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Yale Program on Financial Stability Lessons Learned

Wendy Edelberg

By Sandra Ward

Wendy Edelberg served initially as Director of Research at the Financial Crisis Inquiry Commission (FCIC) before eventually being named Executive Director. Established in the wake of the global financial crisis of 2007-09, the FCIC was a bipartisan panel of six Democrats and four Republicans charged with determining the causes of the worst financial crisis since the Great Depression. Edelberg built the organization from the ground up, hiring staff, instituting operating procedures, establishing guidelines, managing communications, and reporting to the commissioners. This "Lesson Learned" is based on an interview with Ms. Edelberg.

Constant communication and laser-like focus were essential to the commission meeting its goals.

As Executive Director of the FCIC, Edelberg faced an "impossible task," managing staff as well as commissioners, devising a strategy to optimize the FCIC's effectiveness, and meeting demanding deadlines. She met the challenge, she says, by staying "ruthlessly focused" as well as nimble and decisive.

She observes,

A lot of what I brought to it was just brute-force effort. It was not leaving at night until the last fire that day had been put out. What I could see from outside the position and then once I was in the position was the need to have constant communication. I had a lot of communication with the commissioners, and any commissioner who wanted to talk to me could; any commissioner who wanted to email with me did. I was in constant communication, at least, with the chair and the vice chair and many of the other commissioners as well. I tried to bring a lot of integrity to that.

The commission's life span was finite and there was a drop-dead date to produce a report to Congress. Edelberg relates that accomplishing the goals in such short order required a complete change in approach from what the commission had originally employed. She had to make people realize they didn't have the luxury of time and had to keep them focused on a singular mission. "People needed to see the vision," Edelberg relates, "I needed to see the vision." But she also emphasized that it was "a very weird way for people to work together," in such a "short time in a unique workplace."

In light of these circumstances, Edelberg said she realized that maintaining a positive morale would be key to the commission achieving its goals:

I was well aware that keeping everybody focused on the mission we were doing and feeling that it was an important mission and seeing their own contribution to that mission was critical to our success. If I couldn't make people happy, at least I could

try to make them see that what we were doing was really, really important and that their contribution was really important. Even if they weren't going to win every fight and they were going to have to make compromises that frustrated them, at least they saw that.

Open lines of communication proved critical to the commission's success and effectiveness, notes Edelberg, as did keeping everyone's eye on the prize: the final report. Setting parameters and knowing limitations helped keep folks from getting sidetracked down endless rabbit holes in pursuit of interesting tidbits that weren't necessarily integral to the report. She borrowed a quote from Voltaire to further illustrate her point, "Let's not let the perfect be the enemy of the good."

In addition to keeping the researchers moving forward, Edelberg also needed to manage the work of the six Democratic- and four Republican-appointed commissioners. She quickly learned the fine art of "triangulating," that communication among political figures often occurs through third parties and mediators. "When commissioners did not want to speak directly to each other, they would speak to me and I would relay the information," Edelberg said. Of this delicate position, she commented further:

I wasn't trying to keep them aligned. I was trying to keep them on task. I was trying to make sure we got to a place where we had a report that had integrity and was useful and we were proud of. To that goal, my main strategy was to keep everybody talking and to have the commissioners know they were heard by the staff. If the commissioners had a question they thought was important, that they wanted answered, if they had research they wanted done, the staff would move heaven and earth to try to accomplish that.

In speaking about the content of the FCIC report, Edelberg cited a number of points that she considered to be truly valuable among its findings.

Look past the obvious: There were two separate crises, a housing crisis and a financial crisis, each with its own distinct cause.

Edelberg expresses frustration that the GFC is viewed most often as a monolithic event that more rightly should be viewed as two crises: a housing crisis as well as a financial crisis. Referring to the financial crisis and housing crisis interchangeably is a critical mistake in logic, Edelberg opines. A sound financial system would've been resilient enough to withstand a housing market collapse. She notes,

It turned out the collapse of the housing market caused the financial crisis because of the way the financial system was set up and because of its exposure to housing through leverage and a lack of transparency and how incredibly far reaching that exposure was. All of those things meant that a housing crisis translated into a financial crisis, but it was not inevitable.

The distinction is important when it comes to making policy decisions and addressing weaknesses and vulnerabilities in both areas, says Edelberg, and the commission tried to capture this distinction in its report.

Accurate documenting of problems helps to solve the problems.

The middle of a crisis is not the time to try and gain access to information about troubled institutions, argues Edelberg, as it could lead to more instability in the markets. This was an ongoing issue in the GFC. Managements of financial institutions, it turned out, often didn't know the extent of the risk their companies had assumed, nor did regulators have any window on the type and magnitude of risks being taken. Establishing a communications flow among critical agencies and industries is vital to successful crisis management.

Says Edelberg,

What you really want is the information all shared well in advance so that if something goes wrong, you at least have some information that you can possibly act on. Once you're in the midst of a problem and you're in the dark as a financial firm and as a regulator, it's problematically late.

Edelberg pointed out that the commission's report documented the lack of information and transparency that existed at the institutions and the regulators. She also said that steps have been taken to require more reporting and collection of information. A significant outcome is that these concerns served as the basis for the formation of the Office of Financial Research, and regulators are now more assertive in demanding information, Edelberg said.

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