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SHOW: HARDBALL WITH CHRIS MATTHEWS (8:00 PM ET)

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HEADLINE: WHETHER MONICA LEWINSKY COULD HAVE SPENT TIME WITH THE PRESIDENT AND THE ISSUE OF IMPEACHMENT

ANCHORS: CHRIS MATTHEWS

BODY:

Mr. LEON PANETTA (Former White House Chief of Staff): (From March 30)
There's also a group within the White House that thinks that playing hardball is the way you deal with these issues, and that ultimately if you--if you stonewall these things, they'll go away. I just ha--in--in my history in politics in Washington, my view is nothing goes away in Washington. If you try to stonewall things, ultimately it catches up with you. It is much better to be forthright. And those are exactly the words that I often would tell the president.

CHRIS MATTHEWS, host:

Time marches on. We have Leon Panetta with us from San Francisco. I wish I was up there with you today. Leon, thank you for joining us.

Mr. PANETTA: Yeah, I'd like to have you here, Chris.

MATTHEWS: Thank you.

Mr. PANETTA: My pleasure.

MATTHEWS: Well, let's talk about--would those be your words today in speaking to the president?

Mr. PANETTA: Well, I think--you know, as--as--at the time that I said the president ought to come forward, I thought that was one way to try to hopefully end this kind of long nightmare we've been through with this scandal. And, you know, it's--right now, as I look at the special prosecutor and some of the things he's done over the last few weeks, particularly with regards to the Secret Service, which concern me a great deal because of what it did, I think, to increase the jeopardy to--to a president's life by virtue of--of the testifying that's gonna go on here. I'm just not so sure that, perhaps, the president may not be better off right now waiting and seeing what--what the special prosecutor develops and listening to his lawyers. But at some point, there's no question that he's gonna have to come forward and he's gonna have to be forthright about what happened.

MATTHEWS: I agree with you about the Secret Service, but let me ask you about--maybe you--I wanna give you some time here because we rarely have

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somebody on the program who's been in the White House--in the Clinton White House--right--intimately with the president and can describe the sort of culture of the place. It just seems to me, from the outside and being politically I--political, I noticed--it seems to me the president and there's--would seem to be a lot of young people around.

I mean, then some grownups like yourself, Erskine Bowles now, Mack McLarty, that you guys seem to be the odd people out, however, the grownups. It seems like the president and the kids seem to have this thing going on there and it's kind of casual and loosey-goosey, and you guys tried to enforce some discipline on it, but normally, this president seemed to have a sort of a whimsical idea that he could fun with the younger staffers and hang out with them and enjoy their tunes and stuff, thinking about tomorrow, whatever he sings when he sings their songs. It doesn't--it seems like a kind of a--a juvenile culture that he seems to enjoy to sh--joy sharing in. Is that fair?

Mr. PANETTA: Well, Chris, I think you have to go back to how this developed. At--at the--at the beginning of the administration, they took a long time selecting the Cabinet and spent most of their time really focusing on those that they wanted within the Cabinet. And suddenly they were at the inauguration day and realized that they had not spent very much time on developing a White House staff. And as a consequence, they relied a lot on people who came out of the campaign--and as you know, sometimes somebody can be very good in a campaign, but have very little experience in terms of Washington and the White House and the responsibilities to the White House.

So I think part of the problem was that not enough time was spent in selecting the people that ultimately went into the White House and they were for--in large measure, younger, they were less experienced and I think a lot that contributed to the initial problems. I do have to tell you that I think as a result of the work that I did, that Erskine Bowles did--I think the discipline within the White House increased a great deal, so that that was not as much as a problem as it was the first two years. As far as the president's concerned, president loves, obviously, to--to mix with people. He's a people person. That's what got him into the presidency. He likes young people and he likes old people. I mean, I've never seen a person who doesn't like to engage when you're in the presidency. He loves to meet people and he loves to talk with people, and that's his nature.

MATTHEWS: Well, when you--when you talk on--took on the chief of staff's job and you, in a way, were stepping down from an enormous policy role of--of being OMB director and having been chairman of the House Budget Committee and a major Democrat on Capitol Hill, you took a staff job, in a sense, of being chief of staff with the promise that you'd be the traffic controller, that you would stop some of the g--more zanier characters, some of them who appear on my show, I must say, from getting into the White House to bother the president, that you would be traffic controller and make it more of a corporate kind of setting. How did Monica Lewinsky get through the gate? How did she get to be a person who on a regular basis would bring so-called materials to the president as if she were a Federal Express messenger? I worked in the White House. We had to take our papers down to the basement and then a Marine would take them to the president. It was very formal. The idea that Monica could be bopping around there on a Saturday and just bop in and see the president, drop off some papers. It doesn't seem like the American presidency that I was used to working in.

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Mr. PANETTA: Well, Chris, there were three things that I wanted to do when I came in as chief of staff. The first was to basically set up a line of command. There wasn't an--an organization chart at the time I--I went in as chief of staff. And it was important to set up lines of command and I set up my deputies, and under them, every person was responsible to those deputies so that we really had a legitimate chain of command similar to what I had learned about in the Army. It's be--sometimes it's better to have Army experience when you're working in the White House than--than just simply either management or--or, for that matter, even political experience.

Secondly, it was a question of increased discipline. And there, you know, it's the issue that you're talking about--not having people simply wander into the White House. And we did increase the--the discipline on that. Staff members were not to simply wander into the president's office. They--they were to abide by a schedule. If they had a briefing to give the president, then they would be part of the briefing. I determined who would go in for the--for--for purposes of those briefings...

MATTHEWS: Right.

Mr. PANETTA: ...who would meet with the president. But let's understand that the president also has the flexibility to determine, you know, if he wants to meet with somebody at a particular time, either in the White House or in the Oval Office, and wants to have somebody meet with him on a personal basis. He has the ability to do that.

MATTHEWS: How common would it be for an intern--a young intern in her early 20s who has no sort of professional skill to have direct contact with the Oval Office?

Mr. PANETTA: Never be...

MATTHEWS: I've never heard of such a thing in my life.

Mr. PANETTA: Well, it would be...

MATTHEWS: I think you have to be professional to get anywhere near the president.

Mr. PANETTA: It's unusual. Well, and that--and that--that's my view as well. I think with regards to interns, as I've mentioned before, interns generally come into the White House. They're young. They're inexperienced. They don't know, you know, what's important, what's not important. They have no sense of proportion, because they are young.

MATTHEWS: Right.

Mr. PANETTA: And so as a consequence, with interns, what you wanna do is--I'm sure you wanna give them access so--in the sense of seeing how the White House operates. We did the same thing on Capitol Hill, again, as you know, Chris...

MATTHEWS: Right.

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Mr. PANETTA: ...with having interns open mail and be in the office and have a little sense of what it was like to--to operate in a--in a congressional office. Well, you do the same thing in the White House, but most of the interns operated in the old Executive Office Building.

MATTHEWS: Right.

Mr. PANETTA: Very few operated within the confines of the White House itself.

MATTHEWS: How did this one get through? Mr. Panetta--Leon--Leon, you're a great, clean guy. I still think you're probably as confused as I was. How in the world did this young intern get to be friends with the president of the United States?

Mr. PANETTA: Well, hell, you're--that's the whole case that you're talking about, Chris.

MATTHEWS: OK. Let me ask you this. When Evelyn Lieberman, your deputy, booted her over to the--to the Pentagon to get her out of the way, what paper passed by you? Did you get any kind of in--any kind of red light here or yellow light this girl was trouble, she was a stalker, she was hanging around the president, he's getting teased by her or anything like that?

Mr. PANETTA: Well, Evelyn Lieberman was--as the public needs to know, was one of my deputies. She was deputy chief of staff, and she was responsible for overseeing personnel and working on the schedule as well. And there was no finer first sergeant...

MATTHEWS: Right.

Mr. PANETTA: ...in the White House than Evelyn Lieberman. And so she would be responsible, frankly, for telling staff members or interns or whoever if they were in the wrong place at the wrong time, if they weren't in the proper dress. She would discipline them. She would discipline members of the press as well...

MATTHEWS: Right.

Mr. PANETTA: ...if they were in the wrong place. So she was good at that. And she would usually come to me and she'd say, you know, Look, I did this and I did that,' and I'd back her up 100 percent. In this case, she came to me and she said, There's this individual. She's hanging around--inappropriately around the--the Oval Office. I wanna get rid of her and I'm gonna get rid of her.' And I said, Fine. Let's do it.'

MATTHEWS: You didn't have to check it out with the president.

Mr. PANETTA: No, no, this was--this wa...

MATTHEWS: You ne--you never checked it.

Mr. PANETTA: No, sir.

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MATTHEWS: And what was the--what was the defining issue here of why she was moved to the Pentagon?

Mr. PANETTA: Ev--Evelyn Lieberman. When--when she says somebody's gotta move, it's OK with me.

MATTHEWS: And you didn't have any idea who this woman was at the time, this young girl?

Mr. PANETTA: Nope.

MATTHEWS: You never heard of Monica Lewinsky?

Mr. PANETTA: Well, I mean, I--I--from now--now--now...

MATTHEWS: Did she have a reputation of being something of a space cadet?

Mr. PANETTA: Now--now do I--do I remember her? You know, yeah.

MATTHEWS: Does this--I mean, I would know if a spa--I would--I know, but I would remember if a space cadet were wandering around my office.

Mr. PANETTA: No. Exactly.

MATTHEWS: And--and I'd say, Who's that? What's she up to? She seems to have a lot of crazy stuff on her mind, 'or, She seems to be in love with somebody here or something.' I mean--and this--we've seen these talking points where the word stalker' was used and huge liar.' She's used them about herself. So I don't know. And they were on her mainframe computer. It isn't like it's being denied.

Mr. PANETTA: Chris...

MATTHEWS: And here's a woman who's willing to say those things that--she sounds a little bit odd. But I want to get back to the president, because you said he set the tune. He liked a lo--a lot of young people around and they made him feel breezy or they would--they relaxed him or whatever, you--you suggested. And you said you really couldn't control that part of him. But I wanna ask you this: Are there anybody--are there any interns assigned the duty of coming to see the president on Saturday with papers of any kind? Have you ever come across an intern with that kind of duty roster?

Mr. PANETTA: No, of course not.

MATTHEWS: OK. We'll be back with more HARDBALL on CNBC.

(Announcements)

Mr. PANETTA: (From "Meet the Press") I have to tell you that perjury about consensual sexual relations doesn't strike me as being an impeachable offense and I don't think it strikes most of the members of Congress as being an impeachable offense.

MATTHEWS: Mr. Panetta--Leon Panetta, where would you place such an offense? I mean, we were talking about the allegations that the president may have

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engaged in a relationship with a 21-year-old intern, sort of in a loco parentis situation with him. He was en--she was entrusted to him by her parents in a situation where she was working among adults, but hardly seen as an adult but as an intern. If there wer--if ther--if there was an intimate relationship between these two people, you say it's not impeachable. What is it then? How should Congress and the American people respond to evidence?

The latest polls in The Wall S--in The Washington Post and AB--ABC poll, that very clearly shows over 60 percent of the people believe the president had this relationship, that nobody's charging him with rape, obviously. It's a consensual relationship, but they're also charging him with--or most people believe that he--that he lied about it when he was under oath. And a lot of people can understand that, too. I have to tell you that. A lot of people I talk to say, Hey, people cover up infidelity. It happens all the time.' What do we do with this case, though?

Mr. PANETTA: Well, Chris, you know--I mean, you--you and I have, obviously, a standard that goes back to our backgrounds. You know, I'm a pre-Vatican, too, Catholic. I was raised by--taught by...

MATTHEWS: You're not that old, Leon.

Mr. PANETTA: I was taught by nuns and priests and fear of...

MATTHEWS: Right. Well, you had the Jesuits like I did, and they can get through anything.

Mr. PANETTA: Yeah.

MATTHEWS: So what do we do--what do we do--what do we do with the pr--should the Congress just simply say, if they get a report--and this evidence is accumulating--should they simply say, Well, we'll pass a resolution or we'll all give speeches in one minutes, and that'll be the end of it'? If you can't impeach the guy, you give a nice speech or issue a press release? What do you do?

Mr. PANETTA: Well, you know, Chris, I think we all have to kind of stand back and see, you know, what this thing looks like. Look, if--if the special prosecutor can't prove obstruction of justice for whatever reason and he can't prove subornation of perjury for whatever reason and the only charge he has is that the president lied about a sexual relationship--consensual sexual relationship, however you wanna describe it, within the White House, and that's the only charge that goes forward to the House of Representatives, I just have to tell you, you know, again, when you look at the whole picture, is that, in and of itself, an impeachable offense? I don't think so. Now, you know, how the House--what the House does and how they make that determination is something we're gonna have to see. But, clearly, whether they decide to go with a censure, whether they decide to go with something f--something less is something that the leadership of the Congress as well as the members are going to have to decide.

MATTHEWS: Did you know Kathleen Willey at the White House, Leon?

Mr. PANETTA: No, I didn't.

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MATTHEWS: What do you make of that case, where the president's accused by--these talking points clearly are--three-quarters of which are aimed at covering up whatever the president's conduct, or shaping the testimony of Linda Tripp with regard to the conduct of the president in--in with--with Kathleen Willey, a grown-up who came looking for a job in a somewhat bad situation. Her husband was about to commit suicide. She sought a job. She accused on "60 Minutes," we all saw it, the president of the United States of gross behavior toward her. Of course, gross behavior is gross behavior. But if he acted illegally to try to bring a--to shape or tamper with witnesses in their testimony, would that reach, do you think, the standard of an impeachable offense?

Mr. PANETTA: Well, again, you--you know, Chris, we--we have to see what the special prosecutor ultimately determines here as he looks at the evidence an--and this investigation wraps up what--whatever evidence they're--they're able to pull together. But, clearly, if--if some kind of obstruction of justice, where the president in some way deliberately made efforts to prevent or inhibit somebody in--in the course of an investigation...

MATTHEWS: Mm-hmm.

Mr. PANETTA: ...or a criminal offense, then I think that's a more serious charge. I do...

MATTHEWS: Yeah.

Mr. PANETTA: There's no question in my mind.

MATTHEWS: Remember Rose Mary Woods? She worked for--well, one of your old bosses, Richard Nixon, back when you were in civil rights enforcement, and you quit as a matter of honor, we all remember, 'cause you didn't think they were enforcing civil rights in the Nixon administration. Remember Rose Mary Woods? She was accused of--in fact, she took the bullet for it. She said, Yeah, I--my--my leg reached over about 20 feet across the room and--and killed about 18 minutes of Watergate tape.' And she took the bullet.

Mr. PANETTA: Yeah. I remember the pictures.

MATTHEWS: Yeah. I remember those cartoons. I sometimes think of Betty Currie, although she's--well, she's just as political as Rose Mary Woods is. Rose Mary Woods was a loyalist and a real politician, and I don't wanna say--and nobody really thinks that Betty Currie was some sort of--just a clerk or a clerical person. She had a tremendous political background and loyalty. What i--what is her role here? I mean, is she supposed to just sort of say, Well, I'll tell them what I have to tell them, but no more. I'm gonna try to be loyal an--and deal with it as best I can, but I've gotta worry about breaking the law myself'? I mean, she's going to be asked if--if she was out giving gifts to Monica Lewinsky, if she was trying to get--on her own initiative, trying to get Monica Lewinsky's--jobs up with Ron Perelman up--who runs the Revlon company, out--I mean, these are incredible reaches, it seems to me, for an assistant to--to about--to undergo or undertake without some sort of push from the boss, you know. Why is she out getting--running an employment service for Monica Lewinsky? It seems odd.

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Mr. PANETTA: Well, Chris, look...

MATTHEWS: Doesn't it?

Mr. PANETTA: Yeah. Let me just tell you, my relationship with Betty Currie in--in the White House--I don't know of anybody who is more honest or decent than--than Betty Currie. She's just the most decent person I've ever met, particularly in that kind of position. You know, most of the time, people in high office will hire hit-and--hit-and-run people to--to run the--run the shop and really s--really shut the door on people.

MATTHEWS: Right.

Mr. PANETTA: Betty was not that kind of individual. She was very different. She as always nice to everybody who came through. She was always listening to--to whatever the president wanted to do. She was that kind of person. And whatever she's testified to, there's no question in my mind that she's testified to the truth.

MATTHEWS: Ed Rollins, join in.

Mr. ED ROLLINS (Republican Strategist): Well, th--I think--first of all, I have the greatest respect in the world for Leon, who I've known for many, many years, and--and having been raised by the Dominican nuns, I--I--I have a certain moral compass, too. I think the most...

MATTHEWS: We're gonna have to have a Knights of Columbus meeting later tonight.

Mr. ROLLINS: Right. I--I th--I think the most--I think the most telling comments tonight, Leon, is you talking about how you did try and put a discipline in this White House. This girl got around that discipline, and obviously, interns didn't float in and out of...

MATTHEWS: It takes two to tangle.

Mr. ROLLINS: Y--you know, interns didn't float in and out of the White Houses I worked in.

MATTHEWS: Right.

Mr. ROLLINS: But the reality is that--that this president had to basically want to see this girl and everybody else responded either negligently or--or positively. The bottom line: If this was a college president instead of the president of the United States, a married college president, and he was caught messing around with one of his students, there's no question he'd be fired. Whether the president should be fired or not, I think, is gonna ultimately depend on the evidence that you--you talked about today. But I think that this...

MATTHEWS: OK.

Mr. ROLLINS: ...I think this is a serious issue.

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MATTHEWS: Ed--we'll be back with Ed Rollins and Leon Panetta in just a minute on HARDBALL on CNBC.

(Announcements)

MATTHEWS: Well, let's commit what I like to call substance abuse. Let's talk about some substantive issue. Leon Panetta, you were chairman of that--chairman of the--or, actually, director of the OMB, as well as chairman of the House Budget Committee. There's a big fight brewing between now and Election Day and I guess it's the most important political fight of the year, apart from this whole question, and that is, what do we do with this surplus that seems to be building up, at least potentially? The Republicans want a huge tax cut of up to--up to \$ 700 billion over 10 years. The Democrats under Bill Clinton say, 'You've gotta save that money to preserve Social Security.' What do you make of that fight?

Mr. PANETTA: Well, Chris, let me tell you something, having been involved in that battle to get to a balanced budget and having worked on the economic plan. Now that they've reached a balanced budget, they have to remember that they've got a \$ 5 trillion debt out there.

MATTHEWS: Yeah.

Mr. PANETTA: We're still picking up about \$ 1 billion a day on interest on that kind of debt. The smartest thing they could do is to put that surplus away, pay off the debt and not start spending it, because the reality is, in a few years, when the baby boom generation hits, we're gonna be back in a deficit, so I think both sides, frankly, ought to back off, let the surplus be used to pay off the overall debt. How that winds up, I don't know. You know, it's a political year. The likelihood is we may get the worst of all worlds, which is a tax cut, plus what--what the president wants to spend it on.

MATTHEWS: I g--I--I guess--what would be the estimate for how much the federal government's spending in interest now, about \$ 400 billion a year?

Mr. PANETTA: Sure, it's about...

MATTHEWS: About 8 percent?

Mr. PANETTA: Actually, that's e--that's--that's exactly right. It's--it's--it's over \$ 1 billion a day in interest that's accumulating. That's crazy. We are not in some kind of, you know, totally balanced budget situation. We are in a situation where we've got a huge national debt. It continues to accumulate and it's--it's great that we've reached a balanced budget, and I think it's to the president's credit, Congress' credit that we're there.

MATTHEWS: And your credit.

Mr. PANETTA: Well...

MATTHEWS: You were budget director.

Mr. PANETTA: ...I'll--I'll take...

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MATTHEWS: And I love the way...

Mr. PANETTA: ...I'll take some credit of it.

MATTHEWS: Leon--Leon, I love it when you talk conservative. Anyway, let's go to Ed Rollins. What do you make of that? You can't beat Leon for fiscal--fiscal responsibility. He's a real grown-up. What do you make of the other guys down in Washington?

Mr. ROLLINS: I--I--I--I think we've gone full circle. He's now a Republican again. That's where he s--that's where he star--we both started as young Republicans. The...

MATTHEWS: Somebody's accused me of that recently, too. Go ahead.

Mr. ROLLINS: I--I--I think--I think the bottom line is this, though: I--I think that if the president wants to increase Social Security taxes, he should put a bill through Congress because, obviously, if he takes the--the surplus today and dumps it into Social Security--I mean, I think that's--that's a--that's a false way of raising taxes. I think Republicans feel this is taxpayers' money. If we're not gonna spend it all, then they ought to give it back to taxpayers.

MATTHEWS: Well, politically, what do you think's the smart move? You go out today--you look at all the polls and people are saying they're most concerned, even though it's 1998 and the economy's rolling, thanks to some smart fiscal and monetary decisions of the last seven or eight years--but the fact of the matter is that people still have a real sensitivity--and you know it as well as I do--about Social Security.

Mr. ROLLINS: Sure.

MATTHEWS: They know that this boom ain't gonna last. At some time in the early part of the next century, people like you and I are gonna be out there trying to get our checks, and the fact of the matter is there ain't gonna be a whole lot of money there compared to the number of people waiting in line.

Mr. ROLLINS: Well, then you need to change the system. I mean, I think--I think that's the--that's the argument that people have to make here, is that we--the system will be underfunded because there won't be enough people paying into it. Let's not play funny games. We played gimmick games with the budgets all during the deficit years. Now that we have a little bit of surplus--and I agree with Leon totally--the surplus may be there for a short period of time, not a long period of time. You know, let's do something fiscally responsible. We either give it back to the taxpayers or basically don't spend more money. But I--we have to fix the Social Security system by other--other means than just dumping more money in there, though.

MATTHEWS: Mr. Panetta, do you think the president was smart in coming out for teaching character in high school? Was that a shrewd move this week?

Mr. PANETTA: Absolutely. I think--I think it's...

MATTHEWS: I mean, pushing--he--he's--he's talking up school uniforms and...

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Mr. PANETTA: Yeah.

MATTHEWS: ...he's sort of offering himself as the national hall monitor, and I think--I'm just wondering if that's an odd sort of juxtaposition with what's going on in the rest of his life these days.

Mr. PANETTA: Well, the president has had a pretty consistent record in the White House of going after that kind of issue, of doing the school uniforms, of arguing for greater discipline, as well as for additional funding in--in education. So I--I think--you know, he--he's had--and it probably goes back to the time when he was governor at Arkansas, but I don't think there's any question but that the American people respond...

MATTHEWS: OK.

Mr. PANETTA: ...to the whole issue of better discipline in schools.

MATTHEWS: Leon Panetta, thanks for joining us from San Francisco. Great man.

Mr. PANETTA: Thank you.

MATTHEWS: "Rivera Live's" up next with the latest on the Clinton investigation. Join me next time for more HARDBALL.

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