

TIMOTHY GEITHNER

PRESIDENT BARACK OBAMA, INAUGURATED AMID THE WORST FINANCIAL crisis since the Great Depression, named an unorthodox Secretary of the Treasury. Timothy F. Geithner wasn't a banker, an academic or an economist. He was a career civil servant who had run the New York Fed since 2003, entirely under President George W. Bush. Politically he was independent. To President-elect Obama's first expression of interest in him as Treasury Secretary, Mr. Geithner responded: "Let me talk you out of that."

What made Mr. Geithner the top candidate was his stewardship of the New York Fed during the previous few months. As mortgage defaults exposed under-recognized risks in the balance sheets of financial services firms, toppling the likes of Bear Stearns and Lehman Brothers, Mr. Geithner had helped design a \$700 billion federal fund to provide liquidity to stricken companies in exchange for preferred stock. That measure, so far, appeared to have contained the ongoing crisis, even if the bailout of Wall Street firms was provoking outrage on the left and the right. Here, too, was a proven virtue of Mr. Geithner's: He didn't care about approval ratings. In his mind the only priority was preventing a second Great Depression.

When he became Treasury Secretary in late January of 2009, Americans were losing their jobs, savings and homes at terrifying rates. Consumer



The former US Treasury Secretary on managing the worst financial crisis since the Great Depression.



confidence had sunk to all-time lows. In the hope of calming nerves in the markets and beyond, Mr. Geithner delivered a speech, early in his tenure, that proved disastrous.

“Stocks tumbled more than 3 percent before I even finished talking and nearly 5 percent by the end of the day,” Mr. Geithner recalled in his best-selling memoir, *Stress Test*, published in 2014. “It was a bad speech, badly delivered. I kept peering around the teleprompter to look directly at the audience, which apparently made me look shifty; one commentator said I looked like a shoplifter.”

In the weeks that followed, Mr. Geithner became a popular target, prompting President Obama to joke at a Wall Street dinner in mid-2009 that he needed to train his dog, Bo, “because the last thing Tim Geithner needs is someone else treating him like a fire hydrant,” wrote Mr. Geithner in *Stress Test*.

Within months, however, the US economy started growing again, and the ensuing decade served to vindicate Mr. Geithner. By the end of 2013, US household wealth had exceeded the pre-crisis peak, thanks in large part to a long bull market, and US GDP was 6 percent higher than before the crisis. The unemployment rate steadily declined. Meanwhile, buybacks of government investments in bailout recipients provided taxpayers with tens of billions of dollars of profit.

Even now, that success isn’t widely recognized. “Conventional wisdom still holds that we abandoned Main Street to protect Wall Street – except on Wall Street, where conventional wisdom holds that President Obama is a radical socialist consumed with hatred for moneymakers,” Mr. Geithner wrote in *Stress Test*. “The financial reform law [Dodd-Frank] that we wrote and pushed through a bitterly divided Congress after the crisis, the most sweeping overhaul of financial rules since the Depression, is widely viewed as too weak, except in the financial world, where it is described as an existential threat.”

Not that Mr. Geithner is inclined to celebrate his and his team’s success in avoiding a second Great Depression. “Nearly 9 million workers lost jobs; 9 million people slipped below the poverty line; 5 million homeowners lost homes. Behind those numbers lies real suffering by real people who didn’t put banks in danger with reckless bets they didn’t understand,” he wrote.

As crisis experiences go, few can match that of Mr. Geithner and his team, including his deputy at

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the Treasury, Neal Wolin, now the Chief Executive Officer of Brunswick. “We lived through months of terror,” Mr. Geithner wrote. “We endured seemingly endless stretches when global finance was on the edge of collapse, when we had to make monumental decisions in a fog of uncertainty, when our options all looked dismal but we still had to choose.”

In an interview with Brunswick Review’s Kevin Helliker, Mr. Geithner, now the President of Warburg Pincus, expands on his thoughts about managing during a crisis.

In his new book *Crashed*, which has been praised as the first scholarly history of the financial collapse, Columbia University’s Adam Tooze says the US rescue was more effective than anyone could have envisioned. Is that gratifying?

I think there is reasonably broad consensus that the US strategy was effective, at least in comparison to the Great Depression, and to the financial crises in Japan, Scandinavia and Europe in 2010-12.

But, it was still a terrible crisis, with devastating human costs. With better authority and a stronger financial arsenal in place before the crisis, with a greater understanding of what it takes to confront a classic financial panic, and with greater appreciation of the importance of a large and sustained fiscal stimulus ... it would have been less damaging.

***Stress Test* is infinitely more readable, thanks to the economy of lines such as “Plan beats no plan.” Do you have an innate sense of the balance between too much and too little information?**

More communication is better than less, certainly about broad objectives. But people also need full transparency on the details if you have any chance of credibility.

I never had a good feel for how to explain what we were doing. In part, that was because things were moving too fast, it sometimes took too long to get consensus, and we were working on the design of each stage of escalation up until the minute we announced. We had no time to think, and we couldn’t ask the markets to pause while we designed the best communications strategy. We were often feeling our way, without much knowledge of what we would have to do next and what would work. We could not credibly reassure people that it would all be OK. We couldn’t protect people from a lot of the pain that was going to come.

The narrative that might have been most effective with the financial markets was least effective with the public and the politicians, and *vice versa*.

Of the view that the rescue favored Wall Street over Main Street, you wrote, “I never found an effective way to explain to the public what we were doing and why.” Should communication have been a higher priority?

One thing I learned early in life at the Treasury is that it’s important to put as much time and talent into figuring out how to explain what you are doing to the public as you do into designing the programs. But in this crisis, we were never quite able to do that.

Were there times you wished state or federal prosecutors would help combat the perception of a government beholden to Wall Street?

Sure, but as Michael Kinsley once wrote, the scandal wasn’t what was illegal, it was what was legal. The widespread belief that there was a huge amount of fraud and predation was not sufficient basis for an army of motivated prosecutors to meet the understandable public expectations for justice.

In 2014 you wrote, “We did save the economy, but we lost the country doing it.” Did that loss seem greater after the 2016 election?

No. We were dramatically better off politically and economically with the choices we made, relative to the alternative. I don’t think there is a credible politi-



TO THE EDGE AND BACK

A crisis that began with subprime mortgage defaults led to the collapse of Lehman Brothers, raising fears of a systemic banking failure that government leaders quickly – and controversially – scrambled to avoid, with eventual success.

cal argument that the political consequences of the crisis would have been less harsh, if, for example, we had let the crisis burn, or nationalized the financial system, or tried to drift through the crisis without a forceful deployment of the financial arsenal.

The worst financial crises and the associated recessions are typically followed by a decade of populism, because the public anger and outrage and the economic damage are easily exploited by the populist. It’s worth noting that many of the economic challenges that have undermined public confidence in the fairness of the US economic system and the competence of the political system – the slow growth in the median income, the fall in labor force participation, the high levels of poverty, rising inequality, etc. – had been on a bad path for decades before the crisis.

If the social media environment of 2018 had existed in 2008, would it have been harder to ignore criticism?

The din of criticism had no problem getting through even before Twitter. Might Twitter have made it easier for the policymaker to communicate? Maybe. It does seem to force one to distill a complex point to its essential core. Of course, very few problems and fewer solutions can be reduced to 144 characters.



April 2007

A leading subprime mortgage lender, New Century Financial, files for Chapter 11 bankruptcy protection.

August-December 2007

The Fed cuts the discount rate four times by a total of 1.5 percentage points and does so eight more times in 2008 as the economy weakens.

March 2008

The New York Fed provides \$29 billion in term financing to help JPMorgan buy Bear Stearns.

September 2008

The government places Fannie Mae and Freddie Mac into conservatorship, Lehman Brothers Holdings seeks bankruptcy protection and Bank of America announces a plan to buy Merrill Lynch for \$50 billion.

October 2008

President Bush signs into law the act that creates the \$700 billion Troubled Asset Relief Program, or TARP. The Treasury buys \$125 billion worth of preferred stock in nine banks in exchange for TARP funds.

November 2008

AIG receives \$40 billion through TARP, while Citigroup and Bank of America receive another injection of \$20 billion each.

February 2009

The Fed, FDIC and other government agencies announce a plan to “stress test” banks.

May 2009

Regulators release results of stress tests on the 19 biggest US banks, all of which received TARP funds, and say 10 of them need to raise about \$75 billion combined to endure a possibly deeper recession.

December 2009

Bank of America, Citigroup and Wells Fargo say they’ll buy back all the stock they sold to the Treasury under TARP.

Timeline source: Reuters



You entered the New York Fed never having worked in a bank, never having received an economics PhD. Was that outsider status in any way helpful, perhaps giving you a broader view of options during the crisis?

I think it was more a disadvantage than advantage. There is a lot of valuable knowledge about the structure of our financial system that I wish had had before I took that job.

In recommending you for the New York Fed job, Larry Summers praised your willingness to disagree with him. Is that a quality you seek in people you hire?

Of course. You need people around you who are willing to challenge you, and challenge each other. Good decision making, in any context, but particularly in a crisis, with its mix of high stakes and high uncertainty, requires a level of trust so that there can be open debate. It works better with people who are curious, willing to change their minds, express doubt and work together. It works better with people who are willing to be for stuff, not just against stuff; people able to think about what to do, not just able to describe a problem.

After you and Larry Summers placed Steve Rattner in charge of the federal auto task force, he fired the CEO of General Motors without consulting you – for which you’ve praised him. Is it important not to micromanage a crisis?

Sure. If you have good people around you, as we certainly did, then it’s easier to give them responsibility. But you can’t be too remote. You have to have sufficient depth in the substance of the key choices.

Mr. Geithner’s first public statement as Secretary of the US Treasury in early 2009 did not go well. “My voice wavered. I tried to sound forceful, but I just sounded like someone trying to sound forceful,” he wrote in his 2014 memoir, *Stress Test*.

You’ve talked about the danger of acting too soon versus the danger of acting too late in a financial crisis. In seeking that balance, on which side would you err?

There’s no bright line. In the early stage of a crisis, it make sense to move gradually. But when you are at the point where things are eroding rapidly and the run is spreading, then you have to be able to escalate quickly, with overwhelming force.

You avoided reading news stories about yourself during the crisis. Any other advice on how to stay true to course amid criticism?

Just focus on figuring out what is most likely to work. Don’t worry about whether people will praise or criticize you for it.

Your analysis of your strengths in *Stress Test* is balanced by a depiction of yourself as impatient, foul-mouthed and lacking charisma as a public speaker. Is there an advantage to appearing human as a leader, rather than flawless?

The important thing is to be true to what you believe is right. Without that, you will be less than authentic, and it will be harder to earn credibility. Nothing good can come from a desire to appear infallible.

It sounds as if you slept about three hours a night for two years during the crisis. How does one maintain one’s physical and mental health during such a prolonged period?

I need a fair amount of sleep and worked hard to preserve some room for that. My most important advantage was my relationship with my wife, Carole, and her calm mix of strength and wisdom. And I was very lucky to be able to work with, to share the fear and burden, with a wonderfully talented and ethical group of public servants.

You’ve said that you identified with the emotional intensity of “*The Hurt Locker*,” a film about a soldier who so misses the drama and danger of war that he returns to it. Do you ever miss the intensity of battling the financial collapse? Would you do it again?

No, I don’t miss that type of intensity, and I don’t miss the crushing weight of responsibility. I miss the people, though. And for those of you who haven’t had the thrill and the privilege of working for your country, I would encourage you to try it. ♦

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