After nearly three decades with the investment firm Goldman Sachs, where he served as co-chair and co-CEO, Jon Corzine was elected to the U.S. Senate for New Jersey in November 2000.

The former Wall Street chief executive offers a firsthand account of the 1998 collapse of giant Long-Term Capital Management; speaks to the need for international institutions on political, financial, and humanitarian grounds; and appraises the upside and downside of global interconnectedness.

Interview conducted in 2002

Changing Perspectives, from Wall Street to Washington

INTERVIEWER: What's the big change in perspective that you've noticed finding yourself in Washington after being on Wall Street, particularly as it relates to global economic issues?

JON CORZINE: Well, you have a very domestic focus as a politician, as a senator—not that you don't consider global concerns, but my constituency is the 8.5 million people in New Jersey as a representation of the needs of the country. The specific concerns are making sure that the interests of New Jersey are represented well, so you tend to narrow down and work on specific issues. Yesterday we passed Brownfields Legislation in the Senate, [legislation focused on the revitalization of brownfields, distressed or neglected parcels of land in American cities]. The arguments one put together there wouldn't encompass how it might impact a global economy, but it has a lot to do with what it will do in [New Jersey cities] Camden and Newark for urban revitalization and what impact it might have in Hunterdon County, which is one of our western counties where there's still some open space, and how we are going to manage sprawl issues in our state. So you tend to narrow your perspective down to how it works at the local level, at a very personal level, to our voters and constituents.

INTERVIEWER: What had attracted you to Wall Street originally?

JON CORZINE: Well, it's more happenstance, serendipitous, than it was a plan. When I came out of the military, I started a family, and I needed a job. I had always enjoyed studying economics. I went to night school at the University of Chicago. The core curriculum was heavily finance-oriented, and I grew to like what I was doing, and I thought that being a bond trader, if you will, would bring together all those things that I was learning in school, but also my interest in current events and how things fit in the cloth of a society. And it actually was true: You were constantly looking for the marginal issue that was going to move markets as a bond trader. It tended to be more macroeconomic, and I liked it. I got a job at Goldman Sachs, got lucky, did pretty well, and it kept me focused on things that I liked.

You know, you're just as interested in staying up on what was going on in the world in this position, being a bond trader, as you are in almost anything I can imagine. Whether interest rates are going up or down, and what's driving them, gets at core economic issues; gets at what the Federal Reserve is doing; gets at what's going on in other parts of the world—the globalization issue again. And I lived in a part of history when we went from having a U.S. financial market that was very isolated and internally focused to truly globalized and integrated. You know, we started those processes by getting up in the middle of the night with phone calls and then staying up all night, and pretty soon you were starting to open offices in all parts of the world, and you had trading desks that were no longer just in New York, but they were everywhere. So you had to have a perspective on the world, everywhere, and it was an extraordinary time, particularly in the '80s, as the U.S. Treasury searched for places to finance its debt. And again, that was where I built my career, and it was an extraordinary time to be involved in Wall Street.

INTERVIEWER: What was driving that expansion?

JON CORZINE: Oh, it was the deficit funding in the U.S. There was no question about it. We went from $20 billion deficits in the '70s, which everybody thought was crisis, to $300 billion deficits at different times. ... So [the expansion came out of] both the heavy push of deficit funding, financing by the federal government here in the United States, and this whole interconnectedness that was coming about, which is the globalization issue. There's transfer of information, the application of things that worked in one part of the world to other parts of the world, telecommunications, the application of technology, which really just brought all this stuff together.

The Lure of Emerging Markets

INTERVIEWER: In the early days, "emerging markets" was this great buzz phrase. What was going on there? What was the attraction?

JON CORZINE: Well, I think this is just the application of the techniques that worked in one part of finance and in one part of the world being spread to other areas so that you could search for profits, but also search for new places for both distribution and accumulation of assets. This was the entrepreneurial march that I think was a good thing for the most part—not always, because the absolute free flow of capital can sometimes lead to some problems, but it also was raising the standard of living. There was a demand for the ability to raise capital on the parts of the emerging and developing countries; there was a desire on the part of the entrepreneurs to participate in that process if there was a profit opportunity that was seen. Those things came together through the application of financial techniques to those worlds, and that's how you've ended up at least with the marketplace for emerging markets, and on balance, I'm a believer that it's good, although there were fits and starts in the adjustment process from one thing to another that were sometimes pretty harsh.

INTERVIEWER: What are some of those fits and starts?

JON CORZINE: Well, you know, capital comes in, and then it decides it doesn't want to be there, and you get on a train of building up an infrastructure, having people commit their lives to certain activities, and all of a sudden the tide goes out, and you're standing there, or the countries are standing there, without the ability to utilize it, and one wonders whether the economic investment was good. Now that's describing [the fits and starts] in the most stark terms, when, in fact, I think not everything *does* leave. When capital flows, currency crises occur. I think what happens is that probably [you end up] a little bit better off on infrastructure and development of [better ways to] allocate capital in those countries than would otherwise have been the case, but what we need to do is have some ability to have, not restrictions, but a little more responsibility for the adjustment process than sometimes is the case when traders decide they want to take their capital home all at once.

Financial Crisis and Contagion in Asia

INTERVIEWER: You heard a lot of talk in the early '90s about the Pacific century and the promise of Asia and the Asian tigers. Did you buy into that excitement? What was going on?

JON CORZINE: Well, when I last left Goldman Sachs, I'd made well over 100 trips to Asia in the decade of 1988 to 1998, and it was an enormously invigorating environment. It's one that I think really does hold great promise for our globe. There are truly rising standards of living going on in China and India and other places, [though they still have a] long, long way to go. People want instant gratification on this, but the difference between traveling to Beijing in the mid-80s and today is a pretty remarkable transition. It's the same for lots of those places around Asia, and I think that there has been real wealth created. I think there has been real uplift of the general population, because you've taken what's good in other parts of the world and applied it there. A whole host of fields, from telecommunications to energy to financial services, really lifted up those societies, and I think we're on track to see them continue to grow. The educational level's rising; skill sets for people [are] going up a lot. It doesn't mean ... that everything is perfect. There are still people that are not participating. Public policy needs to address those issues in those countries. I think we need to be sympathetic. The whole debate about debt forgiveness and issues like that I think are legitimate issues for concern and support from the developed world, but things are better today than they were certainly when I started traveling to Asia.

INTERVIEWER: Let's talk a bit about contagion of crisis, starting with Thailand. What was your first sense of a problem there?

JON CORZINE: It was generally some guy calling me up at midnight saying, "You know, things aren't going so well here, and we've got this problem, and we think this company is going under, and we're not sure if somebody's going to fulfill their obligations on a currency contract." When that starts happening three or four times a week, you get the idea that maybe there's a real problem.

I'm being flip, but the fact is that there's a lot of this that gets down to whether there's a real settlement of activity. Then there tends to be a focus on credit in a broader context, because the banking system gets imperiled, and then the system becomes a credit problem, not just individual credits, and then pretty soon you have everybody wanting all their capital out of those countries, and you've got a real serious issue that generally folks pay attention to. When it happens in a country that appeared to be stable and on a fast track to development like Thailand, it calls into question all the other places where it is pretty clear that you're not as far along in the process as Thailand was. And so you get real implications with regard to Indonesia, Malaysia, or other places where people are less secure, less knowledgeable than they were in Thailand. And so I think it's a fairly normal process. Actually, if one looks back at the real cause of that, they'd probably look at the depreciation of the yuan [Chinese currency] several years before and how that impacted all of the other countries in the region and their ability to sell their goods, because they're all competing with each other. So some of the sparks aren't the ones that people see. You look at the specific credit problems, but maybe it had to do more with economic decisions of some of the major economic forces in the region, China or Japan.

INTERVIEWER: When you started getting these phone calls about Thailand, how much money are we talking about? From you perspective at Goldman Sachs, what was your exposure?

JON CORZINE: Well, we were pretty strict about credit limits, so it was not the kind of thing that would imperil the life of Goldman Sachs, but it would be painful—you know, in the hundreds of millions of dollars, that kind of thing—but not so deeply embedded that, as I said, it would imperil the long-term health and safety of the survival of the firm. I think most people who managed their affairs appropriately never allowed themselves to get into a position where one individual creditor or one individual country, particularly in the developing world, would end up impinging on the safety and soundness, unless you happened to be a specialist who was working in those particular areas.... People were pretty good about country risk.

INTERVIEWER: You hear a lot of talk about how the money flowed out very quickly during the crisis. What was going on there?

JON CORZINE: Well, I think the same thing that you see happening in any credit crisis. People would look at a credit problem and say, "We're going to protect the assets we have," and so the best way to do that is have them in your hands, and since the most easily movable object is cash, and we've got this great interconnected wire-transfer system, people trade those currency units like water, and they just restrict them. There were just more sellers ... than buyers as people tried to take that money down and out. ... This part is a lot less complicated than what people think, other than the mechanisms to get it out. People would be trying to sell their hard assets, their real estate, or their equity positions to liquefy it and transfer it out. When that happens in a stampede, it's the reverse of a bubble .... In some instances, people had made some pretty overextended real estate plays, which made this all the more difficult, because there was no market for a lot of those real estate assets and other things anywhere near the prices that they'd been elevated to.

INTERVIEWER: And when you saw this contagion spread in other countries in the region, and then there was Brazil and Russia, from where you sat in Wall Street, what was going through your mind? What was your gut instinct about what was happening and what it meant for the firm?

JON CORZINE: Well, there are two things you had to assess: whether these were long-term trends, or whether these were dislocations that would resolve themselves. A lot of that comes from public policy. Would you get actions, particularly from the leadership of the globe, the United States, and international institutions, in a way that would provide for a more orderly adjustment process? Would someone step in and buy some of those units that are going down, currency units, or would there be some mechanism to allow for things not to be so one-sided if they were? Because fundamentally, a lot of the assets that were represented in the currency markets really were proxies for real assets that were out in the economy in Thailand, and a lot of those looked attractive if you believe in the long run. When you get away from the volatility where we're going to have a more interconnected global world, that would be attractive.

So you had two thoughts going: One, let's make sure we don't get run over by a credit truck and a currency problem; but also let's recognize that there's a real world out here and that this presents an enormous opportunity. So you saw a lot of people looking at how to take advantage of buying assets on a very attractive basis in a world where, you know, literally weeks before, you really had no ability to find assets that would give any real return, because the prices had been so exaggerated. A lot of folks were torn between these two different perspectives about it, because we had a belief that this globalization and interconnectedness was actually going to continue in Thailand in the long run, because it had educated more of its people; it provided greater health [care]—again, not a perfect book on those things, but Thailand had moved and progressed. And then we were going to have a better place to operate in after we got through this.

By the way, none of this is new in history. The United States had crisis after crisis in the 19th century, and we got through them. You know, we get through them a lot easier, and certainly society gets through them a lot easier, if there is some mechanism, some public response, public-policy response, that makes these things a little easier, and they don't have to happen on the natural course of their taking their own self-correction mechanisms, because that can take a lot longer and can be a lot harsher.

I think one of the questions you'll probably ask is do I think that some of the interventions we had were good, and I think the results show that they were in the sense that well, there was trouble with those crises; a lot of these economies have come back, moved up, and are growing at a more stable pace than they were [before]. Certainly the excessive expansion that you saw in the early '90s and mid-90s was probably too much. I certainly don't like the dislocations that come with those burstings of bubbles, but it's a necessary ingredient to get back on a healthier path of and pattern of growth, and I think those will accompany rising standards of living in the [developing] countries. And that's almost exactly what's happened.

Long-Term Capital Management

INTERVIEWER: So let's talk about LTCM [Long-Term Capital Management]. First of all, just in layman's terms, what was it, and what was your firm's involvement? When you began to get in trouble, why did it matter?

JON CORZINE: Well, first of all, LTCM was a specific type of hedge fund. It was a relevant-value hedge fund, buying assets that were cheap, in their view, and selling assets that weren't cheap and watching them hopefully return to fair value. They used to have a view that they'd buy assets and sell assets that had to come together. It's like delivery of a security against a futures contract on an exchange where there was an event that would pull the values together. LTCM, being very able and intelligent folks, though, decided that they would just wait for the natural course of events to bring those assets together as opposed to a contractual reason for those values to come back. That's what arbitrage is all about, and this isn't real arbitrage, because real arbitrage has forced relationship closure.

When LTCM moved to the kind [of strategy] where they'd leave the markets to bring it together, then their opportunities were very great, and they made lots of statistical analysis to show what kinds of assets related to each other. When that happened, they could build a very large portfolio, and they did. I don't know the notional amount or the par value amount of the thing, [but] I think [they] probably got to a trillion dollars or so, maybe even larger. Who knows? These things were never fully denominated when they started using derivatives in that process, as opposed to just securities.

But derivatives ultimately have an impact at their notional amount or their par amount, or their face-value amount, if you will. It's not just the dollars that are invested in the derivatives, because they have the power of leverage associated with them. Anyway, Long-Term Capital was as good as anybody at recognizing these kinds of things, and they built up a huge book of these. As in all other situations, though, they had a responsibility to put margin up when the values of both sides of their assets and their liabilities—their longs or their shorts—went one way or the other. If one side or the other of those two sides of the transaction go in one direction, and the other one doesn't, you get margin calls of enormous proportion that may require cash or capital. And fundamentally, Long-Term Capital got into a position where that kind of thing happened, and they didn't have the cash to deliver for the margin calls.

It's a pretty simple concept relative to how people have to deal with this and have been dealing with it in securities markets for a long time, except that the proportion in size of this was enormous, and they were integrated with most major financial institutions in the world. There was almost no one that I knew that didn't have some exposure in one form or another. I think that one of the problems is that, because of the reputation of the individuals that were involved, people at Long-Term Capital were not as disciplined in managing their potential exposures, and Long-Term Capital went out of the way not to allow everybody to see what their portfolio looked like, because, again, they were perceived as a very soundly based, smart group of folks that had a lot of credibility. People sometimes bent their credit rules, and so there was greater exposure than would otherwise have been the case.

Long-Term Capital did another thing. It usually only showed one side of a transaction—you know, these longs and shorts—to a particular institution, because they didn't want to give away what trades they had, because they thought they would be copycatted, and other people would take on those same transactions and maybe make those transactions less likely to come home and resolve and profit. So people might see one side of the transaction and feel pretty satisfactory on how the world was going, [but] they would have no idea what was going on in the other side of the transaction. That can be a dangerous position, because you can't tie it together. Well, when the Asian crisis broke, the derivatives markets, which were particularly where Long-Term Capital was involved, became destabilized, and Long-Term Capital got into positions where some of their transactions were putting enormous pressure on them for credit calls, and when credit concerns are in play in one part of the world, they often come into play in other parts of the world, and people get stricter all of a sudden. That's what happened with Long-Term Capital, particularly because they had been involved with Russia, and Russia ended up being a cause célèbre in the summer of... I think it's '98 now; my memory's fading here. It put extreme pressure on Long-Term Capital.

Almost everyone had some relationship with [LTCM]. Goldman Sachs did not have excessive exposure to them. There was never a time when Long-Term Capital was going to have a meaningful impact on our balance sheet, at least with respect to the portfolio at hand. But what was unique about Long-Term Capital is that they were involved in every market imaginable, and their portfolios, their longs and their shorts, were so involved in every market that every market would have been in dislocation to some degree, more or less. Whether it was equities, whether it was bonds, whether it was emerging markets, whether it was currency markets, whether it was futures markets in Chicago, in every market they seemed to [occupy] a disproportionate concentration of positions. And so if all of this came unwound at a given moment in time—and [you can] go back to the Thailand situation, where everybody wanted out at once—you would have had distress in every financial market all over the globe.

And they were involved. Whether it was the Singapore Exchange, the Tokyo Stock Exchange, the London Stock Exchange, the New York, there was no market that they weren't [involved in], where maybe they were the largest player, or close to the largest player. I'm being less specific than I should, but they were just hugely concentrated in every individual market, and so they would have impact on a global scale in most people's perspectives, and that really was a situation where you had uncertain outcomes if they were put into bankruptcy.

One additional feature is that because derivative markets were relatively young in the scheme of financial instruments, a lot of the rules and laws about how you deal with the unwinding of derivatives are yet to be tested in courts. And when you do it on a global scale, what the courts rule in the United States and what they rule in Britain, and what they rule in Russia—where there are no rules whatsoever (laughs)—are entirely different sets of events. So you have a second element of exposure that no one really knew what would happen once this all came out. And if it was a small institution or it had been a smaller consideration, well, you'd take the risk, and it'd be a nice way to sort it out. But sorting out this unwinding of derivative contracts in the context of maybe the largest single financial institution's participation in derivative markets ever seemed a little bit scary for not only the Federal Reserve but for those participants who were part of it. To some extent, I think the participants needed to be cognizant that they had facilitated the build-up of these concentrated risks and had a responsibility, at least in my view. And by the way, there are lots of debates about this, but in my view, it was more important to unwind this thing on a rational, steady-handed basis to make sure we didn't have the unintended consequences of this credit problem creating a huge macroeconomic problem that frankly could have set in place a recession and had a serious impact on our banking system and credit institutions.

INTERVIEWER: We talked to William McDonough [former president of the New York Federal Reserve], and he described the atmosphere in the room: You all got together—big egos, lots of money, lots at stake. I think you used the term "abyss."

JON CORZINE: Well, as I tried to describe, no one really knew what would happen if you put this institution into bankruptcy, and the legal unwind was uncertain. The only thing you knew was all those institutions—I think there were 16 in the room—all had big stakes in it, and all of them were going to have real concerns. And it wasn't just their concerns; it was [also] what implications we were going to have on the viability and credit of those institutions, and if they all weren't working effectively, then you could have a real global problem with regard to the economic stability of our global world, because everybody has the ability to extend credit or not. They were fundamental to local domestic economies, but they also were the facilitators of a lot of the globalizations going on. So yes, there were big egos, and there were plenty of people that said, "It's a bigger problem for you than for me." As I just said to you, we didn't feel at Goldman Sachs that our individual credit exposure was so large that it would end up causing us problems, but there were a number of us who said, "We've got these derivative contracts ... and by the way, we don't know how they're going to get unwound." It's somebody else who might have had larger exposure to [LTCM] and how they were going to come out in that process, so you had all this interconnectedness of portfolios and activity that at least a lot of us thought we ought to have a rational unwinding of over the fullness of time, and that's basically the genesis that I saw of the activities of the Federal Reserve trying to bring the players together and have them come up with a solution that would make for a reasonable unwinding of the problem.

INTERVIEWER: You talked about how we're always going to see crises. How was this contagion crisis that culminated in LTCM different, and what did it tell you about how the global world had changed in the '90s?

JON CORZINE: Well, the '90s saw a huge build-up in concentrations that we had never seen on a global scale. Maybe we had way back in history. Maybe the Romans had financial institutions that were disproportionately large to the overall activity of the world that they operated in, but, you know, we now have highly concentrated financial institutions with plenty of small ones that are servicing consumers. The fact is that if you want to have these transition mechanisms for monetary policy and economic policy in general, there are a couple of dozen institutions in the world, or maybe even just a dozen that are in every country everywhere, with real impact on how the financial markets of those countries work. Now they're all competitors with each other, and when there's a problem with one of them, the impact isn't just in Germany, or it isn't just in the United States; it's a much more dramatic impact on a global basis. So you can't ignore what's going on in Argentina, because most of those dozen to two dozen institutions have a pretty big exposure to those parts of the world, so they have a real vested interest, the same way we used to have in the United States when we would have a problem with an individual institution here. And all that's good in some ways in the sense that I think it ties us together and certainly makes for a higher probability of a peaceful globe, because people have a stake in much more than just their own domestic interest.

But it's dangerous in the sense that a problem in one spot has secondary implications in others, and, you know, maybe Thailand won't shake the whole world, it won't lead to a recession in the United States, but it is going to change terms and conditions of how the major players, the global players, are going to be thinking about credit in the United States when something happens in one of the other parts of the world where that institution has exposure. When I get a foot problem, I stop playing basketball or stop running, because this piece of my body has something to do with the rest of what I'm doing. Well, that's sort of what's happened in the globe. One issue is not divorced from the other, where in earlier times, these things were little cells that operated on their own.

The LTCM Drama Unfolds: A Firsthand Account

INTERVIEWER: Can you tell us about that first night, the first meeting at the Fed? Can you describe that night and what was going through your mind?

JON CORZINE: Well, the first night is when we were trying to figure out the particular concept of what might work, and there were three or four of us there, people from Merrill Lynch, Morgan Stanley, J.P. Morgan, and Goldman Sachs, and we were trying to assess whether was there a scheme that actually might work, and we had two or three different options. That's what Monday night was about, to the extent that my memory is sure in this.

And then we had two options that I think we were pursuing coming out of Monday night. One was a private response, the [Warren] Buffett-Goldman Sachs initiative, although people didn't know it was Buffett because he didn't want his name tossed around in this. And then there was the more general participation that ultimately ended up being the way we went. And again, there were three or four of us. Then it got expanded to five folks who played with the general solution all day Tuesday, and we got to a moment in time where I think people went to work on Tuesday night to call around and broaden it out to the people that would be most impacted by this problem and try to get them there on Wednesday, as I recall.

It was pretty tense, because everybody had their own self-interest that they were representing, and they also had a real concern about the abyss that we talked about, and we all understood that if we didn't come up with a solution, nobody really knew what was going to take place. We knew it wasn't going to be very pretty, but they really couldn't tell how serious it was. And to the Fed's credit, they were very steady in saying, every time we started to fragment and run off to corners and say "This is not going anywhere," the Fed was very firm in saying, "Let's stay at the table," and reminded folks that an abyss might be there. [The Fed said], "So in your own self-interest, you really ought to do some more talking." They did a great job of mediating and facilitating focus on the general good, and I think they deserve enormous credit for the mediation role they played.

Unfortunately, the press and others have said this is a bailout by the Federal Reserve, which is absolutely a miscasting of what the events were, because it was a private-sector response which the Federal Reserve mediated; it wasn't a Federal Reserve response. And the reason the Fed had to be there is that you couldn't get two people or 16 people sitting around, figuring out how they're going to deal with the market response on a private institution's activities, without having someone argue that it was a restraint to trade or an antitrust problem or collusive action by a group of individuals to service themselves, when, in fact, both the Fed and the majority of the people that were operating in this knew we were trying to avoid that abyss.

I mean, if you don't have institutionalization of response mechanisms, everything's ad hoc, and you're dependent on the goodwill of countries or the goodwill of maybe private institutions. But when it ends up that Thailand's blowing up, then instead of it being about 16 private-sector CEOs or institutions sitting around the table, it's the finance ministers from 20 countries, and they've got all the same considerations: "I'm protecting Malaysia"; "I'm protecting Korea"; "I couldn't care less about what's going on in Australia or Argentina."

INTERVIEWER: In a general sense you've talked about the stakes, but can you say what would be the worst case in a very simple way that people could understand?

JON CORZINE: With respect to LTCM, I think actually the downside, the abyss, to me would be financial distress, maybe bankruptcy, an unexpected bankruptcy for a large institution, one of the securities firms, or even one of the banks. If the portfolios that they had with respect to a lot of the derivatives didn't work—and frankly it wasn't just the derivative portfolios; there are all kinds of credit extensions about how money moves in the system, much of it arcane—clearing agents and clearing institutions extend credit before sometimes the money comes in. ... There are all kinds of institutions that had huge amounts of cash flowing back and forth, aside from just credit extensions against individual institutions, and the timing of when derivatives mature is different in different circumstances, and sometimes they have leverage on top of leverage. They blow up, so no one really knew which institutions were going to be impacted most seriously, [but] everyone knew that someone would be impacted seriously, and then [they asked], what was that institution's integration with the rest of the economic system?

When that happens, if you look back into the '30s or the late '20s, ... banking institutions go bankrupt, they don't make loans. Then the real economy quickly gets impacted, and I think you see a breakdown of economic growth. Then you can put all the hysterical stuff down about rising unemployment, and that problem being a global one when it came to someone like Long-Term Capital ... including back on my farm in central Illinois where I grew up, and the little banks no longer have trust in the credit system, and they don't make loans. So you see it in all aspects of our economy as this thing trickles out, because of the size of these large institutions and their impact, and [it becomes] a global phenomenon.

INTERVIEWER: I remember in 1998 when this was occurring, I was talking to you, and I remember you talking about "trader's stomach." Maybe tell us in personal terms what's it like to stare into the abyss when you don't know what's going to happen.

JON CORZINE: Well, traders stare into black holes and don't know what's going to happen, where certainly you always do make probability assessments of whether you think something is going to work, favorably or unfavorably. You do that when you choose to run for political office. It's not 100 percent certain that you're going to win; you have to put things into probability context. This was a situation where you couldn't assess the probabilities, because the dimension of the problem was [unknown]. Most times, when you face credit problems or credit issues, you can quantify what the downside would be. The real problem of Long-Term Capital was that nobody really understood all the downsides that were there. You could talk about and describe them conceptually, but nobody really knew what the downsides in these problems were, because so much of the legal system hadn't been established, and nobody really understood all of the multiple layers of leverage within derivative instruments. All one knew was that it was going to be extraordinarily dangerous to enter into that. And I think everybody understood the Fed's concern that that had real implications to the real economy, which got to real people. In the short run it was a financial problem, but not very long after that it becomes a real-world problem on credit extension and every single aspect of the global economy, not just the United States.

INTERVIEWER: Can you tell us what for you was the scariest moment?

JON CORZINE: Well, I think the Wednesday morning meeting at the Federal Reserve. We'd gone through multiple derivatives of trying to pull together a coordinated approach to resolve this under the Fed's strong mediating hand and through a number of spontaneous reactions: There was a private bid from Warren Buffett that came in in the morning that was completely out of the realm of what people had been contemplating, and it almost broke apart the consensus that had come together with regard to a joint effort. I was personally in a position where I had been working on the general agreement as a representative of my firm, but my firm had also been working on another proposal, in the full knowledge of the Federal Reserve and the inside group, and I thought we were going to break this thing up by the initiative that came in, and we were going to be responsible for [undoing] what we had been working [on] so hard, and that a lot of people had worked and compromised so much to try to make happen. The combination of what I thought was going to be a personal failure—to have been able to be part of something that I thought was so important—with the fact that I felt truly fearful about the unintended and unexpected possibilities of this break-up, as an institution, that just scared me to death; that I as an individual had gotten into a position where we might have been the cause of that.

Facilitating Globalization with Institutions and Adjustment Processes

INTERVIEWER: The concentration of economic influence that you described earlier—we were up in Quebec, and this is what people on the streets say is what's wrong with the system, that there's too much power concentrated in two few hands.

JON CORZINE: Well, I think there is a risk of those kinds of things, but that's why—I believe now I'm back wearing my political hat—you need checks and balances from public-policy makers and governments, if you will, and I think we need to have some international institutions that help coordinate this, and they have to be meaningful and they have to have some clout. I'm not for turning over the sovereignty of the United States to the IMF [International Monetary Fund]. On the other hand, we need to have facilities that allow for adjustment processes from economic bubbles to economic depression that ... actually lead to corrective adjustments that are thoughtful and work their way through the system. If you don't have the institutions, then you've got to start all over, and everything becomes a Long-Term Capital solution. Can we get the 16 institutions to sit around the table on a given day? And, you know, in that particular case it might not even have been legal if the Federal Reserve hadn't called the meeting, because people would have presumed that we were operating against the antitrust laws of the United States.

We need to have systematic ways to address financial crises and to assess them, to consider the alternative directions or policies that could be implemented. And then you need mechanisms to actually implement these things, and in my view, that shouldn't be ad hoc. You need to have mechanisms in place that are able to react and to respond, and I actually think that, on balance, you can always do things after the fact better than you did when you were going through them. For instance, the IMF and the coordination of central banks around the world has done a pretty good job of dealing with currency crises and other problems that we faced in the '90s, and I think one of the reasons we've had the longest substantial expansion in the history of the post-World War II era and maybe even longer than that, with real growth and productivity and rising standards of living around the globe, is the fact that there has been a positive, relatively proactive view about managing these things that can turn a problem into a crisis.

INTERVIEWER: What's your sense of what's driving these protests that we've been seeing? More broadly, does global capitalism really offer a way out of poverty for the developing world? And how do you include these countries into the system? Because a lot of them, Africa and other developing countries, still want to trade but effectively feel cut off. How do you address these concerns about globalization?

JON CORZINE: Well, I'm not arguing that we're going to solve all those problems immediately, but there are comparative advantages in the world, and developing certain skill sets in those countries come from those comparative advantages. Sometimes it is labor cost; sometimes it is the education, intellectual capital, that's built up in a society that should be taken advantage of. And we ought to try to put those together. I think that will then tend to bring everyone more towards a medium. By the way, there's just as much protest about that from those that are doing very well in the world, saying that their standard of living is being undermined by globalization as it is, by those who said, "We're left out of this globalized world." What I do believe is that we need to work on the adjustment processes so that we don't have to start revolutionary changes, but that we wean folks in.

It's one of the reasons I'm not so sure that I'm prepared for fast-track considerations, because I'm not sure that we need a fast track in the integration of globalization. We want time for both the internal dynamics of an economy to adjust to the disciplines—sometimes not attractive disciplines—of globalization and the competition that comes with that, the tough decisions that are made by entrepreneurs and bottom-line-focused capitalists about where they want to be and why they want to be there and what the terms are. I think we need to have adjustment processes that go a little slower than would take place if it was just strictly the profit motive that dictated those things. On the other hand, I think that there is a need for public-policy institutions to create incentives for the developing world to participate with the developed world, activities like export support, breaking down tariff barriers and all of these kinds of things, and encouraging investment abroad, forgiveness of debt—all these kinds of things that I think are facilitators. But we also need to have institutions that are monitoring these things and can make some decisions when there are problems in flows of capital and other things that don't exist yet in these places or don't exist in ways that have a lot of efficacy.

Some of the problems in the developing world that people are concerned about really get at something other than economics. The AIDS crisis in Africa which is undermining the basic economic well-being of the continent is less economic than it is social, cultural, and educational. I mean, it's a whole fundamental infrastructure that needs to be laid down there, and to put Africa into a free-trade zone immediately, you know, I think it's putting the cart a little bit before the horse, in the sense of what's important for those particular parts of the world which are in desperate need of human capital and desperate need of humanitarian responses to a human crisis.

The Financial Industry Goes Global—and High Tech

INTERVIEWER: One last question: At the beginning of this interview, you were talking about how business in the financial industry had changed, and the world had become much more connected in the '80s and '90s. From where you've sat, can you recall how the sense of competition, global competition, changed over the '80s and '90s?

JON CORZINE: Well, I was in the financial services business for almost 30 years. When I first came to Goldman Sachs in 1975, it was a very domestic, very limited world that we competed with. It was Salomon Brothers and Merrill Lynch and Morgan Stanley. It was a very tight-knit group of Wall Street firms, whether it was in stocks or bonds. And at a very rapid pace, starting in the very late '70s and all through the '80s, we quickly saw a change in who the competition was, what life was all about. All of a sudden it was Deutsche Bank or ... your Japanese institutions, and Hong Kong, Shanghai, and the whole nature of who it was that you looked at across the table and competition changed dramatically.

It didn't mean that the folks that were in the United States were no longer competition, but [when South Africa had its first bond issue]; we had people showing up ... from all over the globe. It was no longer that insiders' club, and what was really remarkable about this change is that you had a reasonable idea of the perspective in which your competitor framed issues, but when you were competing against the Japanese, they might have an entirely different value set about how they would approach that competition. So it changed how you had to prepare yourself, how you'd think about it, and you didn't always have the information that allowed you to be as effective. Over a period of time, you got a pattern of behavior, and you could start pulling that together, but it took a lot more study and preparation than the world that I first entered.

There was the whole issue of technology going on at the same time. We used to keep our trading positions on the backs of blotters and little file cards. By the time I'd finished up my trading career, everything was instantaneously managed. You had regression models that gave you the theoretical price relative to what you might feel the real price was. You had more information than you had the ability to absorb in many ways, with regard to how you analyzed the price by the end of my career. It was a wonderful time to be a part of the system.

INTERVIEWER: Was the competition more intense?

JON CORZINE: Life is more intense when you have all these instruments of integration and interconnectedness.