilian authority that should be exercised by elected officials. So I think that's the explanation.

And finally on Afghanistan and Russia. Look, I would love it if we could continue to build a more positive relationship with Russia. I worked very hard on that when I was Secretary, and we made some progress with Medvedev, who was president in name but was obviously beholden to Putin, but Putin kind of let him go and we helped them get into the WTO for several years, and they were helpful to us in shipping equipment, even lethal equipment, in and out of Afghanistan.

So we were making progress, and I think Putin has a different view. Certainly he's

asserted himself in a way now that is going to take some management on our side, but obviously we would very much like to have a positive relationship with Russia and we would like to see Putin be less defensive toward a relationship with the United States so that we could work together on some issues.

We've tried very hard to work with Putin on shared issues like missile defense. They have rejected that out of hand. So I think it's what diplomacy is about. You just keep going back and keep trying. And the President will see Putin during the G20 in Saint Petersburg, and we'll see what progress we can make.

MR. BLANKFEIN: Secretary, all of us thank you for our service, but I think almost -- maybe all of us are hungry for more.

MS. CLINTON: Well, I'm not sure about all of us, but thank you.

(Event concluded at 9:15 P.M.)

CERTIFICATE OF REPORTER

I, Patricia T. Morrison, Registered Professional Reporter and Notary Public for the State of South Carolina at Large, do hereby certify that the foregoing transcript is a true, accurate and complete record.

I further certify that I am neither related to nor counsel for any party to the cause pending or interested in the events thereof.

Witness my hand, I have hereunto affixed by official seal this 5th day of June 2013 at Charleston, Charleston County, South Carolina.

Patricia T. Morrison
Registered Professional Reporter
My Commission Expires
October 19, 2015