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Geithner Fight on Fiscal Cliff Invokes Dodd-Frank Resolve

By:Ian Katz on December 03, 2012

When U.S. senators were picking apart the Obama administration's plan for a stand-alone consumer- protection bureau during negotiations on the financial-rules overhaul, Treasury Secretary Timothy F. Geithner agreed to put it under the Federal Reserve to ensure that Republican lawmakers wouldn't kill it.

Geithner calculated the bureau wouldn't be affected and backing down would help get the 2010 legislation passed. His compromise illustrates the pragmatic approach Geithner embraced in pressing for Dodd-Frank during his four years at the Treasury and will need to draw on in one final test as the administration's lead negotiator with Congress on the so-called fiscal cliff.

"There were some very ticklish issues that had to be dealt with," former Senate Banking Committee Chairman Christopher Dodd, the bill's co-sponsor, said in an interview. "Tim was certainly reaching out. He made a big difference in making sure we could keep people together on what we ultimately came up with."

Geithner -- the longest-serving and most influential of President Barack Obama's economic advisers -- will leave the Treasury in mid-January after testifying before Congress 67 times, appearing 24 times on Sunday talk shows and making 98 trips within the U.S. and abroad. He's staying to deal with more than $600 billion in tax increases and spending cuts that take effect automatically in January unless Congress acts. If the cliff isn't averted, the U.S. could fall back into recession, according to the Congressional Budget Office.

Higher Taxes

Geithner and the administration are insisting on higher taxes for the largest-income earners while pushing for an extension of middle-class tax cuts. Republicans have signaled a willingness to discuss those measures in exchange for reductions in entitlement spending.

Geithner goes into the talks shaped by crises. In September 2008, four months before he moved to the Treasury, he was president of the Federal Reserve Bank of New York when the government rescued insurer American International Group Inc. (AIG) and allowed Lehman Brothers Holdings Inc. to go into bankruptcy. By the end of 2009, Europe fell into a debt crisis and Geithner became the chief U.S. liaison with European officials.

“You learn a lot about someone in the midst of a crisis,” Henry Paulson, Treasury secretary under President George W. Bush during the bailouts, said in an interview. “He was a terrific partner and had great energy and stamina, someone who was always very calm.”

Deserve Credit

Paulson said Geithner deserves “great credit for skillfully navigating a very difficult transition and balancing the tendency of a new president to change direction while understanding the need to maintain stability and build on what had been put in place to restore the markets.”

The U.S. lost more than 2 million jobs in the first quarter of 2009, and gross domestic product was shrinking at a 5.3 percent annual rate. For the quarter ending Sept. 30 of this year, 521,000 jobs were added, and the economy grew at a 2.7 percent rate. The Standard & Poor’s 500 Index has more than doubled since reaching a 12-year low on March 9, 2009. Even so, the deficit has surpassed $1 trillion in each of the last four fiscal years, and public debt as a percentage of GDP is the highest since 1950.

Geithner will exit as one of the Obama administration’s most divisive figures because of his leadership roles in Dodd- Frank and the bailouts of Wall Street banks.

Supporters, Critics

Supporter Lee Sachs, a Geithner aide in 2009 and early 2010, says the Treasury secretary “probably did as much as anybody in the country to help prevent a depression.” He “is very good about making sure he understands the whole playing field and has done his homework,” Deputy Treasury Secretary Neal Wolin said in an interview. “And then he plays his cards very adroitly.”

Critics Sheila Bair, former chairman of the Federal Deposit Insurance Corp., and Neil Barofsky, former special inspector general of the bailout program, wrote books this year in which they accuse Geithner of being more interested in helping financial institutions than homeowners.

Geithner was “the bailouter in chief” who supported the “propping up of all the big banks,” Bair wrote in “Bull by the Horns.” She said Geithner advocated policies that accommodated weak institutions and didn’t put a priority on protecting taxpayers or helping households struggling to avert foreclosure.

Republicans say Geithner has done little to address the housing slump or the $1.09 trillion budget deficit.

Mortgage-Finance ‘Shambles’

“The fiscal situation is uncertain, and our mortgage- finance system is a shambles,” said Mark Calabria, director of financial-regulation studies at the Cato Institute, a Washington-based research group that promotes limited government and free markets, and a former aide to Republicans on the Senate Banking Committee.

"It's hard to imagine a Treasury secretary who has left more undone or unfixed, though they weren't all things that he broke," he said.

Geithner declined to be interviewed about his legacy. In July, he told Charlie Rose there were no alternatives to the measures the administration took to "protect Main Street" and pull "the economy back from the abyss." He said "there are millions and millions of Americans in their homes today" because of the efforts to prevent foreclosures.

Obama's Nov. 6 election victory may boost Geithner's legacy because "if a year or two from now we have a strong economy, all of Tim Geithner's sins will be essentially forgiven," Calabria said.

Rough Start

The 51-year-old got off to a rough start. His failure to pay more than $34,000 in taxes was disclosed after Obama nominated him, and he won Senate confirmation in January 2009 by the slimmest margin for a Treasury secretary since World War II. His roll out of a bank-rescue plan on Feb. 10, 2009, triggered a 4.9 percent drop in the S&P 500 as investors dismissed his proposal as inadequate.

"Geithner is not the best communicator," said Stan Collender, a former aide to the House and Senate budget committees who is now a partner at Qorvis Communications in Washington. "As smart as he is, he's not an empathetic, inspire-confidence, charismatic kind of leader."

The following month, Geithner was caught in a public outcry over $165 million in bonuses paid to employees of the AIG unit blamed for the insurer's near-collapse. Barofsky said the Treasury had paid "scant attention" to AIG's pay structure, and Obama called the bonuses an "outrage." Lawmakers including Representative Darrell Issa, a California Republican, said Geithner should quit.

Hell Fire

"He went through a hell of a fire," former White House Chief of Staff Bill Daley said in an interview. "Everybody dumped all over him; everybody wanted him fired in '09. And he hung in there."

A turning point may have been the May 2009 stress tests for 19 of the biggest U.S. banks, including Bank of America Corp. (BAC) andWells Fargo & Co. (WFC) Geithner was the administration's chief proponent of the examinations, which boosted investor confidence in the financial firms.
His lasting mark, though, may turn out to be his leadership of the drive for Dodd-Frank in the face of vigorous opposition from Republicans and Wall Street lobbyists.

"If you want to put another name on the bill, Tim Geithner's name belongs on it," Dodd said. Geithner was valuable explaining to lawmakers complex issues such as derivatives and the Volcker rule, said Dodd, who is now head of the Motion Picture Association of America.

Tougher Rules

The bill created the consumer bureau, toughened rules on derivatives trading, set up a liquidation process for failing banks and put under Fed supervision bank-holding companies with more than $50 billion in assets -- a group that includes Citigroup Inc. (C), Bank of America and Morgan Stanley. (MS)
Geithner's mantra was that banks need enough capital to ensure that one company's mistakes don't cause a broader panic.

"The critical thing was to make sure that banks and other meaningful financial institutions had huge amounts of capital available" so when they suffered losses, the financial system would be "properly insulated," Wolin said.

Some Dodd-Frank work may not be completed until after Geithner leaves the Treasury. Regulators still are working on writing provisions, including the proprietary-trading ban named for former Fed Chairman Paul Volcker that's intended to reduce the chance banks will risk depositors' money.

Critics' Blame

The law's critics say the Treasury secretary is to blame for many of its shortcomings.

"Dodd-Frank is a big legacy of Tim Geithner's, which I think will look worse and worse as time goes on," said Alex Pollock, a fellow at the American Enterprise Institute in Washington, a research group that promotes free enterprise, and a former president of the Federal Home Loan Bank of Chicago. Dodd-Frank is marred by "Byzantine complexity" and "faith in bureaucracy," he said.

Another piece of Geithner's legacy that divides supporters and detractors is the Troubled Asset Relief Program, which bailed out companies including AIG, Citigroup and General Motors Co. (GM) The bank portion of TARP has been profitable, and the CBO projected in October that the entire program will cost taxpayers $24 billion, down from an estimate of $109 billion in March 2010.
Close Relationship

Geithner and Fed Chairman Ben S. Bernanke are the two most senior government officials remaining from the 2008 financial crisis and bailouts, and the two have a close relationship.

"The main thing we share," Geithner said in a November 2010 interview, "is that we went through the searing experience of the panic together, trying to design a strategy to contain it and clean up the mess afterward. We have the bond you get from that kind of combat."

He's defended Bernanke and the Fed against critics in Congress, and despite prodding from journalists and lawmakers, Geithner is careful in his public remarks not to offer opinions on monetary policy.

Geithner's time at the Treasury has coincided with increasingly tense relations between the Obama administration and Republican lawmakers.

He “has few allies on Capitol Hill,” and the difficulties in his Senate confirmation should have been a “red flag” that he needed to work on this, Calabria said.

Boehner Rapport

Geithner has improved his rapport with House Speaker John Boehner, the key Republican in the fiscal-cliff talks. Boehner, who called for Geithner’s ouster in August 2010, prefers to deal with the Treasury secretary than any of Obama’s other negotiators, according to a House Republican aide close to Boehner.

While Geithner has tried to minimize differences with Republicans in congressional hearings by asserting that their views and his aren’t far apart, his unwillingness to stray from the administration’s message often frustrates questioners.

At a House Budget Committee hearing in February, Geithner clashed repeatedly with Chairman Paul Ryan, the Wisconsin Republican who later became his party’s candidate for vice president.

Ryan mocked a favorite saying of Geithner’s -- that a plan beats no plan -- saying Obama’s budget didn’t address the nation’s fiscal challenges and was really not a plan at all.

“I think you have to decide just for consistency, OK, are you going to say you do not like our plan, which proves we have a plan? Or we don’t have a plan?” Geithner said.

Ryan also asked Geithner if he thought the administration was showing leadership by waiting “for other people to do something.”

Threatened Default

“You guys just spent about six months threatening to default on obligations you gave us, you bequeathed to us,” Geithner said, referring to last year’s debt-limit negotiations. The session ended with Ryan cutting off Geithner.

“You really, really want to have the last word,” Ryan said. “I’m just not going to let you have it. This hearing’s adjourned.”

Geithner’s rapport with his European counterparts is better, even as he pressures the region’s leaders to move more quickly and decisively to erase investor concerns that the euro debt crisis will spread.

Geithner has shown a “perfect understanding of regulation issues,” Bank of France Governor Christian Noyer told reporters after a Nov. 5 meeting of Group of 20 economic officials in Mexico City. “He was extremely active in contributing to the global consensus on the main steps of financial regulation.” Noyer is also a member of the European Central Bank’s governing council.

168 Meetings

From January 2010 to June 2012, Geithner had at least 168 meetings or phone calls with euro-area officials and 114 with the International Monetary Fund, according to an analysis of Geithner's appointments by Jean Pisani-Ferry, director of Brussels-based research group Bruegel.

The U.S. takes a "public posture of a cheerleader and a private posture of scolding and coaxing and cajoling," said Ted Truman, who worked with Geithner as assistant Treasury secretary for international affairs in the last two years of Bill Clinton's presidency. "They made a decision that is fully consistent with Tim Geithner's personality not to go public with their criticism."

He has spent more time at the Treasury than any other secretary, first joining the staff in 1988 and rising to undersecretary for international affairs by 1999. He spent two years at the IMF before being named president of the New York Fed in 2003. He's been Treasury secretary longer than anyone since Robert Rubin, who served from 1995 to 1999.

International Portfolio

His international portfolio gives Geithner credibility with European central bankers and finance officials as "a former member of the fraternity," said Truman, who is now a senior fellow at the Peterson Institute for International Economics in Washington. His relationship with ECB President Mario Draghi goes back to the 1990s, when Draghi was director general of Italy's Treasury department.

Geithner's emphasis on insulating failing banks dates to that period, when he was part of U.S. efforts to stem the Asian financial crisis that spread from Thailand in 1997.

He puts "lots of focus on contagion and spillover effects, and thinking that through," said Mark Sobel, a deputy assistant Treasury secretary for international monetary and fiscal policy who has known Geithner since they played on the department's international-affairs softball team two decades ago. "In his intellectual approach to crises, a tenet is you have to amass power to try and quell" them.

Rescue Fund

Despite the camaraderie, European leaders have been slow to follow Geithner's suggestions, such as using the ECB to boost the firepower of the euro area's rescue fund.

"The U.S. has very little economic or political leverage in Europe," said Eswar Prasad, a professor at Cornell University in Ithaca, New York, and former IMF official. Other than passing on lessons learned during the financial crisis, "it's hard to see what else" it could do.

Geithner has at times been frustrated "that the Europeans were not able, or willing, to act fast enough to stop their economies from being dragged down," said Michael Barr, who worked under Geithner as assistant secretary for financial institutions in 2009-2010.

Geithner will be leaving the Treasury more than a year after he initially wanted to, with he and the White House in a “kabuki dance” from about March to August 2011 over when he could resign, said Daley, then chief of staff.

During the summer, he occasionally inquired about the search for a potential successor, and one day asked how the vetting was progressing, according to Daley.

‘Your Problem’

“I said, ‘Tim, nobody’s in vetting,’” Daley said. “You go convince the president, and until he tells me to vet somebody, I ain’t vetting anybody. So, your problem.”

Obama wanted Geithner to stay, and Geithner agreed he would remain at least through the 2012 election.

Geithner hasn’t announced what he will do next. In a September interview in New York with Charlie Rose, Geithner said it’s “not really my thing” to sit at a desk and write a book, though he didn’t rule it out.

Wolin, Geithner’s deputy, said his boss understands that “what matters is what the history books write, not what the newspapers write on that day. He’s playing for the long game.”