

# Hank Paulson: Dealing with China

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**Greg Dalton:** I'm Greg Dalton, host of Climate One from the Commonwealth Club and our guest today is Hank Paulson, former US Secretary of the Treasury. He's the author of a new book: Dealing with China: An Insider Unmasks the New Economic Superpower. As China's economic reforms started gaining speed in the 1990s, Hank Paulson made dozens of trips to the middle kingdom of CEO of Goldman Sachs. China's media in those days often derided capitalists as running dogs, but the country's top leaders are pragmatists and they often welcomed him into the inner compound where they run the country. He managed to establish trust and relationships that carried forward until he became President Bush's treasury secretary and led US policy toward China.

Over the next hour, we'll talk about China's economic prowess and its political and environmental challenges. We will also talk about what the US and China can do to reduce the economic risks of human made climate disruption. We will include questions from our live audience here at the Commonwealth Club in San Francisco. Hank Paulson is a businessman, China expert, conservationist and author. He's the founder and chairman of the Paulson Institute and the Risky Business Project with Tom Steyer and Michael Bloomberg. He served as secretary of the treasury under President George W. Bush from 2006 to 2009. He previously had a 32-year career at Goldman Sachs, rising to become chairman and CEO in 1999. Please welcome him to Climate One at the Commonwealth Club.

[Applause]

**Hank Paulson:** Thank you all, thank you Greg.

**Greg Dalton:** Thank you for coming, Secretary. I'd like to begin with PetroChina. You write that oil had a special place in China's psyche. Getting China's national oil company to market was one of the most difficult deals you did at Goldman Sachs. And PetroChina was one of the state-owned enterprises where they're really not like a company, they're like a city state with schools and police forces. So tell us about that deal and what it means in the broader sense of China's economy.

**Hank Paulson:** Well, Greg, thank you. So the first part of dealing with China is a story of capital markets transactions being used by the Chinese leaders as a lever to attract Western know-how and markets to help reform the country. And we'd done a couple, we'd done a landmark transaction earlier for China Mobile and -- but the PetroChina deal as Greg said, one of my colleagues described it as a medieval city. And he said you can't float that on the New York Stock Exchange when you work at this, this was a company with a million and a half people but there were also with the family members it's reported 6 million.

And it had a company, you know, hospitals, stores, dormitories, restaurants, so it was in many ways like a city. And the -- and it took a lot of courage for the Premiere at the time, [Zhao Ziyang](#) and those that were working with him to do this because, you know, to put it in context, BP, British Petroleum at the time which was a cornerstone investor in this company is part of the deal, had about 80,000 or 90,000 people. And, you know, and PetroChina, when it went public at about 485,000.

But there were all sorts of people that were, they were put out of work and it created a lot of social

stress but it was an important part of the reform in bringing capital markets to China.

**Greg Dalton:** And some of those people who were out of work came back later and said, look, hey our buyouts ran out and in one other company, you write, Sinopec put 200,000 workers back and increase their pensions. And you're right, that China doesn't have an effective safety net, that's a problem.

**Hank Paulson:** They really don't. The country relied on, you know, filial piety, the children, the son, you know, supporting the parents. And that was a very, that's been a very important tradition and part of the reason today that they over save is they don't have the adequate safety nets but that's something that the leaders are very much focused on in developing.

**Greg Dalton:** You wrote an article in the New York Times last year on climate change, you said it presents risk to the economy and the environment. You said you feel like we're flying into a mountain in slow motion. We can see the crash coming but we're sitting on our hands and not changing course. Why aren't we changing course?

**Hank Paulson:** So now, well, climate change I think is a very difficult issue to deal with. And is, you know, I think the biggest risk not just to the global ecosystem and environment, it's the biggest economic risks we face. But we tend to deal with issues nationally when there's an immediate crisis rather than it's a longer-term issue. And the terrible thing about climate change risk is that carbon emissions, essentially for all practical purposes stay up there forever, so it's accumulative.

So the financial crisis as bad as it was, the government can come in at the end and do things that avoid the worst outcomes. The longer you wait here, you know, the more costly and the more difficult it's going to be to avoid the worst outcomes. And also we tend to deal with issues if we handle them at the national level better than the global. So here we've got the double whammy. So it's difficult politically but that's the bad news. The good news is I think we still have time to act to avoid the worst outcomes. And as public sentiment changes, you know, you have to be optimistic that we can get there because the technologies do exist today even. And so there's a lot that can be done and it's just -- this is a matter of generational equity.

**Greg Dalton:** One of the biggest things that happen in climate recently is a US-China deal. You know, the US-China have agreed to work together on climate change. You believe that the two largest economies, you can't solve climate without US and China. What's the significance of that deal?

**Hank Paulson:** Well, again, to put this in perspective. One of the reasons I wrote Dealing with China, the reason that I spend so much time there, the reason that the Paulson Institute is focus there, is I believe that this is the most important bilateral relationship we have in the world. And it's increasingly difficult and because they're increasingly a competitor. But if you look at the major issues there are in the world today, most of them are easier solved if we're working together much more difficult than if we're not.

And so we're partnering with them in some things and working, you know, competing in others.

Now, a great example is climate change, because there it is impossible to avoid the worst outcomes if major developing countries and particularly China the largest emitters of greenhouse gases aren't, you know, taking the necessary actions. And they more than any other of the developing nations understand the problem and are committed.

And so I think that agreement was very important for two reasons. First, it demonstrates that they see the US relationship as very important or they wouldn't have announced that right there with

President Obama. And secondly, it is a major breakthrough, it is very historic. I think it creates an opportunity to get much more done in Paris and beyond. And it's a sign that, you know, China doesn't make an announcement like that and something publicly if they're not serious about dealing with the problem.

**Greg Dalton:** And China's regime stays in power by increasing the living standards of material income of its people. Can they do that without fossil fuels or with fewer fossil fuels?

**Hank Paulson:** Well, let me -- there's sort of two things rolled into that question. First of all, the Chinese, if you would look at the issues that the Chinese leaders are confronting today. Right there, right after corruption, the area that people care the most about is the dirty air and the pollution.

There's property rights, there's other issues that they care a lot about but that is huge. And so the air quality, particularly in the Beijing or Bay Tianjin area but the whole coastal area, is so bad and it is getting worse. It's, you know, life expectancy is less. The leaders are focused on it big time.

And they also, and many of the things they need to do is solve that, also make a big difference in climate and they are focused on climate. So your question is can you balance economic growth with doing the right thing environmentally. I have always believed that the two go together. No growth is going to be sustainable, no prosperity is going to be sustainable if we don't -- if we don't have a clean, healthy environment. And unless you have a certain amount of economic success, it's going to be hard to have the ability to do the things you need to do. So these are the opposite sides of the same coin rather than being in conflict. And, I believe this is increasingly understood in China. This is one of the cases the Paulson Institute is making but the thing that I would cite Greg, is those of you who have gone to China for a long time know that when you meet, traditionally when you've met with local officials, mayors, governors, they would recite their economic statistics. They would talk about GDP growth, jobs, et cetera because to get ahead, you grew the economy, create the jobs, avoid the big scandals, minimize social unrest and you're on your way up. Today, they know that's not the game. So when you talk to them, they are giving you the statistics also on air quality. And I was in, you know, sometime in late March I was in Hebei, which is ground zero of dirty air of the 73 provinces that ranked last, but they're all ranked.

And so on the one hand, when you look at all the pollution and look at their geographical disadvantages, they're in a valley where there's not much wind. And I looked there and I, you know, I could hardly see the sky. And I said, you know, holy cow! And they are citing statistics it is 12% better than it was last year. Well, at least they're focused on it, you know, and I didn't -- on the one hand it's funny, but on the other hand, it was really, it was important for me, that's what all the presentations were about. They're looking for help, that's why the Paulson Institute is focused with, you know, on this project to president, their president general party secretary Xi Jinping is focused on the coming up with a plan for this mega metropolis, you know, these three large cities to clean the air and reduce carbon emissions and be more energy efficient.

**Greg Dalton:** China's brought 300 million people out of poverty into the middle class. There's another 300 million behind that and they are largely will live in cities. What's at stake with China's urbanization, why should we care?

**Hank Paulson:** Well, oh boy, so that's -- so this is probably where I should have started out with context for people here. You're talking about the second largest economy in the world. And it's on track in the not-too-distant future to knock us off the perch we've had for 150 years as the largest economy. Now, they still have, as you pointed out, you know, income or GDP per capita well below the US and they've got, you know, many, many poor people. So, this country produces and consumes half of the cement, half of the steel, half of the coal, half of all new buildings on earth go up in China.

And they need a new economic model, and they need a new urbanization model. So, I think one of the biggest economic events in China and around the world, will be the next 300 million people, that's the size of the United States of America going to the cities. And the urbanization model they have right now doesn't work, they know it. They built cities for people, for cars, excuse me, not people. And they've got these, you know, eight-lane highways, they've got these big, huge blocks.

The cities used to be livable for the people, you would go through these urban areas and, you know, the hutongs in Beijing and they just were neat little neighborhoods. But there's great social street to with the people, you know, there's, you know, these cities they've brought people out of poverty, but have created social stresses. So again, this is an area that's very important. That's another area the Paulson Institute is working on. We have programs on sustainable urbanization; we give awards for cities of the future. But we have a US, China, CEO urbanization council where we have very big US companies and companies, you know, like General Motors and IBM and Apple and Honeywell and Intel Dow and big Chinese companies like Alibaba and State Grid and others. And again, you know, the bad news is, this is a country that's addicted to coal, you know, almost 70% of their fuel mix is domestic coal.

The good news is there's some easy wins. As I said, half of all new buildings going up or going up in China, 40% of carbon emissions come from buildings. They've got terrible practices in terms of energy-efficient buildings, so we can do work with people like Lawrence Berkeley Labs out here and Rocky Mountain Institute. And there's a lot that can be done in terms of building codes and building practices and the cleanest cheapest energy there is, is energy you don't use. So there's big opportunities and energy efficiency.

**Greg Dalton:** Income inequality is also a big concern among in China, vast wealth has been created. Do you think that a child born into poverty today has greater upward social and economic mobility in China or the US?

**Hank Paulson:** Well, I believe that there's still greater opportunity in the US by a lot. But we have some, Greg, some things we need to do. We have some flawed policies we need to fix. So, I'm not making light of income disparity in the US, it's a problem. My first speech as Treasury Secretary was about that problem in 2006. And but, as I look at the world then I'll get to China in a minute.

But as I look at the world that the world is changing, and there's things that are going on, the digital revolution. People out here understand that and technology and its progress. But it is, whether it's in the US or China, it is carving out big parts of all sorts of industries, you know, and whether it's anything that can be routinized, whether it's engineering, architecture law, manufacturing plants, you don't see people very much you see robotics.

And so, with us, I think we need to do things, update our policies. And we need immigration reform where we really don't send the best and brightest foreign students back that are job creators. And we need new tax policies for corporations and individuals. And we need entitlement reforms, and we need much more in the way of education and training by far for the jobs in the future. Now, China, when you look at their problem, it is a problem of an economic model that has run out of steam.

Reforms had stalled, it took hundreds of millions of people out of poverty but right now, they have flawed policies that need to be fixed. They have a flawed municipal finance system that is partly responsible for the urban sprawl because mayors and governors don't have the funds they need. So if they need land, if they need money, they take someone's land below market prices and sell it to developers. So you get sprawl, they don't have annual property taxes, they have big one-time taxes when property's sold. So, they've -- and they've been driving growth by investing and overinvesting in infrastructure and so municipal debt has been rising at an alarming rate. Now they understand that, but they need to fix their policies. And there's a lot they need to do to spread the income more broadly. There's, you know, China's got the second largest number of billionaires but there are people still living in abject poverty. And so, the key there is also, is opening up more sectors of the

economy to competition.

To the private sector, which accounts for 70% of the jobs in China. But there's these big state-owned sectors right now they get all the special advantages. And there's a misconception Greg, because there's an authoritarian government, they could just give an order and get these things done. And, you know, I refer to that as "just ask the Emperor." People say to me, well, you know President Xi Jinping, why don't you suggest this or that, you know. And so it's very hard, he's got this very hugely ambitious reform program for all parts of society but there's vested interest. And so there is not a consensus to get a lot of things done he needs to get done. So it's going to be difficult and take time and his ability to get those things done is going to have a lot to do about the opportunity for someone, a child that's born in China today. But trust me, they have even -- you talk about the problems we have today for college educated kids that don't find the right jobs. They have the largest group of college educated students that's many of whom are struggling to find the kinds of jobs they'd like to find.

**Greg Dalton:** If you're just joining us, our guest today at the Commonwealth Club is former secretary of the treasury Hank Paulson, author of the new book *Dealing with China*. I'm Greg Dalton. You mentioned President Xi Jinping. You write that corruption eats about 3% to 5% of the Chinese economy. The president has embarked on a big anticorruption campaign. Some people think it's a power grab, what do you think it is?

**Hank Paulson:** Well, let me put this in perspective for people here. Because this is a man who has set out this really, really, ambitious plan to reform the country.

Not just economic reform, not just a new urbanization model. But, you know, change the foreign-policy, military, the relationship between the central government and the provinces, you know, modernizing the legal system, it just goes on and on. Without the rule of law, as we know it, or a legal system you can count on. And so he's looking to do this through the party. And he sees the party as a source of stability and the institution that's strong enough to get things done. And this is a party that is rife with corruption. And the people are angry about this. And so, he has -- the anti-corruption campaign is huge, it's hard to understand it if you're just reading about it. There have been so far a quarter of a million party members that had been punished. There have been over 70 of ministerial rank, people are quaking in fear and so this, I think, I believe the primary purpose is to curb the corruption, but also it's a tool in the toolkit because he has amassed power quicker than -- you'd have to go back to Mao to maybe find a leader that has amassed power so quickly. And so when you're looking to go after corrupt officials, you know, I would certainly suspect that when he goes after those and the sort of the state-owned pillars of the economy, that have, you know, vested interest in or resisting reform, it's a tool in the toolkit to help drive reforms. But I think people make a mistake if they say well, it's just a purge, he's not going after corruption.

He's been very clear in saying the Communist Party will not survive unless they, unless they go through the self-rectification and that they really curb this. But this will be, this can only be one part of it because the root causes are systemic and they understand it. It requires them a much longer period of time and other reforms to really make a huge difference.

**Greg Dalton:** When you were the secretary-treasurer in the Bush administration, you were a lead on US-China relations. And that relationship has gone through ups and downs; we've been friend and foe. Lately we've learned about Chinese military hacking into the US. The Chinese trying to steal US intellectual property. There's some aggression in the north China Sea. There's some tension in the South China Sea with airstrips. So how do you characterize the relationship now, is it friend or foe or is it a bit of both?

**Hank Paulson:** It is. Here's the right way to think about China. China is, this relationship is changing. As China is emerged and to a, you know, a much greater global power. And so, it's a -- as I said a formidable competitor and on the one hand, on the other hand, we have many common interests. And so, the key thing is to manage this relationship, so we're doing things -- they're going to act in their interest. We need to act in our interest and we need to find areas where there's -- where we have common interest and then just finding those is not enough. We need to get difficult, important things done so that both public see the value of that relationship.

There's nothing wrong with competition, we shouldn't be afraid of competition. China has far more problems than we do. We're going to be a predominant force in the world for a long time if we fix our problems and if we don't, we won't be. But what we need to do is we need to manage the competition and the cooperation so that the competition is not debilitating competition. And the danger, I mean, you know, I dedicated Greg, this book to my grandchildren because I want them to grow up in a safe, healthy, environmentally healthy, prosperous world. And the odds of that happening are much greater if we're managing the relationship with China in the proper way. So, but we need to be very strategic about this and if you want me to talk about, if your question that you wanted me to talk about some of the issues like cyber hacking or the South China Sea, I'm happy to do that but --

**Greg Dalton:** I just meant that there's these tension points and it's obviously a complicated relationship and one of them is human rights, often at the center of US-China relations. You helped secure the release of Yang Jianli, a human rights activist there. So some people say that human rights gets underplayed or overplayed in the relationship.

**Hank Paulson:** Well, so let me talk a little bit about human rights. And that I would just simply say when you talk to many in China, they will say our most basic important human rights are the things that the leaders are working on which is, you know, clean air, let's deal with property rights, let's deal with food safety, let's deal with the income disparity, let's give us the kinds of pensions we need.

Let's deal with the household registration; you've effectively ended the one child policy, et cetera. But at the same time, this is an administration that is, at the same time they're looking to free up the economy, they are tightening up all their controls and on, you know --

**Greg Dalton:** Media.

**Hank Paulson:** Political ideology, media, and they take a very hard line on anyone that they see undermining the authority of the party. So human rights, Americans have always got to speak out for human rights. And we've got to speak out publicly for human rights. But oftentimes, if you want to get someone released, the best way to do it is not to be lecturing publicly. But I tell the story in dealing with China, and this took place -- there's a chapter dedicated to the financial crisis looked at, you know, through the US-China relationship. And we had a very constructive relationship which was positive and very helpful. But, I tell the story that in August of 2008, which wasn't a very happy time for me. And I can't think of, I can't think of very many happy days during that six-month period. But there is one day shortly before I had act on Fannie and Freddie which is a bright spot because Yang Jianli who is a, you know, a pro-democracy activist came to see me with his wife and two small children to thank me for securing his release. And the interesting thing about that was he thanked me for two things. He thank me for securing his release but for the work I'd been doing on the environment in China going back for a number of years, you know, we talked about the parks in Yunnan and I have a chapter in the book say "Saving Shangri-La" which talks about the conservation work.

So he thanked me about that. And then I thought back on how when I'd done this, which have been a year earlier. And Barney Frank had asked me to see what I could do because Yang Jianli's family lived in Massachusetts. And I had just come back from the Qinghai province, I was at the Tibetan plateau and I was there to really witness firsthand what climate change was doing and the temperature, you know, the glaciers were melting and the temperature was rising so quickly. When I came back and met with the leaders, the same leaders that he was, you know, protesting against, also thanked me for visiting that area and for the work I'd done on the environment. So a lot of this is the strategic economic dialogue was working on economic issues and it was a mechanism we put in place to make progress on economic issues but it was economic issues very broadly. And defined those as energy and environmental issues and we were putting in place the ten-year framework on energy and the environment then, which was a good cornerstone that really I think helped the Obama administration which is, you know, kept a derivative of the strategic economic dialogue, you know, do this climate deal. But so, but my view is if you get the economic issues right and you have common ground there, other issues are easier to do and get done. So I felt that the SED was a, although it was -- it focused on economic issues, it gave us a big umbrella to deal with something like, like Yang Jianli.

And to me I've got no end of respect for people that care deeply about issues like he does and are willing to take the kinds of risks that he took. So I'm -- I work on environmental and economic issues but I have just great admiration for people like Yang Jianli.

**Greg Dalton:** Some people would say environmental issues are human rights issues if you just --

**Hank Paulson:** You bet. I mean, I think that's why we -- when I say, people say to me why aren't we, why are we working with China when we disagree with where they are on human rights. But we're a big country and we have not a single dimensional policy. We have a number of policies that are very important. And I view economic issues, I view environmental issues, you know, there's a whole set of issues that are human rights issues. And you have to acknowledge that in the time I've been going to China, the living conditions, the lifestyles, the basic rights that the Chinese have in terms of traveling internally, externally, have just improved dramatically.

**Greg Dalton:** I lived in China in the late 80s, if you go back now there's no doubt people are better off, better fed, they're generally happier. If you're just joining us, our guest today at the Commonwealth Club is Hank Paulson, former US Secretary of the Treasury and author of the new book Dealing with China. I'm Greg Dalton, host of Climate One. We've come to the time for a bit of a lightning round to have some fun and pick up the pace a little bit. The first question --

**Hank Paulson:** Uh-oh.

**Greg Dalton:** Anyone who's been to China knows that -- you've certainly spent a lot of time at banquets where there's maotai served and maotai is a drink that's somewhere between kerosene and gasoline.

[Laughter]

So my question is the number -- these are actually some questions with number answers.

The number of times you got really drunk on maotai was between like about a hundred or a thousand?

**Hank Paulson:** Zero.

**Greg Dalton:** Zero.

**Hank Paulson:** I'm a teetotaler and I've never even tasted it.

**Greg Dalton:** It's pretty tough to get deals done without smoking a cigarette and having a drink with these guys.

**Hank Paulson:** I will tell you -- and I know this is a lightning round but this will be interesting because it's a fascinating thing. Because there's all this, you know, strong feelings about what it takes to do business in China all the ceremony, going out and drinking, et cetera. At the end of the day, when you get to know the Chinese people, they got a different culture, a different history, different traditions but they got senses of humor like ours and they appreciate authenticity and they're good hosts. So once, I started off in the early days, I, you know, I put tea in my glass and I drank tea or water. And there was only one official that just insisted on drinking, I never really liked him very much --

[Laughter]

-- but I had a designated drinker. So this little Chinese woman who was just tremendous and worked for me, Shu Ming Huan, you know about five foot four, but she was my designated drinker and that was how it worked. But with everyone else they learned very quickly. And so we don't do the entertainment and the drinking and I, you know, I'm a Christian Scientist, I don't drink and, you know, I've never tasted maotai and I'm glad I haven't.

[Laughter]

**Greg Dalton:** The number of times you were hit up for bribes in China, one thousand, ten thousand?

**Hank Paulson:** Almost none because we had a great protection. I was, first of all the senior person and second there was -- we had the foreign corrupt practice act protection.

So they wanted to do business with the major US investment banks and I dealt at senior government levels. So I've got no stories about that. Our people would occasionally.

**Greg Dalton:** Yeah, I bet, anyone in China does. Number of times Chinese leaders had long Johns sticking out their suit legs at important meetings discussing matters of state.

**Hank Paulson:** Many times in the old days, many times. I mean you'd go into rooms, you'd be freezing in there, you know, and but that was, yeah, their energy efficiency on those days, yeah.

[Laughter]

**Greg Dalton:** The next ones are some from your previous life outside of China. The number of US executives who went to jail for causing the great recession.

**Hank Paulson:** Yeah, I don't know but I'm not sure how many US executives caused the great recession. Maybe they would've gone into jail if they had, so they participated in it. But the flawed government policies were the root cause of the great recession in my view. I know that's not popular with people but I believe I'm one that believe if US executives had broken the law, they would've gone to jail because there sure were a lot of people trying to put them in jail.

**Greg Dalton:** So maybe the problem was what was legal but that ---

**Hank Paulson:** Yeah, that's right. I think there's a big difference between what's right and what's



legal and there's a lot of wrong behavior. And if you ask me the number of US executives that have wrong behavior, I would say I can't count it, it's so many, okay. But don't forget that the root cause of financial crisis in every country are at the bottom are flawed government policies. And we can spend a lot -- so, that but there was great misbehavior.

**Greg Dalton:** Former Citibank Chairman Sandy Weill has said that commercial banks and investment banks should be split, effectively returning Glass-Steagall.

Do you agree or disagree with Sandy Weill?

**Hank Paulson:** I think that's very interesting revisionist history to the guy, you know, who created --

[Laughter]

-- created this unmanageable monster. But I frankly think given where we are today, I don't know how you unscramble the egg and I think we're approaching it the right way in terms of with the regulation on the capital.

**Greg Dalton:** Some US banks are still too big to fail.

**Hank Paulson:** I believe that in a middle of a financial crisis, almost any big institution is too big to liquidate immediately without hurting the American people. But the bad thing is to prop them up in their current form. And so today, the reason I'm taking a while to answer this is it's not a yes or no question. So today we have the tools so that you can wind down a non-bank, which we didn't have. You can wind down a non-bank and do it in a way in which you don't hurt the American people. But I don't want people to think that we've -- that right now that there's - there are many banks, in my judgment many banks if there is a severe crisis, are too big to liquidate immediately. You just can't do it without hurting people.

**Greg Dalton:** Kat Taylor is a Harvard overseer and she thinks that Harvard should divest from fossil fuels, is that a good move? You went to Harvard Business School.

**Hank Paulson:** That's a much more difficult question. I used to always believe, you know, when I'd sit there and look at the students demonstrating and wanting to divest from this or that, I thought often they were students that were there on scholarships.

And they were going there because the endowment needed to be invested to make a return. And so I oppose this. But I have to admit that today, I feel so strongly about this issue, one of the things I really find as a bright spot is young people care, this is a generational issue, they care so much about this. And so I love the fact that they're pushing for it. And I haven't studied how easy it would be, it would be easy for me to divest from coal, okay. That would be --

**Greg Dalton:** It's a bad investment.

**Hank Paulson:** That would be the first step. That would be the first step. Because I think it's a bad investment. The other thing which I feel very strongly about which comes out of risky business, is I think the SEC should be forcing disclosures so that everyone would understand the risks, you know, the climate change risks. And to me that goes beyond fossil fuels and it goes to stranded assets. Companies building plants in the wrong places, building them, you know, in the coastal areas and, you know, rebuilding New Orleans so you can flood it again, that kind of thing. So I happen to think that those kinds of risks should be disclosed. And if they're disclosed then I think that goes a long way to solving the issue rather than dictating what an endowment can invest in.

**Greg Dalton:** But it sounds like you're entertaining the possibility of maybe divestment someday or do you want to study further?

**Hank Paulson:** You know what, what I would say and again I haven't studied it. I would be if someone, if I were running an endowment I'd look very hard in divesting coal. To me that would be an easy thing.

But I tell you it's a slippery slope. Because why do we invest in tobacco stocks, okay? So do you, why do you invest in liquor stocks --

**Greg Dalton:** Gun stocks, yeah.

**Hank Paulson:** Yeah, why do you invest in -- so I would much rather just see the risks disclosed and I think some of these are very bad investments. I'd like to understand what the risks are with individual companies. And I think the climate risks are risks that should be disclosed. I would probably not be favoring divestment, but do I love the fact that young people are demonstrating for this right now? You betcha, you know, that's great. And if I had to make the decision, you know, I'd probably make it with coal.

**Greg Dalton:** If you are just joining us, our guest today at the Commonwealth Club is former Secretary of the Treasury Hank Paulson, author of the book *Dealing with China*. I'm Greg Dalton, host of *Climate One*. We'll be right back.

[CLIMATE ONE MINUTE]

**Announcer:** *And now, here's a Climate One Minute.*

*Recently, student activists have been pushing their colleges and universities to divest from fossil fuel stocks. Lisa Jackson is president for environmental affairs at Apple and a former head of the EPA.*

*During a recent Climate One visit, one audience member asked Jackson if she would support divestiture at her alma mater, Tulane University.*

**Lisa Jackson:** *That's a really tough one. And I'll tell you why: Because it's personal for me. I went to Tulane University on a Shell Oil Company scholarship. So I don't believe in being a hypocrite and I don't believe in standing up and saying something that's easy and popular. If Tulane University or any university is going to start to make those decisions based on values --and certainly you've heard from me that climate to me is the most important value, not for everyone -- I think I need to understand fully what that means for that university.*

*If it was black and white, I would tell you, yes, absolutely. But if it wasn't for Shell Oil Company money, I wouldn't be here. And I worked for Shell Oil Company every summer when I was in school, and I would not have a degree but for that. So these are systems issues, and it's hard for me from the background I have to just say be done with it until I know which kids aren't going to get those scholarships.*

**Announcer:** *That was Lisa Jackson, Apple's president for environmental affairs, and a board member at Tulane University. Now back to Greg Dalton and his guest, Hank Paulson, at The Commonwealth Club.*

[END CLIMATE ONE MINUTE]

**Greg Dalton:** Secretary Paulson, I'd like to ask you about how you talk with Republicans and people on Wall Street about climate change? That's a very difficult conversation.

**Hank Paulson:** So I'm going to say something more broadly. And this, I don't want to sound partisan, but I don't look at this being broken down by Republicans or Democrats. When I worked with clients, corporate clients, I sort of knew where they were going to be on different issues based upon what their company was doing in the industry. When I look at senators or congressmen, if you tell me what their state is and or what their district is, without even knowing them. I can almost tell you where they'll be on some of these issues. And it's not just Democrat or it just Republican. Jay Rockefeller was a liberal Democrat. He ran for the first time in West Virginia and lost on environmental issues and he was liberal and everything but let me tell you where he was with coal, where he was with climate.

And when I was treasury secretary and I would go in and meet with various people and they didn't know where I, they didn't know I was an environmentalist. So when I'd be talking with Democrats from a number of these states, they'd say, oh yeah, don't worry I'm speaking about this but I'm -- don't worry, I'm not going to go too far, you know. Autos are in my state, or coal or whatever. And so the early bill that the president was trying to get done I was glad wasn't passed because when you look at all the special exceptions and the carve outs for coal and so on, I almost thought it was worse than nothing. So, I think what it really comes down to is, how do you change the American people and get the American people where they need to be, so the politicians fall in line. And again, I think the reason I like the Risky Business Study is this was non-partisan. So Tom Steyer, Bloomberg and I chaired it but George Schultz, you know, very respected Republican. Bob Rubin, you know, Republican, you know, business people like Greg Page of Cargill, really thoughtful people. And we didn't go at it in terms of here's the policy prescription. All we did was use the very best business analysis, the very best science and then we drilled down. We could do it by county, by zip code and you can say what's the range of risk, what are the economic risks? And when you had a conversation there, as Greg Page said, you start it in the middle. All sorts of deniers suddenly became very interested. And it turns out that many of them are very worried about climate change. But they're afraid if they say so, there's going to be an excuse for big government.

And what you need to really help people understand is it's going to be just the opposite. If we don't act on some of these things now, the government is going to play a bigger and a bigger role unnecessarily. Because every time there is an extreme weather event or an event that hits some industry or -- I don't care if it's a forest fire, a tornado or a hurricane, a drought or whatever. The government comes in, that's the right role of government, it's expensive, we all pay and that's a big fiscal cost. And so I do think we're making progress here and the idea of looking at it as an economic risk and saying, what's the cost of not acting? So start understanding that and looking at it as risk management and so our motive there was to get -- and a lot of cities have been taking that data and understanding it and there's been a lot of good movement at the municipal level on this country and at the state level. And we want businesses to start understanding the risks, integrating it into their decision making process. We want them to start disclosing, I'd like them to be required, I'd like the SEC to enforce its rules, we've got the data. And then I'd like businesses to lobby their political representatives.

**Greg Dalton:** If you're just joining us today, we're talking at the Commonwealth Club with Hank Paulson, former Secretary of the Treasury, former CEO of Goldman Sachs and author of the new book *Dealing with China*. I'm Greg Dalton, host of *Climate One*. Let's go to our audience questions, welcome.

**Male Participant:** I would love to hear your thoughts on what do Chinese believe. Some say China is a country with no religion, there's no more it can encompass, and my friends in the environmental field in China have either followed Buddhism or have become Christians. So I would love to hear your observation on the belief system of the political leaders and the younger generation.

**Hank Paulson:** It's interesting. I have a chapter in my book called "The Party Line," and I talk a bit about that. Because I found that young people, when I found that going back into the mid-90s are looking for things to believe in. Because, you know, what happened with Mao stamping out religion, and it wasn't enough to just believe in economic development and getting rich. And so people, when I would ever mention prayer, I'd get a lot of questions. People didn't want to just rely on the feng shui men, you know. And so there's been a huge growth in belief systems. Christianity is perhaps the fastest growing religion but you've seen Buddhism, Confucianism and there's a -- and Xi Jinping has -- the president of China has been emphasizing, you know, the importance of traditional Chinese values and culture.

And, so there's just a rapid growth right now. And so I don't think it's - I can say that the Chinese believe this or that. But I will just tell you their belief is very important. And also there's been a resurgence of, you know, of ideology too. And so that's growing. But religion is really taking off in China, and has been for a while.

**Greg Dalton:** Let's have our next question for Secretary Paulson.

**Male Participant:** Greetings Mr. Secretary. I'm wondering if there's anything that the United States can learn from China to help improve our economy and our lifestyle?

**Hank Paulson:** You know, there's plenty of things we can learn. And I would cite one in particular. These leaders are very, very pragmatic. So they look everywhere, they're problem solvers. So they look everywhere in the world for the best practices and then they look to implement them. And the reason I go there regularly is they're very candid about their problems. We're not debating, and sometimes I feel in the US I'm saying, you know, the sky is blue and some would say, no, it's yellow, you know. In China, they all know it's very dark because of the pollution.

But they recognize that and I tell -- there's a story I tell, there's a lot of stories in the book. The book is about stories. But I have a chapter entitled Skylines and Shorelines which is about urbanization and then my work in terms of coastal mud flats and wetlands. And I'm telling the story about being in Chongqing which is a very big, you know, the city proper is seven million people. I'm meeting with the Mayor Huang. So he basically, in addition to talking about their issues, this was 2011 and he was concerned about the fiscal cliff of the US. And so he was asking me what I thought the answer was to increase our growth rate and work down our unemployment. And so, I said "What's your view?" and he said, "I frankly would go and take a page from Ronald Reagan. I like Reaganomics; I think tax cuts may be the way to go." Well, I'm not sure I agreed with him but I thought that I can't imagine a US mayor having been aware of what the Chinese problems were and having some views on how to fix them. So it's just, so that's to me the biggest positive is a practical, pragmatic leadership that recognizes that they've got problems and it's going to look everywhere and move to solve them.

**Greg Dalton:** Let's have our next question for Secretary Paulson at the Commonwealth Club.

**Male Participant:** Yes, thank you very much for visiting us Secretary Paulson. My question is what are your views on the advisability of the Trans-Pacific partnership that is now in gestation?

**Hank Paulson:** I think it is essential, just essential. And because our economic strength, everything needs to begin with our economic strength. And we need to lead economically. So I think it's essential because our administration has said we're going to do this. And we need to get this done in terms of our credibility all around the world if we want to keep our economic leadership. Secondly, I'm a big believer on the benefits of trade. I know they create dislocations but I believe they do more good for society and do more in terms of job creation than job losses. But even if you

disagree with me on that, and you don't like trade, you don't think it's good, you should be for trade agreements because our markets are already open.

We already are open to others and so the idea of opening up other markets for US workers and companies are essential. We've got 4% of the world's population. How can we be successful if we don't want to open, you know, access the other 96% and give American workers and businesses a chance to do that? So this is essential and there's -- to me, it's the thing I'm focused on most right now and hoping that the administration can negotiate this and congress can pass it.

**Greg Dalton:** Are environmental safeguards sufficient? There's some concern that these multilateral deals could trump national and state environmental regulations --

**Hank Paulson:** I would simply say I think the trade deal trumps -- I think we can't rely on just environmental safeguards in these agreements. This agreement does more. So again, when people ask about environmental safeguards, okay, this is additional. So the fact is this is a breakthrough. When I played a big role in negotiating some of the earlier trade agreements with Columbia, Peru and so on. We were criticized, I was criticized for putting in, you know, agreeing to the first, you know, safeguards on the environment and labor. These go farther.

**Greg Dalton:** Last question for Secretary Paulson at the Commonwealth Club.

**Male Participant:** If you were czar of climate change, what would you do as far as some of the priorities and how would you do it?

**Hank Paulson:** What would I do if --?

**Greg Dalton:** If you were czar of climate change, what would you do?

**Hank Paulson:** Yeah, well, again people always get me into this because and I -- and the reason I hate to say it is because it is misunderstood by a lot of people. I would put a price on carbon. Right now, we do the opposite, we incentivize carbon production. So when people hear carbon tax, they get up in arms and it's counterproductive. And carbon tax means different things to different people. So the fact is -- the question is, how do you put a price on it, how big is that price and then what happens with the revenues. The revenues could all go back to the American people. The revenues could be used to -- a big part of it to go to the lower income. There's a lot that could be done here. Tax is a dirty word among a lot of people. And so, I suggested that in a New York Times Op-Ed piece because there's a treasury secretary, you can't write about the problem without saying what would you do about it. But that drew a lot of fire and I think it's counterproductive to be pressing one solution over another right now. I think we've got to all agree that there's a big problem and then figure out what's the right way to do. I happen to think putting a price on carbon and setting up the proper incentives would be a tremendous thing for our economy and for the American people if done properly.

**Greg Dalton:** If you're just joining us, Hank Paulson is the former secretary of the treasury, author of the new book, "Dealing with China." I'm Greg Dalton. And as I've been sitting here the last hour, I've been thinking how the history of this century might have been different with you sitting in the cabinet room in the first four years of the Bush administration rather than the second administration.

**Hank Paulson:** Let me tell you something. I must say --

**Greg Dalton:** Thinking about risk in --

**Hank Paulson:** I'm saying this with a lot of humility. I think it was much more different than I was there in the second part of the administration. Because if you look at what the world might have looked like if we'd had our financial system going down and economic Armageddon in this country, we might not even be talking about things like climate change and so on. So I think I was there at the right time and I'm grateful that I was there at the right time and I'm grateful that you interviewed me today. Thank you and thank you all.

[Applause]

**Greg Dalton:** Thank you all for coming.

[Applause]

**Greg Dalton:** Our thanks to Secretary Paulson, our listeners on the radio and our listeners here at Climate One at the Commonwealth Club. I'm Greg Dalton. Thanks everyone.

[Applause]