

THE ASPEN INSTITUTE

GOOGLE LOOKS AT THE ECONOMY

IN CONVERSATION WITH ERIC SCHMIDT

TUESDAY, JUNE 30, 2009

1 P R O C E E D I N G S

2

3 SPEAKER: It's my great pleasure to introduce to
4 you two individuals who you're going to hear from. We
5 will take a lot of questions this afternoon. I'm not
6 going to make a big introduction. You know who both of
7 them are but if you don't, you may listen to Kai Ryssdal
8 every afternoon on *Marketplace*. It's our -- my great
9 pleasure to have him introduce our special guest. Thank
10 you very much.

11 (Applause)

12 MR. RYSSDAL: Yeah. If you don't know who Eric
13 Schmidt is, you're in the wrong room.

14 (Laughter)

15 MR. RYSSDAL: This morning as I started thinking
16 about how to begin this I, of course, went to Google and I
17 "Googled" the economic recovery. And I got 47,500,000
18 answers in forty-eight one-hundredths of a second and I
19 said, well, that's an interesting little statistic but I'm
20 going to have the man himself here later on. So why don't
21 I just ask him. And I think that's what I'll do.

22 In all seriousness Eric Schmidt is the leader of

1 arguably one of the most powerful and well-known companies
2 on the planet. We all use his products every single day,
3 multiple times a day. And as such, I think, he's probably
4 got something of a unique perspective on this economy, how
5 to steer a company through it, how to steer policy in that
6 economy and that's what we're going to talk about.

7 We'll go a little bit, Eric and I, and then we
8 are going to open it up for questions, a little bit of
9 housekeeping. There are two microphones in the aisles.
10 We're going to alternate back and forth. We need to be
11 out of here, I'm told, by 2:15. So we're going to keep it
12 on time. So line yourselves up when we get there and
13 we'll just go back and forth.

14 All right. Sound like a plan?

15 MR. SCHMIDT: Thank you.

16 MR. RYSSDAL: Obviously, a lot to talk about in
17 a short period of time but I want to, sort of, lay a
18 little bit of a groundwork here and get a sense of where
19 you were mentally, back in September, when Ben Bernanke
20 and Henry Paulson, the chairman of the Federal Reserve,
21 went up to Capitol Hill and said, "This is it, we're done.
22 We need \$700 billion, ready, go."

1 MR. SCHMIDT: Well, I was scared. Let me start
2 by saying that, congratulations to Walter, and to David,
3 and the teams that have put this amazing Ideas Festival
4 together. It's really one of the great events in America.
5 And I think you all should be proud to be part of that --

6 (Applause)

7 MR. RYSSDAL: Absolutely.

8 MR. SCHMIDT: When -- in September, the worst
9 day was the Wednesday when the money-market funds broke
10 the buck, if you remember that day, and that night,
11 Tuesday night, overnight, the financial clearing system of
12 the country almost failed. And the Federal Reserve had to
13 go in and hand money to the clearing houses to essentially
14 make sure that the money, the dollar, if you will, that
15 was clearing overnight was cleared properly the next day.
16 And I said to myself how did we get ourselves into this
17 situation? And I still don't know the answer to that
18 question.

19 MR. RYSSDAL: Assuming though that Google keeps
20 its cash in very safe banks.

21 MR. SCHMIDT: In fact, what we did is we took it
22 out of the banks and we put it into sovereign-denominated

1 currencies as we figured that the countries would not go
2 bankrupt.

3 MR. RYSSDAL: This country's currency too, yes.

4 MR. SCHMIDT: We did a --

5 MR. RYSSDAL: Just checking.

6 MR. SCHMIDT: We did a basket of currencies.

7 MR. RYSSDAL: All right, good. How are you --
8 assuming all that's true --

9 MR. SCHMIDT: It is, trust me, it's true. I'm a
10 CEO; I can't lie.

11 (Laughter)

12 MR. RYSSDAL: All right, so it's my job.

13 MR. SCHMIDT: It's like a real problem.

14 MR. RYSSDAL: I have to ask those questions.
15 How are you feeling then about where we are in terms of
16 fixing it?

17 MR. SCHMIDT: Well, again, with the caveat that
18 I don't understand how the learned and smart people who
19 are running all of this could have gotten us into this
20 situation in the first place -- with that as a caveat,
21 right? And I think we should have a discussion as to how
22 that happened and how -- not just so much from a

1 regulatory perspective but what was the failure in
2 information that got us to the point where we were in a
3 really good bubble and having a good time and the currency
4 almost failed. That's like a serious error. It's not a
5 small error. With that as a caveat, we're roughly on
6 schedule.

7 If you look at the sequence of events that once
8 the crisis occurred everyone realized that asset values
9 were too high, you had first a real estate crisis, and
10 then you had a credit and finance bubble. The credit and
11 finance bubble was largely because of unregulated credit
12 instruments which were shut down. With the bankruptcy of
13 Lehman everything, sort of, collapsed and then we had,
14 sort of, October, November, December where everyone's all
15 panicked.

16 The Federal -- the Fed comes in with trillions
17 of dollars of guarantees. People forget that there were
18 about \$2.5 trillion of additional guarantees of bonds and
19 bond debts, most of which will not need to be delivered on
20 by the way. The total indebtedness that was guaranteed by
21 the Western world and the United States was on the order
22 of \$8 to \$9 trillion if you add it all up. These are

1 enormous amounts of money. Remember the U.S. GDP is \$14
2 trillion. So, you know, we, sort of, created all that.

3 Then we had the stimulus package which was
4 designed as a short-term, which I'm strongly in favor of,
5 and then you have the time that it takes for the system to
6 work. And we're in that period now. Market low, roughly
7 in the spring, business cycle low, roughly now, jobless
8 high, roughly early 2010, we're on schedule. How do I
9 know this? Because the people who got us into this have
10 told us that.

11 (Laughter)

12 MR. SCHMIDT: What's a better answer?

13 MR. RYSSDAL: Yeah.

14 MR. SCHMIDT: What's a better -- sorry. If you
15 look at the history one of the things to learn is, when
16 you manage young people, is to explain to them that things
17 have occurred in history before and young people don't
18 often know that or ignore it because they didn't take
19 those classes. And in our case we're in a classic deep
20 recession and recessions recover. And I've just outlaid
21 the exact math around a traditional deep recession.

22 MR. RYSSDAL: Yeah. But hold on a second,

1 because if you take all of the smarts of Google's
2 computers and pilot into one big --

3 MR. SCHMIDT: We were not part of that September
4 --

5 MR. RYSSDAL: No, no, no, but let's take, you
6 know, you as a --

7 MR. SCHMIDT: We were not part -- in fact, had
8 we been doing it we might have actually been measuring
9 where all the money was.

10 MR. RYSSDAL: You guys, as the symbol of all the
11 world's knowledge, right -- which you're out there to
12 collate and make useful, okay.

13 MR. SCHMIDT: Thank you.

14 MR. RYSSDAL: If you take that and you combine
15 it with these really smart people and rising asset values,
16 how did so many smart people running the companies and the
17 economy do so many stupid things?

18 MR. SCHMIDT: Well, partly because everybody --
19 it was in their self-interest to believe it, right?
20 People have studied bubbles for years. I mean, remember
21 hi-tech. We already had our own bubble. You know you had
22 your own -- you had a bigger bubble. We've already been

1 through --

2 MR. RYSSDAL: Been there down there.

3 MR. SCHMIDT: We've been through one bubble
4 which was 2000, the Y2K phenomenon, and we had a great
5 time. Next time I'm going to sell at the peak, right?

6 (Laughter)

7 MR. SCHMIDT: I mean, I'm just waiting for the
8 next one of these market and news bubbles. I could have
9 made a lot of money at that time, right? It's much better
10 to sell at the high in these bubbles, trust me.

11 MR. RYSSDAL: There is though -- yes, we should
12 sell at the high.

13 (Laughter)

14 MR. SCHMIDT: But this is about ideas. There is
15 an idea.

16 MR. RYSSDAL: There is an idea.

17 MR. SCHMIDT: Sell at the top, right?

18 (Laughter)

19 MR. RYSSDAL: All right. So let's have another
20 idea about how we can get ourselves out of this mess. Is
21 it -- do we just sit here and wait for it to happen or can
22 companies in the economy do something smart?

1 MR. SCHMIDT: Well, in the first place, let's go
2 back to what's really going to happen. I think the U.S.
3 will recover first. The European economy is slower to
4 recover. The conventional wisdom is it is 6 months off
5 cycle. That's about right. An interesting insight about
6 the Europeans is that they have -- their central bank
7 which is called the European Central Bank has one mission
8 which is fighting inflation and ours has two missions,
9 fighting inflation and promoting growth. This is called -
10 - then there's a technical name for this among all the
11 economists.

12 But what's interesting about the European
13 Central Bank is that they have been giving enormously
14 friendly loans to all of these countries to help out,
15 which looks awfully stimulative. So the European Central
16 Bank, within the charter that it has, is doing something
17 similar to what the U.S. is doing. And I think Europe
18 will recover as well. And they are not going to give up
19 their vacations or anything like that in the mean time.

20 MR. RYSSDAL: Yeah, heaven forbid.

21 (Laughter)

22 MR. SCHMIDT: So the fact of the matter is, I

1 think, that's going to happen. In China you had the
2 stimulus package. And in China they had an infrastructure
3 stimulus package not unlike what we did. The difference
4 is they just did it. They didn't debate it. Some
5 benefits to a command and control economy or whatever you
6 want to call China.

7 And it looks like, the Third World, and in
8 particular, the smaller countries are very severely hurt
9 by what happened because they were in an asset bubble
10 which was in minerals and so forth and they also have huge
11 trade imbalances. So we're going to go back to a
12 structure where the, if you will, the strongest China, to
13 some degree India, the United States, and Europe will lead
14 us through this over the next few years.

15 MR. RYSSDAL: Why? Why is the United States
16 going to get out first and not China drag us on?

17 MR. SCHMIDT: Well, I personally think it has to
18 do with our university systems. Ultimately the reason
19 these things occur in America has a lot to do with the
20 culture of America. And Americans are optimists,
21 Americans believe in innovation, 90 percent, 95 percent of
22 the top universities in the world are in United States.

1 Many people have tried to replicate these systems. They
2 are very hard to replicate.

3 If you look at venture capital, which I've
4 obviously benefited from, the financing -- the financial
5 structure combined with new young people trying to create
6 new jobs is phenomenal. We have the fastest growth cycle
7 in terms of new jobs. Typical example is there's a claim
8 that 15 percent of the jobs every year are eliminated and
9 another 15 percent, of course, are created.

10 And that's no solace to you if you are working
11 in an era where the only kinds of jobs, typical example
12 being the traditional American automobile industry, those
13 are the only kinds. There aren't -- the other ones aren't
14 being created. But if you look at the economy as an
15 aggregate there are other jobs being created which is not
16 in your town. And that's difficult. But that's
17 ultimately the genius of the American system.

18 MR. RYSSDAL: Can you innovate your way out of a
19 recession? I mean, Google's a company that's made its
20 name with innovation. You give your engineers time off to
21 innovate, on company time.

22 MR. SCHMIDT: Well, it turns out recessions end

1 on their own and politicians love to take credit for their
2 recovery. But one of the simplest rules is that business
3 cycle has not been eliminated and there's evidence that
4 the business cycle is going to get worse. And the reason
5 it's going to get worse is things have gotten more
6 interlinked. So we're going to go up together more and
7 down together faster.

8 And by the way, in information markets, the
9 cycles are shorter. It's up-down, up-down, up-down
10 because there's more information. Now it may be possible
11 to dampen some of these by conversations and regulations.
12 My favorite example here is Iceland. And Iceland which
13 has 300,000 people and a lot of fish and --

14 (Laughter)

15 MR. SCHMIDT: -- is -- had three-quarters at the
16 height of the bubble, three-quarters of its stock market
17 value were the three banks that failed.

18 MR. RYSSDAL: Bigger than the whole economy.

19 MR. SCHMIDT: Now -- and they're not known as a
20 banking center, and of course, what was happening was they
21 were arbitraging their currency against the Euro. They
22 were essentially lending in one currency and taking money

1 in another. And there was clearly a regulatory failure at
2 some point -- I don't fully understand it. At what point
3 -- why didn't somebody raise their head and say, by the
4 way, it's an error to have three-quarters of your entire
5 market tied up in these banks given that that's not your
6 economy.

7 And so to me what I hope will happen as a result
8 of this terrible thing, I'm not trying to minimize it,
9 because a lot of people who have been hurt by what I
10 consider to be the errors of the global elite and hurt
11 very severely, what I hope is people will say, hey, that
12 doesn't make sense anymore. My house went up 20 percent a
13 year for 10 years. By the way that's a sell signal.

14 (Laughter)

15 MR. SCHMIDT: It doesn't make any sense, right?
16 It doesn't make any sense. The math doesn't work.

17 MR. RYSSDAL: Well, what kinds of companies then
18 -- wait a minute, let me back up, and pick up on a thread
19 you keep mentioning, regulatory oversight. Are you
20 confident that the President's regulatory reform plan that
21 he announced a couple of weeks ago is going to go far
22 enough, is going to curb some of these excesses?

1 MR. SCHMIDT: I don't think anybody knows. The
2 regulations are long and deep and there's a lot of anger.
3 And one of the things to know, and our politicians will at
4 least privately explain to you, they are inundated by the
5 anger of the average American as what they perceive as the
6 bailout of the financial elite, the business elite, people
7 like myself, and so forth, and so on. And that anger is
8 palpable.

9 So they are going to regulate. They are going
10 to get regulated, and you do not want the government to
11 own your company. You could see this with General Motors
12 and so forth. You can -- the automobile industry globally
13 is largely now owned, large chunks are owned by
14 governments. It's true in Europe as well as in United
15 States. It's always been true to some degree in China.
16 And so in many cases they are ultimately going to turn out
17 to be jobs programs. There's a, sort of, a horrendous
18 structural issue that we face, because frankly, the demand
19 for cars is not as high as our ability to buy -- to build
20 them.

21 MR. RYSSDAL: With the banks getting better
22 though some showing profits, some sort of bottoming signal

1 out there whether we're bumping along the money bottom or

2 --

3 MR. SCHMIDT: Those making profits.

4 MR. RYSSDAL: Yeah.

5 MR. SCHMIDT: I guess where the money came from?

6 MR. RYSSDAL: Yeah. No, I -- raise your hands.

7 There you go. Do you -- how do you feel about this
8 proposition that maybe what we've done in not stepping
9 more quickly into the regulatory realm is wasted a crisis.

10 Let the banks fester for a while, giving them money, and
11 now they're going to be through to the business as usual.

12 MR. SCHMIDT: My personal view would have been
13 to allow -- to not allow the write-offs that occurred in
14 the banks. It was explained to me that the problem with
15 that is that the banks are actually a different kind of
16 animal than other businesses. If you look at AIG, for
17 example, and again, how quickly we forget -- remember, it
18 was \$20 billion, then it was \$40 billion, then it was \$65
19 billion, there was \$85 billion, there was \$185 billion.
20 These were -- these are large amounts money. How do you
21 lose that amount of money? If I lost that kind of money
22 I'd lose my job, right?

1 (Laughter)

2 MR. SCHMIDT: I don't even have that kind of
3 money in my company to lose.

4 MR. RYSSDAL: But you are saying something
5 actually.

6 MR. SCHMIDT: You know, thank you. And how do
7 you make that kind of a mistake? And so my argument was
8 that you should allow these -- all of these structures to
9 fail because the collective memory that is the structure,
10 all those losses will still be around to remind them not
11 to make those mistakes again.

12 The problem with that is not, in fact, I was
13 just wrong. It's not how banks really work because they
14 lend against an asset base. And if you can't fix the
15 asset base which is indeed what the Fed, in my view,
16 correctly did you don't get credit going again. And if
17 you don't have credit you don't have your economy because
18 we Americans love credit.

19 MR. RYSSDAL: If it's not going to be the banks
20 that lead us out of the recovery, I mean, they're
21 stabilizing but they are not going to lead the way --

22 MR. SCHMIDT: It's the consumers in America.

1 MR. RYSSDAL: Okay.

2 MR. SCHMIDT: It's always the consumers.

3 MR. RYSSDAL: But my question though was what
4 kind of company is going to do it? It won't be the
5 financials, not going to be manufacturing, look at
6 Detroit, what kind of company is going to help us get
7 going?

8 MR. SCHMIDT: Well, obviously, my own bias would
9 be to do whatever we can to get the next generation of
10 very smart companies in every field going. In the
11 stimulus package there was a long -- a lot of work done to
12 make sure that there was lot of money to create a green
13 tech sector.

14 And many of us, the people here in the room who
15 are pioneers in this area, believe that the secret to
16 American manufacturing success is their ability to take
17 the knowledge that comes out of universities quickly and
18 turn those into very highly profitable businesses and move
19 very quickly. The classic example being the Michigan area
20 manufacturing plant, that can be converted to build
21 automobile batteries for electric cars. There are example
22 after example after example.

1 And I believe that the reality is that the
2 problem is so significant that you need to do more than
3 that. You need to look at all the barriers to business.
4 So, for example, people who argue against free trade don't
5 realize how many American businesses are global in nature
6 and arguing against free trade hurts American businesses
7 that kind of thing.

8 MR. RYSSDAL: Let me ask you specifically about
9 Google then. I mean you guys are everywhere. It is, I
10 think, in your phrase --

11 MR. SCHMIDT: That is our goal.

12 MR. RYSSDAL: That's right.

13 (Laughter)

14 MR. RYSSDAL: And you're meaning it. It is as
15 you've called that the "economics of ubiquity."

16 MR. SCHMIDT: Yeah.

17 MR. RYSSDAL: How does that help this country
18 get going again?

19 MR. SCHMIDT: Well, we believe that information
20 is power. And I was -- because you were asking about the
21 financial things, I wonder a lot of -- I learned a while
22 ago that the right way to run human systems is

1 transparency. And then almost all of this, sort of,
2 structural mistakes that we're seeing have been caused by
3 information hiding or by poorly integrated systems. And
4 it's true at every level of politics and government and
5 sort of how systems work.

6 So from our perspective more information is
7 power, and that the Internet is this enormously powerful
8 platform for very, very rapid information flow. And you
9 see this in the political dynamic what's going on in Iran
10 and that story is repeated over and over again. We all
11 understand that intuitively.

12 It's also true in business. It means that
13 businesses can be more efficient. It means that start-ups
14 can be formed more quickly. One way to say it is that the
15 barrier to entry for a new company has never been as low
16 because of the ability to get mass distribution, quick
17 access to new information, get your product out, get it
18 distributed, and so forth.

19 MR. RYSSDAL: Except for the fact that nobody
20 can get credit, nobody is hiring.

21 MR. SCHMIDT: Well, in fact, people are
22 beginning to hire, right, in certain sectors, right? The

1 ones, starting with the ones that are benefiting from the
2 stimulus package, so there's some of that. And as long as
3 you have a reasonable credit rating the banks will hire
4 you.

5 The issue with credit in the last 6 months is
6 there were an awful lot of non-standard credit. So think
7 about all these developers that were busy building these
8 huge luxury resorts; they didn't use traditional credit
9 mechanisms. They used complex credit equity swaps and
10 other kinds of things that I didn't fully understand that
11 essentially have all gone away. Their problem is they
12 can't refinance.

13 One of the issues, by the way, so there's a
14 significant crisis in commercial credit coming because all
15 of those buildings were refinanced at very high debt
16 ratios. And those things roll over because they're not --
17 they weren't mortgages like we have in our homes. And
18 when they roll over they won't be able to refinance.

19 MR. RYSSDAL: What about the thing you were
20 talking about a moment ago, the consumers? There is
21 consumer -- there are consumer credit problems coming and
22 there is still -- I'd be curious to get your take on this

1 -- a trepidation on the part of the consumer who still
2 fears for his job --

3 MR. SCHMIDT: In fact, in March we had net
4 savings in this country. It was historic.

5 MR. RYSSDAL: That --

6 MR. SCHMIDT: I mean, we should have had a
7 party. And so what's interesting is, of course, we'll
8 quickly go back to net credit.

9 MR. RYSSDAL: Yeah.

10 MR. SCHMIDT: Because that's how our economic
11 structure is.

12 MR. RYSSDAL: But do you believe consumers are
13 ready to --

14 MR. SCHMIDT: I do.

15 MR. RYSSDAL: Really?

16 MR. SCHMIDT: I do.

17 MR. RYSSDAL: Even in the face of rising
18 unemployment?

19 MR. SCHMIDT: Because what will happen is as we
20 bottom through the recession which is, sort of, we're in
21 the bottoming process now. One of the signs of recovery
22 from recessions is that inventories get worked off,

1 there's new demand for product. Typical example is cars.
2 They did an analysis of the number of cars that you sell
3 per year and the number of cars that get older. And
4 there's an unmet need for new cars because people have not
5 been able to get the financings for new cars. Well, as
6 financing gets better, as consumer confidence -- people
7 will buy those cars and that's obviously good.

8 MR. RYSSDAL: Start getting your questions
9 ready. Go ahead and line up at those microphones. We'll
10 open it up here in just a second. How do you -- what
11 kinds of conversations, shall we say, have you had with
12 members of the administration about getting the government
13 back out of the marketplace?

14 MR. SCHMIDT: Well, the answer that they give is
15 that we're in and we'll get out.

16 MR. RYSSDAL: Oh.

17 (Laughter)

18 MR. SCHMIDT: Okay. And when I look at the
19 criticisms and I think it's known I was a strong supporter
20 of the President and his program. The one really
21 legitimate, in my view, criticism from the other side was
22 that once this spending and once these tentacles get in

1 from the government in to the private sector, and in
2 particular, the special interest that depend on the
3 temporary spending it becomes permanent spending.

4 I think that's a very legitimate criticism. And
5 the administration has said that they are going to answer
6 that question by very strong steps in favor of
7 transparency. They are going to show where the money
8 went, what it went for. They are using the web in clever
9 ways and they are good at this stuff.

10 So I think that as citizens we should hold them
11 to that commitment and we should see after, you know, the
12 stimulus bill more than \$800 billion, let's make sure that
13 that part ends and we get back to our normal business
14 because that's ultimately the secret of America.

15 MR. RYSSDAL: Do you think they have met that
16 commitment to transparency yet or do they still --

17 MR. SCHMIDT: They have done their initial
18 filings. So --

19 MR. RYSSDAL: So kind of?

20 MR. SCHMIDT: Well, no, but they're on schedule
21 but it's a 2-year program.

22 MR. RYSSDAL: Okay, all right.

1 MR. SCHMIDT: So, so far they've done it but
2 again, you know, you can imagine they say it, they meant
3 it, they did it the first time and then they forget about
4 it later. And that would not do. So we need to hold them
5 accountable for the commitments that they make as part of
6 taking our money, if you will, and make sure that they
7 really follow through using the tools that are available
8 in the Internet.

9 And what's great about it is that although most
10 of us don't have time to study these things in detail for
11 every program in the government if you basically publish
12 what they're up to there are groups that will monitor.
13 They will keep them honest. They will check their
14 commitments and what they say. And that's one of the
15 great things about governance in the Internet age.

16 MR. RYSSDAL: Again, microphones are right there
17 for those of you who have questions. There was a panel
18 here this morning in this room Maria Bartiromo and Douglas
19 Holtz-Eakin from the McCain campaign, and Austan Goolsbee
20 from the White House, and David Wessel from the *Wall*
21 *Street Journal*. And one of the big themes in their
22 discussion was business investment. In an economy where

1 consumers are afraid how do you convince businesses that
2 they have to step up and take a leadership role?

3 MR. SCHMIDT: Because well, business is based --
4 businesses are run -- American businesses are run pretty
5 rationally and they look at demand and they make their
6 investments based on that. And the fact of the matter is
7 most companies have -- with -- many companies have
8 actually fairly strong cash positions.

9 MR. RYSSDAL: Most in fact, right? I mean even
10 today, most.

11 MR. SCHMIDT: And surprisingly so. And some of
12 that is regulatory in nature; some of it is the way our
13 accounting system works. But the fact of the matter is
14 many -- and again, this is unsung. We always focus on the
15 businesses that are credit sensitive. Many businesses,
16 Google being one, have lots and lots of cash, many of the
17 hi-tech businesses, and so forth. So we're waiting, if
18 you will, for confidence to come back, for the markets to
19 come back and we know that they will.

20 MR. RYSSDAL: You're waiting for us. We're
21 waiting for you.

22 (Laughter)

1 MR. SCHMIDT: But that's why these things take 2
2 years rather than 1 week. That's why there is a business
3 cycle, right? And the funny thing is I can tell you that
4 we're in a business cycle, and you'll say no, we're not,
5 because it's like all a disaster. But in fact, a month
6 from now, things will be better. If you look at
7 unemployment, for example, the rate of -- in the most
8 recent report the loss of unemployment --

9 MR. RYSSDAL: Right.

10 MR. SCHMIDT: -- has got better.

11 MR. RYSSDAL: Right, the rate at which the
12 economy is losing jobs, yes.

13 MR. SCHMIDT: The rate -- yes. Again, the signs
14 are there.

15 MR. RYSSDAL: Yes, sir.

16 MR. LEHRER: Hi, Brian Lehrer from WNYC Radio,
17 New York.

18 Eric, I use Google all day, everyday like a lot
19 of people in this room. But is there ever a point at
20 which Google becomes so big that it's, kind of, scary and
21 needs to be regulated as a public utility?

22 (Laughter)

1 MR. LEHRER: We kind of reached that with
2 Microsoft in the '90s, some of the same discussion. When
3 you're aggregating all the contents of books, when "Google
4 News" is the place that people go for news content instead
5 of the sites, *New York Times* and everything else that
6 you're aggregating and you know some traditional media are
7 upset with you for that. Seriously, literally, is there a
8 point where you need to be regulated as a public utility?
9 And if you can please express -- address the news content
10 question, in particular.

11 MR. SCHMIDT: The -- you'll be surprised that my
12 answer is no.

13 (Laughter)

14 MR. SCHMIDT: The -- and I will offer as a
15 scenario would you prefer to have the government running
16 innovative companies or would you rather have the private
17 sector running it. And there are models and there are
18 countries where, in fact, the government does try to do
19 that. And I think the American model works better.

20 MR. LEHRER: But Eric, if I could jump in? I
21 would expect a more sophisticated answer from you because
22 as we saw with the banks, it's not a question of Soviet

1 style communism or free market capitalism. The banks
2 needed smart regulation that they didn't have as I think
3 you were just saying. Is it possible that information is
4 in the same boat?

5 MR. SCHMIDT: Well, again, my answer would be
6 no.

7 (Laughter)

8 MR. SCHMIDT: And perhaps I should expand on my
9 answer. The -- Google plays an important role in
10 information, and the reason you're asking that question is
11 because information is important to all of us. We run
12 Google based on a set of values and principles and we work
13 very, very hard to make people know what they are. So,
14 for example, for you as an end-user, if you become
15 dissatisfied with, it will make it easy for you to switch
16 to a competitor or another choice.

17 In fact, we have a group which is called the
18 Data Liberation Front which works for us that actually --
19 I'm sorry, which basically works very hard to make sure
20 that there are no ways in which we trap data. So there
21 are a long list of things like that. And companies are to
22 find by the values that they were founded with and they

1 operate with today.

2 And so if you're concerned about the need for
3 regulation of Google's role, part of my answer would be
4 that the company is not independent of my leadership and
5 the founder's leadership and so forth. The company is
6 formed in a certain way.

7 A much more -- a thing that you should be
8 worried about is that the combination of special interests
9 plus unintended regulation could, in fact, prevent the
10 kind of consumer benefits that we push, so very hard to
11 do. And part of the reason that I -- the part of the
12 other push back I would offer is that the things that we
13 do are available to others. There's nothing particularly
14 secret in the sense that we've just invented stuff but we
15 haven't largely prevented people from doing their own
16 thing. It's pretty easy for people to try other things.
17 I'd like to see some other folks trying to lay out an
18 agenda for innovation.

19 With especially the news question, which I think
20 is what you're really talking about is that -- a couple of
21 comments. The Internet arrived and as it arrives it
22 displaces industries in really profound ways. It -- and

1 it's not necessarily the player's fault, it's really about
2 how consumers behave.

3 In the case of news content, news readers, that
4 is, the customer, if you will, are busy reading news
5 online. And we've not yet figured out the perfect ad
6 model for that. But one of things that's happening is
7 it's affecting, for example, the newspaper economics along
8 with the loss of classifieds, cost of print et cetera.

9 I don't know how to solve the generic newspaper
10 problems and we've talked a lot about this to them because
11 it's a shared interest. It's a -- from my perspective a
12 huge tragedy that we would lose investigative reporting in
13 our country which has driven so much of what we really
14 know and really driven transparency in lots of fundamental
15 ways both in the U.S. and globally.

16 We're working on a whole bunch of products in
17 that area to try to do it. There is a tension here
18 because the newspapers give us access to their content and
19 then they complain that we don't pay them out of our other
20 businesses. When we've tried that there's not enough
21 revenue that we can yet get from their content and so we
22 would essentially be subsidizing them. That's roughly the

1 answer.

2 MR. RYSSDAL: This company's most famous value
3 is "Don't Be Evil," right? It became iconic when you guys
4 went public. Does "Don't Be Evil" also mean always be
5 good?

6 MR. SCHMIDT: I didn't major in that
7 philosophical question.

8 MR. RYSSDAL: Yeah, me neither.

9 MR. SCHMIDT: So that's a really hard question.
10 A simpler answer might be that "Don't Be Evil" is a way of
11 operating. It's not a -- there's -- unfortunately, if
12 there were a book that said what's evil and what's not
13 evil then we could just consult it. So what "Don't Be
14 Evil" says is when you face a question ask the question --
15 and it's almost like a rip cord within the company.

16 And when I first ran the company I thought, this
17 is kind of crap, right, this is young people having a good
18 time. So I'm sitting in the room and somebody -- we're
19 having conversation about a particular ad product. And
20 one of the engineers, his name is Ron, says, "That's
21 evil." And it was like a bomb going off in the room, you
22 know, and I felt like hiding under the chair. Because all

1 of a sudden the whole conversation stopped and there was
2 this lengthy conversation as to whether the decision was
3 based on our principles.

4 And the principles of Google are basically about
5 end-users. So I would -- to answer the earlier fellow's
6 question even more deeply, we try to make our decisions
7 based on end-user benefit. Many industries, whether we
8 like it or not, are not as organized over an end-user
9 benefit. They're often organized around the supplier
10 benefit or their shareholder benefit. We try to focus on
11 end users.

12 MR. RYSSDAL: One more spin off Brian's
13 question, and then we'll get to this side of the room. I
14 promise. A lot of your answer sounded a little bit like
15 what you said in the beginning. How do we know that the
16 economy is getting better? Because the people who got us
17 here told us so. It was a little bit of trust us.

18 MR. SCHMIDT: Yeah. Well, what's your
19 alternative?

20 (Laughter)

21 MR. SCHMIDT: Don't trust us?

22 MR. RYSSDAL: Not buy your stock, I guess. I

1 don't know.

2 MR. SCHMIDT: But this -- the good news is --

3 MR. RYSSDAL: I can't not use your products,
4 right, because --

5 MR. SCHMIDT: Sure you can. We have
6 competitors.

7 MR. RYSSDAL: Yeah, but come on, I mean --

8 MR. SCHMIDT: We have lots of competitors.

9 MR. RYSSDAL: I'm on the reader. I'm on mail.
10 I'm on this. I'm on --

11 MR. SCHMIDT: I'm glad you accept but every one
12 of those -- every one of them has an able competitor.
13 They really do.

14 MR. RYSSDAL: Yes, ma'am.

15 MS. PORGES: Thank you. Shelly Porges
16 (phonetic) from Washington, D.C. Google has obviously
17 done phenomenal -- has promoted the democratization of
18 information in a great way, and has, in fact, promoted the
19 development of lot of innovation and small businesses or
20 large businesses for that matter. What role can you play
21 going forward to help us get out of this? Or do you
22 envision yourself playing an active role other than what

1 you normally do as part of your day-to-day business,
2 number one?

3 MR. SCHMIDT: Sorry, democratization of the
4 society or --

5 MS. PORGES: No, democratization of the
6 information, I'm sorry.

7 MR. SCHMIDT: Okay.

8 MS. PORGES: Information distribution.

9 MR. SCHMIDT: Okay.

10 MS. PORGES: And access to information. And
11 then related to that you asked, you know, the question
12 before came up where is the turnaround going to come from?
13 And one thing that has -- seemed to be not commented much
14 other than the broad topic of innovation is small
15 businesses.

16 MR. SCHMIDT: Sure, absolutely.

17 MS. PORGES: Small businesses created half a
18 million more jobs in the last recession than they did in
19 this recession. Yet you hear all the talk, you know,
20 going around the stimulus package, big companies, big
21 sectors, that sort of thing. So how do you see Google
22 playing a role in all that?

1 MR. SCHMIDT: Well, for the second part, it is
2 pretty easy that the Internet is such a great friend of
3 small businesses that much of our partnerships, much of
4 our advertising revenue is driven by small businesses
5 because of our self-service advertising. And furthermore,
6 our auction in our business is designed to not favor the
7 big guys, which is of constant annoyance to the big guys.
8 And the little people never complain about this because
9 they know that in traditional accounting structures they
10 are the ones that are disfavored. So we think we make a
11 good step forward on that.

12 So with respect to democratization of
13 information, it first gets back to whether the information
14 is publicly available. And one of the things that we have
15 learned is that governments are not as interested in
16 transparency as you might think. If you are a government
17 bureaucracy, if you are a government bureaucrat, then
18 Google shows up. And we are sort of a pain in the ass, is
19 the way to describe it, because all that can happen is you
20 can get embarrassed by access to all this information.
21 It's oversight. And many organizations don't really have
22 that.

1 So we have argued, for example, that all of the
2 hearings that happen in the government, in the U.S. and
3 elsewhere, should be webcast raw. And it's easy to do.
4 It's inexpensive. Many companies can do it. And that
5 way, you could literally see what all the public
6 committees were doing, and not have to attend them.

7 MS. PORGES: So like GovTube instead of YouTube.

8 MR. SCHMIDT: Yeah. So there's lots of things
9 like that. And the technology is -- it's very inexpensive
10 to do this. It's not a big thing. And I think it would
11 help a lot with oversight.

12 MR. RYSSDAL: Yes, over there.

13 MR. PERRY: Eric, Sam Perry from Menlo Park.
14 Eric, you have shared with us in the past -- one of the
15 other previous panels in this tent this morning was on
16 energy policy in the future. And you have been very open
17 in sharing what Google has been doing the last couple of
18 years in that area. To segue off of the last question,
19 what can Google do and is it doing to help small
20 businesses, but also individuals -- I know some of the
21 individual stuff is coming to the front now -- to conserve
22 energy, that aspect of the next part of the agenda.

1 MR. SCHMIDT: So you'd have to be living in a
2 cave to not understand how serious the climate change
3 threat is at this point. And the people who spend their
4 time saying it's not true must not notice the change in
5 seasons, the fact that it gets warmer earlier, the
6 increased variability of weather, the loss of
7 biodiversity, the many, many things that are going on that
8 everyone sees.

9 So we are in a situation, as we know, where
10 climate change is, with a possible exception of a true
11 nuclear war, the greatest threat affecting mankind and our
12 children and grandchildren and so forth. So from our
13 perspective, our contribution is, first and foremost, to
14 work on our own use of energy. So we have the most
15 efficient datacenters and so forth. We use a lot of
16 power.

17 But we have also decided to put our money where
18 our mouth is and begin to invest in the supply chain. So
19 we put together a series of -- we sort of studied this for
20 a while. And the most promising things are, for example,
21 with wind technology, with solar thermal, solar
22 photovoltaic, enhanced geothermal, those sorts of things,

1 we have been putting money into those investments to try
2 to build the demand structure because we have good cash
3 and we are obviously a good customer of this and we know
4 we are going to need it.

5 We also authored a plan called the Google Energy
6 2030 Plan. And the thing that was bothering us was why
7 doesn't somebody just add all the money up and figure how
8 much it's going to cost to fix this problem. It is a
9 classic big scale systems engineering problem. And we
10 were shocked to discover that we made a trillion dollars
11 by doing this.

12 And you say, then you go, like, this guy must be
13 mad. You know, we work at Google, and it is sort of a
14 crazy place. But it turns out that if you save the
15 capital to build the excess plans, if you save all of the
16 downstream expenses for these enormous capital expenses,
17 and instead, you take the equivalent amount of money and
18 put it into renewables over, in our case, a 22-year
19 period, you actually make money.

20 Another example is that if you move to higher
21 efficiency cars through hybrids and better efficiencies,
22 better car designs, you know, get to the 50, 60, 70-mile-

1 per-hour car, which is clearly technologically feasible,
2 you save so much money in terms of literally the gas
3 prices, right, which drives everybody crazy, but you
4 really can make a dent in this.

5 So I would offer that in the climate change
6 area, a note of optimism, I don't know whether the
7 Copenhagen Protocols and that are going to be successful
8 or not. But I do know that in our own country, we can, as
9 individual actors, take the necessary steps to, by the
10 way, do the most boring thing first, which is to insulate
11 your house and insulate your building.

12 At Google, we were having a meeting, and I said,
13 well, okay, how much is this going to cost. They said a-
14 million-and-a-half. That's a lot of money. And I
15 thought, okay, what's the payback? And they said, oh,
16 it's 18 months. And I said, it's an 18-month payback for
17 a-million-and-a-half and you haven't already done it?
18 They said, no one asked us to do it. Do it.

19 (Laughter)

20 MR. SCHMIDT: All you have to do is do it. It's
21 so obvious.

22 MR. RYSSDAL: Do you ever get sick and tired of

1 the what can Google do about the high cost of milk or
2 health care or -- I mean, it's, you know, with this
3 ubiquity comes certain responsibility, no?

4 MR. SCHMIDT: In the audience we have an author
5 of a book on that subject.

6 MR. RYSSDAL: Standing right there in the front.

7 MR. SCHMIDT: I guess we'll get to Jeff shortly.
8 If Google is a metaphor for thinking differently about
9 problems, then I am happy to be it. And it clearly helps
10 us from a branding perspective. There are limits to what
11 Google can do. We are a relatively simple company built
12 around information and servers and the web. Many of the
13 problems that people talk about are much more complicated.
14 So as I've looked, for example, the health care bill and
15 so forth, the complexity of that system is well beyond
16 what any company or any architecture could really attack I
17 think right now.

18 MR. RYSSDAL: Do you think consumers really buy
19 the fact that you guys are a simple company?

20 MR. SCHMIDT: Compared to the other companies, I
21 -- believe it or not, Google is pretty straight forward.

22 MR. RYSSDAL: Yes, sir.

1 MR. CASS: Thank you. Daniel Cass (phonetic).
2 The first questioner asked you a question about Microsoft,
3 and I wanted to follow-up on that since Microsoft was the
4 company that everyone used to talk about in technology
5 before you came along. In 5 years, what business do you
6 think Microsoft will be in, what business would you advise
7 them to be in, and in what ways are you going to compete
8 with them?

9 MR. RYSSDAL: Sure.

10 (Laughter)

11 MR. SCHMIDT: These are extraordinarily
12 dangerous questions. We have trouble predicting the next
13 12 months at Google. You are asking me a 5-year question
14 in a different company?

15 MR. RYSSDAL: But you are Google.

16 (Laughter)

17 MR. SCHMIDT: Well, are you setting me up for
18 this one now?

19 MR. RYSSDAL: Not a plan.

20 MR. SCHMIDT: Microsoft's core business comes
21 from two products, Windows and Office. They have a very,
22 very high market share. They were found to be a monopoly

1 in one of them; they are clearly a monopoly in the other.
2 They are under various legal restraints by virtue of that
3 behavior. So the first and most obvious answer is that
4 they are going to continue focusing on those things.

5 The issue that Microsoft and many other
6 companies are facing is that there is a shift to a
7 different architectural model. And sorry to be so
8 technical here for a minute, but it is called cloud
9 computing. And basically, it means that the network is
10 now reliable enough that you keep all your information
11 there.

12 And the idea is that you pick up any kind of
13 computing device and the information is there. Even if
14 indeed if somebody just hands you a device, you just say
15 who you are, and off it goes. And this is a very, very
16 big deal in the computer industry. And it's one which
17 companies like Microsoft need to figure out a way to make
18 that transition. Google is organized around making, what
19 is called, cloud computing a core part of the next
20 generation of architecture.

21 MR. RYSSDAL: Yes, sir.

22 MR. KEMPNER: Thanks. My name is Randall

1 Kempner. I run something called the Aspen Network of
2 Development Entrepreneurs. It's a group that promotes
3 entrepreneurship as a means to promote sustainable
4 development in emerging markets. So with that background,
5 my question to you is, how do you or how does Google view
6 information technology as a weapon, as a mechanism to
7 support sustainable development. And in particular, is
8 Google doing anything to make sure that it's not doing
9 evil in emerging markets like Africa and Latin America?

10 MR. SCHMIDT: We are doing some, and I would
11 argue we are not doing enough. In -- Africa is a very
12 good example because this is a continent of people largely
13 trapped without very much information. A curious
14 statistic is that the Internet connections to Africa cost
15 more than they do in the United States, even though the
16 country is infinitely poor, which has to do with the
17 regulatory failure, governance failure, so forth and so
18 on.

19 So we have been working very, very hard to
20 build, what are called, proxy caches that you can put in
21 the country's -- accelerate the local access. We are also
22 doing things -- most people who are in very, very poor

1 situations have mobile phones, which is a great
2 accomplishment. The rough number is somewhere between 3
3 and 3-1/2 billion mobile phones in use today. By the
4 time, maybe 10 years from now, it looks like 5 to 5-1/2
5 billion people will have either mobile phone or access to
6 one. And they can use those to do things like SMS
7 texting, where they can get a lot of information.

8 So with respect to sustainable development,
9 there is this conflict between rapid evolution of the
10 economics and the sustainable development. We can help
11 market it. My fear is that most of these countries, the
12 fundamental problem is the corruption problem. That the
13 industrial structure and the economic and political
14 structure are not mature enough that when you make the
15 investment, that it goes to the right place and achieves
16 the right regulatory outcome.

17 MR. RYSSDAL: Jeff.

18 MR. JARVIS: Jeff Jarvis. I wrote a book called
19 *What Would Google Do?*

20 (Laughter)

21 MR. JARVIS: And I want to ask you, since doing
22 that, a notion clarified in my mind, that I want to just

1 trial on you, is that what we are going through right now
2 is much more than a recession or a financial crisis. That
3 it is a fundamental restructuring of the economy and
4 society going past the industrial age of mass production,
5 distribution, marketing media into something based on
6 knowledge and abundance and the things that I did write
7 that you're about.

8 And when we see what's happening to automotive
9 and banking and newspapers and other parts of medias, soon
10 probably advertising, (inaudible) of retail, real estate,
11 we are seeing a huge and fundamental restructuring that I
12 don't think is going to go back. And then a lot of new
13 companies, one hopes like yours, are going to start
14 creating new versions of these industries. Am I going too
15 far?

16 MR. SCHMIDT: I think so. I'd like -- of
17 course, that you are good at it.

18 (Laughter)

19 MR. SCHMIDT: Because your book was about taking
20 some ideas and really talking about them in a global
21 context, and very successful, I might add. I think the
22 evidence right now is that, while I would like you what

1 you said to be true, it's not today yet true. I would
2 like us to make it true. And the reason is that almost
3 all of the money, and almost all the people, and almost
4 all the capital is not going to where you described it.
5 It's going into traditional businesses, and traditional
6 industrial and service operations.

7 I think one of the ideas about the Aspen Ideas
8 Festival is to talk about new ideas like the one you
9 proposed, is how could you accelerate that transition?
10 What happens is that you get a young entrepreneur like in
11 the kind of industries that are difficult to transform.
12 And when you talk to them, they've had so many regulatory
13 barriers, so many barriers to entry, so many other ways,
14 that we need to find ways to make it easier.

15 So when I -- as a young engineer, I was very
16 interested in trying to make the Internet more successful,
17 and I ran into the regulatory structure of the telcos. So
18 for example, there was something called the T1 line. And
19 what happened is everyone figured out how to build a
20 business beneath the regulatory pricing for 1.5 megabit T1
21 line. So an artifact of regulation was that a whole
22 business was created. Had the regulation not been there,

1 we would have been 5 years farther along.

2 And I think if you look at everyone of these
3 businesses, you will discover that the incumbents,
4 typically large companies, working with regulators, have
5 ended up making a cozy structure for themselves. And when
6 the truly discontinuous idea comes along, it's not in
7 anyone's interest to take it on. And that is why the
8 market pressure is so fundamental. So going back to our
9 earlier conversation about the government and its role,
10 governments are not particularly good in dealing with
11 change.

12 MR. JARVIS: Right.

13 MR. SCHMIDT: One executive told me that high
14 tech works three times faster than traditional business,
15 and government works three times slower than traditional
16 business. I said that may be in an extreme case. We
17 designed our government not to change very quickly, and
18 yet we are asking for very rapid change. It has to occur
19 from the private sector, it has to occur from enlightened
20 leadership, and it has to occur in areas where money is
21 being made.

22 MR. JARVIS: So is the Google only be Google

1 because you were doing something new?

2 MR. SCHMIDT: I would argue that Google is as
3 successful as it is primarily because of the openness of
4 the Internet. That had you had brilliant founders such as
5 Larry and Sergey in a difficult regulated industry,
6 progress would have been much, much slower.

7 And people always give us so much credit. But
8 let's take -- let's give credit to the people who foresaw
9 the Internet, opened it up, designed it in a way that it
10 did not have significant choke points, made it be possible
11 for random people including 24-year-olds in a dorm, right
12 -- to sort of enter and create something new. That is the
13 story of innovation that is very, very precious. And we
14 need to make sure that we preserve it for the next
15 competitor, by the way, of Google.

16 MR. RYSSDAL: Let me just zero in for a second
17 on that question. Do you not then believe that this
18 economy has been through the past 2 years and the changes
19 we've seen, fundamentally reset, that we are just going to
20 proceed from here apace?

21 MR. SCHMIDT: Well, I would like it to be true.
22 But my question to you is where is the data. When I look

1 at most of where the money went in the economy, when I
2 look at the -- all the politics and all the bills and so
3 forth, and I've supported much of this, most of it is
4 going to the incumbents.

5 Now, with a counter example that there is now --
6 we doubled our National Science Foundation funding from \$3
7 billion to \$6 billion, which is a drop in the bucket,
8 there is more money for appropriate medical research and
9 those kinds of things. But fundamentally, the law -- if
10 you look at it mathematically, the majority of the power
11 and control is still not around real innovation. And that
12 needs to change.

13 MR. RYSSDAL: Is Google still a new company?

14 MR. SCHMIDT: Sure.

15 MR. RYSSDAL: Really?

16 MR. SCHMIDT: Well, hopefully --

17 MR. RYSSDAL: You guys have been around forever,
18 it seems?

19 MR. SCHMIDT: Well --

20 MR. RYSSDAL: Right, I mean, our collective
21 experience is, oh, yeah, it's Google.

22 MR. SCHMIDT: Well, one of the things to say

1 about brands is that brands can be created very quickly.
2 Had anyone heard about Twitter 2 years ago? And yet
3 Twitter is a phenomenally successful company and brand.
4 Who here knew about Facebook 3 or 4 years ago?
5 Phenomenally successful.

6 So one of the things that's neat about being in
7 our world is that new companies and new brands can come
8 along. In Google's case, we believe the way we run the
9 company, which is rather unusual, keeps it -- keeps us
10 sort of young. In particular, our engineers are
11 encouraged to spend 20 percent of their time working on
12 whatever they want to work on. And before you get too
13 excited, these are engineers, right.

14 (Laughter)

15 MR. SCHMIDT: So they don't sort of move too far
16 from -- afield. But virtually everything we've done that
17 has been creative, has really, really come from that. And
18 you know, top-down centralized control from people like me
19 is not going to drive the creativity.

20 MR. RYSSDAL: Ms. Smith?

21 MS. SMITH: Hi, I've read about Google's, say,
22 tracking pandemics or epidemics, I'm sorry, by using

1 search information.

2 MR. SCHMIDT: Sure.

3 MS. SMITH: And I'm wondering how else you plan
4 on using the search information in the future. And if you
5 -- if it will be regulated, if you will be - if you think
6 it will be able to, you know, keep control of that kind of
7 information.

8 MR. SCHMIDT: Very good question. Everybody
9 knows we put together a Flu Trends program and we used
10 anonymised data. That is, we took the searches, but we
11 took away the information about the person. And we
12 discovered that because when you get a symptom like a
13 disease, the first thing you do is you type the symptom
14 into Google, we could see months before the official
15 reporting agencies could see, the emergence of a new
16 horrific, you know, disease. And the estimates are that
17 this would save tens of thousands of lives.

18 It's a huge, huge thing, right from our
19 perspective. And we are very excited to participate in
20 that. We don't want to take that too far. And the
21 reason is that there is a very fine line between
22 anonymising information to make people healthier and then

1 the sort of spookiness and privacy issues that we are so
2 concerned about.

3 In the European Commission, there are a series
4 of laws called the European Data Privacy Initiative, which
5 regulate this to about an 18-month period. And so it
6 looks like historical logs. Literally the things that
7 you've done 5 years ago will be deleted, both by policy
8 and also by law.

9 There is a very legitimate tension between the
10 state interest in, for example, police action, and then
11 your interest in privacy. And each country sorts that out
12 differently, and we are subject to all of those laws. My
13 own guess is that we'll end up with about an 18-month kind
14 of period for search logs and we will be very careful
15 about using much of that beyond things like Flu Trends.

16 MR. RYSSDAL: Again though it comes down to
17 "Trust us with this data."

18 MR. SCHMIDT: Well in this case, it's also trust
19 the government. And depending on your point of view, the
20 Patriot Act, that is a good or bad thing, right? So
21 again, this tension -- we made a decision that we don't
22 know how to make the decision about that trade off, that

1 the political process, that the governments that debate
2 this, this fundamental tension between civil liberty,
3 state interest, safety, and so forth is not one that we
4 should have an opinion about. And that was a difficult
5 transaction, but how would we -- how could we decide
6 whether its 18 months or 12 months and so forth?

7 MR. RYSSDAL: Just a couple more, I think. Yes
8 over there.

9 MR. KONYEN: Hi, David Konyen from New York.
10 Can you elaborate -- it's a follow-up to Jeff's question
11 about the old economy/new economy debate. Can you expand
12 on the -- so many of what you've done has been so
13 successful. But Froogle was a project that really wasn't
14 that successful and has to do --

15 MR. SCHMIDT: Why do you have to remind?

16 (Laughter)

17 MR. KONYEN: Well, can you elaborate a little
18 bit on your view of what didn't happen there in terms of
19 being able to use the power of information on the Internet
20 to find low pricing, and to be able, you know, in this
21 economy where you've got so many stores and traditional
22 retailers shutting down, what it is about? You know, so

1 many of the models and so much of this conversation has
2 been about advertising models or monetization using
3 information, whereas real retail about pricing and the
4 ability to really move the economy into more of a
5 different distribution model. Can you talk a little bit
6 about pricing and distribution?

7 MS. SCHMIDT: Yeah.

8 MR. RYSSDAL: Remind us what Froogle was and
9 explain why it didn't work.

10 MR. SCHMIDT: Froogle was our first attempt at
11 product search. And it didn't work because it just didn't
12 work. And we celebrate our failures inside the company
13 because we want people to take risk. So we replaced
14 Froogle by what is now Google Product Search, which has
15 been doing pretty well.

16 And Froogle was a destination site, it had the
17 wrong user interface, didn't have all the right products,
18 did not have enough inventory, that kind of thing; a long
19 list of things that we did wrong. So one way of sort of
20 stating your question a little differently is to say that
21 how will the commerce world change now? I think that is
22 roughly what you are asking.

1 MR. KONYEN: Instead of advertising models
2 commerce.

3 MR. SCHMIDT: Yeah, you have -- and you have
4 Product Search and so forth, and we are exploring that
5 now. Let me give you an example of a product that we just
6 released. It's a product for your mobile phone. And you
7 take a picture with your mobile phone of a UPC barcode,
8 and it tells you where the product is cheaper online,
9 okay? Or you can imagine -- right? Or you can imagine
10 who is in favor of this product?

11 (Laughter)

12 MR. SCHMIDT: You can also imagine who is
13 opposed to this product. But that is an example. And one
14 of the discussions for you all to think about is what are
15 things that are neat that we could do with the collective
16 intelligence of what people do. People are smart. And
17 within reason and respecting their privacy, could we in
18 fact get better bargains, better delivery, those sorts of
19 things. And that is just an example of it. I don't know.
20 We have, again, Google Product Search, which is doing very
21 well. We have more and more people using product
22 purchasing. You could imagine things like subscription

1 businesses and so forth. And, you know, eventually, if
2 you look at the success of Amazon, Amazon, I think, proves
3 that this model works well.

4 MR. RYSSDAL: But are you surprised at how fast
5 or how slow things are moving online in terms of the
6 growth of online commerce?

7 MR. SCHMIDT: I'm pretty happy with it. I think
8 that most people now know that when you buy things for
9 Christmas, by far the best way to do it is to do it online
10 and then to ship it to the person. And there was a point
11 in which e-commerce became reliable enough that you
12 wouldn't be embarrassed at the Christmas party. And so I
13 think e-commerce is not only here to stay, but now people
14 are arguing over the tax exemption that it has for sales
15 tax and that sorts of things.

16 MR. RYSSDAL: How --

17 MR. SCHMIDT: So you know you have arrived when
18 that is happening.

19 MR. RYSSDAL: How hard are you guys working at
20 getting away from ad revenue as --

21 MR. SCHMIDT: By the way, we love ad revenues.

22 MR. KONYEN: Absolutely.

1 MR. SCHMIDT: We love it. Do you know what
2 percentage of our revenue it is?

3 MR. RYSSDAL: Over 90.

4 MR. SCHMIDT: Ninety-seven, or is it 98?

5 MR. RYSSDAL: There you go. Doesn't that --

6 MR. SCHMIDT: We love ad revenue.

7 MR. KONYEN: Doesn't that number scare you
8 though?

9 MR. SCHMIDT: No, we love ad revenue. The
10 serious answer is we are diversified across advertising.
11 We would like -- our board members call it the, you know,
12 more legs to the stool please. And we have a pretty
13 successful business in the enterprise, which we think is
14 going to be pretty exciting. And we've got a number of
15 other sort of subscription to non-advertising businesses
16 underway.

17 MR. RYSSDAL: Yes, sir?

18 SPEAKER: Hi, this one is probably a softball.
19 So it's more of an invitation of your perspective on I
20 think what is a recently hot topic and particularly in
21 your industry. So talk about immigration policy.

22 MR. SCHMIDT: Sure.

1 SPEAKER: Outsourcing of jobs, H1Bs, you know,
2 sort of the balance of human capital trade, how many
3 people are we sending overseas and doing the same thing,
4 yet and at the same time trying to shut down the, you
5 know, this receptacle. Just being curious about it.

6 MR. SCHMIDT: Well, again, I don't know if this
7 is a softball, but it's like -- okay, let's go through
8 this. We take the smartest --

9 SPEAKER: I think I know which direction you
10 want to go.

11 MR. SCHMIDT: Let's take the smartest people in
12 the world, let's bring them the United States, let's
13 educate them and give them the top universities and then
14 let's kick them out of the country. Now that makes a lot
15 of sense. Further more, they can go to the other country,
16 create using all of our American ideas, take all of our
17 intellectual property, and create businesses to compete
18 with the American firms and pay taxes to those
19 governments. How am I doing so far?

20 SPEAKER: It's a very big swing. So it's just
21 isn't a pretty softball.

22 MR. SCHMIDT: Do I have your vote yet?

1 (Laughter)

2 (Applause)

3 MR. SCHMIDT: The only -- I've been trying to
4 figure out what is the intellectual basis for opposing my
5 argument? And there must be --

6 SPEAKER: Well, you are engaged with the
7 administration, you are -- you know, ubiquitous.

8 MR. SCHMIDT: But there must be --

9 SPEAKER: So what is --

10 MR. SCHMIDT: I've given this speech. I've just
11 been blunter than I just was. And it seems to me that
12 there is an intellectually correct few, which is that
13 everyone is exactly the same and there is no difference in
14 intelligence and ability between every human being. And
15 if you believe that, then you are not -- don't live in the
16 same educational system that I do. I just don't
17 understand, we have this amazing, amazing asset in
18 America. The smartest people in the world want to come to
19 United States and then we kick them out?

20 MR. RYSSDAL: Do you get any attraction with
21 this discussion in Washington?

22 MR. SCHMIDT: I just get louder.

1 (Laughter)

2 MR. RYSSDAL: So how do you really feel?
3 Howard, I think I think this is the last one --

4 SPEAKER: You haven't talked it all about cyber
5 terrorism or cyber crime or just manipulation of data,
6 which is untraceable and what dangers we really have as
7 consumers?

8 MR. RYSSDAL: And it's worth pointing out that
9 people were talking about you as the first chief
10 technology officer of the United States. So --

11 MR. SCHMIDT: Right, better to work for a
12 private company.

13 MR. RYSSDAL: You keep saying that.

14 MR. SCHMIDT: We like private companies.
15 Innovation is where it occurs. The Internet is full --
16 it's shocking, but the Internet is -- there's actually
17 criminals on the Internet. And when I used to take about
18 this 10 years ago, people say, oh, how do you know that?
19 I said because they are human beings on the Internet,
20 Right. And not everyone is perfect right?

21 And so we -- the Internet has had just
22 generation and generation of the kinds of attacks that you

1 are talking about. Typical example is people will find
2 5,000 computers that are idle because they will exploit
3 some bug, often in one of our competitor's products, and
4 they will exploit that bug and they will do a systematic
5 attack on a website called the distributed denial of
6 service attack. And the significant players that are in
7 the industry are all well insulated for that. So we face
8 this all the time in Google.

9 So the kind of attacks that you worry about are
10 the ones that are not like that. So you could imagine a
11 state-sponsored attack, where they used the, for example,
12 the name servers to spoof you and say this isn't Google,
13 this is somebody else, which would require, you know, sort
14 of an incorrect behavior by a government. And we worry
15 about that. We worry about the financial system, and in
16 particular the money transfer systems, and the kind of
17 checks and balances for moving money around. And that's
18 been a problem.

19 I'm not as worried overall because the problems
20 that we face, we face not just from cyber terrorism, if
21 you will, from states and horrific people like terrorists,
22 but we face them from 16-year-old idiots as well. And so

1 we are sort of used to it. So I'm not as worried about it
2 as others. I think we should -- it's a price of being
3 interconnected, that you are also interconnected with the
4 people who are doing nasty things.

5 And we need to make sure that our systems are
6 designed to, you know, to prevent it. The Internet grew
7 out of this notion of communal sharing. And all of us who
8 had been part of it have had a rude awakening when we
9 discovered that the Internet could be misused. And again,
10 we, I think we addressed it in Washington.

11 MR. RYSSDAL: And with that I think we are done
12 for the day.

13 MR. SCHMIDT: Thank you very much.

14 MR. RYSSDAL: Thank you for your time. And
15 thank you also.

16 (Applause)

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